RISING TO THE CHALLENGE

Reform Options for the Western Suburbs of Perth
October 2008

This Final Report was prepared by Professor Brian Dollery and Dr Andrew Johnson on behalf of New England Education and Research Proprietary Limited for the WESROC Group of Councils. This Report was produced as a strictly independent Report. The opinions expressed therein are thus exclusively those of Professor Brian Dollery and Dr Andrew Johnson and do not necessarily coincide with the WESROC Group of Councils, either as individual local government entities or as a group of councils.

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EXECUTIVE SUMMARY

This Report was prepared by Professor Brian Dollery and Dr Andrew Johnson on behalf of New England Education and Research Proprietary Limited for the WESROC group of councils in Perth. In the brief given to Professor Dollery and Dr Johnson, they were requested to provide a Report to the WESROC group of councils (as well as the Town of Cambridge) with two main aims:

- Provide a thorough analysis of the WESROC group of councils against the background of structural reform in Australian local government, including an assessment of the effectiveness of forced amalgamation programs, alternative models of local government to compulsory council mergers and shared service arrangements. The Report must also consider the problem of financial sustainability in Australian local government, deal with the sources of financial sustainability and differentiate between financial sustainability and broader concepts of community sustainability. These issues are addressed in Part A and Part B of the Report.

- Provide an independent assessment of the WESROC organisation and its member councils (as well as the Town of Cambridge) and make recommendations for enhancing the role of WESROC. These questions are addressed in Part C of the Report.

After an initial Chapter 1, which describes the background to the Report and outlines the contents of the Report, the remainder of the Report is divided into four main parts consisting of 12 substantive chapters:

**Part A** considers the effectiveness of amalgamation in the broader context of recent Australian local government reform. It presents alternative models of local governance with better prospects of achieving desirable economic and social outcomes, and it evaluates the potential of shared services as an instrument for enhancing efficiency, while preserving local democracy and local community interests.

**Part B** considers financial sustainability in Australian local government, efforts by recent national and state-based inquiries to define and measure financial sustainability
in other Australian local government jurisdictions, and salient academic literature on the determinants of local government sustainability in Australia. It identifies several intractable problems with the concept of financial sustainability, proposes a useful typology for evaluating the financial problems evident in Australian local government, and presents a broader concept of local government sustainability and local community sustainability, especially applicable to existing small local councils.

**Part C** considers the current financial standing of WESROC councils and the critical economic and social role played by WESROC local councils in sustaining their local communities and providing the highly responsive and personalised service provision characteristic of these councils. It discusses the WALGA Regional Model and how WESROC councils could best respond to the Regional Model. Although not presently a member of WESROC, the Town of Cambridge is also considered in this analysis. It also considers the policy options available to WESROC councils and the Western Australian government. It makes recommendations for improving the effectiveness of service delivery and financial sustainability among WESROC councils while preserving local democracy, local representation, the intimacy of localized service, and sustainable local communities.

**Part D** concludes the Report with some final observations.

**Part A** comprises three substantive chapters 2, 3 and 4:

Chapter 2 is divided into three main sections:

- Section 2.2 sets out the main reasons for the present difficulties faced by all Australian local government jurisdictions;
- Section 2.3 considers structural reform in local government, and especially enforced council amalgamation, as the predominant policy instrument used by Australian state and territory governments to enhance the effectiveness of local government;
- The chapter ends with some brief concluding remarks in section 2.4.

In essence, Chapter 2 argues that structural change programs that simply rely on the blunt instrument of council amalgamations have not been effective in local government
jurisdictions. Moreover, Chapter 2 demonstrates that most of the arguments presented in favour of amalgamation are generally misconceived. Even when weight can be placed on these arguments, it is argued that alternative methods of reform involving partnerships between councils are in any event likely to be much more effective in achieving the same aims.

Chapter 3 is divided into five main parts:

- Section 3.2 provides a brief outline of five promising alternative governance models, some of which have already been implemented in Australia;
- Section 3.3 provides a conceptual stem for considering alternative models of local governance involving structural change and process change;
- Section 3.4 determines which of the models developed by Dollery and Johnson (2005) are the most suitable vehicles for structural reform in Australia, with the focus falling on three recent examples drawn from the Riverina Regional Organization of Councils (REROC), the NSW Shires Association (2004) Joint Board model, and the New England Strategic Alliance;
- Chapter 3 ends with some short concluding remarks on the policy implications of the analysis in section 3.5.

Chapter 3 argues that although Australian municipal reform programs have typically used council amalgamation as their primary policy instrument, it is now clear that this approach has been flawed. Other approaches involving fundamental structural change, such as agency models or virtual local government, are also likely to impose prohibitive transitional costs. By contrast, joint board models and regional organizations of councils not only provide a better combination of process change and structural change, with lower transformation costs, but also appear better able to accommodate the varied needs of different local communities.

Chapter 4 is divided into five main parts:

- Section 4.2 provides a synoptic review of the views of recent national and state-based public inquiries into local government on council cooperation and shared services;
- Section 4.3 briefly sets out the analytical foundations for shared services;
Section 4.4 considers alternative models of local government that could serve as conduits for shared service provision;

Section 4.5 summarizes available empirical evidence on shared services;

Chapter 4 ends with some brief concluding remarks in section 4.6.

Chapter 4 considers the problem of shared services in local government. It demonstrates that whether shared services can indeed generate substantial cost savings and enhanced service provision depends critically on which services are selected for shared service models. After a review of Australian and international evidence on shared services, Chapter 4 draws the modest conclusion that while the thoughtful selection and application of shared service arrangements would almost certainly induce cost savings, it would not by itself solve the acute problems of financial sustainability confronting a majority of Australian local councils.

Part B comprises two substantive chapters 5 and 6:

Chapter 5 is divided into four main sections:

- Section 5.3 considers salient aspects of the embryonic Australian academic literature on local council sustainability;
- Section 5.4 develops a typology of local government sustainability using stylized empirical characteristics of Australian local councils;
- Chapter 5 ends in section 5.5 with some brief observations on the policy implications of the taxonomy.

A common thread running through the discussion in Chapter 5 is the “non-discretionary” nature of the external environment in which Australian local government is placed. Moreover, constraints imposed by higher tiers of government in the Australian federation thus account for a good deal of non-sustainability amongst local councils. Accordingly, the state-based inquiries and the PWC (2006) report all found
that large numbers of Australian local governments are unsustainable if present trends continue. This serves to illustrate a dismal truth about Australian local government; unless dramatic change occurs, unsustainability will become the rule rather than the exception.

Chapter 6 is divided into three main parts:

- Section 6.2 considers the problem of defining adequately council sustainability and identifying the chief determinants of this broader conception of local government sustainability;
- Section 6.3 examines each of the three main attributes of community or social sustainability in local government advanced in section 6.2 and seeks to illustrate how these can be embodied in the analysis of contemporary local government;
- Chapter 6 ends with some brief concluding remarks in section 6.4.

Chapter 6 argues that not only does ‘financial sustainability’ have no agreed meaning in Australian local government, but also it represents only a single dimension of overall council sustainability. This means that an accurate assessment of aggregate ‘overall sustainability’ in local government must also include other attributes of contemporary local authorities. Many factors clearly play an important role: Local government democracy; local government capacity; ‘sense of place’; ‘community sustainability’; local social capital; local preference diversity; local leadership; and local economic development all seem relevant. Chapter 6 identifies three main ‘clusters’ of attributes of overall local council sustainability: The ‘vibrancy of local democracy’; ‘local social capital’; and ‘local government capacity’.

**Part C** comprises five substantive chapters 7, 8, 9, 10 and 11:

Chapter 7 is divided into six main parts:

- Section 7.2 provides a synoptic description of each individual council in the WESROC region;
- Section 7.3 analyses the demographic composition of these councils as well as the types of industries operating in WESROC region and the major sources of employment for its residents;
• Section 7.4 contains a preliminary discussion of the WESROC councils themselves and sets the scene for the detailed analysis in the remainder of Part C of the Report;
• Section 7.5 examines the future growth and prospects for the WESROC councils;
• Chapter 7 ends with some brief evaluative comments in section 7.6.

Chapter 7 yields a striking conclusion: while the six WESROC member councils all appear fairly similar at first glance, on further investigation great differences emerge. Thus each WESROC council services a different number of constituents, each maintains a different sized municipal spatial area, each has different levels of representation, residents have different levels of average incomes, population grows at different rates in every council, and each council is in a different financial position. This diversity is extremely important from a policy perspective; it strongly implies that ‘one-size-fits-all’ local government reform policies, like state-wide forced amalgamation programs, are not appropriate for WESROC. Chapter 7 also includes an analysis of the Town of Cambridge in an Appendix.

Chapter 8 is divided into five main parts:
• Section 8.2 assesses WESROC councils under the South Australian Financial Sustainability Review Board (FSRB) (2005) criteria for a sustainable local government authority;
• Section 8.3 focuses on applying the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI 2006) recommendations to determine sustainability in the case of WESROC councils;
• Section 8.4 considers the results from the annual audits of local governments in Queensland undertaken by the Auditor General and his determination of financial viability;
• Chapter 8 ends with some brief evaluative comments in section 8.5.

Chapter 8 seeks to determine the financial sustainability of the WESROC member councils in the long-term by using various methodologies available to evaluate financial sustainability in Australian local government. To this end, Chapter 8 employs the South
Australian methodology, the highly prescriptive NSW LGI criteria and the Queensland Audit Office assessment of financial viability. This analysis indicated that, in general, the WESROC member councils had achieved long-run financial sustainability. However, Chapter 8 qualifies these results by noting that all financial sustainability assessments fail to consider external factors that affect the ongoing viability of councils, such as the rapidly rising expectations of constituents; unfunded mandates or cost shifting from other spheres of government; increased costs of service delivery; constraints on local government’s ability to raise revenue; and variability and inadequacy of grants from higher spheres of government.

Chapter 9 is divided into five main parts:

- Section 9.2 provides some background information on regional organisations of council in an Australian local government context;
- Section 9.3 presents an overview of WESROC and its history;
- Section 9.4 analyses the regional cooperation facilitated by WESROC and focuses on its past achievements;
- Chapter 9 ends with some brief evaluative comments in section 9.5.

Chapter 9 seeks to highlight the important role that Regional Organisations of Council play in Australian local government, particularly their role in providing regional advocacy, cost-saving initiatives, resource-sharing opportunities and capacity building. It also provides an overview of WESROC, its history, its achievements and the extent of cooperation that already exists in the WESROC region. This is intended to assist in determining the future options available for enhancing the efficient and effective service delivery to member councils in the western suburbs, which is explored in detail in Chapter 11.

Chapter 10 is divided into four main parts:

- Section 10.2 considers the main characteristics of the WALGA Regional Model;
- Section 10.3 provides a synoptic review of the Australian literature on alternative models of local government and seeks to situate the Regional Model in this conceptual framework;
- Section 10.4 presents a critical evaluation of the Regional Model;
• Chapter 10 ends with some brief concluding remarks on the Regional Model in section 10.5.

Chapter 10 contends that several features of the Regional Model are noteworthy. Firstly, the Regional Model has relatively few specific details prescribing its structure and operation, which implies that groups of councils falling under a given Regional Model receive an almost blank template from which to proceed. Secondly, the literature on shared services in Australian local government suggests several likely candidate functions that could be adopted by the Regional Model in addition to the three areas indicated in the Draft Report. Indeed, a surprising degree of unanimity exists on the most suitable services to be delivered regionally, predominantly in the ‘back office’ area of municipal operation. Moreover, available evidence implies reasonable prospects of both improved service provision and cost savings, although significant barriers must be overcome.

Chapter 11 is divided into seven main parts:

• Section 11.2 provides the results of the Dollery, Marshall, Johnson and Witherby (2004) review into the Riverina East Regional Organisation of Councils (REROC) and its recommendations as to how these councils can enhance their service delivery through cooperation;

• Section 11.3 considers the shared service model implemented by the Armidale Dumaresq, Guyra, Uralla and Walcha councils in forming the New England Strategic Alliance of Councils (NESAC);

• Section 11.4 analyses previous efforts made by WESROC to undertake reform to enhance the operations of member councils;

• Section 11.5 outlines the results of the Byrnes (2005) survey, which was undertaken as part of the NSW Local Government Inquiry (LGI 2006), and highlights the views of selected General Managers (CEOs) on how local government services can more efficiently and effectively be coordinated;

• Section 11.6 then seeks to combine what has been learned from the previous sections and provides some recommendations and options for WESROC to consider for strengthening its future;

• Chapter 11 ends with some brief evaluative comments in section 11.7.
Chapter 11 makes 17 recommendations for enhancing the role played by WESROC:

- **Recommendation 1**: WESROC consider establishing a dedicated Secretariat and CEO to ensure that adequate resources are available to assist in the increased workload.

- **Recommendation 2**: Given the pivotal role of the CEO, special care is taken in appointing a suitable person.

- **Recommendation 3**: WESROC should not only record the activities undertaken but also seek to place a value on the cost savings and non-pecuniary benefits that these activities produce to their respective communities.

- **Recommendation 4**: WESROC councils seek to benchmark their current activities to demonstrate existing performance and to provide a comparison of performance post-reform.

- **Recommendation 5**: In developing its reform strategy WESROC should continue with its flexible approach to service delivery and consider the REROC approach to its services going forward.

- **Recommendation 6**: WESROC member councils consider implementing a ‘Quick Wins’ approach where savings can be generated from existing activities with minimal change to member organisations to demonstrate commitment to the reform process.

- **Recommendation 7**: Any structural and operational reforms proposed by WESROC should be supported by a strong business case and careful planning to ensure its success.

- **Recommendation 8**: WESROC councils should consider the benefits of moving to a common suite of IT across the six member councils to enhance opportunities for greater cooperation in service delivery in other areas and the interchange of staff between councils.

- **Recommendation 9**: WESROC should not underestimate the resources required to implement change. Trying to ‘save money’ by undertaking the process ‘in-house’ can lead to the stretching of resources and greater costs in the long run.
• Recommendation 10: WESROC review those services previously identified as being able to be provided on a regional basis, determine if they are still relevant, subject to enough support, and then seek to prepare business cases to justify any change in service delivery.

• Recommendation 11: WESROC councils use the Byrnes (2005) survey as the basis of determining possible structural and operational changes to current services that could be implemented to improve their performance.

• Recommendation 12: Enhance the role of WESROC as a vehicle to facilitate structural and operational change in the western Perth region rather than WMRC.

• Recommendation 13: WESROC councils prepare business cases to determine the feasibility of providing specialised corporate support services across WESROC. In particular, consideration should be given to providing the following services across the councils:
  - Human Resource Management
  - Asset Management
  - Risk Management
  - Information Technology Services
  - GIS Services

• Recommendation 14: WESROC investigate the possibility of combining ‘back office’ transactional processing (i.e. rates, debtors, creditors, payroll, etc.) services of member councils into a single service delivery area.

• Recommendation 15: WESROC seek to put in place measures and structures that will address the specifically defined objectives contained in the WALGA Report (2008), particularly in its Sustainability Checklist.

• Recommendation 16: WESROC continue to hold state and federal governments accountable for their role in achieving long-term sustainability in local government in Western Australia.

• Recommendation 17: WESROC make determined efforts to secure funds for ROCs and local government reform generally from state and federal governments.
Part D comprises Chapter 12.

Chapter 12 seeks to conclude the Report with some final observations.
Professor Dollery and Andrew Johnson would like to offer their gratitude to Bligh Grant for his most helpful assistance in the preparation of this Report. Brian Dollery would like to express his appreciation to all those Mayors, CEOs and other council officers of the WESROC group of councils and the Town of Cambridge for participating in personal interviews over the period Monday 8 to Friday 12 September and for making a valuable contribution to the Final Report. Brian would also like to thank WESROC for kindly inviting him to attend the WESROC Strategic Workshop on Wednesday 24 September and to make a presentation on the Final Report to the Workshop. Finally, Brian would like to express his personal thanks to Stephen Tindale for his kind assistance throughout the period involved in developing this Report.
PART A: BACKGROUND

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION
In common with most other local government systems in similar advanced countries, Australian local government has been subjected at vigorous reform since the early nineteen nineties (Dollery, Crase and Johnson, 2006). In their edited volume Local Government Reform: A Comparative Analysis of Anglo-American Countries, Dollery, Garcea and LeSage (2008, p. 2) have observed that during ‘the past two decades most, if not all, municipal governments throughout the world have been subjected to a series of reforms’, especially in ‘economically advanced democracies’ where ‘such reforms are the most recent iteration of a series of municipal modernization initiatives undertaken at various points in history since their respective municipal systems were established’. The aim of these reform episodes has been ‘to eliminate problems that are deemed to hamper either municipal governance or other governance structures within each political system’.

Reform at the local level has been mirrored by similar developments in other parts of the public sector. In this respect, Dollery, Garcea and LeSage (2008, p. 3) have pointed out that ‘the municipal reforms of the past two decades have often coincided with reforms to other components of the national and sub-national governance systems’, with the ‘most notable of these the public management reforms at the national and sub-national levels of government’. Moreover, ‘the reforms to municipal governments and those to other levels of government were often related’. They argue that the ‘chief reason for this is that although municipally focused reforms ostensibly sought to improve the municipal systems of governance, management, and service provision, in a number of instances they were also designed to improve, either directly or indirectly, other systems of governance, management and service provision in each country’.
The motivation for local government reform has been remarkably similar across the Anglo-American group of countries – Australia, Britain, Canada, Ireland, New Zealand and the United States – considered in *Local Government Reform: A Comparative Analysis of Anglo-American Countries*. Dollery, Garcea and LeSage (2008, p. 3) observe that reform programs ‘aimed at the municipal sector and elsewhere were driven largely by the widespread belief that the various tiers of government were performing their core functions sub-optimally from both an efficiency and an effectiveness perspective’. This concern ‘over sub-optimal performance’ crystallized in the period before the turn of the millennium ‘when most governments faced major economic, social and political challenges’. This led to the ‘prevailing view inside and outside governmental circles’ that various types of municipal reforms were ‘essential to ensure that governments had the capacity to perform their functions efficiently, effectively and according to the fundamental tenets of democratic governance’.

Local government reform has proved controversial across all Anglo-American local government jurisdictions. For example, Dollery, Garcea and LeSage (2008, p. 2) have noted that many reform programs ‘have generated a substantial degree of public and academic interest, and a few engendered a substantial degree of public controversy while they were being developed and implemented’. Moreover, ‘although the subsequent furore has mostly subsided, public indignation has remained so strong in some cases that many of those who advocated the reform processes have paid large political penalties’. The nature of this controversy has ‘revolved around questions concerned with the need for reforms, the goals and objectives of reforms, their precise nature and scope, the processes by which they were developed and implemented, and their effects on various facets of governance, management and service provision at the local, regional and national levels’.

As we shall see in this Report, all Australian local government jurisdictions have been subjected to extensive reform processes. Moreover, controversy has also been a characteristic of Australian reform programs, particularly in the case of structural reform, usually undertaken in the Australian milieu by means of forced amalgamation in regional,
rural and remote local council areas. For instance, during the ‘nineties, South Australia, Tasmania and Victoria underwent forced municipal consolidation to some degree, New South Wales experienced compulsory amalgamation in 2004, substantial forced mergers were enacted in Queensland in mid-2007 and the Northern Territory appears determined to radically reduce the number of councils within its jurisdiction in the near future.

However, the local government sector in Western Australia has thus far been left largely untouched by structural reform through forced amalgamation. Nevertheless, given the experience all other Australian local government jurisdictions, particularly the recent episode of compulsory consolidation in Queensland, Western Australian local government has justified concerns that it might also be subjected to a program of forced local council mergers. As a result, the Western Australian Local Government Association (WALGA) has embarked on its own reform program in order to generate improvements in the operation of local councils before a potentially unwelcome and possibly draconian ‘top-down’ state government policy intervention is thrust upon them.

In common with most other states, WALGA approached local government reform in its own jurisdiction by producing a series of reports and consulting widely among interested parties. The process began with the WALGA (2006) Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia Inquiry as well as the findings of a major independent report by Access Economics (2006) Local Government Finances in Western Australia. WALGA followed these initial steps with a consultative process commenced in April 2007.

A crucial element of *The Journey* resides in the fact that it emphasises various alternatives to forced amalgamation in respect of inter-council co-operation in shared service delivery, such as Voluntary Regional Organisations of Councils, Regional Local Governments, Area Integration Models, and ‘Bigger Local Governments’. Indeed, Chapter 9 of the Draft Report proposes a Regional Model as the core of its program of local government reform. The Draft Report (2008, p.7) observes that ‘the Regional Model is significantly different to imposed structural reform in that it is not driven by a reduction in local governments for the sake of simple cost savings, nor does it suggest a “one size fits all” solution’. Instead ‘the objective of the Regional Model is to improve the ability of a Local Government to actually meet the expectations of the communities, at both local and regional levels’ by means of the ‘retention of existing representation arrangements supported by enhanced capacity for improved service delivery’. In essence, the Regional Model thus seeks to ensure the continuation of local representation through the preservation of existing local councils, but at the same time improve the functional performance of local government through regional cooperation in service provision.

Against this background, the WESROC group of councils approached Professor Brian Dollery and Dr Andrew Johnson to undertake a detailed independent study of WESROC and its member councils in the light of policy developments in other Australian local government jurisdictions, the WALGA *Systemic Sustainability Study*, and possible state government policy initiatives in Western Australia. After considerable discussion, it was agreed that Professor Dollery and Dr Johnson would produce an independent report.

In the preparation of the Report, apart from research and financial simulations embodied in the Report undertaken by New England Education and Research Pty. Ltd., Professor Dollery travelled to Perth twice for detailed ‘on-the-spot’ investigations. Over the week 8 to 12 September 2008, Professor Dollery interviewed Mayors, CEOs and other officials from all six WESROC councils as well as the Town of Cambridge. He returned to Perth for the Strategic Workshop held on Wednesday 24 September.
In terms of the agreement between WESROC and New England Education and Research Pty. Ltd., the Report would be divided into four main parts. Part A would consider the efficacy of amalgamation in the broader context of recent Australian local government reform, present alternative models of local governance with better prospects of achieving desirable economic and social outcomes, and evaluate the potential of shared services as an instrument for enhancing efficiency, while preserving local democracy and local community interests.

Part B would consider financial sustainability in Australian local government, efforts by recent national and state-based inquiries to define and measure financial sustainability in other Australian local government jurisdictions, and salient academic literature on the determinants of local government sustainability in Australia. It would identify several intractable problems with the concept of financial sustainability, propose a useful typology for evaluating the financial problems evident in Australian local government, and present a broader concept of local government sustainability and local community sustainability, especially applicable to existing small local councils.

Part C would consider the current financial standing of the WESROC group of councils, the critical economic and social role played by WESROC local councils in sustaining their local communities, as well as providing the highly responsive and personalised service provision characteristic of these councils, and evaluate the probable impact of forced amalgamation on these local communities. It would investigate the best way for WESROC to approach the WALGA Regional Model proposal. It would also consider various policy options available to WESROC councils and the Western Australian government and make recommendations for improving the effectiveness of service delivery and financial sustainability among WESROC councils while preserving local democracy, local representation, the intimacy of localised service, and sustainable local communities.

This Report represents the outcome of the deliberations by Professor Dollery and Dr Johnson. In essence, the main aims of the Report are fourfold:
• To demonstrate that forced amalgamation does not represent a sensible policy option for WESROC councils;
• To investigate other methods, like shared services and resource sharing, that constitute a more promising approach to improving efficiency and effectiveness amongst WESROC councils whilst retaining vibrant local democracy and local identity;
• To evaluate the effectiveness and financial soundness of the WESROC group of councils; and
• To consider how the WESROC group of councils should best tackle the WALGA reform process, particularly the proposed Regional Model.

1.2 OUTLINE OF THE REPORT

Part A of the Report comprises three chapters 2, 3 and 4:

Chapter 2 is divided into three main sections:
• Section 2.2 sets out the main reasons for the present difficulties faced by all Australian local government jurisdictions;
• Section 2.3 considers structural reform in local government, and especially enforced council amalgamation, as the predominant policy instrument used by Australian state and territory governments to enhance the effectiveness of local government;
• The chapter ends with some brief concluding remarks in section 2.4.

Chapter 3 is divided into five main parts:
• Section 3.2 provides a brief outline of five promising alternative governance models, some of which have already been implemented in Australia;
• Section 3.3 provides a conceptual stem for considering alternative models of local governance involving structural change and process change;
• Section 3.4 determines which of the models developed by Dollery and Johnson (2005) are the most suitable vehicles for the structural reform in Australia, with the focus falling on three recent examples drawn from the Riverina Regional
Organization of Councils (REROC), the NSW Shires Association (2004) Joint Board model, and the New England Strategic Alliance;

- Chapter 3 ends with some short concluding remarks on the policy implications of the analysis in section 3.5.

Chapter 4 is divided into five main parts:

- Section 4.2 provides a synoptic review of the views of recent national and state-based public inquiries into local government on council cooperation and shared services;
- Section 4.3 briefly sets out the analytical foundations for shared services;
- Section 4.4 considers alternative models of local government that could serve as conduits for shared service provision;
- Section 4.5 summarizes available empirical evidence on shared services;
- Chapter 4 ends with some brief concluding remarks in section 4.6.

**Part B** comprises two substantive chapters 5 and 6:

Chapter 5 is divided into four main parts:

- Section 5.3 considers salient aspects of the embryonic Australian academic literature on local council sustainability;
- Section 5.4 develops a typology of local government sustainability using stylized empirical characteristics of Australian local councils;
- Chapter 5 ends in section 5.5 with some brief observations on the policy implications of the taxonomy.

Chapter 6 is divided into three main parts:
• Section 6.2 considers the problem of defining adequately council sustainability and identifying the chief determinants of this broader conception of local government sustainability;

• Section 6.3 examines each of the three main attributes of community or social sustainability in local government advanced in section 6.2 and seeks to illustrate how these can be embodied in the analysis of contemporary local government;

• Chapter 6 ends with some brief concluding remarks in section 6.4.

**Part C** comprises five chapters 7, 8, 9, 10 and 11:

Chapter 7 is divided into six main parts:

• Section 7.2 provides a synoptic description of each individual council in the WESROC region;

• Section 7.3 analyses the demographic composition of these councils as well as the types of industries operating in WESROC region and the major sources of employment for its residents;

• Section 7.4 contains a preliminary discussion of the WESROC councils themselves and sets the scene for the detailed analysis in the remainder of Part C of the Report;

• Section 7.5 examines the future growth and prospects for the WESROC councils;

• Chapter 7 ends with some brief evaluative comments in section 7.6.

Chapter 8 is divided into five main parts:

• Section 8.2 assesses WESROC councils under the South Australian Financial Sustainability Review Board (FSRB) (2005) criteria for a sustainable local government authority;

• Section 8.3 focuses on applying the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI 2006) recommendations to determine sustainability in the case of WESROC councils;
• Section 8.4 considers the results from the annual audits of local governments in Queensland undertaken by the Auditor General and his determination of financial viability;
• Chapter 8 ends with some brief evaluative comments in section 8.5.

Chapter 9 is divided into five main parts:
• Section 9.2 provides some background information on regional organisations of councils in an Australian local government context;
• Section 9.3 presents an overview of WESROC and its history;
• Section 9.4 analyses the regional cooperation facilitated by WESROC and focuses on its past achievements;
• Chapter 9 ends with some brief evaluative comments in section 9.5.

Chapter 10 is divided into four main parts:
• Section 10.2 considers the main characteristics of the WALGA Regional Model;
• Section 10.3 provides a synoptic review of the Australian literature on alternative models of local government and seeks to situate the Regional Model in this conceptual framework;
• Section 10.4 presents a critical evaluation of the Regional Model;
• Chapter 10 ends with some brief concluding remarks on the Regional Model in section 10.5.

Chapter 11 is divided into seven main parts:
• Section 11.2 provides the results of the Dollery, Marshall, Johnson and Witherby (2004) review into the Riverina East Regional Organisation of Councils (REROC) and its recommendations as to how these councils can enhance their service delivery through cooperation;
• Section 11.3 considers the shared service model implemented by the Armidale Dumaresq, Guyra, Uralla and Walcha councils in forming the New England Strategic Alliance of Councils (NESAC);
• Section 11.4 analyses previous efforts made by WESROC to undertake reform to enhance the operations of member councils;
• Section 11.5 outlines the results of the Byrnes (2005) survey, which was undertaken as part of the NSW Local Government Inquiry (LGI 2006), and highlights the views of selected General Managers (CEOs) on how local government services can more efficiently and effectively be coordinated;
• Section 11.6 then seeks to combine what has been learnt from the previous sections and provides some recommendations and options for WESROC to consider for strengthening its future;
• Chapter 11 ends with some brief evaluative comments in section 11.7.

Chapter 11 makes 14 recommendations for enhancing the role played by WESROC:
• Recommendation 1: WESROC consider establishing a dedicated Secretariat and CEO to ensure that adequate resources are available to assist in the increased work load.
• Recommendation 2: Given the pivotal role of the CEO, special care is taken in appointing a suitable person.
• Recommendation 2: WESROC should not only record the activities it undertakes, but also seek to put a value on the savings and other benefits that these activities produce.
• Recommendation 3: WESROC councils seek to ‘benchmark’ their current activities to demonstrate existing performance and to provide a comparison of performance post-reform.
• Recommendation 4: WESROC continue with its flexible approach to service delivery going forward.
• Recommendation 5: That WESROC consider implementing the NERAC ‘Quick Wins’ strategy (i.e. GIS services, plant utilization, risk management, investment management, etc.) where savings can be generated from existing activities with minimal organisational change to demonstrate commitment and build trust.
• Recommendation 6: Any structural and operational reform proposed by WESROC should be supported by a strong business case and careful planning to ensure its success.

• Recommendation 7: WESROC should strongly consider the benefits of moving to a common suite of IT across its six councils to enhance joint projects in other areas and the interchange of staff.

• Recommendation 8: That WESROC not underestimate the resources required to implement change. Trying to save money by undertaking the process ‘in-house’ can lead to poor outcomes, dissatisfaction and greater costs in the long-run.

• Recommendation 9: WESROC councils use the Byrnes (2004) survey instrument to determine which operations should be channelled through WESROC and which retained by individual councils.

• Recommendation 10: WESROC councils should prepare business cases to determine the feasibility of providing specialised corporate support services across WESROC. In particular, consideration should be given to providing the following services across the councils: Human Resource Management; Asset Management; Risk Management; Information Technology Services; and GIS Services.

• Recommendation 11: WESROC investigate combining ‘back-office’ transactional processing (i.e. rates, debtors, creditors, pay-roll, etc.) services by the councils into a single service delivery area.

• Recommendation 12: WESROC seek to put in place measures and structures that will address the defined objectives contained in the revised WALGA Final Report.

• Recommendation 13: WESROC lobby and hold accountable state and federal governments for their role in achieving long-term sustainability in local government in Western Australia.

• Recommendation 14: WESROC make determined efforts to secure funds for its activities and local government reform generally from state and federal governments.
**Part D** comprises Chapter 12.

Chapter 12 seeks to provide a synoptic summary of this Report.
CHAPTER 2: RECENT REFORM IN AUSTRALIAN LOCAL GOVERNMENT

2.1 INTRODUCTION

In common with local government systems in many other developed countries, Australian local government has been subjected to vigorous reform over the past two decades. In general, three main engines of reform have been employed. In the first place, state governments have sought to improve municipal operating efficiency by modernizing their respective local government enabling acts in the hope that greater legislative freedom would give local councils the flexibility to adapt more readily to a rapidly changing environment. The chief rationale for this approach seems to have been derived from the doctrines associated with New Public Management (NPM) (Dollery and Wallis 2001), much of which replicated the experience of British local government, where legislative reform attempted to ‘encourage local authorities to adopt a strategic community leadership role and has given them the powers to promote the economic, social and environmental well-being of their communities’ (Cole 2003, p. 184). Apart from providing local authorities with the ‘freedom to manage’, NPM stressed the importance of market mechanisms in service provision thereby providing justification for the extensive use of market instruments in local council operations, such as ‘outsourcing’, competitive tendering, public/private partnerships, and the like.

Second, in contrast to increased legislative autonomy, central and state governments have somewhat paradoxically sought to shape the behaviour of councils through prescriptive statutes and mandated intergovernmental grants with respect to both the way in which local authorities discharge their responsibilities and the mix of services they provide. This has given rise to the phenomenon of ‘cost-shifting’, where additional responsibilities placed on local government are either under-funded or not funded at all (Hawker Report 2003).

Thirdly, state governments have periodically imposed programs of structural reform of differing degrees of intensity that have involved compulsory municipal amalgamation,
especially in regional, rural and remote areas of Australia. Thus over the past fifteen years South Australia, Victoria, Tasmania, New South Wales and, in 2007, Queensland have all witnessed extensive municipal restructuring, with a radical municipal consolidation program underway in the Northern Territory at the time of writing. This heavy emphasis on amalgamation as the primary instrument of local government reform serves to stress the traditional view of Australian local government policymakers that ‘bigger is better’ in local governance (Dollery and Crase 2004).

An important consequence of these episodes of structural reform has been a growing scepticism over the unsatisfactory economic, political and social outcomes of council amalgamations in the local government community. As a result, local councils across Australia have explored models of local government that present alternatives to heavy-handed state government-enforced amalgamation. These models are usually based on shared service arrangements and have displayed high levels of ingenuity (see, for instance, Dollery and Crase 2006). In other words, although it is still too early to confidently predict the demise of the ‘bigger is better’ amalgamationist philosophy in Australia, it would seem that enthusiasm for council amalgamation is on the wane.

The WALGA (2006) Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia Inquiry, its supporting research papers, such as the Access Economics (2006) Local Government Finances in Western Australia, as well as WALGA (2008) The Journey: Sustainability into the Future should be seen against the background of these reform processes and their perceived outcomes. In common with its (now defunct) Queensland cousin (the LGAQ (2006) Size, Shape and Sustainability (SSS) Program), as well as its close New South Wales relative (the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI) (2006) and its Final Report Are Councils Sustainable?), the WALGA (2008), The Journey: Sustainability into the Future represents an attempt by WALGA to place Western Australian local government within the larger national drive by state and territory governments to reform local government across Australia by enhancing the efficiency and effectiveness of local councils. However, at the same time, The Journey:
Sustainability into the Future seeks to embody the lessons learned in other Australian jurisdictions, especially in its scepticism over amalgamation.

Because local government in Western Australia is subject to much the same forces as other Australian local government systems and because the WALGA reform process has very similar aims to analogous reform programs in other states, the Western Australian reform initiative is best understood when placed in national perspective. In this way, it is possible to evaluate not only the nature of the process set in train through the WALGA initiative, but also to assess its prospects of success in the light of experience elsewhere in Australia and abroad. Chapter 2 thus seeks to locate the The Journey program within the broader national and international context.

Chapter 2 is divided into three main sections. Section 2.2 sets out the main reasons for the present difficulties faced by all Australian local government jurisdictions. Section 2.3 considers structural reform in local government, and especially enforced council amalgamation, as the predominant policy instrument used by state and territory governments to enhance the effectiveness of local government. The chapter ends with some brief concluding remarks in section 2.4.

2.2 MAIN PROBLEMS IN AUSTRALIAN LOCAL GOVERNMENT

Four distinct sets of economic and political factors have combined to produce the current impasse in Australian local government. We shall examine each of these four factors in turn.

2.2.1 Financial Pressures and Local Infrastructure Depletion

In the first place, intensifying financial pressures mean that the status quo in local government simply cannot be sustained indefinitely. In an analysis of the sources of this financial crisis, the Commonwealth Grants Commission (CGC, 2001, pp.52-53) identified five main reasons for financial distress in Australian local government:

“Devolution” – where a higher sphere of government gives local government responsibility for new functions;
“Raising the Bar” – where a higher tier of government, through legislative or other changes, raises the complexity and/or standard at which local government services must be provided, thereby increasing the cost of service provision;

“Cost Shifting” – either where a municipal council agrees to provide a service on behalf of a federal or state government (with funding subsequently reduced or stopped) or where some other tier of government ceases to provide an essential service thus forcing a local authority to take over;

“Increased community expectations” – where a given community demands improvements in existing municipal services or the provision of a new service; and “Policy Choice” – where specific councils voluntarily expand and/or enhance their services.

In addition, Johnson (2003) has observed that local councils themselves are also partly responsible for their financial plight. In particular, numerous councils have been reluctant to set their rates and other charges at realistic and sustainable levels.

Given these monetary pressures, it is no exaggeration to stress that existing arrangements have only been maintained at the cost of steadily depreciating physical infrastructure; an approach with ominous long-run implications. Indeed, in its final report entitled Rates and Taxes: A Fair Share for Responsible Local Government, the House of Representatives Standing Committee on Economics, Finance and Public Administration (2004, p.59) noted that “there is a significant infrastructure renewal gap across the country and asset standards are decreasing”.

As we shall see in Part B of this Report, this state of affairs has been repeatedly confirmed in several other recent inquiries into Australian local government, including the Commonwealth Grants Commission’s (CGC) (2001) Review of the Operation of Local Government (Financial Assistance) Act 1995, the South Australian Financial Sustainability Review Board’s (2005b) Rising to the Challenge, the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI) (2006) Are Councils Sustainable, the (now defunct) Queensland Local Government Association’s (LGAQ) (2006) Size, Shape and Sustainability (SSS) project, the Western Australian Local

At the national level, the same pattern has emerged. For instance, the *Local Government National Report, 2004-05*, prepared by the Local Government Section of the Department of Transport and Regional Services (DOTARS) (2006, p. 61), developed the concept of a ‘structural gap’ induced by ‘the unbalanced growth of revenues and expenditures’ that had resulted in severe fiscal distress in local government. Similarly, a commissioned report by PriceWaterhouseCoopers (PWC) (2006), entitled *National Financial Sustainability Study of Local Government*, also showed endemic problems of financial sustainability across all Australian local government. While the main reasons for this financial distress are generally well understood, debate continues on how best to deal with the problem.

It is also widely acknowledged that the financial plight of Australian local government would have been substantially worse had it not been for the introduction of the former Commonwealth government’s *Roads to Recovery (R2R)* funding program. The R2R initiative began life as a response to the looming problem of a local road stock that was reaching the end of its useful life. The finance required to renew the declining network of local roads was deemed beyond the capacity of local government. As a consequence, in November 2000, the Commonwealth government announced that it would inject $1.2 billion into local road renewal, 70% (or $850m) of which was to be spent in rural and regional Australia (DOTARS, 2003, p. 1).

The R2R program was initially designed to cover the period January 2001 through to June 2005. However, following a review of Commonwealth transport infrastructure funding in 2002, R2R was extended (under the banner of AusLink) until 2009. The financial arrangements underlying R2R completely by-passed state and territory governments and
thus represented a direct grant from the Commonwealth to local councils. One of the many conditions placed on use of the funds was the maintenance of a weighted average of previous local road expenditure by recipient councils. This stipulation enables us to classify \textit{R2R} grants as targeted close-ended conditional block grants. While the requirement to maintain previous funding levels makes it tempting to characterize the program as a matching grant, a matching rate is not explicitly stated.

Despite the undoubted financial relief that the \textit{R2R} program has brought to struggling local councils across Australia, it remains embroiled in controversy. In the first place, although the Commonwealth has been previously involved in the direct finance of local government through various programs, \textit{R2R} has broken with longstanding tradition in Australian fiscal federalism by its sheer scale in bypassing state and territory governments that have typically redistributed federal funding to local government through their Local Government Grants Commissions. In addition, political opponents of the program have stigmatised it as “pork barrelling” on a grand scale that has been calculated to secure the federal government partisan advantages in marginal electorates, particularly in non-metropolitan seats. Other critics have questioned the efficacy of \textit{R2R} in achieving its stated aims of upgrading the local roads network (see, for example, ANAO (2006)).

\subsection*{2.2.2 Operational Efficiency of Local Government}
Australian state and territory governments remain concerned over the operational efficiency of local governments, particularly small regional and rural councils. As we have seen, a key feature of local government reform across Australia in this regard has been its heavy emphasis on council amalgamations as the primary engine in the drive for more cost effective local services (Vince, 1997). Thus, during the nineties South Australia, Tasmania and Victoria all underwent episodes of municipal consolidation of differing degrees of intensity (May, 2003). More recently, a program of compulsory amalgamation was conducted in NSW and in 2007 Queensland experienced radical compulsory amalgamation. At present, the Northern Territory faces the prospect of
massive forced consolidation. As things stand, Western Australian local government remains the only unscathed Australian local government jurisdiction.

As we have seen, the results of these amalgamation episodes have not met expectations. The effectiveness of structural reform in general, and amalgamation in particular, will be taken up in greater detail in Section 2.3.

2.2.3 Expansion in the Role of Local Government
In common with their New Zealand counterparts, Australian local councils have traditionally provided a comparatively narrow range of local “services to property” - caricatured in the well-worn expression “roads, rates and rubbish” – financed through a complex mix of property taxes, local government grants, and fees and charges. However, amendments of the different Local Government Acts across all Australian state and territory local government systems have created the legislative scope for a much greater role for local governments. As a result, the power of general competence embodied in these statutes has facilitated a dramatic transformation in the composition of local government service provision away from traditional services to property towards human services.

In Rates and Taxes: A Fair Share for Responsible Local Government, the Hawker Report (2004, p. 9) observed that it had discerned not only increasing diversity across Australian local government service provision, but also an “expansion of the roles beyond those traditionally delivered by the local sector”. This shift in emphasis in service provision has had two main characteristics: Firstly, local authorities have assumed responsibility many more social issues, including “health, alcohol and drug problems, community safety and improved planning and accessible transport”. Secondly, councils have been increasingly active in the application and monitoring of regulation, especially in “development and planning, public health and environmental management”.

In its Local Government National Report, 2003-04, the Commonwealth Department of Transport and Regional Services (DOTARS) (2005, p.2) also recognized the changing
role of Australian local government, noting that local authorities are “increasingly providing services above and beyond those traditionally associated with local government”. By way of qualification, it observed that “local government now delivers a greater range of services, broadening its focus from ‘hard’ infrastructure provision to spending on social services such as health, welfare, safety, and community amenities”.

But how marked has this shift been? The Commonwealth Grants Commission (2001) has calculated trends in the composition of municipal outlays across Australian local government by function over the period 1961-62 to 1997-98. The outcome is reproduced in Figure 2.1:

**Figure 2.1: Local Government Outlays by Function**

![Figure 2.1](image)

*Source: Commonwealth Grants Commission (2001, p. 173).*

Figure 2.1 vividly illustrates the fact that local councils have expanded human service functions sharply relative to their longstanding “services to property” focus over a 35-year time period. For example, “general public services” has fallen from slightly in excess of 20% of expenditure in 1961-62 to around 13% in 1997-98 and the decline in “transport and communication” has been even more pronounced.
The CGC (2001, pp. 53-4) ascribed four main characteristics to the observed changes in the composition of Australian local government expenditure over the period 1961-62 to 1997-98. Firstly, it comprised a continuous shift from “property-based services to human services”. Secondly, the relative share of “recreation and culture” and “housing and community amenities” had increased to about 20% of expenditure in each case. Thirdly, expenditure on roads declined from more than 50% in the 1960s to slightly more than 25% by 1997-98. Finally, expenditure on “education, health, welfare and public safety” expanded. The Commission concluded that “the composition of services being provided by local government has changed markedly over the past 30-35 years”. In essence, “local government is increasingly providing human services at the expense of traditional property-based services (particularly roads)”.

These trends appear to have continued. For example, in the context of NSW local government outlays, the New South Wales LGI (2006, Chapter 7, p. 153) observed in its Final Report Are Councils Sustainable that changes in local government expenditure since 1995-96 contained three noteworthy features. Firstly, “the fastest growing activities have been housing and community amenities, public order and safety, and economic affairs, particularly within Sydney City”. Secondly, “transport and communications (largely road maintenance and depreciation, though not necessarily renewal) had a marked increase in 1996-97, but has stabilised since then”. Finally, “health” and “mining, manufacturing and construction” both fell relative to the Consumer Price Index (CPI).

