

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Percy Allan & Associates Pty Ltd

Name: Professor Percy Allan

Date received: 11/06/2015

Sent: Thursday, 11 June 2015 3:40 PM
To: GPSC6 GPSC6
Subject: FW: Submission to Inquiry into Local Government in New South Wales
Attachments: CEDA - Book - Federation_Chapter (Percy Allan).pdf 18.9.2014.pdf; MAV - Virtual Local Government Presentation.pptx 28.5. 2014.pdf; Local Govt - Charts - Is Bigger Better.pdf; Percy Allan - Resume doc 4.6.2015.doc

-----Original Message-----

From: Percy Allan
Sent: Thursday, 11 June 2015 3:20 PM

Subject: Submission to Inquiry into Local Government in New South Wales

Hon Paul Green MLC
Committee Chair
Inquiry into Local Government in New South Wales NSW Legislative Council

Dear Mr Green,

Thanks for the invitation to make a submission to your Standing Committee's Inquiry into Local Government in New South Wales.

I am presently busy on local government advisory work so shall confine my submission to the attached three documents:

1. My chapter in CEDA's book on "A Federation for the 21st Century" published October 2014; and
2. My presentation to the 2015 National Summit on Local Government organised by the Municipal Association of Victoria late last month.
3. Charts on the relationship between council population size, operating cost per resident and average rates in urban and rural councils.

The main points made in these documents are:

1. Australian local councils are amongst the largest in the world in terms of population size.
2. However, Australian local government is one of the smallest in the world in terms of its share of public sector resources.
3. Some of the most efficient local government units are small contract councils that achieve economies of scale by sharing services with other councils or procuring them from specialist providers.
4. In terms of operating expenditure per resident there is no evidence that larger councils are more efficient than smaller councils in metropolitan or regional urban areas of New South Wales.

5. For smaller rural councils the main determinant of the average cost of serving a resident is population density rather than population size.

6. The optimal way to foster grass roots democracy and achieved economies of scale is to encourage smaller councils as exist in Europe and America, but to require them to undertake their back-office and property-related functions through a regional Shared Service Centre (SSC). This would free up councils to focus on human services and place management which are done best on a smaller scale.

7. To ensure local government planning and development take account of regional requirements, Regional County Councils (each governed by a Council of Mayors) should be established to set regional planning and development policies to be used by Joint Regional Planning Panels in assessing large scale development proposals. Each regional RCC would be administered by its regional SSC.

I would be happy to elaborate on my research findings and policy proposals if you and your colleagues wished to speak with me.

I wrote a book on local government reform in 2002 and subsequently wrote academic and other articles about the subject. In 2005/06 I chaired and directed the Independent Inquiry into the Financial Sustainability of NSW Local Government, several of whose recommendations were adopted by the NSW Government (<http://www.lgnsw.org.au/policy/finance/financial-sustainability-inquiry>).

Since that Inquiry my associates and I have conducted in-depth sustainability reviews of over a dozen councils and helped several others with preparing their "Fit for the Future" submissions to IPART. I am presently assisting three neighbouring metropolitan councils propose a Joint Regional Authority incorporating a Regional Council of Mayors and a Shared Services Centre along the lines proposed in my earlier writings.

Yours sincerely,

Professor Percy Allan AM
Principal, Percy Allan & Associates Pty Ltd Public Policy, Management and Finance Advisers

Notice:

The information contained in this e-mail message and any attached files may be confidential information, and may also be the subject of legal professional privilege. If you are not the intended recipient any use, disclosure or copying of this e-mail is unauthorised. If you have received this e-mail in error, please notify the sender immediately by reply e-mail and delete all copies of this transmission together with any attachments.



3.2

Virtual local government

Professor Percy Allan AM

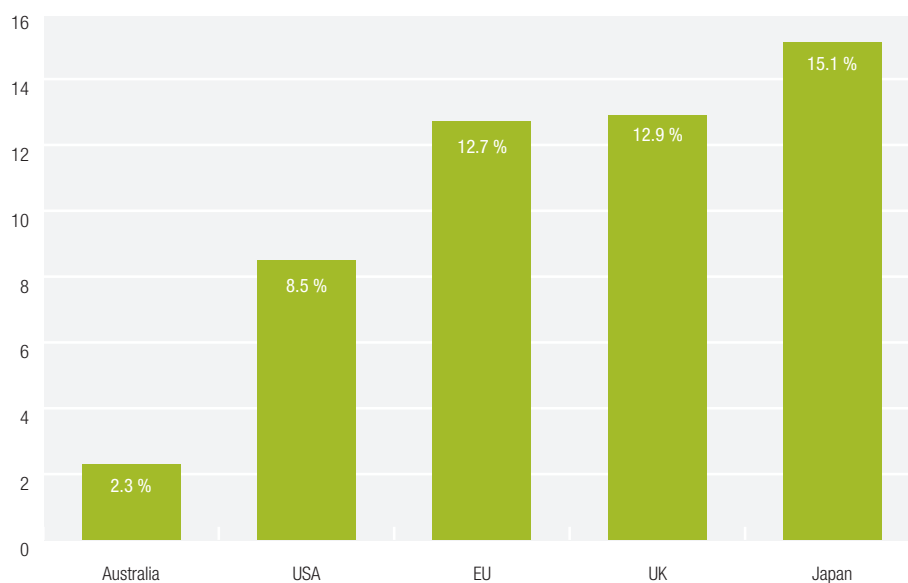


Professor Percy Allan AM advises on public policy, management and finance. He is a former Secretary of the NSW Treasury (1985–94) where he reformed the State's budgetary, accounting and financial reporting systems, corporatised its government enterprises and conceived the Independent Pricing and Regulatory Tribunal. He was then Finance Director of the Boral Group (1994–96) where he overhauled its financial management systems. He subsequently chaired the NSW Premier's Council on the Cost & Quality of Government (1999–2007), a racing regulatory body (2003–12) and an equity funds manager (1999–2012). Professor Allan was National President of the Institute of Public Administration Australia (IPAA) from 2010–12. He currently chairs a sporting complex trust and a share market advisory practice. He has been a Visiting Professor at MGSM, one of Australia's leading business schools, since 1996.

Our local government sector is small by world standards, accounting for only around six per cent of general government outlays and three to four per cent of total taxes collected in Australia.¹ Local government expenditure as a proportion of gross domestic product (GDP) is only 2.3 per cent in Australia compared with eight to 15 per cent in other developed countries (refer to Figure 1).²

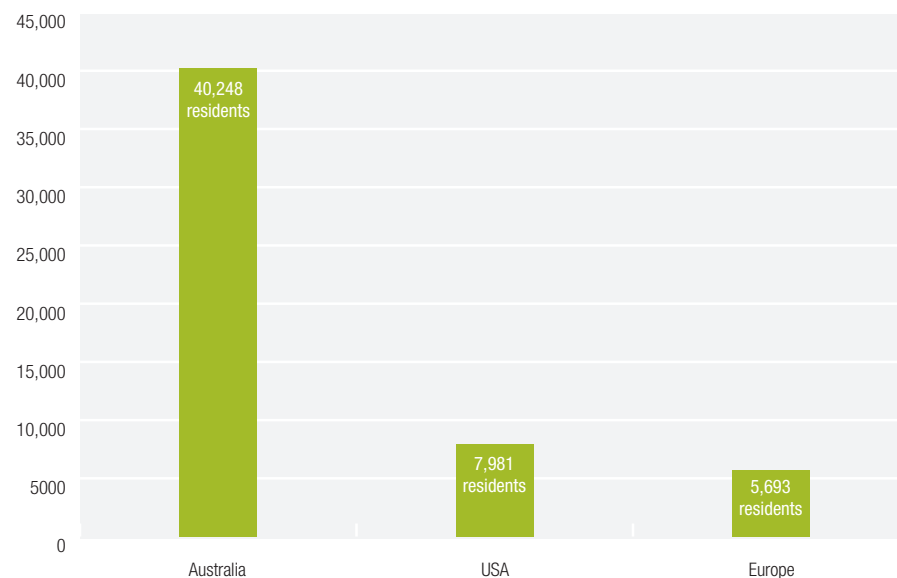
Yet paradoxically, Australia's local councils are big by world standards. In 2011, the average residency size of local government units in Australia was more than 40,000 residents; in the United States (US), 7,981; and in the European Union (EU), 5,693 (refer to Figure 2).

FIGURE 1
LOCAL GOVERNMENT EXPENDITURE AS A PERCENTAGE OF GDP (2006)



Source: Dexia Bank

FIGURE 2
AVERAGE SIZE OF LOCAL GOVERNMENT BODIES BY POPULATION (2011)



Source: Dexia Bank

The merger myth

One of the main arguments advanced for merging councils is that increased size would increase cost efficiency. As MA Jones states, “It was once thought that small local governments allowed more community control but were more costly than larger units”.³

Yet, researchers both here and abroad have found that larger councils do not exhibit lower unit costs of servicing than smaller ones.⁴

It’s been found that some council functions are done best on a large scale while other tasks are performed better on a small scale. “Smaller units are the most democratic and participative, and also the most efficient”.⁵

In fact, the New South Wales (NSW) Local Government Inquiry⁶ “found no conclusive evidence that mergers would reduce unit costs. For smaller rural councils a lack of population density rather than size appeared to be the main cause of higher operating costs per resident”.

“Increasing population yields a lower level of gross expenditure per capita, however, once this reaches a point between 31,500 and 100,000, increasing population size results in higher levels of gross expenditure per capita”.⁷

“Concentrated structures were associated with higher spending than more fragmented local government and that there may be diseconomy of scale factors operating that outweigh the technical benefits of larger units”.⁸

As a case in point, Sydney metropolitan councils show no significant economies of scale, that is, average council cost per resident has no bearing to council size. Furthermore, larger councils in NSW generally charge higher rates than smaller to medium-size councils charge.

The ‘big is better’ argument is not always apt for a public bureaucracy where being nimble, flexible and cost conscious can be difficult given the bigger the span of control.

The reality of councils operations is that some services enjoy economies of scale while others suffer diseconomies from aggregation. A one-size-fits-all approach is both crude and dangerous. As Brian Dollery notes, “the results of amalgamations (in Australia) has not met expectations ... structural change through compulsory council consolidation have not been effective in achieving their intended aims of meaningful cost savings and increased operational efficiency.”

Mergers are unlikely to yield efficiency gains where legislation (such as that in NSW) prohibits:

- Merged councils from having forced redundancies for three years;
- Changing employees, terms and conditions;
- Relocating staff outside the boundaries of the former council area if they claim hardship; and
- Reducing pre-existing employment levels in rural areas.

FIGURE 3
SHOULD OUR COUNCILS BE BIGGER?

| Local council processes | | |
|-------------------------------|---|------------------|
| Process | Example | Scale efficiency |
| Routine processing | Rate notices, paying invoices | ✓ |
| Case-by-case determinations | LEPs, new traffic signs | ✗ |
| Capital works and maintenance | Footpaths, lawn mowing | ✓ |
| Corporate services | Policies, codes, community consultation | ✓ and ✗ |

Source: Review Today <reviewtoday.com.au>

Where small scale is a handicap, it can be overcome (especially in metropolitan areas) by creating ‘virtual’ councils that use a shared services centre or outsource their functions, for example, rate collections and capital works, to specialist providers.

For instance, today more than a quarter of California’s cities (about 130) are contract cities based on the ‘Lakewood model’:

“Lakewood of the early 1950s was David fighting the Goliath of Long Beach, a city intent on gobbling up its unincorporated neighbour parcel by parcel. The legal turf battles were exhausting Lakewood’s defenders, most of whom were transplants drawn to the promise of this sleepy village-turned-post-war boomtown. Then along came John Sanford Todd, a struggling attorney and proud Lakewood resident, who dreamed up a way to preserve his community’s independence without it going broke: It would become a new kind of city, one that contracted out for police protection, trash collection, firefighting – just about every service a city provides.

