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A Critical Evaluation Of Virtual Local Government In Australia

Brian Dollery**

Abstract

The vigorous debate surrounding local government amalgamation in Australia remains unresolved. In an attempt to break the current stalemate, Percy Allan (2001) has proposed a model of 'virtual local government' that seeks to combine the service appropriateness and effectiveness purportedly associated with demographically small councils with the service efficiency of large municipalities. This paper attempts to place his model in the context of the literature on the theory of public sector policy reform. It then goes on to examine virtual local government in the light of new institutional economics, public choice theory and the characteristics of Australian local government.

Key Words: amalgamation; appropriateness; effectiveness; efficiency; virtual local government

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1. INTRODUCTION

In parallel with their counterparts in several other advanced countries, all Australian governments have been subjected to vigorous reform over the past decade, including local government. Although the forces underlying the various Australian local government reform programs are undoubtedly complex and multifaceted, some common elements can nevertheless be identified. For instance, severe constraints on accrued revenue, coupled with inexorably rising costs and added legislative responsibilities, have obliged councils to 'do more with less' in their efforts aimed at providing effective services. Similarly, the managerial doctrines espoused under New Public Management (NPM) have transformed the traditional role of municipal management into a more active, independent and cost-conscious mould (Dollery and Wallis, 2001). These and many other lesser influences may be said to have engendered a 'crisis' in Australian local governance that still seeks adequate resolution.

The drive for enhanced economic efficiency in Australian local government has engrossed policy makers in all states and territories. A variety of policy instruments has been proposed as a means narrowing the gap between reduced resources and increased costs. But by far the most controversial policy proposal has centred on the structural reform of existing small councils into larger administrative units. In some states this policy has already been pursued zealously, most notably in Victoria. In other jurisdictions, especially New South Wales, local governments have largely resisted attempts at voluntary amalgamation.

The debate in Australia on the purported merits of amalgamation as a means of enhancing the efficiency and effectiveness of local government has yet to be resolved. On the one hand, proponents of structural reform stress the efficiency-inducing effects of municipal consolidation that derive from economies of scale and scope in service delivery (Soul, 2001). On the other hand, opponents of amalgamation dispute the existence of significant scale economies on the basis of extant and inconclusive empirical evidence gathered from within Australia and elsewhere (Byrnes and Dollery, 2002a). Moreover, some commentators have contended that in theoretical terms there are no sound *a priori* reasons for believing that the costs of delivering the great diversity of council services, from garbage collection to municipal pounds, should all exhibit decreases (and increases) across a given jurisdiction size (Dollery, 1997). At the political level, they argue that larger local governments undermine the democratic foundations of municipal governance by distancing elected representatives from their constituents (Vince, 1997).

An interesting new development in the debate has been the concept of 'virtual councils'. In a brilliant exposition of this idea, Percy Allan (2001) has set out the economic and political case for virtual local governments in Australia. In essence, the notion of a virtual municipality seeks to break the ostensible trade-offs between economic efficiencies that may be associated with larger local authorities and the political advantages that may accrue from smaller councils. It thus is advanced as representing the 'best of both worlds', combining economic efficiency with representational effectiveness.

The purposes of this paper are essentially twofold. In the first place, it attempts to place Allan's (2001) concept of virtual local government in the broader context of the theory of public sector reform. Secondly, and more importantly, it tries to evaluate the Allan model in the light of the theory of local government failure and existing empirical evidence on economies of scale and scope in local government service delivery.

The paper itself is divided into four main parts. Section 1 provides a synoptic outline of Allan's (2001) virtual government model. Section 2 places this conception in the context of the theory of policy reform. Section 3 examines the model from the perspective of both economic theory and empirical evidence on local government. The paper ends with some brief concluding remarks in section 4.

2. ALLAN'S MODEL OF VIRTUAL LOCAL GOVERNMENT

Allan's (2001, p.27) model of virtual government is developed from the proposition that 'a community's satisfaction with local council services is a function of whether they meet residents' needs and what they cost in rates'. The criteria for evaluating municipal performance are threefold: appropriateness, effectiveness and efficiency. Allan argues that the satisfaction of community service desires depends on two basic attributes of service composition: the *appropriateness* of services and the *effectiveness* of service delivery. The appropriateness of the mix of municipal services depends on 'a council's ability to identify what needs to be done' whereas effectiveness implies that the services actually provided achieve their stated aims. By contrast, the burden of local government service delivery is gauged according to its *efficiency*, measured by the average cost of services.