A further indication of the magnitude of this process (in NSW at least) can also be gathered from Final Report Are Councils Sustainable based on a statistical analysis commissioned from Brooks (2006). Table 1 from Are Councils Sustainable is reproduced here with illuminating information on the change in composition of local government operating expenditure. Operating outlays in Table 2.1 include infrastructure maintenance and depreciation, but not the construction of new or upgraded infrastructure.
Table 2.1: Growth in NSW Local Government Operating Expenditure (1995/96 = 100)

<table>
<thead>
<tr>
<th>Function</th>
<th>2003/04</th>
<th>Consumer Price Index</th>
<th>Gross State Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing &amp; Community Amenities</td>
<td>187.6</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Public Order &amp; Safety</td>
<td>179.2</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Economic Affairs</td>
<td>175.5</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>170.1</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Community Services &amp; Education</td>
<td>158.4</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Recreation &amp; Culture</td>
<td>152.0</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Water Supplies</td>
<td>130.0</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Administration</td>
<td>130.2</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Sewerage Service</td>
<td>128.5</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Health</td>
<td>108.7</td>
<td>120.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Mining, Manufacturing, Construction</td>
<td>107.0</td>
<td>120.9</td>
<td>158.8</td>
</tr>
</tbody>
</table>

Source: LGI (2006)

It is thus evident that a significant change has occurred in the composition of the services provided by Australian local government. However, a caveat to this conclusion is warranted. These aggregate trends in the service mix disguise the high degree of diversity in municipal service provision between different local government systems across Australia, between metropolitan, regional, rural and remote local authorities, and between individual councils within each of these categories. For instance, water supply and sewerage is a local government responsibility in Queensland, Tasmania and country NSW, but not in other jurisdictions. Similarly, local governments spatially far from major urban centres often provide services previously supplied by Commonwealth agencies and state governments, such as aged care facilities, postal services and even facilities for general practitioners.

For interested readers, a much more detailed analysis of both the change in focus of Australian local councils and an explanation for this phenomenon has been advanced by Dollery, Wallis and Allan in their paper entitled “The Debate That Had to Happen But Never Did: The Changing Role of Australian Local Government”, published in the Australian Journal of Political Science in November, 2006.
2.2.4 Complexities in Intergovernmental Relationships

As we have seen, significant legislative changes in the respective enabling acts of the different local government systems in Australia over the past few decades have witnessed a significant expansion in the role of local government and growing complexity in its relationships with state and federal governments. For instance, the *Local Government National Report, 2000-01* outlined the highly complicated intergovernmental structures involving the Council of Australian Governments (COAG), over forty Commonwealth-State Ministerial Councils and forums, the Local Government and Planning Ministers’ Council, and many other ministerial councils, many of which impinge directly on the activities of local government. Moreover, differences in the functions and responsibilities of the various state and territory municipal systems have widened over time, and the state government oversight mechanisms are now often quite dissimilar, severely diminishing the prospects of a uniform national approach to local governance. An uneven devolution of additional functions to local government within and between the different state and territories further complicates an already incoherent network of intergovernmental relations.

2.3 STRUCTURAL REFORM AND COUNCIL AMALGAMATION

It has repeatedly been stressed that structural reform has always been the chief policy response by Australian state and territory governments to real and perceived problems with local councils. While other policy initiatives have also been attempted, perhaps most notably the redesign of the various state Local Government Acts over the past twenty years, structural reform centred on compulsory and occasionally voluntary council amalgamations seems to have retained an iron grip on state government policy makers, despite not only disappointing results from amalgamation programs, but strong theoretical and empirical reasons to the contrary. In this section of Chapter 2, we examine the various arguments surrounding amalgamation.
2.3.2 Scepticism on the Results of Amalgamation

Whereas the proposition that “bigger is better” in local government may still represent accepted consensus amongst state and territory local government policy makers, successive episodes of council amalgamations in Australia over the years have eroded this consensus to the point where open scepticism amongst the broader local government community has become the order of the day, especially in non-metropolitan areas of the country. In large part, this cynicism derives from a deep disillusionment with the observed real-world outcomes of actual amalgamation programs. For example, despite extravagant claims from proponents of both South Australian and Victorian council mergers in the nineties, the economic results of these programs have been most disappointing. Thus, while the Victorian state government claimed at the time that its radical reform process would generate direct cost savings of 20%, the actual outcome has been a mere 8.5%, most of which has flowed from competitive tendering and not the restructuring program (Allan, 2003, p. 75). In much the same way, the South Australian authorities heralded savings of 17.4%, but in fact only achieved 2.3% (Allan, 2003, p. 75). It should also be added that these realised savings did not take into account the massive indirect costs of council consolidations, such as lower economic activity and falling employment in rural and regional areas.

As a consequence of these disappointing outcomes, many in the Australian local government community are no longer convinced that municipal restructuring based primarily on amalgamation represents an effective means of improving council performance.

This scepticism is widespread. For instance, following the NSW Government Inquiry into the optimal structure of local government in the Sydney metropolitan area, the Inquiry’s Commissioner (2001, p.36) concluded that the purported benefits of amalgamation that were derived from empirical evidence were “suggestive rather than conclusive”. Moreover, in their analysis of both the international literature and Australian experience on municipal consolidation, Dollery and Crase (2004, p. 274) have argued that “there are
scant grounds for anticipating substantial financial benefits to flow from amalgamation, except possibly in terms of local government capacity and scope economies”.

In a similar vein, in his assessment of the outcomes of recent council amalgamation programs in New Zealand, Australia (and more particularly Victoria and Tasmania), Britain and Canada (especially Nova Scotia and Ontario) in his book *Merger Mania*, Sancton (2000, p. 83) concluded that “the efficient delivery of municipal services does not require large municipalities”. Finally, Percy Allan (2003, p. 80) has presented a strong case that in Australia “at the administrative level the efficiency and effectiveness of a local council is not a function of size” and “all the empirical evidence suggests that bigger is not better when it comes to local government”. Similar sentiments have been expressed by Allan (2001), Bish (2000), Dollery (1997), Dollery (2003), Jones (1989), Katsuyama (2003), May (2003), Oakerson (1999), and Thornton (1995), amongst a host of other scholars.

### 2.3.3 Reasons for Disappointing Outcomes of Local Government Amalgamation

Why has council amalgamation failed to improve the effectiveness of Australian local government? Dollery *et al.* (2006) have identified five main economic arguments typically advanced in favour of amalgamation and assessed the problems surrounding these arguments in the Australian local government milieu.

#### 2.3.3.1 Economies of scale

In the first place, advocates of municipal amalgamation invariably premise their arguments on the existence of significant economies of scale in Australian local government. This has proved largely illusory.

The term “economies of scale” refers to a decrease in average cost as the quantity of output rises and is frequently cited as a rationale for larger council jurisdictions. Accordingly, the bigger the jurisdictional unit, the better will be the per capita costs of service provision. In comparison to its counterparts in comparable countries, excepting New Zealand, Australian local government has a predominantly “services to property”
orientation in terms of the goods and services it provides. However, despite its relatively narrow range, Australian local governments still provide a wide range of goods and services that are produced by heterogeneous technological means. Thus, for a given benefit region for a given type of service, there is no a priori reason for different goods and services to exhibit the same cost characteristics.

By contrast, there is every reason to expect that no uniform pattern of economies of scale will emerge across the range of good and services produced by Australian councils. For example, it is highly unlikely that the optimal service district for libraries will coincide with, or even resemble, optimal service districts for, say, domestic garbage collection, public parks, or sewage treatment services (Dollery, 1997). Thus, while larger councils may capture economies of scale in some outputs, they could equally reap diseconomies of scale in other areas. Sancton (2000, p. 74) has crystallized the argument as follows: “There is no functionally optimal size for municipal governments because different municipal activities have quite different optimal areas”.

After evaluating the international and Australian empirical evidence on economies of scale in municipal service provision, Byrnes and Dollery (2002, p. 405) drew three main conclusions. In the first place, “given the mixed results that emerge from the international evidence, it seems reasonable to conclude that considerable uncertainty exists as to whether economies of scale do or do not exist”. Secondly, existing Australian empirical work was almost uniformly miss-specified and thus did not measure scale economies at all. Finally, from a policy perspective, the lack of rigorous evidence of significant economies of scale in municipal service provision shed “considerable doubt on using this as the basis for amalgamations”. Thus while “advocates of amalgamation have based their arguments on the proposition that substantial efficiency gains would flow from the formation of larger local authorities”, to the contrary “research on economies of scale in local government does not support this proposition” (Byrnes and Dollery, 2002, p. 405).

In this regard, it should be noted that the 2004 NSW amalgamation program invoked the work of Stephen Soul (2000) in his empirical analysis of the relationship between size
and per capita service costs in NSW local government. However, as Byrnes and Dollery (2002) have demonstrated, simple statistical correlation between population size and total council costs per capita does not properly measure economies of scale.

Even where economies of scale are significant, this may still not be relevant to optimal municipal size if provision of the service can be separated from production of that service (the so-called purchaser-provider split), since scale economies typically only arise during the production phase. Municipal councils too small to achieve all economies of scale on their own can nevertheless accrue the advantages of any scale economies by purchasing the good or service in question from other public agencies or private firms that are large enough production units to secure economies of scale.

By contracting with commercial firms or other governments (and through analogous joint purchasing agreements with other councils, such Regional Organizations of Councils (ROCs)), small councils can provide the quantity and quality of services desired by their limited number of constituents and simultaneously enjoy the cost advantages deriving from scale economies in production (Witherby et al., 1999). Some evidence exists to support this contention. For instance, Dollery et al. (2005) have shown that the Riverina Eastern Regional Organization of Councils (REROC) has secured considerable economic advantages from the scale economies through joint arrangements between its members. Similarly, Oakerson (1999) cites several examples of the savings that can be reaped from separating provision from production through outsourcing and other analogous techniques.

This theme will be taken up in greater detail in Chapter 3.

2.3.3.2 Economies of scope

Economies of scope refer to the economic advantages that flow from providing a broad range of goods and services in a single organization, like a municipal council. In particular, economies of scope arise when the cost of producing a given set of services in a single organization is lower than the cost of those services being produced by a number
of specialized organizations. The standard explanation for this lower cost of production derives from the fact that a single organization can attribute the cost of fixed inputs or “overheads”, like central administrative staff, computing facilities, and so forth, across many of the services it produces. Thus, if related services are provided by a single council, lower total production costs may follow (Dollery and Fleming, 2006).

In the context of the Australian local government amalgamation debate, scope economies represent an a priori theoretical argument against many small local authorities each providing their own services. It is also an argument against the fragmentation of existing large local governments into several fully autonomous or privatised business units. However, as we shall see in Chapter 3, economies of scope can support the concept of several small and adjacent local governments forming some umbrella organization, like ROCs, in an attempt to capture scope economies.

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

There seems to be considerable merit in this argument. Small regional and rural councils do struggle in terms of expertise and cannot always use consultants in an effective and prudent way. However, since it is in many respects a variant of the economies of scope argument for amalgamation, many of the same reservations apply. For instance, ROCs may also be able to pool their resources to acquire the skills in question, at no greater cost than to single and larger councils.
2.3.3.4 Administration and compliance costs

A fourth economic argument often put forward in support of local government amalgamation is that larger consolidated councils economize on their direct costs of administration and the compliance costs imposed on individuals who participate in the municipal political process. Administrative costs include the compensation paid to elected and appointed officials and staff and the overheads (buildings, supplies, utilities, etc.) required to support those officials. Compliance costs include the costs incurred by municipal voters to keep informed on issues and candidate positions and the potential cash and time costs of registering an opinion by participating in hearings, meetings, voting, etc. Few local governments can reduce these costs in aggregate.

If it is argued that council amalgamations will reduce administrative costs, then this is analogous to arguing that there are economies of scale in the administration of local government, just as there may be scale economies in the production of public services. However, there is obviously no guarantee that such opportunities will always, or even usually, exist. It could just as easily be argued that administrators become less effective the further removed they are from their constituents and operations they are supposed to coordinate. If this is the case, then, diseconomies of scale could result, with larger governments requiring proportionately more administrators (perhaps with more layers in the administrative hierarchy). Administrative scale economies could thus be a factor in favour of both larger and smaller local government units. In this instance, administrative economies become an empirical issue.

However, it can be argued on grounds of public choice theory that greater difficulties are involved in monitoring large local governments. Ratepayers, as voters, cannot easily acquire the necessary information to assess whether or not councils are providing “value for money”. By contrast, smaller councils are often less complex operations with a greater degree of transparency and consequently more amenable to scrutiny by ratepayers. If smaller local governments are indeed subject to closer and more informed scrutiny, then it can be anticipated that they could experience greater public pressures to
deliver local public goods more efficiently (see, for example, Boyne, 1998 and Bailey, 1999).

Empirical support exists for this contention. An implication that derives from the public choice paradigm, amenable to empirical analysis, is that a “fragmented” local government system, containing numerous municipal entities, should be more efficient than a “concentrated” system, with a few, large councils. After a study examining American empirical evidence on this question, Boyne (1998, p. 252) concluded that “the broad pattern of evidence suggests that lower spending is a feature of fragmented and de-concentrated local government systems”. By contrast, “consolidated and concentrated tend to be associated with higher spending”. This may mean that “the technical benefits of large units with big market shares, such as economies of scale and scope, are outweighed by competitive and political costs, such as disincentives toward fiscal migration and problems of public scrutiny”. After his analysis of the empirical literature, Sancton (2000, p. 75) reached the same conclusion: “The public choice perspective shows us that it is no longer obvious that the existence of many municipalities within the same city-region causes wasteful overlap and duplication”.

It need hardly be added that numerous other problems also arise from amalgamation, especially in rural and regional areas. Chief amongst these are a reduction in the vibrancy of local democracy, less political representation and lower public participation, various deleterious effects on local economic development, including decreased economic activity, rising unemployment and the formation of ‘ghost’ towns, and a loss of ‘sense of place’ on the part of local residents.

2.3.3.5 Coincidence of municipal and natural boundaries
A comparatively new administrative argument advanced in the NSW debate on municipal amalgamation rests on the proposition that economic, environmental and other largely unspecified advantages accrue from an alignment of local government boundaries with natural boundaries (Dolley and Crase, 2004). Given that this argument is likely to gain currency in future Australian amalgamation debates with the apparent persuasiveness of
“deep green” arguments with state government policy elites, it is thus worth considering this proposition in further detail.

In his submission to the NSW Legislative Council’s (2003, p. 94) Inquiry into Local Government Amalgamation, Brunckhorst outlined three “principles” for “drawing boundaries that best reflect the social functions of regional communities as well as the ecological functions of the landscape”. In the first place, “the region should capture the place that is the social capital…the landscape area that is of greatest interest to the region or local residents”. Secondly, “that the region maximizes or captures the greatest similarities of environmental landscape, which reflects land uses, management of ecological resources, water supply, and so on”. Finally, jurisdictional boundaries drawn on these grounds must be capable of “being scaled up and scaled down for integration for other kinds of service delivery or management”. In essence, this argument proposes a move away from current tests of economic and sociological “communities of interest” in municipal boundary determinations by state local government boundary commissions to physical ecological “communities of interest” and contends that ecological, economic, and other benefits will result.

It is difficult to understand why natural or ecological boundaries should coincide exactly with local government boundaries. After all, the fact that the same argument could be raised with respect to national, state and metropolitan council boundaries, but never is raised in these broader contexts, surely demonstrates its spurious nature. Moreover, this notion has many additional shortcomings: it ignores the cultural and historical legacy embodied in existing council boundaries; it neglects the critical concept of the economic “community of interest” of the people involved; it disregards that massive costs that would derive from drastic restructuring of council boundaries and headquarters, and it overlooks the impact of council boundaries on the efficient delivery of council services, especially since environmental considerations form only a small part of overall municipal responsibilities.
The primary argument for the exact coincidence of natural boundaries and council boundaries, at least in the NSW debate over local government restructuring, seems to derive exclusively from the recently created Catchment Management Authorities (CMAs). Thus, to link local government boundaries to CMA boundaries to the exclusion of all else, including ratepayers, roads, townships and communities, seems to demonstrate a peculiar narrowness of focus and a neglect of the totality of contemporary local governance. Indeed, this approach is surely akin to “the tail waving the dog”!

Adequate environmental protection can be secured through the cooperation of state agencies and vibrant local governments working in concert, rather than through the destruction of small authorities attendant upon forced amalgamation. Moreover, spatially large natural catchment areas, typical of the Australian landscape, can also be managed by means of ROCs of affected local governments.

2.4 CONCLUDING REMARKS
Given the crisis facing all Australian local government systems, solutions must be found to the current impasse. For this reason, the WALGA (2006) *Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia* Inquiry, as well as its derivative *The Journey: Sustainability into the Future* (WALGA, 2008), should be welcomed by Western Australian local authorities, provided full cognizance is taken of experience with local government reform elsewhere in Australia.

In Chapter 2, we have argued that structural change programs that simply rely on the blunt instrument of council amalgamations have not been effective in other local government jurisdictions. Moreover, we have shown that most of the arguments presented in favour of amalgamation are generally misconceived. Even when weight can be placed on these arguments, we have argued that alternative methods of reform involving partnerships between councils are in any event likely to be much more effective in achieving the same aims.
This conclusion draws further strength when considered in the light of the five sources of the current financial crisis in local government identified by the Commonwealth Grants Commission (CGC, 2001) are taken into account. For example, it is not at all clear how amalgamation can prevent or even reduce the extent of cost shifting from higher tiers of government. Much the same can be said for “raising of the bar” through state and Commonwealth regulation. “Increased community expectations”, “policy choice” and “devolution” all cannot be tackled adequately simply through structural reform.

Moreover, as the PriceWaterhouseCoopers (2006) *National Financial Sustainability Study of Local Government* Report has amply demonstrated, financial distress continues to exist both in those states which have had large-scale amalgamation and in those states which have not had amalgamation. Amalgamation thus cannot be the “magic bullet” that can cure all the ills of contemporary local government. Other policy instruments must be brought into play.
CHAPTER 3: ALTERNATIVE MODELS OF LOCAL GOVERNMENT

3.1 INTRODUCTION
Chapter 2 considered municipal amalgamation in Australian local government in detail. On the basis of both conceptual factors and empirical evidence, it was argued that council amalgamation had seldom achieved its intended aims of enhancing the operational effectiveness of local councils and lowering the costs of service provision. Moreover, even in those instances where some economic gains had been made, this has come at a high price in terms of local representation, local service and the local community’s indefinable but nonetheless real sense of “loss of place”.

A central theme running through Chapter 2 stressed the fact that many of the advantages that could flow from larger municipal entities, emphasised by proponents of council amalgamation programs, can be realised by less expensive and destructive partnership arrangements between councils, without the harsh social costs that almost inevitably follow from amalgamation programs. Put differently, a “one-size-fits-all” model of local government reform premised on “bigger is always better” ignores alternative models of local government that can reap economies of scale and scope and administrative capacity, where these are available, whilst retaining vibrant local democracy, maintaining small community neighbourly solidarity, keeping personalised local service, and preserving the psychologically important “sense of place”. Chapter 3 takes up this line of argument and outlines three promising alternative models of local government, together with contemporary Australian examples of these three models.

Chapter 3 is divided into five main parts. Section 3.2 provides a brief outline of five promising alternative governance models, some of which have already been implemented in Australia. Section 3.3 provides a conceptual stem for considering alternative models of local governance involving structural change and process change. Section 3.4 seeks to determine which of the models developed by Dollery and Johnson (2005) are the most suitable vehicles for the structural reform in Australia, with the focus falling on three
recent examples drawn from the Riverina Regional Organization of Councils (REROC),
Alliance. Chapter 3 ends with some short concluding remarks on the policy implications
of the analysis in section 3.5.

3.2 ALTERNATIVE MODELS OF AUSTRALIAN LOCAL GOVERNMENT
In their taxonomy of generic models of municipal governance specifically adapted to the
narrow range of “services to property” characteristic of Australian local government,
Dollery and Johnson (2005) identified seven discrete alternative organizational types
based on the notion that existing and potential models feasible in the Australian local
government milieu can be located along a bipolar continuum given by the degrees to
which political and operational control can be centralized or decentralized between local
councils and the new organizational entity they join. In this topology, the degree of
centralization indicates the extent of concentration of control vested in the new
governance structure as opposed to the original small councils that comprise the new
arrangement. By contrast, operational control refers to the ability to administer and
undertake local service provision and delivery, whereas political control focuses on the
capacity to make decisions over the domain and mix of local services.

We now briefly describe the seven alternative models in the Dollery and Johnson (2005)
typology that are located along this continuum:

3.2.1 Existing Small Councils
Australian local government is characterized by tremendous diversity (Worthington and
Dollery, 2001) with the considerable constraints imposed by state government legislature.
Australian councils nevertheless enjoy a high degree of political autonomy and
operational autonomy over their own affairs. Political autonomy is ensured by regular
democratic elections and the ratio of elected representatives to voters is comparatively
low. Operational autonomy is also ensured since elected councils hire managerial,
administrative and other staff, determine the delivery of goods and services within the
admittedly constraining parameters of enabling legislation, and decide on how to adjust
service delivery to meet changed circumstances. Of course, existing small councils are subject to sharp financial constraints in terms of revenue-raising capacity and limitations on grants from the Commonwealth and state governments. However, these constraints would apply to all other models of Australian local government as well.

3.2.2 Ad hoc Resource Sharing Models
The most limited and flexible alternative to municipal amalgamation resides in voluntary arrangements between geographically adjacent councils to share resources on an *ad hoc* basis whenever and wherever the perceived need arises. Resource sharing of this kind can encompass a wide range of possibilities, including specialised employees, such as environmental experts, town planners and skilled consultants, capital equipment, like earth-moving machinery and mainframe computing facilities, administrative services, such as information technology systems, and entire operational services, like domestic garbage removal and disposal. The economic imperative to reduce the costs of service delivery in local councils has provided a powerful incentive for smaller local governments to investigate any potential advantages that may flow from entering into voluntary resource sharing agreements with their neighbours. However, it must be added that cost saving alone has not been the only motive for *ad hoc* resource sharing. It has also been used to improve the quality of existing services as well as augment the range of current service provision.

The *ad hoc* resource sharing model enjoys several advantages compared with other models. Firstly, it arises spontaneously between volunteering councils, without the need for any centralised legislative change or state government administrative directives. It can thus be expected to embody detailed localized knowledge with the real prospect of genuine cost savings for the councils involved. Moreover, the inherent flexibility of this kind of agreement means they can be applied to specific projects or to a more general range of activities. Secondly, *ad hoc* resource sharing arrangements do not compromise the independence of participating councils in any way and thus do not impinge on either democratic representation or citizen participation. Thirdly, where *ad hoc* resource sharing
arrangements do not yield economic benefits, they can be terminated quickly and cheaply through agreement between participating councils.

However, *ad hoc* resource sharing arrangements also have disadvantages. For example, the fact that voluntary agreements can easily be modified or terminated makes them vulnerable to the idiosyncratic characteristics of local governance. Thus the election of new councillors or the employment of a new CEO can disrupt and even destroy the basis for *ad hoc* agreements because they do not have any solid institutional foundations. Moreover, for the same reason, temporary disputes over the operation of *ad hoc* arrangements can readily disrupt or even end their operation.

### 3.2.3 Regional Organizations of Councils

Regional Organizations of Councils (ROCs) are voluntary groupings of spatially adjacent councils. They usually consist of between five and fifteen councils, with considerable diversity in both geographic size and population, and are typically financed by a set fee from each member council as well as a pro rata contribution based on rate income, population, or some other proxy for size. ROCs are usually governed by a board consisting of two members from constituent local governments, normally the mayor and one other representative, characteristically an elected councillor or a general manager, supported by either an administrative structure or specialist committees (Dollery and Marshall, 2003).

Membership of a ROC confers several potential benefits to participating councils. Firstly, meetings encourage the exchange of common concerns and potential solutions and tend to engender a sense of common destiny. Secondly, joint forums foster the development of common policy positions that may be better informed as a consequence of the combined expertise of member councils. Thirdly, ROCs facilitate the coordination and rationalization of the activities of member councils. Fourthly, ROCs promote cost saving joint purchasing, resource sharing, and other mutually beneficial schemes that may reap economies of scale, economies of scope and enhance capacity. Finally, ROCs can play a
critical political role as a regional lobbying group interacting with state and Commonwealth governments (Marshall et al., 2003).

However, ROCs also have potential disadvantages. For example, “it remains uncertain just what combination of characteristics is necessary to create a high-performing ROC”. In a similar vein, “there is no clear mix of such variables as rates income, geographical size, population density, cultural homogeneity, length of time since establishment, or industry type, which might help explain why some ROCs are more successful than others”. It thus seems that “the critical attributes which contribute to a successful ROC are the intangible factors of commitment, teamwork, regional vision, trust, openness, communication, leadership, and a willingness to cooperate” (Dollery and Marshall, 2003, p.244).

3.2.4 Area Integration or Joint Board Models
The Shires Association of NSW (2004) developed a “joint board model” of local government that has attracted much interest. The joint board model is based on the retention of autonomous existing councils and their current spatial boundaries, but with a shared administration and operations overseen by a joint board of elected councillors from each of the member local governments. Member councils retain their political independence, thus preserving existing local democracy, whilst simultaneously merging their administrative staff and resources into a single enlarged bureau, in order to reap any scale economies, scope economies, or other benefits that may derive from a bigger administration. As we shall see in this Report, the Regional Model advocated in the WALGA (2008) *The Journey: Sustainability into the Future* represents an area integration model.

Local government models in the area integration tradition, like the joint board model, rest on two assumptions. Firstly, small councils usually facilitate effective representation, but may not use resources in an efficient manner. Secondly, large municipal authorities are deemed to diminish effective democratic representation and at the same time typically employ resources relatively effectively. In contrast to amalgamation that deals with this
trade-off by placing a greater priority on resource efficiency concerns than on questions of representational effectiveness, thus generating bigger local governments, the joint board model seeks to “break” the ostensible trade-off between democracy and efficiency by retaining the desirable democratic and other characteristics of small councils and agglomerating their separate administrative structures in order to capture purportedly efficiency-enhancing attributes of larger municipal bureaucracies. Thornton (1995, p.1) argued that this is best achieved by area integration models that sever the “traditional connection between physical function and geographical boundary, thus capturing the best of all worlds: functional areas big enough to provide economies of (large) scale for the delivery of services and regional coherence, together with political areas small enough to provide intimacy of (small) scale for effective representation and sense of community”.

An essential feature of area integration models resides in the assumption that each council would largely preserve ownership of its existing assets. Thus, in the joint board variation of this kind of model, “each member council would retain ownership of all assets, but over time, assessment of usage would determine economic viabilities with potential to dispose of underutilised assets” (Shires Association of NSW, 2004, p.7). Nevertheless, according to this conception of an area integration model, “transfer of ownership to the Joint Board of assets such as office furniture, equipment, I/T, depots and motor vehicles would be required”. It has been argued that this attribute imbues the model with the decided advantage of reversibility (Thornton, 1995): If things go wrong, it is feasible to reinstate the earlier status quo.

Additional advantages ascribed to area integration models include “increased accountability, public scrutiny and citizen involvement”; ready access to elected representatives; the separation of policy decision making from policy execution; realization of scale and scope economies; social cohesion deriving from small constituent communities; a “balance between the social and economic dimensions of municipal governance”; a higher degree of “policy coherence” over a larger spatial area; greater regional participation; a “respect for history of communities and preservation of sense of place”; and avoidance of the pooling of reserves and accumulated debts between
“provident” and “improvident” member councils (Thornton, 1995). Moreover, under the Joint Board model every constituent council would continue to enjoy full autonomy; “it would have the power to determine its range of works and services, and to determine its financial plans to provide the necessary funding” (Shires Association of NSW, 2004, p.7).

Area integration models also have potential shortcomings. For instance, organizational complexity would increase substantially and ambiguity might arise over the appropriate institutional site for some decisions with system-wide externalities. Similarly, competing and irreconcilable demands by different member councils can induce conflict. Finally, there exists “potential for problems of demarcation and definition between the wide area committee [or joint board] and the integrated local area councils” (Thornton, 1995).

### 3.2.5 Virtual Local Governments

The basic model of virtual local government tailored to Australian conditions was developed by Percy Allan (2001) and further refined by Allan (2003), Dollery (2003) and May (2003). The model rests in two fundamental presumptions about Australian local government. Firstly, small councils, with limited populations and a low ratio of elected representatives to constituents, provide superior decision-making units in terms of the appropriateness and effectiveness of service provision since they are “closer to the people”. Secondly, drawing on the work of Oakerson (1999) on the relationship between the degree of municipal fragmentation (i.e., the ratio of local government entities to population in given metropolitan areas) and the per capita cost of services, Allan (2001) contends that large councils may enjoy economies of scale in the provision of some, but not all, local public goods and services. Allan (2001, p.27) concludes that “the main lesson to draw from Oakerson’s research is that a distinction should be made between the provision of council services and their production” since “the long held assumption that a council must perform both tasks is wrong”.

On the basis of these two assumptions, Allan (2001) argues that it is possible to remove potential trade-offs between council size and council efficiency. This forms the basis for
his model of virtual local government that combines the most attractive features of small and large local governments. Accordingly, “if cost efficiency improves for some tasks, but policy appropriateness and service effectiveness deteriorates the bigger a municipality becomes, then an obvious solution is to separate council decision making from council administration” (Allan 2003, p.27).

A virtual council tailored to Australian conditions would thus consist of two main elements. Firstly, relatively small councils would encompass elected councillors and a small permanent secretariat. They would decide on questions of policy formulation and monitor service delivery to determine its effectiveness. In a specific metropolitan area several small adjacent virtual councils would share a common administrative structure or “shared service centre” that would provide the necessary administrative capacity to undertake the policies decided upon by individual councils. Service delivery itself would be contracted out either to private companies or to the service centre depending on the relative costs of service provision and the feasibility of using private firms.

3.2.6 Agency Models

Australian local authorities do not enjoy national constitutional recognition and are thus creatures of their respective state government acts. This means that state governments have final responsibility for efficacious delivery of municipal services. For example, when particular councils “fail” for various reasons, including inept and corrupt conduct or financial incapacity, then the state government in question can intervene by dissolving an elected council and appointing an administrator to run the council for a designated period. In this sense, local governments are, in effect, service delivery agencies for state governments that possess a high degree of autonomy over a defined range of functions so long as they carry out their allotted responsibilities adequately.

Given these features of Australian local government, it is possible to conceive of councils as bearing a principal/agent relationship to state governments, charged with delivering services on behalf of state governments in an efficient manner. Along analogous lines,
area health boards are elected bodies that oversee the administration of state-financed health services, without producing the services directly themselves.

This conception of the role of councils could be termed the “agency model”. Under an agency model, local governments would surrender completely operational control of the services they direct, but at the same time still enjoy political autonomy as elected bodies for a spatially defined jurisdiction. Thus, all service functions would be run by state government agencies with state government funds and state government employees in the same way as state police forces or state emergency services presently operate. Elected councils would act as advisory bodies to these state agencies charged with determining the specific mix of services over their particular geographical jurisdictions. For instance, domestic waste removal and disposal would be conducted and managed by a state garbage agency, but the actual frequency of garbage removals would be determined by democratically elected councils. With a predetermined “global budget” for a given council area, individual local governments could express the preferences of their voters in determining the mix of services. Thus, less frequent garbage removal could be traded off against more opulent public parks and recreation zones, depending on the decisions of the council. The composition of municipal services would therefore be chosen by the council whereas the production and provision of these services would be carried out by the respective state government agencies.

In comparison with virtual local government, agency model local governments would have even less operational control, but roughly the same degree of political autonomy. At least two advantages of an organizational arrangement of this kind can be identified. In the first place, elected and largely amateur councillors could focus exclusively on ascertaining the tastes and preferences of their constituents, without having to struggle with the complexities of actual service delivery, which would be left in the hands of professional specialist bureaucrats. This would capture the respective comparative advantages of both groups; elected representatives could exploit their skills in local “grass roots” democracy and identify community wants whereas career public servants employ their professional abilities to operate efficient service delivery systems. Secondly,
uniformity in the provision of services might be able to reap scale and scope economies, develop technical capacities, synchronize delivery systems, and enjoy considerable purchasing power.

However, relative to virtual local governments, none of the immense advantages attendant upon competition between prospective service providers, drawn from the private sector, public agencies, and voluntary organizations, would accrue to agency model councils. They would be entirely captive to large state bureaucracies, equivalent to current state education departments or health departments, with a questionable record of cost-effective service delivery.

3.2.7 Amalgamated Large Councils
The most extreme form of centralization occurs when several small councils are amalgamated into a single large local government. Under this model, constituent councils surrender completely all political autonomy and operational control to the new entity.

We saw in Chapter 2 that the case for amalgamation rests on the proposition that “bigger is better” in local government since large councils provide services more efficiently and this involves only a negligible trade-off in terms of less efficacious political representation (Soul, 2000). A synopsis of the case for amalgamation has been developed by Katsuyama (2003, p.2): “Proponents of consolidation argue that fewer and larger local governments will be more efficient and effective than many small governments [because] costs can be held down and perhaps reduced through the elimination of duplicative services, personnel, and equipment”. Moreover, “larger governments may also be able to take advantage of ‘economies of scale’ or lower per-unit costs for government services”. In addition, “a single unified government will be able to coordinate policies and decisions for activities, such as regional planning and economic development, than several independent governments”. With numerous small councils, “some services may benefit citizens in adjoining areas who neither pay for the service nor share in the effort involved in its delivery”. Accordingly, “spillover effects like this will be eliminated when the boundaries of the service area are the same as the boundaries of the taxing jurisdiction”,
and thus “the tax burdens within communities can be equalized through the creation of governments that more clearly match area needs”. An additional argument overlooked by Katsuyama (2003), but much in vogue in the 2003 NSW amalgamation debate, is the notion that representational costs fall in larger councils since there are fewer elected councillors for a given population (see, for instance, Varden (2003)).

The case against amalgamation for Australian local government was also examined in Chapter 2 of this Report. The main arguments were as follows: Firstly, opponents of municipal amalgamation dispute the existence of significant economies of scale, on both theoretical and empirical grounds (Byrnes and Dolly, 2002). In his Merger Mania, Sancton (2000, p.74) has put this argument in a nutshell: “There is no functionally optimal size for municipal government because different municipal activities have quite different optimal areas”. Secondly, it is argued that while economies of scope may be realized, there are cheaper alternative methods of capturing scope economies, like ROCs. Thirdly, although amalgamation may well boost administrative capacity, it can also be acquired by other means at a lower cost. Public choice considerations are advanced to argue that the more effective representation characteristic of small councils enhances information flows between constituents and voters and thus exposes municipal expenditure to more intense scrutiny by ratepayers. As a consequence, small councils typically produce services at lower per capita costs.

With numerous exceptions, this position is strongly supported by the weight of empirical evidence. For instance, after a study of the American evidence on this question, Boyne (1998, p.252) concluded that “the broad pattern of evidence suggests that lower spending is a feature of fragmented and de-concentrated local government systems”, whereas “consolidated and concentrated municipalities tend to be associated with higher spending”. This implies that “the technical benefits of large units with big market shares, such as economies of scale and scope, are outweighed by competitive and political costs, such as disincentives toward fiscal migration and problems of scrutiny”. Along similar lines, Sancton (2000, p.75) argued that “the public choice perspective shows us that it is no longer obvious that the existence of many municipalities within the same city-region
causes wasteful overlap and duplication”. A final critique of amalgamation emphasizes the deleterious impact that it has on the vibrancy of local democracy, with a higher ratio of elected representatives to voters “distancing” councils from their citizens.

Given the arguments both for and against amalgamation it seems fair to that the burden of evidence strongly favours opponents of municipal consolidation. Moreover, the recent pattern of local government failures in Australia appears to support the contention that there is no systematic relationship between council size and council efficiency.

3.3. STRUCTURAL CHANGE VERSUS PROCESS CHANGE

If council amalgamation is flawed as a method of enhancing the efficiency of local government in outside of large Australian capital cities, as we argued in Chapter 2, then how should local government policy makers tackle the problem? One way of examining the problem is to distinguish between structural change and process change as methods of improving the operational efficiency of municipal service delivery. Structural change involves a reorganization of the machinery of local government whereas process change refers to modifications in the methods employed by local governments.

Although it is often very difficult to measure the long-term consequences of either structural change or process change in complex organizations, like local councils, that provide a wide range of services in a milieu that inevitably trades-off economic efficiency against various aspects of representative democracy, there can be little doubt that little doubt that the costs involved in structural change are typically far greater than those associated with process change.

The costs involved in structural change include “the direct financial costs of reorganization (including the costs of consultants’ reports, departmental submissions, redundancy pay, redeployment and retraining, etc.), the costs of disruption to the ongoing business of government, and the social and psychological costs (including the stresses and strains caused by extra work pressures, job insecurity, the loss of morale, redundancy, etc.)” (Boston et al. 1996, p.88).
In the context of Western Australian local government, greatly afflicted by the tyranny of distance, the planning and management of structural change also impose significant travel costs. Moreover, division and bitterness between residents of different country communities that frequently accompany the amalgamation of regional and rural councils, typically involving the migration of municipal employees from small outlying towns to regional centres, cannot be stressed too much. Accordingly, Boston et al. (1996) contend that “given that any major reorganization is likely to prove disruptive and costly, that certain teething problems are inevitable, and that a new organization might take a year or more to become fully effective, it is always worth asking whether a proposed structural adjustment is really necessary or whether a change in policy or personnel might not be a better, cheaper, or simpler solution to the identified problem”.

This suggests that confronted by a choice between structural solutions or process solutions to a particular problem, such as enhancing the operational efficiency of municipal service delivery, where the eventual outcome is not only difficult to determine *ex ante*, but also problematical to measure *ex post*, policy makers should avoid structural change unless there are compelling reasons to the contrary. This conclusion is considerably strengthened by the earlier discussion of council amalgamation outcomes in Australia in Chapter 2. After all, as we saw, despite extravagant claims by the advocates of municipal consolidation in South Australia and Victoria on the benefits of structural change, the results have been largely illusory.

However, as we shall see, the various alternative models of local governance to council amalgamations in regional and rural Australia almost all involve a combination of structural change and process change. Figure 3.1 serves to illustrate the general nature of the problem:
If we assume two polar opposite cases, with a large amalgamated regional council (G) in the top right hand quadrant and a small existing town council (A) in the bottom left hand quadrant, then we can locate the other alternative models of local governance in Figure 3.1 in terms of the approximate degrees of structural change and process change involved. Thus, ad hoc resource-sharing models (B) involve some process change, but little or no structural change. ROCs (C), area integration models (D), virtual local government (E), and agency models (F) all require successively greater degrees of both structural change and process change. Given the arguments set out above concerning the relative high costs of structural change, as we move up the structural change scale, adjustment costs will inevitably rise.
3.4. MODELS SUITABLE FOR WESTERN AUSTRALIAN COUNCILS

If state government policy makers are intent on some degree of structural reform in their quest for enhanced efficiency in local government, which has typically been the case in recent Australian municipal history, then this automatically rules out the retention of existing small councils and the invocation of only process reform measures without any structural reform. The question thus arises: What are the most rational models that should be selected in Western Australia to maximize economic efficiency at the lowest cost?

It has already been argued in Chapter 2 that the wholesale amalgamation of small councils will prove counterproductive. After all, previous programs of municipal consolidation in Australia have failed to achieve the desired results. Moreover, both international experience and the relevant empirical and theoretical literature on the topic offer a bleak prognosis for the success of further structural reform programs in Australia based on municipal amalgamation. Accordingly, given the high transitional costs attendant upon structural reform processes, which of the remaining five models identified by Dollery and Johnson (2005) contain the best prospects for local government reform in regional and rural councils?

In the first place, it seems reasonable to remove the agency model from the list of promising candidates. The primary reason for this argument resides in the fact that if state governments assume all the current service provision activities of existing small councils, then this will not involve the creation of several entirely new state government departments, but also imply a drastic restructuring of all the local governments concerned. It need hardly be stressed that this will mean huge transitional costs, with all the associated economic and social costs flowing from such a radical program.

Secondly, while the virtual local governance model certainly appears initially inviting, many of the assumptions on which it rests are not met. For instance, Dollery (2003, p.86) has shown that the Allan (2001; 2003) model of virtual local local governments envisaged “the creation of a large number of neighbouring local governments within densely populated cities that enjoyed ready access to competing private and public
suppliers of local goods and services and were unencumbered by the ‘tyranny of distance‘. However, “the vast Australian continent and significant number of rural and regional councils clearly do not meet these requirements”. Accordingly, a “one-size-fits-all” structural solution to the problems of small councils “is simply not feasible, even in terms of prescribed service delivery”, especially in very large state jurisdictions, such as Western Australia.

Three potentially promising models in the Dollery and Johnson (2005) taxonomy remain; ad hoc voluntary arrangements between small councils, ROCs and area integration models. We will now briefly examine each of these possibilities in the light of three actual analyses of alternative models.

3.4.1 Riverina Regional Organization of Councils (REROC)

REROC is located in the Riverina district of southern NSW, comprising 13 local government authorities with a combined population of over 120,000 residents spread across 41,000 square kilometers, with Wagga Wagga is its urban centre. REROC was established in 1994 for the specific purpose of bulk purchasing, but soon expanded to embrace resource sharing, joint policymaking and problem solving. The REROC Board consists of an elected member (usually the mayor) from each member council as well as the general manager. It meets every second month with decisions being taken on a consensual basis and is supported by an Executive Committee that convenes on alternate months to the Board. The Executive Committee, consisting of the Chair of REROC, four mayors and three general managers, establishes general strategic directions. Both REROC’s chief executive officer and secretariat functions are outsourced on a contractual basis. REROC itself does not employ any staff. REROC membership fees are calculated on a combined pro-rata population basis: Fifty per cent of the budget is recovered by dividing the sum across all members evenly with the other 50% being recovered on a per capita basis. The Executive Committee determines the budget for the year.
The operations of REROC were comprehensively examined by the University of New England’s Centre for Local Government in *Regional Capacity Building: How Effective is REROC?* (Dolley *et al.*, 2004) after a study was undertaken over the period October 2003 to March 2004 involving an examination of published sources and substantive interviews with 13 general managers and 13 elected representatives from member councils.

*Regional Capacity Building: How Effective is REROC?* argued that the success of REROC could largely be ascribed to the effectiveness of the network structure it had created. REROC had three main “formal networks”: Member councils of REROC itself and the various sub-groups and working parties set up to consider particular issues; the broader networks that individual member councils have joined and which extend beyond the confines of the REROC structure; and the regional, state and commonwealth agencies that REROC engages with and associated networks, including the Riverina Regional Development Board, the NSW Department of Youth and Recreation, and the Commonwealth Department of Local Government and Regional Services. Moreover, three important “informal networks” augmented these formal networks: Chief Executive Officers of the member councils; professional officers employed within the member councils networking with colleagues from surrounding local governments; and mayors.

But how effective has REROC been from the perspective of economic efficiency? REROC’s official evaluation of its own performance estimates that it has achieved savings in the order of $4.5 million over the five and a half year period covering 1998 to 2003. These savings have occurred over a variety of activities, including reduced duplication through the common approach to implementing new legislative requirements; joint tendering; regional lobbying; and the co-operative sharing of resources, such as a regional waste officer and shared Road Safety Officers.

These estimated savings of $4.5 million represent a total of $360,000 per REROC council member over the five and a half years under review (or some $65,000 per council per year). Dollery *et al.* (2004) examined the validity of the savings identified by REROC.
and compared these reported savings against the costs of providing the same services by other comparable local authorities. They contended that these savings are “real and measurable and an accurate reflection of the organization’s performance” (Dollery et al., 2005, p.12). In general, they concluded that “ROCs seem to offer a superior alternative to conventional forms of municipal restructuring, like council amalgamation, since they provide most of the economic and financial benefits with few of the drawbacks” (p.14).

3.4.2 Joint Board or Area Integration Model

As we have seen, the Shires Association of NSW (2004) advanced the Joint Board model as a response to the NSW state government’s structural reform program aimed at amalgamating numerous regional and rural councils regardless of their individual performance and financial viability. The Joint Board concept thus represented a compromise that seeks to defend the interests of small councils by presenting an economic case for their continued existence as independent democratic organizations, simultaneously acknowledging the NSW state government’s intention to embark on comprehensive structural reform.

