

Working Paper Series

05-2007

April 2007

An Analysis of Shared Local Government Services in Australia

Brian Dollery, Alexandr Akimov and Joel Byrnes

School of Economics & Centre for Local Government, UNE

Abstract: Widespread enthusiasm amongst Australian policy elites for structural reform in local government has evaporated as disappointing outcomes of council amalgamation programs became evident. As a consequence, emphasis has now shifted towards shared serviced models as a means of enhancing service provision and reducing costs. However, a disturbing feature of the current debate on shared services has been the absence of a well-articulated economic and political rationale for this form of service delivery, a lack of analysis of alternative models of shared service provision and a neglect of available empirical evidence. This paper seeks to remedy these deficiencies by considering the analytical foundations of shared local services, conducting a review of alternative models as vehicles for shared services and evaluating available empirical evidence.

Keywords: Efficiency; local government; shared services.

Editor:

Professor Brian Dollery, University of New England

Editorial Advisory Board:

Joel Byrnes, University of New England

Dr Lin Crase, La Trobe University

Galia Akimova, University of New England

Dr Craig Parsons, Yokohama National University

Professor Lorenzo Robotti, Università Politecnica delle Marche

Mayor Ian Tiley, Clarence Valley Council

Professor Joe Wallis, American University of Sharjah

Note: All papers in the WP series have been refereed



Copyright © 2007 by the Centre for Local Government, UNE. All rights reserved. No part of this working paper may be reproduced or utilized in any form or by any means, electronic or mechanical, including photocopying, recording, or by information storage or retrieval system, without permission from the Centre.

Centre for Local Government, School of Economics, University of New England, Armidale NSW 2351. Phone: + 61 2 6773 2500, Fax: + 61 2 6773 3596. Email: bdollery@une.edu.au

Introduction

For more than a century, structural reform has been the primary policy instrument for enhancing the operational efficiency of Australian local government (Vince 1997). However, in a recent analysis of national and state-based local government inquiries in Australia, Dollery *et al.* (2007) have demonstrated that the longstanding Australian consensus on efficacy of amalgamation has finally broken down. The reasons for this seismic shift in policy maker perspectives are manifold, but include a growing disillusionment with the economic and social effects of previous municipal merger programs. The proof of the pudding has indeed been in the eating!

An important consequence of this transformation in attitudes has been a change in emphasis away from council consolidation towards shared services as a potentially successful method of improving the operational effectiveness of local government service provision. However, this policy shift has unfortunately not been accompanied by an adequate analysis of the economic basis for shared services, feasible alternative models for shared service arrangements and available empirical evidence on the economic efficacy of shared services, with the partial exception of the Local Government Association of Queensland (LGAQ) *Size, Shape and Sustainability Review Framework* as outlined in the *Size, Shape and Sustainability: Guidelines Kit* (LGAQ 2006). Accordingly, this paper seeks to remedy this neglect by examining these aspects of the problem.

The paper itself is comprised of five main sections. Section 2 provides a synoptic review of the views of recent national and state-based public inquiries into local government on council cooperation and shared services. Section 3 briefly sets out the analytical foundations for shared services. Section 4 considers alternative models of local government that could serve as conduits for shared service provision whereas section 5 summarizes available empirical evidence on shared services. The paper ends with some brief concluding remarks in section 6.

Australian Local Government Perspectives on Shared Services

Despite the newfound enthusiasm for shared services as a means of enhancing service provision and reducing the costs of service delivery, a disappointing feature of the Australian debate on shared municipal services has been the comparative neglect of the economic and political rationale for a shared service model as opposed to other methods of achieving the same outcome, most notably structural reform in the guise of council amalgamations.

However, at least some thought has been directed at this important question in some of the recent state-based inquiries into local government as well as other documents. For instance, a Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration (Hawker Report) (2003), entitled *Rates and Taxes: A Fair Share for Responsible Local Government*, initially set up to investigate the problem of 'cost-shifting', briefly considered the potential for shared services in the Australian local government milieu from the perspective of the Commonwealth government. After a review of submissions made to the Committee in Chapter 5, the Hawker Report (2003, 97) concluded that 'the efficiencies of local government can be improved through a mixture of changes that may include partnerships, regional cooperation and/or amalgamations', although it stressed that 'one answer does not fit all'. It recommended that the federal government should engage 'established ROCs and other regional bodies which have demonstrated their capacity to be involved in the regional planning and delivery of federal and state government programs'.

