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Process Change versus Structural Change: An Analysis of the Lake Macquarie City Council Internal Review Process

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Abstract: Australian local government policy makers have traditionally placed great emphasis on forced 'top-down' council amalgamation as the main engine of local government reform to the exclusion of other approaches. Drawing on the distinction between structural reform and process reform in local government, this paper examines the Service Review process conducted by the Lake Macquarie City Council over the period 2008 to 2010 as a case study of 'bottom-up' internal reform. While the Australian literature on amalgamation has spawned a very useful line of inquiry which has focused on alternative structural models to council mergers, in common with amalgamation, most of these alternative models represent different forms of structural change. By contrast, through its analysis of the Lake Macquarie City Council Service Review as a quintessential example of process reform, this paper represents a tentative first step at establishing a parallel Australian literature on models and case studies of internally-driven process of reform.

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Introduction

In common with its counterparts in many other developed countries, Australian local government has experienced ongoing reform for the past two decades (see, for instance, Dollery, Garcea and LeSage, 2008). In general, three main policy instruments have been deployed in this reform process. Firstly, state governments have sought to improve the operating efficiency of local authorities by modernizing their Local Government Acts to give local councils more flexibility to adapt to changing circumstances. Secondly, and in stark contrast to the expansion of local council autonomy under these new Local Government Acts, state governments have simultaneously sought to tighten control over local authorities by means of prescriptive legislation and hypothecated grants which have restricted local discretion in local service composition, quality and quantity. Finally, and most importantly, almost all state governments have relied heavily on compulsory amalgamation to improve local government efficiency, especially in regional, rural and remote areas.

If we consider the conceptual and empirical literature on local government amalgamation, the heavy emphasis on amalgamation by Australian local government policy makers is perplexing (see, for example, Dollery, Crase and Johnson, 2006). In particular, the literature is decidedly dubious on council consolidation as a means of improving operational efficiency. This has led some leading scholars of local government, such as Andrew Sancton (2000: 83), to dismiss the efficacy of amalgamation on the grounds that 'the efficient delivery of municipal services does not require large municipalities'. Along similar lines, Allan (2003: 80) has observed that in Australia 'at the administrative level the efficiency and effectiveness of a local council is not a function of size' and 'all the empirical evidence suggests that bigger is not better when it comes to local government'. Analogous arguments have been advanced by Allan (2001), Bish (2000), Boyne (1998), Byrnes and Dollery (2005), Dollery (1997), Dollery (2003), Dollery and Crase (2004), Jones (1989), Katsuyama (2003), May (2003), Oakerson (1999), Vince (1997), and Witherby, Dollery, Marshall and Auster (1999), and many other writers.

If council amalgamation is as flawed as this literature suggests, then how should local government policy makers tackle the problem? One way is to invoke the distinction drawn by Dollery and Crase (2006) between structural change and process change as methods of improving the operational efficiency and financial sustainability of local government entities. Dollery and Crase (2006: 453) have observed that whereas 'structural change involves a reorganisation of the machinery of local government', by contrast 'process change refers to modification in the methods employed by municipalities'. Put differently, while structural change involves modifying the number, size and type of local councils in any given jurisdiction, process change implies transformation in the methods used by local authorities.

Process change possesses at least two advantages over structural change in the form of compulsory council consolidation (Dollery and Crase, 2006). In the first place, it is not inevitably a 'top-down' externally imposed method of transforming the operation of a local council. Indeed, well-designed process change should incorporate the 'bottom-up' collaboration of council employees in the re-invigoration of the workings of a local authority. Since successful transformation depends heavily on accurate knowledge of the operation of a local council, in which council staff have a decided comparative advantage over external state government policy makers, as well as the enthusiastic cooperation of employees, it is obvious process change can have significant strengths.

Secondly, process change offers cost advantages in comparison with structural change. It is typically difficult to measure the long-term consequences of either structural change or process change in complex organizations, like local councils, which provide a wide range of services. This is further complicated by the fact that local government is not a for-profit entity, but rather a 'service organisation', which inevitably involves trades-offs between the economic attributes of least-cost service provision and the consultative representative decision-making processes required by local democracy. Nonetheless, there can be little doubt that the costs involved in structural change are typically far greater than those associated with process change. The costs of amalgamation typically include 'the direct financial costs of reorganization (including the costs

of consultants' reports, departmental submissions, redundancy pay, redeployment and retraining, etc.), the costs of disruption to the ongoing business of government, and the social and psychological costs (including the stresses and strains caused by extra work pressures, job insecurity, the loss of morale, redundancy, etc.)' (Boston, Martin, Pallot and Walsh, 1996: 88). Moreover, in small regional, rural and remote councils, additional indirect costs of consolidation often involve powerful negative economic and social multipliers which reduce the economic and social sustainability of small communities to the point where they can no longer survive.

