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# LOCAL GOVERNMENT STRUCTURE AND EFFICIENCY

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A report prepared for  
*Local Government New Zealand*

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by  
McKinlay Douglas Limited

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## Preface

Governance matters. The manner by which we govern our communities, nationally, regionally and locally, plays a major part in determining the outcomes which contribute to the quality of life of those communities. Good governance, that is governance that allows the collective aspirations of citizens to be fulfilled effectively and efficiently, depends on the way in which public institutions are designed and run. This includes institutions which balance the ability for citizens to exercise voice with the capacity to allow elected representatives to exercise leadership.

The manner in which councils develop and deliver services, and the structure of the local government sector, are matters of concern to all of us who take an interest in how public sector organisations can achieve effective community outcomes. Since the end of the provinces in 1876 one issue more than any other has dominated policy discussion about local government, and that is the issue of fragmentation - are there too many councils, or put in policy terms, how do we balance the demands of citizens for a say in how their community is run with the national objective of enhancing efficiency?

It is a question about which there is a dearth of informed debate and knowledge. When it comes to enhancing efficiency, does size matter? Is consolidation the magic solution or are there less expensive and disruptive strategies that can achieve the same, if not better, outcomes? Can we learn anything from international experience?

As the national local government organisation in New Zealand, we not only represent the views and aspirations of our members but we also have the task of encouraging informed debate and analysis about what councils do and how they do it. This takes the form of pure research, such as the surveys of retiring elected members and work on understanding public perceptions of councils, as well as publications designed to stimulate discussion about the need or otherwise for future policy change.

This report which examines the current state of knowledge about structure and efficiency has been commissioned to inform future debate and discussion about these issues.

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# 1. Introduction

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This report was commissioned by *Local Government New Zealand* from McKinlay Douglas Ltd (MDL). The project brief agreed between *Local Government New Zealand* and MDL provides for a literature review supplemented by a series of case studies.

The requirements for the literature review and case studies are set out in the brief as:

*Local Government New Zealand* recognises that the increased interest in local government reorganisation makes it timely to review the arguments for and against amalgamation and other means of addressing matters such as efficiency, effectiveness and critical mass. It has accordingly commissioned McKinlay Douglas Ltd to undertake a review of literature concerning amalgamation and related issues supported by selected case studies of specific New Zealand situations.

The literature review is to draw both on New Zealand and international material with a focus on issues such as:

- Improved efficiencies - to what degree has local government amalgamation contributed to efficiency?
- Diseconomies of scale - does the literature suggest that over a certain size diseconomies occur?
- The effect on representation and ability to exit (do large councils negate the Tiebout effect for example).

The case studies are to be selected in discussion with *Local Government New Zealand* and with the councils whose circumstances form the basis for the case studies. The objective, drawing as well on the literature review, is to scope a range of different situations including:

- Responding to the circumstances of small councils - what does current New Zealand experience suggest is the optimal means for supporting councils which may lack the revenue or human, financial or physical capital required to discharge their role effectively?
- What is the potential of shared services to contribute to better outcomes and/or more efficient service delivery - and do issues of scale differ between different types of services to the extent that different solutions are appropriate?
- What can be learnt from recent experience of initiatives to amalgamate local authorities (Napier City/Hastings District; Banks Peninsula/Christchurch City; Waitomo/Otorohanga)?
- What is the role (if any) of regional councils in supporting the operation of territorial local authorities?
- What weight should be placed on the local democracy role of local government as compared with the service delivery role?

Discussion with councils interested in taking part in the case study phase of the project has resulted in the following additions to the matters which the case studies should scope:

- The impact on service delivery of different options.
- The role of regional councils under the Local Government Act 2002.
- "Spillover" and "free-rider" issues.

## Layout of Report

The remainder of the report comprises the following sections:

- |                             |   |
|-----------------------------|---|
| Part 2: Background          | <ul style="list-style-type: none"> <li>✚ Reflections on the 1989 restructuring of local government in New Zealand</li> <li>✚ Making international comparisons</li> </ul>  |
| Part 3: Literature review   | <ul style="list-style-type: none"> <li>✚ The experience of local government amalgamation</li> <li>✚ Economies of scale in local government services</li> <li>✚ Appropriate structures for local government</li> <li>✚ Realising efficiencies in service delivery</li> <li>✚ Trends in contemporary understandings of local government</li> </ul>  |
| Part 4: Case studies        | <ul style="list-style-type: none"> <li>✚ Coping with scale and capability:               <ul style="list-style-type: none"> <li>○ Wairarapa</li> <li>○ Taranaki</li> <li>○ Wellington</li> <li>○ Small councils</li> </ul> </li> <li>✚ Amalgamations:               <ul style="list-style-type: none"> <li>○ Napier City/Hastings District</li> <li>○ Banks Peninsula District/Christchurch City</li> <li>○ Waitomo District/Otorohanga District</li> </ul> </li> </ul> |
| Part 5: Policy implications | <ul style="list-style-type: none"> <li>✚ Policy implications drawn from:               <ul style="list-style-type: none"> <li>○ The literature</li> <li>○ The case studies.</li> </ul> </li> </ul>  |

## Overview

- Examination of the 1989 restructuring of local government suggests that its primary emphasis was on promoting efficiency in service delivery within a model of in-house provision rather than on local democracy.
- Internationally, views of the proper role of local government shifting
- A resurgence of interest is evident within some New Zealand political parties in revisiting local government reform.
- Caution needs to be exercised regarding international comparisons, to take account of structural and functional differences between New Zealand local government and that in most other developed countries, and the relative absence of robust empirical evidence on the impacts of different structural forms.
- Evidence from examples both of sector-wide initiatives equivalent to New Zealand's 1989 experience, and of individual amalgamation initiatives, is at best equivocal on

whether amalgamation has produced the promised gains in efficiency and cost effectiveness. The evidence does often suggest that costs may have exceeded benefits.

- In England, which has been one of the most avid users of local government restructuring, attitudes are changing in favour of a more collaborative approach, including increased devolution.
- The literature on the evidence on economies of scale in local government services reveals a general acceptance that there may be economies of scale within individual services, but that, service by service, these will arise at quite different scales of operation. Rather than economies of scale providing a rationale for amalgamation, the weight of evidence suggests both that larger authorities may be less efficient, and that the better means of seeking economies of scale is to do so on a service by service basis - whether through collaboration, joint ventures, outsourcing or other means.
- Debate on the appropriate structure for local government highlights the different perspectives of the so-called public choice and consolidationist schools. Much of the debate turns on Tiebout's thesis<sup>1</sup> that choice (of location/local authority) could operate as a mechanism to ensure that expenditures on local public goods approximate to the proper level. Empirical evidence in relation to the Tiebout thesis generally fails to support this argument. At most, and mainly in the United States because of the relative ease in creating new local authorities, choice appears driven by class and race.
- One factor that has made choice of local authority, including the creation of new local authorities, more straightforward in the United States than elsewhere has been the very wide range of options for securing the delivery of local authority-provided services. Practices such as collaboration, joint venturing, outsourcing (whether to other local authorities, the private or voluntary sector, or even state or federal entities) or simply withdrawing from provision have made it much easier for small and/or new councils to ensure the provision of services to acceptable standards. A leading proponent of the consolidationist approach argues that one consequence has been to undermine the standard public choice criticism of bureaucrats as opportunistic and self-interested, precisely because of the success of the public choice approach on the policy front. He concludes that the local government bureaucrat now operates in a competitive environment that minimises the opportunity for this type of behaviour.
- An important question this view of local government bureaucracy begs is what controls the behaviour of the person who could be termed the "well-intentioned bureaucrat" - the bureaucrat who is not opportunistic or self-serving, but who genuinely believes that he or she knows best what the public interest requires, and uses his or her power and influence accordingly. This question identifies an important gap in the research.
- Realising efficiencies in service delivery is a key issue. Canada and Australia have taken regional-level approaches to collaboration amongst local authorities. In England, the Lyons Inquiry<sup>2</sup> is resulting in a rethinking of the criteria for local government service delivery.
- The literature supports an argument that contemporary understandings of local government are changing markedly, driven by factors such as demographic change (with

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<sup>1</sup> Published in an influential 1956 article, *A Pure Theory of Local Expenditures* (Tiebout 1956).

<sup>2</sup> In 2004 Sir Michael Lyons was appointed to head an inquiry into the English council tax. In 2005, at his request, his mandate was extended to include the role and function of local government on the basis that funding and role and function were inherently intertwined.

its implications for increasing national and international competition for skills), globalisation and the growing recognition of the role of regions. An example is the emphasis in the Lyons Inquiry on the role of local government as 'place shaping' which Sir Michael Lyons sees as being, amongst other things, an important element in economic development.

- New Zealand case studies show that local authorities are engaged in a wide range of collaborative activity, some at a relatively nuts and bolts level but others with the potential to go to the very heart of the strategic role of local government, including the recently notified combined district plan for the three district councils in the Wairarapa, and the Wellington Regional Strategy.
- Despite the wide range of collaborative activity, it is clear that collaboration within New Zealand local government is still very much "work in progress". Currently, it is very dependent on the political will and understanding of elected members, many of whom appear to find collaboration with other local authorities inherently threatening.
- A case study of experience with amalgamation since 1989 provides strong evidence of commitment to 'place' on the part of individual electors. It raises the question of whether the present powers of the Local Government Commission, which are focused primarily on constitutional and geographical restructuring, are really appropriate to meet current circumstances. There is a strong implication that these powers are in conflict with the demands of local democracy if local democracy is understood to include people's attachment to the places where they live, including the institutional forms through which local democracy is expressed.
- Both the literature review and the case studies suggest significant policy implications for New Zealand local government.

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## 2. Background

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### The Reform Years

It is now more than 16 years since the major restructuring of local government which took place in 1989, replacing some 600 or more special-purpose local authorities and 200 territorial local authorities with 74 district or city councils and (then) 13 regional councils.

A discussion document, *Reform of Local and Regional Government*, produced by the Officials Co-ordinating Committee on Local Government in February 1988 in the lead up to the 1989 reforms commented, in respect of past endeavours to reform the structure of local government, that:

Successive Local Government Commissions have paid particular attention to the structure of territorial local government over the past 40 years, but without markedly altering it. This is in part because the procedures under which Commissions have operated have enabled citizens of particular districts (whether or not the majority of the people affected) to determine the outcome - usually resulting in the preservation of the status quo. It is also in part because its proposals for structural reform have been made outside a comprehensive review of functions, funding and other aspects of local government.

This last point was particularly important. The 1989 restructuring was based on a set of clearly articulated principles set out in the Government Economic Statement of 17 December 1987:

“As a fundamental principle it is agreed that local or regional government should be selected only where the net benefits of such an option exceed all other institutional arrangements. A further five subsidiary principles have been identified to guide local and regional government reform:

- Individual functions should be allocated to local or regional agencies which represent the appropriate community of interest;
- Operational efficiencies are desirable. There is a case for local authorities to be amalgamated if there are gains, for example, from economies of scale, or a reduction in the number of local elections or the provision of beneficial career structures. However it is also important to recognise that amalgamation may reduce incentives for efficiency within a given institutional structure through a weakening of accountability. There are also costs from size, for instance the costs inherent in more bureaucratic decision-making processes;
- Any authority should have clear non-conflicting objectives. Responsibility for making trade-offs between objectives should be seen as a separate objective. This suggests amongst other things that institutional arrangements should separate service delivery functions and regulatory functions. Otherwise a regulatory authority could potentially guarantee its service delivery arm an unfair commercial advantage. Minimising conflicts of interest will ensure that authorities are less liable to capture by pressure groups;
- Any trade-offs between objectives should be made in an explicit and transparent manner. This ensures that those affected can adequately exercise accountability; and

- Clear and strong accountability mechanisms should be encouraged. Relevant mechanisms include electoral processes, mandatory information flows, and contestability in the provision of services.”

The principles showed a clear intention on the part of the then government that local government reform should be more than just an ad hoc response to short term political priorities. Amongst other things, this reflected the fact that local government reform was part of a broader programme of reform put in place by the then government over the period 1984 - 1990, a programme which itself was based on a clearly articulated set of principles.

The task of undertaking the restructuring of local government was delegated to the Local Government Commission by legislation (the Local Government Amendment Act (No. 3) 1988) which required that "The Commission shall, before the close of the first day of July 1989, prepare such final reorganisation schemes as in its opinion are necessary to improve local government in New Zealand or any part of New Zealand."

The Commission, in *A Memorandum to Assist in the Consideration of Final Reorganisation Schemes* which was published as Section A to each of its final reorganisation schemes had this to say about the purpose of restructuring:

"From the outset the Commission identified what, in its opinion, were the main requirements to improve local government in New Zealand. They were:

- The creation of a smaller number of units
- The creation of managerially and technically stronger units
- Units which corresponded with and served existing rather than historical communities of interest
- Units which could perform allocated functions in an efficient and effective manner, through the wise use of limited resources and the advantages of possible economies of scale
- Units which generally had multi-purpose functional capacity and responsibilities
- Jurisdictional boundaries which, as far as practicable, could be made common for cost and benefit in relation to functions which serve a similar community of interest.

That assessment of what was needed to improve local government in New Zealand was widely accepted within and outside local government."

Both from the then government's statement of principles and from the requirements set out by the Local Government Commission it is clear that the principal focus was on creating units of local government which would be efficient and cost-effective service deliverers - consistent with the general theme of public sector reform in New Zealand at the time. It is particularly worthy of note that the Commission adopted as a principle the establishment of "units which could perform allocated functions in an efficient and effective manner". In other words, the focus was on creating units which would themselves be service deliverers. This reflected a then taken for granted view that a local authority should be responsible both for determining what services it should provide for its community and for delivering those services. To the extent that the debate was emerging around different delivery options, its focus was on the corporatisation and privatisation of services which had a commercial character and might more appropriately be funded on a user pays basis.

## **The Post-Reform Environment**

### **Provision V Production**

As the literature review will demonstrate, there has been a marked shift within a number of jurisdictions from the view that provision and production should generally be undertaken by the same entity. Instead, it is now common to see these two functions as being not only conceptually but often in practice separate. There is increased emphasis on the primary role of the local authority being that of provision - determining what services should be delivered to what standards and then ensuring delivery - with the question of production been treated as a separate issue which includes determining what arrangements will give the best outcome for the community. Options might range from in-house production to joint ventures with other local authorities, to outsourcing.

### **Local Government as Local Democracy**

An outstanding feature of this approach is the emphasis it places on the primary role of local government as being local democracy. It is the means through which communities make democratic choices about the future direction of the community and the services which should be available through democratic as opposed to market processes. In this approach, implementation is then a matter of determining, in respect of individual services, how best they are produced without any preconceived notion that the local authority itself should necessarily be the producer.

### **Structural Change Since 1989**

There have been relatively few changes since the 1989 reorganisation, with only two resulting in the disappearance of a post-1989 local authority - the 1992 abolition of the Nelson-Marlborough Regional Council, replaced by three unitary authorities, and the 2006 incorporation within Christchurch City Council of the Banks Peninsula District Council. This contrasts with the quite significant changes which have taken place during the past decade in the structure of local government in other Westminster jurisdictions. The most obvious examples for a New Zealand audience are the restructuring of local government in the Australian states of Victoria and South Australia in the mid-1990s. Other Australian states, several Canadian provinces, and the UK government have all been active on the restructuring front to varying degrees.

A common theme has been the pursuit of greater efficiency and effectiveness, often expressed in terms of the need for more consolidation within the local government sector in order to achieve economies of scale, or the critical mass required to employ and effectively utilise the highly skilled staff needed to manage the increasing complexity within local government services.

### **Political Perspectives**

Two of the political parties which support the present government campaigned on local government policies which included a commitment to further restructuring. New Zealand First "believes that the role of local government must be aimed at achieving the best return for ratepayer and taxpayer money. This must be based on the world-class provision of core local government services, but with limits on non-core activities which add to the rates burden". Its specific proposals included:

- Conduct a nationwide study into the inter-relationship between regional and local councils and community boards, exploring both their functions and relevance.

- Encourage communities of interest to explore the feasibility of merging some local body entities in the interests of getting better value for money for ratepayers.

United Future was more explicit. It would "reduce the number of Territorial Authorities to no more than four within each Regional Council boundary, with a nationwide maximum of no more than 40 in total by 2012."

Neither of the two largest political parties, Labour and National, had quite the same approach in their local government policies. Labour's policy focused on the series of practical steps it had taken or will undertake, with an emphasis on "involving local government at an early stage in policy development, and being open to submissions and suggestions from local government on how policy can be improved". The National Party's policy included a section on "Advance local government reorganisation" which reads:

National will advance local government reorganisation on a case-by-case basis. We do not subscribe to the view that big is necessarily better, and note that some of the highest consumer satisfaction surveys come from small councils. We believe that the greatest gains can be made by clarifying the roles between district and regional councils.

Amongst those parties which have opted for a specific statement on the future structure of local government, there is still a theme of the council both determining the services which should be delivered and actually delivering those.

There is less of an emphasis on considering how New Zealand local government should respond to the quite major change in its statutory role brought in by the Local Government Act 2002.

### **Stated Purposes of Local Government**

Although the previous Act, the Local Government Act 1974, contained some recognition of the role of local government as more than just service delivery, its primary emphasis was still very much on the provision of services to its communities.

In contrast, under the 2002 Act, the stated purpose of local government is:

- To enable democratic local decision-making and action by, and on behalf of, communities; and
- To promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.

While the jury is still out on exactly what obligations that new purpose imposes on local government, it is clear it goes well beyond the purpose of simply specifying and delivering a range of services, thus in itself changing the nature of the debate about the purpose of local government and, hence, the structural form which should be adopted in order to achieve that purpose.

### **International Experience: Some Cautionary Notes**

#### **Differences in Local Government Structures**

In considering the relevance of international experience of local government it is essential to keep in mind that New Zealand's local government system is significantly different from most other systems. Our local government structure and range of functions is comparatively

simple when compared with other jurisdictions, and the range of services which New Zealand councils provide is narrower. Outside Australasia, it is common for local governments to be involved in the delivery of services such as policing, education and social services including care and accommodation of older people.

The following table (adapted from Loughlin and Martin (2003)) provides an overview of the percentage of GDP spent by local government in selected European countries. The data is from the early 1990s, but the position is still substantially the same.

LOCAL BUDGETS IN RELATION TO GROSS DOMESTIC PRODUCT	
Country	Percentage of GDP
Austria	12.71
Denmark	19.90
Finland	18.00
France	5.54
Germany	8.12
Iceland	9.10
Latvia	12.45
Lithuania	13.10
Luxembourg	9.92
Netherlands	13.30
Norway	18.90
Sweden	27.50
Switzerland	10.80
United Kingdom	11.00

*Local Authority Funding Issues*, the first report of the Joint Central Government/Local Government Funding Project Team, calculated that the operational expenditure of the New Zealand local government sector was 3.3% of GDP in 1996. In Australia, the local government sector spends around 2% of GDP (in contrast with New Zealand only a minority of Australian local authorities are responsible for water and sewerage). Dollery & Crase (2004) note the contrast between Australasia and other local government systems in the following terms: "in comparison to its counterparts in comparable countries, excepting New Zealand, Australian local government has a predominantly "services to property" orientation in terms of the goods and services it provides."

The difference in scale and scope of local authority activity in New Zealand as compared with most other Western countries becomes particularly important when evaluating international research on efficiency and effectiveness of local government as much of it is concerned with services that in New Zealand are delivered by central government such as education and policing.

**Empirical Evidence**

A common theme in the literature we have reviewed is the relative absence of robust empirical evidence on the impacts of different structural forms, and of change in structure, in contributing to the efficiency of local government. Boyne (1992) in an often cited article observes that "the lack of substantial structural variability in British local government precludes a thorough geographical comparison of the costs and benefits of alternative structures. In addition, the spatial variations in structure that do exist tend to overlap closely with other variables that influence local authority performance."

Instead, he looked to the United States, arguing "Thus, in the absence of good British evidence on the consequences of alternative structures, the aim of this article is to fill part of the 'empirical gap' in the reform debate by drawing upon studies of structure and performance in the USA. The local government system in the USA displays tremendous structural diversity, both across and within states. It therefore provides a large 'natural laboratory' for tests of the practical effects of different structures."

The article provides a very useful discussion of a range of different options for local government structure focused on the relative merits of two-tier and single-tier systems and considering two separate scenarios which are now widely recognised in the literature: *fragmentation* used to refer to the number of separate units in a local government system and *concentration*. In a concentrated system, most functions and funds are located in a small number of authorities rather than widely dispersed. In developing different typologies, both concepts can be applied either to the *vertical* (number of tiers) or to the *horizontal* structure of a local government system.

Notwithstanding the richness of the empirical data available from US research, and the number of studies reviewed by Boyne, his conclusion remains qualified rather than absolute:

The relationship between local government structure and performance is theoretically and empirically complex. Local government structure itself is multi-dimensional: fragmentation and concentration may vary both vertically and horizontally. A structural change on any of these dimensions has a number of theoretical effects and the net outcome is not precisely predictable a priori. However, the empirical evidence from the USA suggests that local government systems which are fragmented and deconcentrated are generally associated with lower spending and greater efficiency.

### **How Robust are the Studies?**

One issue which clearly goes to the heart of the debate about structure, and the extent to which there are economies of scale within local government, is the robustness of the empirical studies undertaken to explore these matters. We find from the literature widely diverging views on how robust empirical studies have actually been.

Byrnes and Dollery (2002) review the available research evidence on economies of scale in Australian local government. They begin by reviewing international evidence on economies of scale and note that:

Overall, 29% of the research papers find evidence of U-shaped cost curves, 39% find no statistical relationship between per capita expenditure and size, 8% find evidence of economies of scale, and 24% find diseconomies of scale. From this evidence alone we can conclude that there is a great deal of uncertainty about whether economies of scale exist in local government service provision.

They then identify a number of criticisms of methodology. First, most of the studies use population as a proxy for output. Byrnes and Dollery comment that this is only a valid approach if it can be correctly assumed that population and output are positively correlated. Citing Boyne's (1996) conclusion that "population is probably a very poor proxy for service outputs" they illustrate why this is likely to be the case.

Next they critique the measurement of cost used in the studies reviewed noting that measuring total cost for a particular service is far from straightforward, especially given the vexing problem of allocating overhead and administrative expenses in a non-market organisation. Finally they note that the studies do not differentiate between plant-level and firm-level economies of scale. To illustrate this they comment that "it may well be, for

instance, that a large council uses many relatively small graders to maintain its rural road network. The fact that diseconomies of scale are found could simply reflect the situation in which the council employs an inappropriately small capital stock."

They then review nine Australian studies. Each in their view has significant methodological deficiencies. They present three generic criticisms:

- All but one study considered factors that may be co-linear with population in explaining variations in the cost of providing services by local government.
- All except two of the studies assumed that total expenditure is a homogenous entity across the relevant sample. This ignores the vast diversity in functions carried out by local government and thus makes comparisons between councils a risky exercise.
- Finally, all of the studies used datasets that span one year. In order for a study to examine economies of scale, the datasets should cover a length of time sufficient for all factors of production, especially capital, to be varied.

Bish (2001) presents a quite different perspective, with a set of conclusions based on what he describes as "a comprehensive review of 50 years of evidence on the relationship between the structure and performance of local governments in metropolitan areas." That he should arrive at a different set of conclusions from Byrnes and Dollery may be partly a consequence of the fact that none of the more than 160 references in his paper, most but not all dealing with the provision of local government services, are referred to in Byrnes and Dollery's work. His assessment of the current state of understanding of economies of scale is:

Attempts have been made to sort out activities that possess economies of scale and those that do not. Most researchers conclude that approximately 80 percent of local government activities do not possess economies of scale beyond relatively small municipalities with populations of 10,000 to 20,000. The other 20 percent, which do possess economies of scale, are mostly specialized services, such as homicide investigation or traffic light maintenance, that are needed only infrequently; only a very few are large capital facilities such as waterworks, landfills, recreation centers, or sewage treatment plants, where the economies of scale derive from spreading the benefits of a large capital investment over production for a large population. The rest occur because some specialized services are needed only infrequently by small municipalities.

## **Comment**

The cautionary notes above emphasise one of the difficulties in arriving at firm judgments on the appropriate structure for or efficiency of local government in any given jurisdiction. The inherent problem is that, even although a group of councils may appear broadly similar - they operate under the same statutory authority and appear to have the same set of functions and funding powers - in practice they may be very significantly different. This can be a frustration from the perspective of someone seeking definitive answers to questions such as:

- Are there economies of scale in local government, and if so where?
- How efficient is local government in one jurisdiction as compared with local government in another, and how efficient are individual councils as compared with their fellows?

That said, there are general principles that can be deduced from the extensive research literature on the structure and efficiency of local government. There is also an overriding principle which may console those who would prefer to have clear-cut answers. This is that

local government is inherently an expression of local democracy. Necessarily this means that different councils may differ significantly from their fellows in the ways they undertake activity, or the choices they make, reflecting the fact that they represent different communities, each with their own unique makeup.

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## 3. Literature Review

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### Methodology

Our approach to the literature review has placed primary reliance on an extensive Internet search based on the use of keywords, supplemented by:

- Following up relevant leads identified through primary sources - essentially references cited in material sourced through the Internet.
- Drawing on our international networks of local government researchers and research institutions.

In selecting material for review and inclusion we have given priority to research papers and reports which themselves have analysed and reported findings from a wide range of research papers and other material.

We begin by considering evidence from experience of local government amalgamation, looking both at sector wide examples (England, Canada and Australia, and the one substantive piece of work on the impact of the 1989 amalgamations in New Zealand) and individual examples (Halifax and the San Fernando Valley). We include discussion of Brisbane and of the Greater London Authority as individual examples which, although not strictly speaking examples of amalgamation, are relevant to the current New Zealand debate.

Next we explore the issue of economies of scale.

