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## Australian Alternatives to Local Government Amalgamation: A Critical Evaluation of the Western Australian Regional Model of Local Government

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*Abstract:* In its *The Journey: Sustainability into the Future*, the Western Australian Local Government Association (WALGA) proposed a program of self-initiated reform for local government, with its centrepiece comprising a Regional Model of local governance based on constellations of local councils in the existing Zone groupings. The Regional Model has been designed to preserve local autonomy and local identity by retaining existing council democratic structures, but at the same time facilitate cooperation and joint service provision through the Regional Model in those service areas where scale economies and other benefits from shared provision can be reaped. This paper places the Regional Model in the context of the Australian literature on alternative models of local governance and then critically evaluates its main characteristics and its prospects for success.

*Keywords:* Amalgamation; local government; Regional Model; Western Australia

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## Introduction

The past two decades have witnessed a wave of reform wash over almost all Australian local government jurisdictions. A defining characteristic of these municipal reform programs has been a heavy emphasis on local council amalgamations, predominantly outside of metropolitan areas and typically under threat of compulsion. For example, during the 'nineties, South Australia, Tasmania and Victoria all experienced municipal consolidation to some degree, more recently New South Wales launched a program of compulsory amalgamation in 2004, substantial forced mergers were enacted in Queensland in mid-2007 and the Northern Territory seems set to radically reduce the number of councils within its jurisdiction in the near future.

By contrast, the local government sector in Western Australia has been left largely untouched by structural reform through amalgamation. However, in the light of developments in all other Australian local government jurisdictions, the Western Australian local government community is understandably wary that it too might be subjected to a program of forced local council mergers. As a consequence, the Western Australian Local Government Association (WALGA) has embarked on its own reform program in order to initiate improvements in the operation of local councils before a potentially unwelcome and quite possibly draconian 'top-down' state government policy intervention is thrust upon them.

In common with several other states, WALGA approached the question of local government reform in its own jurisdiction by producing a series of reports and consulting widely among interested parties<sup>1</sup>. The process began with the

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<sup>1</sup> The WALGA approach closely parallels developments in other local government jurisdictions. For instance, at the national level, the Australian Local Government Association commissioned the PriceWaterhouseCoopers (PWC) (2006) *National Financial Sustainability Study of Local Government*. Similarly, at the state level, we have seen the South Australian Financial Sustainability Review Board's (FSRB) (2005) *Rising to the Challenge*; Local Government Association of Queensland (LGAQ) (2005) *Size, Shape and Sustainability of Queensland Local Government*; the Independent Inquiry into the Financial Sustainability of

WALGA (2006) *Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia* Inquiry as well as the findings of a major independent report by Access Economics (2006) *Local Government Finances in Western Australia*. WALGA followed these initial steps with a consultative process ('The Journey') commenced in April 2007. This consultative process, consisting of five Working Parties centred on specific key themes, released its Draft Report *The Journey: Sustainability into the Future* in February 2008. While formally referred to as the Draft Report, the document itself notes that 'the proposals in this paper should be taken as clear statements of intent' and that: 'whilst further discussion and input is encouraged on this Draft Paper, further extensive debate on the contents of the Final Paper is not proposed' (WALGA 2008, xiv).

The Draft Report itself is organised around the five themes ascribed to the Working Parties: 'Leadership', 'Finance', 'Revenue', 'Services' and 'Capability'. In addition, the Draft Report outlined several core theoretical principles. For instance, it stressed the importance of the principle of subsidiarity, especially in service provision. The Draft Report (WALGA 2008, 26) also drew a critical distinction between structural change and functional change, where 'structural arrangements go to the formal organisation of local government arrangements, including their governance arrangements', whereas functional changes are 'directed at the more effective and sustainable delivery of outcomes'. Finally, the Draft Report made it clear that its frame of reference is local government as a sector rather than individual local councils or groups of councils (WALGA 2008, 27):

This terminology is adopted to emphasise that the issues identified in the SSS Panel Report and this paper do not apply uniformly to all Local Governments in Western Australia. Instances of exemplary performance do exist. However, the tendency to single out any particular Local

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NSW Local Government (2006) *Are Councils Sustainable*; and the Local Government Association of Tasmania's (LGAT) (2007) *A Review of the Financial Sustainability of Local Government in Tasmania*.

Government or group of Local Governments is also avoided by this terminology.