Secondly, the South Australian Financial Sustainability Review Board (FSRB) (2005) *Rising to the Challenge* report, while primarily concerned with local government sustainability, nonetheless addressed the shared services question in passing. The South Australian Report (2005, 85) contended that

cooperation through shared service provision 'can be a practical and cost-effective way for councils to share experience and resources, tackle common tasks, or take advantage of economies of scale'. It argued that existing ROCs and area integration models represented the best institutional vehicles for this purpose. In addition, the South Australian Report identified seven 'financial and non-financial benefits for councils working together: Lower 'staff costs'; 'access to skills and expertise'; 'exchange of best practice'; 'procurement savings' from scale economies; improved 'community outcomes'; 'coordinated services'; and 'improved compliance with legislation and standards'. Recommended areas for cooperation included 'many administrative services such as IT, payroll and rate administration'.

Thirdly, after questioning the efficacy of council mergers, the wide-ranging New South Wales Independent Inquiry into the Financial Sustainability of Local Government's (LGI) (2006) *Are Councils Sustainable* report commissioned work by Byrnes (2005) and Allan (2006) to investigate the types of services most amenable to sharing between councils. In his report, Byrnes (2005) found that in regional and rural councils could feasibly 'either pool or share service provision on a regional basis' in 'fire protection', 'emergency services', 'health administration and inspection', 'noxious plants', museums', 'water and wastewater', 'tourism and area promotion', and 'saleyards and markets'. Moreover, Allan (2006) identified numerous 'back office' and 'front office' activities suitable for sharing. In general, the LGI (2006, 262) specified the characteristics of local government functions amenable to outsourcing, 'shared service centres' or 'independent specialist providers'. These were 'low core capability'; 'high supplier availability'; low task complexity'; high economies of scale; highly 'specialised technology'; and low asset specificity where a 'limited term contract does not require a supplier buying an expensive asset'.

In a very broad approach to contemporary local government, the LGAQ has developed a local government reform program embodying a *Size, Shape and Sustainability* Review Framework, which is outlined in the *Size, Shape and*

Sustainability: Guidelines Kit (LGAQ 2006). As part of its endeavour, the LGAQ commissioned KM Management Consulting (KMMC) (2005) to consider the problem of shared services. The KMMC Report (2005, 2) argued that five major benefits could flow from a shared service arrangement: Scale economies; 'leveraging of technology investments to achieve cost savings and improved service delivery'; 'standardisation, consistency and continuous improvement of processes' to provide improved service provision; 'achievement of a customer service focus'; and greater concentration on 'strategic outcomes'. The Report contends that three main institutional vehicles are suitable for shared service provision: A 'specific shared services centre'; outsourcing; and partnerships with private firms. Four criteria are proposed to identify 'appropriate' services for shared delivery: (a) Strategic services requiring expert local knowledge should be retained 'in-house'; (b) 'Non-strategic, low-risk, rule-based' and 'high volume transaction processing' services could be shared; (c) Services requiring 'access to [the] latest technology without ongoing significant capital investment or a requirement for specialist expertise' could be shared; and (d) services in which expert skills not readily attainable by councils should be garnered through service sharing or outsourcing.

The Western Australian Local Government Association's (WALGA) (2006) *Systemic Sustainability Study* briefly canvassed the question of shared services. It maintained that 'there is much greater scope for resource sharing in the Western Australian local government sector'. While it cautioned that claims concerning scale economies may be exaggerated, it nonetheless contended that 'we see particular advantages to the industry of agreed regional pool arrangements for key staff back office services and for some whole-of-region infrastructure services' (WALGA 2006, 68).

Finally, at the national level, a PriceWaterhouseCoopers (PWC) (2006) report, entitled the *National Financial Sustainability Study of Local Government*, commissioned by the Australian Local Government Association (ALGA) considered shared services as a potentially fruitful avenue for improving

municipal efficiency. It identified three methods of approaching the problem. Firstly, cooperative cross-council efforts in the areas of 'bulk purchase or procurement of goods and services'. Secondly, the development of 'specialised lead service provider' in groups of councils, where each member local authority specialises in a particular service and contracts its services to other member municipalities. Thirdly, 'shared corporate services' with joint 'back-office' services, including 'human resources', 'finances', information technology, and 'administration' (PWC 2006, 118-119). These approaches could generate 'cost savings, productivity improvements and better training for staff'. However, the PWC Report stressed that 'in remote and regional areas regional service delivery can be limited by large distances between councils'.