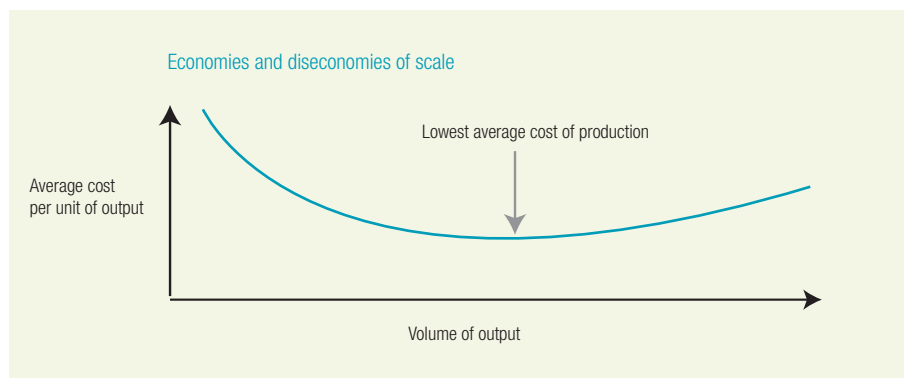
“That practice is commonplace in the USA today, but it was a revelation a half century ago. Todd’s vision, dubbed “the Lakewood Plan,” became a model of local government that informed incorporation drives throughout Southern California and beyond. Suburbia took shape in a rash of “contract cities,” including the neighbouring Dairy Valley (now Cerritos), La Puente, Bellflower, Duarte, Irwindale, Norwalk and Santa Fe Springs, which sprang up in such rapid succession that some observers began proclaiming the end of big cities”.⁹

Post-industrial efficiency requires speed not scale

The argument in favour of larger councils is based on the theory of economies of scale first proposed by Ronald Coase in 1937 to explain the efficiency of large corporations using assembly lines. “Large organisations, such as companies, make sense when the ‘transaction cost’ associated with buying things on the market exceed the fixed costs of establishing and maintaining a bureaucracy”.¹⁰

However, Coase also recognised that there were limits to scale efficiencies, beyond which, unit costs rose with each extra output. Initially, cost efficiencies were obtained from division of labour and specialisation of tasks, increased scope for shared services and increased dimensional capacity. Beyond a certain point, unit costs rose from control span limits, coordination complexity, and communication and information network requirements.

FIGURE 4
EFFICIENCY AND SIZE – THEORY



But a lot has happened to organisations since Henry Ford pioneered mechanising production on a large scale using assembly lines. A 2001 Special Supplement in *The Economist* declared, “Modern technology is shifting the balance of advantage away from firms and towards markets. The current goal is to focus on the few things at which they undoubtedly excel and to hand over everything else to equally focused specialists”.¹² This is something that Lakewood County and its successors found.

Aggregating activities together in a large organisation does not necessarily ensure economies of scale let alone service effectiveness. Take for instance anti-dumping laws designed to protect local producers from subsidised imports sold below cost. They are administered by a branch within the Australian Customs and Border Protection Service. In 2012, an inquiry (chaired by former Victorian Premier, the Hon. John Brumby) was established into whether the function should be performed by a separate standalone anti-dumping agency following evidence that the existing complaints process is too slow and cumbersome.¹²

What matters in both business and government now is not size, but speed. Speed is obtained through greater flexibility using a Shamrock-style structure as advocated by Charles Handy¹³, not a giant bureaucracy as preached by Coase. Shamrock organisations concentrate on their core role and outsource everything else. Their organisational structure consists of three parts:

1. Core staff, for example, senior management and others who do what can’t be easily outsourced;
2. Contractors, for example, individuals who once worked for the organisation but now supply generic services to it; and
3. Consultants, who are professional and hi-tech workers who provide customised services to the organisation.

Redesigning councils to become virtual

Virtual councils address both the popular demand for small discrete municipalities that are close enough to residents to address their special needs, and the administrative advantage of doing some things on a large scale to achieve cost efficiencies, standardised outputs and the option to switch supplier if service delivery is not satisfactory. That’s the nub of the challenge facing local governance.

Lakewood-style councils use a shamrock organisation structure to achieve such an outcome. They employ a small full-time professional staff who outsource generic tasks and use part-time contractors for specialist work. Australia's local governments should be encouraged by state governments to adopt such a model. It could be trialled in one region with the state offering its local councils infrastructure rehabilitation grants in return for their active cooperation.

The first step would be to merge administrative functions of neighbouring councils that would benefit from economies of scale and scope (as established by an expert inquiry) into a linked shared services centre (SSC) that would be run as a commercial cooperative by member councils.

A public company or cooperative structure is best suited for operating a SSC because it is more operationally flexible and economically competitive than a county council structure.

Commercial contestability is important, not only for retaining council membership, but also for expanding sales to other clients in the public and private sectors.

However, a county council model is better suited for regional planning functions for which regulatory powers are required. The county council model, by giving an existing regional organisation of councils (ROC) a statutory basis, would also give it greater authority when making submissions to state and federal government agencies. The regional county council would consist of mayors of member councils (refer to Figure 5).

The SSC, as a public company, would have its own CEO and be governed by a board of directors consisting of general managers of its member councils. The SSC, besides serving member councils, would also serve a regional council of mayors presiding over a regional county council (that could take on regional planning and advocacy functions). As a cooperative, the SSC would pay an annual dividend to each member council commensurate with the value of services sold to it (refer to Figure 5).

FIGURE 5
A REGIONAL LOCAL GOVERNANCE STRUCTURE

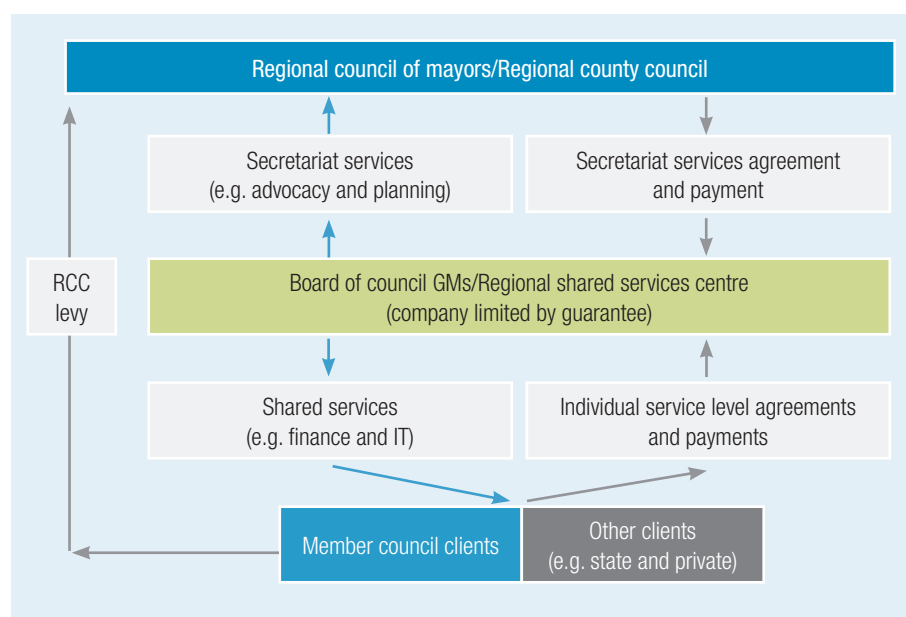
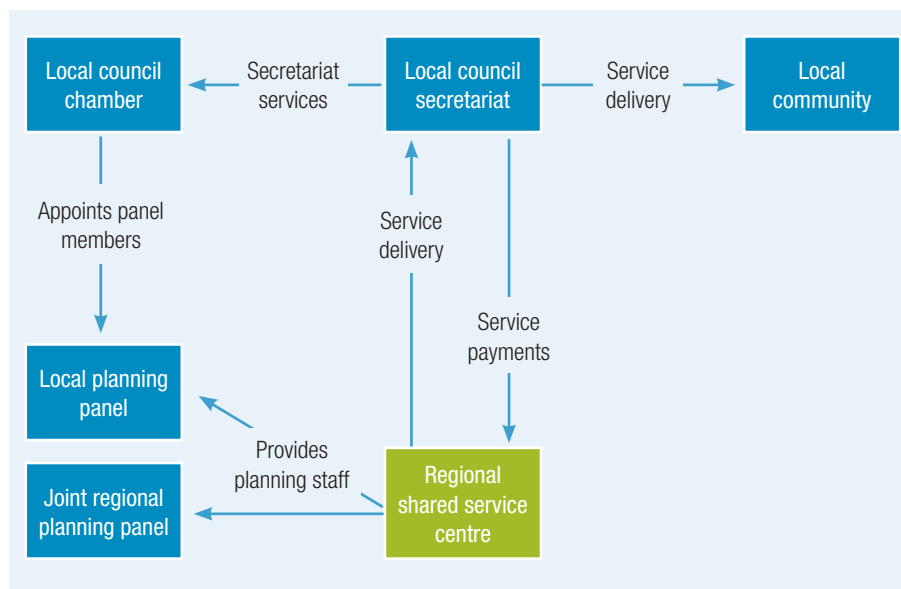


FIGURE 6

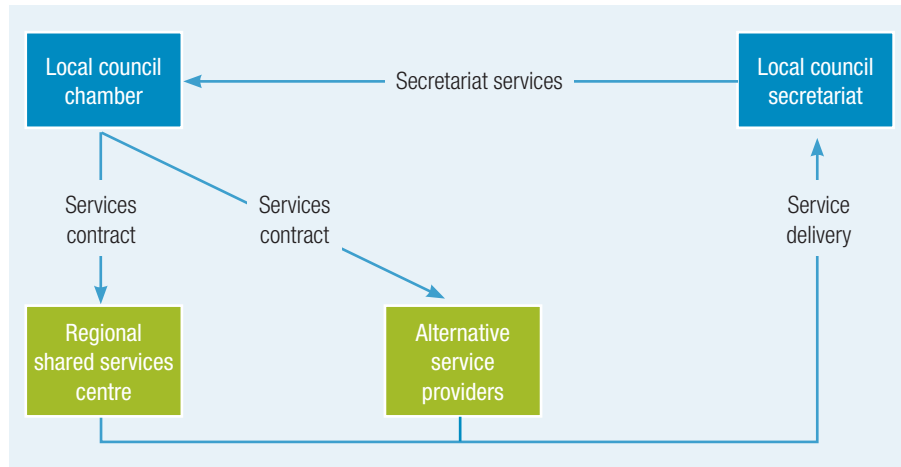
LOCAL COUNCIL SETS LOCAL PLANNING POLICIES AND APPOINTS MEMBERS TO LOCAL AND REGIONAL PLANNING PANELS



Source: Percy Allan & Associates

FIGURE 7

AFTER FIVE YEARS, LOCAL COUNCIL IS FREE TO NEGOTIATE SERVICE CONTRACTS WITH ALTERNATIVE SERVICE PROVIDERS



Source: Percy Allan & Associates

Each council would retain a general manager with a small support staff to provide it with secretariat services including strategic planning and policy advice, to place manage the municipality and ensure the services centre fulfilled its contractual obligations. Each council, with the assistance of its general manager, would negotiate a services contract with the CEO of the SSC.

Each council would appoint an independent local planning panel (LPP) to decide all local development applications in accordance with council planning and development policies. All councils within a region would continue to have a say in appointing a joint regional planning panel (JRPP) that decides development applications of a regional nature (refer to Figure 6). The SSC would have an ongoing mandate to provide

professional staff to assist the local and regional planning panels with fees charged for providing such planning expertise set by the states' independent pricing authority, such as the Independent Pricing and Regulatory Tribunal in NSW.

After say five years, each council would be given the discretion to buy services from any provider, public, not-for-profit or private (refer to Figure 7). Shifting business to alternative providers would mean forfeiting cooperative dividends. Nevertheless, such a sunset clause would put the SSC on notice that unless it performed efficiently and effectively it could expect to lose custom once its five-year exclusive contract expired.

If a community wanted a smaller council for better place management of its services and infrastructure, such a contract model would allow municipal councils to splinter along precinct lines without sacrificing economies of scale and scope.

Indeed, a community contract council would bear some resemblance to a strata and community title owners' corporation that used a body corporate service secretariat to plan and engage its services from external providers, such as a shared services centre (jointly owned with other body corporates) and/or a variety of other specialist services providers serving multiple clients.

The main difference with the body corporate analogy would be that:

- The council chamber would remain a political body required to service the social, environmental and economic needs of the wider community rather than just focus on property management;
- The council's secretariat would remain a public service organisation accountable to elected councillors; and
- The SSC would be a commercial cooperative using activity-based costing to price its services and (except for planning panels) subject to market contestability after five years.

Critical to establishing community contract councils is the concept of an SSC. Following are examples of such centres used in not-for-profit organisations, private enterprise and state government:

Credit Union Movement

Independent shop fronts offer sophisticated financial services because they are linked to an SSC that acts as their bank, raise their finance, process their mortgages, service their ATMs, etc. For example, CO-OP Financial Services, the largest credit union owned interbank network in the US, provides an ATM network and shared branching services to credit unions. In Australia, Cuscal Limited does the same.

American Union Movement

Small local unions with only a few hundred members offer full services because behind each is an SSC that provides them with membership processing, collection of dues, specialist legal advice for employee contract negotiations, newsletter production, discount deals, etc.

Large Corporations

Conglomerates such as General Electrics often pool their support services (for example, recruitment and training, payroll and leave processing, bulk purchasing, environmental and legal advice, and financial transaction processing) to free up their autonomous business units to concentrate on their core operations.

Business Rivals

Vipro, jointly owned by the Commonwealth Bank, National Australia Bank and Westpac, was formed in 2005 to jointly process cheques on behalf of its owners. The consortium outsourced its operations to financial information services company Fiserv Inc., in a \$600-million, 12-year deal. It claims this shared service arrangement reduced costs, improved fraud prevention and saved capital investment associated with cheque processing.