In the context of this paper, the 'Services' section of *The Journey* is particularly important. It briefly canvasses various options with respect to inter-council co-operation in shared service delivery, including Voluntary Regional Organisations of Councils, Regional Local Governments (as established under provisions in the *Local Government Act 1995*), Area Integration or Joint Board Models, and what it refers to as 'Bigger Local Governments', which are created 'through boundary changes and amalgamations'.

In terms of the formal organisation of local government in Western Australia, the centrepiece of *The Journey* resides in Chapter 9 of the Draft Report, which proposes a Regional Model as the core of its program of local government reform. The Draft Report (2008, 7) contends that 'the Regional Model is significantly different to imposed structural reform in that it is not driven by a reduction in local governments for the sake of simple cost savings, nor does it suggest "one size fits all" solution'. Instead 'the objective of the Regional Model is to improve the ability of a local government to actually meet the expectations of the communities, at both local and regional levels' by means of the 'retention of existing representation arrangements supported by enhanced capacity for improved service delivery'. In essence, the Regional Model thus seeks to ensure the continuation of local representation through the preservation of existing local councils, but at the same time improve the functional performance of local government through regional cooperation in service provision. In this paper we attempt to set out the central elements of the Regional Model, place it in the conceptual context of the Australian literature on alternative models of local government and then evaluate its properties and prospects for success.

The paper itself is divided into four main parts. Section 2 considers the main characteristics of the Regional Model. Section 3 provides a synoptic review of the Australian literature on alternative models of local government and seeks

to situate the Regional Model in this conceptual framework. Section 4 presents a critical evaluation of the regional Model. The paper ends with some brief concluding remarks in section 5.

## **The Regional Model**

The Draft Report (2008, 177) sets six explicit 'transitional' intentions for its proposed Regional Model These are stipulated as:

- Tackling 'capacity constraints' on local government in 'attracting and retaining the personnel' required for service provision;
- Establishing a 'platform' to create 'more coherent planning, funding and management of services and functions', including 'asset management and infrastructure funding';
- Engaging with both the state and commonwealth governments in 'planning and funding of service and infrastructure delivery';
- Challenging the 'other spheres of government' to improve 'their regional planning strategies and mechanisms';
- Creating 'flexibility' to address the diversity of circumstances across Western Australia; and
- Preserving the 'strengths of the current local government representational arrangements' and simultaneously 'creating accountable and transparent governance for the range of functions proposed for delivery through regional and state platforms'.

These broad aims are supplemented by more specifically defined objectives, which are identified in the Draft Report (2008, 178) as follows:

- The adoption of 'long term (10-year) financial planning methods' across the entire local government sector;
- Implement 'markedly improved management and renewal of infrastructure and assets';
- Use annual reporting mechanisms to increase transparency;
- Employ 'prudential debt levels' for local infrastructure investment;

- Adopt 'best practice in rating and the setting of fees and charges' to improve revenue-raising;
- Use 'new revenue options and administrative tools', including 'commercial trading entities' as well as 'best practice in development charges';
- Establish a Local Government Independent Support Commission and Finance Authority;
- Seek 'engagement by the other spheres of government' in order to 'ensure that issues of adequacy in planning and funding of services to communities receive long overdue attention'; and
- Make local government a 'respected and equal partner to intergovernmental dealings in all matters affecting the quality of life of the communities it serves'.

The Regional Model embodies a 10-year plan organised into three distinct phases. Firstly, the 'Early Stages (Years 1 to 3)' stage arranges Western Australian local councils into 17 geographic 'regional nodes' which conform to the existing WALGA Zone boundaries 'for the purposes of review of existing services and functions.' These regional nodes also 'align very closely with the [extant] Regional Development Commission boundaries of the WA State Government' and 'to a lesser, but still significant extent' with the Commonwealth Government's Area Consultative Committee processes.

The Draft Report (2008, 179-180) predicts that 'with the delegation of delivery arrangements for services to a regional level the demand for appropriate governance and management will arise at an early point'. While representatives for the proposed new Regional Local Governments will initially be drawn from existing local council elected representatives, the initial phase also suggests that Zone representatives will have a larger role to play in WALGA itself. In common with its emphasis on functional reform and the need to avoid 'one size fits all' local government reform processes, the Draft Report stresses that the Early Stages phase implies no structural reform to existing councils.

