

Local Government Amalgamations and Resource Sharing

What do we know already? – A Background Paper

The purpose of this paper is three-fold:

1. To summarise the findings in key research papers on the topics of either amalgamation or resource sharing in Local Government.
2. To summarise the potential risks and benefits of Local Government reform in the form of council amalgamations or significant resource sharing as identified through a literature review.
3. To provide key references to councils wishing to further explore matters in detail.

1. Research Summaries:

2.1 *Getting it right, structural change in Perth Local Government (Dollery, 2014)*

This report was commissioned by the City of Subiaco to inform the local debate on council amalgamations¹ and provides an outline of 'what works' and 'what does not work' when councils amalgamate based on three recent examples.

Five key lessons are outlined:

1. Entities designated for amalgamation must be carefully designed. New spatial boundaries should incorporate current and future patterns of economic development, population growth and demographic trends to maximise a community of interest. Be mindful that amalgamating smaller councils with larger more dominant councils is likely to provoke resistance.
2. Amalgamation proposals must meet minimum levels of community support, and indeed community participation. A poll or referendum of all affected is required. There needs to be consideration of what happens if no clear majority – ie a second decision rule.
3. New amalgamated entities must be viable - not just financially sustainable. The new entities must have vibrant democracy, local social capital and capacity to deliver functions and services.
4. Transaction costs and transformation costs must be minimised. Transaction costs are those associated with deciding whether or not to merge (consultant reports, forensic accounting, Local Government Board inquiry, petitions, referenda etc). Transformation costs relate to the implementation. Transformation costs can persist beyond the early stages of a merger.

¹ Which has now fallen apart owing to late consultation with communities and a lack of community support.

The average transformation costs for the most recent Queensland amalgamations was over \$8 Million per amalgamated council and they were still growing at the time of writing this report.

5. Potential sources of conflict must be minimised. For example, there is a need to spend where the money came from (before and after a merger).

Dollery demonstrates that where costs are borne by councils, there is then a need to find significant savings. In Victoria, simultaneous with council amalgamations was instruction to secure 20 per cent costs savings and to freeze rates. The pecuniary consequences of this process were especially severe for less affluent councils. For those councils, the result was financial hardship, a decrease in service capacity and fall in service provision. Essential funds were diverted to the amalgamation process and the road base began to deteriorate rapidly. In the case of Benalla/Mansfield, one community felt the amalgamation was at their expense as services centralised. There were calls for de-amalgamation which was progressed after a Local Government Review Panel process. Subsequently the Review Panel directed that rates were to be increased by 12 per cent and 16.8 per cent respectively for the two councils and noted that even then services would only be basic and there would be difficulty in providing for capital works.

Hasty and poorly planned amalgamations which do not involve adequate consultation will result in poor outcomes and disaffected communities. However, well-organised amalgamations can be successful if there is a process to address objectives early through a process of assessing and selecting best of existing systems across merging councils, the early appointment of new CEO (not from the merging councils) and new name. Onkaparinga Council in South Australia is cited as an example, with outcomes including cost reductions and greater efficiency, improved strategic capacity, little change in democratic representation (councillor numbers were not significantly reduced) and enhanced service delivery. South Australia took a cooperative approach to mergers, with a focus on voluntary take up, established performance criteria around community benefits and a check list of questions to ensure consistent approach.

2.2 Local Government Efficiency: Evidence from Western Australia (Fogarty and Muga 2013)

The authors measured efficiency at ninety eight local councils in Western Australia in 2009 and 2010. The key motivation for the study was to "empirically investigate whether or not incorrect scale was a significant source of inefficiency across Local Government service delivery in Western Australia".

Many councils were found to be operating under increasing returns to scale but many others were found to be operating under decreasing returns to scale suggesting there is room for scaling up or down to achieve an optimal council size. That is, sometimes the inefficiency results from the council being too large and sometimes from it being too small. Bigger does not always deliver the best results.

Local councils have taken on an increased range of functions. This is a reflection of the subsidiary principle which says that services should be provided by the lowest level of government that can effectively deliver that service. However, application of the subsidiary principle is problematic when there is a mismatch between the revenue-raising capacity of local councils and their service delivery requirements.

