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Structure: A Policy Agenda**

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Options for Rationalizing Local Government Structure: A Policy Agenda

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Abstract

Controversy surrounds structural reform in local government, especially on the question of whether efforts aimed at reducing the number of local authorities enhance the effective operation of the newly created consolidated local government entities. However, the weight of extant conceptual and empirical evidence suggests that while amalgamation typically improves the capacity of local government, it is not only costly, but also has other deleterious consequences. Local council collaboration through resource sharing and joint service provision aimed at capturing the advantages attendant upon scale, but without the adverse democratic and economic effects of consolidation, represents the main alternative form of structural change which still retains local government activity within the public sphere. This paper considers the foundations of shared services, including the embryonic theoretical literature and available empirical evidence, as background to considering the problem of developing policies to promote inter-municipal collaboration.

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INTRODUCTION

In comparison with higher tiers of government, the range of services provided by local government across different national jurisdictions is characterised by substantial heterogeneity. While in some countries, such as Australia and New Zealand, local authorities deliver a comparatively narrow array of services, focused mostly on ‘services to property’, in other national contexts, like the United Kingdom, the local government sector offers a much broader assortment of services, including numerous ‘services to people’ (Dollery, Garcea and LeSage, 2008). A further complicating factor resides in the fact that in many local government systems, the composition and quality of service provision is largely prescribed by central and state governments rather than decided by local authorities themselves. This complexity deepens when we consider the wide variety of methods employed to deliver these services. Throughout the developed world, local government adopts an intricate mix of approaches encompassing not only traditional ‘in-house’ delivery, but also alternative delivery modes, including for-profit, non-profit, inter-municipal cooperation, franchises, subsidies, and through volunteers (Andrews and Entwistle, 2010). Moreover, reliance on these different methods is evolving through time in accordance with both prevailing managerial doctrine and learned experience (Warner and Hefetz, 2008).

In addition to these complexities, the fiscal characteristics of different local government systems diverge considerably, presenting problems for comparative analysis. However, in general, while industrialized countries usually exhibit a greater degree of fiscal decentralisation than their developing counterparts, even local government in the developed world is still typically far from financially self-sufficient, with some exceptions, like the United States (Bahl and Cyan, 2011). Similarly, patterns of outlays differ markedly in different jurisdictions and seldom fully reflect local preferences, given the widespread prevalence of mandated expenditure and service standards. In essence, in many jurisdictions, local government entities face harsh expenditure and revenue constraints which limit local autonomy, and these constraints vary between jurisdictions (Shah, 2006a).

Even the structure of local government itself exhibits immense complexity. Thus massive population size differentials exist between local government entities in most jurisdictions. For instance, in Germany local authorities vary from Wiedenborstel with only seven residents to Berlin with a populace of about 4.3 million (Lenk and Falken-Grober, 2008). Much the same is true of spatial size differentials. For example, in Western Australia, local government areas range from 2 to 378,533 square kilometres in size (Department of Infrastructure, Transport, Regional Development and Local Government, 2010). Similar marked differences are evident in population densities.

The structural characteristics of local government in different countries differ in many other ways as well. For instance, in some national systems, local government represents a single tier of government, whereas other systems are multi-tiered, with several layers of local government, as in boroughs in metropolitan local government structures. Along analogous lines, local government activity as a proportion of national income, and as a percentage public sector expenditure, varies a great deal between different countries (Bahl, Martinez-Vazquez and Youngman, 2010; Shah, 2006a; 2006b).

These and other complexities in real-world local government systems render comparative analysis tricky and make definitive generalisation difficult (Wolman, 2008). One way of approaching the problem of local government reform is to distinguish between different kinds of reform processes. A useful taxonomy has been developed by Garcea and LeSage (2005) which comprises five discrete dimensions of local government reform programs: structural, jurisdictional, functional, financial, and internal governance and management reforms. By decomposing local government reform in terms of this typology, and then focusing on a single aspect of reform, it is possible to reduce the complexity of comparative analysis to manageable proportions. The present paper thus limits its focus to structural reform.

