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Structural Reform in Australian Local Government: the Armidale Dumaresq-Guyra-Uralla-Walcha Strategic Alliance Model *

Brian Dollery, Shane Burns and Andrew Johnson **

Abstract

Amalgamation has always been the preferred instrument of local government structural reform in Australia. However, increasing disillusionment with the disappointing economic outcomes of amalgamation and its divisive nature has led to a search for alternative methods of improving Australian municipal efficiency. One such model has been developed in the form of a Strategic Alliance between the neighbouring Armidale Dumaresq Council, the Guyra Shire Council, the Uralla Shire Council and the Walcha Shire Council in the New England region of northern New South Wales. This paper seeks to outline the rationale underlying the Strategic Alliance, its methodology and provide a preliminary evaluation of its results.

Key Words: Amalgamation; local governance; Strategic Alliance; structural reform

* The views expressed in this paper are the sole views of the authors and may not represent the view of their employers or any other organisations with which they are associated.

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1. INTRODUCTION

Structural reform aimed at enhancing the efficiency and effectiveness of Australian local government is once more under way; this time in the guise of a program of compulsory amalgamation in NSW, and with the prospect of substantial municipal reform looming in Western Australia. In common with earlier episodes of Australian local government reform, most notably the Victorian experience in the 1990s, municipal amalgamation is again the favoured instrument of state government policymakers. Indeed, Anne Vince is surely correct in describing council amalgamation as the dominant ‘thread which runs through Australian local government history’ (Vince, 1997, p.151).

However, unlike previous efforts directed at enhancing the efficiency of municipalities through the amalgamation of small councils into larger local government units on the uncritical acceptance of the presumption that ‘bigger is better’ in local governance, significant sections of the Australian local government policy community are no longer convinced that amalgamation represents an efficacious means of improving council performance. This scepticism is well founded. For instance, in the recent NSW Government Inquiry into the structure of local government in Sydney, Commissioner Kevin Sproats (2001, p.6 and p.36) was obliged to conclude in relation to the purported benefits of amalgamation that ‘conclusive evidence is not available’ and existing evidence is ‘suggestive rather

than conclusive'. Moreover, after an analysis of both the international literature and Australian experience on municipal consolidation, Dollery and Crase (2004, p.274) have argued that 'there are scant grounds for anticipating substantial financial benefits to flow from amalgamation, except possibly in terms of local government capacity and scope economies'. Along similar lines, in an exhaustive study of all available Australian and international evidence on economies of scale in municipal operations, Byrnes and Dollery (2002, p.405) observed that 'the lack of rigorous evidence of significant economies of scale in municipal service provision casts considerable doubt on using this as the basis for amalgamation'. After assessing the outcomes of recent council amalgamation programs in New Zealand, Australia (and more particularly Victoria and Tasmania), Britain and Canada (especially Nova Scotia and Ontario) in his *Merger Mania*, Andrew Sancton (2000, p.83) concluded that 'the efficient delivery of municipal services does not require large municipalities'. Finally, Percy Allan (2003, p.80) has presented a strong case 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 big is not better when it comes to local government'. Similar arguments have been advanced by Jones (1989), Thornton (1995), Dollery (1997), Oakerson (1999), Bish (2000), Allan (2001), Dollery (2003), May (2003) and Katsuyama (2003) on theoretical and empirical grounds.

Growing scepticism over reliance on council amalgamations as the chief instrument of municipal reform by state government policy makers has led to two interrelated developments in Australian local government. In the first place, there is now a widespread recognition that ‘one size does not fit all’ in local governance and that the tremendous diversity evident amongst Australian local authorities (Worthington and Dollery, 2001) demands a range of solutions to ongoing problems of inefficiency in service delivery rather than continued confidence in amalgamation with its misplaced belief that ‘bigger is always better’. Secondly, this has spawned a search for alternative models of local governance tailored to suit the specific circumstances of individual councils and groups of councils. Scholars and practitioners alike have designed several models aimed at enhancing the efficiency of municipal service delivery that avoid the heavy hand of amalgamation with all its divisive and disruptive effects. Urban parish models (Thornton, 1995), joint board models (Shires Association of NSW, 2004), *ad hoc* resource sharing models (Ernst and Young, 1993), Regional Organizations of Councils (ROCs) (Marshall *et al.* 2003), virtual local governments (Allan (2001); (2003); Dollery (2003)) and agency models have been joined by actual real-world organizational structures that include regional organizations of councils, like the Riverina Eastern Regional Organization of Councils (REROC) (Dollery *et al.*, 2004) and the Wellington model (winner of a 2004 National Local Government

Award). This paper seeks to add to this literature by examining the Armidale Dumaresq/Guyra/Uralla/Walcha Strategic Alliance ('Strategic Alliance') model in the New England region of northern NSW.

