CONSOLIDATION IN LOCAL GOVERNMENT:
A FRESH LOOK

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PART A: LITERATURE REVIEW

A1.   Introduction

Efficiency has remained a primary theme for higher tiers of government within Australasia when addressing issues of local government performance, notwithstanding a substantial body of research both internationally and increasingly within Australasia which casts doubt on the standard arguments that larger councils will be inherently more efficient because of presumed economies of scale.

It is a theme embedded in the view that the principal purpose of local government is the delivery of local public goods and services. It is a view that has persisted notwithstanding the almost universal practice in empowering legislation across Australasia, which envisages a much broader role for local government, extending beyond service delivery as such to the governance of its communities[1].

It can be seen as emphasising one side of the duality of local government variously described as both service delivery and democracy or, as Copus (2006) expresses it, two competing sets of requirements, technocracy and democracy. The dilemma is well expressed by him in the following quotation:

> Local government is a dual-purpose institution. First, it provides for an additional layer of democracy, political representation, engagement and public accountability to that available to

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[1] A selection of statutory provisions demonstrates the extent to which the legislation supports the role of councils in areas such as community well-being and quality of life rather than simply efficient service delivery:
In South Australia the principal role of a council includes:
- To encourage and develop initiatives within its community for improving the quality of life of the community; and
- To represent the interests of its community to the wider community.
Even its service delivery role is not focused solely on efficiency but has a much wider perspective:
> To provide and co-ordinate various public services and facilities and to develop its community and resources in a socially just and ecologically sustainable manner.

In New Zealand, the purpose of local government is to enable Democratic local decision-making in action by and on behalf of communities and to promote the social, economic, environmental and cultural well being of communities in the present and for the future.

In Victoria 'the primary objective of a Council is to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of decisions'. In doing so it is amongst other things to 'promote the social, economic and environmental viability and sustainability of the municipal district' and ' improve the overall quality of life of people in the local community'.

In Queensland local government principles include:
　　　　(a) transparent and effective processes, and decision-making in the public interest; and
　　　　(b) sustainable development and management of assets and infrastructure, and delivery of effective services; and
　　　　(c) democratic representation, social inclusion and meaningful community engagement; and
　　　　(d) good governance of, and by, local government; and
　　　　(e) ethical and legal behaviour of councillors and local government employees.

the citizen in relation to central government. Secondly, it is responsible for the provision of a wide range of public services vital to nations where the state has taken the major responsibility for welfare and social cohesion. Yet, that very dual role generates its own tension for local government, as it can not be assumed that the roles are either mutually compatible or that they respond to the same stimuli, in the same way, or that they are motivated by the same factors. Nor can it be assumed that political representation and decision-making, or the expression of local values and views can be achieved though a set of institutions designed, primarily to run and provide public services. It is the assumption that local government is about the provision of services, almost to the exclusion of its wider political role and that the latter is less important than, or indeed only possible because of, the former, that is itself the cause of a deeper public malaise about local government. Moreover, it is such assumptions that are responsible for hindering the development of politically powerful local centres of government that are meaningful to local communities, rather, than is the case, a local government that is remote and lacking in salience and relevance.

A further theme which has influenced thinking in Australia about the role of local government is the extent to which 'local government' is seen as comprising a single set of functions which generally all local government entities should be able to undertake or whether there is a distinction which should be drawn between inherently regional and inherently local functions, and the institutions of local government which are responsible for them. A recent example of Australian thinking can be seen in the report of the Queensland Local Government Reform Commission (2007). It had received a number of submissions concerned at the loss of identity and responded by observing that:

the Commission has separated the issue of identification with a particular locality, from that of a broader regional community of interest.

It does so having regard to the objectives set for it, namely to provide for strong and sustainable local governments that can better manage economic, environmental and social planning consistent with **regional communities of interest.**

The Commission had received a number of submissions on the theme of community of interest, many of them centred around local identity but also emphasising what was seen to be the absence of any single and widely accepted definition. Other material suggests that the Reform Commission may have been extending the application of the term 'communities of interest' beyond its normal usage by adopting the expression 'regional communities of interest' as a principal guideline for the boundary decisions that it took.

It is common for the term 'community of interest' to be employed in local government legislation as a primary consideration when establishing boundary and representation arrangements. The issue with using the term, rather than being the absence of 'any single and widely accepted definition' is usually more that it is used to describe a number of different interests and communities - for example, communities of interest, and communities of place.

New Zealand's Local Government Commission in the guidelines it has prepared for local authorities for undertaking representation reviews (Local Government Commission 2008) notes that 'the term "community of interest" is not defined in the [Local Government] Act. It is a term that can mean different things to different people', and goes on to observe that

giving proper consideration to defining local communities of interest is, however, an essential part of the representation review process. It is a necessary precursor to determining effective representation. Communities of interest may alter over time. Local authorities need, therefore,

to give careful attention to identifying current communities of interest within their district or region when undertaking representation reviews.

The Local Government Commission drew substantially on a research paper prepared for the South Australian Department of Local Government (Fulcher 1989) that defined community of interest as a three-dimensional concept as follows:

- **perceptual:** a sense of belonging to an area or locality that can be clearly identified
- **functional:** the ability to meet with reasonable economy the community's requirements for comprehensive physical and human services
- **political:** the ability of the elected body to represent the interests and reconcile the conflicts of all its members.

The Local Government Commission also noted that the concept of community of interest, for any given local authority, could apply both at the level of the whole district of the local authority, and for specific sub-districts and identified a number of characteristics which should be used in defining particular communities of interest.[2]

The recent report 'State of Australian Cities 2010' (Major Cities Unit 2010) can be seen as another expression of a growing emphasis on the importance of the regional level, as opposed to a focus on localities as defined by current local council boundaries, and reflects the growing interest which the Federal Government is taking in the future of Australia's Cities. This includes the perceived need for a more integrated approach to planning reflected in the Council of Australian Governments agreement on 7 December 2009 to a set of reforms for national criteria for capital city strategic planning with the aim of ensuring there are long-term plans in place to manage population and economic growth, address climate change, improve housing affordability and tackle urban congestion.

The emphasis on improving the capability of local government, including 'rightsizing' the scale for inherently regional or metropolitan level activity, has preoccupied governments on both sides of the Tasman in recent years.[3] It has been combined with an emphasis on improving the capacity of local government to cope with the complexity of modern governance[4]. In contrast to this focus on 'technocracy' there has been much less emphasis on enhancing local government's ability to deliver on its democratic purpose. Copus not only stresses that local government is a dual-purpose institution. He also presents a strong argument that, contrary to what has become virtually received

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[2] A sense of community identity and belonging reinforced by:
- similarities in the demographic, socio-economic and/or ethnic characteristics of the residents of a community
- similarities in economic or social activities
- physical and topographical features
- the history of the area

Dependence on shared facilities and services in an area, including:
- schools, recreational and cultural facilities
- retail outlets
- transport and communication links.

[3] For example improving the capability of local government was one of the principal considerations for the Queensland Reform Commission.

[4] The Queensland Reform Commission described its emphasis on capacity in these terms: 'The challenges confronting Queensland in the coming decades require governments of all levels to be high capacity organisations with the requisite knowledge, creativity and innovation to enable them to manage complex change. Local governments in particular must be capable of playing their part in managing the development of these regions in a way that achieves prudent use of mineral resources and sustainable use of natural resources as well as retaining the inherent social and cultural values of local communities.'

wisdom in a number of jurisdictions including those in Australasia and England, local government's primary purpose is democracy. Paradoxically this is not to be at the expense of technocracy, but to better enable the achievement of that purpose as well.

Copus's critique reflects some decades of change both in the role of local government and in the way in which its communities relate to it as an expression of democratic purpose. The traditional model of representative local government, itself delivering all the services it has determined should be provided to its communities has been breaking down - with the most obvious symptom in those jurisdictions where voting is voluntary being a marked decline in electoral turnout. We explore this change, its implications, and the options now available to local government by considering successively governance, representation/local democracy, economies of scale, economies of scope, strategic capacity, the contrasting roles of producer and provider, shared services and other alternatives to in-house delivery and the role of arm's length entities.

A2.   Governance

The relationship to higher tiers of government is a particularly problematic issue. In jurisdictions such as the United Kingdom, Canada, Australia and New Zealand it has been conventional to regard local government as 'a creature of statute' subject to the whims of that higher tier or tiers of government with the authority to intervene legislatively, either in the structure and legal framework for local government, or in how it is funded. That understanding was dependent on a view about the respective roles and functions of local government and other tiers of government, with local government largely responsible for specific local property-based services and regulation, together with some (occasionally extensive) roles in social services delivery but typically under tightly constrained delegations as with the powers of local government in England.

That understanding has been gradually breaking down. There is an increased emphasis on the importance of partnership working between local government and other tiers of government where England, which has often been characterised as one of the world's most centralised societies, has been experimenting, initially in a relatively half-hearted way, with different approaches to partnership and devolution. This has seen successive shifts through local strategic partnerships, local area agreements and multiple area agreements (see the extensive material reported on the website of the Department of Communities and Local Government – www.dclg.gov.uk).

The impact of the global financial crisis, and the resultant blowout in fiscal deficits is seeing an increased emphasis on how central (federal, state) governments can reduce expenditure, especially on major social services, without a concomitant withdrawal of service. England has been leading the way, initially with the total place initiative of the then Labour government intended to break down the silo approach of departmental control in favour of local collaboration (see http://www.localleadership.gov.uk/totalplace). The accession to office of the Conservative/Liberal Democrat coalition government has seen a further emphasis both on the role of local government, and the need to develop new means of governing service delivery.

Amongst the examples of a pioneering approach is Lambeth Borough Council's *White Paper on the Cooperative Council,* which proposes a radical shift in the way the council and its community relate to each other in the delivery of services. The paper is a response to what the council sees as two challenges. The first challenge relates to the type of relationship the council believes it needs to create between citizen and public services. It argues that increasingly communities and the state are recognising that the public sector cannot 'do it all' and that citizens need to be part of the solution to the challenges our increasingly complex and diverse communities face. The second challenge is how to deliver services which meet local need in a period of tighter funding recognising that 'the recent

severe recession has opened up a huge hole in the nation's finances. Councils will be expected to do more with less.' (Lambeth Borough Council 2010).

The White Paper puts a lot of emphasis on initiatives such as employee owned or community owned enterprises as options for service delivery. This theme has been picked up by the coalition government that is encouraging a number of experiments in the use of especially employee owned entities as an alternative means of delivering social services normally delivered by local government.

The coalition government has picked up on this approach with its commitment to what are known as pathfinder projects articulated in July by Francis Maude, Minister of the Cabinet Office, as

> We are also determined to pursue the Coalition's commitment to create a right for groups of public sector workers to form mutuals or co-ops to bid to deliver their services. This could be alone or in partnership with another provider. We are looking for a number of pathfinder projects that we can actively support through to success. So if any of you are interested in forming one of these let us know (Maude 2010a).

In August he announced the establishment of the first 12 pathfinder projects (Maude 2010b), including the collaboration of a number of significant entities already involved in the employee ownership field such as the John Lewis Partnership. A number of these pathfinder projects involve the 'spin out' of local authority services.

Although the Minister does not make any reference to parallel developments in rethinking the nature of government and governance, the pathfinder initiative is consistent with a shift in thinking about the nature of government and especially local government from speaking of government to speaking of governance recognising the increasingly important role of stakeholders outside the formal structures of government in decision-making on the future of communities. Hambleton (2004) describes governance in these terms:

> *Governance*…. involves government *plus* the looser processes of influencing and negotiating with a range of public and private sector agencies to achieve desired outcomes. A governance perspective encourages collaboration between the public, private and non-profit sectors to achieve mutual goals. Whilst the hierarchical power of the state does not vanish, the emphasis in governance is on steering, influencing and co-ordinating the actions of others.

Governments have given tacit recognition to the changing role of local government through legislative change, moving from prescriptive legislation to more general empowering provisions typically drafted in terms of the power to promote community well being, and to take whatever actions they consider appropriate for that purpose.

Despite this, it is typical for higher tiers of government to retain tight control over the formal structures of local government and the powers they exercise. Aulich (2009) observes that 'despite the modernisation of local government Acts, there is no evidence of significant changes to the state-local power nexus. Thus even under the reformed local government acts, local government remains a creature of state and territory governments, all of which retain strong overrule powers'.

In part, this reflects higher tiers of government facing the same difficulties as local government itself, and the communities it serves, in arriving at a revised view on the proper modes of governance at local, state, central and federal levels to meet changing demands. Reddel (2004) argues that 'current modes of social governance appear to be struggling with the challenges of building authoritative democratic state capacity, in the face of public sector reforms based on a "recipe" of competition

and neo-liberalism, citizen disengagement, and a 'retreat from the state', suggesting a falling away in respect for the role of the state, notwithstanding the strong formal powers which individual states themselves still hold in the community governance space. At the same time he also argues that 'a balance between the various institutions of the state and the civil society is of critical importance.' The state is a fundamental strategic agent of participatory local governance (Amin and Hausner 1997). Participatory governance builds on general governance. The state is not merely a collection of disaggregated and autonomous policy networks and communities, markets or hierarchies. State institutions have a primary role in coordinating, integrating and supporting the complexity and plurality of social, economic and political life.

Strength in state institutions is an issue not only in higher tiers of government, but crucially for local government also. Bailey and Elliott (2009) argue that attempts to strengthen local democracy must go hand-in-hand with attempts to strengthen local government itself:

> Central government policy has repeatedly failed to establish a virtuous circle within which strong local democracy and powerful institutions of local government enjoy a symbiotic, mutually constructive relationship. Instead, we suggest, there is a vicious circle in which extensive central control, the consequent limitations to local power and autonomy and the disengagement of individuals and communities are factors that are mutually reinforcing.

There are signs in Australia that strengthening local democracy is becoming more of a central theme in considering the role of local government. In the State of Victoria there has been an increased emphasis on community planning. West and Raysmith (2007) report that 'more engaged processes have been supported by the State government and it is difficult to find a State government strategic plan, policy document or report that does not highlight the importance of community engagement, local planning and the central role of local governments'.

The recently issued 'Planning and Reporting Guidelines for Local Government in New South Wales' (Division of Local Government 2010) includes a strong emphasis on engagement with the community through requirements, ie, 'as a minimum, the Community Engagement Strategy prepared and implemented by Council must identify relevant stakeholder groups within the community and outline methods that will be used to engage each group'.

Outside the formal role of state or local government, the development of a parallel process of community engagement and community planning through the community banking network of the Bendigo Bank provides another example of the emergence of community governance as an important theme.[5]

In New Zealand, it is less clear whether there is a government commitment to supporting the further development of local or community governance. Instead, for the moment, the government, or at least the Minister of Local Government, appears more focused on legislative change intended to encourage local government to confine itself to 'core activities'. However the Minister in his speech to the 2010 Local Government New Zealand conference set out a commitment under the rubric of 'Smarter Government - Stronger Communities' to producing

> a first-principles discussion document of the proper constitutional status of local government in New Zealand, how its proper function and structure should be evaluated and assessed, and how central and local government can better mesh both their decision-making and their work programmes to improve the service we provide in the communities we represent.

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[5] For an example of community planning in this context, see the Strathfieldsaye Community Plan at:
http://www.strathfieldsaye.com.au/pdf/StrathfieldsayeCommunityPlan.pdf

He went on to say 'Too often local government is required to act like a government department owned and directed by government. They are not. To be a vital part of our constitutional make-up and democracy local government must be recognised as an autonomous level of government fiercely independent of central government' (Hide 2010).

A3.   Representation and Local Democracy

Questions of representation and local democracy are intimately bound up with the issues of role, function and scale of local government and its relationships to higher tiers of government.

There is certainly a widespread view that the perceived relative weakness of local government, reinforced by the tendency of higher tiers of government to intervene, often arbitrarily, in role function or structure, has been a major factor in undermining public confidence in local government (Lyons, 2007, argues strongly that this has been the case).

Voter turnout in local government elections is often regarded as a proxy measure for the level of public confidence in local government. It has been declining significantly in jurisdictions such as England, Australia and New Zealand despite a number of initiatives, such as postal voting and various voter education programs, intended to improve turnout. Achieving a turnaround has become a formal performance measure for some local government sectors - for example South Australia's target of 50 per cent, emphasising the importance attached to voting.

The LGASA website (http://www.lga.sa.gov.au/site/page.cfm?u=275) records turnout over the two decades 1983-2003. During the 1990s turnover was generally around 20 per cent, rising to 35 per cent in 1997 (regarded as a consequence of the heightened interest resulting from local government amalgamation).

Russell (2004) in a discussion paper prepared for LGASA documents reports that turnout rose to 40.1 per cent in the 2000 election following the change from attendance based voting to postal voting and then fell back to 32.7 per cent in the 2003 elections. Survey material on the LGASA website suggests that this remained virtually unchanged in the 2006 elections. (Russell speculates on the reasons for the drop but notes the Western Australian Election commissioner reporting that the initial surge in turnout following a change from attendance based to postal voting is followed by a decline after the initial novelty wears off).

Experience in New Zealand has shown a steady decline in turnout as evidenced by the following table (Postal voting has been compulsory since 1989).

Table A1: Percentage Voter Turnout, New Zealand 1989-2007

Turnout	1989	1992	1995	1998	2001	2004	2007
Regional councils	56%	52%	48%	53%	49%	45%	43%
District councils	67%	61%	59%	61%	57%	51%	49%
District mayors	67%	61%	59%	59%	56%	52%	49%
City councils	52%	48%	49%	51%	45%	43%	41%
City mayors	50%	48%	49%	51%	45%	43%	41%
Community boards	54%	49%	50%	50%	46%	42%	41%
District health boards	-	-	-	-	50%	46%	43%

Source: *Local Authority Election Statistics 2007, Department of Internal Affairs.*

The focus of Russell's discussion paper is on possible means for increasing voter turnout including a change to compulsory voting but its real interest from a local governance perspective is the evidence it presents that large councils, and high representation ratios (ratio of residents to elected members) are consistent with low voter turnout and vice versa.

This is consistent with experience in New Zealand where the Local Government Commission in a recent determination dealing with a proposal to abolish the Kaikoura district and merge it with the adjoining Hurunui district (Local Government Commission 2009), in discussing voter turnout, observed:

> As can be seen, turnout is relatively high in both areas particularly in Kaikoura. This reflects a high degree of community engagement in these areas and is in line with research carried out by the Department of Internal Affairs. This research shows that while voter turnout in New Zealand local elections is affected by a range of factors, such as the number and profile of candidates and particular local issues, turnout also relates to the size of the district and to its geography. Higher turnout is generally associated with lower ratios of electors to representatives, and the further south one goes in New Zealand generally the higher the voter turnout in local elections.

The research referred to is the publication 'Local Authority Election Statistics 2007' prepared by the Research and Evaluation unit of the Department of Internal Affairs (at http://www.dia.govt.nz/diawebsite.nsf/wpg_URL/Services-Local-Government-Services-Local-Authority-Election-Statistics-2007?OpenDocument).

In respect of voter turnout, the authors in their overview observe:

- In each successive local authority election since 1989, turnout has tended to decline. Certain patterns in regards to turnout have become apparent over time.

- One of the more apparent patterns is related to the size of the council. The larger the council, the lower the turnout. Typically, city councils experience lower turnout than district councils.

- South Island councils tend to have had consistently higher levels of turnout than North Island councils. This is in part due to the large number of small district councils in the South Island. The notable exceptions for the South Island, are Christchurch City Council and Waimakariri District Council, and to a lesser extent Dunedin City Council and Selwyn District Council.

The relationship between representation ratios and the strength of community support for local government is an area that, surprisingly, has only recently started to attract serious research interest. Purdam *et al* (2008) conclude a review of evidence from Europe on the importance of representation with the observation

> the numbers of elected representatives is a key issue and one that is at the core of what local government should be about. The options for change need to be explored in much more detail both in research and practice as the issue of the number of elected representatives remains a neglected area of reform and innovation.

Although the published research is still limited, the weight of evidence supports the proposition that trust in local government is related both to size, with trust diminishing as the size of councils

increases, and to the representation ratio (Purdam *et al* op. cit., ODPM 2002, Denters 2002, Sorabji 2006).

A separate and important line of research makes the case that representation, by itself, may not be as important a factor in public engagement with local government as arguments purely from voter turnout imply. Implicit in the voter turnout argument is that today's citizens have the same expectations of engagement with local government as their forebears of 30 or 40 years ago. Much research suggests otherwise. Citizens are seeking different ways of engaging with local government, and will increasingly look for means of engagement which address directly the particular issue they are concerned about, rather than relying on the extremely indirect means of electing one or more representatives in the hope that they may form part of a coalition which, on the particular issue or issues which most concern the citizen, will reflect the citizen's wish.

Haus and Sweeting (2006) assess the implications of four different concepts of local democracy for political leadership. They place this in the context of changing expectations of governance, observing that:

> Local governance changes conventional mechanisms for accountability and control, implying often a greater role for the private sector, increased public sector fragmentation and differentiation, and shared responsibilities between public and private sectors for common purposes. In the context of local governance, the modes of political participation have also changed.

The four concepts are representative, user, network and participatory, each reflecting different forms of engagement and each seen as having a role to play in dealing with the complexity of modern societies.

Schaap *et al* (2009) offer a similar conceptualisation in an overview of innovation in sub-national government in Europe. They begin by noting the significant differences in institutional systems and traditions in European local government but go on to observe that, notwithstanding these, there are some strikingly similar ways in which municipalities and regions across Western Europe are addressing the challenges they now face.

They summarise the changing environment for local government as:

> the public is realigning itself. People are bonding less with the local community and becoming more individualistic. They are demanding more and better services from the government. At the same time, they are more willing to participate, debate and act. The importance of traditional representative democracy is declining. These trends are creating tension between representative democracy and trust in an elected body on the one hand, and public input and participation on the other. All of this is taking place against a background of increasing social fragmentation.

Four strategies are identified as being deployed to address these trends; strengthening the existing model of representation (electoral reform etc), broadening the concept of representation (greater dialogue while maintaining representation as the only source of legitimate authority), the citizen as customer - 'customer democracy' - and direct or participatory democracy (referenda, co-production, self-governance).

The four strategies differ somewhat in their detail from Haus and Sweeting's different concepts of local democracy, but draw out some common themes with their emphasis on user or customer

democracy, and on direct or participatory democracy. In part the difference reflects the stronger reliance by Haus and Sweeting in drawing on a wider range of theoretical literature including Clarence Stone's recent reformulations of urban regime theory (Stone 2004, 2005), in contrast to the more empirical approach taken by Schaap *et al*. That two different approaches can produce a similar conceptualisation of the changing relationship between local government and the communities it serves suggests that this way of thinking about community governance is well grounded.

Nor is this way of conceptualising the changing relationship between citizen and local government a purely Western phenomenon. Kalianan (2008) presents somewhat similar arguments from the perspective of local government in Malaysia, making the case that local government needs to shift from a purely service - customer satisfaction model to a democratic/political model based on citizen satisfaction.

Finally, on the theme of representation and local democracy, McKinlay (2010) argues that the proper role of local government is governance, not service delivery.

There have been moves within Australian local government to reflect the demands of different means of engagement. The statutory changes to local government legislation placing greater emphasis on community outcomes, and providing for the adoption of medium term plans following community consultation, can be seen as evidence that the case for a different approach has been recognised although there are clearly question marks over how far those legislative changes have affected the role and relationships of councils and their communities (cf Aulich's comment that 'there is no evidence of significant changes to the state-local power nexus', and the judgement with which Reddel (op. cit.) concluded his discussion that 'the contemporary challenge is to … build a sustainable institutional program of local governance and community strengthening').

A further issue to consider is the extent to which the conventional approach to consultation between local authorities and their communities is well designed to promote community strengthening. Recent Canadian research suggests that at least on issues where there may be strongly different views within the community, the conventional approach of publishing a proposal, receiving submissions and then making a decision could actually promote rather than lessen community division. The argument is that inevitably this approach means that one group 'loses' and another group 'wins' depending on the decision that the council takes and that there is no provision within the conventional consultation processes for an iterative negotiation of a position that all the different parties can accept. The need is for a means of establishing a community dialogue, which the Canadian research (case study based) suggests can be best done through the use of the Internet[6] (See New Brunswick 2008).

The most comprehensive approach to creating a new framework for engagement between local government and its communities in Australia appears to be the Victorian initiative to encourage community planning which has had strong support from the Department of Planning and Community Development and the Municipal Association of Victoria. The Department's 2007 report 'Planning Together: lessons from local government community planning in Victoria' provides a case study based overview of experience.

There is one other factor that needs to be considered in reflecting on the changing nature of representation and community engagement. This is the existence of a number of generally large municipalities that have very high representation ratios and appear to rely substantially on appointed officials, rather than elected members, to manage community engagement. Brisbane City

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[6] Although this could raise a different set of issues depending on the extent to which there are groups within the community who do not have ready access to the Internet.

Council provides an example. With a population of approximately 1,000,000, and 27 elected members (a Lord Mayor elected at large and 26 ward councillors), it has a representation radio of approximately 38,500:1. Each ward councillor has a ward office with two full-time staff. The Council's view is that these ward arrangements, and a range of other means for communicating with citizens (a sophisticated call centre, a range of ad hoc consultative bodies) meet the community's needs for engagement. The effectiveness of this approach to representation and community engagement merits research.

A4.   Economies of Scale in Service Delivery

One enduring issue permeating local government policy has been the economies of scale debate. Many have suggested that economies are natural corollaries of municipal amalgamation and, consequently, some governments have been quick to seize on amalgamation as a sure way of squeezing further efficiencies from the local government sector. ACELG has undertaken an extensive review of the literature on the significance of scale economies in municipal amalgamation (Corliss and Lewis 2010) and it is clear that there is insufficient, robust research to provide a sound basis for the assertion that economies of scale will generally accompany amalgamation. Details of the studies, all published within the last decade, can be found at Table 1; a brief summary of the reliability of this research as an effective basis for policy is provided at Table 2.

Economies of scale exist when long-run average total costs falls with an increase in scale of production and the quantity of output produced. This is observed as a marginal per unit cost reduction from a marginal increase in the size or output, or when a percentage increase in output is larger than a percentage increase in inputs. Thus economies of scale can be revealed by examining the cost/output relationship or the output/input relationship. Sometimes a production function is employed to measure the inputs (labour, capital) and outputs of a particular production process (Wolff 2004; Hubbard *et al* 2010; McTaggart *et al* 2003).

Economies of scale are most often found where fixed costs constitute a large proportion of the total cost. Hence it may be found in industries or production processes whereby capital investment into machinery, buildings, or the like represents a large proportion of the total costs. In the local government context it may include capital-intensive functions like sewage disposal and domestic water supply. Furthermore, an increase in scale may allow for more specialised labour and cost saving equipment (Hubbard *et al* 2010; Dollery *et al* 2006). Economies of scale are not likely to be found in functions where the variable costs constitute the major proportion of total costs such as those where there is a significant proportion of labour, such as customer service activities or health inspectors (Dollery *et al* 2006).

Typically, when economies of scale do exist, the average total cost curve moves through different stages such as when a one unit increase in output will at first lower the average total cost. However, there will not be economies of scale in situations where further increases in output maintain the same average or per unit cost (i.e. constant returns to scale) or where further increases in output will actually increase the average total cost (i.e. diseconomies of scale). This implies then that there is a minimum efficient scale beyond which all economies of scale have been exhausted (Hubbard *et al* 2010; McTaggart *et al* 2003). This has implications for the size of the local government performing a specific function or service delivery. It may be that increasing the size of a particular function, such as waste disposal, may achieve a reduction in the average total cost, or it may achieve no change or cost reduction, or it may experience an actual increase in the average total cost, dependent on the shape of the particular function and where the local government's output capability sits on the average total cost curve for that particular function or activity.

This raises the importance of accurately measuring the production profile of local government activities as this information can enhance efficiency by choosing the appropriate size of activity. For example, the conclusions from research into waste management services from the more sophisticated modelling is that economies of scale do exist but for smaller municipalities of fewer than 50,000 inhabitants (Bel and Fageda 2009). This is consistent with the findings of Callan and Thomas (2001) and Bel and Costa (2006), which found no economies of scale when examining the whole sample, but did find some economies of scale when looking at lower levels of population. Similarly, Byrnes *et al* (2003) found economies of scale in regional and remote areas that are characterised by lower levels of population.

There are few longitudinal studies of municipal amalgamation and the length of observation time is generally too short to reflect any long-term impacts (Dollery *et al* 2006). The large majority of research has been conducted over only one financial year (e.g. McDavid 2001; Soul 2000; Byrnes *et al* 2003; Callan and Thomas 2001; Bel and Costa 2006; Dijkgraaf and Gradus 2007; and Bel and Fageda 2009) with only a few studies based on multiple year analysis (Holcombe and Williams 2009; Bradbury and Stephenson 2003).

While cross-sectional studies, using just one year as a proxy for the long term, are often used in economic studies, the data is clearly not as robust as that gauged through longitudinal studies. Further, much of the literature has been based on *ex-anti* rather than *post hoc* assessments of the impact of municipal amalgamation as so rarely have the experiences of amalgamation been evaluated. Modern governments seem more intent on announcing initiatives, rather than evaluating their impact.

There have been a number of problems arising from the failure to specify and scope municipal functions. If, when measuring for economies of scale, the municipal function or activity is not specific enough it may confound the presence of economies of scale in other functions. That is to say, by limiting the scope of local government to particular activities, such as solid waste disposal or sewage, a clearer picture of the existence of economies of scale is more likely to emerge. By clumping functions together with activities that may have diseconomies of scale, the net effect can mask economies in specific activities.

We can conclude that it may be more reliable generated with disaggregation of functions rather than the overall function of local government (Bish 2001). The conclusions from Bradbury and Stephenson (2003) and Holcombe and Williams (2009) show that by disaggregating total expenditure into more specific functions notable differences between the production profiles arise. Solid waste management research has provided consistent and fairly robust results suggesting that there are economies of scale to be exploited for municipalities with between 20,000 to 50,000 inhabitants. This research also suggests that economies of scale can be gained for municipalities with lower levels of population through securing inter-municipal cooperation (such as with shared services) (Bel and Costa 2006; Bel and Fageda 2009). However, it should be noted that even with one function, such as waste management, there is considerable variation between municipalities relating to the types of service and quantity of service required.

When criticisms of past research are applied to these studies they provide a good indicator of how future research into other areas of local government service delivery might be conducted. It seems that the generalised models that examine whole-of-local government expenditure run into a great deal more difficulty when controlling for differences between municipalities. While the models of more specific local government functions, for example waste management services, show some disagreement between studies as to the explanatory variables employed, there is also a significant

amount of consensus among those investigating waste management services about the major explanatory variables.

A number of studies examine the relationship between population density and total expenditure. Ladd (1992) found that an increase in population density had the effect of *increasing* per capita government expenditure. However, these findings have been contested by others (Burchell and Mukherji 2003; Litman 2004; Cox and Utt 2004) who argue that an increase in population density actually decreases per capita government expenditure. More recently, however, Holcombe and Williams (2009) found population density not to be significant except when related to highway services. These findings suggest that further work is needed in relating population to the costs of services, and to the potential for this to generate economies of scale.

Dollery *et al* (2006) argue that even though the population of a local government might be similar to another the demand for services maybe quite different. For example, suppose two local government areas have the same population, but have different demographic characteristics. One area has a higher median age and with a larger proportion of citizens in the older age brackets, the other a younger median age with younger families. While the demand for services in the first local government area is likely to demand more aged care services, the demand for services in the other local government area is likely to be in favour of child care services and public parks with play equipment. Such differences between local government areas need to be controlled for.

The choice of variables can also be significant, raised, for example, by the work of Wolff (2004) in his discussion relating to water systems. He notes that economies of scale are often found in wastewater treatment systems and hence is a major determinant of the size of the wastewater treatment plant. While the larger plant has a higher total cost, it has a lower per unit cost of water storage, despite the additional costs of extra sewer pipes to run to one location rather than multiple smaller locations. However, he argues that any analysis needs to factor in the slope of the terrain because it is more difficult to move water over large distances if the terrain is flat compared to terrain that has a gradient. This factor has the potential to create diseconomies of scale so that any modelling of wastewater treatment must include the gradient of the terrain to understand the location specific production profile of this service.

There are a number of other factors raised by Corliss and Lewis (2010) that render so many studies less reliable. These include the following: changes within the output variables which leads to comparing dissimilar things; differentiation of services and quality of services between different local governments; and over simplified models which over state the importance of certain independent variables;

A key point made thus far has been the importance of being able to adequately specify the function or activities of local governments. One approach to overcome this has been to use survey methods to identify differing cost structures and to determine whether local governments with various structures and size would be better suited to achieve any efficiencies (Dollery *et al* 2009).

For example, Byrnes (2005) surveyed 19 of 152 councils in New South Wales in 2004, asking their general managers about the best structure (size) for delivering a range of local government services. He distinguished these services by using the *New South Wales Department of Local Government (2005) Local Government Code of Accounting Practice and Financial Reporting Code Update No. 13, Special Schedule No.1* of which all New South Wales councils are required to adhere to for their annual financial reporting. These functions included eight main activities, which were disaggregated even further, for example under the heading community services and education there were three

activities: child care, aged care services and education. This gave the survey accurate, real time definitions of specific local government functions.