The model is founded on two 'stylised facts' about the nature of Australian local governments. In the first place, small councils, characterised by low jurisdictional populations, provide a better decision-making unit in terms of the appropriateness and effectiveness of service provision since they are 'closer to the people'. This presumption derives from the assertion that 'the smaller a municipality the more intimate should be the understanding by councillors and administrators of the state of infrastructure and quality of services in particular precincts'. Moreover, in small councils, 'the easier it should be for residents to get access to policy makers and influence their decisions' (p. 27). Empirical backing for these assumptions is based *inter alia* on a survey of the literature by Jones (1989), who concluded that 'small local councils are superior in identifying and satisfying community needs' (p. 28).

Secondly, Allan hypothesises that large local authorities may enjoy economies of scale in the provision of some, but not all, local public goods and services. Put differently, 'big is sometimes, but not always, better'. This argument draws extensively on the work of Oakerson (1999) on the relationship between the degree municipal fragmentation (or ratio of local government units to population in given metropolitan areas) and the per capita cost of services, and, to a lesser extent, on Jones (1989) and evidence contained in the NSW Department of Local Government's annual report on performance indicators. After a detailed review of the American evidence, Oakerson (1999) concluded that greater fragmentation was associated with lower per capita service costs rather than the converse. Allan offers four explanations for this finding. Firstly, since small municipalities provide less

scope for service cross subsidisation, the link between service quality and service cost is more apparent to constituents than to their counterparts in large municipal jurisdictions. In other words, small councils do not create as much fiscal illusion amongst their voters. Secondly, 'citizens in smaller municipalities have better access to their elected representatives and so can make their feelings better known about the appropriate mix of taxes and services and value for money'. Thirdly, 'large councils are inefficient because they are only geared for functions that have economies of scale, when in fact most of the services they provide exhibit diseconomies of scale'. Finally, big municipalities tend to produce most of the services they deliver themselves rather than outsourcing these services to private firms 'whose efficiency is continually tested in the market place' (p. 29).

From his analysis of this evidentiary base, Allan deduces that 'the main lesson to draw from Oakerson's research is that a distinction should be made between the provision of council services and their production' since the 'long held assumption that a council must perform both tasks is wrong'. He thus draws the following significant conclusion with respect to the optimal institutional arrangements that will maximise the efficiency of municipal service provision: 'It is possible for a metropolitan council to remain small and still efficiently provide public services by contracting out services that are capital intensive (e.g. road resurfacing or garbage collection), logistically complex (e.g. street cleaning and maintenance) or require specialist skills (e.g. rate collection, engineering or legal advice) to producers that capture economies of scale by serving multiple clients' (p. 29).

With these two stylised facts in mind, Allan therefore seeks to remove 'observed' trade-offs between municipal size and service appropriateness, effectiveness and efficiency. This enables him to propose a model of virtual local government that combines the most attractive features of small and large councils. He argues that 'if cost efficiency improves for some tasks, but policy appropriateness and service effectiveness deteriorates the bigger a municipality becomes, then an obvious solution is to separate council decision making from council administration'. Thus 'by localising decision making while agglomerating administration it should be possible to achieve the best of both worlds' (p. 29).

In the Allan (2001) model, a virtual council would consist of two main elements. A relatively small geographic and demographic jurisdiction would elect representatives along traditional local government lines, together with a small permanent secretariat, who would decide on questions of policy formulation and monitor service delivery to ensure its effectiveness. Several spatially adjacent virtual councils would share a common administrative structure or 'shared services centre' (p. 31) that provided the requisite administrative services to carry out the policies decided upon by individual councils. Actual service delivery would be contracted out to the service centre or to private service producers on the basis of both the relative costs of service provision and the feasibility of using private firms. A virtual council of this kind 'would be small, both in terms of numbers of councillors and numbers of directly employed staff', but nevertheless 'responsible for all the normal functions of a council', while at the same time 'its delivery mechanisms would be indirect', since 'it would buy its services from an administrative centre shared with other municipalities' or 'where these were not suitable or too expensive' from 'other providers in the public, non-government and private spheres' (p. 31/32).

