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Critical review of the empirical evidence on shared services in local government

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Abstract: Australian local government policy has undergone a major change in direction as policy elites have recognized the ominous dimensions of the problem of local council financial unsustainability and thereby realized that recent structural reform programs have done little to ameliorate this problem. As a consequence, attention has now moved away from forced amalgamation to focus on shared local services as an alternative means of achieving greater operational efficiency. However, an unfortunate feature of the present debate is that, with a few notable exceptions, very little effort has been expended on examining existing Australian and international empirical evidence on the performance of shared local service models. The present paper seeks to remedy this neglect by critically evaluating available Australian and international empirical literature on the outcomes of shared local service arrangements.

Keywords: Efficiency; local government; shared services.

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Introduction

Numerous recent state-based and national inquiries into the state of play in Australian local government have demonstrated conclusively that a great many local councils across the country find themselves in financially unsustainable circumstances. Moreover, the burden of this financial crisis has fallen most heavily on infrastructure maintenance and replacement (Dollery *et al.* 2006a). At the national level, the Commonwealth Grants Commission Report (CGC) (2001), the Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration ('Hawker Report') (2004) *Rates and Taxes: A Fair Share for Responsible Local Government*, and the recent PriceWaterhouseCoopers Report (PWC) (2006) *National Financial Sustainability Study of Local Government* all stressed the acute degree of financial distress in Australian local government and its impact on local infrastructure.

In a similar vein, several state-based inquiries initiated by state local government associations have arrived at analogous conclusions. While their emphasis sometimes differed, the South Australian Financial Sustainability Review Board Report (2005) *Rising to the Challenge*, the Independent Inquiry into the Financial Sustainability of NSW Local Government ('Allan Report') (2006) *Are Councils Sustainable*, the now defunct Queensland Local Government Association's (LGAQ) (2006) *Size, Shape and Sustainability* (SSS), the Western Australian Local Government Association Report (2006) *Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia* and the Tasmanian Local Government Association Report (2007) *A Review of the Financial Sustainability of Local Government in Tasmania* concluded unanimously that a large number of councils were financially unsustainable and local infrastructure had borne the brunt of the funding crisis.

Although primarily concerned with the question of financial sustainability, these inquiries also considered various methods of improving the operational

efficiency of local councils. Almost without exception, they have concluded that structural reform under the guise of forced amalgamation had not met its intended aims (Dollery *et al.* 2007). By contrast, shared services arrangements were seen as offering great promise by all report authors. However, with the sole exception of the now redundant LGAQ (2006) *Size, Shape and Sustainability* Program, no inquiry presented more than passing empirical evidence on the outcomes of shared service arrangements in Australia or elsewhere. Moreover, even the empirical discussion on shared services presented in the LGAQ (2006) *Size, Shape and Sustainability* document and its commissioned KM Management Consulting (KMMC) (2005) consultant report are badly flawed in several respects (Dollery and Akimov 2007)¹.

Given the current heavy emphasis on shared services as the preferred structural method of improving local government operational efficiency in Australia, there is thus an urgent need to examine available empirical evidence on the outcomes of shared local service arrangements in Australia and other advanced countries to remedy this neglect. This forms the major aim of the present paper.

The paper itself is comprised of four main parts. Section 2 provides a synoptic synthesis of published Australian evidence on the economic consequences of shared local government service models. Section 3 sets out the corresponding international empirical evidence on shared local services in local government. Section 4 considers this body of empirical knowledge in a

¹ Although empirical evidence on shared services has been badly neglected in these inquiries, an embryonic Australian academic literature does exist which includes the New England Regional Alliance of Councils (NERAC) (Dollery *et al.* 2005a), joint board models (Dollery and Johnson 2007), the Walkerville model (Dollery and Byrnes 2005), the Gilgandra model (Dollery *et al.* 2006b) and the Riverina East Regional Organization of Councils (REROC) (Dollery *et al.* 2005b). In general, this literature provides useful 'case studies' of shared service models but does not systematically evaluate their economic outcomes.

critical light and explores its chief policy implications. The paper ends with some brief concluding remarks in Section 5.