The researchers developed a detailed understanding of the financial health and organisational capacity of Western Australian Councils through review of survey information on strategic, financial and infrastructure planning practices, governance,

representation and community advocacy activities; understanding of demographic issues and organisational capacity. Strikingly it was found that at that time eighty two percent of councils undertook little or no financial planning to identify future asset maintenance and renew gaps, eighty one percent undertook little or no asset maintenance and renewal planning, seventy seven percent undertook little or no financial management planning and thirty six percent undertook little or no strategic planning.

A key conclusion is that "policies that encourage consolidation only make economic sense if larger councils tend to be more efficient than smaller councils and if merging will improve both technical efficiency and scale efficiency". The results suggest that there will be a number of possible council amalgamation scenarios that do not meet those criteria, and some that do.

"Economies of scale benefits are realised when an increase in the mix of different services provided by a council results in a decrease in the overall average cost of service delivery. The average costs at each council will depend on the mix of services delivered, the unique nature of production characteristics of each service and prevailing market conditions" – therefore serving a larger population may not necessarily translate to service delivery at the minimum possible cost.

2.3 Why Smaller Councils Make Sense (Allan, 2003)

In summarising the outcomes of amalgamations in the 1990s, Allan reports that most of the cost savings from the Victorian amalgamations came from the introduction of competitive tendering rather than amalgamations themselves. He further noted that savings were very minor for South Australia's amalgamated councils and that the evidence of cost savings following the 1993 amalgamations program is mixed. Allan's view is that many improvements related to legislative reform rather than amalgamations per se. He states that international research supports an argument that "bigger councils are less economical and less locally responsive".

He points to the following advantages of smaller councils:

- Better access to elected councillors and senior administrators;
- Better knowledge of local conditions and opinions, better service targeting;
- Can consider local issues at council meetings given the smaller geographic focus;
- Most cost conscious since they are forced to outsource many services which bigger councils keep in house;
- Flatter administration structures leading to better coordination; and
- Less likely to become hostage to restrictive work practices and alienation of workers from management.

Historically amalgamations have been driven by the pursuit of savings but in Victoria the promised twenty percent was actually more of the order of eight point five percent (and related to competitive tendering); and in South Australia a promised seventeen point four percent was actually two point three percent.

Allan notes that while the average cost per unit of output falls as the volume of a service or good expands, it will reach a point of lowest average cost of production. Beyond a certain point of production, diseconomies set in. Bigger councils have been found to be less economical and less locally responsive. Further, there is no standard or single size that has been found to be appropriate for Australian Local Government authorities.

The paper notes that the important characteristics of modern organisations is greater choice, transparency and responsiveness. That is, speed over size. Councils need to have the flexibility to respond quickly, effectively and efficiently. Empirical research does not support the argument that you must trade off democracy for efficiency and instead supports an argument that 'bigness impedes both democracy and efficiency in local councils'.

Allan cites lessons from mutuals, unions, private enterprises and government in resolving big vs. small arguments and highlighting other ways to become more efficient.

For example, the Australian Credit Union Movement has independent shop fronts but is linked to one or two shared service centres that act as their bank, raise finance, process their mortgages and service their ATMS. Business rivals Westpac and the Commonwealth Bank established a joint venture to process cheques and at the time of this article, were looking to expand to back office functions.

A number of key arguments for amalgamation are also addressed and rebutted including the need to address regional planning. He reminds readers that regional/state planning is the role of State Government and they should be setting the strategic directions with input from councils and developing guidelines within which councils should operate.

His preferred model is a reorganisation of Local Government to encourage more local metropolitan councils (covering smaller areas) that are serviced by a small administrative unit and backed up by a regional shared service centre in order to deliver more responsive Local Government, better place management and lower costs and rates.

1.4 Consolidation in Local Government, a Fresh Look (Aulich et al 2011)

These papers considered evidence through the four prisms of efficiency, strategic capacity, service delivery and local democracy and undertook a literature review, a series of case studies and eight interviews with senior practitioners in the Local Government sector.

The authors found that there is little evidence that amalgamation will automatically yield substantial economies of scale. Further potential benefits are reduced or lost when the process is flawed due to inadequate planning and consultation or a failure to consider all the options available and precisely what each could achieve.

Consolidation (in various forms, including shared services) offers opportunities to achieve economies of scope or enhanced strategic capacity. This effect may well be strongest in the case of amalgamation into relatively large units.

