

(雑型) 博士学位論文内容の要旨

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【論文の内容の要旨】

Financial Sustainability and Local Government Reform

SUMMARY

As a result of the increased financial pressure facing local governments internationally stemming from the 2008 subprime mortgage crisis and more recent COVID-19 pandemic, the issue of local government financial sustainability has become paramount. A local government can be considered financially sustainable if it can conduct its operations in such a way that it meets the needs of the present generation without compromising the ability of future generations to meet their own needs. This thesis aims to address one of the key problems which have confronted policymakers on an international scale – namely, how can reform be used to improve the financial sustainability of local governments.

To achieve this, it is first important to identify the determinants of financial sustainability, so that policymakers can identify areas to target through reform. Following this, the processes and outcomes of previous reform programs should be identified and evaluated. This is necessary to determine if previous policy instruments have been able to effectively achieve their intended purpose, or if challenges were encountered that reduced efficacy. Finally, the viability of alternative reform programs must also be evaluated to determine if they represent a more efficacious, less expensive, or less disruptive solution. By applying this four-step framework, this thesis was able to generate important public policy implications which may be used to guide public policymaking and aid the improvement of future reform programs targeting financial sustainability.

The thesis in its entirety comprises of ten individual chapters and an appendix, with the body of the thesis containing the seven key econometric analyses conducted. Whilst each analysis may be appreciated in isolation, together they form a coherent suite of works. Chapter 1 introduces concept of financial sustainability and the context of local government reform in Australia, with a thorough discussion of the prior literature and empirical methodology in Chapter 2.

Following this, Chapter 3 addresses the first step of the framework through an examination of the external determinants of financial sustainability. This was achieved through an estimation of the association between the type of mayoral system employed (direct or indirect election) and unit expenditure in the Australian state of New South Wales (NSW). The results indicate a statistically significant and materially higher level of unit expenditure for local governments with directly elected mayors. While this may bring considerable benefits to residents, it may also pose a threat to financial sustainability if the additional expenditure is not funded through increased revenue.

This is extended in Chapter 4 through an examination of the impact of an internal factor on financial sustainability, namely internal budgeting processes. Econometric modelling of the association between budget inaccuracy and expenditure per property assessment identified that for every 1% increase in expenditure inaccuracy, *ceteris paribus*, unit expenditure rose by 0.61% on average. Supplementary investigation revealed that factors beyond local government control were primarily responsible for the deviations from budget estimates, in particular the receipt of unexpected intergovernmental grants and additional work mandated by higher government entities.

Chapters 5, 6 and 7 address the second and third stages of the framework, through an examination of the processes and outcomes arising from the 2008 Queensland local government amalgamations, and the more recent 2016 NSW Fit For the Future amalgamation reforms. An examination of the technical efficiency scores of amalgamated and non-amalgamated local governments in Chapter 5 identified the inability of the Queensland amalgamations to generate material improvements in efficiency. Rather it appears that the reforms resulted in a further deterioration in the efficiency of the affected local governments. Supplementary Analysis of Variance (ANOVA) testing revealed that this can be mostly attributed to a failure to realize staff and capital expenditure reductions following the reforms.

This was supported in Chapter 6 which similarly identified an inability for the NSW amalgamation program to improve the financial performance of the affected local governments. Difference-in-difference analysis results indicated an increase in total operating expenditure of approximately 11.2% following the reforms (increasing to 17% when controls for urbanity were included), hindering the ability of these local governments to become sustainable. This was further supported by comparable results obtained through synthetic control modelling techniques. A closer examination of the processes of the reforms suggests that an inability to realise savings resulting from the rationalisation of staff numbers (and hence staff expenditure levels) was primarily responsible for the outcome, although expected savings in materials and contracts expenses, and back-office functions (other expenditures) similarly did not materialise. A further examination of the foundations underpinning the process of amalgamation, conducted in Chapter 7, helped to shed light on the suitability of behavioural economics theory – in particular the relationship between key local government targets and the instruments available to achieve them – for explaining the unsuccessful outcomes observed. The Chapter provided a useful means not only for understanding the reform outcomes, but also in predicting the likely impact of future reforms on financial sustainability.

Finally, Chapters 8 and 9 were selected to address the fourth step of the framework through an examination of the viability of alternative reform instruments. Given the overwhelming focus on amalgamation in the earlier Chapters, alternatives to

amalgamation were considered. In Chapter 8, the impact of shared service arrangements on technical efficiency levels was scrutinised, whilst in Chapter 9 the association between central audit arrangements and financial reporting practices via the level of unexpected depreciation expenses was examined. Results in Chapter 8 indicate that shared service arrangements do not appear to be a viable alternative to amalgamation, given their statistical association with lower technical efficiency levels, and hence sustainability. Conversely, as Chapter 9 details, central auditing may indeed be an effective method for improving financial management practices, given its significant association with reduced unexpected depreciation expenses. However, it must be noted that this was only achieved through a significant increase in audit expenses, potentially hindering its usefulness as a policy instrument.

As a result of these analyses, a number of important public policy implications were identified in Chapter 10, which may be used by policymakers to increase the effectiveness of future reform programs. The first of these is the importance of empirically examining any preconceived notions about financial sustainability before being used as a basis for decision making. The second is the need for decision-makers to give greater consideration to the internal determinants of financial sustainability, given the significant associations identified. The third relates to the need for greater financial discipline in the implementation of local government reform to support the achievement of successful outcomes. The final implication arising from the research is the need to consider non-conventional methods of local government reform to target sustainability improvements, given the lack of success associated with conventional amalgamation programs. Through the research contained within this thesis it may be possible for future reform programs to be designed in such a way as to ensure that local government can continue to operate in a financially sustainable manner.