Despite his insistence on a sharp divide between the provision and production of local government services, and the attendant injunction that the role of Australian municipalities must change from 'mainly rowing to primarily steering', Allan (2001) is nonetheless at pains to spell out in some detail the type of service and conditions under which services should be placed out on tender. He relies heavily on the work of O'Looney (1998), an American expert on public sector outsourcing management. Thus, activities that should be kept 'in-house' are those that require significant 'core capability', such as 'town planning, service policy making, client liaison, financial management and contract management', possess 'task complexity' that make them 'difficult to specify, hard to measure for outputs and require unique expertise to monitor', and 'asset specificity', which involves expensive and tailor-made capital equipment to perform a given function. By contrast, service responsibilities that should be optimally 'outsourced' are characterised by 'supplier availability' (where a substantial number of potential service providers must exist), 'economies of scale' (where products are mass manufactured and standardised), and 'specialist technology' (where particular and expensive high-level skills are required).

Allan (2001) emphasises the economic and managerial benefits that can accrue from shared service centres and underlines the fact that they now play a prominent role in both the public and private sectors throughout the world. Furthermore, he stresses the need for 'the rights and obligations' of councils and service centres to be 'spelled out in some detail in a formal performance agreement' (p. 45). Each service centre would need to be governed by a board of directors drawn by its constituent councils in order to ensure accountability.

3. THEORETICAL CONTEXT OF THE MODEL

The conceptual separation between 'steering' and 'rowing' in government, including local government, that forms the basis for Allan's (2001) model of virtual local government, has been taken up with a vengeance by contemporary writers on the subject of 'governance' (Rose, 1987). They have attempted to move beyond the traditional dichotomy between decentralised/market-orientated and centralised/statist to highlight a 'third dimension' that explicitly blurs the boundaries between the public and private sectors and involves state actors playing a catalytic in engaging societal actors in network relationships as they strive to steer the policy process toward the realisation of shared goals (Jessop, 1998; Rhodes, 1997). Within the disciplines of public administration and policy studies this work represents an attempt to move away from the normative, formal, constitutional understanding of government as a 'unitary state directed and legitimised by the doctrine of ministerial responsibility' toward an attempt to understand the complex process of governing in practice where it is often the case that 'there are many centres and diverse links between many agencies of government at local, regional, national and supranational levels' (Stoker, 1998, p.19). According to Stoker (1998, p. 18) the value of this emerging 'governance paradigm' lies 'not at a level of causal analysis' but rather rests in its capacity to provide an 'organising framework', 'a language and a frame of reference' that leads theorists 'to ask questions that might not otherwise occur' regarding the changing processes of governing.

With its emphasis on the primary function of local government to 'steer', keeping in close contact with its constituents by enhancing accessibility through low councillor/voter ratios, and at the same time maintaining 'networked' relationships between other adjacent partner councils, a shared service centre, public sector service providers, voluntary organizations and private contractors, the Allan model of virtual local government seems fit quintessentially in the mould of the new governance paradigm. Complex patterns of involvement with other councils, a joint service centre, public utilities, non-government organizations and private service producers certainly serve to blur the public/private divide. Moreover, the almost infinite extent and malleability of potential institutional arrangements provides a flexible canvas for municipal policy makers to meet new challenges by altering the nature of institutional relationships.

The Allan model also dovetails neatly with recent developments in the literature on New Institutional Economics (NIE). For instance, the purchaser/provider split inherent in virtual local governments enables councils to employ the principle of comparative advantage in selecting service providers from a broad range of options from in-house production through to outsourcing to public agencies, voluntary organizations and private contractors. This broad spectrum of institutional choice should facilitate both efficient and effective service delivery by allowing councils to employ the most efficacious means of providing local goods and services. Similarly, the focus the model places on competent contract administration and monitoring brings it into line with contemporary thinking in agency theory. Theoretical perspectives derived from the market failure paradigm, the theory of government failure, and voluntary organization failure can be utilised in designing optimal institutional service delivery arrangements (Wallis and Dollery, 1999).