Garcea and LeSage (2005, p. 5) defined structural reform as the reconfiguration of local government in terms of the 'number, types, and size of municipalities, quasi-municipalities, and municipal special-purpose bodies'. In all multi-tiered systems of government, regardless of whether they are federal or unitary systems, a distinction can be drawn between vertical and horizontal decentralization. Horizontal decentralization refers to the spatial disaggregation of governmental functions at the same level, with several governmental entities providing a given similar range of services, while vertical decentralization describes a hierarchy in which different levels of government perform different functions. Structural reform in local government generally deals with horizontal centralization and decentralization. Thus structural reform programs typically attempt to concentrate local councils into larger public entities, or fragment local government into smaller bodies, or encourage existing local authorities to collaborate in service provision through shared service platforms and other institutional mechanisms.

It is commonly argued that by changing the structure of local government, structural reform will have various beneficial efficiency and equity effects on the operation of local authorities without diminishing the efficacy of local democracy. A stronger claim holds that different local government structures possess different efficiency characteristics, which in turn implies that some 'optimal' structural form exists. Moreover, in policy debates this proposition is extended to include the claim that it is possible to identify an optimum size for local government, frequently rendered as simply 'bigger is better' or 'bigger is cheaper' in local government. Structural reform should thus aim to reduce the number and size of local councils to approximate this optimum size. It need hardly be added that this claim is controversial in both theoretical and empirical terms (see, for example, Boyne 1998; Oakerson 1999; Bish 2000; Sancton 2000; Dollery and Crase 2004; Dollery, Crase and Johnson, 2006; Dollery and Robotti, 2008; Jimenez and Hendrick, 2010; Leland and Thurmaier, 2010).

In real world local government reform programs, structural change through either the compulsory or voluntary consolidation of two or more small local governments into larger municipal entities is frequently presented by its advocates as an efficacious method of enhancing the operational efficiency of local authorities, improving their administrative and technical capacity, generating cost savings, and strengthening strategic decision-making. Opponents of forced amalgamation typically point to the divisive controversy generated by municipal mergers, the absence of supportive empirical evidence, the equivocal outcomes observed in real-world case studies, and the diminution of local democracy. Moreover, in actual policy debates, structural change through compulsory council consolidation is often met with arguments for shared services as a superior means of achieving the intended aims of amalgamation. Proponents of shared services commonly argue that since only some local services exhibit scale economies,

scope economies, density economies, and other positive attributes of municipal size, structural change should concentrate on the joint provision of these services. In other words, shared services are presented as a method of reaping the benefits of amalgamation without its deleterious costs.

The broad proposition that structure has decisive effects on behaviour and performance has a long history in the industrial organization literature in economics as the structure-conduct-performance paradigm (SCP) developed by Mason (1949), Bain (1951; 1956) and others. The SCP perspective held that a stable and causal relationship existed between the structure of an industry, organizational conduct, and economic performance. However, more recent work in this tradition reversed the causal chain by demonstrating that poor performance can induce changes on organizational conduct, which in turn can influence industry structure

Controversial claims centred on the proposition that structural reform should seek to increase the size of local government entities through ‘amalgamation’ or ‘consolidation’ programs aimed at reducing the number of local authorities rest not only tenuous and uncertain theoretical and empirical foundations, but also faces a growing literature on alternative models of local government which seek to reap any advantages contingent upon size through various partnerships, shared service platforms and other arrangements between small municipalities (see, for instance, Dollery, Crase and Johnson 2006; Warner and Hefetz, 2008; Tomkinson, 2007)². This paper explores these alternative structural approaches to the problem of achieving greater efficiency and improved capacity in local government service provision, which simultaneously seek to retain local political autonomy, local ‘voice’ and local ‘choice’. The focus falls on shared service arrangements between local authorities as the chief alternative to structural change aimed at consolidation, rather than other service delivery modes, such as improving internal service delivery, contracting with the private sector, or other approaches (Brown, Potoski and Van Slyke, 2008; Warner and Hebdon, 2001).

Although shared services and other collaborative inter-council ventures are typically described using different terminology in different countries, such as inter-jurisdictional agreements (IJAs) (Andrew, 2009) or inter-local agreements (ILAs) (Carr, Gerber and Luper, 2009) in the United States, and shared services in Australia (Dollery and Akimov, 2008) and the United Kingdom (Tomkinson, 2007), they generally represent institutional mechanisms for tackling common problems in fragmented local government systems. In this paper, we use the term ‘shared services’ to describe all of these collaborative arrangements.