In order to “retain economic local government activity to the fullest extent possible in country areas”, the Shires Association of NSW (2004, p.2) proposed the Joint Board model based on the continuation of existing councils, but with a shared administration and operations overseen by a joint board of elected councillors from each of the member local governments. Member councils would thus retain political independence, preserving local democracy, while simultaneously combining administrative staff and resources into a single enlarged organization, and thereby securing scale economies, scope economies, and any other benefits that may flow from a larger administration.

The Joint Board Model represents an outstanding simulation exercise in municipal modelling that will set the standard for similar analyses of Australian local government. The model itself is built on eleven “structural considerations” that define the hypothetical Joint Board council: Three pre-existing councils (X, Y and Z) combine their current administration and operations, with each retaining its original boundaries as well as its...
autonomy, independence and separate legal status. The number of elected councillors is reduced (and better remunerated), but still elected separately for councils X, Y and Z. An “overarching” Joint Board (or County Council) is created with its own general manager and attendant staff to run the new entity. Each council still receives its own grant income, rates revenue, and other charges and fees, but contributes to the Joint Board on a pro rata basis. In the early stages, “each constituent council would continue to determine its own service standards, policies and planning instruments, but over time, they would be rationalised”. Moreover, “each council maintain[s] its Management Plan, Long Term Financial and Rating Plan, but over time the Management Plan [is] consolidated into one document” (p.6).

In order determine the extent of the savings that could flow from the Joint Board model, analysts from the Centre for Local Government at the University of New England conducted a simulation analysis of data from three hypothetical NSW country councils. With the caveat that “savings estimates are likely to vary between groups of councils considering implementing the board model as a result of the diversity among councils and the different methods available for implementing the model”, they nevertheless argued “that it would not be unrealistic for a group of local authorities adopting the Joint Board model to achieve savings in excess of 10% pa” (Dollery and Johnson, 2004, p.10).

Following their financial simulations, Dollery and Johnson (2004) drew some general conclusions regarding the Joint Board model. In particular, “the Joint Board model itself facilitates a split between the provider of services (i.e., the Joint Board) and the purchasers of services (i.e., the constituent individual councils) and can therefore assist in assessing additional alternative competitive providers that may arise in due course”. Various other advantages are evident: “The model is reversible if everything falls apart and there is not sufficient cooperation; predetermined service level agreements can be formed between individual councils and the Board to ensure higher levels of services and to increase accountability; the model has the potential to remove the duplication between the respective councils with the board undertaking common task and functions; it provides the ability to quarantine finances and projects to ensure differential levels of
fees, charges, rates, loan borrowings and services that can be maintained without the understandable fear of the largest centre dominating the projects undertaken and being able to relate fees paid to level of service which is not achievable under amalgamation with one budget and management plan; and it yields a regional focus on service where appropriate that is not readily available in smaller council operating individually” (pp.23-24).

Notwithstanding these advantages, Dollery and Johnson (2004) contend that the key to the success of the Joint Board model seems to reside in the ability of the Board and individual councils to cooperate “amicably”. If this is lacking, then they foresee severe problems. Other problems identified by Dollery and Johnson (2004, pp.24-25) were summarised as follows:

“Individual council’s set priorities, policy issues, fees and charges, but are at the mercy of the Board to determine the implementation program and to determine respective priorities among the councils; it provides a steeper organisational structure than smaller individual councils; the ability of individual council voters and councillors to influence the activities of the Board may be questionable and thus accountability is further removed; and there is the potential for indirect economic and social costs, like local unemployment and local reductions in economic activity, to intensify if employees are redeployed to the largest council area”.

As we shall see later in this Report, the Regional Model advocated in the WALGA (2008) The Journey: Sustainability into the Future is an area integration model. It thus embraces many of these unfavourable characteristics.

3.4.3 New England Strategic Alliance Model

The New England Strategic Alliance model, in the New England region of northern NSW, which came into being as the result of a political compromise by the NSW state government in its 2003/4 forced amalgamation program, represents an amalgam of various models. It consists of the Armidale Dumareshq Council, the Guyra Shire Council,
the Uralla Shire Council and the Walcha Shire Council. The Strategic Alliance model has been examined by Dollery, Burns and Johnson (2005).

The key characteristic of the Strategic Alliance model is that each member council maintains its political autonomy as if it was an autonomous local government, while the employees and resources of all participating councils are pooled, and divided into nineteen functional units that provide services to all of the councils. Each council funds its existing resources, recovering the cost of resources used in the provision of shared services from the other local authorities on an agreed basis, such as hourly rates, transactions processed, equal shares, etc. The model thus seeks to maximize the advantages that a large amalgamated local government could provide, like enhanced technical capacity and scope economies, simultaneously avoiding the disadvantages associated with big councils, such as the loss of local autonomy and democracy and the inefficient “one size fits all” approach to service delivery, thereby improving decision making by decentralising it to the local level. In this sense, the Strategic Alliance exhibits numerous parallels with current business practice adopted by Qantas, various credit unions and other financial institutions, and more recently by several state governments.

The Strategic Alliance model lies between ROCs and area integration models in the Dollery and Johnson (2005) taxonomy, involving substantially more than the ad hoc sharing of resources associated with ROCs, but falling short of creating an additional entity to provide centralized shared administration along the lines of the Joint Board model. The Strategic Alliance model thus alleviates the need for an additional separate political and bureaucratic structure associated with managing this additional entity and its attendant costs. The Strategic Alliance model also exhibits some of the characteristics of Allan’s (2001; 2003) virtual local government with political independence maintained by each council, but many services generated by a “shared service centre”. The essential difference between the two concepts is that member councils in the Alliance model keep all existing staff and other resources, and the “shared service centre” represents a virtual centre since it is not a separate entity, but rather existing staff are grouped into functional areas to provide services to all participating members. The retention of existing staff by
the individual councils assists in scaling services to ensure their most efficient and effective provision. Put differently, a given service might be provided by each individual council locally, or a service could be provided between two councils, or the services may be provided on behalf of all participating councils. In essence, the model seeks to achieve “aggressive reform with local voices”.

The Strategic Alliance is not yet settled and it is thus far too early to gauge its effectiveness. Yet early indications appear promising. After their initial analysis of the prognosis for the model, Dollery, Burns and Johnson (2005) have argued as follows:

“The Strategic Alliance model has planned to go much further than other comparable cooperative models in pursuit of cost efficiencies. The original goal was to achieve $1.7m in recurrent savings in the short term, and $3.2m in the longer term out of a current combined budget of the four councils of approximately $50m. The areas that were identified as potentially contributing towards the required savings may be termed ‘Quick Wins’ [i.e. plant utilization, investments, risk management and Geographical Information Systems (GIS)], reduced duplication, works productivity, and streamlined council administration”.

3.5 CONCLUDING REMARKS
Chapter 3 has sought to demonstrate that if state government policymakers are intent on at least some degree of structural reform as part of an overall strategy to improve the efficiency of local government, then two of the generic models contained in the Dollery and Johnson (2005) taxonomy are best suited for small local councils; regional organizations of councils and area integration models. The three New South Wales local government examples cited in Chapter 3 necessarily stressed the cost savings that they had achieved. However, it must be underlined that structural reform is concerned with efficiency objectives far greater than simply cost savings, usually in terms of improvements in the quality and range of service delivery. It must thus be emphasized that the focus on cost savings in these three examples should not be taken to imply that cost savings should have priority as a criterion to evaluate structural reform.
Although Australian municipal reform programs have typically used council amalgamation as their primary policy instrument, it is now clear that this approach has been flawed. Other approaches involving fundamental structural change, such as agency models or virtual local government, are also likely to impose prohibitive transitional costs. By contrast, joint board models and regional organizations of council not only provide a better combination of process change and structural change, with lower transformation costs, but also appear better able to accommodate the varied needs of different local communities.
CHAPTER 4: SHARED SERVICES IN LOCAL GOVERNMENT

4.1 INTRODUCTION

As we have seen in Chapter 2, for more than a century structural reform has been the major policy instrument for improving the operational efficiency of Australian local government (Vince, 1997). However, in a recent analysis of national and state-based local government inquiries in Australia, Dollery et al. (2007) demonstrated that the longstanding Australian consensus on efficacy of amalgamation has finally broken down. The reasons for this seismic shift in policy maker perspectives are manifold, but include a growing disillusionment with the economic and social effects of previous municipal merger programs. The proof of the pudding has indeed been in the eating!

As we argued in Chapter 2, an important consequence of this transformation in attitudes has been a change in emphasis away from council consolidation towards shared services as a potentially successful method of improving the operational effectiveness of local government service provision. However, this policy shift has unfortunately not been accompanied by an adequate analysis of the economic basis for shared services, feasible alternative models for shared service arrangements and available empirical evidence on the economic efficacy of shared services, with the partial exception of the Local Government Association of Queensland (LGAQ) Size, Shape and Sustainability Review Framework as outlined in the Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006). Chapter 4 examines these aspects of the shared services in Australian local government.

Chapter 4 comprises five main sections. Section 4.2 provides a synoptic review of the views of recent national and state-based public inquiries into local government on council cooperation and shared services. Section 4.3 briefly sets out the analytical foundations for shared services. Section 4.4 considers alternative models of local government that could serve as conduits for shared service provision whereas section 4.5 summarizes available
empirical evidence on shared services. Chapter 4 ends with some brief concluding remarks in section 4.6.

4.2 PERSPECTIVES ON SHARED SERVICES IN AUSTRALIA

Despite the newfound enthusiasm for shared services as a means of enhancing service provision and reducing the costs of service delivery, a disappointing feature of the Australian debate on shared municipal services has been the comparative neglect of the economic and political rationale for a shared service model as opposed to other methods of achieving the same outcome, most notably structural reform in the guise of council amalgamations.

However, at least some thought has been directed at this important question in some of the recent state-based inquiries into local government as well as other documents. For instance, the Hawker Report (2003) *Rates and Taxes: A Fair Share for Responsible Local Government*, initially set up to investigate the problem of “cost-shifting”, briefly considered the potential for shared services in the Australian local government milieu from the perspective of the Commonwealth government. After a review of submissions made to the Committee in Chapter 5, the Hawker Report (2003: 97) concluded that “the efficiencies of local government can be improved through a mixture of changes that may include partnerships, regional cooperation and/or amalgamations”, although it stressed that “one answer does not fit all”. It recommended that the federal government should engage “established ROCs and other regional bodies which have demonstrated their capacity to be involved in the regional planning and delivery of federal and state government programs”.

Secondly, the South Australian Financial Sustainability Review Board (FSRB) (2005) *Rising to the Challenge* report, while primarily concerned with local government sustainability, nonetheless addressed the shared services question in passing. The South Australian Report (2005: 85) contended that cooperation through shared service provision “can be a practical and cost-effective way for councils to share experience and resources, tackle common tasks, or take advantage of economies of scale”. It argued that existing
ROC and area integration models represented the best institutional vehicles for this purpose. In addition, the South Australian Report identified seven financial and non-financial benefits for councils working together: Lower “staff costs”; “access to skills and expertise”; “exchange of best practice”; “procurement savings” from scale economies; improved “community outcomes”; “coordinated services”; and “improved compliance with legislation and standards”. Recommended areas for cooperation included “many administrative services such as IT, payroll and rate administration”.

Thirdly, after questioning the success of council mergers, the wide-ranging New South Wales Independent Inquiry into the Financial Sustainability of Local Government’s (LGI) (2006) Are Councils Sustainable report commissioned work by Byrnes (2005) and Allan (2006) to investigate the types of services most amenable to sharing between councils. In his report, Byrnes (2005) found that in regional and rural areas councils could feasibly ‘either pool or share service provision on a regional basis’ in “fire protection”, “emergency services”, “health administration and inspection”, “noxious plants”, museums, “water and wastewater”, “tourism and area promotion”, and “saleyards and markets”. Moreover, Allan (2006) identified numerous “back office” and “front office” activities suitable for sharing. In general, the LGI (2006: 262) specified the characteristics of local government functions amenable to outsourcing, “shared service centres” or “independent specialist providers”. These were “low core capability”; “high supplier availability”; “low task complexity”; high economies of scale; highly “specialised technology”; and low asset specificity where a “limited term contract does not require a supplier buying an expensive asset”.

In a very broad approach to contemporary local government, the LGAQ developed a local government reform program embodied in its (now defunct) Size, Shape and Sustainability Review Framework, which was outlined in the Size, Shape and Sustainability: Guidelines Kit (LGAQ, 2006). As part of this endeavour, the LGAQ commissioned KM Management Consulting (KMMC) (2005) to consider the problem of shared services. The KMMC Report (2005: 2) argued that five major benefits could flow from a shared service arrangement: Scale economies; “leveraging of technology
investments to achieve cost savings and improved service delivery”; “standardisation, consistency and continuous improvement of processes” to provide improved service provision; “achievement of a customer service focus”; and greater concentration on “strategic outcomes”. The Report contended that three main institutional vehicles are suitable for shared service provision: A “specific shared services centre”; outsourcing; and partnerships with private firms. Four criteria are proposed in order to identify “appropriate” services for shared delivery: (a) Strategic services requiring expert local knowledge should be retained “in-house”; (b) “Non-strategic, low-risk, rule-based” and “high volume transaction processing” services could be shared; (c) Services requiring “access to [the] latest technology without ongoing significant capital investment or a requirement for specialist expertise” could be shared; and (d) services in which expert skills not readily attainable by councils should be garnered through service sharing or outsourcing.

The Western Australian Local Government Association’s (WALGA) (2006) *Systemic Sustainability Study* briefly canvassed the question of shared services. It maintained that “there is much greater scope for resource sharing in the Western Australian local government sector”. While it cautioned that claims concerning scale economies may be exaggerated, it nonetheless contended that “we see particular advantages to the industry of agreed regional pool arrangements for key staff back office services and for some whole-of-region infrastructure services” (WALGA, 2006: 68).

Finally, at the national level, the PriceWaterhouseCoopers (PWC) (2006) report *National Financial Sustainability Study of Local Government*, commissioned by the Australian Local Government Association (ALGA), considered shared services as a potentially fruitful avenue for improving municipal efficiency. It identified three methods of approaching the problem: (a) cooperative cross-council efforts in the areas of “bulk purchase or procurement of goods and services”; (b) the development of “specialised lead service provider” in groups of councils, where each member local authority specialises in a particular service and contracts its services to other member local governments; and (c) “shared corporate services” with joint “back-office” services, including “human
resources”, “finances”, information technology, and “administration” (PWC, 2006: 118-119). These approaches could generate “cost savings, productivity improvements and better training for staff”. However, the PWC Report stressed that “in remote and regional areas regional service delivery can be limited by large distances between councils”.

4.3 ANALYTICAL FOUNDATIONS OF SHARED SERVICES

From the synoptic review of recent national and state-based inquiries into contemporary Australian local government in Section 4.2, it seems clear that only the NSW LGI (2006) and the ongoing Queensland LGAQ (2006) program paid any attention to the desired attributes of shared council services. While all other reports viewed shared service models in a benevolent light, almost no effort was directed at determining the analytical foundations for this approach to local government service provision. We now briefly consider the essential features this important question.

The conceptual case for shared services rests on two main propositions. In the first place, strong equity and efficiency arguments can be made in favour of the continuation of decentralized democratic decision-making in the form of local political autonomy for municipal councils. These arguments are typically subsumed under the generic term ‘subsidiarity’ implying that “government powers should be exercised at the lowest level of government possible” (Bailey, 1999: 18). Put differently, in equity terms, existing local councils, quintessentially exemplifying democracy at the local level, are legitimate institutions for the political aspirations of small communities and thus represent a justified source of public expenditure. The exact nature of local democracy still requires further qualification. For instance, should we have direct democracy, representative democracy, or some combination of the two? But the answer to these questions does not impinge on the problem of shared services.

In efficiency terms, the continued existence of local autonomous councils can also be readily defended using the conventional theory of fiscal federalism (Oates, 1972). For example, by means of the well-known decentralization theorem, it can easily be demonstrated that spatial variations in community preferences are best accommodated
through decentralized decision-making which enhances social welfare. Similarly, local councils are likely to possess superior knowledge of both local demand side and local supply conditions. In addition, scholars writing in the tradition of competitive federalism, such as Tiebout (1956) and Breton (1995), as well as public choice theorists, like Boyne (1998), also provide convincing efficiency arguments in favour of the principle of subsidiarity and the concomitant continuity of small local councils.

Once we have established the case for the continued existence of small autonomous councils, the second key proposition underpinning the analytical foundations of shared services derives from the pioneering work of Oakerson (1999) in his *Governing Local Public Economies*. Oakerson (1999: 7) drew a fundamental distinction between local service “provision” and local service “production” and demonstrated that different criteria apply to these conceptually different functions. The provision of local services involves determining whether to provide a particular service, the regulation of local activities, local revenue raising, the quantity and quality of local services provided, and how these services should be produced.

By contrast, production involves the actual creation of a product or the rendering of a service rather than its financial provision. Compared with the services typically delivered by higher tiers of government, Oakerson (1999: 15) argued that “almost all” local public goods and services “depend upon the availability of specific time-and-place information, such as neighbourhood conditions, to support effective production choices”. This implies that “the scale and organization of the production process should allow producers to make locally informed judgments”. If provision is separated from production, it follows that council size and production scale are not necessarily related.

Oakerson (1999: 15-16) argued that local public goods and services possessed three characteristics that differentiated them to varying degrees from other goods and services. In the first place, the phenomenon of “co-production” is especially important. Co-production refers to “productive efforts of citizen-consumers as an integral part of the production process” and must thus be distinguished from the “citizen-voter” role of
residents in service provision. In this role, citizens act as the “eyes-and-ears” of local councils and their willing participation is therefore essential to the quality of service delivery.

Secondly, Oakerson (1999) draws a distinction between “local public goods” and “local public services”. Local public goods are usually capital-intensive and thus often exhibit economies of scale, as perhaps best exemplified by domestic waste processing. By contrast, local public services, like development approvals and public toilet maintenance, are typically labour-intensive and scale economies are quickly exhausted. In general, economies of scale thus differ widely between different municipal activities. As we have seen, in his book *Merger Mania*, Andrew Sancton (2000: 74) encapsulated the main implication of these observations by noting that “there is no functionally optimal size for municipal government because different municipal activities have different optimal areas”. At a more detailed level, Oakerson (1999: 16) showed that in an analogous fashion to large differences in scale economies between different goods and services, “much different economies may also be involved in increasing the level of production per capita as opposed to extending the same level of production per capita to a larger population”. These considerations have significant consequences for the organization of production.

Thirdly, coordination or management costs also play a crucial role in the way in which production should be tackled. Oakerson (1999: 16) summarized this characteristic of local goods and services as follows:

“The production and delivery of goods and services can be broken down into a large number of components, distinguishing direct service components delivered to citizens from various support-service components to direct service producers. Each component may be associated with a different economy of scale (although services typically exhibit constant returns over a broad range). Yet different components of service production require coordination to varying degrees. Coordination is costly, mainly in terms of time and effort devoted to transactions.”
These transactions costs thus serve to limit the number of separate production entities within a council as well as the number of separate services. Accordingly, the optimal number of production units depends on the trade-off between scale economies and coordination economies.

The conceptual separation of provision from production allows for choice between different vehicles for actually producing services. Oakerson (1999: 17-18) has identified seven generic possibilities for linking provision with production:

(a) “In-house production” occurs where a local council arranges its own production. For example, an individual council organizes its own production units along traditional grounds;

(b) “Coordinated production” takes place where councils coordinate production activities. For instance, the health inspection departments of two adjoining councils cooperate on activities affecting both jurisdictions;

(c) “Joint production” where two adjacent councils organize a single production unit as in, say, joint rates processing;

(d) “Intergovernmental contracting” takes the form of one council contracting services from another council or state or federal government agency;

(e) “Private contracting” where a private firm undertakes production for a council;

(f) “Franchising” where a council gives a commercial producer the exclusive right to produce a given service from which residents can purchase the service; and

(g) “Vouchering” where a council sets standards and the level of provision, but allows households to select their own producer using a voucher.

Shared services in their purest form are represented by option (c). However, other possibilities may also be considered more broadly to fall under the generic rubric of shared services. For example, option (b) represents a “weak” form of shared service; option (d) can also be defined as a shared service model where a group of councils jointly contract with a state government agency; option (e) is much the same where a constellation of councils deal with the same private firm in a joint contract; and a similar
arguments can be applied to option (f) and option (g) provided joint arrangements are made.

The next obvious question concerns the characteristics of local goods and services that lend themselves to a shared service model. Drawing on seminal work by Percy Allan (2001; 2003), the NSW LGI (2006) identified the characteristics of services suitable for a shared service arrangement as follows: “Low core capability” of councils; “high supplier availability”; “low task complexity”; substantial scale economies; “specialized technology”; and “low asset specificity”. We now consider each of these elements in turn:

Low core capability: “Core capability” refers to the “steering” and not “rowing” capabilities of local councils and includes “community consultation, policy planning, general governance, service monitoring, regulating private activity and funding public purposes” and not the actual “production and delivery of services” (Allan, 2001: 39). It is commonly argued that without core capability local councils cannot adequately discharge their statutory responsibilities. Even where core capability is ceded to a shared service centre, this still carries the danger that in the event of the unsatisfactory performance, or even collapse, of a shared service arrangement with other like-minded councils, a given council will be able to evaluate the problem, extricate itself and continue functioning. Accordingly, core capabilities should only be relinquished with extreme care. It follows that low core capabilities should be shared first.

High supplier availability: Allan (2001: 40) considered “supplier availability” as a criterion for deciding on whether or not to outsource a specific local council function and concluded that the “competitiveness of the tender” represented the crucial issue. Tender competitiveness in turn depended on whether “there are a large number of potential contractors with the experience, skills and equipment to meet the specific needs of the council”. If these attributes are not present, as we may expect in many regional, rural and remote areas, then outsourcing was unlikely to succeed. However, a shared service arrangement may still be possible through either resource sharing or the establishment of
a joint shared service centre, provided the requisite “experience, skills and equipment” could be found.

*Low task complexity:* The question of task complexity is also an important consideration for either outsourcing or shared service arrangements. Allan (2001: 40) argued that “complex tasks are difficult to monitor, hard to measure for inputs and require unique expertise to monitor” and are therefore unsuitable to outsourcing. However, since it is precisely these attributes that make complex tasks comparatively expensive to perform, “task complexity” in itself should not rule out shared service arrangements.

*Substantial scale economies:* Allan (2001: 40) contends that scale economies are typically associated with “specialized products and services that are mass produced and highly standardized”. Byrnes and Dollery (2002) have demonstrated that the existence or otherwise of significant scale economies is difficult to establish and evidence on the matter is mixed for Australian local government. However, as we have seen, Allan (2006) has identified several “back office” and “front office” activities that promise substantial scale economies and thus represent good candidates for shared service models.

*Specialized technology:* Information technology represent a quintessential and ubiquitous type of specialized applied technology in local government. The costs involved in acquiring IT hardware and software and subsequently maintaining, upgrading and operating this equipment are substantial. Since capital costs are high, IT thus constitutes perhaps the best example of a service suited to shared service arrangements.

*Low asset specificity:* Allan (2001: 40) has argued that “where a task requires an expensive and specific asset it may be more cost effective for the council to provide the asset than require a contractor to invest in something that may outlive its contractual life”. However, for precisely these same reasons, shared service models may be suitable.

Allan (2001: 46) has drawn the following conclusion to his analysis of shared service models:
In the context of local government there is no reason to why most core community services (e.g. road maintenance, garbage collection, town planning, recreation facilities and welfare relief services), in addition to backroom support services (e.g. finance, IT, HR) could not be delivered or arranged by a central administration unit owned and controlled by several councils.

However, Allan (2001) added two caveats to this general conclusion: (a) Individual councils must negotiate performance agreements with a shared service centre that stipulate specific rights and obligations; and (b) a shared service centre must be governed by a board of directors representing each of the participating councils.

While numerous Australian local councils have established various types of shared service centres, unfortunately these have been largely neglected in the debate on the topic. However, an embryonic literature does exist which includes the New England Regional Alliance of Councils (NERAC) (Dollery et al., 2005a), joint board models (Dollery and Johnson, 2007), the Walkerville model (Dollery and Byrnes, 2005), the Gilgandra model (Dollery et al., 2006b) and the Riverina East Regional Organization of Councils (REROC) (Dollery et al., 2005b). This literature provides useful “case studies” of shared service models.

4.4 ALTERNATIVE SHARED SERVICE MODELS
Two theoretical efforts aimed at classifying Australian local governance in terms of generic municipal models have been developed. In the first place, the LGAQ (2005: 15) has advanced a typology that distinguishes between four different conceptual models of local government reform: “Merger/amalgamation” involving the consolidation of small councils into a larger municipal entity; “significant boundary change” that involves the re-delimitation of local government jurisdictions; “resource sharing through service agreements” involving one local council undertaking specific functions for other partner councils; and “resource sharing thorough joint enterprise”, where a group of local governments combines to perform a given service function.
Secondly, as we saw in Chapter 3, Dollery and Johnson (2005) developed a taxonomic classification of alternative models of municipal governance specifically adapted to the narrow range of ‘services to property’ characteristic of Australian local government. The conceptual basis for this typology rests on the proposition that existing and potential models feasible in the Australian local government milieu can be located along a bipolar continuum given by the degrees to which political and operational control can be centralized or decentralized between local councils and the new organizational entity they join. In terms of this system, operational control refers to the ability to administer and undertake local service provision and delivery, whereas political control focuses on the capacity to make decisions over the domain and mix of local services. On the other hand, the degree of centralization indicates the extent of concentration of control vested in the new governance structure as opposed to the original small councils that comprise the new arrangement.

As we also saw in Chapter 3, the Dollery and Johnson (2005) typology comprises seven alternative models of local governance. Firstly, existing small councils possess the most operational and political autonomy as well as highest degree of decentralization within the constraints of their respective state government acts and are thus located at one end of the continuum. Secondly, the next most autonomous and decentralized model resides in voluntary arrangements between geographically adjacent councils to share resources on an ad hoc basis whenever and wherever the perceived need arises (Ernst and Young, 1993; Dollery et al., 2006a). Thirdly, Regional Organizations of Councils (ROCs) (Dollery et al., 2005b) constitute a formalization of the ad hoc resource sharing model, typically financed by a fee levied on each member council as well as a pro rata contribution based on rate income, population, or some other proxy for size, which provides shared services to member councils. Fourthly, area integration or joint board models retain autonomous existing councils with their current boundaries, but create a shared administration overseen by a joint board of elected councillors (Thornton, 1995; Shires Association of NSW, 2004; Dollery and Johnson, 2007). Fifthly, virtual local government (Allan, 2001; 2003; Dollery, 2003; May, 2003) consists of several small adjacent “virtual” councils with a common administrative structure or “shared service
centre” that would provide the necessary administrative capacity to undertake the policies decided upon by individual councils, with service delivery itself contracted out either to private companies or to the shared service centre depending on the relative costs of service provision and the feasibility of using private firms. The sixth model in the Dollery and Johnson (2005) system is the agency model in which all service functions are run by state government agencies with state government funds and state government employees in the same way as state police forces or state emergency services presently operate. Elected councils would act as advisory bodies to these state agencies charged with determining the specific mix of services over their particular geographical jurisdictions (Dollery et al., 2006a). Finally, the most extreme form of centralization occurs when several small councils are amalgamated into a single large local government. Under amalgamation, constituent councils surrender completely all political autonomy and operational control to the new entity and cease to exist (Dollery et al., 2006a).

Both the LGAQ (2005) typology and the more finely calibrated Dollery and Johnson (2005) taxonomy represent useful conceptual tools for scholars of Australian local government. It is possible to locate shared services within these typologies. For example, under the LGAQ (2005) typology, shared service in its purest form takes place in the form of “resource sharing through service agreements” and “resource sharing thorough joint enterprise”. By contrast, under the Dollery and Johnson (2005) taxonomy ad hoc resource sharing models, ROCs, area integration models, virtual local councils and agency models all represent institutional vehicles for accommodating shared services to a greater or lesser degree.

4.5 EMPIRICAL EVIDENCE

An additional unfortunate feature of the Australian debate on shared services in local government has been the paucity of work directed at establishing the empirical outcomes of shared service models in actual practice. At present, only one comprehensive study has been undertaken as part of the LGAQ (2006) Size, Shape and Sustainability Review Framework in the form of a commissioned report by KMMC (2005).
On the basis of its review of both Australian and international evidence on the economic consequences of the implementation of shared services, the KMMC Report (2005: 12) concluded that “the overwhelming evidence locally and internationally is that there are cost/performance gains to be achieved through shared services”, but cautioned that the establishment of a shared service centre generally requires “significant up-front investment” (KMMC, 2005: 13). It identified the following local service functions that could successfully be produced by means of a shared service model: Information technology; procurement; human resources; finance; call centres; and “rates/billing”. However, these sentiments were qualified with the caveat that none of these functions “has any greater advantage in being delivered on a regional basis than a state or national basis” (KMMC, 2005: 12). In addition, the KMMC Report (2005: 12) observed that the “services most suited to being delivered on a regional basis are those that are related to regional operational service delivery”, with “obvious contenders” including “water, sewerage, planning, building and economic development”; engineering services, such as road construction, “general construction”, and parks and gardens maintenance; and “co-ordination of all services associated with urban development”, like waste collection, roads, drainage and sewerage services. Finally, in order to secure the full economic advantages from shared services, their implementation should be accompanied by (a) the use of “standard technology”; (b) best-practice processes; and (c) the inculcation of a “service culture”.

However, the KMMC Report (2005) is deficient in several respects. In the first place, the authors frequently and erroneously confuse the entirely separate concepts of scale economies and shared services. In fact, shared services represent only one of a number of ways of reaping economies of scale. For instance, amalgamation is an alternative to shared service arrangements, which has proved to be less than successful in the Australian context. Moreover, shared services may bring many other benefits in addition to cost savings induced through scale economies. Secondly, many references cited in the KMMC Report (2005) do not provide any actual empirical evidence on the success of implementation of shared services, but rather simply assert desirable outcomes. Thirdly, it is implicitly assumed that demonstrated benefits of shared services in private firms and
central government agencies will automatically extend to the local services provided by local councils. This “leap of faith” may not be warranted. Finally, this confusion extends to the conclusion the Report draws on the candidate services suggested for shared services arrangements.

It is thus important to establish more accurate picture of available Australian and international evidence on the economic effects of shared services. Table 4.1 provides a synoptic review of “hard” evidence on shared local services in Australia whereas Table 4.2 contains a summary of analogous international evidence.

### Table 4.1: Australian Empirical Evidence on Shared Service Arrangements in Local Government

<table>
<thead>
<tr>
<th>Publication</th>
<th>Basis for argument</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawson (2007)</td>
<td>Survey</td>
<td>34 SA Local Councils</td>
<td>Identified seven service areas with the greatest resource sharing opportunities, as well as some impediments to implementation of shared services.</td>
</tr>
<tr>
<td>Byrnes (2005)</td>
<td>Survey</td>
<td>19 NSW Metropolitan and Regional Councils</td>
<td>Identified eight services most suitable for resource sharing and seven services should be provided locally.</td>
</tr>
<tr>
<td>Dollery and Byrnes (2005)</td>
<td>Accounting Estimations</td>
<td>Walkerville Council, SA</td>
<td>Lists nine regional co-operative agreements Walkerville entered to and provides estimates of benefits from entering into those agreements.</td>
</tr>
<tr>
<td>Dollery et al. (2005a)</td>
<td>Accounting Estimations</td>
<td>Armidale Dumaresq, Uralla, Guyra and Walcha Councils</td>
<td>Strategic Alliance of the Councils brought substantial benefits/savings through collaboration in the number of areas. The beneficiary areas are listed.</td>
</tr>
<tr>
<td>KM MC (2005)</td>
<td>Literature Review</td>
<td>Not applicable</td>
<td>Identified six services most able to be successfully delivered through regional services unit and three services most suited to delivery on a shared regional basis</td>
</tr>
<tr>
<td>Dollery et al. (2004)</td>
<td>Accounting Estimations</td>
<td>Riverina Eastern Regional Organisation of Councils (REROC)</td>
<td>REROC achieved savings of $4.5mln through reduced duplication, joint tendering, regional lobbying and co-operative sharing of resources</td>
</tr>
</tbody>
</table>
Table 4.2: Survey of International Empirical Evidence on Shared Service Arrangements in Local Government

**United Kingdom**

<table>
<thead>
<tr>
<th>Source</th>
<th>Type</th>
<th>Location</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communities and Local Government (2006a)</td>
<td>Accounting</td>
<td>United Kingdom</td>
<td>Shared services were one of the approaches to efficiency gains. Some areas were shared services successful are listed.</td>
</tr>
<tr>
<td>CLG (2006b)</td>
<td>Accounting</td>
<td>United Kingdom</td>
<td>Shared services were one of the approaches to efficiency gains. Some areas were shared services successful are listed.</td>
</tr>
<tr>
<td>CLG (2006c)</td>
<td>Accounting</td>
<td>United Kingdom</td>
<td>Shared services were one of the approaches to efficiency gains. Some areas were shared services successful are listed.</td>
</tr>
<tr>
<td>CLG (2006d)</td>
<td>Accounting</td>
<td>United Kingdom</td>
<td>Shared services were one of the approaches to efficiency gains. Some areas were shared services successful are listed.</td>
</tr>
<tr>
<td>CLG (2006e)</td>
<td>Accounting</td>
<td>United Kingdom</td>
<td>Shared services were one of the approaches to efficiency gains. Some areas were shared services successful are listed.</td>
</tr>
<tr>
<td>Worcestershire County Council (2006)</td>
<td>Accounting</td>
<td>Worcestershire County</td>
<td>Achieved £503,000 efficiency gains in procurement through consortium arrangement</td>
</tr>
<tr>
<td>PriceWaterhouseCoopers (2005)</td>
<td>Accounting</td>
<td>The Anglia Revenue Partnership</td>
<td>Both councils achieved top quartile performance along with significant savings.</td>
</tr>
<tr>
<td>Serco Solutions (2005)</td>
<td>Survey</td>
<td>26% of all local authorities in</td>
<td>Identified nine areas of the greatest potential for a shared service approach and five barriers to shared services.</td>
</tr>
<tr>
<td>Ruggini (February 2006)</td>
<td>Survey</td>
<td>Various cities and counties in</td>
<td>Provides examples of successful shared services arrangements and lists some common reasons for shared service agreements.</td>
</tr>
<tr>
<td>AAMD&amp;C/AUMA Rural/Urban Cost-Sharing (2004)</td>
<td>Survey</td>
<td>Local authorities in Alberta</td>
<td>Finds that cost-sharing agreements can have a significant impact on economic viability and quality of life. Lists potential areas for cost-sharing agreements.</td>
</tr>
<tr>
<td>Derman and Gates (1995)</td>
<td>Survey</td>
<td>Local authorities in the State</td>
<td>Suggests that shared service agreements were widely used to provide majority of the functions of local government with some exceptions. Identifies problematic aspects of sharing services.</td>
</tr>
<tr>
<td>Honadle (1984)</td>
<td>Survey</td>
<td>Various localities in the USA</td>
<td>Provides examples of successful shared services arrangements and lists some common reasons for shared service agreements.</td>
</tr>
</tbody>
</table>

**Other evidence**

<table>
<thead>
<tr>
<th>Source</th>
<th>Type</th>
<th>Location</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worcestershire County Council (2006)</td>
<td>Accounting</td>
<td>Alberta region</td>
<td>Finds that cost-sharing agreements can have a significant impact on economic viability and quality of life. Lists potential areas for cost-sharing agreements.</td>
</tr>
<tr>
<td>PriceWaterhouseCoopers (2005)</td>
<td>Accounting</td>
<td>The Anglia Revenue Partnership</td>
<td>Both councils achieved top quartile performance along with significant savings.</td>
</tr>
<tr>
<td>Serco Solutions (2005)</td>
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</tr>
</tbody>
</table>
Although the findings of studies listed in both Table 4.1 and Table 4.2 vary substantially, it is still possible to draw some firm conclusions from the empirical evidence. Six general observations seem justified:

- Shared service arrangement can improve an efficiency of local service delivery;
- Some services are more amenable to shared service arrangement than others;
- Common areas of success include (i) IT; (ii) HR; (iii) procurement; and (iv) waste management;
- However, even in these promising service areas, the degree of success varies dramatically from case to case;
- There are identifiable barriers to the implementation of shared service arrangements, which are difficult to overcome; and
- Common barriers to shared services include (i) loss of “municipal identity”; (ii) complexity of the process; (iii) conflicting objectives; and (iv) uncertain benefits.

4.6 CONCLUSION

Chapter 4 has considered the problem of shared services in local government. We have shown that it is possible to establish an analytical framework for the economic appraisal of shared services that hinges on the distinction drawn by Oakerson (1999) between service provision and service production in contemporary local government. Moreover, judicious application of the Allan (2001) attributes of municipal services has allowed us to identify potentially fruitful candidates for shared service delivery. In addition, both the LGAQ (2006) typology and the Dollery and Johnson (2005) taxonomy of alternative models of Australian local government yield insights into how shared services could be developed in practice.

However, the prospect that shared services can indeed generate substantial cost savings and enhanced service provision depends critically on available empirical evidence. Chapter 4 thus also attempted to provide a preliminary synoptic review of Australian and international evidence that could shed light on the potential benefits and costs of shared services. In common with much other policy analysis of real-world arrangements, we are
obliged to draw the modest conclusion that while the thoughtful selection and application of shared service arrangements would almost certainly induce cost savings, it would not by itself solve the acute problems of financial sustainability confronting a majority of Australian local councils.
PART B: SUSTAINABILITY IN LOCAL GOVERNMENT

CHAPTER 5: LONG-RUN SUSTAINABILITY IN LOCAL GOVERNMENT

5.1 INTRODUCTION
The last two decades of the twentieth century witnessed strong concern over the operational effectiveness of Australian local government. As we saw in Chapter 2, policy measures to address this concern rested primarily on structural reform, particularly in New South Wales, South Australia, Tasmania, Victoria, and most recently Queensland, but also included redrafted Local Government Acts in all jurisdictions, the application of New Public Management techniques to most local councils, and performance monitoring by state Departments of Local Government.

The new century has seen a shift in the fulcrum of concern to the question of local council sustainability, especially financial sustainability, in the light of an apparently deepening financial crisis in Australian local government. The first official indication of this shift in emphasis came in the form of the landmark Commonwealth Grants Commission (CGC 2001) report into the underlying causes of financial distress. This report was followed by a Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration (Hawker Report) (2003), entitled Rates and Taxes: A Fair Share for Responsible Local Government, initially set up to investigate the problem of ‘cost-shifting’, but subsequently broadened to consider virtually the entire spectrum of Australian local government activity, including sustainability.

In addition to these federal government investigations, several state-based inquiries initiated by state local government associations have ensued. For instance, the South Australian Financial Sustainability Review Board’s (2005) Rising to the Challenge report attempted to define the concept of financial sustainability and then assess South
Australian councils against this measure. Similarly, the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (2006) produced a comprehensive Final Report entitled Are Councils Sustainable that also sought to determine financial sustainability in NSW local government. Finally, both the (now defunct) Queensland Local Government Association’s (LGAQ) (2006) Size, Shape and Sustainability (SSS) program and the Western Australian Local Government Association’s (WALGA) (2006) Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia Inquiry grappled with financial sustainability in their respective local government systems.

At the national level, the Australian Local Government Association (ALGA) commissioned a study by PriceWaterhouseCoopers (PWC) (2006) entitled the National Financial Sustainability Study of Local Government, which considered the problem of financial sustainability in local government across the nation. These deliberations were augmented by the Local Government National Report, 2004-05, prepared by the Local Government Section of the Department of Transport and Regional Services (DOTARS) (2006), which highlighted the significance now placed on long-run financial sustainability by state government policy makers by considering the notion of a ‘structural gap’ induced by ‘the unbalanced growth of revenues and expenditures’ that results in fiscal distress in local government.

Finally, an embryonic but growing academic literature has arisen on the problems confronting Australian local councils. This literature has three main strands. In the first place, scholars have critically examined the accuracy of the methods adopted in the state-based inquiries and the PWC (2006) report and advanced broader definitions of sustainability in local government (Dollery et al. 2006b; Dollery and Crase 2006). Secondly, the predictive capacity of performance monitoring of local council outcomes has been assessed (see Murray and Dollery 2005; 2006; Walker and Jones 2006; and Dollery 2006). Thirdly, scholars have considered the problem of ‘local government failure’ and developed a taxonomic approach to its causes (see, for example, Dollery and Wallis 2001; Byrnes and Dollery 2002).
Chapter 5 provides a brief synoptic review of these various approaches to the question of local government sustainability. In essence, it is argued that while much has been learned about the causes of the current financial crisis in Australian local government, operational methods of defining and measuring sustainability, and the shortcomings of these methods, a comprehensive conceptual framework for developing remedial policy is still incomplete. An important reason for this deficiency in the literature on Australian local government sustainability seems to be the excessive emphasis that many analysts have accorded financial sustainability to the exclusion of other forms of sustainability (Dollery et al. 2006b). This is problematic because observed council ‘failures’ in real-world Australian local government jurisdictions are often due to non-financial factors, most frequently conflict-riddled elected councils and concomitant policy deadlock.

One way of approaching the design of a comprehensive conceptual framework for analysing the question of local government sustainability is to invoke the methodology developed in welfare economics. The famous market failure paradigm has long served as a fruitful technique for diagnosing the ills of competitive markets and an analogous conceptual framework in the form of the theory of government failure has performed essentially the same role in the analysis of public sector organisations (see, for example, Wallis and Dollery 1999). This approach has already been employed in the literature on Australian local government by Byrnes and Dollery (2002) but – as we shall see – their taxonomy of local government failure suffered from the principal defect that it focused exclusively on the ‘internal’ workings of local councils, without considering the external environment.

What is therefore required is a typology of local government sustainability that simultaneously embraces both internal factors and external forces that impinge on the

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1 The problems presented in the analysis of local government sustainability are compounded by the fact that the annual financial reports presented by local councils are notoriously unreliable. This was recognised by several inquiries, including the PWC (2006: 10) report. This problem has attracted considerable attention in the relevant academic literature. See, for instance, Aitken and Capitanio (1995), Aitken and McCrae (1992), Barton (1999), Barton (2000), Barton (2005), Burritt, McCrae and Benjamin (1996), Carnegie and West (2005), Hooper, Kearins and Green (2005) and Walker, Clarke and Dean (1999).
long-run sustainability of municipal authorities. A taxonomy of this kind could prove most useful in not only diagnosing the problems of contemporary Australian local government, but also in developing a prognosis and possible policy remediation. In this paper, we thus attempt to construct a typology of the sources of local council sustainability.

Chapter 5 is divided into four main sections. Section 5.2 critically examines the CGC (2001) report, the Hawker Report (2003), the various state-based inquiries and the PWC (2006) national report. Section 5.3 considers salient aspects of the embryonic Australian academic literature on sustainability. Section 5.4 develops a typology of local government sustainability using stylized empirical characteristics of Australian local councils. Chapter 5 ends in section 5.5 with some brief observations on the policy implications of the taxonomy.

5.2 OFFICIAL APPROACHES TO LOCAL GOVERNMENT SUSTAINABILITY

The genesis of contemporary concern with local government sustainability in Australia can be traced back to the Commonwealth Grants Commission (CGC 2001) annual report Review of the Operation of Local Government (Financial Assistance) Act 1995. In this pioneering document, the CGC (2001: 52-53) identified five main reasons for the acute level of financial stress faced by many local authorities, especially in non-metropolitan areas. These factors include the devolution of responsibility for service delivery from higher tiers of government; “cost-shifting”; increased complexity and standard of local government services introduced by state governments; “raised community expectations” of municipal services; and “policy choice” involving the voluntary improvement and expansion of municipal services.

This analysis is by no means complete. For example, as Johnson (2003) has observed, the CGC (2001) list does not include the fact that local councils have also added to these financial problems by artificially holding their rates and charges at unsustainably low levels. The CGC (2001) list also ignores “internal” governance and management factors
that are potentially crucial. Nevertheless, the CGC report did serve to lay the foundations for subsequent investigations into local government sustainability.

Although originally intended to focus exclusively on the problem of cost-shifting, the Hawker Report (2003) *Rates and Taxes: A Fair Share for Responsible Local Government* steadily added to its terms of reference and eventually considered almost the entire spectrum of local government activity. *Rates and Taxes* ultimately consisted of six substantive chapters dealing with the roles and responsibilities of Australian local government, cost shifting, the maintenance of municipal infrastructure, capacity building, including performance monitoring and structural reform, the funding of local government, and the question of inter-governmental financial relations and the need for a “Summit” respectively.