4. CRITICAL EVALUATION OF THE ALLAN MODEL

At first sight, the Allan (2001) model of virtual local government thus seems to embody a number of advantages over the municipal *status quo* in Australia by adroitly combining the strengths, yet not the weaknesses, of large and small councils. Moreover, it appears to flow naturally from recent advances in the theoretical literature on governance as well as developments in economic analysis. However, upon further reflection, several problems become evident. In the first place, the Allan (2001) model owes much to the so-called Lakeside Plan embarked on in Los Angeles County in the 1950s and Oakerson's (1999) subsequent analysis of the cost implications of municipal fragmentation within large metropolitan conurbations. In essence, these developments envisaged the creation of a large number of neighbouring local governments within densely-populated cities that enjoyed ready access to competing private and public suppliers of local goods and services and were unencumbered by the 'tyranny of distance'. However, the vast Australian continent and significant number of isolated rural and regional councils clearly do not meet these requirements. Indeed, Worthington *et al.* (2001) have demonstrated that diversity, and not uniformity, is the central characteristic of Australian local government to such an extent that a 'one-size-fits-all' solution to the financial and organisational problems of Australian local government is simply not feasible, even in terms of prescribed standards of service delivery. It is thus evident that we must qualify the range of applicability of the virtual council concept in the Australian context to embrace only large metropolitan areas, such as Adelaide,

Brisbane, Melbourne, Perth and Sydney, and possibly also Albury/Wodonga, Canberra, Darwin, the Gold Coast, Hobart, Newcastle and Wollongong. Allan (2001, p.35 and p.42) himself appears to recognise this limitation. Of course, although rural and regional councils may not be able to outsource local services in contestable local markets, this does not mean that some of the potential advantages of contracting out are unavailable to these municipalities. Intergovernmental contracts for capital-intensive services, like sewage and water, may still be possible. Moreover, revenue collection, administration and other activities characterised by economies of scale and scope may be feasible through organizations such as Australia Post.

Secondly, despite the fact that the Allan (2001) model draws on sophisticated new developments in economic analysis, including agency theory, transactions cost analysis and public choice theory, it nonetheless ignores some important strands of the latter literature on the pervasive phenomenon of government failure. For instance, although the Allan model of virtual local government briefly acknowledges the significance of competition between spatially adjacent councils (so-called 'Tiebout competition') (p. 28) and the problem of fiscal illusion (p. 28) as determinants of municipal efficiency, it overlooks other substantial elements of local government failure. At least three contributions in the small but growing literature on local government failure need to be considered.

Firstly, in his *Public Choice Theory and Local Government*, Boyne (1998) develops a taxonomy of competitive categories in local government that can influence the degree of government failure at this level. He distinguishes between 'three distinct forms of competition in the municipal arena': 'competition between public organizations for a share of tax revenues and service responsibilities' (p.1); competition between political parties to determine policy choices in local government; and 'competition between governmental and private organizations for control over the production of public services' (p.1). Boyne argues that for effective Tiebout-style competition to occur in local government various conditions must be met to ensure that the nature of this competition results in efficient outcomes. These conditions include 'horizontal fragmentation' (or a large number of councils at a given level of local government), 'vertical fragmentation' (in which several tiers of government compete for funds and service provision), and 'substantial local autonomy' (where 'local communities should have the discretion to innovate, experiment and develop distinctive policies' (p.22). The Allan model ignores the first two of Boyne's three forms of 'competition' and emphasises only competition over the production of local goods and services between public agencies, private firms and voluntary organizations. Moreover, the Allan conception of virtual local government explicitly includes 'horizontal fragmentation' and 'substantial local autonomy', but does not consider 'vertical fragmentation'. This is problematic since outside of metropolitan areas, intergovernmental competition between rural and regional councils, state government departments, Commonwealth agencies and public authorities may be the only meaningful form of competition available to policy makers.