We follow this with discussion of different approaches to determining the optimal structure for local government - the debate between "public choice" theorists and "consolidationists" - essentially the debate over the relevance of Tiebout's approach. We then look at different approaches to managing scale issues within existing local government structures.

Finally, we consider the changing role of local government.

### Experience of Local Government Amalgamation

The majority of the literature on the costs and benefits of local government amalgamation is concerned with what could be described as "forced amalgamation"<sup>3</sup>. The first reason for this is that forced amalgamations are much more common than voluntary amalgamations. The second is that when the question of amalgamation is the subject of public and/or political debate what is normally being talked about is procuring amalgamation which would not take place if left solely to local councils and their electors themselves.

Generally, the principal argument for local government amalgamation is that it will result in net benefits for ratepayers. Despite the confidence with which advocates of amalgamation argue the prospective benefits, there is a very widespread problem of determining the net

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<sup>3</sup> This may range from the somewhat Draconian approach taken by the government of the Australian State of Victoria, which in 1994, replaced all but one council with commissioners as part of a unilateral restructuring of local government reducing the number of councils from 210 to 78, to the somewhat more collaborative New Zealand approach - with a major restructuring very clearly on the agenda but with significant input from local government itself - to the almost local government led amalgamation process within South Australia.

savings to be expected from local government reorganisation. Furthermore, it is not just the difference between ex ante and ex post assessments but also commonly the case that even ex post different and experienced reviewers may arrive at quite different conclusions.

In this section we first consider experience of wide-scale forced amalgamations from England, Canada and Australia with a brief New Zealand comment, then consider research into two individual examples, Halifax in Nova Scotia and San Fernando in California. We then consider two further individual examples, Brisbane and the Greater London Authority, which, while not strictly speaking examples of amalgamation as such, appear relevant to current New Zealand debate, especially regarding the structure of the Auckland Metropolitan Region and finally outline the apparent shift in the British government's attitude towards local government amalgamation.

## **Sector Wide Examples**

### **England**

Boyne (1992) was written in the lead up to the 1992/95 structural review of local government in England with the intention of providing empirical evidence which would inform public debate. Notwithstanding the findings from Boyne's analysis, which included quite critical comment on the claimed benefits of economies of scale resulting from amalgamation, the UK government went ahead with its proposed structural review with the expectation that there would be significant ongoing cost savings from replacing the existing two-tier system with unitary councils.

The 1992/95 review resulted in the abolition of five counties and their replacement with unitary authorities. In a number of other counties some unitary councils were created with the existing two-tier arrangement being continued in the balance of the county. Professor Michael Chisholm, who was a member of the Local Government Commission for England during most of the 1992-95 review, addressed the question of costs in subsequent research.

He concluded that the costs of structural reform were borne entirely by the populations in the new unitary authorities and in the two-tier parts of the counties where hybrid solutions were adopted. Chisholm notes that the government argued these costs would be recouped by the savings which the reorganisation was supposed to yield but that he could find no evidence of the savings (Chisholm (2000a; 2002)). The gap between the stated expectations of the savings from reform, and reality, led Chisholm in another article (Chisholm 2000b) to comment:

In addition, the financial savings which the government had expected showed little sign of materialising. The discrepancies are sufficiently large that they call in question the procedures currently employed to scrutinise the costs and benefits of legislation, leading to the proposition that the scope of the National Audit Office should be expanded to encompass the role performed by the Congressional Budget Office in the United States, to provide high-quality and independent assessments of the financial implications of proposed legislation as a means for enhancing the quality of the legislative process.

### **Canada**

The 1990s saw substantial enforced local government reform in several provinces, notably Ontario and Québec. In a period of four years, the Ontario provincial government reduced the number of municipalities from over 800 to approximately 400. This included the creation of the Toronto mega-city.

Québec, in its reforms, was seeking to deal with two separate issues; the amalgamation of a number of small and very small municipalities, and the creation of metropolitan governments in its three main municipal regions (Montréal, Québec and Outaouais) capable of responding to the challenge of globalisation. The result of these initiatives was a reduction of over 300 in the number of municipalities in the province.

Garcea and LeSage (2005) set out to provide an assessment of Canada's experience with municipal reform. One of the major obstacles they confronted was the lack of any robust assessments of the impact of reform initiatives. In seeking to account for this, they make a number of important points which have general application in considering arguments for and against local government amalgamation (whether those arguments are *ex ante* or *ex post*):

Several factors contribute to the paucity of definitive and systematic assessments. One major factor is that some of the principal protagonists of reform contests are not strongly supportive of such assessments. After all, contests over reform initiatives are often founded on hard-held views that reflect the values and subjective interests of the contestants. Claims regarding the effect of specific reform proposals are often inflated in the heated debate. Even in the absence of energetic debate, governments and other policy actors bring the best case forward to press their preferences. These 'best cases' are usually not substantiated by systematic and objective research. Within such circumstances and practices it is hardly surprising that the evaluation stage in the policy cycle is foreshortened or even omitted by those who have been central actors in initiating and implementing a particular policy. Of course, this is especially true when only a short period of time has passed since implementation began. For governments, in particular, prospects that systematic research will reveal flaws in policy assumptions and logic, in the design of reform programmes, or in programme implementation are sufficient to discourage the sponsorship of such research. Those actively opposing reform initiatives are more likely to support evaluative research, but here, too, there is often less interest in systematic and scientific approaches than what best can be described as polemical research in which the questions are chosen to support a particular policy preference.

The absence of good evaluative material makes it difficult for Garcea and LeSage to make definitive judgments. However, there is quite substantial evidence that public support for the reform process was less than wholehearted.

Barber (2000), director of the Cordillera Institute, a Toronto based "research organisation dedicated to excellence in local government" argues that proponents of the Toronto mega-city failed to allow for transition costs, which his organisation estimates at \$400 million, or for the fact that generally salaries level upwards. He argues that rather than the province intervening to force amalgamation, what was required was transparency in the financial situation of municipalities (financial weakness was a significant driver for amalgamation) coupled with standing back and leaving it to locally driven initiatives to solve the problem.

Kushner and Seigel (2003) report the results of an assessment of public attitudes to amalgamation in three Ontario municipalities<sup>4</sup> undertaken some three years after the amalgamations took place:

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<sup>4</sup> The three municipalities are Central Elgin, Chatham-Kent, and Kingston. The Municipality of Central Elgin (population 11,000) was created as a result of a voluntary agreement<sup>(2)</sup> merging two villages and a township in Elgin County. In Chatham-Kent (population 100,000), local negotiations directed at a series of limited amalgamations failed and a complete amalgamation of a central urban area with a county and its twenty-one towns, townships, and villages was imposed by a commissioner's order. The new City of Kingston (population 100,000) was the result of a voluntary agreement merging the central city and two neighbouring townships, both with significant urban areas. Thus, the three amalgamations were quite different: two

**TABLE 1 Attitudes Toward Amalgamation – Before and Three Years After**

	# of Respondents	Strongly in Favour (%)	Somewhat in Favour (%)	No Opinion (%)	Somewhat Opposed (%)	Strongly Opposed (%)
<b>Belmont</b>						
Before	125	0.8	6.4	48.0	20.8	24.0
After	120	2.5	6.7	41.7	22.5	26.7
<b>Port Stanley</b>						
Before	141	2.8	6.4	22.7	31.9	36.2
After	139	5.0	7.2	19.4	29.5	38.8
<b>Yarmouth</b>						
Before	258	3.5	10.1	48.4	25.2	12.8
After	250	3.6	16.0	35.2	29.2	16.0
<b>Chatham-Kent</b>						
Before	385	6.2	8.8	31.4	29.4	24.2
After	380	7.1	20.5	21.6	24.7	26.1
<b>City of Kingston</b>						
Before	196	12.8	17.9	44.4	17.9	7.1
After	191	14.1	17.3	38.7	23.0	6.8
<b>Kingston Township</b>						
Before	201	8.0	14.9	29.4	23.4	24.4
After	198	8.1	19.2	21.7	24.2	26.8
<b>Pittsburgh Township</b>						
Before	158	6.3	10.1	19.6	27.2	36.7
After	156	7.1	12.8	16.0	26.3	37.8

The questions asked were:

- Before the amalgamation occurred, were you opposed to the amalgamation, in favour, or had no opinion?
- After almost (or slightly more than) three years of living in the amalgamated municipality, has your opinion changed?
- In what way? Are you now opposed or in favour?

As the authors observe, the amalgamations had very little support when they took place and not much more three years later

Resistance in Québec has been more extensive and with more impact. In response to public opposition to the amalgamation initiatives of the Parti Québécois government, the Canadian Liberal party, in its campaign in the 2003 provincial elections, promised to provide the local preference option (that is local choice rather than provincial dictat) to all municipalities which had been amalgamated between 2000 and 2003. 212 were eligible. 89 collected the required 10% of signatures of eligible voters to trigger a referendum. 59 municipalities voted in favour of de-amalgamation but only 32 had the necessary voter turnout of at least 35%.

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were voluntary, one was imposed; one was mostly rural, one urban-centred, but included a significant rural area, and one a mix of urban and rural. The Chatham-Kent and Kingston mergers were the second and third largest amalgamations (after Toronto) in the first round of restructuring effective January 1, 1998 (Hollick and Siegel 2001).

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The de-merger process required the Québec government to address the question of what should be the relationship between each newly independent de-merged municipality, and the larger municipality from which it had de-merged, especially as the larger municipalities retain sole responsibility for a number of significant services. Sancton (2005) provides a description of a process which is still evolving. The province has required the formation of an agglomeration council covering the former district of the merged municipality and comprising representatives of the municipality and the demerged councils. Decision-making within agglomeration councils appears weighted in favour of the municipality so that, in respect of the services for which it is responsible, demerged councils may have little more role than paying the bills for the services they receive, raising the property tax required for this, and acting as advocates on behalf of their own citizens.

## **Australia**

Australia has considerable experience of local government amalgamation. The 2003 annual report of the Department of Transport and Regional Services, the Federal Department with responsibility for local government, comments:

A key feature of Australian local government reform has been the use of council amalgamations as the primary policy tool in the search for more cost effective local services. For example, in recent years, New South Wales, Victoria, South Australia and Tasmania have all undergone periods of municipal consolidation of differing degrees and intensity. Over the 80 years from Federation to 1991, the number of councils in Australia fell by over 20 per cent (Sproats 1996, p. 5). In the 13 years since 1991, council numbers have fallen by a further 27 per cent.

The report goes on to note the changing nature of the debate about amalgamation internationally, and within Australia, including a revisiting of the belief that amalgamation will realise economies of scale sufficient to justify this approach:

Typically, economic approaches to local government performance improvements take one of two forms. In the 'conventional' view, large, hierarchical, multipurpose organisations are seen as the best way to organise local public services. This approach argues that in a 'consolidated' structure, all services are provided by a single unit that covers a wide geographical area. Economic arguments usually advanced in support of this view include economies of scale, economies of scope, administration and compliance costs (Dollery & Crase 2004).

The 'public choice' perspective that has gained prominence in the last 40 years provides a sharply contrasting view. Proponents argue that efficiency and responsiveness are enhanced by local government structures that are based on markets and competition rather than on structural and administrative consolidation.

The public choice perspective is now firmly evident in the debate on council amalgamation in Australia. It challenges the conventional view that municipal service delivery is characterised by economies of scale and scope associated with greater population size (Byrnes & Dollery 2002). Byrnes and Dollery (2002) also argue that the paucity of empirical evidence on the existence of significant economies of scale in municipal service provision casts considerable doubt on the widespread policy of local government restructuring in Australia and question the widespread use of amalgamation by State governments as a key policy instrument for more cost effective local services. Regardless of the empirical validity of such arguments, the public choice perspective broadens the debate on council reorganisation and amalgamation.

Two Australian examples are often referred to as illustrating the benefits which come from amalgamation and the greater efficiency which will result from larger units of local government. One is the recent experience of South Australia which, through a process of negotiated amalgamations in the mid-1990s, reduced the number of councils by a little over 40% and the other the city of Brisbane.

### **South Australia**

Over the period 1995-98 the South Australian State Government led a process of structural reform of local government, in close partnership with local government sector, designed to encourage councils to negotiate amalgamations. The result was a reduction in the number of councils from 118 to 68 and reported savings (see below) of \$19.4 million per annum.

The South Australian experience arguably comes as close to a "controlled experiment" on sector wide amalgamation as it is possible to achieve. Reform had a relatively high element of local government involvement and direction, and was not complicated by other policy shifts taking place at the same time -- so that before and after judgments could be made solely on the basis of amalgamation rather than (say) a significant change in role and function.

The Australian Federal Government Department of Transport and Regional Services in its annual report on local government performance for 2000 notes that "In South Australia, recurrent savings estimated at \$20 million per annum are being made in administration, representation and in plant, equipment and depot rationalisation. The savings are being returned to the community through rate cuts, debt retirement and improved services."

However, Dollery (2005) observes that "in South Australia the authorities promised savings of 17.4 per cent, but in fact only achieved 2.3 per cent (Allan 2003, p.75)! Moreover it should be emphasised that these net cost savings do not take into account the indirect costs of forced amalgamation, such as increased unemployment, lower economic activity, and a loss of services, which often threaten the very existence of small communities."

A check with the source Dollery cited, Allan (op. cit.) produces the following statement made without citing any source, that "Authorities promised a saving of 17.4% but realised only 2.3%. Rates escalated after a temporary freeze and not surprisingly the public became disenchanted with mergers."

The two different figures highlight the uncertainty that appears to be typical of amalgamation initiatives as they unfold. With the objective of obtaining a better understanding of what had been achieved in South Australia than was available from these conflicting accounts, we undertook some further research with the assistance of informants in South Australia who had been involved with the local government amalgamation process. The first estimate of potential savings was contained in the 1995 report of the Ministerial Advisory Group on Local Government Reform (the MAG report). This projected savings from amalgamation of \$150 million a year - effectively the 17.4% referred to by Allan. When the process itself actually got underway and consultation with local authorities began, the level of savings promised was a more realistic \$19 million or 2.3%.

Part of the statutory arrangements for the reform process was the establishment of a Local Government Boundary Reform Board which was tasked with reporting on the outcomes of the reform process. In its final report (LGBRB 1998) the Board first had this to say about the extent of the savings:

Benefits quantified by Councils to date on structural reform proposals total \$19.4 million per annum, plus 'one-off' estimated savings of \$3.9 million. Appendix A provides a detailed breakdown of these benefits as identified in the proposals.

Compared with the estimate in the MAG Report that, theoretically, savings of some \$150 million could be made through structural reform, this may initially seem rather modest. However, there are two reasons that this is not so.

First, the MAG Report (1995) estimate was regarded throughout the Local Government community as overly optimistic, and was based on an expectation of concurrent functional and management reforms. In any event, the Board took the view that it should assess proposals on the merits of the actual case put to it, not against some theoretical benchmark for potential savings.

Second, the recurrent savings estimate of \$19.4 million per annum from voluntary structural reform can be considered as likely to be conservative for two reasons:

- During hearings, many proponents of the amalgamations told the Board that their savings proposals represented only what they could be absolutely certain to achieve and deliver as rate savings, or potential service increases. Most expected to be able to achieve significantly more than their savings proposals once amalgamation proceeded
- In other cases, proponents reported that they estimated no recurrent savings because they had agreed there would be no reduction in staffing levels. They did, however, expect service delivery capacity to expand as a result of the amalgamation at existing staffing levels. In effect, potential savings were pre-allocated to service increases rather than to potential rate reductions. Benefits valued over financial gains included retention and expansion of services to the community, the preservation and development of employment opportunities, and the containment of future rate increases rather than short term rate reductions. This was often an expression of community desires within the context of a voluntary process, and reflected the individuality of each amalgamation proposal.

On this basis, it is possible that the potential cost savings (including those converted directly into expanded services), could be as much as double those actually recorded.

However the Board then went on to observe:

At this early stage, however, there is little hard evidence in financial terms of the success or otherwise of amalgamations. In fact, this was a common theme in both the case studies undertaken for the Report and in the information sessions held by the Board with amalgamated Councils (see sections 4 and 3.4 respectively). Many Councils conceded that they had underestimated establishment costs. However, at these sessions, Councils overwhelmingly expressed optimism that the 'quantifiable' benefits of structural reform would be realised in time.

The financial plans incorporated in proposals showed that the full benefit of any financial savings may not be realised for three to five years, when implementation is complete. Financial savings may prove difficult to quantify, even over time, due to Councils' commitments to service improvements.

Essentially, the Board was acknowledging that realising the savings was still in the category of "work in progress". The findings of the recent Inquiry into the Financial Sustainability of Local Government in South Australia, some of which appear below, carry with them the inference that either not all of the savings may have been realised or they may have been realised at the cost of maintaining service levels at acceptable standards.

In February 2005 the Local Government Association of South Australia commissioned an independent inquiry into the financial sustainability of South Australian local government. The Financial Sustainability Review Board reported in August 2005. Amongst the Board's numerous formal findings were:

- Only 18 (or nearly 30%) of South Australian councils recorded operating surpluses in 2003-04.
- For the South Australian councils recording operating deficits in 2003-04, the average deficits were the equivalent of 12.5% of their annual rates revenue.
- Over the last 10 years... negative net outlays have accumulated into an infrastructure renewal/replacement backlog that is estimated to be in excess of \$300 million.
- There is a low level of information available to, and understanding within, the community of the real costs of current service commitments.
- Amalgamation brings with it significant costs and often exaggerated benefits. There are many intermediate forms of cooperation/integration among councils, with amalgamation being the most extreme (and confronting) form of integration.
- Many councils do not sufficiently define service levels in quality and quantity standards for the range of services they deliver, which makes it difficult to assess the efficiency and effectiveness with which services are being delivered.

The Board's findings provide an interesting context against which to evaluate the positive findings in respect of the amalgamation process, especially as they suggest some very real difficulty in terms of assessing the relationship between promised savings, services and service level standards.

Nor does it seem that the local government sector is as happy with the outcomes of the amalgamation process as official reports would suggest. In a briefing paper prepared by the Local Government Association of New South Wales to assist its members respond to a state government initiative for the reform of local government, the association gave a brief assessment of the South Australian experience. It recognised the claimed successes of the reform process, including a better relationship between the South Australian local government sector and the State government but then went on to note that:

There is still a great diversity amongst councils in geographic and population size. Some councils who did amalgamate are not happy and some communities are keen to move back to previous boundaries.

This suggests that, even where amalgamations may achieve real efficiency gains, they may still be perceived negatively, at least to some extent. One possible explanation for this is a community perception that the role of local government is not simply to deliver services at optimal cost, but also one of local democracy and the opportunity for people to express themselves in different ways in terms of the type of community they want.

## **New Zealand**

Rouse & Putterill (2005) examined the effects of amalgamation and policy changes on scale economies and performance of the highway management function of New Zealand Territorial Local Authorities following events before and after significant structural change arising from local authority amalgamation. Results (confined to highway management activities) show no evidence that amalgamation was justified in terms of diseconomies arising from smallness (i.e. increasing returns to scale). While new governance practices introduced contemporaneously lifted the level of performance of local authorities in terms of higher technical efficiency, Rouse & Putterill found no evidence that the amalgamation policy contributed to this improvement.

## **Individual Examples**

### **Halifax Regional Municipality**

Halifax Regional Municipality came into being on 1 April 1996 as an amalgamation of the cities of Halifax and Dartmouth, the town of Bedford and the municipality of Halifax County (containing two unincorporated villages - Uplands Park and Waverley) which included the consolidation of special purpose bodies (such as the Metro Authority) joint boards, and service commissions (such as Upper Musquobobit and Hammond Plains). The Halifax Regional Municipality amalgamation study was established as an independent initiative, funded by a charitable foundation, to undertake an ex post evaluation of the amalgamation.

In their conclusion to a report released in July 2000 (HRM Study 2000) the researchers had this to say:

This study set out to answer the question "have there been changes in the costs of delivering services pre-post amalgamation" or "have there been any gains or losses in efficiency since amalgamation". The data available for a detailed analysis of the costs of amalgamation proved restrictive. That is, the absence of standardized time series data, the lack of output and activity information and the extraneous events have all limited the empirical examination of the costs of amalgamation. An alternative broad based approach to address the costs of amalgamation was pursued. The available data with respect to municipal accounts indicated:

- gross municipal expenditures are increasing after amalgamation and service exchange,
- property tax bills appear to be rising,
- user fees are increasing, and
- services have stayed the same or declined since amalgamation.

An independent study of transition costs or the "necessary cost of acquiring future operational benefits for the unitary government" concluded expenses of \$23.6 million were attributable to amalgamation. Some "transition costs" continue to evolve and affect HRM long after the municipal merger. Information technology costs for example, have continued to escalate since amalgamation, the impetus for increasing expenditures was initiated when municipal consolidation brought about the requirement for an updated system. The one time costs, however were not the only contributor to the long-term overall increase in operating expenditures, wage harmonization also affected the cost of amalgamation as salaries and wages rose to the highest common level. While it is difficult

to attribute the total sum of all salary increases to amalgamation because the first collective agreements were forced to address the provincial budget freeze municipal amalgamation unit did affect the size and scope of the wage settlements due to job evaluations and changing job descriptions. More importantly wage and salaries precedents have been set - these agreements will provide the benchmark for future bargaining. Wages and salaries will only increase, and future analysis will likely demonstrate escalating costs correlating with amalgamation. The long-term debt has also risen since amalgamation, again it is difficult to attribute all borrowing to amalgamation - due to the implementation of the new solid waste regime and deferred but necessary infrastructure upgrades and repair.

Although the discussion of the costs of amalgamation has relied on a broad brush approach, patterns of increased capital and operational expenditures would suggest that the promised financial benefits of amalgamation have not been realized. The previous discussion indicates that the designers of HRM amalgamation were at the very least misleading in selling the municipal consolidation as a cost saving measure. The anticipated yearly savings of \$9.8M have not appeared in improved services, decreased expenditures or reduced property taxes or user fees.

The judgment that the designers of the HRM amalgamation may have been misleading is perhaps a little harsh. The types of factors which appeared to have made the difference for Halifax between the theoretical ex ante savings and the reality of ex post experience are all too often overlooked when considering merger or amalgamation arrangements within local government (or for that matter takeovers in the corporate sector). The incompatibility of IT systems, the discovery that an increased organisation size requires new and enhanced systems, issues of different cultures, of incompatible performance systems and the like are not only common but are often discounted ex ante and not really identified until the implementation phase. This is consistent with the caution expressed by Professor Robert Bish (Bish 2001) against placing undue reliance on ex ante reports on the potential benefits of local government restructuring:

No doubt, analysts are able to identify areas – including, perhaps, even economic development and planning – where governments of any size can improve their performance. But any existing government will appear to be inefficient compared to an engineering/accounting determination of perfection or to an abstract model. And any newly created organization inevitably will develop its own inefficiencies; moreover, evidence suggests that the larger the local government, the greater its inefficiencies are likely to be. It is thus safer to draw conclusions about the relationship between local government structure and performance from what actually exists, not from a consultant's report on the utopian ideal. It is also necessary to recognize that the higher cost of large monopolistic producers is most likely to appear not all at once but gradually, since they lack incentives continually to improve their performance. At the same time, actual performance is virtually never as efficient as possible, so efficiency studies should discover opportunities for improvement. One must be careful, however, to distinguish between improvements that might come from changes in organizational structure and those that follow from incremental increases in efficiency over time in any organization. Sancton (1996) observes, for example, that virtually none of the benefits identified as flowing from the amalgamation of Toronto-area municipalities required reorganization but were merely improvements in practices that could have been made within the existing system.

As a further caution against assuming that ex ante estimates of the theoretical savings which could be achieved through amalgamation will actually result, a recent American review of academic literature on consolidation and general government performance (Indiana Policy

Review Foundation 2005) makes a point which is sometimes overlooked when local government restructuring is under consideration:

Perhaps the most pertinent conclusion from the literature is that government consolidation can lead to serious *morale problems* among government employees as distinct government units are merged. Differences in policies, compensation scales and employee classification systems are difficult to reconcile. The complexity of the transition and the resulting stress and uncertainty are often identified as a key reason for low morale. Such problems can persist for several years after consolidation. The literature suggests that morale issues are closely tied to the manner in which these differences are resolved. This suggests that these issues should be addressed carefully and in depth when considering consolidation.

### **San Fernando**

Sancton (2003) includes an account of the background to the recent attempt by the San Fernando Valley to secede from the City of Los Angeles (Californian legislation permits areas within an existing local authority to secede but subject to a requirement that any proposed municipal breakup of a city within Los Angeles County required the approval of the Local Agency Formation Commission for Los Angeles). The Commission undertook a detailed study of all the implications before considering whether to give approval. Sancton reports that:

On the subject of the implications for future municipal costs resulting from the establishment of the new city, the report stated:

- The academic studies on this topic have found that economies of scale are relevant only among the smallest of cities.
- For larger metropolitan cities the literature suggests that *diseconomies* [emphasis in original] of scale exist in policing as well as refuse collection, general government and fire services. This means that the per capita costs of providing local government *rise* as city population, crime or other measures of government output increase.
- The evidence does indicate that in the area of street maintenance and possibly, sanitation, there are likely economies of scale. The Executive Officer encourages the parties [i.e. the two potential cities] to consider a long-term contractual relationship in such areas with clear efficiencies from a large-scale operation.

### **Brisbane**

The Brisbane City Council is the largest local authority in the southern hemisphere, serving a population of some 900,000 people - approximately 50% of the population of the Brisbane metropolitan area.

The city was created by the City of Brisbane Act 1924 which merged two cities, six towns and 10 shires to form a single city. The city is regarded as a successful example of a metropolitan administration being effective to manage a very substantial undertaking serving a large population. It does not, however, follow that Brisbane's current success as a metropolitan administration is evidence to justify the amalgamation, today, of several large local authorities to create an equivalent sized metropolitan administration.