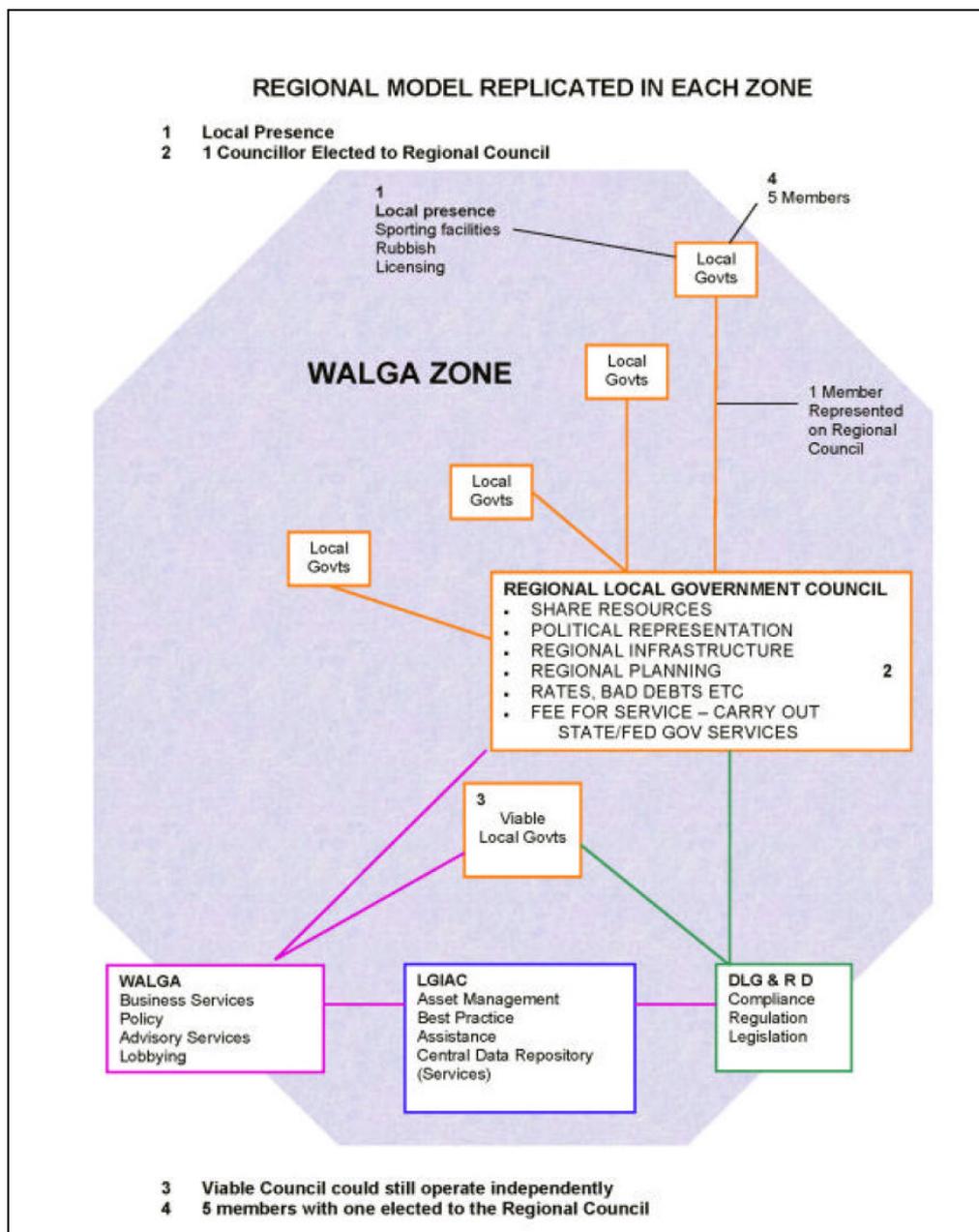
Whereas in 'the Middle Years there is no stated imperative for changes in local structural arrangements, in the Draft Report (2008, 184) it is anticipated that through a process of 'gradual exposure' to the benefits of functional delivery at a regional level, coupled with an increasing professionalization (and associated proportionate remuneration) of elected councillors, a 'tipping point' in sentiment 'sufficient to warrant revision of representational arrangements' will be reached due to the expectations of communities and councillors. The expected move toward regional governance in the Middle Years is nonetheless strong, with the possibility of 'voluntary amalgamations', involving 'continued internal adjustments to governance arrangements to reflect the progress towards the fullest possible achievement of the regional Model'.