The Final Report contained eighteen specific recommendations dealing with “roles and responsibilities” (three recommendations), “cost shifting” (five recommendations), “infrastructure” (two recommendations), “capacity building in our regions” (four recommendations), “Commonwealth funding of local government” (two recommendations), and the “way forward” (two recommendations). Characterised by a singular lack of original research and reliant solely on submissions by interested bodies for its information, the Hawker Report nonetheless reiterated many of the concerns raised in the CGC (2001) report and thereby added impetus to the growing awareness of financial distress in Australian local government.

However, the chief methodological underpinnings of the contemporary emphasis on financial sustainability came in the form of the South Australian Financial Sustainability Review Board (FSRB) (2005) *Rising to the Challenge* report. This document embodied the “accounting” approach to local government sustainability developed by Access Economics that undertook the primary research for the report. It can thus be considered together with the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI) (2006) *Are Councils Sustainable* and the Western Australian Local Government Association’s (WALGA) (2006) *Systemic Sustainability Study* since these...
reports also employed Access Economics, which prepared essentially the same accounting analysis of their respective local government systems (see Access Economics 2006a; 2006b).

In essence, all three inquiries adopted the approach first proposed in the FRSB (2005: 10) report that advanced the following definition of financial sustainability in local government:

A council’s long-term financial performance and position is sustainable where: (i) continuation of the council’s present spending and funding policies; (ii) likely developments in the council’s revenue-raising capacity and the demand for and costs of its services and infrastructure; and (iii) normal financial risks and financial shocks, altogether are unlikely to necessitate substantial increases in council rates (or, alternatively, disruptive service cuts).

This measure of financial sustainability has serious shortcomings. For example, it does not place sufficient weight on the “external” environment in which local authorities operate; no account is taken of demographic trends, distance, population composition, topographical factors, and the like, all of which are “non-discretionary” in the sense that individual councils have no control over these forces (Worthington and Dollery 2000). In addition, internal governance and management are neglected, except indirectly in the form of adequate asset management.

In a broader approach to the question of sustainability, the Local Government Association of Queensland (LGAQ) developed a local government reform program embodying a Size, Shape and Sustainability Review Framework, sustainability indicators, “options for change”, “Independent Review Facilitators”, and funding arrangements for state government support. The reform program itself is outlined in the Size, Shape and Sustainability: Guidelines Kit (LGAQ 2006).

The Guidelines Kit set out four “categories of indicators” of sustainability that must be employed in the self-assessment exercise that lies at the heart of the LGAQ reform program: “Financial and resource base”; “community of interest”; “planning”; and
“standards of governance”. Moreover, councils were requested to consider issues not included in the Guidelines Kit. It is thus immediately apparent that the program is far broader than its SALGA, NSW LGSA and WALGA counterparts. However, this advantage is offset by the fact that no precise definition of unsustainability is advanced.

At the national level, the PriceWaterhouseCoopers (PWC) (2006) National Financial Sustainability Study of Local Government report was commissioned by the Australian Local Government Association to determine “key financial issues” affecting financial sustainability and develop recommendations for improving sustainability. Three main problems prevented the PWC (2006: 6-7) from using a common sustainability index across all Australian councils: “Mixed approaches to measuring and recording financial data” and “inconsistencies between states”; “infrequent” asset valuations and differences in assumed asset lives; and “incomplete” financial and asset management records, especially in smaller councils.

These problems obliged the PWC report to adopt two techniques in their assessment of financial sustainability. Firstly, the PWC applied financial ratio analysis to a sample of 100 local councils appropriately weighted by state and stratified in proportion to the number of councils in each of the DOTARS seven categories. Secondly, PWC “extrapolated” from the Access Economics and Municipal Association of Victoria (MAV) (2005) approaches in the (FSRB 2005), LGI (2006) and WALGA (2006) state inquiries and the MAV “viability index”.

The PWC (2006: 95) defined “financial sustainability” as follows: “The financial sustainability of a council is determined by its ability to manage expected financial requirements and financial risks and shocks over the long term without the use of disruptive revenue or expenditure measures”. This definition involved two elements: Councils should maintain “healthy finances”, given current expenditure and revenue policies and foreseeable future developments; and councils must ensure infrastructure expenditure “matches” asset planning. It is evident that this approach is very similar to
the Access Economics methodology underlying the SA, NSW and WA inquiries and accordingly suffers from the same shortcomings.

5.3 ACADEMIC APPROACHES TO LOCAL GOVERNMENT SUSTAINABILITY

We have already observed that a small but growing academic literature exists on the problems confronting Australian local councils with three main strands. In the first place, scholars have critically examined the methods adopted in the state-based inquiries and the PWC (2006) report and advanced broader definitions of sustainability in local government (see Dollery et al. 2006b; Dollery and Crase 2006). The major conclusions from this exploratory work have already been considered above and essentially amount to a claim that the accounting approach to sustainability is too narrow.

Secondly, a literature has been constructed on the predictive capacity of Key Performance Indicators (KPIs) for diagnosing local council unsustainability used by the Department of Local Government in NSW and mutatis mutandum other Australian local government jurisdictions (see Woodbury et al. 2003). For example, Murray and Dollery (2006: 59) explored the basis of performance appraisal in NSW and the approach used to classify individual councils as “at risk”. They concluded that:

Monitoring lists within NSW are created through an analysis of financial and corporate results, which at best can be described as a measure of financial soundness. However, the present construction methods provide little to indicate that an adequate analysis has occurred. It seems that the monitoring lists are being constructed on a primarily subjective basis. Moreover, as a means of attributing financial soundness or otherwise to councils, the present monitoring lists must be treated with a considerable degree of caution. This is due in part to councils lacking control over their own revenue levels owing to rate capping and the application of restrictive regulations and statutes over user charges and fees.

In addition, Murray and Dollery (2005) explored the manner in which NSW local councils are assessed by the NSW Department of Local Government and identified as
either “at risk” or not “at risk”. They argued that the Department used KPIs drawn from its comparative performance tables from information supplied by individual local governments. In its construction of “monitoring lists”, the Department subjectively considers these indicators as well as other information to determine whether a council should be classified as “at risk” or not “at risk”.

Murray and Dollery (2005: 332) undertook an econometric evaluation of these lists to determine whether “the indicators employed and the results published by the DLG are sufficiently robust to withstand analytical scrutiny”. They asked the question: “Are municipal councils deemed to be ‘at risk’ on the basis of the DLG analysis of selected key performance indicators (KPIs) really ‘at risk’ or have they merely been erroneously classified as ‘at risk’”? In other words, Murray and Dollery (2005) approached the problem of the efficacy of KPIs in predicting council performance from an empirical angle by examining whether councils with poor KPIs end up as being considered “at risk”. Their results undermine the adequacy of KPI analysis for local government. Murray and Dollery (2005: 342-343) observed that “the findings of our paper suggest that those councils that have been publicly identified as ‘at risk’ may in fact not be in a parlous financial state at all”.

If KPI analysis is a poor predictor of actual council financial performance, then the question arises as to what factors really do explain local government financial failure? Murray and Dollery (2005: 343) “speculated” that “governance issues (broadly defined)” appear to have been the most “critical factors” in most recent NSW local government “failure episodes” since “failed entrepreneurial projects by councils or councils in partnership with private organizations; factional ‘infighting’ amongst elected councillors and the attendant resignation of frustrated experienced professional staff; a preponderance of ill-informed and unwise elected councillors; poor quality professional staff, especially in rural and remote areas; and a lack of adequate internal controls all seem to have played a critical role in municipal failure”.

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Walker and Jones (2006) developed two main criticisms of Murray and Dollery (2005; 2006). Firstly, they argued that by assuming published KPIs represented the basis of the NSW “watch list” of “at risk” councils, Murray and Dollery (2006) had attacked “a straw man”, since the NSW Department of Local Government did not rely exclusively on published KPIs to determine which councils were “at risk”, but also employed other sources of information; an argument accepted by Dollery (2006) in a rejoinder to Walker and Jones (2006). Secondly, Walker and Jones (2006) advanced various criticisms at the econometric analysis by Murray and Dollery (2005).

However, the major contribution of the Walker and Jones (2006) paper lay in the development of an alternative approach to financial sustainability in Australian local government. They argued that “if the basic operating objectives of local councils are to provide services to the community”, then “it follows that a relevant concept of council distress” would be “an inability to deliver services at pre-existing levels”. In other words, financial sustainability should be defined as the capacity of councils to deliver some current level of service provision to their residents. It is immediately apparent that this definition differs from the methodology developed in both the state-based inquiries based on the Access Economics approach. However, Dollery (2006: 360) argued that this definition is flawed since it requires the user to heroically assume that “‘yesteryear’s’ levels of service will be acceptable to ‘tomorrow’s’ local government community”. He observed that “it is easy to think of instances where this procedure will fail” and cited the example of the environmental regulation of local councils and the continual “raising the bar” that has occurred.

Finally, drawing on the “local government failure” approach first advanced by Dollery and Wallis (2001), Byrnes and Dollery (2002) developed a taxonomic system embodying five main sources of local government failure: “Voter apathy”, where constituents are typically disinterested in their local councils; “asymmetric information and councillor capture”, where part-time elected councillors are dominated by better informed professional bureaucrats; “iron triangles”, where elected standing committees, bureaucrats and private contractors develop informal collusive arrangements excluding
potential competitors; “fiscal illusion”, where voters cannot determine whether they receive “value for money” from council services due to the fiscal complexities involved; and “political entrepreneurship”, where councillors intent on political office in higher tiers of government use municipal activities to advance their careers. Byrnes and Dollery (2002) assessed this typology using evidence from NSW local government and found significant empirical support for their typology.

However, the Byrnes and Dollery (2002) typology is open to the criticism that it considers only “internal” factors to the exclusion of the external environment. For instance, important financial considerations, such as the value of grants, revenue from rates, etc., are ignored. Moreover, demographic, spatial and other influences are entirely neglected.

5.4 TAXONOMY OF LOCAL GOVERNMENT SUSTAINABILITY

Given the deficiencies in the Byrnes and Dollery (2002) typology, as well as the demonstrated success of the ‘institutional failure’ approach to policy analysis, there are thus firm grounds for developing a new taxonomy of Australian local government failure that considers both ‘external’ and ‘internal’ factors that influence the long-run sustainability of local councils in Australia. We thus construct a new typology along these lines.

The exploratory taxonomy developed outlined here hinges on five main sources of local government sustainability: Demographic factors; council revenue; expenditure; financial management; and governance. It is immediately evident that this constellation of influences combines both “external” and “internal” factors thereby removing a central objection to the earlier Byrnes and Dollery (2002) typology. Each of these elements of the tentative new typology is now considered in turn, using the contemporary milieu of NSW local government to provide illustrative examples.
5.4.1 Demographic Factors
The claim that demographic characteristics play a decisive role in local government sustainability is uncontroversial. After all, population trends have profound implications for the composition of local government services, revenue, infrastructure utilization and future infrastructure needs, expenditure patterns and almost all other aspects of local governance. While local councils can exert some influence over population flows and population density directly and indirectly through efforts to attract or deter new residents, planning regulations, local economic growth strategies, and so forth, in the main demographic characteristics should be considered ‘non-discretionary’ variables in the sense that they lie beyond the control of individual local governments.

A few examples can serve to illustrate the contention that important linkages exist between local government sustainability and demographic trends:

- Population relative to the local housing stock can have a powerful impact on housing prices. For instance, a shrinking population and a stagnant housing stock can lead to declining property prices and falling rate revenue as well as *vice versa*.

- Infrastructure utilization is related to population since physical infrastructure, by its very nature, is a fixed asset. For example, roads are rarely ripped up in response to a population decline while a population trend increase is typically required to justify connecting new homes to water and sewerage systems. Similarly, rapidly changing population size is a critical factor in determining the need for expensive new infrastructure.

- Population density and the rate of population growth are not only intrinsically intertwined but also represent key determinants of local government sustainability; a point emphasized in the South Australian FSRB (2005) *Rising to the Challenge* report. This report established that regardless of whether a given council was located in a metropolitan zone or a regional area in South Australia, the rate of growth in population seemed to determine the extent of its operating deficit. Moreover, net financial liabilities were also closely related to population growth. Population density had the same predictive capacity.
While these examples illustrate the pervasive impact of demographic change on local government, its effects are further complicated by the fact that recent Australian population trends are both complex and spatially uneven (Burnley and Murphy 2002: 149). For instance, in the context of NSW local government, whereas general population growth has centred on the coastal fringe and areas immediately adjacent to Sydney, Sydney itself has seen consistent net out-migration. Growth has also occurred in North and South NSW coastal communities, resort and retirement areas, some larger regional centres, along the Hume Highway between Sydney and Melbourne, selected mining towns, and in regions with significant Indigenous populations (Hugo 2002: 5). The one constant in NSW population movements has been an almost universal loss of population in the sheep and wheat belts of the state.

These complicating factors are further exacerbated by associated changes in population densities. For example, low-income household movement has clearly been an important component in migration to coastal regions in NSW (Hugo and Bell 1998). This has important ramifications for local government largely due to the range of partially council-funded concessions in place for low-income recipients. For instance, pensioner concessions represent a significant drain on the resources of local government in particular areas and Dollery et al. (2007) found that the councils in NSW that had the lowest per capita incomes also had the highest per capita expenditure on pensioner rebates. If potentially poor “baby boomers” retire on the coast, where average incomes are already relatively low, this will have serious implications for the future financial sustainability of coastal councils.

Population change is thus multifaceted and may have far-reaching effects on local government sustainability. Given long-standing out-migration trends from the NSW sheep and wheat belts, some rural shires will never be financially sustainable because of low population densities and negligible or even negative population growth rates.

This raises a central policy conundrum requiring explicit value judgment. What weight should be accorded rural local councils in their role as the only local democratic
institution? Put differently, which is more important: the financial sustainability of a council or its role as a local voice in Australian democracy?

5.4.2 Council Revenue

Australian local government has three main sources of revenue: Property taxes; fees and charges; and intergovernmental grants. By international standards, this is a comparatively narrow range of potential sources of finance. Moreover, Dollery et al. (2006c: 30) have observed that “there are two broad revenue pressures” confronting Australian local councils; “legislative restrictions on its ability to raise revenue” and “limited access to a sufficiently broad range of revenue”, including the “holy grail of a growth tax”. It must therefore be acknowledged that not only do Australian councils survive on a relatively narrow revenue base, but that even within this narrow range, most revenue-raising has important “non-discretionary” elements.

These general propositions can be readily illustrated in the financial milieu of NSW local government. For example, Figure 5.1 demonstrates that local government income in New South Wales has not kept pace with either the growth in state or federal income or growth in the economy of the state and national GDP; the same cannot be said for either state or federal government income.
Even more important than aggregate local government income is the growth of local government rates since this is often said to quintessentially represent a completely "discretionary" source of revenue for councils empowered to strike their own rates. Over the period shown in Figure 5.1, aggregate rate income growth has been of the order of 0.8 per cent. While it can be argued that NSW is peculiar in the context of Australian local government because its state government has adopted a longstanding policy of rate-capping, evidence on rate revenue growth presented in the state-based inquiries shows a similar picture across all Australian local government jurisdictions relative to consumer price inflation (see, for example, Brooks 2006: 9, Figure 4).

Grants represent the second major source of revenue for local councils, and especially remote, rural and regional local governments. For years local government has been exhorted by higher levels of government to end its reliance on grants. But to reduce the

pejoratively phrased “grant dependency”, local government must either raise its rates or increase income from other sources, such as charges and fees for services provided. However, in both instances NSW local government is restricted. Quite apart from rate-capping, charges are often subject to ministerial control and/or frequently fall under the purview of other regulatory bodies (Dollery et al. 2006c: 32).

In any event, in a federal system of government afflicted by vertical fiscal imbalance (VFI), where the majority of tax receipts are collected by the Commonwealth and a disproportionate degree of expenditure occurs at subordinate levels of government, grants will always be an important means of equalizing revenue with expenditure. While this structural feature of Australian fiscal federalism appears to have evaded the debate on local government grants, in practice federal government grants direct to local government have emerged as an increasingly important source of revenue for local government, especially the Roads To Recovery (R2R) Program (Dollery et al. 2006d). However, this form of financial relief has also become becoming more tied to specific projects.

The trend towards more specific grants, taken together with the inevitability of a system of local government grant disbursement in a federal system characterized by VFI, places local council autonomy under threat and once again raises the question of the value accorded local democracy. Indeed, it might not be alarmist to argue that that tied grants essentially reduce local government to expenditure agencies devoid of decision-making power, thereby violating the principle of subsidiarity in fiscal federalism.

Finally, almost all local government systems are troubled by horizontal fiscal imbalance (HFI) and Australian local government jurisdictions are no exception. In essence, HFI implies that different councils have different revenue raising abilities and the costs of service provision vary between councils. Unless HFI is addressed, marked differences in local services between different councils will emerge. In Australia this almost inevitably implies that people in poor, remote, rural and regional areas will enjoy a far lower level of service provision than their metropolitan counterparts. This problem has traditionally been tackled in Australian states and territories through “equalization grants” by state-
based local government grants commissions. However, the decline in the real value of these grants across Australia has threatened this system and thus bred a growing differentiation in local service provision (Brooks 2006).

5.4.3 Council Expenditure
The third element in the proposed taxonomy of local government sustainability focuses on the expenditure dimension of local government activity. A critical feature of the cost structure of contemporary Australian local government resides in the impact of cost-shifting; a factor recognized by the CGC (2001), the Hawker Report (2003) and the LGI (2006). While the monetary magnitudes involved in cost-shifting are difficult, if not impossible, to compute with any degree of precision, in the context of NSW local government the phenomenon is undoubtedly significant. For example, the LGI (2006: 69) commissioned a survey in order to gain some quantitative measure of its impact. The results of this exercise are summarized in Figure 5.2:
Figure 5.2 shows that the drain on resources associated with cost-shifting is far from trivial for all councils, and especially metropolitan councils.

The chief problem with cost-shifting is not the shifting of expenditure functions *per se* but rather the lack of adequate accompanying funding. It often makes perfect sense for local government to carry out various functions, such as local economic development propagation and local “place-shaping”, since local councils typically possess superior information on local needs. The problem is that adequate matching funding is usually not transferred along with the functional responsibilities. Accordingly, unfunded cost-shifting by higher levels of government all but guarantees that many councils will be unsustainable in the long run.

5.4.4 Financial Management

All state-based inquiries as well as the PWC (2006) national report identified a severe local infrastructure depletion problem in Australian local government. Two aspects of this problem are important in the present context. Firstly, all of these inquiries found that inadequate financial management, and particularly asset management, had played a significant role in the creation of this problem. In the NSW context, the Allan Report (2006) sets out in great detail the requirements for satisfactory financial management system and how this system should be implemented. The problems involved should not be underestimated. In particular, it is very difficult to place a value on an asset that cannot be sold. Secondly, the infrastructure problem is so large that many local authorities will never be able to bear the financial burden of rectifying it, leading to calls for alternative methods of financing reconstruction, including a Commonwealth infrastructure fund (Dollery et al. 2006a).

In order to understand how the local infrastructure crisis has arisen, it must be acknowledged that most local infrastructure was simply given to local government in the immediate post-World War Two era. Local government thus did not finance its development and the local government revenue model was never designed to pay for its renewal. In the same vein, it should also be acknowledged that a significant proportion of the stock of local infrastructure is reaching the end of its economic life largely around the same time. Since local councils are already struggling to remain solvent in their day-to-day operations, it is widely recognized that local government cannot fund all of the infrastructure renewal programs that will be required over the next decade. Indeed, for each year that the problem is left unattended, the financial burden grows by around $400 to $600m in NSW alone (LGI 2006). While arguments rage over how to determine the extent of the infrastructure renewal task, attention may drift from the much more important task of implementing systems that will put aside reserves so that a future crisis will not reoccur. The long-run sustainability of local government should thus rest on the management of renewed local infrastructure and not the funding of current asset renewal.
5.4.5 Governance

In the exploratory typological framework for evaluating sustainability in contemporary Australian local government, we have considered local government demographics, revenue, expenditure and cost-shifting and financial management. These three elements focus exclusively on the “external” environment facing local councils, while financial management combines features of both the “internal” and “external” context. By contrast, governance deals solely with the internal dynamics of municipal operations.

The need for an internal perspective is warranted by the fact that the overwhelming majority of council “failures”, as epitomized by the dissolution of local authorities by their respective Department of Local Government, are caused by internal factors, especially conflicted elected bodies. An excellent starting point for a diagnostic analysis of governance is the taxonomy of “local government failure” advanced by Dollery and Wallis (2001) and Byrnes and Dollery (2002). As we have seen, the Byrnes and Dollery (2002) fivefold typology of “voter apathy”, “asymmetric information and councillor capture”, “iron triangles”, “fiscal illusion” and “political entrepreneurship” encompassed most internal sources of unsustainability. In addition to this capstone, Dollery et al. (2006b) have identified three critical dimensions of local government sustainability: local democracy, local social capital and local capacity.

Local democracy refers to the sense in which local government can be differentiated from other levels of government; the very existence of local government suggests that it will make decisions differently from higher tiers of government by giving a voice to local preferences. This is sometimes encapsulated by the term “vibrancy”. If a council fails to embrace local preferences, then there is little reason for it to exist and its ongoing sustainability as an “independent” entity comes into question.

Although the notion of “social capital” is beset by conceptual problems (Quibria 2003), in the municipal context we contend that social capital engenders a local civic awareness that manifests itself in community projects, ranging local social associations and sports clubs to local business initiatives. Moreover, local social capital breeds a “sense of
community” and a “sense of place” that derive from living in a small and distinctive local government area, with community size and community social capital therefore intrinsically linked. It follows that if a council does not play a positive role in facilitating the formation of social capital, its long-term sustainability must be called into question.

Finally, local government capacity influences local council sustainability. Dollery et al. (2006b) argue that local government cannot command the respect of its constituents if it is unable to formulate agreed policy and implement decisions effectively. Local government capacity thus has three features: Functioning elected leadership; adequate administrative and technical expertise; and the ability to make autonomous decisions. These three attributes of local government capacity are thus crucial to council sustainability.

5.5 CONCLUSION
The typology for examining local government sustainability advanced in Chapter 5 is thus not only much broader than its Dollery and Wallis (2001) and Byrnes and Dollery (2002) predecessors, but also overcomes the “internal” bias of these earlier attempts to provide an analytical framework for assessing local government failure. Because it combines all the major elements involved in the long-run sustainability it has the added advantage of greater explanatory power.

A common thread running through the discussion of demographic factors, council revenue, expenditure, as well as part of financial management was the “non-discretionary” nature of the external environment in which Australian local government is placed. Constraints imposed by higher tiers of government in the Australian federation thus account for a good deal of non-sustainability amongst local councils. Accordingly, the state-based inquiries and the PWC (2006) report all found that large numbers of Australian local governments are unsustainable if present trends continue. This serves to illustrate a dismal truth about Australian local government; unless dramatic change occurs, unsustainability will become the rule rather than the exception.
A beneficial aspect of the exploratory taxonomy developed in Chapter 5 is that it obliges local government policy makers to recognize that due to the predominantly “non-discretionary” nature of demographic factors, council revenue, expenditure, as well as part of financial management, there are environmental limits on the extent to which individual local councils can be held responsible for their own long-term sustainability. Moreover, given the high degree of VFI in Australian fiscal federalism and the fact that additional expenditure responsibilities can be loaded on local government, it is inevitable that higher tiers of government will always have to assist local councils financially, and in the short-run, this means that immediate local infrastructure crisis will have to be resolved by extensive subsidies from the Commonwealth and state governments. In other words, in the absence of additional taxation powers, local government sustainability is inextricably dependent on fiscal transfers from higher levels of government. For the majority of Australian local authorities, self-secured long-term sustainability is simply not feasible.
CHAPTER 6: LOCAL COMMUNITY SUSTAINABILITY

6.1 INTRODUCTION

Both Chapter 2 and Chapter 5 of this Report demonstrated that in all Australian local government jurisdictions, including Western Australia, the financial sustainability of many local authorities represented an acute and ongoing problem. Furthermore, the degree of financial distress was now so pronounced in many local authorities that only the monetary intervention of higher tiers of government, through policies like a local asset infrastructure fund, greatly intergovernmental grants, or additional sources of tax revenue, could hope to remedy the situation.

However, Chapter 5 also demonstrated that the concept of financial sustainability was problematic in the context of contemporary Australian local government. In the first place, no agreed definition of financial sustainability exists in Australia, with almost all public inquiries into financial sustainability using the Access Economics (2006) definition simply because they had employed this private company as a consultant. Secondly, the South Australian, New South Wales, Western Australian and PriceWaterhouseCoopers inquiries into financial sustainability all employed Key Performance Indicators (most commonly in the form of financial ratios), all of which are problematical, including the fact that the observed incidence of local government failure bears little relationship to Key Performance Indicators (see, for instance, Murray and Dollery 2005). It thus follows that policy makers should be very wary of making far-reaching decisions based disputed definitions of financial sustainability and flawed Key Performance Indicators with almost no predictive capacity.

Chapter 5 showed that not only are there numerous problems associated with defining financial sustainability in a precise and operational manner, but that Key Performance Indicators and other quantititative measures of local government performance did not capture many crucial elements of what can be termed ‘overall sustainability’ in local government. Thus, quite apart from doubt surrounding the meaning and measurement of financial sustainability, the ‘non-financial’ aspects of sustainability in local government
must be taken into account in any policy analysis involving local government. Put differently, aside from direct financial considerations, what other factors determine the broader long-run sustainability of Australian local councils? In other words, can we identify ‘overall’ local government sustainability and define its characteristics?

Thirdly, Australia local councils typically play a pivotal role in what may be termed ‘community sustainability’. In metropolitan areas, local councils engage in ‘place-shaping’ activities that mold the local environment to meet community wishes, small urban councils provide access and immediacy in service provision that ‘personalise’ service delivery, small city local governments play a vital role in sustaining local charities, local sports clubs and local voluntary associations, small urban council boundaries provide local communities with an historically determined ‘sense of place’, and informal relationships between local citizens and council employees in the context of small personalised urban councils provide human contact in amorphous impersonal metropolitan environments.

In a similar vein, in regional, rural and remote parts of the country, local councils also play a vital role in community sustainability. For instance, the local authority is often the largest economic entity in any given shire, employing more people and spending more money than any other single business. Council employees and their families typically constitute the bedrock of these small communities by sending their children to local schools, spending their incomes in local businesses, joining local social and sporting clubs, and working in local voluntary associations, etc.

It is thus evident that local councils constitute a critical factor in sustaining local communities. It follows that any policy measures that adversely affect local councils, such forced amalgamation, lower council income or less local council employment, will inevitably serve to threaten local community sustainability in small urban communities and country towns by diminishing the local economy and undermining the local social fabric.
While the related questions of the broader long-run sustainability of Australian local councils and ‘community sustainability’ were briefly canvassed in Chapter 5, Chapter 6 is devoted to a detailed discussion of these questions. Emphasis is placed on the role of local councils in the life of local communities.

Chapter 6 is divided into three main parts. Section 6.2 considers the problem of defining adequately council sustainability and identifying the chief determinants of this broader conception of local government sustainability. Section 6.3 examines each of the three main attributes of community or social sustainability in local government advanced in section 6.2 and seeks to illustrate (by means salient examples) how these can be embodied in the analysis of contemporary local government. In particular, the recent LGAQ (2006) *Size, Shape and Sustainability* (SSS) program and the current WALGA (2006) *Systemic Sustainability Study* are employed to show how it is possible to incorporate broader local council sustainability and community sustainability into the analysis of local government policy. Chapter 6 ends with some brief concluding remarks in section 6.4.

6.2. OVERALL LOCAL COUNCIL SUSTAINABILITY

In common with the conceptual and factual difficulties of defining financial sustainability, the problem of defining overall council sustainability presents similar analytical challenges. In all Westminster-style advanced democracies, local government plays a dual role. Aulich (2005, p.198) has described this twin function in Australian local government in some detail. In the first place, local government ‘provides a voice to local aspirations for decentralized governance’. What can be termed the ‘local democracy approach’ thus places fundamental value on ‘local differences and system diversity’ and encourages directed activities and policy reforms aimed at improving ‘local choice and local voice’. This is premised on the notion that a local council ‘can and will make choices that will differ from those made by others’. According to this view, ‘a premium is placed upon traditional democratic values’ that fully embrace ‘access’, ‘accountability’, ‘representativeness’ and ‘responsiveness’ (Stewart 1997). The ‘vibrancy’ of local democracy thus becomes a desired outcome in its own right.
In addition to these attributes of the local democracy approach, it is possible to identify other dimensions that may be important. In this respect, the concept of ‘social capital’ is crucial. First conceived by Coleman (1988) and later popularized by Putnam (1993), social capital refers to those features of social life that enable participants to act together more effectively to pursue shared objectives. In the Australian local government context, social capital engenders local civic awareness that manifests itself in a variety of community projects, ranging from the formation of local social associations and sports clubs to local business initiatives. The determinants of local social capital are complex and not well understood (Quibria 2003), but include a ‘sense of community’ and a ‘sense of place’ that derive from living in a small and distinctive community. Community size and community social capital are therefore intrinsically linked together.

The local democracy approach necessarily implies support for ‘collaborative or pluralist processes of reform’ rather than top-down ‘technocratic’ policy intervention that overrides local opinion (Aulich 2005). Rather than being viewed as a burdensome financial impost on the local exchequer, representative local government is seen as a worthy policy goal on its own merit. The costs associated with local governance, including local elections, consultation processes, ‘democratic audits’, community participation, elected councillors, their supporting secretariat and the whole gamut of local democratic autonomy, can thus be justified in the same way as financial outlays on any other bona fide council service. Accordingly, public policy should not simply seek efficient local service provision, but also effective local democracy. Political process becomes as important as economic outcome. The result should an emphasis on ‘bottom-up’ local consultation and local policy formulation.

The second primary role of local government in a Westminster-type democratic constitutional system focuses on local councils as ‘a mechanism for the efficient delivery of local services to local communities’ (Aulich, 2005, p.199). In terms of this perspective, in its role as a provider of local public and quasi-public goods and services, local government must focus on efficient service delivery above all else (Tucker 1997). In
other words, local government is not regarded as a representative entity in its own right, but rather as an instrument for meeting local needs through local services in the most cost effective manner possible. This instrumentalist conception of the role of local government in a federal system thus stresses the importance of policy reform aimed exclusively at enhancing the efficiency of local government, regardless of the impact this might have on the vibrancy of local democracy. Put differently, in the instrumentalist service provision approach ‘fiscal and economic issues override other social and political concerns’ and ‘tradition-bound or value-orientated forms of political and social organization are replaced by purely instrumentally rational institutions’ (Aulich, 2005, p.199). Economic outcomes thus take precedence over political processes.

The main policy implications of this ‘local service delivery approach’ have been described by Aulich (2005, p.199) as follows:

‘Such an approach encourages state intervention to assert control over the local sphere of government to ensure that the mechanisms are in place to advance efficiency and economy. There are inevitably greater pressures for uniformity and conformity and less tolerance for diverse outcomes. In this environment, lower value is placed on collaborative processes, with top-down technocratic processes being more typical’.

Obvious tensions exist between the two primary roles of local government in a Westminster-style democratic polity and these are perhaps best exemplified in the diametrically opposed policy implications that derive from the local democracy approach and the local service approach. Steyvers et al (2006, p.429) draw a distinction between ‘input legitimacy’ and ‘output legitimacy’ to highlight this tension. Input legitimacy rests on ‘responsive government’ that can be achieved by ‘integrating citizens and providing space for participatory input’ into municipal decision-making. By contrast, output legitimacy occurs through providing ‘effective and efficient public services’. This dichotomy can be illustrated by means of Figure 6.1:
Figure 6.1: Competing Roles of Australian Local Government

Figure 6.1 depicts the opposing value systems and associated process orientation of the local democracy approach and the local service approach. The instrumentalist policy preference of the local service approach is manifest in its end-state objective of achieving greater cost effectiveness regardless of the price paid in terms of democratic process. For example, if local democratic processes express community preferences for small ‘close-to-the-people’ local councils, even if this may involve relatively more expensive service provision, then ‘top-down’ state government intervention that abolish these local councils of important assets, like forced amalgamation, is justified only if it can deliver cheaper services. By contrast, if due democratic process embodies full public participation, even where this may entail the provision of redundant additional services or more costly local services, then this is warranted under the local democracy approach since it expresses legitimate community preferences.

Whereas Aulich (2005) set the local democracy approach and the local service approach in juxtaposition as competing and almost mutually exclusive roles for Australian local government, it is possible to identify aspects of both positions that contain overlapping
and mutually reinforcing (or mutually destructive) dimensions of contemporary local authorities.

If we consider the possible case where Western Australian state government policy forcibly amalgamates local councils, this necessarily means that local council activities and employment are geographically reallocated away from the previous small councils towards the dominant regional authority or even state agency, then feedback loops between local democracy approach and the local service approach become apparent. For instance, as we have already noted, small councils are often a major employer in small rural towns. If council employees are forcibly relocated to the new regional authority in an amalgamated regional entity, then this will set in motion negative multiplier effects in the denuded council areas that reduce economic activity, even in metropolitan and peri-urban areas.

Secondly, if we invoke attributes of the local democracy approach neglected by Aulich (2005), such as the historically, psychologically and sociologically crucial concepts of ‘sense of community’ and ‘sense of place’, that form an important part of the social capital of small local government areas, then this will also have substantial economic effects. After all, a municipal council often represents the ‘heart’ of a community and serves to symbolize its character and independence. The weakening of these councils could thus severely damage a ‘sense of community’ built up over the generations. The economic consequences of this loss may be felt in different retail shopping patterns, altered school enrolment, changed sporting club allegiances, and so forth, which will have ramifications for the composition of economic activity and the strength of the rate base of the former small council areas.

Finally, and perhaps most importantly, process and outcome are inextricably linked through democratic representation in local government. Thus, the weakening of small councils through forced amalgamation can have obvious resource implications for residents of the affected areas. For example, if a local council is compulsorily consolidated into a larger new council, then the attendant loss of ‘political voice’
associated with the small council may mean relatively fewer resources will be directed towards the needs of residents of the small councils relative to their counterparts living in the dominant larger regional area. Moreover, where service provision preferences differ between the citizenry of the amalgamated councils, the pattern of service provision can also shift to the detriment of residents of smaller areas. ‘Local voice’ will have been removed from policy choices in municipal services.

In essence, the local democracy approach and the local service approach can thus overlap in many respects and this affects the nature of trade-offs between the two perspectives. In other words, single-minded pursuit of economic gain regardless of political process can have the unintended effects of reducing the aggregate economic benefits through the spatial redistribution of economic activity and council service operations.

The tensions between input legitimacy and output legitimacy stressed by Steyvers et al (2006) have focused attention on the need to reconcile these two imperatives. Some scholars have pursued this line of inquiry, including Kersting and Vetter (2003), and have sought to close the ‘gap’ between service efficiency and participatory democracy. However, the fruits of this debate have yet to appear.

The identification of two contending primary roles for Australian local government by Aulich (2005), and the augmentation of this dichotomized approach with the recognition that in some respects outcome and process are inextricably linked (since service efficiency cannot be entirely from service distribution), can shed considerable light on the problem of local government sustainability. We have already very briefly considered the thorny question of ‘financial sustainability’ in Chapter 5 of this Report– a critical component of the local service approach. But what are the chief elements of ‘community sustainability’ (as distinct from financial sustainability) that comprise the essence of the local democracy approach?

Several clusters of factors suggest themselves. The first constellation of attributes will centre on the vibrancy of local democracy in the sense that it engages maximum public
participation. Local democratic processes obviously play a central role in overall council sustainability and these include democratic ‘access’, ‘accountability’, ‘representativeness’ and ‘responsiveness’ outlined by Aulich (2005).

The second cluster of attributes revolves around local social capital and its relationship with local councils. Although little is known about the genesis of social capital, it seems to spring from a well-developed ‘sense of community’ and a ‘sense of place’ that flow from living in a relatively small community whose members interact frequently. While these abstract and somewhat ‘ethereal’ factors are very difficult to measure, this obviously does not diminish their importance.

The third constellation of factors that influence local government sustainability focuses on the capacity of local government. Local government cannot command the respect of its constituents if it is unable to effectively formulate agreed policy positions and implement these decisions into concrete action. The capacity of local government thus has two dimensions: Well-functioning elected leadership and sufficient administrative and technical expertise. These two attributes of local government capacity are crucial to council sustainability. In the first place, there must be effective functioning of an elected council free of personal rancour and disruptive factionalism. Some Australian literature has addressed this aspect of local councils empirically (see, for instance, Murray and Dollery 2005) and this work suggests that dysfunctional elected councils are the single most important cause of local government failure in NSW local government. This is hardly surprising since efficacious and cooperative elected councils represent the bedrock of ‘local choice and local voice’ that underpin local government leadership.

Each of these elements will now be considered in greater detail. Amongst other things, we will consider the problem of how these attributes are tackled by the LGAQ’s (2006) Size, Shape and Sustainability program and the Western Australian Local Government Association (WALGA, 2006) Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia by way of illustrative examples.
6.3. FACTORS INFLUENCING OVERALL LOCAL GOVERNMENT SUSTAINABILITY

The three constellations of factors identified above should not be regarded as definitive. With this caveat in mind, we now consider each cluster in turn.

Vibrancy of Local Government Democracy

Scholars of local government have charted a steady transformation in the nature of government within the local sector over the past decade. The term ‘governance’, which became fashionable in the late 1990s, has been used to describe the new relationship between government and the governed that emphasizes ‘steering’ and not ‘rowing’. Unfortunately, a confusing array of meanings has been attached to the term. In the present context, we adopt the definition advanced by Goodin (1996, p.7) in which governance represents ‘nothing less than the steering of society by officials in control of what are organizationally “the commanding heights” of society’.

Another way of approaching governance was formulated by Keohane and Nye (2000, p. 37): ‘By governance we mean the processes and institutions, both formal and informal, which guide and restrain the collective activities of a group’. Thus ‘government is the subset that acts with authority and creates formal obligations’. However, governance is not the exclusive domain of governments themselves, but also involves private organizations, nonprofit institutions, and a host of other social structures.

Denters and Rose (2005, p. 6) have described the new relationship between local government and its various client groups as follows:

These changes imply a dual challenge for local governments. On the one hand, the rise of more output-orientated, more demanding, more critical and more action-prone citizens forces local governments to improve their capacity for effective and efficient governance. In many respects this has made them more receptive for the adoption of many innovative management techniques and may have also have led to attempts to increase the system’s problem-solving capacity by engaging various actors from within the local community in
partnerships. On the other hand, new participatory demands and the partial
decline of traditional party linkages between local government and the local
community require municipalities to reconsider channels of communication
with the local community, and to consider new forms of local democracy.

Developing operational measures of the vibrancy of local democracy presents immense
conceptual problems that obviously cannot be resolved in the context of this Report.
However, if we consider the deliberations of two ongoing inquiries into Australian local
government systems, then this at least serves to highlight not only the implicit importance
of local democracy, but also provides at least some idea of the flavour of the discourse on
local democracy in contemporary Australian local government.

The Report Systemic Sustainability Study: In Your Hands - Shaping the Future of Local
Government in Western Australia, produced by WALGA (2006, p.1/2), stressed the
importance of ‘good governance’. It defined this quality as ‘the ability of local
government to operate with integrity and to assure the community that efficient and
effective management is applied in the community interest’. In the Western Australian
context, the Report argued that ‘good governance’ had not always been manifest in that
state, especially insofar as ‘large intergenerational equity transfers’ in asset management
had taken place and the general competence powers in the Western Australian Local
Government Act had not been fully understood. However, apart from these issues, the
Systemic Sustainability Study did not provide any indicators to measure this attribute of
local government.

The now defunct Queensland Size, Shape and Sustainability Guidelines Kit (LGAQ,
2006, Chapter 3) provided some implicit measures of good governance. For instance,
Indicator Category #4 deals with ‘standards of governance’ and proposes two indicators.
‘Decision Making and Management’ seeks to measure three formal aspects of the ‘level
of competence’ of a given council: ‘Corporate planning’; ‘risk management’; and
‘delegations’ (p.20). In a similar vein, ‘Accountability’ concerns itself with ‘how a
council accounts for its key activities and what systems and processes are in place to
support this accountability’ (p.21). Two separate indicators are put forward to gauge this kind of ‘accountability’: ‘Performance management’ as measured by the performance management process in place; and the ‘internal audit process’ as captured by the nature of the internal audit process.

It could also be argued that the *Size, Shape and Sustainability Guidelines Kit* (LGAQ, 2006, Chapter 3) contained some other measures that indirectly touch on good governance. For example, Indicator Category #3 focuses on ‘planning’. Two specific indicators are outlined: ‘Service coordination and efficiency’ which considers the question of whether ‘key infrastructure’ is ‘coordinated’ and yields ‘efficient services’ (p.18); and ‘growth management’ that attempts to gauge ‘how well a council is able to respond to and manage population growth impacting on its area’ (p.19).

Finally, the *Size, Shape and Sustainability Guidelines Kit* (LGAQ, 2006, Chapter 3) may have gathered information with a bearing on public participation under Indicator Category #2 that deals with ‘community of interest’. ‘The performance indicator ‘community engagement’ tries to evaluate ‘how well a council engages with its community’ (p.17) and suggests the use of ‘existing community surveys’, ‘current community engagement plans’, and the ‘community complaints register’. It should be noted that all three sources of information represent formal processes and thus act as proxy variables for ‘real’ or informal engagement.

**Local Social Capital and Local Government**

The concept of social capital is based on the notion that ‘social interactions matter’ since they ‘create social networks, foster trust and values, sustain norms and culture and create community’ (Quibria, 2003, p.19). Coleman (1990, p.302) conceived of social capital as analogous to ‘other forms of capital’ because it makes ‘possible the achievement of certain ends that would not be attainable in its absence’. In much the same vein, Putnam (1993, p.7) defined social capital as ‘features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions’.

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The key components of social capital identified by all these scholars are ‘networks of civic engagement’, ‘norms of generalized reciprocity’, and ‘relations of social trust’. Quite apart from the significance of social capital for economic development and social integration, it also has important public policy implications for local government. Various mechanisms have been proposed that link the performance of local councils to social capital. In the first place, Putnam (1993) argued that municipal performance may be enhanced by high levels of social capital since it encourages greater monitoring of the behaviour of council officials. This process occurs directly because council employees care about their reputations with people among whom they interact frequently. It also occurs indirectly because monitoring council performance is a public good and thus prone to the well-known free rider problem in collective action; social capital assists in overcoming free riding.

If Putnam (1993) is correct in identifying informal performance monitoring as the link between local government performance and social capital, then what are the policy implications of this view for Western Australian local government in general and WESROC councils in particular? We have seen that social capital is likely to be high when people interact frequently with each other. Moreover, the reputational impact of monitoring by people who have regular dealings with the council employees in question will be stronger than in the case of comparative strangers. It follows that small councils in comparatively small local government areas characterized by comparatively small populations will be the most effective in fostering social capital, frequent interaction between council workers and elected representatives and the public, and thereby more efficacious monitoring of council performance. Any policy which serves to weaken these local councils, such as the forced amalgamation, will thus threaten local social capital.

A second mechanism that may link social capital to the performance of local governments was suggested by Putnam (1993; 2000), Aarts (1995) and other scholars. It is argued that various factors, especially increased urbanization, have contributed to a decline in organizational participation by citizens. This in turn has led to a reduction in
the linkages between the public and local authorities and altered the relationship between the two for the worse.

Unfortunately, little is known about the empirical attributes of social capital and therefore on appropriate policy responses to increase social capital. However, some work has been done on this aspect of social capital. For instance, in *Bowling Alone*, Putnam (2000) established evidence that points to a decline in social capital in the United States over the past three decades. Similarly, Knack and Keefer (1997) found that social capital is a measurable determinant of economic performance in international terms.