Byrnes' results suggest that some activities would be efficient if the local government structure were small and the function undertaken locally, such as public cemeteries, public conveniences, public halls, swimming pools, sporting grounds, parks and gardens, and real estate development. Other functions, however, would be performed better or more efficiently if done regionally and the local government were larger - this would include services such as community services, fire protection, emergency services, health administration and inspection, noxious plants, museums, water and wastewater, tourism and area promotion, and saleyards and markets[7].

Recent research into other functions of local government and the existence of economies of scale is not producing reliable and robust results at this stage. This research suffers from a great deal of ambiguity and contention in the modelling. It does, however, suggest that there are significant differences in the production profile between different functions of local government, which in turn suggests that economies of scale may well be very difficult to determine with any accuracy.

A5. Economies of Scope

While much has been written about possible advantages accruing from economies of scale especially with amalgamation, 'there is almost universal neglect of scope economies, the conflation of scope economies into the conceptually different category of scale economies and a misunderstanding of the complex interactions between scale economies and scope economies as organisational size increases' (Dollery, Crase and Johnson 2006:158).

Table A2:   Econometric Research into Economies of Scale in Local Government, 2000-2010

Author/Date	Data	Estimation technique	Dependent variable	Explanatory variable	Findings
Soul (2000)	177 NSW LGAs 1995-1996	simple regression analysis	gross per capita expenditure; per capita expenditure on economic services	population	evidence of both economies of scale and diseconomies of scale
Byrnes *et al* (2003)	177 NSW LGAs 2001-2001	standard regression analysis	average cost of collecting domestic waste bins	no. of bins; population; income; bin density; No. bins per square kilometre	limited evidence of economies of scale
McDavid (2001)	327 Canadian local governments 1996-1997	standard regression analysis	residential solid waste collection cost	households served per truck	evidence of economies of scale
Callan and Thomas (2001)	110 Massachusetts municipalities for 1997	seeming unrelated regression	total annual cost of disposal and recycling	housing density; provider; frequency; and grants	no evidence of economies of scale

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[7] However, there are some caveats that need to be placed on Byrnes' survey. Firstly, there was a relatively small sample size given that of 152 New South Wales councils only 19 responded (12.5 per cent). Secondly, the sample does not accurately represent the population as it is skewed towards rural and regional NSW local councils (Dollery 2007). Thirdly, the survey relied on the opinions of general manager, which are of course, subject to bias.

Bradbury and Stephenson (2003)	154 counties in the Unites States 1992 to 1997	standard regression analysis	government expenditures per capita and net government expenditures per capita	demographics; income; wealth; commission size; government transfers; ideology	evidence of economies of scale in highway expenditure
Bel and Costa (2006)	189 Spanish municipalities 2000	standard regression analysis	total cost of waste management services	quantity of waste; per cent recycling; wage level; frequency of collection; population density; tourism; landfill; and mode of production.	evidence of economies of scale for lower populations
Dijkgraaf and Gradus (2007)	453 Dutch municipalities for the year 2002	standard regression analysis	total cost of waste management services	pick up points; inhabitants per point; density; unsorted waste; glass; paper; vegetable waste; public and private competition; and neighboring municipality	evidence of economies of scale for lower populations
Holcombe and Williams (2009)	487 municipalities with populations > 50,000 in United States 1990 to 2000	standard regression analysis	total per capita municipal government expenditure; disaggregated function government expenditure	demographics; population densities; and municipal functions	constant returns to scale; diseconomies in policing and water services while highway services inversely related to population density
Bel and Fageda (2009)	65 municipalities of Galicia 2005	standard regression analysis	total cost of waste management services	volume of waste; recycling; frequency of waste collection; tourist activity; incineration; mean wage; and contracted	evidence of economies of scale in smaller municipalities

Table A3:   General Critique of Recent Econometric Research, 2000-2010

Author/Date	Length of study and time periods	Scope of function	Model	Functional form	Collinearity
Soul (2000)	one year	general	over simplified	log form	non issue
Byrnes *et al* (2003)	one year	specific	sophisticated	Linear	high level of correlation between population and quantity of bins
McDavid (2001)	one year	specific	over simplified	linear	non issue
Callan and Thomas (2001)	one year	specific	simple	exponential	not reported
Bradbury and Stephenson (2003)	study over five years with two time periods	general; disaggregated function	sophisticated set of controls although some contention relating to the controls used	log form	not reported
Bel and Costa (2006)	one year	specific	sophisticated	log form	not reported
Dijkgraaf and Gradus (2007)	one year	specific	Sophisticated	log form	not reported

Holcombe and Williams (2009)	study over 10 years with two time periods	general; disaggregated function	sophisticated set of controls although some contention relating to the controls used	log form	low to moderate level of correlation between population and population density
Bel and Fageda (2009)	one year	specific	sophisticated	log form	reported low levels of correlation

With economies of scope, it becomes possible to produce a wider range of products together than to produce each one of them on its own. These economies can come from a number of sources such as businesses sharing centralised functions, such as finance or marketing or 'jointness of inputs'. In local government these might represent joint service delivery between more than one council (e.g. sharing a health surveyor or, even, a CEO or by sharing in the purchase of a single piece of equipment to be used by several councils or by providing a single service such as a library between more than one council area). Economies of scope can also come from interrelationships elsewhere in the business process, such as cross-selling one product alongside another (e.g. improving local environment practices which enhance the capacity of the council's tourism program - 'jointness of outputs'), or using the outputs of one business as the inputs of another (e.g. refuse collection combined with a recycling business - 'interactions between the processes of service provision').

Just as the theory of economies of scale has been the underpinning for all sorts of corporate behaviour, from mass production to mergers and acquisitions, so the idea of economies of scope has been the underpinning for other sorts of corporate behaviour, particularly diversification when it is cheaper to produce a wider range of products rather than specialise in just a few. A number of conglomerates put together in the 1990s relied on cross-selling, thus reaping economies of scope by using the same people and systems to market many different products (e.g. Amazon expanding their range into selling toys).

According to Dollery and Fleming (2006), the most likely source of scope economies in Australian local government derives from 'jointness in inputs', which occurs where one input can be used in the production of more than one service. Municipal administrative functions, where the same functions can be used in more than one sphere of activity, are easy to identify. For instance, in the event of council amalgamation or council resource sharing, centralised administrative inputs can be used to support various activities, thereby reducing costs. However, despite the promise offered by scope economies, no empirical studies have yet investigated the phenomenon in the Australian local government context (Dollery and Fleming 2006).

There is no theoretical relationship between scale economies and scope economies (Dollery *et al* 2006). However, it has often been asserted that economies of scale outweigh any potential efficiency gains through economies of scope. It is clear that the international evidence on municipal consolidations lead to the opposite conclusion: that net scale economies do not outweigh all other considerations such as economies of scope (Dollery *et al* 2006; Bish 2001; Sancton 2000; Boyne 1998).

However, it is also clear that there have been few empirical studies to provide further guidance on economies of scope. There are a few studies that point to the potential for councils to consider advantages of economies of scope in relation to some particular functions. For example, where multitasking arrangements can more fully employ staff; or in relation to maintenance of rural low-volume roads there are warnings that economies of scope suggest that jurisdictions should not specialise due to the joint use of inputs (Deller *et al* 1988); and where functionally specialised bodies are involved in river basin management they may not be able to capture economies of scope

without revamping their governance arrangements (Wolff 2004); while there are few (if any) economies of scope in combining water and wastewater functions, there are economies of vertical integration for water supply, although trends towards greater use of wastewater as a source of water supply may support stronger supply/wastewater scope economies in the future (ACIL Tasman 2007).

It is not surprising then, that inquiries and associated reports make so little mention of economies of scope. In part it is probably because it is less understood than economies of scale; in part because there is so little reliable data on economies of scope in Australian local government to provide appropriate policy guidance.

A6.   Strategic Capacity

Strategic capacity refers to the ability of local governments to identify and respond to the influences and pressures affecting the community's future, set key directions and priorities and develop strategies to achieve the outcomes the community wants (DLG 2006:2). In other words, an enhanced capacity to do and deliver those things expected of local government.

The assertion has often been made that strategic capacity can be enhanced by municipal consolidation. Recently, the report of the Local Government Reform Commission (Queensland) set great store on enhanced local council capacity as a positive consequence of its amalgamation recommendations. The Commission (State of Queensland 2007:39) argued that local government capacity could be expected to improve in four main areas: better asset and infrastructure management; increased ability to 'attract and retain quality staff in key positions'; superior 'risk management and compliance with financial and other reporting requirements'; and, improved growth management. While these claims may well be sustainable, there was no conceptual or empirical evidence presented to support them. However, even some of those who have consistently argued against municipal amalgamation have conceded that the claims may have some substance. For example, Dollery *et al* argue that:

> A proposition sometimes advanced in the Australian debate over amalgamation is that larger councils tend to possess greater levels of administrative and other expertise, in part due to the fact that their size permits the employment of specialist skills that cannot be acquired readily by smaller municipalities. Given the increasing burden placed on Australian local government by its state and federal counterparts, through cost shifting and other activities, it is held that this confers a significant advantage on larger municipal units because it enables them to accomplish a wider and more complex range of tasks in a more efficient manner (Dollery *et al* 2006:145-46).

While adding the caveat that no empirical work has been undertaken on the issue in Australia, Dollery *et al* (2006:146) argue that 'there seems to be considerable merit in this argument' since 'small regional and rural councils do struggle in terms of expertise and cannot always use consultants in an effective and prudent way'. However, they add that many alternative models to amalgamation can achieve the same outcomes since they too can 'pool their resources to acquire the skills in question, at no greater cost than to single and larger councils'. In this sense, strategic capacity can be seen as one of the advantages of economies of scope: the new outputs involve the joint body being able to operate more strategically than if its constituent members operate alone.

The comment that there has been little empirical work done in this area needs emphasis; we may be able to hypothesise that economies of scope may be present in larger municipalities that can harness expertise from several smaller councils to enable them to jointly offer more significant outputs in some areas of their activities. We might also be able to conclude that collaboration

between smaller councils could also yield similar economies of scope, however the extent of this cannot, at this stage, be robustly determined through a study of the literature.

A7.   The Contrasting Roles of Provider and Producer

A still controversial issue within local government, at least at the level of individual elected councils, is the question of whether the council should naturally give priority to producing those services which it has decided should be provided for its community, or whether the choice of *who* should produce the service is conceptually separate from *whether* to provide the service.

The distinction is of more than passing interest. A council which sees itself as naturally in the business of producing services will be much less likely to look at alternative means of provision, even where the arguments in terms of potential efficiency gains are strong. A council that sees its role as primarily one of ensuring provision will be much more focused on seeking out the 'right' means of enabling provision, regardless of who is the provider.

It is perhaps no coincidence that the jurisdiction which has been the leader in this area is the United States where it is common to emphasise the role of local government in supporting local democracy, an approach which has admittedly led to a proliferation of small local authorities but supported by the ability to ensure provision through a range of potential producers.

The academic literature was setting out the case for treating the provider and producer roles as conceptually and empirically separate as long ago as the mid-20th century, as political economists and others developed what is known as 'public choice theory'. Nørgaard and Pallesen (2003) draw on the work of Ostrom (1972) in a useful article on the constraints that may affect local governments in choosing whether to act as producers as well as providers.

> The organisation of the provider and producer roles is decisive for the effectiveness of policy-making. The provider and producer roles can be merged or separated, and there can be more than one producer. If the provider is also producing a service, there is a greater risk that the provider will succumb to producer interests. In contrast the presence of more than a single producer ... may enable citizens to make more effective choices about the mix of services they prefer .... Public officials may be able to bargain more effectively if alternative public producers are present in the area.

In their own work, Nørgaard and Pallesen compare choices made about service delivery in two services provided by Danish local government and one service provided by a regionally decentralised central government agency. They conclude that:

> other institutions may impose so many constraints on local autonomy that local governments are not free to choose local policy even on those dimensions of policy that they might plausibly control. Centrally devised institutional constraints on local autonomy can still be so severe that the impact of governance structure is too weak to have an effect on policy.

It is a warning for Australian local government in an environment in which there is a clear trend towards greater involvement of local government in services which have traditionally been the prerogative or preserve of state and/or federal governments, for example, in responding to the needs of Australia's ageing population.

As already noted, the United States provides perhaps the best example of a local government sector which comes closest to treating decisions about provider and producer roles as inherently separate, choosing those means of production which best meet the needs and circumstances of the service concerned - with a preparedness to use external providers based strongly on considerations such as
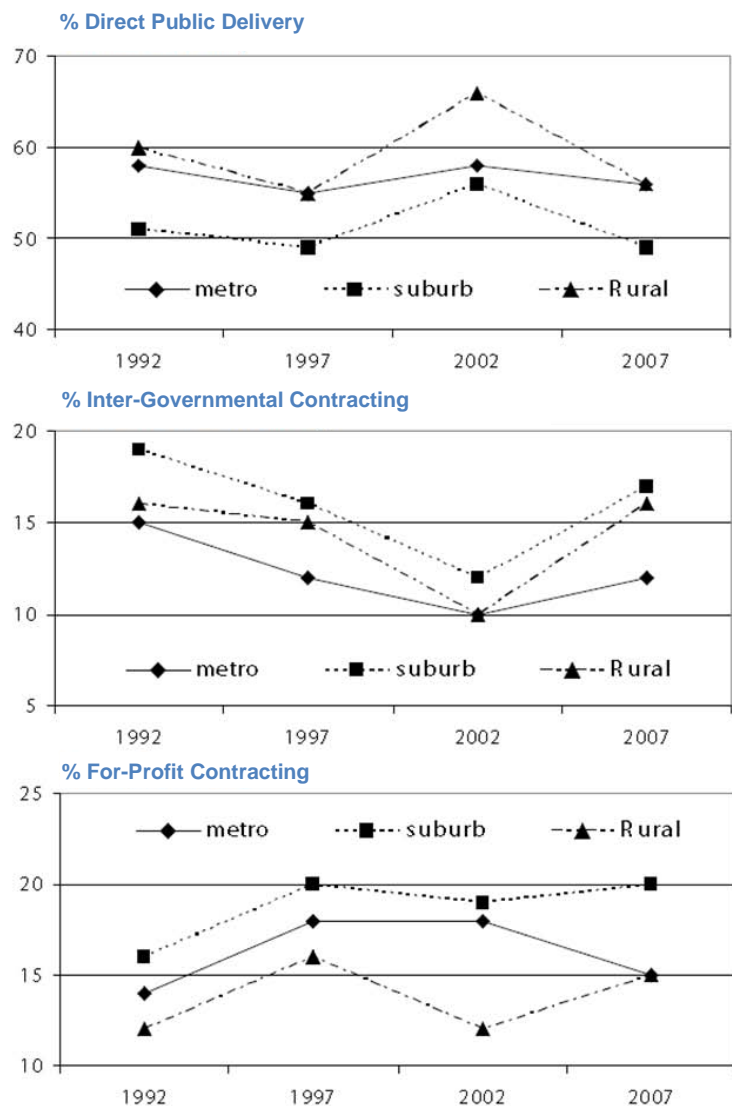
the existence of a contestable market in the service concerned, the ease with which service level standards can be set and monitored, and the transparency of costs. Each five years the International City County Management Association (ICMA) conducts a survey of alternative service delivery by local governments. Prof Mildred Warner at Cornell University is a leading analyst of the data provided by the survey. Warner and Hefetz (2009) provide the following table (at Figure A1) based on the ICMA surveys showing the average use of alternative (that is not in house) delivery by category of local authority over the period 1992-2007.

An important factor for a number of American local authorities, in relying on alternative service delivery is the importance attached to the opportunity for people to choose their form of local government, including the mix of services and taxes they prefer. This underpins the existence of a significant number of relatively small local authorities, reflecting what their residents regard as their democratic right to choose the form of local government, which nonetheless are able to ensure a relatively efficient delivery of services through contracting with external providers, whether other public sector bodies, not-for-profits or for-profit providers. The extreme example of this approach is the contract cities movement, whose members purchase in all of the services they provide for their communities (see www.contractcities.org).

A further but increasingly important subset of the understanding of the difference between the provider role and the producer role is the growing understanding and practice of what is known as co-production. Victor Pestoff, Guest Professor at the Institute for Civil Society Studies at Ersta Sköndal University College in Stockholm, and a member of the European Research Work, in an article on Open Democracy (Pestoff 2009) speculates that the silver lining for the austere public budgets resulting from the global financial crisis may be 'a

Figure A1: *Average Use of Alternative Service Delivery by USA Local Governments*

% Direct Public Delivery

% Inter-Governmental Contracting

% For-Profit Contracting

renaissance in cooperative citizen engagement in the supply of welfare services' (cf the English Total Place initiative www.localleadership.gov.uk/totalplace).

Needham (2007) provides a useful commentary on the preconditions for the effective use of co-production. Most importantly, co-production is not just about consultation; it needs to take place

through the service delivery process itself and ideally as a partnership, not an hierarchical relationship.

A8.   Shared Services

Dollery *et al* (2009) provide an overview of a number of different Australian reports that have included discussion of shared services, including the South Australia Financial Sustainability Review Board report. They quote the report as contending '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'.

The use of shared services has increasingly come to be argued as a sensible alternative to amalgamation as a means of realising economies of scale (among other benefits) - see the discussion under economies of scale above. At the same time, as Dollery *et al* emphasise, not all services are appropriate for this approach. They review a number of different approaches to determining the appropriate preconditions for the effective use of the shared service approach.

Experience suggests that shared services should not be regarded as a panacea. A number of factors are important including the nature of the service itself, the culture of the organisations involved, the commitment of both political and executive management leadership, the nature of the supply and demand conditions, the specificity of the assets involved, and the capability of managements.

There are significant success stories in the introduction of shared services. In England the Audit Commission (2008) reports that local government achieved efficiency gains totalling £4.3 billion in back-office services over the three year period covered by the 2004 spending review and that shared services were one of the strategies employed. On the other hand there is also evidence that shared services initiatives can be spectacularly unsuccessful. Hucker and Clark (2010), in a presentation on local government options for responding to the U.K.'s fiscal crisis, report on two major central government shared services initiatives, in the national health service and the prison service: 'The NHS and HMPS shared services were found to be 45 to 70 per cent less productive than "average" and "leading" practice, respectively'.

Shared services in English local government has become an accepted part of the way councils do business and is now being built on with further innovation. The Total Place initiative is essentially shared services writ large with a focus on frontline services. A number of councils are also looking at ways in which they can both improve the context for sharing individual services, and streamline their administration, through sharing a single chief executive and senior management team (Fletcher and Lally 2009). This approach is extending beyond local government itself to local government and allied organisations - the London Borough of Hammersmith and Fulham shares its chief executive with the local Primary Care Trust.

One of the most significant barriers to the effective implementation of shared services is resistance from within individual councils at either or both of elected member and executive management level. The recently released report on the performance of British Columbia's regional districts (Regional District Task Force 2010) looks at what has been widely regarded as one of the real success stories of inter-municipality cooperation. In many respects, British Columbia's regional districts are statutorily enabled voluntary arrangements for collaborating in service delivery. The task force notes the complexity of collaboration, especially over a wide range of services with different characteristics, and in regions that can also differ widely in their conditions (topography, location/distance, population density etc). One of the major barriers the task force identifies is that 'as well, frictions among governments – whether rural, municipal, regional or provincial - can turn

healthy debate over different perspectives into a barrier to effective performance at some board tables' - this with a set of arrangements which has a 40 year history.

The Royal Commission on Auckland Governance (Royal Commission 2009) considered different options for the structure of local government in Auckland at the sub-regional level. Its report states:

> the Commission considered the possibility of retaining the existing territorial authorities and limiting their powers, by removing from them responsibilities relating to regional infrastructure and assets and development, and requiring councils to share services. The Commission concluded that this approach would be difficult to implement and would not necessarily achieve the organisational and cultural change required.

The Commission was aware that a few years previously the Auckland councils had collectively prepared a report (Auckland councils, undated) exploring the potential for shared services which had carefully weighed the arguments for and against, selected a number of candidate services, and developed a process and methodology for implementation. The recommendations of the report had been effectively shelved, largely it is believed because of resistance from the second and third tiers of management within individual councils.

In Australia, shared services have largely taken place through Regional Organisations of Councils. In some instances the track record is good but in the majority of cases shared services still appear only to be scratching the surface.

The history of shared services generally is that the logic is more compelling than the performance. In areas where the shared services approach has appeared on balance to be successful, there are typically area-specific explanations. As examples:

- Shared services in English local government have been strongly driven by central government as principal funder, requiring ongoing reductions in baseline funding and providing a measure of the advisory support required for implementation.

- Shared services in British Columbia (through the regional districts system) have benefited from the Province's 'hands-off' approach to local government restructuring, and from the need to find an effective means of servicing a large sparsely populated land mass.

A recent English report (Deloitte 2010) acknowledges the progress that has been made with shared services but also notes that 'despite a history of tactical collaboration between local authorities shared services have rarely succeeded at scale.' Based on its considerable experience of working with local government in developing shared services initiatives, Deloitte identifies a number of obstacles which still stand in the way of making the degree of progress it believes is both possible and desirable:

> There are also behavioural and political obstacles, linked to individuals' careers or the risks of reducing headcount that have also delayed progress. The urge to protect local authority autonomy is understandably strong. This can manifest itself in a desire by elected members to maintain self-determination over frontline services (outputs) and back office support functions (input). For some, the concept of sharing infrastructure or management functions with another local authority is an anathema. Furthermore, the idea of relocating staff outside a political boundary is difficult to agree, as is sharing control of support services or buying them from a neighbouring authority, even at a lower cost.

Deloitte go on to argue that there may be a case for making shared services for certain back-office functions mandatory.

The existence of an acceptable structure through which to undertake shared services appears, at first glance, to be an important factor in encouraging the development of a significant shared services capability. In New Zealand local authorities have virtually complete discretion to establish companies, subject only to a requirement for public consultation, something that has been seen as a significant enabler for the development of shared services activity.

In contrast, most Australian states have limited (or in the case of Western Australia) no authority to establish company structures so that the more common approach to shared services arrangements is the use of incorporated associations which are a relatively non-commercial arrangement. The different approaches to the use of arm's-length entities are discussed in the next section of this review.

There is one approach to the development of shared services which is not normally considered within discussions of the options available to local government, but which does appear to offer some promise. This is the potential for local government associations themselves to become significant service providers to the sector, especially when issues of scale are involved, or alternatively, facilitate the development of shared approaches to provision. Among examples are:

- South Australia's Local Government Finance Authority, which acts as an intermediary between councils and wholesale markets, reducing the cost of funding for individual councils.

- New Zealand's Local Government Insurance Corporation (which trades as Civic Assurance) owned jointly by 74 of New Zealand's councils and provides insurance services for the Local Government sector.

- The standout example, within Australasia, is the Local Government Association of Queensland which offers shared services in areas as diverse as procurement and IT, infrastructure services, customer services and insurance including workplace insurance.

Conceptually, the potential for other local government associations in Australasia to develop a comprehensive shared services strategy seems attractive. As yet, there is no robust research dealing with local government association based shared services. For this reason (among others) it is an option that would need to be approached with some caution for reasons including:

- The potential for conflict between local government organisations representing elected members, and those representing management that often looks to generate at least part of their income from provision of services to the sector.

- The need for a strong governance and commercial capability/capacity to support the development of shared services.

- The often fragmented nature of the local government sector itself, with different councils (categories of councils) having quite different priorities, and perceptions of the role which their representative association (s) should pursue.

- The risk that an association seeking to grow its role in the provision of shared services could be seen as a competitive threat to other elements within the sector. For example, a focus on back-office shared services such as HR, IT or customer services could create conflict between an association and member councils or groups of councils, especially ones which might already be exploring their own shared services options in those same areas.

- Potentially, the risk of 'push back' from private sector providers who might argue that an association backed approach to the provision of shared services represented unfair competition because the local government provider had the implicit backing of ratepayers.

A9.   Arm's-Length Entities

Many OECD countries over the past two decades have experienced a significant restructuring of their public sectors, driven substantially by a commitment to the principles of new public management (Grossi and Reichard 2008). This has included, especially in continental Europe, but to a lesser extent in New Zealand and England and Canada, an extensive use of the corporate form for undertaking activities that had previously been seen as core business of local government.

The forms adopted, and the preconditions for their use, differ quite substantially. In continental Europe it is a relatively common for local authorities to own or partly own very significant numbers of companies. Grossi and Reichard report that on average large German cities own nearly 90 companies and large Italian cities 25. Councils have autonomy in the decision on whether or not to establish companies, and have no public sector specific governance requirements - the governance of council owned companies is a function of the governance requirements for the type of company concerned under the general law. According to Grossi and Reichard's research, elected members and management take relatively little interest in the affairs of council owned companies so long as their accounts appear to be in the black.

The situation in the United Kingdom is significantly different. The legal authority for councils to establish companies is much more limited. In England the power now derives from the Local Government Act 2003 which authorises councils to undertake trading activities but limited to activities which they are separately authorised to undertake. Originally the power was restricted to local authorities that were categorised as fair, good or excellent under the Continuous Performance Assessment regime. Councils rated as weak or poor did not have the authority to form companies. With the ending of the CPA regime, the UK government is considering extending the power to trade to all local authorities (DCLG 2009). The DCLG review of trading powers includes a statement of officials' views on the benefits and costs (risks) associated with extending the use of local authority owned companies:

- **Benefits:** Improvement in quality of services through enhanced competition, opportunity to generate revenue, and to seek collaborative and partnering opportunities with SMEs and the wider private and voluntary sectors. Revenue generated would enable authorities either to invest in public services or keep down Council Tax.

- **Costs:** Authorities trading may distract resources from core services, although a strong business case should prevent this, larger number of authorities subject to the risks inherent in undertaking trading activities (such as financial loss). There is also the possibility that private businesses operating in the same market may be affected by the competition offered by local authority trading companies.

Provisions for the operation of local authority owned companies, post-establishment, are provided in guidance issued by the Secretary of State (a standard practice in England for setting the operating rules for local government) (Capaldi 2007 535-536).

The question of how local authorities exercise effective governance over arm's-length entities, especially in terms of managing public money, is a matter of very real concern to higher tiers of government. In Scotland the report 'Following the Public Pound' (Audit Scotland 2004) expressed a number of concerns about the quality of governance and reporting in respect of arm's-length entities funded by councils, emphasising that these entities were using public monies and that:

> Where councils fund such arms-length entities it is important to maintain control and accountability over public funds. This requires the ability to 'follow the public pound' across organisational boundaries – from the point at which money leaves the council to the point at which it is ultimately spent by the receiving organisation.

In New Zealand, the *Local Government Act 2002* establishes a comprehensive framework for the post-establishment governance of local authority controlled arm's-length entities, whatever legal form they take. In Australia provision varies from state to state. Victoria and New South Wales both make provision for the establishment of local authority owned companies conditional upon obtaining the Minister's consent, but make no legislative provision for post-establishment governance. There is reason to believe that this provides an active disincentive for officials to recommend and ministers to approve the establishment of such companies because of the perceived risk. In South Australia the *Local Government Act 1999* sets out what amounts to a code for the establishment of either wholly owned subsidiaries, or subsidiaries owned jointly with other councils.

The subsidiaries are separate legal entities, but are not companies, and are subject to a set of governance requirements that are unique to the local authority/subsidiary relationship. It is understood that the state government took this approach, rather than authorising the establishment of conventional companies, subject to local government specific governance requirements, because of concerns over previous experience with public sector owned entities, most particularly the State Bank of South Australia. Experience to date suggests that the nature of the requirements which the legislation imposes may well be acting as a substantial disincentive to the formation of subsidiaries and thus, amongst other things, a barrier to the selection of an appropriate structure for initiatives such as shared services.

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PART B: CASE STUDIES

B1.   Bay of Plenty and Waikato Local Authority Shared Services

B1.1   Introduction

This case study considers two contrasting approaches to shared services in New Zealand: the Waikato and Bay of Plenty regions.

The Waikato region comprises one regional council, one city council and nine district councils wholly within the region, plus two districts partly within the region. It is a catchment-based construct, primarily around the Waikato River and its tributaries. The 'Tight 5' councils centred on Hamilton have shared interests including joint ownership of the region's airport, but the remaining councils have little in common other than a dependence on primary production. One dominant local authority - Hamilton City Council - is the sole urban centre and the principal population centre.

The Bay of Plenty region adjoins Waikato to the east. It comprises one regional council, one city and four districts wholly within the region, one district largely within and one district only partially within. It is primarily coastal with the dominant area being the Western Bay of Plenty comprising Tauranga City and Western Bay of Plenty district councils, which together have more than half the region's population. Three small councils make up the Eastern Bay of Plenty and Rotorua is the sole inland council.

The Regional Council, Tauranga City and Western Bay of Plenty District have an established history of working together through the 'Smart Growth' initiative, a joint project primarily around land-use planning that was established some eight years ago. The remaining councils have an ambivalent relationship with each other and the region partly because of issues of scale and the dominance of the Western sub-region.

The Bay of Plenty councils have also admitted an additional member to the Bay of Plenty Local Shared Services Ltd (BOPLASS), Gisborne District Council, which is not part of the region but adjoins it. They remain open to admitting further members.

Both regions expect significant impacts from the recent amalgamation of Auckland councils to create the 'super city' of around 1.4m people, and have been considering how they should respond. They are concerned that, following the restructuring of Auckland, the New Zealand government may consider further forced amalgamations or other forms of restructuring.

Also, both regions face significant funding constraints through a combination of demands for additional investment in infrastructure, and public resistance to rates increases (although the Bay of Plenty Regional Council is more favourably placed because of substantial investment holdings

associated with its controlling interest in the Port of Tauranga - a consequence of the 1989 local government restructuring).

Shared services

Both regions have been exploring the potential of shared services, in each case primarily through the means of a jointly owned shared services company (constituted under New Zealand local government legislation as a 'council controlled organisation'). In addition, within each region there is some experience of ad hoc arrangements amongst two or more local authorities - as examples, the Bay of Plenty Regional Council has a history of providing IT support for smaller district councils in its region, and in both regions there has been some cooperation in the provision of specialist building services.

B1.2   How did it come about?

Waikato

The principal trigger for the establishment of the shared services company was the recognition of the potential advantages of having a shared valuation database and the potential for contestability in the purchase of valuation services (something which was seen as requiring a separate commercial structure). A critical factor in the establishment of the company was the close personal relationship at the time between three key chief executives, those of Hamilton City Council, the Regional Council, and Waikato District Council.

Bay of Plenty

A number of factors were significant. They included:

- An awareness of what was happening in the Waikato with the establishment of Waikato Local Authority Shared Services Ltd (Waikato LASS), and the fact that this provided a ready precedent on which to draw (Waikato LASS was established approximately one year before BOPLASS).

- An interest in retaining local identity including a decision by two key chief executives that radical collaboration was an essential element in protecting local governance (the potential for further forced amalgamations was seen as the 'elephant in the room'). This was coupled with a recognition that a successful shared services strategy needed to be much more than simply an anti-amalgamation strategy.

- A recent history of successful collaboration, for example, amongst four councils in establishing a common library catalogue, and a joint contract under which some councils were purchasing aerial photography services, a contract which was about to expire.

B1.3   What were the drivers?

Waikato

Both regional councils and territorial authorities levy rates. Prior to 2002 territorial (city and district) authorities were required to collect rates on behalf of their regional council. New rating legislation in that year removed the compulsion, making continued territorial collection a matter of agreement between territorial and regional councils. Hamilton City Council advised the Waikato Regional Council it would no longer collect rates on its behalf (a decision the city made in the context of a substantial review of its IT arrangements).

For the regional council to collect its own rates meant it needed a suitable valuation database. At the time the principal databases within the region were owned by Quotable Value (a State Owned Enterprise resulting from the corporatisation of Valuation New Zealand). Councils generally saw this as a risk and the Regional Council led the initiative to develop a shared valuation database. As well as providing councils with greater control over their own database, the initiative was seen as having the potential to generate income through the sale of data to third parties, a contributing factor in the decision to use a commercial structure.

Bay of Plenty
The Bay of Plenty deliberately focused on procurement - picking the 'low hanging fruit' as a way of demonstrating early success in shared services. (By the time the Bay of Plenty initiative was being developed, there was an awareness of early problems with the Waikato initiative, including the impact of cost overruns.)

This led to an emphasis on doing relatively simple things where clear benefits could be expected from acting jointly. Early examples included stationery purchase, computer software, aerial photography and insurance.

A turning point for the Bay of Plenty was a central government interest in encouraging the development of regional broadband initiatives. BOPLASS established a subsidiary company to explore the potential.

This decision began a process which has now resulted in the establishment of a high-speed fibre-optic network linking all of the councils. Current capacity is 1 GB per second with the potential to increase to 5. This provides the means for any council to access data held by any other council. BOPLASS and its member councils are currently considering a 'centres of excellence' approach to developing further shared services. Under this approach one council may become the base for (say) GIS, human resources, payroll, debtors control or any other service, which is essentially a matter of receiving, processing and accessing information. One possibility which several councils have raised is that each council 'front-office' throughout the region could be a contact point for people from any council to access data they want on council policies, aspects of their own property and so on.

B1.4   Choice of organisational structure

Waikato
The choice of organisational structure was left to the region's chief executives as the shared services initiative was seen as primarily an option within their responsibility to deliver council services efficiently and effectively. The CEOs chose to use a Council Controlled Organisation (formed as a company) as the most appropriate structure because of the commercial aspects of the initiative.