Australian Evidence

Very little solid empirical evidence exists on the economic effects of shared services in Australian local government. Moreover, available empirical evidence is exclusively in the form of surveys and case studies rather than standard econometric analysis on a service-by-service basis. Existing evidence consists of three surveys from local councils in South Australia, Western Australia and New South Wales respectively, four case studies from New South Wales and South Australia, and a literature review prepared by KM Management Consulting (KMMC) (2005) for the LGAQ (2006) *Size, Shape and Sustainability*. In essence, all Australian studies find that shared services arrangement can bring benefits in certain areas of local government. Table 1 summarises extant Australian empirical research.

To date, Australian scholars have ignored existing domestic empirical evidence and it is thus useful to briefly outline the essential features of the Australian empirical literature. Firstly, Lawson (2007) analysed the responses of 34 South Australian local councils in relation to their participation in joint local service delivery arrangements. He found that:

- Although financial benefits are a key declared reason for entering into such agreements, only a small numbers of council estimated actual savings achieved;
- Expected financial benefits were not the only reason for entering into shared service agreements; other reasons included improvement of quality and range of services delivered to local communities; and
- There were no new examples of resource sharing initiatives.

Moreover, the responses to surveys suggested the six most common areas for resource sharing arrangements between local councils. These are (i)

waste management; (ii) environmental health/development assessment and town planning; (iii) shared use and purchase of physical assets; (iv) back-office operations; (v) access to IT services; and (vi) governance, compliance and audit services.

A second survey of local councils in Western Australia was conducted by Burow Jorgensen and Associates (BJA) (2006). 55 out of 142 councils responded to their survey, including those in rural and metropolitan WA. 92 per cent of respondent councils indicated that they have had experience with resource sharing. Notably high rates of participation in resource sharing were observed in regional, and especially remote, areas. The most commonly shared services included: (i) waste disposal/collection and recycling; (ii) road works; (iii) shared equipment; (iv) IT services; (v) human resources; (vi) health and planning; (vii) shared library facilities and (viii) bush land management.

A third similar survey was conducted in the NSW by Byrnes (2005). Eight services suitable for shared delivery were identified. They included: (i) fire protection; (ii) emergency services; (iii) health administration and planning; (iv) noxious plants; (v) museums; (vi) water and wastewater; (vii) tourism and regional promotion; and (viii) sale yards and markets. In addition, Byrnes (2005) identified on seven areas that respondents believed were better offered exclusively 'in-house' by local councils themselves. These included: (i) public cemeteries; (ii) public conveniences; (iii) public halls; (iv) swimming pools; (v) sporting grounds; (vi) parks and gardens; and (vii) real estate development.

Four Australian studies have provided tangible examples of the successful implementation of resource sharing arrangements between local councils, with specific reference to the savings and other benefits that resulted from these initiatives. For example, Dollery and Byrnes (2005) examined the case of the Walkerville Council in the South Australia and its experience with shared service delivery involving neighbouring municipalities. The Council entered into nine agreements with various councils to jointly deliver the

following services: (i) waste collection and recovery; (ii) home care; (iii) crime prevention; (iv) library facilities; (v) environmental protection and health; and (vi) joint inspection services. All agreements proved to be beneficial for the council either in terms of cost savings or improvement in the range and quality of services.

A second study by Dollery *et al.* (2005a) examined the Strategic Alliance Model implemented by the Armidale Dumaresq, Guyra, Uralla and Walcha councils. This paper provided an outline of both projected savings targets and the areas in which these savings are expected to be realised. These areas included: joint plant utilization, GIS services, IT, finance, human resources, payroll, records, supplies and stores. However, the paper has a major shortcoming; it only presents estimated savings in various areas and not actual realised savings.

LGAQ (2005) *Size, Shape and Sustainability of Queensland Local Government* Discussion Paper cited an example of another successful strategic alliance of three NSW rural councils – Wellington, Blayney and Cabonne. The authors argued that the councils had achieved \$720,000 in savings during first ten months of cooperation. The major areas in which savings were recorded were records storage, road maintenance administration, OHS & Risk Management training, plant purchases, staff secondment, promotion and tourism, and printing and stationery.

A final case study of resource sharing arrangement in Australian local government was conducted by Dollery *et al.* (2005b) into the thirteen council Riverina Eastern Regional Organisation of Councils (REROC) in southern NSW. REROC has implemented resource sharing since 1998. It was able to achieve savings of \$4.5million over five and half years 1998 to 2003. Areas in which resource sharing was the most beneficial included: (i) waste management; (ii) joint purchases and tenders; (iii) IT; (iv) administration and compliance; and (v) lobbying activity.