In the case of more remote councils with small populations spread over large areas, consolidation (whether amalgamation or shared services) may not be feasible.

Ongoing change in Local Government is unavoidable, and consolidation in its various forms will be part of that process.

Efficiency gains can be achieved through various forms of consolidation, but are unlikely to produce reductions in local rates and charges due to other expenditure needs.

More importantly, consolidation offers opportunities to achieve economies of scope or enhanced strategic capacity. This effect may well be strongest in the case of amalgamation into relatively large units.

Concerns for any diminution of local democracy were muted, suggesting that councils may be managing this issue well and/or that it is often not a major, ongoing factor in the eyes of the community.

Underpinning any approach to consolidation is the importance of political leadership, good governance and effective management arrangements, both in managing change and establishing a sound basis for ongoing operations.

There is a continuing role for state (and national) governments and Local Government associations in facilitating and supporting consolidation initiatives.

Too much attention is focused on the institutional arrangements of the Local Government system in each jurisdiction rather than on the fundamental issue of the societal functions performed by Local Government and its changing role.

2.5 *Misconceiving Regional/Local Tensions: Two Case Studies from Tasmania (Dollery et al 2012)*

The authors start by noting that efforts to stimulate regional development often concentrates on the integration of existing local authorities into single large amalgamated entities on the grounds that bigger is cheaper and better.

This paper critically analyses two key studies undertaken in Tasmania, the Independent Review of Structures for Local Governance and Service Delivery in Southern Tasmania (the Munro Report) commissioned by the Southern Tasmanian Councils Authority; and Local Government Structural Reform in Tasmania developed for the Property Council of Australia (Tasmania Division) by Deloitte Access Economics in 2011.

Dollery et al describe a number of key flaws of the Munro report including:

- Assertions not supported by reference to empirical or conceptual evidence;
- Proposes that the experience in other States is fully applicable to Tasmania when this is not the case;
- Applies inconsistent logic (citing a role for the STCA in formulating regional strategies but failing to note that this can be done without amalgamating councils);
- Fails to consider the financial impacts of amalgamation on Queensland Councils;
- Makes exaggerated claims about the potential savings; and
- Claims a Greater Hobart Council would not lead to involvement of political parties despite evidence from Brisbane and Sydney to the contrary.

In relation to the Deloitte Report, the authors note the terms of reference did not require the consideration of costs associated with amalgamation nor examination in any detail of the outcomes of other Australian amalgamation exercises.

The claims made, particularly around the thirty five percent savings are deemed extravagant and unsubstantiated and are premised on a number of caveats including that the analysis was 'high level' and draws on findings of a 'stylised case study of potential efficiency gains'.

The Deloitte report is perceived as drawing a long bow in linking Local Government amalgamation to national microeconomic reform. "The alleged causal connection between larger Local Government entities and economic prosperity is so tenuous that even in terms of its own reasoning; Deloitte Access Economics (2011) manages to undermine its own claim".

The Deloitte report uses per capita costs to proxy the performance of councils but this is erroneous because the service composition and quality vary widely and because different councils face different input costs regimes (induced for example by remoteness).

The authors rebut the Deloitte claims about size noting that of course it is generally less expensive to deliver local services to concentrated masses of residents rather than spatially spread populations and that it is not the smaller size of councils outside metropolitan areas that drives costs but the fact they have a high degrees of population dispersion.

There is a need to disentangle the relationship between population and population density when considering the outcomes of amalgamations.

In the paper it is noted that even Deloitte are forced to acknowledge the following:

- Tasmania sits at the lower end of the operating expenses spectrum for Local Government across Australia;
- The lowest per capita costs for a Tasmanian council are seen at Brighton (a small council) compared to nearly double for Launceston City Council which is the largest council by size; and
- The impact of difference in wage and salary costs have not been considered and these account for thirty to forty percent of council budgets.

2.6 Queensland Treasury Corporation – Report on Cost of Amalgamations

The Queensland Treasury Corporation (QTC) identified a \$47.21 Million net cost of amalgamation but this is significantly less than identified through submissions by affected councils which was of the order of \$184.71 Million.

The QTC determined that savings were relatively static from twelve months after amalgamations but that other benefits which accrued included improved decision making capability, natural attrition and procurement efficiencies.