Board structure was a critical issue. Waikato LASS has 13 shareholding councils. The difficulties of bringing all 13 chief executives together for regular board meetings was seen as very considerable. To deal with this the CEOs decided on a board membership of six with two directors representing just one local authority, one representing two and three each representing three.

This has eased the problem of bringing the board together for meetings but at a significant cost. Although directors representing other councils seek the views of those councils before a directors meeting, this is not adequate to provide a mandate when different options may be raised at a board meeting in working through how to handle any particular matter. The result has been to undermine the effectiveness of the board as a decision-making body.

Another and ultimately more serious issue was the administrative arrangements put in place. The official who had been responsible for managing the establishment of Waikato LASS was appointed as chief executive. However, Waikato LASS did not have its own separate administrative arrangements and relied on the Regional Council to provide it with accounting and administrative services. Waikato LASS was not provided with financial reports in a timely manner and was unaware it was incurring significant over-expenditure in relation to budget, something which seriously undermined its credibility with shareholders.

Bay of Plenty

The Bay of Plenty councils had access to the legal and other advice which Waikato councils had received on the structure for the Waikato initiative. They were also aware of the difficulties that the Waikato LASS had encountered with its administrative arrangements. As for the Waikato region, the choice of organisational structure was seen as primarily a matter for CEOs because it was within their mandate to deliver services effectively on behalf of their councils.

As with the Waikato, it is not compulsory for all councils to join in each shared services initiative. However in the Bay of Plenty councils are encouraged to join. The emphasis is not on 'please join' but rather 'give us a good reason why you should not join'.

The Bay of Plenty councils made one crucial change. All councils are represented on the board based on the belief that it is essential to have all decision-makers around the table and committed.

Board composition has raised one issue that needs very careful management. Each chief executive sits at the board table with three different capacities (interests); as a director, as a shareholder representative, and as a customer. The board explicitly recognises that the 'best interests of the company' which directors are required to respect may be different from the best interests of an individual council as a shareholder or a customer. If a director is perceived by fellow directors as acting, for example, to promote the interests of his or her council, it is now common to point out that the director appears to be acting as a chief executive, not as a director.

In both cases boards have adopted the policy that member councils are not obliged to take part in every shared service. This has been an important factor in helping build acceptance of the shared services approach. Two examples will illustrate this:

- Stationery procurement has been important for both initiatives. However one smaller council noted that its stationery purchases were an important factor in maintaining the viability of the only stationery business in town. Sharing in the joint procurement approach would save the council money but at the risk of the community losing an important local service.

- Within the Bay of Plenty one large council has a policy of 'buy local' which required it to opt out of joint procurement of after-hours call services as the provider was outside the region.

B1.5   Reactive versus proactive

In both cases councils chose a reactive rather than a proactive approach to the role of their shared services company. In the Waikato this began as a function of the fact that it was established initially to manage a single major project, the shared valuation database. In the Bay of Plenty it was more a matter of risk management. Councils were aware that the Waikato LASS had run into significant problems of over expenditure and wanted to maintain relatively tight control. Leaving it to the

councils to initiate projects rather than BOPLASS itself having the discretion to do so was important for this.

In the Waikato the reactive approach remains (see the discussion under problems encountered). In the Bay of Plenty where BOPLASS has demonstrated its effectiveness, councils now have the confidence to move to a proactive approach and have authorised BOPLASS to employ a business development manager.

B1.6   Problems encountered

Waikato
The first problem was the lack of adequate and timely financial information that undermined the credibility of Waikato LASS with Waikato councils. This difficulty was compounded by changes in key personnel and workloads at a senior level in the two largest councils, Hamilton City and the Regional Council.

Not long after Waikato LASS was established, the city and regional council chief executives, who had been very supportive, both left. The city's new chief executive took a very different approach from his predecessor. He was focused on major organisational change, and took the approach that he preferred the council to design services and then offer other councils the opportunity of participating, rather than go through a formal shared services process requiring all councils to agree. The new chief executive at the Regional Council had to deal with major governance changes in the management of the Waikato River (as part of a government treaty settlement), with significant changes at the governance level of the council, and major funding issues.

The lack of strong council support for shared services through Waikato LASS has resulted in the initiative, for the moment, stalling. Apart from the shared valuation database, only one other initiative has been promoted through Waikato LASS, the development of a single transport model for the region (an initiative which was needed in any event, and Waikato LASS provided a convenient umbrella). Although some shared services activity continues within the region, it is typically outside Waikato LASS and developed amongst groups of councils rather than the region as a whole.

There is also a perception that there are additional costs and bureaucracy in working through Waikato LASS and, as a consequence, not much appetite for doing so.

Bay of Plenty
Among the problems/challenges which BOPLASS has encountered are:

- Councils operating under different constraints - for example the 'buy local' policy of one major council.
- Reporting back board decisions from BOPLASS to responsible managers in individual councils. Occasionally the variability of this reporting has led to attempts to re-litigate issues.

- Different operating styles, with some CEOs too focused on detail rather than principle.

- Engaging politicians (this is partly a function of the initial decision that shared services were essentially a chief executive issue because they were primarily concerned with how the chief executive delivered on his or her responsibilities but now needs to change as the focus of BOPLASS changes).

- Conventional company reporting for BOPLASS does not capture the full costs and benefits. On the cost-side, it does not record the opportunity and other costs incurred by involvement of CEOs as directors. On the benefit side, because the savings accrue to individual councils, it can be difficult for BOPLASS to demonstrate the full value it has added. There is some current interest in developing a means for full cost/benefit reporting.

- Getting buy-in from staff and convincing them that this is not just a means of cutting jobs. The centres of excellence approach will help counter this: first it makes it very clear that jobs remain with the councils themselves (although with a concentration of different skills among different councils as the approach develops); and secondly it offers the opportunity for better career development.

- Lack of funding/resourcing. BOPLASS has not built up any reserves because of the concern that to do so would incur a tax liability (any reserves would need to come from retained profits and making a profit would incur tax). There is a growing willingness to deal with this.

B1.7   Lessons learned

Waikato
- The importance of getting some early runs on the board, coupled with adequate resourcing.

- The need to have a champion to promote shared services both at board level within the LASS and within individual councils.

- CEO commitment matters as does managing down within the organisation. The CEO needs to support second and third tier managers in working with shared services.

- The importance of effective communication to shareholders. The main gain from the shared valuation database initiative was not reducing costs, but holding costs below where they would otherwise have been. This has not been well understood.

Bay of Plenty
- Getting the governance structure right is critical. The number of people around the table is not the main issue; the important thing is that everybody is there.

- Strategic planning decisions should have been made earlier - the focus on a reactive 'low hanging fruit' approach left BOPLASS resource-constrained.
- Champions matter! It's about leadership, relationships and an understanding of the role.

- The nature of services councils are motivated to share is partly a function of the type of council and will differ as between a regional, a unitary and a territorial.

- It's important to avoid any sense of building another bureaucracy.

- The centre of excellence approach is far preferable to BOPLASS building up its own staff to provide services. Especially for small councils, this is a way of building capability whilst at the same time strengthening local governance.

B1.8   Current issues

Waikato
- No political champion for shared services.

- The different scale of participating councils - Hamilton City Council dominates the region and has its own priorities.

- 'Big Brother' issues.

- Lack of best practice guidance for governance of Council Controlled Organisations.

- Staff quality, capacity and recruitment issues - a problem even for Hamilton City.

Bay of Plenty
- Shifting from a reactive to a proactive mode - most of the 'low hanging fruit' has been harvested.

- Accommodating the different capacities, capabilities and circumstances of individual councils - the acceptance that joining an individual shared service is a choice not a compulsion assists with this as will the move to a centres of excellence approach.

- Strategic direction and strategic plan - there is a need to lift BOPLASS' game in this area

- The impact of CEO succession in individual councils. One key chief executive has just moved on, and another will do so shortly. Their support has been critical to BOPLASS' success; will this continue once their successors are in place? Politicians who will be making the new appointments have been encouraged to include support for BOPLASS as a criterion for appointment.

- Whether to admit new members or remain confined to the present geographic coverage?

- Clear reporting and communication of full costs and benefits.

B1.9   Successes

Waikato
- Both the shared valuation database and the Waikato Transport model are effectively and efficiently performing as planned with Waikato LASS supplying a minimalist governance structure for those services.

- However, most shared services activity is now developing outside the LASS. The building cluster is an example. Human resources are an informal arrangement among councils. Procurement is a cluster-based initiative.

Bay of Plenty
- Joint procurement has been successful in delivering very worthwhile savings.

- There have been real service improvements without any loss of autonomy for individual councils.

- The fact that all the region's CEOs meet together once each six weeks (the BOPLASS board meeting) has helped build up the good working relationship which now exists among them.

- Trust is building among the different councils in the region - as one practical example, it is now common for a council hosting a meeting of staff from different councils to be comfortable that they should be able to use the host council's IT facilities to access their own council's data, illustrating mutual confidence in the security of individual systems.

- The establishment of the high-speed fibre optic network has set the platform for significantly increased collaboration.

- Although not a direct objective, the demonstrated and growing ability to share services is seen as providing evidence that economies of scale/scope can be achieved whilst at the same time protecting the autonomy and enhancing the capability of individual councils.

B1.10 Future prospects

Waikato
- Future prospects are limited.
- Likely to remain in a holding pattern as the governance structure for the shared valuation database and the transport model unless there is a significant change of direction by the region's major local authorities.

Bay of Plenty

The establishment of the fibre optic loop opens up a very wide range of possibilities. Two or three informants used the expression 'the sky's the limit' whilst emphasising the need to maintain organisational culture. Possibilities mentioned included:

- Joint water and sewerage undertakings (although the experience of one council in developing a joint management approach for local roads and state highways, which has been very successful but not replicated in the region, highlights the preconditions for some shared service activity including high-quality asset management plans - this involved a performance-based multiyear contract with an external contractor as would probably be the case with any joint water and sewerage undertaking. Good-quality asset management plans are a necessary prerequisite for any performance-based shared services contract for asset management).

- Spatial planning.

- Rolling out the proposed centre of excellence approach.

Informants also noted risks and other issues which would need to be managed including:

- The need for more resourcing.

- The risk of developing a new regional monopoly: shared services requires that councils commit to cooperate. Could this drive out competition and thus the pressure to perform?

- Maintaining momentum through changes in council CEOs.

- Bringing council politicians more on-board as shared services move into issues which have the potential to be more politically sensitive - especially as there is a shift to considering front-office services.

B1.11 Replicability

Waikato
The general approach is clearly replicable - the Bay of Plenty adapted the Waikato model for its shared services company.

However, there are other points to consider including:

- Is a single shared services vehicle (even one which effectively acts as an enabler as will be the case with BOPLASS' centres of excellence approach) preferable to groups of councils flexibly combining service by service as is happening in the Waikato?
- Is the emphasis on shared services simply a way of avoiding a serious discussion of the potential benefits of amalgamation?

Bay of Plenty
The package itself is definitely transferable but relationships are fundamental. One critical factor is the need to recognise the importance of driving collaboration through measures such as specific requirements in CEO contracts (note though the comments that the establishment of shared services companies has been seen as essentially a CEO initiative with little or no politician involvement).

One chief executive identified a set of what he described as predisposing conditions:

- Geographic cohesiveness
- Sharing or having the potential to share common software
- The political imperative to get your act together
- People - leadership and the ability and willingness to work together
- A sense of community.

B1.12 Would you do it again?

Waikato
Responses varied. One prominent chief executive stated probably not. He would prefer a set of agreements, service by service, by interested councils.

Another informant commented it comes back to the nature and structure of the board and the fact that you do need control of the business management tools including financials. You need a champion on the board who will really push the case for shared services.

A third was also equivocal and commented that if doing it again, forget about such things as selling data - the world has moved on. The focus should instead be on efficiencies and service improvement.

Bay of Plenty
- Generally yes. The way it has evolved, starting with procurement, has really made sense. It was good to do the reactive stuff while BOPLASS was still building its systems and culture.

- Having all the CEOs at the table was particularly valuable.

- It was also helpful that the politicians were brought in at a very early stage. You do need to have the politicians on board before you get into the more sensitive areas and it is also important to remember the 'no surprises rule'.

- BOPLASS has now evolved to the point where it could be useful to have independent directors with industry/business skills.

B1.13 Lessons from the Waikato and Bay of Plenty experiences

Building trust among participants is critical to developing confidence in shared services. Important factors include starting small, gaining some early successes, and clear and accurate reporting of financial information.

Governance matters, as does chief executive commitment. This is both choosing an appropriate structure, and understanding what makes for good governance. Waikato's failure to engage all councils at board level contrasts with Bay of Plenty's insistence that all councils be represented by their chief executives, and that chief executives understood the different roles they brought to the board table.

There is a fundamental difference between 'shared services' expressed as a single provider selling services to individual councils, and 'shared services' as a means of facilitating different councils to develop specialisations which they can then perform for other councils. The emerging 'centres of excellence' model in the Bay of Plenty reinforces the autonomy and capability of smaller councils. The more conventional approach of a single provider selling services would threaten that autonomy and undermine support for shared services.

Conceptualising shared services as fundamentally an exercise in information management is a major breakthrough: it removes any concern over the loss of access to/control of data and is also key to a genuine centres of excellence approach.

It also opens up the potential for each service for which a council is responsible to be managed and delivered so as to optimise economies of scale without the need to take the potentially disruptive approach of amalgamation.

B2.   Eastern Health Authority (EHA), South Australia

B2.1   Introduction

The Eastern Health Authority (EHA) provides a range of environmental health services to the community on behalf of five councils in the eastern and inner northern suburbs of Adelaide, South Australia (see Table 1). The Authority's constituent councils are:

- City of Burnside
- Campbelltown City Council
- City of Norwood Payneham and St Peters
- City of Prospect
- The Corporation of the Town of Walkerville.

Table 1: Profile of services provided to constituent councils in 2009-10[8]

Service	Total
Rateable properties	72798
Population of constituent councils	156464
Number of food premises	1068
Swimming and spa pools	52
Cooling towers and warm water systems	73
Supported residential facilities	13
Environmental health complaints	416
Personal grooming, body art sand health care	231
2010 School Based Immunisation Program Year 8 enrolment numbers	2125
2010 School Based Immunisation Program Year 9 enrolment numbers	2236
Immunisation clinics – vaccinations given	10072
Immunisation clinics – client attendance	5832

The EHA is a regional subsidiary established under Section 43 of the Local Government Act 1999. Section 43 enables two or more councils (known as constituent councils) to establish a subsidiary to provide specified services of the council, to carry out specified activities or to perform a function of the councils.

The EHA discharges the environmental health responsibilities of the five constituent councils under the Public and Environmental Health Act 1987; Food Act 2001; Supported Residential Facilities Act 1992; and Environment Protection Act 1993. Services include immunisation, hygiene and sanitation control, licensing and monitoring of supported residential facilities, and surveillance of food premises.

The EHA also provides immunisation services for Adelaide City Council and licensing of supported residential facilities on behalf of Unley City Council.

Staffing of the Authority as at 30 June 2010 was 16.7 full time equivalent positions. The Authority also employs casual immunisation nurses as required to complement the three full time positions; a consultant medical officer; and external audit services.

B2.2   Development of the initiative

Councils in the region have been working co-operatively in the environmental health field for over a century, initially through the East Torrens County Board of Health, which was formed in 1899. In 1986, the organisation evolved into the Eastern Metropolitan Regional Health Authority, and underwent a name change in 2001 to the Eastern Health Authority. Table 2 shows the evolution of the organisation.

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[8] Source – Environmental Health Authority 2009-10 Annual Report

Table 2:   Environmental Health Authority History

Year	Milestone
1899	Formation of East Torrens County Board of Health
1986	Councils given carriage of the Food Act East Torrens County Board of Health becomes the Eastern Metropolitan Regional Health Authority as a controlling authority under the Food Act
1997	Service provision for Town of Walkerville on a contract basis Provision of immunisation services on behalf of Adelaide City Council
2001	Eastern Metropolitan Health Authority becomes Eastern Health Authority Becomes a regional subsidiary under the Local Government Act 1999
2002	Service provision on behalf of City of Prospect
2005	City of Prospect and Town of Walkerville become constituent councils
2008	Eastern Health Authority assumes responsibility for licensing of Supported Residential Facilities

Environmental health is becoming increasingly complex, making it difficult for small organisations to attract and retain staff that are experienced and fully skilled across the diversity of the profession. The Authority is able to provide specialist environmental health services on behalf of its constituent councils, minimising costs and providing high quality services. Being a specialist organisation, the Authority is able to ensure the professional development of all staff.

B2.3   Implementation

Governance arrangements
Schedule 2 of the Local Government 1999 contains a number of provisions applicable to regional subsidiaries. The governance arrangements adopted by the EHA reflect the Schedule 2 requirements.

The Authority has a Board of Management comprising two representatives from each constituent council. The Board is responsible for the administrative affairs of the organisation, ensuring it acts in accordance with its Charter. Meetings are open to the public, and conducted in accordance with the Local Government (Procedures and Meetings) Regulations 2000.

As a regional subsidiary under the Local Government Act, the Authority is required to prepare and adopt a Charter, which binds the Authority and its constituent councils. The Charter outlines:

- The objects and purpose of the organisation
- Powers and functions of the Authority
- Delegations
- Governance structure and role and function of the Board of Management
- Financial arrangements and funding formula
- Reporting requirements
- Dispute resolution.

The Authority is required to develop a business plan each year for the purposes of translating strategic directions into actions, outputs and outcomes. The annual business plan includes an outline of:

- The objectives for the financial year
- The activities to be undertaken to achieve the objectives
- Performance measures to assess performance against its objectives.

The mission adopted by the Authority is to: *'Protect and promote public and environmental health for the wellbeing of the community on behalf of the constituent councils.'*

Delegations

The constituent councils delegate their responsibilities under the relevant legislation to the EHA to enable the Authority to act on behalf of the constituent councils.

B2.4   Outcomes

The Authority is operating quite successfully and appears to be achieving the benefits envisaged. A summary of the successes of the model include:

- Ability to attract and retain skilled and competent staff
- Transparency and accountability of operations and cost structures
- Improved relationships, communication and reporting over recent times
- Ability to more quickly respond to new legislative requirements
- Development of a fair and equitable funding formula
- Efficient and effective service delivery as evidenced by community satisfaction surveys.

Cost reductions and greater efficiency

The Authority's cost structures are open and transparent, and the funding formula adopted is based on the proportion of EHA's overall activities consumed by each council. The Authority has determined the amount of time and resources allocated to each activity, given that activity a weighting, and then each year applies that weighting to the actual number of services provided to each constituent council. As all activities are directed towards environmental health, there are no hidden subsidies.

One of the challenges faced by the Authority is the difficulty of obtaining cost structures from other councils to enable proper benchmarking of its fees. Rent and other corporate costs are generally not factored into the budgets of health departments of councils, whereas these costs are readily identifiable by the Authority. However, the widely acknowledged benefit and advantage the Authority brings is in enhanced service delivery.

As a small operation, the Authority cannot justify, not is it necessary, to establish in house operational services and corporate systems such as records management, human resources, occupational health and safety, performance management and the like. However, on occasion, it is necessary to seek advice in these fields. The Authority would like to establish an agreement with constituent councils to access advice in these critical areas on a causal or one-off basis.

As an approved regional subsidiary, the Authority enjoys many of the benefits of local government, including access to the Local Government Association's Mutual Liability Scheme and joint procurement discounts.

Improved strategic capacity
The Authority is highly regarded by SA Health, and is often the first port of call for discussion and consultation on emerging issues in environmental health. It is also recognised as an effective and professional unit by the Local Government Association of South Australia.

Issues with supported residential facilities (accommodation and care services for older people and people with disabilities in a group setting) are complex and time consuming – they often involve social and mental health issues, requiring highly skilled and dedicated officers to resolve issues over a long period of time. The Authority has now developed the capacity to deal with these issues in a more strategic way, particularly by engaging with other agencies and participating in legislative reviews.

The Authority often goes 'above and beyond' to deal with problems facing vulnerable people. In one situation reported in the Authority's 2009-10 Annual Report, environmental health officers went so far as applying to have guardians appointed to monitor the welfare of residents in a supported residential facility, when the Authority became aware that residents had been severely financially disadvantaged by operators and their health was extremely poor.

Democratic representation
Each constituent council nominates two councillor delegates to the Authority's Board of Management. Meetings are open to the public. Board members have great ownership of the organisation and report back to their councils following each Board meeting. In addition to formal meetings and reports, statistical reports are provided to constituent councils each month on combined Authority activities, and on activities in individual councils.

As the staff team of the Authority is accountable to a Board overseeing the delivery of services to constituent councils, the Authority's environmental health officers are arguably subjected to greater pressure and scrutiny than their counterparts in non-constituent councils, who may be working on their own or in a very small team as part of a larger council division. While the transparency and accountability is welcome, it may be a factor in staff attraction and retention in future. This might be offset by the Authority's ability to offer a highly supportive work environment for environmental health officers, where professional development and access to professional networking is a key priority to enable the Authority to maintain its high service standards.

CEOs of constituent councils do not have control over the activities of the Authority and this may be seen as a deterrent for some and a positive for others. In one sense, assigning a very complex area of activity to a central authority is attractive for some, as it is one less headache to deal with and the central authority can address the issues in a highly professional way. The flip side is a loss of control and direction.

Enhanced service delivery
As the Authority is solely focussed on environmental health, it is able to offer a specialist service to its constituent councils. As noted above, in order to maintain its high standards of service, professional development and affiliation with professional networks ensures the staff team is exposed to new concepts and ideas.

As the activities of the Authority cover a larger region, residents of individual councils have access to services provided across the whole region. In the case of immunisation services for example, residents have access to up to 30 clinics across the region. Residents enjoy greater choice at a variety of venues open on a greater number of days and times.

B2.5   Current challenges

Relationships and reporting
As noted above, the Authority provides statistical reports to councils each month, but communication with councils is complex and more than written reports and statistical analysis is required. The Authority now convenes regular meetings with constituent council CEOs and with the senior council contacts. As the Authority can be isolated and not seen as part of the council, information sessions for general staff are also held to enable the Authority to explain its role and responsibilities.

While communication is a two-way exercise, the Authority realises that it needs to work harder on it, because it has the most to lose from a breakdown in the relationship.

Workforce planning
As noted above, the work of Authority staff is highly scrutinised, and pay rates are often not as high as in other councils. This may be offset by the support and professional development provided by the Authority, and the opportunity for environmental health officers to become involved in strategic projects, but it is likely to be a deterrent for some.

Strategic planning
The Authority must include a five-year Public Health Plan, which ideally should be linked to council strategic plans. This presents some challenges. As the Authority is sometimes seen as an outsider organisation, it is often not included in the strategic planning processes of constituent councils, and environmental health is also often not included in council community satisfaction surveys.

B2.6   Evaluation

While no external evaluation has been conducted, the Authority recently engaged a consultant to speak with the CEOs of the constituent councils to determine their key priorities. The overwhelming response was that councils want value for money and improved communication. As noted in earlier sections, the Authority is able to demonstrate its costs and levels of service provided, and steps have been taken to improve communication.

The Authority conducted a client satisfaction survey of its immunisation clinics earlier in 2010 and in 2006, and has also conducted a customer satisfaction survey related to routine food inspections. Both surveys showed very high levels of satisfaction with the services provided.

The model is certainly replicable. In South Australia, the Act allows for the establishment of regional subsidiaries, thereby providing a convenient framework for the conduct such activities.

However, councils considering establishing a similar authority need to have the political will to enter into such an arrangement, and the CEO and senior staff need to feel comfortable that an autonomous unit is providing services on behalf of their council without direct control and influence.

Similar activities could be undertaken as a shared arrangement between councils outside of the regional subsidiary framework. In the case of environmental health however, the span of activities are larger than other shared service arrangements established by South Australian councils. The regional subsidiary arrangement is therefore most appropriate for environmental health services, because the legislative framework provides for appropriate reporting, representation, administrative and financial accountabilities.

B2.7   Key lessons and findings

- As it is focused solely on environmental health, the Authority is able to attract and retain specialist staff that are fully skilled across the diversity of the profession

- Section 43 of the Local Government Act provides an appropriate structure for councils in South Australia to provide shared services

- The Authority has transparent and accountable operations and cost structures

- As a specialist authority, EHA is able to respond quickly to new legislative requirements

- It is neither possible nor practical for the Authority to establish in house operational services, and arrangements should be made with constituent councils to access these services on a fee for service basis

- The Authority is in a position to develop the capacity to respond to complex regulatory issues (such as supported residential facilities)

- As the staff team is accountability to a Board, environmental health officers are subjected to greater pressure and scrutiny than their counterparts working in councils as part of a larger departmental team

- CEOs do not have control over the activities of the authority, which is a potential threat to some and a possible deterrent to establishing similar organisations for other services

- The Authority has to work hard to ensure that it is not seen as an outsider organisation by its constituent councils.

B.3   North-East Councils, South Australia

B3.1   Context

This case study reviews the experiences of four rural councils in the South Australian Flinders Ranges with shared services and other reforms since the 1990's amalgamations in South Australia.

In 1997 the District Council of Peterborough (Peterborough) was formed from an amalgamation of the former District Council of Peterborough with the Corporation of Peterborough, and the District Council of Orroroo Carrieton (ORC) from an amalgamation of the former Orroroo and Carrieton District Councils. The Flinders Ranges Council (FRC) was also formed in 1997, - from an amalgamation of the Kanyaka-Quorn and Hawker District Councils. Mount Remarkable (MtR) had been formed from a much earlier amalgamation in the early 1980s.

Table 1:   Estimated residential populations

District Council of Mount Remarkable	3000
District Council of Peterborough	2000
District Council of Flinders Ranges	1800
District Council of Orroroo Carrieton	950

While the total population of the four councils is less than 8000 people the region as a whole is experiencing modest growth. The councils continue to pursue opportunities for economic development and associated population growth for their towns. The economy of the region is largely based on agriculture however tourism is an expanding industry in all four council areas.

B3.2   Background to shared services

The four councils currently involved in the Flinders Shared Services Group have extensive experience with shared services, not only with each other but also with other neighbouring councils. Many of these experiences have been positive. The four councils have worked together successfully in delivering the following services:

- Regional Development Assessment Panel
- Shared Development Officer
- Shared Environmental Health Compliance Officer
- Same auditor for three councils and audit committee meetings held the same day
- Shared members on each of four councils Fire Safety Committees

However the experience of two of the councils with shared corporate services between 1997 and 2003 was not positive and continues to influence the council responses to shared service initiatives to this day. Following the 1997 council amalgamations, Peterborough and ORC created a Section 43 Committee to manage the administration of both Councils. Their primary aim was to avoid further amalgamations. This Committee was known as the Federation of North Eastern Councils (the Federation). The way the Federation was structured meant the one CEO was responsible for the compliance with legislative and governance requirements of three organisations. This very heavy workload resulted in a high turnover of senior staff. In July 2003 the Federation was dissolved.

In 2004 these two councils along with the Flinders Ranges Council (FRC) and Mt Remarkable (MtR) Council began informal discussions to explore what services could be shared in addition to those already in place including the shared Health and Building officer. The four councils entered into the alliance which became known as the Flinders Shared Services Group.

B3.3   Flinders Shared Services Group

The Shared Services Group is coordinated by the CEO's of the four councils with input from the elected councillors.

With funding assistance from the South Australian Local Government Association, a consultant was engaged to advise and assist the Flinders Shared Services Group to develop a business case for additional shared services. Following an initial scoping study and a lengthy consultation process, the councils decided to investigate options for sharing administrative functions as well as a number of waste services.

Investigations into the opportunities to share back office functions were continuing however in April 2010 one of the councils formally resolved not to be involved in the shared service model for administration. The decision was strongly influenced by their experience of the former Federation. The councils are still exploring opportunities on a case by case basis.
Efforts to instigate a shared waste collection contract between these councils also proved difficult. Three of the councils were working to set up a new contract for waste collection, however late in the process one of these councils pulled out and joined the fourth that was part of another shared

service group. This undermined the Flinders Shared Services Group contract and was very disappointing to the remaining two councils.

B3.4   Outcomes from shared service arrangements

A brief overview of the shared service arrangements as they facilitate cost reduction, improved strategic capacity, democratic representation and enhanced service delivery are outlined below.

Cost reduction and greater efficiency

Shared service arrangements overseen by the Flinders Shared Services Group have resulted in greater efficiencies for example the Regional Development Assessment Panel. However it is noted that the Development Officer and Environmental Health Compliance Officer were shared because there was not enough work for a full time position in any one council. At least one council holds the view that the current shared services, while important for service delivery, have not resulted in cost significant cost reductions.

The potential for cost reductions in the areas of corporate services and waste management have not been realized as agreement was not reached between the councils.

Improved strategic capacity

Lack of capacity to undertake strategic planning for their communities is an ongoing challenge. Although the primary purpose of shared service arrangements was not to strengthen strategic capacity, the arrangements allowed for the employment of more specialised staff with strategic as well as operational skills.

Democratic representation

Communities in these council areas are well represented by local councillors and appear reluctant to lose this level of representation. However there are examples where residents were sufficiently unhappy with the quality of the representation by their councillors to seek to be part of another council area. While the proposal was not successful, in 2008 a small number of residents from Port Germain and Port Flinders in the MtR council area who commute to Pt Pirie for work, sought a boundary change that would result in their towns being part of the Port Pirie Regional Council area.

Enhanced service delivery

The councils' report that the benefits of resource sharing include improved professionalism, skill levels and job satisfaction of the staff concerned, which contribute to improved service delivery. It is also noted that some of the services simply couldn't be provided if the costs were not shared. However there hasn't been any formal evaluation on the impact of shared arrangements on service levels.

B3.5   Evaluation and prospects

Evaluation

As indicated above the impact of past experiences of shared services is still influencing responses to new proposals for shared services, in particular the experiences with the Federation of North East Councils between 1997 and 2003. Although no formal evaluation of the Federation was undertaken, lessons have emerged from the experience:

- The compliance burden on small councils is already very high so additional administrative responsibilities for partnerships needs to be properly resourced

- Entering into shared arrangements just to avoid amalgamations is problematic; there has to be a real commitment to the value of a shared service arrangement for it to work

- Formal agreements and structures need to be well thought through to accommodate the needs of the member councils and to ensure their practical workability.

Although work around shared services continues, long term financial viability continues to be an issue for most of the councils.

Faced with funding shortfalls and community reaction about potential rate increases, the Flinders Ranges Council wrote to their neighbouring councils in July 2010 to canvass the interest in further amalgamations. In writing to the councils, Flinders Ranges Council flagged various options but did not include a case in support of any one of the options. Council representatives explained that they were exploring the attitudes of their neighbouring councils in the context of 'increasingly onerous, complex and expensive compliance issues and cost-shifting', and raise the issue as a matter of due diligence.

The amalgamation proposal has not progressed due to lack of support from the other councils. Mount Remarkable Council sought the Community's views at a series of public meetings which confirmed for this council that there wasn't community support for an amalgamation. Varied reasons are provided but generally the concerns relate to fears about loss of services for individual towns, fear about jobs losses in an environment where council is the major employer in an area, the distances and travel times involved in servicing larger geographic areas, and prior experiences with shared services.

Future prospects
Although Flinders Ranges Council has expressed interest in amalgamations, those interviewed from the other councils felt that their elected representatives generally wanted to retain the governance of their current communities and that the voluntary amalgamation approach is unlikely to succeed. However they were positive about the shared services model despite some of the difficulties outlined below. As parochial interests can dominate decision making, those interviewed spoke about the need for all four councils to be equally committed to the wellbeing of the combined area, - if shared services are to work.

Prospects also exist for shared arrangements with other councils, for example with the City of Port Augusta. While not interested in an amalgamation with the other north east councils, Port Augusta has indicated a willingness to share resources with their neighbours. This presents real opportunities in light of the larger range of existing facilities and programs such as aged care facilities and health programs in Port Augusta, and the greater number of dedicated professional employees within specific portfolios.

In regard to lack of strategic capacity, it was acknowledged that as small rural councils it was difficult to get the necessary support and backing of the state government. Economic growth strategies in particular require resources and influence beyond the current capacity of the individual councils. The potential of the Central Local Government Region of South Australia, which has fifteen member councils including these four councils, was also noted. The united voice of fifteen CEO's and Mayors, with the backup of staff, could be a powerful lobby group in representing the economic, social and environmental needs of their communities**.**

B3.6   Key lessons and findings

- The four north eastern District Councils of Flinders Ranges, Mount Remarkable, Peterborough and Orrorroo Carrieton have a combined population of less than 8000 people. Despite a series of amalgamations in 1997, the small population in the context of a large geographic area presents ongoing financial and service delivery challenges for the councils

- Following the amalgamations, two of the councils, Peterborough and ORC formed the Federation of North East Councils to undertake administrative functions - essentially to avoid further amalgamations. It was considered unworkable and was dissolved after six years

- Since then the councils have continued to pursue a range of shared service options, primarily through the Flinders Shared Services Group. While some arrangements have been successful, the previous experiences of councils with shared corporate services contributed to the failure of the shared administration model

- In 2010 the Flinders Ranges District Council, faced with opposition to rate increases to manage a financial shortfall, floated a number of amalgamation options to neighboring councils – including Port Augusta

- For a variety of reasons the other councils did not wish to pursue amalgamations and see limited prospects for a voluntary approach to amalgamations

- Financial sustainability, improved service delivery and strategic capacity present ongoing challenges for these four rural councils.

