SCALE AND CAPACITY IN THE NEW ENGLAND REGION WITHOUT DEBILITATING FORCED MERGERS

A Common Service Model for Council Collaboration

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Contacts:

**Professor Brian Dollery**
Telephone: 02 6773 2500  
Email: bdollery@une.edu.au

**Ms Heather Sills**
Guyra Shire Council Corporate Services Officer  
Telephone: 02 6770 7111  
Email: hsills@guyra.nsw.gov.au

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Executive Summary

As required under the NSW Government’s Fit for the Future local government reform program, all NSW local councils, including the Guyra Shire Council, must evaluate themselves against the Fit for the Future criteria – ‘scale and capacity’, ‘financial sustainability’, ‘infrastructure management’ and ‘efficiency’ – prepare ‘business cases’, which should be: (a) a ‘continuous improvement’ case; (b) a ‘merger’ case; or (c) a ‘rural council’ case. Guyra has formally decided that it will prepare a ‘rural council’ case. The Independent Local Government Review Panel had recommended a merger with the Armidale Dumaresq Council for Guyra or alternatively membership of a New England Joint Organisation of Councils.

This Report argues that shared service arrangements by voluntarily participating councils represents a demonstrably superior means of securing the advantages of ‘scale and capacity’ in local government, without the severe economic and social costs of forced amalgamation. A New England Joint Organisation offers much cheaper and more effective manner of achieving the requisite ‘scale and capacity’ for Guyra and other New England Councils.

However, in practice the success of shared services in Australian local government has been hampered in regional, rural and remote local authorities by the substantial costs of establishing and running shared service bodies, which can outweigh cost savings from shared services.
Taking into account the special characteristics of small non-metropolitan councils, such as Guyra Shire Council, this Report presents a Common Service Model approach to inter-council collaboration designed to minimise establishment and transactions costs, maximise flexibility and yield transparency.

The adoption of a Common Service Model by the Guyra Shire Council enable it to not only cover various specialist functions/services in a cost-effective manner by securing them from other local authorities, but also to provide other small councils with functions/services in which the Guyra has a comparative advantage.

A Common Service Model could also form the cost-effective basis of a New England Joint Organisation recommended as an alternative to amalgamation the under both the Independent Local Government Review Panel’s *Revitalizing Local Government* report and the *Fit for the Future* process.
1. Introduction


*Future Directions* (2013, p.38) recommended that Guyra merge to form a single local authority with Armidale Dumaresq Council, Uralla Shire Council and Walcha Shire. As an alternative, it recommended ‘Guyra, Uralla and Walcha should all be converted to Local Board status if they remain separate’. Despite repeated assurances that it would adhere strictly to ‘evidence-based’ policy prescription, in *Future Directions* the Panel offered no empirical evidence at all in support of this proposed merger.

The forced amalgamations recommended by the Panel in *Future Directions* was greeted with dismay by local government. *Future Directions* was attacked on numerous counts, not only because of the absence of any empirical basis for its merger recommendations, but also the poor quality of its commissioned research, particularly *Assessing Processes and Outcomes of the 2004 Local Government Boundary Changes in NSW* by Jeff Tate Consulting (2013).
Instead of assessing the success of the 2004 forced amalgamation in NSW by comparing the subsequent performance of merged and unmerged councils in the same council classification categories against the *NSW Government Comparative Information on NSW Local Government Councils* data or the *Fit for the Future* criteria, Jeff Tate Consulting (2013) simply consulted (in qualitative terms) some members of five of amalgamated councils nominated by the Panel!

After public consultation with local government and other interested parties across NSW, in October 2013, the Panel submitted its final report *Revitalising Local Government* to the NSW Government. The main difference between *Future Directions* and *Revitalising Local Government* lay in a shift away from outright compulsory council consolidation to the establishment of a ‘strengthened’ Boundaries Commission. This reinforced Boundaries Commission would be empowered to deliberate on proposals for council amalgamation and make binding recommendations concerning mergers, with or without the consent of affected councils.

In common with *Future Directions*, *Revitalising Local Government* continued to maintain that municipal mergers were essential for improving NSW local government. Furthermore, in its overall assessment of local government financial sustainability in NSW, *Future Directions* (2013, p.6) had argued that ‘it is also clear that the financial base of the sector is in urgent need of repair’, and added that ‘put simply, there are too many councils chasing too few resources’. This theme was reiterated in *Revitalizing Local Government* where the Panel (2014, p.720) noted that ‘NSW simply cannot sustain 152 councils’!
Revitalising Local Government (2014, p.115) recommended that the Guyra Shire Council form part of the ‘New England Organisation or merge with Armidale’. In line with Future Directions, Revitalising Local Government offered no empirical evidence in support of the proposed mergers between Guyra and Armidale.