It is important to note that QTC did not consider wage parity when considering net cost. The major cost claims by councils related to: wage parity, ICT, redundancies and other senior officer costs, councillor remuneration, statutory plans, new buildings/renovations/relocations, change management, branding, payroll tax and Financial Assistance Grants (FAGS).

While QTC did find that councils had liquidity to cover amalgamation costs they would be required to run down cash balances to levels not considered prudent; requiring a greater use of debt funding

The QTC notes that the savings and benefits of Local Government amalgamation are difficult to measure as savings may be utilised to increase the range and/or to improve the quality of services offered and won't generally show up as improved profitability or reduced rates.

2.7 Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel (October 2013)

The Independent Local Government Review Panel was tasked with formulating options for a stronger and more effective system of Local Government in NSW, recognising that a one size fits all approach is inappropriate. The Panel determined that a package of measures was needed to address the challenges facing Local Government.

The Panel stated that it is likely that there will be different outcomes and possibilities for different council but that sooner or later, amalgamations have to form part of that package.

It is noted that while change for change's sake is unwise, there are four key drivers of Local Government reform.

- 1) The world is changing rapidly and Local Government must therefore change too in order to be fit for purpose.
- 2) Large sections of the sector are not faring well with weak financial sustainability indicators.
- 3) Few councils are realising their full potential as partners in the system of government and Local Government skills and resources could be used to greater effect.
- 4) In NSW relations between State and Local Government have not been as productive as they should be.

In surveying the NSW community, the Panel found that on the whole, people are satisfied with the performance of Local Government, more so than with State and federal governments.

However, awareness and understanding about the role of Local Government is low.

A significant minority of people are opposed to amalgamations due to concerns about loss of local representation and identity and the establishment of large bureaucracies but there is a widespread perception that amalgamations could lead to cost-savings and better services.

The Panel made sixty five recommendations related to twelve key themes including fiscal responsibility, strengthening the revenue base, meeting infrastructure needs, and improvement, productivity and accountability.

The Panel identified the essential elements of an effective system of Local Government as being:

- Councils with the scale, resources and 'strategic capacity' to govern effectively and to provide a strong voice for their communities;
- Maintenance of a strong sense of local identity and place ;
- Councils with an adequate revenue base (own source or grants) relative to their functions, healthy balance sheets, and sound financial management;
- Councils renowned for their efficiency and focus on outcomes, based on the Integrated Planning and Reporting framework;
- Regional groupings of councils that share resources on a large scale and jointly plan and advocate for their regions;
- Councils that have highly skilled mayors, councillors and executive teams; and are respected by the State government and community alike;
- Mayors who are recognised as leaders both within the council and throughout the local community, and enjoy a positive reputation for that leadership;
- An electoral system designed to ensure that as far as possible councils are representative of the make-up and varied interests of their communities;
- A Local Government Act that minimises prescription and provides a range of options for the way councils and regional bodies are structured;
- Effective mechanisms for State-local consultation, joint planning, policy development and operational partnerships;

- A Local Government association that is focused on strategy; a well-informed, dynamic advocate; a leader in reform; and a troubleshooter; and
- A constructive relationship between employers, employees and employee organisations, focused on improving productivity, performance and rewards.

The NSW Independent Review Panel noted that they had focussed on issues, not geography and that any reform option must have a clear rationale. Consolidation/amalgamation are not the only strategies and one size does not fit all.

Their view is that consolidation works better in metropolitan areas but it is noted that it may shift the balance of power in a small state.

Collaborative planning and resource sharing is critical and extensive consultation is required with communities.

It was noted that reform in any form, does not come without costs and these are often underestimated. Further reform takes time and expertise, motivation and leadership. Negotiations must be undertaken in good faith.

Shared services and other cooperative relationships must be created in a way which ensures continuing commitment.

There is a need to create more 'strategic capacity' in Local Government, both within individual councils and collectively, in order to have the ability to respond to the diverse and changing needs of different communities; and to take on new functions or deliver improved services in order to meet those needs.

"This implies a move to larger, more robust organisations that can generate increased resources through economies of scale and scope, and then 'plough back' efficiency gains into infrastructure, services and other benefits for their communities".

