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Regional and Rural Australian Local Government**

by

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Abstract

Australian local government finds itself at the vortex of various mounting pressures, including acute funding shortages, complex intergovernmental relationships, and forced structural reform programs, that have made the status quo unsustainable. State government policymakers have placed heavy emphasis on council amalgamations as their chief means of resolving the problems facing municipal governance. This paper argues that such reliance on the blunt instrument of municipal consolidation has been misplaced, not only because it is based on the mistaken premise that ‘bigger is better’ in local governance, but also because it ignores many other promising alternatives to amalgamation involving various combinations of structural change and process change better suited to the extremely diverse character of regional and rural local government in Australia.

Key Words: Amalgamation; local government; process change; structural change

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1. INTRODUCTION

Australian local government stands at a critical period in its history on the threshold of a new era. At least three sets of economic and political forces have combined to produce the current impasse. In the first place, inexorable and intensifying financial pressures mean that the *status quo* simply cannot be sustained indefinitely. The Commonwealth Grants Commission (CGC 2001, pp.52-53) has identified five main reasons for the current financial crisis in Australian local government: ‘Devolution’ – where a higher sphere of government gives local government responsibility for new functions; ‘Raising the Bar’ – where a higher tier of government, through legislative or other changes, raises the complexity and/or standard at which local government services must be provided, thereby increasing the cost of service provision; ‘Cost Shifting’ – either where a municipal council agrees to provide a service on behalf of a federal or state government (with funding subsequently reduced or stopped) or where some other tier of government ceases to provide an essential service thus forcing a local authority to take over; ‘Increased community expectations’ – where a given community demands improvements in existing municipal services or the provision of a new service; and finally, ‘policy choice’ – where specific councils voluntarily expand and/or enhance their services. Andrew Johnson (2003) has observed that in addition to these problems, local governments themselves are also partly

responsible for their own financial plight. In particular, a number of councils are reluctant to set their rates and other charges at realistic and sustainable levels. Given these monetary pressures, it is no exaggeration to stress that existing arrangements have only been maintained at the cost of steadily depreciating physical infrastructure; an approach with ominous long-run implications. Indeed, in its final report entitled *Rates and Taxes: A Fair Share for Responsible Local Government*, the House of Representatives Standing Committee on Economics, Finance and Public Administration. (2004, p.59) observed that ‘there is a significant infrastructure renewal gap across the country and asset standards are decreasing’.

Secondly, state and territory governments across Australia remain concerned over the operational efficiency of municipalities, particularly small regional and rural councils. A key feature of local government reform that this concern has engendered has been its heavy emphasis on council amalgamations as the primary engine in the drive for more cost effective local services (Vince 1997). Thus, during the ‘nineties South Australia, Tasmania and Victoria all underwent episodes of municipal consolidation of differing degrees of intensity (May 2003). 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 imminent prospect of

substantial municipal reform looming in Queensland, the Northern Territory and Western Australia.

Finally, legislative changes in the respective enabling acts of the different local government systems in Australia over the past few decades has witnessed a significant expansion in the role of local government and growing complexity in its relationships with state and federal governments. For instance, the *Local Government National Report, 2000-01* outlines highly complicated intergovernmental structures involving the Council of Australian Governments (COAG), over forty Commonwealth-State Ministerial Councils and forums, the Local Government and Planning Ministers' Council, and many other ministerial councils, many of which impinge directly on the activities of local government. Moreover, differences in the functions and responsibilities of the various state and territory municipal systems have widened over time, and the state government oversight mechanisms are now often quite dissimilar, severely diminishing the prospects of a uniform national approach to local governance. An uneven devolution of additional functions to local government within and between the different state and territories further complicates an already incoherent network of intergovernmental relations.

Solutions must be found to the current impasse. It need hardly be stressed that if the Australian local government community does not identify and propagate

feasible solutions to its own problems, then it cannot complain if higher tiers of government force potentially unpleasant ‘solutions’. Organised local government must thus seize the initiative in the present debate. Accordingly, this paper examines state and territory government attempts at enhancing municipal reform in regional and rural councils through structural change programs from the perspective that continued reliance on the blunt instrument of council amalgamations is not only counterproductive, but also misplaced in the light of other less drastic, but more promising, methods of improving operating efficiency whilst at the same time preserving local democracy. It is argued that both state government policy makers and regional and rural councils alike should focus on models of local governance involving cooperative relationships with neighbouring municipalities and improved institutional processes rather than forced consolidations.