B.4   Sharing a CEO (WA)

The initiatives by a number of councils in WA to share CEO's have occurred in the context of voluntary reforms within the local government sector, particularly in regard to resource sharing. The WA government also proposed a range of reform measures related to sustainability, representation and capacity building and linked these to a Country Local Government Fund.

The first shires with a CEO sharing arrangement in WA were the Shires of Kellerberrin and Tammin, situated east of Perth along Great Eastern Highway. Since that time a number of small rural councils have entered into agreements to share a CEO. In the case of the Shires of Broomehill and Tambellup, the shared CEO arrangement led to an amalgamation of the two councils in July 2008.

The Shire of Broomehill-Tambellup is a rural community located within the Great Southern Region of Western Australia. The region is predominantly a sheep and grain producing area with a growing interest in aquaculture, viticulture, horticulture and tourism. The Shire has a population of 1,184 people and covers around 2,813 square kilometres. The trend for a population decline in the area has been reversed in recent times due to 'tree changers' moving into the Shire.

B4.1   Development of the initiative

The Shires of Broomehill and Tambellup commenced the CEO sharing arrangement on 1st January 2006. The initiative for the arrangement came from Broomehill Shire where the CEO was due to retire. The majority of councillors supported the proposal having had a positive experience of the joint activities undertaken in the past.

Key steps undertaken to establish the arrangement:

- Community notices of the intention of the councils to share a CEO was placed in local newspapers; no objections were received
- The councils proceeded to draw up a formal agreement detailed the governance arrangements
- Assurances were given to staff that there would be no job losses
- A join committee comprising the two Shire presidents and deputy presidents met on a monthly basis to review opportunities for shared services, including a plant replacement program that was undertaken on a shared basis.

B4.2 Outcomes

Six months into the resource sharing arrangement both Councils agreed unanimously to explore the possibility of amalgamation. The councils received funding from the State Government's *Connecting Local Government and Structural Reform* program to undertake a feasibility study into the case for amalgamation. Both Shire Presidents signed a joint communiqué supporting this investigation.

In May 2007 an application was submitted to the Local Government Advisory Board a statutory body established under the *Local Government Act 1995* (The Act) to provide advice to the Minister for Local Government on local government constitutional matters. In carrying out the inquiry the Board was required to consider submissions made to it and have regard to:

- Community of interests
- Physical and topographic features
- Demographic trends
- Economic factors
- The history of the area
- Transport and communication
- Matters affecting the viability of local governments; and
- The effective delivery of local government services.[9]

Among the reasons given for supporting the request for the amalgamation were the achievements of the two local governments in rationalising resources and services during the period when the two councils shared the services of a CEO, the financially viability of both local governments and the fact that both local governments have been functioning more or less as a single entity for the previous 2 – 3 years. The Board was also encouraged by 'the manner in which the Shires of Tambellup and Broomehill have approached the amalgamation and the spirit of cooperation that has ensued.'

The amalgamation came in to force on 01 July 2008.The CEO sharing arrangement was regarded as a success as it demonstrated that resource sharing arrangements could work and paved the way to the amalgamation of the two councils. The different dimensions of the arrangement when the two councils shared a CEO are examined in more detail below.

Cost reductions and greater efficiency
The CEO sharing arrangement was not promoted to the community as a cost cutting exercise however consultants preparing a long term financial plan for the council advised that the councils

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[9] Local Government Advisory Board (March 2008) *Assessment of the proposal to amalgamate the Shire of Tambellup and the Shire of Broomehill,*

are now in a better place financially as a result of the resource sharing arrangements put in place in 2006 and the subsequent amalgamation.

Greater efficiencies achieved by the councils included:

- Pressures eased on the day-to-day budget, providing extra flexibility to meet needs as they arose
- Capacity to pay better wages resulted in more qualified staff
- Efficiencies from combining the two works crews
- Capacity to hire a mechanic resulting in vehicle maintenance cost savings
- Administration for both councils was provided from the council centre in Tambellup.

Improved strategic capacity
The CEO reported the benefit of being able to see beyond the day to day demands and being freed up to be more strategic. A range of structural changes were put in place which facilitated a more strategic focus, in particular in following through on new resource sharing projects and in developing new areas of activity to respond to community need.

Democratic representation
The two councils each had nine councillors. The willingness of the two councils to reduce the total number of eighteen councillors to nine was a significant factor in the successful transition to amalgamation. When comment was sought on representation options, the community favoured a ward structure based on the former district boundaries – resulting in a north and south ward.

A request is currently before the Minister for Local government for a further boundary review. The ward boundaries are currently being reviewed with the aim of reducing the total number of councils to seven.

Enhanced service delivery
Improved service delivery was presented to the community as a major focus of the resource sharing arrangements. A priority for the councils was that the new shared arrangements would result in visual improvements to the area and thus a priority was given to improving the parks and gardens.

The Broomehill office was also kept open to maintain continuity of services so as not to be seen to disadvantage its residents.

Interviewees suggest that there are residents who say that they aren't getting the same level of service as before but that these people are in the minority. It is also reported that there are higher expectations of the combined council and a view that it should get things done more quickly.

B4.3   Evaluation

- The unity and agreement of the political leaders from both councils was essential to the success of the shared CEO and resource sharing arrangements

- The leadership and organisational change requirements of a resource sharing arrangement involve a heavy workload for the CEO and a strong commitment from the CEO to make it work

- In the case of Broomehill and Tambellup, the success of the shared CEO experience was a major factor in the favourable response to the amalgamation proposal by the Local Government Advisory Board.

The two councils were aware that the agreement to enter into a resource sharing arrangements, - and then to propose an amalgamation, wasn't a safeguard again future amalgamations initiated by the WA government. The neighbouring Shire of Katanning provided submissions opposing the amalgamation, arguing that they are the regional centre for the surrounding towns of Broomehill, Tambellup and Woodanilling. The Board is sympathetic to these claims and stated that further structural reform is inevitable.

In considering future prospects for resource sharing arrangements managed by a shared CEO, the experience of the CEO for the WA Shires of Mingenew and Three Springs is worth noting. Although these two Shires (along with Morawa and Perenjori Shires), have signalled their intention in principle to pursue amalgamation, the CEO is of the view that resource sharing arrangements can be an alternative to amalgamation. In the case of Mingenew and Three Springs, the shared staff arrangements have gone well beyond the CEO position, extending to Works Manager, Senior Financial Officer, Health Officer and Community Development Officer. The CEO of these two councils stresses the importance of getting the initial agreements and governance structures right in the beginning if the arrangement is to work long term.

B4.4   Conclusion

A successful shared-CEO and resource sharing arrangement between councils can provide a range of benefits to the councils and the council communities, and if desired by both councils, can provide a smooth transition to an amalgamation. Research into a wider cross section of shared CEO arrangements could assist in evaluating the success factors for such an arrangement and whether it can be an alternative to amalgamation over the long term.

B.5   New England Strategic Alliance of Councils (NSW)

This case study reviews the New England Strategic Alliance of Councils (NESAC). Former NESAC members were the Armidale Dumaresq Council, Guyra Shire Council, Uralla Shire Council and Walcha Council, in the Northern Tablelands region of New South Wales.

The New England area is within the State electoral district of the Northern Tablelands and the Commonwealth electoral division of New England. Estimated populations in 2009 were: Armidale Dumaresq Council 25,700; Guyra Shire Council 4,500; Uralla Shire Council 6238; and Walcha Council 3386.

In 2003 the Minister for Local Government called on NSW councils to develop reform proposals for the consideration of the NSW Local Government Boundaries Commission, which resulted in the formation of the New England Strategic Alliance of Councils.

B5.1   Development of the Initiative

Chris Vardon, who was appointed by the Minister for Local Government to consider provision of local government services on a regional or natural catchment basis, recommended the amalgamation of Armidale Dumaresq Council, Guyra Shire Council, Uralla Shire Council and Walcha Council into a New England Regional Council.

There was limited consensus however between the New England area councils on the need for reform and amalgamations. In early 2004 in response to the Vardon report findings, the councils reached an agreement to pursue the formation of a strategic alliance as an alternative to amalgamation.

The NSW Boundaries Commission, in their report released in March 2004, recommended the amalgamation of the four councils and the boundary alterations as proposed by Vardon, and expressed concern about the NESAC proposal to form a strategic alliance.

Despite the Boundaries Commission recommendation, the Minister for Local Government approved the trial of a strategic alliance as requested by the four councils. The approval stipulated a 12-month trial period.

B5.2   Implementation

A formal charter was developed which established governance arrangements between the four councils and the New England Weeds Authority (NEWA).

The NESAC charter objectives were as follows:

- To implement a successful alternative model for Local Government Reform based on efficiency, performance and continued local autonomy

- To identify one-off savings of $1.3m and then moving gradually to annual savings of at least $1.7m over fourteen functional areas

- To implement a performance management system to measure increased service levels, new service provision and use savings and benefits to meet asset sustainability obligations.

The Charter set out the role of the Advisory Committee that consisted of the Mayor, Deputy Mayor and General Manager of each council and the Chairperson and General Manager of the NEWA.

NESAC wasn't established as a legal entity but rather as a non-binding shared services charter between the four member councils and the NEWA (which was non-voting).

A cost-benefit mapping exercise lead to the development of business cases which identified opportunities for the operation of shared services in fourteen areas that indicated that $22 million worth of benefits would be delivered to the member councils over an eight year period. The business cases outlined a shared services organisational structure with General Managers being given portfolio responsibilities and responsibilities for shared service teams comprising staff members from all councils.

Significant or unforeseen issues
In 2009 the Alliance broke down with the withdrawal by Walcha Council in February 2009 and by the decision by Uralla Council to not renew its membership. The NESAC Advisory Committee identified the following key issues:

- Problems in implementation of the common information software platform - the Information and Communication Technology (ICT) system, resulting in significant delays and higher costs

- Concerns of Uralla Shire and Walcha Councils that the ICT system was surplus to their needs, a factor identified by both councils as a significant factor in their decision to leave the Alliance

- Delays in filling key positions in the revised structure

- Limited resources for the implementation of an ambitious reform program.

B5.3   Outcomes

In January 2010 the NSW Minister for Local Government appointed an independent Facilitator, Mrs Gabrielle Kibble, to examine the current and possible arrangements for improving local government service delivery in the area[10]. In reporting on the reasons for the breakdown of the alliance, the Facilitator drew on the following reviews:

- May 2009, *An Analysis of New England Strategic Alliance*, Working Paper prepared by Lou Conway and Brian Dollery, the Centre for Local Government, University of New England

- July 2009, *NESAC Restructure Review*, produced by Forsyths Chartered Accountants for the NESAC Advisory Committee

- December 2009, *Review of New England Strategic Alliance of Council* prepared by *t*he Division of Local Government's Promoting Better Practice Program for the Minister for Local Government.

In addition to the issues outlined above, these reports identified the following contributing factors to the breakdown of the Alliance.

Lack of commitment to the Alliance model

- All of the former NESAC councils acknowledged that the desire to avoid an amalgamation was a significant reason for their entering the Alliance

- The NESAC Advisory Committee's 2008 decision to alter the Charter to require the Committee to meet on an 'as needs basis or at least four times a year' (as opposed to the previous requirement to meet bi-monthly) was provided as an example of the lack of commitment to the Alliance.

Lack of robust governance arrangements
NESAC failed to address important governance issues including legal liability, ownership and control of assets, and arrangements upon the termination of the agreement at the end of its term or the withdrawal of a member. In addition:

- The Alliance lacked formal, well-structured service level agreements to provide accountability and ensure parties were not exposed to legal, financial and reputational risks

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[10] Gabrielle Kibble AO (May 2010) *Review of Local Government Service Delivery in the New England Area*, available: http://www.dlg.nsw.gov.au/NESACreview/INDEX.ASP

- The lack of an overarching 'board of governance' structure led to the convoluted decision making processes and a culture of blame shifting

- The governance framework and organisational structure proved to be too complex and difficult to understand and administer

- Performance management arrangements for General Managers did not promote accountability for portfolios, and staff couldn't be held accountable for their performance within portfolio areas (if they were in a different council area)

- Confusion existed at the staff level arising from a lack of published or easily accessible policies and lack of standardisation of forms and reporting practices.

Lack of adequate planning

- The initial decision to form NESAC was not informed by a robust strategic planning process and resulted in a lack of consensus between the councils

- The NESAC Charter documented the strategic intent of the Alliance but was not a strategic plan

- Lack of a master plan for the implementation or management of the Alliance and lack of project and operational plans

- Original business cases were modified to facilitate agreement between the member councils, and so were compromised.

Lack of trust between members

- Significant lack of trust at both a senior management and political level which appears to have increased as the Alliance continued

- Resistance from the smaller councils to the comprehensive shared services model arising from the fear of a loss of control and autonomy.

Achievements of NESAC
All the reviews of the NESAC acknowledge the achievements:

- The initial business planning process undertaken for the Alliance was comprehensive

- Despite initial problems in implementing the NESAC ICT system, these were subsequently overcome, setting the foundation for efficiencies in human resource management, records management, planning and financial reporting

- Although the NESAC didn't continue, individual councils have signified their desire to continue with shared service delivery in several areas which had resulted in greater efficiencies -including asset management services, plant and fleet management services, and preconstruction work

- The intended scope of the Alliance was unprecedented in the sector and should be commended.

B5.4 Evaluation

The breakdown of the New England Strategic Alliance of Councils in 2009 led to a series of reviews and reports into the reasons for the failure of the alliance model and to the recommendation in 2010 for amalgamation of the local government areas of Armidale Dumaresq, Guyra Shire and Uralla Shire Council.

However the breakdown of the NESAC did not imply that strategic alliances were unworkable per se. The NSW Central West councils of Wellington, Cabonne and Blayney have maintained an effective alliance since August 2003. While structured differently to the NESAC, the factors in the success of the Wellington, Blayney, Cabonne Strategic Alliance are addressed in a NSW Government Promoting Better Practice review.[11]

The 2009 Forsyths Report (referenced above) canvassed five alternative structures for the member councils including individual autonomous councils; enhancing the current alliance model; business units with the existing councils; a separate service entity; and amalgamation. The Forsyths Report recommended a voluntary amalgamation of Armidale-Dumaresq, Uralla and Guyra (but not Walcha) councils and the New England Weeds Authority, with a fallback option of a separate service entity.

In May 2010 the Division of Local Government recommended that the existing local government areas of Armidale Dumaresq, Guyra Shire and Uralla Shire Council be amalgamated and be known as New England Regional Council. It was considered that Walcha Council was best placed to continue to deliver services to its community as a standalone entity given its unique 'community of interest' factors and apparent long-term viability. In order to respond to concerns that all communities within the existing local government areas be fully represented on the proposed new council, it was proposed that the New England Regional Council area be divided into 6 wards of 2 councillors each, resulting in a governing body of 12 councillors.

In November 2010, the Boundaries Commission released their report examining the amalgamation proposal and recommended against it proceeding.[12] The Commission formed the view that there was insufficient evidence to demonstrate that significant financial or service delivery advantages for residents and ratepayers would result from an amalgamation. The significant opposition to the proposal expressed by the residents and ratepayers of both Uralla Shire and Guyra Shire areas was also noted by the Commission. Concerns were expressed about potential loss of representation and potential loss of services if the amalgamation went ahead.

In November 2010, on the basis of the Boundaries Commission report, the NSW Local Government Minister made the decision that the three councils would remain separate entities. However in an acknowledgement of the financial challenges facing the councils, announced a 'roadmap to drive better services'. Under the roadmap the three councils are required to:

- Work cooperatively in developing new asset management and long term strategic plans
- Ensure these plans focus on the needs of both their local and regional community
- Work with officers from the Division of Local Government who will monitor the councils' governance arrangements and financial planning and reporting closely
- Provide 6 monthly updates on implementation of their asset management and long term strategic plans with all councils operating under the new plans by June 2012.

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[11] Local Government Reform Program – Promoting Better Practice (2007) Wellington, Blayney, Cabonne Strategic Alliance
[12] Local Government Boundaries Commission (Nov 2010) *Examination for a new local government area to be named 'New England Regional'.*

A key difference between this and the previous shared arrangement is that the requirements for joint approach to asset management and community strategic plans occur within the context of the NSW Local Government Act Integrated Planning and Reporting reforms.

B5.5   Key lessons

- The 2004 recommendation for the amalgamation of the four New England councils in NSW was rejected in favour of a voluntary strategic alliance model

- The 12 month trial period of the NESAC (stipulated in the 2004 decision to establish NESAC) wasn't adhered to, - raising questions as to whether emerging problems could have been dealt with at a much earlier stage in the establishment of the Alliance

- The reasons for the breakdown of the NESAC in 2009 were extensively reviewed, providing important lessons about factors contributing to the success or failure of collaborative arrangements between councils

- The motivation of councils entering into such arrangements, the lack of consensus on the nature and extent of the reforms and the complex and unworkable governance arrangements were considered to be key factors in the failure of the NESAC

- The 2010 recommendation for amalgamation of three of the former NESAC councils, Armidale Dumaresq, Guyra Shire and Uralla Shire Council, was rejected by the NSW Local Minister Government Minister in favour of another collaborative model

- This new approach is linked to planning and reporting reforms in NSW and could result in the development of a regional community strategic plan, an option allowed under the NSW Local Government Act
- Questions remain whether the councils will have learned from the NESAC experience and are willing and able to establish the leadership and the governance structures to make the new arrangement work.

B.6   NSW Regional Organisations of Councils

This section considers two Regional Organisations of Councils (ROCs), Hunter Councils and Riverina Eastern Regional Organisation of Councils (REROC), as examples of local government consolidation.

ROCs are voluntary groupings of councils that are usually formed in geographically contiguous areas, often corresponding to commonly identified regions.[13] Gibbs *et al* note that ROCs undertake a range of functions on behalf of their member councils and local and regional communities, including providing a regional point of contact, acting as regional forums, facilitating joint activities by councils, managing regional projects, providing regional advocacy and building strategic partnerships.

ROCs may specialise in one or more of these activities, which are often funded at least in part by state or federal governments and which can also involve formal inter-governmental partnerships. Some ROCs even have a role in either regional governance arrangements involving state governments or in assisting the delivery of state or federal government services.

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[13] Gibbs, M., Gooding A. and Jones, R. (2002) *Regions and the role of ROCs in an urban context*, Presentation to the "Cutting Edge of Change" Local Government Conference, University of New England, Armidale.

ROCs also have a range of management models, but typically these involve a board comprising elected representatives (usually but not always the mayors) from each council. General Managers (CEOs) may also be involved at the board level but more commonly form a separate committee to deal with operational matters. Other council officers may be involved in staff committees or working groups overseeing specific projects.

Some ROCs are unstaffed, with a member council undertaking secretariat functions, but a significant number have one or more staff members. In terms of governance, most ROCs are incorporated associations but a small number are registered as corporations. However, in NSW current legislation prevents councils from forming companies without the permission of the Minister for Local Government.

The ROC movement started in Australia in the 1920s, but the most important period of expansion commenced in the 1970s when the Federal Government took a proactive approach to identifying and forming regions in both urban and rural areas. While only a handful of ROCs survive from this era, the Federal process promoted the concept of regional cooperation and helped build the groundwork for an increase in ROC numbers in the 1980s and early 1990s.

Since that period, however, a significant number of ROCs have also ceased operations, especially in states such as Victoria, South Australia and most recently Queensland where major government-initiated amalgamations made many of them redundant. Some ROCs in those states survived the amalgamation process (most notably the South East Queensland Council of Mayors) while in South Australia a regional framework has re-emerged under the auspices of that state's Local Government Association. The ROC movement is strongest in NSW however, where they have to some degree acted as an alternative form of consolidation to amalgamations.

B6.1   Hunter Councils

In March 1955 local government representatives from across the Hunter region met for the first time to discuss a coordinated approach to the State and Federal Governments in relation to reconstruction following the disastrous Hunter River floods. This led to the formation of Hunter Councils, making it one of Australia's oldest ROCs.

Currently Hunter Councils has eleven member councils and covers a region of over 29,000 sq. km. with a population of about 650,000, concentrated mainly around Newcastle and the surrounding council areas of Lake Macquarie, Maitland and Port Stephens.

Councils range in population from Lake Macquarie with a population of over 180,000 and Newcastle with around 142,000, to Gloucester, which has less than 5,000 people, and Dungog with around 8,000. The region has a diverse economy with a significant and expanding role in coal mining and electricity generation along with urban areas, rural industries, national parks and beaches.

Development of the initiative
Up until the 1990s, the Hunter Regional Organisation of Councils (as it was then known) had a fairly standard management framework for a ROC, comprising a Board with council representatives and a General Managers Advisory Committee.

This was to change as a result of a major review undertaken by the organisation in the early 1990s because of concerns regarding its relevance and value to its members. There were also concerns regarding the possibility of amalgamation and a desire to explore alternative models for service delivery that would achieve significant results while retaining the existing council structure.

As a first step the organisation decided to adopt an Integrated Local Area Council (ILAC) approach to service provision, which recognised that the 'catchments' of many of the services undertaken by local government did not necessarily align with council boundaries.[14]

It also decided to appoint a business manager to work with GMAC to develop the organisation's first business plan, which was adopted in 1994. This plan identified four major program areas: Cooperation and Resource Sharing, Advocacy, Business Investment and Organisational Development. Within each project area a number of project teams were established with membership comprising council officers who worked with a 'sponsoring' General Manager.

Implementation
Throughout the late 1990s and early 2000s Hunter Councils consolidated its role in providing services to its member councils. It adopted a brokerage model, which allowed member councils to opt in or out of regional project proposals.

The organisation also sought to generate income to offset membership contributions with the aim of reducing membership subscriptions to the point that the organisation could become financially self-sustaining. This also involved the appointment of a full-time CEO with business expertise.

One unusual opportunity that was identified was the need for a regional records repository, due to the requirements for secure storage all the councils were facing as a consequence of the *State Records Act*. At the time there was no other suitable facility in the Hunter and the alternative would have been for councils to ship their records to Sydney for storage in the state government's repository.

In 2003 the member councils formed a separate company to undertake this project, purchasing land, securing finance and constructing a purpose-built facility. It was also decided that this service would be provided to other clients on a commercial basis. The company established for this purpose, has expanded to become a wholly owned trading company, Hunter Councils Ltd, which is managed by a Board comprising the General Managers. This entity manages the organisation's business operations, while its non-trading operations are overseen by Hunter Councils Inc., an Incorporated Association managed by the council delegates. The records storage service provides 24-hour seven-day access. It stores over 110,000 boxes and also provides offers additional services such as cataloguing, scanning, indexing and retrieval.

Another key operational area is the organisation's environment division. This was initiated as the Lower Hunter and Central Coast Regional Environmental Management Strategy in 1993 by Environmental Managers from councils in the Lower Hunter and the Central Coast Councils seeking to work collaboratively on common environmental management issues. The strategy was endorsed by the participating councils and the group received grant funding for a full time coordinator, a position eventually funded by the councils.

In 2002 Hunter Councils agreed to auspice the strategy, which was expanded to include the six Upper Hunter councils. It was renamed the Hunter and Central Coast Regional Environmental Management Strategy (HCCREMS) and currently manages approximately $5 million in state and federal government funding.

The third major operational area is the Local Government Training Institute (LGTI), which is a registered training organisation. LGTI operates out of purpose-built facilities collocated with Hunter

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[14] Stephan, R., 'Sharing resources and expertise in one of Australia's most diverse and dynamic regions', presentation to the National Local Government Workforce Development Forum, 2010.

Councils' record storage facilities and other offices; like the records storage operation, LGTI offers training not just to member councils but also to councils outside the region, as well as the private sector. It is understood that over 8,000 participants were involved in LGTI training in 2010.

Similarly, the regional procurement initiative extends well beyond the Hunter's regional boundaries. Over 50 councils across seven ROCs throughout NSW participate in the Hunter Councils regional procurement project, which involves around $200 million in contracts. Other regional initiatives include Screen Hunter Central Coast, which markets the region as filming destinations and provides a one-stop-shop for filming approvals and local support and strategic consultancy services for member councils, other councils and the private sector.

A number of other business and shared services opportunities are being considered, including a data management centre. The organisation also continues to provide support for professional teams dealing with issues that affect member councils.

Outcomes

- *Cost reductions and greater efficiency*
  Hunter Councils has reduced costs significantly for its members. It is clear that the shared provision of services, particularly the procurement, records storage and training services, achieve major economies of scale especially as they have extended well beyond the regional boundaries of the Hunter.

  This is further bolstered by the marketing of the procurement and training services to the private sector. Because of this entrepreneurial approach, Hunter Councils is able to generate a significant income stream. As a result the organisation is on track to meet its target of eliminating the membership fees provided by member councils. In 2004/05 this subsidy was $643,673; in 2010/11 it is projected to be $286,570.

  Its success in generating income poses a dilemma for Hunter Councils as it considers its future direction if and when it is able to eliminate the subsidy entirely and is potentially able to generate a net surplus. This is because under current legislation the organisation's non-profit status means it cannot pay a dividend to its members. Even the incorporated 'arm' of the organisation that concentrates on non-commercial projects has potential issues with limitations contained in current legislation.

- *Improved strategic capacity*
  Hunter Councils has provided increased strategic capacity to participating councils in a number of ways, including:

  - The participation of council staff in a range of professional teams
  - Provision of professional training for staff
  - Enhancing the delivery of services on a regional basis
  - Reducing costs involved in the provision of joint services, thus freeing up council resources for use in other areas
  - Providing strategic consultancy services

One example of how the organisation has improved the strategic capacity of its members is its role in developing and supporting the regional environmental management framework in conjunction with council staff. Another is its role in regional advocacy; the organisation has recently adopted changes to its structure to provide greater strategic focus to its lobbying efforts (see next section).

- *Democratic representation*
  ROCs generally have at best an indirect effect on democratic representation. On the positive side, they often provide an opportunity for member councillors to become better informed and to have a wider role in representing the region at a more strategic level.

  On the other hand, all ROC structures raise interesting questions about accountability in their provision of services, especially when the range and volume of these services are extensive. This is partly because the Board of any ROC is not accountable directly in a democratic sense to the community, but instead only to its member councils. By implication this means that the councils with larger populations may be under-represented when (as is usually the case) councils have equal voting rights on the Board regardless of their size.

  The situation is further complicated at Hunter Councils for the following reasons:

  - As noted earlier, corporate governance of the organisation is split between the General Managers (who form the Board of the company) and the council representatives (who form the Board of the incorporated association). This means that the organisation has to meet at least three sets of regulatory requirements, those of the NSW Local Government Act and Incorporated Associations legislation, as well as Federal corporations law.

  - The organisation has large and differing sets of participants for its services; there are 14 councils involved in the environmental program, 19 councils who use its screen services, over 50 councils involved in joint procurement and 120 who use its training services, not to mention the organisation's clients outside the local government sector. This has the potential to create tensions between these wider constituencies and the Hunter 'brand' associated with its core membership, especially as the councils outside the Hunter region have no say in the management of these services.

  - The other issue related to representation is the potential for the organisation's considerable business and operational achievements to overshadow its advocacy role. To strengthen the latter and to simplify the organisation's overall governance, the structure has recently been simplified. The Board of the incorporated association now comprises the mayors only, with no alternate representatives permitted, while the general managers continue in their role as the Board of the company.

  - This has the effect of giving the organisation's advocacy more prominence as the united voice of the Hunter's mayors speaking for the region, a similar approach to that adopted by the South East Queensland Council of Mayors. It also reinforces the role of the Board in overseeing the organisation's overall direction and priorities. It is argued that Hunter Councils' commercial success enhances rather than hinders its advocacy role by giving the organisation a high and positive profile.

  - The organisation's success in reducing or eliminating the payment of subscription fees by its member councils may diminish their sense of 'ownership'. There is some debate about this; there is an argument that if it were possible to pay a dividend to members, this may also engender a similar sentiment.

- *Enhanced service delivery*
  Hunter Councils has been able to use its economies of scale to enhance the services it provides to its members, as well as reduce their costs. This applies to all its core business operations, particularly training, records storage and environmental management, where the economies of

scale mean that it can achieve significant economies of scope in terms of providing higher quality services.

To some extent, however, many councils outsource aspects of training and long-term records storage as these are not considered 'core' local government activities. Hunter Councils is looking at options to expand its operations into some of these core areas. This has the potential to cause some controversy, because to achieve economies of scale for some of these services on a regional level could require cuts to council staff.

Evaluation

No external reviews have been conducted in recent years, though the current CEO undertook an internal review on his arrival. This helped to provide a basis for the organisational changes discussed earlier.

Hunter Councils is a significant example of the implementation of shared services and probably one of the most successful anywhere in Australia based on a ROC model. It is also unique in the extent to which it has expanded its services beyond its regional boundaries to non-member councils and to customers outside of local government.

There are a number of factors behind this success. These include:

- The decision taken by the organisation in the 1990s to pursue a brokerage model for the provision of services to its members, combined with the realisation that catchments or communities of interest will vary with the specific service being provided and may extend not only beyond council boundaries but also those of the region itself

- The subsequent decision to explore and develop options for shared services for councils that had the opportunity for further commercialisation and to adopt a corporate structure to facilitate this approach

- The subsequent adoption of projects that provided opportunities for significant cost savings, potential for extension to councils outside the region and in some cases the potential for commercialisation

- The parallel development of a regional framework for environmental management by councils in the Lower Hunter and the Central Coast, which was subsequently extended to the rest of the Hunter at around the same time it came under the management of Hunter Councils. This has helped both to give the organisation 'critical mass' as well as provide it with another major area of expertise and engagement with its member councils and the wider community.

- The maintenance of the organisation's advocacy role and reforms to its management structure to support and enhance this The synergy between the organisation's business operations and this advocacy role

- The fact that the Hunter is a very well defined, integrated region. While its population is concentrated in the southeast corner around Newcastle, the Hunter owes much of its wealth to agricultural production and mining in the much less densely populated rural council areas. These characteristics provide the region with a strong regional identity, despite its proximity to Sydney, as well as a high degree of synergy between its rural and urban areas.

- The number and range in the size of member councils. This combined with the number of councils involved, means that all councils can benefit both from potential economies of scale and/or scope. Smaller councils, especially the very small ones, also find it helpful to participate in the range of formal and informal networks provided through the ROC.

- The degree of leadership shown by key participants such as ROC presidents/chairs, CEOs, Mayors and General Managers at critical periods in the development of the organisation, as well as the continued support of member councils.

Despite the considerable success of Hunter Councils there are some factors that may affect its potential for expansion as well as the extent to which the model can be reproduced elsewhere. Some of these include:

- The issue of how to maintain an appropriate balance in the relationship between the organisation's commercial activities and its advocacy and non-profit roles, especially as the former grow in volume

- The extent to which the model is dependent on councils outside the region and non-council customers to achieve economies of scale. This affects the extent to which this model can be emulated elsewhere. The commercial opportunities that Hunter Councils has 'captured' will not necessarily be available in all regions – and if this model could be applied by one or more regions elsewhere, there would be the interesting prospect of these regions competing with each other for business to pursue scale economies.

- The extent to which this model can be applied to achieving additional economies of scale in council operational areas. This could lead to staff cuts, such as corporate and regulatory services.

- The issue of organisational structure. As indicated earlier there are problems with the legal options available; registration as an incorporated association is intended for smaller, non-profit organisations while the corporate model required is not necessarily an ideal 'fit' for ROCs. Hunter Councils has chosen to deal with this by having two 'arms', one registered as an incorporated association, the other as a company, but this is problematic and it is becoming clear that it is not a long-term solution. The organisation may have to simplify its structure, absorbing the incorporated association and its activities into the company, with a single board.

- The role of mayors and general managers. The current dual model does have the advantage that it provides roles for both mayors and general managers relevant to their primary responsibilities as political leaders and operational managers respectively. Any alternative will have to resolve how these roles can be combined in a single board.

- The broader issue of the relationship of councils and ROCs to regional governance. Hunter Councils is in some respects providing a form of regional management, particularly in relation to environmental issues and it has been suggested that this role could be extended. For this to occur however, the organisational issues referred to above would have to be resolved, along with the nature of the organisation's relationship to other levels of government. This will be considered further in the overall conclusions.

B6.2   Riverina Eastern Regional Organisation of Councils (REROC)

In 1994 a number of councils in the Eastern Riverina decided to work together to achieve greater efficiencies and effectiveness in the delivery of services and also in terms of community advocacy. These discussions led to the formation of the Riverina Eastern Regional Organisation of Councils (REROC).

REROC's membership now comprises 13 councils, with two water county councils as associate members. The ROC is over 43,000 sq. kms in area and has a population of approximately 140,000. Wagga is both the biggest council in population and the main regional centre; with approximately 60,000 people it has almost six times the population of each of the next three largest councils, Corowa, Tumut and Greater Hume respectively. Five councils have populations under 5,000, with the smallest, Urana, also being the smallest council by population in NSW.

The eastern Riverina is a major and diverse agricultural region, with fertile soils and access to irrigated water. As a result, around 14% of the regional workforce is employed in agriculture. Other significant industries such as retail, tertiary education and defence forces training are mainly located in and around Wagga.

Development of the initiative
In common with many other regional organisations of councils, REROC was initially entirely dependent on the staff and other resources of its member councils to initiate and manage projects, as well as to administer the organisation itself.