While the ten year period simply represents 'a matter of convenience' and not a 'prescriptive target date', the End Point stage' envisions:

- Some local councils having experienced voluntary amalgamation with '5 or 6 highly skilled and remunerated councillors';
- Regional Local Governments comprised of the representatives of member local councils. The Draft Report (2008, 184) proposes that 'there be one delegate/representative from each local government and that again they be adequately skilled and remunerated for their role';
- These developments will be accompanied by 'significant change in WALGA's governance systems and representational arrangements to reflect the new accountabilities required by the Regional Model';
- The hypothesised result will be 'a mix of local, regional and state-wide service platforms in place'; and
- A suite of new 'institutional frameworks to support the re-modelled local government sector', which possibly include three main elements: (a) A Local Government Independent Assistance Commission (LGIAC) to embody 'a full range of advisory and support services'; (b) A Local Government Finance Authority be

established to ‘support the financial needs of local government’, especially infrastructure management and finance; and (c) a Local Government Standards Office to ‘create and oversee standards of performance’ within the local government sector.

Figure 1 provides a useful diagrammatic illustration of the proposed Regional Model:



**Figure 1: Proposed Western Australian Regional Model of Local Government**

Source: Draft Report (2008, Figure 1, 8; Figure 9, 185).

Figure 1 highlights several interesting features of the proposed Regional Model. In the first place, in Figure 1 the Regional Local Government will facilitate resource sharing, political representation, regional infrastructure asset management and finance, regional planning, some aspects of finance, like rates and bad debts, and conduct a 'fee-for-service' for federal and state government service delivery. Secondly, 'viable' member local councils are retained, which meets the central objective of *The Journey* by retaining local representation and preserving local community identity. The position of 'unviable' local councils is not addressed directly, but the Draft Report seems to implicitly assume that this category of councils will disappear through voluntary amalgamation. Thirdly, Figure 1 provides an important role for WALGA, the Department of Local Government and Regional Development (DLG & DG) and the proposed auxiliary bodies, such as LGIAC, with the latter assigned significant advisory capacities in asset management, best-practice techniques, record keeping, etc.

While Figure 1 is helpful in illustrating the basic characteristics, it contains a bare minimum of detail, as we shall see later in the paper. However, some insight can be gleaned from the fact that the Draft Report (2008, 186) specifically notes that 'rating', 'planning' and 'roadworks' are three functional areas of local council service provision that will form part of the 'shift to regional service delivery'. In support of this proposal, the Draft Report contains three 'pre-feasibility' analyses (Appendix C, Appendix D and Appendix E) of these activities to demonstrate the benefits that would flow from this shift as well as to provide a methodology, which local government can employ 'as part of their decision making on whether to delegate services and functions to the regional level'.

While the three appendices provide useful information, the fact that two of the three (D and E) do not actually conduct any definitive 'pre-feasibility' studies (but rather recommend further research and pilot studies), as well as the fact that the appendices tackle three highly dissimilar functional areas, heavily proscribes their utility as potential templates for Regional Councils. Indeed, a

careful reading of Appendix C (which proposes a WALGA-run centralised ‘hub and spoke’ ratings service with designated Rates Officers from each member Regional Council), Appendix D (which proposes four different models for planning services, as yet not analysed for feasibility) and Appendix E (which deals with road construction and maintenance shared services, but also simply recommends further research) illustrates that they have very little in common with respect to methodology.

With respect to the actual implementation of the regional Model concept, the Draft Report (2008, 186) observes that the change from the current organisational structure to the new model will require ‘significant research, analysis and an understanding of the local government environment’ which will necessitate ‘sufficient funding’. Moreover, each potential Regional Model should be assessed on a ‘case by case’ basis, a process that will require a review of the probable impact of the change on each member local council. In order to assist in this process, WALGA will establish a ‘new consulting unit’ to help each proposed Regional Model. Finally, the sixty first recommendation of the Draft Report is that WALGA seek initial funding of \$30 million to develop a pilot Regional Council and progress the Regional Model concept.