The paper is divided into five main parts. Section 2 provides a synoptic outline of the conceptual foundations for joint or shared service arrangements in local government by way of background. Section 3 considers the empirical evidence on the nature of shared service provision in local government, including those characteristics which make specific services suitable for collaborative delivery. Section 4 comprises a brief survey of available empirical analysis on the effectiveness of shared service arrangements in practice. Section 5 tackles the problem of developing sound public policies towards structural change in local government aimed at

² Shared services are also variously referred to in the literature on local government as ‘resource sharing’, ‘joint production’, ‘joint ventures’, and ‘interlocal agreements’ or ‘ILAs’. These terms are assumed to have the same proximate meaning as shared services in this paper.

improving service efficiency and service quality by means of shared service arrangements. The paper ends with some brief concluding remarks in section 6.

CONCEPTUAL CONSIDERATIONS

A voluminous literature surrounds the problem of how best to improve horizontal decentralization through the reorganization of government in multi-tiered systems of government. Scholars have considered *inter alia* whether efforts to reform local government through horizontal structural change should concentrate on centralizing local authorities by merging them into larger entities, or retain the existing local government structures but modify service provision through ‘partnership’ arrangements between local authorities for defined functions. Put differently, in a policy context, should local structural reform policies attempt to consolidate local authorities into larger public bodies, or encourage existing local councils to collaborate in service provision?

One way of approaching this question is to place it in an extended taxonomy of horizontal models first developed by the Local Government Association of Queensland (2005): (a) ‘merger/amalgamation’, where two or more entities are consolidated into a single larger local authority; (b) ‘significant boundary change’, where the spatial area of municipal jurisdictions is altered, but existing government structures are left intact; (c) ‘resource sharing through service agreements’, in which one local authority undertakes specific functions for other local councils, such as in regional waste management; (d) ‘resource sharing through joint enterprise’, in which municipalities combine in given areas of service provision to accrue scale advantage, as in regional development initiatives; and (e) shared service provision through the establishment of system-wide entities, as in procurement initiatives. While more nuanced variations of these basic models can be adduced, such as ‘joint administration’ models which share all functions except political independence, they nonetheless serve to underline the basic conceptual distinction between structural change which reduces the number of existing local government entities and structural change which retains existing local councils but transforms aspects of service provision

The conceptual foundation for shared services rests on the Oakerson (1999, p. 7) distinction between service ‘provision’ and service ‘production’ in local government. Whereas the provision of local services involves determining which services to offer, the quantity and quality of these services, as well as funding service delivery, the production of local services involves ‘in-house’ creation of a service rather simply than its financial provision. The separation of provision from production thus enables local government to choose between different modes of producing services. Oakerson (1999, p. 17-18) has identified seven generic methods: (a) traditional ‘in-house production’; (b) ‘coordinated production’ where councils cooperate on activities affecting both jurisdictions; (c) ‘joint production’ where municipalities use a single production unit; (d) ‘intergovernmental contracting’ where municipalities contract services from other councils or other tiers of government; (d) ‘private contracting’ where councils contract with private entities; (e) ‘franchising’ where private entities produce council services which residents can purchase; and (f) ‘vouchering’ where local authorities set service standards, but private entities produce the services in exchange for council vouchers.

If shared services are defined as cooperative arrangements between local authorities, local government associations, and other tiers of government, then ‘coordinated production’, ‘joint production’, and ‘intergovernmental contracting’ constitute shared services in local government in the Oakerson (1999) typology. However, ‘private contracting’, ‘franchising’ and ‘vouchering’ do not meet this definition since they typically involve contractual arrangements outside of the public sector, mostly from commercial enterprises. They thus possess additional characteristics derived from their for-profit nature, particularly strong incentives to reduce costs compared with non-profit entities. This can result in lower service quality, less responsiveness to the public, and fewer workers delivering a given service. Given the difficulties inherent in monitoring complex local government services, this implies that contracting councils generally lose at least some degree of control over service provision. Thus, as a general rule, contractual arrangements with private firms are not equivalent to shared service models (Dollery, Grant and Crase, 2010; Warner and Hefetz, 2008).

In common with attempts at developing typologies of local government (see, for instance, Shah, 2006c), some scholars have sought to classify shared service models. For example, drawing on British local government, Tomkinson (2007) proposed a quadrilateral taxonomy: (a) ‘intra-service model’ which includes limited shared service options, such as procurement services’ (b) ‘service model’ which incorporates a separate formal structure to which member councils cede budgetary control, service specification, statutory service responsibilities, etc.; (c) ‘corporatist model’ which involves the establishment of a joint governing body and delivery entity to deliver services with costs and benefits borne by partner councils; and (d) ‘supra-corporate model’ which employs a ‘special purpose vehicle’, such as a joint venture company, to deliver a specified service to councils.

