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An evaluation of shared services in the Queensland Local Government Association's *Size, Shape and Sustainability* Program

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Abstract: Recent national and state-based inquiries into the financial circumstances of Australian local councils have demonstrated unequivocally that many municipalities are in a parlous monetary state. This has inter alia shed severe doubt on the efficacy of recent forced amalgamation programs in several Australian local government jurisdictions and stimulated the search for alternative methods of improving the operational efficiency of local councils in an effort to generate costs savings. While all these inquiries have recommended shared service institutional arrangements as the best alternative to amalgamation, only the now defunct Queensland Local Government Association's (2006) *Size, Shape and Sustainability* Program has provided a detailed analysis of the purported benefits of shared services. In this paper, we show that the *Size, Shape and Sustainability* Report and its main supporting study are fraught with errors and misleading interpretations of available evidence on shared services and should thus be treated with great caution in future by local government policymakers.

Keywords: Economic efficiency; local government; Queensland; shared services.

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Introduction

The early twenty first century has witnessed a spate of national and state-based formal inquiries into Australian local government that have focused primarily on the financial state of contemporary local councils. The results of these deliberations have been depressing. Without exception, all inquiries have diagnosed acute and widespread financial unsustainability, with the concomitant financial distress most clearly evident in inadequate local infrastructure maintenance and renewal. Moreover, the prognosis has been equally bleak; virtual unanimity exists that without substantial policy change and new sources of funding, many local authorities will never become financially sustainable.

A second important theme also runs through almost all of these local government inquiries; shared services are seen as a superior policy instrument to council amalgamation as a means of improving the operational efficiency of local councils, especially in regional, rural and remote areas. However, while all inquiries endorse shared service arrangements as a preferred method of enhancing operational efficiency and improving service provision, available Australian and international empirical evidence on the performance of shared service models in local government is largely ignored, with the sole exception of the now defunct Queensland Local Government Association's (LGAQ) (2006) *Size, Shape and Sustainability* Program and its chief supporting document in the form of KM Management Consulting's (KMMC) (2005) *Shared Services in Queensland Local Government*. To its credit, the LGAQ not only strongly endorsed shared service arrangements as a potentially efficacious method of municipal cooperation, but also attempted to buttress its arguments by recourse to empirical evidence.

On 17 April 2007, the Queensland Premier announced that the Queensland government had abandoned its collaboration with the LGAQ *Size, Shape and Sustainability* process and decided instead to embark on a radical program of compulsory amalgamation. Under its new Local Government Reform

Program, the Queensland state government appointed a seven-member Reform Commission to recommend local council amalgamations by August 2007 for the election of new councils on 15 March 2008.

Despite the sudden and unexpected abandonment of the LGAQ *Size, Shape and Sustainability* Program, its seminal work on shared services is bound to exert an ongoing influence on the debate surrounding the efficacy of shared services in Australian local government. However, the analysis of shared services in both the KMMC (2005) *Shared Services in Queensland Local Government* and the LGAQ (2006) *Size, Shape and Sustainability: Guidelines Kit* is seriously deficient in several respects. Despite the laudable intentions of the authors of these documents, they cannot thus provide the basis for informed policy making on shared services as a means of improving the operational efficiency financially struggling local councils. The limited purpose of this paper is thus to identify these shortcomings and spell out the problems in the KMMC (2005) and LGAQ (2006) reports in respect of their deliberations on shared services in local government.

The paper itself is divided into three main parts. By way of background, section 2 provides a brief synopsis of the views of the various state-based and national inquiries on shared local services. Section 3 critically examines the analysis of shared services in the KMMC (2005) and LGAQ (2006) reports. The paper ends with some brief concluding remarks in section 3.

New Consensus on Shared Services

Disenchantment with the economics and social outcomes of amalgamation has bred support for shared services as an alternative means of enhancing the operational efficiency of Australian local councils (Dollery *et al.* 2007). This shift in consensus is evident in a spate of recent official inquiries into local government in various state jurisdictions as well as at the national level.

Two examples suffice to demonstrate this sea change in nation-wide reports. For instance, the Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration ('Hawker Report') (2003, 97), entitled *Rates and Taxes: A Fair Share for Responsible Local Government*, briefly considered the potential for shared services. It concluded that 'the efficiencies of local government can be improved through a mixture of changes that may include partnerships, regional cooperation and/or amalgamations'. Similarly, a PriceWaterhouseCoopers (2006) report, produced as the *National Financial Sustainability Study of Local Government*, recommended shared services as a method of improving municipal efficiency.

The same trend is evident in recent state-based local government inquiries. For example, the South Australian Financial Sustainability Review Board's (2005, 85) *Rising to the Challenge* report argued that 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'. In a similar vein, the New South Wales Independent Inquiry into the Financial Sustainability of Local Government's (2006) *Are Councils Sustainable* report not only recommended shared service models, but also went on to identify services suitable for sharing. The Western Australian Local Government Association's (2006) *Systemic Sustainability Study* reached analogous conclusions. Finally, *A Review of the Financial Sustainability of Local Government in Tasmania* (2007, 66) endorsed 'the role which additional or extended examples of resource sharing and cooperation among councils could play in the Tasmanian context'.