## **Alternative Models of Local Government**

Various conceptual approaches to multi-tiered government exist which can assist not only in locating the Regional Model amongst alternative models of local government, but also in determining its chief characteristics. These conceptual approaches are largely built on the foundations of the theory of fiscal federalism (Oates 1972) which prescribes how various functional areas should be assigned across the different tiers of government in a decentralised system of government, as well as the public choice perspective on competitive federalism stemming from Tiebout (1956). This body of thought sets out various conceptual rules to guide the assignment of governmental functions amongst the different levels of government, including the ‘correspondence principle’ and ‘benefit regions’. The correspondence principle holds that to

guarantee allocative efficiency, local expenditure should be financed by local taxes. The concept of benefit regions holds that public sector functions should be allocated on the basis of the size of the benefit region of any given function. Thus public services with a local spatial incidence should be the responsibility of local government.

The Regional Model does not even address the correspondence principle. It implicitly accepts the fact that vertical fiscal imbalance will continue to afflict local government, making grants from higher tiers of government essential for the viability of the Regional Model and its constituent member local councils. Furthermore, it does not make provision for any other method of revenue augmentation, such as tax-sharing arrangements, the creation of new local taxes, etc.

Since most public sector functions have different and frequently overlapping benefit regions, it follows that each service should in principle be delivered by a different sized entity. But since there are numerous public sector functions, transactions costs place limits on the number of governmental entities. We thus have a constrained optimisation problem which can be resolved by allocating those functions to local government which have dissimilar, but not markedly different benefit regions.

However, a second approach to tackling this problem has been discovered. Frey and Eichenberger (1999, 3) have developed a model of assigning functions in a multi-tiered system based on 'Functional, Overlapping and Competing Jurisdictions' (FOCJ). In this scheme, political authorities can be created whose size corresponds to the specific tasks that they undertake, like public transport and waste treatment. Moreover, Frey and Eichenberger (1995) contend that the FOCJ model enjoys several advantages: FOCJ deal with the provision of specific services, they reap scale economies, and they minimise externalities. Moreover, FOCJ overlap so that households can belong to several different FOCJ enjoying greater choice. In addition, FOCJ compete with each other thereby enhancing service provision cost

effectiveness. Finally, FOCJ form jurisdictions with assigned revenue-raising and regulatory authority that individuals or communities can enter or exit depending on the performance of an FOCJ.

In the Australian local government milieu, the application of the Frey and Eichenberger (1995; 1999) model is limited by constitutional and other constraints on the division of governmental functions. However, within these confines there is still often a degree of latitude for restructuring the allocation of functions between the different tiers of government. The Regional Model in the WALGA Draft Report (2008) provides scope for at least some of the attributes of the FOCJ approach. For example, the Regional Model allows for member councils to allocate functions to state-wide service providers, like the proposed Local Government Finance Authority, to regional service providers, such the Regional Council, and to local service providers, like member local councils. This can be done so as to make service provision coincide roughly with the benefit region and to maximise economies of scale. On the other hand, competition is ruled out since this kind of functional assignment allocates functions on a monopoly basis.

At a less abstract level, two taxonomic systems of Australian local government have been developed which can also shed light on the Regional Model. Firstly, the Local Government Association of Queensland (LGAQ) (2005, 15) has composed a typology with four conceptual models: 'Merger/amalgamation'; 'significant boundary change' 'resource sharing through service agreements', and 'resource sharing thorough joint enterprise'. Service agreements permit one local council will undertake specific functions for other councils in some defined group, such as waste management, whereas joint enterprise enables a group of municipalities to combine their activities in providing some service to secure scale economies, like regional infrastructure asset management and finance. It is evident that the Regional Model leans heavily towards the latter model, although it by no means disallows service agreements.

Dollery and Johnson (2005a) have constructed a second taxonomy of Australian local government with seven alternative municipal models. In terms of this typology, different models of local government are classified in accordance with 'operational control', which refers to the ability to administer and undertake local service provision and delivery, and 'political control', which is defined as the capacity to make decisions over local service provision. Following this system, existing small councils possess the most operational and political autonomy within the constraints of their respective state government acts; *Ad hoc* resource-sharing agreements, consisting of voluntary arrangements between spatially adjacent councils to share resources, represents the next most autonomous category; Regional Organizations of Councils (ROCs) 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 a proxy for size; area integration models retain autonomous existing councils with their current boundaries, but create a shared administration overseen by a joint board of elected councillors; Percy Allan's (2001; 2003) virtual local government model comprises neighbouring councils with a 'shared service centre' to implement the policies determined by individual member councils; under the agency model all service functions are provided by state government agencies, with elected councils proposing the preferred mix of services for their own jurisdictions; and finally amalgamated councils where adjacent councils are merged into a single municipal entity and thus surrender all political autonomy and operational control to the new entity.