First it should be noted that the formation of the City of Brisbane was more in the nature of the de novo creation of a new entity, than the amalgamation of several existing entities. Next the City of Brisbane in 1924 was a very much smaller entity than the City of Brisbane in 2006

so that the issues involved in bringing together a large and complex administration to create a city of today's scale were not addressed in Brisbane's formation. Finally the nature of modern metropolitan administration is very different from what it was in 1924 - the complexity of infrastructure requirements, the nature of technology, the local authority funding environment and much else has changed dramatically over the past 80 years.

For the purposes of this report, the City of Brisbane may be seen as providing an instructive example of apparently effective management of a large metropolitan area under a single administration<sup>5</sup> but does not have a great deal to offer on the merits of amalgamation versus other means of addressing issues of scale and capability in today's local government environment.

The principal reason for this judgment is that it is not possible to draw from the current circumstances of the City of Brisbane any lessons relevant to the immediate questions which arise when considering the merger of several large local authorities to form a mega-city. Brisbane's culture, operating systems (including technology), salary structures funding arrangements and other critical determinants of effectiveness and efficiency must all be regarded as the product of a single long-lived local government entity. Accordingly, they do not allow the drawing of any conclusions on how best to bring together those elements from several different entities into one.

### **The Greater London Authority**

The development of local government for metropolitan London has a somewhat chequered history. The first genuine metropolitan local authority in London was the Metropolitan Board of Works established in 1855, with boundaries similar to what is now known as Inner London. Prior to its establishment *The Times* had commented that London was:

Rent into an infinity of divisions, districts and areas... Within the metropolitan limits the local administration is carried on by no fewer than 300 different bodies, deriving powers from about 250 different local Acts.

The Board of Works was set up with the main purpose of improving the capital's sewerage system. By the time it was replaced in 1888 its activities included construction of main drains and sewers, construction and improvement of main thoroughfares, construction of flood protection works, enforcement of building codes, naming and numbering of streets, fire protection, creation and maintenance of parks and open spaces, construction of tramways, and slum clearance.

The act which established the Board of Works also reformed the parish system in London. It created a system of 23 larger, directly elected parishes and 15 district boards appointed by the smaller parishes. The members of the Board of Works were elected by those 38 entities, plus the Common Council of the City of London.

In 1888 The London County Council replaced the Metropolitan Board of Works. It was responsible for a similar area but, in addition to the Board of Works functions, became responsible for the Poor Law, the fire service, housing, health services and education (after 1904). Pressure for devolution of some of its functions to a lower tier of local government resulted in the Local Government Act 1899 which established 27 metropolitan boroughs

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<sup>5</sup> See however *Brisbane no cure-all the Council troubles* in the New Zealand Herald for Thursday, August 24, 2006. This article by Garry Law, a former senior manager with Brisbane City, argues that Brisbane is not efficient but instead is significantly overstaffed with a ratio of employees to residents 70% higher than Auckland city, bureaucratic, and performs poorly on governance and democracy.

within the county's area, together with Westminster City Council (whose origins go back to the 16th century). The boroughs inherited the powers of the existing parishes and district boards but legislation did not provide a workable mechanism for devolution of powers.

Local government outside the boundaries of the London County Council contains a "bewildering array" of lower-tier government which was the subject of several inquiries during the first half of the 20th century. The London Government Act 1963 created both the Greater London Council, covering virtually the whole of the modern built-up area of London, and 32 boroughs as a second-tier of local government. Education in inner London became the responsibility of the Inner London Education Authority.

Through most of its life, there were both concerns about the allocation of functions between the Greater London Council on the one hand and the boroughs on the other and increasing political tensions between the Labour and Conservative parties especially as control of the Council on the one hand and the government on the other was typically in the hands of different parties.

One historian of London local government (Barlow 1991) observes that:

Early on, the 'metropolitan' issues were mainly in the fields of housing and planning, later transport occupied centre stage, but eventually attention turned more to unemployment and the state of the metropolitan economy. Politics and party rivalry continued to be important, as control of the GLC see-sawed between Labour and Conservative and as the parties passed in and out of synchronization at the various levels of government. Eventually confrontation between a Labour GLC and a Conservative central government provided the opportunity for proposals to abolish the GLC.

The Greater London Council was abolished in 1986. Ongoing local government within the former GLC area became mainly the responsibility of the 32 London boroughs and the City of London. Other elements of governance were the responsibility of a number of London wide appointed boards and other institutions. Finally, different government departments also played a role. The Department of the Environment was responsible for strategic land-use planning and the Department of Transport controlled major roads. Writing of the situation as it existed in the late 1990s Travers and Jones (1997) conclude that "London is a city with much government but little political power. While this contrast has been true in the past, the demands of a modern, advanced democracy make the failures of weak and fragmented government more important than before. Fragmentation of government - and the lack of effective political power that goes with such a system - is now worse than in the past. The recent creation of new London-wide committees and boards, the growth of new Whitehall involvement and the rapid development of partnerships together suggest there is a power vacuum".

The then opposition Labour Party picked up on what it saw as an opportunity, and on discussion which had been taking place within government policy circles on the option of moving to an executive mayor in some circumstances, to put forward the following commitment in its 1997 General Election manifesto:

London is the only Western capital without an elected city government. Following a referendum to confirm popular demand, there will be a new deal for London, with a strategic authority and a mayor, each directly elected. Both will speak up for the needs of the city and plan for its future. They will not duplicate the work of the boroughs, but take responsibility for London-wide issues - economic regeneration, planning, policing, transport and environmental protection. London-wide responsibility for its own government is urgently required. We will make it happen.

Labour, once elected, moved quickly to deliver on that commitment. The July 1997 green paper **New Leadership for London** was followed by legislation providing for a referendum on proposals for the establishment of a Greater London Authority. The referendum attracted a turnout of 34.6% but a majority of 72% for the government's proposals.

The Greater London Authority Act was passed in 1999 and the authority itself established the following year. It contains two separate elements; an elected executive mayor, and the London Assembly comprising 25 members 11 of whom are elected on a London wide franchise and 14 of whom represent constituencies made up of between two and four London boroughs. Under the Act the mayor's responsibilities include developing the authority's strategies for transport, planning and environment in London, setting the budget for the Authority itself and for its functional bodies (the London Development Agency, the London Fire and Emergency Planning Authority, the Metropolitan Police Authority, and Transport for London). The authority oversees the mayor's role and has the power, on a two thirds majority, to amend any of his budget decisions.

The Greater London Authority itself is a best value authority for the purposes of the Local Government Act 1999 and subject to the power of the Audit Commission to inspect its compliance with the general duty of improvement.

The Audit Commission released its initial performance assessment of the Greater London Authority in March 2005. The overall assessment was "good". The following extracts from the performance assessment itself provide a perspective on how it has been handling its role:

The GLA is a good organisation that has worked effectively in the four years of its existence to establish an ambitious, credible and coherent long-term vision for London's development underpinned by a comprehensive strategic planning framework.

The Mayor has a clear, ambitious and stretching vision to improve the lives of Londoners by developing London as an exemplary world city. The vision is based on good quality research, a clear understanding of the problems and opportunities that face London and good consultation with stakeholders. He provides strong leadership and direction, is active and effective in speaking for London and his leadership on equality and diversity issues is widely recognised.

The GLA recognises the need to deliver its ambitions through influence and partnerships and leads by example with policies for its own operation that align with its wider strategies. It has used partnerships effectively in developing its strategies and is aware of the need to work across the GLA group and with a range of other partners to secure its objectives.

Despite the strong Labour government support for the establishment of the GLA, it began in a somewhat controversial political context. The government recognised the pivotal role of the mayor and was determined to put its own candidate in place. The former leader of the Greater London Council, Ken Livingstone, a long-term member of the Labour Party and a backbench MP, was equally determined that he should be the first mayor. He ignored government and party pressure, stood against the Labour Party's official candidate, won and was expelled.

His first term success resulted in the Labour Party accepting him back into membership and he stood for his second term as a Labour Party candidate. The government has continued to be supportive of the GLA, and following a review has decided to grant further powers to it.

In July 2006 the government issued its final proposals for enhanced powers for the GLA. The ministerial introduction to the proposals states that they "include new lead roles for the mayor in housing and adult skills in London; a strengthened role over planning in the capital; and additional strategic powers in a wide range of policy areas including waste, culture and sport, health, climate change and energy and appointments to the boards of the functional bodies."

The perceived success of the GLA, following as it does a relatively chequered history on the part of its predecessors, appears due, in particular, to two factors:

- An allocation of functions between the GLA on the one hand and the London boroughs on the other designed to ensure that the GLA's functions are inherently London wide and to minimise potential conflict with the more local roles of the individual boroughs.
- The power and profile associated with the role of the executive mayor.

### **England - A Changing Attitude Towards Amalgamation?**

Currently England has what is by international standards a highly centralised system of government (Lyons 2006) with local government substantially dependent on central government both for funding and for determining the scope, scale and purpose of its activities. Frequent restructuring of local government to meet central government perceptions of the optimal structure to deliver the outcomes central government requires has been one feature of centralised control.

Late in 2005 it appeared that another round of restructuring was about to commence. On the 21st of November the Daily Telegraph reported on a leaked memorandum from David Miliband, the Minister for Communities and Local Government, to John Prescott, the Deputy Prime Minister (Johnston 2005). In that memorandum Miliband argued the existing local government setup is inefficient, wasteful and confusing and proposed an end to the two tier structure of district and county councils that operates across much of the country. The key to the reform would be the creation of all-purpose unitary authorities to replace either the counties or the districts in the 34 English shire counties. In a comment typical of proponents of reform, before reform is actually carried out, the government was reported as calculating that there would be a short-term cost of hundreds of millions of pounds involved in the reorganisation but that savings would be made in the long run by "removing the waste, duplication and coordination failures associated with the two tier structure".

Two months later his views appeared to be shifting significantly from restructuring local government in order to achieve (as he apparently believed) greater efficiency to a focus on improving local democracy through an approach which is becoming known as "double devolution" - devolution from central government to local government and from local government to communities.

On 18 January 2006 he spoke to the New Local Government Network on the theme Empowerment & The Deal For Devolution (Miliband 2006a). The speech included reflections on the perception that democracy is more than just the right to exercise the occasional vote, with the apparent view that the large size of individual local government units in England as compared with other jurisdictions was itself a problem in realising this version of democracy. He had this to say:

The academic Paul Ginsberg has calculated that the average citizen spends on 72 minutes voting during their life (sic). Democratic legitimacy and civic engagement is enhanced when democratic institutions spread and share power rather than hoard it. This is especially true in England - for a reason that I had not appreciated until recently.

It is common to observe that in many ways a lot of powers are held in Whitehall. For reasons of spending control and equity - tackling the 'postcode lottery'- national government takes a lot of decisions that in other countries are taken locally. But it is also the case that despite the sterling work of the nearly 9,000 parish councils in England the lowest principal tier of local government in England is ten times the size of the lowest tier in other countries, covering about 150 000 people, compared to around 50,000 in the US, 30,000 in Sweden and 20,000 in Australia. In France, there are 36,000 communes for a population roughly 10% bigger than ours. In Germany there are 15,000 Municipalities for a population a third bigger, compared to England's 350 local councils. So people want more power. But government can seem remote. These factors come together to create a power gap. It is a gap which is out of sync with modern needs, and it needs to be closed.

On 21 February 2006 he addressed the annual conference of the National Council for Voluntary Organisations on the theme of devolving power from central and local government to individuals and community groups (Miliband 2006b). His comments included:

Finally, I want to set out why the reform of local government - the double devolution of power from the central government to local government, and from local government to citizens and communities - will take the partnership between state and the third sector into a new phase.

Devolution is a deal. It is conditional on local government taking on new powers from central government, but then sharing power with citizens, neighbourhoods and the third sector, not hoarding it.

Three months later, as a result of a Cabinet reshuffle, he was replaced by Ruth Kelly as Secretary of State for communities and local government (he became Minister for the Environment). In her address to the 2006 conference of the Local Government Association (Kelly 2006) she appeared to put an end to the suggestion of another round of large-scale forced restructuring in favour of "better joint working" favouring councils working collaboratively with each other and other public services. She also appeared to signal that any replacement of district and county councils by unitaries would be a matter for local not central decision. Her actual words were:

Now I know some people think that local government would work much better for citizens and the taxpayers if we had full unitary government everywhere. I also know that there are some areas where there is a widely held view that this is the right way to move. In such cases, where there is a broad cross-section of support for change and where our criteria are met, I won't stand in their way. But let me also assure you that I am far more interested in outcomes for citizens than lines on maps. So we will have a short window of opportunity for that small number of councils who are keen for change and who meet our criteria to seek unitary status. But I have no desire whatsoever to create a great distraction of activity on the restructuring issue. In the clear majority of county areas two tiers will remain and in all of these areas we will need better joint working. The status quo is not an option. I'm also clear that there is huge potential to make efficiencies and improve outcomes through councils working more effectively together and with other public services. I know the LGA will play an important role with us in driving this forward.

The government is shortly to publish a White Paper on local government. Current signs are that this will focus on strengthening local democracy, including exploring means of providing greater choice at a local level, with the theme of double devolution at the core of the White Paper's proposals. Although it is somewhat difficult to anticipate exactly what the paper will say in respect of local government structure, it does seem that the government has decided

to shift away from an emphasis on further restructuring. To the extent that is the case, the driver appears to be a growing recognition that large units of local government can make it more difficult to achieve genuine local democracy.

## **Summary**

The evidence for savings as a consequence of large-scale amalgamation initiatives, such as those which took place in South Australia and Victoria in the 1990s or as a result of the structural reform initiative in English local government in 1992-95, is at best equivocal. In the Australian cases, there are clear differences of view amongst experienced observers and researchers. In England, Professor Michael Chisholm's findings appear conclusive. The anticipated gains from structural reform did not eventuate.

In Canada there is substantial evidence that forced amalgamations may not have had public support either at the time or subsequently, suggesting a strong sense of attachment to the known and familiar.

The evidence appears clearer in cases of individual forced restructurings that anticipated savings are unlikely to be obtained, at least when the restructuring concerned is intended to result in a local authority of considerable size, partly because of a tendency for those supporting restructuring to overlook or under estimate the impact of factors such as the incompatibility of systems, the impact of scale change on system requirements, staff morale and the impact of the restructuring process itself.

The literature reviewed on the costs and benefits of amalgamations, as noted at the beginning of this discussion, needs to be understood in the context of compulsory amalgamation. It seems more likely that voluntary amalgamation, that is a situation where the amalgamation is initiated by one or more of the amalgamating councils and they and their resident/ratepayers are in favour, will produce benefits that exceed the costs. First, in a voluntary situation, there should be more opportunity for an in-depth assessment of likely costs and benefits with some knowledge of what the post amalgamation situation will look like. Secondly the need to gain community support almost certainly will set a higher barrier than in the case of forced amalgamations where often the driving rationale may be a State or national level political commitment, rather than an authority by authority assessment of options.

Finally, the apparent shift in approach of the British government towards restructuring in favour of a more collaborative approach, if it is followed through, represents a marked change on the part of a government which has been more prone, than almost any other, to regard restructuring as the first best solution to issues of scale and efficiency.

## **Economies of Scale**

In this section of the literature review we move from the question of the savings which may be achievable through restructuring local government, to the separate but related question of the extent to which there are may be economies of scale in the provision of local government services.

In this respect, by far the bulk of empirical evidence comes from the United States with a very significant body of research on the different options for delivery of local government services (see for example the research cited at <http://government.cce.cornell.edu>).

Oakerson (1987) provides an overview of what he described as the major shift in thinking about patterns of public organisation affecting local government that had taken place over the two preceding decades. In respect of economies of scale he had this to say:

An important distinction exists between local public goods that tend to be capital intensive and services that tend to be labour-intensive. Capital intensive goods are more likely to be characterised by economies of scale, a decrease in the average unit cost of production as the scale of production increases. Labour-intensive services are more likely to exhaust potential economies of scale quickly, in part because of greater dependence on specific time-and-place information.

He went on to observe that:

The distinction between provision [taxing and spending] and production lays the conceptual foundation for a new understanding of the organisation of local public economies. Different considerations apply in the choice of an organisational unit to *provide* a service from those involved in the choice of an organisational unit to *produce*. The work of local government is increasingly viewed primarily in terms of provisioning rather than producing. Although the organisation of production can be and often is governmental, frequently it becomes a private responsibility. Patterns of organisation on the provision side of a local public economy thus can differ from those on the production side, and a variety of different arrangements can be designed to link provision with production.

Recent literature demonstrates a high level of sophistication in its consideration of economies of scale in local government services. There is no debate over whether economies of scale exist. Instead the emphasis is on recognising that economies of scale for different local government services will arise at very different levels in terms of factors such as customer base, geographic coverage and the divisibility of inputs. One consequence has been to shift the focus of the debate over how best to improve the efficiency of local government services from the search for structural solutions to different options for enabling provision as can be seen from the following quotations:

Boyne (op cit) comments that:

... fragmentation may be inefficient because of the inability of small units to capture scale economies. However it should also be noted that if average cost curves are 'U' shaped then very large consolidated units will be subject to diseconomies of scale. Higher costs may arise because of the problems of delivering services to remote areas or because of 'bureaucratic congestion'. In this case both low and high fragmentation will be associated with higher spending and the optimum structure for efficiency may be somewhere in the middle, depending on the mix of services to be provided. It is, therefore, difficult to predict the consequences of consolidation unless the positions of the existing and new structural arrangements on the average cost curve can be identified. A negative relationship between scale and unit costs can be predicted only if it is assumed that all authorities are on the downward sloping portion of the average cost curve.

Slack (2003) has this to say of economies of scale:

Economies of scale occur where the per-unit cost of producing a particular service falls as the quantity of the service provided increases. In the context of local government, this means that the cost of providing a service falls as the number of people being served increases.

There are problems with economies of scale as a criterion for designing government structure, however. First, each urban service will likely achieve the lowest per unit cost at a different scale of production. For example, the optimal size of

government may be different for fire services than for solid waste management. These differences mean that it can be extremely difficult to draw boundaries for general-purpose local governments.

Second, the jurisdiction that provides the service is not necessarily the one that consumes it. If consumers are located in adjacent jurisdictions, then the producing jurisdiction could sell output to them. The producing jurisdiction could benefit from economies of scale in production without having to be part of a larger jurisdiction, that is, without requiring the larger population to be located within its own boundaries. A larger government jurisdiction is not necessarily required to achieve economies of scale because the demand and supply of local government services can be separated; economies of scale can be achieved even in a fragmented system.

Dollery et al (2004) in an assessment of regional cooperation amongst a group of councils in the Riverina area of New South Wales observe that:

The existence of economies of scale may not be relevant to optimal municipal size if provision of the service can be separated from production of that service (the so-called purchaser-provider split), since scale economies only arise during the production phase. Governments too small to achieve all economies of scale on their own can nonetheless accrue the advantages of any scale economies by purchasing the good or service in question from other public agencies or private firms that are large enough production units to secure economies of scale. By contracting with commercial firms or other governments (and through analogous joint purchasing agreements with other councils in ROC<sup>6</sup>s), small municipalities can provide the quantity and quality of services desired by their limited number of constituents and simultaneously enjoy the cost advantages deriving from scale economies in production.

To the extent that opportunities along these lines actually exist, scale economies are thus removed as an economic argument for the optimal size of councils in the amalgamation debate. This is a critical finding from the theoretical literature on the economics of local government since economies of scale are often advanced as a key justification for amalgamation.

Bish (op. cit.) makes the point that there is no reason to sacrifice the participation and representation benefits of small units of government in order to achieve economies of scale -- there are other means for doing this:

Three important conclusions can be drawn from the relatively simple research relating costs to size. First, in a wide range of municipalities, size is not the primary determinant of costs. This finding is not unexpected, since no government is the right size to produce everything itself. To obtain services efficiently, governments can contract out to smaller or larger organizations, produce jointly with other governments, or receive the service from a regional organization. In addition, not all residents value lower costs over more, or better, services. Second, although larger municipalities -- that is, those with about 250,000 or more people -- cost more, it is not clear in what proportion the various cost-increasing influences contribute. Third and most important, there is no evidence that per capita costs are lower in large municipalities or that they are better able to meet their residents' demands for services than small municipalities (Derksen 1988 draws similar conclusions from a survey of local government in Europe). In summary, *there is no reason to sacrifice the benefits of*

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<sup>6</sup> Regional Organisations of Councils

*greater citizen participation and representation that are a feature of small governments only to create a larger government that costs more and provides services that are less likely to meet local preferences.*

## **Local Government Structure**

Debate about the appropriate structure for local government continues to be vigorous. As Boyne (1992) makes clear, there are a number of different possible combinations based on fragmentation, consolidation and the number of tiers. With the now widespread acceptance that economies of scale in individual services should not be seen as a determining factor (because of the range of options available to an individual local authority for ensuring the provision of the service), attention is firmly on the relationship between size and choice in achieving desired outcomes.

Tiebout (1956) essentially defined the framework for this debate by postulating that choice could operate as a mechanism to ensure that expenditures on local public goods approximate to the proper level. He described the situation of the hypothetical consumer-voter in the following terms:

Consider for a moment the case of the city resident about to move to the suburbs. What variables will influence his choice of a municipality? If he has children, a high level of expenditures on schools may be important. Another person may prefer a community with a municipal golf course. The availability and quality of such facilities and services as beaches, parks, police protection, roads, and parking facilities will enter into the decision-making process. Of course, non-economic variables will also be considered, but this is of no concern at this point.

The consumer - voter may be viewed as picking that community which best satisfies his preference pattern for public goods. This is a major difference between central and local provision of public goods. At the central level the preferences of the consumer - voter are given, and the government tries to adjust to the pattern of these preferences, whereas at the local level various governments have their revenue and expenditure patterns more or less set. Given these revenue and expenditure patterns, the consumer - voter moves to that community whose local government best satisfies his set of preferences. The greater the number of communities and the greater the variance among them, the closer the consumer will come to fully realising his preference position.

He then went on to illustrate the implications of that argument by postulating what he describes as an extreme model, making the following assumptions:

1. Consumer - voters are fully mobile and will move to that community where their preference patterns, which are set, are best satisfied.
2. Consumer - voters are assumed to have full knowledge of differences among revenue and expenditure patterns and to react to these differences.
3. There are a large number of communities in which the consumer - voters may choose to live.
4. Restrictions due to employment opportunities are not considered. It may be assumed that all persons are living on dividend income.
5. The public services supplied exhibit no external economies or diseconomies between communities.

Two further assumptions are made. The first is that there is an optimal community size defined in terms of the desired bundle of services which can be produced at the lowest average cost. This is more than just an economy of scale assumption (although that is involved). There may be other restrictions such as one factor of production being in fixed supply. The second is that communities seek to move their population towards and maintain it at the optimal size.

Boyne (1996, p 709) provides a recent synopsis of the argument in favour of Tiebout's approach:

The more public preferences vary geographically, the greater the degree of fragmentation required for allocative efficiency. Fragmentation allows households and businesses to choose between various combinations of taxes and spending. Even if public preferences are geographically homogenous, fragmentation is required to ensure technical efficiency in service provision. In order to attract and retain mobile residents and businesses, each small unit of local government must ensure value for money in service provision, otherwise their customers will 'vote with their feet'. This 'horizontal' fragmentation of the structure of local government provides citizens with information concerning taxes and services in neighbouring areas, thereby increasing the competitive pressure on decision-makers.

Tiebout's approach has maintained a strong attraction especially for theorists sceptical of the potential of the democratic process to deliver outcomes which satisfy individual needs in the way that market processes are claimed to do. Osterfeld (1989, p 155) argues that:

The democratic process must ultimately result in the selection of one alternative from an indeterminate number of possible alternatives and adopt it in the name of, and impose it upon, the entire society...Those whose preferences are not incorporated into the government policy cannot, as is generally the situation with the market, satisfy their preferences by taking their business elsewhere. The best the loser can hope for is to exercise enough influence to get the policy changed. But this only means that the old losers are now winners and the old winners are losers; it does not change the nature of the game, only the final score.

The Tiebout approach is presented in terms of individuals or businesses making location choices. As post Tiebout research has developed, particularly in the United States, the emphasis has shifted to place at least as much if not more weight on the right/opportunity for groups to exit from their existing local authority by choosing to form a new local authority.

Commonly in the United States, as compared with other jurisdictions, citizens do have considerable scope for organising to create their own local authorities - a form of collective as opposed to individual exit. Typically local government is structured in three tiers; counties, municipalities and townships. Oakerson (op. cit. p 23) observes that "state laws generally enable local citizens to create a variety of municipal units - cities, towns, and villages - varying along dimensions of population size and governing authority. The limiting factor is the rule that one municipality cannot overlap another - municipal governments are, by definition, mutually exclusive jurisdictions."

As a result, much of both the practical experience, and the research, emanating from the United States is focused on the merits of fragmentation versus consolidation - or as it is currently specified, "public choice" theorists versus "consolidationists". In contrast, research elsewhere, particularly in England, has focused on the extent to which individuals actually exit, moving from one local authority jurisdiction to another in search of a mix of taxes and services that best suit their own preferences.

The public choice approach has an innate appeal especially to those who distrust the political process as the primary means of restraining local bureaucracy, and who place a strong emphasis on a "value for money" approach from an individual ratepayer perspective. A recent Australian publication, "Secession" (Allan 2001), provides a very good illustration. It was written as a manifesto for an independent Balmain local council (Balmain forms part of Leichhardt Council, an inner Sydney Council). The author is a former secretary of the New South Wales Treasury and chaired the recent New South Wales Independent Inquiry into the Financial Sustainability of Local Government. One purpose of the publication was to "explain to a wider audience why smaller metropolitan councils would deliver better representation, improved services and lower costs."