It should be noted that of the many recommendations, only a few related to structural reform. Some examples of other principal recommendations include: placing Local Government audits under the aegis of the Auditor General; a review of the rating system; redistribution of Financial Assistance Grants to areas of greatest need; a review of the regulatory, compliance and reporting burden on councils; developing a good governance guide; and introducing new arrangements for collaborative, whole-of-government strategic planning at a regional level.

It should be noted that a number of the recommendations are already in place in Tasmania or are in the process of being progressed as a consequence of the Role of Local Government Project.

The final report has a significant focus on implementation with suggestions relating to State-Local Government partnerships (historically weak in NSW compared to Tasmania); collaborative strategic planning; better recognition and protection of democratic Local Government in the State constitution; establishment of a Ministerial advisory group to oversee implementation; a significant role for the Division of Local Government which would require enhanced resourcing; identification of priority areas to form part of an implementation package; and amendments to and modernisation of the Local Government Act.

2.8 Shared Services in the Public Sector: A Triumph of Hope Over Experience (Australian Institute of Management 2012)

This summary of findings from literature and case study reviews notes that sharing of “back office” services by public sector organisations offers obvious and concrete benefits which include:

- Lower costs in transaction processing (efficiency);
- Consolidation of high-end functional expertise (effectiveness);
- Greater professionalism and better career paths within shared support functions;
- Greater focus on core business within the remainder of each organisation;
- Promoting regional policy objectives and overcoming geographical skills shortages; and
- Facilitating “Machinery of Government” changes.

“In practice large-scale public sector shared services implementations have almost invariably been problematic”. Reasons for this include overly optimistic business cases, poor governance, bad technology choices and lack of ongoing political sponsorship. “Evidence suggests systematic underestimation of the costs and/ or risks of implementation — caused by behavioural factors which have not been given sufficient weight, either in business cases or in implementation planning and execution”.

A relatively recent report recommended that the Western Australian Government decommission its whole-of-Government shared services solution and return corporate services to the agencies, at a savings of \$356 Million over a ten year period.

This surprising result suggests that agencies had retained much of the capacity and capability required to deliver corporate services, even after a whole-of-Government shared services arrangement had been set up.

In order to be successful, shared service arrangements need to have appropriate and sufficient political sponsorship and a focus on service delivery improvements as well as cost savings. The expected service improvements need to be well articulated at an individual council level.

There needs to be a willingness to tailor shared services to a reasonable degree in order to accommodate differing needs.

The starting point may be pragmatic rather than large scale – eg sharing good practices, processes and systems and reviewing shared services opportunities in line with trigger events.

The UK National Audit Office has proposed greater transparency around decisions to adopt shared services including being able to demonstrate a clear business case as to why a shared service is the most suitable option and the authors agreed that such transparency “should make it easier for public sector organisations to support initiatives that provide collective benefit”.

2.9 Getting Clever About Shared Services (Field 2012)

The author, Greg Field is the Head of Public Policy and Thought Leadership, Australian Institute of Management NSW & ACT (AIM). He presents a brief overview of what works and does not work in relation to shared services.

“Over the last decade, governments in almost every Australian jurisdiction have seized upon shared services as a cost savings option. This is primarily due to the perception that the sharing of back office services by public sector organisations will offer a range of obvious and concrete benefits”.

The author notes however, that putting shared services initiatives in place is complex and cannot be instigated without expecting to encounter a number of complications and setbacks. Behavioural issues are at the core of success.

There needs to be the right change imperative, appropriate and sufficient political sponsorship, the backing of a strong collative leadership and a realistic business case.

Leaders need to be wholly supportive of the shared service initiative but collective leadership can prove problematic due to fear of loss of control (over administrative functions, loss of staff and loss of funding). Fear plays against a natural tendency to work collaboratively.

Public sector shared services business cases can rely too highly on private sector benefits benchmarks and do not properly account for the factors relevant to the implementation within the context of a public service.

2.10 Principles for Voluntary Mergers (Tasmanian Local Government Board, 2010).

This report was produced by the Local Government Board following a specific review of a potential merger between the Break O'Day and Glamorgan Spring Bay Councils.

A merger was not supported by the Board on the basis the new entity would not be substantially more sustainable than the two existing councils.

As part of the review the Board sought feedback on issues relating to voluntary mergers and developed this principles document.