These factors suggest that confronted by a choice between structural or process solutions to the question of improving the operational efficiency of local government, where the eventual outcome is not only difficult to determine *ex ante*, but also problematical to measure *ex post*, policy makers should avoid structural change unless there are compelling reasons to the contrary. Moreover, structural change is almost impossible to reverse whereas process change found to be defective is comparatively easy and cheap to undo.

Despite strong *a priori* arguments in favour of process change, as we have seen, Australian local government policy makers have continued to rely heavily on compulsory council consolidation as the main weapon in their arsenal of local government reform policy measures. Not unsurprisingly, this bias has been reflected in the literature on contemporary Australian local government, which has focused on externally imposed structural reform to the exclusion of internally-generated process reform. This paper seeks to remedy this neglect by considering a recent extraordinarily comprehensive internal review undertaken by the Lake Macquarie City Council (LMCC) over the period 2008 to 2010.

The contribution made by the present paper should thus be seen in the broader context of the Australian corpus of work on local government reform. In essence, the Australian literature on amalgamation has spawned a very useful line of inquiry which has focused on case studies of alternative structural models to council mergers. This applied body of knowledge includes Allan (2001; 2003), Dollery, Burns and Johnson (2005), Dollery and Johnson (2005; 2007), Dollery, Johnson, Marshall and Witherby (2004), Shires Association of

NSW (2004) and Thornton (1995). However, in common with amalgamation, all these alternative models represent different forms of structural change. The present paper represents a tentative first step at establishing a parallel applied literature on models and case studies of process reform.

The paper is divided into six main parts. Section 2 provides a synoptic description of the background to the Service Review as well as its basic structure. Section 3 provides a more detailed account of the different staff groups which have been responsible for core activities that have been fundamental to the Service Review, including workforce engagement, community engagement, management systems, financial management, and asset management. Section 4 considers the various steps undertaken in the Service Review as well as its approach to gathering service information and data. In order to capture the flavour of the review outcomes of 50 services, section 5 focuses on four examples of this process drawn from 'representative areas' of LMCC service provision: traditional 'services to property' as exemplified by the sealing of gravel roads; 'services to people' as epitomised by the LMCC Customer Service Centre (CSC); regulatory services as illustrated by building certification; and economic development as represented by tourism services. Section 6 examines that part of the Service Review which concentrated on revenue-raising through identifying opportunities for expanding existing business activities and undertaking new business activities. The paper ends in section 7 with a discussion of the lessons that can be drawn by policy makers and local councils alike from the Lake Macquarie Service Review experience.

2. Background to the Lake Macquarie City Council Review

In common with other local authorities across Australia, the LMCC faces difficult challenges. Not only has there been a significant transformation of local government service provision as local councils have moved beyond the traditional narrow emphasis on 'roads, rates and rubbish' towards broader objectives of promoting the cultural, economic, environmental, and social wellbeing of communities, but community expectations of local government have simultaneously increased. In addition, higher tiers of government have

devolved various functions to local government, often without adequate accompanying funding. The resultant financial pressures derived from providing a greater range of services at generally higher standards in the presence of substantial 'cost-shifting' have been compounded in New South Wales by 'rate-pegging' (Dollery, Byrnes and Crase, 2007; 2008).

Against this background, in October 2008 the LMCC launched its Service Review project as a major internal evaluation of its operations. Key objectives of the Service Review included:

- Assessing the financial sustainability of LMCC against various Australian measures of financial sustainability in local government;
- Identifying service levels and standards that best met the needs and expectations of the community;
- Being 'socially and environmentally responsible' in its service provision;
- Being perceived as 'a leading local government entity in achieving exceptional results and setting benchmarks in local government';
- Producing an efficient and effective organisation that is outcome driven;
- Maximising opportunities to increase revenue, including entrepreneurial activities;
- Exploring strategic partnerships, shared services and alliances with other councils, government bodies and private enterprise;
- Exploring a greater regional approach to service delivery, shared services and resources;
- Identifying 'opportunities to engage with other levels of government' to address unnecessary constraints, cost shifting, over-regulation, and a fairer distribution of funding; and
- Providing 'a foundation for continuous improvement beyond the timeframe of the Service Review'.