Along analogous lines, Dollery, Grant and Akimov (2010) have proposed a tripartite classification derived from Australian local government: (a) ‘horizontal shared service models’ which represent joint arrangements between local authorities ranging from *ad hoc* resource sharing to full shared administration models; (b) ‘vertical shared service models’ which involve cooperation between local authorities and state/national local government association typically offering a defined service to councils for a fee; and (c) ‘intergovernmental contracting model’ in which local councils voluntarily undertake functions for regional/state/national governments.

Despite the prevalence of shared service arrangements and other kinds of joint collaboration in local government, it has attracted scant attention in the literature. The main theoretical approach has followed Buchanan’s (1965) theory of clubs since collaborative partnerships between local authorities establish a ‘club’ in which only member municipalities receive the services jointly provided. Building on this approach, Frey and Eichenberger (1999) have developed ‘functional federalism’ in which public entities arise endogenously to meet specific functional objectives. Casella and Frey (1992) extended this model and contrasted it with ‘hierarchical federalism’, in which higher levels of government impose structure upon local government.

However, the functional federalist paradigm has neglected the question of the organizational form adopted by cooperative partnerships. Following Van den Berg and Braun (1999), Bartolini and Fiorillo (2008) developed a model which considered problem of the optimal partnership structure for council consortia and council unions which differed in terms of transaction costs, flexibility and integration. While a consortium represents a formal arrangement to produce

specific services, a union is an autonomous entity with powers to decide how to manage its delegated functions.

This embryonic approach has also investigated the factors which influence the longevity of local government partnerships. Building on Brosio, Maggi and Piperno (2003) and Quagliani (2006), Palestrini and Polidori (2008) developed a theoretical model which evaluated voluntary partnerships between existing councils aimed at providing local public services, like waste collection, and found that financial incentives from higher tiers of government to promote their formation should be timed to coincide with the time horizons of local elected representatives.

The final strand in this nascent theoretical literature considers the ostensible paradox that while substantial gains can flow from collaborative partnerships (see, for example, Bartolini and Fiorillo 2005; 2006), local authorities seldom form partnerships and existing arrangements are occasionally dissolved (Palestrini and Polidori 2006). Policy makers keen to promote shared service platforms in local government have employed incentives to encourage both the establishment and longevity of voluntary partnerships. In an effort to determine the optimal type of incentive, Fiorillo and Pola (2008) found that on theoretical and empirical evidence suggested that intergovernmental transfers proportional to local taxes represent the most efficient form of incentive.

Although this emergent literature has provided some insights into the structure of shared service entities in local government, in common with much economic modelling in other areas of scholarly endeavour, it rests on simplifying assumptions, some of which fail to capture the complexities of the local government environment, with its dual economic efficiency/democratic representation tensions (Aulich, 2005). Furthermore, the 'situational determinism' embedded in neoclassical economic analysis, which disallows autonomous discretionary behaviour characteristic of local government (Latsis, 1972), sits uneasily in real-world municipal decision making. This seems to suggest policy makers and scholars alike should rely more on empirical evidence rather than on *a priori* 'economistic' theorising.

EMPIRICAL EVIDENCE ON THE NATURE OF SHARED SERVICE PROVISION

Despite the fact that most local government systems in the developed world employ shared service arrangements in some form or another, surprisingly little scholarly effort has been directed at the empirical analysis of the characteristics shared service models in practice and the bulk of empirical assessment can be found in advocacy commercial consulting literature and public inquiries (see, for instance, Serco Institute publications)³. In their survey of the Australian and international empirical evidence on shared services in local government, Dollery, Akimov and Byrnes (2009) provided a synoptic review of the major studies drawn from both of these strands in the literature.

After reviewing available Australian and international evidence on shared services in local government, Dollery, Akimov and Byrnes (2009, p.216) drew 'six general observations' from their survey: (a) empirical evidence indicated that shared service implementation can 'improve

³ For surveys of this limited literature see, for example, Dollery, Akimov and Byrnes (2009) and Thurmaier and Wood (2004).

the efficiency of local service delivery'; (b) some local services appeared 'more amenable to shared service arrangement than others'; (c) common local government shared services included information technology, human resource management, procurement; and waste management; (d) even within these service functions, 'the degree of success varies dramatically from case to case'; (e) various 'identifiable barriers to the implementation of shared service arrangements' exist, which seem 'difficult to overcome'; and (f) these barriers to the implementation of shared service models included a fear of losing 'municipal identity', the 'complexity of the process', 'conflicting objectives' between putative partners and 'uncertain benefits'.