While it is thus clear that all of these official inquiries gave full (or at the very least qualified) support to shared services, an unfortunate feature of these reports was that this support is largely unsubstantiated by recourse to either theoretical arguments or empirical evidence. By contrast, the LGAQ (2006) *Size, Shape and Sustainability: Guidelines Kit* tackled this issue squarely.

Shared Services in the Queensland Size, Shape and Sustainability Framework

The LGAQ Size, Shape and Sustainability (SSS) Review Framework represented the outcome of a long process of deliberation in Queensland local government. In 2004, the LGAQ resolved to consider the financial and other pressures confronting councils in Queensland and to examine the various options for local government reform to ensure the long-run viability of local authorities. As a first step, a Discussion Paper entitled *Size, Shape and Sustainability of Queensland Local Government* was released on 3rd March 2005 and a Special Conference of the LGAQ held in Brisbane in early June 2005, which formulated a Communique approving a 'comprehensive reform blueprint'.

A 'ten point *Action Plan*' followed from the *Communique* that was subsequently endorsed by both the LGAQ Executive and the Queensland Minister for Local Government and Planning. The *Action Plan* provided for a local government reform program embodying the *Size, Shape and Sustainability* (SSS) Review Framework, sustainability indicators, 'options for change', 'Independent Review Facilitators' (IRF), and funding arrangements for state government support. The reform program itself is outlined in the *Size, Shape and Sustainability: Guidelines Kit* (LGAQ 2006).

As part of this process, the LGAQ commissioned KMMC to consider the problem of shared services. The KMMC Report (2005, 2) argued that five main advantages flowed from shared services: 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 contended 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 conclusions in the Report are largely based on empirical evidence that is presented in the report. Indeed, eight of twelve pages of the substantive part of the KMMC Report (with the other four pages representing the 'introduction' and 'conclusion'). However, after thorough investigation, we found that the empirical evidence cited in the Report is deficient in two critical respects. Firstly, the empirical evidence presented as the basis for implementing shared services is extremely poor. Secondly, justification of the choice of suggested areas suitable for the shared service arrangements is inadequate.

We now address the first of these two criticisms. The KMMC Report lists 39 references in its Appendix B, of which we found only 25 references actually cited in the main text itself, with no further mention of the remaining 14 empirical references. It is thus unclear what value these 'missing' empirical references are supposed to add to the Report and in what context and with what outcomes they occurred.

Among the 25 empirical references cited in the main text, 12 sources do not establish any relation with shared service arrangements, but are concerned solely with the investigation of the unrelated question of economies of scale in local government service provision. Table 1 lists these references. Seven references provide some evidence in favour of shared service arrangements, but take place either in the private sector or among departments of higher tiers of government. Table 2 list these seven references. Four studies present arguments in favour of resource sharing in local government, but provide no

supportive empirical evidence. Table 3 lists these 'empirical' references. Thus only two references deal with evidence on shared services.

Table 1: Evidence on Economies of Scale and the Case for Amalgamation

Reference	Argument/Conclusion
Beattie Rickman (2003 (August))	Provides savings estimates for the amalgamation of two councils in New Zealand
Boyne (1992)	Suggests that net evidence of amalgamation is inconclusive
Byrnes and Dollery (2002)	Concludes that evidence on economies of scale in local governments is mixed
Independent Pricing and Regulatory Tribunal of NSW (1997)	Supports the proposition of economies of scale in some local government services
KPMG (1998)	Argues for amalgamations of local councils in NSW
Local Government Commission (1986)	Economies of scale found in administrative expenditure
Ministerial Advisory Group on Local Government Reform (1995 (June))	Concludes that there is an evidence of economies of scale in administration. Supports amalgamation.
Musgrave <i>et al.</i> (1985)	Concludes that evidence of economies of 'size' is limited
Office of Local Government (1993)	Evidence of economies of scale in metropolitan, provincial and rural shires
Soul (2000)	Evidence of both economies and diseconomies of scale
South Australian Department of Local Government (1998)	Evidence of economies of scale in some areas
Victoria Grants Commission (1985)	Evidence of economies of scale in all functions

Many of the 12 references in Table 1, in fact, advocate the use of amalgamation rather than resource sharing in order to capture the benefits of economies of scale. In general, it need hardly be added that scale economies of scale per se bear only partial relevance to shared service arrangements. After all, scale economies are only one of several sources of efficiency gain, such as scope economies and greater administrative and technical specialization, accruing from larger output. By contrast, shared service arrangements represent only one of several methods of increasing the scale of operations and hence reaping cost savings. Accordingly, whereas shared

service arrangements can capture the benefits of economies of scale, so can other approaches, like council amalgamation and the shift of local councils service provision to higher tiers of government or to specialized agencies. Moreover, shared service arrangement can bring also about other benefits, like economies of scope, improvements in range and quality of services delivered, etc.