Drawing on American research, especially Oakerson (1999), he makes the following points in support of the case that "smaller is better":

- Smaller local government units encourage efficiency because they increase the relationship between taxes and services, allow better access to elected representatives, avoid dis-economies of scale and force management to outsource work rather than do most of it in-house.
- Smaller municipalities have fewer variations in residential rates and therefore less scope for cross-subsidising one group of ratepayers at the expense of another. The result is that there is a closer connection between what ratepayers pay and the level of services they receive. This heightens sensitivity about how well council moneys are spent (he quotes Oakerson in support as referring to "the greater degree of fiscal equivalence made possible by multiple provision units. When local communities can get what they pay for and must pay for what they get, the equivalence between taxes and services reduces fiscal illusion - the perception of getting something for nothing, that government services are free. The reduction of fiscal illusion constrains demand. When the political demand for services is limited by economic demand measured by the willingness and ability to pay, responsive local governments spend less than they would otherwise).
- Large councils are inefficient because they are only geared for functions that have economies of scale, when in fact most of the services they provide exhibit diseconomies of scale.
- The final reason for larger council administrations being inefficient is that they are structured to doing things in-house rather than having to buy services from external suppliers whose efficiency is continually tested in the marketplace.

The public choice school makes what appears to be a strong case for small fragmented units of local government. However, it has been subject to strong challenge both empirically, in terms of the choices which people actually make, and ideologically in terms of the proper role of local government.

First, in England, the Tiebout approach has been challenged on two different but significant grounds. Marsh and Kay (2004) comment that differences in local government structures and funding are well established as reasons for believing that Tiebout consistent results generated in the fragmented and federal US context will not travel well to very different contexts such as that of the UK. This argument gains support from Boyne (1996) who makes two significant points affecting the application of Tiebout results in United Kingdom:

- Central curbs on local autonomy prevent the potential competitive benefits of fragmentation from being realised in practice. If all local units are compelled by the

centre to behave in the same way, then there is no point in migration across areas to secure a different package of services.

- In the same way, if all tiers of local government in an area are subject to stringent central controls, then there is little point in the public attempting to apply fiscal or electoral sanctions for poor performance. By contrast, when local areas are given the discretion to pursue their own interests, competition in the local public economy will encourage appropriate outcomes. Over time, individuals will cluster into homogenous communities and consumer preferences will be closely reflected in public policies.

More tellingly, Marsh and Kay undertake a detailed consideration of the residential mobility literature, a body of research focused on determining the reasons people shift. They note that:

The residential mobility literature appears *prima facie* to present the Tiebout model with a problem. The well established finding that a substantial proportion of moves are involuntary means that for many movers the selection of tax-service bundles, or indeed any sort of rational deliberation, is not paramount among the push factors for mobility. Similarly, the survey results on residential mobility seem to suggest that for most households public services, taxes or some combination of the two are not a principal concern. In many instances taxes and services barely register. Taking a more generous interpretation, it could be argued that Tiebout effects are subsumed under the 'other' category and possibly the 'neighbourhood' category. While, neighbourhood, in housing research, is perhaps more closely associated with issues of poor social or physical environment, it could be construed more broadly to include issues of public services. Indeed this can be detected in Rossi's original study, which points to a relatively small minority of potential movers who cite services in the neighbourhood as their key complaint. Issues such as crime could be seen as indirectly related to public services, even if households may not think of them in those terms. Similarly, in instances where the questions are not absolutely specific, it would be possible to interpret housing costs as referring to property-based taxes, where these apply, as well as the direct rental or mortgage costs. Yet, even adopting such strategies, which some would deem incautious, would only result in the conclusion that a relatively modest minority of movers are primarily moving for Tiebout-relevant net reasons.

From a "proper role of local government" perspective, Lowery (2000) seeks to bring together a series of new arguments supporting consolidation that were developed during the 1990s with the objective of presenting a coherent critique of the Tiebout or public-choice approach.

First, he draws a distinction between the public choice and consolidationist approaches to the content of the self-interest. The public choice model, in terms of citizens, "narrowly focuses on tax and service packages, assuming that variations in preferences guide Tiebout sorting within a fragmented governmental setting". Lowery cites Stein's (1987) analysis of over 10,000 cities in over 224 metropolitan areas which concluded that "preferences for police, fire, sewer, and sanitation services tended to be relatively homogenous.... People rarely concern themselves with the manner in which these basic functions are performed".

According to Lowery the new case for consolidation takes both a much broader and a more limited view of the content of citizen self-interest:

In the earliest statement of this view, Williams (1975 and 1981) argued that location choice is guided by a search for "lifestyle maintaining conditions" leading to segregation into discrete social worlds. This broader specification of preferences necessarily includes attention to the class and racial composition of the community.

But this new consolidationist perspective is also narrow in its assessment of the content of self-interest in the sense that it suggests, based on the preferences revealed by actual location choices, that only an abbreviated portion of tax and service packages significantly influences sorting. Taxes clearly matter (Miller 1981), as does education and perhaps police services.

The implications are concerning. Lowery goes on to observe that:

These two understandings of the content of citizen self-interest can be combined via recognition that race and class are likely used as simple decision heuristics guiding the search for either lifestyle maintaining conditions or low taxes and high quality education and police services. This certainly is the implication of Stein's (1987) work. Although he found little evidence that the preferences that guide location choice are those associated with urban services, his analyses provided strong evidence that location choice was guided by race.

Differences are also identified between the public choice and consolidationist approaches to bureaucratic self-interest. According to Lowery "a narrow specification of self-interest by the public - choice approach is evident in its characterisation of bureaucratic motivations, which lies at the core of its hypotheses about the consequences of large, consolidated governmental arrangements." This is the familiar model of the bureaucrat as self-interested and opportunistic. Lowery argues that:

This image that consolidated local government relies on a centralised, monopolistic bureaucracy was always something of a caricature, however. It is even more so today, in part precisely because the public - choice approach has been so successful on the policy front. Service provision and production - in all types of governmental arrangements - is today a complicated mix of direct and both public and private third-party actors, which is heterogeneous in the extreme (Stein 1990 and 1993).

As evidence that the public - choice characterisation of bureaucratic motivation may be less than accurate, he cites a number of recent studies the most important of which he regards as Brehm and Gates's (1997, 2) *Working, Shirking, and Sabotage: Bureaucratic Response to a Democratic Public*. This work supports the public - choice conclusion that "bureaucratic accountability depends most on the preferences of individual bureaucrats", but goes on to conclude from extensive analysis that "Fortunately for us, those preferences are overwhelmingly consistent with the jobs American democracy sets them to do".

This element of the consolidationist case, to the extent that it is correct, substantially undermines the case against big local government. It is however clearly very much context dependent. American local government much more than local governments elsewhere has long been accustomed to a multiplicity of arrangements for procuring and delivering the services required by its communities, thus placing local government bureaucrats much more typically in the role of the intelligent purchaser than the potentially self-interested producer.

Boundaries also matter. "Municipal boundaries define venues that bias the kinds of issues that are discussed and how these issues are resolved.... in fragmented governmental settings, there simply is no metropolitan-wide political forum in which regional issues can be articulated (Downs 1994, 182-83). Thus the interests of citizens in such metropolitan - wide concerns as economic development and social equity, even when realised, are likely to remain "latent" and unarticulated (Lewis 1996, 213).

This emerges as a crucial issue. The public - choice or fragmentation approach can be seen as driving towards a Pareto optimal outcome within any given local government jurisdiction. The implication, by definition, is that redistribution is excluded as a function within such a

jurisdiction as redistribution necessarily, especially from a narrow self-interest perspective, must make at least some people worse off - as resources are taken away from them to benefit others.

A direct consequence of this from the new consolidationist approach is an "undersupply of metropolitan - wide public policies designed to enhance equity and social opportunities and promote economic growth. These include the kinds of land use policies that minimise sorting by race and class, redistributive policies necessitated by the fiscal mismatch hypothesis, and developmental policies needed to manage and sustain economic growth. Mounting evidence indicates that all three types of policies are supplied at higher rates in consolidated metropolitan settings than in fragmented metropolitan settings (Rusk 1995; Downs 1994; Lewis 1996)".

The new consolidationist case against the public choice approach makes some very powerful arguments, especially in terms of policies designed to enhance equity and social opportunities which many might see as a core role of local government (especially given the new community well-being duty of New Zealand local authorities). In the United States, it is clear that the debate is far from over. As an example, the following extract comes from Janiskee (2003), associate professor of political science at California State San Bernardino, and co-author of *Democracy in California*, commenting on the defeat of the San Fernando Valley and Hollywood secession movements in Los Angeles:

The Los Angeles civil war is just one of many such battles that have taken place across the nation over the past century. Two major schools of thought have developed over the years regarding the issue of local government fragmentation. First, there are the Consolidationists - consisting for the most part of liberal academics in university public administration departments - who are overwhelmingly against local government fragmentation and, in their heart of hearts, favour a further consolidation of metropolitan areas into region-wide super governments. Second, there are the Public Choice theorists - a relatively small academic group consisting of a few nominally conservative economists and political scientists - who defend local government fragmentation. Within the hallowed halls of academia and within the frenetic world of punditry, the Public Choice scholars are vastly outnumbered. The conventional wisdom is heavily tilted against fragmentation and in favour of further consolidation. All of this, of course, is in spite of empirical studies that seem to favour the Public Choice theorists. However, one should never underestimate the penchant of a cadre of experts to sacrifice the facts for the sake of a theory.

### **The "Well-Intentioned Bureaucrat"**

This review of the literature relating to local government structure and, in particular, the American debate between public choice theorists and consolidationists highlights a new issue which may need to be addressed in considering the optimal structure of local government. As we have seen, Lowery (op. cit.) dismisses the public choice characterisation of larger units of local government as centralised monopolistic bureaucracies.

He does so on the seemingly reasonable ground that contestability in the provision of local government services is now such that bureaucrats are effectively compelled to act as intelligent purchasers, rather than as self-interested opportunistic pursuers of their own self-interest. The market is seen as providing a measure of discipline and accountability that will prevent the bureaucrat from playing favourites, or making decisions that have a measure of self-interest in them. Instead, the level of transparency and accountability which now exists effectively aligns the bureaucrat's incentives with those of ratepayers (in the US property tax payers).

The US market in local government services is much deeper than in other jurisdictions, so that Lowery's argument does need to be treated with some caution. Measures such as the inspection regimes which characterise English local government, or the role of the auditor-General in New Zealand, may to a degree compensate for the somewhat thinner market those countries have in the provision of local government services.

Assume for purposes of argument that the combination of market and regulatory influences on New Zealand local government are such that the same conclusion can be drawn here, if for somewhat different reasons, as Lowery has drawn for the US. Is this sufficient to deal with the potential for a local government bureaucracy to pursue objectives, policies or practices which do not align with community preferences?

Answering this question needs to deal not only with the case of the self-interested, opportunistic bureaucrat. It must also deal with the case of what could be described as the "well-intentioned bureaucrat". This is the bureaucrat who quite genuinely believes that he or she is acting in the public interest but also believes that his or her knowledge and experience is such that they know what the "public interest" is and act accordingly.

The public choice case in favour of smaller units of local government is based in part on the argument that small size makes it easy for communities to know and understand what their councils are doing and why and to directly influence the decisions which councils take. It recognises that typically the real decision-makers in councils may often be council management and staff rather than elected members.

In larger organisations, it becomes much more difficult for individual members of the public to be familiar with and understand the many and varied activities which the council undertakes, or to exercise effective influence. With the increasing complexity of council activities, the same may also apply to elected members. They are chosen not because of particular professional or business expertise, but because they have electoral appeal.

When they come to the council table, they come with very limited resources. Typically, they have no independent research or other support to assist them form a view on matters placed before them by Council management. Nor usually do they have the benefit of contestability of advice. Under the Local Government Act 2002, the council has a single advisor, the chief executive.

In looking at local government structure in the 21st century, this appears to be the next "large question". To what extent does the power of the "well-intentioned bureaucrat" become a potentially negative influence, especially from a local democracy perspective, as the size of the Council increases?

As part of the literature review, we endeavoured to identify research which had addressed this question. We did so both by internet searching and by correspondence with selected local government researchers internationally including David Lowery. He was able to provide a number of useful comments, but no definitive response. An inquiry to the director of one of the leading university-based local government research units in the United Kingdom produced the response:

In respect of your specific question, I'm not aware of any literature that explores the role of the bureaucrat who is acting from a genuine belief that he or she is pursuing

the public interest and on reflection this seems to be a big gap in the research. I've checked with George and he doesn't know of anything either.

The increasing complexity of local government, the much greater scope of responsibilities which councils now generally have, and the growing emphasis on accountability all help make the case for research to explore the role of the "well-intentioned bureaucrat". The nature of the issue suggests that this might best be done through a cross-country approach.

## **Effective V Affective Communities**

Another dimension in considering the structure of local government is the way in which people identify with their communities and the relationship between identity and local governance. Within local government, this issue is normally subsumed within the consideration of electoral arrangements. Countries such as New Zealand and England have statutory requirements which both set the tolerances for population of individual wards, and stipulate other criteria to be applied in determining ward boundaries (or for that matter, the boundaries of councils themselves when the Local Government Commission is considering questions such as boundary adjustment, merger etc).

There are important distinctions between the New Zealand and English statutory provisions. In New Zealand, the Local Government Commission must satisfy itself that a proposal or scheme will:

- Promote good local government of the districts or regions concerned; and
- Have a district or region that is appropriate for the efficient and effective performance of its role; and
- Contain within its district a region a sufficiently distinct community of interest or sufficiently distinct communities of interests.

In England, the equivalent criteria to which the Electoral Commission must have regard include:

- The need to reflect the identities and interests of local communities.
- The need to secure effective and convenient local government.

Of particular interest, in contrasting the two, is the English emphasis on "the identities... of local communities."

Chisholm and Dench (2005) produced for the Electoral Commission *Community Identity: Literature Review and Analysis* for Periodic Electoral and Reviews. This was an extensive survey of literature on the nature of community, of social capital, and the difference between effective and affective communities (functional communities as distinct from communities based on a sense of belonging (Chisholm 2006)). The following extract from their conclusions provides a good overview of different approaches to understanding community and the relationship between community and local government boundaries:

It seems that there are two approaches which may be suitable for identifying communities for warding purposes, and that these approaches may be viewed either as alternatives or as being complementary. The first approach is that of the 'statistical'

community, using OA<sup>7</sup> data and perhaps other information, to identify approximations to the *boundaries* of communities - subject to the problems inherent in the shapes of the OA units. The second is to focus on the *cores* of communities, as identified by certain facilities, such as schools, community centres, faith-based organisations, shopping centres and primary health care provision. Very often, there is a spatial clustering of these facilities and such clusters may be used to identify the cores of communities, although such identification will be *approximate*. However, by placing ward boundaries between the cores, rather than close by or even through them, ward boundaries may be devised which would minimise the violence to community identity which inevitably will occur given the over-all rules for conducting electoral reviews.

These conclusions need to be seen in the context of the statutory framework outlined in Chapter 2; there is ambiguity regarding the role that community identity should play in Periodic Electoral Reviews. From the chapters which then follow, it is clear that the very concept of 'community' is ambiguous, and that placing spatial boundaries around communities is an enterprise fraught with difficulties. Any designation of spatially bounded communities will be an approximation. In addition, by whatever means communities are defined and demarcated, it is inevitable that some at least will be divided by ward boundaries. Consequently, although the derivation of 'statistical' communities based on the ONS Output Area statistics can provide a considerable amount of information regarding the spatial distribution of the population's characteristics, it may be preferable to concentrate on the cores of communities as identified by the location of facilities such as those mentioned in the previous paragraph. Centres identified in this manner represent the foci of much 'behaviour', as people go about their daily lives; these foci provide an indirect means of encompassing the behavioural characteristics of communities. If ward boundaries are placed between these cores, the disruption of community patterns would be kept within reasonable bounds. This approach is consistent with the Schedule 11 provision regarding local ties which might be broken, and also the provision that easily identifiable boundaries should be used if possible. In combination, the use of the three criteria - community cores, local ties and easily identifiable boundaries - would provide a reasonable approximation to communities for the purpose in hand. In addition, to the extent that single-member wards may be used instead of multi-member wards, the probability that minority interests (small communities?) would gain electoral representation should be increased.

Chisholm and Dench provide a very good overview of the current approach to community within the local government context, whilst noting the very real difficulties in accommodating understandings of community within a statutory framework which requires the establishment of fixed boundaries.

Changing understandings of the nature of local government (see, for example, the discussion below of the place shaping role of local government), and the new statutory responsibility for New Zealand local government to promote community well-being both suggest the need for a renewed emphasis on understanding the nature of community and its importance for local governance.

There may be an argument that much of the debate in recent years over the structure of local government has focused on efficiency to the relative neglect of identity (and the emphasis on efficiency in the criteria of binding the Local Government Commission may have contributed to this). In the research domain the debate over the so-called Tiebout effect has very much been about efficient and cost-effective service delivery rather than about the nature of the (potentially) unique nature of individual communities and the values attached to that.

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<sup>7</sup> this abbreviation is short for Output Area, the English equivalent of the mesh blocks which are the basic building block in New Zealand's census data.

Efficiency matters, and we need effective communities in a sense of communities that function well. But a purely functional (instrumental) focus on local government may carry with it unintended consequences. There is more than just a suggestion from literature in areas such as social capital, residential mobility, and localisation that community identity can be a very powerful force for gaining commitment in ways which cannot be achieved through purely instrumental means. This is a potentially important resource for making progress in areas such as economic and social development but is not yet well covered in the local government literature, in part it seems because of the preoccupation with efficiency.

The renewed interest in the role of the local/regional level in economic and social development suggests a broadening of New Zealanders' understandings of the role of community identity may be timely. To achieve this will almost certainly require further research focused on the nature of community and community identity and the part they may need to play in delivering the outcomes which government, both central and local, and citizens are now seeking.

## **Realising Efficiencies in Service Delivery**

We have seen that it is commonplace in the United States for local authorities to utilise a range of different tools as a means of ensuring the delivery of services in ways that take advantage of economies of scale with inter-governmental contracting being a common technique. Carried to an extreme this has led to the emergence, for example in California, of what are known as "contract cities" which arrange with their counties, and other public and private service providers, for the delivery of most of their services (Lewis 1998; see also the web site of the California Contract Cities Association [www.contractcities.org](http://www.contractcities.org) ).

The American experience is clearly relevant for other jurisdictions but, on its own, necessarily brings with it the qualification that the structure of local government in the United States, and its role, functions and funding options, are all significantly different from the New Zealand situation and from other jurisdictions with which it is more common to compare New Zealand local government, especially Australia, Canada and England.

Recent material from local government researchers, from governmental policy papers and from reviews of local government practice in those three jurisdictions all point to an increasing acceptance of the case for collaborative activity amongst local government entities as a means of improving the efficiency of service delivery where one or more of issues of scale, capacity or capability are involved.

Both statutory and non-statutory models have been developed to facilitate joint service delivery across a range of local authorities. These range from joint purchasing/development of services to improve the administrative functioning of local authorities (for example payroll, purchasing) to matters which have a regional as opposed to a district catchment and are thus best dealt with on a regional basis consistent with the principle that the boundaries around a service should contain all of the spillovers associated with that service (in practice, and more realistically, the majority of the spillovers - the 80/20 rule!).

In this section of the review, we look at four approaches to institutionalising arrangements for managing the delivery of services which have a regional rather than a district impact, three Canadian and one Australian. Each is based on voluntary agreement by participating councils (the equivalent of New Zealand's territorial local authorities), in Australia on a purely voluntary basis, in Canada facilitated by provincial legislation.

None of the four examples considered has the equivalent, at a regional level, of New Zealand's regional councils. In Australia the environmental management and protection activities which, in New Zealand are undertaken by regional councils, are the responsibility of state level Environment Protection Agencies. In Canada the situation is similar, with provincial departments having the major responsibility.

The development in New Zealand of regional level arrangements for delivery of services with a catchment of more than one territorial local authority, if that were to take place on a voluntary basis, would clearly need to take full account of the place of regional councils and whether or not they could be appropriate partners in such an arrangement (perhaps alongside other partnership arrangements). That said, it is worth noting that the range of what can loosely be described as regional partnerships for service delivery, especially in British Columbia, is very extensive. The term "region" is best thought of not as a defined geographic area, but as a natural catchment for the service collaboration concerned and likely to vary from activity to activity (as we will see below in the New Zealand case studies, this is also an emerging pattern in New Zealand, notwithstanding the existence of a strong regional council framework).

## **Canada**

In the 1990s the Canadian province of Alberta introduced the Regional Service Commission (RSC) as a legal framework for local governments to use to enhance co-operation among municipalities. RSCs provide a mechanism to enable municipal co-operation beyond traditional county boundaries on policy and functional lines. In 2002, there were 42 RSCs; these specialized municipalities can manage a 911 emergency system, a restaurant, or even corporate functions such as human resources for a large number of communities. The Alberta government strongly believes that RSCs will allow municipalities to foster economies of scale in the various services they provide to their communities. ... today, one of the goals shared by the Alberta government and the Alberta Urban Municipalities Association is to implement a shared services strategy for corporate services that are "repetitive, transaction-oriented and non-strategic in nature." Here again, the assumption is that functional and corporate functions can benefit from economies of scale that would arise from inter-municipal cooperations (see Brunet-Jailly 2003).

More recently, Ontario in its Municipal Act 2001 included a provision for the establishment of Municipal Service Boards for a range of functions which were considered often to be regional rather than purely local in focus. The functions which may be undertaken by a municipal service board include public utilities, waste management, transportation systems (other than highways), culture, parks, recreation and heritage and parking (except on highways).

A more extensive example of a voluntary approach to regional organisation, in terms of the range of services involved, can be found in British Columbia's regional districts. Writing of the best-known of these, the Greater Vancouver Regional District, Oberlander and Smith (1993) observe that regional districts are "confederal" and "exist only to do what municipalities agree they cannot do for themselves". As such they argue that the system is biased toward agreement and go on to note that "while imperfect, consensual planning has resulted in considerable ability to achieve agreement on matters of specific policy in a range of regional district settings."

Paget et al (2006) provide a current assessment of the approach and success of the British Columbia model in a presentation to the World Urban Forum (Paget and his principal co-author are senior executives of the Ministry of Community Services).

They comment that:

British Columbia has more faith in layered, flexible governmental structures than anywhere else in Canada. Mechanisms are in place to resolve different, but equally legitimate, interests among different governmental layers and between adjacent local governments. This layered, federated system means that in British Columbia the small size of many municipalities is not seen as a systemic problem. As a result, British Columbia has not been immersed in controversial municipal consolidation or amalgamation initiatives so prevalent elsewhere.

Paget et al place a heavy emphasis on the way in which understandings have been built up over a long period of time. The British Columbia approach has a 40 year history and so has had the lead time to work through how to deal with issues such as parochialism, or the fear of delegating power upwards (sideways?) to another organisation which might take decisions you may not necessarily agree with. British Columbia's regional districts, although occasionally constrained by the need to secure consensus, clearly have significantly more influence than either Australian Regional Organisations of Councils, or the United Councils which preceded New Zealand's regional council structure.

What the British Columbia approach does demonstrate is the very real potential to achieve efficiencies (and effectiveness) through collaboration across a very wide range of activities and organisations, if there is the will to do so. In a New Zealand context, and elsewhere, it provides one useful example for how best to manage activities that may be better undertaken at a regional or sub-regional level but not necessarily as activities of a regional Council as such (a more extensive discussion of British Columbia's regional districts is contained in appendix 1).

## **Australia**

Perhaps of more immediate interest to New Zealand is the growing practice in Australia of establishing, on a voluntary basis, what are known as Regional Organisations of Councils -- partnerships of (normally) contiguous territorial local authorities with governance provided by representatives of the constituent councils. These have evolved in jurisdictions which do not have, within local government, a formal set of regional arrangements equivalent (say) to New Zealand's regional councils or the United councils which preceded them. As noted above, the environmental management and protection activities at the core of the role of New Zealand's regional councils in Australia are undertaken by environmental protection agencies which are arms of their respective State governments

Dollery et al (2004) present an assessment of the performance of one Regional Organisation of Councils, the Riverina Eastern Regional Organisation of Councils (REROC). As part of their assessment, they submitted a written questionnaire to all 55 such organisations across Australia. 31 responses were received. From those responses it appears that the principal activities of ROCs include:

- Advocacy of the needs of the region to state and federal levels of government, and to the broader community;

- Lobbying of State and Federal governments for financial assistance and other benefits for the region;
- Improved relationships with intergovernmental actors;
- Fostering cooperation between member councils of the ROC in relation to common problems and issues; and
- Advancing the interests of the region.

In addition:

- 13 underlined the importance of economic growth;
- 11 nominated resource sharing and improved efficiency as desired outcomes;
- 8 designated regional strategic planning as a critical function;
- 8 identified fostering community/social well being as a desirable end; and
- 4 singled out the environment for special mention.

Dollery et al are unequivocal in their judgment that REROC has been a success, identifying as benefits worthwhile savings, enhanced performance, greater influence with other tiers of government and significant capacity building within individual councils. Their recommendations include a range of additional activities which they clearly believe would enhance REROC's value to its member councils:

The Report outlines a number of concrete options for the future operations of REROC for consideration. REROC has established a good working relationship between participating members—all appear to be receptive to looking at new co-operative initiatives to improve service delivery to their respective communities. The only limit to the future resource sharing of REROC appears to relate to members' political preferences: in particular, how much autonomy they are prepared to sacrifice to achieve cost savings. This will be an individual matter requiring consideration and discussion by each council. Significant future options discussed in the Report include social planning; information technology; human resource management; staff training rotations, knowledge sharing and skill building; employment of specialised staff; asset management; co-ordination of works programmes; and other resource sharing opportunities, including contract administration, purchasing and stores functions, regional SOE reporting, environment and catchment management, risk management services, and State and Federal government services.