The paper itself is divided into five main sections. Section 2 provides a taxonomic description of the seven generic models of Australian local governance identified by Dollery and Johnson (2005) and attempts to locate the Strategic Alliance within this conceptual schema. Section 3 provides a synoptic description of the background to the development of the Strategic Alliance. Section 4 outlines the conceptual foundations of the Strategic Alliance, whereas section 5 attempts to evaluate the impact of the model. The paper ends with some brief concluding remarks in section 6.

2. GENERIC MODELS OF AUSTRALIAN LOCAL GOVERNANCE

Dollery and Johnson (2005) have developed a typology of alternative models of municipal governance specifically adapted to the narrow range of 'services to property' characteristic of Australian local government. The conceptual basis for this taxonomic system is based on the notion that existing and potential models feasible in the Australian local government milieu can be located along a bipolar continuum given by the degrees to which political and operational control can be centralized or decentralized between local councils and the new organizational entity they join. In terms of this system, operational control refers to the ability to

administer and undertake local service provision and delivery, whereas political control focuses on the capacity to make decisions over the domain and mix of local services. On the other hand, the degree of centralization indicates the extent of concentration of control vested in the new governance structure as opposed to the original small councils that comprise the new arrangement.

Seven alternative models were identified in the Dollery and Johnson (2005) typology. In the first place, existing small councils possess the most operational and political autonomy as well as highest degree of decentralization within the constraints of their respective state government acts and are thus located at one end of the continuum. Secondly, the next most autonomous and decentralized model resides in voluntary arrangements between geographically adjacent councils to share resources on an *ad hoc* basis whenever and wherever the perceived need arises (Ernst and Young, 1993). Thirdly, ROCs (Marshall *et al.*, 2003) represent a more formalized version of the *ad hoc* resource sharing model, typically consisting of between five and fifteen councils, with considerable diversity in both geographic size and population, and are usually financed by a set fee from each member council as well as a *pro rata* contribution based on rate income, population, or some other proxy for size. In the fourth place, joint board (Shires Association of NSW, 2004) or area integration models (Thornton, 1995) are based on the retention of autonomous existing councils and their current spatial

boundaries, but with a shared administration and operations overseen by a joint board of elected councillors from each of the member municipalities. Constituent councils each retain their current political independence, thus preserving extant local democracy, whilst simultaneously merging their administrative staff and resources into a single enlarged bureau, in an attempt to reap any scale economies, scope economies, or other benefits that may derive from a bigger administration. Fifthly, virtual local government (Allan (2001); (2003); Dollery (2003); May (2003)) rests in two fundamental presumptions about the nature of Australian local government. Small councils, with limited populations and a low ratio of elected representatives to constituents, provide superior decision-making units in terms of the appropriateness and effectiveness of service provision since they are 'closer to the people'. Secondly, a distinction should be made between the provision of council services and their production and councils should thus only produce services where they enjoy a comparative economic advantage over other potential service providers. A virtual council would thus consist of several small adjacent virtual councils with a common administrative structure or 'shared service centre' that would provide the necessary administrative capacity to undertake the policies decided upon by individual councils. Service delivery itself would be contracted out either to private companies or to the service centre depending on the relative costs of service provision and the feasibility of using private firms. The sixth

model along the Dollery and Johnson (2005) continuum is the agency model: municipalities would surrender completely operational control of the services they direct, but at the same time still enjoy political autonomy as elected bodies for a spatially defined jurisdiction. All service functions would be run by state government agencies with state government funds and state government employees in the same way as state police forces or state emergency services presently operate. Elected councils would act as advisory bodies to these state agencies charged with determining the specific mix of services over their particular geographical jurisdictions. Finally, the most extreme form of centralization occurs when several small councils are amalgamated into a single large municipality. Under amalgamation, constituent councils surrender completely all political autonomy and operational control to the new entity.