In addition to this international empirical literature on social capital, some Australian work has focused on social capital in regional and rural communities that can shed at least some light on the question. For instance, Woodhouse (2006) conducted a comparative study of two anonymous ‘regional towns’ and found that high levels of social capital facilitated local economic development and this process can best be stimulated by policy measures aimed at integrating these communities with broader partnerships and policy debates. Other Australian scholars, including Onyx and Bullen (2000), Sobels, Curtis and Lockie (2001) and Leigh (2006), have arrived at analogous conclusions. However, to date (and to the best of our knowledge) unfortunately no Australian study has focused exclusively on the relationship between effective local councils and social capital.

The empirical basis for policy formulation on local government and social capital is thus very limited. This necessarily means that any policy proposals must be speculative. But it does seem clear that small communities in small local government areas are best placed to engender high levels of social capital since interaction between citizens and local government representatives and employees will be higher under these circumstances. Furthermore, it is highly likely that a well-developed ‘sense of community’ and a ‘sense of place’ will be most pronounced in small local government areas where people are acquainted with a relatively high proportion of their fellow citizens.
What implications do these speculative hypotheses have for local government reform in general aimed at enhancing sustainability? Consider the example of the now defunct Queensland Size, Shape and Sustainability program. The Guidelines Kit (LGAQ, 2006, Chapter 1, p.6) prescribed four ‘options for change’ that could be followed by local councils: ‘Resource sharing through service agreements’; ‘resource sharing through joint enterprise’; ‘significant boundary change’; and the ‘merger/amalgamation of adjoining councils’. The last two of these options involve modification to the size, shape and population of an affected local government area and thereby could influence adversely both the ‘sense of community’ and a ‘sense of place’ among residents. In this respect, these two options might serve to reduce social capital, damage the associated monitoring aspect of social interaction, and thus impair the efficacy of local government. Since both forms of resource sharing leave the boundaries and population of a participating local council intact, it can be argued that they will leave both the ‘sense of community’ and a ‘sense of place’ untouched.

Local Government Capacity
In section 6.2, it was argued that local government capacity had two separate dimensions. Firstly, the political capacity derived from the democratic legitimacy and effective decision making abilities of elected representatives comprising local councils. Although no comprehensive empirical research has yet been undertaken in Australian local government, both casual empiricism and research in progress at the Centre for Local Government at the University of New England suggest that the primary cause of the failure and ultimate dissolution of local councils by state governments lies in dysfunctional elected councils rather than financial distress and other problems. Where councils are plagued by bitter personal animosities, ‘infighting’ between councillors, intransient factionalism, and disruptive meetings, ‘policy gridlock’ typically occurs that can effectively stall the smooth running a local authority. A secondary effect of dysfunctional elected councils resides in the loss of public confidence in their elected representatives and a diminution of collaborative partnerships between community organizations and local government. In other words, the most important element in local government sustainability can be found in cooperative functional elected bodies.
It follows that any attempt to assess the long-run viability should first establish whether sound relations exist between both mayors and elected councillors and amongst elected representatives themselves. In practice, this can only be established by observing the workings of council meetings and the relationships between elected representatives. No abstract performance indicator can replace observation and judgment.

In its *Systemic Sustainability Study* (WALGA 2006) stressed the importance of effective and cohesive elected councils. It emphasized the key role of ‘leadership capacity’ by observing that ‘the experience, competence, and passion of elected members’ is essential ‘to represent the desires and aspirations of local communities’ (WALGA, 2006, p.2). However, no definite statistical measures were proposed to assess empirically these attributes.

The administrative and technical ability of council staff forms the second dimension of local government capacity. The importance of this type of council capacity can hardly be overstated. In this regard, Dollery, Crase and Johnson (2006, p.148) made the following observation: ‘A proposition sometimes advanced in the Australian debate over amalgamation is that larger councils tend to have greater levels of administrative and other expertise, in part due to the fact that their size permits the employment of specialist skills that cannot be readily acquired by smaller municipalities’. But they hasten to add that while this argument has ‘considerable merit’, partnership agreements between small councils can achieve the same outcome in terms of acquiring specialist skills.

The *Systemic Sustainability Study* (WALGA, 2006, p.2) also underlined the importance the capacity of local government employees to the efficient functioning of local councils. Insufficient administrative capacity in Western Australia had resulted in two identifiable problems. Firstly, ‘innovation’ had occurred in the local government sector in that state, but had not been implemented ‘from a systematic perspective’. Secondly, ‘asset management practice’ was unsatisfactory and had masked ‘exposures for communities and councils’.

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The question of whether or not an individual council is sustainable by virtue of its administrative and technical expertise can only be settled with certainty by empirical examination of staffing levels relative to need. In this sense, local government administrative capacity is amenable to measurement through selected performance indicators. For instance, an informative ratio could compute the proportion of vacancies for professional and technical staff. This would provide a simple and robust statistic that would allow for comparisons between different councils.

By contrast, the Size, Shape and Sustainability Guidelines Kit (LGAQ, 2006, Chapter 3) did at least attempt to provide measurable estimates of council sustainability in human resources. For example, the ‘Human Resourcing’ indicator considers factors, such as ‘staff turnover rates’.

6.4 CONCLUDING REMARKS
Chapter 6 has argued that not only does ‘financial sustainability’ have no agreed meaning in Australian local government, but also it represents only a single dimension of overall council sustainability. Indeed, both anecdotal evidence and ongoing (as yet unpublished) research at the Centre for Local Government at the University of New England suggest that the primary cause of local government failure lies in ‘infighting’ in elected councils and related ‘policy gridlock’. This means that an accurate assessment of aggregate ‘overall sustainability’ in local government must also include other attributes of contemporary local authorities.

Apart from the intractable difficulties in determining financial sustainability, two main problems have been identified with evaluating overall local government sustainability. In the first place, the abstract and ephemeral nature of the concept of overall sustainability makes it hard to define with any degree of precision. Many factors clearly play an important role: Local government democracy; local government capacity; ‘sense of place’; ‘community sustainability’; local social capital; local preference diversity; local leadership; and local economic development all seem relevant.
In Chapter 6, we have argued that three main ‘clusters’ of attributes of overall local council sustainability seem apposite: The ‘vibrancy of local democracy’ that has become even more essential in the new local governance paradigm; ‘local social capital’ that can enhance the good working of effective local authorities; and ‘local government capacity’ in both the political and technical aspects of local governance. However, given the exploratory nature off the analysis, this tripartite classification may not be exhaustive. Other factors could also easily be included, perhaps most notably ‘environmental sustainability’.

However, an obvious constraint on the inclusive of a large ‘wish list’ of additional attributers of overall sustainability is the extent of council control over these factors. For example, in the Australian federal system of government, several functions formally handled by local government are in fact strictly governed by state and Commonwealth regulation and their effective discharge often determined by finance controlled by these higher tiers of government. Local government thus has little discretionary power of these functions, regardless of how well it operates. It is therefore misplaced to seek to embrace attributes of overall sustainability that councils cannot influence and then evaluate councils on this basis.

A second constraint on the determination of overall local government sustainability resides in the thorny problem of measurement. The three clusters of overall sustainability proposed in Chapter 6 - the ‘vibrancy of local democracy’, ‘local social capital’ and ‘local government capacity’ – cannot be measured directly. This means that proxy variables must be used to try to capture key elements of these clusters and none of these variables is exact. It follows that subjective judgment and inference are unavoidable.

Despite the obvious need to evaluate local government sustainability from a broader perspective than simply financial sustainability, these two problems seem to have deterred some earlier state local government sustainability investigations from adopting this wider perspective. As Dollery and Crase (2006) have shown, both the South
Australian Financial Sustainability Review Board’s (2005) *Rising to the Challenge* and the Financial Sustainability of NSW Local Government’s (2006) *Are Councils Sustainable* pay lip service to the importance of overall sustainability, but do not attempt to assess it in their work. By contrast, to their credit, the LGAQ’s (2006) *Size, Shape and Sustainability* program and WALGA’s (2006) *Systemic Sustainability Study: In Your Hands - Shaping the Future of Local Government in Western Australia* do at least recognize that financial sustainability alone is insufficient.
PART C: WESROC

CHAPTER 7: CHARACTERISTICS OF WESROC COUNCILS

7.1. INTRODUCTION
Chapter 7 provides a statistical analysis of the characteristics of the six member councils of WESROC and seeks to place them in a regional framework. In so doing, Chapter 7 highlights the key features of the western Perth suburbs, describes the demographic characteristics of the area and examines basic information on the WESROC member councils themselves. Chapter 7 is intended to ‘set the scene’ for the ensuing chapters in Part C of this Report which will use the information contained in Chapter 7 to assess the impact of any proposed amalgamation on the quality of services provided to the local communities in western Perth in the longer term, consider the applicability of the WALGA Regional Model, and evaluate alternative approaches to improving the efficiency and effectiveness of WESROC councils.

Chapter 7 is divided into six main parts. Section 7.2 profiles each individual council in the WESROC region. Section 7.3 analyses the demographic composition of these councils as well as considering the types of industries operating in WESROC region and the major sources of employment for its residents. Section 7.4 contains a preliminary discussion of the WESROC councils themselves and sets the scene for the detailed analysis contained in the remainder of Part C of this Report. Section 7.5 examines the future growth and prospects for the WESROC councils. Chapter 7 ends with some brief evaluative comments in section 7.6. An Appendix to Chapter 7 contains salient information on the Town of Cambridge.

7.2 COUNCIL PROFILES
WESROC is made up of the six councils, located in metropolitan western Perth, comprised of the Town of Claremont, the Town of Cottesloe, the Town of Mosman Park, the City of Nedlands, the Shire of Peppermint Grove and the City of Subiaco. These councils incorporate the suburbs of Claremont, Cottesloe, Crawley (part), Daglish,
Dalkeith, Floreat (part), Jolimont (part), Karrakatta, Mosman Park, Mount Claremont, Nedlands, Peppermint Grove, Shenton Park, Subiaco and Swanbourne. As we can see in Figure 7.1, the group of councils in question is bordered by the Swan River to the South, the Town of Cambridge to the north, and the City of Perth on the eastern boundary, while the Indian Ocean marks the western border of the region. The WESROC region has a total estimated population of 64,164 people living in an area spanning about 42 square kilometres.

**Figure 7.1: Map of the WESROC group of councils**

From Figure 7.1 it is evident that the WESROC group of local councils consists of a comparatively small population in a spatially compact area unafflicted by the ‘tyranny of distance’ so often plaguing Australian local government.

Figure 7.2 provides the absolute and percentage population in each of the member councils in WESROC. Based on these population statistics, Nedlands has the largest population with 21,181 people, representing around 33 per cent of the total WESROC regional population. Subiaco is the next largest community representing some 27 per cent
of the WESROC region with a population of 17,103, and it is more than twice the size of the next largest council Claremont, which has a population of 8,873. Two other WESROC councils have similar data to Claremont; Mosman Park with a population of 8,214 persons, representing about 13 per cent of the total regional population, and Cottesloe with its population of 7,223 people amounting to some 11 per cent. By contrast, Peppermint Grove is by far the smallest council in the WESROC region with 1,570 people representing around 2 per cent of the regions population.

Figure 7.2: Population of the WESROC Group of Councils

<table>
<thead>
<tr>
<th>Council</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subiaco</td>
<td>17,103</td>
<td>27%</td>
</tr>
<tr>
<td>Peppermint Grove</td>
<td>1,570</td>
<td>2%</td>
</tr>
<tr>
<td>Clarmont</td>
<td>8,873</td>
<td>14%</td>
</tr>
<tr>
<td>Cottesloe</td>
<td>7,223</td>
<td>11%</td>
</tr>
<tr>
<td>Mosman Park</td>
<td>8,214</td>
<td>13%</td>
</tr>
<tr>
<td>Nedlands</td>
<td>21,181</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: id.consulting Pty Ltd (2008 a-f)

Against this broad background, we now present a brief synoptic description of each of the individual WESROC councils (in alphabetical order).

7.2.1 Town of Claremont

The Town of Claremont is located 9 kilometres from the Perth General Post Office, with a population of 8,873 people residing in an area of 4.9 square kilometres. The Town of Claremont is bounded by the City of Nedlands in the north-west, north and east, the Swan River and the Shire of Peppermint Grove in the south and the Town of Cottesloe in the south-west. Claremont’s boundaries consist of Narla Road and Alfred Road in the north,
Brockway Road, Loch Street, Bay Road, Princess Road, Bay Road, Melvista Avenue and Stone Road in the east, Raven Lane, the Swan River and Airlie Street in the south and the Stirling Highway, Parry Street, the railway line and the West Coast Highway in the west. The Town of Claremont includes most of the suburb of Claremont and part of the suburb of Swanbourne. The Town of Claremont is a predominantly a residential area, with some parklands and commercial areas within its boundaries (id.consulting Pty Ltd 2008a:3).

According to the Town of Claremont’s Plan for the Future 2006-2010 (Town of Claremont 2006:4), the council has the following ‘key objectives’:

- Claremont should a ‘positive example’ to other communities of integration between built and natural environments;
- Claremont should develop ‘a beautiful, green environment’ which presents a clear identity for the Town;
- Claremont should ensure that it is ‘accessible and safe’;
- Claremont welcomes ‘diversity’ in its community and desires a ‘harmonious, enjoyable and active community’ where residents will have a strong sense of belonging;
- Claremont encourages the business community to be ‘vibrant, successful, and integrated’ into the life of the Town;
- Claremont seeks to provide ‘open and accountable’ government which encourages community involvement and strives to keep its community well informed;
- Claremont desires to develop and manage the assets of the Town to the best of its ability and preserve its heritage for the enjoyment of the community;
- Claremont desires ‘a dynamic, achievement oriented, forward looking and caring organisation that strives for excellence’. It is committed to sound financial management; and
- Claremont seeks to create ‘a community based around a village concept’.

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7.2.2 Town of Cottesloe

The Town of Cottesloe is located about 12 kilometres from the Perth General Post Office. Cottesloe has a relatively affluent population of 7,223 people who come from a range of social and cultural backgrounds and reside in an area of around 4 square kilometres. The Town of Cottesloe is bounded by the City of Nedlands in the north, the Town of Claremont and the Shire of Peppermint Grove in the east, the Town of Mosman Park in the south and the Indian Ocean in the west. Cottesloe’s boundaries consist of North Street in the north, the West Coast Highway, the railway line and Parry Street in the east, and the Stirling Highway in the south. The Town of Cottesloe includes the suburb of Cottesloe and a small segment of the suburb of Claremont. Cottesloe is a predominantly residential area, with some commercial areas and parklands (id.consulting Pty Ltd 2008b:3).

Cottesloe is renowned for its beaches, superb ocean views, Norfolk Island pines, relaxed restaurants and cafes, all serving to create a pleasant ‘village’ lifestyle. In line with these features, Cottesloe offers a variety of recreational activities, including swimming, fishing, snorkelling, picnic areas, walking and cycling, which attract many local, metropolitan and international visitors. Its suburbs are characterised by a mixture of heritage buildings and modern housing. A wide range of community services are close at hand with long-established libraries, medical and hospital services, educational facilities, social and sporting clubs.

The Cottesloe area offers a varied shopping experience. Along with the larger Cottesloe Central shopping complex, the ‘village’ character of Napoleon Street, Station Street and the beachfront shops provides Cottesloe a pleasant social milieu. In particular, there are a number of cafes, restaurants and hotels all within walking distance of residences, parking and public transport.

7.2.3 Town of Mosman Park

The Town of Mosman Park is located 14 kilometres from the Perth General Post Office. Mosman Park has a population of 8,214 people residing in an area of about 4.3 square
kilometres. It is bordered by the suburbs of Cottesloe, Peppermint Grove and North Fremantle and is unique in having the Indian Ocean on its western boundary and the shores of the Swan River as its eastern boundary. The Town of Mosman Park is made up entirely of the suburb of Mosman Park. Small-scale industrial and commercial activity supplements a diverse mix of residential development, including some of the most exclusive property in Western Australia. In essence, the Town of Mosman Park is a predominantly residential area, with some commercial areas and parklands. Mosman Park is named after Mosman in Sydney.

Mosman Park’s largest industry resides in its educational establishments. Within the Council’s boundaries the council area has six schools of which three have boarding facilities.

A variety of sporting activities are catered for in Mosman Park, including lawn bowls, football, soccer, tennis, cricket and netball. Facilities for the performing arts are also available and are promoted vigorously by a Community Arts Foundation.

7.2.4 City of Nedlands

The City of Nedlands is located 6 kilometres from the Perth General Post Office. Nedlands has a population of 21,181 people residing in an area of 20.6 square kilometres, making the City of Nedland the largest council in the region in both area and population. The City of Nedlands is bounded by the Town of Cambridge in the north, the City of Subiaco in the east, the Swan River and the Towns of Claremont and Cottesloe in the south and the Indian Ocean in the west. The City’s boundaries comprise the Campbell Army Barracks, West Coast Highway, the northern edge of Cottesloe Golf Club, a line running through Bold Park, Underwood Avenue, Brookdale Street and Alderbury Street in the north, Selby Street, Lonnie Street, the railway line, Aberdare Road, Hospital Avenue, Monash Avenue, Hampden Road and Broadway in the east, the Swan River, Raven Lane, Stone Road, Melvista Avenue, Bay Road, Princess Road, Bay Road, Loch Street, Brockway Road, Alfred Road, Narla Road, West Coast Highway and North Street in the south and the Indian Ocean in the west (id.consulting Pty Ltd 2008d:3).
The City of Nedlands includes the suburbs of Dalkeith, part of Floreat, Karrakatta, Mount Claremont, part of Nedlands, part of Shenton Park and sections of Swanbourne. The City of Nedlands is a predominantly residential area, with some commercial, industrial, institutional and military land uses. Cultural events form an integral part of the lifestyle of Nedland’s residents, with numerous summer concerts in the area’s parks and along the riverfront as well as regular art exhibitions.

7.2.5 Shire of Peppermint Grove

The Shire of Peppermint Grove is located 13 kilometres from the Perth General Post Office. Peppermint Grove has a population of 1,570 people residing in an area of 1.5 square kilometres, making Peppermint Grove the smallest council in spatial terms in Western Australia. The Shire of Peppermint Grove is bounded by McNeil Street and the Town of Claremont in the north, the Swan River in the east, Johnston Street and the Town of Mosman Park in the south and the Stirling Highway and the Town of Cottesloe in the west. The Shire of Peppermint Grove is made up entirely of the suburb of Peppermint Grove. Peppermint Grove is a predominantly residential area.

Peppermint Grove is considered one of the Western Australia’s most beautiful suburbs. In particular, it is famous for its large ‘character’ homes set in tranquil tree-lined streets and parks located alongside the Swan River. The Peppermint Grove local government area encompasses the river and foreshore parks often used for recreational purposes. It is serviced by a major shopping complex and extensive range of retail as well as trade services. The Council jurisdiction includes the Freshwater Bay Recreational Jetty, boating jetty, and the foreshore beach reserve; the Royal Freshwater Bay Yacht Club; the Keane’s Point parkland incorporating children’s play equipment, boat launching ramp, grassed open space and barbeque facilities; the Peppermint Grove Tennis Club; Cottesloe Primary School; Presbyterian Ladies College; Cottesloe- Peppermint Grove-Mosman Park Library; and Cottesloe Central Shopping Centre.
7.2.6 City of Subiaco

The City of Subiaco borders the City of Perth around 3 kilometres from the Perth General Post Office. Subiaco has a population of 17,103 people residing in an area of 7.1 square kilometres. The City of Subiaco is bounded by the Town of Cambridge in the north, the City of Perth and Kings Park in the east, the Swan River in the south and the City of Nedlands in the west. The City’s boundaries are comprised by Dakin Street, Hay Street, Peel Street, a line running continuous of Hart Lane, Hart Lane, Salvado Road and the railway line in the north, Thomas Street, Winthrop Avenue and the Swan River in the east, Broadway, Hampden Road, Monash Avenue, Hospital Avenue and Aberdare Road in the south and the railway line, Lonnie Street and Selby Street in the west. The City of Subiaco includes the part of the suburb of Crawley, Daglish, part of Jolimont, part of Nedlands, part of Shenton Park and Subiaco.

Subiaco has much offer residents and visitors alike, including fashion outlets, a vast array of restaurants and cafes, as well as many attractions, such as galleries, museums and theatres and two markets. In addition, Subiaco features an exciting nightlife with a range of bars, clubs and pubs. Subiaco is also known for the beautiful trees in its streets, public parks and private gardens. This aspect of the local environment gives City of Subiaco a distinctive ‘leafy’ character. The City of Subiaco is the home of Western Australian Australian Rules football with Subiaco Oval. The Subiaco Oval also provides a leading venue for interstate and international performers.

7.3 DEMOGRAPHIC CHARACTERISTICS

As we have seen, the WESROC comprises six local government areas with in a total area of 42 square kilometres. The estimated resident population is 64,164 persons, representing around 3.3 per cent of the total Western Australian population of 1,959,088 persons (ABS 2007).

According to id.consulting (2008g: 5), the population of the WESROC has increased by 2,032 persons (or 3.3 per cent) between the 2001 and the 2006 census. Within the WESROC region, each member council experienced a net gain in population, except for
the City of Nedlands which recorded a small drop of 157 people or around 0.7 per cent. The largest increase in population was experienced in the City of Subiaco, which gained 1,430 residents representing a significant increase of 9.1 per cent. This was followed by the Town of Mosman Park which accrued 353 additional people (4.5 per cent); the Town of Mosman Park Cottesloe gaining 236 persons (3.4 per cent); the Town of Mosman Park Claremont increasing its population by 140 residents (1.6 per cent); and the Shire of Peppermint Grove growing by 30 persons (1.9 per cent).

Appendix 1 provides a statistical overview of the demographic characteristics of each council in the WESROC area. All six WESROC councils are located in what the Australian Bureau of Statistics classifies as ‘major cities’. The councils have a slightly older population, compared to the Perth Statistical Division, with a smaller proportion of people in the younger age groups (0 to 17), but a larger proportion of people in the older age groups (60+). In total, 21.7 per cent of the population was aged between 0 and 17, and 21.0 per cent were aged 60 years and over, compared with 24.1 per cent and 16.4 per cent respectively for the Perth Statistical Division (id.consulting Pty Ltd 2008g: 6). The major differences between the age structure of the WESROC area and the Perth Statistical Division were as follows (according to id.consulting Pty Ltd (2008g: 6)):

- A larger percentage of persons aged 85 and over (3.2 per cent compared to 1.5 per cent);
- A smaller percentage of 25 to 34 year olds (11.3 per cent compared to 13.5 per cent);
- A smaller percentage of 35 to 49 year olds (20.2 per cent compared to 22.4 per cent); and
- A smaller percentage of 5 to 11 year olds (7.5 per cent compared to 9.2 per cent).

Table 7.1 provides information on the unemployment rate in the WESROC council area for the June quarter 2006. The average unemployment rate for the Division was 3.5 per cent. This unemployment rate is significantly lower than that recorded for Western Australia as a whole (at 5.0 per cent for the period in question), indicating an acute scarcity of labour in the immediate area. In the June quarter 2006, the highest
unemployment rates in the region were recorded in Mosman Park at 6.0 per cent, marginally above the state average at that time. The lowest unemployment rates were in the City of Nedlands (2.4 per cent), the Town of Cottesloe (2.6 per cent) and the Town of Claremont (2.7 per cent).

Table 7.1: Labour Force Status by Local Government Area, June Quarter 2006

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Unemployment rate (smoothed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Raw number</td>
</tr>
<tr>
<td>Town of Claremont</td>
<td>133</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>118</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>276</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>277</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>26</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>367</td>
</tr>
<tr>
<td>Total/Ave</td>
<td>1,197</td>
</tr>
</tbody>
</table>

Source: ABS 2006a-f

Table 7.2 provides an analysis of the average individual annual taxable income for the year ended 30 June 2003 for each council in the WESROC region. Average individual taxable income as at June 30, 2003 varied from a high of $72,878 in the Shire of Peppermint Grove to a low of $59,563 in the City of Subiaco.

Table 7.2: Average Individual Annual Taxable Income, 30 June 2003

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Average taxable income $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Claremont</td>
<td>68,739</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>72,766</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>63,561</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>70,330</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>72,878</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>59,563</td>
</tr>
</tbody>
</table>

Source: ABS 2006a-f
Most (at 56 per cent) individual personal income in the region was derived from wages and salaries. For individual council areas this ranged from 51 per cent in the Town of Mosman Park to 66.5 per cent in the City of Subiaco. The next largest source of personal income, at less than half the amount earned from wages and salaries, was derived from investments (26 per cent). For individual councils, this ranged from 15.5 per cent in the City of Subiaco to a high of 33.9 per cent in the Town of Mosman Park. The remainder of the region’s personal income was derived from own unincorporated business (9 per cent), government cash benefits (4 per cent), superannuation and annuity (3 per cent), with other income sources representing 2 per cent of ‘personal source’ income. The sum of this personal income from all areas amounted to around $2,152 million.

Since most residents in the WESROC region generated a majority of their income from wages and salaries, it is therefore worth considering the economic activities in which people earned this income. Table 7.3 indicates that over half (51.7 per cent) of the working population, or 15,151 people, in the region, are employed in health care and social assistance (16.4 per cent); professional, scientific and technical services (14.7 per cent); education and training (11.3 per cent); and in retail trade (9.3 per cent). The remainder of the population (48.3 per cent) is spread over a large variety of industries.
Table 7.3: Employment by Industry for WESROC Region

<table>
<thead>
<tr>
<th>Industry</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry &amp; Fishing</td>
<td>253</td>
<td>0.9</td>
</tr>
<tr>
<td>Mining</td>
<td>1,111</td>
<td>3.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1,271</td>
<td>4.3</td>
</tr>
<tr>
<td>Electricity, Gas, Water and Waste Services</td>
<td>229</td>
<td>0.8</td>
</tr>
<tr>
<td>Construction</td>
<td>1,225</td>
<td>4.2</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>2,722</td>
<td>9.3</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>839</td>
<td>2.9</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>1,949</td>
<td>6.7</td>
</tr>
<tr>
<td>Transport, Postal and Warehousing</td>
<td>422</td>
<td>1.4</td>
</tr>
<tr>
<td>Information Media and Telecommunications</td>
<td>471</td>
<td>1.6</td>
</tr>
<tr>
<td>Financial and Insurance Services</td>
<td>1,346</td>
<td>4.6</td>
</tr>
<tr>
<td>Rental, Hiring and Real Estate Services</td>
<td>841</td>
<td>2.9</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Services</td>
<td>4,299</td>
<td>14.7</td>
</tr>
<tr>
<td>Administrative and Support Services</td>
<td>787</td>
<td>2.7</td>
</tr>
<tr>
<td>Public Administration and Safety</td>
<td>1,599</td>
<td>5.5</td>
</tr>
<tr>
<td>Education and Training</td>
<td>3,313</td>
<td>11.3</td>
</tr>
<tr>
<td>Health Care and Social Assistance</td>
<td>4,817</td>
<td>16.4</td>
</tr>
<tr>
<td>Arts and Recreation Services</td>
<td>509</td>
<td>1.7</td>
</tr>
<tr>
<td>Other Services</td>
<td>626</td>
<td>2.1</td>
</tr>
<tr>
<td>Inadequately described or Not stated</td>
<td>677</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29,306</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: id.consulting Pty Ltd 2008g

7.4 SYNOPTIC STATISTICAL REVIEW OF THE WESROC COUNCIL ORGANISATIONS

7.4.1 Local Democracy and Local Representation

A noteworthy characteristic of each of the six WESROC councils under review is that they all provide a very effective level of representation within their respective local communities. This serves to enhance the capacity of these councils to provide more personalized and responsive services to their residents. Indeed, all of the WESROC councils are consciously proud of their ability to represent their residents in a meaningful and immediate way. This in turn appears to have led to general satisfaction with the quantity and quality of local services provided. Personalised attention to the ‘customer’
seems central to local government in the WESROC region, which contrasts starkly with large impersonal local council bureaucracies in much of metropolitan Australia.

Table 7.4 considers the level of elected representation within the WESROC region. Table 7.4 indicates that the Shire of Peppermint Grove has the highest level of representation with one elected councillor per 224 persons, compared to the City of Nedlands, which has one councillor representing 1,629 people. Across the WESROC region there are a total of 61 elected officials in six councils representing 64,164 people. On average there is thus one councillor per 1,052 persons.

Table 7.4: Comparative Representation in WESROC Councils

<table>
<thead>
<tr>
<th>Council</th>
<th>Population</th>
<th>No of Councillors</th>
<th>Level of Representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Claremont</td>
<td>8,873</td>
<td>10</td>
<td>887</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>7,223</td>
<td>11</td>
<td>657</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>8,214</td>
<td>7</td>
<td>1,173</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>21,181</td>
<td>13</td>
<td>1,629</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>1,570</td>
<td>7</td>
<td>224</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>17,103</td>
<td>13</td>
<td>1,316</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64,164</strong></td>
<td><strong>61</strong></td>
<td><strong>1,052</strong></td>
</tr>
</tbody>
</table>

7.4.2 Local Government Finance

Five Key Performance Indicators are generally used in the analysis of Australian local government in order to evaluate the financial state of any given local council. These Key Performance Indicators are:

- **Rates Coverage Ratio**: This ratio shows the percentage of a council’s total operating income that is derived from rates and charges. It thus indicates reliance on rates and charges (or internally generated income) as opposed to other external income (such as grants and subsidies). In general, the greater the reliance on this former stream of income (i.e. rates and charges), the more financially sustainable the council is held to be and the greater control it has over its sources of income.

- **Operating Efficiency Ratio**: This ratio measures a local council’s operating income relative to its operating expenditure. A ratio of greater than one indicates
that the council in question receives more operating income than it commits to operating expenditure and thereby achieves an operating surplus.

- **Current Ratio:** This ratio measures a council’s current assets (e.g. cash and inventory) relative to its current liabilities (e.g. creditors) and thereby highlights its ability to meet current commitments. A ratio of greater than two is considered acceptable. This implies that the local council has more than $2 worth of current assets to pay for each $1 worth of current liabilities.

- **Asset Renewal Ratio:** This ratio compares a local council’s capital expenditure for a given financial year relative to its depreciation expenditure in that year. It is designed to measure whether the council in question is replacing its assets at least at the rate at which they are deteriorating. A ratio of greater than one indicates that this is indeed being achieved.

- **Debt Servicing Ratio:** This ratio shows the percentage of operating income used to service debt repayments. A low percentage indicates that debt repayments are not considered to be a burden on the council as well as providing it with the potential to borrow to fund asset renewals.

Table 7.5 displays the respective WESROC member councils’ performance against these five Key Performance Indicators:

**Table 7.5: Key Financial Ratios for WESROC Councils, Fiscal Year 2006/07**

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Rates Coverage Ratio</th>
<th>Operating Efficiency Ratio</th>
<th>Current Ratio</th>
<th>Asset Renewal Ratio</th>
<th>Debt Servicing Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Claremont</td>
<td>61.2%</td>
<td>102.8%</td>
<td>0.997</td>
<td>3.16</td>
<td>0.00%</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>54.0%</td>
<td>103.3%</td>
<td>2.55</td>
<td>2.82</td>
<td>0.01%</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>65.6%</td>
<td>114.2%</td>
<td>1.38</td>
<td>3.16</td>
<td>3.47%</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>53.3%</td>
<td>105.9%</td>
<td>1.34</td>
<td>1.59</td>
<td>10.19%</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>48.3%</td>
<td>96.2%</td>
<td>0.991</td>
<td>1.60</td>
<td>0.00%</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>34.5%</td>
<td>124.1%</td>
<td>1.690</td>
<td>1.85</td>
<td>3.11%</td>
</tr>
</tbody>
</table>

Table 7.5 has several notable features. Firstly, the results of this financial analysis vary widely for different councils. For instance, two of the councils (Claremont and
Peppermint Grove) have no debt, while the City of Nedlands has the highest debt servicing ratio in the WESROC group at 10.19 per cent, which is still below acceptable industry standards. All councils, except for Peppermint Grove, have recorded a positive operating efficiency ratio. In addition, Claremont and Peppermint Grove recorded a current ratio of just less than one (i.e. had more current liabilities than current assets). Only Cottesloe recorded a working capital ratio above two.

According to the WESROC group of councils’ fiscal 2006/07 financial statements, these councils raised ordinary revenues totalling $76.2 million during the financial year ending June 30 2007. The total revenue from the WESROC region included $41.7 million (54.6 per cent) from rates; $16.8 million (22.0 per cent) in fees and charges; $5.6 (7.3 per cent) from grants and subsidies; $4.0 million (5.2 per cent) in interest receipts; a similar amount in service fees; $3.0 million (4.0 per cent) in contributions, reimbursements and donations; while $1.2 million (1.5 per cent) in what is classified as ‘other income’.

Figure 7.3 provides a further decomposition of the sources of the income for each individual council. Figure 7.3 shows that total income ranges from $2.5 million at the Shire of Peppermint Grove to $27.2 million in the City of Subiaco. Within this total income, rate income ranges from $1.4 million at the Shire of Peppermint Grove to $11.7 million in the City of Nedlands, while grant income ranges from $76,244 at the Shire of Peppermint Grove to $3.1 million in the City of Subiaco.
Figure 7.3: WESROC Council Revenue, 2006/07

<table>
<thead>
<tr>
<th>Council</th>
<th>Revenue Components</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Town of Claremont</strong></td>
<td>Fees &amp; Charges: 2,791,359, 27%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Earnings: 389,495, 4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contr, Rent &amp; Donations: 147,598, 1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grants &amp; subsidies: 345,910, 3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rates: 6,437,078, 65%</td>
<td></td>
</tr>
<tr>
<td><strong>Town of Cottesloe</strong></td>
<td>Fees &amp; Charges: 1,205,616, 17%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Earnings: 191,035, 3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contr, Rent &amp; Donations: 189,750, 3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rates: 5,385,454, 74%</td>
<td></td>
</tr>
<tr>
<td><strong>Town of Mosman Park</strong></td>
<td>Fees &amp; Charges: 1,587,289, 20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Earnings: 207,546, 4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contr, Rent &amp; Donations: 418,990, 5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grants &amp; subsidies: 328,571, 4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rates: 5,141,155, 67%</td>
<td></td>
</tr>
<tr>
<td><strong>City of Nedlands</strong></td>
<td>Fees &amp; Charges: 3,387,851, 16%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Earnings: 978,592, 5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service Charges: 1,974,630, 9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contr, Rent &amp; Donations: 1,268,487, 5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rates: 11,776,208, 54%</td>
<td></td>
</tr>
<tr>
<td><strong>Shire of Pertermint Grove</strong></td>
<td>Fees &amp; Charges: 213,680, 9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Earnings: 80,245, 4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contr, Rent &amp; Donations: 142,254, 26%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grants &amp; subsidies: 78,344, 3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rates: 1,397,220, 55%</td>
<td></td>
</tr>
<tr>
<td><strong>City of Subiaco</strong></td>
<td>Fees &amp; Charges: 7,662,606, 28%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Earnings: 2,071,380, 8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service Charges: 2,030,439, 7%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contr, Rent &amp; Donations: 555,899, 2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rates: 11,560,759, 40%</td>
<td></td>
</tr>
</tbody>
</table>

Source: ABS 2006a-f; ABS 2008
Figure 7.4: WESROC Council Expenditure, 2006/07

Town of Claremont
- Employee Costs: 4,317,347, 45%
- Materials & Contracts: 3,819,008, 42%

Town of Cottesloe
- Employee Costs: 2,813,644, 35%
- Materials & Contracts: 2,500,586, 37%

Town of Mosman Park
- Employee Costs: 7,546,899, 37%
- Materials & Contracts: 5,941,477, 21%

City of Nedlands
- Employee Costs: 7,546,899, 37%
- Materials & Contracts: 5,941,477, 21%

Shire of Peppermint Grove
- Employee Costs: 1,087,367, 41%
- Materials & Contracts: 1,188,306, 46%

City of Subiaco
- Employee Costs: 7,496,769, 47%
- Materials & Contracts: 7,401,485, 34%

Source: ABS 2006a-f; ABS 2008
On the expenditure side of the fiscal equation, the WESROC group of local councils incurred aggregate outlays totalling $68.4 million in relation to their ‘day-to-day’ operations (i.e. excluding the construction or replacement of council assets) during the financial year ending 30 June 2007. Figure 7.4 provides an analysis of each WESROC local council’s individual actual expenditures for 2006/07. Expenditure varies immensely, from $21.9 million in Subiaco to $2.6 million in Peppermint Grove. In addition, the composition of expenditure for each WESROC local council also varied widely. For instance, employee costs contributed only 35 per cent of total expenditure at Cottesloe, while at Peppermint Grove this class of expenditure represented 45 per cent of their total budget. Similarly, depreciation varied from 8 per cent at Claremont, to almost double at Cottesloe, representing 17 per cent of total operating expenditure.

7.5 FUTURE PROSPECTS

Figure 7.5 below displays the results of the Western Australian Planning Commission (2003) population projections for each council in the WESROC group for the period 1981 to 2031:

**Figure 7.5: Population Projections**

![Population Projections Graph]

Source: Western Australian Planning Commission 2003
The population of WESROC is currently estimated to be 64,164. The Western Australian Planning Commission (2003) projects that population in the region will increase by 17,536 persons to a total of 81,700 people by the year 2031, representing an impressive increase of 27 per cent over this period. This growth is expected to be uneven throughout the WESROC region with Subiaco expecting a moderate 15 per cent increase in population, while Peppermint Grove is expecting to grow by 40 per cent by 2031.

The projected uneven population growth patterns within the WESROC group of councils will result in the City of Subiaco’s proportion of the region’s population drop from 27 per cent today to 24 per cent in 2031. This change in the composition of the WESROC regional population will be mirrored by a minor increase in the proportion of the regional population residing in the City of Nedlands, increasing from 33 per cent today to 25 per cent in 2031, and the Shire of Peppermint Grove, increasing from 2 to 3 percent. The remaining three councils (the Towns of Claremont, Cottesloe and Mosman Park) will all maintain their present proportion of the WESROC regional population.

7.6 CONCLUSION
A striking conclusion emerges from the analysis conducted in Chapter 7; while the six WESROC member councils all appear fairly similar at first glance, on further investigation great differences emerge. Thus each WESROC council services a different number of constituents, each maintains a different sized municipal spatial area, each has different levels of representation, residents have different levels of average incomes, population grows at different rates in every council, and each council is in a different financial position.

Considered against the broader backdrop of Australian local government as a whole, this is hardly surprising. For instance, the National Office of Local Government (2003:6) has observed that one of the most striking characteristics of the hundreds of Australian local government entities presently in existence resides in their great diversity. Indeed, Australian local councils vary markedly almost every aspect, including:

- Size and area of population represented;
• Range and scale of functions;
• Fiscal circumstances, including wide disparities in revenue-raising capacity, resources and skill base;
• Physical, economic, social and cultural environment of local government areas;
• Attitudes and aspirations of local communities;
• Structure of power and influence within local communities and the extent to which elected representatives reflect a broad range of opinions; and
• The varying state legislative frameworks within which councils operate, including voting rights and electoral systems.

In addition, local governments vary according to their level of financial self-sufficiency and the degree of remoteness from major urban centres (Worthington and Dollery 2001). They also differ markedly in the democratic representation they receive from elected officials. Each local government body also has different degrees of financial capacity, human resources, responsibilities and service provision capacities (Johnson 2006).

The diversity in local government is extremely important, particularly when considering the implementation of uniform state government policies, such as forced council mergers. Just as there are many and diverse councils, so too there may be many and diverse solutions to any given problem (Johnson 2006). Moreover, this means that ‘one-size-fits-all’ local government reform policies, like state-wide forced amalgamation programs, are not appropriate for all local authorities. Indeed, it is most unlikely that one solution will work for all councils to meet a given policy objective. Consideration will therefore need to be given to the individual circumstances of each council when determining any policy.

It is nonetheless clear that the concerted application of uniform policy standards, such as forced council amalgamations, which neglect local diversity, run the risk of the ‘lowest common denominator’ and thus being ineffective in addressing the fundamental policy objectives of the state government in question. This problem is taken up at length in this Report.
APPENDIX 7.1: TOWN OF CAMBRIDGE

Appendix 7.1.1: Council Profile

The town of Cambridge, while not a member of WESROC, like its counterparts in the western suburbs, is extremely keen to explore options that may have the potential to improve the efficiency and effectiveness of its operations and ultimately the level of service it can provide its ratepayers. As a result, the Town of Cambridge has joined the WESROC councils in this study to enhance local government in western Perth.

The Town of Cambridge is located 8 kilometers from the Perth GPO and is situated north of the WESROC member councils. Figure A7.1 illustrates that the Town of Cambridge is bounded by the City of Stirling in the north, the Town of Vincent and the City of Perth in the east, the Cities of Subiaco and Nedlands in the south and the Indian Ocean in the west.

Figure A7.1: Map of the Town of Cambridge

Source: id.consulting Pty Ltd (2008g: 3)
The Town of Cambridge includes the suburbs of City Beach, Floreat (part), Jolimont (part), Mount Claremont (part), Subiaco (part), Wembley (part), Wembley Downs (part) and West Leederville. The Town of Cambridge was originally part of the City of Perth, prior to restructuring by the Western Australian State Government in 1994. The Town of Cambridge is a predominantly residential area, with significant parklands and recreational areas. The Town encompasses a total land area of 22 square kilometres and services a population of 23,828 people. This makes the Town of Cambridge the largest of the councils included in this study, in terms of both population (exceeding Subiaco’s 17,103) and area (exceeding Nedlands 20km$^2$). In fact, as indicated in Figure A4.2, the population of the Town of Cambridge represents 28 per cent of the extended WESROC membership.

**Figure A7.2: Population of WESROC Councils and the Town of Cambridge**

![Population Graph](image)

Source: id.consulting Pty Ltd (2008 a-h)
Appendix 7.1.2: Demographic Characteristics

The population of the Town of Cambridge has increased by 703 persons or 3.04 per cent between the 2001 and 2006 census. This is marginally below the WESROC average increase of 3.3 per cent during the corresponding period.

Table A7.1 provides an overview of the unemployment in the Town of Cambridge when compared to the other WESROC councils. As can be seen, Cambridge has the lowest unemployment rate in the region at 1.7 per cent, compared to a high of 6.0 per cent in Mosman Park. The next lowest level of unemployment in the region is 2.4 per cent at Nedlands.