From a policy perspective, a critical aspect of shared service platforms resides in the question: which local goods and services best lend themselves to shared service arrangements in local government? While surveys of the types of shared services actually employed in practice, such as Dollery, Akimov and Byrnes (2009) and Thurmaier and Wood (2004), provide a valuable guide to answering this question, at a more general level, it is useful to identify the generic characteristics of local services, given the immense diversity of services provided in real-world local government systems internationally. Following applied work done by Percy Allan (2001; 2003), as well as the New South Wales Independent Inquiry into Local Government (NSW LGI, 2006) led by him, six characteristics have been identified: 'low core capability' of local authorities; 'high supplier availability'; 'low task complexity'; significant scale economies; 'specialized technology'; and 'low asset specificity'.

'Core capability' refers to the 'steering' and not 'rowing' capacities of local authorities, such as policy planning and service monitoring, without core capability they cannot adequately discharge their statutory responsibilities. Thus only low core capabilities should be shared. The existence or otherwise of potential contractors is a second factor since if shared service arrangements fail, then there is an exigency option. Allan (2001, 40) has argued that 'complex tasks are difficult to monitor, hard to measure for inputs and require unique expertise to monitor' and are thus generally unsuitable for sharing. The question of scale economies has obvious bearing on the decision to enter shared service agreements. The costs of acquiring specialized technology, such information technology, and then maintaining, upgrading and operating this equipment are substantial, which make these kinds of services prime candidates for shared service arrangements. Finally, Allan (2001: 40) proposed that 'where a task requires an expensive and specific asset it may be more cost effective for the council to provide the asset' and thus shared service models can defray high fixed costs.

With respect to which municipal services and functions are most amenable to shared service arrangements, Allan (2001: 46) has argued that 'there is no reason to why most core community services', such as road maintenance, domestic waste, town planning, recreation facilities and welfare services, as well 'backroom support services', including finance, information technology and human resource management, should not be 'delivered or arranged by a central administration unit owned and controlled by several councils'. However, Allan (2001) added two qualifications this general conclusion: (a) each local authority should secure performance agreements with the shared service unit which stipulate 'specific rights and obligations' and (b) the shared service entity should be governed by a board of directors drawn from all participating municipalities

EMPIRICAL EVIDENCE ON EFFECTIVENESS OF SHARED SERVICES

While limited empirical analysis has been conducted on the characteristics of shared services provision, there is, however, a relatively small but growing body of empirical literature on the effectiveness of shared services arrangements. In Australia, for instance, a number of studies have provided concrete examples on the effectiveness of shared services arrangements between local councils. For example, Dollery and Byrnes (2006) examined the case of the South Australian Walkerville Council and its experience with shared services arrangements involving neighbouring local municipalities. The Walkerville Council entered into nine agreements with a range of municipal councils to jointly deliver services in: (i) waste collection, (ii) home care, (iii) crime deterrence, (iv) library facilities, (v) environmental protection, and (vi) inspection services. These agreements provided a variety of benefits including cost savings to local councils and an wide range of services to local constituents.

In another study, Dollery et al., (2005) investigated the shared services arrangements of the Riverina Eastern Regional Organisation of Councils (REROC), which involved thirteen local councils in southern NSW. Between 1998 and 2003 it was estimated that these shared services arrangements resulted in a saving of \$4.5 million. Areas in which shared services proved to be most effective included: (i) waste management, (ii) joint tendering and purchasing, (iii) information technology, (iv) compliance initiatives, and (v) lobbying activities.

In the United Kingdom, the issue of improving the productivity of public service delivery (including the provision of local government services) was the core focus of the Blair Government following the release of the ‘Gershon Review’ (Gershon, 2004). In Britain, local councils are required, following legislation enacted by the Blair Government, to submit bi-annual Local Authorities Efficiency Statements. Many British councils report joint service delivery arrangements as a means of delivering cost savings and improving the range of services delivered to their citizens. The most commonly cited shared services include joint procurement, information technology, ‘back-office’ functions and compliance activities.