Key findings included the need for:

- Collaborative assessment of all available reform options (amalgamation being one);
- Commitment to following full process;
- Adequate resources;
- Strong communication and consultation; and
- Only proceeding where the merger will lead to long-term financial sustainability and benefits for the community (including improved governance, community capacity building, improved service delivery and improvement management practices).

The Board noted a number of inherent limitations in a voluntary merger approach including:

- An inability to find a willing partner;
- That some councils may be excluded from consideration in a proposal regardless of the merits of their inclusion;
- An underperforming council may fail to recognise it needs to look at reform options;

- That the model does not account for broader systemic issues that may require resolution at a state-wide level;
- There would appear to be limited potential for successfully achieving amalgamations based on the two proposals that have emerged in the last decade, neither of which proceeded to amalgamation;
- Vested interests within the sector may contribute to the likelihood of failure; and
- Councils would have to stand firm in their commitment to merge potentially in the face of community opposition.

The Board concluded that there needs to be an objective assessment of the problems that reform aims to resolve; articulation of a vision for the sector; analysis of reform options and relative merits and a cost/benefit analysis of any potential reforms.

2.11 A City in Transformation – Local Government Reform Research – Auckland (Lane 2013)

On 1 November 2010, Auckland's eight councils were merged into one new unitary council with over eight thousand staff, \$32 Billion in assets and a \$3 Billion annual budget.

Auckland has had to integrate eight distinct organisations into a balanced governance structure with a regional governing body and twenty one local boards. This is a unique model.

The Regional Body comprises the Mayor (elected at large) and the councillors (elected at ward level). The twenty one boards are charged with community engagement and decisions making at the local level.

The model is one of co-governance in that neither the regional board or local boards are subordinate to each other. However there is inherent tension between ward councillors and the local boards and between empowerment of local boards and the desire for city wide consistency.

There are also seven council controlled organisations responsible for significant service or activity or which manage high value assets. These were not initially well received by the community being perceived as lacking transparency but are now overseen by an Accountability and Performance committee which reports to council.

This article, written two years on from the mergers, noted that the new model was working reasonably well but that transitional challenges remained. For example, staff are not always certain which governance body determines their work. Systems and processes were not yet fully integrated. There is much planning at regional and local level still being undertaken. However it was reported that there were savings of \$131 Million, significant reductions in unnecessary complexity and doubled capital investment with minimal rate increases.

The Mayor's role in Auckland is a powerful one, representing one third of New Zealanders and having a number of executive functions and a well staffed office and budget. It is recognised that this powerful role represents a risk to central government.

The key to successes to date have been the overwhelming commitment to the vision and recognition that it will take many years to be fully bedded down.

2.12 Amalgamation: Is it A Dirty Word (LGMA SA, 2010)

Participants in the 2010 Emerging Leaders Program conducted by the South Australian Branch of Local Government Managers Australia (LGMA) interviewed a range of local and state government, private sector and community stakeholders (446 in total) asking them to reflect on the outcomes of the significant council amalgamation program undertaken in 1997. The number of councils in South Australia reduced from 119 to 68 at that time.

Just over fifty percent of all respondents believed that amalgamation resulted in an improvement in local government operations. However a key finding was that there is still a high degree of concern about the benefits and angst of the process of amalgamations undertaken which would need to be addressed prior to further significant reforms.

Local Government employees noted that key concerns were loss of jobs, forced change in roles and the transformation in organisational culture. They felt it was a particularly stressful time for both those having to reapply for their jobs and those retaining jobs. They also noted that as councils got larger familiarity with the community was lost. However many employee respondents highlighted the possibility of a wider variety of positions in larger councils, better opportunities for promotion and bigger more exciting projects to work on. Forty one percent felt that amalgamations had a negative impact on employees.

There is a strong perception that smaller communities suffer in amalgamations with the fear that the profile of the community will be altered. However in contrast, some respondents felt that amalgamations can provide resources to undertake projects on a larger scale delivering greater purchasing power, sharing of equipment and savings on overheads.

The political perspective from Mayors and Councillors was that the big winners were the State Government and the development industry and they found it difficult to be confident that amalgamations had led to overall improvements in local government operations.