In essence, the approach adopted in the Service Review has been to ensure that it made maximum use of the 'internal' resources of the LMCC rather than relying on expensive consultants. The project has thus been managed 'in-house' by Council officers with the assistance of an External Reference Panel

comprised of three persons. This *modus operandi* has sought to minimise the overall cost of the Service Review while ensuring a balance between 'internal' and 'external' input. The External Reference Panel has provided independent guidance; its members researched reference material from international sources and assisted council staff with development of service review processes. The Panel has visited LMMC a number of times to assess progress at first hand; and it has provided additional advice on the review of individual services.

A further notable feature of the Service Review has been the use of 'staff groups', comprised of participants drawn from throughout the LMCC. More than 150 staff members have voluntarily participated in these groups in addition to their normal roles, with many other staff assisting the groups as 'subject experts' and 'key stakeholders'. Most members of each group were selected from areas outside the department that was being reviewed. This ensured independence and a fresh perspective. The extensive involvement of staff from all levels in the organisation has ensured that the Service Review has been a thoroughly 'bottom-up' exercise. In so doing it has spread 'acceptance' and 'ownership' of the Service Review process amongst employees.

In addition to the obvious informational and other benefits of this 'bottom-up' 'hands-on' methodology, it has enabled staff to 'step out' of their normal work environment and learn more about the operation of other areas of the organisation. This has meant that those workers involved have been able to work alongside staff from other departments and thereby appreciate the operation of LMCC in a more holistic way. This has also provided opportunities for staff to develop professionally, as well as gain 'team building' and 'leadership' skills. This in itself has proved a worthwhile outcome.

3. Staff Group Core Activities

Staff groups were assigned responsibilities for several core activities that traversed all services and were fundamental to the Service Review. In order to gain a clear picture of the approach adopted in the Service Review, it is useful

to provide a synoptic description of the activities of each of these core groups.

3.1 Workforce Engagement

The Workforce Engagement core group was responsible for internal communications and consultation for the Service Review. The Workforce Engagement group assisted with the recruitment of various staff group members from throughout the LMCC, communicating progress to staff and promoting an 'ideas competition'. As part of this exercise a campaign was run to encourage suggestions from staff on ways to improve not only service delivery, but also LMCC's financial circumstances. As a consequence, over five hundred suggestions were elicited. In addition, a number of small staff events were organised to recognise the significant contributions made by staff groups to the Service Review. Senior executives and departmental managers attended these events to thank the staff and acknowledge their efforts.

3.2 Community Engagement

The Community Engagement core group was responsible for facilitating external communications and consultation activities with the LMCC community. It prepared the community engagement strategy and supporting communication plan, as well as a 'toolkit' to assist work groups with the community engagement activities for each individual service review. The kit contained information on how to plan and deliver community engagement activities.

Under the aegis of Community Engagement, focus groups were formed to represent user groups and external stakeholders which have an interest in a specific service or constellation of services. These focus groups assisted the work groups in assessing options for modifying services, and providing technical or specific information.

In accordance with the Community Engagement Strategy, a Community Advisory Group (CAG) was established to participate in the review process and provide advice on the Service Review recommendations. The group was formed following the postage of 7,000 random invitations to the LMCC

community calling for expressions of interest. 28 members were selected across a broad cross-section of the community covering a range of ages, backgrounds and place of residence. An 'independent facilitator' was engaged to assist with management of the CAG.

Activities undertaken with the CAG included:

- A field trip through the LMCC area and the administration building to acquaint the CAG with LMCC services and assets;
- A number of induction and information sharing sessions to explain LMCC's extensive range of services, activities and key strategic documents;
- Participation in a strategic workshop to consider all services, the community's needs, and opportunities for cost savings and revenue generation;
- Ongoing participation in an online discussion forum regarding the individual service reviews and related matters; and
- Advice on a number of draft service review reports and recommendations for consideration by Work Groups in finalising recommendations.