NSW Government

Currently, there are three shared service operators in the NSW Government: Service First, BusinessLink and Health Support Services. There are moves afoot to put their functions to tender to achieve competitive pricing and greater flexibility of operations.

According to the NSW Department of Premier and Cabinet,¹⁴ a 2009 review of 193 public and private SSCs in the US, EU and Asia Pacific by the Hackett Group Shared Services Performance Study found that:

- Shared service reform delivers over 20 per cent reduction in cost with improved levels of service and quality;
- 71 per cent of shared services operations plan to achieve over 20 per cent reduction in costs; and
- 61 per cent of shared services operations have achieved over 20 per cent in savings.

If diverse spheres of private and government activity can achieve greater efficiency and effectiveness through sharing services without full amalgamation, then surely the same can be done in local government.

Assessing alternative structures

The Australian Centre of Excellence for Local Government (ACELG) in 2011 took a fresh and objective look at the results of consolidation in local government both in Australasia and the rest of the world.¹⁵ It concluded that:

“Ongoing change in local government is unavoidable, and consolidation in its various forms will be part of that process. As a general rule benefits of some sort do accrue when councils adopt mechanisms to collaborate or consolidate with other local authorities. 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”.

Its primary research finding was that “there is little evidence that amalgamation will automatically yield substantial economies of scale. What is more obvious is that various forms of consolidation have the capacity to yield economies of scope”. It also added, “In the case of more remote councils with small populations spread over large areas, consolidation (whether amalgamation or shared services) may not be feasible”. Economies of scope come from sharing services whereas economies of scale come from purely size.

The verdict is in: Sharing services makes sense, simply getting bigger does not.

In exploring future structures of local government one should not confine oneself to the binary choice of status quo versus amalgamation. Other choices in between these extremes can achieve both the efficiency of scale (through service outsourcing) and scope (via shared services), and the effectiveness of specificity (by local place management) and speed (from codified practice with time limits). This means exploring the possibility of virtual councils.

Conclusion

Local governments' share of GDP is much lower in Australia than in other countries. Yet the average residency of Australian councils is much larger than that of local government authorities in most other countries. There is no empirical evidence either here or overseas that larger councils result in lower costs, rates, fees and charges. Indeed, in NSW, larger councils charge higher rates. Mergers distract from the real issues, which are massive under-spending on capital works and dysfunctional development approval processes.¹⁶

The administrative reality is that the efficiency and effectiveness of a local council is not just a function of its size, but its speed, scope and specificity in delivering services whether processing rate notices, repairing roads, answering enquiries or considering development applications. Speed and scope require:

- Front-office place management focusing on the particular problems of a local place;
- Mid-office strategic management making strategic decisions locally and regionally;
- Back-office process management achieving economies from specialist providers.

Most council frontline services require very local attention, in which small councils excel. Urban planning and large developments need a regional focus through regional institutions. Routine corporate services and public works need scale to capture economies, which either outsourcing or SSCs do best.

The political reality is that people believe small is beautiful – they want their local council centred on their neighbourhood. Residents identify with distinct neighbourhoods not amorphous regions. People expect their local councils to address micro issues within their local community, but expect the state government or joint state/local government bodies to address wider regional issues. They want impartial authorities divorced from vested interests to determine development applications based on long-term urban planning strategies agreed at a local, regional or state level depending on the significance of the project.

Citizens should be free to decide what size municipality they want. State governments could put lower and upper limits on this, for example, 20,000 to 100,000, except for remote rural councils whose populations are small and scattered. Councils would be required to transfer those services that would benefit from being done on a larger scale to an SSC, and those decisions that need to be done at a regional level to joint regional political (for example, Regional Organisations of Councils), statutory (for example, Regional County Council) or judicial bodies (for example, Joint Regional Planning Panels).

The SSC would be jointly owned and governed by its member councils. It would be run strictly as a business providing works, maintenance, IT, financial services, planning, etc. to participating councils, and their ROC, RCC or JRPP on a fee-for-service contract basis.

To ensure that an SSC gave value for money, there would be a sunset clause on its exclusive mandate. Thereafter, councils, ROCs and JRPPs would be free to choose alternative suppliers if they offered better value for money. The SSC would be required to cease those services for which it had insufficient clients. This would ensure it never took its clients for granted, thereby always giving them good service.

Finally, the choice for politicians and the community is not just one of the status quo versus amalgamation. Of the options available, the virtual council model would deliver the best of both worlds: small councils able to focus on local needs through intensive place and client management, but with the capacity to buy-in services economically from a regional shared service centre cooperative or a specialist private or not-for-profit provider.

If we want true reform of local government then we need to recast it, not just reassemble what exists on a bigger scale.

Endnotes

- 1 This paper is an abridged and updated version of pages 20-32 of the Urban Taskforce's report, *Sydney's Liveability Crisis – Reforming Local Government – Keeping the local in Local Government while improving efficiency*, Sept 2012 that was prepared with the assistance of Percy Allan & Associates Pty Ltd.
- 2 Allan, P 2008, Private correspondence with Dexia Bank, July.
- 3 Jones, MA 1993, *Transforming Australian Local Government – Making it Work*, Allen and Unwin, Sydney.
- 4 For references to researchers between 1992 and 1999, see Allan, P 2003, 'Why Smaller Councils Make Sense', *Australian Journal of Public Administration*, Vol. 62, No. 3, Sept, pp. 74-81.
- 5 Jones, MA 1993, op cit.
- 6 LGSA 2006, 'Independent Inquiry into the Financial Sustainability of NSW Local Government', *Are Councils Sustainable, Final Report and Findings*, Sydney, May, pp. 21-22 and 257-262.
- 7 Soul, S 2000, *Population Size and Economic and Political Performance of Local Government Jurisdictions*, research thesis submitted to the Southern Cross University to fulfil requirements for a Degree of Doctor of Philosophy, p. 179.
- 8 Boyne, G 1998, *Public Choice Theory and Local Government*, Macmillan, Basingstoke.
- 9 Lakewood, California, *Wikimapia*, accessed at wikimapia.org/10156810/Lakewood; Long Beach Register 2014, 'Editorial: Lakewood a model city for 60 years', Orange County Register, 20 March, accessed at www.ocregister.com/articles/city-606374-lakewood-years.html; 'Lakewood, California', *Wikipedia*, accessed at en.wikipedia.org/wiki/Lakewood,_California.
- 10 Coase, R 1937, 'The Nature of the Firm', *Economica*, Vol. 4, Iss. 16, Nov, pp. 386-405.
- 11 2001, 'The Future of the Company: A matter of choice', *The Economist*, 22 Dec.
- 12 Kerin, J 2012, 'Brumby heads review into anti-dumping', *Australian Financial Review*, 4 July, p. 5, accessed at afr.com/p/national/brumby_heads_anti_dumping_agency_n7JjBwjuU1lzhY9KUYHDP.
- 13 Handy, C 1989, *The Age of Unreason*, Harvard Business School Press, Boston MA.
- 14 NSW Dept. of Premier and Cabinet, 2010, *Blueprint for Corporate and Shared Services in the NSW Government*, 15 July, p. 6, accessed at www.dpc.nsw.gov.au/_data/assets/pdf_file/0003/97572/100715_Blue_Print_for_Corporate_and_Shared_Services_in_the_NSW_Government.pdf.
- 15 Aulich, C, et al., *Consolidation in Local Government: A Fresh Look*, ACELG, May 2011, p. 7.
- 16 See Urban Taskforce assisted by Percy Allan & Associates Pty Ltd: *Sydney's Liveability Crisis – Reforming Local Government, Keeping the local in Local Government while improving efficiency*, Sept 2012.

VIRTUAL LOCAL GOVERNMENT

Professor Percy Allan AM

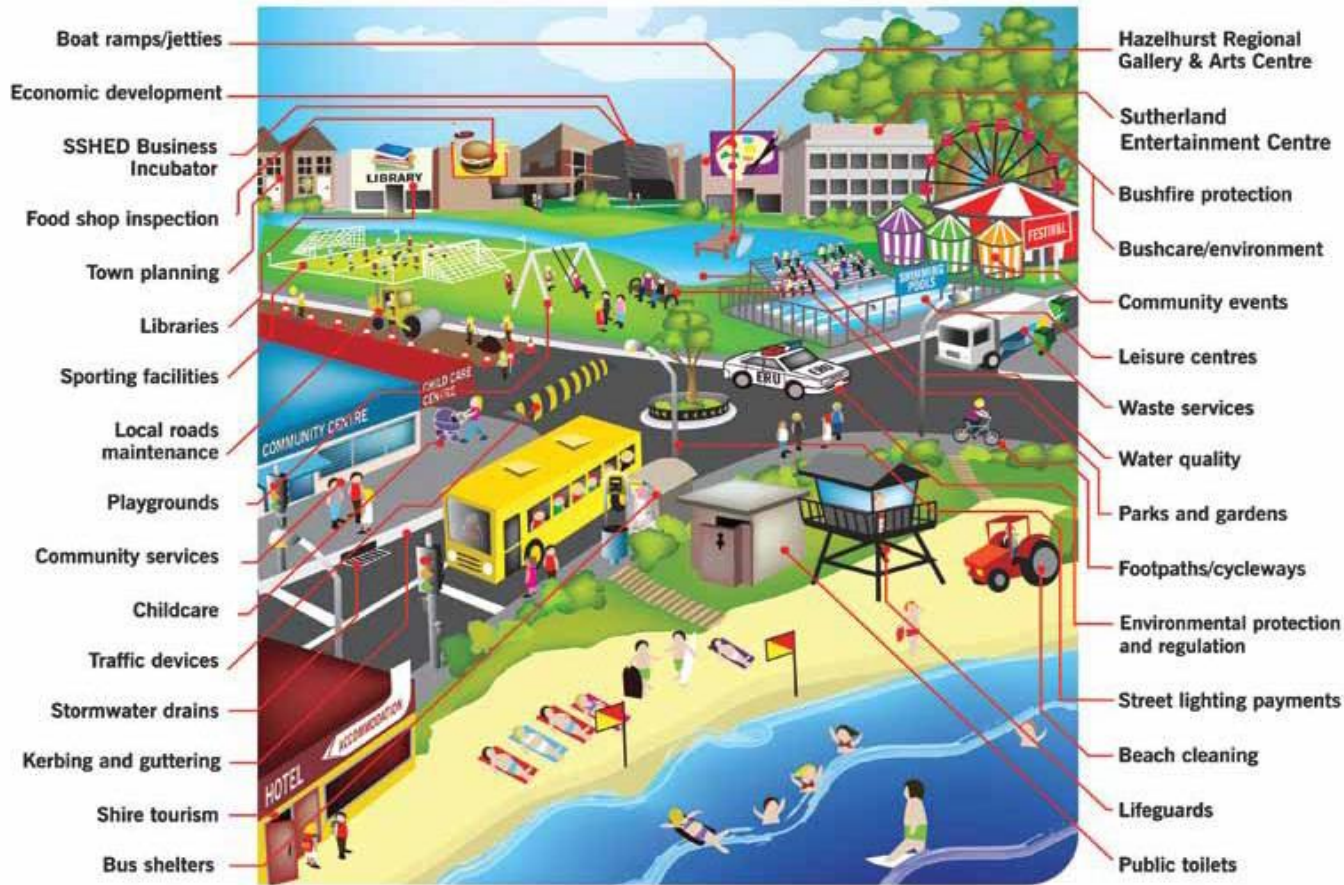
Principal, Percy Allan & Associates Pty Ltd

