

Issues Report No. 9: The Economic Impacts of Local Government Amalgamations

June 2015

Background

There has been a long-running debate about the financial sustainability of all Australian Local Governments and the role they play in our three-tiered structure of Federalism. Currently, the issue is being played out in NSW via the 'Fit for the Future' process, which is asking all NSW LGAs to prove their financial sustainability and consider means of becoming 'financially fit for the future'.

Amalgamating Councils is one of the options being discussed to improve financial sustainability. Amalgamations are contentious and there has been considerable research and commentary on the issue for more than a decade.

Arguments against Council Amalgamations:

- Previous amalgamations did not achieve the cost-savings which had been forecasted;
- Economies of scale are unlikely to apply uniformly to all Council services, even within the same Council so 'bigger is not always better';
- Efficiency gains may not flow from amalgamations;
- Quality and reliability of outsourced Council work may be poor;
- New diseconomies of scale can emerge if the organisation becomes too large and complex – these costs may outweigh the intended economies of scale;
- Purchasing services from commercial firms (contracting out) or via other organisations (e.g. forming Joint Organisations of Councils) may be a better method of achieving economies of scale than amalgamations;
- Public scrutiny of Council operations may be more difficult to achieve with a larger Council;
- Amalgamation reduces the vibrancy of local democracy and stifles the concept of subsidiarity; and
- Population size is not a good predictor of service delivery or cost of service provision, so larger does not automatically mean better service at a lower cost.

Arguments for Council Amalgamations:

- The ability to achieve improved efficiencies and lower costs through economies of scale (e.g. having more roads to maintain in a larger Council area may allow the per unit cost of road repairs to fall – higher volume leads to lower per unit cost);
- The ability to improve efficiencies through economies of scope (e.g. sharing centralised functions such as administration or finance reduces its overall cost in the range of services a Council provides);
- Voluntary amalgamations may have different results to forced amalgamations;

- Larger Councils can attract higher quality staff;
- The financial performance and service delivery of many Councils is regarded as poor by some, with large infrastructure backlogs a particular problem. Amalgamated Councils may have access to better equipment and skills to deal with backlogs;
- Fewer Councils would reduce the consultation burden on NSW Government departments;
- Fewer Councils would improve the opportunity for consistency in State policy; and
- Larger, financially strong Councils staffed by quality professionals are more likely to command a seat at the policy table in a world where the States have a higher level of control.

This paper summarises some economic impact indicators for the 13 Local Government Areas in the Northern Inland region.