The NSW Cabinet delayed until early January 2014 before making public Revitalising Local Government. In April 2014, new Premier Baird reshuffled the NSW Cabinet, replacing Minister for Local Government Don Page with Paul Toole. This may account for the fact that the NSW Government only responded to the recommendations in Revitalising Local Government in September 2014 with its Fit for the Future process.

With respect to the Guyra Shire Council, Fit for the Future endorsed the Panel’s recommendation that Guyra be merged with Armidale Dumaresq. Despite the drastic nature of this proposed amalgamation for Guyra, not least in terms of irreparable damage to the local economy induced by a shift of council employment and expenditure to Armidale, in common with Future Directions and Revitalising Local Government, Fit for the Future offered no empirical evidence in support of the proposed amalgamation!

This Report demonstrates that municipal mergers have been largely discredited not only in the empirical literature on local government reform, but also by the fact that council amalgamations have seldom met the expectations of their architects. The Report shows that council collaboration represents a much more effective method of securing the benefits attendant upon as well as improving local council capacity In particular, the Report advances
a Common Service Model as an optimal approach to inter-council collaboration involving small rural councils, such as the Guyra Shire Council.

The Report is divided into eight main parts:

- Section 2 provides a brief summary of the chief characteristics of Guyra Shire Council by way of background to the Report.
- Section 3 gives a synoptic description of present inter-council collaboration in shared services in which Guyra is presently engaged in an effort to secure the benefits which flow from ‘scale and capacity’ without destroying ‘local voice’ and ‘local choice’.
- Section 4 offers a short summation of the scholarly debate surrounding municipal mergers.
- Section 5 provides a brief synoptic account of the conceptual foundations of shared services in local government.
- Section 6 summarises the empirical literature on the pecuniary impact of shared services.
- Section 7 considers the factors which a shared service model designed for small regional, rural and remote councils must accommodate.
- Section 8 presents the Common Service Model itself.
- Section 9 ends Reports with some brief concluding comments on its policy implications for the Guyra Shire Council and its neighbours.
2. Characteristics of the Guyra Shire Council

The Guyra local government area (LGA) is situated on the Northern Tablelands in the New England region of New South Wales with Inverell and Glen Innes LGAs to the north and the Uralla and Armidale-Dumaresq LGAs to the south (Figure 2.1).

![Figure 2.1: Guyra Local Government Area, Map](image)

Source: ABS.

The area of the Guyra Shire Council is 4,390 square kilometres and its total road length is 841 kilometres. According to the ABS, the population of Guyra Shire Council in 2012 was 4,552 and the median age was 41.7 years, which is noticeable higher than the Australian median age of 37.3 years (Figure 2). The average wage in Guyra Shire Council was $34,924 per annum, which is substantially lower than the NSW average of $53,917 per annum.
Looking at Figure 2.2, the main employing industry in Guyra Shire Council is ‘Agriculture, Forestry and Fishing’. This is not surprising given the rural nature of the Guyra Shire Council and its historical and ongoing interest and investment in primary industries. Table 2.1 (below), provides details from the 2011 Census of the main employment industries in Guyra Shire Council.
Table 2.1: Industry of employment for people 15 and over, top responses (2011 Census)

<table>
<thead>
<tr>
<th>Industry of Employment</th>
<th>Guyra</th>
<th>NSW</th>
<th>Australia</th>
<th>Guyra</th>
<th>NSW</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheep, Beef Cattle and Grain Farming</td>
<td>467</td>
<td>25.6</td>
<td>39,486</td>
<td>1.3</td>
<td>120,143</td>
<td>1.2</td>
</tr>
<tr>
<td>School Education</td>
<td>98</td>
<td>5.4</td>
<td>138,795</td>
<td>4.4</td>
<td>467,373</td>
<td>4.6</td>
</tr>
<tr>
<td>Mushroom and Vegetable Growing</td>
<td>65</td>
<td>3.6</td>
<td>3,186</td>
<td>0.1</td>
<td>15,629</td>
<td>0.2</td>
</tr>
<tr>
<td>Local Government Administration</td>
<td>53</td>
<td>2.9</td>
<td>40,770</td>
<td>1.3</td>
<td>136,792</td>
<td>1.4</td>
</tr>
<tr>
<td>Cafes, Restaurants and Takeaway Food Services</td>
<td>47</td>
<td>2.6</td>
<td>127,711</td>
<td>4.1</td>
<td>412,804</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Source: ABS.