In the US, a number of studies have employed regression-based techniques to examine a range of issues pertaining to effectiveness of shared services. For example, Hawkins (2009) identified that the three most commonly cited reasons for establishing joint ventures were to: (i) improve a municipality’s economic advantage; (ii) secure economic resources that would not otherwise be available; and (iii) take advantage of economies of scale. Moreover, Chen and Thurmaier (2010) also found that among local municipalities in Iowa the equitable sharing of benefits among participants was an important factor in establishing successful interlocal arrangements. More recently, Hawkins (2010) found that collaboration on ‘economic development’ joint ventures between US local government authorities is influenced by a number of factors including the presence of high levels of social capital and frequent communication between key stakeholders.

Empirical studies in the US have also been undertaken by LeRoux and Carr (2007; 2010). In an attempt to explain US local government cooperation on public services such as water and sewerage in Michigan, LeRoux and Carr (2007) found that collaboration was affected by a number of factors including: (i) economic factors, (ii) population growth, and (iii) the characteristics of the communities in the adjoining area. In a subsequent case study, LeRoux and Carr (2010) investigated the structure of interlocal networks among 44 local governments in Wayne County, Michigan. Results indicate that local government entities cooperative more

extensively on the provision of local public services such as waste disposal rather than on 'lifestyle services' such as parks and recreation.

In another study, Kwon and Feiock (2010) put forward a case that intergovernmental service agreements should be viewed as a two-step process. In the first step, local communities consider whether or not to collaborate. In the second step, the likelihood of entering into an agreement is conditional upon the likelihood that a local community has expressed a preference for collaboration. Drawing on survey data, the authors used a two-part Heckman probit model to investigate this process. In the first step, the results suggest that collaborations are more "likely to be considered in relatively affluent cities experiencing population declines and economic conditions" (Kwon and Feiock, 2010, 881). In the second step, the results indicate the 'at-large' election of US councillors (compared to district systems) and a history of previous interlocal fiscal arrangements was predictive of forming a joint agreement conditional upon the local community expressing a preference for collaboration.

In another study, Ruggini (2006) provided examples of successful shared services arrangements. Areas in which shared services proved to be most successful included joint procurement, emergency services, and records management. Along similar lines, Honadle (1984) also presented successful inter-municipal cooperation cases in procurement, information technology, fire and police services, bus system services, and health services.

Derman and Gates (1995) base their analysis on a 1991 survey undertaken by the New Jersey Department of Community Affairs. At the time this survey was conducted, over 400 'interlocal' service programs were managed by New Jersey municipalities, including 38 purchasing cooperatives and over 20 joint insurance funds. Derman and Gates (1995) argued that for nearly all local government functions (excluding police and fire-fighting) there is scope for shared services arrangements to be implemented.

SHARED SERVICES AND PUBLIC POLICY

If shared services represent the best structural alternative to local government consolidation, at least in terms of retaining local service production within the public sphere, rather than outsourcing or privatizing service production, then this raises interesting questions for public policy towards local government. In particular, it is useful to consider (a) obstacles to the establishment of shared service models and how best these can be surmounted through policy intervention and (b) the reasons why local authorities have adopted shared services and how these factors can be harnessed to stimulate further shared service implementation. While some empirical work has been done on (a) and (b) in the area of local government (see Dollery, Akimov and Byrnes (2009), in both the scholarly literature (see, for example, Honadle, 1984 and Ruggini, 2006), as well as by commercial concerns (see, for instance, Serco Solutions, 2005), scant attention has been paid to the problem of how best to encourage the adoption of shared services through system-wide policy intervention.

A useful framework for considering both (a) and (b) has recently been developed by Hawkins (2009) as part of an empirical study into joint ventures aimed at economic development in 12 American metropolitan statistical areas. Using the conceptual prism provided by transactions