The paper itself is divided into five main parts. The second section provides a synoptic description of the major problems surrounding council amalgamation as an instrument of structural reform in regional and rural Australia. Section three provides a brief outline of five promising alternative governance models, some of which have already been implemented in Australia. Section four provides a conceptual schema for considering alternative models of local governance involving structural change and process change more suited to

councils in non-metropolitan areas. Section five seeks to determine which of the models identified by Dollery and Johnson (2005) are the most suitable vehicles for the structural reform of regional and rural councils in Australia, with the focus falling on three recent examples made up of Riverina Regional Organization of Councils (REROC), the NSW Shires Association (2004) Joint Board model, and the New England Strategic Alliance. The paper ends with some short concluding remarks on the policy implications of the analysis.

2. PROBLEMS WITH COUNCIL AMALGAMATION

Although the notion that that ‘bigger is better’ in local governance once represented the bedrock of consensus amongst state and territory local government policy makers, successive episodes of council amalgamations in Australia over the years have eroded this consensus to the point where open scepticism has become the order of the day, especially in non-metropolitan areas of the country. In large part, this cynicism derives from a deep disillusionment with the observed real-world outcomes of actual amalgamation programs. For example, despite extravagant claims from proponents of both South Australian and Victorian council mergers in the ‘nineties, the economic results of these programs have been most disappointing. Thus, while the Victorian state government claimed at the time that its radical reform process would generate direct cost savings of 20 per cent, the actual outcome has been a mere 8.5 per cent, most of which has flowed

from competitive tendering and not the restructuring program (Allan 2003, p.75). In much the same way, the South Australian authorities heralded savings of 17.4 per cent, but in fact only achieved 2.3 per cent (Allan 2003, p.75). It should also be added that these realised savings did not take into account the massive indirect costs of council consolidations, such as lower economic activity and falling employment in rural and regional areas.

As a consequence of these disappointing outcomes, many in the Australian local government policy community are no longer convinced that municipal restructuring based primarily on amalgamation represents an effective means of improving council performance. This scepticism is widespread. For instance, following the recent NSW Government Inquiry into the optimal structure of local government in the Sydney metropolitan area, Commissioner Kevin Sproats (2001, p.36) concluded the purported benefits of amalgamation that were derived from empirical evidence were 'suggestive rather than conclusive'. Moreover, in their analysis of both the international literature and Australian experience on municipal consolidation, Dollery and Crase (2004, p.274) 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 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 sentiments have been expressed by Allan (2001), Bish (2000), Dollery (1997), Dollery (2003), Jones (1989), Katsuyama (2003), May (2003), Oakerson (1999), and Thornton (1995), amongst others.

Why has council amalgamation failed to improve the effectiveness of Australian local government? Dollery and Crase (2003) have identified three key economic problems surrounding council consolidation programs in Australia.

In the first place, advocates of municipal amalgamation invariably premise their arguments on the existence of significant economies of scale in Australian local government. This has proved largely illusory. The term 'economies of scale' refers to a decrease in average cost as the quantity of output rises and are frequently cited as a rationale for larger council jurisdictions. Accordingly, the bigger the jurisdictional unit, the better will be the per capita costs of service provision. In comparison to its counterparts in comparable countries, excepting New Zealand, Australian local government has a predominantly 'services to

property' orientation in terms of the goods and services it provides. However, despite its relatively narrow range, Australian local governments still provide a wide range of goods and services that are produced by heterogeneous technological means. Thus, for a given benefit region, there is no *a priori* reason for different goods and services to exhibit the same cost characteristics. On the contrary, there is every reason to expect that no uniform pattern of economies of scale will emerge across the range of good and services produced by Australian councils. For example, it is highly unlikely that the optimal service district for libraries will coincide with, or even resemble, optimal service districts for, say, domestic garbage collection, public parks, or sewage treatment services (Dollery 1997). Thus while larger councils may capture economies of scale in some outputs, they could equally reap diseconomies of scale in other areas. Sancton (2000, p.74) has crystallized the argument as follows: 'There is no functionally optimal size for municipal governments because different municipal activities have quite different optimal areas'.