Analytical Foundations for Shared Municipal Services

From our synoptic review of recent national and state-based inquiries into contemporary Australian local government, it seems clear that only the NSW LGI (2006) and the ongoing Queensland LGAQ (2006) program paid any attention to the desired attributes of shared council services. While all other reports viewed shared service models in a benevolent light, almost no attention was directed at determining the analytical foundations for this approach to local government service provision. We now briefly consider the essential features this important question.

The conceptual case for shared services rests on two main propositions. In the first place, strong equity and efficiency arguments can be made in favour of the continuation of decentralized democratic decision-making in the form of local political autonomy for municipal councils. These arguments are typically subsumed under the generic term 'subsidiarity' implying that 'government powers should be exercised at the lowest level of government possible' (Bailey 1999, 18). Put differently, in equity terms, existing local councils, quintessentially exemplifying democracy at the local level, are legitimate institutions for the political aspirations of small communities and thus represent a justified source of public expenditure. The exact nature of local

democracy still requires further qualification. For instance, should we have direct democracy, representative democracy, or some combination of the two? But the answer to these questions does not impinge on the problem of shared services.

In efficiency terms, the continued existence of local autonomous councils can also be readily defended using the conventional theory of fiscal federalism (Oates 1972). For example, by means of the well-known decentralization theorem, it easily be demonstrated that spatial variations in community preferences are best accommodated through decentralized decision-making thereby enhancing social welfare. Similarly, local councils are likely to possess superior knowledge of both local demand side and local supply conditions. In addition, Moreover, scholars writing in the tradition of competitive federalism, such as Tiebout (1956) and Breton (1995), as well as public choice theorists, like Boyne (1998), also provide convincing efficiency arguments in favour of the principle of subsidiarity and the concomitant continuity of small local councils.

Once we have established the case for the continued existence of small autonomous councils, the second key proposition underpinning the analytical foundations of shared services derives from the pioneering work of Oakerson (1999) in his *Governing Local Public Economies*. Oakerson (1999, 7) drew a fundamental distinction between local service 'provision' and local service 'production' and demonstrated that different criteria apply to these conceptually different functions. The provision of local services involves determining whether to provide a particular service, the regulation of local activities, local revenue raising, the quantity and quality of local services provided, and how these services should be produced.

By contrast, production involves the actual creation of a product or the rendering of a service rather than its financial provision. Compared with the services typically delivered by higher tiers of government, Oakerson (1999, 15) argued that 'almost all' local public goods and services 'depend upon the

availability of specific time-and-place information, such as neighbourhood conditions, to support effective production choices'. This implies that 'the scale and organization of the production process should allow producers to make locally informed judgments'. If provision is separated from production, it follows that council size and production scale are not necessarily related.

Oakerson (1999, 15-16) argued that local public goods and services possessed three characteristics that differentiated them to varying degrees from other goods and services. In the first place, the phenomenon of 'co-production' is especially important. Co-production refers to 'productive efforts of citizen-consumers as an integral part of the production process' and must thus be distinguished from the 'citizen-voter' role of residents in service provision. In this role, citizens act as the 'eyes-and-ears' of local councils and their willing participation is therefore essential to the quality of service delivery.

Secondly, Oakerson (1999) draws a distinction between 'local public goods' and 'local public services'. Local public goods are usually capital-intensive and thus often exhibit economies of scale, as perhaps best exemplified by water and wastewater systems. By contrast, local public services, like development approvals and public toilet maintenance, are typically labour-intensive and scale economies are quickly exhausted. In general, economies of scale thus differ widely between different municipal activities. In his *Merger Mania*, Andrew Sancton (2000, 74) encapsulated the main implication of these observations by noting that 'there is no functionally optimal size for municipal government because different municipal activities have different optimal areas'. At a more detailed level, Oakerson (1999, 16) shows that in an analogous fashion to large differences in scale economies between different goods and services, 'much different economies may also be involved in increasing the level of production per capita as opposed to extending the same level of production per capita to a larger population'. These considerations have significant consequences for the organization of production.

Thirdly, coordination or management costs also play a crucial role in the way in which production should be tackled. Oakerson (1999, 16) summarized this characteristic of local goods and services as follows:

The production and delivery of goods and services can be broken down into a large number of components, distinguishing direct service components delivered to citizens from various support-service components to direct service producers. Each component may be associated with a different economy of scale (although services typically exhibit constant returns over a broad range). Yet different components of service production require coordination to varying degrees. Coordination is costly, mainly in terms of time and effort devoted to transactions.

These transactions costs thus serve to limit the number of separate production entities within a council as well as the number of separate services. Accordingly, the optimal number of production units depends on the trade-off between scale economies and coordination economies.