Of the employed people in the Guyra LGA aged 15 and over, 25.6% worked in ‘Sheep, Beef Cattle and Grain Farming’. Other major areas of employed included ‘School Education’ (5.4%), ‘Mushroom and Vegetable Growing’ (3.6%) and ‘Local Government Administration’ (2.9%). It is important to note that Guyra Shire Council is a major employer, which serves to further highlight the critical economic importance that local councils play in regional Australia.

Finally, additional insights can be gleaned from Table 2.2, which reports private dwelling statistics for Guyra LGA, NSW, and Australia. Looking across Table 2.2, the average people per household in the Guyra LGA is very similar to that of NSW and Australia. However, stark differences are evident for the other measures reported in Table 2.2.

Table 2.2: Private dwelling statistics (2011 Census)

<table>
<thead>
<tr>
<th>All private dwellings</th>
<th>Guyra</th>
<th>NSW</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average people per household</td>
<td>2.5</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Median weekly household income</td>
<td>$805</td>
<td>$1,237</td>
<td>$1,234</td>
</tr>
<tr>
<td>Median monthly mortgage repayments</td>
<td>$1,083</td>
<td>1,993</td>
<td>1,800</td>
</tr>
<tr>
<td>Median weekly rent</td>
<td>$150</td>
<td>$300</td>
<td>$285</td>
</tr>
</tbody>
</table>

Source: ABS.
For example, the median weekly household income for Guyra LGA ($805) is considerably lower than the median weekly household income for NSW ($1,237) and Australia ($1,234). However, in contrast, the median monthly mortgage repayments for Guyra LGA ($1,083) are noticeably lower than the median monthly mortgage repayments for NSW ($1,993) and Australia ($1,800). Finally, the median weekly rent for Guyra LGA ($150) is substantially lower than the median weekly rent for NSW ($300) and Australia ($285).

In summary, these descriptive statistics provide a broad insight into the Guyra LGA and its social and economic characteristics. In reviewing these statistics it is important to note that major contribution that the Guyra Shire Councils makes as a local employer and economic driver of the region.
3. Guyra Cooperation in Shared Services

Over the years, Guyra Shire Council has made determined efforts to secure any benefits which flow from inter-council collaboration in terms of scale economies, economies of scope, access to scarce and expensive functions, skilled services and the like.

For example, Guyra participated fully in the New England Strategic Alliance of Councils (NESAC), which was in operation from 2004 to 2009. NESAC comprised Uralla, Guyra, Walcha and Armidale Dumaresq councils cooperating in the delivery of shared services which was estimated to deliver about $1.7 million in recurrent savings in the short term and $3.2 million in the longer term. However, with the unilateral withdrawal of Walcha in early 2009, NESAC faltered.

However, post-NESAC inter-council cooperation continued in the New England Region. In the case of Guyra, this activity is largely centred on cooperation with Armidale Dumaresq Council. Table 3.1 provides a summary of current shared service arrangements between Guyra and Armidale.
<table>
<thead>
<tr>
<th>Service/function</th>
<th>Approximate cost</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Operation</td>
<td>$150,000</td>
<td>IT a completely outsourced function. Includes software licences. Purchase of hardware and equipment separate.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Includes software licences. Purchase of hardware and equipment separate.</td>
</tr>
<tr>
<td>Finance and Purchasing</td>
<td>$33,000</td>
<td>Direct charge for services, based on actual utilisation. Includes utilisation of Shared Services Chief Finance Officer.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Direct charge for services, based on actual utilisation. Includes utilisation of Shared Services Chief Finance Officer.</td>
</tr>
<tr>
<td></td>
<td>$40,000</td>
<td>Shared costs with Armidale</td>
</tr>
<tr>
<td></td>
<td>-$20,000</td>
<td>Guyra Shire also employs staff in this area and direct charges back to Armidale.</td>
</tr>
<tr>
<td>Human Resources</td>
<td>$4,000</td>
<td>Direct charge. Undertakes all roles for Guyra as no staff are employed by GSC.</td>
</tr>
</tbody>
</table>

Under its *Fit for the Future* ‘Rural Council’ proposal, Guyra has demonstrated a commitment to further expanding its shared service arrangements. In particular, Guyra has indicated that its comparatively strong administrative services function could offer ‘virtual administration’ to other small rural councils, as well as community organisations.