REROC, as are all ROCs, is a voluntary arrangement whose decision-making proceeds on the basis of consensus. From a New Zealand perspective the decision-making processes are reminiscent of the united councils of the late 1980s. A major barrier to their progress was the extent to which councillors, who were appointed as representatives of constituent councils, acted to protect the interests of their own councils when they diverged from the collective interest. Dollery et al's reference to "members' political preferences" as a limit on future resource sharing is reminiscent of United Council experience.

For the purposes of this report, this highlights the importance of councillors being able to put aside purely parochial concerns in favour of the interests of local government as a whole. The range of different experiences of pursuing greater efficiency through collaboration suggests that taking a broader view is becoming more widely accepted. One possible factor is the increased willingness of governments (central; state) to intervene and force change if local government is not willing or able to do so. Others include a response to the need to access increasingly specialised staff resources, and a growing acceptance, among smaller councils, that collaboration is a precondition to the ability to deliver the range and quality of services which their communities require.

## England

Reconsideration of the role and function of local government in England is being led by the Lyons Inquiry. This began in 2004 as an inquiry into the Council Tax - essentially a review of Council funding. In 2005, as a result of representations by Sir Michael Lyons, the government extended his mandate to include the role and function of local government. In May 2006 he released *National prosperity, local choice and civic engagement*, his second report (Lyons 2006). This report observes that "there is no presumption that in convening local services and shaping the locality, local government should necessarily seek to own and directly deliver services itself. Whether services are directly provided or commissioned is a matter for local decision and local accountability. The council's key role is to purchase and commission services effectively, including from suppliers in the voluntary and private sectors, to understand and pursue best value, and to shape and build markets where this is necessary."

As part of the work which led up to the preparation of that report, the Lyons Inquiry had commissioned a paper from Professor Steve Martin, director of the Centre for local and regional government research at Cardiff University, on *The Implications of Local Devolution for Efficiency and Effectiveness in Service Delivery* (Martin 2005).

Professor Martin's paper effectively takes for granted the argument that economies of scale, by themselves, are no longer a sufficient justification for structural reform, observing that:

...the case for strong centralised control as a means of achieving economies of scale is probably not as strong as the literature seems to suggest. In the past there were heated debates about which scale of operations offered optimum technical efficiency in service delivery (see for example the discussions associated with successive waves of local government reorganisation). But the size of individual councils may be far less important now than it was assumed to be in the past. There are at least three reasons for this:

- Authorities are increasingly commissioning rather than delivering services;
- New technology increases the opportunities for new forms of delivery across boundaries and which do not therefore depend for the efficiency on the scale of operations in one locality;
- The increased emphasis on partnership working opens up new possibilities for authorities to work together and/or with other service providers to reap economies of scale.

The structure and size of individual units of local government units may therefore be less important than ensuring that there are appropriate incentives/sanctions for partnership working and measures to build up the local capacity (in terms of skills and technical competence) needed for councils to commission and procure services in ways that offer best value. Nor is it necessary for incentives, sanctions and capacity building efforts to emanate solely from central government. There might be advantages in greater self-regulation from within the local government sector with the IDeA, the LGA and others perhaps playing a greater role in encouraging the adoption of good practice and identifying and dealing with failure.

## **A Changing Perception of Local Government?**

At the risk of somewhat oversimplifying the argument, the approach to local government restructuring which has seen this as a first best approach to realising economies of scale, can be characterised as an instrumental view treating local authorities as essentially service providers - a public sector equivalent of Wal-Mart with a primary objective of delivering products and services at the least possible cost.

There is mounting evidence that, regardless of the extent to which this fairly characterises the conventional Australasian (at least) view of local government, contemporary understandings of local government are changing markedly. Globalisation and demographic change have seen a reappraisal of the role of the region/locality. There is a renewed emphasis on the role of local government as an instrument for making local choices to suit local needs. Local democracy is again taking its place alongside efficient service delivery as part of the core role of local government.

McFarlane (2001) in a paper on regional cooperation in Western Canada, after considering the general case for regional cooperation makes the specific point that:

In today's global economy it is city-regions - not cities or individual municipalities - that are the units of economic competition. As many have argued, only city-regions have the necessary scale and diversity to compete in the global marketplace (Hershberg, 1995; Ohmae, 1995; Peirce, Johnson and Hall, 1993), and city-regions are the geographic units in which our goods and services are created (Hershberg, 1995). Within a competitive global environment, regional cooperation, coordination and marketing may be necessary to maintain a competitive advantage over other city-regions (Bourne, 1999).

Hamel and Rousseau (2003) begin a discussion of municipal reform in Québec with the following:

Over the last fifteen years, Canada's city-regions, like other city-regions in the world, have been facing several changes that can be associated in many ways with globalisation. That brought to the fore a series of questions about the role of territory or space, the availability of resources for municipalities to cope with new responsibilities, the capacity of local power to adapt to external pressures, and the forms of cooperation that municipalities should establish at a metropolitan scale with economic actors, other local institutions and upper tiers of government.

In recent years, this has been gaining added impetus from writings of researchers whose primary interest is in areas such as economic development, rather than local government as

such. In 2003 the head of the OECD's Territorial Reviews and Governance Division authored a note on *Main trends and policy challenges in OECD regions: metropolitan regions in a global context* (Pezzini 2003). The note was described as intended "to support an on-going change of perspective in territorial policies, more focused on the competitiveness of places, than on ensuring a traditional support to sectors or income redistribution". The note concluded with the following statement:

In order to face the above problems and opportunities a shift has been noted relating to territorial policy. In particular, a new focus on trying to improve the 'competitiveness' of regions, and hence to understand the key elements which appear to be 'performing' well from those which are not. This implies attempts to divert resources from programmes that focus on subsidies to programmes that focus on support for investment in human and social capital, diversification of economic activity and the related creation of new enterprises, key infrastructure, the environment, and innovation. There are important consequences for the choice of policy instruments with an emphasis on business assistance and infrastructure, networks of knowledge and expertise, diffusion of new technologies and R&D, inter-regional and international business networks, vocational training, (including an important emphasis on entrepreneurial skills). One of the most important targets is capacity building for policy actors at the local level, including the increasing use of programme monitoring and evaluation procedures both as a control and a learning mechanism. In fact, these refinements and innovations are recent and limited in scope to certain OECD countries.

Slack, Bourne & Gertler (2003) in a paper prepared for the Panel on the Role of Government<sup>8</sup> had this to say in respect of urban governance:

The institutions of urban governance - including municipal government at the local and regional scale, and provincially determined statutes and regulations pertaining to land use, finance, and infrastructure - largely shape the physical and social character of our city-regions. In doing so, they also determine the extent to which such places are able to attract and retain highly educated workers. A strong regional structure for governance has been shown to play a very important role in this process. In the most successful US city-regions, the mix of public and private elements in this governance structure is typically tilted more strongly in the direction of private mechanisms for governance (such as private-sector umbrella organizations for the governance and promotion of regional prosperity), along with a multiplicity of special-purpose public or quasi-public authorities for delivering particular services at a regional scale. Even functions such as regional planning may be carried out in this fashion (as the examples of New York's famous Regional Plan Association or the more recent formation of Joint Venture: Silicon Valley indicate). In contrast, the tradition in Canada and Ontario has favoured a stronger role for public sector authorities at the regional scale (see section 4.3 for a more detailed discussion of the different models employed). The point is that in both the United States and Canada, some level of co-ordination at the regional scale is widely viewed as essential to achieving and maintaining the quality of place that is so important in today's competitive world.

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<sup>8</sup> a panel established by the government of the Canadian province of Ontario in 2002 to examine the future role of government in the context of promoting economic growth, strong communities, fiscal responsibility and accountability.

Sotarauta & Hukkinen (2002) in *Nordic Perspectives on Process-Based Regional Development Policy* begin the editors' overview with the statement that the book:

...examines the answers to how regional development (RD) policy can respond to the challenges of a global, informational and networked economy and how development processes are carried out in time, or rather, how they proceed. Our point of departure here is recognition of the fact that the globalising economy and rapid technological progress has challenged us to find not only new policies, but also new ways of organising policy-making and managing policy processes.

They go on to note that:

Many observers argue that globalisation tendencies are one of the most important sources of overall change in the world, and thus one of the key contextual factors for evaluating and planning regional futures (e.g. Castells 1996, Asheim & Dunford 1997). Globalisation is inevitably one of the key elements that generate the need to reshape Nordic regional policy-making as well. In the early 2000s, cities are engaged, willingly or not, in a fiercer global rivalry than before in their efforts to create or attract activities that generate wealth for their citizens. This rivalry has led to a situation in which only a few city regions prosper economically. In Finland, for example, mainly the big university cities and/or smaller towns specialised in the electronics industry have been able to meet the challenges of the globalising world and have been able to prosper economically in the global economy.

The impact of globalisation is being felt not just in increased competition in the markets for goods and services. Demographic change means that the competition for scarce skills is also becoming increasingly global as countries facing a reduction in their skilled workforces as a result of ageing look to immigration as an alternative means of acquiring the skills they need. A measure of the potential impact is provided in a paper which the European Commission released in March 2005 considering demographic change in Europe over the period 2005 - 2030 (Commission of the European Communities 2005).

The projections in that paper included an estimate that in the period 2005 -- 2030 the number of people in the age bracket 15 -- 64 in the countries of the European Community would fall by 21 million. At the same time, the number of people aged 65 and over is expected to increase by 40 million.

This represents a dramatic turnaround in what is known as the dependency ratio -- the number of people in the workforce to support each person in the retirement age group. Amongst the policy responses being considered is a greater emphasis on immigration.

The twin themes of globalisation and demographic change are common across much of the developed world. In today's world, urban and regional institutions, whether public or private sector, will play an increasingly important role in shaping the economic (and for that matter social, cultural and environmental) futures not just of their own territories, but of the countries of which they are part.

But at the same time, there is a renewed interest in the importance of local democracy and an emphasis on small-scale units of government, including devolution from larger to smaller and for that matter, from smaller units of government to the community. Harmsworth (2001) observes:

Globalization has a seemingly paradoxical impact on local space, and particularly on the local space occupied by major urban centers. At the same time that it orients individuals more and more to a transcendent global community and economy, globalization also enhances the importance of local communities. The simultaneous emphasis on the global and local space is not coincidental for the growing importance of locality is in many ways a response to globalization.

The most striking evidence of a changing view of the appropriate scale and role of local government is coming out of England. As already noted, England has had one of the most centralised systems of local government of any developed country, with very strong central control of local government activity and funding.

The standard justification for this has been the importance which central government, and by inference the population at large, attach to consistency in service delivery regardless of location. This is often expressed as a strong public resistance to the 'postcode lottery' as a means of determining the mix and standard of services an individual receives.

Kleinman et al (2002) in a literature review for the Office of the Deputy Prime Minister of the links between the finance and non-finance elements of local government present what has been the general case in support of this approach:

But a more general point is that, although enhancing local democracy and democratic participation is an important goal of public policy in general, it is not the *only* one. Other public policy goals may well conflict. In other words, in policy terms there will be a trade-off between local democracy and other public policy goals. In particular, there is a trade-off between increased decentralisation of control and/or of funding on the one hand, and the principles of equal access to services in all parts of the country and the maintenance of national minima. Even more broadly, recent policy has sought to establish the principle of equal provision and quality of services everywhere (removing the so-called 'postcode lottery'). Enhancing local autonomy and providing territorial equity are **both** desirable policy goals - but they can and will conflict.

In essence, if enhancing local democracy, and principles of equal access are in conflict, then the standard response has been to trade off local democracy against equal access. A necessary corollary of this approach is a local government sector which first and foremost is a service deliverer to predetermined national standards rather than an expression of local democracy.

One of the first signs of a shift in this approach was the inclusion of the well-being power in the Local Government Act 2000 with its associated emphasis on the development of a community strategy and the emerging role of local strategic partnerships.

In 2006, as part of its Local Vision project, the Office of the Deputy Prime Minister released ***All Our Futures: The challenges for local governance in 2015*** (The Tavistock Institute et al 2006).

Two extracts from the executive summary provide quite strong evidence of a rethinking of the traditional approach to the role of local government:

The shape of local governance in 2015 hinges on how the government answers the following question: are the risks it would incur in introducing a genuinely

devolved form of governance (in terms of a likely variability in performance of more empowered local agencies) greater than the risk that a less devolved, more uniform approach simply could not respond to diverse needs of local communities in ten years time?

The importance of policies and services being sufficiently flexible and responsive to meet varying local circumstances (in the context of greater difference within and between communities) is clear cut. More complex is the question of where and how decisions about the extent and nature of the variation in services and policies should be taken.

Also in 2005 Sir Michael Lyons was undertaking his inquiry into the Council Tax. In September of that year he argued to government that his inquiry should be extended to include the role and function of local government. That argument was accepted.

He released his first report under his expanded mandate in May 2006 (Lyons op. cit.). The executive summary includes the following:

A range of factors, including a growth in formal entitlements to certain public services, national targets for public services, greater public expectations, and our strong national media, have contributed to ever-stronger concerns about 'postcode lotteries' and an apparent desire for the same services, and levels of service, to be delivered in all areas. However, economic theory, and indeed common sense, argues that since people's preferences and needs, and the costs of delivering services, vary between areas, then the best way of spending limited resources will be different in different places.

Some would say that a devolved approach which seeks to enable these differences to be dealt with will lead to unfairness. However, I think it is simplistic to define 'fairness' in public services as meaning the existence of a uniform national set of public services and a uniform national set of priorities for the improvement of those services, whatever the opinions or priorities of local people.

This was clearly making the case for a much greater reliance on local democracy as a means of determining desired levels of service. It is almost certainly no coincidence that Sir Michael was developing this argument at the same time as ministers were starting to float the concept of "double devolution" - from central government to local government and from local government to communities.

On the same theme, in a personal communication, Professor Michael Chisholm commented:

In the context of British local government, I have argued for some time... that the primary role of central government should be to set the **minimum acceptable** standards and to put in place the mechanisms for monitoring, and assisting where needed. I make this point for two reasons. The first is based on the previous argument, that exact equality is an impossible target. The second is the following. Let us suppose that in whatever field one might choose, central government really did have the right idea for how a service should be delivered, the standards, etc, and that this had been achieved across the system. The world is not static, and what is best practice today may become outmoded as innovations come forward. But if there is a uniform system, where will the innovations come from, and who will be the

gatekeepers? Continuous innovation is needed, and to ensure that this happens I think that some degree of decentralisation of decision-making and financial control is essential. In a nutshell, equality can only be achieved in a system which is static once best practice has been achieved. The fact of innovation, and the need to foster it, imply some degree of inequality.

Sir Michael Lyons' report is likely, however, to be recognised more for what he has to say about the role of local government in what he terms 'place-shaping':

I also think there is a wider role for local government as the voice of a whole community and as an agent of place, a role I describe as 'place-shaping', which includes:

- building and shaping local identity;
- representing the community;
- regulating harmful and disruptive behaviours;
- maintaining the cohesiveness of the community;
- helping to resolve disagreements;
- working to make the local economy more successful;
- understanding local needs and preferences and making sure that the right services are provided to local people; and
- working with other bodies to respond to complex challenges.

Place-shaping will mean different things in different places, at different times and at different spatial scales. It is relevant to all councils, from large unitaries and counties to parish and town councils. There is no one level at which it is best conducted, and examples can be found at all the different levels and tiers of local government.

My description of place-shaping reflects my view that the ultimate purpose of local government should be to take responsibility for the well-being of an area and its communities, reflecting its distinctive identity, and promoting its interests and future prosperity. It involves a focus on developing the economic, social and environmental well-being of the local community and the local area. It therefore requires councils to take responsibility for influencing and affecting things beyond their more narrowly defined service responsibilities.

His comments on the relationship between economic development and place shaping are particularly pertinent not just for England, but for New Zealand. In speaking of economic well-being he had this to say:

Although national and global considerations are increasingly important in business location decisions, the distinctiveness of place is an important component in attracting skills and investment in a highly competitive world. Place-shaping for economic well-being can therefore involve enhancing local characteristics to create attractive locations for different types of businesses and industries, and highly skilled workers and entrepreneurs, as part of a broader role in enabling economic development; and

The CBI and other business representatives acknowledge the role of local

authorities in helping create the conditions for economic success in their areas, as well as the importance of effective engagement between businesses and local government. The CBI's recent submission to my Inquiry outlined how:

*Many businesses are attracted to the idea of local authorities as place-shapers... the majority of businesses [surveyed] believed that local government setting a clear vision and strategy for the development of an area was the most important aspect in terms of promoting economic growth and competitiveness. (CBI)*

The extent to which the government intends, and is able, to deliver on the views which successive ministers of community and local government have been expressing will become more apparent when it publishes the local government White Paper (described as being due in "the middle of the year"). However, what does seem to be signalled from a variety of sources is the beginnings of a fundamental shift driven by recognition of the importance of empowering communities if central governments are to achieve the social and economic outcomes they seek.

### **Implications for New Zealand: Initial Comments**

The changing role of local government is placing a twofold emphasis on the question of scale. At one level it concerns what type of structure/scale is necessary to deal with issues such as regional economic development and the impact of globalisation, which are recognised as requiring a genuinely regional focus. At another level it is around the intimacy of place and the relationship between council and citizen (both of which can be seen as aspects of Sir Michael Lyons' place making role).

What does stand out from the literature is that neither of these roles necessarily implies significant structural reform - unless it is reform to reduce the size of overly large local authorities. Instead, the focus should be on councils themselves creating or facilitating the structures that fit the issue they are seeking to address. If it is something which is genuinely regional or subregional in scope, then the need is for a structure (not necessarily formally incorporated) which has that scope. It may be an organisation made up purely of councils, it may include other entities if their contribution is seen as best ensured through a governance involvement. If it is something which is best handled at a district or sub-district level, then the issue becomes one of how best to engage at that level whether through strategic partnerships, community boards or whatever other means seems appropriate.

For New Zealand, there is another potentially significant implication. In discussions of economies of scale within local government services, it is increasingly common for researchers to argue that economic development is a regional level function which needs to be undertaken at a regional (or metropolitan) wide level (Lowery 2000; Bish 2001, Turok 2005, Lyons 2006).

On this issue Lyons comments that:

Though there appears to be a growing consensus about the powers of local government in cities, there is less agreement on what the most appropriate scale for action is. The principle of subsidiarity suggests that responsibilities, powers and arrangements to tackle economic issues should reflect the fact that they impact across a much wider area than the individual authority. For example, at the time of the 2001 census, 40 per cent of the working population crossed at least one local authority boundary during their journey to work, and this percentage figure increases for higher skilled and professional workers. The principles discussed in Chapter 2

suggest that this means that economic development should not just be the responsibility of individual authorities acting alone. There also needs to be some concerted action through larger coalitions above the level of the individual authority, which enables their responsibility for the local economy to be taken forward with others operating across authority boundaries. Some would argue that this should be dealt with at the regional level through the Regional Development Agencies, though others have begun to focus on the 'city region' in recent months.

This places a new emphasis on finding means of working effectively at a regional level, not through the exercise of coercive powers but through enabling collaboration, cooperation and partnership -- both within and between the different levels of the public sector and between public and private (and community).

This theme has recently been picked up by the Minister of Economic Development with an announcement that government is to refresh its regional economic development policy. The Cabinet Paper (Mallard 2006) which the Minister released to provide background on the proposed change of direction included the following paragraphs:

The strong focus of the Regional Partnership Programme on the bottom-up process, to ensure wide participation in regional development activity, meant that many regions tended towards an inward focus. In order to keep regional policy closely aligned with the government's overall economic development approach, I want to focus on how regions can support a business environment for the development of globally competitive firms.

Regional action for national benefit is a cornerstone of what I intend to achieve through regional economic development. This will require greater collaboration within and between regions and much clearer linkages to central government's economic development priorities.

This can be seen as a clear illustration of the extent to which central government believes that it has a vested interest, for the purpose of achieving its own objectives, in the effectiveness and efficiency with which sub-national institutions function. Although the Cabinet Paper itself does not say as much, local government should see this as a clear signal that, if central government believes it is failing to perform in areas such as collaboration, and the effective and efficient delivery of services, and that failure is prejudicing the achievement of central government's goals, then central government will consider intervention. To put it another way, part of the context in which local government should be considering alternatives to further enforced amalgamation is central government's perception of the national interest in efficient and effective local government, particularly at a regional level.

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## 4. Case Studies

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This section of the report presents five New Zealand case studies. Four were selected to provide examples of how New Zealand local authorities are using alternatives to amalgamation or restructuring as a means of improving performance and/or capability. The fifth provides an overview of experience of local government amalgamation since the 1989 restructuring.

The case studies are:

Alternatives to amalgamation:

- **Wairarapa District** - dealing with scale and capability in three contiguous and relatively small territorial authorities.
- **Taranaki District**- evolving collaboration within a provincial region.
- **Wellington City** - managing cross-boundary issues in a metropolitan region.
- **Small councils** - an overview of how some of New Zealand's small territorial authorities are managing the challenges of scale and capability.

Post-1989 experiences of amalgamation:

- **Banks Peninsula District/Christchurch City**
- **Otorohanga District /Waitomo District**
- **Napier City/Hastings District.**

Before presenting the case studies themselves, the methodology used is outlined and some preliminary observations are made which are generic to the first four case studies.

### Methodology

The approach taken to the case studies included:

- The case studies themselves were selected in consultation with *Local Government New Zealand* with the objective of providing a good overview of how different parts of the country, and different sizes of Council, were responding to issues of capability and scale.
- Prospective case study councils were all invited to consider participation and all agreed. The invitation included a copy of the terms of reference for the project to provide councils with background.
- Where possible, which was the case with all but two or three councils, face-to-face interviews were undertaken with the chief executives, mayors and in some instances selected senior managers of case study councils. As well as face-to-face interviews, councils were invited to provide a written overview of the various collaborative and other initiatives they were involved with in conjunction with other councils.

## Alternatives to Amalgamation

### Preliminary Observations

One theme emerged from each of the four case studies which focused on how councils are responding to issues of capability and scale. This could best be described as the human factor; the way in which elected members and/or management within individual councils respond to suggestions for closer collaboration or other non-traditional means of organising service delivery or the provision of support services.

Again and again, and in different ways, it was suggested that one of the very real barriers to more collaborative working is the attitudes both of management and of elected members. At the management level, it was suggested that especially second and third tier managers may be resistant to suggestions for change. This resistance may be more covert than overt but can nonetheless be a significant factor delaying or preventing desirable change. It seems almost as though many in management regard change as something of a zero sum game. There is a limited pool of work available and if some leaks out from the organisation, there will be reduced responsibility and opportunity and potentially a threat to the positions and/or careers of individuals.

When the responsibilities of local government are considered, especially in terms of the strategic challenges presented by the new responsibility of promoting community well-being, there is clearly no shortage of potentially valuable activity. Finding new and better ways of delivering services should be seen as a way of freeing up resources to cope with new responsibility. The fact that it may not always be seen this way is partly an issue of change management and partly a question of how individuals within local government regard their own skills and career opportunities. It is obviously a matter which will need careful management and where there could be a case for sector wide development of coping strategies.

The way in which elected members saw their priorities was also raised as an important issue. This came through in several ways. First, in virtually every case study region, the "Big Brother" syndrome was clearly an important factor. Smaller but, more importantly, medium-size councils were clearly suspicious of the largest Council in the region. Despite evidence to the contrary, suggestions of collaboration would often be seen as a Trojan horse for potential takeover. In part this reflects what can best be regarded as historical rivalries. Where these attitudes exist, they are now clearly a significant clog on further progress.

One issue is the background and experience which elected members themselves bring to bear within councils. One elected member with considerable experience at the governance level in major non-Council organisations commented that most elected members came from a micro background. They were not used to working in a governance role and were much more comfortable focusing on the minutiae which concern their individual constituents - fixing the pothole or whatever - than with the major strategic issues confronting the Council.

Others, as may be natural for politicians, were prepared to grandstand against regionwide initiatives on the claimed ground that they were protecting their own ratepayers from increased costs.

There are two principal factors which, despite the sometimes negative attitudes of a number of elected members, are clearly forces for increased collaboration. The first is the growing recognition that this is often a very effective way of reducing costs and/or securing capability that the Council requires and may have difficulty attracting and retaining on an in-house basis.

The second is the still largely inchoate recognition that the increasing importance of the region/locality in economic and social development gives central government a set of incentives different from those which applied at (say) the time of the 1989 restructuring when the focus was purely on efficiency of local government itself. Central government now has a strong vested interest in the ability of local government to work effectively at a regional level (not necessarily regional in the sense of regional councils, but regional in the sense of the natural catchment for economic and social development which is now generally recognised as being larger than the district of the typical territorial authority). This suggests, and a number of elected members in local government are coming to realise, that if they cannot demonstrate their ability to work together effectively, then central government may feel compelled to intervene to fill the gap.

**Wairarapa**

Wairarapa comprises the three district councils of Masterton, Carterton and South Wairarapa. Together they form the principal rural component of the Wellington Regional Council being separated from the rest of the region by the Tararua ranges.

Prior to the 1989 restructuring, local government in the Wairarapa comprised seven territorial authorities and one United Council. Of the territorials, the former Eketahuna County Council and Masterton District Council were merged to become the current Masterton District Council, Carterton District Council remained unchanged, and the former Featherston Borough Council, Featherston County Council, Martinborough Borough Council and Greytown Borough Council were merged to become the South Wairarapa District Council. The Wairarapa United Council was replaced by the Wellington Regional Council.

Together, the three districts have a total population a little under 40,000, a figure which has been virtually static over the past 10 years as the following table showing census night population counts demonstrates (2006 is still provisional):

<b>Census Night Population Counts</b>			
	1996	2001	2006
Masterton	23,046	22,926	23,100
Carterton	6,792	6,897	7,160
South Wairarapa	8,841	8,754	8,870
<b>TOTAL</b>	<b>38,679</b>	<b>38,577</b>	<b>39,130</b>

The Wairarapa economy has been undergoing quite significant change over the past couple of decades. Prior to the major economic and public sector reforms of the late 1980s and early 1990s, the Wairarapa was primarily a traditional rural economy with some light industrial activity in Masterton the product of a combination of border protection and decentralisation of government activity primarily the Government Printing Office.