The conceptual separation of provision from production allows for choice between different vehicles for actually producing services. Oakerson (1999, 17-18) has identified seven generic possibilities for linking provision with production:

- (a) 'In-house production' occurs where a local council arranges its own production. For example, an individual council organizes its own production units along traditional grounds;
- (b) 'Coordinated production' takes place where councils coordinate production activities. For instance, the health inspection departments of two adjoining councils cooperate on activities affecting both jurisdictions;
- (c) 'Joint production' where two adjacent councils organize a single production unit as in, say, joint rates processing;

- (d) 'Intergovernmental contracting' takes the form of one council contracting services from another council or state or federal government agency;
- (e) 'Private contracting' where a private firm undertakes production for a council;
- (f) 'Franchising' where a council gives a commercial producer the exclusive right to produce a given service from which residents can purchase the service; and
- (g) 'Vouchering' where a council sets standards and the level of provision, but allows households to select their own producer using a voucher.

Shared services in their purest form are represented by option (c). However, other possibilities may also be considered more broadly to fall under the generic rubric of shared services. For example, option (b) represents a 'weak' form of shared service; option (d) can also be defined as a shared service model where a group of councils jointly contract with a state government agency; option (e) is much the same where a constellation of councils deal with the same private firm in a joint contract; and a similar arguments can be applied to option (f) and option (g) provided joint arrangements are made.

The next obvious question concerns the characteristics of local goods and services that lend themselves to a shared service model. Drawing on seminal work by Percy Allan (2001; 2003), as we have seen, the NSW LGI (2006) identified the characteristics of services suitable for a shared service arrangement as follows: 'Low core capability' of councils; 'high supplier availability'; low task complexity'; substantial scale economies; 'specialized technology'; and 'low asset specificity'. We now consider each of these elements in turn:

Low core capability: 'Core capability' refers to the 'steering' and not 'rowing' capabilities of local councils and includes 'community consultation, policy planning, general governance, service monitoring, regulating private activity and funding public purposes' and not the actual 'production and delivery of

services' (Allan 2001, 39). It is commonly argued that without core capability local councils cannot adequately discharge their statutory responsibilities. Even where core capability is ceded to a shared service centre, this still carries the danger that in the event of the unsatisfactory performance, or even collapse, of a shared service arrangement with other like-minded councils, a given council will be able to evaluate the problem, extricate itself and continue functioning. Accordingly, core capabilities should only be relinquished with extreme care. It follows that low core capabilities should be shared first.

High supplier availability: Allan (2001, 40) considered 'supplier availability' as a criterion for deciding on whether or not to outsource a specific local council function and concluded that the 'competitiveness of the tender' represented the crucial issue. Tender competitiveness in turn depended on whether 'there are a large number of potential contractors with the experience, skills and equipment to meet the specific needs of the council'. If these attributes are not present, as we may expect in many regional, rural and remote areas, then outsourcing was unlikely to succeed. However, a shared service arrangement may still be possible through either resource sharing or the establishment of a joint shared service centre, provided the requisite 'experience, skills and equipment' could be found.

Low task complexity: The question of task complexity is also an important consideration for either outsourcing or shared service arrangements. Allan (2001, 40) argued that 'complex tasks are difficult to monitor, hard to measure for inputs and require unique expertise to monitor' and are therefore unsuitable to outsourcing. However, since it is precisely these attributes that make complex tasks comparatively expensive to perform, 'task complexity' in itself should not rule out shared service arrangements.

Substantial scale economies: Allan (2001, 40) contends that scale economies are typically associated with 'specialized products and services that are mass produced and highly standardized'. Byrnes and Dollery (2002) have demonstrated that the existence or otherwise of significant scale economies is

difficult to establish and evidence on the matter is mixed for Australian local government. However, as we have seen, Allan (2006) has identified several 'back office' and 'front office' activities that promise substantial scale economies and thus represent good candidates for shared service models.

Specialized technology: Information technology represent a quintessential and ubiquitous type of specialized applied technology in local government. The costs involved in acquiring IT hardware and software and subsequently maintaining, upgrading and operating this equipment are substantial. Since capital costs are high, IT thus constitutes perhaps the best example of a service suited to shared service arrangements.

Low asset specificity: Allan (2001, 40) has argued that 'where a task requires an expensive and specific asset it may be more cost effective for the council to provide the asset than require a contractor to invest in something that may outlive its contractual life'. However, for precisely these same reasons, shared service models may be suitable.