This has obvious benefits for the New England Joint Organisation proposed by the Independent Panel (2013) in *Revitalizing Local Government*. A New England Joint Organisation would offer substantial benefits to member councils. For example, it could form the basis for collaborative tendering and procurement which would reap significant pecuniary benefits as well as cost savings.
However, an impediment to the successful functioning of a New England Joint Organisation would reside in the costs of establishing and maintaining a separate organisational entity to house a New England Joint Organisation. Historical experience with Regional Organisations of Council (ROCS) has shown that ROCS made up of small rural councils almost invariably consist of a separate entity with its own CEO and secretarial staff, its own headquarters, its own vehicles, etc., which impose substantial costs. Indeed, these costs often swamp any of the costs savings and other benefits generated by the ROC.

Given the need to minimise the organisational costs attendant upon successful shared service arrangements in local government, this Report proposes that a Common Service Model be adopted as the basis for a New England Joint Organisation or similar body involving Guyra Shire Council.
4. Local Government Amalgamation Debate

Numerous local government systems across the world have experienced reform of varying degrees of intensity, including all Australian state and territory systems. In *Municipal Reform in Canada*, Garcea and LeSage (2005) developed an insightful analytical typology containing five distinctive kinds of local government reform: (i) jurisdictional reform, (ii) functional reform, (iii) financial reform, (iv) ‘internal governance and management reform’, and (v) structural reform. In contemporary local government, reform programs in many countries have sought to address different aspects of local government activity in all or some of these categories.

Various policy instruments have been deployed (see, for instance, Dollery, Grant and Kortt, 2012, for a comprehensive survey of the relevant literature). For example, reform programs have used performance monitoring, like the Comprehensive Performance Assessment (CPA) in the United Kingdom (Game, 2006), financial management and reporting (Dollery, Kortt and Grant, 2013), fiscal equalisation measures, such as intergovernmental grants in Sweden (Johansson, 2003), the co-production of municipal services (Andrews and Brewer, 2013), compulsory council consolidation (Lago-Penas and Martinez-Vazquez, 2013), and shared service provision and resource-sharing (Tomkinson, 2007).

In common with some other countries, such as Belgium (De Ceuninck *et al.*, 2010) and Japan (Shimizu, 2012), Australian policy makers have frequently employed forced mergers as their main engine of reform. Proponents of forced amalgamation have long claimed that numerous advantages derive from the merger of small local authorities into fewer and larger local
councils. However, Sancton (2011) has shown that these claimed benefits have changed through time.

Thus, while advocates of mandatory municipal mergers often previously emphasised cost savings and other dividends from council consolidation, the observed failure of merged municipalities to achieve claimed savings targets has seen more recent council amalgamations typically premised on its ability to improve the administrative and technical capacity of municipalities (Dollery, Grant and Kortt, 2012). In addition, some contemporary campaigns aimed at securing council consolidation, like the recent attempt to compulsorily merge the five councils in the Hawke’s Bay Region of New Zealand into a single entity, have contended that large merged regional local authorities will produce much more effective regional leadership that will somehow stimulate more rapid regional growth and economic development (McGredy Winder & Co, 2013).

By contrast, opponents of forced mergers stress the contentious character of council consolidation, inadequate supportive empirical evidence, disappointing outcomes of past amalgamation episodes, and an attenuation in local democracy (Faulk and Hicks, 2011). In general, the scholarly literature has been sceptical of compulsory consolidation as a policy instrument and the weight of empirical work has raised doubt over the effectiveness of amalgamation (see Lago-Penas and Martinez-Vazquez, 2013).

In Australia, an embryonic empirical literature has sought to compute the effects of structural reform through forced amalgamation (see Dollery, Grant and Kortt, 2013, for a recent survey of the academic and public inquiry literature). For example, Drew, Kortt and Dollery (2014) empirically evaluated the economic consequences of the 2008 Queensland compulsory
council consolidation program on the optimal size of local authorities and found that numerous merged local authorities exceeded optimal council scale. Similarly, empirical scholars have examined the impact of proposed mergers on scale economies in local government in Tasmania (Drew, Kortt and Dollery, 2013; Marques, Dollery and Kortt, 2015), the greater Perth metropolitan region (Drew and Dollery, 2014a), and NSW (Drew and Dollery, 2014b; Drew, Kortt and Dollery, 2015) and all found that, in general, claimed scale economies would not have eventuated.

In terms of the impact of council size on the perceived effectiveness of council performance, Drew, Kortt and Dollery (2014) found limited evidence of a relationship between council size (by population) and council effectiveness (as measured by annual resident satisfaction surveys) in Victoria. With respect to the comparative performance of Brisbane City Council – by far the biggest council in Australia – relative to a sample of other large councils, using a range of financial indicators, Sinnewe, Kortt and Dollery (2015) found that Brisbane performed comparatively poorly. This literature broadly echoes international empirical work on size and performance in local government (see, for example, Faulk and Hicks, 2011; Lago-Penas and Martinez-Vazquez, 2013, for surveys of the international literature).