Thursday 28th May 2015

Rydges, Melbourne

MAV - The Future of Local Government National Summit, 2015

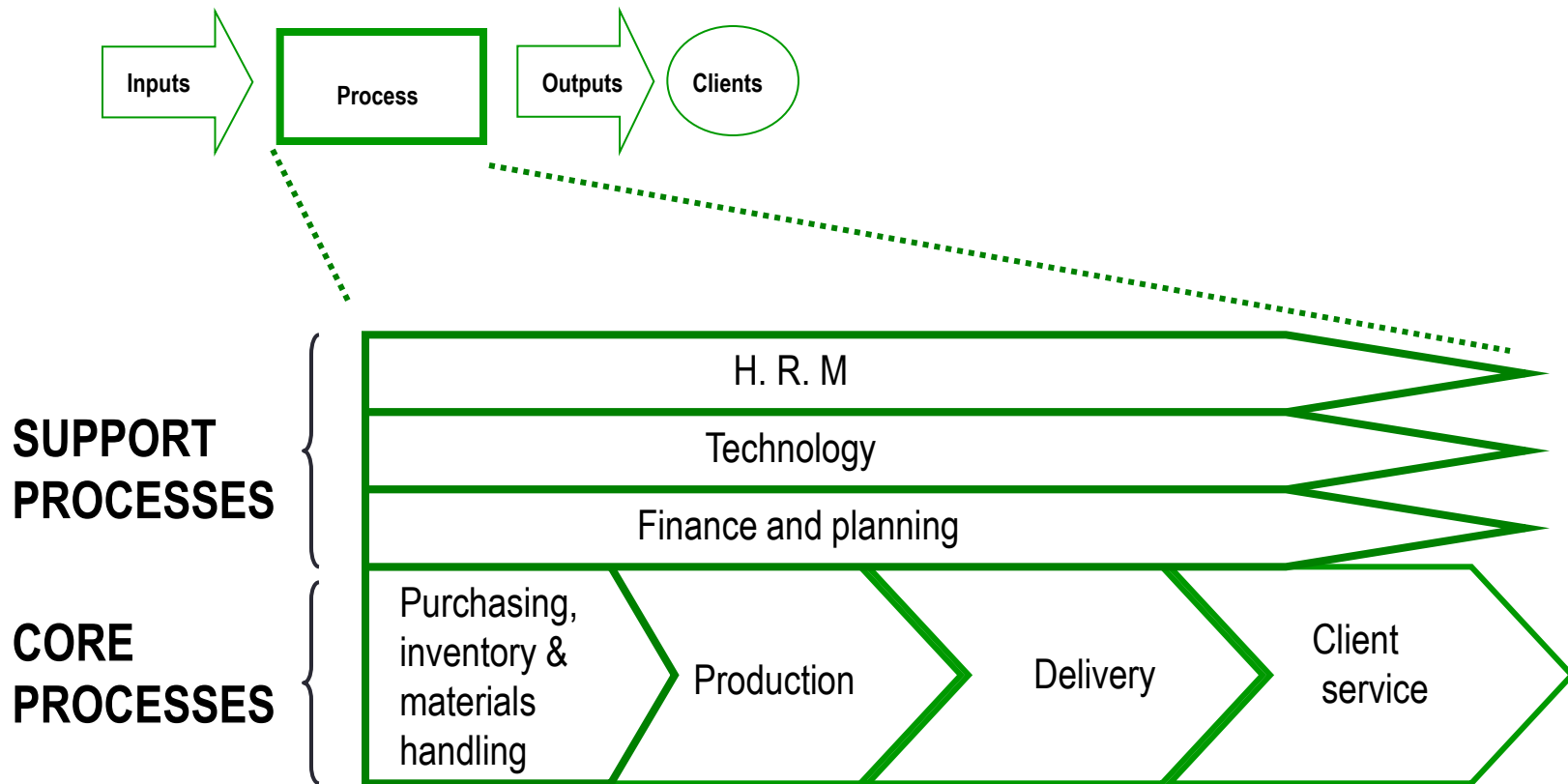
Local Council Functions



Source: Sutherland Shire Council, *Delivery Program 2012-16*, p5

Local Government Functions

Local Government functions are either core or support processes



Local Government Functions

Core service delivery activities include:

- **Roadworks:** Councils build and repair local roads, control traffic, and provide adequate parking facilities;
- **Public works:** Councils build and maintain parks, public buildings such as community halls and Scout halls;
- **Waste disposal:** The job of disposing the community's waste is very important. In order for this to happen the council organises for the waste to be picked up and taken to dumps where it is becomes landfill or recycled. The council also ensures that the footpaths and all other public places are clean.

Continued...

Local Government Functions

- **Planning:** This involves ensuring that new buildings and houses develop in a coordinated and well planned way. Council drafts plans on how the built environment should be developed and sets rules on enforcing these plans. When a new building is being planned, for example, council permission must be obtained before the building is erected.

Recreation: Facilities, such as libraries, playing fields, golf courses, tennis courts, and the Town Hall and community centres are all provided by the local council.

Public Health: Making sure the community is healthy is partly the responsibility of the council. They do this by providing public toilets, making sure public places, including restaurants, are clean and ensuring pets are registered and returned to their owners when lost.

- Source: http://www.skwirk.com/p-c_s-1_u-104_t-274_c-915/responsibilities-of-local-governments/nsw/responsibilities-of-local-governments/state-and-federal-government/local-government

Local Government Functions

Corporate control and support activities include:

Planning & monitoring

- Set the overall direction for their municipalities through long-term planning. Examples include council plans, financial plans, municipal strategic statements and other strategic plans. Setting the vision, and then ensuring that it is achieved, is one of the most important roles of local government.

Policy development

- The activities of local governments are guided by policies. Developing and implementing these policies are key functions.

Representation

- Councillors represent their local community on matters of concern to those constituents.

Continued...

Local Government Functions

Advocacy and Promotion

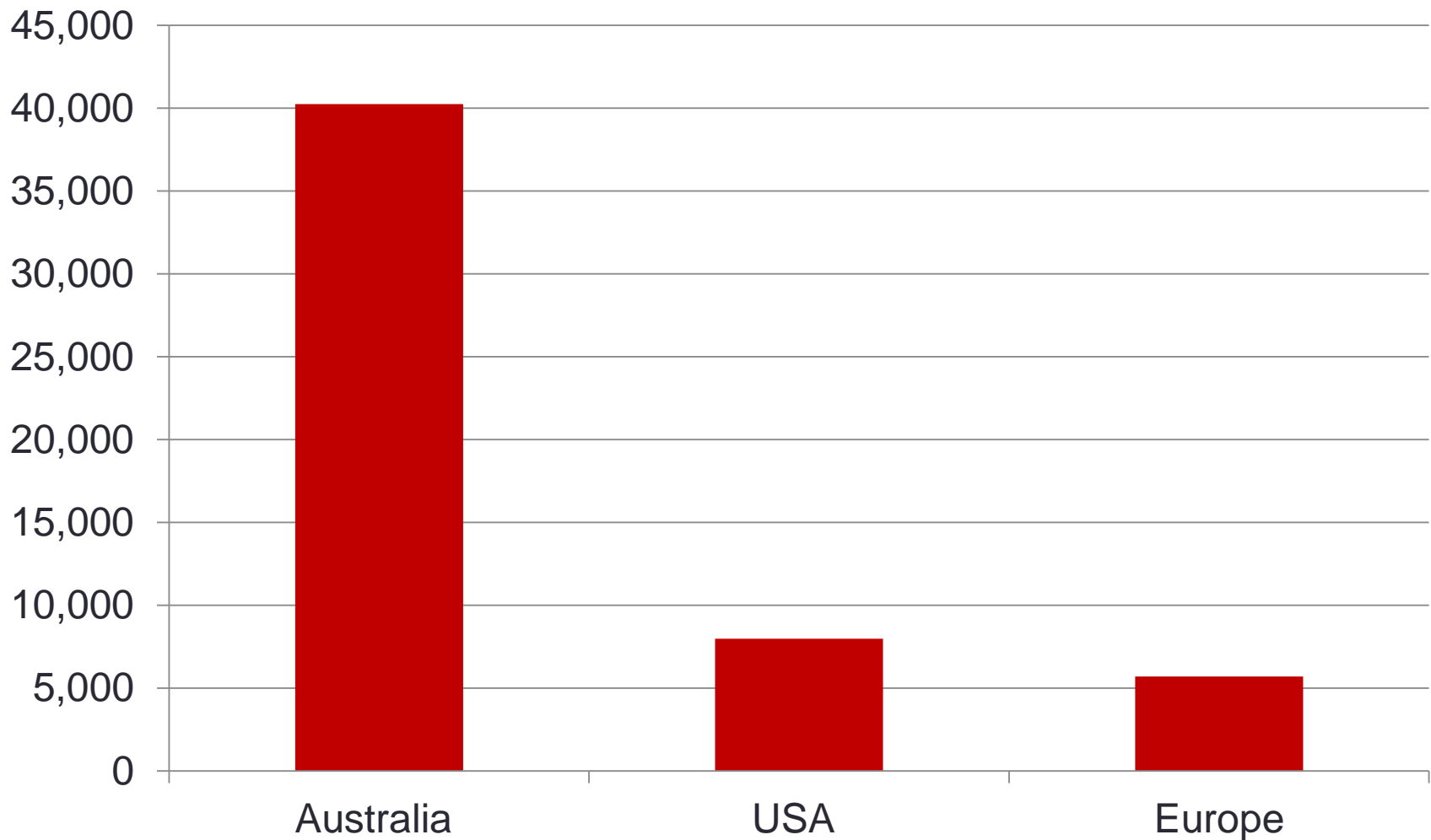
- Local governments have a role in advocating on behalf of their constituencies to state and federal levels of government, statutory authorities and other sectors.

Source: <http://www.goodgovernance.org.au/about-good-governance/role-of-local-government/>

Australian local councils are big by population size

- Based on population, Australian municipalities are amongst the largest in the world.

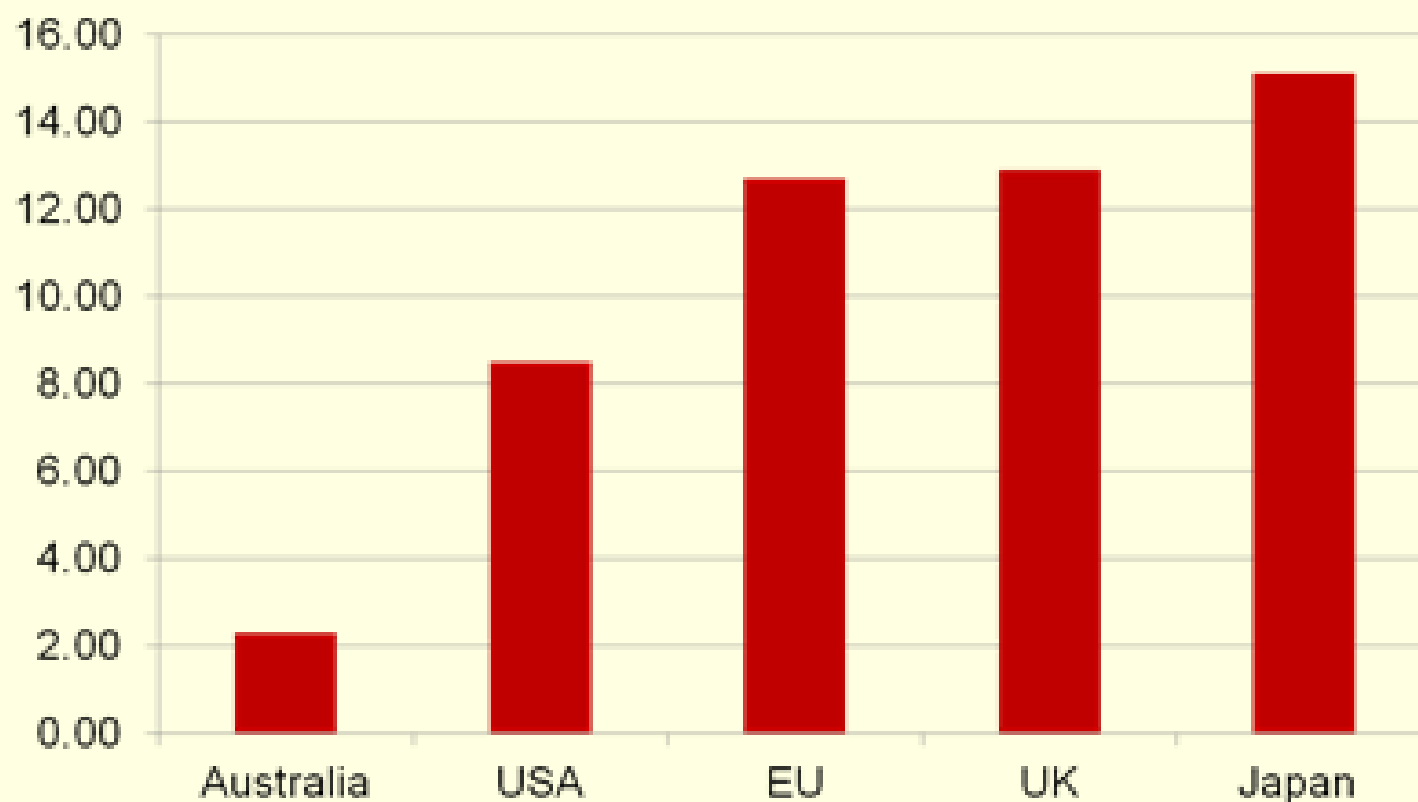
Average Size of Local Government Bodies by Population, 2011