The Regional Model closely resembles the area integration model in the Dollery and Johnson (2005a) system. Existing member councils survive as autonomous democratic bodies, but have a shared administration for various functions, such as the proposed 'rating', 'planning' and 'roadworks', which is run by representatives from each local council. Thus member local councils retain a high degree of political autonomy, but surrender operational control over services run on a regional level.

Within these two conceptual typologies of Australian local government, it is possible to identify a small, but growing body of scholarly writings on specific actual and proposed models of local governance designed for Australian conditions. A promising empirical literature has been devoted to the analysis of particular models that have actually been implemented in practice, which includes work on regional organizations of councils (Dollery *et al.* 2005b), the Armidale Dumaresq/Guyra/Uralla/Walcha Strategic Alliance Model (Dollery *et al.* 2005a), and the Walkerville model (Dollery and Byrnes 2005). Similarly, studies on proposed models include *ad hoc* resource sharing models (Ernst and Young 1993), virtual local governments (Allan 2001; 2003; Dollery 2003), area integration models (Thornton 1995; Shires Association of NSW 2004; Dollery and Johnson 2005b; Dollery *et al.* 2007c), the Co-operative Model (Dollery *et al.* 2005c), and agency models (Dollery and Johnson 2005a).

Within this literature, we can find some assistance in trying to locate and characterise the Regional Model. For instance, the work by Thornton (1995), Shires Association of NSW (2004), Dollery and Johnson (2005b), Dollery *et al.* (2005c), and Dollery *et al.* (2007c) on area integration suggests that a much more detailed specification for the Regional Model could be operationalised. For example, as it stands, and in contrast to these papers, the Regional Model leaves unanswered many important and difficult questions that will have to be faced when constellations of local councils in the specified Zone groupings. How can governance arrangements be structured in the new regional Model? On what basis and in what proportion will member councils be represented on the new Regional Council? How will the patterns of ownership of assets employed in regional service provision be organised? On what basis will individual councils contribute financially to the new Regional Model for services they receive? Will member councils earn 'dividends' from their investment in a Regional Council? If they do, then how will surplus revenue earned by the Regional Council be distributed amongst its member councils? What will happen in the event that a Regional Council is dissolved?

The answers to these and many other questions can be found in this body of literature since these scholars have struggled with precisely these kinds of questions. Indeed, a disappointing feature of the Draft Report (2008) resides in the fact that its authors have almost entirely ignored this literature. Indeed (again) it can be argued that the highly abstract and vague Regional Model presented can be ascribed to its authors' neglect of this literature. For example, one way of developing a more detailed Regional Model would have been to lay out alternative organisational and structural possibilities drawn from Thornton (1995), Shires Association of NSW (2004), Dollery and Johnson (2005b), and Dollery *et al.* (2007c).

## **Critical Analysis**

From the preceding discussion it is evident that the Regional Model falls within the area integration genre of models of local government. However, as we have seen, the Regional Model leaves unanswered several important questions on how it will be structured and how it will operate. It should be stressed that this ambiguity may well be deliberate. After all, a central theme of the Draft Report (2008) *The Journey* is the proposition that 'one size does not fit all' given the great diversity in Western Australian local government and the overbearing importance of the tyranny of distance in the vast state. This proposition can hardly be gainsaid against the empirical realities of the Western Australian local government sector. A second plausible justification that can be offered for the apparently intentional vagueness of the Regional Model resides in the necessity to bring local councils 'on side' with the self-initiated reform program contained in *The Journey*. It need hardly be added that the mobilisation of Western Australian local government behind the plan is essential if WALGA is to convince the state government to support its reform initiative. In order to secure this support, the reform program obviously cannot be overly prescriptive thereby forcing rigid and potentially unpalatable solutions on a disparate range of local councils, ranging from very small and remote shires to large metropolitan municipalities.

However, the lack of detail on the Regional Model contained in the Draft Report remains a concern if it is to succeed in its stated aims of improving the state of local government. Indeed, the embryonic literature on area integration or joint board models in Australian local government, such as Thornton (1995), Shires Association of NSW (2004), Dollery and Johnson (2005b), Dollery *et al.* (2005c), and Dollery *et al.* (2007c), is characterized by the difficulties its contributors have encountered in designing suitable governance arrangements. The 'devil' has most assuredly been in the 'detail' of these models. It is thus worth considering some of the more important of these problems as they apply to the Regional Model.