The Strategic Alliance has several features in common with some of the alternative models identified by Dollery and Johnson (2005). The key characteristic of the Strategic Alliance model is that each constituent local authority retains its political autonomy as if it was an individual council, while staff and resources across the participating councils are pooled, and divided into a number of functional units (nineteen in the case of the Armidale Dumaresq-Guyra-Uralla-Walcha Alliance), which provide services to all the councils involved in the process. Each council continues to pay for their existing resources and recovers

the cost of those resources used in the provision of shared services from the other councils utilising the service on an agreed basis (i.e. hourly rates, number of transactions processed, equal shares, and so forth). In its most simplistic form the model seeks to maximize the advantages that a larger amalgamated organisation could provide, like enhanced technical capacity and scope economies (Dollery and Crase, 2004), while at the same time avoiding the many disadvantages associated with larger amalgamated organizations, such as the loss of local autonomy, local democracy and a 'sense of place', and the inefficient 'one size fits all' approach to service delivery, thus improving decision making by decentralising it to the local level. The Strategic Alliance model embraces numerous parallels with contemporary business practice in the modern corporate sector such as those employed by Australia Post, Qantas, various credit unions and other financial institutions, and more recently by several state governments in Australia (most notably Queensland, Western Australia and, to a lesser extent, New South Wales).

The Strategic Alliance model is located somewhere between the ROC and the joint board models in the Dollery and Johnson (2005) continuum. The Strategic Alliance model involves substantially more than the *ad hoc* sharing of resources typically associated with ROCs, but nevertheless stops short of creating an additional entity to provide centralized shared administration along the lines of the joint board model. The Strategic Alliance model thus alleviates the need for an

additional separate political and bureaucratic structure associated with managing this additional entity and its attendant costs. The Strategic Alliance model also contains some parallels with Allan's (2001) virtual local government concept with political autonomy retained by each council and many services provided by a 'shared service centre'. The primary difference between these two models is that in the Alliance model the member councils retain all existing staff and other resources, and the 'shared service centre' is a virtual centre in that it is not a separate entity but rather existing staff are grouped into functional areas to provide services to all participating members. The retention of existing staff by the individual councils assists in scaling services to ensure their most efficient and effective provision. Put differently, a service might be provided by each individual council autonomously and locally, or a service may be provided between two councils, or the services may be provided on behalf of all participating councils. The aim of the model is thus to achieve 'aggressive reform with local voices'.

3. BACKGROUND TO THE STRATEGIC ALLIANCE MODEL

Following an abrupt reversal on its previous policy of voluntary local government amalgamation in NSW in the immediate aftermath of the most recent state government elections, the NSW Minister for Local Government (the Honourable Tony Kelly MLC) set in motion a broad-ranging review of local government boundaries in NSW, including the Armidale-Dumaresq Council, the Guyra Shire

Council, the Uralla Shire Council, the Walcha Council and the Inverell Shire Council. Mr Chris Vardon was appointed Facilitator of the Regional Review and charged with providing the Minister with advice on possible changes to local government boundaries and structures. *The Proposal for the Creation of a New England Regional Council* (the so-called ‘Vardon Report’), presented on 17 December 2003, represented the outcome of this process.

The Vardon Report on the New England Regional Council called for a drastic reorganization of local government involving a ‘merger of the whole of the Armidale-Dumaresq Council, the whole of the Uralla Council [and] a major portion of each of the Guyra and Walcha Shires’ (p.4). A new entity entitled the New England Regional Council, centred in Armidale, would replace existing councils under an entirely new system of representation: ‘It would transcend, and supercede, both the political and operational structures of those Councils, which would then cease to exist’ (p.4).

The Mayors of Walcha, Uralla, Guyra and Armidale Dumaresq councils sought a meeting with the Minister for Local Government to propose a Strategic Alliance model based around business process reviews, benchmarking, continuous improvement and shared services arrangements, which had the potential to deliver \$1.7m in annual savings in the short term and even more over the medium to long term. The NSW Minister for Local Government indicated that he was prepared to

look at alternatives to compulsory amalgamation and that he would thus consider allowing the time for councils to realize the promised savings. The NSW Department of Local Government sent representatives to Armidale to hold extensive discussions and receive presentations on the model and the alliance. NSW Minister for Local Government was advised at the end of the information gathering exercise that the model was robust and based on sound methodology.