Community respondents "generally believe that amalgamations would result in a reduction in community engagement and representation, with reduced access to staff and department managers and even less access to local councillors". Only half of this category of respondents could describe some of the benefits of the 1997 reform.

Seventy percent of respondents did not feel that amalgamations led to improvement in the operation of local government with many citing increased bureaucracy as the main contributing factor. "So much of what was promised in the way of cost sharing and improved services have not eventuated".

From the perspective of private industry, amalgamations are viewed as critical to creating economies of scale, improving the potential for effective lobbying (on issues such as public transport) and in providing uniformity of process and procedures. However private industry respondents noted their concern that there is an increase in red tape and bureaucracy with larger organisations. Less than half supported further amalgamations in South Australia.

All survey respondents were typically in favour of the concept of shared services where economies of scale could reduce the cost of service delivery but were clear that face-to-face customer service had to be retained at the local level.

In conclusion, the authors noted that:

- The manner in which amalgamations are rolled out is critical to determining whether the experience is positive or negative.
- Actual improvements in service provision are predominantly anecdotal and the proposed cost savings are difficult to quantify.
- Councils and governments need to be very clear about what they are seeking to achieve as there is no 'one size fits all' option.

2.13 Councils in Cooperation: Shared Services and Australian Local Government (Dollery et al, 2012)

This book seeks to provide a collection of independent and academic findings in relation to shared Local Government services.

The book commences with the argument that there is widespread concern that council amalgamations have not managed to achieve intended aims and have imposed high unanticipated transaction costs on impacted councils, had divisive impacts on communities and failed to address financial sustainability.

The book maps some of the key barriers to the adoption of shared service arrangements noting that it is more difficult to strike agreement where "there are not joint gains, when the *a priori* establishment of roles and responsibilities for implementation is problematic and when there is no local knowledge of the costs and benefits of an agreement".

The authors note that while legislative reform around Local Government has sought to increase autonomy there is paradoxically increased prescription around service quality and quantity standards, the composition of service provision and many other dimensions, often leading to actual or perceived cost shifting.

Australian councils have traditionally provided a comparatively narrow range of local services to property but over time legislative scope has changed to allow for a greater number and variety of roles.

The authors note that a number of studies, including a 2005 financial sustainability review in South Australia, have found that there is no strong relationship between council size and a good financial position or good annual financial performance.

The 2006 NSW Independent Inquiry noted that while in the past Local Government amalgamations were based on the rationale that larger councils could deliver greater economic efficiencies, there has subsequently been a high degree of uncertainty in relation to that argument.

"Achieving increased economies of scale and greater efficiencies through forcible amalgamation seems questionable and generally not desirable from a Local Government or community perspective".

However, later in the book it is argued that the threat of forced amalgamations can provide a powerful incentive to overcome local political inertia leading councils to take decisive action on collaborative regional resource sharing and shared service arrangements.

Consideration is given to the characteristics of services which can be shared successfully. These include low core capability of councils, high supplier availability, low task complexity, substantial scale economies, specialised technology and low asset specificity. Alternative models of local governance in relation to shared services are articulated.

Unfortunately, as the authors note, there is a dearth of empirical evidence on the economic effects of shared service arrangements in Australian Local Government but that there is a steadily growing body of international research showing shared service arrangements can deliver cost savings and improved ranges and quality of services.

Key findings include:

- Shared services arrangements can improve the efficiency of local service delivery.
- Some services suit shared arrangements better than others.
- Common success stories relate to IT, human resource, procurement and waste management.
- The degree of success can vary dramatically.
- Barriers to successful implementation can be difficult to resolve.
- Those barriers include loss of local identity and control, conflicting objectives, uncertain benefits and complicated administration and management requirements.

The book also spends time exploring opportunities around vertically shared services (that is between levels of government).

The authors conclude that there is no optimum size for Local Government entities but rather an optimal level of output for specific functions and services and that collaboration between councils should concentrate on "reaping the benefits attendant upon size for particular services only". This has the added benefit of retaining local political autonomy.