3.3 Management Systems

In 2008, LMMC officers commenced a comprehensive review of the organisation's management systems in response to a number of organisational imperatives, including WorkCover's Self Insurance requirements. A fundamental aim of the exercise was to ensure the organisation's processes were outcome focused and the degree of 'red tape' minimised. This included the appointment of a consulting firm to provide an external assessment of the management system components, particularly those related to quality and environmental aspects. Key recommendations included:

- Expand the management systems to embrace health, safety, wellbeing, environment, quality and community outcomes;

- Designate suitable persons as ‘champions’ for environmental, quality, health, safety and community functions;
- Supported by the Sustainability Department, the environmental ‘champion’ should coordinate the management of environmental impacts of all LMCC operations;
- The quality ‘champion’ should coordinate a review of quality in priority areas of Council’s business, thereby ensuring that quality procedures are consistent with outcomes specified in strategic plans and budgets;
- Review the software for recording and reporting nonconformities, as a means of managing identified issues and opportunities for improvement.

These recommendations were taken up by the Management Systems core group, consisting of representatives from all four Council divisions. This group dealt with a revised management system framework, and reviewed a number of system modules, including strategic and business planning, communications and customer relations.

Within the revised framework the Director Corporate Services also initiated a new enterprise risk management system.

3.4 Financial Management

The Financial Management core group coordinated the organisation’s financial management functions with the Service Review. It achieved several outcomes, including satisfactorily defining financial sustainability and identifying core financial indicators. It also worked with Finance staff to develop a financial modelling tool to assist with managing Council’s financial position over the next ten years. This will enable staff to project the financial position based on a ‘business as usual’ situation, and compare this with various other possibilities. It will also be used for planning future works and services, as well as funding arrangements. The model will provide links to core financial indicators which can be projected into the future. This will enable different options to be explored to determine whether core indicators fall within the acceptable ranges necessary for long-term financial sustainability. The LMCC Finance and Administration department will use it for the preparation of future budgets. It will

also form part of an overall financial management strategy.

3.5 Asset Management

LMCC has had a dedicated Asset Management Department for some time. In conjunction with Council's financial strategy of cash-funding depreciation, the Asset Management Department has ensured that its assets are in better condition than many other comparable local government areas. However, many of the assets are coming to the end of their life and there is a considerable investment required to bring assets to satisfactory standards. The LMCC owns more than \$2 billion in assets; effective asset management is thus critical for ensuring long-term financial sustainability.

As a consequence, the Asset Management core group tackled asset management forecasting. Based on available information, the group determined target service (i.e. condition) levels for the different asset classes and broadly estimated the funds needed to maintain the assets at those levels for the next 10 years. A program was also established to progressively expand and improve on these initial forecasts including updating asset registers with current asset information and condition ratings.

In addition, the Director of Community Development Services also reviewed the capacity of the Asset Department structure to meet new accounting standards and the Integrated Planning and Reporting Framework. The teams formed under the new structure will be responsible for managing the asset classes (i.e. roads, drainage, buildings, traffic and transport, and parks and reserves) in a more complete manner, from initial planning through to reconstruction. Each team will conduct condition audits with a view to preparing asset management plans for each asset class, as well as preparing strategies and technical specifications for the provision of new infrastructure to be provided by Council, or by third parties, such as property developers.

4. Service Review Process

Staff groups were obliged to follow a detailed Staff Service Review Process. The process was developed 'in-house' with input from the External Reference Panel. The key steps in the process are listed below:

- Identify and categorise the service in question
- Identify community engagement requirements
- Prioritise services for review
- Establish a work group
- Establish Service Review template for recording information
- Hold 'icebreaker meetings' to introduce staff to the Review process
- Establish a Community Focus Group – if relevant
- Gather service information
- Identify and analyse options
- Identify implications for each option
- Prepare recommendations
- Prepare summary report
- Check Service Review documents
- Hold 'closeout meeting' with staff involved in the review
- Record comments from relevant directors and managers
- Refer to steering group for input
- Refer to CAG, if relevant
- Arrange final approvals and follow-up actions
- Communicate final decisions to staff and community representatives

A major component of each Service Review resides in gathering of service information and data. Some core informational requirements are common to all areas of activity, including:

- Minimum requirements: Are there legislative or contractual requirements relating to the service? Is it mandatory for Council to provide the service? Are there impediments to reducing or ceasing service provision?