In 1996 the member councils reviewed REROC's operations, concluding that the organisation would need to have its own resources to expand its services and to take on more complex projects. The councils decided to fund an executive officer position through an annual membership fee. At this point the ROC took an unusual approach; instead of employing its own CEO, the position was contracted to a local consultancy firm in 1997 on a trial basis. The initial criteria mainly related to achieving targets for cost savings by member councils. The trial was a success and the REROC's executive and management services continue to be provided on a contract basis by the same organisation.

REROC also differs from most ROCs in having a Board with representation comprising both a councillor (usually but not necessarily the mayor) and the general manager from each council, instead of having separate committees for elected representatives and general managers. Structurally it is therefore the antithesis of the Hunter Councils dual-entity approach.

Two-thirds of the membership fee is divided equally between the councils; the other third is proportionally allocated based on council populations. Despite the pro-rata component of funding, all member councils have an equal vote, although decisions are normally made by consensus. The county councils as pay lower membership fees as associate members and do not have voting rights.

REROC is an incorporated association and its chair is drawn from the elected representatives; the organisation also has an Executive Committee and several sub-committees including an Engineers' Group, Waste Forum, Regional Spatial Information Group, HR Group and a Social Planning Group.

The desire to avoid amalgamation was not a primary motivation in forming REROC. However, REROC and its member councils worked together to articulate a case for ROCs and other shared services models when there were pressures for council amalgamations in 2004-05.

Implementation

REROC has three areas for its core activities, resource sharing, finding regional solutions for local problems and regional representation. These are discussed briefly below.

- *Resource Sharing*
  These activities are divided by the ROC between projects based on economies of scale and those relating to economies of scope. The projects based on scale economies include joint purchasing projects such as bulk supply of retail electricity and products such as bitumen emulsion, work clothing, photocopy paper and software as well as the collection of scrap metal and waste oil.

  Projects based on economies of scope include the development of shared intellectual property by REROC and the staff of member councils in relation to areas such as policy documentation and new legislation affecting member councils. The resulting quality documentation is then used as 'templates' by the councils. In addition REROC groups enable council staff to share information.

  The organisation is also developing its role in coordinating the sharing of staff between member councils. This reflects both the small size of some of the councils who are sometimes unable to employ some specialised staff in their own right on a full-time basis as well as a more widespread shortage of professional local government staff in the Riverina.

  REROC also applied as a group for funding under the Federal Government's Regional and Local Community Infrastructure Program (RLCIP) and was successful in obtaining $2.6 million to undertake 12 infrastructure projects across six member councils.

- *Finding Regional Solutions for Local Problems*
  These activities include council-specific problems such as the local government skills shortages referred to earlier. Projects in response include a professional placements program, engineering internships and a partnership program to encourage Year 10 to 12 students to consider a career in civil engineering. A related project seeks to promote living and working in the Eastern Riverina.

  Other projects address broader regional issues. These include projects to provide grants for infrastructure to address specific, local telecommunications issues, to facilitate business start-ups including home-based businesses, and to address urban water management. Another project assists small business people to measure their environmental footprint.

  However, REROC's role in providing services beyond its membership is relatively modest compared with Hunter Councils. The ROC has explicitly decided not to go down the Hunter Councils route of commercialising its services.

- *Regional Representation*
  In common with many other ROCs, REROC prepares submissions on a range of issues affecting the region in collaboration with and on behalf of its member councils and makes representations to other levels of government on these issues.

Outcomes

- *Cost reductions and greater efficiency*
  REROC has always regarded itself as outcomes-focussed, with a strong emphasis on financial savings as a central measure of success.

Assessment of these financial outcomes formed a key component of an extensive review of REROC conducted by the University of New England's (UNE) Centre for Local Government in 2004. This inquiry estimated that REROC saved member councils a total of $4.5 million over a five and a half year period, not including indirect benefits both to councils and the wider community.[15] More recently REROC estimated it had saved member councils almost $18 million over nine years.

The UNE review also found that almost all the REROC councils have positive capital expense ratios indicating that they are replacing infrastructure faster than it is deteriorating. They also have faster-than-average approvals of development applications. All REROC councils, except one, employed fewer employees than the average for their respective size groups, which the review attributed to the scale efficiencies achieved by the organisation.

- *Improved strategic capacity*
  Similar to Hunter Councils, REROC has increased the strategic capacity of participating councils through:

  - The participation of council staff in a range of regional forums and groups, increasing their expertise and professionalism
  - Enhancing the delivery of services on a regional basis
  - Facilitating the shared employment of key council staff and addressing long-term staff shortages
  - Developing joint submissions for funding, thereby obtaining resources for the region that many member councils would have found difficult to access on an individual basis
  - Providing for member councils an understanding of and an ability to influence the wider strategic regional context in which they operate.

The Inquiry referred to earlier also considered strategic capacity and concluded that: '… the combined efforts of member councils have managed to generate a substantial reservoir of social capital; that is, trust, cooperation and the ability to implement collective goals.'[16].

- *Democratic representation*
  As noted in relation to the Hunter Councils, ROCs generally have at best an indirect effect on democratic representation. They provide an opportunity for member councillors to be better informed and more strategically engaged, but the Board of any ROC is accountable only to its member councils. As noted earlier this raises the issue that the councils with larger populations may be under-represented when (as is usually the case) members have equal voting rights on the Board regardless of size.

  This applies in the case of REROC, though it should be noted that most decisions are made on a consensus basis. REROC is also unusual in that both elected representatives and general managers are represented on the Board.

- *Enhanced service delivery*
  It is also clear from the UNE review that the projects undertaken by REROC have supported and extended the service delivery of its member councils. This applies particularly to the projects involving the sharing of staff and the development of shared IP and resources. These benefits

[15] Dollery B., Marshall N., Johnson A. and Witherby A, (2004), *Regional Capacity Building: How Effective is REROC?*, Report prepared by the UNE Centre for Local Government for the Riverina Eastern Regional Organisation of Councils, REROC, Wagga Wagga.
[16] ibid.

are particularly important to the smaller councils that may otherwise have struggled to deliver outcomes at a high standard.

The ROC has also been very successful in attracting external funding to improve the provision of infrastructure and services, in many cases applying for funding in situations where member councils would have been unable to apply for funding on an individual basis.

Evaluation

As noted earlier, REROC was extensively and favourably reviewed by the University of New England Centre for Local Government in 2004. This involved interviews with key stakeholders and an analysis of relevant literature. The positive outcomes were helpful in reassuring member councils that they were getting 'value for money' from their membership of the organisation.

At the time of writing an external organisation review was being finalised. It is understood that this has not recommended any substantial changes in the organisation's structure, though it has raised some specific issues, including aspects of REROC's unique contracting out process.

While like most ROCs it has not achieved the commercial success of Hunter Councils (a model it has never sought to emulate), REROC is a successful example of a relatively ROC based on a relatively 'conventional' model, albeit one with some unusual characteristics. It has achieved significant cost savings, increased the strategic capacity of member councils and helped them to provide an enhanced range of services more efficiently. Factors in the organisation's success include:

- The early decision to concentrate on measurable financial outcomes as the criterion for success and the selection of regional procurement and resource sharing projects which yielded positive results

- Concentration on other key issues of concern common to all member councils, particularly the shortage in skilled professional local government staff in the Riverina

- The use of a contractual model to manage the organisation's secretariat and staff support, which provides REROC with a high degree of flexibility

- Similar to the Hunter, the Riverina's strong regional identity and the integration of its predominantly rural economy with a regional centre (in this case, Wagga) which provides educational and other services. This is heightened by the fact that the Shires Association division shares the same borders.

- Again, similar to the Hunter, the number and range in the size of member councils which means that all councils can benefit both from potential economies of scale and/or scope.

- Specifically, the degree of professional support and development that participation in REROC projects and networks provides for staff, particularly from smaller councils. The development of initiatives to share staff will also assist these councils.

- The extent to which REROC has succeeded in attracting project funding on a regional basis which individual councils would have otherwise been unable to obtain.

- REROC's engagement in regional advocacy, which as well as being a resource sharing measure provides a combined and stronger voice regarding regional concerns.

- The decision in 2003/04 to conduct an external review which quantified REROC's achievements. This positive outcome in turn has reinforced the support of member councils and helped the organisation to focus its ongoing activities.

REROC does however face some issues:

- Like Hunter Councils, REROC has experienced difficulties with the limitations of being an incorporated association. Unlike the Hunter, however, REROC has not been able to become or form a company because of the current restrictions on NSW councils following this course of action.

- REROC's unique contractual arrangement provided a good way for councils to take the initial steps to establish a secretariat for REROC and as noted earlier continues to provide a high degree of flexibility. However there is a risk of loss of a significant degree of corporate knowledge if and when this arrangement ends, as the organisation's staff and resources are provided through the contracting organisation.

6.3   Conclusions from both regions

These case studies demonstrate how the ROC model can be used as a framework for very different approaches to the provision of shared services and other cooperative activities between councils on a regional basis. Although the Hunter Councils model could be emulated in other regions with a reasonably large population and economic base, the REROC model appears to be more likely to be adapted by a wider number of ROCs, especially those whose membership comprises smaller rural councils.

While these examples have evolved in different ways they share some common characteristics, including:

- The adoption of clear objectives to reduce the costs of councils and achieve economies of scale and scope for member councils.

- The funding of a comparatively small, separate secretariat to manage the organisation and develop and administer regional projects.

- The adoption of a voluntary, 'opt-in' approach to projects; in other words, there is no compulsion for member councils to particulate in any particular project.

- Commencement with one or two examples of joint activity that were selected as likely to yield positive outcomes and their subsequent successful implementation.

- Expanding on the success of these activities to develop additional projects with financial benefits or which address clear needs of member councils.

- Recognition that while cost saving outcomes are important, the ROC could also leverage its collective 'social capital' and stature as a regional representative body to undertake regional advocacy, apply for grant funding on a collective basis and coordinate a range of development projects for member councils and the wider community.

- The provision of opportunities for member councils to engage in the wider strategic regional context.

Although Hunter Councils and REROC differ in population size, they share some common 'environmental' factors relating to their regions that may have contributed to their success:

- A strong sense of regional identity and cohesiveness, backed by an integrated regional economy.

- A number of smaller councils which face the challenge of providing an increasing range of services with limited staff and other resources and who therefore can see the benefits of regional cooperation, combined with at least one or two larger councils who can provide 'critical mass' to the ROC.

While these ROCs have been successful, they also highlight some limitations of the model.

- Its dependence on the collective drive and enthusiasm of key participants such as elected representatives, general managers and ROC CEOs involved in the process, who have to be able to transcend political differences and parochialism over an extended period of time.

- The process by which ROCs select projects to be developed on a regional basis. To an extent ROCs 'cherry pick' the projects that are most likely to achieve immediate financial outcomes, many of which councils would have contemplated contracting out anyway.

- This is understandable, especially in the initial phase of establishing a ROC when it has to achieve outcomes to establish its credentials. However, it is harder for ROCs to take on projects which are more complex, which may threaten entrenched interests within member councils or those involving council core operations, which may achieve efficiencies through economies of scale at the expense of significant reductions in council staff numbers.

- In ROCs made up of councils with widely varying populations, the perception of some larger councils that they will benefit the least from ROC membership in terms of scale economies, especially when their size does not confer any additional voting rights at Board meetings.

- The lack of a good model for corporate governance. Neither the incorporated association not the company limited models seem entirely appropriate to the way a ROC operates and in any case current NSW legislation makes it virtually impossible for a ROC to become a company.

- The potential for tension between elected representatives and general managers who may bring different agendas to the ROC. It is interesting that each of these case studies took widely differing approaches to deal with this relationship.

- The dependence of the regional advocacy role of ROCs on a high degree of consensus between member councils. In both these case studies this seems to have occurred, but it is not hard to see situations in which a major conflict over a policy issues could occur, potentially shattering this consensus and damaging the unity of the organisation.

- The broader issue of the relationship of councils and ROCs to regional governance. Although there were some suggestions relating to both ROCs that they could evolve to take on some elements of a regional governance role, this may be resisted by both member councils and state governments, though for differing reasons.

B.7   Water and Sewerage Services in Tasmania

Prior to 1 July 2009, water and sewerage infrastructure was owned and managed by local councils across Tasmania. On 26 September 2006, in his State of the State Address to the Tasmanian Parliament, the then Premier, Paul Lennon, announced the creation of a Ministerial Water and Sewerage Taskforce. The primary objective of the Taskforce was to identify ways of achieving major long-term improvements in Tasmania's water and sewerage services and infrastructure. The Taskforce comprised of the Treasurer, the Minister for Primary Industries and Water and the Minister for Tourism, Arts and the Environment.

The Taskforce found that[17]:

- About $1 billion of new water and sewerage infrastructure is required over the next decade

- Half of Tasmania's 29 councils had not completed asset condition assessments and 70 percent did not have adequate asset management plans

- The financial returns from the sector averaged around 2 percent to 3 percent, which resulted in little capacity to service debt and an underinvestment in infrastructure

- Approximately 50 percent of the wastewater treatment plants in Tasmania were not always in compliance with their license conditions

- Twenty-three water supply areas were on permanent boil water alerts, including key tourism areas

- Tasmania's water and sewerage regulatory framework was light-handed compared to other states.

B7.1   Development of the initiative

Principles for water and sewerage reform
The Taskforce investigated two possible structural reform options: establishment of a single entity or an enhanced regional model. Under either structural solution, the Taskforce identified a number of key principles underpinning the reform. The Taskforce reported that whatever model is chosen, the entity(s) must[18]:

- Have the delivery of water and sewerage services as a primary business focus

- Have an expert and independent board appointed for its commercial and technical expertise through a formal and transparent process

- Be run as a commercial entity(s) and be established as a Government owned company(s) that complies with Australian Corporations Law and enabling legislation
- Operate under formal arrangements that ensure appropriate and workable governance and reporting

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[17] http://www.treasury.tas.gov.au/domino/dtf/dtf.nsf/v-pages/2F958B465D5A63B9CA2573FD001692C9
[18] http://www.treasury.tas.gov.au/domino/dtf/dtf.nsf/v-pages/80D80B1B64DD2C8ACA2573670010D39A

- Have the organisational, management and technical capacity to appropriately respond to a significantly enhanced economic and technical regulatory framework

- Have the organisational and management capability to appropriately manage transitional and operational business activities

- Be based on an appropriate and formalised dividend policy, have the appropriate balance sheet, profit and loss and cash-flow strength to enable access to debt funding to the level required to support required investment and to fund all business activities on a sustainable basis

- Be capable of managing the transfer of all existing water and sewerage services and functions and associated assets and liabilities of relevant bulk water authorities and relevant local government to the new business or businesses in the shortest practical timeframe but within a period not exceeding three years from operational commencement, targeted for early 2009

- Be capable of managing the transfer of all existing water and sewerage employees of the bulk water authorities and local government to the new business(es) on a no-detriment basis

- Be of sufficient scale to attract and retain high calibre staff and to provide for their ongoing training, skills enhancement and development needs.

The Local Government Association of Tasmania (LGAT) in its submission to the Taskforce[19] strongly opposed the single, state-owned entity, instead expressing a preference for the regional model with ownership of the businesses retained by local government. In its submission, LGAT accepted that there are benefits to be achieved from reforming the water and sewerage sector, and strongly proposed the regional approach to water and sewerage ownership and service delivery, on the basis that local government:

- Has the strength of proximity to the community
- Has the ability to manage the transition process of its employees and assets to the new entity
- Has detailed knowledge of its current assets and systems.

In its submission, LGAT set out how the regional approach would achieve the outcomes proposed in the set of underlying principles outlined by the Taskforce.

Preferred position
Following consultation with local government through the Premier's Local Government Council, the Government decided that the local government-owned regional business model is the best solution for Tasmania.

Establishment of the new entities
The new structure features the establishment of three new entities to provide bulk water, distribution and retail water and sewerage services:

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[19] Local Government Association of Tasmania Submission on Structural Reform Arrangements for Reform of Water and Sewerage Services in Tasmania, December 2007.

- Ben Lomond Water (covering the north of the state)
- Cradle Mountain Water (covering the north west)
- Southern Water (covering the south)

They are each owned by the councils of the region in which they operate and became fully operational from 1 July 2009.

There is a fourth body, Onstream, which is a common provider of corporate services (information technology, finance, payroll, human resources, procurement, billing, governance and stakeholder communications) to the three new entities.

Representative structure

Each regional corporation is governed by a board. The board comprises:

- Chairperson
- Three non-executive directors who are common to the three boards
- Two non-executive directors representing the owners.

Regulatory arrangements and price setting

The new regulatory framework provides for new roles, including:

- A state-wide policy to guide infrastructure development
- Customer service standards
- Price setting through the Tasmanian Economic Regulator
- An Ombudsman.

Under the regulatory framework, the Treasurer is responsible for setting water and sewerage prices until July 2012. This is implemented through an Interim Price Order covering the intervening years. Recently, the Government announced that charges would not increase by more than 5per cent per annum.

B7.2   Implementation in Central Coast Council

Tasmania's Central Coast municipal area is set in the heart of the Northwest Coast, spanning an area of 932km^2. It has a population of 21,571 people. The coastal townships of Penguin (population 5,500) and Ulverstone (population 12,000) are the business hubs of the municipality. The economy is largely rural based, with the majority of people in the workforce being employed in agriculture, manufacturing, community services and retail/wholesale trades.

Central Coast Council has long been a supporter of, and active participant in, regional co-operation with other municipalities in the northwest of the state. Central Coast Council was a member of Cradle Coast Water, which until it was joined with Cradle Mountain Water, managed the bulk water supply on behalf of six councils in the region. Council was therefore already sold on the benefits of regional operations when it was announced that Cradle Mountain Water would be established.

B7.3   Outcomes

While it is still early days for the new authorities, it is possible to discuss some early outcomes.

Cost reductions and greater efficiency
Cost reductions were not a principal driver of the reforms. However, those interviewed for this case study – from Central Coast Council and beyond – foresee significant operational efficiencies over time through the sharing and eventual rationalisation of council assets (reticulation and treatment plants) across the region, and economies of scope and scale are expected over time as the new authorities adopt a more strategic approach to service delivery, management of assets and funding of infrastructure.

On the flip side, there will initially be some cross-subsidisation by councils that had invested water and sewerage profits into infrastructure renewal, and these councils are likely to be disadvantaged in the short term while other councils now covered by the regional authorities catch up. Also, as the authorities grapple with multiple works programs, not all councils will have their previously adopted priorities delivered, as the new authorities will need to re-determine priority projects across an expanded area.

The reforms have resulted in additional development costs in some cases. In Central Coast for example, developers were not previously levied a headworks charge because the Council had surplus infrastructure capacity. Developers and the Council itself are now levied a headworks charge, amounting to an additional $5,000 per lot.

Improved strategic capacity
One of principles underpinning the reforms was that the new authorities would be of sufficient scale to attract and retain high calibre staff and to provide for their ongoing training, skills enhancement and development needs. The council staff interviewed for this case study certainly felt that this would be one of the key benefits of the reforms. The majority of council staff skilled in water and sewerage service provision are now located within the central authority. They are fulfilling specialist roles and have the opportunity to enhance their skills and professional development opportunities. In the case of Central Coast Council, many of the specialist staff transferred to the new authority now hold more responsible positions and have better career prospects. In addition, the new authorities are now in a stronger position to attract new specialist staff in an area experiencing skills shortages across the nation.

However, staff at Central Coast Council reported that Cradle Mountain Water has not been able to fully capture and transfer the knowledge left behind in councils, and the new authority has lost some of the council staff transferred as the demands of establishing the new authority resulted in some staff opting to leave and move onto other jobs. It is acknowledged that the opportunity to fully transfer knowledge and expertise is not lost forever, but had there been more time to establish the new authority, it would have been achieved up front and before the new authority began operations.

Democratic representation
As noted above, there are only two owner representatives appointed to the board of management of each authority. In the case of Cradle Mountain Water, which covers nine local government areas, this means seven owners are not represented on the board. This has resulted in councils experiencing a loss of ownership and control.

Council staff interviewed for this case study reported that Cradle Mountain Water (along with the other authorities) had insufficient time to be fully operational by 1 July 2009. While not wishing to criticise the new authorities, council staff noted that transferring staff to the new authority, working through the policies and works programs of the councils, and establishing a common billing system meant there was insufficient time for the new authority to consult and engage the owner councils. More than 12 months later, this situation is now being addressed and communication has vastly improved, but initially councillors and staff felt left out of the process.

Enhanced service delivery

Again, it is far too early to determine if the new reforms have enhanced service delivery. However it is widely acknowledged that there were areas of under-investment across the state, that in some areas of the state community expectations weren't met and the regulatory regime was not effectively driving improvements uniformly across the state. The setting of common standards and a transparent price regime will more effectively protect the interests of the community.

Transitional Challenges

Below is a list of the challenges facing the new authorities in the short to medium term:

- There will be winners and losers among the owner councils as the new authorities establish common service standards and determine regional priorities

- There has been insufficient time for implementation, resulting in a loss of ownership and involvement of the owner councils in the start up phase

- The new authorities may not have fully captured the knowledge and expertise of councils, as some staff involved in water and sewerage have been left behind

- There have been transitional challenges with billing arrangements – councils issued bills at different times, and before the State Government announced that charges would not charges would not increase by more than 5per cent per annum. This resulted in some bills needing to be adjusted

- The community was used to a one stop shop for all municipal services and are now being referred to the new authorities for water and sewerage inquiries; resulting in some short term confusion and frustration

- There have been frustrations amongst the owner councils with the State Government revaluation of assets and deferral of dividend payments.

B7.4   Evaluation

There is no formal evaluation planned, however, those interviewed for this case study feel there should be a period of review after two or three years to determine if the reforms resulted in the benefits envisaged.

When asked if the reforms could have been achieved voluntarily, many of those interviewed acknowledged that without legislation to force the change it might not have happened so quickly, if at all. However there would have been far greater ownership of the process.

B7.5   Key lessons

- Major legislative changes, such as the water and sewerage reforms in Tasmania, need to have sufficient implementation time to ensure councils have greater ownership of the process and the full benefits of the legislative changes can be realised. Those interviewed for this case study who were involved in the Tasmanian council amalgamations of 1993 reported that the establishment of the new councils was a relatively seamless exercise in comparison to the formation of the new regional water authorities, largely because there was sufficient time given for transition and implementation in 1993

- The implementation challenges appear to be largely attributed to the rushed implementation. As the reforms were far from popular in the first place, the implementation challenges have made it even more difficult for critics to accept the changes

- While not stated outright, it appears that the rush in this case had to do with the timing of the Tasmanian State Government election in March 2010 – the Government wanted to ensure the new authorities were up and running by mid July 2009 to avoid the reforms becoming an election issue

- Most of the people interviewed agree there will be state-wide benefits to flow from the reforms and in the case of Central Coast, there appears to be acceptance that the short-term disadvantages to that council will be offset by the benefits to the state

- Reforms of this scale really do need to be robustly and independently evaluated after two to three years to ensure the changes have returned the benefits envisaged, and to identify implementation snags to ensure these can be avoided in the future.

B.8   Local Government Association of South Australia

B8.1   Context

The Local Government of South Australia (LGASA) is the peak representative body for local government in South Australia. The objects of the Association are to:

- Provide leadership to councils
- Promote and protect the interests of local government and member councils
- Encourage and assist local government to respond to the needs of the community
- Develop and maintain consultation and cooperation between the three spheres of government
- Develop and maintain the financial and economic well-being of local government
- Undertake schemes of indemnity or self-insurance
- Act as an advocate for members and local government generally.

The mission of the LGASA is to provide leadership to councils for the benefit of the South Australian community. To achieve this mission, the Association has identified four primary areas of activity:

- Strengthening relationships with all spheres of government
- Enhancing the financial capacity of local government
- Facilitating the continued development and enhancement of local government
- Promoting participation in, and understanding of, local government.

All 68 councils in South Australia established under the Local Government Act 1999 (SA) and Anangu Pitjantjatjara Yankunytjatjara are members of the Association.

Shared services – related entities and business units
The LGASA owns or has supported the establishment of a number of entities or business units formed to provide assistance and/or financial benefits to its member councils. These include:

- Local Super
- Local Government Finance Authority
- LGA Mutual Liability Scheme
- LGA Workers Compensation Scheme
- Local Government Asset Mutual Fund
- Local Government Corporate Services
- Local Government Association:

  - Local Government Research and Development Scheme
  - Electronic Services Program (online services)
  - Education and Training services
  - Financial and Asset Management services
  - Model Documents and Procedures Programs
  - Community Wastewater Management Systems

- Public Library Services (SA government structure).

B8.2   Development of the initiatives

Rationale
The fundamental rationale for the establishment of the entities is to respond to the LGASA's mission to "enhance the financial capacity of local government" and "to facilitate the continued development and enhancement of local government".

Many of the entities have been operating successfully since the 1980s. Their formation was the result of a confluence of a number of important factors, principally a well organised local government sector with creative and innovative ideas, strong support for the LGASA and in some instances, an enlightened state government receptive to new approaches.

Profile of the entities
Each of the entities and business units has a separate role and function. Following is a profile of each.

Local Super

Background	- Established in 1984 to bring together all the separate superannuation arrangements that had developed over the years in the local government sector in SA - Employees from the Northern Territory are also covered - Membership is currently over 25,000

Structure	▪ A Pty Ltd company ▪ Two shares owned by LGASA, one share each owned by the Australian Services Union and the Australian Workers Union ▪ Independent chair ▪ Two independent directors, two employer directors (nominated by the LGASA), two employee directors (nominated by the Australian Services Union and the Australian Workers Union)
Funding mechanism	▪ Member and employer contributions
Value of service	▪ In the 2009/10 financial year: net assets $1,28m, revenue $241m, expenditure 72m
Value add	▪ Ensures equity in superannuation for employees; ▪ Provides for portability between councils; ▪ Greater professional capacity ▪ Gives SA Government added confidence in the sector.

Local Government Finance Authority (LGFA)

Background	▪ Established in 1984 to develop and implement borrowing and investment programs for the benefit of SA councils and prescribed local government bodies ▪ Formed following the development of a business case by the LGASA ▪ Acts as a broker for councils
Structure	▪ Statutory authority established by the Local Government Finance Authority Act (SA, 1983) ▪ Governed by a board comprising the CEO and two other nominees of the LGASA, two members elected directly by councils and one member each nominated by the Treasurer and the Minister for State/Local Government Relations
Funding mechanism	▪ Makes a margin on transactions
Value of service	▪ In the 2009/10 financial year: total assets $596m, total liabilities $543m, total equity $53m

Savings	▪ Estimated savings around $200m since establishment
	▪ 2009/10 payments made:
	  - Bonus payments to councils - $1.74m, ($24.8 since inception)
	  - Tax equivalent expenses - $1.43m (becomes income to LG Research and Development Scheme, $18.6m paid since tax equivalents introduced)
	  - Grant to LGASA for shared services projects - $1.5m

Value add	▪ Effective and managed use of LG investments to lend back to the sector; ▪ High level of debate about market options; ▪ No council lost funds as a result of exposure to CDOs during the global financial crisis ▪ Gives State government added confidence in the sector.

Local Government Association Mutual Liability Scheme (LGAMLS)

Background	▪ Established in 1990 to provide unlimited civil liability protection to members (membership restricted to local government entities) ▪ Established in response to global commercial liability stress in the late 1980s
Structure	▪ Established under the section of the Local Government Act 1999 that empowers the LGASA to operate schemes for councils ▪ Self-managed and governed by a set of rules ▪ Membership is voluntary – but all SA councils have remained members since establishment ▪ Owned by the LGASA: State Executive Committee appoints and delegates oversight of the scheme to a board ▪ Management is contracted to private insurance brokers ▪ Fund is subject to an annual actuarial and audit review
Funding mechanism	▪ Members pay an annual contribution to remain a member ▪ Contribution formula based on a 7-year claims history and an annual risk assessment score ▪ Members who demonstrate a commitment to risk management rewarded with an annual bonus
Value of service	▪ As at 30 June 2010, the find had an accumulated surplus of $24m following 21 years of operation
Savings	▪ LGAMLS has paid over $18m in bonuses and special distributions to councils in the past 12 years
Value add	▪ Has established a risk management culture, resulting in a reduction in claims and associated costs in what was a previously risk oriented industry ▪ Gives State government added confidence in the sector ▪ Has enabled simple solutions in complex areas in which State and LG may share liability.

Workers Compensation Scheme (LGAWCS)

Background	▪ Established in 1986 as a SA WorkCover licensed self insurer ▪ Provides full workers compensation claims management, rehabilitation, injury management service and advisory and support service
Structure	▪ Overseen by a board appointed by the LGASA State Executive ▪ Comprises six local government nominees, two state government nominees, two nominees from the appointed manager of the scheme's operations ▪ Reviewed annually by an external independent financial auditor and an external independent actuary ▪ Licensed by WorkCover authority with regular performance monitoring and reporting
Funding mechanism	▪ Council contributions based on percentage of employee remuneration plus investment return on retained surplus, accumulated in accordance with WorkCover self insurer requirements
Savings	▪ Independent scheme actuary has determined savings compared to WorkCover insurance at $18.1m in 2009/10 and $178m since inception in 1986
Value add	▪ Scheme funds injury prevention consultants plus joint funding of occupational health and safety/risk management co-ordinators to assist councils to manage risks and improve performance ▪ Scheme conducts an award winning annual healthy lifestyle program covering on-site health assessments and skin cancer screenings to all SA councils ▪ Gives State government added confidence in the sector

Asset Mutual Fund

Background	Established in 1989 as a discretionary trust for property and financial risks of local government in SA
Structure	Established under a trust deed with an operator operating on behalf of local government and its subsidiaries
Funding mechanism	Member contributions
Value add	Improved risk and claims management services, offering local government longer term stability for insurance costs

Local Government Corporate Services (LGCS)

Background	- Established in December 2000 with the predominant focus on e-procurement - Changed direction in 2004 with the focus to provide a broader range of procurement services - Grew out of the former Council Purchasing Authority and became Council Purchasing Co-operative in 1997
Structure	- A Pty Ltd company, with LGASA now the sole owner - Board appointed by LGASA, incorporating council representatives
Funding mechanism	An administration fee charged on contract turnover value or on a fee for service basis
Value of service	- Electricity and telecommunications contracts valued at $22m - Balance of contracts valued at approximately $5m
Savings	- Administrative savings for councils and suppliers - Contracts being developed with similar bodes in other states to leverage the national buying power of local government
Value add	- Management of roads and works conference, procurement network forum and after hours user group meetings - Tender preparation on behalf of councils

Research and Development Scheme

Background	Established in 1997 as a result of an agreement between the SA government, the LGA and the LGFA on the application of National Competition Policy in the local government sector
Structure	- Established under the Local Government Finance Authority Act, 1983 - State Executive of the LGA is responsible for identifying the purposes for the use of the scheme funds in consultation with councils, then seeks agreement from the Minister for State/Local Government Relations for those purposes - LGA is responsible for the administration of allocations drawn down from the scheme and for the management of projects and activities - State Executive of the LGA has established an Advisory Committee to provide advice, consult with councils, and recommend proposals for funding

Funding mechanism	▪ The LGFA pays a Tax Equivalent Regime (TER) on the business activities of the LGFA to offset any competitive advantage it has as a tax exempt body ▪ The TER is the equivalent of company tax (and prior to 2000, wholesale sales tax) that would have been payable if it was a private corporation ▪ Through negotiation with the SA government, a special fund was created to receive the TER funds paid by the LGFA
Value of service	▪ Approximately $1m per year ▪ This has ranged between $700k and $1.3m
Value add	▪ The LGR&DS has funded a number of major initiatives including the 2005 Independent Inquiry into the Financial Sustainability of Local Government and a host of smaller projects ▪ The scheme purposes allow for projects in relation to services, training, handbooks, guides or codes related to council legislative responsibilities, performance measurement and benchmarking, electronic information services, functional reform, promoting understanding of Local Government, research and development, consultation on legislative reforms and support for regional organisations.

Electronic Services Program

Background	▪ Established in 2001 to provide hosted public websites for 64 councils in SA, the service has since been expanded and provides other shared online services for councils ▪ Initially funded through the Federal Government's Networking the Nation Program
Structure	▪ Administered by a unity within LGASA with oversight by management and the State Executive Committee.
Funding mechanism	▪ Following initial Federal Government funding, the program is now self-sustaining based on a fee for service from councils
Value of service	▪ Approximately $400k per annum
Savings	▪ Estimated $872,900 per annum for the content management system
Value add	▪ Capacity to provide consistent advice to councils on ways of addressing common issues ▪ Some development of central search/viewing functions by drawing up information from each council system.