2. Potential Risks and Benefits

Resource Sharing - Potential Benefits

- As a general rule benefits of some sort do accrue when councils adopt mechanisms to collaborate or consolidate with other local authorities.
- In 2003 Allan reported that most of the cost savings from the Victorian amalgamation program came from the introduction of competitive tendering as opposed to the amalgamations.
- Research has shown a strong link between resource sharing and efficiencies and economies of scale and a medium-strong link with improved strategic capacity subject to organisational structure and governance. There is also a strong link to service improvement and innovation but only to those services which are effectively shared.
- Sharing of back office services by public sector organisations offers the following benefits: lower costs in transaction processing; consolidation of high-end functional expertise (effectiveness); greater professionalism and better career paths within shared support functions; greater focus on core business within the remainder of each organisation; promoting regional policy objectives and overcoming geographical skills shortages and facilitating machinery of government changes,
- Shared services arrangements can improve the efficiency of local service delivery.
- Common success stories in the shared services space relate to IT, human resource, procurement and waste management.
- Other benefits include: lower costs in transaction processing (efficiency); consolidation of high-end functional expertise (effectiveness); greater professionalism and better career paths within shared support functions; greater focus on core business within the remainder of each organisation; promoting regional policy objectives and overcoming geographical skills shortages; and facilitating "Machinery of Government" changes.

Resource Sharing - Potential Risks

- A risk to ongoing benefits of resource sharing is a failure to embed for the long-term, lack of ongoing commitment for ventures.
- There is the risk when shared services are extensive that there is a diminution of local democracy- which can be difficult to manage.
- Evidence has shown that for large scale public sector shared services, implementation has almost invariably been problematic.
- Optimism bias by proponents is a common occurrence at a sectoral level as is a fear of loss of control by players at the individual councils level.
- Where cost-reduction is the major driver and service improvement is a minor focus, shared service solutions often fail.
- Some services suit shared arrangements better than others. The degree of success can vary dramatically.
- Barriers to successful implementation can be difficult to resolve. Those barriers include loss of local identity and control, conflicting objectives, uncertain benefits and complicated administration and management requirements.
- In practice large-scale public sector shared services implementations have almost invariably been problematic". Reasons for this include overly optimistic

business cases, poor governance, bad technology choices and lack of ongoing political sponsorship.

Amalgamation - Potential Benefits

- Key success factors include addressing objectives early through a process of assessing and selecting best of existing systems across merging councils, early appointment of a new Chief Executive Officer not from the merging councils and a new name. When these are in place outcomes include cost reductions and greater efficiency, improved strategic capacity, little change in democratic representation and enhanced service delivery.
- Amalgamation offers opportunities to achieve economies of scope or enhanced strategic capacity. This effect may well be strongest in the case of amalgamation into relatively large units.
- Savings may be utilised to increase the range and/or to improve the quality of services offered
- Consolidation offers opportunities to achieve economies of scope or enhanced strategic capacity. This effect may well be strongest in the case of amalgamation into relatively large units.
- Greater community cohesion may result from council mergers, as well as ratepayer satisfaction with services.
- Broader revenue and resource base, spreading financial and business risks and delivering increased efficiencies and reduced duplication have been shown to be possible benefits. Additionally amalgamations may deliver a larger, more diverse pool of community leaders; joined up strategic planning across a greater area and better career paths for staff.

Amalgamation - Potential Risks

- There has been a significant history of underestimating costs and overestimating financial outcomes related to amalgamation. Transaction costs and transformation costs of amalgamation must be minimised.
- The savings and benefits are difficult to measure and won't generally show up as improved profitability or reduced rates.
- Hasty and poorly planned amalgamations which do not involve adequate consultation will result in poor outcomes and disaffected communities.
- Amalgamating smaller councils with larger more dominant councils is likely to provoke resistance.
- There is little evidence that amalgamation will automatically yield substantial economies of scale.
- Potential benefits are reduced or lost when the process is flawed due to inadequate planning and consultation or a failure to consider all the options available and precisely what each could achieve.
- Councils which are financially viable will not be as willing to amalgamate as councils facing financial difficulties.
- Financial barriers exist such as impact on Financial Assistance Grants, variability of rates charges, service levels, infrastructure backlogs and staff conditions.
- Communities may fear a loss of local identity and culture or an impact on local representation.
- Staff can feel disenfranchised, suffer low morale and may be displaced. There can be a loss in corporate knowledge.

- The manner in which amalgamations are rolled out is critical to determining whether the experience is positive or negative.
- Actual improvements in service provision are predominantly anecdotal and the proposed cost savings are difficult to quantify.

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