After evaluating the international and Australian empirical evidence on economies of scale in municipal service provision, Byrnes and Dollery (2002) drew three main conclusions. In the first place, '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' (Byrnes and Dollery 2002, p.405). Secondly, existing Australian empirical work was almost uniformly miss-specified and thus did not measure scale economies at all. Finally, from a policy perspective, 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'. Thus while 'advocates of amalgamation have based their arguments on the proposition that substantial efficiency gains would flow from the formation of larger local authorities', to the contrary 'research on economies of scale in local government does not support this proposition' (Byrnes and Dollery 2002, p.405).

Secondly, even where economies of scale are significant, this may still not be relevant to optimal municipal size if provision of the service can be separated from production of that service (the so-called purchaser-provider split), since scale economies typically only arise during the production phase. Municipal councils too small to achieve all economies of scale on their own can nevertheless accrue the advantages of any scale economies by purchasing the good or service in question from other public agencies or private firms that are large enough production units to secure economies of scale. By contracting with commercial firms or other governments (and through analogous joint purchasing agreements with other councils, such as Regional Organizations of Councils (ROCs)), small councils can provide the quantity and quality of services desired by their limited

number of constituents and simultaneously enjoy the cost advantages deriving from scale economies in production (Witherby *et al.* 1999).

A third economic argument often put forward in support of local government amalgamation is that larger consolidated councils economize on their direct costs of administration and the compliance costs imposed on individuals who participate in the municipal political process. Administrative costs include the compensation paid to elected and appointed officials and staff and the overheads (buildings, supplies, utilities, etc.) required to support those officials. Compliance costs include the costs incurred by municipal voters to keep informed on issues and candidate positions and the potential cash and time costs of registering an opinion by participating in hearings, meetings, voting, etc. Few local governments can reduce these costs in aggregate.

If it is argued that council amalgamations will reduce administrative costs, then this is analogous to arguing that there are economies of scale in the administration of local government, just as there may be scale economies in the production of public services. However, there is obviously no guarantee that such opportunities will always, or even usually, exist. It could just as easily be argued that administrators become less effective the further removed they are from their constituents and operations they are supposed to coordinate. If this is the case, then diseconomies of scale could result, with larger governments requiring

proportionately more administrators (perhaps with more layers in the administrative hierarchy). Administrative scale economies could thus be a factor in favour of both larger and smaller local government units. In this instance, administrative economies become an empirical issue.

However, it can be argued on grounds of public choice theory that greater difficulties are involved in monitoring large municipalities. Ratepayers, as voters, cannot easily acquire the necessary information to assess whether or not councils are providing 'value for money'. By contrast, smaller councils are often less complex operations with a greater degree of transparency and consequently more amenable to scrutiny by ratepayers. If smaller municipalities are indeed subject to closer and more informed scrutiny, then it can be anticipated that they could experience greater public pressures to deliver local public goods more efficiently (see, for example, Boyne 1998 and Bailey 1999).

Empirical support exists for this contention. An implication that derives from the public choice paradigm, amenable to empirical analysis, is that a 'fragmented' local government system, containing numerous municipal entities, should be more efficient than a 'concentrated' system, with a few, large councils. After a study examining American empirical evidence on this question, Boyne (1998, p.252) concluded that 'the broad pattern of evidence suggests that lower spending is a feature of fragmented and deconcentrated local government

systems'. By contrast, 'consolidated and concentrated tend to be associated with higher spending'. This may mean that 'the technical benefits of large units with big market shares, such as economies of scale and scope, are outweighed by competitive and political costs, such as disincentives toward fiscal migration and problems of public scrutiny'. After his analysis of the empirical literature, Andrew Sancton reached the same conclusion: 'The public choice perspective shows us that it is no longer obvious that the existence of many municipalities within the same city-region causes wasteful overlap and duplication' (Sancton 2000, p.75).