After an abbreviated public consultation period and consideration of various alternative proposals by the affected councils, the NSW Local Government Boundaries Commission recommended that Uralla, Guyra, Walcha and Armidale Dumaresq Councils be amalgamated and identified the potential for \$1.1m in recurrent savings within the first twelve months. Upon receipt of the Boundary Commission recommendations, the Minister nevertheless decided to defer a final decision on amalgamation to allow time for the councils to develop and implement the model. Moreover, the Minister emphasized the need for councils to deliver on the promised savings or he would have no choice but to give effect to the Boundaries Commission recommendations.

4. CONCEPTUAL BASIS FOR THE STRATEGIC ALLIANCE MODEL

The key objective of the Strategic Alliance model is provide a vehicle for the efficacious reform of the councils in question while retaining local representation

by creating the ability to demonstrate efficiency and effectiveness through the development of objective local government performance measurement and management systems. Other strategic models and older as well as new merged entities were assessed and considered prior to selecting the Strategic Alliance model. Despite the fact that some of these other models were able to generate significant savings, they nonetheless struggled to objectively demonstrate many desired outcomes and in most cases still retained constraints to efficiency, such as duplication of effort and infrastructure, and incompatible systems and processes.

One of the challenges for councils that have experienced some kind of consolidation is an inability to assess the benefits of the merger and this is usually due to the lack of adequate information upon which to make this assessment. It is typically difficult to make an evaluation because merged councils often do not have a clear picture of where they have come from and thus cannot properly plan where they need to go. Questions are often posed as to the appropriateness of the adopted new structure: Is it efficient? How do we objectively measure efficiency? Any model adopted must therefore meet this shortcoming.

The Strategic Alliance model adopted by the councils of Armidale Dumaresq, Guyra, Uralla and Walcha is based around the conduct of business process reviews, benchmarking, and continuous improvement programs underpinned by an enabling information technology and connectivity platform and

shared service arrangements over nineteen activity operational areas. Although nowadays a common business strategy in the corporate world, this approach has not to any major and successful degree been applied to the Australian local government environment.

The Strategic Alliance model encompasses the following key elements:

- A detailed analysis of workloads and workflows;
- Demonstrated and credible efficiency savings;
- Benchmarking for provable performance measurement;
- Demonstrated effectiveness of operations;
- Production of objective performance measurement and measurement systems;
- Mechanisms for changing the culture of employees to focus on performance;
- Continuous improvement programs;
- A sound business case for change;
- New methods of delivery; and
- Retention of local decision-making.

The process itself commenced with the development of business cases for rapid results in plant utilization, risk management, banking and investments, and Geographical Information Systems (GIS). This was followed by an assessment of

all the business processes within the four councils which involved the construction of templates, assessment of IT efficiency enhancement processes as well opportunities for process improvement, and the determination of key output and outcome measures which will support future performance systems. This information will form the basis of benchmarking analysis by the Centre for Local Government at the University of New England, which will compare like-sized organizations in Australia and abroad in order to identify benchmarking levels and in turn allow for the development of continuous improvement programs. This exercise will identify opportunities for significant savings by reducing duplication amongst the four councils and establishing the workloads, workflows and structure through which to deliver shared services across the four municipalities.

The product of the business process and benchmarking information also enables the development of business cases for change that set out justifiable structures and identify efficiency savings that can be reinvested into asset sustainability, increased services, new services and value-adding areas that will give an even greater return, such as human resources, risk management, asset and project planning. These functions have tended to worsen over time due to financial constraints on NSW councils. This has proved to be poor strategy since these very areas have the greatest potential to generate efficiency gains. Indications to date are that the Strategic Alliance will deliver even greater savings than first predicted,

with the added intangible benefits of employee input and ownership proving a critical component of the change process and delivery of the desired project outcomes. This aspect of the model will produce additional productivity savings to those already pinpointed in the earlier business cases and substantially add to the growing list of real and recurrent savings. Further savings over time will be realized through streamlining of the shared services operations.