Allan (2001, 46) has drawn the following conclusion to his analysis of shared service models:

In the context of local government there is no reason to why most core community services (e.g. road maintenance, garbage collection, town planning, recreation facilities and welfare relief services), in addition to backroom support services (e.g. finance, IT, HR) could not be delivered or arranged by a central administration unit owned and controlled by several councils.

However, Allan (2001) added two caveats to this general conclusion: (a) Individual councils must negotiate performance agreements with a shared service centre that stipulate specific rights and obligations; and (b) a shared service centre must be governed by a board of directors representing each of the participating councils.

While numerous Australian local councils have established various types of shared service centres, unfortunately these have been largely neglected in the debate on the topic. However, an embryonic 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). This literature provides useful ‘case studies’ of shared service models.

Alternative Shared Service Models

Two theoretical efforts aimed at classifying Australian local governance in terms of generic municipal models have been developed. In the first place, the LGAQ (2005, 15) has advanced a typology that distinguishes between four different conceptual models of local government reform: ‘Merger/amalgamation’ involving the consolidation of small councils into a larger municipal entity; ‘significant boundary change’ that involves the re-delimitation of local government jurisdictions; ‘resource sharing through service agreements’ involving one local council undertaking specific functions for other partner councils; and ‘resource sharing thorough joint enterprise’, where a group of municipalities combines to perform a given service function.

Secondly, Dollery and Johnson (2005) have developed a taxonomic classification 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 typology rests on the proposition 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.

The Dollery and Johnson (2005) typology comprises seven alternative models of local governance. Firstly, *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; Dollery *et al.* 2006a). Thirdly, *Regional Organizations of Councils (ROCs)* (Dollery *et al.* 2005b) constitute a formalization of the *ad hoc* resource sharing model, typically financed by a fee levied on each member council as well as a pro rata contribution based on rate income, population, or some other proxy for size, which provides shared services to member councils. Fourthly, *area integration* or *joint board* models retain autonomous existing councils with their current boundaries, but create a shared administration overseen by a joint board of elected councillors (Thornton 1995; Shires Association of NSW 2004; Dollery and Johnson 2007). Fifthly, *virtual local government* (Allan 2001; 2003; Dollery 2003; May 2003) consists 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, with service delivery itself contracted out either to private companies or to the shared service centre depending on the relative costs of service provision and the feasibility of using private firms. The sixth model in the Dollery and Johnson (2005) system is the *agency model* in which all service functions are 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 (Dollery *et al.* 2006a). 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 and cease to exist (Dollery *et al.* 2006a).

Both the LGAQ (2005) typology and the more finely calibrated Dollery and Johnson (2005) taxonomy represent useful conceptual tools for scholars of Australian local government. It is possible to locate shared services within these typologies. For example, under the LGAQ (2005) typology, shared service in its purest form takes place in the form of 'resource sharing through service agreements' and 'resource sharing thorough joint enterprise'. By contrast, under the Dollery and Johnson (2005) taxonomy *ad hoc* resource sharing models, ROCs, area integration models, virtual local councils and agency models all represent institutional vehicles for accommodating shared services to a greater or lesser degree.

Empirical Evidence

An additional unfortunate feature of the Australian debate on shared services in local government has been the paucity of work directed at establishing the empirical outcomes of shared service models in actual practice. At present, only one comprehensive study has been undertaken as part of the LGAQ (2006) Size, Shape and Sustainability Review Framework in the form of a commissioned report by KMMC (2005).

On the basis of its review of both Australian and international evidence on the economic consequences of the implementation of shared services, the KMMC Report (2005, 12) concluded that 'the overwhelming evidence locally and internationally is that there are cost/performance gains to be achieved through

shared services', but cautioned that the establishment of a shared service centre generally requires a significant up-front investment' (KMMC 2005, 13). It identified the following local service functions that could successfully be produced by means of a shared service model: Information technology; procurement; human resources; finance; call centres; and 'rates/billing'. However, these sentiments were qualified with the caveat that none of these functions 'has any greater advantage in being delivered on a regional basis than a state or national basis' (KMMC 2005, 12). In addition, the KMMC Report (2005, 12) observed that the 'services most suited to being delivered on a regional basis are those that are related to regional operational service delivery', with 'obvious contenders' including 'water, sewerage, planning, building and economic development'; engineering services, such as road construction, 'general construction', and parks and gardens maintenance; and 'co-ordination of all services associated with urban development, like waste collection, roads, drainage and sewerage services. Finally, in order to secure the full economic advantages from shared services, their implementation should be accompanied by (a) the use of 'standard technology'; (b) best-practice processes; and (c) the inculcation of a 'service culture'.