It need hardly be added that numerous other problems also arise from amalgamation, especially in rural and regional areas. Chief amongst these are a reduction in the vibrancy of local democracy, less political representation and lower public participation, various deleterious effects on local economic development, including decreased economic activity, rising unemployment and the formation of 'ghost' towns, and a loss of 'sense of place' on the part of local residents.

3. ALTERNATIVE MODELS OF LOCAL GOVERNANCE

In their taxonomy of generic models of municipal governance specifically adapted to the narrow range of 'services to property' characteristic of Australian local government, Dollery and Johnson (2005) identified seven discrete alternative organizational types 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 this topology, 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. By contrast, 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.

The first of the seven alternative models in the Dollery and Johnson (2005) typology, located at one end of the continuum, are *existing small councils* that possess the most operational and political autonomy as well as highest degree of decentralization within the constraints of their respective state government acts. In the second place, the next most autonomous and decentralized model consists of *voluntary arrangements* between geographically adjacent councils to share resources on an *ad hoc* basis whenever and wherever the perceived need arises. Thirdly, *Regional Organizations of Councils* (ROCs) represent a more formalized version of the *ad hoc* resource sharing model, with considerable diversity in both geographic size and population, usually financed by a fee levied on each member council as well as a pro rata contribution based on rate income, population, or

some other measure of size. The *joint board (or area integration) model* is 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. In the fifth place, the *virtual local government model rests* would consist of several small adjacent 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. Two broad assumptions underpin this model: 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’. Moreover, a distinction should be drawn between service provision and service production; councils should thus only produce services where they enjoy a comparative economic advantage over other potential service providers. 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 identified in the Dollery and Johnson (2005) continuum is the *agency model*: here municipalities would surrender completely operational control of the services they direct, but 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, say, existing state police forces or state education departments. Under the agency model, elected councils would act as advisory bodies to these state agencies, determining the specific mix of services for their particular jurisdictions. The final model consists of the *large amalgamated council* since the most extreme form of centralization occurs when several small councils are consolidated into a single large municipality. In this model, pre-existing small councils surrender all political autonomy and operational control to the new organization.

4. STRUCTURAL CHANGE VERSUS PROCESS CHANGE

If council amalgamation is fatally flawed as a method of enhancing the efficiency of local government in regional and rural Australia, then how should local government policy makers tackle the problem? One way of examining the problem is to distinguish between structural change and process change as methods of improving the operational efficiency of municipal service delivery. *Structural change* involves a reorganization of the machinery of local government whereas *process change* refers to modifications in the methods employed by municipalities.

Although it is often very difficult to measure the long-term consequences of either structural change or process change in complex organizations like local authorities that provide a wide range of services in a milieu that inevitably trades-

off economic efficiency against various aspects of representative democracy, there can be little doubt that the costs involved in structural change are typically far greater than those associated with process change. The costs involved in structural change 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 *et al.* 1996, p.88). In the context of regional and rural Australian local government, usually afflicted by the tyranny of distance, the planning and management of structural change also impose significant travel costs. Moreover, division and bitterness between residents of different country communities that frequently accompany the amalgamation of regional and rural councils, often involving the migration of municipal employees from small outlying towns to regional centres, and the subsequent decline of these small towns, cannot be underestimated. Accordingly, Boston *et al.* (1996) contend that 'given that any major reorganization is likely to prove disruptive and costly, that certain teething problems are inevitable, and that a new organization might take a year or more to become fully effective, it is always worth asking whether a proposed structural adjustment is really necessary or whether a change in policy or

personnel might not be a better, cheaper, or simpler solution to the identified problem’.

This suggests that confronted by a choice between structural solutions or process solutions to a particular problem, such as enhancing the operational efficiency of municipal service delivery, 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. This conclusion is considerably strengthened by the earlier evaluation of council amalgamation outcomes in Australia. After all, despite grandiose claims by the advocates of municipal consolidation in South Australia and Victoria on the benefits of structural change, the results have been largely illusory.