Yet Australian local councils are small by spending capacity

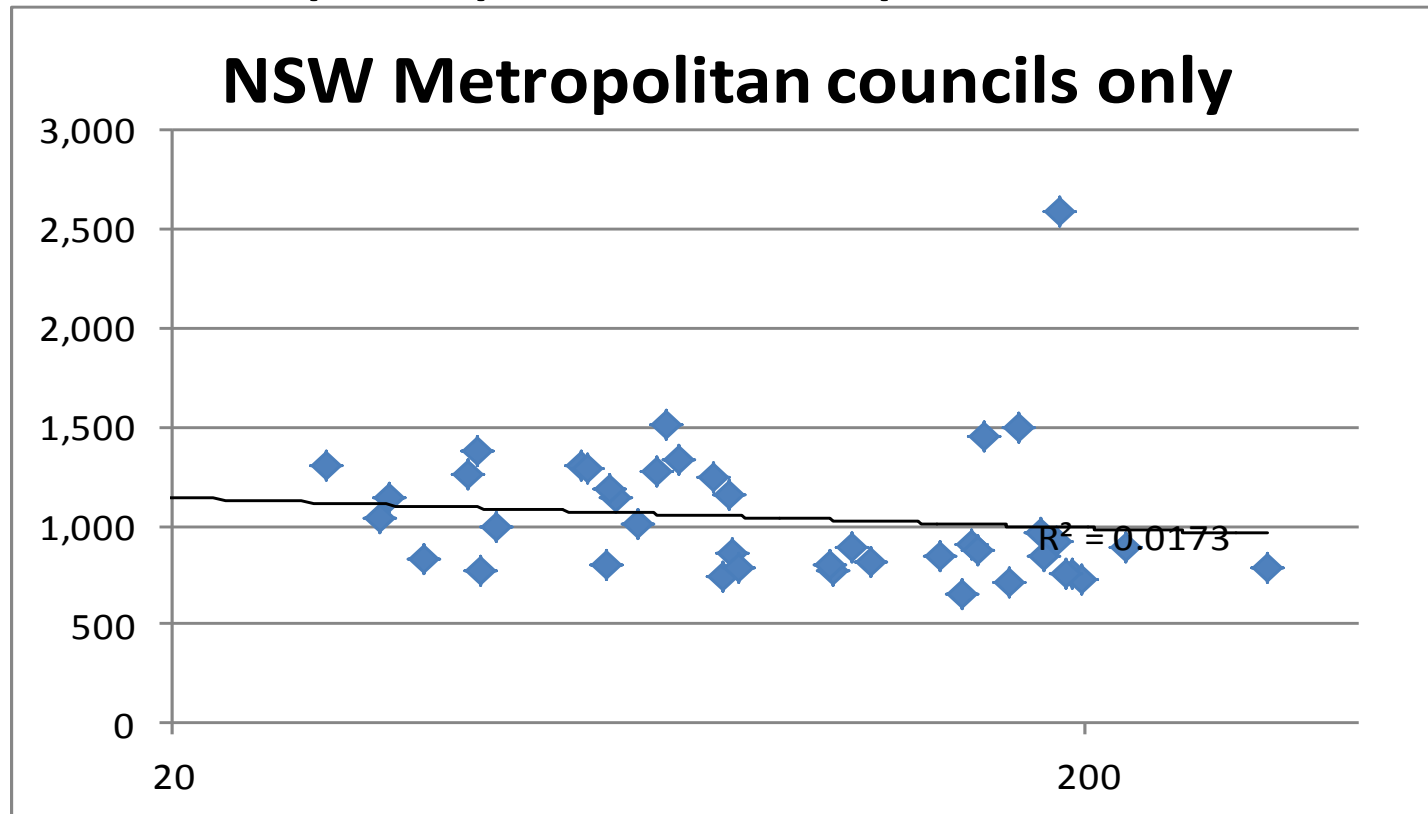
- But based on spending to GDP or share of public revenues, local government in Australia (including Sydney) is the poorest in the developed world.

Local Government Expenditure as a Percentage Share of GDP, 2006



There is little relationship between a council's size and its cost per resident

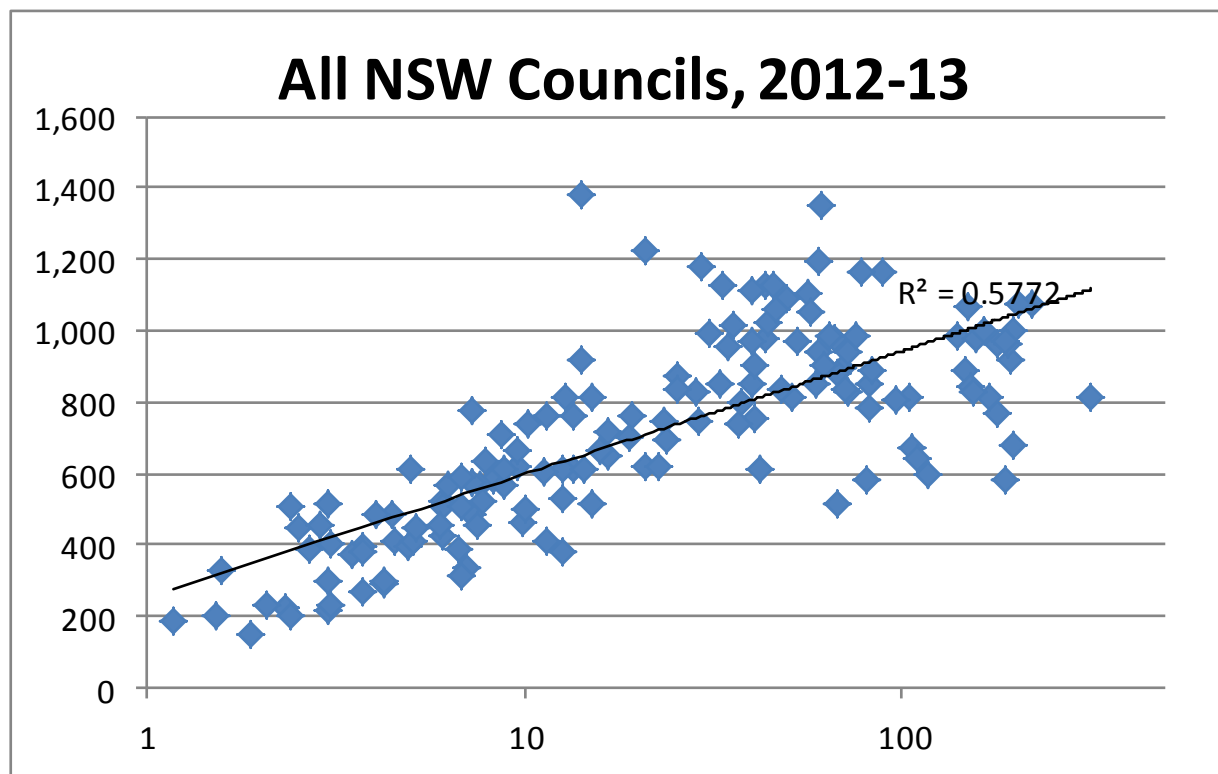
Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

There is a strong relationship between a council's size and its average rates

Council Average Rates versus Population Size, 2012-13

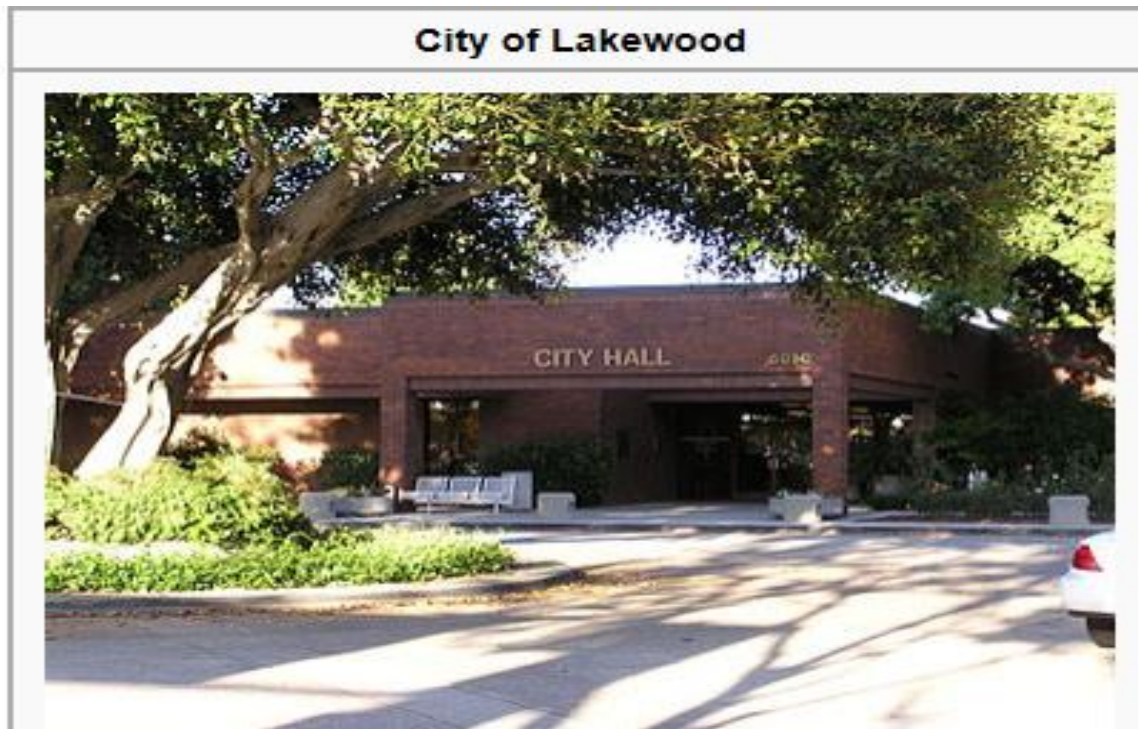


Source: DLG, Comparative Information on NSW Councils

The Lakewood county model should be adopted for Sydney councils

- The most efficient councils in the world are based on the US Lakewood County model of staying small to ensure local needs are properly met while outsourcing services to specialist providers or shared service centres to obtain economies of scale and scope.

The Origin of Virtual Councils



- Lakewood City has 80,000 residents living in an area just under 25,000 square km.

The Origin of Virtual Councils




Lakewood, California

Location in the United States

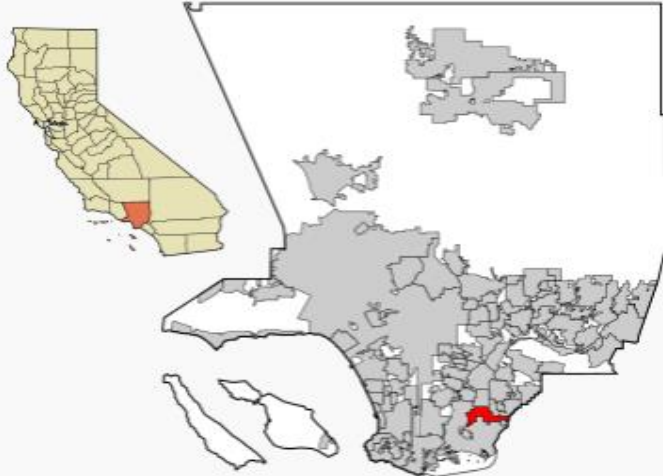
Coordinates:  33°50'51"N 118°7'12"W

| | |
|--------------|---|
| Country |  United States of America |
| State |  California |
| County |  Los Angeles |
| Incorporated | April 16, 1954 ^[2] |



CITY OF LAKEWOOD
CALIFORNIA
Seal

Motto: *Tomorrow's City Today*



Location of Lakewood in Los Angeles County, California

The Origin of Virtual Councils

- As the unincorporated Lakewood grew from a small village in 1950 to a community of more than 70,000 residents in less than three years, so grew its municipal needs.
- Lakewood thus had three choices: become annexed to nearby Long Beach, remain unincorporated and continue to receive county services, or incorporate as a city.
- In 1954, residents chose the latter option and voted to incorporate as a city, the largest community in the country ever to do so.

Source: http://en.wikipedia.org/wiki/Lakewood,_California

The Origin of Virtual Councils

- Lakewood pioneered the concept of a Virtual Council. It was the first city in the nation to contract for all of its municipal services when it incorporated as a municipality in 1954, making it the nation's first "Contract City".
- Lakewood now contracts most of its municipal services with Los Angeles County being the biggest provider and, other public and private agencies being less so.
- Many other Los Angeles suburbs, such as Cerritos and Diamond Bar, have adopted the "Lakewood Plan." Today Lakewood City has 80,000 residents in an area just under 25,000 square km.

Some Council activities have scale economies while others don't

Local Council Processes

| Process | Example | Scale Efficiency |
|--------------------------------|--|------------------|
| <hr/> | | |
| # Routine Processing. | # Rate notices, paying invoices. | ✓ |
| # Case-by-case Determinations. | # LEP's, new traffic signs. | X |
| # Capital works & maintenance. | # Footpaths, lawn mowing. | ✓ |
| # Corporate Services. | # Policies, codes, Community consultation. | ✓ & X |

Source: Review Today Pty Ltd

The Future of Local Government

- **Amalgamation is an extreme form of shared services where every activity of a group of councils is centralised in a new administrative body reporting to a single new council.**
- There is no compelling evidence that centralising all local council activities in a single mega-council produces cost efficiencies. That's because with scale some activities obtain economies while others develop diseconomies.
- **Hence the most efficient path for local government is to share or outsource those activities that benefit from size while downsizing councils for those activities done best on a small scale.**

Shared Services

Activities most suited for sharing are:

- **Back-office** high volume repetitive transactions with standardised inputs, outputs and work processes (e.g. accounts and rates collection),
- **Middle office** activities that require strategic analysis and advice at a regional, not just a local level (e.g. urban and economic planning, complex development projects), and
- **Front line** service involving high volume repetitive transactions with standardised inputs, outputs and work processes (e.g. waste collection and road repairs).