However, the KMMC Report (2005) is deficient in several respects. In the first place, the authors frequently and erroneously confuse the entirely separate concepts of scale economies and shared services. In fact, shared services represent only one of a number of ways of reaping economies of scale. For instance, amalgamation is an alternative to shared service arrangements, which has proved to be less than successful in the Australian context. Moreover, shared services may bring many other benefits in addition to cost savings induced through scale economies. Secondly, many references cited in the KMMC Report (2005) do not provide any actual empirical evidence on the success of implementation of shared services, but rather simply assert desirable outcomes. Thirdly, it is implicitly assumed that demonstrated benefits of shared services in private firms and central government agencies will automatically extend to the local services provided by local councils. This 'leap of faith' may not be warranted. Finally, this confusion extends to the

conclusion the Report draws on the candidate services suggested for shared services arrangements.

It is thus important to establish more accurate picture of available Australian and international evidence on the economic effects of shared services. Table 1 provides a synoptic review of 'hard' evidence on shared local services in Australia whereas Table 2 contains a summary of analogous international evidence.

Table 1: Summary of Australian empirical evidence on shared service arrangements in local governments

Publication	Basis for argument	Sample	Key Findings
Lawson (2007)	Survey	34 SA Local Councils	Identified seven service areas with the greatest resource sharing opportunities, as well as some impediments to implementation of shared services.
Byrnes (2005)	Survey	19 NSW Metropolitan and Regional Councils	Identified eight services most suitable for resource sharing and seven services should be provided locally.
Dollery and Byrnes (2005)	Accounting Estimations	Walkerville Council, SA	Lists nine regional co-operative agreements Walkerville entered to and provides estimates of benefits from entering into those agreements.
Dollery <i>et al.</i> (2005a)	Accounting Estimations	Armidale Dumaresq, Uralla, Guyra and Walcha Councils	Strategic Alliance of the Councils brought substantial benefits/savings through collaboration in the number of areas. The beneficiary areas are listed.
KM MC (2005)	Literature Review	Not applicable	Identified six services most able to be successfully delivered through regional services unit and three services most suited to delivery on a shared regional basis
Dollery <i>et al.</i> (2004)	Accounting Estimations	Riverina Eastern Regional Organisation of Councils (REROC)	REROC achieved savings of \$4.5m through reduced duplication, joint tendering, regional lobbying and co-operative sharing of resources

Table 2: Summary of international empirical evidence on shared service arrangements in local governments

United Kingdom			
Communities and Local Government (CLG) (2006a)	Accounting Estimations	73 Local Councils	Shared services were one of the approaches to efficiency gains. Some areas where shared services were successful are listed. Acknowledges some failures of shared services arrangements.
CLG (2006b)	Accounting Estimations	81 Local Councils	Shared services were one of the approaches to efficiency gains. Some areas where shared services were successful are listed.
CLG (2006c)	Accounting Estimations	69 Local Councils	Shared services were one of the approaches to efficiency gains. Some areas where shared services were successful are listed.
CLG (2006d)	Accounting Estimations	80 Local Councils	Shared services were one of the approaches to efficiency gains. Some areas where shared services were successful are listed.
CLG (2006e)	Accounting Estimations	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)	Accounting Estimations	Worcestershire County	Achieved £503,000 efficiency gains in procurement through consortium arrangement
PriceWaterhouseCoopers (2005)	Accounting Estimations	The Anglia Revenue Partnership of two rural councils	Both councils achieved top quartile performance along with significant savings.
Serco Solutions (2005)	Survey	26% 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 (February 2006)	Survey	Various cities and counties in the USA	Provides examples of successful shared services arrangements and lists some common reasons for shared service agreements.
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.
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)	Survey	Various localities in the USA	Provides examples of successful shared services arrangements and lists some common reasons for shared service agreements.

Although the findings of studies listed in both Table 1 and Table 2 vary substantially, it is still possible to draw some firm conclusions from the empirical evidence. Six general observations seem justified:

- Shared service arrangement can improve an efficiency of local service delivery;

- Some services are more amenable to shared service arrangement than others;
- Common areas of success include: (i) IT; (ii) HR; (iii) procurement; and (iv) waste management;
- However, even in these promising service areas, the degree of success varies dramatically from case to case;
- There are identifiable barriers to the implementation of shared service arrangements, which are difficult to overcome; and
- Common barriers to shared services include: (i) loss of 'municipal identity'; (ii) complexity of the process; (iii) conflicting objectives; and (iv) uncertain benefits.