Education and Training Services

Background	▪ Established in 2000 to provide a range of courses, seminars and training and education programs for council members and staff
Structure	▪ Administered by a unity within LGASA with oversight by management and the State Executive Committee. ▪ Stakeholders consulted annually for suggestions for the training courses provided
Funding mechanism	▪ Self funding to break even between receipts and expenses ▪ Course fees cover presenter costs, venue, catering, accommodation and administration
Value of service	▪ Annual receipts approximately $600k ▪ Annual expenses approximately $600k
Value add	▪ Courses now provided in regional centres or in-house subject to sufficient numbers to cover costs ▪ New courses added in response to council requests and new priorities

Financial and Asset Management Services

Background	▪ Established in 2006 following a 2005 Inquiry into the Financial Sustainability of Local Government in SA ▪ Provides information papers, tools, templates, training and on-site assistance to councils to support their asset and financial management initiatives
Structure	▪ Administered by a unity within LGASA with oversight by management and the State Executive Committee.
Funding mechanism	▪ Initially funded by the Research and Development Scheme ▪ Now funded under the Local Government Reform Fund
Value of service	▪ $1.3m from the Research and Development Scheme funding ▪ $1.65m from the Local Government and Reform Fund
Savings	▪ Initial investment has harnessed federal government funding
Value add	▪ LGASA co-ordination on behalf of councils, establishing alliances with a range of professional bodes and specialist consultants

Model Documents and Procedures Programs

Background	▪ Established in 2000 to provide model documents where councils are required by law, or for good practice, to adopt policies or operating practices
Structure	▪ Administered by a unity within LGASA with oversight by management and the State Executive Committee.
Funding mechanism	▪ Funding provided under the Research and Development Scheme ▪ Some documents have been developed with funding from the LGASA Mutual Liability Scheme
Value of service	▪ Resources applied to developing the documents over the past 10 years estimated to exceed $1m
Savings	▪ Savings in the documents being prepared once only rather than individually in all 68 SA councils ▪ Documents are all of a consistently high quality
Value add	▪ Documents are often accompanied by training courses and development sessions with professional associations

Community Wastewater Management Systems (CWMS)

Background	▪ Established in 1994 to provide funding for councils to subsidise the construction of new CWMS in regional councils
Structure	▪ Formal agreement between the Minister for State/Local Government Relations and the President of the LGASA ▪ Administered by the LGASA through a Management Committee, which reports to the State Executive Committee
Funding mechanism	▪ Long term funding agreement with the SA government (approximately $3.5m per annum) ▪ Commonwealth Government funding of $20m for Statewide Wastewater Recycling Project and $7m Cities and Towns Project
Savings	▪ SA government funding enables CWMS to be constructed at an equivalent cost to SA Water urban sewerage areas ▪ Commonwealth Government funding has resulted in councils saving between 25% and 50% of the capital costs of projects

Value add	▪ Since 2004, the LGASA has initiated a reform program for councils to undertake reviews of the financial sustainability of their CWMS and develop long term asset management and sustainable pricing mechanisms ▪ Program sponsors the investigation of shared services management across council areas ▪ LGASA contracts a specialist engineering consultancy to provide expert advice to councils

Public Library Services

Background	▪ Established in 1979 to facilitate the bulk purchase of library materials, support for network initiatives, provision of internet connectivity, catalogue records, and co-ordination of shared collections
Structure	▪ SA government agency ▪ Libraries Board comprises seven members: three are nominated by the LGASA
Funding mechanism	▪ State agency, with its budget included in the library funding agreement between the SA government and the LGASA
Value of service	▪ $11.876m comprised: $7.122m materials purchase, $1m internet access, $3.754 staff, operational and other projects
Savings	▪ Discounts for purchase of library materials estimated at 5% ▪ Internet service provision under state-wide contract savings estimated at $400k per annum
Value add	▪ Networking and best practice information support; ▪ Consistency in service delivery; ▪ Close liaison with LGASA in relation to projects of joint interest.

B8.3   Outcomes

The Local Government Finance Authority and the Local Government Research and Development Scheme appear to be particularly highly valued by member councils. Those interviewed for this case study were quick to point out their achievements and successes, and noted that part of the success of the finance authority is due to the realisation that council dividends and other benefits diminish when the group is fragmented. It is therefore clear that local government in South Australia understands the benefits of collective action and solidarity.

Cost reductions and greater efficiency
The information contained in the tables in section 2.2 above clearly demonstrates the cost savings and value add of the various arrangements established by the LGASA. In summary:

- *Local Government Financial Services* - $200m savings since inception, $24.8 in bonus payments made to councils, $18.6 in tax equivalent expenses
- *Mutual Liability Scheme* - $18m bonuses and special distributions
- *Workers Compensation Scheme* - $178m savings since inception
- *Local Government Corporate Services* – value of combined contracts established is $27m
- *Research and Development Scheme* – investment in capacity building programs around $1m per year since inception
- *Electronic Services* - $872,900 savings per annum
- *Public Library Service* - $400,000 saved each year on internet, 5% discounts on materials.

Efficiencies are also clearly demonstrated through the Model Documents and Procedures Program, where the LGASA develops model policies, templates or operating procedures on behalf of South Australia's 68 councils. Not only does the development of the documents by the LGASA avoid duplication, but it also ensures that the documents are of a consistently high quality across the state.

The LGASA has also been able to assist state government entities. For example, the LGASA assisted the SA Tourism Commission in the wake of the public liability crisis in the early 2000s, by helping community-based heritage organisations to develop a single association, risk management strategies and the bulk purchase of insurance at substantially reduced rates.

Improved strategic capacity and council performance
While cost reductions and efficiency are important, so too is improving local government's strategic capacity, and this is arguably the most unique aspect of the shared services arrangements established by the LGASA. The Research and Development Scheme is a very powerful demonstration of the capacity building benefits of shared services, as the tax equivalent expenses paid by one shared service (Local Government Finance Authority) are paid into the scheme and invested into research, development and capacity building programs for local government in SA.

Not only has the scheme funded local government authorities directly, but it has also enabled the LGASA itself to play a key leadership role in improving local government performance by introducing important programs, such as the Financial and Asset Management Services program, which has successfully leveraged additional federal funding.

Other LGASA programs have also improved local government's strategic capacity through the development and delivery of professional development and training programs for councillors and council staff; programs to improve governance practices; and developing and fostering a risk management culture.

Democratic representation
As shown in the tables in section 2.2, most of the entities and companies established by the LGA include local government representation.

In other jurisdictions, many of the services provided by these entities would be delivered by private companies or trusts, with limited or no local government representation and control.

B8.4   Evaluation and alternatives

The LGASA consults regularly with its constituent councils to ensure the shared services provided are meeting the needs of local government. For example, based on council feedback, the association is reviewing the focus of Local Government Corporate Services and its governance structure. Stakeholders also provide input to the training and development program.

Alternative approaches
A number of people interviewed for this case study questioned the benefits of the state-wide procurement services offered through Local Government Corporate Services (LGCS). Many favoured other joint procurement initiatives. For example, six of the largest councils in metropolitan Adelaide have initiated a common procurement arrangement through the 'G6' group of councils. Many of these larger councils are better resourced with contract managers and procurement expertise than is currently available to LGCS, and they prefer to retain control over specifications and contract terms. It should be noted however that these councils still participate in some initiatives of LGCS where benefits justify participation (such as electricity tendering and after-hours call services contracting).

On the other hand, many reported that the smaller, rural councils gain benefit from the LGCS contracts, which raises the question of whether there are opportunities for the LGASA to work with

the G6 Group to ensure smaller councils have the opportunity to share in the enhanced benefits achieved by those large councils.

Some of those interviewed suggested there were further opportunities for shared services that could be pursued, but a proper analysis of each service needed to be undertaken to ensure that sharing the service was the appropriate model. One senior staff member suggested that sharing a service gives a sense of "emotional comfort", but councils need to be confident they are getting the best service available, and all options should be considered, including outsourcing. Some high-risk services in particular may be better handled by outside bodies with specialist expertise: as noted earlier, some of the LGASA's services already operate that way.

Potential impediments to shared services

A number of people interviewed for this case study suggested that establishing shared arrangements in areas that require councils to standardise laws or policies can be difficult if the form of standardisation is seen to conflict with local preferences and priorities. It may be that shared services are easier to establish in new fields of activity before local differences of approach become entrenched.

The LGASA has identified the cost of governance/management overheads as another key issue – citing its own experience with a separate training authority in the 1990s. Over a number of years it became apparent that the authority could not sustain the overheads involved and it was eventually re-constituted as a business unit within the association. The Workers Compensation and Mutual Liability Schemes represent a semi-autonomous option: their boards are established as LGASA standing committees with delegated powers and contracted management. At a regional level or where just a few councils are involved, smaller shared services arrangements (such as equipment use) require only basic management/governance mechanisms, but more complex arrangements can present a tension when stand-alone governance/management is not economic, but general-purpose regional organisations may not be robust enough to support them. The LGASA sees a role for itself in supporting these more complex shared services.

Replicability

While some of the entities established by the LGASA are replicable elsewhere, it is widely acknowledged that the establishment of the Local Government Finance Authority would not be possible today following the demise for the State Bank. This development created a more cautious and risk averse environment in the state government and, indeed, in other jurisdictions.

B8.5   Key findings and lessons

- The establishment of the Local Government Finance Authority, Local Super, Mutual Liability Scheme, Workers Compensation Scheme, and Local Government Asset Mutual Fund have returned many benefits to South Australian councils – both in financial terms and in building the capacity and development of local government. In particular, the Local Government Finance Authority has led to the establishment of the Research and Development Scheme, which provides a valuable source of research and development grants for local government in South Australia.

- The Local Government Research and Development Scheme is highly valued.

- The Local Government Finance Authority was the result of a confluence of a number of important factors, principally a well organised local government sector with creative and innovative ideas and an enlightened state government.

- The establishment of the Local Government Finance Authority would not be possible today following the demise of the State Bank, which created a more cautious and risk averse environment in the state government and, indeed, in other jurisdictions.

- Part of the success of the Local Government Finance Authority is due to the realisation that council dividends and other benefits diminish when the group is fragmented, so the councils appear to understand the benefits of collective bargaining.

- Councils need to be confident that sharing a service offers better value than outsourcing the service, and there are some services (such as payroll and IT) that may be better suited to outsourcing to specialist, external providers.

- Establishing appropriate management and governance mechanisms can be difficult, as sometimes shared services schemes may struggle to cover overhead costs or lack necessary specialist expertise. The LGASA may assume an expanded role in management support.

- Some of the larger councils question the extent of state-wide procurement arrangements via Local Government Corporate Services, as they are often better resourced with contract managers and procurement expertise than the state-wide auspicing body. Some also argue that they can achieve better results on their own or with neighbouring councils, where they have greater control over, and confidence in, the specification, tendering process and contract management arrangements. These views are being considered in a review of LGCS being undertaken by the LGASA.

- Establishing shared services in areas where common standards and policies are required can be difficult and opportunities may be missed if local differences have become entrenched.

B.9   Break O'Day and Glamorgan-Spring Bay (Tasmania)

Break O'Day and Glamorgan-Spring Bay councils are adjoining councils on the east coast of Tasmania. Estimated residential populations in 2008 were: Break O'Day 6311, Glamorgan Spring Bay 4464. The population growth is at 1.5per cent pa.

In 2009 the councils requested a Local Government Board review of the proposed merger of their two councils. In common with other small rural councils the Councils were facing a number of financial and service delivery pressures. At the time the State Government was also offering support for those Tasmanian councils proposing voluntary mergers.

The Local Government Board (the Board) is an independent body established under the *Local Government Act 1993* (the Act)[20]. Prior to 1993, attempts to restructure local government boundaries in Tasmania were unsuccessful, however in 1993 following the report of the Local Government Advisory Board, major boundary reform resulted in the number of councils in Tasmania being reduced from 46 to 29 councils. The current policy of the present State Government is that it will not impose amalgamations on councils.

B9.1   Development of the initiative

In July 2009 the Board undertook the review requested by the Minister for Local Government into the potential merger between the Break O'Day and Glamorgan-Spring Bay Councils[21].

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[20] http://www.dpac.tas.gov.au/divisions/lgd/local_government_board
[21] The report can be found at www.dpac.tas.gov.au/lgboard or by contacting the Local Government Board on 1300 404 607 or by email at lgboard@dpac.tas.gov.au

- The Board examined 'the social, economic and environmental benefits and impacts of the potential merger, community representation, costs associated with the potential merger, transitional arrangements and other measures to enhance council sustainability and the delivery of council services'

- Public submissions were invited and five public hearings held on the east coast. The Board also held discussions with the two councils and with key stakeholders

- Independent consultants from KPMG (Tasmania) were engaged to undertake an independent analysis of the financial position of the two councils and the potential financial benefits and impacts of a merger

- The Board advised that a merger should only be considered where it will lead to:

    - long-term financial sustainability
    - benefits for the community such as improved governance, community capacity-building, improved service delivery or improved management practices including asset management and long-term financial planning and human resource management.

B9.2   Outcomes

Based on the recommendation of the Board the merger between the two councils did not proceed. In October 2009 the Board recommended against the merger because they were not convinced that the single merged east coast council would be substantially more sustainable than the two existing stand-alone councils, nor if a merger were to proceed, that the position of the merged council would be strong enough to ensure against the prospect of further mergers in the east coast region.

The Board conclusions in relation to cost reduction, improved strategic capacity, democratic representation and enhanced service delivery aspects, are summarised below.

Cost reduction and greater efficiency

- The theoretical cost efficiencies would be reduced by the need for a merged council to improve service levels
- Potential savings identified by KPMG would not be sufficient to address the issues currently facing the stand-alone councils
- The size of the combined area could create additional staff and travel costs.

Improved strategic capacity

- The approach to the merger was not strategic in intent
- It was difficult for Board to assess if strategic capacity would be strengthened

Democratic representation

- Community concerns were expressed about a lack of public engagement in the merger process
- Concerns were also expressed, arising from experiences in previous mergers, that more isolated areas might be adversely affected by a merger

- The merger proposal did not address these and other concerns about democratic representation.

Enhanced service delivery

- Submissions received by the Board indicated general support for mergers where they could deliver, amongst other benefits, service improvements, economies of scale, a cost-saving to ratepayers and improved governance
- Submissions also argued that evidence of these benefits should be established before the specific merger proposal was supported
- The Board identified no significant community benefits in the form of potential economic, social and environmental benefits.

B9.3   Evaluation

An evaluation of the merger between Break O'Day Council and the Glamorgan-Spring Bay Council was not required as the amalgamation did not proceed. However the detailed review of the merger proposal undertaken by the Board indicates a commitment by the Tasmanian government to ensure a clear rationale for any future amalgamation proposals.

The review of this merger proposal resulted in a wider set of recommendations for Tasmanian local government:

> The future of the Break O'Day Council and the Glamorgan-Spring Bay Council be considered as part of a future strategic examination of the structure of Tasmanian local government; and following the work currently being done by the Local Government Board on guiding principles, consideration of changes to the structure of Tasmania's municipal areas should be undertaken in a holistic and inclusive manner and involve the State and local government in consultation with their communities.

Guidelines, consisting of 16 key procedural steps, and five guiding principles, were prepared to assist councils considering voluntary mergers, and are available on the Department of Premiers and Cabinet website[22]. No new merger proposals have been put forward since the Break O'Day Council and the Glamorgan-Spring Bay Council proposal was reviewed.

The Tasmanian government are now focusing their local government reform effort through the Premier's Local Government Council (PLGC). Activities of the PLGC *Stronger Councils, Better Services* initiative include a Shared Services Grants Program and training in good governance. In their October 2010 communiqué[23] the PLGC advised that they are working towards a statewide symposium that will canvas the key issues of reform to progress over the next three to five years.

B9.4   Key lessons

- While the small rural councils of Break O'Day Council and the Glamorgan-Spring Bay Council were willing to explore a voluntary merger, it was found that an amalgamation would be difficult to justify on a number of grounds

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[22] http://www.dpac.tas.gov.au/divisions/lgd/local_government_board/voluntary_merger_review
[23] http://www.dpac.tas.gov.au/divisions/lgd/plgc

- Tasmanian councils interested in a merger need to present a strong case for the long-term financial sustainability *and* the community benefits that would result

- The Local Government Board made it clear that the merits of alternative options, particularly where there is at least another willing party, need to be put forward

- An *ad hoc* process is being strongly discouraged as it may create a situation where struggling councils could be excluded from voluntary merger negotiations.

- Evidence is also required that consultation about the proposal has been undertaken with the State government and the local community.

B.10   City of Onkaparinga (SA)

The City of Onkaparinga was formed during the round of South Australian council amalgamations that occurred in the 1990s. Onkaparinga, which is located on the southern edge of the Adelaide metropolitan area, was created by the amalgamation of Happy Valley and Noarlunga councils along with the major part of Willunga council. This amalgamation formed the largest council in South Australia by population with over 145,000 residents; the current population is around 160,000.

Onkaparinga has an area of approximately 518 square kilometres. The area combines much of Adelaide's southern suburban expansion along the coast with a large rural hinterland, the latter containing a number of small communities. The region is similar in some respects to the coastal area and urban-rural interface north of Brisbane; Onkaparinga therefore provides an interesting comparison with the Sunshine Coast amalgamation, which is also discussed in another case study.

Due to a number of factors including the passage of time since the amalgamation, the Onkaparinga case study is informed by a smaller number of interviews than most of the other case studies. It also draws extensively on a detailed review of the process of forming Onkaparinga and its initial year of operation, completed for the Local Government Boundary Reform Board (LGBRB) in 1998. However, the fact that the amalgamation occurred over a decade ago provides a useful opportunity to review the Reform Board findings and assess the long-term progress of an amalgamated council.

B10.1   Development of the initiative

Even prior to the 1990s reforms, a number of amalgamation options involving various combinations of these and adjoining councils had been proposed. For example in the late 1980s an amalgamation involving Happy Valley and Mitcham Councils proceeded almost to fruition before it was overturned by a community campaign in opposition. The report of the Ministerial Advisory Group on Local Government Reform also contained various options for the amalgamation of the three councils.

These earlier proposals provided a context for the eventual Onkaparinga merger. When the 1990s amalgamation initiative was announced by the state government, initial discussions were held separately between Noarlunga and Willinga and Noarlunga and Happy Valley (Happy Valley and Willunga had only a relatively small contiguous border). These led to the formation of a working party of representatives to explore amalgamation options involving all three councils.

This group worked with an independent facilitator to develop a proposal that identified a number of positive outcomes such as potential costs savings, enhanced service delivery and increased strategic capacity. There seemed to be a strong strategic "fit" between the councils, particularly Noarlunga and Happy Valley, though it has to be noted that for a range of reasons (such as the anti-

amalgamation campaign in Mitcham), there were relatively limited alternatives available in terms of other councils with whom a merger was possible.

The approach adopted by the working group was consistent with the South Australian process, which encouraged and facilitated the development of amalgamation proposals but provided relatively little guidance regarding specific objectives. The South Australian process also did not identify preferred council groupings, or set a desirable range of sizes for amalgamated councils. This approach provides a marked contrast with the Victorian or Queensland processes which were much more proscriptive.

B10.2 Implementation

As in Queensland (and unlike the Victorian amalgamations) existing councils stayed in place until the new council was elected. In the case of Onkaparinga, the number of elected representatives was reduced from 28 to 21, with nine wards plus a popularly elected councillor (see Table 1). This is a much larger number of councillors than those in most of the amalgamated Queensland councils. Around three-quarters of the members of the first council elected after amalgamation were from the previous councils, which gave a degree of continuity.

Table 1: Comparison of previous councils and the City of Onkaparinga

	Former City of Happy Valley	Former City of Noarlunga	Former District Council of Willunga	City of Onkapringa
Estimated population	38 565	94 127	14 766	145 429
Number of wards	5	8	4	9 (now 5)
Number of elected representatives	13	15	10	21
Average population per ward	7 713	11 766	3 692	16 159
Average population per elected rep.	2 967	6 275	1 477	6 925

From the LGBRB report, September 1998

The Onkaparinga amalgamation was unusual for several reasons:

- As stated earlier, it created the largest South Australian council by population (though Onkaparinga is well below the size of the largest Queensland or NSW councils).

- The amalgamation involved the division of an existing council area, with a small part being involved in another amalgamation. This was rare in the South Australian amalgamations where there was a strong preference to amalgamate whole councils wherever possible.

- The participating councils made an explicit decision to regard the amalgamation as an opportunity to create a completely new organisation. Even though Noarlunga was considerably larger than the other two councils and its offices became the main administrative base of the new council, a key objective was that the amalgamation was to

result in a completely new council and not just a takeover.

- The latter point is particularly significant. The 'new council' objective was addressed through a number of strategies, including:

  - A process of assessing and selecting the best of the existing systems from across the three councils and not just adopting those from the largest council.

  - Early appointment of a new CEO. Although the CEOs of the merging councils were free to apply, the fact that a CEO who was not from one of these councils was appointed helped to reinforce the perception that a new council was being created.

  - The decision to adopt a new name that was symbolic of the whole region to be represented by the new council and which did not involve any of the names of the previous councils.

The amalgamating councils adopted a transparent approach to their meetings and discussions regarding the merger process. In addition, ward-based community forums were established to facilitate communication regarding the amalgamation process and to assist in establishing the strategic framework and directions for the new council (these forums are discussed in more detail later).

The process also engaged with the staff of the amalgamating councils through the provision of information about the amalgamation process and the development of training packages, for example for employees to gain certifications to operate machinery used by the other councils. Familiarisation tours were provided for staff and stakeholder groups were also established across the merging councils involving staff who were employed in similar sections to discuss issues such as standards, approaches to service delivery and resourcing. This approach helped to develop common systems for the new council, and also established the staffing structure.

These processes ran over the first six months of operation of the new council; during this period the new structure was also finalised. Then a process commenced of calling for applications to fill positions in the new structure, commencing with the General Managers' positions and then working successively through each level of the organisation. This caused a degree of anxiety as obviously in most cases there were more applicants than positions available. Staff members who were unsuccessful were provided with alternative duties, counselling and training so that they could apply for other positions. This process applied to council officers down to the level of field supervisor; field staff before this level did not have to reapply for their positions.

The South Australian amalgamation process prevented forced redundancies, though voluntary redundancies were offered. In the case of Onkaparinga, sixty packages were taken up by staff of the previous councils at a one-off cost of $3 million. However, this resulted in a reduction of 35 equivalent full-time positions amounting to an ongoing saving of $1.8 million annually. Although the redundancy provisions were similar to those offered later in Queensland, there appears to have been greater flexibility in South Australia regarding the ability of amalgamated councils to relocate staff. In addition, while salaries were equalised to the highest level offered in the previous councils, other conditions were not necessarily treated this way.

While there were some issues such as attracting appropriate staff because of the greater travel distances involved, the LGBRB report found that the new council had appropriate staffing arrangements in place at the end of the first 12 months of operation. In order to deal with the

increased travel time and also to demonstrate the new council's commitment to equitable service provision, service delivery was initially split between north and south sections that mimicked to some extent the previous council boundaries, at least between Noarlunga and Happy Valley. This also helped to retain local knowledge in the relevant areas, but was abolished in a restructure of council services in 2001 to achieve a more integrated approach to service delivery.

B10.3 Outcomes

The conclusion reached in the case study conducted by the Reform Board in 1998 that the Onkaparinga amalgamation was a success has been confirmed by the council's strong record since. The Board's assessment has also been strongly supported in the interviews undertaken for this case study.

Cost reductions and greater efficiency
At the time the LGBRB case study was undertaken, it was not possible to fully quantify the cost savings, due in part to the adoption of expanded programs in a number of areas in the first full year of operation. However, by analysing the aggregate operating payments for the years immediately before, during and after amalgamation, the LGBRB claimed that a reduction in costs of 4 to 5 per cent had been achieved in real terms.

The Board concluded that the new council would save over $7 million in the first three years and $4.5 million in the third year, an outcome that provides a marked contrast with the financial results in the Queensland case studies. The Board report did not quantify any of the underlying costs of the Onkaparinga amalgamation (apart from those mentioned earlier relating to redundancies), although it noted that the new council had implemented a new computer system and that staff had been required to develop and master new systems. However, the costs of amalgamation at Onkaparinga were largely discounted by the interviewees, or alternatively (especially in relation to consultation costs) were seen as part of the expense of adopting a more professional approach to operations and service delivery.

In addition these costs were also offset by one-off savings, such as those made through the sale of surplus equipment and properties. For example, while the new council obviously covered a much larger area, it was still sufficiently small enough for much of its administration to be conducted from the administrative base of the previous Noarlunga Council. This meant that some of the offices of the previous councils could be sold.

The Board also identified a large proportionate increase in debt levels in the year that the amalgamation took place of around 60 per cent. This one-off increase was within the 'acceptable range' for such debts and also within the capacity of the new council. Without amalgamation the two smaller councils would have incurred increasing debts in their own right; to some extent their situation was cancelled out by the stable structure of Noarlunga's debt, which while it was the largest was also the most conservatively managed.

The Board's early findings appear to have been borne out in the longer term, as the council has been able through its expanded expertise and strategic capacity to achieve greater economies of scale after the initial 'bedding down' period. While all parts of the council area have benefitted from this, it is probably the communities of the smaller former councils that have gained the most in relative terms.

In another example of scale economies, some of the interviewees noted that the amalgamated council was able to purchase larger and more complex pieces of machinery than any of the previous

councils would have been able to afford and/or utilise. It was also noted that the organisation's latter structure compared to that of the previous councils, which has been emphasised in subsequent organisation reviews, also made a significant contribution to economies of scale.

Improved strategic capacity

A major improvement in strategic capacity was noted in the LGBRB report and confirmed in the interviews as one of the key outcomes of the Onkaparinga amalgamation. A basis for this was the new council's need to develop a common strategic planning framework as the approaches used by three previous councils were not compatible with each other. This also provided an opportunity to integrate the new council's financial and strategic plans.

An early outcome facilitated by the new council's increased strategic capacity was the commencement of its engagement in economic development issues. This resulted in a number of initiatives such as a business enterprise centre and export extension service. While council could not have foreseen the specific circumstances of the subsequent final closures of the Mitsubishi car plant and Mobil oil refinery (which between them employed a significant proportion of the Onkaparinga workforce), it had recognised that it would need to be proactive in managing a changing and, until recently, declining local economy.

As part of these processes, the new council has taken a stronger role in engaging with the state government over significant issues. It has partnered with government agencies and other organisations on significant projects, for example working with other metropolitan councils in the *Adelaide Futures* project which aims to develop a 'future thinking' approach in response to the state government's plans for urban growth (see the South Australian context section). This reflects not only Council's increased strategic capability but also its greater self-confidence and maturity in dealing with other levels of government.

The new council's increased size in both a geographic and population sense also gives it a greater ability to deal with growth issues in a more holistic way. In effect, Onkaparinga operates as a regional council for the whole area of Adelaide's southern suburbs, eliminated the previous jurisdictional boundaries to growth management. A practical example of this is the fact that the management of the McLaren Vale wine region now falls wholly within the control of Onkaparinga.

The increase in strategic capacity has also improved the ability of the amalgamated council to apply for substantial state and federal government grants and to undertake major projects at a larger scale than was possible in any of the previous councils. One recent example is the Waterproofing the South initiative, which is partially funded by the federal government. In this $110 million project, council has joined forces with SA Water and the Willunga Basin Water Company to deliver a complex water recycling and reuse strategy. There was general agreement that a project of this scale simply would not have been achievable under any of the previous councils.

Another dimension of Onkaparinga's increased strategic capacity as well as its increased size has been its ability to attract high-quality staff and to provide enhanced career paths within council for its existing employees. While there has been a comparatively high turnover in some levels of council's middle management even after the initial amalgamation phase, this is not necessarily perceived as a negative. It was noted that many of these departing staff had usually gone on to more senior positions in other councils that was seen as an endorsement of the quality of training and experience provided at Onkaparinga.

Democratic representation

The amalgamation did not involve a significant overall reduction in councillor numbers, with the new council having 20 councillors initially in nine wards and a popularly elected Mayor. In practice this meant that there was little change in the level of representation in the former Noarlunga area, however, the former council areas of Happy Valley and Willunga saw significant increases in the proportion of the population represented by each councillor.

As noted earlier, a total of 21 elected representatives is relatively high in South Australia for a council even of Onkaparinga's size. The rationale for this and the associated ward structure appears to have been to ensure that the levels of representation from the former Happy Valley and Willunga parts of the council area were not overly diminished. However, while the amalgamated council was successful in achieving its objective to develop a 'new' council and in adopting a much more strategic perspective, there is always a risk that the large number of councillors (which has survived subsequent representation reviews, albeit with the number of wards reduced from nine to five) could foster a more parochial approach in future.

An attempt was made to introduce a portfolio system similar to that used in Sunshine Coast Regional Council (see the Sunshine Coast case study). This involved each councillor being given additional responsibilities in relation to a specific policy area. However this did not succeed at Onkaparinga, due partly to the large number of councillors involved and also because of the reluctance of some Mayors to delegate their responsibilities to other councillors in this manner.

The new council adopted other strategies to address the resulting community concerns regarding the loss of representation. As indicated earlier, ward-based independent community forums were established across the new council area. These were managed by independent organising committees that set their own agendas and provided an opportunity for two-way exchange between council and the community. Several of these forums are still operating.

In addition the new council adopted a decision-making matrix that seeks to actively engage the community. This incorporates an assessment of the nature and level of community input required. Decisions regarding local-level infrastructure involve consultation on-location with the affected communities, while a number of workshops, forums and other techniques are used to engage the community in relation to higher-level strategic decisions, such as for example planning the future of Noarlunga town centre.

Enhanced service delivery

The new council sought initially to implement a policy of the 'best of the best'; in other words, increasing the standards of service provision across the whole council area to the highest level offered in the previous councils. The early commitment to this policy raised some strong expectations in the community regarding service delivery; while there were early improvements in service levels in areas such as infrastructure provision, inspectoral services, library services and environmental services, it was soon recognised that at least in the initial period after amalgamation, strict adherence to this policy would increase costs beyond the level anticipated in the amalgamation proposal.

However, subsequent improvements have been achieved because of the potential the council merger provided to take a fresh look at approaches to service delivery, as well as the opportunities to reallocate staff across a wider area and to engage employees with more specialised skills. Onkaparinga's size and relatively large resource base also means that council has greater flexibility to experiment with innovative projects and service delivery models.

B10.4 Evaluation, prospects and relevance

As indicated earlier, the Onkaparinga amalgamation was the subject of a detailed review commissioned by the Local Government Boundary Reform Board. It appears that there have been no other external reviews, although the council and CEO have conducted a number of internal reviews and restructures which have further integrated council's planning and service delivery.

As with amalgamation processes elsewhere, the desire to save costs was high on the government agenda that drove the South Australian amalgamations. However the cost reductions achieved were probably the least significant outcome of the Onkaparinga experience, even if both the relatively modest savings identified by the Reform Board shortly after the amalgamation and the longer-term savings are taken into account.

Building strategic capacity and improving service delivery are far more important. Furthermore in achieving these outcomes the Onkaparinga amalgamation avoided many of the problems that occurred with some of the Queensland amalgamations. This success appears to have been based on the following factors:

- Recognition that while the area concerned was quite diverse in nature there were overlapping communities of interest and common issues that needed to be addressed. This had already led to discussions about the suitability of mergers involving various combinations of the previous councils and their neighbours. These discussions provided a positive climate in which to develop the Onkaparinga amalgamation proposal and to see it as an opportunity rather than a threat.

- The flexibility of the South Australian amalgamation approach compared to the processes used in other states. While the process was driven by the state government, the ability of councils to discuss and develop their own amalgamation proposals gave them a greater degree of ownership of the process. Although (as noted earlier in the context section) it has been argued that the lack of proscription in the South Australian process has led to a piecemeal and uneven result, at least in the context of Onkaparinga the results seem very positive.

- The maintenance of a high level of representation relative to some other amalgamations through the retention of a comparatively large number of councillors. This reflects the more traditional local government approach of councils in South Australian compared to the much more corporate approach in Queensland, where the new councils are seen more as boards of directors. While there is a danger of a degree of parochialism with a large number of elected representatives (and wards) this seems to have been avoided in Onkaparinga, at least to date.

- The development of a transparent approach to the process, linked to a strong internal and external communications strategy. The latter included the formation of the independent ward-based community forums that provided an interface between the council and the community, particularly in areas where the level of councillor representation had changed significantly.

- The decision by the amalgamated council to create a 'new' council, starting with the appointment of a new CEO who did not come from any of the amalgamating councils. He in turn worked with the elected representatives to develop not only new systems but a new focus for the council, recognising the significance of issues such as economic development

- In association with the 'new council' approach, the development of a new strategic plan linked to council's financial plan. This has been associated with a conscious desire to see the amalgamation as an opportunity to professionalise the council, improve its service delivery and to develop council's overall strategic capacity to deal with the challenging issues the Onkaparinga community has faced as a result of population growth, increased pressure on the environment and the impacts of globalisation on the local economy.

- The scale and scope of the amalgamation and its relationship to the wider urban structure. While the success of one example is hardly a basis to make arguments regarding optimum council size, the Onkaparinga amalgamation resulted in a council that was large enough to achieve significant economies of scale – along with the opportunity to manage a significant region of metropolitan Adelaide – but which was not so large that it incurred major diseconomies. This contrasts with the Queensland amalgamations, which produced (at least in some cases) councils that were much larger than Onkaparinga but which have also shown some signs of diseconomies of scale.

In contrast to many of the amalgamations that occurred in Queensland and elsewhere, few negative outcomes have been identified in relation to the Onkaparinga amalgamation. The criticisms that council receives now appear to be about specific issues of its day-to-day operations, unrelated to the amalgamation that created it in the first place. The only indirect exception has been criticism of council's retention of 21 elected representatives (a legacy of the amalgamation process) and the potential this brings for parochialism rather than a strategic approach to managing the affairs of the Onkaparinga community.