Table A7.1 Labour Force Status by Local Government Area, June Quarter 2006

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Unemployment (smoothed) No.</th>
<th>Unemployment rate (smoothed) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cambridge</td>
<td>225</td>
<td>1.7</td>
</tr>
<tr>
<td>Town of Claremont</td>
<td>133</td>
<td>2.7</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>118</td>
<td>2.6</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>276</td>
<td>6.0</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>277</td>
<td>2.4</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>26</td>
<td>3.4</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>367</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Total/Ave</strong></td>
<td><strong>1,422</strong></td>
<td><strong>3.2</strong></td>
</tr>
</tbody>
</table>

Source: ABS 2006a-g; ABS 2008

Table A7.2 provides a comparison of the average individual taxable income of the western suburbs of Perth. The Town of Cambridge has the lowest level of taxable income in the region, averaging $55,622. This is marginally lower than Subiaco at $59,563, and well below the high recorded in Peppermint Grove of $72,878.
Table A7.2 Average Individual Annual Taxable Income - year ended 30 June 2003

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Ave taxable income $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cambridge</td>
<td>55,622</td>
</tr>
<tr>
<td>Town of Claremont</td>
<td>68,739</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>72,766</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>63,561</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>70,330</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>72,878</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>59,563</td>
</tr>
</tbody>
</table>

Source: ABS 2006a-g; ABS 2008

Table A7.3 provides details of how the working population of the Town of Cambridge is employed. The sector employing the most people is Health Care and Social Assistance, hiring 16.6 per cent of the Town’s population or 1,789. This is closely followed by Professional, Scientific and Technical Services employing 14 per cent of the work force. Other major employers include the Education and Training sector at 10.5 per cent and Retail Trade at 10.3 per cent. All other sector provides less than 6 per cent of the Town of Cambridge work force. The employment base in the Town of Cambridge is relatively consistent with that of the WESROC councils.
Table A7.3 Employment by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry &amp; Fishing</td>
<td>64</td>
<td>0.6</td>
</tr>
<tr>
<td>Mining</td>
<td>445</td>
<td>3.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>521</td>
<td>4.5</td>
</tr>
<tr>
<td>Electricity, Gas, Water and Waste Services</td>
<td>94</td>
<td>0.8</td>
</tr>
<tr>
<td>Construction</td>
<td>563</td>
<td>4.9</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>1,183</td>
<td>10.3</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>379</td>
<td>3.3</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>631</td>
<td>5.5</td>
</tr>
<tr>
<td>Transport, Postal and Warehousing</td>
<td>221</td>
<td>1.9</td>
</tr>
<tr>
<td>Information Media and Telecommunications</td>
<td>211</td>
<td>1.8</td>
</tr>
<tr>
<td>Financial and Insurance Services</td>
<td>529</td>
<td>4.6</td>
</tr>
<tr>
<td>Rental, Hiring and Real Estate Services</td>
<td>314</td>
<td>2.7</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Services</td>
<td>1,606</td>
<td>14</td>
</tr>
<tr>
<td>Administrative and Support Services</td>
<td>327</td>
<td>2.9</td>
</tr>
<tr>
<td>Public Administration and Safety</td>
<td>606</td>
<td>5.3</td>
</tr>
<tr>
<td>Education and Training</td>
<td>1,197</td>
<td>10.5</td>
</tr>
<tr>
<td>Health Care and Social Assistance</td>
<td>1,789</td>
<td>15.6</td>
</tr>
<tr>
<td>Arts and Recreation Services</td>
<td>197</td>
<td>1.7</td>
</tr>
<tr>
<td>Other Services</td>
<td>331</td>
<td>2.9</td>
</tr>
<tr>
<td>Inadequately described or Not stated</td>
<td>246</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11,454</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: id.consulting Pty Ltd 2008h:44

Table A7.4 outlines the level of representation of all the participating councils in this study. Table A7.4 indicates that not only does the Town of Cambridge have the highest population and the greatest area, but it has the second lowest number of elected members of the seven local government areas considered. Only Mosman Park and Peppermint Grove had fewer elected members with both having seven, while Cambridge has nine. Unsurprisingly, Cambridge had the highest number of electors per elected member (2,648). The next highest, at almost half this rate, was Nedlands at 1,629 per elected representative, while Peppermint Grove recorded the lowest ratio of 224.
Table A7.4 Relative Representation in WESROC Councils

<table>
<thead>
<tr>
<th>Council</th>
<th>Population</th>
<th>No of Councillors</th>
<th>Level of Representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cambridge</td>
<td>23,828</td>
<td>9</td>
<td>2,648</td>
</tr>
<tr>
<td>Town of Claremont</td>
<td>8,873</td>
<td>10</td>
<td>887</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>7,223</td>
<td>11</td>
<td>657</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>8,214</td>
<td>7</td>
<td>1,173</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>21,181</td>
<td>13</td>
<td>1,629</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>1,570</td>
<td>7</td>
<td>224</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>17,103</td>
<td>13</td>
<td>1,316</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>87,992</strong></td>
<td><strong>70</strong></td>
<td><strong>1,257</strong></td>
</tr>
</tbody>
</table>

Appendix 7.1.3: Financial Overview

Table A7.5 highlights the key financial statistics of all seven councils being reviewed as part of this study. The Town of Cambridge’s performance across these key statistics varies considerably. For instance, on the positive side, Cambridge recorded a low debt service ratio (0.01%) indicating that only a small amount of its revenue is tied up in the repayment of debt; its current ratio (current assets/current liabilities) is above one indicating the council has $1.21 current assets for each current liability it holds; and its rates coverage ratio is 55 per cent indicating that it is not overly reliant on grants to fund its operating expenses. On the negative side, the Town of Cambridge recorded an operating efficiency ratio of below one as a result of its operation deficit in 2006/07. The council also recorded an asset renewal ratio of below one indicating that it is not replacing its assets at the rate they are deteriorating.
Table A7.5 Key Financial Ratios (2006/07)

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Rates Coverage Ratio</th>
<th>Operating Efficiency Ratio</th>
<th>Current Ratio</th>
<th>Asset Renewal Ratio</th>
<th>Debt Servicing Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cambridge</td>
<td>55.1%</td>
<td>96.9%</td>
<td>1.21</td>
<td>0.97</td>
<td>0.01%</td>
</tr>
<tr>
<td>Town of Claremont</td>
<td>61.2%</td>
<td>102.8%</td>
<td>0.997</td>
<td>3.16</td>
<td>0.00%</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>54.0%</td>
<td>103.3%</td>
<td>2.55</td>
<td>2.82</td>
<td>0.01%</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>65.6%</td>
<td>114.2%</td>
<td>1.38</td>
<td>3.16</td>
<td>3.47%</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>53.3%</td>
<td>105.9%</td>
<td>1.34</td>
<td>1.59</td>
<td>10.19%</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>48.3%</td>
<td>96.2%</td>
<td>0.991</td>
<td>1.60</td>
<td>0.00%</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>34.5%</td>
<td>124.1%</td>
<td>1.690</td>
<td>1.85</td>
<td>3.11%</td>
</tr>
</tbody>
</table>

Source: ABS 2006a-g; ABS 2008

Figure A7.3 illustrates the source of the Town of Cambridge’s revenue for 2006/07 as well as how this revenue is expended. More specifically, it indicates that the majority of the council’s revenue is derived from property rates (55%; $12.9m). This is significantly higher than the next larger stream of revenue being fees and charges (29%; $6.9m), with the remaining sources of revenue contributing less than 8 per cent to the council’s total income.

On the expenditure side, employee costs are the single largest outgoing of the council representing 38 per cent of total expenditure or $9.4 million. This is closely followed by materials and contractors at 31 percent or $7.4 million, with depreciation representing 22 per cent or $5.4 million of total expenditure. The remaining four categories of expenditure each contribute less than 5 per cent of total expenditure of the Council.
Appendix 7.1.4: Financial Sustainability

In Chapter 8 we seek to ascertain the financial sustainability of the WESROC councils by using the methodology developed by the South Australian Financial Sustainability Review Board (FSRB) (2005), the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI 2006), as well as Queensland Auditor General. This section will seek to use these criteria to ascertain the financial sustainability of the Town of Cambridge.

As depicted in Chapter 8, the FSRB in South Australia used six indicators to determine a council’s financial sustainability. These indicators were bases predominately on the operating result recorded by the Council as well as its level of borrowings. In the case of the Town of Cambridge, its net interest costs (borrowing costs less interest income) are negative indicating that it earns more on its returns from investments than it expends on the cost of borrowing funds. This is consistent with the remaining WESROC councils as indicated in table A7.6.
Table A7.6 Borrowing Costs 2006-07

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Borrowing Costs</th>
<th>Interest Income</th>
<th>Net Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cambridge</td>
<td>160,487</td>
<td>1,137,472</td>
<td>-976,985</td>
</tr>
<tr>
<td>Town of Claremont</td>
<td>-</td>
<td>393,455</td>
<td>-393,455</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>21,099</td>
<td>191,035</td>
<td>-169,936</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>82,389</td>
<td>338,077</td>
<td>-255,688</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>377,070</td>
<td>978,592</td>
<td>-601,522</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>-</td>
<td>89,205</td>
<td>-89,205</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>242,075</td>
<td>2,071,380</td>
<td>-1,829,305</td>
</tr>
</tbody>
</table>

Source: ABS 2006a-g; ABS 2008

The FSRB also considered the operating result of municipal authorities as a measure of its financial sustainability. In the case of Cambridge, it has recorded a negative operating result, or an operating loss, in each of the last two years. Peppermint Grove was the only other council surveyed that also recorded a negative result in the last two years as outline in Table A7.7 below. The dual operating losses raises issues of the Council’s sustainability in the long term; an organisation cannot continue to survive by expending more funds than it receives.

Table A7.7: Operating Result Financial Year 2004-05 to 2006-07

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cambridge</td>
<td>(2,499,132)</td>
<td>(747,194)</td>
</tr>
<tr>
<td>Town of Claremont</td>
<td>595,017</td>
<td>272,475</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>(104,636)</td>
<td>233,378</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>536,056</td>
<td>983,616</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>1,639,984</td>
<td>1,206,392</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>(222,051)</td>
<td>(86,159)</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>2,810,205</td>
<td>9,765,041</td>
</tr>
</tbody>
</table>

Source: ABS 2006a-g; ABS 2008

The FSRB also consider the rate at which municipal authorities renew their existing stock of assets. To be sustainable, a council must at least replace its assets at the rate in which they are deteriorating. Table A7.8 provides details of the seven Councils asset renewal ratio. For the Town of Cambridge, this shows a ratio of 0.97, indicating that it is not
replacing its assets at the rate in which they are deteriorating. The Town of Cambridge was the only council in this study to be in this situation, which is obviously not sustainable in the long term.

**Table A7.8: Capital Expense Ratio; 2006-07**

<table>
<thead>
<tr>
<th>Council</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cambridge</td>
<td>0.97</td>
</tr>
<tr>
<td>Town of Claremont</td>
<td>3.16</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>2.82</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>3.16</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>1.59</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>1.60</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>1.85</td>
</tr>
</tbody>
</table>

Source: ABS 2006a-g; ABS 2008

Table A7.9 brings together all of the councils key financial statistics. In sum, for the Town of Cambridge, it has relatively low levels of debt and has more current assets than it has current liabilities; but has recorded consecutive operating losses and is not replacing its assets at the rate at which they are deteriorating at. While this can be accommodated in the short term, the Council will be unsustainable in the long term if it cannot correct its operating result and keep up with the renewal of its assets.

**Table A7.9: Key Financial Indicators 2006/07**

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Rates Coverage Ratio</th>
<th>Operating Efficiency Ratio</th>
<th>Current Ratio</th>
<th>Capital Expense Ratio</th>
<th>Debt Servicing Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cambridge</td>
<td>55.1%</td>
<td>96.9%</td>
<td>1.21</td>
<td>0.97</td>
<td>0.01%</td>
</tr>
<tr>
<td>Town of Cambridge</td>
<td>61.2%</td>
<td>102.8%</td>
<td>0.997</td>
<td>3.16</td>
<td>0.00%</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>54.0%</td>
<td>103.3%</td>
<td>2.55</td>
<td>2.82</td>
<td>0.01%</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>65.6%</td>
<td>114.2%</td>
<td>1.38</td>
<td>3.16</td>
<td>3.47%</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>53.3%</td>
<td>105.9%</td>
<td>1.34</td>
<td>1.59</td>
<td>10.19%</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>48.3%</td>
<td>96.2%</td>
<td>0.991</td>
<td>1.60</td>
<td>0.00%</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>34.5%</td>
<td>124.1%</td>
<td>1.690</td>
<td>1.85</td>
<td>3.11%</td>
</tr>
</tbody>
</table>

Source: ABS 2006a-g; ABS 2008
As discussed in Chapter 8, the LGI method of assessing the financial sustainability is the most detailed of those considered in this study. It not only provided a target for each key performance indicator, but also applied an upper and lower limit. In addition, in order to be considered sustainable, the council must record a positive result in every indicator. The LGI model was also stronglyfavoured borrowing funds to meet infrastructure backlogs. Table A7.10 below provides the results of the LGI analyst of the seven WESROC councils.
<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt as % of total revenue</td>
<td>10.50%</td>
<td>100%</td>
<td>150%</td>
<td>50%</td>
<td>-14%</td>
<td>-32.4%</td>
<td>-14.9%</td>
<td>-31.8%</td>
<td>-33.9%</td>
<td>-52.3%</td>
<td>-72.2%</td>
</tr>
<tr>
<td>Net financial liabilities as % of total capital employed</td>
<td>2.20%</td>
<td>10%</td>
<td>15%</td>
<td>5%</td>
<td>1%</td>
<td>-7.3%</td>
<td>-19.0%</td>
<td>-12.6%</td>
<td>-9.1%</td>
<td>-33.1%</td>
<td>-36.9%</td>
</tr>
<tr>
<td>Net interest expense as % of total revenue</td>
<td>0.60%</td>
<td>15%</td>
<td>20%</td>
<td>7%</td>
<td>-4%</td>
<td>-3.9%</td>
<td>-1.7%</td>
<td>-2.7%</td>
<td>-2.8%</td>
<td>-3.5%</td>
<td>-5.5%</td>
</tr>
<tr>
<td>For general government activities: Operating surplus as % of own-source revenue</td>
<td>-4.50%</td>
<td>5%</td>
<td>10%</td>
<td>0%</td>
<td>-4%</td>
<td>2.7%</td>
<td>40.7%</td>
<td>15.1%</td>
<td>5.6%</td>
<td>-3.5%</td>
<td>38.3%</td>
</tr>
<tr>
<td>For commercial activities only: EBIT as % of non-financial assets</td>
<td>0.90%</td>
<td>5%</td>
<td>7%</td>
<td>3%</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Net borrowing as % of capital expenditure on new or enhanced assets</td>
<td>1.30%</td>
<td>50%</td>
<td>60%</td>
<td>30%</td>
<td>-29%</td>
<td>66.0%</td>
<td>-93.5%</td>
<td>-0.6%</td>
<td>-11.6%</td>
<td>17.3%</td>
<td>-94.8%</td>
</tr>
<tr>
<td>Annual renewals deficiency as % of renewals capital expenditure</td>
<td>40.20%</td>
<td>0%</td>
<td>10%</td>
<td>-10%</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Infrastructure backlog ($M) as % of total infrastructure assets (estimated at fair value)</td>
<td>8.10%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
</tbody>
</table>
operating deficit position and not being in a position to replace its assets at the rate they are deteriorating.

The final assessment of financial sustainability used in this study related to that employed by the Queensland Auditor General. As outlined in Chapter 8, the Queensland Auditor General undertook an assessment of a council’s current ratio, its operating result as percentage of revenue, its borrowing costs and its unfunded depreciation, to determine the financial sustainability of a municipal authority. As previously indicated, the Town of Cambridge has a favourable borrowing cost ratio due to its moderate level of borrowings. While the Town holds more current assets than it has current liabilities, a ratio of 1:1.21, this is below the Queensland Auditor General’s benchmark of $1.5 current assets to each $1 of current liability. In addition, the Council’s negative operating result would also not assist Cambridge in meeting the Auditor general target.

The time indicator used by the Queensland Auditor General relates to a council’s unfunded depreciation. Table A7.11 lists the seven councils’ unfunded depreciation of 2006/07. Only two councils, Cambridge and Peppermint Grove, recorded a level of unfunded depreciation during this period, largely as a result of both councils also posting an operating result in 2006/07.

**Table A7.11: Unfunded depreciation ratio (unfunded depreciation/depreciation expense)**

<table>
<thead>
<tr>
<th>LGA</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cambridge</td>
<td>0</td>
</tr>
<tr>
<td>Town of Claremont</td>
<td>13.8%</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>0</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>0</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>0</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>38.3%</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: QTC 2007 (a-d, h, & i); 2006b

In sum, for the Town of Cambridge to be considered financial sustainable in the long term, it will need to reverse its previously recorded operating deficit, and ensure that it is
replacing its assets at a greater rate than they are deteriorating. Both of these objectives are considered achievable in the short term.
CHAPTER 8: FINANCIAL SUSTAINABILITY OF WESROC COUNCILS

8.1. INTRODUCTION
Chapter 8 seeks to apply the various concepts of financial sustainability in local government, together with the various measurements of financial sustainability discussed in this Report, especially in Chapter 5, to the WESROC councils in order to determine whether these municipal authorities can be considered financially sustainable. A comprehensive evaluation of each local council is undertaken using no fewer than three different methods to establish whether the operations of the council are indeed financially sustainable.

Chapter 8 is divided into five main parts. Section 8.2 assesses WESROC councils under the South Australian Financial Sustainability Review Board (FSRB) (2005) criteria for a sustainable local government authority. Section 8.3 focuses on applying the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (LGI 2006) recommendations to determine sustainability in the case of WESROC councils. Section 8.4 considers the results from the annual audits of local governments in Queensland undertaken by the Auditor General and his determination of financial viability. Chapter 8 ends with some brief evaluative comments in section 8.5.

8.2 SOUTH AUSTRALIA CRITERIA
The current interest in the sustainability of local government in Australia originated with the Independent Inquiry into Sustainability of Local Government in South Australia. The FSRB (2005b, p. 19-20) drew its major conclusion in the form of Recommendation 2.3(1), in which it determined a ‘statement of principles’ governing ‘key financial sustainability indicators’. The six key ingredients of these indicators are discussed below, together with details as to how the WESROC councils fared against them.
The first indicator states that a local council is financially sustainable if ‘its net financial liabilities are at levels at which the associated interest payments (less interest income) can be met comfortably from a council’s annual income (i.e. by current ratepayers) without the prospects of rate increases that ratepayers would find unacceptable (or disruptive service cuts)’. As we saw in Chapter 7, a third of the WESROC group of councils are actually debt free (Claremont and Peppermint Grove). Of those councils that had outstanding loans, the annual borrowing costs (predominately interest) ranged from $21,099 in Cottesloe to $377,070 in Nedlands (as shown in Table 8.1). In addition, in all six councils, net interest expense (interest expense less interest revenue) was negative. That is, the councils all receive more interest income than they pay out in borrowing costs. In this regard, each council could be considered comfortably able to meet its financial liabilities from its annual income, due to the low level of debt, and hence low annual repayments that are required.

Table 8.1 Borrowing Costs 2006-07

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Borrowing Costs</th>
<th>Interest Income</th>
<th>Net Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Claremont</td>
<td>-</td>
<td>393,455</td>
<td>-393,455</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>21,099</td>
<td>191,035</td>
<td>-169,936</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>82,389</td>
<td>338,077</td>
<td>-255,688</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>377,070</td>
<td>978,592</td>
<td>-601,522</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>-</td>
<td>89,205</td>
<td>-89,205</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>242,075</td>
<td>2,071,380</td>
<td>-1,829,305</td>
</tr>
</tbody>
</table>

Source: ABS, 2008, a-f.

The second indicator relates to the net financial liabilities of a specified local authority. The FSRB (2005) argued that this ‘can be too low where they are (a) associated with current ratepayers being asked to bear an inequitable proportion of the cost of future service potential or (b) below levels that include more than enough room to absorb unexpected financial risks or financial shocks’. Table 8.4 shows each council’s debt service ratio, i.e. the proportion of debt repayments (interest and principle) compared to annual operating income. These ratios range from 0.01 per cent at Cottesloe to 10.19 per
cent at Nedlands, with the two debt-free councils being zero. The local government benchmark is typically a ratio of between 5 to 15 percent. This indicates a capacity for each of the six councils to borrow additional funds for capital works, if required.

The third indicator relates to the annual operating financial performance of a local council, which is considered sustainable ‘if operating deficits will be avoided over the medium to long-term, because such deficits inevitably involve services consumed by current ratepayers being paid for either (a) by borrowing and so by future ratepayers or (b) by deferring funding responsibility for the renewal or replacement of existing assets onto future ratepayers’. Table 8.2 provides data on the actual operating result from the six councils for the financial years 2005/06 and 2006/07. As can be seen from Table 8.2, the WESROC councils, except for Peppermint Grove, all recorded a positive operating result in 2006/07 and all but Cottesloe and Peppermint Grove recorded an operating surplus in 2005/06. On this basis alone, all councils, except for Peppermint Grove, could be classified, at first glance, as ‘sustainable’. However, following the FSRB methodology, a determination as to sustainability cannot be made based solely on one indicator alone. Ideally, it would have been beneficial to undertake this analysis over a ten year forecast period in order to see if the councils are able to sustain these surpluses in the long term and to see if, in the case of Peppermint Grove, the deficit was only a short term result.

Table 8.2: Operating Result Financial Year 2004-05 to 2006-07

<table>
<thead>
<tr>
<th>Council</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Claremont</td>
<td>595,017</td>
<td>272,475</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>(104,636)</td>
<td>233,378</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>536,056</td>
<td>983,616</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>1,639,984</td>
<td>1,206,392</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>(222,051)</td>
<td>(86,159)</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>2,810,205</td>
<td>9,765,041</td>
</tr>
</tbody>
</table>

Source: ABS, 2008, a-f.
The fourth indicator considers a local authority’s operating surplus. This can be too high ‘where it (a) is associated with current ratepayers being asked to bear an inequitable proportion of the cost of the council’s future service potential or (b) is above a level that includes more than enough room to absorb unexpected financial risks or financial shocks’. None of the eight councils in Table 8.2 are considered to have an operating result, as being ‘too high’.

The fifth indicator resolves around the annual capital financial performance of a local government. It is sustainable ‘if capital expenditure on the renewal or replacement of existing assets on average approximates the level of the council’s annual depreciation expense, because any shortfall of such capital expenditure against annual depreciation expense would involve future ratepayers being left with an excessive burden when it comes to replacing or renewing the council’s non-financial assets’. This is usually assessed by the capital expense ratio (i.e. capital expenditure/depreciation expenditure), with the benchmark being a ratio above one (i.e. assets are replaced at the same rate they are deteriorating). Table 8.3 provides details of the WESROC group of council’s historical capital expense ratio for financial year 2006/07. Considering the historical data, all councils recorded a positive ratio (i.e. above one).

Table 8.3: Capital Expense Ratio; 2006-07

<table>
<thead>
<tr>
<th>Council</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Claremont</td>
<td>3.16</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>2.82</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>3.16</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>1.59</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>1.60</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>1.85</td>
</tr>
</tbody>
</table>

Source: ABS, 2008, a-f.

The final indicator of the FSRB methodology stipulates that net borrowing of a local council can be too low ‘where, over the planning period, it results in the council’s net financial liabilities as a ratio of non-financial assets falling well below the targeted ratio’. In the case of the WESROC councils, because two councils are debt free, and debt ratios
at the remaining councils are low (i.e. below 5 per cent), with the exception of Nedlands, it could be concluded that, in the case of five of the six councils (excluding Nedlands), their net borrowing is too low”.

Table 8.4: Key Financial Indicators, 2006/07

<table>
<thead>
<tr>
<th>Local government area</th>
<th>Rates Coverage Ratio</th>
<th>Operating Efficiency Ratio</th>
<th>Current Ratio</th>
<th>Capital Expense Ratio</th>
<th>Debt Servicing Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Claremont</td>
<td>61.2%</td>
<td>102.8%</td>
<td>0.997</td>
<td>3.16</td>
<td>0.00%</td>
</tr>
<tr>
<td>Town of Cottesloe</td>
<td>54.0%</td>
<td>103.3%</td>
<td>2.55</td>
<td>2.82</td>
<td>0.01%</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>65.6%</td>
<td>114.2%</td>
<td>1.38</td>
<td>3.16</td>
<td>3.47%</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>53.3%</td>
<td>105.9%</td>
<td>1.34</td>
<td>1.59</td>
<td>10.19%</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>48.3%</td>
<td>96.2%</td>
<td>0.991</td>
<td>1.60</td>
<td>0.00%</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>34.5%</td>
<td>124.1%</td>
<td>1.690</td>
<td>1.85</td>
<td>3.11%</td>
</tr>
</tbody>
</table>

Source: ABS, 2008, a-f.

After assessing the councils against the South Australian indicators of financial sustainability, it is clear these councils perform reasonably well on their levels of debt, with most having significant capacity to use borrowing to fund future asset replacement and renewal. This indicates that most WESROC councils have been replacing their assets at a rate in excess of their rate of deterioration. However, it is noted that Peppermint Grove recorded an operating deficit in both years reviewed as part of this study. We thus would suggest that this situation be reviewed by the Peppermint Grove Council. We would also suggest that ten-year financial forecasts be prepared and also compared against the South Australian sustainability indicators. Once these minor alterations have been made, each of these councils would receive ‘full marks’ against all of the FSRB indicators and would thus be considered sustainable in South Australia.

8.3 NEW SOUTH WALES CRITERIA
The New South Wales Independent Inquiry into the Financial Sustainability of NSW Local Government (LGI) took the assessment of sustainability one step further by not only developing a set of financial performance indicators to evaluate a given council’s level of sustainability, but also by specifying a range that these indicators should fall
between. The LGI (2006, p.274) stressed that ‘if used, each of these ratios should be
adhered to, not just some of them’. Table 8.5 contains the indicators used by the LGI as
well as how they are calculated.

**Table 8.5: LGI Key Analytical Balances**

<table>
<thead>
<tr>
<th>Analytical balances</th>
<th>Definition</th>
<th>Denominator for comparative ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt</td>
<td>Interest-bearing financial liabilities less holdings of cash and securities other than externally restricted cash and securities</td>
<td>Total operating revenue</td>
</tr>
<tr>
<td>Net financial liabilities</td>
<td>Total liabilities less financial assets net of holdings of externally restricted cash and securities</td>
<td>Non-financial assets plus holdings of externally restricted cash and securities</td>
</tr>
<tr>
<td>Net interest expense</td>
<td>Annual interest expense less interest earnings on holdings of cash and securities other than externally restricted cash and securities</td>
<td>Total operating revenue</td>
</tr>
<tr>
<td>Operating Surplus/(Deficit)</td>
<td>Operating revenue before capital amounts less operating expenses less depreciation expense less net interest expense</td>
<td>Own-source revenue</td>
</tr>
<tr>
<td>Net Borrowing/(Lending)</td>
<td>Capital expenditure less capital revenues less depreciation expense less operating surplus/(deficit)</td>
<td>Annual capital expenditure on new or enhanced assets</td>
</tr>
<tr>
<td>Annual renewals deficiency</td>
<td>Annual depreciation expense less annual capital expenditure on existing assets</td>
<td>Annual capital expenditure on renewal or rehabilitation of existing assets</td>
</tr>
<tr>
<td>Renewal Backlog</td>
<td>Cumulative past annual renewals deficiencies</td>
<td>Non-financial assets</td>
</tr>
</tbody>
</table>

Table 8.6 provides an overview of the indicators used by the LGI to assess a council’s sustainability, together with the average result achieved by New South Wales councils, the LGI-determined benchmark target, and the upper and lower range of the indicators. Table 8.6 also includes the relevant assessment for each WESROC council against the LGI indicators.
Table 8.6: WESROC Councils and the LGI Sustainability Indicators

<table>
<thead>
<tr>
<th>Financial Key Performance Indicators</th>
<th>Av NSW Council Data</th>
<th>Proposed Council Target</th>
<th>Proposed Upper Limit</th>
<th>Proposed Lower Limit</th>
<th>Claremont</th>
<th>Cottesloe</th>
<th>Mosman Park</th>
<th>Nedlands</th>
<th>Peppermint Grove</th>
<th>Subiaco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt as % of total revenue</td>
<td>10.50%</td>
<td>100%</td>
<td>150%</td>
<td>50%</td>
<td>-32.4%</td>
<td>-14.9%</td>
<td>-31.8%</td>
<td>-33.9%</td>
<td>-52.3%</td>
<td>-72.2%</td>
</tr>
<tr>
<td>Net financial liabilities as % of total capital employed</td>
<td>2.20%</td>
<td>10%</td>
<td>15%</td>
<td>5%</td>
<td>-7.3%</td>
<td>-19.0%</td>
<td>-12.6%</td>
<td>-9.1%</td>
<td>-33.1%</td>
<td>-36.9%</td>
</tr>
<tr>
<td>Net interest expense as % of total revenue</td>
<td>0.60%</td>
<td>15%</td>
<td>20%</td>
<td>7%</td>
<td>-3.9%</td>
<td>-1.7%</td>
<td>-2.7%</td>
<td>-2.8%</td>
<td>-3.5%</td>
<td>-5.5%</td>
</tr>
<tr>
<td>For general government activities:</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating surplus as % of own-source revenue</td>
<td>-4.50%</td>
<td>5%</td>
<td>10%</td>
<td>0%</td>
<td>2.7%</td>
<td>40.7%</td>
<td>15.1%</td>
<td>5.6%</td>
<td>-3.5%</td>
<td>38.3%</td>
</tr>
<tr>
<td>For commercial activities only:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT as % of non-financial assets</td>
<td>0.90%</td>
<td>5%</td>
<td>7%</td>
<td>3%</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Net borrowing as % of capital expenditure on new or enhanced assets</td>
<td>1.30%</td>
<td>50%</td>
<td>60%</td>
<td>30%</td>
<td>66.0%</td>
<td>-93.5%</td>
<td>-0.6%</td>
<td>-11.6%</td>
<td>17.3%</td>
<td>-94.8%</td>
</tr>
<tr>
<td>Annual renewals deficiency as % of renewals capital expenditure</td>
<td>40.20%</td>
<td>0%</td>
<td>10%</td>
<td>-10%</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Infrastructure backlog ($M) as % of total infrastructure assets</td>
<td>8.10%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
</tbody>
</table>
Based on the LGI benchmarks, all WESROC councils fell short on most of the proposed targets for each indicator, mainly due to the low levels of debt held by each council. The LGI ‘solution’ to local government sustainability was broadly based on local councils carrying higher than normal levels of debt, as well as various other factors. In addition, there was insufficient information available to calculate the infrastructure renewal backlog. It must immediately be observed that this is a pervasive problem in all Australian local government systems. Accordingly, based on the LGI assessment of financial sustainability, all of the WESROC councils, like the average NSW council, would be considered financially unsustainable in the long term.

This analysis indicates that all the WESROC metropolitan councils should borrow additional funds to support their asset renewal programs and that the councils should address the situation relating to their intention to record an operating deficit over the next ten years, in line with the NSW LGI recommendation.

8.4 QUEENSLAND AUDIT OFFICE
The Queensland Auditor General (QAO) is responsible for auditing the financial statements of all local government and related authorities in Queensland. One would thus expect the Auditor General to have an intimate understanding of the operations and issues facing individual councils and the local government sector in general. The Auditor General also reports annually to Parliament on the results of these audits. This placed the Auditor General in a good position to assess the financial sustainability of local government in Queensland. Many of the Queensland Auditor Generals findings can equally be applied to municipal authorities in other states, and thus can be a useful tool for reviewing the sustainability of the WESROC councils.

The Auditor General assesses the ‘well-being’ of councils by considering individual council’s current ratios (current assets/current liabilities), setting a benchmark of a
minimum of 1.5:1, by considering whether or not a council has a material operating
deficit and by assessing whether a local government has significant borrowings (QAO
2005, p. 7). In this regard, the 2003/04 Audit Report (QAO 2005, p. 36) indicated it had
commits over the financial viability of six Queensland local councils. Table 8.7 shows
these councils’ performance against the Queensland Audit Office’s financial viability
indicators:

Table 8.7: Queensland Councils Considered Financially Vulnerable by the QAO

<table>
<thead>
<tr>
<th>Council</th>
<th>Current Ratio</th>
<th>Operating result as % of Revenue</th>
<th>Borrowing as a % of Operating Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johnstone Shire Council</td>
<td>1.06 1.31 1.41</td>
<td>-17.30 -11.08 -2.28</td>
<td>64.37 73.72 84.71</td>
</tr>
<tr>
<td>Jondaryan Shire Council</td>
<td>2.60 0.87 1.18</td>
<td>2.11 -23.64 -26.63</td>
<td>42.89 35.33 37.35</td>
</tr>
<tr>
<td>Mount Morgan Shire Council</td>
<td>1.33 1.29 1.27</td>
<td>-6.47 -10.20 -4.69</td>
<td>7.71 14.59 22.28</td>
</tr>
<tr>
<td>Wondai Shire Council</td>
<td>2.22 1.09 1.01</td>
<td>6.65 -9.10 -27.26</td>
<td>26.09 34.59 35.63</td>
</tr>
<tr>
<td>Cloncurry Shire Council</td>
<td>1.10 0.73 0.59</td>
<td>-28.73 -55.52 -43.48</td>
<td>55.80 53.56 164.27</td>
</tr>
<tr>
<td>Bowen Shire Council</td>
<td>1.59 1.47 1.08</td>
<td>-1.58 -9.09 1.37</td>
<td>66.61 74.25 77.17</td>
</tr>
</tbody>
</table>

Source: QAO 2005, p.26, Table 7.3. 2001-02 borrowing to operating revenue ratio includes borrowing for the Ernest Henry Mine. This loan is being repaid by the mine by way of a special rate levy each year and it has therefore has been removed from the 2002-03 and 3004-04 calculations. The break-up is not available for the 2001-02 year.

Following a survey conducted during 2003/04, the Queensland Auditor General also
expressed concerns across the industry on its accounting for road infrastructure. The
QAO identified large variances in asset-use lives and residual asset values (QAO 2005, p.
7). The Auditor General observed that this had the potential to affect the calculation of
the annual depreciation expense which will in turn affect the determination of a council’s unfunded depreciation (QAO 2005, p.7). Perhaps even more importantly, the calculation of depreciation can potentially affect the calculation of a local government’s operating result and capital ratio (i.e. capital expenditure/depreciation), indicating its long-term sustainability and its ability to replace its assets as and when required.

The same QAO Report (QAO 2005, p. 36) also considered the issue of financial viability and argued that the following data indicate that the financial viability of a municipal authority and should be closely monitored:

- Inadequate reserve funds;
- Deferred capital works projects;
- Regular operating losses;
- Unsustainable surpluses of revenue over expenses for ordinary activity;
- High levels of unfunded depreciation;
- Cash flow difficulties between rate billing;
- An adverse current ratio; and
- Negotiation of extended credit facilities or reliance on short-term borrowings’.

In addition, the 2003/04 Local Government Audit Report (QAO 2005: 8) identified a number of issues that ‘continue to impact on local government in terms of financial management, accounting and audit. These include the pace of change, the pressure to do more with less in terms of the available rates pool, the increasing costs of providing services and maintaining and replacing infrastructure assets and maintaining the ratepayers’ confidence in local government and elected officials in the face of greater public scrutiny’.

The Auditor General dedicated one section of its Report to unfunded depreciation and another section to road infrastructure data. Both are inter-related and both have a significant impact on assessing a council’s long-term sustainability. The purpose of calculating unfunded depreciation is to secure inter-generational equity: It ensures that future ratepayers are not paying for the facilities consumed by past generations. Using the
Queensland Audit Office formula for calculating unfunded-depreciation, Table 8.8 displays each WESROC council’s unfunded depreciation in 2005/06 while Figure 8.4 (as previously discussed) displays unfunded depreciation from 2001 to 2015.

**Table 8.8: Unfunded Depreciation Ratio (i.e. unfunded depreciation/depreciation expense) 2006/07**

<table>
<thead>
<tr>
<th>Town of Claremont</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Cottesloe</td>
<td>0</td>
</tr>
<tr>
<td>Town of Mosman Park</td>
<td>0</td>
</tr>
<tr>
<td>City of Nedlands</td>
<td>0</td>
</tr>
<tr>
<td>Shire of Peppermint Grove</td>
<td>38.3%</td>
</tr>
<tr>
<td>City of Subiaco</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: QTC 2007 (a-d, h, & i); 2006b

Table 8.8 indicates the ratio of unfunded depreciation to depreciation expense. As expected, with only one council achieving an operating deficit (before capital items), only Peppermint Grove recorded an amount of unfunded depreciation, and an unfunded depreciation ratio of 38.3 per cent. Table 8.9 shows how other local councils in Queensland rate in regard to their unfunded depreciation. It indicates that only 36 per cent (45) local councils fully fund depreciation, a further 19 per cent (24) have unfunded depreciation of less than 25 per cent of revenue, 30 per cent unfunded between 25 per cent and 49 per cent, and 15 per cent have unfunded depreciation of more that 50 per cent.
Table 8.9: Unfunded Depreciation in Queensland Local Government, 2003-04, Relative to WESROC Councils

<table>
<thead>
<tr>
<th>Description</th>
<th>No.</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of local government with more than 75% of depreciation</td>
<td>5</td>
<td>4%</td>
</tr>
<tr>
<td>charge unfunded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of local government with between 50% and 75% of depreciation charge unfunded</td>
<td>14</td>
<td>11%</td>
</tr>
<tr>
<td>No. of local government with between 25% and 49% of depreciation charge unfunded</td>
<td>37</td>
<td>30%</td>
</tr>
<tr>
<td>No. of local government with less than 25% of depreciation</td>
<td>24</td>
<td>19%</td>
</tr>
<tr>
<td>charge unfunded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of local government with a surplus of current revenue</td>
<td>45</td>
<td>36%</td>
</tr>
<tr>
<td>after allowing for transfers to reserve</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: QAO 2005, p. 38, Table 7.4.

Table 8.9 above takes the data from Table 8.8 and places the councils in their respective categories according to the percentage of depreciation that is unfunded. Table 8.9 indicates that all but Peppermint Grove achieved a surplus of unfunded depreciation.

8.5 CONCLUSION

Chapter 8 has sought to determine the financial sustainability of the six WESROC Councils in the long term. It has used various methodologies available in the Australian local government literature that can evaluate financial sustainability in local government and apply them to the western suburbs group of council’s financial data.

The South Australian FSRB evaluation in its report of these local councils indicated the councils have little to no debt, and generally achieved an operating surplus, with the ability, at least in the short term, to meet their capital replacement requirements. A comparison of the council’s KPI’s against the highly prescriptive NSW LGI criteria revealed that the councils are unsustainable in an analogous manner to the average NSW local council. The Queensland Treasury Corporation process of determining the sustainability of a council is perhaps the best available, but was not able to be completed
on the WESROC councils, due to its reliance on ten year financial forecasts, which were not available. The Queensland Audit Office assessment of financial viability indicated that the western suburbs councils were not identified as having particular problems. However, the level of unfunded depreciation, as a result of its operating deficit, of Peppermint Grove is of concern.

However, against the background of this analysis, all financial sustainability assessments fail to consider external issues that affect the ongoing viability of councils. These include the rapidly rising expectations of constituents; unfunded mandates or cost shifting from other spheres of government; increased costs of service delivery; constraints on local government’s ability to raise revenue; and variability and inadequacy of grants from higher spheres of government. These factors have been all identified as key issues affecting all Australian local government jurisdictions in the recent reports conducted into the local sector, which were discussed in Chapter 5 of this Report.

Chapter 9 will provide some suggested options for the WESROC member councils to investigate further, such enhancing the use of the WESROC organization as a vehicle for coordinating shared and cooperative service delivery. This may provide viable options for the WESROC councils to achieve scope economies and scale economies in their operations without the harmful consequences on local community sustainability that would inevitably flow from forced amalgamation.
CHAPTER 9: WESTERN SUBURBS REGIONAL ORGANISATION OF COUNCILS

9.1. INTRODUCTION
Chapter 9 provides an overview of WESROC by examining its history and the achievements that this regional organisation has made to assist in the provision of efficient and effective service delivery for the councils in western metropolitan Perth. This is an important step, since before recommendations can be made in Chapters 11 for improving regional capacity in the WESROC group of councils, it is important to gain an understanding as to what has already been achieved in this area. Chapter 9 will highlight the many existing joint projects and cooperation that have already occurred amongst WESROC member councils.

Chapter 9 is divided into five main parts. Section 9.2 provides some background information on Regional Organisations of Councils in an Australian local government context. Section 9.3 presents an overview of WESROC and its history. Section 9.4 analyses regional cooperation facilitated by WESROC and focuses on its past achievements. Chapter 9 ends with some brief evaluative comments in section 9.5.

9.2 AUSTRALIAN REGIONAL ORGANISATIONS OF COUNCILS
Dollery, Marshall, Johnson and Witherby (2004:3) observed that Regional Organisations of Councils (ROCs) consist of voluntary alliances of neighbouring local government authorities constituted to enhance the exchanging of information, problem solving, coordinating activities across jurisdictions, improving intergovernmental relations, resource sharing, lobbying and advocacy. ROCs are also formed to enhance the individual voices of each member council since collectively they are considered more effective at lobbying other levels of government on common items of interest as well as providing increased scale in operation to enable services and projects to be delivered more efficiently and effectively.
The first known ROC in Australia was established in Tasmania in 1922 with a number of others being created across the various states over the ensuing decades. The Hawke and Keating governments sought to encourage the formation of ROCs during the late 1980s and 1990s, by providing significant financial assistance towards their establishment and growth, as the Commonwealth government embarked on a ‘regional’ approach to government and policy implementation. This resulted in a marked increase in the number of ROCs forming during this period (i.e. 50 ROCs across Australia covering about 45% of councils and around 75 per cent of the population). Dollery, Marshall, Johnson and Witherby (2004:3) noted that the (then) Labor Commonwealth administration viewed these organizations as ‘potentially important vehicles for promoting regional economic development generally, and implementing Commonwealth policies in particular’.

By 1994, the Keating Labor government appears to have lost interest in the program (Dollery, Marshall, Johnson and Witherby 2004:3) or alternatively became despondent at the effectiveness of ROCs ability to be used as a vehicle to implement Commonwealth policy.

In subsequent years ROCs largely disappeared from public discourse. A number disbanded, some scaled back their operations, but nonetheless many remained. Marshall and Witherby (2002) conducted the most comprehensive Australian survey of ROCs to date in 2002. This was undertaken in order to determine what had actually happened to the ROCs since the change of focus of the Commonwealth government in 1994. The Marshall and Witherby (2002) survey generated responses from ROCs from all six states, including fourteen from New South Wales, seven from Queensland, five from South Australia, three from Western Australia, and one each from Tasmania and Victoria. They found that twenty-seven of these bodies were established between 1973 and 1998, with eleven being founded over the four years 1991 to 1994. The most recent ROC in their sample was created in 1998. In addition, the largest ROC surveyed involved 18 member councils, while at the other end of the spectrum four had less than five members.
Marshall and Witherby (2002) concluded that ROCs in Australian local government were still very active and performing a vital regional role for member councils. They observed that of the 31 organisations surveyed, seven could be classified as high performers, 20 were in ‘good health’, and two were ‘in decline’. It was expected that many ROCs would collapse following the extensive amalgamation of councils that occurred in Tasmania, South Australia and Victoria in the 1990’s. The reality was somewhat different: Marshall and Witherby (2002: 3) demonstrated that there were ‘indications that ROCs may be emerging again in these states in fresh configurations’. Marshall and Witherby (2002) further asserted that a large number of councils believed that the individual council’s contribution to ROCs (in terms of time, money and other resources) represented a sound investment which yielded a favourable return to member councils.

The Marshall and Witherby (2002) survey results indicated that ROCs have been primarily involved in regional advocacy, political lobbying, and fostering cooperation between member councils. Other areas pursued by ROCs included regional economic growth, resource sharing, strategic planning and community well-being. Marshall and Witherby (2002) further observed that thriving ROCs generally have a budget with regular funding and had staff resources available to them to assist them in achieving their objectives. In particular, it was observed that about half of all ROCs had full-time executive support. Most ROCs also acted as a regional mayoral forum to enable common issues to be discussed. The ROC structure further served as an informal gathering for a wide range of issues to be considered. In addition, the survey found that a large number of ROCs maintained executive committees and sub-committees to assist in the efficient operations of the ROC.

In conclusion, Marshall and Witherby (2002) argued that the unique contribution of ROCs included political lobbying and strategic planning while a number indicated that they were also able to demonstrate real financial gains resulting from resource sharing. The overwhelming consensus of survey respondents was that ROCs fulfilled an important function in their region.
9.3 HISTORY OF WESROC

The Western Suburbs Regional Organization of Councils (WESROC) was formed in 1995 and represents a voluntary collaboration involving the Cities of Subiaco and Nedlands, as well as the Towns of Claremont, Cottesloe and Mosman Park and Shire of Peppermint Grove. At present, WESROC represents over 64,164 constituents residing in an area spanning 42 square kilometers and primarily seeks to enhance the social, environmental and economic outcomes for their communities as well as to improve the capacity of the member councils.

WESROC operates through a Board comprised of the Mayors/Presidents of the member councils and an Executive which comprises the CEOs of the respective municipal authorities. Chairmanship of the Board and the Executive rotates annually as does the provision of secretarial services, which are provided in turn by member councils from their own resources, thereby reducing the operating costs of WESROC.

WESROC has assisted member councils in a variety of ways (Goode 2005:5):

- ‘Advocacy of the region to other spheres of government and to business;
- Undertaking research and investigation of potential projects of regional and sub-regional importance;
- Facilitation of infrastructure provision for the region’s current and future needs;
- Seeking funds to assist with implementing projects important to the region or sub-region;
- Providing direct services to the community;
- Undertaking activities which foster the regions economic prosperity and self-sufficiency;
- Providing for interaction and growth for officers and elected members; and
- Resourcing regional and sub-regional committees established under the auspices of the local governments within the region’.