The last study in this synoptic review of the empirical literature is the *Shared Services: Queensland Local Government* report prepared by KMMC (2005) for the LGAQ. This paper argued strongly in favour of the shared provision of services by local governments and based its opinions on theoretical arguments and a review of various research reports. However, it failed to draw the crucial distinction between shared service models in local government *per se* and all levels of government and thus included a large number of irrelevant references and a distinct lack of specific empirical examples of the benefits of shared service arrangements in local councils.

A summary of Australian empirical evidence is presented in Table 1.

Table 1: Australian Empirical Evidence on Shared Local Service Arrangements

Publication	Basis for argument	Sample	Key Findings
Australia			
Lawson (2007)	Survey	34 SA Local Councils	Identified six service areas with the greatest resource sharing opportunities, as well as some impediments to implementation of shared services.
Burow Jorgensen and Associates (2006)	Survey	55 WA Local Councils	92 per cent of councils were engaged in resource sharing in various areas, including waste collection, recycling and disposal, HR, IT , road works, library facility, etc.
Byrnes (2005)	Survey	19 NSW Metropolitan and Regional Councils	Identified eight services most suitable for resource sharing and seven services that should be provided locally.
Dollery and Byrnes (2005)	Case study	Walkerville Council, SA	Listed nine regional co-operative agreements Walkerville had entered into and provided estimates of benefits.
Dollery <i>et al.</i> (2005a)	Case study	Armidale Dumaresq, Uralla, Guyra and Walcha Councils, NSW	Strategic Alliance of the Councils brought substantial benefits/savings through collaboration in the number of areas. The beneficiary areas are listed.
KMMC (2005)	Literature Review	Not applicable	Identified six services most able to be successfully delivered through regional services units and three services most suited to delivery on a shared regional basis
Local Government Association of Queensland (2005)	Case study	Wellington, Blayney and Cabonne Strategic Alliance, NSW	The Alliance achieved \$720,000 savings in first ten month of operation through co-operative arrangements, joint purchases and staff and resource sharing.
Dollery <i>et al.</i> (2004)	Case study	Riverina Eastern Regional Organisation of Councils (REROC), NSW	REROC achieved savings of \$4.5million through reduced duplication, joint tendering, regional lobbying and co-operative sharing of resources.

International Evidence

In the main, international evidence derives from English-language journals and reports. However, there is a paucity of relevant studies and most evidence comes from the British experience. In Britain, the issue of the improvement in productivity of public service delivery (including local government services) has been a central focus of the Blair government, following the 'Gershon Review' (Gershon 2004). Evidence on shared services as a method of enhancing local government services largely stems from official reports produced by local councils. The striking feature of the international literature is lack of the empirical studies in the academic literature. By contrast, two of five empirical papers from North America are academic articles.

In accordance with legislation enacted by the Blair government in Britain, local councils are required to submit so-called bi-annual *Local Authorities Efficiency Statements*. In the initial *Statement*, councils outline their plans for productivity improvement in local service delivery, followed by the 'end-of-year' reports on whether set targets were actually achieved. Although reports are available for both the 2004/2005 and 2005/2006 financial calendars, we report here only those for 2005/2006 financial year, largely due to similarity of findings for both years. Numerous British councils report joint service delivery arrangements as a method of delivering cost savings and improving the quality and range of delivered services. Most frequently cited areas include joint procurement, IT and HR services, back-office functions and compliance (Communities and Local Government 2006a; 2006b; 2006c; 2006d; 2006e). For example, the Worcestershire County Council (2006) has achieved gains of £503,000 in procurement through consortium arrangements.

A second case of successful shared service delivery is presented in a report by PriceWaterhouseCoopers (2005, 25). The Anglia Revenue Partnership created a shared service centre to provide benefits services for the population

of two rural councils. The study contends that both councils achieved 'top quartile performance along with significant savings'.

Another source of empirical evidence from the United Kingdom comes from the survey commissioned by the Serco Solutions (2005). The findings of the study are based on interviews of senior finance managers in 102 local authorities across England (or 26 per cent of all local authorities). The survey found that 86 per cent of the respondents did not have any objections against shared service delivery. Moreover, they indicated areas where they believed most benefits from shared service approach can be accrued. These included (in decreasing order of importance): Revenue and benefits, transactional services, IT, waste, back-office, contact centres, procurement, HR and payroll. The study provided additional insight into the main perceived impediments to entering into shared service agreements. These are: (i) too many decision-makers; (ii) difficulties on agreeing on the right approach; (iii) conflicting objectives; (iv) loss of intellectual property; and (v) inadequate benefits from the shared service agreements.