Change since has seen a significant reduction in artificially supported industrial activity but also, in the rural sector, significant diversification as Martinborough in particular has become the centre of a substantial boutique wine industry, and the traditional rural sector has adjusted to the withdrawal of protection. In parallel with this the Wairarapa has also become an important leisure and recreation destination for Wellingtonians. This has put significant pressure on land values, resulted in a considerable amount of residential building for what, initially at least, are second homes, and underpinned the growth of boutique retail, hospitality and food related activities especially in Martinborough, Carterton and Greytown.

Local informants trace the origins of the current level of collaborative activity back to two different factors. All emphasised the role of the former Wairarapa United Council. It is

reported as having worked very well and set up a practice of collaboration amongst the seven territorial authorities in the Wairarapa.

At the political level, the story of increased collaboration comes largely from the district planning side. The former chairman of the Featherston County, who then became deputy mayor and finally Mayor of South Wairarapa, explained it this way. In the late 1980s there had been very real concern about the viability of farming in the Wairarapa, especially on coastal properties, as a consequence of the withdrawal of protection and subsidy. One option for restoring viability was to subdivide and sell part of a property for lifestyle and/or coastal residential purposes. The then district plan made every coastal subdivision subject to a resource consent application. The new Regional Council objected every time. There had to be a better way.

He called the three district councils and the Regional Council together. This led to the establishment of a working party to develop a coastal strategy. The Mayor of Masterton was supportive as that Council was having similar difficulties at Riversdale (a popular coastal fishing and surfing settlement on Masterton District's coast).

This evolved over time into the concept of a combined district plan. One reason was continuing development pressure from Wellington - and the concern on the part of district councils to avoid a situation in which developers would play one council off against another.

The Wairarapa combined district plan was publicly notified on 26 August 2006. Its preparation has been the responsibility of a joint committee of the three district councils. A notable feature of its development has been the ability to strike a balance between developing a common plan, and recognising that different communities might have different requirements. It is also shown the ability of the three councils to understand the importance of timing in managing contentious issues - if it is going to be difficult, don't rush it but allow the time needed to determine whether there are acceptable compromises. As one example, the Masterton and Carterton district councils both argued that the plan should have the same the rule for minimum rural lots for all three districts - down to 1 ha as of right. 80% of South Wairarapa people who submitted on this issue wanted a 5 ha limit to ensure the preservation of rural amenity. The issue was "parked" for a period and then agreement reached on the compromise of a 2 hectare minimum size and separate rules to stop ribbon development.

The councils have also worked through the issue of how notified applications will be handled. Masterton District Council argued for one administrative point and one hearings committee - but South Wairarapa handles more resource consents than Masterton does. The three councils have agreed that there will be separate hearings committees and that, to ensure coordination, planners from the three councils will meet regularly to coordinate their approach and the three councils will establish a joint intranet.

The combined district plan approach has also allowed the three councils other ways of expressing their different values. The plan provides for a substantial amount of additional industrial land immediately to the south of Masterton to meet the needs of the Wairarapa. This suits South Wairarapa which is an area of boutique family businesses, tourism oriented activity (around the district's growing wine industry), as well as its traditional farming activity. The district does not want more substantial industrial or commercial activities such as meat works, distribution warehouses etc.. What the combined approach has allowed the three districts to do is consider zoning issues from a "whole of Wairarapa" perspective rather than each district being under pressure to provide for a full range of activity within its own boundaries.

A common theme which came through from interviews is that, 17 years on from the amalgamations of 1989, there is still quite a strong sense of local identity around the former

boroughs. The Mayor of South Wairarapa commented that she is accepted as Mayor of Featherston, because she lives there, and as Mayor of Martinborough because she works there, but not as Mayor of Greytown. Another informant commented that it was not uncommon for the last Mayor of the Borough of Greytown still to be invited as the person to "cut the ribbon".

Perhaps associated with this, there is obviously still a degree of sensitivity between the three councils including an element of "Big Brother" concern in respect of Masterton (which has more than half the Wairarapa's population). This is clearly something which all three councils keep in mind and have gradually learned to manage, recognising that, as one informant expressed it, "there has to be an understanding that you go in as equal partners even though one may be larger. Mutual respect matters".

In terms of collaboration, the managements of the three councils now place their strongest emphasis on a combination of the increased pressures on local government (micro-chipping, drinking water standards, increased environmental standards, Building Act compliance etc) and issues of capability/capacity. As one expressed it, these days you can't simply rely on your professional consultants to provide you with backup in areas such as engineering. When you need it, you might find that they don't have the necessary staff either (Masterton District Council's LTCCP identifies capability as one of the risks it needs to manage).

Amongst the activities which the three councils undertake on a collaborative basis are:

**Solid Waste Management (Waste Management Wairarapa):** this involves the administration, investigating and reporting on waste minimisation initiatives. The work is currently supervised by a joint committee and is expected to result in a common contract for disposal of solid waste out of the region. Over the next five years, the joint committee status may need reviewing either to CCO status or with an expansion of roles into additional environmental initiatives.

**Economic Development and Business Promotion:** this is an external service contract with Go Wairarapa. The annual budget of approximately \$400,000 is shared amongst the three district councils on population/capital value ratios.

**LTCCP Outcomes in Arts, Culture, History and Recreation:** A joint committee is responsible for purchasing external advice for reviews over these four outcome areas. This includes the development of the Active Wairarapa Plan which has been part funded by SPARC and the Wairarapa DHB, and fits within the national strategy of Healthy Eating, Healthy Action. In a recent DHB workshop on the strategy the deputy director-general of the Ministry of health congratulated the Wairarapa for the best representation from community groups, councils etc on the strategy that he had experienced anywhere in the country.

**Building Control Authority Accreditation:** the three councils are working together using the same consultant to assist with the process of councils being accredited as building control authorities. The three councils have a previous history of sharing expertise in this area when required.

**Rural Fire Control:** the three councils have formed a combined Wairarapa rural fire district under a separate rural fire authority. Previously each council was its own authority. The long-term approach will be determined by the outcome of the national fire service review.

**Healthy Homes:** this is an initiative promoted by the Energy Efficiency and Conservation Authority to promote home insulation targeted towards low income homeowners and designed to improve health outcomes as well as energy efficiency. The three councils are all contributors to the project and represented on its governing body.

**Wairarapa Road Safety Council:** this is a joint initiative focused on road safety education targeted primarily to young people. It is largely government funded (Land Transport New Zealand) but all three councils contribute and are represented on the Council.

**Wairarapa library Service:** this is a joint venture between the Carterton and South Wairarapa district councils responsible to a joint committee of the two councils. The publics of the two councils have access to all four libraries (one in Carterton and one each in the three towns within South Wairarapa). Each Council meets the operating costs of its own facilities.

**Southern Wairarapa Safer Community Council:** this is a joint initiative of the Carterton and South Wairarapa district councils. It is primarily funded by the Crime Prevention Unit but with other funders including the two councils. Masterton operates its own safer community Council but the three districts join together in projects such as Violence Free Wairarapa.

## Taranaki

The Taranaki region comprises the three districts of New Plymouth, Stratford and South Taranaki. Although it has good air service connections to main centres, its distance by road or rail from major population centres (Auckland, Wellington, Hamilton, Palmerston North) is considerable. This has helped contribute to a strong sense of regional identity often manifested in the sense that if the people of Taranaki don't look after themselves, no one else will.

The region's principal economic activities are farming (primarily dairying, including Fonterra's major processing site at Hawera in South Taranaki, but also sheep and cattle and some niche horticulture activity), and oil and gas. The presence of these two industries provides the basis for significant support infrastructure including, for oil and gas, engineering and construction.

New Plymouth is also beginning to establish a considerable reputation as a regional centre for arts and culture. Its principal institutions include the Govett Brewster Art Gallery (recognised as one of Australasia's leading contemporary art galleries), Puke Ariki (which combines New Plymouth's Museum and library in an innovative institution with a strong grounding in the region's Maori history), and the soon-to-be established Len Lye Centre.

Largely as a consequence of ongoing restructuring in the agricultural sector, both on and off farm, and a relative decline in oil and gas exploration, the region suffered significant population decline between the 1996 and 2001 censuses, a decline which has only partly been recovered in the next five-year period. Interestingly, the whole of the recovery has been in the New Plymouth district with the other two districts continuing to lose population. Actual figures are shown in the following table (note the 2006 figures are still provisional):

Census Night Population Counts			
District	1996	2001	2006
New Plymouth	68,169	66,573	69,000
South Taranaki	28,800	27,222	25,700
Stratford	9729	8991	8930
TOTALS	106,698	102,786	103,630

The three districts are substantially different in character. New Plymouth is primarily urban with the majority of its population in New Plymouth itself and the balance largely in two outlying but relatively nearby towns, Inglewood and Waitara. It is also the location of a number of major services including the region's base Hospital, major educational institutions,

and the regional offices of government departments. South Taranaki is a series of townships and their large rural hinterlands surrounding Mount Taranaki, with its main population centre in Hawera. Stratford is a single township and surrounding rural hinterland. Amongst the other consequences of these differences is that New Plymouth district operates as a relatively coherent single community because of the dominance of the population base in New Plymouth itself, Stratford operates as a relatively close-knit community because of its small size and the town's role as the servicing Centre for the surrounding rural area whilst South Taranaki is very much a union of townships, and their surrounding rural areas, each of which has its own significant sense of identity. This is specifically recognised by that Council which, while acknowledging Hawera is the principal town, has adopted a policy of planning through community plans rather than a single council plan.

As a region, Taranaki has a population significantly less than that of a number of New Zealand's larger territorial authorities. From a conventional perspective it could be seen as a prime candidate for further amalgamation in order to improve the efficiency of service delivery. The case study experience suggests, instead, that it is a good example of three local authorities with quite different characteristics focusing both on efficiency and on doing a good job of meeting the diverse needs of their local communities while collaborating regionally.

The purpose of this case study was to assess the extent to which the three territorial authorities (and the Taranaki Regional Council) were able to collaborate to achieve efficiencies where considerations of scale and/or capability made this desirable, and the importance of local democracy as a rationale for continuing current arrangements.

### *Local Democracy*

Evidence on the importance of local democracy is largely anecdotal in the sense that none of the councils have undertaken in-depth research to identify the value which their communities place on current representation arrangements. It is drawn from a range of sources including elected members' perceptions of what matters to their communities, from experience with the different processes which the three councils have in place to relate to their communities, and from recent experience of the Community Outcomes process.

Stratford makes the point that its relatively small size is highly valued by its community because they have direct access to elected members and senior management. Both the Mayor and the chief executive operate an "open door" policy which would be extremely difficult in a much larger authority.

As an illustration of the advantage of being close to the community, the Mayor and the chief executive referred to the experience of developing the recent LTCCP. The "first cut" suggested a rates increase in the order of 18% plus. When the community were told this, there was hardly any negative feedback, something which the Mayor and the chief executive attributed to the close relationship between the council and its community.

South Taranaki places a great deal of importance on respecting the differences amongst its various communities. In part this reflects the fact that the present council was created in 1989 from five separate local authorities. It also reflects very significant differences between different parts of the community. Coastal South Taranaki has very different views and aspirations from the people of Hawera. Patea, in the south of the district, with its strong Maori population and freezing works background, coupled with the high unemployment which resulted from freezing works closure, has a very different set of social and community concerns than the rest of the district.

Each part of the district has a community board but in addition has developed its own structure for engagement. Hawera has a business promotion group. Eltham has a community committee and Patea (until recently) a Community Trust. Other communities will work through specific project groups or a Progressive Association.

New Plymouth is different again. The focus of that Council is on presenting New Plymouth as a single coherent entity. This focus underpins the strong emphasis which the council places on the development of the city as a significant arts, culture and recreation Centre, as a tourist destination associated with those characteristics, and as the centre of New Zealand's oil and gas industry. The impression that Council creates is that its present structure is consistent with this strategy and provides a strong basis for community commitment to its long-term goals.

An important factor both for local democracy, and for building a basis for collaboration, is the part played by the regional council. Each of the three territorial authorities commented specifically on the importance of the approach which the regional council took as enabling collaboration amongst the territorials in the region. The point they made was that the region "sticks to its knitting". From the perspective of the territorials this means there is no sense of any threat that the region may be a competitor, seeking to encroach on what the territorials regard as their preserve. It also sets the framework for a closer working relationship amongst the three territorials themselves.

### *Collaboration*

A useful starting point in considering the nature of collaborative activity within the region is the approach which was taken to the identification of community outcomes. The Taranaki Regional Council recognised that any serious outcomes process would reveal both localised priorities which would be primarily a matter for individual districts and communities, and priorities which would be common across the region. It also realised that a thorough process would be relatively expensive.

The regional council suggested that it and the three district councils combine together in a joint approach to outcomes identification. The district councils accepted this for several reasons including previous experience of working together on cross boundary issues, recognition that some outcome areas such as economic development and culture and recreation were not confined within territorial boundaries and a realisation that many of the entities which would be responsible for advancing outcomes themselves had a regional responsibility (for example, the District Health Board and the Taranaki region of the Ministry of Social Development).

The resultant outcomes process, *Future Taranaki*, has been recognised as one of the most professional and effective of the community outcomes processes undertaken by local government. More to the point, by joining resources together the councils were able to secure high-quality external professional assistance which would have been difficult for any one of them to afford on their own. It also created a process which gained significant community buy-in, made it relatively easy to determine at what level outcome responsibility lay (regional, district) and helped establish that, although people have a strong attachment to their own district, there is also genuinely a "Taranaki identity".

Each of the three district councils takes a somewhat different approach to collaboration. Stratford, as the smallest, generally takes the approach that it has no strategy to intentionally collaborate unless there is a financial advantage. This reflects its relatively small size, satisfaction with the state of its infrastructure, and a focus on cost. South Taranaki's approach is stated as to seek collaboration where it is in the best interests of the parties concerned rather than to undertake all activities jointly. For this Council, the need for

continuing investment in infrastructure, and the professional capabilities required to underpin that, have been an important factor in encouraging collaboration.

In most cases however, New Plymouth, as the largest of the three councils, has taken the lead in initiatives which are important for itself but which have a regional catchment. Examples include economic development and tourism promotion. It also plays the lead role within the region in the provision of arts, cultural and recreation facilities.

In other cases the smaller councils may take the lead. A case in point was the demise of Roadsafe Taranaki. The Regional Council decided to discontinue its involvement in this initiative so South Taranaki picked it up on behalf of the region. The Roadsafe coordinator is housed in the Hawera administration building and all support is provided from that office.

Perspectives on collaboration are also a function of the size of the individual councils. There is clearly an element of the "Big Brother" syndrome in the relationship between the three councils, especially South Taranaki and New Plymouth. Both of these councils recognise the issue and understand the importance of managing, on the one hand, any tendency for New Plymouth to feel that it must know best, and on the other hand any tendency for South Taranaki to feel resentful of the potential dominance by a larger partner. Managing the risk this issue poses is clearly something which is well-recognised by all councils, with the two larger councils in particular very conscious that the priority for each of them is doing the job expected by their constituents.

The two larger councils are also very aware of the growing importance of capability management. This is especially the case with engineering services which represent the most intensive example of inter-Council collaboration. South Taranaki has had a five-year relationship with New Plymouth for the sharing of key engineering staff. Over that period South Taranaki's Group Manager Engineering Services has been a New Plymouth employee. Another New Plymouth employee is the Order Supplied Manager. South Taranaki has also contracted for New Plymouth staff to manage, operate and upgrade instrumentation and electrical equipment at their water and wastewater facilities. In addition, the two councils (sometimes with Stratford) have jointly contracted for private sector provision of roading construction services.

The arrangement brings benefit to both parties. For South Taranaki it provides an assurance of access to competent engineering services. For New Plymouth it helps to provide the critical mass needed to build up a strong engineering capability with the range of work and career development opportunities needed to attract and retain quality staff.

Other activities are undertaken on a collaborative basis because of the economies of scale, or the operational requirements, of the activity itself. Examples are regional refuse disposal where the three councils have agreed on the use of a New Plymouth landfill as a medium-term solution (as other landfills reach the end of their working life). Following that all regional refuse will be transported to a (fully consented) landfill in South Taranaki which was a strategic land purchase by that Council in 1995. A final example is civil defence/emergency management where all three councils contract with the Taranaki Regional Council.

At a less formal level, all three councils will draw on each other's professional and technical staff if they have a capacity issue or need some external advice.

Regional needs have been a strong incentive for collaboration. Tourism promotion and regional economic development are two examples. The three jointly fund the cost of tourism

promotion under a contract with Venture Taranaki<sup>9</sup> (tourism promotion was previously undertaken by a separate arms length entity. This was recently folded into Venture Taranaki on the initiative of New Plymouth District Council).

The cost of tourism promotion is shared amongst the three councils in accordance with a formula developed in 1998 which has also been used to share the cost of other regional initiatives. Stratford district comments that this precedent makes it easier for it to take part in regional initiatives, especially if the alternative is undertaking some activity on its own, as its share of regional funding is population-based and thus relatively small. The Management Committee for the Regional Tourism contract is chaired and administered by South Taranaki.

New Plymouth district's contribution to regional economic development funding through Venture Taranaki approaches 95% of total cost. This is one of several activities which raises an issue very common in regions where there is a "lead" Council which is recognisably the dominant Council in the region.

The issue is one economists refer to as "free riding". It arises when two or more parties enjoy the benefits of an activity but not all contribute proportionately to its cost. One of the consequences, especially in a local government context, may be under provision of a desired service. As a New Plymouth district council manager expressed it, economic theory suggests that an inability to recover costs for spillover benefits will lead the entity paying for the activity to invest only to the point where marginal (in New Plymouth's case "local") benefit equals marginal (local) cost. The presence of spillovers suggests there is a wider marginal "regional" benefit and efficiency says that investment should continue until marginal regional benefit equals marginal regional costs. That is, as a region, there could be under investment in regional services if the region continues to rely on New Plymouth to fund them.

Spillover effects are not a one-way however. South Taranaki points out that the entire region benefited when it funded the SHE Women's Triathlon (1100 participants in its first year) and the inaugural Parihaka Peace Festival with 8000 attendees.

New Plymouth notes that it has 67% of the population and 62% of capital value but fully funds the art gallery, Puke Ariki (the library/museum complex) and some major parks and events. It also pays 95% of the cost of economic development services, 75% of tourism promotion costs and all of the upkeep on regional stadia. The capital cost of the upgraded Rugby Park Stadium however is a charge on all ratepayers in the region via a uniform annual charge levied by the Regional Council.

There is no discrimination in entry charges (or free entry) as between residents of New Plymouth and residents of the other two Taranaki district councils.

Implicit in the argument that there is "free riding" is an assumption about how the benefits of regional services wholly or disproportionately funded by New Plymouth are captured. The regional cost/regional benefit argument set out above implicitly assumes that benefits arise wholly or primarily as a function of use - or in the case of functions such as economic development or tourism promotion, per capita. This may not be the case in practice.

New Plymouth, partly through its economic development and tourism promotion expenditure, has a clear strategy of promoting New Plymouth itself both as a tourism destination and as an

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<sup>9</sup> Venture Taranaki is an incorporated charitable trust established by the New of Plymouth District Council to operate as an arms length provider of economic development services. It is a Council Controlled Organisation whose trustees are appointed by the Council.

arts, culture and recreation centre of increasing importance and attractiveness. There is evidence that this strategy is working.

First, consider the census night population figures set out above. New Plymouth is now gaining population at quite a significant rate whilst the rest of the region declines. It seems that the district has a disproportionate appeal, within Taranaki, as a location. This was borne out, anecdotally, in discussion with the South Taranaki District Council which noted various firms' success in recruiting professional staff from offshore but then commented that some of these were choosing to live in New Plymouth because of the arts, cultural and other facilities the city has or, alternatively, in Stratford so they were equidistant from work and New Plymouth's facilities.

Next, the table below sets out bed nights purchased in the commercial accommodation sector in the years ending December 2000 and December 2005. They provide clear evidence of the extent to which New Plymouth has benefited from increased tourism activity within the Taranaki region.

District	YE Dec 2000	YE Dec 2005	Growth
New Plymouth	300,038	443,072	47.7
Stratford	30,288	39,978	32.0
South Taranaki	47,847	54,977	14.9
Total	378,173	538,027	42.3

This evidence suggests that it is New Plymouth which has been capturing the major economic benefits from investment in arts, culture and recreational facilities that happen also to be available, often free of charge, to other residents of the region. It also suggests that an intelligent council, investing in facilities of this type as a means of delivering benefits to its community, will be much more focused on the economic gain than on whether residents in its neighbouring authorities contribute proportionately to capital and operating costs.

**Wellington**

The purpose of the Wellington case study was to look at cross-boundary arrangements within a metropolitan region. Although the Wellington region includes eight territorial authorities, only four were included in this case study. The three Wairarapa authorities are the subject of a separate case study. Kapiti, although a participant in a number of cross - boundary arrangements, was left out as the focus was on those authorities which more closely abut Wellington.

Population in all four of these territorials has increased over the decade 1996 - 2006 although the great majority of the growth has been captured by Wellington city itself as the following table of census night usually resident figures shows (the 2006 figures are still provisional):

Census Night Population Counts			
Hutt City	95,391	95,121	96,800
Porirua City	46,392	47,292	47,700
Upper Hutt City	36,738	36,694	38,200
Wellington City	160,116	167,187	183,500
TOTALS	338,637	346,294	366,200

One reason for selecting the Wellington Metropolitan region as a case study is the fact that the four local authorities do have a record of quite significant differences of view on matters of crucial importance to the region. The most recent, and very high profile, example is the debate over the future of the western corridor. Should additional capacity be provided by widening State Highway one along its existing coastal route north of Wellington, or should the inland Transmission Gully route be developed instead?

This debate, especially between the mayors of Wellington and Porirua, became every bit as contested as any of the differences which have, from time to time, divided the major cities within the Auckland region. For the purposes of this case study, the issue this history raises is whether territorials which have such obvious differences of opinion on what appear to be quite fundamental matters can, at the same time, also work together. Instead, should amalgamation be considered as a means of minimising the potential for disputes between territorials to frustrate decision-making? The immediate answer which the mayors would provide is that, despite the forcefulness of their differences on Transmission Gully, they are able to put these aside and work constructively on other issues in the interests of the region.

In order to focus attention on how the four territorials work together, and deal with significant differences of attitude, the background material provided to each of the four included the following:

We are especially interested in the tension between what could be described as localism versus regionalism. This may arise in a number of ways including:

- An inability to resolve regionwide infrastructure issues because of entrenched attitudes amongst different localities. Some may argue that this has been an issue in dealing with roading and other infrastructure in the Auckland region.
- Differences of view about objectives and priorities in economic development. It may often be the case within a metropolitan region that individual territorial authorities wish to focus on capturing jobs for their district rather than focusing on growth of the region overall. Tension between what could be described as the "node city" and remaining authorities is not uncommon, with the "node city" being perceived as seeking to capture job growth in key industries leaving remaining authorities to secondary roles such as local service activity, retailing and residential.
- On the other hand the "node city" may regard other authorities as free riding on its investment in regional facilities, particularly in arts culture and recreation.

The response to this made it clear that all four participants recognise that these are important issues which need to be addressed if they are to work effectively together. One of the smaller territorials commented that the description of the "node city" situation was exactly the way they see it. Wellington city itself clearly recognises that its dominant role in the region can be both a strength and a weakness in working with its fellow territorials.

Historically, collaboration amongst two or more of the four territorials has been partly a result of "legacy" arrangements and partly a pragmatic response to issues of topography. Upper Hutt and Hutt cities are partners in wastewater disposal. This is partly an inheritance from the pre-1989 structure of local government when the Hutt Valley Drainage Board played an important role and partly a function of topography - the Hutt Valley as a whole drains naturally to the Wellington harbour and Cook Strait.

When the Hutt Valley Drainage Board was abolished, the Local Government Commission provided for it to be replaced by the Hutt Valley Services Committee, a joint committee of the two councils. The committee comprises the Mayor and three councillors from each of the two councils. The chair rotates. It has provided a useful forum for considering other joint activity. Apart from the wastewater joint-venture, other joint services between the two councils include landfill, emergency management, environmental health services, cemetery services (soon) and the dog pound.

Upper Hutt notes that even where there are cost and service advantages, its residents will still ask why they cannot have their own, suggesting still a strong level of parochialism. The dog pound provides a good example. The joint service arrangement was entered into when Upper Hutt needed to relocate its dog pound and did not have a readily available site. The contract with Hutt city includes an arrangement for impounded dogs to be delivered back to their owners, something which represents an actual improvement in service. Despite this, there has been some local resistance.

Upper Hutt's approach to collaboration is very clear. For them a pre-requisite is that collaboration will provide either or both of the same service at a lower cost or a better service at the same or a lower cost. It was invited to be part of a regional library service centred on Wellington but declined as it considered that what was being offered would be more expensive. One observation from this experience was that Wellington was prepared to pay for a significantly higher service level standard, for services such as libraries, than any other territorial. This was seen as being in itself a barrier to collaboration (it may also reflect a relative lack of understanding of how a more sophisticated structure may be able to offer different levels of service depending on the requirements of each user).

Wellington and Porirua cities are partners in a wastewater treatment plant which handles wastewater from Porirua city and from the northern part of Wellington city which drains naturally to Porirua. They also are partners in a landfill operation which meets the needs of Porirua and North Wellington. Porirua was invited to join in with Wellington and Hutt cities in the formation of a Council Controlled Trading Organisation for the provision of water services. It declined to do so because of concerns over cost (the same thing happened when it was invited to join in the proposed regional library services arrangement).