- Outcomes: What does the service achieve or deliver for the LMCC community? What value do the customers gain from the service?
- Current levels of service: What are the levels of service provided in terms of quantity, quality, timeliness, reliability, responsiveness, accessibility, etc? For instance, how often is the service provided?
- Satisfaction with service: What is the level of satisfaction with the service and how important is the service to the users? What do community and customer surveys indicate?
- Service utilisation: Is the use of the service expanding or decreasing? Is it becoming more or less popular with the community?
- Resource usage: What are the main resources used in delivering the service? How many people are employed on the service? Are there any contractors or volunteers? What assets and infrastructure are associated with the service?
- Core service: Is the service under consideration a 'core business' for LMCC? Is it essential for community wellbeing? Is the service a response to a specific economic, social or environmental need or issue? If Council did not provide or fund the service, are there other ways to meet the community's needs?
- Best practice: Based on benchmarking with other organisations, what is best practice in relation to the service? What is happening Australia-wide and abroad in relation to the service?

In addition, various potential policy options for each service must be explored, including:

- Withdraw from providing the service or reduce the level of service;
- Share service provision or resources with other organisations, such as other councils, including increased use of Hunter Councils for a regional approach to service delivery and sharing of resources.

As a guide to work groups, services suitable for shared service provision should meet one or more of the following criteria: Require a high degree of expertise; are largely self-contained; can realise substantial economies of scale; are non-

strategic, low risk, rule-based services; embrace high volume transaction processing; require access to the latest technology; and involve collaboration with other facility owners, such as schools, TAFE, churches, etc. These criteria have deliberately adopted many of the shared service characteristics recommended in the scholarly literature (see, for instance, Dollery and Akimov, 2009).

In addition, work groups were also required to consider the following possibilities:

- Opportunities for shifting the costs of services onto other levels of government, such as charging public agencies for services provided by the LMMC;
- Using 'arms-length entities' to manage the service, including 'corporatising' parts of the LMCC's operations, establishing boards for managing community facilities, etc;
- Exploring new entrepreneurial ventures or other initiatives as a means of increasing income;
- Increasing revenue through making better use of Council's existing assets, such as selling property assets that are not 'earning their keep.'

Outsourcing services or activities to external providers, provided they can deliver the required level and standard of service at lower cost, taking into consideration Council's social responsibilities as a major employer. In practice, this implies services meeting the following criteria for outsourcing (Dollery and Akimov, 2009):

- High supplier availability necessitating a large number of potential contractors with the required experience, skills and equipment.
- Low 'task complexity' since complex tasks are difficult to monitor accurately.
- Significant scale economies typically with output which is mass-produced and highly standardised.
- 'Specialised technology' usually requiring substantial capital investment,

maintenance and operating costs.

- Improving key internal operational components of service provision, like systems, processes, work practices, procedures, plans, tools and technology.
- Reducing 'red tape', the duplication of activities and excessively complex processes.
- Exploring methods to reduce resource usage, including rationalising assets or infrastructure associated with the service.
- Reviewing regulatory controls and lobbying for positive legislative change.

Under the service review process, work groups were required to consider the implications of each policy option and develop recommendations for future service delivery, including changes in service quality, risk exposure, community satisfaction, impact on specific user groups, effects on other services as well as financial consequences.

5. Service Review Outcomes

At the time of writing, 50 services have been reviewed by the work groups, with approximately 380 recommendations stemming from the reviews. Following the Service Review procedure, these individual recommendations had been converted into concrete proposals for further investigation and implementation, and placed into an 'Action Plan'. The purpose of the Action Plan is to provide a means of tracking and reporting on progress. As further service reviews are completed the outcomes will also be incorporated into the Action Plan.

In order to provide an understanding of the nature of these outcomes, this section of the paper provides four examples of this process drawn from 'representative areas' of LMCC service provision: traditional 'services to property' as exemplified by the sealing of gravel roads; 'services to people' as epitomised by the LMCC Customer Service Centre (CSC); regulatory services as illustrated by building certification; and economic development as represented by tourism services.