North American empirical evidence is contained in five studies; two academic articles and three research reports. Four papers are American, with one focussed on the Canadian experience. For example, Ruggini (2006) provided a number of examples of successful shared service arrangements across the United States. They fall in areas such as joint procurement, emergency and police services, as well as records management. Similarly, Honadle (1984) presented successful inter-municipal cooperation cases in procurement, IT, police and fire services, health services and bus system operation. Both papers point to the possible difficulties in implementing shared service arrangements, like complex legal issues related to cost allocation, capital improvements, labour agreements, liability and indemnification, and the fear of the loss local control over functions by municipalities.

Derman and Gates (1995) base their arguments on 1991 survey by the New Jersey Department of Community Affairs. Over 400 'interlocal' service

programs are operated by New Jersey municipalities, including 38 purchasing cooperatives and more than 20 joint insurance funds. However, the authors argued that nearly in all local government functions, except police and fire-fighting, provide scope for shared service arrangements. These arrangements are especially recommended for smaller, geographically compact communities.

The final American study is a survey of 1,283 municipalities and counties conducted by International City/County Management Association (2002). The survey revealed that around 17 per cent of the all local services were delivered through shared service arrangements. The most popular shared functions were waste and water management, bus transit, health, human services, and legal and taxation matters.

An interesting Canadian study is a joint task force report of Alberta Association of Municipal Districts and Counties and Alberta Urban Municipalities Association (2004). It is based on the survey of the members of both associations. Although the report does not provide specific examples or benefits of shared service cooperation, it suggests 36 potential areas for joint service delivery. Moreover, 17 potential barriers to entering into cooperative agreements are listed.

A summary of international empirical evidence is presented in Table 2.

Table 2: International Empirical Evidence on Shared Local Service Arrangements

Publication	Method	Sample	Key Findings
United Kingdom			
Communities and Local Government (CLG) (2006a)	Case studies	73 Local Councils	Shared services were one of the key approaches to efficiency gains. Some areas where shared services were successful are listed. Acknowledges some failures of shared services arrangements.
CLG (2006b)	Case studies	81 Local Councils	Shared services were one of the approaches to efficiency gains. Some areas where shared services were successful are listed.
CLG (2006c)	Case studies	69 Local Councils	Shared services were one of the approaches to efficiency gains. Some areas where shared services were successful are listed.
CLG (2006d)	Case studies	80 Local Councils	Shared services were one of the approaches to efficiency gains. Some areas where shared services were successful are listed.
CLG (2006e)	Case studies	64 Local Councils	Shared services were one of the approaches to efficiency gains. Some areas where shared services were successful are listed.
Worcestershire County Council (2006)	Case studies	Worcestershire County	Achieved £503,000 efficiency gains in procurement through consortium arrangement
PriceWaterhouseCoopers (2005)	Case studies	The Anglia Revenue Partnership of two rural councils	Both councils achieved top quartile performance along with significant savings.
Serco Solutions (2005)	Survey	26 per cent of all local authorities in England	Identified nine areas of the greatest potential for a shared service approach and five barriers to shared services.
Other evidence			
Ruggini (2006)	Case studies	Various cities and counties in the USA	Provides examples of successful shared service arrangements and lists some common reasons for shared service agreements.
McKinlay Douglas Limited (2006)	Case studies	Three examples of regional cooperation in New Zealand: Wairarapa, Taranaki and Wellington	Provides three examples of successful inter-council cooperative arrangements
AAMD&C/AUMA Rural/Urban Cost-Sharing (2004)	Survey	Local authorities in Alberta region	Finds that cost-sharing agreements can have a significant impact on economic viability and quality of life. Lists potential areas for cost-sharing agreements.
International Management Association (2002)	Survey	1283 municipalities and counties in the USA	17 per cent of all local services delivered through some type of cooperative arrangement. Major areas are waste and water management, bus transits, health, human services, legal and taxation matters.
McFarlane (2001)	Case studies	Municipalities in Western Canada	Describes regional cooperation/shared service arrangements in Western Canada. Lists reasons for/ barriers to entering into such arrangements.
Derman and Gates (1995)	Survey	Local authorities in the State of New Jersey	Suggests that shared service agreements were widely used to provide majority of the functions of local government with some exceptions. Identifies problematic aspects of sharing services.
Honadle (1984)	Case studies	Various localities in the USA	Provides examples of successful shared services arrangements and lists some common reasons for shared service agreements.