Shared Services

Private and public sector services that have been most receptive to sharing are back-office routine generic activities in finance, personnel, procurement, systems and other forms of corporate support.

Examples in each case are:

- **Finance:** Accounts Receivable, Accounts Payable, General Ledger, Billing and Rates Collections, Travel and Expense Reimbursement and Treasury Management
- **Personnel:** Payroll, Employee Benefits, Workers Compensation Insurance, Training and Education, Time and Leave Administration and OHS Compliance.

Shared Services

- **Procurement:** Requisitions Management, Receiving, Sourcing and Vendor Management, Stationery and Stores, Asset Registers, Property and Fleet Management, Leasing, Property Insurances, Cleaning, Utilities and Telecommunications.
- **Systems:** Desktop Support, Telecommunications, Data Centre Operations, Hardware/Software Acquisitions and Disaster Recovery.
- **Corporate:** Legal, Security, Printing, Records and Archives, Call Centre and Library Services.
- **Planning:** Local and regional urban planning and development application processing when shared capture economies of scope (i.e. benefit from planners working and brainstorming collectively rather than disparately and considering regional and local impacts together).

Shared Services

- *Sadly while the benefits are clear in-principle, in practice large-scale public sector shared services implementations have almost invariably been problematic. The literature describes overly optimistic business cases, poor governance, bad technology choices and lack of ongoing political sponsorship.*
- *The Auditors-General of several Australian jurisdictions have reviewed cost overruns and delays in implementation. In some cases, they have expressed doubt that shared services will ever achieve their promise.*
- *AIM, Shared Services in the Public Sector- a triumph of hope over experience, White Paper, August 2012, page 5*

Executive Summary

- SSCs fail when they:
 - Pursue cost savings at the expense of service standards,
 - Underestimated the cost and effort required to succeed,
 - Have poor leadership, planning and technical competency,
 - Don't set service levels in advance of implementation,
 - Share complex services not amenable to standardisation,
 - Centralise activities before redesigning their processes,
 - Adopt IT systems centrally that don't interface locally,
 - Migrate to shared services before piloting the migration plan,

Executive Summary

- SSCs fail when they:
 - Introduce shared services concurrently, rather than sequentially,
 - Do inadequate change management planning to help staff cope (i.e. retraining, transferring, relocating, recruiting and retrenching staff),
 - Are situated within a bureaucracy antithetical to running a business,
 - Don't face the prospect of contestability to make them efficient, and
 - Are not accountable to a board appointed by their customers.

Shared Services

- Because of the high failure rate of shared services within the public sector a strong case exists for moving straight to outsourcing it cost savings are the primary objective.
- **But a shared service centre can be both cost efficient and client responsive if it:**
 - Negotiates a Service Level Agreements (SLAs) with each client council,
 - Reports to a supervisory board of client council GMs,
 - Distributes its profits as a price rebate on client councils' purchases, and
 - Becomes market contestable for shared services after five years (i.e. has a sunset clause on its exclusive franchise contract with member councils).

Shared Services

Successful SSCs offer:

- **Efficiency** – reduces unit costs of routine transactions by standardising their work processes and desktop systems, consolidating their operations in a lower rent location and aggregating their volume to exploit economies of scale.
- **Quality** – reduces transaction errors by standardising work practices and ITC systems, reducing decision control points, documenting office procedures and reporting regularly against agreed transaction service benchmarks.
- **Service** – improves service level timeliness and responsiveness by forcing client agencies to more clearly specify their exact needs, reporting regularly against SLAs and compliance and complaints handling mechanisms.
- **Specialisation** – enables back-office functions to have dedicated expertise and management applied to their operations and frees up client agencies to focus on their core tasks.

Shared Services

Successful SSCs offer:

- **Careers** – improves career prospects for transaction-oriented staff by offering a bigger work environment and opportunities to learn best practice processes and cutting edge technologies with dedicated supervisors.
- **Technology** – allows leading edge ITC systems to be employed at lower cost, with closer maintenance and more frequent upgrades by consolidating them centrally.
- **Compliance** – improves compliance with audit, tax, OHS and other regulatory requirements by upgrading and standardising record-keeping and consolidating reporting.
- **Performance** – improves performance of client agencies by standardising management reports to enable inter-agency performance comparisons.

The information revolution demands speed not size

- **The information revolution unlike the industrial revolution requires speed not size.**
- Amalgamating councils into a monolithic behemoth won't encourage flexibility and agility. Nor will it solve the two key problems of local government, namely:
 - Prolonged underfunding of essential infrastructure assets; and
 - Dysfunctional planning and development approvals processes.

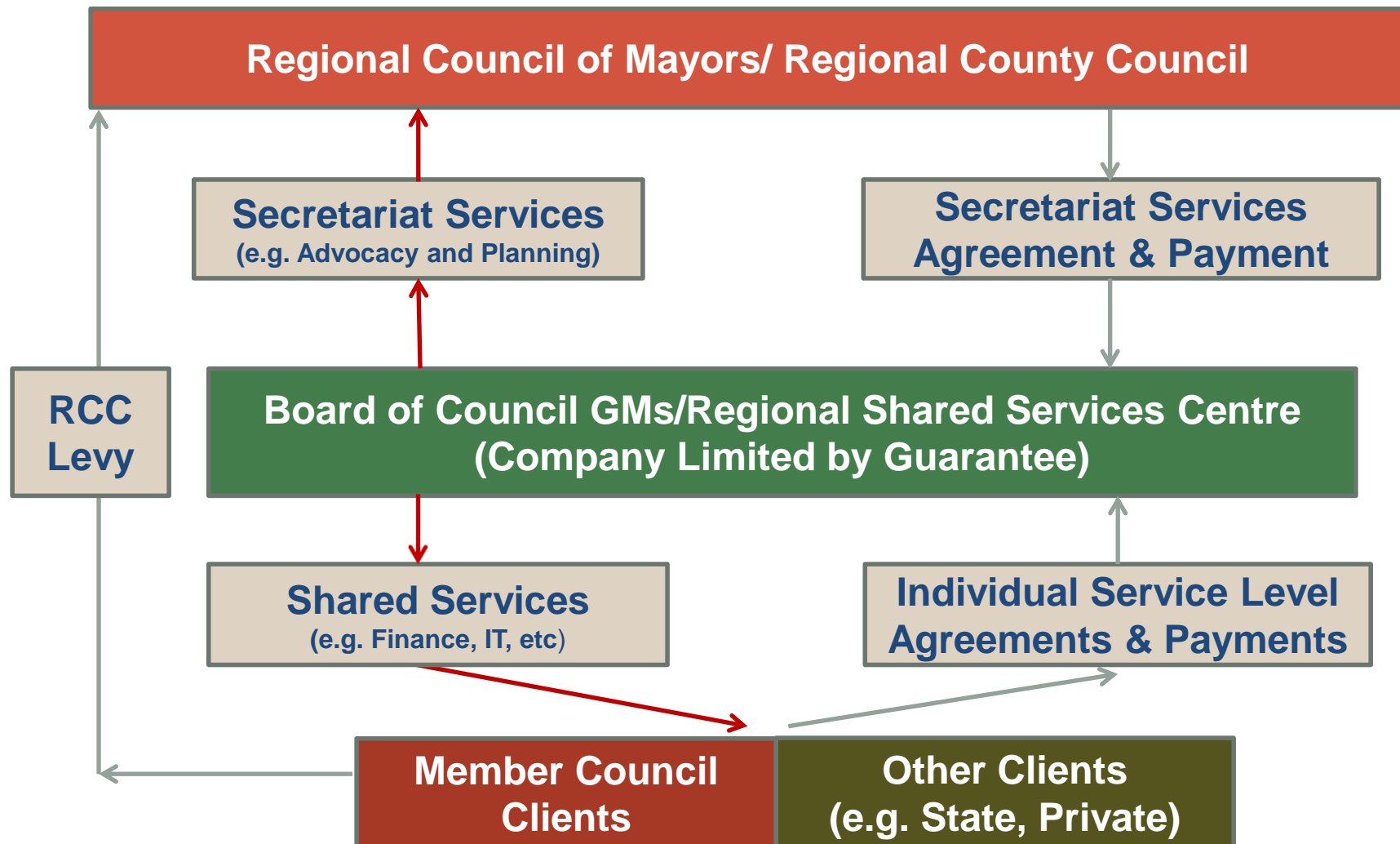
Making already big councils bigger wont expedite works and approvals



A new regional governance structure

- **An alternative to amalgamations is a two-part legal structure for regional governance:**
 - A **Regional Council of Mayors** (constituted as a County Council) to conduct regional advocacy and lobbying and to engage with the State Government in regional growth planning and related decisions; and
 - A **Regional Shared Services Centre** (a Company Limited by Guarantee governed by a Board of Council GMs) to provide shared services to its member Councils, the Regional Council of Mayors, a Joint Regional Planning Panel and other prospective clients.

A new regional governance structure



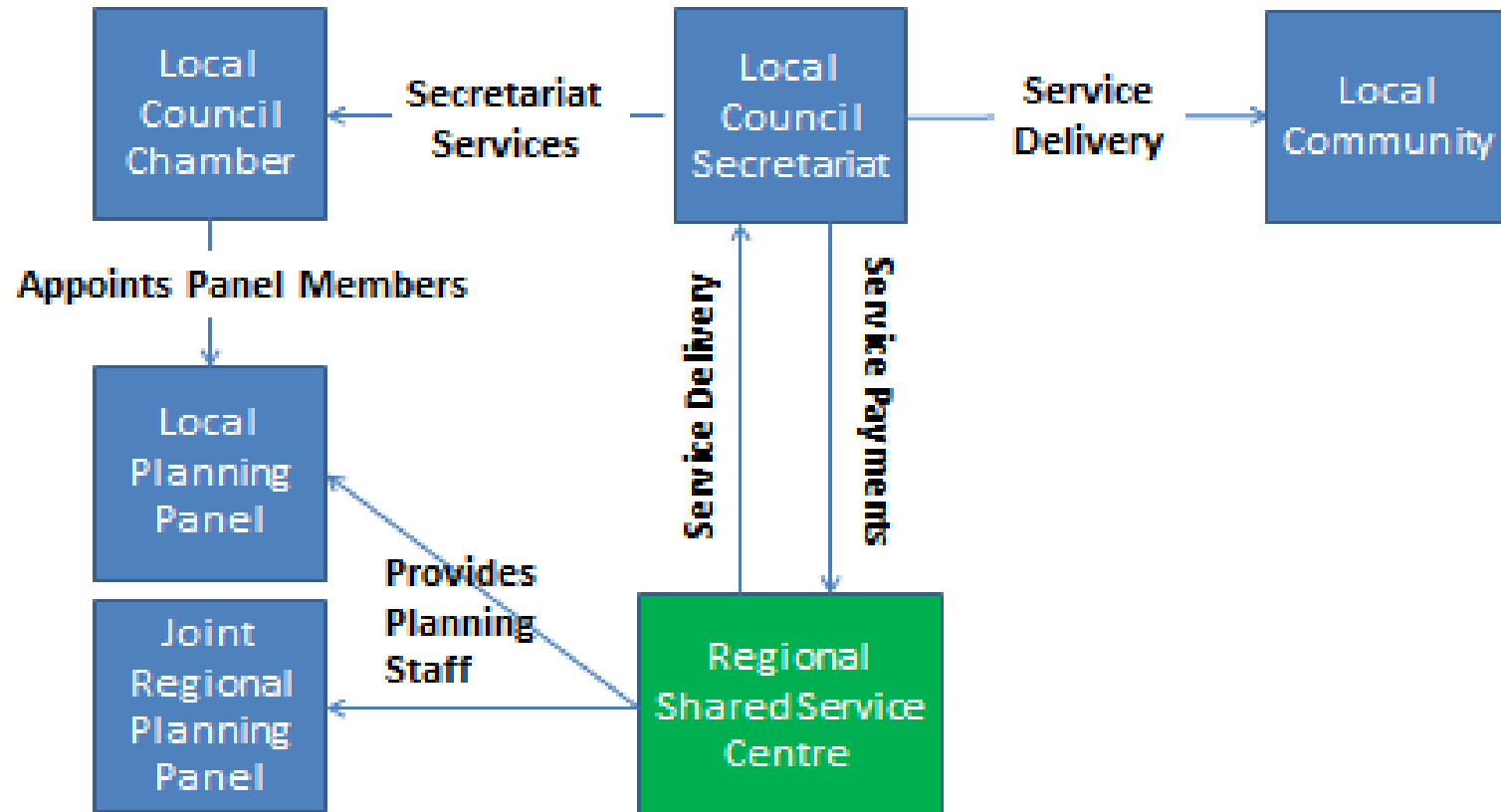
Shared services

- **The first step would be to merge administrative functions of neighbouring councils that would benefit from economies of scale and scope (as established by an expert inquiry) into a linked shared services centre (SSC) that would be run as a commercial cooperative by member councils.**
- As a cooperative the SSC would pay a “dividend” to each council member commensurate with the value of services sold to it (similar to the Co-op Bookshop which is the largest cooperative in Australia).