The Strategic Alliance model structure will allow the retention of local council entities as well as their elected bodies, thereby maintaining local autonomy and democracy as well as local decision making for the four constituent communities. Although it can be validly argued that there is an undoubted cost in retaining the four existing elected bodies, proponents of the Strategic Alliance model contend that these costs are more than offset by the social benefits flowing from continued local representation.

The four General Managers under the Strategic Alliance model have all been assigned portfolio areas of responsibility that incorporate a number of shared services areas and are assigned with the task of leading the development of the business cases and facilitating the necessary planning for the new operational structure and delivery of the shared services. Each General Manager's time will be divided between Strategic Alliance responsibilities and their individual council responsibilities. The required commitment by General Managers to the Strategic

Alliance will significantly reduce over time as the shared services are implemented with the respective parties taking more a ‘trouble shooting’ and continuous improvement focus.

5. OUTCOMES OF STRATEGIC ALLIANCE MODEL

The Strategic Alliance model has planned to go much further than other comparable cooperative models in pursuit of cost efficiencies. The original goal was to achieve \$1.7m in recurrent savings in the short term, and \$3.2m in the longer term out of a current combined budget of the four councils of approximately \$50m. The areas that were identified as potentially contributing towards the required savings may be termed ‘quick wins’, reduced duplication, works productivity, and streamlined council administration.

‘Quick Wins’

Member councils initially identified the following ‘quick wins’ areas of their operations upon which to base a business case for change. The areas selected were plant utilization, investments, risk management and Geographical Information Systems (GIS).

Plant Utilization - An analysis of plant operations was undertaken across the four councils looking at utilization rates, age of plant, replacement programs, future works programs, and hiring arrangements. The operations were benchmarked initially

between councils and then against comparable private enterprise benchmarks. It was obvious that there was enormous potential for cooperation between the four councils that could result in greater plant utilization, significant potential for plant rationalization, and hire of plant from cooperative partners instead of the previous practice of external hiring machines from private firms. The business case indicated that \$905k in one-off capital returns was possible in rationalizing plant with a further \$226k realizable savings in recurrent expenditure.

Investments – The four member councils were able to conclude a joint agreement that gave the three smaller councils access to previously unavailable financial services as well as the adoption of common investment strategies and the pooling of investments. As a direct consequence, constituent councils have been able to gain increased investment income valued at \$100k per annum.

Risk management – Councils with a cooperative approach and common systems have identified premium savings in workers compensation, public liability, property, and occupational health and safety expenses. These savings will be reinvested in audit, systems improvement and compliance services, providing the intangible benefit of less exposure by the organizations and individuals to Work Cover fines. Moreover, probable savings available for this reinvestment amount to \$133k.

GIS shared service – A GIS system will be imperative for the efficacious asset management and property shared services areas. One of the member councils did not

have GIS and two of the Alliance Councils have set up the service for the previously unserved council generating a net saving of \$68k. Furthermore, the GIS systems for two councils were upgraded and are maintained under common systems by the two implementing municipalities. This removed the need for the remaining two councils to employ this expertise locally, often a very difficult issue for small councils with limited technical expertise.

Reduced Duplication

The movement to shared services should generate economies of scale and reduce duplication. The Strategic Alliance has estimated that in the administrative core services areas, such as IT, finance, human resources, payroll, records, supplies, stores, plant and GIS, some 10 positions (representing 2.3 per cent total employment) could be abolished in the first instance and redeployed into other value adding positions, realizing around \$800k in additional savings. Over the longer term, 18 positions were believed initially achievable yielding \$1,450k in savings. However, it has been learned thus far in implementing the organizational development project that even greater savings will be achieved that can be reinvested into value adding areas.

Works Productivity

The business process reviews were completed in late December 2004. Nineteen shared services teams undertook an analysis of the business processes of the four

constituent councils to identify constraints and best practice amongst the four member municipalities in the first place and later against other identified external benchmarks for continuous improvement. Moreover, the shared services group made suggestions on where IT could facilitate improved processes that would save significant resources. These suggestions will be included in future IT tendering specifications and prototypes to allow the potential savings to be realized.