B.11 Geraldton-Greenough (WA)

The City of Geraldton-Greenough is on the coast of Western Australia about 400km north of Perth. Prior to amalgamation of the two councils it was a classic 'doughnut' situation: the urban area of Geraldton City was growing mainly within the surrounding Greenough Shire at a rate of around 1000 people per annum. Estimated populations in 2003 were: Geraldton 19,500, Greenough 13,000. Further substantial growth has occurred since then and the population is now around 38,000. Even more rapid growth is anticipated due to mining development in the hinterland and 'seachange' migration.

Whilst both councils were operating satisfactorily prior to amalgamation, pressure for change had been building over a long period. Previous unsuccessful moves for amalgamation or boundary change were made in 1998 and 2002, and the former Geraldton-Greenough Regional Council that handled waste management had offered some experience of collaboration.

B11.1 Development of the initiative

Under the WA Local Government Act, a *boundary change* can be implemented by the Minister simply on the advice of the Local Government Advisory Board, but a full *amalgamation* of two or more councils may require a referendum which may reject the proposal if more than half of the electorate votes.

In 2004/5 a majority of Greenough councillors concluded that sooner or later boundary change/s would occur and the Shire would be seriously weakened. They decided to negotiate a satisfactory outcome. A joint committee was established with Geraldton, which agreed a series of principles for amalgamation. Key points included:

- Use of the name 'Geraldton-Greenough'
- Use of a ward system throughout (Geraldton did not have wards)
- A total of 13 elected councillors, including an indirectly elected Mayor (Geraldton had a popularly elected Mayor)
- Maintenance of the current level of expenditure on rural roads for at least 5 years
- Appointment of independent commissioners to provide a 'circuit-breaker'
- A short transition process (3-6 months) before fresh elections
- A fair and equitable process for staff to transition to the new structure
- All senior positions to be advertised with new contract appointments on the basis of merit
- Residents to be kept fully informed and a referendum to be held in the Shire.
- Despite this agreement, there was by no means unanimous support for amalgamation amongst Shire councillors. Concerns included a 'Geraldton takeover', loss of identity and rural representation, and the demise of what was widely regarded as an effective council.

Consultants were subsequently commissioned to formally investigate options for restructuring and prepare necessary documentation for submissions to the Advisory Board. The consultants reported in May 2005 and highlighted the problems inherent in the current arrangements as well as the potential value of amalgamation in terms of a stronger regional voice and leadership, concerted promotion of economic development, better strategic planning (especially for urban and industrial expansion), improved services and attraction/retention of skilled staff. Significantly, cost savings and rate reductions were not raised as desired outcomes.

The consultants considered various restructuring options involving adjacent shires but recommended full amalgamation of Geraldton-Greenough as the initial step.

2005
December Local Government Advisory Board (LGAB) receives a proposal from the Shire of Greenough to amalgamate with the City of Geraldton.

2006
February LGAB receives a submission from Geraldton seeking to amalgamate with Greenough.
31 August LGAB submits its assessment report to the Minister recommending the amalgamation.
13 September Minister accepts the LGAB's recommendation.
4 October Valid petition received from electors of the Shire of Greenough calling for a referendum.
2 December Referendum held but only 29per cent of electors voted so no binding result. (80per cent voted against)

2007
1 April Interim CEO is appointed for a term of approximately 12 months.
1 April Interim Executive team is appointed amongst existing executives for a term of three years.
30 April All Councillor positions are declared vacant.
1 May Three commissioners appointed for 6 month term to jointly govern the two areas pending election.
1 July New City of Geraldton-Greenough created under the Governor's Orders.
20 October Elections held for Councillors to the new City.

B11.2 Implementation

Key elements of the implementation process included:

- Sound political leadership and an effective working relationship amongst key elected members.

- Provision of State assistance to meet a proportion of transition costs (but only $1.2m against a request for $3.3m), plus a guarantee that federal grants would be unaffected for 5 years.

- The independent assessment made by the Local Government Advisory Board (although concerns were expressed that the Board is under-resourced for its role).

- The voluntary resignation of the two former council chief executives.

- The appointment of Commissioners to handle the initial transition, plus an interim CEO for at least a year (in the event it was considerably longer), and an interim executive team.

- Quickly bringing together as many staff as possible in the centrally located Geraldton office, with planned building expansion to complete the transfer of Greenough office staff.

- Use of human resources and change management consultants: all staff were interviewed.

- Relatively little competition amongst existing senior staff for new or more senior positions in the amalgamated council, partly because other job opportunities were available in the area due to economic growth.

- Agreement to a substantial increase in rates in the former Shire area to effect equalisation.

However, whilst the process generally appears to have been handled well, there were some weaknesses and unforeseen issues:

- Transition costs were higher than expected e.g. the need for additional office space.

- Some concerns were expressed regarding the commitment and performance of the Commissioners.

- The appointment of an interim CEO, and then the extension of his tenure, may have caused prolonged uncertainty – but there was general agreement that he did a good job.

- There has also been an ongoing transition in senior management: some of those appointed to new positions at the time of the amalgamation have not proved suitable.

- Community engagement in the process appears to have been quite limited, although there was recognition of the need to retain a strong 'country voice', and the former President of Greenough Shire played an effective leadership role.

B11.3 Outcomes

The amalgamation appears to have been a success in achieving the benefits foreshadowed in the consultants' report:

- Additional highly skilled staff have been attracted or retained
- The new council has certainly offered a stronger regional voice
- There has been more emphasis on economic development
- Strategic planning has improved.

On the whole, there has been little adverse reaction from the community, but there is some lingering concern about loss of Shire identity and a perception – especially in some sections of the business community – that the new council has yet to deliver sufficient tangible outcomes.

Cost reductions and greater efficiency

As noted above, cost reductions were not a primary objective of the amalgamation. Key points raised in relation to costs and efficiency were as follows:

- Some significant savings have been made, e.g. waste management ($0.5m in first year of a new contract), but generally few cost reductions to date – this has raised concerns in the business community.

- Short-term increases in staff numbers have caused significant concern: employment guarantees for staff following amalgamations prevent redundancies for 3 years, whilst an expanded range of activities has required additional staff (e.g. in economic development) and previously vacant positions have been filled.

- There is a view in some quarters that amalgamation has created opportunity to infuse former Geraldton staff and management with the more 'can do' attitudes of Greenough, e.g. greater use of contractors, less reluctance to borrow.

- A more flexible industrial agreement has been negotiated that '…reflects the opportunities that have resulted from the merger…'

- Scope has been identified for further outsourcing.

Improved strategic capacity

There is a widespread sense that the new, larger council is taken more seriously by federal and state governments and the business sector, and that its resources are now sufficient to make a difference ('big enough to be noticed'). For example the council has attracted early rollout of the National Broadband Network. Other specific benefits identified included:

- Recruitment of a dynamic new CEO and introduction of a 'Major Projects' team.

- A better integrated organisation and workforce structure.

- Strategic planning has improved and the planning capacity of council is now recognised by state agencies.

- Increased capacity for new areas of activity e.g. economic development and environmental management/sustainability (but in the short term recruitment of additional staff for these areas has kept overall numbers higher than they otherwise would be and there is concern in some quarters that expansion into new areas of activity has gone too far, too fast and is not delivering tangible results to justify the costs.

- Enhanced professionalism in corporate services e.g. IT, risk, property management.

- More scope and ability to attract grants.

Democratic representation

This was a key issue in the amalgamation process. The total number of councillors was reduced from 22 to 13, but with the use of a well-constructed ward system this number seems to be generally acceptable. Similarly, the introduction of a ward system to Geraldton seems to have been well received. On the other hand, there is some concern that the role of councillors has been weakened by changes introduced during the transition period that favour the 'board of directors' model e.g. more delegations to management, less committee work.

Enhanced service delivery

There were mixed views about the impact on service delivery. In some quarters there are concerns about the standard of services generally – this may or may not be seen as linked to the amalgamation. Some former Shire residents feel service delivery is not as positive and responsive as in the past and that new council is 'top heavy': this may be coloured by residual feelings of loss of identity and some misinformation (e.g. unsubstantiated claims that the level of expenditure on rural roads has been reduced). By contrast, others see a gradual improvement as the Shire's 'can do' attitude spreads through the former City workforce, as well as improved attention to complaints. Improvements were noted in areas including building approvals, engineering services, asset management planning and support for sustainability initiatives.

B11.4 Evaluation

Key lessons identified by those interviewed included:

- The fundamental importance of political leadership, good faith and a focus on resolving issues.

- A newly amalgamated council needs to get 'runs on the board' quickly to demonstrate its worth and to maintain community confidence in the change process.

- Amalgamation concentrates a lot of changes that were probably needed anyway into a tight timeframe e.g. introduction new IT and accounting systems.

- A longer lead-time before amalgamation might have helped, but there was a need to 'seize the day'.

- It takes some time for both senior staff and councillors to learn how to run a much bigger organisation with greatly enhanced capacity that is also working for a 'new community', and this shift in scale, capacity and focus also creates a need to bring in new skills.

As noted earlier, there are still some important elements of 'unfinished business':

- Moves to return to a directly elected Mayor are generating concern that the still somewhat fragile political balance may be disrupted.

- Surveys indicate low staff morale, perhaps reflecting continuing transition issues (weaknesses in middle management and a lingering conservative culture in some quarters),

plus a need to translate the CEO's dynamic vision into understandable, practical steps.

- Some sections of business and the community want to see more tangible outcomes that can be identified with the amalgamation ('fewer plans, more action').

- There is an apparent need to strengthen community engagement (as opposed to public relations) – some progress has been made but efforts are patchy.

Looking further ahead, a planned follow-up merger with Mullewa Shire will raise a number of issues, including the logistics of a very large geographical area and another change of name. The suggested 'City of Greater Geraldton' is not popular amongst former Greenough residents and councillors. The Mullewa merger also highlights the evident need for further steps to strengthen local government's capacity to deal with likely mining-related economic growth and associated port and industrial development. Geraldton-Greenough will need to live up to legitimate expectations of a major regional centre. Further amalgamations to create a more powerful regional council have been mooted.

B11.5 Conclusion

Whilst no formal evaluation has been undertaken, there is little doubt that the chief gain of the amalgamation has been increased 'strategic capacity': a higher profile, more capable council better placed to work for its community in terms of addressing new agendas and 'big picture' issues. Overall, the response of interviewees was positive and outstanding concerns relatively muted. This perceived success has been a key factor in the new proposal for a merger with Mullewa Shire, which is to be based on a decentralised 'place management' model. Both the approach taken in creating Geraldton-Greenough and this model for adding a much smaller rural shire appear readily replicable in similar situations elsewhere.

B11.6 Key lessons

The case study tends to confirm findings from the literature and recent Australian experience in general:

- Economies of scale, cost savings and efficiency gains were not key factors (compared with the Queensland case)

- Enhanced strategic capacity/economies of scope/creating a robust, future-oriented organisation was the chief benefit - this links to the issue of local government's changing role in the system of government

- Benefits were tempered by significant transition costs and disruption – but the long-run gains are considered to outweigh those disadvantages

- There are no substantial concerns about loss of local democracy/representation, but note that the councillor per capita figure is still only around 1:3000. The ward system is seen as a crucial factor

- Significantly larger organisations with a broader remit require people who have the skills and understanding (almost intuition) to work at a large scale and thus secure the benefits: such people may be scarce.

The WA legislative framework for amalgamations/boundary changes seems well designed i.e. the Advisory Board MUST be consulted and can act as a broker/adviser to councils; the Minister cannot change its recommendations; there is a streamlined procedure for boundary changes that could (but rarely if ever has been) used as a mechanism to prompt negotiated mergers and/or make necessary adjustments progressively, rather than have pressure build up for sweeping and perhaps ill-considered or rushed change. The question remains why the government has not adopted these mechanisms.

Strong and courageous political leadership is crucial – either at the local level to bring about desired/negotiated/inevitable change (which could be any form of consolidation), or from the state level to promote necessary change and on occasion simply do what has to be done.

B.12   City of Mount Gambier and District Council of Grant (SA)

This case study reviews the boundary reform involving the City of Mt Gambier (the City) and the District Council of Grant (District Council) which resulted in the largest boundary adjustment undertaken by a South Australian council since amalgamations in 1996-97. It also addresses the perspectives of the two councils about shared services and amalgamations.

The City of Mount Gambier is South Australia's second largest city. The estimated population in 2009 was 25,000. Mount Gambier is the regional centre for the South East region of South Australia (and much of the Western Districts of Victoria) and covers an area of 3,000 hectares.
The District Council of Grant was created on 1 July 1996, following the amalgamation of the District Councils of Mount Gambier and Port MacDonnell. It is situated in the South Eastern corner of South Australia and incorporates areas of farming, forestry and coastline. The Council is predominantly rural with a number of small townships, serves a population of 8,500 and covers an area of 188,493 hectares.

Both councils are members of the South East Local Government Association (SELGA), which undertakes a coordinating, advocacy and representational role on behalf of its Constituent Councils - The District Councils of Grant, Kingston, Naracoorte Lucindale, Robe, Tatiara, Wattle Range and the City of Mount Gambier.

B12.1   Development of the initiative

Proposal for boundary change
The context for the boundary adjustment was the development of a Master Plan for Greater Mount Gambier. In early 2007 Planning SA (now the Department of Planning and Local Government) commenced working with the City of Mount Gambier and the District Council of Grant on the development of the Greater Mount Gambier Planning Master Plan to guide the future growth of this area. The Master Plan, which was gazetted on 28 February 2008, provided for the growth of the urban fringe area of the City that was within the District Council boundaries.

Experience with share services and advocacy
The two councils have an established history of providing shared services to their residents, covering facilities such as libraries and roads. There are twenty-two joint committees covering common interests of the council areas, for example the Mount Gambier Library Committee and the Mount Gambier Airport Management Committee. The two councils also partner with Wattle Range Council on service delivery and on joint advocacy.

B12.2 Implementation

In 2008 the District Council took the lead in preparing and negotiating the details of the proposal for the extension of the City of Mount Gambier boundary by relinquishing some areas to the City of Mount Gambier based on the Greater Mount Gambier Master Plan.

The proposed boundary adjustment involved the transfer of five parcels of land from the District Council of Grant to the City of Mount Gambier Council. The areas contain approximately 695 hectares and include the Mount Gambier TAFE/Uni SA Campus, Bunnings, associated commercial and bulky goods developments, Calula Estate and large areas for urban residential development. The Greater Mount Gambier Master Plan indicates that these areas will provide for over 80 years of residential land based on the existing population growth.

The Boundary Adjustment Facilitation Panel (BAFP) required that council initiated proposals be jointly submitted by all affected councils and meet the following requirements:

- Social and statistical data
- Community of interest
- Financial information
- Council representation arrangements
- Consultation with the community and key agencies

The few submissions that were received as part of the community consultation process that questioned the changes raised issues such as changes to rates. The councils anticipated these issues and were prepared with information about rate equalisation and rate rebates.

B12.3 Outcomes

After considering the submissions and undertaking further consultation with affected communities, the BAFP recommended that the proposed boundary change be proclaimed. The change was gazetted on 17 June 2010.

The boundary adjustment resulted in twenty five percent additional area for the City of Mount Gambier. In return DC Grant negotiated to receive a payment of $900,000.

Cost reduction and greater efficiency
The changes were undertaken to facilitate long term planning and land use outcomes in the context of the Master Plan, rather than to achieve cost reductions.

Improved strategic capacity
The councils' see the boundary change as a strategic move that ensured the District Council could continue its focus on rural areas, small townships, farming and coastal areas.

In regard to capacity to advocate for their communities, the councils argue that they can continue to forge alliances to act on regional threats and opportunities, and that two (or three) voices can have more impact that one. By way of example, the two councils along with Wattle Range Council have joined forces in supporting the campaign against the privatisation of the Forestry SA plantation estates.[24] As almost 50 per cent of employment in the South East region is related to forestry, this has been an issue of overwhelming community concern.

Democratic representation

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[24] See www.dontprivatisesaforests.com.au

As the area designated for transfer was largely undeveloped and the total population affected was just 250 people, it was a straightforward process to respond to any concerns about political representation. The City had secured a decision, resulting from a Local Government Act Section 12 review, to abolish wards as of November 2010, which removed any potential issues concerning ward representation.

Enhanced service delivery

The clear delineation that was achieved through this transfer of the urban fringe area from the rural council to the largely urban council was regarded as beneficial for service delivery. The case was argued that the resources of the District Council could be better applied to the particular issues and needs of the rural and coastal communities.

B12.4 Evaluation

In securing this outcome that was satisfactory to both councils, the interviewees strongly emphasised the overriding commitment by both councils to the good of all the affected communities, rather than only serving narrow interests.

The CEO of the City acknowledged the 'smart thinking' by the District Council in theoutcome, and their willingness to be decisive and put a clear proposal on the table. The District Council submitted a carefully researched proposal and both Councils worked cooperatively in reaching an agreed outcome for the benefit of City and District residents.

It was not an easy process for the District Council and required several meetings to come to the position that the area concerned was 'urban fringe', and despite the large amount of work that had gone into developing the facilities in the urban fringe area it more appropriately belonged within the City boundary.

It was acknowledged by both councils that if handled poorly, the reform process could have resulted in giving away control of the ultimate outcome and greater disadvantage to the District Council than to the City.

The councils consider that changes to the current government position on amalgamations are unlikely. Further, if an amalgamation were proposed for the two councils, it would be vigorously opposed by the communities of both areas.

In discussing future options for further improving efficiencies, strategic capacity and service delivery, the councils support the strengthening of shared services through the regional alliance. They acknowledged that the councils would need to contribute greater resources to SELGA (which currently has just one employee) if significant gains through resource sharing are to be realised.

B12.5 Key lessons

- The boundary reform involving the City of Mt Gambier and the District Council of Grant resulted in the largest boundary adjustment undertaken by a South Australian council since amalgamations in 1996/97, adding twenty five percent additional area to the City of Mount Gambier

- By taking a lead in initiating the structural reform, rather than leaving it to the other key local and state government bodies, the District Council was able to negotiate an outcome that best suited their long term objectives

- The willingness of both councils to work as a genuine partnership was a factor in the success of the boundary reform and in shared service arrangements

- The councils are advocating a better-resourced regional organisation of councils to facilitate greater efficiencies and improved service delivery to their communities.

B.13   Central Highlands and Sunshine Coast, Queensland

This section considers two regional councils, Central Highlands and Sunshine Coast, which were formed as a result of a major program of forced amalgamations announced by the Queensland State Government in 2007 and implemented in 2008. While each example and its outcomes are considered separately, they are introduced together because they share the same broad context. Likewise common lessons and outcomes are combined in an overall conclusion.

B13.1 Context

The 2007 Queensland amalgamations have to be seen in the context of the adoption by the State Government of an increasingly regionalised approach to planning over the past two decades. The development of this model is too complex to describe in detail here, but in summary it commenced with increasing concern about the largely unregulated urban sprawl spreading across council areas in southeast Queensland (SEQ). This led the Goss government to initiate the SEQ 2001 planning process (see table 1 for a summary of the key events).

This essentially voluntary planning process, based on a partnership between local and state government, was to operate for over a decade. However after indications that it was failing to address the issues of uncoordinated urban development, the government decided to create a statutory planning framework for managing growth. This formed the basis for the *South East Queensland Regional Plan*, released in 2005, and the government's subsequent announcement that regional planning would be extended to all Queensland regions.

The adoption of a statutory regional planning framework and the announcement of its intention to expand regional planning led to speculation that the government had a complementary council amalgamation agenda. In response the Local Government Association of Queensland (LGAQ) began the Size, Shape and Sustainability (SSS) initiative with government support in 2006. This provided a framework for councils to consider a range of alternative consolidation options.

Despite the participation of 118 councils and its own involvement in the SSS initiative, the Queensland Government announced in 2007 that the process had made insufficient progress. The Government also used reports by the Queensland Treasury and Auditor-General to raise concerns about the long-term financial capacity of some councils.

A Local Government Reform Commission (LGRC) was appointed to recommend 'structural changes to ensure strong, effective and financially viable councils', with an emphasis on enhancing their strategic capability. The Commission provided only a short period for public responses and then rejected all the options proposed as alternatives to major amalgamations. This led to a perception in some quarters that little weight was put on community input in drawing up the recommendations, which appeared to largely reflect the government's views.

Despite a strong anti-amalgamation campaign led by the LGAQ, these recommendations were accepted almost in their entirety by the government. This resulted in a reduction of the number of councils from 157 to 73, with 120 councils being reduced to just 36. One recommendation the

government did reject was that all councils be elected on an undivided basis; instead it gave amalgamating councils the opportunity to propose whether to be undivided or to have single-member divisions (wards).

Table 1: Summary of key events relating to the 2007 amalgamations of Queensland councils

Year	Event
1990	State Government convenes a conference in response to community concerns regarding urban sprawl in South East Queensland (SEQ), leading to the commencement of the regional management framework process
1991	SEQ Regional Organisation of Councils (SEQROC) is formed to represent councils in the new regional process
1995	*SEQ 2001 Regional Framework for Growth Management* is released. Implementation is based on a partnership approach predominantly involving the State Government and Local Government, represented through SEQROC
1997	*Integrated Planning Act* is introduced
1998-2000	Regional planning processes are initiated in several regions outside SEQ
2001	State Government announces commencement of the development of the SEQ 2021 Regional Plan.
2002	SEQ 2021 *Performance Monitoring Review* is released, suggesting that the regional framework is failing to meet its own criteria in managing growth
2004	*IPA* is amended to create a statutory planning provisions for the SEQ Regional Plan
2005	*South East Queensland Regional Plan 2005-2026* is released SEQ Council of Mayors replaces SEQROC
2006	Local Government Association of Queensland (LGAQ) begins the Size, Shape and Sustainability (SSS) initiative with State Government support
2006-2007	State Government reviews *IPA*. The review recommends extensive changes, including expansion of the role of regional plans.
2007	State Government appoints Local Government Reform Commission (LGRC) to recommend 'structural changes' to local government, thus overriding SSS process LGAQ launches strong anti-amalgamation campaign in response. However almost all the LGRC recommendations are accepted by Government, reducing the number of councils from 157 to 73. 37 councils are unaffected, meaning the remaining 120 are reduced to 36. Councils to be amalgamated each form a Local Transition Committee (LTC) to develop a Transition Action Plan (TAP) to guide the amalgamation process. Amalgamation guidelines including *Local Government Workforce Transition Code of Practice* are released.
2008	Old councils to be amalgamated are dissolved on the eve of the elections. The new councils are elected, 26 with divisions and 46 without. State Government announces that submissions on the costs of amalgamations would be assessed by the Queensland Treasury Corporation (QTC). 24 submissions are received totalling $371.4 million.
2009	QTC releases its report, effectively rejecting almost all the submissions on the cost of amalgamation. *South East Queensland Regional Plan 2009-2031* is released. *IPA* is replaced by the *Sustainable Planning Act*, which clarifies and expands the regional planning framework. Revised *Local Government Act* is adopted.

Sources: Queensland Department of Infrastructure and Planning website and document and Regional Planning - Information Sheet (2008).

The government established an implementation framework for amalgamations, which had to be completed within a very short period leading up to the local government elections in March 2008, but left the existing councillors in place through this process. Amalgamating councils had to establish a Local Transition Committee (LTC) involving representatives from each council, union representatives and the interim CEO for the new entity, usually the CEO of one of the councils, who would assume office once the elections were held. The other CEOs formed an advisory group to the LTC and a number of staff reference groups were also established.

The main role of the LTC was to develop a Transition Action Plan (TAP) to guide the amalgamation process; this included an interim organisation structure, a new budget and an interim staffing strategy. The latter had to observe the Workforce Transition Code of Practice, which effectively guaranteed the continued employment, salary and conditions of all pre-amalgamation staff (except CEOs) for a period of over three years after the amalgamations.

In March 2008 the State Government announced that submissions on the costs of amalgamations would be assessed by the Queensland Treasury Corporation (QTC), which received 24 responses. However, QTC rejected all costs in these claims related to wages parity as 'voluntary' and therefore excluded from its mandate, and also refused a range of other expenses, substantially cutting the value of all the claims. Treasury then concluded that the reduced claims were within the capacity to pay of all 24 councils. However based on other factors small grants were given to two councils.

In 2009 the introduction of the *Sustainable Planning Act* reaffirmed and expanded the key role of regional planning in Queensland, providing an operating framework for the new amalgamated councils. This was also reaffirmed in the 2009 revised *Local Government Act* (see Figure 1).

Figure 1: Relationship between the Sustainable Planning Act and the Local Government Act

Source: Working with the legislation—Local Government Act 2009. Link between community plans and the Sustainable Planning Act 2009 Information sheet (Department of Infrastructure and Planning, 2009)

B.13.2 Central Highlands Regional Council

The Central Highlands Regional Council (Central Highlands) was created from four shire councils in the heart of central Queensland, Emerald, Bauhinia, Duaringa and Peak Downs. The amalgamated council has a population of over 29,000 and covers an area of almost 60,000 square kilometres. The area covers a significant part of the Bowen Basin and its economy is dominated by coal mining and rural industries including cattle production, cotton, grain, citrus and grapes.

At the time of amalgamation, the population of Emerald Shire of over 14,000 was greater than that of the other three councils combined. Bauhinia had the smallest population of 2,275 and the largest area of nearly 24,000 sq km. Table 2 summarises the other characteristics of the amalgamating councils.

Table 2: Comparison of the Central Highlands Regional Council to the previous councils

	New Council	Previous Councils			
Name	**Central Highlands Regional Council***	**Emerald Shire Council**	**Bauhinia Shire Council**	**Duaringa Shire Council**	**Peak Downs Shire Council**
Class	Regional	Shire	Shire	Shire	Shire
Size	59,884 sq km	10,364 sq km	23,641 sq km	17,752 sq km	8,127 sq km
Population 2006	26,824	14,173	2,275	6,917	3,459
Population 2026	37,574	21,440	2,756	8,423	4,955
Electors 2007	15,103	8,165	1,474	3,712	1,752
Electoral arrangements	Undivided 8 councillors plus mayor	Undivided 8 councillors plus mayor	Undivided 8 councillors plus mayor	Divided 10 councillors plus mayor	Undivided 8 councillors plus mayor
Electors per councillor excluding mayor	1,888	1,020	184	371	219
Total operating revenue financial year 2006	$66 million	$21 million	$15 million	$13 million	$17 million
Annual capital expenditure financial year 2007 - 2015	$27 million	$12 million	$4 million	$4 million	$7 million
Total assets at 30 June 2006	$475 million	$169 million	$86 million	$105 million	$115 million
Debt at 30 June 2006	$5 million	$3 million	$minor	$1 million	$1 million
Community equity at 30 June 2006	$461 million	$162 million	$84 million	$102 million	$113 million

* LGRC originally recommended that the name be 'Emerald Regional Council'

Source: *LGRC Report 2007: Vol. 2*

Development of the initiative

As indicated in the introduction, councils throughout Queensland had virtually no input to the development of the State Government's program of forced amalgamations and the LGRC was entirely responsible for developing the Central Highlands amalgamation proposal.

However, prior to amalgamation the four councils had identified several areas of common community interest. They had worked together through the Central Highlands Development Corporation and the Central Queensland Local Government Association (effectively a ROC), which had embarked on Queensland's first joint waste management project. The four councils were also participating in the Size, Shape and Sustainability process and started development of a resource-sharing program.

The communities of interest arguments were used as a justification by the LGRC, which also argued that:

- Emerald was the regional centre and that economic activities such as mining and rural industries were closely linked across the area;

- There are no natural barriers between the separate council areas and transport corridors such as the rail line linked most of the economic centres. Emerald also had the region's main airport;

- Both service delivery and the region's resources would be better managed by an amalgamated council, particularly in relation to the mining industry whose operations could extend across the previous council boundaries;

- A larger council would enhance the prospects of the new entity attracting and retaining skilled staff

- The council would also be better able to engage with industry as well as State and Federal Governments and to attract government funding.

The Commission also noted two of the amalgamating councils were rated as strong, one as moderate and one as weak. It believed that the resulting amalgamated council was likely to be rated as strong or moderate (LGRC 2007: vol. 2).

All four councils disagreed with the Commission's proposal and strongly opposed the amalgamations, emphasised by the fact that one of the councillors involved, Cllr Paul Bell, was President of the LGAQ, which was leading a state-wide campaign of opposition. However, the Commission rejected all these arguments.

Implementation

As in other areas, the four councils formed a Local Transition Committee (LTC) involving councillor representation (usually the mayor and deputy mayor) from each council, the interim CEO and representatives of the four unions involved in local government. The interim CEO for the amalgamated council was the CEO of the previous Emerald Shire Council. The CEOs of the amalgamating councils formed an advisory group to the LTC and there was a human resources sub-committee as well as a number of other staff reference groups. These were seen as critical in dealing with the day-to-day issues to assist in developing and implementing the Transition Action Plan.

The amalgamating councils opted not to seek divisions, which was a conscious decision to avoid parochialism in the new council. They were also successful in their request to change the name recommended by the LGRC – from Emerald Regional Council to Central Highlands Regional Council. While this may seem to be a relatively minor change it was regarded as significant in creating the perception of that the amalgamated council was not dominated by the largest of the previous councils.

Of the eight councillors and one mayor elected in March 2008, eight had served on the previous councils prior to amalgamation. This provided continuity for the organisation, especially as many of the councillors had also been involved with the LTC and had reached a degree of consensus regarding priorities for the new council.

The community of interest and the quality of the previous relationships between the CEOs and other senior managers were cited as contributing to a relatively smooth transition process. However, unlike amalgamations involving larger metropolitan councils, there were some difficulties in scaling up the skills of staff from (as several participants put it) 'running the corner store to running Woolworths overnight'. The new council had nearly $500 million in assets, over 480 staff spread across seven offices and a number of other facilities.

The amalgamation presented the following challenges:

- The need to build a new management team quickly;
- Supporting managers and staff as they worked through the transition while continuing to deliver services;
- Developing an integrated 'whole of council' perspective;
- Building the capacity of managers to act as leaders of change
- Working collaboratively and communicating through the new organisation.

A number of specific issues also affected the Central Highlands process:

- The major flooding which affected the area, putting staff and councillors under major pressure just prior to the commencement of the process;

- Despite the Workforce Transition Code of Practice which protected staff positions for three years, the loss of significant numbers of staff, a situation exacerbated by the competition for employment provided by lucrative jobs in the mining industry;

- The impact on the three centres which had previously been the base for the three councils other than Emerald (whose offices provided the primary administrative centre for the new council). While most staff have been retained, the loss of even a small number of senior personnel can have a significant impact on these small communities.

- The large area which makes it difficult to achieve economies of scale relating to road maintenance and other equipment;

- The small size of the amalgamating councils made it difficult to scale up many of their systems to be used in the new entity, particularly IT;

- The need to transition from the relatively informal structures and policies of the smaller councils to more formal systems required for a larger council.

To deal with some of these issues a number of strategies were adopted. First, area executive managers were appointed to provide a place role and some 'critical mass' in each of the previous councils' offices. In conjunction with a change management consultant, the council initiated the 'Envision Central Highlands 2008' strategy, which sought to provide leadership and team building opportunities for managers in the new organisation structure to work collaboratively to undertake practical projects and to build their skills.

Smaller project teams were established to explore options to deal with these issues; these teams were built across departments and professions and managers were able to work on projects outside their area of expertise. One critical issue that process recognised was that a lot of the work of the staff reference groups set up during the amalgamation process was lost when they were subsequently disbanded. These groups were reinstated and are now being led by the next level of staff.

While the transition process was successful in getting an interim structure established and dealing with the management changes required within the limited deadlines mandated by the State Government, it caused a range of issues for other levels of staff. This was partly because the short timeframe forced the council to concentrate initially on operational matters and essential changes in the management structure. Consequently the change management process was seen by some as being too 'top-down', with the need to develop and implement more detailed change management and communication strategies not immediately recognised.

The flooding mentioned earlier had also taken its toll on council staff, many of whom had had little time to recover or be debriefed before they had to deal with the amalgamation. This also contributed to a perception that the staff's concerns were not being fully recognised in the transition process.

The council has responded by developing a more proactive approach to change management. Recognising the significance that for some staff dealing with the flooding was still 'unfinished business', re-establishing the staff reference groups, introducing strategies to improve communications, for example through a region-wide staff newsletter, conducting staff surveys and implementing an annual staff development day have gone some way to dealing with these issues.

Outcomes
In terms of the wider community there have been a number of impacts both positive and negative from the implementation process. Perhaps the most significant of these is the rates equalisation process which will lead to major increases for some communities and which may in turn lead to a political backlash at the next council elections.

There is wide agreement that because of its magnitude it will take at least five years before the success or otherwise of the Central Highlands amalgamation can be properly assessed. In the meantime only qualified judgements can be made.

- *Cost reductions and greater efficiency*
  While there may be cost savings in the longer term, it is virtually impossible to quantify them at this stage because of the significant implementation costs imposed by factors such as:

  - The implementation of the Workforce Transition Code of Practice, which has effectively deferred any possible rationalisation of staff numbers until after June 2011;

- Harmonisation of the workforce, which has largely resulted in the 'highest common denominator' being applied to achieve parity in terms of staff salary and conditions;

- Development of the new structure, which has actually involved the creation of new layers of management and new departments to meet increasing expectations of service delivery;

- The inability to scale up some of the systems used by the previous councils such as IT and the consequent need to acquire completely new systems and train staff in their use;

- Delays in the implementation of some new systems, most notably financial systems.