The second strand of the nascent public choice literature on local government failure neglected by the Allan (2001) model resides in the work of Bailey. In his *Local Government Economics*, Bailey (1999) draws on Albert Hirschman's (1970) distinction between 'exit' and 'voice' to evaluate the two alternative means by which

consumers of local government services can influence the provision of municipal services and thereby reduce the degree of local government failure they experience. In generic terms, 'exit' refers to the capacity of citizens to choose between alternative producers of some specified service. By contrast, 'voice' refers to the ability of consumers to express their preferences for a different mix or quality of services of services through various administrative mechanisms, like electoral voting, complaints to public service managers and customer surveys, without migrating away from their municipal jurisdictions.

As methods by which citizens can influence the extent of government failure at the local government level, both exit and voice have various limitations. Bailey (1999, pp.47/48) identifies five main characteristics of local public services that can inhibit the effectiveness of voice in municipal affairs. 'Legal and institutional barriers' in the form of diluted political representation, electoral and procedural irregularities, inadequate public hearings, and so forth, can all serve to impede political attempts aimed at improving local public services. 'Information asymmetries' between council bureaucrats and citizens concerning the nature and costs of municipal service delivery can also constrain the efficacy of voice. Where services are highly differentiated as, say, in the case of the quality of social services, voice by some citizens may only influence the behaviour of a particular service rather than the whole service system, in contrast to undifferentiated services where voice will have more general effects. The socioeconomic characteristics of the population in a particular jurisdiction may be a decisive factor, with better-educated, affluent groups more likely to express voice than their poorer, less-educated counterparts. Finally, the greater the relative importance of some municipal service to the perceived welfare of a population, the more important voice will be as a means of addressing local government failure.

Exit is also subject to a number of constraints that are spelled out by Bailey (1999, p.48). The non-excludability characteristic of public goods may preclude exit for some local public goods, like poor environmental protection legislation, since exit may involve expensive relocation. Natural monopolies similarly prevent exit where they cover large geographical areas. Legislative impediments to entry by alternative suppliers of a service may negate exit possibilities, as in the case of national telecommunication providers. In large countries with uneven concentrations of population, such as Australia, Canada and the United States, large local government jurisdictions with small numbers of people may generate spatial barriers to exit. And lastly, imperfect information available to consumers may mean they are unaware of relatively unattractive service provision they are currently receiving, and thus induce them to underestimate the benefits of exit.

The Allan (2001) model considers neither exit nor voice in any direct or systematic way as methods of ameliorating local government failure. Exit seems to be embodied in two main ways. Firstly, since virtual local governments coexist in close spatial proximity to each other, consumers can either use the services provided by geographically adjacent councils or they can migrate relatively short distances to obtain superior services. Secondly, because councils can choose different alternative methods of delivering the same service, this simulates migration in the sense that service providers will be acutely aware that they operate in contestable markets. In contrast, the problem of the efficacy of voice in the Allan model is

resolved in a one-dimensional appeal to ease of access of constituents in small councils to their elected representatives on the basis of a low ratio of councilor to citizen. In the light of both *a priori* theorizing and extant empirical evidence on local government in Australia and elsewhere, this proposition is unconvincing.

In essence, the Allan (2001) model of virtual government simply asserts the efficiency of representative democracy in small councils without addressing the well-known problem of 'voter apathy' in the public choice literature. Despite the centrality of voting in the democratic process, it is by no means the only element in collective decision-making processes. Numerous other mechanisms exist, some of which were noted earlier in the discussion of Hirschman's (1970) 'voice' concept, that range from formal voting procedures to opinion polls, protest meetings, petitions, 'talkback' radio shows and the like. These alternatives to voting serve to diminish its significance in electors' eyes and contribute towards low political participation rates, ill-informed voters, and the various other problems associated with elections under representative democracy.