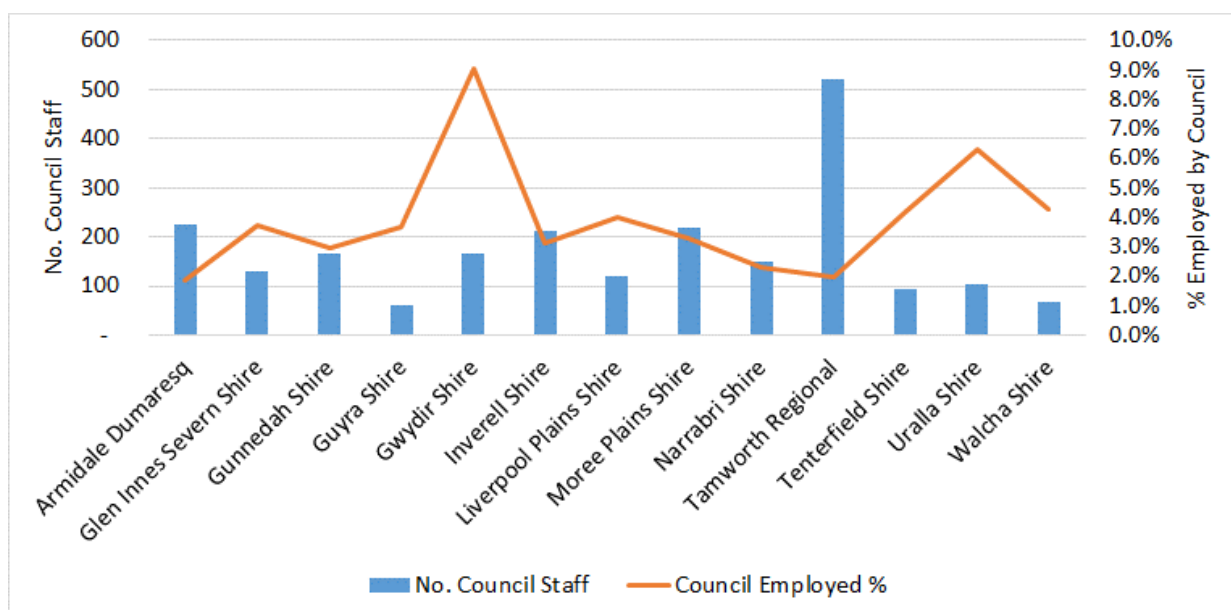
Economic Impacts

A commonly raised concern about Local Government amalgamations is the negative local economic impacts that may result. In some Local Government Areas, Councils are a large or even the largest employer within the LGA. Amalgamations which reduce local jobs and capital expenditure may have negative impacts on the local economy. The following sections outline several key local government employment and expenditure variables for the 13 LGAs in our region.

Council Employment

Figure 1 illustrates the number of staff employed by our 13 LGAs and the percentage of total jobs in the region that they provide.

Figure 1. Employment Levels in Local Government



Sources: Council Financial Statements 2013-14, .id Economic Indicators

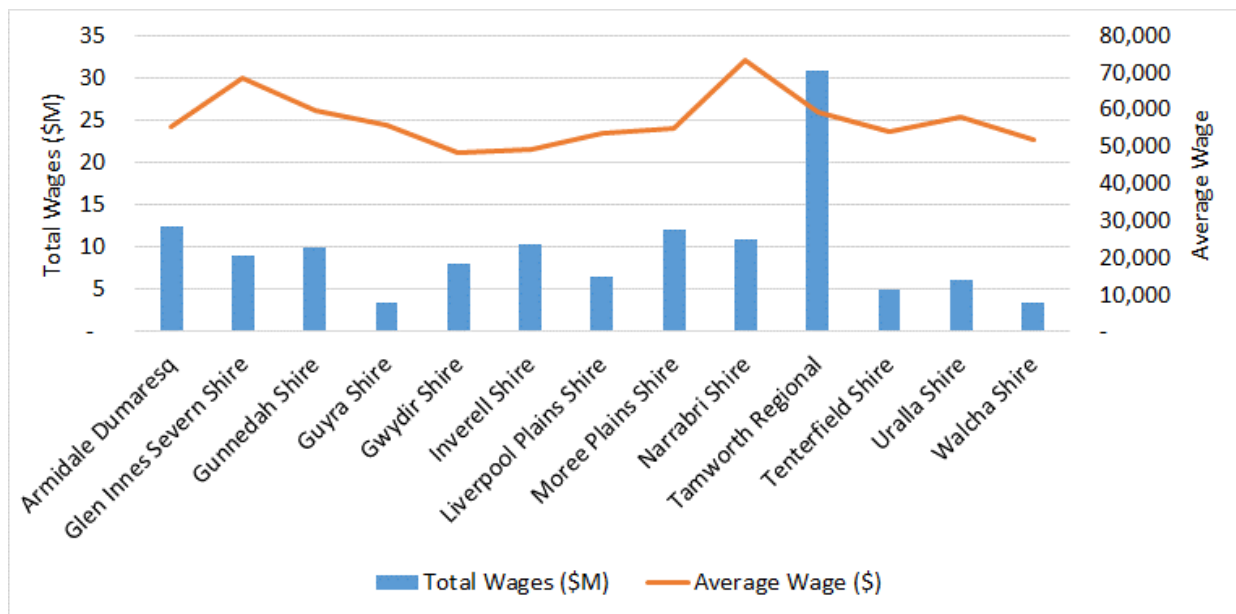
In some LGAs such as Gwydir and Uralla, Local Government employment represent a significant proportion of total jobs in the LGA at 9.1% and 6.3% respectively. For the LGAs with larger cities (Tamworth and Armidale Dumaresq), Council employment plays a lesser role with 2.0% and 1.9% respectively employed.