However, as we shall see, the various alternative models of local governance to council amalgamations in regional and rural Australia almost all involve a combination of structural change and process change. Figure 1 serves to illustrate the general nature of the problem:

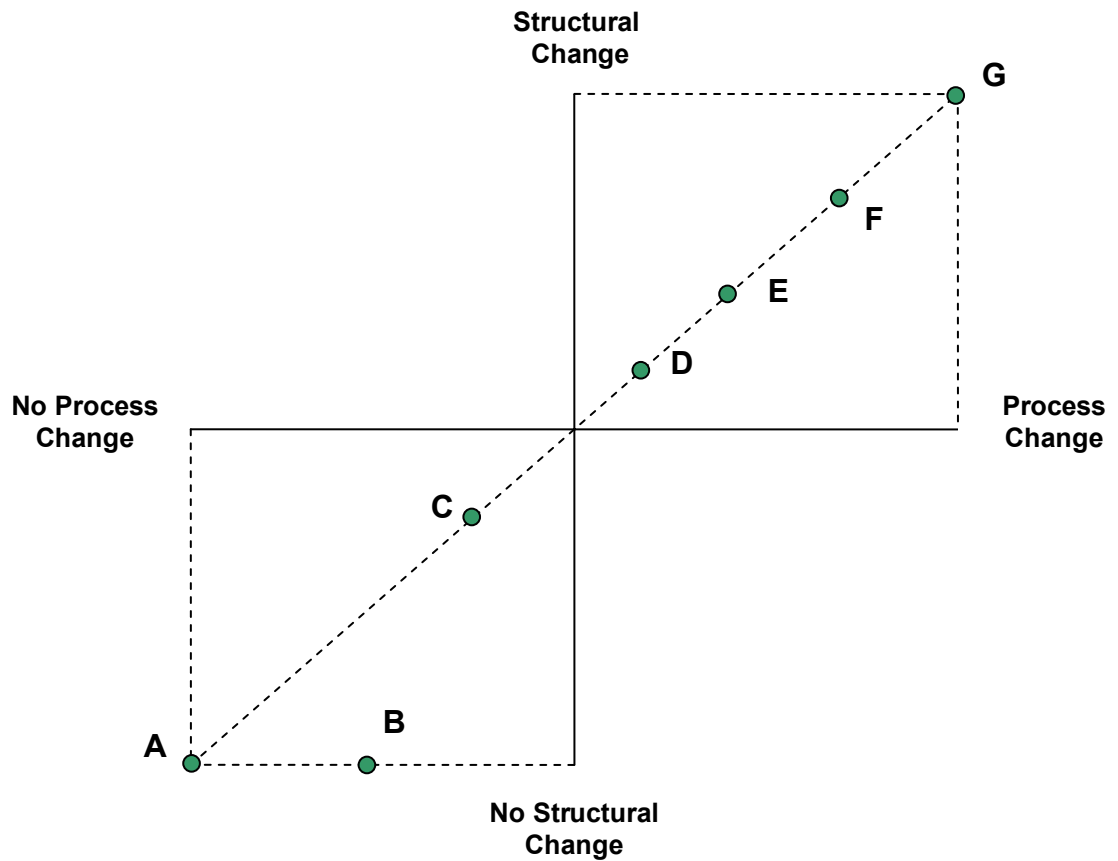


Figure 1: Structural change and process change

If we assume two polar opposite cases, with a large amalgamated regional council (G) in the top right hand quadrant and a small existing town council (A) in the bottom left hand quadrant, then we can locate the other alternative models of local governance in Figure 1 in terms of the approximate degrees of structural change and process change involved. Thus, *ad hoc* resource-sharing models (B) involve some process change, but little or no structural change. ROCs (C), area integration models (D), virtual local government (E), and agency models (F) all

require successively greater degrees of both structural change and process change. Given the arguments set out above concerning the relative high costs of structural change, as we move up the structural change scale, adjustment costs will inevitably rise.