5.1 Sealing of Gravel Roads

As an example of the 'services to property' role of local government, the LMCC assumes responsibility for local roads. The LMCC jurisdiction includes gravel roads that are typically within rural areas, and the Council has a longstanding program of sealing of existing gravel roads. Twenty-four kilometres of gravel roads have been sealed in the past ten years, with a further 66 kilometres of unsealed roads remaining. The Review process generated the following recommendations:

- Undertake a cost benefit analysis which compares sealing gravel roads with maintaining them in their current gravel state, taking into account the 'whole-of-life' costs for both options.
- In the light of this analysis, consider an alternative funding arrangements, including reducing the service to a level which can be fully funded using only grant funding from the Commonwealth Roads to Recovery program.
- Review methods of prioritising gravel road sealing work to best utilise funds for the maximum benefit of property owners and users.
- Investigate reducing the width of the seal applied to some gravel roads to reduce costs and/or or gain greater lengths of seal for the same cost.
- Conduct a feasibility assessment for carrying out this service for other councils and customers under an appropriate business activity model, which includes all associated costs and comparisons with competitor rates.

5.2 Customer Service Centre

As a common example of the 'services to people' role of contemporary Australian local government, the CSC provides 'frontline services' to the community by integrating all of Council's customer service channels into a single 'one-stop-shop'. It manages most customer contact face-to face, by telephone and email. In addition, it handles Councillor and Member of Parliament service requests, processes 'after hours' service requests and complaints, as well as Council email. Some of its office space is rented to

Hunter Water to accommodate one of its customer service centres.

The Review process generated the following recommendations:

- Investigate the extension of the CSC call centre operational hours to take emergency calls, with the service operating 24 hours per day all week.
- Consider extending the service to take calls on behalf of other councils and organisations under a business activity model.
- Explore the expansion of the CSC to include a bill payment service for other organisations, both at the CSC and at possible satellite offices.
- Investigate utilising CSC staff to perform community surveys and other outbound calls on behalf of Council or external bodies.
- Consider offering 'in-house' customer-service training packages to other government bodies for a fee.
- Explore available technology to improve efficiencies and service delivery, including workforce planning solutions, integrated voice response technology, and tools to reduce electricity costs and 'hot desk' set-up times.

5.3 Building Certification

As a typical example of the regulatory functions of modern local government, the production of building certificates is a legislative requirement of LMCC. Building certificates formally certify that a building complies with the provisions of the NSW Environmental Planning and Assessment Act 1979: Part 8 sections 149A to 149G. Prescribed fees are set out in the Environmental Planning and Assessment Regulations. In most cases, an application is lodged, recorded and receipted. A Council Building Inspector then undertakes an inspection, and issues a certificate, provided the building meets compliance standards.

The Review process produced the following recommendations:

- Introduce an online application and certificate issuing system, with fees listed on the electronic application form.

- Charge re-inspection fees, where applicable. This is a prescribed fee under the EP&A Regulation 2000 and is listed in Council's Pricing Policy.
- Set a fee for 'priority' applications (i.e. in cases where applicants require a certificate as a matter of urgency), which is commonly done by other councils.

5.4 Tourism Services

An important aspect of the modern local government resides in the promotion and management of local economic development. Given its fortuitous geographic position, characterised by a beautiful natural lake, the Pacific Ocean and a pleasant temperate climate, the LMCC jurisdiction possesses a strong comparative advantage in tourism. As part of its role in tourism service provision, Council has operated a Visitor Information Centre (VIC) since 1992, which acts as the 'shop window' for Lake Macquarie as a tourist destination. The VIC is open every day all year and its services include internet services, a reservation system, information and support for visitors, tourist brochures, an outlet for merchandising, the coordination of satellite centres, and the administration of tourism operator membership facilities for and on behalf of Lake Macquarie Tourism Association. To assist tourists, LMCC has an on-line reservation bookings system which embraces a self-managed website, automated reservation for accommodation, tours, events, car hire, staff console login, and member/operator logins. In addition, Destination Marketing promotes Lake Macquarie. A designated Marketing Officer provides a specialised tourism marketing service; prepares strategic marketing plans; implements and directs media campaigns; and manages all tourism public relations programs for the City.

The Review process generated the following recommendations:

- Liaise with the Hunter Region Tourism Organisation (HRTTO) and other councils on a cooperative approach to VIC operations across the region. Since most Hunter councils operate a VIC, consideration should be given to combining operations of these VICs or alternatively operating a network of integrated VICs.

- Alter VIC operating hours to reflect the peak times, including weekends.
- Revise the Online Booking Service website for accommodation providers to improve its functionality, usability and image.
- Investigate establishing a new business/marketing/tourism focused website which incorporates real estate, local events, and local food outlets, as well as local accommodation: advertising space could generate revenue and the improved website could increase customer satisfaction.
- Promote use of online booking tools for accommodation and tourism.
- Encourage accommodation members to use 'siteminder-type' tools to increase inventory for the VICs.
- Update BookEasy software employed in the website.
- Establish a new form of membership for businesses/operators in Lake Macquarie, which would include a system where a loyalty card would be issued which entitles the recipient to discounts at participating businesses.