cost theory, Hawkins (2009) identified three main barriers to the adoption of shared service arrangements in local government: ‘coordination problems’, ‘division problems’, and ‘defection problems’. According to Hawkins (2009, 110/111), shared service agreements between local authorities are more difficult to strike when ‘there are no joint gains’, when the *a priori* establishment of ‘roles and responsibilities for implementation’ is problematic, and when there is a lack of ‘knowledge of the costs and benefits of an agreement’ and ‘participant preferences and behavior’, including possible ‘future opportunistic behavior’. Division problems arise when there is ‘agreement on the goals’ but distrust on the question of ‘dividing and distributing benefits among the participants’, such as the allocation of costs between member councils and the distribution of assets in the event of dissolution. Finally, defection problems may materialize when ‘one party does not comply with the agreement’ and ‘in the absence of a credible mutual commitment to uphold the agreement’, participating municipalities ‘have an incentive to defect and become “free riders”’. These barriers effectively encompass the ‘complexity of the process’, ‘conflicting objectives’ between participants and ‘uncertain benefits’ pinpointed in the Dollery, Akimov and Byrnes, (2009) survey. However, Hawkins (2009) ‘economic’ focus did not embrace the sociological ‘loss of municipal identity’. Moreover, neither of these constellations of factors includes legal impediments which are often obstacles. For example, in the New South Wales local government system, local councils are prevented from forming for-profit corporate entities, which has served to inhibit the formation of dedicated special purpose vehicles to deliver shared services and thereby presumably prevented the formation of numerous shared service entities.

Given the institutional, legal and manifold other complexities in local government, which render generalization across different local government systems fraught with difficulty, only broad generic policy approaches are possible. In terms of Hawkins (2009) tripartite taxonomy of barriers to the adoption of shared service arrangements, it is feasible to identify several standard policy options. Thus, coordination problems are hard to overcome, especially with inherently uncertain *ex anti* information on the prospects of success of a joint venture. For this reason, it seems important for the higher tier of government responsible for legislating for a local government jurisdiction to provide a legal ‘template’ for shared service arrangements which would bind participating local authorities on matters of coordination, such as governance regulations, the apportionment of costs and revenues between member councils, and the like. While this has the obvious disadvantage of removing a degree of local flexibility arising from varied local circumstances, it provides not only more certainty, but also serves to reduce establishment costs since participants can simply use the centrally-generated legal instruments. Since shared services represent an excellent avenue for regional cooperation between small municipalities, typically with limited administrative capacity and harsh budgets constraints, anything which lowers establishment costs must promote new joint ventures.

A similar policy posture on the part of the responsible central or state government can also be adopted towards ameliorating ‘division problems’, and ‘defection problems’. For example, legislative provision could be made to produce binding outcomes on agreed principles: thus establishment costs could be allocated on the basis of the revenue base of member councils, revenue distributed in proportion to the financial contribution of participants, etc. An analogous legal constraint could be set in place to minimize ‘defection problems’. For instance, a ‘once-in-stay-in’ stipulation could be added to the legal template which would serve to prevent any member municipality from leaving a shared service entity once they have agreed to join.

Hawkins (2009) also proposed a useful quadrilateral conceptual framework for considering the question of why local authorities wish to cooperate through shared service arrangements made up of the following factors: ‘service delivery costs and scale economies’; ‘resource acquisition, development opportunities and externalities’; ‘third party coercion and incentives’; and ‘local and regional reputation’. In the first place, Hawkins (2009, 109) contends that ‘cost savings are cited as the dominant reason for entering into interlocal contracts for service provision’, especially in ‘infrastructure expansion through cooperation’ since this enables the local governments involved to spread high capital costs and ‘thereby reduce the costs of service delivery’. A second economic motive in this regard centers on ‘improved service management and quality’, particularly in the case of small local authorities with limited managerial expertise and capacity.

Secondly, the ‘resource acquisition, development opportunities and externalities’ motive for entering into shared service agreements resides primarily in the fact that ‘voluntary agreements may be formed in order to generate community resources that may be relatively difficult to accumulate by acting alone’ (Hawkins, 2009, 109). Similarly, collective action can effectively tackle interjurisdictional externalities resulting from economic development and other spillover activities. Regional imperatives of this kind require either cooperation between affected local authorities or the creation of regional bodies independent of local government.

‘Third party coercion and incentives’ refers to the commonplace occurrence that while shared service arrangements are created and run primarily by the local government entities involved, ‘a variety of organizations are often heavily involved in working with government units to spur development, manage cross-jurisdictional issues, and generally work toward local and regional development goals’ (Hawkins, 2009, 109). Third party intrusion can often be beneficial, notably ‘in order to resolve disagreements, facilitate collective action, and provide a mechanism by which to monitor agreements over time’. It can also provide incentives, such as financial grants and subsidies, which can stimulate the establishment of shared service entities, strengthen their activities and promote their longevity.