As with other councils in regions considered within this project, councils in the Wellington region have taken a joint approach to accreditation for Building Consent processes. Advantages are expected to include consistency of approach for applicants across the region and an opportunity to better manage skills requirements - for example, if Porirua city had a consent application for a high-rise building, then it could access the accredited capability of Wellington City Council.

Currently, two separate influences appear to be driving a quantum increase in the level of collaboration amongst these four territorial authorities. One is an increased emphasis on reducing the cost of local government services and the other the development of the Wellington Regional Strategy.

Each of the four cities referred, in different ways, to the importance of looking for opportunities to reduce costs. Upper Hutt's approach is that it is simply part of the chief

executive's role to be reviewing the best options for undertaking any particular service or support function. It is not part of his performance agreement but simply part of the way things are done.

Porirua takes a more formal approach. It is currently reviewing all its activities looking at what can be done best in-house, what is best done collaboratively etc with a focus on knowing that they are doing things in the best way possible. Amongst the future opportunities for collaboration which its chief executive and Mayor identified were regionalising solid waste management, opportunities for cost efficiencies through sharing of services, while still retaining diversity of identity and personality of the different councils and lifestyle choices for people when they choose where to live, joint purchasing and the sharing of "back-office functions".

Hutt City would like to see better comparative data on the efficiency of service delivery by individual local authorities, regarding this as a necessary tool for improving performance/reducing cost.

The Wellington Regional Strategy (WRS) is likely to be the more significant influence for greater collaboration. Its significance was described in different ways. Hutt City referred to the fact that the regional economy had been slowing, the prognosis was not particularly good, and a number of major businesses had been lost to the region, for example in the banking sector and with Fonterra shifting to Auckland. Wellington's chief executive commented that for years Wellington's focus had been on creating an internationally competitive city. WRS is about creating an internationally competitive region. A senior manager from Porirua City described WRS as an amazing success story. All the councils had stayed with the process through two years of often tough debate. The process had helped Wellington city discover its region.

WRS represents a significant change in institutional arrangements for economic development. The pre-adoption situation is three EDAs in the region, (Positively Wellington Business, Go Wairarapa and Enterprise Coast). The largest EDA, Positively Wellington Business, is funded through individual contracts with five of the local authorities in the region each of which specifies outcomes specific to the district of the funding local authority so that activities, overall, suffer from tensions over the extent of regional focus. Under WRS, Greater Wellington (the regional council) will be the "owner" of the strategy on behalf of the territorials. It will levy a targeted rate and use that to fund a single multi-year contract with a new regional EDA. Its oversight will be provided by a Greater Wellington standing committee on which Greater Wellington, Kapiti, Porirua, Upper Hutt, Hutt, and Wellington, and the three Wairarapa territorials collectively, will each have one representative. The membership will be completed by the appointment of five eminent Wellingtonians.

The WRS process has concentrated attention on a number of matters which need a collaborative approach. A range of regional scale economic development initiatives have been identified as has the need for consistent and appropriate funding support to deliver these. They cover matters such as value chain development, export orientation, 'connectivity' (port, airports, broadband) and skills, training and capability issues.

Recognition is also given to the importance of urban form. This has resulted in agreement that a more aligned and integrated approach to spatial management and infrastructure investment is required. The Regional Policy Statement is to be used as a key vehicle for delivering this. 'Change Areas' have been identified as priority areas for attention and will involve several councils at one time in joint planning processes. A range of agreed principles underpins these endeavours.

At an operational level ideas being considered include territorial authorities combining requirements and budget together to engage a specialist urban planner to advise them on matters of urban design. This reflects an acceptance that, within the greater Wellington area, urban design is a specialist skill in short supply and that it makes sense to promote a common approach.

Next, the process has highlighted the importance of the strategic challenges facing local government and consequent need for strategic capability. This is expected to result in the setting up of a regional strategy team (seconded from individual territorial authorities) which will provide support for individual territorials in strategy development with a focus on progressing elements of the WRS, particularly around urban/spatial management issues.

The most significant impact, though, is the acceptance that land use and environmental planning needs a regional focus to encourage the best use of the region's land resources. Three examples will illustrate the point:

- There is an emerging recognition that not all of the region's territorials are best placed to host significant manufacturing activity. Wellington, in particular, accepts that Hutt City should be able to provide a much better location than it is able to do. The converse of this is a regionwide acceptance that Wellington's role is as the region's central business district.
- There is an urgent need to integrate regional land transport planning with economic development. If Transmission Gully proceeds as currently planned, it has the prospect of triggering significant bulk retail development in the Pauatahanui basin to the detriment of retail activity in Porirua and the Hutt Valley. Porirua City notes that, from its perspective, one of the arguments for Transmission Gully is to protect the Pauatahanui basin and it will be moving to ensure that its district plan reflects this.
- With common discharge points for stormwater and sewerage, and common at least economic vulnerability to flood and other adverse events, there is a strong case for common discharge standards, and common criteria for infrastructure investment such as the flood return period for which stormwater and flood protection is designed.

There has, apparently, been some consideration given to creating a combined district plan for the four cities (and possibly Kapiti), following the precedent set by the three Wairarapa councils. The regulatory and other barriers to doing this are considerable. Instead, councils in conjunction with the WRS process will promote using the rewrite of Greater Wellington's Regional Policy Statement to address issues such as the integration of land transport and land use planning (the new "give effect to" requirement will facilitate this).

There is a final issue which, although not strictly speaking one of collaboration, is clearly significant in cross-boundary cooperation. This is the way that Wellington City cases approaches the provision of facilities which, as for those in New Plymouth discussed above, provide benefits for residents across the region but are funded wholly or primarily by Wellington city, at least as far as the local government contribution is concerned.

In comparison with the other three cities, Wellington has the advantage of a very substantial commercial rating base in its CBD. This gives it a much greater ability to rate in order to support significant arts and cultural facilities and activities such as the City Gallery and the library (both facilities which form part of the attraction of Wellington for people who work in the city but live outside it), its contribution to the operation of Te Papa, the International Festival of the Arts, other major events such as Wearable Arts, and venues such as the Michael Fowler Convention Centre.

Wellington appears to accept that it is reasonable that other territorial authorities may be reluctant to contribute to funding these facilities and activities on the basis that their residents also benefit from them. Instead, Wellington recognises that as the host of the region's CBD, it has both the resource and motivation to ensure that the city is a vital arts culture and recreation Centre. That it should do so is accepted by leadership within the commercial community. As an example, the chief executive of one major professional services firm commented to Wellington's chief executive, in respect of the city's role, that "your job is to make my job in recruiting the best talent easy".

It should be noted, also, that Wellington is not the only territorial authority which supports regional, if not, national arts and cultural facilities. Porirua City funds the Pataka Porirua Museum of Arts and Cultures, recognised as nationally important venue for Maori and Pacifica art. Hutt City funds the Dowse Art Gallery which specialises in contemporary New Zealand craft.

### **Small Councils**

A persistent theme in discussion of the circumstances of New Zealand's smaller local authorities is whether they have the capability (skills, experience etc) and capacity (human and financial resources) to discharge the wide range of responsibilities they have to their communities. The Local Government Commission's Findings and Decisions on the proposal for the abolition of Banks Peninsula District Council had this to say, reflecting on the impact of changing legislative requirements, as well as the inherent circumstances of smaller councils.

7.2 Legislation enacted since 1989, particularly the relatively recent enactment of the Local Government Act 2002, is, in the Commission's view, increasing the demand for enhanced competencies in local government. Larger authorities, with their greater and more broadly based resources, will tend to have an advantage in providing the needed competencies. Likewise, a local authority must be sufficiently resourced to be able to put meaningful and realistic management of resources and financial planning into effect.

7.3 The Commission considers that there is a need for long-term management of resources and financial planning. The integrity of such planning must be maintained if a local authority is to be able to respond to the wishes and aspirations of its communities.

7.4 These issues have been canvassed in the Controller and Auditor-General's report - *Local Government - Looking Back and Looking Forward* - which was presented to the House of Representatives in May 2002. In his report the then Controller and Auditor-General made the following observations:

*The legislative requirements are the same for every local authority, notwithstanding differences in geographical size and characteristics, population, and location. In addition, community aspirations and expectations of their local authority may be quite different as between (for instance) a small rural local authority and a larger urban local authority.*

*By the term 'capability' I mean both the financial resources and the human resource capacity to meet the expectations of the community and the requirements of legislation. The Councils of several small rural authorities have approached us seeking dispensation for a more relaxed (or simplified) response to the legislative requirements. I have steadfastly resisted the temptation to go down this path.*

*However, the fact that such approaches have been made demonstrates that smaller local authorities (and even mid-sized ones) are struggling to provide the range of expertise needed (such as policy analysts, economists and experienced asset managers) to meet their legislative obligations. And, as I noted earlier, some Councils in areas of declining population and growth have not yet come to terms with the prospect of reassessing services which may be unaffordable in the long term.*

*The challenge for Councils is to face the realities of what they can achieve and what they cannot achieve. Already, we are seeing some adjoining Councils sharing administrative support, or jointly providing a service (e.g. libraries). Moving forward requires understanding the needs of the community - but, on the other hand, can often require overcoming parochial interests and political hurdles. I believe that sharing the joint effort will become a developing trend.*

7.5 These comments need to be considered in the context of the Banks Peninsula District Council which, with a rating base of approximately 7,500 rateable properties, is required to provide an increasingly wide range of local government services to a small population, spread over a unique and challenging landscape.

Although the last paragraph in the quotation from the retiring Controller and Auditor-General acknowledges that smaller councils have been exploring some options, on balance both his comments and those of the Local Government Commission are clearly intended to question the ability of smaller councils to cope in the current legislative and service delivery environment. In the context of the statutory obligation on the Local Government Commission to promote good local government, this provides a logical reason for the Commission to be concerned about the inherent capability of smaller local authorities and predisposed to the creation of larger units of local government.

It would be hard to argue that considerations of local democracy alone justified retaining smaller local authorities if there were genuine issues of capability and smaller local authorities were proving unable to find ways of addressing these. Accordingly it was important to get some understanding of how New Zealand's smaller local authorities were coping.

Both the Wairarapa and Taranaki case studies provide some evidence of small Council experience although neither of these case studies were focused specifically on the coping options available to smaller councils. The former was looking more at sub-regional collaboration and the latter at collaboration within a provincial region. Nonetheless, the experiences of the Wairarapa councils, especially Carterton and South Wairarapa, and of Stratford, do demonstrate the general openness to collaboration in some form as a means of addressing capability.

To gain a broader overview four small local authorities were invited to outline their approach to collaboration, looking both at the underlying reasons, and at examples. The four were Gore, Mackenzie, Opotiki and Otorohanga District Councils. In each case we found a very real openness to working collaboratively, ranging from the informal and ad hoc to more formal joint venture or shared contracting arrangements.

Each local authority within this case study had clearly thought through the advantages and disadvantages from its perspective of different approaches to service delivery and each appeared relatively open to different options if they would enable one or more of a better service, lower cost or access to scarce skills. The following comments from one chief executive are representative of what we found:

- I believe local authorities will only survive if they adopt an intelligent approach to the way in which services are delivered taking cognisance of both economies of scale and maintaining a customised and flexible approach to delivery of the services to local people.
- The reason why local people wish to retain their local authority stems from the fact that they have an intimacy of access and influence in terms of decisions and actions taken by their local authority, which they could not possibly hope to have in a larger restructured organisation.
- I agree with you that if local authorities are to thrive in the future they will have to be far more accommodating in embracing alternative methods of service delivery. Provided the dual aims of efficiency through economies of scale and retention of a local flavour in the manner in which services are delivered, there appears to be no reason why alternative methods of delivering some services cannot be meaningfully explored.

All councils were involved in a range of ad hoc arrangements, usually for matters which were not of sufficient significance or complexity to require a formal agreement amongst the parties involved. Instead, they normally resulted from initiatives at an operational level designed to make matters easier for all the councils involved. The chief executive of Otorohanga District Council described this approach in the following terms:

Very often collaboration occurs in a semi-formal manner and costs are left to lie where they fall. Examples of this include; seeking peer advice on complex resource consent matters; providing coverage for officers on leave (for example, both Otorohanga and Waitomo have only one Environmental Health Officer); a joint liquor liaison group; working jointly to develop standards for contracting election services; jointly contracting a road safety coordinator; reciprocal arrangements for maintaining various cross-boundary roads and bridges and coordinating on common service standards for infrastructural services.

More formal arrangements will be used when the collaborative activity is more substantial in terms of cost or expected to be in place for a long period of time. These may deal with complex regulatory matters, where a smaller local authority may not have its own full-time staff with the professional and technical skills required, with services that involve a minimum scale beyond that required by a single local authority, or where a service could be provided by a single local authority but collaboration will offer the opportunity for improved service.

Building control provides a common example of a complex regulatory area where collaboration is increasingly common. Opotiki District Council is a member of the Lakes/Coast Building Cluster Group, a grouping of six local authorities that have combined together in response to the requirements of the Building Act 2004 to deal with a range of matters including accreditation, systems, and consent processing. One of the benefits of this collaboration for Opotiki is the ability to draw on the staff of other members of the cluster who may have a specialist expertise for example in high-rise buildings. Opotiki will be using the services of another member of the cluster to assist with the consenting and supervision of a multi-storey tourism development at Te Kaha.

Mackenzie District Council provides a similar example of a small Council able to meet the needs of its district through a range of collaborative arrangements with a number of other councils. It has a formal contractual arrangement with the Timaru District Council for the provision of environmental health and liquor licensing services. In building control is taken the initiative, with other southern councils, working jointly to produce template for accreditation. It was an early adopter of waste minimisation including composting but is reliant on Timaru for disposal of waste to landfill. More generally, it is party to informal

working relationships with other councils bringing together key staff such as asset managers, regulatory staff and community facilities managers.

Solid Waste Management is an increasingly common area for collaboration. One reason is that the minimum economic scale for a modern environmentally acceptable landfill requires a waste stream significantly larger than that generated by the typical local authority. Gore District Council is a partner with the Southland District Council and the Invercargill City Council in WasteNet, a joint committee which was responsible for investigating and contracting for the provision of a regional landfill facility. Costs of the project were shared amongst the three councils pro rata to the estimated annual tonnages which each area was expected to generate for disposal at the new landfill. With the regional landfill established, the same joint committee then commissioned the development of a Regional Waste Management Plan to meet the requirements of the Local Government Act 2002 (funded by an administration levy on waste being disposed of at the landfill). The joint committee continues in existence (and the Regional Council is now an informal member) to maintain an overview of waste management issues within Southland.

Libraries are another service area where collaboration is increasingly common and there are particular advantages for smaller councils. Otorohanga initiated investigation of joint provision of library services across the Waikato region. A main reason for doing so was the Council's recognition that the most common brand of library software was due for replacement. This provided a window of opportunity to implement a common software platform across the region. For the region as a whole, implementing a common software platform will be cheaper but, for Otorohanga, its pro rata share is expected to be more expensive as it has the potential to purchase a lower-specification and therefore cheaper system which would not be acceptable for larger libraries. The incentive for Otorohanga to be part of this initiative is the potential a joint approach offers for Otorohanga's residents to access a wider range of library services. In essence, incurring a higher cost now is an investment in procuring a better library service than it could afford on a stand-alone basis.

Capability is another important reason for collaboration. Gore District Council contracts with the Southland District Council for professional services for roading projects. Advantages to Gore include the ability to share knowledge and utilise joint standards of work. It also helps achieve consistency across the region for cross-border clients.

Opotiki District Council contracts with Environment Bay of Plenty for IT support at a cost of approximately \$70,000 per annum. The advantages to Opotiki include access to a provider which understands the local government environment, and certainty of supply - Opotiki is some distance from potential private sector providers of the scale and complexity of IT support it uses.

The four councils in this case study, among them, are party to a number of other collaborative arrangements covering a wide range of activity including civil defence, river control, community outcomes, economic development, rural Fire, consultation with tangata whenua, contracting for valuation services, safer communities, recreation policy (the Eastern Bay of Plenty Physical Activity Strategy), electricity purchasing and technical support for their financial functions.

Not all collaborative arrangements are one way in the sense of providing support for smaller councils which might otherwise be unable to deliver particular services to the level their populations expect. Gore District Council provides an excellent example of the capability of a smaller Council in a specialised area which has become a resource for other local authorities. Gore's Arts and Heritage Department (the main activity of which is the nationally known Eastern Southland Gallery) provides a range of support services for smaller museums throughout Southland.

Despite the wide range of activity revealed by this case study, it would be wrong to say that collaboration has now become a natural way of working within New Zealand's local government sector. There is still a great deal of opportunity for improving the performance of local government through collaborative activity.

Like any change from the "way we do things around here", a shift to seeing various forms of collaboration as a natural part of the service delivery portfolio does require investment of time and understanding. There will often be issues of organisational culture that need to be addressed. One chief executive commented: "I agree with your suspicion that the substantial barrier for smaller councils to contemplate alternative methods of service delivery is patch protection. In my experience patch protection exists at the greatest level at the second and third tiers of local government. At this level managers feel threatened and work covertly but energetically to euthanase any concept that may potentially threaten their *raison d'etre*."

Another issue may be the availability of potential partners - if you are a small local authority faced with an issue of capability, with whom do you collaborate especially if your immediate neighbours are faced with similar problems. One chief executive with considerable experience of collaboration commented: "It seems to me that smaller local authorities need to be more innovative and develop strategic partnerships with both larger local authorities and the private sector. These larger local authorities do not necessarily have to be next-door neighbours and in the current digital era, there appears to be no reason why a smaller and a larger local authority having similar interests could not forge a relationship on some formal basis, even though they may be some physical distance apart."

As with any new approach, uptake is likely to be quicker and more extensive if there are recognised champions, and readily available information on what works and why. This may suggest that one or both of *Local Government New Zealand* and the Society of Local Government Managers should take on board the challenge of encouraging more collaborative working, perhaps including some assistance with identifying potential partners or at least a means to facilitate councils partnering with one another.

## **Amalgamations**

Since the 1989 restructuring, there have been four attempts at amalgamating district councils. The first, in 1999, came out of a joint initiative of the Hawke's Bay Regional Council, the Napier City Council and the Hastings District Council to review the structure of local government within the Hawke's Bay. The second, in 1999/2000, was a failed attempt to amalgamate the Banks Peninsula District Council with Christchurch City. The third, in 2003, also failed. This was an attempt to amalgamate the Waitomo and Otorohanga District Councils. The fourth, in 2005, was a second and successful attempt to amalgamate Banks Peninsula District Council and Christchurch City.

In this section of this report we consider what lessons can be learned from those four attempts<sup>10</sup>.

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<sup>10</sup> There was a further significant restructuring initiative undertaken in 1992. This was the abolition of the Nelson-Marlborough Regional Council and its replacement by giving unitary council status to the Marlborough and Tasman District Councils and Nelson City Council. This was done by legislation rather than by use of the amalgamation and restructuring provisions of the Local Government Act and so seen as outside the scope of this discussion which is concerned with voluntary amalgamations.

### *Napier City/Hastings District Councils*

In 1997 the Hawke's Bay Regional Council commissioned the Hawke's Bay Local Government Study the purpose of which was to consider options for the optimal form of local government for the Hawke's Bay region.

Following the completion of the study, the Regional Council, Hastings District Council and Napier City Council jointly submitted five valid proposals to the Local Government Commission for its consideration. The Commission, in its review of the proposals, arrived at the conclusion that the preferred option, and one which best satisfied the requirements of the Local Government Act 1974, was the union of Hastings District and Napier City as a single territorial authority. This was the same conclusion as had been reached by the consultants who undertook the Hawke's Bay Local Government Study.

In arriving at its conclusion, the Commission noted the changes which had taken place in the area since the 1989 reorganisation of local government, including increased urbanisation, significantly greater cross-boundary activity between Napier and Hastings (for example a more than doubling of the flow of workers between the two areas) and the growing degree of collaboration between the two councils. It also arrived at the view that the distinctive branding of the two districts such as the Art Deco focus of Napier and Hastings' promotion as the Spanish Mission City should not be threatened by amalgamation.

The Commission's findings included the usual statements that union of the two districts would facilitate a reduction in the current duplication of services and that there may be considerable potential to achieve cost savings in service delivery through economies of scale. It also noted the potential to enhance territorial planning in a way that would better protect the Heretaunga Plains aquifer system.

The Commission's proposed reorganisation scheme, to become effective, required majorities in a poll of local government electors in each of the two districts. Hastings electors voted strongly in support and Napier electors strongly against, with the result that amalgamation did not proceed.

The primary reason for the proposal's rejection by Napier electors appears to have been a concern that Napier would lose its distinctive identity. Associated with this appears to have been a concern that amalgamation would result in local government functions, including the council itself, being located in Hastings rather than Napier. This fear may have been stimulated by the rather bitter debate during the 1990s over the rationalisation of health services in Hawke's Bay which had resulted in the closure of Napier Hospital and the relocation of hospital services to a single site in Hastings.

A July 2005 feature in the Daily Telegraph (the Hawke's Bay newspaper) reports that a straw poll of politicians elected in the 2005 local body elections showed that most Hastings District Council members agreed that some form of amalgamation was the way forward for the region but the majority of Napier City Council representatives expressing a view were opposed. Although no substitute for a rigorous survey of public opinion, this does suggest that attitudes remain much the same; specifically that Napier residents still attach a strong value to retaining their separate identity.

The paper revisited the issue on 14 September of this year (Merger Long Way Off Say Mayors) and found that, generally, most councils were happy with the status quo in the way in which they worked together although some believed that, in the long term, some form of merger was likely. Overall, however, the article confirmed previous impressions that

amalgamation is not a priority and no one in local government appears to believe there is any substantial community support for the idea.

### *Banks Peninsula District/Christchurch City Councils*

In June 1997 the Local Government Commission received a petition from electors of Banks Peninsula District Council seeking its abolition and merger with Christchurch City. It undertook a review of the Banks Peninsula District. The final outcome of the Commission's deliberations was to recommend a reorganisation scheme which would give effect to the electors' petition. As required by the then legislation (the Local Government Act 1974) the proposal was required to go to a poll of the electors within each of the two districts.

Within the Banks Peninsula District a total 4810 votes were cast out of 6431 eligible voters. 2523 voted in support and 2252 against with 35 votes being declared informal. In Christchurch City, 94,597 electors voted out of 222,738 eligible to do so. 34,089 voted in support, 554 were declared informal and 59,954 voted against, soundly defeating the proposal.

The fact that only 52.8% of those who voted in the Banks Peninsula District poll supported amalgamation might be seen as evidence that even Banks Peninsula voters were not wholly convinced of its merits. It is possible that one reason was the relatively lukewarm terms of the Commission's findings in respect of potential rates reductions for Banks Peninsula residents, given that one driver for the proposed amalgamation was a concern over the district's financial viability and hence the risk that residents could be exposed to significant rate increases. The Commission had this to say:

It is conceivable that if the City Council for an enlarged territorial district were to approach its funding in a liberal, total-district manner, Banks Peninsula residents could find their total rates reduced. However, the amount of any possible reduction would be dependent upon the extent to which the new council may decide to support district-wide funding for activities which may be considered to be of local benefit, and whether the new Council wished to set, for some of its services, the same standards for works and service delivery within both the urban and rural areas of the city.

A further attempt to secure amalgamation of the two districts was commenced in November 2003 by way of a proposal from electors of Banks Peninsula District for the abolition of the District and its inclusion in Christchurch City. This proposal was brought under a provision of the Local Government Act 2002 which, crucially for the way in which the proposal was finally determined, required a poll only of the electors of the district to be abolished.

The Commission's deliberations showed a very real sensitivity to the issue of local democracy. Its final recommendations included provision for two community boards for the former Banks Peninsula District to have the same delegated authorities as existing Christchurch City community boards (which have significantly more authority than most community boards). This offered Banks Peninsula District residents significantly more access to Christchurch city council and its decision-making processes than the typical Christchurch city resident.

Also of some significance was a much more upbeat view from the Commission of the likely impact on ratepayers. The following table taken from the Commission's published Findings and Decisions set out its expectations of typical rates reductions:

Area	Average capital value of a sample property (2005.06)	BPDC continues	Area included in Christchurch City
Wairewa Ward – rural	\$387,000	\$1,170	\$844
Wairewa Ward – Kaituna	\$427,500	\$1,231	\$920
Akaroa Ward – rural	\$427,500	\$1,332	\$920
Lytelton-Mt Herbert Ward – rural	\$478,500	\$1,407	\$1,016
Akaroa Ward – residential	\$372,000	\$2,260	\$1,500
Lytelton- residential	\$264,000	\$1,864	\$1,098
Little River – residential	\$228,000	\$1,172	\$769
Diamond Harbour – residential	\$235,500	\$1,724	\$924
Governors Bay – residential	\$408,000	\$1,701	\$1,517
Dunvauchelle – residential	\$301,500	\$1,898	\$1,151
Akaroa Ward Bays – residential	\$306,000	\$925	\$883
Akaroa Ward Tikao Bay – residential	\$231,000	\$1,462	\$909
Akaroa Ward Takamatua – residential	\$328,500	\$1,279	\$1,058
Akaroa Ward Pigeon Bay – residential	\$252,000	\$1,360	\$838
Akaroa Ward Wainui – residential	\$229,500	\$1,792	\$774

The only poll required, that of Banks Peninsula electors, was by postal ballot which closed on Saturday 19 November 2005. A total of 5624 votes were cast. Of these 2279 were opposed and 3341 in favour with four electors returning blank voting documents. This gave the proposal a majority of 59.4%. If any inference can be drawn from this, it is the strong attachment which people have to locality. Despite strong support from the Banks Peninsula Council itself, evidence that the council's financial position was likely to deteriorate, and the Commission's analysis demonstrating the potential for significant rate reductions, nearly 40% of those who voted were opposed.

#### *Waitomo District/Otorohanga District Councils*

The formal attempt to merge the Otorohanga and Waitomo districts was initiated by the Waitomo District Council on the third of August 2001.