The Councils in our region collectively generated 2,232 full-time equivalent jobs in 2013-14, which represented **2.8% of all the region's jobs**.

Council Wage Expenditures

Figure 2 illustrates expenditure by each Council on wages and the average wage per Council. As would be expected, there are large variations in the total wage bill depending on the size of Council and number of employees, but also large variations in the average cost of Council employees as measured by the average wage, with Narrabri and Glen Innes Severn Councils standing out in this regard with higher average wages.

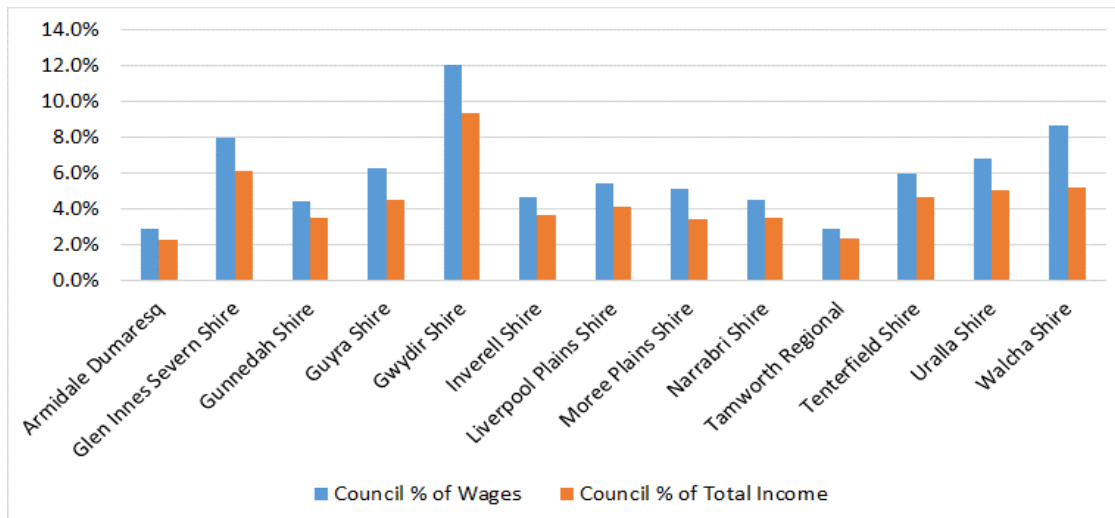
Figure 2. Wages in Local Government 2014



Source: Council Financial Statements 2013-14

Figure 3 shows the wages earned by Council staff as a percentage of **all wages** earned in the LGA, and as a percentage of **all income** earned (this includes wages, business income, investment income and superannuation income). For some Councils (e.g. Gwydir, Glen Innes Severn, Walcha, Uralla), income earned from residents working at their local Council is a large percentage of both total wages and total income earned. Again, this reinforces the importance of Council employment in some smaller LGAs as a contributor to the local economy.