Finally, Hawkins (2009, 110) proposed that ‘local and regional reputation’ represented an important ingredient in the establishment of shared service arrangements since ‘organizations often want to be considered good partners in joint efforts and improve their reputation for future cooperative endeavors’. Moreover, the establishment of shared service partnerships may ‘increase the visibility of a local government in a region as a community that is being innovative and proactive toward solving local problems’. Political considerations are not insignificant: the conclusion of partnership agreements immediately prior to elections may improve the electoral prospects of incumbents.

Despite its attractions, the Hawkins (2009) framework is not complete. In particular, additional ‘second-best’ elements can be identified, falling partly under ‘third party coercion and incentives’. For instance, in Australian local government systems, a familiar motivation for the establishment of regional shared service entities by constituent local authorities is to pre-empt attempts by state governments to compulsorily amalgamate rural and remote councils on grounds that they are sub-optimally small (Conway, Dollery and Grant, 2011). In an analogous vein, shared service arrangements are sometimes simply an artefact of higher governmental policy; local authorities establish shared serviced partnerships for the cynical purpose of securing grants, subsidies and other financial benefits tied to the existence of shared service entities rather than as

a *bona fide* effort at joint service provision. On other occasions, shared service partnerships arise in response to directives from higher tiers of government due to moral suasion or, at a more base level, to avoid penalties such as reductions in intergovernmental grants. In many instances, at least in the Australian local government context, the real objective of shared service entities is avowedly political, deriving from the common perception that a regional body carries greater ‘political clout’ than the sum of its constituent members. Thus joint organizations are founded with ostensible shared service roles, such as ‘regional policy coordination’, but whose actual intent is simply to act as a political lobby group.

Despite these shortcomings the Hawkins (2009) typology of reasons for adopting shared service approaches is useful from the point of view of informing public policy. Various generic policy interventions suggest themselves. For example, in common with the earlier proposed policy stance on removing barriers or obstacles to joint ventures between local authorities through legislative templates, an obvious step would be to reduce the costs of establishing shared service entities through enabling legislation providing greater certainty to participating councils, as well as simple, inexpensive establishment procedures. A parallel policy initiative would be to provide financial incentives to local authorities to establish shared service entities, subject to assurances on the viability of the proposed arrangements. In order to avoid cynical ‘gaming’ of incentives, combined with a ‘once-in-stay-in’ stipulation, incentives can be staggered and ‘back-loaded’ so that most of the funds are transferred to the shared service entity well after it has demonstrated successful operation.

In addition to these positive ‘carrot’ measures, ‘third party coercion and incentives’ can also be extended to include negative ‘stick’ policies. For example, in the Australian local government milieu, where forced amalgamation has been deployed by governments in almost all state jurisdictions, groups of councils threatened with merger have sought to stave off compulsory consolidation by proposing to form shared service entities designed to secure the even greater scale and scope economies than the intended amalgamation. Since these joint ventures have the intended aim of avoiding consolidation, they have sometimes proved illusory as valid shared service providers in the longer term. However, it has been argued that the most noteworthy feature of this phenomenon has been the superior galvanising effect of threatened amalgamation compared to the comparatively ineffectual alternative policies which have been employed (Dollery, Crase and O’Keefe, 2009). Threats of compulsory structural reform, including forced mergers, could thus be used as a catalyst to encourage small councils to establish shared service entities. Legal obligations binding all councils to these arrangements, together periodic monitoring of these entities, would assist in preventing the creation of ‘phony’ joint ventures.

CONCLUDING REMARKS

This paper has explored the problem of shared services in local government by considering the foundations of shared services, including the nascent conceptual literature and existing empirical evidence, as well as the question of developing policies to promote inter-municipal collaboration.

While efforts aimed at constructing formal theoretical shared service models have yet to prove fruitful, a good deal of worthwhile knowledge on both the suitability of different types of

municipal services for shared service arrangements, as well as the economic performance of alternative kinds of services, can be drawn from the empirical literature.

However, much less is known about the public policies which can effectively stimulate the introduction of shared service arrangements. Following the Hawkins (2009) framework, we have considered (a) policies aimed at removing obstacles to shared services and (b) policies targeted at strengthening the ‘attractive’ features of shared services. While this preliminary analysis is suggestive, much more remains to be done. Two avenues for further research seem potentially rewarding. In the first place, further empirical analyses of the efficacy of actual shared service policy could make a valuable contribution. Secondly, shared service provision could be decomposed into its component categories of production, management and policy, the problem of which of these three dimensions should be tackled at the local level or regional level investigated, and then disaggregated policy designed for different levels of decision-making explored.

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