Development planning

- **The Regional Council of Mayors would appoint a Joint Regional Planning Panel (JRPP) that decided all development applications of a regional significance.**
- Each council would appoint its own independent Local Planning Panel (LPP) to decide all development applications of a local significance in accordance with council planning and development policies.
- The SSC would have an ongoing mandate to provide professional staff to assist both the local and regional planning panels on a fee for service basis.

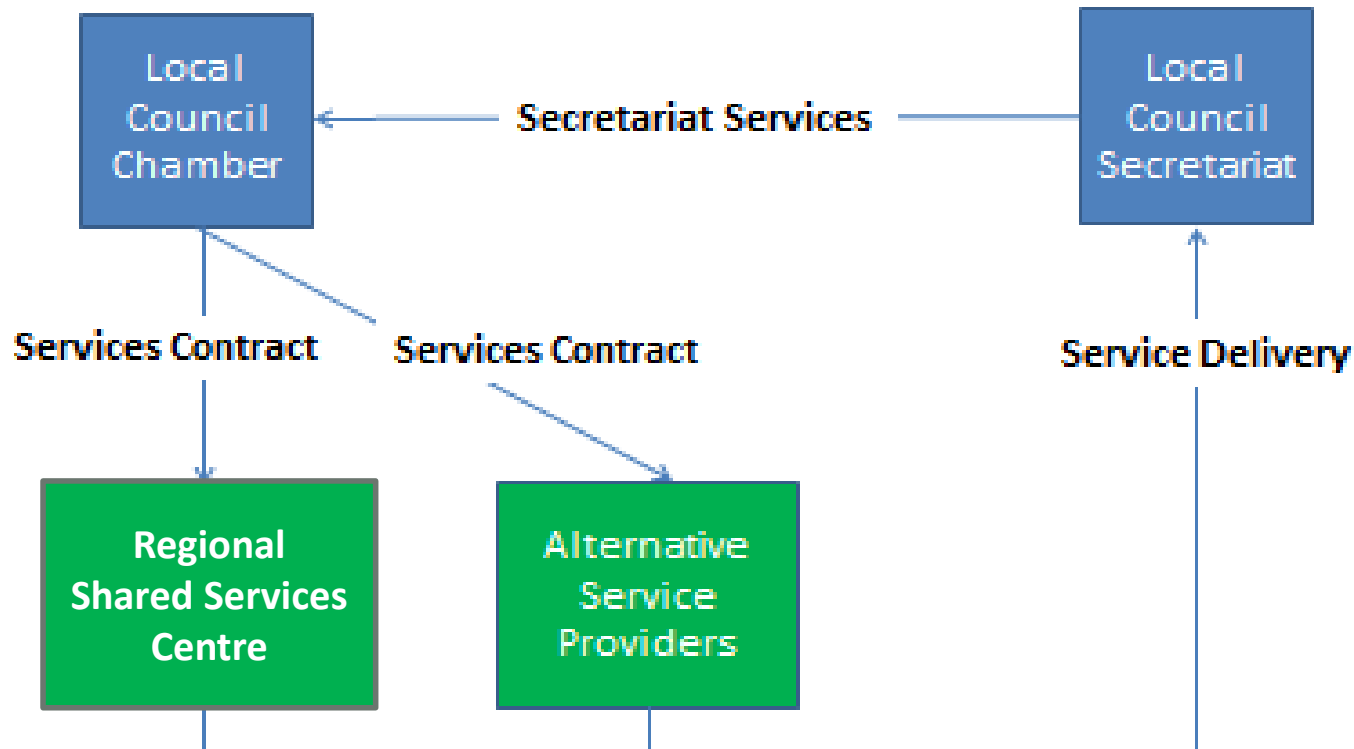
Local Council sets Local Planning Policies and appoints Members to Local and Regional Planning Panels



Keeping shared services honest

- **After say five years, each council would be given the discretion to buy services from any provider, public, not-for-profit or private.**
- Shifting business to alternative providers would mean forfeiting cooperative dividends. Nevertheless such a sunset clause would put the SSC on notice that unless it performed efficiently and effectively it could expect to lose custom once its exclusive contract expired.
- Where a community wanted a smaller council for better place management of its services and infrastructure such a contract model would allow municipal councils to splinter along precinct lines without sacrificing economies of scale and scope.

After Five Years Local Council free to negotiate service contracts with Alternative Service Providers



Virtual Local Government

THE END



Virtual Local Government

APPENDIX

The Origin of Virtual Councils

The first contract city was born in 1954 when Lakewood was incorporated as a city government. At the time, Lakewood was a new and growing suburban community of 70,000, some 20 miles south of Los Angeles and adjacent to Long Beach. Lakewood was an “unincorporated” area—that is, there was no city government. Local services such as policing, fire, and road maintenance were provided by Los Angeles County. Local taxes were low, and residents wanted it to stay that way. City governments traditionally provide a higher and wider range of local services than counties (e.g., recreation, landscaping, and arts and cultural programs) and levy higher taxes.

The Origin of Virtual Councils

The **local** community had spent years fighting the attempts of the city of Long Beach to expand its boundaries and take over **Lakewood**. They did not want to be swallowed by “Big Brother Long Beach” but at the same time could not afford to set up their own **local government**. The county of Los Angeles was also unusual in the U.S. context. Most counties administer statewide services such as prisons, courts, and the welfare system as well as providing limited **local** services to small numbers of residents living in unincorporated areas most of which are in rural areas. Los Angeles, however, provided **local** services to a very large unincorporated urban population and provided, by county standards, a high level of services. Moreover, both the political leaders and workers of Los Angeles County wanted the county to retain this role as a major urban **government** (Miller, 1981). After all, there were jobs and political careers at stake! Miller (1981) talks about the crucial role played by the county firefighters in incorporation. They actively campaigned for the **Lakewood** Plan, providing information and campaigning on the streets.

The Origin of Virtual Councils

The idea of creating a contract city in Lakewood was a novel marriage between the county interests and the local residents (Miller, 1981). Lakewood would become a fully fledged city but would contract with the county for its services. In particular, Lakewood contracted with the county for police, public works, recreation, and general services. Special districts were established to provide fire and library services, with county workers supplying the services. As a result, Lakewood was able to establish its own government but did not have the high setting-up costs that normally accompany incorporation. Indeed, in the early years Lakewood only employed three staff—an attorney, a city manager, and a secretary! Other unincorporated areas threatened with annexation soon followed the Lakewood lead. In 1957, the California Contract Cities Association (CCCA) was formed.

The Origins of Virtual Councils

Los Angeles County was able to retain its service-delivery role and leadership of the metropolitan region. The losers were, of course, Long Beach and other “full-service cities” such as Los Angeles and Pasadena, as their expansionist plans were halted. The full-service cities, through the Independent Cities Association, continued to oppose the Lakewood Plan. There have been a number of battles over the years, some ending up in the courts, others in the State Legislature. Most of these battles related to one of two issues:

—*Incorporation*: The question was whether it should be made easier or more difficult for areas to incorporate as contract cities.

—*Subsidies*: The full-service cities were concerned that local taxes that their residents paid for countywide services were helping to pay for services to contract cities.

The Origin of Virtual Councils

The key subsidy issue was the level of county overheads that could or should be included in the cost of an intergovernmental contract. At first, it was the independent cities that campaigned for the full overheads to be included in the contracts. Later, LA County itself would press for all relevant overheads to be included. This change in position was a direct consequence of financial pressures—county supervisors had helped to establish the contract cities with a “sweetheart deal” to retain its regional dominance but saw little point in continuing to subsidize the cities. They were happy to provide services to them, provided that all costs were covered. The debate was about what was included in the “full costs.”

Source: Kevin Lavery, *Smart Contracting for Local Government Services: Processes and Experience*, Praeger, Westport, CT, 1999, pages 99-100

The Origin of Virtual Councils

Lakewood did not invent contracting in Southern California. LA County had been contracting for services since the last century. Moreover, when **Lakewood** was incorporated, the county had over 400 service agreements with 45 cities (LA County, 1977). What was significant about **Lakewood** was:

- it was based on contracting as a way of life for a **local government**
- it was the first incorporation in 15 years
- it led to a flood of incorporations, all but one based on the contract model
- it supported LA County's position as the lead **local government** within the LA region.

The Origin of Virtual Councils

By 1970, there were 32 contract cities. Today, according to the CCCA, 116 of California's cities (there are just under 500 cities in California) are contract cities. A new form of local government had been created, and it became known as the "Lakewood Plan." The CCCA itself now has 74 members, of which 52 are cities in LA County.

As times have changed, so has the Lakewood Plan. Contract cities no longer contract exclusively with the county. They contract with a variety of suppliers, from the private and voluntary sectors as well as the county.

Source: Kevin Lavery, Smart Contracting for Local Government Services: Processes and Experience, Praeger, Westport, CT, 1999, page 101

The Origin of Virtual Council

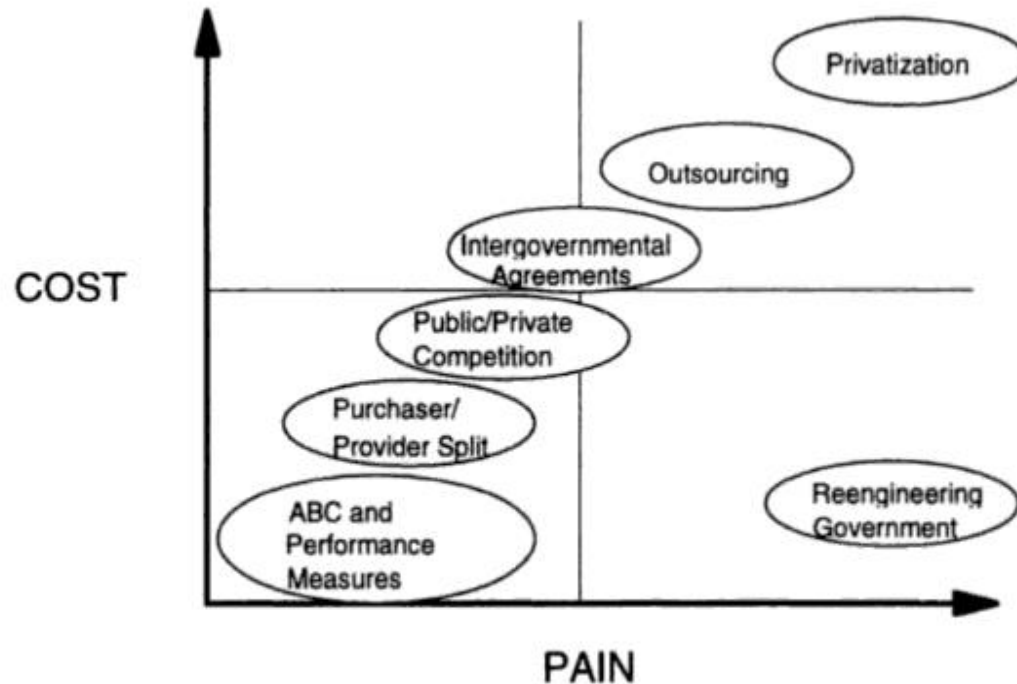


Figure 6.1. Analysis of Breakthrough Strategies

Source: Kevin Lavery, Smart Contracting for Local Government Services: Processes and Experience, Praeger, Westport, CT, 1999, page 97

The Origin of Virtual Council

CONCLUSIONS

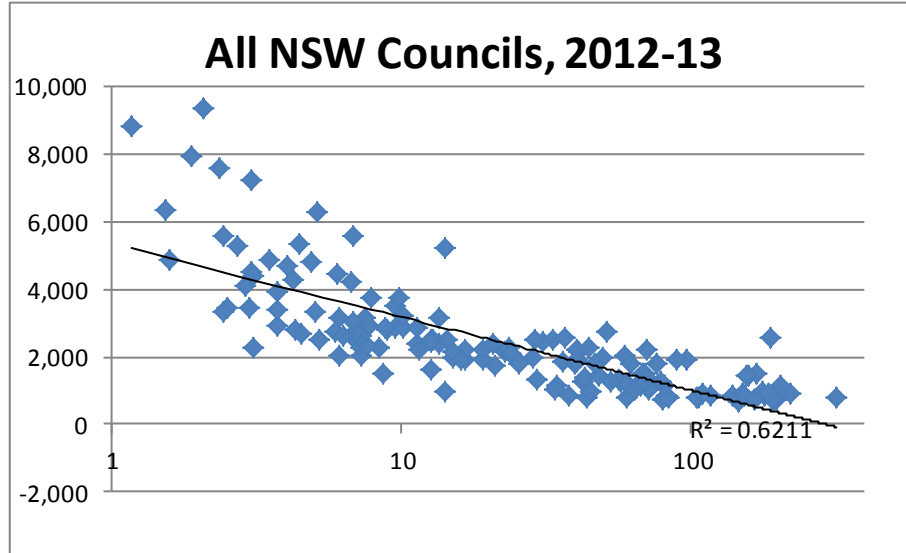
Contracting is no panacea for **local** governments. However, where it is well executed it can improve value for money significantly. The most important feature of best practice is to adopt a strategic approach to service delivery. This means reviewing all of the options to deliver services, including in-house provision and contracting. Another feature of best practice is to reengineer the decision-making process to devolve the operational management of the contracting process (including the selection of areas for contracting) to professional managers rather than elected officials. Other essential features include developing good information on costs, standards, and performance. Finally, **local** governments should examine carefully the possibility of introducing public/private competition for services rather than outright outsourcing. Public/private competition can achieve similar levels of savings without the disruption and damage to employee morale that often accompanies outsourcing.