Figure 3. Wages in Local Government 2014



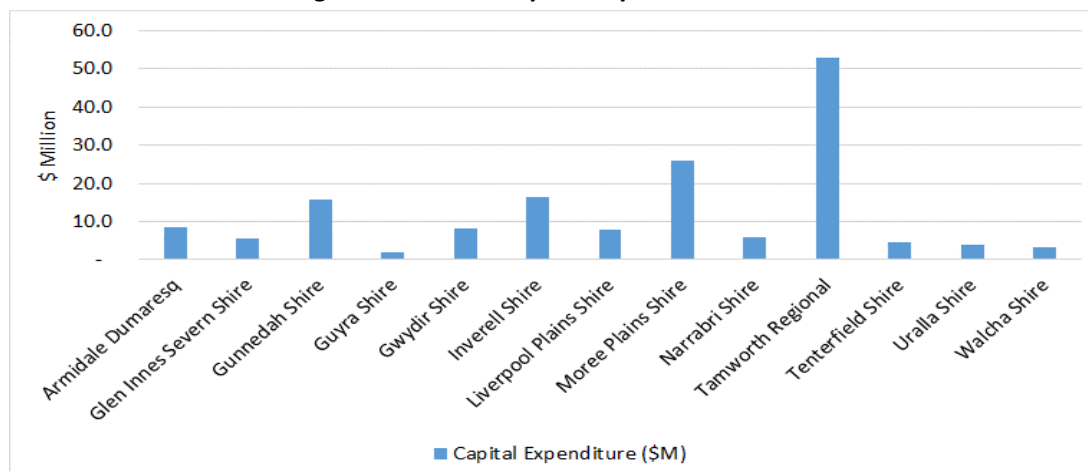
Source: Council Financial Statements 2013-14, ABS Data By Region 2011 Census

The Councils in our region collectively paid \$128M of wages in 2013-14, which represented **4.3% of all regional wages** and **3.3% of all regional income**.

Council Capital Expenditures

Figure 4 shows reported capital expenditure for each Council in the 2013-14 financial year. Although Council financial statements do not indicate where this expenditure is made, it is likely that at least some capital items are purchased through local suppliers and therefore support local economic activity. As shown later in Table 1, capital expenditure by local government can be used to estimate the flow-on (or multiplier) effects of this expenditure on other sectors of the LGA's economy.

Figure 4. Council Capital Expenditures 2014



(Source: Council Financial Statements 2013-14)

Multiplier Effects

Economic multipliers show the ratio of flow-on effects from changes in economic activity as a proportion of the initial economic change. Type II multipliers represent the total impact of an economic change and are measured as:

Type II multiplier = [initial impact + production induced impact + consumption induced impact]/[initial impact]

- **Initial impact** is the economic change (e.g. a new investment of \$1m = a positive impact, or the loss of 50 jobs = a negative impact, in a sector of the economy);
- **Production induced impacts** are the flow-on effect from extra or reduced business inputs as a result of the initial impact (e.g. a new building project buys construction materials from local hardware stores, or the loss of a Council means less sales to local suppliers);
- **Consumption induced impacts** are the flow-on effects from extra wages and business income being spent or not spent in the local economy (e.g. a new building project creates new construction jobs and those extra wages are spent in a local grocery store. Or loss of Council jobs means less wages spent in the local store).

Using multipliers produced by the AURIN/University of Adelaide EIAT tool for the Public Administration Sector (the sector most closely resembling Local Government), the following economic impact estimates can be produced for our 13 Local Government Areas (see Table 1):

Table 1. Local Government Economic Impacts per \$1M of Local Government Capital Spend

Council	Direct Impact on GRP* (\$M)	Extra (Flow-on) Impact on GRP (\$M)	Total GRP impact (\$M)**	Direct Impact on Jobs (FTE)	Extra (Flow-on) Impact on Jobs (FTE)	Total Job Impact (FTE)
Armidale Dumaresq	0.56	0.5	1.06	6.0	3.9	9.9
Glen Innes Severn	0.56	0.4	0.96	6.0	4.0	10.0
Gunnedah Shire	0.56	0.5	1.06	6.0	4.3	10.3
Guyra Shire	0.56	0.3	0.86	6.0	2.3	8.3
Gwydir Shire	0.56	0.2	0.76	6.0	2.3	8.3
Inverell Shire	0.56	0.6	1.16	6.0	4.5	10.5
Liverpool Plains Shire	0.56	0.3	0.86	6.0	2.9	8.9
Moree Plains Shire	0.56	0.5	1.06	6.0	3.9	9.9
Narrabri Shire	0.56	0.5	1.06	6.0	4.0	10.0
Tamworth Regional	0.56	0.8	1.36	6.0	5.9	11.9
Tenterfield Shire	0.56	0.4	0.96	6.0	4.0	10.0
Uralla Shire	0.56	0.4	0.96	6.0	3.2	9.2
Walcha Shire	0.56	0.2	0.76	6.0	2.2	8.2
Average	0.56	0.43	0.99	6.0	3.7	9.7