Works areas have been reviewed and improved. The need for greater works planning was identified as a major engine for creating savings. Due to ongoing financial constraints, Australian local government has typically reduced resources in this area, which have been counter-productive since good planning can reduce inefficiencies.

Total savings in this area have been conservatively estimated at about two per cent of the combined value of labour and contracts/materials, amounting to \$453k in recurrent savings in the short term. If 5 per cent can be achieved in the medium term, this would yield approximately \$1,135k.

Streamlined Councils

Over time, and with movement to shared services, the streamlining of services and operations should deliver further cost efficiencies. Streamlining savings has been estimated at \$160k.

Joint funding arrangements opportunities have already resulted and further opportunities will arise under the shared services model adopted. Shared services to the level being proposed under the Strategic Alliance model have already received significant interest from higher levels of government, and the Strategic Alliance has received funding for the development of a single Local Environmental Plan allowing the potential for one member council to offer planning services to the other constituent municipalities, and address the common difficulties experienced by smaller councils in obtaining qualified planning staff. Other funding applications have been made for joint State of Environment Reporting, on-line services and IT connectivity.

Performance Management and Measurement: Training and Reward

Organisational projects of the nature and magnitude being implemented by the Strategic Alliance induce substantial change and the need for employee training becomes critical. Employee redeployment and the changed work practices will place unprecedented stress on training, with the issue of reward also becoming important.

In expectation of the need for training and review of reward, Armidale Dumaresq Council has developed a performance evaluation system for individual, departmental and organisational performance assessment. The performance measures developed in the business process reviews will be integrated with salary and reporting systems, facilitated by a newly-developed IT performance management and assessment system. The salary system has been restructured to incorporate updated

skills and competencies and objective performance components, scaled so that the higher paid the position in the organization, the greater the performance component.

Local Autonomy and Employment Retention

Finally, two of the outcomes typically associated with Australian municipal structural reform processes involving amalgamation are a loss of local representation and political autonomy by consolidated councils, together with a sharp reduction in local government employment. In small regional and rural centres, a loss of council jobs can set in train a disastrous negative multiplier effect that can permanently damage or even destroy small struggling local economies. The Strategic Alliance model allows for the retention of local representation while still realizing the cost efficiencies sought by higher levels of government. It enables local government to evaluate their existing level of efficiency, and identify and demonstrate efficiency-enhancing opportunities. The Strategic Alliance model is thus not premised on a “slash and burn” reform approach; instead it provides for the redeployment of savings and staff to value-adding services and the allocation of freed funds to under-funded operational areas, such as asset sustainability.

6. CONCLUDING REMARKS

Amalgamation as a fundamental Australian municipal reform strategy will continue as long as local government remains financially unsustainable or where

local government is unable to demonstrate the efficiency or effectiveness of their operations to the satisfaction of state government policy makers. In effect, amalgamation forces the combined new operations of merged councils towards shared services, with little consideration for any attendant social and local representation damage, often leaving a destructive path where organizational turmoil reigns supreme for years, thereby limiting or even negating any desired gains from amalgamation. State governments across Australia are themselves at various stages in investigating shared services opportunities in their own operations and Australian local government traditionally follows state government reform initiatives. The Strategic Alliance model thus represents a rare opportunity to set a reform agenda ahead of state government policy initiatives that is better able to incorporate democratic and social considerations to enhance the prospects for improved service delivery outcomes for their respective communities rather than simply waiting passively for heavy-handed state government-inspired structural reform. It may also provide a superior position from which to lobby for improved revenue arrangements for financially beleaguered small regional and rural councils.

Locally controlled reform along the lines of the Strategic Alliance model developed by the Armidale Dumaresq, Guyra, Uralla and Walcha councils therefore represents a real alternative to a state government imposed reform

agenda. The Strategic Alliance model demonstrates that the financial savings sought by the NSW state government can be realized in a timely and sustainable manner, delivering the necessary organizational change without the bitter community opposition and organizational turmoil that typically disfigures the amalgamation landscape. The Strategic Alliance model should be able to provide convincing proof of the efficiency and effectiveness of operations of the four constituent councils and thereby combat the perception by state government policy makers of endemic local government inefficiency. It may thus deflect the relentless push for cost cutting underlying state government structural reform programs, with its inevitable consequences of falling infrastructure standards and reduced services.

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