Source: Kevin Lavery, Smart Contracting for Local Government Services: Processes and Experience, Praeger, Westport, CT, 1999, page 97

Is Bigger Better?

This chart for all NSW councils might suggest that larger councils enjoy lower unit costs...

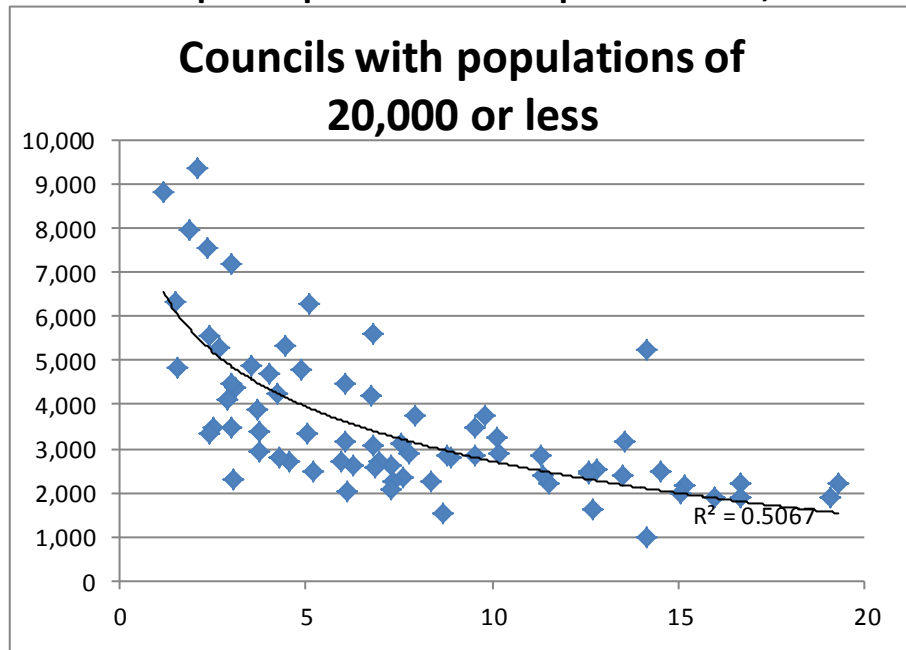
Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

And this chart for smaller local councils might suggest the same...

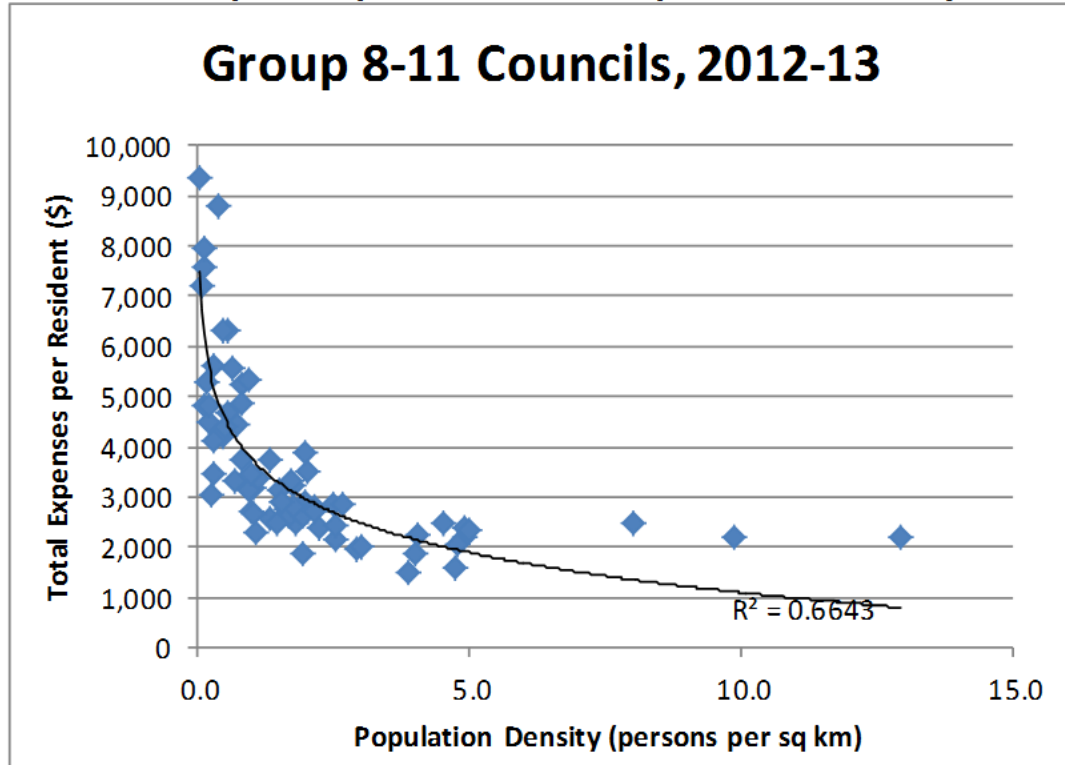
Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

But this chart for smaller councils shows that population density explains lower cost better than size. Simply amalgamating small councils with dispersed populations won't necessarily reduce unit costs...

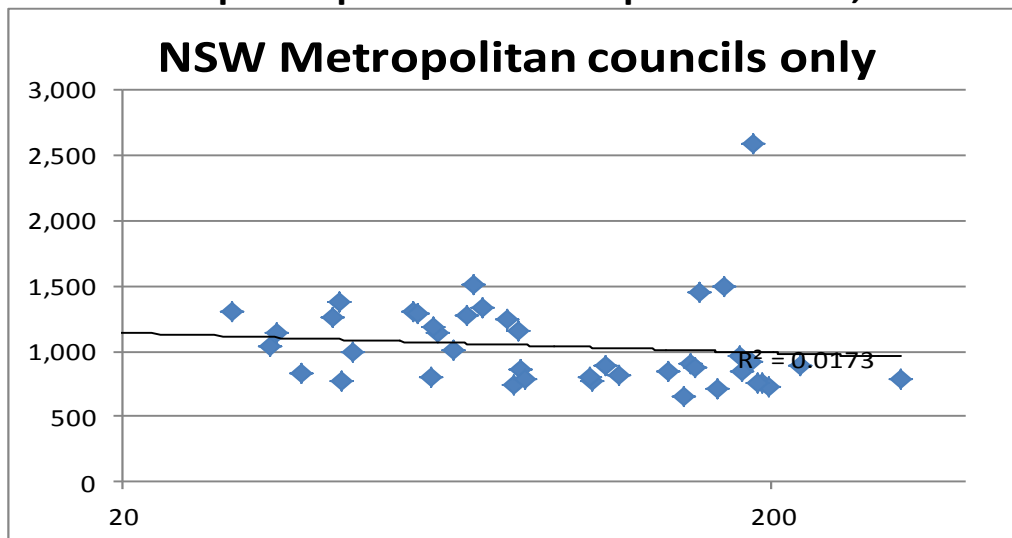
Council Per Capita Expense versus Population Density, 2012-13



Source: DLG, Comparative Information on NSW Councils

This chart for metropolitan councils shows that larger councils have no statistically significant economies of scale...

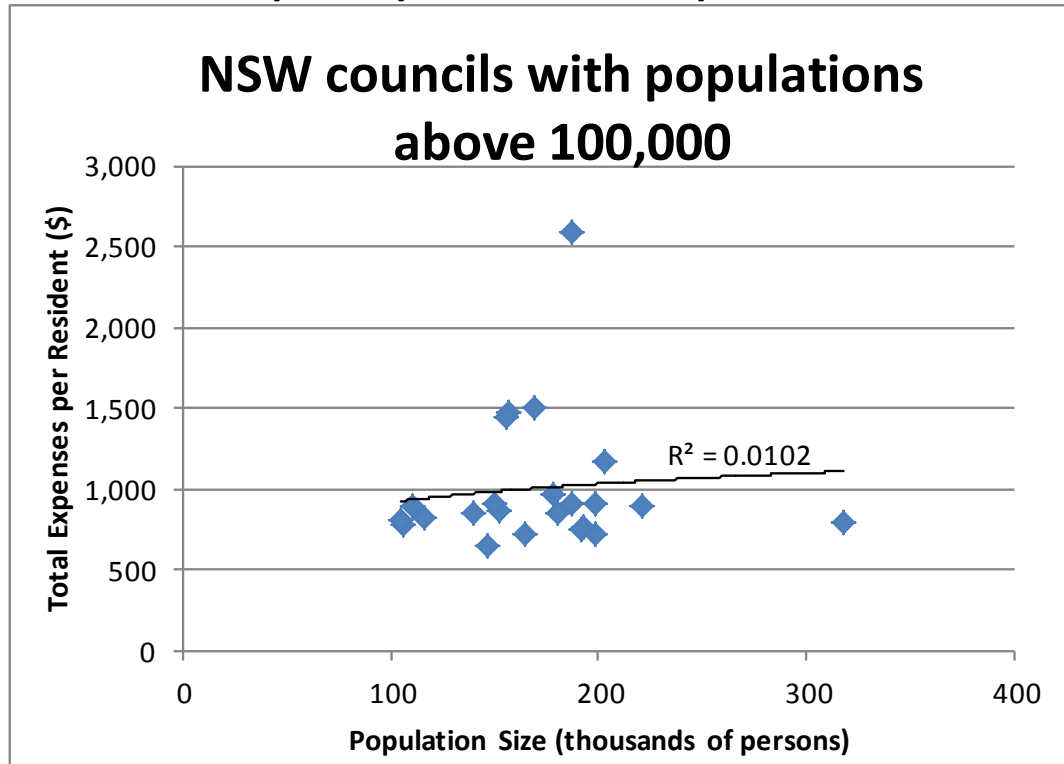
Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

This chart shows that for very large councils, economies of scale are non-existent too...

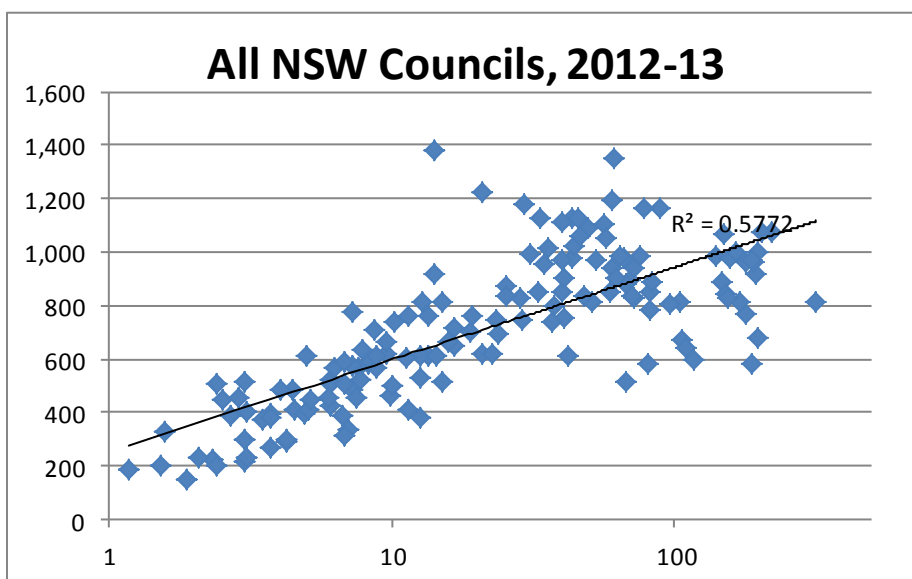
Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

Finally, this chart shows the strong correlation between a council's size and its rates...

Council Average Rates versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

Source: Percy Allan & Associates Pty Ltd

Feb 2015