* Gross Regional Product is an approximation of value added. It is the value of sales and services, after accounting for the cost of intermediate inputs, taxes and subsidies. It is an approximation of the return to capital and labour.

** The multipliers assume that the change in expenditure occurs within the LGA. Where the capital expenditure occurs outside the region, the GRP and employment changes would occur in other LGAs.

Source: AURIN Portal accessed 28/5/15

Table 1 shows the impacts on Gross Regional Product (GRP) and Full Time Employment (FTE) which result from an additional \$1M of capital expenditure by Local Government.

For example, if Armidale Dumaresq Council spends \$1M on capital works, that will generate \$1.06M of GRP (\$0.56M in local government and \$0.5M in other sectors of the economy) and 9.9 jobs (6 in local government and 3.9 in other sectors of the economy) in the economy. Those impacts will occur entirely within the Armidale Dumaresq economy if the entire \$1M is spent within the Armidale Dumaresq LGA.

The reverse is also true. If Council amalgamations were to remove \$1M of capital expenditure from the LGA, there would be losses in GRP and employment at the levels set out in Table 1.

Impact of a 10% Reduction in Council Capital Expenditure (Scenario)

In 2013-14, the 13 Councils collectively spent \$160M on capital works. Based on the estimates in Table 1, if Council amalgamations were to result in a **10% reduction in capital expenditure across all 13 Councils (i.e. a \$16M reduction), GRP would fall by \$15.8M and employment would fall by 155 FTEs.**

Impact of a 10% Reduction in Council Employment (Scenario)

In 2013-14, the 13 Councils collectively employed 2,232 staff. Based on the ratio of direct to indirect jobs (0.61 indirect jobs for every direct Council job as implied by Table 1) if Council amalgamations were to result in a **10% reduction in employment across all 13 Councils (i.e. a loss of 223 jobs), another 137 jobs could be lost elsewhere in the economy.**

What Are the Implications for Council Amalgamations?

1. Accurate economic impacts are difficult to gauge as the results in Table 1 relate to a \$1M change in capital expenditure by Councils. To what extent amalgamations would remove capital expenditure from the region is unclear. It is also important to estimate how much capital is spent inside versus outside the region by Councils, and this is likely to change depending on the project.
2. If all expenditure occurred inside one of our 13 LGAs, on average every \$1M of capital spent on Council projects has the potential to produce up to \$0.99M of additional GRP and 9.7 jobs in the local economy.
3. The flip side is that removing \$1M of Council capital expenditure would, on average, reduce GRP by \$0.99M and jobs by 9.7 FTEs. These figures represent the total (initial + flow-on) effects of removing \$1M of Council capital expenditure.

4. **A 10% reduction in current capital expenditures across all Councils would reduce regional GRP by \$15.8M and 155 jobs would be lost (assuming the expenditure reduction occurs within the region).**
5. For some smaller LGAs, amalgamations which result in loss of Council jobs could mean a significant increase in local unemployment unless those employees can find other jobs within the LGA. Some may move to employment elsewhere;
6. Where employees leave the LGA, this can have knock-on effects via families – children leaving local schools, partners also moving away, loss of community memberships, reduced viability of other services etc.

Sources

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