A further interesting and ironic feature of the literature on economies of scale presented in KMMC Report is that the same arguments were used in favour of recent local government restructuring undertaken in New South Wales, South Australia, Victoria and Tasmania. Those reforms essentially aimed at decreasing of number of local councils primarily through amalgamation, but also through boundary changes. As we have seen earlier from the national and state-based inquiries, these reforms proved to be largely unsuccessful because the subsequent financial sustainability of local councils was not enhanced.

An additional disappointing feature of the KMMC report is that evidence on economies of scale presented in the Report involving the 12 empirical studies in Table 1 is that nearly all of these 12 studies provide support for the existence of substantial economies of scale. However, there is vast literature on scale economies in local government service provision completely ignored by the Report; this literature is mixed with numerous studies unable to find evidence of economies of scale, or which found evidence of diseconomies of scale(see, for example, Byrnes and Dollery 2002; Danzinger 1978; Foster *et al.* 1980; and Hirsch 1959, 1965). Some of these references are provided in the reference list to the Report, but are not used in developing the arguments in the Report. As a result, the conclusions in the Report on evidence for economies of scale in local government service provision are biased.

As we noted earlier, a further seven references provided in the Report are not particularly persuasive. Indeed, they present evidence on the positive outcomes of shared service arrangements in private sector as well as in

departments of higher tiers of government, as can be seen from Table 2. It need hardly be stressed that many functions, and thus their scope and scale economies, of private companies and higher levels of governments are completely different from those of local governments. This evidence should thus be treated with great caution.

Table 2: Evidence for Shared Services in Private Firms and Higher Governments

Reference	Argument/Conclusion
Accenture (2005)	Based on international survey across all types of governments; finds that 60 per cent of the governments implemented shared service arrangements
A.T. Kearney (2005)	Evidence that shared services in private sector brought about 5-20 per cent improvement of cost performance
Bish (2004)	Evidence of improved efficiency when waste collection provided by private sector
Booz-Allen and Hamilton (1999)	Advocated shared services among departments of governments and large companies
McDavid (2001)	Argued in support of contracting-out of waste collection to private sector from local councils
NSW Government Chief Information Office (2002)	Described the plan to implement shared services within the departments of NSW Government; no outcomes of implementation are covered.
Sternstein (2005)	Argued for shared services among departments of government based on Accenture (2005) survey

A further four papers cited in the Report discussed shared service arrangements in local government and presented arguments in support of shared services. These studies are listed in Table 3. However, all these documents simply assume a beneficial impact on the part of shared service arrangements and accordingly propose the implementation of resource sharing in various selected services. However, they do not substantiate this assumption of beneficence with any empirical evidence. Indeed, we could find no later evidence few years of the outcomes of such experiments.

Table 3: Literature Supporting Shared Services without Empirical Evidence

Reference	Argument/Conclusion
Councils of the Auckland Region (1999)	Outlined the opportunities for shared services; 12 areas most suitable services for shared arrangements re identified; no outcomes of the pilot project are available
HM Government (2005)	Introduces efficiency agenda in local services; proposes shared services as an approach of achieving efficiency gains; no empirical evidence provided
PriceWaterhouseCoopers (2001)	Identifies areas suitable for shared service arrangements; no empirical evidence on cost savings or other benefits are provided
Worcestershire County Council (2005)	Proposes investigation of opportunities in developing shared services in seven priority and six additional areas; admits that although benefits from shared services are expected, their extent is unclear

Only two studies from the long list of the references in the Report provide strong empirical evidence in support of the shared services in local government. Dollery *et al.* (2004) explicitly mention that Riverina Eastern Regional Organisation of Councils (REROC) in southern New South Wales achieved savings of \$4.5 million through reduced duplication, joint tendering, regional lobbying and the co-operative sharing of resources over a five year period. In addition, Dollery *et al.* (2005) specify areas in which shared service arrangements have been implemented and provide projected benefits and savings. However, this paper deals with estimates rather than realised values.

The foregoing detailed analysis has demonstrated that the empirical material contained in the Report is inadequate. Moreover, those studies cited typically argue in favour of the shared services. In other words, only selected material is presented with a bias towards shared service arrangements. In sum, material presented in the Report is both inadequate and subject to biased selection. The conclusions drawn by the Report are thus misleading and cannot be relied on to inform policy making on shared service arrangements in Australian local government.

Concluding Remarks

Two general conclusions can be drawn from this analysis of the KMMC Report. In the first place, the empirical evidence provided in the Report provided biased and insufficient grounds for making an exaggerated case for shared services. The conclusions reached in the Report must thus be treated with caution. Secondly, this should not be taken to imply that sound empirical reasons do not exist for the widespread implementation of shared service models in Australian local government. Indeed, a more recent study by Dollery and Akimov (2007) found extensive empirical evidence in favour of shared service arrangements in local government. However, this paper suggested that efficiency gains and cost savings attendant upon shared services are much more modest than those claimed in the KMMC Report.

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