ARE SHARED SERVICES A PANACEA FOR AUSTRALIAN LOCAL GOVERNMENT? A CRITICAL NOTE ON AUSTRALIAN AND INTERNATIONAL EMPIRICAL EVIDENCE

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Australian local government policy has undergone a major change in direction as policy elites have recognized the ominous dimensions of the problem of local council financial unsustainability and thereby realized that recent structural reform programs have done little to ameliorate this problem. As a consequence, attention has now moved away from forced amalgamation to focus on shared local services as an alternative means of achieving greater operational efficiency. However, an unfortunate feature of the present debate is that, with a few notable exceptions, very little effort has been expended on examining existing Australian and international empirical evidence on the performance of shared local service models. The present paper seeks to remedy this neglect by critically evaluating available Australian and international empirical literature on the outcomes of shared local service arrangements.

Key Words: Efficiency; local government; shared services.

INTRODUCTION


In a similar vein, several state-based inquiries initiated by state local government associations have arrived at analogous conclusions. While their emphasis sometimes differed, the South Australian Financial Sustainability Review Board Report (2005) Rising to the Challenge, the Independent Inquiry into the Financial Sustainability of NSW Local Government (‘Allan Report’) (2006) Are Councils Sustainable, the now defunct Queensland Local Government Association’s (LGAQ) (2006) Size, Shape and
Sustainability (SSS), the Western Australian Local Government Association Report (2006) Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia and the Tasmanian Local Government Association Report (2007) A Review of the Financial Sustainability of Local Government in Tasmania concluded unanimously that a large number of councils were financially unsustainable and local infrastructure had borne the brunt of the funding crisis.

Although primarily concerned with the question of financial sustainability, these inquiries also considered various methods of improving the operational efficiency of local councils. Almost without exception, they have concluded that structural reform under the guise of forced amalgamation had not met its intended aims (Dollery et al., 2007). By contrast, shared services arrangements were seen as offering great promise by all report authors. However, with the sole exception of the now redundant LGAQ (2006) Size, Shape and Sustainability Program, no inquiry presented more than passing empirical evidence on the outcomes of shared service arrangements in Australia or elsewhere. Moreover, even the empirical discussion on shared services presented in the LGAQ (2006) Size, Shape and Sustainability document and its commissioned KM Management Consulting (KMMC) (2005) consultant report are badly flawed in several respects (Dollery & Akimov, 2007).

Given the current heavy emphasis on shared services as the preferred structural method of improving local government operational efficiency in Australia, there is thus an urgent need to examine available empirical evidence on the outcomes of shared local service arrangements in Australia and other advanced countries to remedy this neglect. This forms the major aim of the present paper.

The paper itself is comprised of four main parts. Section 2 provides a synoptic synthesis of published Australian evidence on the economic consequences of shared local government service models. Section 3 sets out the corresponding international empirical evidence on shared local services in local government. Section 4 considers this body of empirical knowledge in a critical light and explores its chief policy implications. The paper ends with some brief concluding remarks in Section 5.

AUSTRALIAN EVIDENCE

Very little solid empirical evidence exists on the economic effects of shared services in Australian local government. Moreover, available empirical evidence is exclusively in the form of surveys and case studies rather than standard econometric analysis on a service-by-service basis. Existing evidence consists of three surveys from local councils in South Australia, Western Australia and New South Wales respectively, four case studies from New South Wales and South Australia, and a literature review prepared by KM Management Consulting (KMMC) (2005) for the LGAQ (2006) Size, Shape and Sustainability. In essence, all Australian studies find that shared services arrangement can bring benefits in certain areas of local government. Table 1 summarises extant Australian empirical research.

To date, Australian scholars have ignored existing domestic empirical evidence and it is thus useful to briefly outline the essential features of the Australian empirical literature. Firstly, Lawson (2007) analysed the responses of 34 South Australian local councils in relation to their participation in joint local service delivery arrangements. He found that:

- Although financial benefits are a key declared reason for entering into such agreements, only a small numbers of council estimated actual savings achieved;
- Expected financial benefits were not the only reason for entering into shared service agreements; other reasons included improvement of quality and range of services delivered to local communities; and
- There were no new examples of resource sharing initiatives.

Moreover, the responses to surveys suggested the six most common areas for resource sharing arrangements between local councils. These are (i) waste management; (ii) environmental health/development assessment and town planning; (iii) shared use and purchase of physical assets; (iv) back-office operations; (v) access to IT services; and (vi) governance, compliance and audit services.

A second survey of local councils in Western Australia was conducted by Burow Jorgensen and Associates (BJA) (2006). 55 out of 142 councils