The individual councils have adopted a pragmatic approach to ensure that they realise the maximum benefit from their membership of WESROC. For instance, members are able
to join in or opt out of individual proposals after assessing the relevance to their own council. WESROC does not operate on a ‘one-in-all-in’ approach. In addition, a variety of arrangements between two or more municipal authorities have been undertaken where there has been a clear benefit and where there has been diseconomies of scale or other impediments that has not made it viable for all members to be involved. Furthermore, participation in WESROC activities has not been restricted to WESROC members only, with a number of projects involving non-member neighbouring councils. This demonstrates the inherent flexibility in the WESROC structure that ensures that the maximum benefit is delivered to each council creating a potential ‘win-win’ situation.

However, the benefits of this flexibility have to be set against potential costs. For instance, the fact that members need not participate could be argued to weaken WESROC initiatives in the sense that members can ‘opt out’ thereby reducing available resources. Similarly, non-member councils can take advantage of WESROC projects without contributing to WESROC overall.

A more detailed account of the initiatives perused by WESROC and its member councils is highlighted in below in section 9.4.

### 9.4 COOPERATION IN THE WESTERN SUBURBS

The municipal authorities of the western suburbs of Perth have established a variety of initiatives to enhance regional cooperation and improve service delivery to their respective communities. We have seen that WESROC aims to facilitate and coordinate regional activities designed to promote community and economic development within the region, and to enhance the capacity of the member local governments.

The WESROC strategic plan is divided into six key result areas:

1. Advocacy and representation
2. Community development and services
3. Community information and awareness
4. Transport and access
5. Town planning and development
6. Environmental improvements

WESROC has achieved significant success in all these key areas. Table 9.1 provides an overview of some of the more recent activities that have been carried out by WESROC under each key area. A full list of all activates carried out by WESROC can be found in Appendix 9.1.
Table 9.1: Recent WESROC Cooperative Initiatives

<table>
<thead>
<tr>
<th>Key Result Area</th>
<th>Recent Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advocacy and representation</td>
<td>WALGA Systemic Sustainability Study</td>
</tr>
<tr>
<td></td>
<td>Boundary Projects Agreement</td>
</tr>
<tr>
<td></td>
<td>Risk Management &amp; Safety Audits</td>
</tr>
<tr>
<td></td>
<td>Regional Partnerships Grant Funding</td>
</tr>
<tr>
<td></td>
<td>Partnering Agreement - Municipal Works on Boundaries</td>
</tr>
<tr>
<td></td>
<td>Public Accounts Committee Review of LG Accountability Public Health Act Position Paper</td>
</tr>
<tr>
<td></td>
<td>Local Government Structural and Electoral Reform Review</td>
</tr>
<tr>
<td></td>
<td>New Building Act</td>
</tr>
<tr>
<td></td>
<td>LGAB Review</td>
</tr>
<tr>
<td>Community development and services</td>
<td>Western Suburbs Recreation Planning</td>
</tr>
<tr>
<td></td>
<td>Regional Ranger Service Options</td>
</tr>
<tr>
<td></td>
<td>Joint Graffiti Removal Program</td>
</tr>
<tr>
<td></td>
<td>Regional Seniors Needs Study</td>
</tr>
<tr>
<td></td>
<td>After Hours Service</td>
</tr>
<tr>
<td></td>
<td>Indigenous Land Use Agreement</td>
</tr>
<tr>
<td></td>
<td>Rationalisation of Child Health Clinics in the western suburbs</td>
</tr>
<tr>
<td></td>
<td>Playing Fields Demand Study</td>
</tr>
<tr>
<td></td>
<td>Structural Reform Study</td>
</tr>
<tr>
<td></td>
<td>Regional Cooperation Review</td>
</tr>
<tr>
<td></td>
<td>Strategic Planning Workshop</td>
</tr>
<tr>
<td></td>
<td>Senior Smart Program</td>
</tr>
<tr>
<td></td>
<td>WESROC Terms of Reference and Planning</td>
</tr>
<tr>
<td>Community information and awareness</td>
<td>Establishment of Improved Regional Library Services</td>
</tr>
<tr>
<td></td>
<td>Post Newspaper microfilming project</td>
</tr>
<tr>
<td></td>
<td>Regional Library Operational Improvements</td>
</tr>
<tr>
<td></td>
<td>Information Sharing Network</td>
</tr>
<tr>
<td>Transport and access</td>
<td>Regional Transport Study</td>
</tr>
<tr>
<td></td>
<td>Footpaths &amp; Cycleways Review</td>
</tr>
<tr>
<td>Town planning and development</td>
<td>Heritage Principles &amp; Practices Report</td>
</tr>
<tr>
<td></td>
<td>Regional Submission on Network City Proposal</td>
</tr>
<tr>
<td></td>
<td>Densification of Development along Perth-Fremantle Rail Corridor</td>
</tr>
<tr>
<td></td>
<td>Review of R Codes</td>
</tr>
<tr>
<td></td>
<td>Heritage Advisory Service</td>
</tr>
<tr>
<td>Environmental improvements</td>
<td>Regional Recycling Program for Obsolete Computers</td>
</tr>
<tr>
<td></td>
<td>Western Suburbs Greening Plan Study</td>
</tr>
<tr>
<td></td>
<td>Regional Stormwater Quality Study</td>
</tr>
<tr>
<td></td>
<td>Environmental Improvements</td>
</tr>
<tr>
<td>Other areas</td>
<td>Protective Behaviours in the Work Place</td>
</tr>
<tr>
<td></td>
<td>Alternative sources of local government income and investment of surplus funds.</td>
</tr>
<tr>
<td></td>
<td>Staff Exchange Program</td>
</tr>
<tr>
<td></td>
<td>Excellence in Local Government Program</td>
</tr>
<tr>
<td></td>
<td>Costs of Local Government Insurance Services</td>
</tr>
<tr>
<td></td>
<td>Insurance Premiums for Community Activities</td>
</tr>
<tr>
<td></td>
<td>Local Emergency Management Committee (LEMC) Recovery Plan</td>
</tr>
</tbody>
</table>
This impressive list of activities includes preparing joint submissions on a variety of topics (i.e. New Building Act; Local Government Structural and Electoral Reform Review; Public Health Act Position Paper; Public Accounts Committee Review of Local Government Accountability; Regional submission on Network City Proposal; Waste Avoidance and Resource Recovery Bill and the Waste Avoidance and Resource Recovery Levy Bill) which enhances the collective voice of WESROC and avoids duplication across councils. WESROC councils have also undertaken a number of regional studies in areas that overlap existing boundaries and require a regional focus (e.g. Regional Transport Study, Playing Fields Demand Study, Regional Seniors Needs Study, Western Suburbs Recreation Planning, etc.). The other major area of cooperation within WESROC has centred on cooperation in the delivery of specific services to residents. These resource sharing initiatives have covered a variety of services, including libraries, information technology services, town planning and waste services. Table 9.2 provides a summary of current and emerging resource sharing arrangements undertaken by WESROC member councils.

Table 9.2: Current WESROC Resource Sharing Arrangements

<table>
<thead>
<tr>
<th>Service</th>
<th>Participating Councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aged Services</td>
<td>Mosman Park, Peppermint Grove and Claremont</td>
</tr>
</tbody>
</table>
| Library and Information Services | - Single Information Management system managed through Nedlands for all.  
  - Joint library (Mosman Park, Peppermint Grove, Cothelose)                             |
| Neighbourhood Watch      | Shared Coordinator Mosman Park, Peppermint Grove, and Claremont                         |
| Roads and Verges         | Mosman Park and Peppermint Grove; Subiaco and Nedlands                                  |
| Engineering Services     | Mosman Park and Peppermint Grove                                                       |
| Town Planning            | Mosman Park and Peppermint Grove                                                       |
| Environmental Health     | Mosman Park and Peppermint Grove                                                       |
| Building Control         | Mosman Park and Peppermint Grove                                                       |
| Dog Control              | Mosman Park, Peppermint Grove, Subiaco and Claremont                                   |
| Ranger Services          | Mosman Park and Peppermint Grove; some assistance provided to Claremont during Royal Show. |
| Waste Disposal           | Mosman Park, Peppermint Grove, Subiaco and Claremont through WMRC.                     |
| Civic Functions          | Mosman Park and Peppermint Grove                                                       |
| Information Technology Support | Peppermint Grove & Mosman Park have an informal arrangement                            |
| Annual Tenders           | All (for road making materials primarily)                                               |

Source: Sharley, Grimoldy, Pracsys & Smillie
As previous indicated, WESROC cooperative initiatives are not confirmed to member councils. Non-member councils are often invited to join WESROC activities where there is a demonstrated business case. Table 9.3 highlights some of the resource-sharing agreements that involve both WESROC member councils and other non-member councils.

**Table 9.3: Current Resource Sharing Arrangements with Non-WESROC Local Governments**

<table>
<thead>
<tr>
<th>Service</th>
<th>Participating WESROC and Other Councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graffiti removal</td>
<td>Subiaco with Cambridge, Vincent and Perth</td>
</tr>
<tr>
<td>Street sweeping</td>
<td>Subiaco with Cambridge, Kings Park Board and Nedlands</td>
</tr>
<tr>
<td>Civic Functions (e.g. Australia Day)</td>
<td>Mosman Park, Peppermint Grove and Cottesloe</td>
</tr>
<tr>
<td>IT Support</td>
<td>Claremont and Cottesloe have a joint tender</td>
</tr>
<tr>
<td>Travel-Smart</td>
<td>Subiaco with Victoria Park</td>
</tr>
</tbody>
</table>

Source: Sharley, Grimoldy, Pracsys & Smillie

The regional cooperation extending beyond WESROC boundaries includes resource sharing arrangements involving graffiti removal, street sweeping and information technology support and includes the non-member councils of Perth, Vincent and the Kings Park Board.

Section 9.4 has demonstrated the various areas of cooperation within the western suburbs of Perth and the ability of WESROC member councils to jointly seek opportunities to share resources, skills and expertise in a variety of ways and across council boundaries where there is a clear benefit to their rate payers.

Joint cooperation has greatly assisted the individual councils’ advocacy role by their sheer weight of numbers; achieved cost savings through resource sharing by achieving increases in scale of operation and reducing duplication; as well as enhanced the capacity of WESROC members through the sharing of information and expertise across a range of issues. It can thus be argued that the WESROC member councils have achieved
substantial benefits from their involvement WESROC. While an estimate has not been made on the monetary saving WESROC activities have generated, it would surely be significant.

9.5 CONCLUSION
Chapter 9 has explored the role that ROCs play in Australian local government, particularly in providing regional advocacy, cost saving, resource sharing opportunities and capacity building. Chapter 9 has also provided an overview of WESROC and the extent of cooperation that already exists in the WESROC region. This will greatly assist in determining the future options available for enhancing the efficient and effective service delivery to member councils in the western suburbs, which is considered in Chapter 11.

Chapter 9 has emphasised the extent of the regional cooperation and the success WESROC has enjoyed as a result of its flexible approach. The future for WESROC looks promising. It has the key ingredients to success, including a strategically flexible approach, strong leadership, willingness to share and cooperate in a variety of areas, and a commitment for exploring opportunities that will benefit its member councils.
### APPENDIX 9.1: WESROC PROJECTS

#### Table APPENDIX 9.1: WESROC Projects

<table>
<thead>
<tr>
<th>PROJECT DESCRIPTION</th>
<th>PARTICIPANTS</th>
<th>BRIEF DESCRIPTION OF INITIATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural Reform</td>
<td>WESROC members</td>
<td>WESROC has commissioned a number of independent studies to advise it on the options available to it as a proactive response to the State Government Structural Reform Advisory Committee (SRAC) Report into local government reform.</td>
</tr>
<tr>
<td>Partnering Agreement for Municipal</td>
<td>WESROC members</td>
<td>In order to assist the councils addressing boundary issues in the delivery of services, an agreement was established so that projects may be implemented in a manner that provides cost and benefits to the community, greater efficiency in the management of resources, and better outcomes for members and their communities.</td>
</tr>
<tr>
<td>Works on Boundaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Needs</td>
<td>WESROC members</td>
<td>This study addressed the aim of building strong communities through positive ageing as well as addressing the aging population at large. The project reviewed existing programs, services and facilities and identified needs for new initiatives. It also considered options for the delivery of existing and proposed programs, services and facilities. Recommendations of the report have been, or are being, implemented, either at a regional level through WESROC or by the member local governments individually.</td>
</tr>
<tr>
<td>Western Suburbs Greening Strategy</td>
<td>WESROC members</td>
<td>The Greening Plan is a strategic planning document which addresses the issue of how to integrate the natural environment into modern urban and suburban areas. Recommendations of the report have been, or are being implemented, either at a regional level through WESROC or by the member local governments individually.</td>
</tr>
<tr>
<td>Stormwater Quality</td>
<td>WESROC members and Town of Cambridge</td>
<td>The Town of Cambridge joined with WESROC to develop a regional strategy for the management of stormwater quality. The study provides a framework for a coordinated approach to improving groundwater quality and management. Recommendations of the report have been, or are being implemented, either at a regional level or by the member local governments individually.</td>
</tr>
<tr>
<td>Community Transport</td>
<td>WESROC members with City of Fremantle and DPI</td>
<td>The Department of Planning and Infrastructure and the City of Fremantle partnered WESROC in this project which examined the feasibility of introducing additional public transport options for the community.</td>
</tr>
</tbody>
</table>
**Network City**

**WESROC members**

*Network City* is a strategic planning framework for the Perth Metropolitan Area prepared for the State Government. It is a long-term strategy with a horizon of 2029. A regional submission was prepared to address the concerns of WESROC in respect to the underlying principles of *Network City* as well as specific issues relevant to the WESROC members. The submission was made as part of an extended consultation process by the Government.

**Youth Needs**

**WESROC members**

This study reviewed programs, services and facilities for younger residents. The study presented a broad range of findings and recommendations and how these could be addressed by both WESROC and the member local governments. An implementation strategy is being developed.

**Regional Environmental Initiatives**

**WESROC members**

The purpose of this review was to identify opportunities for undertaking environmental initiatives at a regional level. The project included an audit of existing environmental plans and initiatives at each local government and identified where there were gaps in the existing approach. The review also identified opportunities for initiatives at a regional level and for resource-sharing.

**Stirling Highway Revitalisation**

**WESROC members with DPI and MRWA**

This project involved WESROC working with DPI and Main Roads WA with the aim to achieve an agreed vision for Stirling Highway. The study reviewed and redefined the long-term reservation requirement for Stirling Highway between Jarrad Street and Winthrop Avenue. The resultant vision and objectives included improved public transport priority, improved safety for all users and integration with land use planning.

**Development Along Railway Corridor**

**WESROC members**

The Western Suburbs Planners Working Group prepared this information paper for WESROC which considered all the possible redevelopment and renewal options available along the Perth-Fremantle rail route. The objective was to provide a regional perspective on issues which will impact on each local government individually, and to assist in dealings with the State Government.

**Total Water Cycle Monitoring**

**WESROC members with Town of Cambridge, Water Corp and Swan Catchment Council.**

This initiative was an outcome of the Stormwater Quality Study, and included all WESROC members, the Town of Cambridge, Water Corporation and Swan Catchment Council. A key recommendation of that study was the implementation of an integrated monitoring program from which water quality criteria and targets could be established. The report details the results of the monitoring program, provides interpretation of the results and investigates the link to existing water sensitive urban design practices implemented by local governments.

**Depot Options**

**Nedlands, Claremont, Cottesloe**

The Towns of Claremont and Cottesloe and the City of Nedlands have investigated the establishment of a combined works and parks depot for the three local governments. By combining their facilities the potential was identified to create a modern depot facility achieving greater economies of scale and some resource sharing, while releasing existing depot sites for...
In an effective resource-sharing initiative the Shire of Peppermint Grove and Towns of Cottesloe and Mosman Park operate a shared library service. The Shire of Peppermint Grove operates the library on behalf of the other two local governments. This joint service is well regarded by respondents to customer service surveys, indicating the success possible through resource-sharing without compromising customer satisfaction.

The City of Nedlands hosts a regional library computer service to support all libraries in the region. This enables a user of any library to access the book stock of any of the region’s public libraries and to do so at any library within the region. The City, as service provider, operates the computer hardware and software and supports the system with general maintenance and a help line.

This review occurred as a response to an approach from the North Metropolitan Health Service which, following an internal review of child health services, was looking to improve the level of service to users of the clinics. The proposal was to rationalise the service by discontinuing a number of part time clinic services conducted throughout the region and replacing these with a full time, 5 day per week service in a new facility. However, the costs of the proposed new facility were considered too high to justify the change.

The Cities of Nedlands and Subiaco and the Town of Claremont have undertaken an assessment of recreation space within their districts to review the sufficiency of playing fields to meet demand and the efficiency with which the available resources are utilised. The review examined the underlying issues of entrenched attitudes of users of the active reserves which may adversely impact on availability. It found that there are sufficient playing fields available but that the efficiency of utilisation is hampered by entrenched attitudes and practices by some clubs. It recommended modified management arrangements to improve access and achieve more optimum usage.

Five of the WESROC local governments have contracted with the Dogs’ Refuge Home (WA) Incorporated to establish and maintain a pound for the detaining and impounding of dogs seized or found wandering at large within the districts of the local governments. Under the Agreement the Home is appointed as pound keeper for the purposes of the operations of the pound under the Dog Act 1976.

Investigations were undertaken to determine the viability of implementing a staff exchange program within the participating local governments.
<table>
<thead>
<tr>
<th>Members</th>
<th>Program Amongst WESROC Member Councils.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Common Tenders</strong></td>
<td>WESROC members have for some time jointly tendered for the supply of engineering materials such as concrete and bitumen. This has been undertaken to achieve cheaper rates for commodities which are available due to higher quantities resulting from pooling. In effect the members draw from a common contract to which all are parties. Recently some WESROC members joined with other local governments in a joint tender for insurance broking.</td>
</tr>
<tr>
<td><strong>LINCS Community Information Service</strong></td>
<td>LINCS is a web-based computer information system which provides a means to collect and publish a directory of community information and services. It is a national, subscriber-based service. To achieve affordable access to LINCS the City of Nedlands has entered into a membership agreement on behalf of all WESROC members. The agreement allows all WESROC members to utilise the LINCS service for their communities at a significant saving compared to individual membership. The WESROC members are working together to assemble and maintain a database providing information to citizens and staff through a variety of channels.</td>
</tr>
<tr>
<td><strong>Youth Program</strong></td>
<td>Three local governments of WESROC, the City of Subiaco and Towns of Claremont and Mosman Park, have joined with the Town of Vincent to cooperate to host the annual AmpFest-Clash of the Bands. The local governments work together taking into account each party’s policies, budget constraints, festival objectives and event and risk management principle.</td>
</tr>
<tr>
<td><strong>Heritage Review</strong></td>
<td>All councils are required by statute to prepare and administer an inventory of buildings within their districts which are, or may become, of heritage significance. The study researched and evaluated information on various strategies and methods used nationally and internationally to successfully conserve heritage places and buildings in private ownership.</td>
</tr>
<tr>
<td><strong>Recreation Facilities &amp; Programs Audit</strong></td>
<td>The aim of this project was to assist individual members plan for their respective populations whilst providing for integrated recreation services in the region. It identified a number of proposed new developments within the region and in adjacent local government districts. The western suburbs are host to numerous regional, state, national and/or international facilities. Negotiation of greater access to these facilities for the residents of the region was recommended. The study also identified facility duplications and gaps. It concluded that the western suburbs are generally well resourced with recreation facilities and opportunities.</td>
</tr>
<tr>
<td><strong>Shenton Park Integrated Transport Strategy</strong></td>
<td>Following an approach to the State Government by WESROC, a major review of transport needs in the “Shenton Park” area was undertaken by Nedlands, Subiaco, Claremont and Cambridge, in</td>
</tr>
</tbody>
</table>
Cambridge, State Government agencies in conjunction with relevant State government agencies. The result was the Shenton Park Integrated Transport Strategy which has been progressively implemented since then.

| Capital Contributions to Regional Facilities | WESROC members | All members were involved in establishing practices for contributing to the capital cost of major regional facilities used by their communities which have included the development of the Claremont Aquatic Centre. More recently, additional capital contributions have been made to allow the swimming pool to be geo-thermally heated. |
| Capital Contributions to Boundary Projects | WESROC members | The councils also have contributed to the capital cost of projects on boundaries. For example, Nedlands and Subiaco have made capital contributions to one another in relation to road works, underground power, public art and streetscape improvements on boundaries such as Monash Avenue, Broadway, Aberdare Road and Hampden Road. |
| Local Emergency Management | WESROC members | To improve the effectiveness of emergency management in the region, at the initiative of WESROC, the two existing local emergency management committees comprising Subiaco, Nedlands, Cambridge and Vincent, and Claremont, Cottesloe, Mosman Park and Peppermint Grove respectively, have recently been combined to form the Western Central Local Emergency Management Committee. This region of eight local governments is considered a more effective grouping for dealing with emergency management issues. |
| Submissions Prepared | WESROC members | WESROC has provided submissions to various inquiries, green papers, and requests for comment, including, but not limited to: New Building Act; Local Government Structural and Electoral Reform Review; Public Health Act Position Paper; Public Accounts Committee Review of LG Accountability; Regional submission on Network City Proposal; and Waste Avoidance and Resource Recovery Bill & the Waste Avoidance and Resource Recovery Levy Bill |

Source: Stephen Goode Consulting 2005
CHAPTER 10: AN ASSESSMENT OF THE WALGA REGIONAL MODEL

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

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

In common with several other states, WALGA approached the question of local government reform in its own jurisdiction by producing a series of reports and consulting widely among interested parties.² As we have seen, the process began with the WALGA

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

However, further deliberation by Western Australian councils saw some changes made to the Draft Report, although the overall thrust of the Draft Report remained largely intact. As a consequence, a Final Report entitled The Journey: Sustainability into the Future superseded the Draft Report. In effect, the Final Report represented a distilled version of the Draft Report with fewer recommendations and a stronger emphasis on the SSS framework, representing ‘a process and not a structure’.

A meeting held in Perth by Western Australian council representatives on Monday 15 September overwhelmingly endorsed the Final Report. However, delegates expressed some reservations with the Report. The more important of these included the following:

- Concern over the creation of ‘another level of bureaucracy’;
- Potential ‘loss of political control’;

• The emphasis on improvements in the functional delivery of services (through the regional service delivery model) which could be seen as a potential precursor to voluntary structural reform (i.e. amalgamation).

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

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

In the context of Chapter 10 the ‘Services’ section of The Journey is particularly important. It briefly canvasses various options with respect to inter-council co-operation in shared service delivery, including Voluntary Regional Organisations of Councils, Regional Local Governments (as established under provisions in the Local Government Act 1995), Area Integration or Joint Board Models, and what it refers to as ‘Bigger Local Governments’, which are created ‘through boundary changes and amalgamations’.

In terms of the formal organisation of local government in Western Australia, the centrepiece of The Journey resides in Chapter 9 of the Draft Report, which proposes a Regional Model as the core of its program of local government reform. The Draft Report
(2008, p.7) contends that ‘the Regional Model is significantly different to imposed structural reform in that it is not driven by a reduction in local governments for the sake of simple cost savings, nor does it suggest “one size fits all” solution’. Instead ‘the objective of the Regional Model is to improve the ability of a local government to actually meet the expectations of the communities, at both local and regional levels’ by means of the ‘retention of existing representation arrangements supported by enhanced capacity for improved service delivery’. In essence, the Regional Model thus seeks to ensure the continuation of local representation through the preservation of existing local councils, but at the same time improve the functional performance of local government through regional cooperation in service provision. In Chapter 10 we attempt to set out the central elements of the Regional Model, place it in the conceptual context of the Australian literature on alternative models of local government and then evaluate its properties and prospects for success.

It must be stressed that the centrality of the Regional Model in the Draft Report is not reflected in the Final Report. The authors of the Final Report (2008:3) observe that ‘numerous stakeholders made comment on the perceived inadequacies of the “Regional Model” as outlined in the Draft Plan’. In particular, ‘local governments felt that its intention and form was not sufficiently clear and did not do the proposal justice’. Moreover, ‘for others, this lack of clarity may be the source of some of negativity with which it has been received’. Thus ‘much more detailed discussion is provided in this Plan’.

However, considerable discussion with WESROC Mayors, CEOs and other officers demonstrated that, despite some reservations concerning possible interpretation of the Regional Model, especially the fact that it may be seen as a precursor to amalgamation, in general widespread agreement existed that the Regional Model represented a sound conceptual basis for examining the future of WESROC. In this sense, the Regional Model represents a useful indicative model for WESROC that is in no sense prescriptive of where WESROC must reform. For this reason, Chapter 10 devotes considerable attention to an examination of the Regional Model.
Chapter 10 is divided into four main parts. Section 10.2 considers the main characteristics of the Regional Model. Section 10.3 provides a synoptic review of the Australian literature on alternative models of local government and seeks to situate the Regional Model in this conceptual framework. Section 10.4 presents a critical evaluation of the Regional Model. Chapter 10 ends with some brief concluding remarks in section 10.5.

10.2. THE WALGA REGIONAL MODEL

The Draft Report (2008, p. 177) sets out six explicit ‘transitional’ intentions for its proposed Regional Model. These are stipulated as:

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

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

- The adoption of ‘long term (10-year) financial planning methods’ across the entire local government sector;
• Implement ‘markedly improved management and renewal of infrastructure and assets’;
• Use annual reporting mechanisms to increase transparency;
• Employ ‘prudential debt levels’ for local infrastructure investment;
• Adopt ‘best practice in rating and the setting of fees and charges’ to improve revenue-raising;
• Use ‘new revenue options and administrative tools’, including ‘commercial trading entities’ as well as ‘best practice in development charges’;
• Establish a Local Government Independent Support Commission and Finance Authority;
• Seek ‘engagement by the other spheres of government’ in order to ‘ensure that issues of adequacy in planning and funding of services to communities receive long overdue attention’; and
• Make local government a ‘respected and equal partner to intergovernmental dealings in all matters affecting the quality of life of the communities it serves’.

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

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

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

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

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

Figure 10.1 provides a useful diagrammatic illustration of the proposed Regional Model:
Figure 10.1: Proposed Western Australian Regional Model of Local Government

Figure 10.1 highlights several interesting features of the proposed Regional Model. In the first place, in Figure 10.1 the Regional Local Government will facilitate resource sharing,
political representation, regional infrastructure asset management and finance, regional planning, some aspects of finance, like rates and bad debts, and conduct a ‘fee-for-service’ for federal and state government service delivery. Secondly, ‘viable’ member local councils are retained, which meets the central objective of *The Journey* by retaining local representation and preserving local community identity. The position of ‘unviable’ local councils is not addressed directly, but the Draft Report seems to implicitly assume that this category of councils will disappear through voluntary amalgamation. Thirdly, Figure 10.1 provides an important role for WALGA, the Department of Local Government and Regional Development (DLG & DG) and the proposed auxiliary bodies, such as LGIAC, with the latter assigned significant advisory capacities in asset management, best-practice techniques, record keeping, etc.

While Figure 10.1 is helpful in illustrating the basic characteristics, it contains a bare minimum of detail, as we shall see later in Chapter 10. However, some insight can be gleaned from the fact that the Draft Report (2008, p. 186) specifically notes that ‘rating’, ‘planning’ and ‘roadworks’ are three functional areas of local council service provision that will form part of the ‘shift to regional service delivery’. In support of this proposal, the Draft Report contains three ‘pre-feasibility’ analyses (Appendix C, Appendix D and Appendix E) of these activities to demonstrate the benefits that would flow from this shift as well as to provide a methodology, which local government can employ ‘as part of their decision making on whether to delegate services and functions to the regional level’.

While the three appendices provide useful information, the fact that two of the three (D and E) do not actually conduct any definitive ‘pre-feasibility’ studies (but rather recommend further research and pilot studies), as well as the fact that the appendices tackle three highly dissimilar functional areas, heavily proscribes their utility as potential templates for Regional Councils. Indeed, a careful reading of Appendix C (which proposes a WALGA-run centralised ‘hub and spoke’ ratings service with designated Rates Officers from each member Regional Council), Appendix D (which proposes four different models for planning services, as yet not analysed for feasibility) and Appendix E (which deals with road construction and maintenance shared services, but also simply
recommends further research) illustrates that they have very little in common with respect to methodology.

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

10.3 ALTERNATIVE MODELS OF LOCAL GOVERNMENT

As we have seen in this Report, various conceptual approaches to multi-tiered government exist which can assist not only in locating the Regional Model amongst alternative models of local government, but also in determining its chief characteristics. These conceptual approaches are largely built on the foundations of the theory of fiscal federalism (Oates, 1972) which prescribes how various functional areas should be assigned across the different tiers of government in a decentralised system of government, as well as the public choice perspective on competitive federalism stemming from Tiebout (1956). This body of thought sets out various conceptual rules to guide the assignment of governmental functions amongst the different levels of government, including the ‘correspondence principle’ and ‘benefit regions’. The correspondence principle holds that to guarantee allocative efficiency, local expenditure should be financed by local taxes. The concept of benefit regions holds that public sector functions should be allocated on the basis of the size of the benefit region of any given function. Thus public services with a local spatial incidence should be the responsibility of local government.
The Regional Model does not even address the correspondence principle. It implicitly accepts the fact that vertical fiscal imbalance will continue to afflict local government, making grants from higher tiers of government essential for the viability of the Regional Model and its constituent member local councils. Furthermore, it does not make provision for any other method of revenue augmentation, such as tax-sharing arrangements, the creation of new local taxes, etc.

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

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

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

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

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

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

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

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

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

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

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

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

However, the concept of area integration models is far from new. For example, Dollery, Crase and Johnson (2006, p.130) have argued that ‘the joint board model seems to represent an extension of the ancient English system of rural parish councils attached to the administrative apparatus of larger municipal corporations’ first placed in the context of Australian local government by Williams (1988), and then further elaborated by Ernst and Young (1993) and Thornton (1995) as an ‘urban parish’ model in the South Australian amalgamation debate in the 1990s.

Area integration models are all based on two implicit assumptions concerning the nature of local government. Firstly, small local councils are presumed to enjoy a comparative advantage in terms of effective local representation and local democracy, but these same organisations are assumed to have a comparative disadvantage in terms of the productive efficiency of service provision. By contrast, large local authorities are deemed to exhibit precisely the opposite propensities; they are relatively inefficient at providing effective democratic representation, but are relatively efficient in service provision. The result of these assumptions is that a purported trade-off exists between democratic efficacy and economic efficiency.

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

At least three potential problems can be identified in this line of argument. In the first place, at the conceptual level, it is by no means obvious whether scale economies are either substantial or spread across many local government services. For instance, with respect to scale economies in Australian local government, Dollery and Fleming (2006, p.274) have argued that ‘if councils each produce their own services and there are substantial aggregate economies of scale, then it follows that a system of numerous small municipalities will result in higher expenditures for the same level and composition of output than a system of fewer larger councils’. However, specific scale characteristics are tied to particular services. Thus ‘the most efficient level of production will depend on the type of service in question’, which means that ‘where local government produces a range of different services, each with its own unique production characteristics, no single size of government will be able to produce all services at the minimum possible cost for each service’. The same argument has been advanced by Sancton (2000, p.74), who observed that ‘there is no functionally optimal size for municipal governments because different municipal activities have quite different optimal areas’.

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

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

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

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

After an analysis of available evidence on shared services in Australian local government, Dollery, Akimov and Byrnes (2007) found that shared service arrangements can improve the efficiency of local service delivery, but that some services are more amenable to shared service arrangement than others (see also Dollery and Akimov 2007a; 2007b). These areas included information technology, human resources, procurement and waste management. However, they established that there are identifiable barriers to the implementation of shared service arrangements, which are often ‘difficult to overcome’, especially the perceived loss of ‘municipal identity’, the ‘complexity’ of the process in question, ‘conflicting objectives’ and ‘uncertain benefits’.

In a similar vein, Dollery and Akimov (2008, p.95/96) observed that while ‘there is little “hard-core” rigorous evidence in support of the local shared service arrangements and no such evidence against this approach’, nevertheless ‘from existing “soft-core” evidence it seems that shared service arrangements can be beneficial for councils both in terms of cost savings and enhanced service quality’. They found that the ‘six most popular broad areas’ were ‘(i) procurement; (ii) human resources; (iii) governance, compliance and audit services; (iv) IT; and (v) waste management’.

In the light of this work, there thus seems to be a surprising degree of agreement on the general nature of the services that can best be delivered through the Regional Model. However, all authors are at pains to point out that the magnitude of efficiency gains and cost savings depends to a high degree on co-operative conduct by the councils involved and that significant barriers must be overcome in the implementation of shared service arrangements.
While space constraints limit our capacity to explore in detail some of the other matters that must be decided in the establishment of a Regional Model, it is nonetheless possible to at least briefly mention these factors. Firstly, the question of the ownership of Regional Council resources by its member councils must be resolved. The most common method of tackling this problem in the literature is to create shares in the Regional Model and then allocate these among member councils on some agreed basis, like financial contributions. Secondly, an analogous problem arises with respect to the distribution of any surplus that might accrue to the Regional Council and can be solved in a parallel manner. Thirdly, the threat of excessive organizational complexity and ambiguity is real. While no a priori solutions to this problem have been identified in the literature, it seems clear that thoughtful organisational design is required; an area in which WALGA can assist. Finally, the literature has shown that competing and irreconcilable demands by different member councils can induce conflict, particularly over the demarcation of local council and Regional Model responsibilities. No ready solution exists to meet this potential problem, which will have to be dealt with on a case-by-case approach.

10.5 CONCLUDING REMARKS
In the light of the analysis conducted in Chapter 10 on the Regional Model, what can we say about its prospects of success? Several observations seem warranted. In the first place, the Regional Model has been depicted in the *The Journey* (2008) in a highly abstract manner, with relatively few specific details prescribing its structure and operation. We have argued that although this increases its likelihood of acceptance by Western Australian local government - a major political factor - it also implies that groups of councils falling under a given Regional Model receive an almost blank template from which to proceed. While this might boost the possibility of conflict between fractious local councils, it appears that, on balance, this is justified given the immense diversity within the local government sector in Western Australia.

Secondly, the literature on shared services in Australian local government suggests several likely candidate functions that could be adopted by the Regional Model in
addition to the three areas indicated in the Draft Report. Indeed, a surprising degree of unanimity exists on the most suitable services to be delivered regionally, predominantly in the ‘back office’ area of municipal operation. Moreover, available evidence implies reasonable prospects of both improved service provision and cost savings, although significant barriers must be overcome. There is thus reason to be optimistic in this respect too. Chapter 11 of this Report takes up this question in detail.
CHAPTER 11: MEETING THE CHALLENGE

11.1 INTRODUCTION
Chapter 11 seeks to provide some putative solutions to improve the performance and service provision of the six western Perth councils that comprise WESROC. In particular, Chapter 11 seeks to confront the challenges posed by the WALGA reforms in the *The Journey: Sustainability into the Future* (2008) and ensure that WESROC member councils can not only meet these expectations, but exceed them, in a manner that is tailored to the requirements of these councils and their community. In order to achieve this objective, Chapter 11 explores various options considered by other groups of councils around Australia by way of background to considering the best way forward for WESROC. In total, Chapter 11 makes 17 recommendations for WESROC to consider.

Chapter 11 is divided into seven main parts. Section 11.2 deals with the Dollery, Marshall, Johnson and Witherby (2004) review of the Riverina East Regional Organisation of Councils (REROC). Section 11.3 considers the shared service model implemented by the Armidale-Dumaresq, Guyra, Uralla and Walcha councils in forming the New England Strategic Alliance of Councils (NESAC). Section 11.4 discusses previous efforts made by WESROC to enhance the operations of its member councils. Section 11.5 outlines the results of the Byrnes (2005) survey, which was undertaken as part of the NSW Local Government Inquiry (LGI 2006), and highlights the views of selected General Managers (CEOs) on how local government services can more efficiently and effectively be coordinated. Section 11.6 then seeks to combine what has been learned for WESROC to consider for strengthening its future role. Chapter 11 ends with some brief evaluative comments in section 11.7.

11.2 RIVERINA EAST REGIONAL ORGANISATION OF COUNCILS (REROC)
Dolley, Marshall, Johnson and Witherby (2004) undertook a comprehensive review of the operations of the Riverina East Regional Organisation of Councils (REROC) in an effort to determine the causes of the success of this organisation and to make recommendations as to how REROC could be further enhanced.
REROC was established in 1994 and, at the time of the study, contained 13 member councils, served a population of 118,171 residing in an area of 43,223 km$^2$ situated on the River Murray in southern New South Wales. While REROC does not directly employ any staff, it appointed a dedicated Secretariat on a contractual basis. Dollery, Marshall, Johnson and Witherby (2004) concluded that much of the success of REROC was directly due to the operation of its Secretariat. The Secretariat not only provided the resources necessary to ensure REROC operated in an efficient manner; it was also able to consider and capture opportunities for REROC as they presented themselves as well as drive REROC in a vigorous way.

**Recommendation 1:** WESROC consider establishing a dedicated Secretariat and CEO to ensure that adequate resources are available to assist in the increased work load.

A critical feature of a dedicated Secretariat resides in the character and calibre of the CEO who runs the Secretariat. In their Report, Dollery, Marshall, Johnson and Witherby (2004) argued that a good deal of the success of the REROC Secretariat and therefore of REROC itself could be attributed to the dynamic CEO who ran the REROC Secretariat. It can thus be concluded that extreme care should be taken in selecting the best possible person for the position of CEO of the dedicated Secretariat.

**Recommendation 2:** Given the pivotal role of the CEO, special care is taken in appointing a suitable person.

The REROC Board consists of the Mayor and a representative of each member council. Representatives are chosen by member councils and typically this is the General Manager, though in one instance the representative is a councillor. The Board meets bi-monthly and decisions are taken on a unanimous basis.
The Dollery, Marshall, Johnson and Witherby (2004) study concluded that REROC had been very successful; it had inter alia identified $4.5 million worth of savings that had been achieved over a 5½ year period concluding in June 2003. Table 11.1 below provides a summary of how these savings had been achieved. In essence, the savings generated for its member councils by REROC derived from its regional advocacy role, joint tendering as well as by sharing services and expertise amongst its member councils.

### Table 11.1: Estimated Savings for REROC

<table>
<thead>
<tr>
<th>Activity</th>
<th>Estimated Dollars Saved</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electricity Tender</strong> – originally let for three years, the tender was let again in 2001, generating further savings for the participating councils.</td>
<td>$600,000 $252,164</td>
</tr>
<tr>
<td><strong>Savings for councils</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Savings for businesses</strong></td>
<td></td>
</tr>
<tr>
<td><strong>On-site Sewage Management Plan and Database</strong> – developed by REROC Environmental and Health staff and the REROC EO over 8 4-hour meetings in response to government legislation. Savings to Councils</td>
<td>$65,000 $225,000</td>
</tr>
<tr>
<td>REROC sold 55 Plans to other councils in NSW and Victoria, generating over $10,000 in revenue for the organization and saving approximately $5,000 for each council who purchased the plan. Savings to non-REROC councils</td>
<td></td>
</tr>
<tr>
<td><strong>Bitumen Emulsion Tender</strong> – has now been let three times with the current contract finishing at the end of 2004. REROC members use almost a million litres of bitumen emulsion each year and savings have been substantial (in the vicinity of $130,000 a year).</td>
<td>$800,000</td>
</tr>
<tr>
<td><strong>Proposed WorkCover Working Near Roads Guidelines</strong> – lobbied successfully against the introduction of these guidelines, preparing a comprehensive submission on what was wrong and getting two REROC engineers on the State Committee looking at it. Had the guidelines gone through it would have substantially increased the cost of road works, e.g., councils would have been forced to put an additional staff member on every road patching crew. Savings for councils ($25,000 per member (13) per year)</td>
<td>$650,000</td>
</tr>
<tr>
<td><strong>Tender for the Bulk Supply of Copy Paper</strong></td>
<td>$6,000</td>
</tr>
<tr>
<td><strong>GIS Computer Software</strong> – REROC organised a group purchase of the software, group training, a lower rate for on-site expertise and a Help Line so that members were able to access GIS expertise on an as-needed basis. Savings for councils ($2,000 per participating council).</td>
<td>$24,000</td>
</tr>
<tr>
<td><strong>GPS Equipment Purchase</strong> – REROC obtained a Federal Government grant to advance the uptake of this technology. We have purchased two units. To date nine councils have taken advantage of the equipment – equipment that they were otherwise highly unlikely to ever purchase. The use of the equipment significantly cuts down on the staff time required to collect and process information. Savings for councils (9 x $25,000)</td>
<td>$220,000</td>
</tr>
</tbody>
</table>
GST Implementation Project – REROC chose to run its own GST implementation and did not employ any external consultants. As a result the total cost of GST implementation to member councils (including training for all financial staff, general managers and senior staff as well as the production of a GST Resource Kit) was $481,000 (excluding the cost of staff time). Most councils employed external consultants at substantial cost savings to councils (because they did not engage an external consultant, based on $30,000 per council). This amount does not recognise the benefits generated through the development of internal staff knowledge on GST as a result of having to problem solve in a group situation in order to implement the new tax system.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>GST Implementation Project</td>
<td>$450,000</td>
</tr>
</tbody>
</table>

RTA Single Invitation Contract Accreditation Documentation – REROC prepared a generic Corporate OH&S Management Plan to meet RTA Specifications. The plan was then customised by member councils, significantly cutting down on the time required for pre-qualification. Savings to councils ($5,000 per council, cost of a consultant). The plan was subsequently sold to 20 other councils around the State, generating revenue for the ROC of $10,000.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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<tbody>
<tr>
<td>RTA Single Invitation Contract Accreditation Documentation</td>
<td>$65,000</td>
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</table>

SEDA Energy Smart Business Project – REROC was the first group of councils to join this Project. Councils are implementing energy saving technologies in order to reduce greenhouse gas emissions and generate savings on energy.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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<tbody>
<tr>
<td>SEDA Energy Smart Business Project</td>
<td>$16,000</td>
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</table>

Tender for the Bulk Supply of Liquid Alum – for the Water County Councils and the general purpose councils that provide water.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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</thead>
<tbody>
<tr>
<td>Tender for the Bulk Supply of Liquid Alum</td>
<td>$60,000</td>
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</table>

Group Training Activities – REROC organises local training for councils, reducing the cost of travel and time lost from the workplace. Training is also sourced at cost-effective prices.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Group Training Activities</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

Tender for the Collection of Scrap Metal Waste – prior to the letting of this contract some members were paying for scrap metal collections. The latest contract pays councils $59.00 per tonne for scrap collected. Generating an income of $117,000 in the first 11 months of the current contract. Savings to councils (over the three year life of the current contract as well as the first year of the test contract).

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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</thead>
<tbody>
<tr>
<td>Tender for the Collection of Scrap Metal Waste</td>
<td>$640,000</td>
</tr>
</tbody>
</table>

Road Safety Officers – four Road Safety Officers are shared over the 13 member councils. With each RSO serving 3 or 4 councils. This has allowed the shire council members to participate in the project for the first time. Previously, the project could only be accessed by councils who were able to meet half the annual cost of the project—$35,000. Savings to councils (based on councils only having to meet 1/3 of the cost $46,000 x 3 years). In total the RSO project will result in over $800,000 in funding from State Government and other sources coming into the region to support community road user projects.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road Safety Officers</td>
<td>$138,000</td>
</tr>
</tbody>
</table>

CTP Green Slip Insurance – a group tender for all the vehicles in the region.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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</thead>
<tbody>
<tr>
<td>CTP Green Slip Insurance</td>
<td>$20,000</td>
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</table>

Privacy Policy Guide and Training Materials – in response to the introduction of Privacy Legislation, REROC members worked together to design a guide for council staff, a training course, a brochure for the public and generic documentation for use by councils. Savings to councils (based on one member of staff of each council developing their own materials). REROC sold the materials to other councils in NSW generating over $5,000 in revenue for the organization.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Privacy Policy Guide and Training Materials</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

Preparation of a Protective Clothing Policy for Councils – was prepared in anticipation of a group tender for clothing and to address concerns about the wearing of inappropriate clothing by outdoor staff. Savings to councils (based on one member of staff of each council developing their own materials).

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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</thead>
<tbody>
<tr>
<td>Preparation of a Protective Clothing Policy for Councils</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

Sharing Works Methods Statements – members who have prepared Works Methods Statements have placed the statements on the REROC website for access by all members (using a password system). Savings to councils (based on one member of staff of each council developing their own materials).