Although the difficulties arising from voter apathy undoubtedly afflict both the electoral process and its subsequent 'responsiveness' to the preferences of citizens at all levels of government, the problem seems to be most acute in local government. It is possible to identify several factors that may account for this observation. Firstly, and perhaps most importantly, in many local government systems, voters do not perceive periodic municipal elections as politically significant events because the behaviour of local governments is severely constrained and manipulated by state and national governments. Local governments simply 'don't matter in the scheme of things'. For example, Bailey (1999, p.265) notes that in Britain 'by the early 1990s, central government directly controlled about two-thirds of local government income and also had powers to cap local rates as well as having a significant control on other revenue sources such as rents for municipal housing'. It is thus hardly surprising that not only were voter turnouts low in British local government elections, but voters also seemed to view them 'as little more than opinion polls on the popularity of central government' (Boyne, 1998, p.69). Similarly, with respect to New Zealand local government, Kerr (1999, p.4) has observed that 'there is a low turnout at elections, usually no more than 50 percent, despite postal voting'. Even in the United States, where local governments enjoy considerable autonomy, voter apathy is most pronounced at the local level. By comparison, in state and national elections voter participation rates have generally been substantially higher (Loughlin, 1986), except in countries with compulsory voting, like Australia.

A second reason for greater voter apathy in local government elections resides in the fact that in many countries these elections are not contested along party political lines, and even in those nations where political parties do participate, many candidates do not have party affiliation and party affiliations may in any event be much weaker than at the state or federal levels of government. Accordingly, voters do not have the informational benefits of party platforms to assist them in making informed choices. For instance, in the United States, political parties often play little formal role in municipal elections largely because in many jurisdictions they are debarred from participation as a consequence of the earlier 'reform movement' aimed at removing corruption from American urban politics (Hawley, 1973). Along similar lines, in many parts of Australia, including regional and rural New South

Wales, longstanding convention usually precludes municipal candidates from adopting explicit partisan platforms.

Media reporting of local government elections is typically much less comprehensive and unquestioning than for comparable federal and state ballots and consequently affords voters much less opportunity to become well-acquainted with the policy platforms of individual candidates standing for election. Whether this is a cause or simply an effect of voter apathy is a moot point, but it nevertheless surely accounts for a greater degree of ill-informed voting in municipal elections than their counterparts at higher levels of government.

Because of its lower public profile and complicated interface, governance and management roles in municipal government are often confused in the eyes of many citizens, who cannot readily distinguish between elected representatives and professional public servants. Thus, perceived responsibility for past policy successes and failures is difficult to assign between the councillors and managers. Moreover, the committee systems characteristic of numerous local governments serve to further confuse the question of responsibility (Kerr, 1998).

Finally, the nature of local government activities itself makes any evaluation difficult. Municipalities typically deliver a vast range of services, even where their focus is on the relatively narrow 'services to property' dimension of delivery. Under these circumstances, not only is monitoring of service delivery an onerous task, but accountability is extremely difficult to establish. It is thus little wonder that citizens remain apathetic about the operations of local government.

The relatively high degree of voter apathy in local government, in comparison with its national and provincial counterparts, provides greater scope for government failure at this level of governance. In general, it can be argued that apathetic voters might not only elect inadequate representatives, but also fail to scrutinise their performance with a sufficient degree of rigour. For example, where voters are comparatively ill-informed about the election platforms of councillors they are in a poor position to judge whether subsequently elected candidates have indeed met expectations or carried out their mandates. Similarly, given accountability and monitoring difficulties, citizens may experience difficulties in ascertaining how well municipalities are performing and who is responsible for any noteworthy problems that may arise. This seems to provide local government legislators with greater scope for opportunistic behaviour than their colleagues at higher levels of government and accordingly make local government more prone to failure (Dollery and Wallis, 2001). This may explain why in many real-world jurisdictions, state and federal governments sometimes retain statutory powers to override the decisions of local governments or even suspend local governments and arrange new elections.

Quite aside from these theoretical considerations, empirical evidence from NSW also suggests that voter apathy is more acute in municipal governance than at higher tiers of government. Two forms of empirical evidence are advanced in support of this proposition. Firstly, in his work on the optimal size of local government in NSW, Stephen Soul (2001) surveyed municipal residents in four different council jurisdictions, ranging from a large metropolitan local government to a small rural council. Despite the fact that voter/elected councilor ratios differed dramatically in the

four sample groups, Soul found no statistically significant differences in perceptions of voters towards their elected representatives. He concluded that these ratios were unimportant to citizens and that no evidence existed for the view that low ratios generated discernable benefits. This finding directly contradicts Allan's (2001) assumption that low ratios ensure better communication flows between councilors and their voters.