5. MODELS SUITABLE FOR REGIONAL AND RURAL COUNCILS

If state government policy makers are intent on some degree of structural reform in their quest for enhanced efficiency in local government, which has typically been the case in recent Australian municipal history, then this automatically rules out the retention of existing small regional and rural councils and the invocation of only process reform measures without any structural reform. The question thus arises: What are the most rational models that should be selected outside of metropolitan areas so as to maximize economic efficiency at the lowest cost?

It has already been argued that the wholesale amalgamation of regional and rural councils will prove counterproductive. After all, previous programs of municipal consolidation in Australia have failed to achieve the desired results. Moreover, both international experience and the relevant empirical and theoretical literature on the topic offer a bleak prognosis for the success of further structural reform programs in Australia based on municipal amalgamation. Accordingly, given the high transitional costs attendant upon structural reform processes, which

of the remaining five models identified by Dollery and Johnson (2005) contain the best prospects for local government reform in regional and rural councils?

In the first place, it seems reasonable to remove the agency model from the list of promising candidates. The primary reason for this argument resides in the fact that if state governments assume all the current service provision activities of existing small regional and rural councils, then this will not involve the creation of several entirely new state government departments, but also imply a drastic restructuring of all the municipalities concerned. It need hardly be stressed that this will mean huge transitional costs, with all the associated economic and social costs flowing from such a radical program.

Secondly, while the virtual local governance model certainly appears inviting in an urban context, many of the assumptions on which it rests are not met in non-metropolitan areas. For instance, Dollery (2003, p.86) has shown that the Allan (2001; 2003) model of virtual local municipalities 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 rural and regional councils clearly do not meet these requirements’. Accordingly, a ‘one-size-fits-all’ structural solution to the problems of non-metropolitan councils ‘is simply not

feasible, even in terms of prescribed service delivery', especially in very large state jurisdictions, such as Western Australia, the Northern Territory and Queensland.

Three potentially promising models in the Dollery and Johnson (2005) taxonomy remain; *ad hoc* voluntary arrangements between small councils, ROCs and area integration models. We will now briefly examine each of these possibilities in the light of three actual analyses of alternative models.

Riverina Regional Organization of Councils (REROC)

REROC is located in the Riverina district of southern NSW, comprising 13 local government authorities with a combined population of over 120,000 residents spread across 41,000 square kilometers, with Wagga Wagga is its urban centre. REROC was established in 1994 for the specific purpose of bulk purchasing, but soon expanded to embrace resource sharing, joint policymaking and problem solving. The REROC Board consists of an elected member (usually the mayor) from each member council as well as the general manager. It meets every second month with decisions being taken on a consensual basis and is supported by an Executive Committee that convenes on alternate months to the Board. The Executive Committee, consisting of the Chair of REROC, four mayors and three general managers, establishes general strategic directions. Both REROC's chief executive officer and secretariat functions are outsourced on a contractual basis. At

the beginning of 2004 the secretariat consisted of four full-time personnel. REROC itself does not employ any staff. REROC membership fees are calculated on a combined pro-rata population basis: Fifty per cent of the budget is recovered by dividing the sum across all members evenly with the other 50% being recovered on a per capita basis. The Executive Committee determines the budget for the year.

The operations of REROC were comprehensively examined by the University of New England's Centre for Local Government in *Regional Capacity Building: How Effective is REROC?* (Dollery *et al.* 2004) after a study was undertaken over the period October 2003 to March 2004 involving an examination of published sources and substantive interviews with 13 general managers and 13 elected representatives from member councils.

Regional Capacity Building: How Effective is REROC? argued that the success of REROC could largely be ascribed to the effectiveness of the network structure it had created. REROC had three main 'formal networks': Member councils of REROC itself and the various sub-groups and working parties set up to consider particular issues; the broader networks that individual member councils have joined and which extend beyond the confines of the REROC structure; and the regional, state and commonwealth agencies that REROC engages with and associated networks, including the Riverina Regional Development Board, the

NSW Department of Youth and Recreation, and the Commonwealth Department of Local Government and Regional Services. Moreover, three important ‘informal networks’ augmented these formal networks: General managers of the member councils; professional officers employed within the member councils networking with colleagues from surrounding municipalities; and mayors.