6. Revenue Augmentation Through Business Activities

In common with the great majority of Australian local authorities, LMCC operates under harsh fiscal constraints, which are intensified in NSW by the state government policy of 'rate-pegging' (Dollery, Byrnes and Crase, 2008). Apart from increasing efficiency as a means of reducing operational expenditure, on the other side of the ledger local councils can seek to raise revenue from business activities outside of the parameters imposed on rates and fees and charges. As part of the Service Review, LMCC officers accordingly sought to identify opportunities for expanding existing business activities and undertaking new business activities.

Under the auspices of the Service Review 'ideas campaign', over 100 business activity suggestions were advanced, of which some of these fell under individual service reviews, as we have seen in the specific examples set out in section 4.4 of the paper. A preliminary assessment of these suggestions was conducted in

order to determine which should be subjected to detailed feasibility assessment. Many suggestions complemented Council's existing resources and facilities, such as the Lake foreshore, beaches, surf clubs, dormant quarry land, swimming centres, libraries, and the art gallery.

A number of models were explored for managing the business activities. One model prescribed existing Council departments carry out additional business activities to generate further revenue and optimise resource utilisation. Activities would be selected that complemented Council's normal operations and thus did not divert the Departments from meeting their other obligations. An extension of this model was to establish a business support unit for coordinating business activities across Departments. Proposed benefits of this model included:

- It utilised existing resources, expertise, systems, etc., and assisted in filling troughs in work demand.
- It increased productivity and job satisfaction by enabling employees to participate in broader, commercial industry.
- It facilitated benchmarking to gauge given Departments' abilities to successfully compete in the open market. This would assist in ascertaining whether the delivery of internal works and services is conducted in a demonstrably competitive manner.
- It built positive relationships with other businesses, surrounding councils, government agencies, etc., which would prove valuable.
- It spread existing overheads over a larger income base and required minimal additional overheads to run.
- It drove improvement and efficiency in support Departments.
- It had a low risk of failure since it was supported by the large LMCC organisation.

Several initiatives were undertaken under this model, including registration of the business name 'Lakemac Enterprises' with the NSW Department of Fair Trading to cover the range of activities that would be provided by the departments, the registration of the domain name for a website, the development of business and marketing plans, the development of promotional material, and the development of business procedures covering tendering,

project management, cost control, etc. In addition, arrangements were made for the Development, Assessment and Compliance Department and the Integrated Planning Department to jointly offer services to other councils, including development assessment, land-use strategies, rezoning, development control plans, and specialist planning advice.

A second model which was proposed lay in the establishment of separate corporate entities to run businesses at 'arms-length' from LMCC, along analogous lines to the Christchurch Council in New Zealand. Under this model, Council would own or be a dominant shareholder in these companies. It was argued that this would be most suited to new business activities not currently related to Council's current operations. This would ensure the businesses are commercially focussed and separate from the LMCC local government processes.

Examples of business opportunities that were shortlisted for investigation comprised the expansion of Council's current printing and graphic design business unit entitled Lakemac Print; the expansion of CiviLake's bulk materials and recycling activities; the expansion of the Lake Macquarie Performing Arts Centre usage; property consulting and valuation; planning and development consulting; civil engineering and design; graffiti removal; soils testing and geotechnical assessment; the provision of nursery/landscape supplies; carpark and footpath sweeping; litter collection services, the expansion of holiday parks and cabins; GIS services including online subscription; call centre services; garbage collection for commercial properties; environmental analysis and advice; solar thermal plants; and wind farms.

7. Conclusion

As we have seen, contemporary scholarly literature on Australian has focused overwhelmingly on structural reform typically under the guise of forced amalgamation. In this paper we have invoked the distinction between structural change and process change drawn by Dollery and Crase (2006) and argued that the heavy emphasis placed on structural change in by Australian local

government policy makers has virtually ignored process change as an alternative means of improving the efficacy of local government. In order to remedy this neglect in the literature, we have examined a case study of process change in action in the form of an internal service review undertaken by the LMCC.

