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Amalgamation and Financial Sustainability: Evidence from Sydney

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Amalgamation and Financial Sustainability

- All Australian local government systems have undergone forced amalgamation, except WA.
- WA: merger process in Perth.
- NSW: Sydney merger program
- QLD: several de-amalgamations under way.
- NT: 'de-centralisation' proposed.



Amalgamation and Financial Sustainability

- Among OECD countries, Australia has the fourth largest local authorities (at 40,118 residents per council).
- UK has largest councils (143,000), followed by Denmark (55,500) and New Zealand (49,000).
- France has smallest councils (1,500 persons) with Switzerland (2,500) slightly larger.



Amalgamation and Financial Sustainability

- Amalgamation advocates contend ‘bigger is better’, ‘bigger is cheaper’, and ‘bigger means better services’.
- Recent shift away from ‘cost saving’, ‘scale economies’ claims to ‘fiscal viability’ and ‘enhanced capacity’ claims.
- But what of the empirical evidence?



Amalgamation: No Path to Real Reform

Official Inquiries

- Numerous state and national inquiries.
- All find amalgamation has not met expectations + costs of amalgamation badly under-estimated.
- PWC (2006) found (then) amalgamated SA, TAS, VIC & NSW and non-merged QLD & WA had no differences in financial viability.



Amalgamation and Financial Sustainability

Academic Literature

- Big literature, especially in US, but also Australia, mostly case studies.
- Almost unanimous mergers don't meet claims.
- *Councils in Cooperation* (2012) summarises the evidence in detail.
- PFM (2013) *Special Edition* focused on mergers and financial sustainability.



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New Australian Empirical Evidence

- We considered financial sustainability and council size for Sydney using TCorp financial ratios.
- Found no relationship between council size and council financial sustainability.
- Thus, amalgamation of Sydney councils will not improve financial sustainability.



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Specific Proposed Sydney Amalgamations

- Considered proposed Manly, Pittwater + Warringah merger.
- Found no relationship between population size and costs (i.e., **no** economies of scale).
- Thus, cost-savings will not be realised as a consequence of a merger.



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Specific Proposed Sydney Amalgamations

- Considered proposed Manley, Pittwater + Warringah merger using TCorp ratio analysis.
- No improvement in financial ratios post-merger.
- Thus, no financial sustainability case for forced merger.