But how effective has REROC been from the perspective of economic efficiency? REROC’s official evaluation of its own performance estimates that it has achieved savings in the order of \$4.5 million over the five and a half year period covering 1998 to 2003. These savings have occurred over a variety of activities, including reduced duplication through the common approach to implementing new legislative requirements; joint tendering; regional lobbying; and the co-operative sharing of resources, such as a regional waste officer and shared Road Safety Officers.

These estimated savings of \$4.5 million represent a total of \$360,000 per REROC council member over the five and a half years under review (or some \$65,000 per council per year). Dollery *et al.* (2004) examined the validity of the savings identified by REROC and compared these reported savings against the costs of providing the same services by other comparable local authorities. They contended that these savings are ‘real and measurable and an accurate reflection of the organization’s performance’ (Dollery *et al.* 2005, p.12). In general, they

concluded that ‘ROCs seem to offer a superior alternative to conventional forms of municipal restructuring, like council amalgamation, since they provide most of the economic and financial benefits with few of the drawbacks’ (p.14).

Joint Board or Area Integration Model

The Shires Association of NSW (2004) advanced the Joint Board model as a response to the NSW state government’s structural reform program aimed at amalgamating numerous regional and rural councils regardless of their individual performance and financial viability. The Joint Board concept thus represents a compromise that seeks to defend the interests of small councils by presenting an economic case for their continued existence as independent democratic organizations, simultaneously acknowledging the NSW state government’s intention to embark on comprehensive structural reform.

In order to ‘retain economic local government activity to the fullest extent possible in country areas’, the Shires Association of NSW (2004, p.2) proposed the Joint Board model based on the continuation of existing councils, but with a shared administration and operations overseen by a joint board of elected councilors from each of the member municipalities. Member councils would thus retain political independence, preserving local democracy, while simultaneously combining administrative staff and resources into a single enlarged organization,

and thereby securing scale economies, scope economies, and any other benefits that may flow from a larger administration.

The *Joint Board Model* represents an outstanding simulation exercise in municipal modeling that will set the standard for similar analyses of Australian local government. The model itself is built on eleven ‘structural considerations’ that define the hypothetical Joint Board council: Three pre-existing councils (X, Y and Z) combine their current administration and operations, with each retaining its original boundaries as well as its autonomy, independence and separate legal status. The number of elected councillors is reduced (and better remunerated), but still elected separately for councils X, Y and Z. An ‘overarching’ Joint Board (or County Council) is created with its own general manager and attendant staff to run the new entity. Each council still receives its own grant income, rates revenue, and other charges and fees, but contributes to the Joint Board on a *pro rata* basis. In the early stages, ‘each constituent council would continue to determine its own service standards, policies and planning instruments, but over time, they would be rationalised’. Moreover, ‘each council maintain[s] its Management Plan, Long Term Financial and Rating Plan, but over time the Management Plan [is] consolidated into one document’ (p.6).

In order determine the extent of the savings that could flow from the Joint Board model, analysts from the Centre for Local Government at the University of

New England conducted a simulation analysis of data from three hypothetical NSW country councils. With the caveat that ‘savings estimates are likely to vary between groups of councils considering implementing the board model as a result of the diversity among councils and the different methods available for implementing the model’, they nevertheless argued ‘that it would not be unrealistic for a group of local authorities adopting the Joint Board model to achieve savings in excess of 10% pa’ (Dollery and Johnson 2004, p.10).

Following their financial simulations, Dollery and Johnson (2004) drew some general conclusions regarding the Joint Board model. In particular, ‘the Joint Board model itself facilitates a split between the provider of services (i.e., the Joint Board) and the purchasers of services (i.e., the constituent individual councils) and can therefore assist in assessing additional alternative competitive providers that may arise in due course’. Various other advantages are evident: ‘The model is reversible if everything falls apart and there is not sufficient cooperation; predetermined service level agreements can be formed between individual councils and the Board to ensure higher levels of services and to increase accountability; the model has the potential to remove the duplication between the respective councils with the board undertaking common task and functions; it provides the ability to quarantine finances and projects to ensure differential levels of fees, charges, rates, loan borrowings and services that can be maintained

without the understandable fear of the largest centre dominating the projects undertaken and being able to relate fees paid to level of service which is not achievable under amalgamation with one budget and management plan; and it yields a regional focus on service where appropriate that is not readily available in smaller council operating individually'(pp.23-24).