Implications of Empirical Evidence

What policy implications can be drawn from the rather scant Australian and international empirical evidence we have presented? Firstly, there is little 'hard-core' rigorous evidence in support of the local shared service arrangements and no such evidence against this approach. However, from existing 'soft-core' evidence it seems that shared service arrangements can be beneficial for councils both in terms of cost savings and enhanced service quality. Thirdly, the success of particular arrangements seems to vary depending on the specific local circumstances. It thus appears that all possible impediments and shortcomings of shared service delivery should be carefully considered prior to the conclusion of any agreement.

Our fifth general policy implication centres on the types of local services most suitable for shared service models. Six most popular broad areas are cited in empirical evidence: (i) procurement; (ii) human resources; (iii) governance, compliance and audit services; (iv) IT; and (v) waste management. Table 3 provides summary of the supporting evidence for these six (broadly-grouped) most popular functional areas.

A final conclusion concerns the overall role of shared services as one amongst many means of ameliorating the financial constraints on local councils. There is little theoretical argument and no empirical evidence that shared service arrangements can solve all the service provision problems of local governments. All the work cited see shared services as a useful cost-reduction and quality enhancing tool rather than a general panacea.

Table 3: Most Popular Shared Service Functional Areas

Reference	Service	Waste Management	Use and procurement of physical assets	Back office operations	I T	Governance, compliance and audit services	H R
Lawson (2007)		√	√	√	√	√	
Burow Jorgensen and associates (2006)		√	√		√		√
Byrnes (2005)							
Dollery and Byrnes (2005)		√					√
Dollery <i>et al.</i> (2005a)			√	√	√		√
KM MC (2005)							
Local Government Association of Queensland (2005)			√	√			√
Dollery <i>et al.</i> (2004)		√	√		√	√	
CLG (2006a, b, c, d, e)			√	√	√	√	√
Worcestershire County Council (2006)			√				
PriceWaterhouseCoopers (2005)							
Serco Solutions (2005)		√	√	√	√		√
Ruggini (2006)			√	√			
AAMD&C/AUMA Rural/Urban Cost-Sharing (2004)		√	√			√	√
International City/County Management Association (2002)		√				√	√
Derman and Gates (1995)			√			√	
Honadle (1984)			√		√		

Concluding Remarks

As we have seen, a spate of recent national and state-based inquiries into the financial sustainability of Australian local councils have concluded that amalgamation most certainly does not represent a ‘silver bullet’ for curing the financial ills of local government. Without exception, these reports recommended shared local service arrangements as a superior structural alternative to amalgamation in terms of reducing costs and improving operational efficiency. However, with the sole exception of the now defunct LGAQ (2006) *Size, Shape and Sustainability* document, none of these inquiries considered available empirical evidence on shared services in any depth.

In order to remedy this defect in the Australian literature on local government, we have gathered the scant Australian and international evidence on shared local services together in an easily digested form for the first time. It is hoped that this will provide a useful basis for local government policy makers to reflect on the comparative efficacy of shared local services, an evidential platform for deciding on which services are suitable for shared local delivery, and the source of at least some worthwhile policy advice.

The available empirical evidence we have been able to collect is suggestive rather than persuasive. It appears clear that shared local service models by themselves will never represent a panacea for the deep financial problems confronting a large number of contemporary Australian local councils. For instance, the urgent need to improve local infrastructure maintenance and investment will require funds of a magnitude far beyond the possible reach of many non-metropolitan local authorities. Indeed, some commentators, like Dollery *et al.* (2006a) and PWC (2006), have argued that only massive monetary injections by the Commonwealth government in the form of a national local infrastructure asset renewal fund will be sufficient to deal with the local infrastructure renewal fund.

However, as we have seen, the judicious use of shared service models for carefully selected local government service functions can make a modest contribution to cost savings and improved local service provision. But shared service arrangements should nonetheless be implemented on the understanding that they represent only one of several policy instruments that are necessary to cure the current financial ills of many Australian local councils.

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