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Shared services in Australian local government

BRIAN DOLLERY and BLIGH GRANT, of the University of New England's Centre for Local Government, analyse the case for local government shared services, including what shared service models may suit Australian councils.

A longstanding feature of the Australian debate on local government reform has been the relative neglect of shared service models as compared to other methods of achieving the same outcomes, most notably structural reform and amalgamation.

In formal terms, shared service arrangements in Australian local government refer to two or more local authorities providing services in a given state jurisdiction and cooperation between all or some local councils.

In general, shared services in local government fall into one of three types: (a) horizontal shared service models, which typically involve between two or more local councils to fully-fledged area integration models. While these shared service arrangements can take a multitude of different forms, with widely varied governance models and different patterns of ownership, they all have in common that the shared services, shared resources, shared equipment and shared facilities involved are fully owned by the member councils. Thus, "coordinated production" takes place in such arrangements. Moreover, Allan identified numerous back office and front office activities suitable for sharing between two or more local councils.

(b) Centralised decision-making. For instance, the health inspection department of two adjoining councils cooperate on the type of services most amenable to sharing between two or more local councils.

(c) "Private contracting", "franchising", "vouchering" and the like do not meet the definition of shared services since they involve contractual arrangements not only outside of local government, but also outside of the entire public sector. This means that they possess additional economic and political attributes to simply shared services aimed at reaping the advantages of scale. For instance, unlike local councils, private contractors seek to maximise profits from contractual relationships with councils. This gives them strong incentives to reduce costs wherever possible.

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In practice, this typically results in lower service quality, less responsiveness to the public, and fewer workers delivering a given service.

Given the difficulties involved in monitoring complex local government services, this usually means contracting councils are not able to retain control over service provision.

For these and other reasons, contractual arrangements with private firms cannot be normally regarded as shared service models.

An important question concerns the characteristics of local goods and services that lend themselves to a shared service model.

The NSW LGI (2006) identified the characteristics of services suitable for a shared service arrangement as follows: "low core capability" of councils; "high supplier availability"; "low task complexity"; "substantial scale economies"; "specialised technology"; and "low asset specificity".

We now briefly consider each of these elements in turn:

**Low core capability**: Core capability refers to the "steering" and not "rowing" capabilities of the council and includes "community consultation, policy planning, general governance, service monitoring, regulating private activity and funding public purposes" and not the actual "production and delivery of services" (Allan, 2001: 89).

It is commonly argued that without core capability local councils cannot adequately discharge their statutory responsibilities.

Even where core capability is seen to a shared service arena, this still carries the danger that in the event of the unforeseen performance, or even collapse, of a shared service arrangement with other like-minded councils, a given council will be able to evaluate the problem, extricate itself and continue functioning.

Accordingly, core capabilities should only be relinquished with extreme care.

It follows that low core capabilities should be shared first.

**High supplier availability**: Allan (2001: 40) considered "supplier availability" as a criterion for deciding on whether or not to outsource a specific local council function and concluded that the "competitiveness of the tender" represented the crucial issue.

Teacher competitions are taken to mean that there are a large number of potential contractors with the experience, skills and equipment to meet the specific needs of the council.

If these attributes are not present, as we may expect in many regional, rural and remote areas, then outsourcing was unlikely to succeed.

However, a shared service arrangement may still be possible through either resource sharing or the establishment of a joint shared service centres, provided the requisite "experience, skills and equipment" could be found.

**Low task complexity**: The question of task complexity is also an important consideration for either outsourcing or shared service arrangements.

Allan (2001: 40) argued that "complex tasks are difficult to monitor, hard to measure for inputs and require unique expertise to monitor" and are therefore unsuitable to outsourcing.

However, since it is precisely these attributes that make complex tasks comparatively expensive to perform, task complexity in itself should not rule out shared service arrangements.

**Substantial scale economies**: Allan (2001: 40) contends that scale economies are typically associated with "specialised products and services that are mass produced and highly standardised".

Byrne and Delliery (2000) have demonstrated that the existence or otherwise of significant scale economies is difficult to establish and evidence on the matter is mixed for Australian local government.

However, as we have seen, Allan has identified several back office and front office activities that promise substantial scale economies and thus represent good candidates for shared service models.

**Specialised technology**: Information technology represents a quintessential and ubiquitous type of specialised applied technology in local government.

The costs involved in acquiring IT hardware and software and subsequently maintaining, upgrading and operating this equipment are substantial.

Since capital costs are high, IT thus constitutes perhaps the best example of a service suited to shared service arrangements.

Nevertheless, when sharing IT functions, public entities need to ensure that they are not, in fact, contracting out these functions to a specialist provider.

**Low asset specificity**: Allan has argued that "a service requires an expensive and specific asset it may be more cost effective for the council to provide the asset than require a contractor to invest in something that may outlive its contractual life". However, for short term reasons, shared service models may be suitable.

Allan has drawn the following conclusion to his analysis of shared service models:

In the context of local government there is no reason why most core community services (e.g. road maintenance, garbage collection, town planning, recreation facilities, and welfare relief services), in addition to backroom support services (e.g. finance, IT, HR) could not be delivered or arranged by a central administration unit owned and controlled by several councils.

However, Allan added two caveats to this general conclusion: (a) individuals councils must negotiate performance agreements with a shared service centre that stipulate specific rights and obligations, and (b) a shared service centre must be governed by a board of directors representing each of the participating councils.

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