Notwithstanding these advantages, Dollery and Johnson (2004) contend that the key to the success of the Joint Board model seems to reside in the ability of the Board and individual councils to cooperate 'amicably'. If this is lacking, then they foresee severe problems. Other problems identified by Dollery and Johnson (2004, pp.24-25) were summarised as follows: 'Individual council's set priorities, policy issues, fees and charges, but are at the mercy of the Board to determine the implementation program and to determine respective priorities among the councils; it provides a steeper organisational structure than smaller individual councils; the ability of individual council voters and councillors to influence the activities of the Board may be questionable and thus accountability is further removed; and there is the potential for indirect economic and social costs, like local unemployment and local reductions in economic activity, to intensify if employees are redeployed to the largest council area'.

New England Strategic Alliance Model

The New England Strategic Alliance model, in the New England region of northern NSW, which came into being as the result of a political compromise by the NSW state government in its 2003/4 forced amalgamation program, represents an amalgam of various models. It consists of the Armidale Dumaresq Council, the Guyra Shire Council, the Uralla Shire Council and the Walcha Shire Council. The Strategic Alliance model has been examined by Dollery, Burns and Johnson (2005).

The key characteristic of the Strategic Alliance model is that each member council maintains its political autonomy as if it was an autonomous municipality, while the employees and resources of all participating councils are pooled, and divided into nineteen functional units that provide services to all of the councils. Each council funds its existing resources, recovering the cost of resources used in the provision of shared services from the other local authorities on an agreed basis, such as hourly rates, transactions processed, equal shares, etc. The model thus seeks to maximize the advantages that a large amalgamated municipality could provide, like enhanced technical capacity and scope economies, simultaneously avoiding the disadvantages associated with big councils, such as the loss of local autonomy and democracy and the inefficient 'one size fits all' approach to service delivery, thereby improving decision making by decentralising it to the local level.

In this sense, the Strategic Alliance exhibits numerous parallels with current business practice adopted by Qantas, various credit unions and other financial institutions, and more recently by several state governments.

The Strategic Alliance model lies between ROCs and area integration models in the Dollery and Johnson (2005) taxonomy, involving substantially more than the *ad hoc* sharing of resources associated with ROCs, but falling 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 exhibits some of the characteristics of Allan's (2001; 2003) virtual local government with political independence maintained by each council, but many services generated by a 'shared service centre'. The essential difference between the two concepts is that member councils in the Alliance model keep all existing staff and other resources, and the 'shared service centre' represents a virtual centre since 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 given service might be provided by each individual council locally, or a service could be

provided between two councils, or the services may be provided on behalf of all participating councils. In essence, the model seeks to achieve ‘aggressive reform with local voices’.

The Strategic Alliance is not yet a year old and it is thus far too early to gauge its effectiveness. Yet the initial indications appear promising. After their initial analysis of the prognosis for the model, Dollery, Burns and Johnson (2005) have argued as follows:

‘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’ [i.e. plant utilization, investments, risk management and Geographical Information Systems (GIS)], reduced duplication, works productivity, and streamlined council administration’.

6. CONCLUDING REMARKS

This paper has sought to demonstrate that if state government policymakers are intent on at least some degree of structural reform as part of an overall strategy to improve the efficiency of local government, then two of the generic models contained in the Dollery and Johnson (2005) taxonomy are the best suited for regional and rural Australia; regional organizations of councils and area integration models. Although Australian municipal reform programs have typically used council amalgamation as their primary policy instrument, it is now

clear that this approach has been flawed, especially in non-metropolitan areas dominated by the ‘tyranny of distance’ and other impediments. Other approaches involving fundamental structural change, such as agency models or virtual local government, are also likely to impose prohibitive transitional costs. By contrast, joint board models and regional organizations of council not only provide a better combination of process change and structural change, with lower transformation costs, but also appear better able to accommodate the varied needs of regional and rural municipalities.

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