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Counting the cost: An analysis of the post-merger performance of the Clarence Valley Council in New South Wales

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A B S T R A C T

The merged Clarence Valley Council (CVC) in northern New South Wales (NSW) was proclaimed in February 2004 as part of the broader forced municipal amalgamation program by the New South Wales (NSW) Government. Architects of the compulsory consolidation of numerous NSW councils in 2004, including the CVC, contended that larger merged councils would exhibit superior performance, especially in financial terms. In many respects, the CVC represented the 'jewel in the crown' of the 2003/04 NSW merger program given its iconic environmental circumstances. Unfortunately, comparatively little scholarly effort has been expended on examining the outcomes of compulsory council amalgamations of specific municipalities after considerable time has passed, in large part due to the thorny methodological difficulties involved. This paper seeks to remedy this gap in the empirical literature by developing a new methodological approach to the problem and using it to evaluate the financial performance of the CVC a decade after its forced merger as an illustrative case study.

1. Introduction

Compulsory council consolidation represents the most controversial and draconian kind of local government reform (Lago-Penas and Martinez-Vazquez, 2013). However, notwithstanding the division and rancour invariably surrounding forced amalgamation, all Australian state and territory governments have deployed municipal mergers as an instrument of local government reform, with the sole exception of Western Australia (Dollery et al., 2012). However, Australian local government policy makers are far from alone in their heavy reliance on forced amalgamation, with Belgium (De Peuter et al., 2011), Denmark (Hansen, 2015), Japan (Koike, 2010), New Zealand (Dollery, 2006) and many other countries also imposing compulsory consolidation on local authorities.

A common pattern evident in the use of municipal mergers evident almost everywhere is the marked reluctance of policy makers to examine *ex post* the outcomes of forced amalgamation against proclaimed *ex ante* expectations (Lago-Penas and Martinez-Vazquez, 2013). This is at least partly as a consequence of the fact that the *ex post* evaluation of a given municipal merger is fraught with methodological difficulties, especially when a significant period of time has passed since the forced amalgamation. This paper presents a new methodological approach to the problem of assessing the financial performance of a specific municipal merger a considerable time after the merger has occurred. It illustrates how this approach should be

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implemented by analysing the performance of the Clarence Valley Council (CVC) in northern New South Wales (NSW) which was controversially compulsorily consolidated in 2004.

The Clarence Valley Local Government Area (LGA) is located between the Richmond Valley, Coffs Harbour and Bellingen local authorities on the mid-north coast of NSW, some 600 km north of Sydney and about 325 km south of Brisbane. The CVC came into being on 25 February 2004 as a direct consequence of the forced amalgamation of the general-purpose Copmanhurst, Grafton, Maclean, and Pristine Waters local authorities, together with the North Coast Water. As at the 2011 census, the CVC had 49,665 local residents and a total area of 10,441 square km, with a population density of 4.76 persons per square km. The CVC provides municipal services to residents in more than forty settlements in the Clarence Valley (Tiley, 2010a, b, unpublished, 2015)

The remainder of the paper is divided into five main parts. Section two provides a synoptic account of the empirical literature in public administration on municipal mergers. The third section briefly describes the process through which the CVC came into being. The fourth section examines two of the common claims made regarding the benefits of amalgamation: (a) that mergers result in enhanced financial sustainability and (b) that mergers generate lower property taxes (known as 'rates' in Australia). The paper ends with a review of the public policy implications arising from the analysis.

2. The empirical analysis of municipal mergers

While a substantial empirical literature has examined on the impact of municipal mergers (for recent surveys, see for example, Baldersheim and Rose, 2010 and Lago-Penas and Martinez-Vazquez, 2013), most scholarly effort has focused on American local government (see, for instance, Leland and Thurmaier, 2006; Leland and Thurmaier, 2010; Faulk and Hicks, 2011; and Faulk and Grassmueck, 2012; for surveys of the empirical literature on US consolidation outcomes). Most American evidence indicates that municipal mergers have not met expectations, especially in terms of their economic and financial results. For example, Feiock (2004) found that mergers led to increased outlays, Leland and Thurmaier (2010) considered nine merged and comparable unmerged local authorities and established that efficiency gains were largely absent, and Martin and Schiff (2011) could find little evidence of enhanced post-amalgamation performance. A caveat should be added on the applicability of American empirical evidence to Australian local government. While similarities exist between the local government systems in the two countries, it should be noted that most American studies focus on city–county mergers not municipal mergers *per se*, with some exceptions, such as Gaffney and Marlowe (2014), unlike Australian mergers.

These pessimistic findings are reflective of empirical work on municipal mergers in other countries. For example, researchers considered council mergers in France, Germany, Italy and Spain and they all concluded that council consolidation had not achieved its intended outcomes (Dollery and Robotti, 2008). Similarly, in Canadian local government, Reese (2004) found that personnel remuneration levels increased after amalgamation, with a net increase in overall council expenditure and Vojnovic (2000) established that aggregate outlays increased in three of the five local council mergers he examined. Finally, in a Special Edition of *Local Government Studies* on European amalgamation, contributors drew similar conclusions on mergers in Eastern Europe, Denmark, Germany, Greece, Macedonia, Belgium and the Netherlands.

An emergent empirical literature on municipal mergers in Australia has examined the consequences of amalgamation on council performance (see, for instance, Dollery et al., 2012 for a survey of Australian empirical work). With few exceptions, the Australian literature is pessimistic of municipal mergers as a method of enhancing local government performance. Australian empirical studies fall into two broad strands. In the first place, until recently, most investigators focused solely on the descriptive analysis of case studies, such as the Australian Centre for Excellence in Local Government (ACELG) (2011) *Consolidation in Local Government* report. However, with some exceptions, like Drew and Dollery (2015a), De Souza et al. (2015) and Tiley (2015), given the rudimentary character of much of this work and its lack of quantitative sophistication, it did not offer useful insights into the impact of forced amalgamation.

Secondly, a new strand of the Australian literature has concentrated on econometric analysis using state-wide datasets to empirically investigate the impact of mergers on municipal performance. Work of this kind includes Bell et al. (2016) and Drew and Dollery (2014a, b, 2016), Drew et al. (2012, 2016a, b, c), as well as Marques et al. (2015).

The present paper seeks to contribute to the former strand of the Australian empirical literature by applying quantitative analysis to the CVC to empirically investigate the outcomes of the 2004 CVC forced merger. In particular, the analysis focuses on the financial performance of the CVC a decade after its amalgamation.

3. The 2003/04 New South Wales compulsory council consolidation program

The 2003/04 NSW forced amalgamation program reduced the number of local government entities in NSW from 172 to 152. It was initiated by a sudden and unexpected policy reversal by the (then) Carr Government of its longstanding policy of voluntary local government amalgamation in the immediate aftermath of the March 2003 NSW election campaign. As a consequence, the (then) NSW Minister for Local Government Tony Kelly set in motion a broad-ranging review of local government boundaries in NSW, including those in the Clarence Valley.

The rationale offered by the NSW Government for municipal mergers in NSW rested primarily on fiscal considerations. For instance, in a letter to all NSW councils, Minister Kelly (2003: 1, 2) observed that 'expenditure on asset maintenance is not keeping pace with the rate of deterioration' and the 'gap between the estimated cost of essential maintenance of infrastructure and the current expenditure is $205 million', adding that in 2001/02 '116 councils spent more than they