Before any general conclusions can be drawn from the analysis of the LMCC Service Review conducted in this paper, at least three observations are warranted on the Service Review process. In the first place, we have examined the LMCC Service Review process *per se*, which was completed on 28 February 2010, and not the implementation of the recommendations of the Service Review, which was still underway at the time of writing.

Secondly, it must be stressed that the Service Review not only detected problems with service provision and proposed solutions, but also demonstrated that in many cases service mix, service production and service provision were optimal given financial constraints. Indeed, in general, the Service Review process established that the LMCC organisation is comparatively efficient in its operations and that there are limited opportunities for major savings without significant negative effects on service provision. This finding reflected well the efficacy of ongoing efficiency measures and service improvements implemented over many years.

Thirdly, the Service Review should not be seen as an isolated process but rather viewed against other strategic planning efforts undertaken by the LMCC, which are not atypical of similar kinds of local government across Australia. In this regard, the Service Review served to provide invaluable support for the newly introduced Integrated Planning and Reporting Framework (IPRF), mandated by the NSW government to assist local councils to make long-term plans in key areas of the organisation, including asset management, human resource management, community planning and financial modelling. Prior to the introduction of the IPRF, LMCC had endorsed its 10-Year Community Plan after significant consultation with Lake Macquarie residents. The long-term goals in the Plan were then prioritised into 4-Year Delivery Programs in conjunction with the annual budget, which identified which projects were to be delivered. This

strategic planning framework not only aligned with the IPRF, but also with the recommendations contained in the 2009 NSW Independent Pricing and Regulatory Tribunal's (IPART) Review into the Revenue Framework for Local Government. This Review considered how councils could raise funds, predominantly through rates, and the impact of rate-capping on their ability to provide services. The Service Review thus served to meet both IPRF and IPART objectives. Part of the IPRF and IPART recommendations required all councils to seek internal efficiency improvements to ensure ratepayers were getting 'value for money'.

What lessons can be learned from the LMCC Service Review which can assist other local authorities considering a similar internal review? In general, it would seem that the LMCC Service Review has not only addressed its key objectives in terms of helping to reform service provision and improve the financial sustainability for the local council, but it has also pioneered the creation of a comprehensive new policy framework unique in Australian local government. It follows that the methodologies developed by LMCC provide a foundation for other local councils considering a similar internal review. As we have seen in this paper, there are several advantages in applying this approach. The most important of these include:

- A consistent and practical process irrespective of the types of services being under review, based on a thorough examination of 'best-practice' material in the field.
- The extensive involvement of the workforce, complemented by an independent panel, to achieve a balance of 'internally-driven change' and 'external independence'.
- Open and transparent engagement with the local community and elected councillors which demonstrates that the organisation is objectively auditing its operations to achieve outcomes that meet local community needs.

In addition to these positive factors, a number of lessons were also learned during the LMCC Service Review that would benefit other councils embarking on a similar exercise. The most significant of these lessons seem to include the

following:

It appears evident that senior management in LMCC should have undertaken a high level strategic review prior to the detailed review of individual services. This would have incorporated the 'big picture' questions that LMMC and other local authorities must to consider, especially given the probable changes in the forthcoming decades, involving climate change, an aging population, etc.. If services are considered in relative isolation, the opportunity to address these broader issues and substantially transform service delivery can be limited.

Early in the Service Review, some work groups experienced problems allocating adequate time and attention to their review areas. This was evident in the slow rate of progress and inconsistency in the quality of reports between different work groups. This is not an atypical problem in large organisations. Indeed, it is important for any organisation to ensure that staff who are working 'on the business' are not being distracted by the day-to-day demands of working 'in the business'. This issue highlighted the need for managers to redistribute workloads amongst staff and review priorities. In some cases, additional resources were also required to assist staff.

Adjustments to the Service Review process were also necessary after the process had begun. Prior to preparing the recommendations for each review, each work group was required to give a presentation to the Steering Group covering the information collected, benchmarking results and analysis of options. This increased focus and strategic input lead to a marked improvement in the timeliness and quality of the reports. The process was also reviewed to ensure the extent of information gathering and investigation was not too onerous for the staff.

Finally, an adjustment to the size and composition of work groups was required during the process. In the initial stages, work groups comprised up to 6 members. However, this was found to be relatively inefficient and difficult to manage. An optimum size group was found to be three, made up of two independent members and one person from the area being reviewed.

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