In the first place, all area integration models adopt some or other variant of a structure based on the retention of autonomous existing councils and their current spatial boundaries, but with a shared administration and operations overseen by a joint board of elected councilors and/or general managers from each of the member municipalities. Under these arrangements, constituent councils each retain their current 'political independence', thus preserving representative democracy at the local level, whilst simultaneously merging all or some of their administrative staff and resources into a single enlarged bureau, in order to secure possible scale economies, scope economies, or other benefits that may derive from a larger administrative organisation.

However, the concept of area integration models is far from new. For example, Dollery *et al.* (2006, 130) have argued that 'the joint board model seems to represent an extension of the ancient English system of rural parish councils attached to the administrative apparatus of larger municipal corporations' first placed in the context of Australian local government by Williams (1991), and then further elaborated by Ernst and Young (1993) and Thornton (1995) as an 'urban parish' model in the South Australian amalgamation debate in the 1990s.

Area integration models are all based on two implicit assumptions concerning the nature of local government. Firstly, small local councils are presumed to

enjoy a comparative advantage in terms of effective local representation and local democracy, but these same organisations are assumed to have a comparative disadvantage in terms of the productive efficiency of service provision. By contrast, large local authorities are deemed to exhibit precisely the opposite propensities; they are relatively inefficient at providing effective democratic representation, but are relatively efficient in service provision. The result of these assumptions is that a purported trade-off exists between democratic efficacy and economic efficiency.

Area integration models seek to 'break' the ostensible trade-off between democracy and efficiency by maintaining the positive democratic attributes of small local authorities and combining their administrative and technical structures in order to harness the ostensibly efficiency-enhancing characteristics of larger council bureaucracies. Thornton (1995, 1) has neatly encapsulated this argument as follows: Area integration models sever the 'traditional connection between physical function and geographical boundary, thus capturing the best of all worlds: functional areas big enough to provide economies of (large) scale for the delivery of services and regional coherence, together with political areas small enough to provide intimacy of (small) scale for effective representation and sense of community'.

At least three potential problems can be identified in this line of argument. In the first place, at the conceptual level, it is by no means obvious whether scale economies are either substantial or spread across many local government services. For instance, with respect to scale economies in Australian local government, Dollery and Fleming (2006, 274) have argued that 'if councils each produce their own services and there are substantial aggregate economies of scale, then it follows that a system of numerous small municipalities will result in higher expenditures for the same level and composition of output than a system of fewer larger councils'. However, specific scale characteristics are tied to particular services. Thus 'the most efficient level of production will depend on the type of service in question', which means that 'where local government produces a range of different

services, each with its own unique production characteristics, no single size of government will be able to produce all services at the minimum possible cost for each service'. The same argument has been advanced by Sancton (2000, 74), who observed that 'there is no functionally optimal size for municipal governments because different municipal activities have quite different optimal areas'.

Secondly, at the empirical level, there is a distinct lack of empirical support for economies of scale in Australian local government service provision. In their review of available empirical work in the area, Byrnes and Dollery (2002) concluded that existing evidence on scale economies is 'mixed' and it cannot support a presumption of the existence of substantial and widespread scale economies.

Thirdly, observed instances of 'local council failure' in Australian local government, whether from either inept leadership at the political level or bureaucratic failure in policy implementation and service delivery, does not correlate with council size. A small Australian literature has examined the predictive capacity of Key Performance Indicators (KPIs) for diagnosing local council unsustainability used in all Australian local government jurisdictions (Dollery 2006; Murray and Dollery 2005; 2006; Walker and Jones 2006). Murray and Dollery (2005; 2006) established that KPI analysis is a poor predictor of actual council financial performance. Instead, they argued that other factors explained local government failure and 'speculated' that 'governance issues (broadly defined)' appear to have been the most 'critical factors' in most recent New South Wales local government 'failure episodes' since 'failed entrepreneurial projects by councils or councils in partnership with private organizations; factional "infighting" amongst elected councillors and the attendant resignation of frustrated experienced professional staff; a preponderance of ill-informed and unwise elected councillors; poor quality professional staff, especially in rural and remote areas; and a lack of adequate internal controls all seem to have played a critical role in municipal failure'. In other words, local council size did not appear to bear any systematic

relationship to observed local government failure. This finding serves to undermine the two basic assumptions of area integration models regarding political 'efficiency' and economic efficiency and council size.