Waitomo is one of a group of central North Island district councils which have been placed at risk by population decline, coupled with relatively low per capita incomes, thus in some views putting into question their ability to continue as stand-alone entities.

The following table shows census night populations for the Waitomo, Ruapehu and Otorohanga district councils for the past three censuses:

Usually Resident Population on Census Night			
District	1996	2001	2006
Otorohanga	9822	9405	9450
Ruapehu	18,330	15,198	14,400
Waitomo	9993	9618	9610

There are varying accounts of the actions which led up to the Waitomo District Council initiative. Otorohanga sources suggest that it was the unanticipated outcome of informal discussions which the Otorohanga Mayor had with the mayors of the Ruapehu and New Plymouth districts in 2001 in which he outlined his concerns about the viability of Waitomo District and the implications for his own district. Apparently the Otorohanga Mayor thought there was a very real risk that the circumstances of the Waitomo District were such that a forced amalgamation was a possibility. These discussions were apparently intended to explore with those other two local authorities an alternative possibility of Waitomo being parcelled up amongst the three districts based on recognised communities of interest (as an illustration, the Mokau and Awakino areas in the south of the Waitomo District look to the urban area of New Plymouth for the provision of services because of its size and proximity).

There is a suggestion these discussions resulted in one of the parties informing the Mayor of Waitomo District that the Mayor of Otorohanga had raised the possibility of disestablishing the Waitomo District through a reorganisation approach which would see parts of it being merged with the three surrounding districts, prompting a pre-emptive strike.

And alternative suggestion from a Waitomo informant is that the then Mayor of Waitomo District "uncovered a 'plot' (in his view) being hatched between the Waitomo Village community and the Otorohanga District Council - the concept of the secession from Waitomo being the essence, because they were of the opinion that Waitomo District Council had neglected them."

Whatever the truth of the matter, the fact is that a special council meeting of the Waitomo District Council was called for a Friday afternoon at which the Mayor put a resolution to pursue amalgamation with Otorohanga. No prior notification had been given to Otorohanga. The first that Council became aware of the motion was when its chief executive picked up a voicemail message from the media seeking his views on the resolution which was to be put in a couple of hours time.

In response to the Waitomo initiative, and after a preliminary consultation, the Local Government Commission came to the view that it was unable to reach a decision on the basis of information from that consultation and so decided to proceed with a review of the two districts.

It is a matter of record that the review process was somewhat acrimonious. As well as the impact of the way in which the proposal had been initiated, the Otorohanga District Council was also concerned that the experts engaged by the Commission to undertake a financial study of the likely costs and benefits were biased in favour of amalgamation. The Commission in its statement of Findings and Decisions notes the concerns expressed by the Otorohanga District Council, describes what it did to investigate those, and states that it is satisfied the experts had produced a robust report and that there was no basis to the assertions made by the Otorohanga District Council.

The Commission also observes that "at times since the initiation of the proposal, the relationship between the two councils has become strained. In the view of the Commission, the increasingly entrenched position of the Otorohanga District Council contributed to the failure of both councils to jointly develop a business case on the proposal to an advanced

stage, despite their various assurances to the Commission that the work would be progressed." The Otorohanga District Council disputes this view and states that, as soon as the proposal was on the table, they focused on it.

Rightly or wrongly, that Council believes the then Commission was predisposed to amalgamation and that this influenced the Commission's approach. The Otorohanga District Council was sceptical about the findings of the financial review, believing that the expected costs were understated and the expected savings overstated (a view which gains some support from the experience of similar undertakings reported in the literature review). It also disagreed with the Commission's view that there was a strong community of interest between Waitomo and Otorohanga arguing that, in practice, Otorohanga was more oriented towards Waipa/Hamilton, especially given the district's involvement with dairying.

The Otorohanga view has clearly been that although in very superficial terms the two councils were in apparently similar circumstances with low and declining populations, relatively high rates and significant debt, the differences between them were actually fundamental. Otorohanga argues that it has consistently taken a fiscally prudent approach but that it has also been very responsive to community demands, especially for investment in roading (65% of the district's roading network is sealed). As the current mayor expressed it, "Otorohanga had made the hard calls for investment in infrastructure and Waitomo had not." Otorohanga was also concerned that, even if the projected savings eventuated, there was a risk that rates would rise in Otorohanga and fall in Waitomo because of relative property values and that it would be impossible to put in place any effective long-term ring fencing.

To be implemented, the Commission's proposal had to be adopted by majority vote of the electors of each of the two districts. A postal ballot took place late in April 2004. 47% of eligible voters in Waitomo voted with 1702 supporting the proposal and 1133 voting against. In Otorohanga 64% of eligible voters took part with 441 voting in favour and 3071 voting against the proposal - 87% of those who voted.

With hindsight, it does seem that the prospects of a voluntary amalgamation of the two districts taking place was always in the wishful thinking category. In a sense, it was the wrong solution for a question which is still waiting for an answer; how best to deal with the circumstances of a small Council which is clearly having very real difficulty in coping. It begs the question of whether the better response may have been to consider measures falling short of amalgamation. This could have enabled the clear weaknesses confronting Waitomo to be addressed without getting caught up with the always controversial and in this case almost certainly inappropriate option of merging two local authorities.

The difficulty for the Commission is that the options available to it are more concerned with the geographic or constitutional reorganisation of local authorities. Under the present Local Government Act 2002 it may consider reorganisation proposals which are concerned with:

- The alteration of a boundary or the transfer of a responsibility.
- The constitution of a new district or region.
- The abolition of a district or region and its inclusion in one or more adjoining districts or regions, or the union of district or regions.
- A territorial authority becoming a unitary authority.

Traditionally, these powers have been seen as adequate (subject to the consent of electors) to deal with the difficulties facing a local authority which may lack the capacity and/or capability to deliver on the range of responsibilities it has. The limited scope presents at least

two problems which may be very difficult to resolve without changing or extending the powers which the Commission has or finding some other means of putting in place alternative solutions. The problems are:

- The obvious value which communities place on local identity, including limiting their liability for services to others. Clearly, there is a strong tendency for electors to resist change unless the incentives for change are overwhelming (as in the case of the Banks Peninsula proposal). Certainly, inviting electors to take on what are presented as the problems of a neighbouring authority must be seen as heroic at best.
- Amalgamation is a single solution applied to a diverse range of challenges. In the case of a small territorial authority facing problems of capability and/or capacity the challenges could include a relatively limited funding base, lack of qualified staff or external contractors, weak governance, underinvestment in infrastructure, deferred maintenance, inability to achieve economies of scale - and services which will achieve these at different levels.

This points to a need for a more sophisticated and supportive intervention process that can directly address underlying causes and find solutions which are more than just one of "passing the parcel" to another party, the major concern which underlay the Otorohanga district council's opposition - not every council facing difficulty has the good fortune, as Banks Peninsula did, to be the next-door neighbour of a major authority which can absorb it, and its difficulties, with scarcely a hiccup.

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## 5. Policy Implications

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The policy implications arising from this project are presented in two parts. The first draws on the findings of the literature review and the second on the findings from the case studies.

### From The Literature

An extensive review of the experience of local government amalgamation, whether sector wide as with recent New Zealand, English, Australian State and Canadian provincial experience, or focused on individual authorities as with Halifax, is at best equivocal on the proposition that amalgamation will produce benefits in terms of reduced costs and/or improved services.

The reasons include the normally unanticipated but common impacts of factors such as alignment of salary scales, incompatibility of systems or the need to upscale, staff morale, and the disturbance associated with major organisational change.

Of particular importance for the current debate in New Zealand is what the literature has to say about economies of scale as a rationale for local government amalgamation. In general, the research argues that larger local authorities tend to be less efficient than medium-sized or smaller authorities. More importantly, although achieving economies of scale matters, they do not provide a rationale for local government amalgamation.

Economies of scale are a function of individual services and, depending on the service, optimal scale will be reached at a street, neighbourhood, community, district or regional level. From this it follows that the better approach to realising economies of scale is to address the organisational arrangements involved service by service. As part of this local authorities should distinguish between their role as service enablers - determining the nature and quality of services which should be delivered to their communities - and that of the provider. This latter role should be undertaken by the entity or entities best placed to do so on a least cost basis in relation to the nature of the service and the accountabilities involved with it (this should not be seen as an argument for privatisation, although the private sector does have a role to play - internationally, it seems that most arrangements for contracting out, joint venturing etc, are within the public sector often as collaborative arrangements amongst two or more local authorities).

The related question of local government structure and the extent to which different scale better enables democratic choice is a complex one. The Tiebout argument that choice could operate as a mechanism to ensure that expenditures on local public goods approximate to the optimal level - that the consumer-voter may be viewed as picking that community which best satisfies his preference pattern for public goods - has had a strong following but on balance is not supported by research.

The original concept was that consumer-voters, when considering where to locate, would choose amongst competing locations on the basis of their preferred tax/public goods package. Necessarily, for this process to be effective, there need to be a number of competing local authorities. In other words, the ideal conditions for the Tiebout thesis to hold require a large number of relatively small local authorities.

The United States approximates this situation, especially because of the relative ease with which new municipalities can be created. Research evidence suggests that the major considerations driving choice have been class and race rather than tax/service differences -

in essence, people choosing localities with relatively homogenous populations. One important consequence is to undermine the redistributive role of local government.

Evidence from other jurisdictions, including England, suggests that the Tiebout effect, if it exists, is very limited. The residential relocation literature, which looks at the reasons people move, finds that local government rates and services, with the possible exception of education, play a minimal role.

Finally, a further reason why the so-called Tiebout effect appears to be of limited practical implication outside relatively limited circumstances in the United States is that the conditions for it to operate necessarily assume that the non-local government attributes of competing locations are broadly similar.

The principal lesson for New Zealand which can be drawn from debate over the Tiebout effect is the consequence if there is a tendency for people, when given the choice, to select locations where the tax/public goods package operates on the principle of "we pay for what we get and we get what we pay for". This principle may be Pareto optimal but clearly negates any concept of redistribution, including investment in public good activities such as social and economic development. It may also run contrary to the statutory duty which New Zealand local authorities now have to promote community well-being.

Another theme which will become increasingly important in considering the structure of local government is the nature of community identity and the difference between an effective community and an affective community. The majority of the literature which focuses on the nature of community is concerned with social interaction and with the enormous complexities involved in understanding what constitutes community. There is much less of a focus on the relationship between community identity and economic interaction (although some of the work on social capital does recognise this). Nor has there been a sufficient focus on the relationship between efficiency, and strong financial and other accountability, on the one hand and local democracy on the other - does too much of one undermine the potential for the other?

Changing understandings of the role and nature of local government, including the new statutory duty for New Zealand local authorities to promote community well-being, suggest that questions of structure need to be looked at not only in terms of efficiency but also in terms of what is consistent with enabling strong communities in ways which in turn feed through to improved social and economic outcomes.

What is encouraging, in terms of local government service delivery, is the wealth of evidence on the role which collaboration/coordination plays internationally. Whether it is the deep market in local government services which now characterises much of the United States, the differing voluntary but statutorily supported arrangements for regional cooperation which have emerged in some Canadian provinces, especially British Columbia, or the regional organisations of councils in Australia, there is clearly a growing international experience of working collaboratively. The motivation may be a means of achieving economies of scale in services which are a natural part of an individual authority's mandate. As with the Greater Vancouver Regional District it may be a means of dealing with regionally significant cross-boundary issues.

This practical experience complements the research findings on economies of scale in local government services to support the argument that, rather than amalgamation, the first best option for improving efficiency is to revisit the best means of cost-effective delivery service by service and put in place whatever arrangements, collaborative or otherwise, will best achieve that.

What the literature review has also confirmed is that attitudes to the role of local government (local governance) internationally are going through a process of major change. The conventional idea that the principal function of local government is the delivery of (or enabling access to) a range of local public goods and services is being replaced by a new concept in part reflecting the impact of globalisation and demographic change. The locality/region is now seen as a crucial element in economic and social development. Central governments may develop frameworks, provide incentives, and negotiate international agreements, but it is at the local/regional level that the crucial leadership will be provided, the critical networks established, and the comparative and competitive advantages of economies developed.

This change of focus has one of its most obvious manifestations in what is currently happening in England. Late last year the then Minister signalled an intention to embark on another round of local government restructuring. A few months later he was starting to resile from this noting that he had recently learnt that the scale of the typical local authority in England was in the order of 10 times larger than in comparable jurisdictions. He acknowledged implicitly the implications of this for effective local democracy.

In July of this year his successor, in speaking to the annual conference of the Local Government Association, explicitly disavowed any interest in further restructuring. Instead, her interest is in the new agenda of "double devolution" - devolution from central government to local government and from local government to its communities.

In May of this year Sir Michael Lyons delivered his second interim report. This report emphasises the crucial role of local government in place shaping, implicitly putting local government at the centre of economic and social development. The fact that the United Kingdom government is clearly preparing to respond positively (and in the nature of the Lyons Inquiry had almost certainly given its blessing to his views before his report was published) represents a very significant shift in understandings of the role of local government.

The implications for New Zealand are very considerable. There has been a tendency here to follow developments in English local government practice - for example the adoption of the statutory role to promote community well-being followed, by two years, a similar initiative in the United Kingdom.

Perhaps more importantly, the emphasis being placed in the United Kingdom on the place shaping role of local government reflects a research-based judgment that this is now a crucial element in building the economic competitiveness not just of localities but of the country as a whole.

The New Zealand government itself appears to have picked up on this understanding with its recently announced proposals for refreshing regional economic development strategy. There appears to be a clear acceptance that this must be built on the capability of regions, again emphasising the importance of local/regional governance.

But the issue goes well beyond question of the role of regions. Sir Michael Lyons' emphasis on place shaping represents a shift in understanding of the core business of local government. There is a fundamental difference between the efficient delivery of a range of discrete services, and the creation of quality spaces which garner the kind of commitment that has people prepared to collaborate together in seeking an improvement in the outcomes they value.

Our understandings of the nature of this process are still very partial as can be seen from the material reviewed by Chisholm and Dench. What is clear is the importance of gaining a better understanding of the processes which underpin affective communities, including

issues of scale, and the relationship between identity and performance not just in social terms (the traditional focus) but also in economic terms.

The emphasis on efficiency in much of recent local government research (especially that relating to the so-called Tiebout effect), and in the statutory requirements dealing with local government reorganisation may have drawn attention away from the importance of "softer" issues such as community identity and the importance of strong affective communities in achieving economic and social development. Indeed, a case can be made, or at least a credible hypothesis developed, that the past 20 years or so with their strong focus on efficiency in the delivery of local government services have distracted attention from the equally important role of local democracy. Currently, it is typical to conflate local democracy with accountability for performance both in financial and efficiency terms. The newly emerging understanding of local government as a critical component in place shaping, in improving economic performance at a regional/local level and in facilitating the achievement of community outcomes all point to a renewed emphasis on the importance of local democracy as a means of building affective communities - communities that attract support, including strong networks, because of the commitment which their residents have to them. This has important implications for the current accountability and funding frameworks for local government. If there is substance to the view that affective communities are an important element in realising what we are now seeking to achieve, then we need to shift our requirements of local government accountability arrangements. Financial accountability will remain important but there is a need for an overarching approach to accountability which facilitates the building of strong community bonds, and a sense of 'ownership' on the part of the different interests within the community of local government as a genuine expression of local democracy.

Finally, the material considered in the literature review will have implications for the emerging debate on the role and structure of the Auckland metropolitan area. First, it directs attention to whether amalgamation is the optimal means of achieving economies of scale, and efficiency gains in the delivery of services.

Secondly the literature review suggests that a measure of care should be taken in formulating the question or questions which should be asked in the Auckland context. The major concerns which have surfaced in public discussion focus on the difficulty of achieving agreement (action) on matters which are essentially regional in their impact including transport and the economic development of the Auckland region.

Amalgamation or restructuring of Auckland's major territorial authorities (and perhaps of the regional council as well) would necessarily be concerned with a much wider range of issues including services which impact very much at a local or community level. Experience suggests that it is at this level that the public are likeliest to engage when matters of amalgamation are under discussion.

Brisbane has been cited as a potential model for the future Auckland. It certainly presents as a major territorial authority coping with challenges not unlike those facing the Auckland metropolitan region. What it does not provide is evidence of the costs and benefits of merging a number of local authorities in today's economic, employment, technological and political environments.

The Greater London Authority provides another model, one based on separating out what are the inherently regional or metropolitan functions from those which are more local in their impact. The model also highlights the importance of regional leadership, and supports the argument that election of the regional leader, and giving that person significant although accountable power, may be a necessary (although possibly not sufficient) condition for creating effective regional strategies.

In a New Zealand context, giving an elected mayor executive powers might be seen as crossing the boundary between our preferred separation of governance from management. This comment highlights that a policy of elected Mayors for regional bodies raises two separate issues. The first is the mandate and profile which a publicly elected leader would have as compared with a chairman appointed by his or her colleagues. The second is the extent of the powers which should be vested in such a position. The English experience suggests that the shift to an elected role can fundamentally alter the status of the position and thus its influence.

It would be presumptuous for this exercise in drawing out the policy implications of the literature review to lead to a conclusion that any one particular model was optimal for Auckland. That clearly requires in-depth assessment in the context of what actually happens on the ground in Auckland, and of the different interests which need to be managed or reconciled.

However, what can be said with a measure of confidence is that the findings of the literature review suggest that any "rush to judgment" in favour of amalgamation as an answer to Auckland's problems may be unwise. Instead, what is required is a careful identification of the issues which Auckland needs to address, and the best means of addressing those, following as the literature review would suggest a "least change" approach. Most significantly, the literature review strongly supports an approach which would identify those activities which are genuinely regional in their impact and separate them out from those which have their impact more at a district or community level.

### **From the Case Studies**

The case studies reveal a wide range of collaborative activity, often ad hoc, but increasingly strategic and based on long-term relationships. All the participants clearly expect the level of collaborative activity to increase for reasons including the need to ensure capability in an increasingly complex regulatory and service delivery environment, and the cost pressures on local government.

All identify barriers which need to be overcome, including negative attitudes both within managements and amongst elected members. Some of these are clearly based on personal concerns that change may be a threat to their own position. Some may be based on sheer lack of understanding, especially on the part of elected members who may lack significant strategic and governance experience. Some clearly reflects deep-seated and long held suspicions of the motivation of other local authorities.

On the positive side, despite the barriers, the level of activity continues to grow. Councils clearly recognise that in a resource constrained world, they need to find the best and most efficient ways of providing the services which their residents and ratepayers require.

There are clearly some specific measures which would enhance the development of collaboration. They include:

- An effective means of sharing knowledge and experience - a form of clearinghouse and perhaps strategic development function akin to the English Improvement and Development Agency.
- Benchmarking the cost of local government services. One barrier to collaboration is often the inability of managements to demonstrate the real cost of their own activity, and of alternative means of delivering the same service.

- Better promotion of the case for and potential of collaboration. This may include educational initiatives targeted explicitly to elected members.

Another important finding from the case studies is the way in which some larger authorities are approaching the issue of regional level activity. Both New Plymouth District Council and Wellington City Council are prepared to invest in activities which have significant spillovers across the region without requiring an equivalent contribution from other authorities. In each case, the Council is clearly making a judgment that the issue on which they should focus is the benefits for their own district, rather than the unfunded spillovers benefiting the residents of adjoining districts. In part this reflects a changing understanding of the nature of "benefits". In both regions there is a growing recognition that the prosperity of the node city is increasingly dependent on the prosperity of the region as a whole so that initiatives which may initially look like a cost to the node city with benefits to the wider region, are actually a benefit to the node city because of the way that regional prosperity flows through to it.

The Wellington case study highlights another significant issue. This is the relative lack of coordination between regional land transport planning and land use planning. As was made clear in discussions of the Wellington Regional Strategy, there is a very real potential, if Transmission Gully proceeds, to encourage what would amount to destructive competition in retail services. Although the problem is potentially a serious one, there may also be a readily available solution. Following a recent amendment to the Resource Management Act, district plans are now required "to give effect to" the provisions of Regional Policy Statements. Collaboration between Greater Wellington and the territorial authorities should enable the preparation of a Regional Policy Statement which could ensure that the land use consequences of regional land transport planning decisions are appropriately dealt with.

The fifth case study looked at post-1989 experience with amalgamation. There are two principal lessons which can be drawn from this experience. The first is the overemphasis which analysis of amalgamation proposals places on matters such as efficiency, cost reduction, removal of duplication (one Mayor, chief executive etc in place of two and a reduction in the number of elected members is a commonly cited benefit) and increased capability and/or scale. Leaving aside the question of whether these benefits will actually arise (which the research reviewed in the literature review component of the study suggests is at best hard to establish), the under emphasis on local democracy and the importance that people attach to place has been a persistent feature of the assessment of amalgamation proposals in recent years.

This is increasingly inappropriate. The statutory role of promoting community well-being is very obviously an endorsement of local democracy. It is probably time that the role of the Local Government Commission was revisited to ensure a more even assessment of local government's two complementary roles. It also seems sensible to consider whether the options which are available to the Commission should be so concentrated on geographical or constitutional restructuring rather than on different service delivery options.

The second lesson is the obvious importance which New Zealanders attach to place. The defeats of the initial attempt to merge Banks Peninsula with Christchurch City and of the proposed mergers of Waitomo and Otorohanga district councils and Napier City and Hastings District were each clearly influenced by a reluctance of electors to give up their existing identity.

Perhaps the best evidence of attachment to place actually comes from the poll of Banks Peninsula electors which endorsed the merger with Christchurch. Despite overwhelming evidence of the financial benefits which would flow from the merger, some 40% of those who voted were opposed.

It is common to refer to the parochialism of people who oppose mergers. It may be time to change the rhetoric and recognise that attachment to place can be an extremely positive force, especially in an age in which drawing on the energy of the region/locality is now seen as a crucial factor in economic and social development.

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## APPENDIX 1: British Columbia's Regional Districts

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The following extract outlining some of the key characteristics of regional districts is taken from "A Primer on Regional Districts in British Columbia", a publication of the Ministry of Community Services ([http://www.mcaaws.gov.bc.ca/lgd/pol\\_research/rdprimer.html#1](http://www.mcaaws.gov.bc.ca/lgd/pol_research/rdprimer.html#1)):

*Voluntary.* Regional districts are for the most part voluntary organizations that are self-organizing, in effect "writing their own tickets". That is, they only provide the services that their members or their residents agree they should provide. In the early years, the only functions mandated in provincial statute were the following:

- general government for the region as a whole and especially for rural areas;
- regional planning, subsequently removed in 1983;
- long term capital financing for municipal members and for the regional district itself through the Municipal Finance Authority pursuant to the *Municipal Finance Authority Act*;
- hospital capital financing pursuant to the *Hospital Districts Act*, and
- land use planning in rural areas although the level of planning effort varied considerably between regional districts.

However, the benefits of the regional district framework have been increasingly recognized and other responsibilities have been added through provincial statute: solid waste management planning pursuant to the *Waste Management Act*, and liquid waste management planning pursuant to the *Waste Management Act*.

The voluntary aspect of regional districts can be challenging in terms of so called "free-rider" problems: people being able to consume services without paying the full costs. However, the primary means of inducing people who are not paying the full costs is to have a system of differential user fees: those areas which are not contributing to the service in terms of property taxes pay higher user fees.

*Consensual.* Regional districts are for the most part consensual organizations. They rely on "borrowed power", that is they only do what their municipal members and the public agree they should do. This is quite different than relying on "statutory authority" or "direct power". It means getting things done by forging agreements and partnerships. Accordingly, extensive procedures are set out in the *Municipal Act* for obtaining consent of the member municipalities and, in the case of rural areas, elector assent, whether in the form of referendum, petition or counter-petition. Regional districts that bristle at the lack of direct power in comparison to municipalities are missing the point that regional districts are consensual creatures *by design*.

*Flexible.* Regional districts have a high degree of flexibility to choose which services they wish to provide and at what scale. As a consequence, every regional district has a different menu of services. The same legislation governs the Central Coast Regional District with 3,900 people and the Greater Vancouver Regional District which has 1.8 million people. Each regional district provides services appropriate to its circumstances. The Central Coast Regional District is essentially a rural government providing local services like planning, fire protection and water supply and distribution. In contrast, the

Greater Vancouver Regional District is a regional government which provides regional services like water supply, sewerage disposal and air quality management. As well, services are delivered at a variety of scales within the boundaries of the regional district. The service area can be a single municipality or electoral area, a grouping of municipalities and electoral areas or a part of a municipality or electoral area. Services are even provided across regional districts. For example, the Greater Vancouver Regional District provides regional parks services to part of the neighboring Fraser Valley Regional District. Similarly, the Fraser Valley Regional District provides sewerage treatment services for the City of Sumas in Washington State.

*Fiscal equivalence.* The legislation for regional districts requires a close matching between the benefits and costs of services. The intent is that residents "pay for what they get". In practice, this can mean that each service that is delivered by the regional district has a cost recovery formula. To this end, the legislation provides a wide range of cost recovery tools including taxes, charges and fees and the flexibility to vary these. As well, it requires that each service be separately accounted for in the budget and accounts of the regional district.

*Soft Boundaries.* Closely related to the principles of flexibility and fiscal equivalence is soft boundaries or custom geography. Every service provided by regional districts has a defined service area, or a custom boundary which, to the maximum extent possible, attempts to match the cost recovery with the beneficiaries of the service. Whereas "hard boundaries" are boundaries that dominate the delivery of a jurisdiction's service portfolio, in a "soft boundary" system it is the natural scope of the service delivery that dominates boundary setting.

For example, in the case of the Greater Vancouver Regional District, most services are provided to the entire regional district. However, in the case of water supply and sewerage disposal services, the costs are recovered only from the members receiving the service.

In fact, regional district boundaries are so soft that, indeed, there are many examples of services that extend beyond the boundary of the regional district encompassing other regional districts, other provinces and even other countries.