Concluding Remarks

This paper has sought to provide a preliminary attempt at remedying the neglect of shared services that has come to characterize the Australian debate on shared service provision arrangements. We have shown that it is possible to establish an analytical framework for the economic appraisal of shared services that hinges on the distinction drawn by Oakerson (1999) between service provision and service production in contemporary local government. Moreover, judicious application of the Allan (2001) attributes of municipal services has allowed us to identify potentially fruitful candidates for shared service delivery. In addition, both the LGAQ typology and the Dollery and Johnson (2005) taxonomy of alternative models of Australian local government yield insights into how shared services could be developed in practice.

However, the prospect that shared services can indeed generate substantial cost savings and enhanced service provision depends critically on available empirical evidence. The paper thus also attempted to provide a preliminary synoptic review of Australian and international evidence that could shed light on the potential benefits and costs of shared services. In common with much other policy analysis of real-world arrangements, we are obliged to draw the

modest conclusion that while the thoughtful selection and application of shared service arrangements would almost certainly induce cost savings, it would not by itself solve the acute problems of financial sustainability confronting a majority of Australian local councils.

References

- AAMD&C/AUMA Rural/Urban Cost-Sharing Task Force (2004). *Cost-sharing for Success: A Pro-active Approach*. Alberta Association of Municipal Districts and Counties and Alberta Urban Municipalities Association, Alberta.
- Allan, P. (2001). *Secession: A Manifesto for an Independent Balmain Local Council*, Balmain Secession Movement, Balmain.
- Allan, P. (2003). 'Why Smaller Councils Make Sense', *Australian Journal of Public Administration*, 62(3): 74-81.
- Allan, P. (2006). *What Drives Councils' Efficiency: Population Size or Density*, Independent Inquiry into Local Government Inquiry (LGI), NSW Local Government and Shires Association, Sydney.
- Bailey, S.J. (1999). *Local Government Economics*, Macmillan, London.
- Boyne, G.A. (1998). *Public Choice Theory and Local Government*, Macmillan, Basingstoke.
- Breton, A. (1995). *Competitive Governments*, Cambridge University Press, Cambridge.
- Byrnes, J.D. (2005). *Local Government Service Provision: A Survey of Council General Managers*, Independent Inquiry into Local Government Inquiry, NSW Local Government and Shires Association, Sydney.
- Byrnes, J.D. and Dollery, B.E. (2002). 'Do Economies of Scale Exist in Australian Local Government? A Review of the Research Evidence', *Urban Policy and Research*, 20(4): 391-414.
- Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration ['Hawker Report']

- (2003). *Rates and Taxes: A Fair Share for Responsible Local Government*, Commonwealth of Australia, Canberra.
- Communities and Local Government. (2006a). *Local Authorities Efficiency Statements: Adur to Cumbria*, Communities and Local Government, London.
- Communities and Local Government. (2006b). *Local Authorities Efficiency Statements: Dacorum to Lancs*, Communities and Local Government, London.
- Communities and Local Government. (2006c). *Local Authorities Efficiency Statements: Lancaster to Northants*, Communities and Local Government, London.
- Communities and Local Government. (2006d). *Local Authorities Efficiency Statements: Northumberland to Stockport*, Communities and Local Government, London.
- Communities and Local Government (2006e). *Local Authorities Efficiency Statements: Stockton on Tees to York*, Communities and Local Government, London.
- Derman, H. and Gates, B. (1995). *Local Government Shared Services and Municipal Consolidation: A Report and An Agenda*, Department of Community Affairs, Trenton, NJ.
- Dollery, B.E. (2003). 'A Critical Evaluation of Virtual Local Government in Australia', *Australian Journal of Public Administration*, 62(3): 82-91.
- Dollery, B.E., Burns, S. and A. Johnson (2005a). 'Structural Reform in Australian Local Government: The Armidale Dumaresq-Guyra-Uralla-Walcha Strategic Alliance Model', *Sustaining Regions*, 5(1): 5-13.
- Dollery, B.E. and Byrnes, J.D. (2005). *Alternatives to Amalgamation in Australian Local Government: the Case of Walkerville*, School of Economics Working Papers Series, #2005-4, University of New England, Armidale.
- Dollery, B.E., Byrnes, J.D. and Crase, L. (2007). 'An Analysis of the New Perspective on Amalgamation in Australian Local Government',