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sharing Works Methods Statements</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

Group Purchase of Traffic Management Planning Software – savings of $300 per software purchase were achieved. Savings to councils.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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</thead>
<tbody>
<tr>
<td>Group Purchase of Traffic Management Planning Software</td>
<td>$3,600</td>
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</tbody>
</table>

Purchase of Cdata and Central Processing for Members – the purchase of 2001 Census data by the ROC and the manipulation of that data for members by REROC.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Cost</th>
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</thead>
<tbody>
<tr>
<td>Purchase of Cdata and Central Processing for Members</td>
<td>$40,000</td>
</tr>
<tr>
<td>Project Description</td>
<td>Estimated Savings</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Waste Oil Facilities Tender – the ROC prepared a group funding submission to the Federal Government and then let a regional contract for the 11 LGA’s in the region at no cost to the councils.</td>
<td>$142,000</td>
</tr>
<tr>
<td>Preparation of Regional Guidelines for the Establishment of Rural School Bus Stops – in NSW there are no established Guidelines for this purpose. Working with the RTA a ROC committee prepared the guidelines that will be adopted by the region and possibly the State. The guidelines addressed some serious issues with regard to councils’ liability in the placement of rural bus stops. Savings to councils (based on one member of staff of each council developing their own materials)</td>
<td>$20,000</td>
</tr>
<tr>
<td>Employment of a Regional Waste Officer – a Waste Officer has been engaged to implement waste projects, particularly community-based waste projects across the region. The WO will implement a wide variety of projects with funds obtained through the State Government at almost no direct cost to councils. Savings to councils (based on grant funding to be received to fund community projects over three years)</td>
<td>$350,000</td>
</tr>
<tr>
<td>Companion Animals Training Materials – following a request from rangers in the REROC region, the ROC is working with a local school to develop teaching materials appropriate to primary schools that can be used in an education program. Funding for the project has been sourced from the State Government and resources developed will be available to all councils in the State. Savings based on one staff member of each council developing their own material.</td>
<td>$40,000</td>
</tr>
</tbody>
</table>
| Corruption Resistance Documentation – following meetings with ICAC the ROC agreed that this documentation should be prepared in the following areas:  
• A Corruption Risk Management Plan  
• A training program on corruption risk management  
• A Corruption Resistance Policy  
• Statement of Business Ethics  
• Code of Conduct (that includes guiding principles or values and how to handle ethical dilemmas)  
• Gifts and Benefits Policy (to be contained in the Code of Conduct)  
• Secondary Employment Policy  
• Internal Reporting Policy  
• Investigations Policy  
Savings to councils (based on one member of each council developing their own materials) | $75,000 |
| Social Planning – the ROC is currently assisting member councils in the preparation of their social plans by co-ordinating the process on a regional basis to ensure that there is no duplication of effort or resources. Savings to councils (based on one member of each council working alone or hiring a consultant) | $50,000 |
| Preparation of Submissions – REROC has over the years prepared numerous submissions on behalf of member councils. The result has been a more comprehensive response to issues because all members have been able to provide input to the process. Time savings to member councils as a result of this approach have been substantial, as in most cases the responses would have been prepared by senior staff. Savings to councils (based on one member of each council developing their own materials) | $100,000 |
| Total Estimated Savings for Member Councils | $4,684,600 |

*5.5 years to June 2003

REROC prides itself on its achievements and the benefits it produces for its respective member councils. By placing a value on its activities, REROC member councils are able to clearly demonstrate the return on their investment in the organisation.
Recommendation 3: WESROC should not only record the activities undertaken but also seek to place a value on the cost savings and non-pecuniary benefits that these activities produced to their respective communities.

Dollery, Marshall, Johnson and Witherby (2004) contend that a key ingredient in the success of REROC resides in its ability to develop extensive and dynamic networks of interaction. This networking has resulted in the generation of substantial reserves of what social scientists term ‘social capital’ as well as substantial economic gains. Social capital embraces the sense of ‘trust’ that evolves between individuals and groups.

Dollery, Marshall, Johnson and Witherby (2004) proposed that REROC could be further strengthened by considering the opportunities for a common approach to the following issues:

- Benchmarking the services provided by member councils;
- Social planning in the region;
- Information technology services;
- Human resource management;
- Asset management;
- Co-ordination of works programs; and
- Other resource sharing opportunities.

The benchmarking program was considered essential since one of the most common perceptions of contemporary Australian local government is that it is chronically inefficient. It is unfortunate that this fallacy has not been able to be conclusively rebuffed by the sector. In addition, a benchmarking program would assist member councils to determine the effectiveness of any WESROC and other reforms undertaken, allowing it to further record the benefits to WESROC membership.
Recommendation 4: WESROC councils seek to benchmark their current activities to demonstrate existing performance and to provide a comparison of performance post-reform.

In relation to the provision of social planning in the region; information technology services; human resource management; and asset management, Dollery, Marshall, Johnson and Witherby (2004) suggested that the following options should be considered by REROC for the delivery of these services:

- To develop a business unit in one council to provide services to all other member councils, on an agreed shared cost basis;
- REROC to appoint specialist staff to undertake function for member councils;
- Engage external consultants/organisations to provide service (mainly in relation to social planning which required specialized skills for a fixed project/period of time);
- Develop a ‘sub-regional model’ with one person working across two or three councils; and
- Facilitate staff training, rotations, knowledge sharing, and skill building

This approach is consistent with WESROC’s flexible approach to service delivery, its voluntary ‘opt-in’ strategy, as well as designing service delivery to suit its needs.

Recommendation 5: In developing its reform strategy WESROC should continue with its flexible approach to service delivery and consider the REROC approach to its services going forward.

Table 11.2 provides details of a number of other resource sharing arrangements identified by Dollery, Marshall, Johnson and Witherby (2004) as part of their study on REROC.
Dollery, Marshall, Johnson and Witherby (2004: 34-35) asserted that there were many options to improve the operations of REROC, but conceded that ‘the only limit to the future resource sharing of REROC appears to relate to members’ political and philosophical preferences, in particular, to the question of how much autonomy they are prepared to sacrifice to achieve cost savings’.

WESROCK is considered similar in a number of regards to REROC. Neither organisation employs staff, both have existing strong relationships between their respective members, both provide a strong regional advocacy role for their communities, and each has

<table>
<thead>
<tr>
<th><strong>Table 11.2 Other REROC Resource Sharing Opportunities Identified</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract Administration</strong></td>
</tr>
<tr>
<td>A centralised Contract Manager could maintain the various contracts and leases held by individual councils. This could include coordinating the calling, preparation and evaluation of contracts on behalf of members. This would not only allow for bulk contracts to be called, but also avoid duplication of contract management that currently takes place within the individual councils.</td>
</tr>
<tr>
<td><strong>Purchasing &amp; Stores Function</strong></td>
</tr>
<tr>
<td>A centralisation of the purchasing and store function may avoid duplication, provide more opportunity for bulk purchasing, and allow for reduction in the amount of stock individual councils keep in their respective stores.</td>
</tr>
<tr>
<td><strong>Regional SOE Reporting</strong></td>
</tr>
<tr>
<td>As touched on in Part II, Section 5 we believe that there are advantages in preparing a regional Statement of Environment (SOE) report rather than individual councils preparing separate reports. A number of regional SOE reports have been prepared elsewhere around the state and provide many advantages to councils. These include reduced duplication, a report prepared by specialist staff, identification of regional priorities and the likelihood of acceptance from the State government.</td>
</tr>
<tr>
<td><strong>Environment &amp; Catchment Management</strong></td>
</tr>
<tr>
<td>This is one of the fastest growing areas for council and a field in which most councils lack the relevant expertise. REROC may wish to explore the potential here, including the possibility of providing a suitably qualified person for councils to call upon for assistance when handling environment and catchment issues.</td>
</tr>
<tr>
<td><strong>Risk Management Services</strong></td>
</tr>
<tr>
<td>Recent court cases and the State government’s effort to reduce the deficit of WorkCover has forced an increased focus on the risk management practices of councils. The provision, by REROC, of a Risk Manager to address occupation health and safety issues and public liability exposure management on a regional basis, would greatly assist member councils. This would not only help councils in meeting their statutory and common law liabilities but would also reduce system duplication and encourage standardisation of practices which would greatly assist in defending claims.</td>
</tr>
<tr>
<td><strong>State and Federal Government Services</strong></td>
</tr>
<tr>
<td>A well resourced REROC could potentially provide many more fee based services on behalf of the State and Federal governments. We would encourage REROC, particularly after the competition of the regional social plan and SOE report, to identify services it may be able to jointly provide on behalf of the State and Federal government.</td>
</tr>
</tbody>
</table>

Dollery, Marshall, Johnson and Witherby (2004 p. 34-35)
embarked on a range of cooperative services for the benefit of its members. As a result, a number of the recommendations made by Dollery, Marshall, Johnson and Witherby (2004) to enhance the performance of REROC could also be applied to WESROC. It is therefore recommended that WESROC review the recommendations made and determine the viability of implementing them in WESROC.

**Key Features of REROC:**
- **Dedicated Secretariat**
- **Flexible approach to service delivery**
- **Record and promote cost saving initiatives**

**11.3: SHARED SERVICES IN THE NESAC MODEL**

The next ROC model to be reviewed to provide WESROC with some options that it may care to incorporate into its future direction is the New England Strategic Alliance of Councils (NESAC). This Strategic Alliance involves the councils of Armidale-Dumaresq, Guyra, Uralla and Walcha in northern New South Wales. NESAC services a population of around 40,000, residing in an area $18.140 \text{ km}^2$ and has a combined annual budget of about $57$ million.

The NESAC embarked on a ‘shared service’ approach to local government reform under duress of forced amalgamation. This involved pooling existing staff and resources of member councils across fourteen functional areas and providing these services to all member councils, while maintaining the current level of political autonomy of the individual member councils. Each council continues to pay for their existing resources and recovers the cost of those resources used in the provision of shared services from the other councils utilising the service on an agreed basis (i.e. hourly rates, number of transactions processed, equal shares, etc.). Unlike the REROC model - and WESROC’s current activities - the NESAC model embodies a flexible approach to service delivery. Services are either provided through a shared service arrangement or the local *status quo* arrangements prevails.
In their analysis of NESAC, Dollery, Burns and Johnson (2005) contended that ‘in its most simplistic form the model seeks to maximize the advantages that a larger amalgamated organisation could provide, like enhanced technical capacity and scope economies (Dollery and Crase 2004), while at the same time avoiding the many disadvantages associated with larger amalgamated organizations, such as the loss of local autonomy, local democracy and a “sense of place”, and the inefficient “one size fits all” approach to service delivery, thus improving decision making by decentralising it to the local level’.

The Strategic Alliance sought to improve operational efficiency by first embarking on a ‘Quick Wins’ strategy which enabled significant gains to be made in the area of GIS services, plant utilization, risk management, investment management without the need for common systems and any organisational change. These initiatives achieved a combined saving of $527,000 and a ‘once-off’ saving of $905,000.

**Recommendation 6:** WESROC member councils consider implementing a ‘Quick Wins’ approach where savings can be generated from existing activities with minimal change to member organisations to demonstrate commitment to the reform process.

Once the ‘Quick Wins’ component was implemented by NESAC, business cases were prepared for the implementation of shared services across fourteen function areas, which included Community Services Management, Financial Management, Plant and Fleet Management, Information Systems, Human Resources, Regulation and Planning, Works Support, Revenue Management, Supply and Procurement, Records Management, Treasury, Land Information and GIS Services, Customer Services as well as Internal Audit and Risk Management. NESAC estimated that this had the potential to deliver $1.7m in annual savings in the short term and $3.2m over the medium to long term.
This shared service model by NESAC was underpinned by an enabling information technology and connectivity platform and shared service arrangements over the fourteen activities. This allowed staff to work for one council while simultaneously being located in another council; it also ensured the interchange of staff without the need to learn different systems, as well as providing efficiency and cost savings in the delivery of IT services across the member councils.

**Recommendation 7:** Any structural and operational reforms proposed by WESROC should be supported by a strong business case and careful planning to ensure its success.

**Recommendation 8:** WESROC councils should consider the benefits of moving to a common suite of IT across the six member councils to enhance opportunities for greater cooperation in service delivery in other areas and the interchange of staff between councils.

The NESAC model split the fourteen functions between the existing four General Managers who where then required to implement the business cases and manage the shared services across the councils, in addition to their existing work load. This has had the unintended effect of ‘under-resourcing’ the reform program by having key resources diverted to local political issues and not allowing adequate time to ensure that councils ‘get it right’. The NESAC example has illustrated the risks that arise from under-resourcing the reform process; increased costs, poor staff moral, and a decline in service delivery capabilities results.

**Recommendation 9:** WESROC should not underestimate the resources required to implement change. Trying to ‘save money’ by undertaking the process ‘in-house’ can lead to the stretching of resources and greater costs in the long run.
A guiding principle that WESROC should follow is: Any move towards shared services must generate economies of scale, reduce duplication, increase works productivity, and streamline the operations of participating councils.

Dollery, Burns and Johnson (2005) concluded in their review of the NESAC that its Strategic Alliance Model represents a rare opportunity to set a ‘reform agenda’ ahead of state government policy initiatives that is able to incorporate local democratic and local social considerations to enhance the prospects for improved service delivery outcomes for their respective communities. The bleak alternative is to simply wait passively for heavy-handed state government-inspired structural reform. Proactive reform may also provide a superior position from which to lobby for improved revenue arrangements member councils.

<table>
<thead>
<tr>
<th>Key lessons from the NESAC Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Quick Wins initial strategy</td>
</tr>
<tr>
<td>• Preparation of business cases to support proposed changes</td>
</tr>
<tr>
<td>• Implementation of common IT platform</td>
</tr>
<tr>
<td>• Existing CEO’s lead the implementation of change</td>
</tr>
<tr>
<td>• Do not underestimate resourcing of proposed changes</td>
</tr>
<tr>
<td>• NESAC relied solely on a shared services model for delivery services</td>
</tr>
</tbody>
</table>

11.4 PREVIOUS WESROC REFORM OPTIONS REVIEWED

WESROC has already reviewed the potential reform options available to it, having previously undertaken a study to explore the opportunities for structural and operational reform in the western suburbs. In addition, it is acknowledged that, as we have seen in Chapter 9, WESROC has already been successful in undertaking numerous initiatives on a regional basis. Section 11.4 seeks to summarise the main finding of the earlier WESROC Structural Reform Study to determine if the issues and opportunities previously
identified are still relevant and to enable its proposals to be reviewed in the context of the current debate in response to the WALGA *Journey* Report.

Table 11.3 indicates the scope of activities that have previously been identified in the *WESROC Structural Reform Study* that could operate through a regional approach.

**Table 11.3: Opportunities for Regional Approach**

<table>
<thead>
<tr>
<th>POLITICAL</th>
<th>COMMUNITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Community leadership</td>
<td>• Community planning and development</td>
</tr>
<tr>
<td>• Strategic regional direction and planning</td>
<td>• Economic development</td>
</tr>
<tr>
<td>• Identifying and seeking grants</td>
<td>• Community development projects</td>
</tr>
<tr>
<td>• Lobbying</td>
<td></td>
</tr>
<tr>
<td>• Regional Planning issues</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ADMINISTRATION</th>
<th>SERVICE DELIVERY</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Information and Communication Technology</td>
<td>• Plant &amp; Equipment</td>
</tr>
<tr>
<td>• Human Resources</td>
<td>- Share P &amp; E</td>
</tr>
<tr>
<td>- Share Staff</td>
<td>• Community Services</td>
</tr>
<tr>
<td>- Recruiting</td>
<td>- Aged Housing</td>
</tr>
<tr>
<td>- Payroll</td>
<td>- Meals on Wheels</td>
</tr>
<tr>
<td>- OH&amp;S</td>
<td>- Ageing at home support</td>
</tr>
<tr>
<td>• Identifying and seeking grants</td>
<td>- Youth services</td>
</tr>
<tr>
<td>• Joint tenders</td>
<td>• Library services</td>
</tr>
<tr>
<td>• Building Control</td>
<td>• Waste Management</td>
</tr>
<tr>
<td>• Town Planning</td>
<td>• Natural Environment</td>
</tr>
<tr>
<td>• Environmental Health</td>
<td>• Joint facilities</td>
</tr>
<tr>
<td>• Policy, Governance &amp; Local Laws</td>
<td>• Delivery of Services</td>
</tr>
<tr>
<td>• Law &amp; Order (Rangers)</td>
<td>- Roads</td>
</tr>
<tr>
<td>• Legal services</td>
<td>- Parks</td>
</tr>
<tr>
<td>• Compliance</td>
<td>• Plant &amp; Equipment</td>
</tr>
<tr>
<td>• Align accounting practices</td>
<td>- Share P &amp; E</td>
</tr>
<tr>
<td>• Risk Management</td>
<td>• Community Services</td>
</tr>
<tr>
<td>• Insurance</td>
<td>- Aged Housing</td>
</tr>
<tr>
<td>• Purchasing</td>
<td>- Meals on Wheels</td>
</tr>
</tbody>
</table>

*WESROC Structural Reform Study*

The Chief Executive Officers and senior officers of WESROC have also previously identified a number of areas where there may be opportunities to share resources between member councils. Table 11.4 sets out some of these opportunities.
Table 11.4: Resource Sharing Opportunities

<table>
<thead>
<tr>
<th>RESOURCE SHARING OPPORTUNITIES</th>
<th>CLAREMONT</th>
<th>MOSMAN PARK</th>
<th>NEDLANDS</th>
<th>PEPPERMINT GROVE</th>
<th>SUBIACO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Community Facilities</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rangers</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Environmental Officer</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resource Management/Support</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Welfare</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Technology</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Local Laws</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Town Planning Scheme</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Works</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Regional Relief Staff</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Tree pruning / Verge Maintenance</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>GIS / Drafting service and Asset Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Regional Call Centre for Customer Service / Information and After Hours Calls</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Community Services / Development Officer</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shared Depots</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: WESROC Structural Reform Study

Table 11.4 indicates that there is unanimous support for regional provision of Ranger Services; strong support for a Regional Call Centre (all except Mosman Park supported this proposal); significant support for IT Services (Mosman Park, Nedlands, and Subiaco), Human Resource Management (Mosman Park, Nedlands, and Peppermint Grove), and Regional Relief Staff (Claremont, Mosman Park and Peppermint Grove). Most other proposals received less than 50 per cent support. However, no proposal received no support or less than two councils supporting the proposal. This indicates a potential for numerous sub-regional provision of services between councils.
In addition to the items shown in Table 11.4, the Chief Executive Officers of each member council also listed a number of other areas in which they could cooperate in the service. Table 11.5 provides the list of these functions.

**Table 11.5: Other Shared Service Opportunities**

<table>
<thead>
<tr>
<th>Council</th>
<th>Opportunities Identified</th>
</tr>
</thead>
</table>
| Claremont    | • Payroll and creditors;  
              • Principal Activities Plan, Local Laws, policies, delegations preparation  
              • Chipping and verge maintenance;  
              • Regional call centre;  
              • Regional roster for out-of-hours calls;  
              • Purchasing/joint tenders;  
              • Library service;  
              • Shared Travel-Smart officer;  
              • Sporting facilities; and,  
              • Construction and maintenance work – service agreement between councils |
| Nedlands     | • Fleet maintenance;  
              • GIS-asset management database;  
              • Equipment utilisation;  
              • Road sweeping – either provided or joint contract;  
              • Beach cleaning – should include Cambridge;  
              • Construction design service;  
              • Technical services (engineering and planning);  
              • Shared Travel-Smart officer;  
              • Develop shared records management software (Trim) with other local governments;  
              • Parks management; and,  
              • Rangers. |
| Peppermint Grove | • Public access for regional Local Government information service;  
                   • Central repository for local history;  
                   • Tree pruning; and,  
                   • Computer software for records management and office productivity. |
| Mosman Park  | • Tree pruning with under utilised waste compactor truck;  
              • Complete depot based services to neighbouring Local governments; and,  
              • Shared community development officer. |
| Subiaco      | • Sharing of Parks reticulation technology;  
              • Bureau service for GIS/drafting;  
              • Bureau service for asset management software;  
              • Centralised depot/operations centre for the region;  
              • Exploit opportunities arising from shared Collie-Knyn software;  
              • Develop shared records management software (Trim) with other local governments;  
              • Centralised mail receipt, distribution and tracking;  
              • Shared community services (HACC);  
              • Regional analysis of ABS data;  
              • Shared after-hours call out system (Hutchinson).  
              • Depot between two or three of the local governments (e.g. Subiaco, Nedlands, Claremont; and Peppermint Grove/Mosman Park). |

Source: *WESROC Structural Reform Study*
Table 11.5 indicates a variety of issues identified by the Chief Executive Offices as having a potential regional approach to service delivery. Items identified by multiple CEOs include GIS services, sharing specialized equipment, and records management. Due to the diverse nature of the items raised, further investigation is required to determine which initiatives should be explored in further details for possible implementation.

**Recommendation 10: WESROC review those services previously identified as being able to be provided on a regional basis, determine if they are still relevant, subject to enough support, and then seek to prepare business cases to justify any change in service delivery.**

**Key features of previous WESROC reform studies**
- Surveyed members for their views
- Considered commonality in items identified in survey
- Results of study not evident

**11.5. BYRNE’S LGI SURVEY**
Byrnes (2005) reviewed the most efficient and effective arrangements for the provision of services in local government from a different perspective. Traditionally municipal services have been arranged either to be delivered in their entirety by a single local council or a group of councils, either regionally or by a single provider across a state jurisdiction. However, Byrnes (2005) decomposed municipal services into three distinct components: policy determination, management, and delivery. In other words, the organisation that sets the policy for the level of service required may be different to the organisation that manages or coordinates the delivery of a particular service, which may be different again from the organisation actually delivering the service. Furthermore,
Byrnes (2005) identified that policy determination, service management and service delivery could each conceivably be determined at a local or a regional level.

To illustrate this by way of example, under the Byrnes (2005) model, a municipal service could have the required service level determined at the local level by existing councils (i.e. how frequently streets should be cleaned); but have this service coordinated by a regional body (such as WESROC), and have the actual services delivered by staff in two or three separate councils (i.e. two road sweepers owned by two separate councils could provided street sweeping services for all six WESROC councils).

The advantage of this method is that each council maintains their local autonomy in deciding what services they will provide to their community, and at what standard they will be provided, given their individual community demands and the resources available. At the same time, where there are economics of scale available in service provision, this service may be able to be provided or coordinated by other organisations on behalf of the local council.

Byrnes (2005) surveyed the General Managers of twenty-eight NSW local councils receiving responses from two in the metropolitan area, three regional cities and fourteen rural councils. A copy of the survey used is included in Appendix 11.1. Table 11.6 contains the results of the survey.
The Byrnes (2005) survey indicated a strong preference from respondents for determining policy locally and managing and delivering the service locally, particularly for public cemeteries, public conveniences, public halls, swimming pools, sporting grounds, parks and gardens and real estate development.
Byrnes (2005: 10) also found that while no other single category was selected more often than ‘locally, locally, locally’, he conceded that ‘if we view the options as a continuum we can see that certain services seem to be well suited to resource sharing’. He indicated that most respondents wanted the category ‘Community Services’ provided through a predominantly regional structure. Other services to follow this pattern included fire protection, emergency services, health administration and inspection, noxious plants, museums, water and wastewater, tourism and area promotion, and saleyards and markets.

Byrnes (2005: 11) concluded that ‘the diverse range of functions councils provide are likely to have differing cost structures, making some functions ideal candidates for resource sharing arrangements and the like, while at the same time suggest[ing] other functions are better suited to so-called place management structures’

Recommendation 11: WESROC councils use the Byrnes (2005) survey as the basis of determining possible structural and operational changes to current services that could be implemented to improve their performance.

Key feature of Byrnes (2005) survey
- Treat each service individually
- Allow flexibility in service provision
- Consider all components of a service (i.e. policy determination, coordination/management, and delivery)

11.6 RECOMMENDATIONS TO WESROC
Throughout Chapter 11 we have sought to review the operations, strengths and weaknesses of a number of cooperative arrangements that other Australian councils have undertaken, as well as considering a number of other initiatives that may assist WESROC in determining which direction it wishes to take to reform its structure and operations to
deliver improved services. We have also endeavoured to outline some recommendations for WESROC to consider for implementation to assist it in meeting its objectives.

WESROC is the ideal forum to coordinate and facilitate the change process in the western suburbs area. It has an existing an accepted structure, has experience in debating the options available and for implementing shared services amongst members.

At the Strategic Workshop held on 24 September 2008, attended by Professor Dollery, some participants voiced support for using the existing Western Metropolitan Regional Council (WMRC) as the body best suited to coordinate and deliver shared services to WESROC member councils. In essence, it was argued that WMRC rather than WESROC be used as the organisation best suited to conduct more shared service operations. The reasoning of these delegates appeared to be that WMRC not only had ‘runs on the board’ in the eyes of the Western suburbs community, but that it also possessed a substantial budget that could readily absorb the costs involved in the establishment of a dedicated Secretariat, as well as other expenses.

However, this view is flawed. In its projected Annual Budget for 2008/09, WMRC (2008: 1) observed that for the financial year 2008/09, ‘there is no surplus to carry forward or allocate to reserves’, with ‘only interest allocated to reserves’.

This Report thus recommends that further consideration of substituting WMRC for WESROC be abandoned. WESROC henceforth be considered as the most suitable vehicle for shared service arrangements for member councils.

**Recommendation 12: Enhance the role of WESROC as a vehicle to facilitate structural and operational change in the western Perth region rather than WMRC.**

A feature of the existing WESROC structure is that it currently relies heavily on the commitment of member council’s Chief Executive Officers for both the identification of
opportunities and the implementation of projects approved by the WESROC Board. As indicated in Recommendation 1, consideration needs to be given to ensuring that WESROC, if it is to be enhanced in its activities, is adequately resourced. Moreover, extreme care should be taken in selecting a suitable CEO for the Secretariat (Recommendation 2). We have argued that a good deal of the success achieved by REROC has derived from its having dedicated resources. In contrast, the NESAC project implementation was severely hampered by a corresponding lack of allocated resources (Recommendation 9).

The next step in the process is to determine which services would benefit from a change to regional, sub-regional, or some other change in the mode of provision. We have made a number of recommendations in this regard, including the completion of the Byrnes survey (Recommendation 11) and reviewing previous structural reform proposals put to WESROC (Recommendation 10). In addition to these approaches, the New South Wales Department of Local Government (1995:8) states that when selecting resource sharing opportunities it is important to identify:

- The major areas of council expenditure in which resource sharing opportunities are likely to draw;
- The council’s Management Plan objectives in terms of service delivery (specifically those affecting current and future resource requirements);
- Resources that are available to council and what level of performance could be reasonably expected of them; and
- Resources other councils have which are not currently available to council but could be well utilised.

In addition to these issues, consideration also needs to be given to the following items:

- Skills and expertise the individual councils have that others may be able to utilise;
- Resources (both physical and human) that are currently under-utilised that may be able to be offered to other councils;
- Specialised resources, which the council would like to have but cannot currently justify on its own, but may be able to be jointly owned; and
• Currently unfilled services that the community needs that may be able to be cooperatively provided.

In addition to these considerations, this Report suggests that WESROC member councils review expenditure that individual councils currently ‘outsource’ to external organisations and determine which items could be jointly provided under the WESROC umbrella. The next step could be to review all large budgetary expenditure items, current equipment and staff that are under-utilised and also those items that are over-utilised. The review of the individual councils current costs of providing services, whether tendered out or individually provided, could be benchmarked against other member councils to determine whether resource sharing could be used to reduce these costs.

One of the highly successful strategies adopted by NESAC was to undertake a ‘Quick Wins’ approach to cost savings between their member councils (Recommendation 6). This strategy not only generated initial savings with very little effort, but it also provided the opportunity for participant councils to come together in a ‘non-threatening environment’, develop trust and networks, as well as exchange knowledge and ideas. It also sent a clear message to staff, councillors, the community and the state government that NESAC was serious in achieving savings.

As a result of the review undertaken in Chapter 11, we have determined a list of services which we contend WESROC may wish to consider being performed on a regional basis. The starting point, as per Recommendation 8, is to consider the implementation of a common IT platform across the six councils. As outlined in the Report, this will greatly assist member councils in achieving a number of benefits in the delivery of other services, as well as allowing for regional delivery of a number of services, assisting with staff crossing council boundaries, as well as potentially reducing IT costs across the councils.

As outlined in Recommendation 7, we strongly support the preparation of detailed business cases to determine the viability of changing the current method of service
delivery across WESROC. In addition, as outlined in Recommendation 3, WESROC should also seek to establish benchmarks and Key Performance Indicators for its main activities in order to monitor the success of the initiatives that it chooses to implement.

Once the IT strategy has been implemented, we contend that consideration should be given to preparing a business case for the implementation of a common approach to those areas of member council’s operations that require specialized skills and expertise that could easily be deployed across the region. Areas that should be considered include: asset management, risk management, information technology services, and GIS services.

**Recommendation 13: WESROC councils prepare business cases to determine the feasibility of providing specialised corporate support services across WESROC. In particular, consideration should be given to providing the following services across the councils:**

- Human Resource Management
- Asset Management
- Risk Management
- Information Technology Services
- GIS Services

The next step in reviewing WESROC member council operations, and assuming a common IT platform has already been installed, resides in considering providing the transactional services (i.e. rates, debtors, creditors, payroll, etc.) of member councils by way of shared services. Economies of scale and staff specialization may result in reduced costs and increased efficiency in delivering these services if they were combined and delivered over the six councils.

**Recommendation 14: WESROC investigate the possibility of combining ‘back office’ transactional processing (i.e. rates, debtors, creditors, payroll, etc.) services of member councils into a single service delivery area.**
The success of WESROC is based on its voluntary approach and there is no suggestion that it should change under future arrangements (Recommendation 5). This could see some member councils recognising benefits in entering into cooperative arrangements for some of the listed opportunities and other member councils choosing not to be involved. As outlined in the REROC evaluation, each service should be assessed to determine the best method of delivery; what will work for one council may not work for another.

One of the issues that the councils will need to keep in mind when planning to change structures and operations of service is to ensure that they place themselves in a position to address the issues outlined in the WALGA Report (2008), which are designed to enhance the sustainability of local government. This thus forms the basis for our Recommendation 15.

**Recommendation 15: WESROC seek to put in place measures and structures that will address the specifically defined objectives contained in the WALGA Report (2008), particularly in its Sustainability Checklist.**

Any move from the status quo will require extensive planning and investigation to ensure that it provides real benefits to the participating councils, and not simply unexpected costs or disruption to services. It must be stressed that there are numerous examples of reform options implemented by other municipal authorities that have been poorly planed resulting in significant cost increases and service delivery problems. In addition, member councils should also record and measure the success of the initiatives that they choose to implement (Recommendation 4). This will serve to provide tangible proof to the community and the state government of WESROC achievements.

In addition to implementing the WALGA Report recommendations (2008), WESROC needs to ensure that the state and federal government do not use the WALGA reform process as a measure to force attention on perceived weaknesses in local government, so
that these governments do not have to address the fundamental issues affecting the local sector. WESROC needs to continue to maintain pressure on the state and federal government to meet their responsibilities to ensuring sustainable local communities.

**Recommendation 16: WESROC continue to hold state and federal governments accountable for their role in achieving long-term sustainability in local government in Western Australia.**

Finally, periodically both federal and state governments provide funding to support regional initiatives in local government. WESROC must ensure that it takes full advantage of any funding that is offered. In particular, a dedicated WESROC CEO must pursue possibilities of this kind with the utmost vigour.

**Recommendation 17: WESROC make determined efforts to secure funds for ROCs and local government reform generally from state and federal governments.**

### 11.7 CONCLUSION

Chapter 11 has attempted to provide some suggested options for the WESROC member councils to investigate further, such as enhancing the use of the WESROC organization as a vehicle for coordinating shared and cooperative service delivery. This may provide viable options for member councils to achieve scope economies and scale economies in their operations without the harmful consequences on local community sustainability that would inevitably flow from forced amalgamation.

The proposals and recommendations made in Chapter 11 have been designed to stimulate debate within the six WESROC councils (and potential members, such as the Town of Cambridge) and their respective communities. They have been formulated to start the process rather than conclude it. In other words, it is expected that the recommendations in Chapter 11 will be considered and a determination made for the WESROC context. It has not been our intention to provide a defined business case for a single solution.
WESROC is to be congratulated for taking the initiative and seeking to determine its own future rather than waiting for a top-down state government approach to dictate a single ‘one-size-fits-all’ model. The real danger for WESROC is one of a perception that nothing has happened as a result of its investigations and/or process in implementing reform. Experience from Queensland and elsewhere is that this perception can lead to a state government becoming increasingly impatient with the lack of progress made by the local sector as a whole. WESROC thus must ensure that its residents and the state government are regularly kept informed of its actions and how it is meeting the challenges being presented to Western Australian local government.

It should also be stressed that the putative ‘solutions’ presented in Chapter 11 are not the ‘silver bullet’ required to resolve the major sustainability issues facing Australian local government, particularly in the realm of local infrastructure. The recommended measures simply seek to enhance the capacity of councils and provide increased scope to attract and retain professional staff to improve service deliver. They do not address the key issues facing all councils in Western Australia, especially aging infrastructure.
APPENDIX 11.1: BYRNES (2005) SURVEY

Survey Form and Instruction Letter

Dear Sir/ Madam,

Thank you for agreeing to take part in this survey. The results will assist us greatly in our efforts to better understand how councils of all descriptions might be able to employ their resources in a more effective manner.

The objective of this study is to determine which of the services provided by your council would be most efficiently delivered ‘in-house’ and which might benefit from resource pooling or sharing, perhaps in the form of an alliance entered into with neighbouring councils.

The survey is being conducted by the Centre For Local Government at the University of New England on behalf of the NSW LGSA Inquiry. Professor Brian Dollery is co-ordinating the study.

The recent debate regarding the benefits and costs of local government amalgamation has too often centred simply on the hope of reaping cost savings from combining all of the resources of two or more councils. We wish to move beyond this question and focus on the separate functions that councils provide. For example, Human Resource Management may be well suited to a large regional council carrying out this function on behalf of a number of smaller neighbouring councils. However the same might not be said for the delivery of aged care facilities.

Our survey asks for your opinion, in consultation with your functional managers, as to which structure is best suited to the management and delivery of a wide range of council services, from administration to child care. The survey differentiates between the policy determination process, the management aspect of the function and the actual delivery of the service. We ask you to nominate which of the eight possible structures identified in the survey would be best suited to the delivery of each function.

For example, you may believe that waste disposal is a function that ideally should be provided across a number of neighbouring councils, and that decisions regarding how frequently waste should be collected for instance should be made at a regional level. In the survey you would choose a Regional Policy Determination option. Next, you may believe that it would also be efficient if one council managed the human resource aspects of this function on behalf of the group of councils. In the survey you would choose Regional Management. Finally, if your opinion was that the staff collecting the bins should be contracted to the individual councils you would choose Local Delivery.

Please complete the survey by simply placing an ‘x’ under the heading you believe is most appropriate for each function. Then save the document and return it by email to Joel Byrnes at jbyrnes3@pobox.une.edu.au, preferably by 16 December 2005.

Best wishes,

Brian Dollery
Director
Centre For Local Government
University of New England
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PART D: CONCLUSION

CHAPTER 12: FINAL OBSERVATIONS

12.1 INTRODUCTION

As we have seen, in terms of the agreement between WESROC and New England Education and Research Pty. Ltd., Professor Brian Dollery and Dr Andrew Johnson were engaged to research and prepare a Report for WESROC on structural change and shared services in local government, the financial sustainability of WESROC councils, and the way forward for WESROC in the light of the WALGA reform process. In addition, Professor Dollery agreed to personally visit the WESROC group of councils to meet Mayors, CEOs and other senior officers of the six councils, as well as the Town of Cambridge, in order to consult with these officials on the Report in general and WESROC in particular. These consultations occurred over the period 8 to 12 September 2008. Professor Dollery also attended the WESROC Strategic Workshop on 24 September 2008 and presented the preliminary findings of the Report.

In terms of the agreement between WESROC and New England Education and Research Pty. Ltd, the main aims of the Report were fourfold:

- To consider whether forced amalgamation represents a sensible policy option for WESROC councils;
- To investigate other methods, like shared services and resource sharing, that constitute a more promising approach to improving efficiency and effectiveness amongst WESROC councils whilst retaining vibrant local democracy and local identity;
- To evaluate the effectiveness and financial soundness of the WESROC group of councils; and
- To consider how the WESROC group of councils should best enhance the operations of WESROC in the light of the WALGA reform process.

The Final Report comprised four main parts. Part A considered the efficacy of amalgamation in the broader context of recent Australian local government reform,
presented alternative models of local governance with better prospects of achieving desirable economic and social outcomes, and evaluated the potential of shared services as an instrument for enhancing efficiency, while preserving local democracy and local community interests.

Part B considered financial sustainability in Australian local government, efforts by recent national and state-based inquiries to define and measure financial sustainability in other Australian local government jurisdictions, and salient academic literature on the determinants of local government sustainability in Australia. It identified several intractable problems with the concept of financial sustainability, proposed a typology for evaluating the financial problems evident in Australian local government, and presented a broader concept of local government sustainability and local community sustainability, especially applicable to existing small local councils, like those in the WESROC group of councils.

Part C considered the current financial standing of the WESROC group of councils, the economic and social role played by WESROC local councils in sustaining their local communities, as well as providing the high response and personalised service provision characteristic of these councils, and evaluated the probable impact of forced amalgamation on these local communities. It investigated the best way for WESROC to approach the WALGA reform process. It also considered various policy options available to WESROC councils and the Western Australian government and made 17 recommendations for improving the effectiveness of service delivery and financial sustainability among WESROC councils while preserving local democracy, local representation, the intimacy of localised service, and sustainable local communities.

Part D of the Report will provide a brief synoptic review of the main thrust of the Report in Chapter 12.
Chapter 12 is divided into two main parts. Section 12.2 outlines the thrust of the conclusions drawn in the body of the Report. Section 12.3 concludes the Chapter with a list of recommendations for enhancing the operation and role of WESROC.

12.2 MAJOR CONCLUSIONS OF THE REPORT

This Report explored the main reasons for recent major reforms in Australian local government and it stressed that structural reform in the guise of forced amalgamation invariably had been the major instrument adopted by all state governments across Australia, with the sole exception of Western Australia. This should give food for thought for local government leaders in Western Australia.

However, the Report was at pains to emphasise that despite extravagant claims by advocates of council merger programs concerning the probable outcomes of forced council amalgamation, these high expectations had not been borne out in practice. Disillusionment with the results of Australian compulsory consolidation policies had led to a search for alternative models of local government which would generate increases in council operational efficiency and service effectiveness without the economic and social costs of amalgamation. Chapter 3 considered a range of theoretical models as well as actual models currently in operation.

Numerous state and local inquiries into Australian local government have identified resource sharing and shared services as the main alternative to amalgamation in terms of structural reform. The rationale for this perspective resides in the proposition that constellations of councils should engage in resource sharing and shared service delivery where this generated substantial scale economies and/or scope economies as well, as enhanced local government capacity. However, in the large number of local government functions in which these attributes are not present, local councils should continue to provide services individually. This approach would combine local autonomy and local
democracy with operational efficiency. Against this background, Chapter 4 considered shared services in detail.

The chief argument for structural reform typically centres on financial sustainability. Where local councils are not financially sustainable, state governments have used this as a basis for implementing forced amalgamation. But financial sustainability in Australian local government is not only difficult to define in conceptual terms, but also very hard to measure in real-world local councils. Chapter 5 examined various putative methods of determining financial sustainability and the problems surrounding these methods, especially with respect to their weak predictive capacity.

The main problem with the notion of financial sustainability in local government resides in the existence of numerous constraints on both revenue and expenditure as well as on other aspects of local council operations. For example, a great deal of local government expenditure is mandated in terms of state legislation. Similarly, regulatory controls place constraints on revenue-raising, especially in terms of fees and charges, but also rate-pegging in the case of NSW local government. Moreover, the demographic characteristics of local council areas fall largely beyond the control of councils but still have significant effects on both council revenue and council expenditure. A typology of these determinants is set out in Chapter 5. In essence, this means that local government finances are dependent to a significant degree on ‘non-discretionary’ factors beyond the control of local councils. Measures of financial sustainability which do not consider the ‘non-discretionary’ nature of local government finance are thus deficient. It follows that arguments for structural change based exclusively on narrow measures of financial sustainability are intrinsically unsatisfactory.

Local government is not simply a local service delivery agency but rather the focal point of local community aspirations and local preferences expressed through local democracy and local autonomy. This means that ‘community sustainability’ instead of ‘financial
sustainability’ should be the yardstick by which local government is judged. These arguments are set out in full in Chapter 6.

Notwithstanding the weaknesses associated with existing measures of financial sustainability, the Report considered the financial sustainability of the WESROC group of councils. To this end, in addition to a standard financial ratio analysis of the WESROC councils, the Report employed the South Australian Financial Sustainability Review Board (2005) criteria for a sustainable local government authority, the Independent Inquiry into the Financial Sustainability of NSW Local Government’s (2006) recommendations to determine sustainability and the Queensland Auditor General’s determination of financial viability. The Report concluded that, in general, all councils in the WESROC group could be regarded as financially sustainable. In addition, the Town of Cambridge also met these criteria.

If forced amalgamation does not represent a viable and desirable option for WSEROC councils, and if these councils are financially sustainable, then what should the WESROC group of councils, as well as potential new members, like the Town of Cambridge, do to improve their performance in the years ahead? The Report focused on enhancing the operations and role of WESROC as the best way forward. 17 recommendations are made in order to achieve this goal, which are listed in section 12.3 below.

12.3 RECOMMENDATIONS FOR WESROC

Recommendation 1: WESROC consider establishing a dedicated Secretariat and CEO to ensure that adequate resources are available to assist in the increased work load.

Recommendation 2: Given the pivotal role of the CEO, special care is taken in appointing a suitable person.
Recommendation 3: WESROC should not only record the activities undertaken but also seek to place a value on the cost savings and non-pecuniary benefits that these activities produced to their respective communities.

Recommendation 4: WESROC councils seek to benchmark their current activities to demonstrate existing performance and to provide a comparison of performance post-reform.

Recommendation 5: In developing its reform strategy WESROC should continue with its flexible approach to service delivery and consider the REROC approach to its services going forward.

Recommendation 6: WESROC member councils consider implementing a ‘Quick Wins’ approach where savings can be generated from existing activities with minimal change to member organisations to demonstrate commitment to the reform process.

Recommendation 7: Any structural and operational reforms proposed by WESROC should be supported by a strong business case and careful planning to ensure its success.

Recommendation 8: WESROC councils should consider the benefits of moving to a common suite of IT across the six member councils to enhance opportunities for greater cooperation in service delivery in other areas and the interchange of staff between councils.

Recommendation 9: WESROC should not underestimate the resources required to implement change. Trying to ‘save money’ by undertaking the
process ‘in-house’ can lead to the stretching of resources and greater costs in the long run.

Recommendation 10: WESROC review those services previously identified as being able to be provided on a regional basis, determine if they are still relevant, subject to enough support, and then seek to prepare business cases to justify any change in service delivery.

Recommendation 11: WESROC councils use the Byrnes (2005) survey as the basis of determining possible structural and operational changes to current services that could be implemented to improve their performance.

Recommendation 12: Enhance the role of WESROC as a vehicle to facilitate structural and operational change in the western Perth region rather than WMRC.

Recommendation 13: WESROC councils prepare business cases to determine the feasibility of providing specialised corporate support services across WESROC. In particular, consideration should be given to providing the following services across the councils:

- Human Resource Management
- Asset Management
- Risk Management
- Information Technology Services
- GIS Services

Recommendation 14: WESROC investigate the possibility of combining ‘back office’ transactional processing (i.e. rates, debtors, creditors, payroll, etc.) services of member councils into a single service delivery area.
Recommendation 15: WESROC seek to put in place measures and structures that will address the specifically defined objectives contained in the WALGA Report (2008), particularly in its Sustainability Checklist.

Recommendation 16: WESROC continue to hold state and federal governments accountable for their role in achieving long-term sustainability in local government in Western Australia.

Recommendation 17: WESROC make determined efforts to secure funds for ROCs and local government reform generally from state and federal governments.
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