Despite these objections, area integration models, such as the WALGA (2008) Regional Model, do have significant advantages over their major rivals in the form of continuing small local councils or amalgamated large municipalities. The former cannot, on their own, accrue scale economies and scope economies savings, while the latter can suffer diseconomies in both service provision and political representation. In terms of comparative institutional advantage, the *prima facie* case for area integration models advanced by Thornton (1995) and others is thus persuasive.

But an important question must still be resolved if the Regional Model is to succeed in economic terms: Which services should be provided through the Regional Model and which services should continue to be delivered through its member local councils? While this problem is a very tough nut to crack given the limited empirical knowledge on scale economies in local government, fortunately an embryonic literature has already explored this question in the Australian municipal milieu. For instance, on the basis of a survey of general managers in New South Wales local government, Dollery *et al.* (2007b) concluded that 'back-office' functions, such as finance and budgets, human resources, information technology, land information and GIS systems, loans and investments, internal audit and risk management, plant and fleet operations, records, regulatory and planning functions, performance review, supply and procurement, were best suited to delivery through an area integration model.

After an analysis of available evidence on shared services in Australian local government, Dollery *et al.* (2007a) found that shared service arrangements can improve the efficiency of local service delivery, but that some services are more amenable to shared service arrangement than others (see also Dollery and Akimov 2007a; 2007b). These areas included information technology,

human resources, procurement and waste management. However, they established that there are identifiable barriers to the implementation of shared service arrangements, which are often 'difficult to overcome', especially the perceived loss of 'municipal identity', the 'complexity' of the process in question, 'conflicting objectives' and 'uncertain benefits'.

In a similar vein, Dollery and Akimov (2008, 95-96) observed that while 'there is little "hard-core" rigorous evidence in support of the local shared service arrangements and no such evidence against this approach', nevertheless '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'. They found that the 'six most popular broad areas' were '(i) procurement; (ii) human resources; (iii) governance, compliance and audit services; (iv) IT; and (v) waste management'.

In the light of this work, there thus seems to be a surprising degree of agreement on the general nature of the services that can best be delivered through the Regional Model. However, all authors are at pains to point out that the magnitude of efficiency gains and cost savings depends to a high degree on co-operative conduct by the councils involved and that significant barriers must be overcome in the implementation of shared service arrangements.

While space constraints limit our capacity to explore in detail some of the other matters that must be decided in the establishment of a Regional Model, it is nonetheless possible to at least briefly mention these factors. Firstly, the question of the ownership of Regional Council resources by its member councils must be resolved. The most common method of tackling this problem in the literature is to create shares in the Regional Model and then allocate these among member councils on some agreed basis, like financial contributions. Secondly, an analogous problem arises with respect to the distribution of any surplus that might accrue to the Regional Council and can be solved in a parallel manner. Thirdly, the threat of excessive organizational complexity and ambiguity is real. While no *a priori* solutions to this problem

have been identified in the literature, it seems clear that thoughtful organisational design is required; an area in which WALGA can assist. Finally, the literature has shown that competing and irreconcilable demands by different member councils can induce conflict, particularly over the demarcation of local council and Regional Model responsibilities. No ready solution exists to meet this potential problem, which will have to be dealt with on a case-by-case approach.

## **Concluding Remarks**

In the light of the analysis conducted in this paper on the Regional Model, what can we say about its prospects of success? Several observations seem warranted. In the first place, the Regional Model has been depicted in the *The Journey* (WALGA 2008) in a highly abstract manner, with relatively few specific details prescribing its structure and operation. We have argued that although this increases its likelihood of acceptance by Western Australian local government - a major political factor - it also implies that groups of councils falling under a given Regional Model receive an almost blank template from which to proceed. While this might boost the possibility of conflict between fractious local councils, it appears that, on balance, this is justified given the immense diversity within the local government sector in Western Australia.

Secondly, the literature on shared services in Australian local government suggests several likely candidate functions that could be adopted by the Regional Model in addition to the three areas indicated in the Draft Report. Indeed, a surprising degree of unanimity exists on the most suitable services to be delivered regionally, predominantly in the 'back office' area of municipal operation. Moreover, available evidence implies reasonable prospects of both improved service provision and cost savings, although significant barriers must be overcome. There is thus reason to be optimistic in this respect too.

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