- Rejection by the Queensland Treasury of a claim for amalgamation expenses from the Central Highlands which made the highest claim of over $21.5 million (QTC 2009:14);

- The concurrent withdrawal by Government of subsidies for water and sewerage capital works projects including those already underway, which cost council around $400,000 on one specific project.

Rejection of its claim for amalgamation expenses and the imposition of additional costs have obviously impacted on council's overall financial position. In addition, combining councils rated as strong or moderate in terms of financial viability with one rated as weak did not automatically mean that the resulting entity would become more viable. This is evidenced by the growth in council's loans through this period, from a few million dollars to over $50 million.

Despite these difficulties the amalgamated council has the potential to improve its financial sustainability, but it was only now at a point where it could look beyond the implementation of the amalgamation to take a long-term view.

- ***Improved strategic capacity***
  Similarly, while the amalgamation has the potential to greatly increase strategic capacity, the process to realise this has only just begun. This is because the basic operational and staffing elements of the amalgamation have taken the past two years to bed down.

  This perception has been confirmed by an external organisation review recently commissioned by council. This found that there was a deficit in strategic planning across the organisation and that there needs to be better engagement between senior staff and councillors in establishing strategic direction and developing policy. The review also noted that the council did not have an overall strategic planning framework and needed to develop council-wide coordination of strategic planning.

  The report recommended a new Strategic Planning Coordinator position, answerable to the CEO, to deal with these issues. It also recommended a council-wide review of all existing strategic planning processes, convening planning forums for councillors and staff to develop a more focussed vision and strategic direction for the Central Highlands region.

- ***Democratic representation***
  The reduction from the 34 councillors and four mayors elected across the four councils prior to amalgamation to eight councillors and one mayor is seen as a clear reduction in democratic representation. However, it has to be noted that the ratio of electors to councillors in the previous councils was extremely low; especially in the smaller councils which each had less than 400 electors per councillor.

While the significant reduction in representation may have been seen as an argument for divisions (wards) in the new council to maintain 'local' representation, the amalgamating councils recognised that representatives elected to the new, larger entity would need a much more strategic focus and therefore decided not to seek divisions.

Although it was intended to deal more with issues of organisation management and performance, the recommendations of the recent organisation review that the Mayor and councillors be more engaged in council's strategic planning processes would also help to deal with this reduction in representation. The review has also been recognised that the elected representatives should have more support and that the council administration needs to become more directly responsive to the day-to-day issues that electors previously brought directly to councillors.

- ▪ *Enhanced service delivery*
  To date, the improvement in service delivery has been relatively minor and is mainly related to bringing the levels of service delivery in the smaller councils up to the standards of the larger ones.

  To assist in this process, area executive managers were appointed, based in each of the previous council offices. However the recent organisation review questioned the ongoing usefulness of these positions and recommended that they be replaced by less senior Customer Service Team Leaders, supported by a program of rotating visits by senior staff to the area offices.

  As with the other criteria discussed above, the new council has the potential to enhance levels of service delivery further but because of the immediate priorities of the amalgamation process this is only just now beginning to be explored. Improving service delivery will require improvements in staff skills – on paper the amalgamated council will have the capacity to either develop these among existing staff or employ new staff, but Central Highlands has a particular problem with the strong competition for skilled workers posed by the mining industry.

  The organisation review has addressed many of these issues, recommending for example that council introduce policies to determine desirable service levels to inform future planning and resource allocation, improve council's customer request systems and develop a Whole of Council Workforce Plan.

Evaluation
While there has not been an external review of the amalgamation process, the organisation review mentioned earlier which was conducted by an external consultant has examined the resulting structure. Many of the key conclusions were outlined in the previous section. A number of the broader conclusions relating to the implementation of forced amalgamations in Queensland are common to both these case studies and are therefore examined in the overall conclusion.

There are, however, several positive outcomes that are specific to Central Highlands, including:

- ▪ The amalgamation has brought together four councils which had a number of common communities of interest;

- ▪ The Central Highlands is a well-defined region with has an integrated economy, a clear 'centre' in Emerald and a no natural boundaries;

- There were grounds for concern regarding the long-term viability of the two smaller councils, which each had populations less than 5,000, especially given that one had a weak financial outlook.

- The councils worked together closely before the amalgamation and the relationships established have helped smooth the process;

- The decision to change the name of the new council to Central Highlands and not to have divisions have helped to reduce the potential for parochialism

However, the amalgamation of a number of similarly-sized small councils in a rural area is a very different proposition to the merger of medium to large-sized councils in a metropolitan area – and while it can be argued that Emerald functions as the centre for the Central Highlands region, a merger of this nature is also qualitatively different to one involving a major regional city and the rural councils in its hinterland. The problems have included:

- The limited expertise of elected representatives and staff from small councils in developing and operating a council which is qualitatively different in scale;

- The need to develop new complex management and administrative structures and in some cases acquire completely new external systems (such as IT) because none of the existing ones could be scaled up;

- The need to develop and implement basic management systems quickly, which has forced the deferral of the measures to improve strategic capacity and service delivery;

- Difficulties in obtaining economies of scale because of the new council's large geographic area;

- The major flooding event which occurred just prior to amalgamation, demonstrating that environmental and economic factors outside the control of local government may affect the process of forming a new council in a rural area to a much greater extent than in an urban area.

The prospect for Central Highlands is mixed. In the short term, the huge cost of amalgamation and council's inability to recoup any of this has actually worsened council's financial position. In the longer term, the new council is likely to bring a more strategic focus to the region and a greater ability to improve its service delivery. However, the need to manage the initial amalgamation phase and put new systems in place against tight deadlines means that Council is only now in a position to address these broader goals.

B.13.2   Sunshine Coast Regional Council

The creation of the Sunshine Coast Regional Council (Sunshine Coast), an amalgamation on a vastly greater scale to that of Central Highlands, involved three councils on the Sunshine Coast north of Brisbane; Caloundra City Council, Maroochy Shire Council and Noosa Shire Council.
Sunshine Coast was formed at the same time as Central Highlands and through the same process of forced amalgamations mandated by the Queensland Government. The new Council has an area over 3,000 sq km and at the time of amalgamation a population approaching 300,000, making it the fourth-largest council in Australia. According to the Local Government Reform Commission, the region is expected to grow by 63 per cent or 184,000 between 2006 and 2026 (LGRC 2007: Vol. 2).

The region is a major tourist and recreational destination with its own airport which has direct connections to cities such as Sydney and Melbourne. Although the LGRC identifies the Sunshine Coast as a self-contained region, its population growth is heavily influenced by the expansion of urban development in South East Queensland, facilitated by its motorway and rail links to Brisbane. It has significant environmental assets such as beaches, national parks and rivers, which have made it a popular 'sea change' and 'tree change' destination. Table 3 summarises the key characteristics of the amalgamating councils.

Table 3:   Comparison of the Sunshine Coast Regional Council to the previous councils

	New Council	Previous Councils		
Name	**Sunshine Coast Regional Council**	**Caloundra City Council**	**Maroochy Shire Council**	**Noosa Shire Council**
Class	**Regional**	**City**	**Shire**	**Shire**
Size	3,126 sq km	1,094 sq km	1,163 sq km	869 sq km
Population 2006	290,026	92,419	149,051	48,556
Population 2026	473,727	165,883	249,412	58,432
Electors 2007	187,715	60,110	96,020	31,585
Electoral arrangements	Divided* 12 councillors plus mayor	Divided 10 councillors plus mayor	Divided 12 councillors plus mayor	Divided 9 councillors plus mayor
Electors per councillor excluding mayor	15,642	6,011	8,001	3,509
Total operating revenue financial year 2006	$356 million	$100 million	$184 million	$72 million
Annual capital expenditure financial year 2007 – 2015	$137 million	$37 million	$83 million	$17 million
Total assets at 30 June 2006	$3,318 million	$963 million	$1,536 million	$819 million
Debt at 30 June 2006	$286 million	$96 million	$148 million	$42 million
Community equity at 30 June 2006	$2,970 million	$851 million	$1,352 million	$767 million

LGRC originally recommended that the new council be undivided
Source: *LGRC Report 2007: Vol. 2*

Development of the initiative
As indicated in the section on the State Context, proposals for a potential merger had been raised prior to the State Government's amalgamation announcement in 2007. However, as was the case with the Central Highlands, it was the LGRC that developed the Sunshine Coast amalgamation proposals with no input from the affected councils.

The councils were members of SunROC, the Sunshine Coast Regional Organisation of Councils, which had prepared a number of strategies for the region including a Regional Economic Development Strategy (SunROC was disbanded after the amalgamation made it largely redundant). The councils cooperated on a number of other regional initiatives such as tourism promotion and were also members of SEQROC, the South-East Queensland Regional Organisation of Councils, later to become the Council of Mayors (this institution will be discussed in a separate section). This meant that all councils were involved in the planning for growth in the southeast region.

Consistent with the LGRC's recommendation for the Central Highlands and elsewhere, the Commission concluded that there was a strong community of interest across the region, especially in relation to tourism and economic development, supported by the transport systems. The Commission also noted that there were no major geographic barriers between the three councils.

The Commission's primary argument in favour of amalgamation centred on the region's projected high growth rates and the need to manage urban development and in particular environmental management so that the 'actions of one council do not compromise the environmental quality or amenity of its neighbour' (LGRC 2007: Vol. 2). The LGRC also stressed the importance of integrating the growth management strategies into one document as well as the strategic capability and economies of scale that an amalgamation would achieve.

All three councils opposed the amalgamation. Noosa Shire Council in particular was strongly opposed, based on claims that the area had a distinct character and did not share any communities of interest with the other two councils (LGRC 2007: Vol. 2). The LGRC review received the highest number of postcards and written responses in relation to Noosa Council's inclusion (LGRC 2007:85-86). The objections of the councils were all rejected by the LGRC, but a strong anti-amalgamation movement continues in Noosa.

Implementation

On 14th March 2008, the previous councils were dissolved and the new council commenced operations the following day, with the designated interim CEO assuming office. There were 12 councillors and the mayor on the new council, with the amalgamating councils opting for divisions.

The three councils faced similar problems to the Central Highlands in having to build the structures and systems of the new council, though there were some significant differences. The amalgamating councils were all much larger, which made the challenge of developing and populating the interim organisation structure much more complex.

In addition the three amalgamating councils had different cultures; Maroochy for example was characterised as having an 'extroverted' approach, Noosa as 'laid back' and Caloundra 'conservative', with the result that there was a perception, both because of its attitude and size, that Maroochy would dominate the amalgamation process. Finally, unlike Central Highlands the Sunshine Coast is a multi-centred region with a dispersed but fast-growing population. Two of the councils (Caloundra and Maroochy) were planning for this growth, while Noosa was actively trying to contain it.

Similar to Central Highlands and other areas, the three councils were required to form a Local Transition Committee involving councillor representation from each council, the interim CEO and representation from local government unions. In the case of the Sunshine Coast this took the form of an LTC office with its own administrative support.

One advantage that the amalgamating councils had because of their size relative to those in the Central Highlands was that in most cases it was possible to select and scale up an existing IT or other system from one of the councils. This saved not only on establishment costs but also in relation to training, which could be done in-house using the expertise of existing staff.

The Sunshine Coast took a considered approach to building and populating the interim structure, emphasising the importance of getting it right rather than putting something in place quickly. A number of transition teams were put in place involving staff representation from the three councils. Area managers for the three amalgamated council areas were appointed on an interim basis. Teams

were set up to review service delivery options and in some departments cross-functional 'vertical slice teams' involving representatives from all levels of the organisation were established to undertake specific activities such as training and staff development.

While these strategies were important in getting the new structure right, there were some problems. Once the interim structure was in place it was populated from the top down, with senior positions filled first, a process that took up to eighteen months to complete. This heightened staff anxiety, despite the guarantees provided by the workforce transition process mandated by the State Government. There is a perception that at least some of this could have been avoided if positions that obviously translated readily to the new structure had been filled earlier and if there had been more communication with staff. As with the Central Highlands, some of these issues were further complicated by what many see as the inflexibility of the workforce transition guarantees.

The Sunshine Coast amalgamation process has also had to deal with managing the integration of the very different cultures mentioned earlier. This problem is also reflected at the elected representative level.The decision to retain divisions appears to have encouraged a degree of parochialism, which has been only partly overcome by implementing a portfolio system where individual councillors assume responsibility for specific policy areas.

A number of these issues have led some to a similar conclusion to that mentioned earlier in relation to the Central Highlands; that the management of the mechanics of amalgamation have been so daunting and time-consuming that they may have delayed the recognition of the need to adopt a much more comprehensive change management approach.

Outcomes
- ***Cost reductions and greater efficiency***
  While there is potential for greater efficiency in the new structure, this is only just starting to be realised and it will be some time before the costs of the amalgamation are absorbed. These are similar to those for the Central Highlands but there are some differences:

  - The implementation of the Workforce Transition Code of Practice, which has had a particular impact given the size of the new council's workforce;
  - The harmonisation of the workforce, and the provision of 'highest common denominator' salary and conditions;
  - The State Government's decision to take over control of the supply of water and sewerage services, which has resulted in the loss of a considerable number of staff and the transfer of major infrastructure from council at what is perceived by many to be bargain prices;
  - The council is so large it may suffer from scale diseconomies, having to rely on a more systematic, documented approach to service delivery rather than one that was based on the local knowledge of council staff.
  - The impact of the global financial crisis.

The amalgamated Council estimated the costs of amalgamation at $13.7 million for the purposes of its claim to the Queensland Treasury Corporation but estimates of the real cost range up to $30 million. However, council's submission was rejected, suffering the same fate as all those from other councils.

- ***Improved strategic capacity***
  Sunshine Coast has been proactive in developing a range of strategies and plans for the new region. This is also reflected in the changing relationship between local government and the state government, both in direct relationships and through the SEQ Council of Mayors, now that

Sunshine Coast is the council for whole region. As a result, a number of state agencies have now aligned their boundaries with those of the new council.

However, developing council's internal strategic capacity as well as its role in strategic governance is regarded as a process that will take at least five to eight years – and it has only really just begun. Furthermore, there are two major concerns. The first is the State Government's challenges to council's authority through the removal of its role in water supply and its decision to take over planning of a major urban development in the south of the region. These decisions limit council's strategic capability and also create uncertainty about its strategic environment.

The second is the broader issue of the challenge of managing strategically in a region experiencing massive population growth across a range of centres located in a sensitive natural environment. There are some concerns that the amalgamated area, which will grow in population to close to half a million by 2026, could become too big and complex for effective management within a local governance framework. Even if the arguments for forced amalgamations were accepted, the model chosen for the Sunshine Coast may not have been the most appropriate, compared to alternatives that may have better reflected communities of interest and logical natural boundaries.

- *Democratic representation*
  The new Council has 12 councillors and a mayor compared to 31 councillors and three mayors across the councils prior to amalgamation. There are over 15,600 electors per councillor (over eight times the number in the Central Highlands).

  The amalgamating councils opted for the retention of divisions, which has resulted in a degree of parochialism in the new council and a sense of 'attachment' to the previous councils. To help overcome this and to give council a more strategic focus, a portfolio system has been adopted in which each councillor has a responsibility for a policy area across the whole region.

  This has contributed to developing key strategic documents such as the new planning scheme and helped in getting these adopted by council, but it has only been partially successful in encouraging a more strategic focus among councillors.

- *Enhanced service delivery*
  Improvements in service delivery are only just beginning to be realised and in fact the initial focus was initially on maintaining previous service delivery levels while reviewing and creating new models for service delivery. While the economies of scope and scale will enable council to address some issues such as waste management more effectively on a regional level, there is a risk that the council is now so large that diseconomies of scale will adversely affect some areas of service delivery.

South East Queensland Council of Mayors
In relation to strategic planning, the Sunshine Coast Regional Council operates within the context of the Council of Mayors (South East Queensland. This is the key body for the Sunshine Coast and other councils to have input to and influence over the State Government's planning processes for Southeast Queensland. It is not possible to describe in detail the activities of the Council of Mayors in this report, but in the context of this case study it is important to briefly summarise its operations.

As noted in the introduction, the South East Queensland Regional Organisation of Councils (SEQROC), which covered Brisbane, and the surrounding councils was established to represent SEQ

councils in *SEQ 2001, the Regional Framework for Growth Management*. SEQROC worked closely with the State Government to manage the RFGM through a Regional Coordination Committee (RCC), which involved the relevant Ministers and the chairs of the sub-regions with SEQROC.

In 2004 the State Government amended the *Integrated Planning Act 1997* to create a statutory planning framework for managing growth, land use and development in the region through the *South East Queensland Regional Plan 2005-2026*. Partly as a result of this change to a more proactive, statutory planning process by the State Government, SEQROC was reconstituted as the Council of Mayors (SEQ).

While the RCC (renamed the Regional Planning Committee or RPC) was retained, the new body also adopted a sharper, advocacy-based focus based on the role of the Mayors as leaders of their communities and therefore the region. This approach was influenced by the Councils of Mayors model, which has evolved in many parts of the USA. In this context the Council of Mayors has lobbied the State Government over the review of the South East Queensland Regional Plan. It also established the SEQ Economic Development Forum and has also partnered with the State Government to deliver the region's *Integrated Regional Transport Plan*.

The main change resulting from the amalgamations was to reduce the number of councils, and mayors, involved in the Council of Mayors. It has been argued that this has made the Council more effective, not only because there are only ten Mayors compared to the previous 18, but also because the councils are larger and more evenly sized, which has encouraged a more strategic approach to the planning issues of south east Queensland.

Evaluation
The Sunshine Coast amalgamation has not been externally evaluated, although an internal report to discuss progress to date has been prepared for councillors. The service reviews mentioned earlier have been implemented and council has started a 'value and success program' to build on these in driving the next round of corporate efficiencies.
The aspects of the amalgamation process that are specific to the Sunshine Coast are discussed here.

The main benefits of the amalgamation are that it:

- Provided an integrated basis for improved strategic planning, economic development and environmental management across a key growth region;

- Ensured that local governance for this region operates at a more strategic level in response to these issues and in relation to the delivery of services;

- Built on and helps to reinforce the Sunshine Coast's regional identity as a tourism and recreation destination;

- Provided a basis the long-term process of increasing strategic capacity, achieving economies of scale and more effective service delivery.

However the amalgamation, and more specifically the process mandated by the State Government, has been implemented at considerable cost.

Unlike the Central Highlands, where four rural councils with very small populations but covering a huge area had to reinvent themselves as a single regional council, the Sunshine Coast amalgamation brought together one medium-size and two very large councils. However, despite the additional

resources that these councils were able to bring to the process, creating a single entity has in some respects been more problematic for the following reasons:

- The large numbers of staff involved added to the complexity of the process;

- The new council is so large that the potential to achieve economies of scale is limited and the amalgamation may have even resulted in some diseconomies of scale;

- The fact that each of the previous councils had a very different culture and approach to planning which had to be integrated during the amalgamation process, adding to its complexity;

- The retention of divisions has fostered a degree of residual parochialism which council's system of allocating portfolios to councillors has only partially overcome;

- The continuing de-amalgamation campaign in the Noosa area, which may succeed if there is a change in government at the next State election, provided a degree of continuing uncertainty about the council's future;

- The State Government decision to remove the provision of water supply and sewerage services from all south east Queensland councils, which has had financial and other impacts on the amalgamation process;

- The Government's decision to take control of a major urban development from council, which has undermined its authority and called into question the strategic capacity rationale for creating such a large council in the first place.

Despite these problems there appear to be strong grounds for optimism regarding the future of the amalgamated council, even though the potential to achieve outcomes in relation to strategic capacity, greater efficiency and improvements to service delivery are only just starting to be realised and is widely regarded as a five-to-eight-year project. The biggest threat to the amalgamated council's prospects remains the strong possibility that there will be a de-amalgamation involving the Noosa area.

B13.3 Lessons from the Queensland Cases

The Queensland amalgamation process identified strategic capacity outcomes rather than prioritising economic or efficiency objectives, and sought to relate these to a broader regional framework to help drive its strategic planning agenda. Laudable though these objectives are, however, councils had little or no input before the amalgamations were announced and subsequently were required to implement the amalgamation process within a strict timetable.

This has had obvious implications for the success or otherwise of the outcomes in these case studies. Common to both in terms of positive outcomes, the process has:

- Provided a strong basis for future improvements in strategic capability, efficiency and service delivery in the amalgamated councils;

- Encouraged elected representatives to adopt a more strategic and less parochial approach to their responsibilities;

- Built the foundations for a more strategic and integrated approach to local planning, economic development and environmental management within each amalgamated council's area;

- Improved the linkage between local planning and the State Government's new framework for regional planning and service delivery;

- Guaranteed some degree of certainty for council employees affected by the amalgamations.

However the case studies also demonstrated a significant number of negative outcomes from the amalgamations. In this regard the case studies demonstrate that the amalgamation process has:

- Required amalgamating councils to incur millions of dollars in costs without any compensation, thus cancelling out any efficiency gains at least for several years;

- Reduced levels of democratic representation;

- Encouraged at least some cynicism in many local communities because of a perception of a degree of tokenism in the way public input to the Local Government Reform Commission review process was handled;

- By compressing the preparations for amalgamation into a short timeframe, forced councils to prioritise the development of new structures and to defer attempts to develop the opportunities to achieve the improvements in strategic capability referred to earlier;

- Undermined the strategic objectives sought through decisions to remove aspects of water management from the direct control of councils in south east Queensland and specifically to remove a major urban development project from the control of the Sunshine Coast Regional Council;

- Produced particular difficulties for the councillors and mayors elected to form the first post-amalgamation councils who will have to deal with continued opposition to amalgamation (Sunshine Coast) and the consequences of unpopular decisions such as rates equalisation (Central Highlands);

- Provided an employment guarantee that may have been too sweeping in its scope and which in some cases has only deferred the inevitable rationalisation of council staff;

- Where divisions were retained in amalgamated councils such as the Sunshine Coast, entrenched a degree of parochialism;

- At least in the Sunshine Coast, produced an amalgamation that may not have reflected the best option available in terms of communities of interest (even within the parameters of a forced amalgamation) and which may yet result some in diseconomies of scale and a possible de-amalgamation in future.

There are some other overall conclusions that can be drawn from these two case studies:

- Alternatives to forced amalgamations that may have achieved similar objectives were never fully explored, nor was there any real attempt to negotiate aspects of the process such as

which councils got amalgamated or the timeframe involved;

- Amalgamations of this scale involve massive cultural and other changes, e.g., creating a council on a different scale (Central Highlands) or merging councils with very different cultures (e.g. Sunshine Coast). This means that the amalgamation process should:

- Involve early and comprehensive implementation of a change management strategy;

- Be implemented in the full knowledge that it will take five to eight years to completely bed down the changes and to see the full benefits;

- The process also raises wider issues regarding governance models and outcomes that should be considered in the process. If councils of this size are created, then logically they should be treated as partners with more powers being devolved to them and not the other way around.

B.14   Delatite (Victoria)

While there have been a few occasions on which councils have been split into smaller entities, de-amalgamations or recently merged councils are a very rare event. One of the few to occur was the de-amalgamation of the Victorian Shire of Delatite in 2002. It is included as a brief case study because of the insight it provides into how and why an amalgamation can fail and also because it has come to serve as an inspiration for more recent – and ongoing – campaigns for de-amalgamations in other jurisdictions.

Unlike the other case studies this review has drawn mostly from the relevant literature, most notably the 2002 conference paper prepared by Dr Peter Chen[25] and the report of the Local Government Review Panel[26], and has not involved interviews.

B14.1   Development of the initiative

Delatite was formed under the wholesale amalgamations of Victorian councils implemented by the Kennett State Government in 1994 and involved the merger of the City of Benalla, the Shire of Mansfield, much of the Shire of Benalla and a small section of the Shire of Violet Town.

As the subsequent report of the Local Government Review Panel (LGRP) noted, there was local opposition to the amalgamation, as there was in many other municipalities across the state. The amalgamations were introduced primarily to reduce the costs of local government administration through economies of scale. They involved very little consultation and were especially problematic in rural areas where communities of interest were based on specific population centres.

As Chen notes, the Delatite amalgamation reflected the lack of any specific aims in the reform process beyond that of achieving cost savings. The new shire, with a population of 22,000, was very long and thin (approximately 155 kilometres by 40) with limited relationships between the economic bases at either end of the new shire. Prior to amalgamation the Delatite option had been opposed,

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[25] Chen, P. (2002) *'They're not like us': The de-amalgamation of Delatite Shire*, refereed paper presented to the Jubilee conference of the Australasian Political Studies Association, Australian National university, Canberra.

[26] Victorian State Government (2002) *Review of the possible restructuring of Delatite Shire: the Report of the Local Government (Delatite Shire Council) Review Panel,* Melbourne.

with councils seeking either options that did not involve merging Benalla and Mansfield or opposing any amalgamation at all.

A number of poor planning and administration decisions by the new council, struggling to deal with a state government-imposed rates cap, superannuation liabilities and the high cost of the amalgamation itself exacerbated the continued opposition to the merger, particularly in Mansfield. This was not helped by the practical difficulties caused by the distance between the two centres. The development of an anti-amalgamation campaign in Mansfield was boosted by council's decision to provide improved accommodation for Benalla-based staff through consideration of the purchase of a larger property for the Benalla offices. This was interpreted as an attempt to centralise staff in Benalla at the expense of Mansfield, and in the words of Chen, helped to turn the anti-Delatite movement 'from a few disparate individuals into a unified political force'.

Another major boost for the campaign came with Labor's 1999 state election win, which raised the possibility that a reversal of the amalgamation decision could at least be considered by the new state government. The Mansfield and District Ratepayers' Association (MADRRA) was formed in 2000, running anti-amalgamation candidates in the council elections later that year. The campaign was further advanced by the election at a state by-election in 2000 of a candidate opposed to amalgamations.

While several residents' groups were established in the Benalla section of the shire these were never as cohesive as their counterpart in Mansfield, adopting different positions on the de-amalgamation issue. This had the dual effect of fragmenting opposition to the de-amalgamation campaign and also legitimising it as not being based purely in a north-south conflict.

At the second post-amalgamation council elections, a disciplined campaign by the anti-amalgamation candidates resulted in them winning four of the eight places. The even split caused a political impasse on council, which was resolved by a decision to seek a review of the Shire by the Minister for Local Government. This was agreed, but in order to avoid setting to easy a precedent for other councils unhappy with amalgamation, the state government mandated that the council had to pay for the review and that it would have to undertake a detailed examination of the costs associated with de-amalgamation.

B14.2   Implementation

The review process involved the preparation of a Green Paper and an economic assessment of the potential viability of the prospective new councils along with extensive community consultation. This comprised community meetings in the north and south of the shire, a call for written submissions and a survey of community attitudes. This led the consultants to conclude that the majority of residents were supportive of de-amalgamation, even if it involved an increase in rates.

Although the survey involved 10 per cent of the shire's population, Chen and others have raised issues regarding its methodology, noting that the survey was never intended to be a stand-alone referendum and that as a consequence the questions were 'exploratory, rather than definitive'. Some of the questions also appeared to be leading in highlighting the benefits of de-amalgamation.

The anti-amalgamation campaign was also much more successful in organising attendance at meetings and written submissions than its opponents. This demonstrated the strong activism of the Mansfield-based campaign, which contrasted with a degree of apathy shown towards the issue by the Benalla community. The activism among the former may in turn reflect socio-economic and educational differences between the two communities, with Mansfield residents more highly

represented in professional and managerial positions, and also having lower unemployment rates and a slightly larger percentage of higher degrees.

The speed of the review process also appears to have strengthened the anti-amalgamation cause by reducing the opportunities for opposing voices to emerge – and as Chen notes, the real level of support for de-amalgamation will never be known as a definitive referendum was not conducted.

In the end, the review's finings in favour of de-amalgamation substantially legitimised the cause. The panel subsequently set up by the state government to further review the feasibility of de-amalgamation took the view that it did not need to conduct further community consultation. The panel did note however that at least in the northern part of the shire, some of the support was reluctantly provided on the basis that de-amalgamation was inevitable.

B14.3 Outcomes

Cost reductions, greater efficiency and enhanced service delivery
The review panel largely confined its role to a financial analysis of the impact of separation. It concluded that the proposed new shires would be viable with additional rate increases of 12 per cent and 16.8 per cent for Benalla and Mansfield respectively. However the Board qualified its finding regarding Mansfield with the following:

> While the analysis showed that the two proposed shires were viable, we wish to point out that the new southern shire (Mansfield) will be very small, able to provide very basic services only and will have difficulty in providing for capital works, despite a significant increase in rates (LGRP 2002).

During the review process the earlier proposals by council for extensive resource sharing between the new shires were scaled back to an initiative to share community services only.

The state government accepted the Board's findings and in 2002 announced that the Delatite Shire would be wound up, administrators appointed and elections held the subsequent year. The 'new' Benalla had at the time of de-amalgamation a population of around 13,500 people and the 'new' Mansfield over 6,600 residents.

The shires have grown to around 14,000 and 7,800 respectively, but Mansfield continues to be one of the smallest councils by population in Victoria. Concerns regarding the sustainability of Mansfield have continued, with an independent review of local government financial viability finding that Mansfield was among the 18 small rural councils that do not have the capacity to adequately service their communities[27].

In summary, while the original amalgamation may not have greatly reduced costs or enhanced service delivery, the de-amalgamation has hardly improved the situation. And, as Chen notes, the costs of the de-amalgamation process were themselves significant and compounded the costs of the original, and failed, Delatite amalgamation.

Democratic representation and improved strategic capacity
While the de-amalgamation has resulted in some improvement to the level of democratic representation particularly for Mansfield residents, it appears to have done little to increase the strategic capacity of either shire, especially Mansfield.

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[27] Whelan M. and Whelan R. (2010) *Local Government Financial Sustainability Abridged Report*, (no publication data)

However, it has to be said that original amalgamation did little to enhance strategic capacity in the first place because the two key communities had only a limited common community of interest. The distances between these centres also meant that dealing with the practical problems of the merger were always likely to make any notion of improving strategic capacity a secondary consideration. As noted earlier, these limitations reflected the fact that the Victorian council amalgamations were based largely on economic rather than strategic criteria.

Finally, the early emergence of the de-amalgamation campaign meant that there was little or no opportunity to explore the potential to improve the strategic capacity of the amalgamated shire.

B14.4 Lessons

Peter Chen prepared a detailed paper on the Delatite de-amalgamation in 2002 and the Local Government Review Board provided a detailed analysis of the financial aspects of the process in the same year. A small number of academic papers have subsequently drawn on the Delatite de-amalgamation experience but there does not appear to have been any substantive evaluation since the Chen paper.

Not surprisingly the rarity of a de-amalgamation has meant that a range of conclusions have been drawn from the Delatite story. Some the more relevant observations are outlined below:

- The most important and probably most unsurprising of these is that, hasty and poorly planned amalgamations, which do not involve adequate consultation, will result in poor outcomes and disaffected communities[28]. This situation is exacerbated when amalgamations are pursued primarily on cost savings grounds and without regard to strategic outcomes.

- Importantly, however, this is not an argument against amalgamations *per* se; an adequate consideration of strategic capacity probably would have highlighted the lack of a substantial rationale for merging such disparate and far-flung communities as Benalla and Mansfield and looked at other options instead.

- As Chen notes, well-organised grassroots campaigns can achieve significant outcomes, especially if they can impact on strategic decisions early in the political process on an issue such as amalgamation. The initiative of the Mansfield residents group to put de-amalgamation on the agenda before the wider communities were engaged in the discussion helped to set the framework and parameters for the subsequent debates.

- The success of this de-amalgamation campaign echoes the attempts of residents' groups in small, relatively distinct and cohesive urban communities comprising well-educated and affluent residents (for example, Pittwater and Hunters Hill in NSW, Walkerville in South Australia or Noosa in Queensland) to seek or retain their own councils and to staunchly oppose amalgamation. In fact, the Delatite de-amalgamation has been used by some of these groups as a model for their own campaigns.

- Notwithstanding the success of the Mansfield-based campaign, there is a lingering question mark over the extent to which Mansfield residents – let alone the whole Delatite community – supported de-amalgamation and the attendant costs. An alternative approach to the question may have framed the community survey differently to achieve a more objective outcome – then again, as noted earlier, a more objective process would not have brought

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[28] See for example Tiley, I. and Dollery B. (2010) *Historical Evolution of Local Government Amalgamation in Victoria, Tasmania and South Australia,* Centre for Local Government Working Paper Series, University of New England, Armidale.

these two communities together in the first place.

- There are obvious lessons for governments that community consultation has to be undertaken comprehensively and seriously when major structural changes to local government such as amalgamations (or de-amalgamations) are contemplated. These processes need to be able to balance out the strongly articulated views of specific interest groups against those who may be less articulate and not as well organised.

ABOUT ACELG

ACELG is a unique consortium of universities and professional bodies that have a strong commitment to the advancement of local government. The consortium is led by the University of Technology Sydney's Centre for Local Government, and includes the University of Canberra, the Australia and New Zealand School of Government, Local Government Managers Australia and the Institute of Public Works Engineering Australia. In addition, the Centre works with program partners to provide support in specialist areas and extend the Centre's national reach. These include Charles Darwin University and Edith Cowan University.

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