

Improving regional governance – is bigger better?

Philip Barry

The Institute of Directors and Local Government New Zealand signed recently a partnership agreement aimed at raising the quality of governance in local government.

The first challenges for this partnership are to raise the quality of argument and to see evidence used when discussing options for improving Council performance.

A hot topic in regional governance is whether the objectives of local government will be fostered by amalgamations: ie, whether “bigger is likely to be better” when it comes to local authorities? Following the establishment of a “supercity” in Auckland, proposals for local government amalgamations are being considered in many parts of the country, with applications for restructuring governance arrangements and boundaries in the Far North, Hawkes Bay, Wairarapa and Wellington regions lodged with the Local Government Commission.

This article considers what we know about the best size and structure of local government and what really matters when it comes to raising performance in local government.

Sir Peter Gluckman, the government’s chief science adviser, recently reminded us of the importance of evidence rather than gut instinct when it comes to addressing public policy questions. As Sir Peter noted, “If you don’t use evidence properly in policy formulation, you’re less likely to make the best choice.”¹

Unfortunately, much of debate around local government amalgamation in New Zealand seems to be driven by rhetoric and gut instinct rather than by evidence and objective analysis of the available evidence. This is disappointing as there have been a wealth of studies done internationally on the pros and cons of local government amalgamations.

TDB recently reviewed the evidence on the optimal size of local government.² What we found was for very small councils – those with less than around 50,000 residents – there were likely to be efficiencies gained from amalgamating with neighbouring councils. But for larger councils, whether there were likely to be benefits from amalgamation depended very much on what function of local government we are talking about.³

¹ <http://www.pmcsa.org.nz/wp-content/uploads/The-role-of-evidence-in-policy-formation-and-implementation-report.pdf>

² <http://www.tdb.co.nz/documents/reports/050813-TDB-assessing-regional-governance-options.pdf>

³ Statistic New Zealand publishes financial data across sixteen different functions for the 70 odd territorial authorities for each the last five years so there is a wealth of data available for empirical analysis.

In the case of complex, capital-intensive network functions like roading, public transport and water services there are economies of scale and so average costs tend to fall as scale increases. The same effect, however, was not evident for the more labour-intensive services that local governments do. And these labour intensive services - like dog control, noise control, the provision of recreation and sport services - make up about two thirds of council expenditure. For the labour-intensive services we found that councils would be better off devoting their efforts to moving towards best management and operational practice rather than increasing the population they serve.

In summary, our analysis supported that old adage: when it comes to organisational design, form should follow function, not vice versa.

The New Zealand Productivity Commission reached a similar conclusion in its recent report on regulatory decision-making in local authorities.⁴ The Commission found that the size of the local authority did not seem to be a factor in the extent councils followed adequate regulatory decision-making processes. Rather, leadership, culture and organisational management are the key driving factors determining best practice in local governance.

There is a vast amount of international research also on the topic of local government amalgamation. This literature is by no means conclusive on an “optimal size for local government.” It certainly does not support a simple relationship that bigger is better when it comes to local government.

That one size doesn't fit all is likely to be true in a geographical sense as well as a functional sense. The desired level of service, type of services, ratepayer appetite for debt and investment, local needs, geography, resident demographics and local land use are all going to differ throughout the country. The best solution for Taranaki may not be the same as the best solution for Canterbury; the best approach in Auckland may not be equally suitable for Wellington.

The creation of Auckland Council provides a useful case study, although it's still too early to tell whether the benefits of reorganisation will outweigh the costs of change. Perhaps the most objective assessment to date comes from the Auckland University of Technology, which rated the merger a 'B'. It noted that while the super city is functioning well in many areas, rates have increased significantly and council employee costs have continued to increase.⁵

http://www.stats.govt.nz/browse_for_stats/government_finance/local_government/LocalAuthorityFinancialStatistics_HOTPyJun12.aspx

⁴ <http://www.productivity.govt.nz/sites/default/files/towards-better-local-regulation.pdf>

⁵ http://www.supercityproject.aut.ac.nz/_data/assets/pdf_file/0020/401483/Report_final.pdf

The Auckland situation was unique. It is by far the largest city in the country. Amalgamation was a reasonable choice given the growth of the urban area, the significant overlap between jurisdictions, and the uncooperative nature of the inter-council relationships.

This does not mean amalgamation throughout the country is the best option. Councils, the communities they serve and their preferences, are varied.

One other thing struck us from looking at the international evidence: when compared to most other western countries, New Zealand is already highly centralised, both in terms of the size of the population per local council and the percentage of total government expenditure that comes from central government.

So what does this mean for our local councils? What are our options? Perhaps we should take the best bits of the Auckland experience and look to make some savings where the evidence suggests they can be found. In terms of local government amalgamation, this would suggest we should focus on amalgamating particular service areas such as land transport and water services where amalgamation is likely to deliver the biggest savings rather than necessarily seeking to amalgamate councils as a whole.

For everything else, it doesn't seem to matter too much how big our council is, it's a matter of doing the job well - good internal practices are the key to cost savings, not the scale of operations.

Overall, amalgamation is a costly and disruptive process and it shouldn't be jumped at unless it's a good answer to a real problem. There are a few specific areas where amalgamation of local services makes sense to enable effective regional coordination or to take advantage of material cost-savings. Beyond this, unsupported claims of potential cost-savings are not a good enough reason to incur the costs of legal advice, rebranding, redundancy and recruitment, systems integration, rates redistribution and the general upheaval and disruption that come along with large-scale change. And we mustn't forget that local democratic decision-making - the first purpose of local government - is likely to suffer if governance becomes increasingly centralised.

Some well intentioned leaders have given their support for amalgamation. The challenge for members of the Institute is to be objective and rely on a dispassionate assessment of the evidence when considering options for raising the quality of governance over our nation's institutions.

Article published in "The Boardroom", Institute of Directors, November 2013.