Secondly, Byrnes *et al.* (2002a; 2002b) attempted to determine *inter alia* the degree of voter apathy in Australian local government by comparing voting patterns between the 1998 federal election and the 1999 NSW local government elections. Since the Australian electoral system is unique in that it is compulsory for citizens to vote at elections for all levels of government, this presents difficulties in gauging the degree of voter apathy in comparison with countries that do not force citizens to vote. However, Byrnes *et al.* argued that one way of measuring voter apathy in local government is to compare the proportion of voter turnout and the percentage of informal votes cast at federal and local government elections. Data from the 1998 federal election and the 1999 NSW local government elections was thus collected for the purpose of making such a comparison. Byrnes *et al.* (2002b, p.8) concluded that 'in the two recent elections, voters were 11 per cent more likely not to vote in local government elections, and when electors did vote, they were 30 percent more likely to cast an informal vote'. Thus, 'it is reasonable to suggest that voter apathy is a valid source of government failure within NSW local government'.

The third major critique of the Allan (2001) model of virtual local government derives from its presumption that significant economies of scale exist in Australian local government that can be reaped by cooperative production and distribution of municipal services through shared service centres. Notwithstanding claims to the contrary, this assumption does not accord with existing empirical evidence. After an exhaustive review of research into economies of scale in municipal service provision in Australia and elsewhere, Byrnes and Dollery (2002b) have argued that existing evidence is inconclusive. With respect to empirical studies conducted outside of Australia, they observe that 'given the mixed results that emerge from the international evidence, it seems reasonable to conclude that considerable uncertainty exists as to whether economies of scale do or do not exist' (p.17). In terms of specifically Australian work, they note that 'Australian research studies to date have not attempted to measure economies of scale in so far as the data sets employed do not encompass a sufficiently prolonged period of time to allow for all factors of production to be flexible'. Moreover, 'various other problems were identified in the studies', including 'a number of generic problems associated with the measurement of economies of scale in local government'. Thus 'the lack of rigorous evidence of significant economies of scale in municipal service provision casts considerable doubt on using this as the basis for amalgamations'. Indeed, although 'advocates of amalgamation have premised their arguments on the proposition that substantial efficiency gains would flow from the formation of larger local authorities', it nevertheless 'seems clear that research on economies of scale in local government does not support this proposition' (p.17). The implications of these conclusions seem straightforward: the jury is still out on the empirical significance of economies of scale in Australian local government.

5. CONCLUDING REMARKS

It seems clear the Allan (2001) model of virtual local government represents a substantial advance in the Australian debate on the question of local government restructuring in general, and amalgamation in particular. The chief significance of virtual government in a specifically Australian context resides in its apparent ability to capture the representational strengths of 'small' councils and at the same time secure the advantages that may accrue from 'large' municipalities, especially in terms of economies of scale and scope. At a more generic level, it represents a natural advance in the theoretical analysis of the distinction between 'steering' and 'rowing' in the governance literature. It also falls squarely within the fold of recent developments in economic analysis, including NIE and agency theory. In sum, the Allan (2001) model of virtual local government surely deserves the sustained and systematic attention of public policy makers in Australia.

Nevertheless, as this preliminary analysis has sought to demonstrate, the Allan model should not be applied uncritically to the milieu of contemporary Australian local government. In particular, this paper has attempted to show that the two 'stylised facts' constituting the twin foundations of the Allan model of virtual local government are by no means as self-evident as Allan (2001) contends. In the first place, the proposition that low councillor/voter ratios necessarily enhance the democratic efficiency and information flows between elected representatives and their constituents does not accord with extant empirical evidence on Australian local government. Advocates of virtual local government are thus obliged to provide convincing evidence for the purported nexus between council size and the ability to formulate and implement appropriate and effective policies. Secondly, the existence or otherwise of significant economies of scale has yet to be demonstrated satisfactorily in Australian local government. Arguments for sweeping structural change thus cannot take substantial scale economies or scale diseconomies for granted.

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