- Working Paper 02-2007*, Centre for Local Government, University of New England.
- Dollery, B.E., Crase, L. and Johnson, A. (2006a). *Australian Local Government Economics*, University of New South Wales Press, Sydney.
- Dollery, B.E. and Johnson, A. (2005). 'Enhancing Efficiency in Australian Local Government: An Evaluation of Alternative Models of Municipal Governance', *Urban Policy and Research*, 23(1): 73-85.
- Dollery, B.E. and Johnson, A. (2007). 'An Analysis of the Joint Board or County Model as the Structural Basis for Effective Australian Local Government', *Australian Journal of Public Administration* (forthcoming).
- Dollery, B.E., Johnson, A., Marshall, N. and Witherby, A. (2005b). 'ROCs Governing Frameworks for Sustainable Regional Economic Development: A Case Study', *Sustaining Regions*, 4(3): 15-21.
- Dollery, B., Marshall, N., Sancton, A. and Witherby, A. (2004). *Regional Capacity Building: How Effective is REROC?* University of New England Centre for Local Government, Armidale.
- Dollery, B.E., Moppett, W. and Crase, L. (2006b). 'Spontaneous Structural Reform in Australian Local Government: The Case of the Gilgandra Cooperative Model', *Australian Geographer*, 37(3): 395-409.
- Ernst and Young (1993). *Resource Sharing Study: Town of St. Peters, Town of Walkerville, and City of Kensington and Norwood*, Office of Local Government, Commonwealth Department of Housing and Regional Development, Canberra.
- Financial Sustainability Review Board (FSRB) (2005). *Rising to the Challenge*, South Australian Local Government Association, Adelaide.
- Honadle, B.W. (1984). 'Alternative service delivery strategies and improvement of local government productivity', *Public Productivity Review*, 8(4): 201-313.
- Independent Inquiry into Local Government Inquiry (LGI) (2006). *Are Councils Sustainable? Final Report: Findings and Recommendations*, NSW Local Government and Shires Association, Sydney.

- KM Management Consulting (KMMC) (2005). *Shared Services in Queensland Local Government*, Local Government Association of Queensland, Brisbane.
- Lawson, T. (2007). *Review of South Australian Local Government Joint Service Delivery Opportunities: Analysis of Council Responses to a Survey and Options for Implementation of Various Resource Sharing Measures*, Tony Lawson Consulting, Adelaide.
- Local Government Association of Queensland (LGAQ) (2005). *Size, Shape and Sustainability of Queensland Local Government*, Discussion Paper, Local Government Association of Queensland Inc., Brisbane.
- Local Government Association of Queensland (LGAQ) (2006). *Size, Shape and Sustainability: Guidelines Kit*, Local Government Association of Queensland Inc., Brisbane.
- May, P. (2003). 'Amalgamation and Virtual Local Government' in B.E. Dollery, N.A. Marshall and A.C. Worthington (eds), *Reshaping Australian Local Government: Finance, Governance and Reform*, UNSW Press, Sydney, pp.79-98.
- Oakerson, R.J. (1999). *Governing Local Public Economies*, ICS Press, Oakland.
- Oates, W.E. (1972). *Fiscal Federalism*, Harcourt Brace Jovanovich, New York.
- PriceWaterhouseCoopers (PWC) (2005). *Shared Services for Even Greater Efficiency in Local Government* PriceWaterhouseCoopers, London.
- PriceWaterhouseCoopers (PWC) (2006). *National Financial Sustainability Study of Local Government*, PriceWaterhouseCoopers, Sydney.
- Ruggini, J. (2006). 'Making local government more workable through shared services', *Government Finance Review*, February issue.
- Sancton, A. (2000). *Merger Mania*, McGill-Queens University Press, Montreal.
- Serco Solutions (2005). *Shared Services as a Long-term Solution for Local Government: Delivering on the Gershon Report*, Serco Solutions, Birmingham.
- Shires Association of NSW (2004). *A Joint Board Model*, Draft Discussion Paper, Shires Association of NSW, Sydney.

- Tiebout, C.M. (1956). 'A Pure Theory of Local Government Expenditure', *Journal of Political Economy*, 64(5): 416-424.
- Thornton, J. (1995). *The Urban Parish: An Alternative Approach to Local Government Amalgamation*, Local Government Development Program Research Series, Office of Local Government, Commonwealth Department of Housing and Regional Development, Canberra.
- Vince, A. (1997). 'Amalgamations', in B.E. Dollery and N.A. Marshall (eds), *Australian Local Government: Reform and Renewal*, Macmillan, Melbourne, pp. 151-171.
- Western Australian Local Government Association (WALGA) (2006). *Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia*, Interim Report, Western Australian Local Government Association, Perth.
- Worcestershire Country Council (2006). *Annual Efficiency Statement: Backward Look*. Worcestershire Country Council, Worcester.