Given the empirical evidence on both the impact of municipal mergers and the relationship between size and performance in local government, a majority of contemporary observers of local government reform in Australia and abroad now broadly favour shared services as a superior alternative to forced amalgamation in terms of structural reform as a means of harnessing the advantages which can accrue from greater scale and scope in council service delivery. In essence, this view holds that ‘amalgamating service delivery’ rather than
‘amalgamating councils’ represents the optimal approach to achieving scale and scope economies in municipal service provision.

However, despite the comparative advantage of shared services (also known as inter-jurisdictional agreements and inter-local agreements in the United States) in reaping the benefits of scale, various factors have inhibited the adoption of shared service models in local government (Hawkins and Feiock, 2011; Hawkins, 2009, 2010a, 2010b; Dollery, Grant and Kortt, 2012; Tomkinson, 2007). In particular, in the case of small regional, rural and remote local authorities, such as Guyra Shire Council, Bombala and Cooma-Monaro, the administrative and establishment costs associated with founding and running a separate entity to undertake shared service operations for a group of these small councils can often swamp any cost-savings from shared services themselves, thereby removing the economic imperative for engaging in shared services in the first place.

This presents a challenging problem: designing a shared service model which eliminates (or at least minimises) the overhead costs of running any given shared service arrangement. In this Report, we propose a Common Service Model specifically crafted for small regional, rural and remote councils, like Guyra Shire Council, which has been fashioned to limit the overhead costs of shared services.
5. Conceptual Roots of Municipal Shared Services

Shared services, resource-sharing and other inter-council arrangements of this kind rest on a common conceptual foundation derived from Oakerson (1999). In his *Governing Local Public Economies*, Oakerson (1999, p.7) distinguished between *municipal service provision* and *municipal service production* and demonstrated that different principles apply to these different functions. The *provision* of municipal services involves determining whether to provide a particular service, the regulation of local activities, the accretion of adequate funds to pay for the service, the composition and quality of services provided, and how these services should be produced. By contrast, *production* involves creating a product or rendering a service rather than providing its funding and deciding what the service should be.

Oakerson (1999, p.15) argued that ‘almost all’ local public services ‘depend upon the availability of specific time-and-place information, such as local 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 local service provision is separated from local service production, it follows that council size and the production scale of the service in question are not necessarily related.

Oakerson (1999, pp.15-16) argued that local public services possess three characteristics differentiating them from other kinds of services:
• **Local public service provision involves ‘co-production’**. Co-production refers to the ‘productive efforts of citizen-consumers as an integral part of the production process’ which should be distinguished from the ‘citizen-voter’ role of local residents in local service provision. In the local government realm, local residents act as the ‘eyes-and-ears’ of local authorities and their participation is thus indispensable to the effectiveness of service delivery.

• **Local public goods must be distinguished from local public services**. Local public goods are typically capital-intensive and thus frequently display economies of scale, such as domestic waste processing, storage and management. By contrast, local public services, like property development approvals and health inspection services, are typically labour-intensive with negligible scale economies. In general, economies of scale thus differ widely between different municipal activities. Oakerson (1999, p.16) also demonstrated 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 obviously have significant consequences for the organisation of production.

• **Coordination or management costs play a pivotal role in the way in which production should be organised**. Oakerson (1999, p.16) summarised this characteristic of local 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’. As a result, ‘each component may be associated with a
different economy of scale (although services typically exhibit constant returns over a broad range’). However, ‘different components of service production require coordination to varying degrees’. It thus follows that ‘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. As a consequence, the optimal number of production units depends on the trade-off between scale economies and coordination economies.

The chief policy implication of the conceptual separation of local service provision from local service production is that local councils enjoy a choice between different vehicles for producing local services. Oakerson (1999, pp.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, a council organises its own production along traditional grounds;

(b) ‘**Coordinated production**’ takes place where two or more local 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 or more neighbouring councils organise a single production unit as in, for example, invoice processing or joint printing;

(d) ‘**Intergovernmental contracting**’ takes the form of one council horizontally contracting local services from a separate council or vertically with a state or national government agency;

(e) ‘**Private contracting**’ where a private for-profit firm undertakes production for a council, as in the contracting out of domestic waste collection;
(f) **Franchising** where a council gives a commercial firm the exclusive right to produce a given service from which local residents can purchase the service; and

(g) **Vouchering** where a council sets quality standards as well as the level of provision, but allows households to select their own producer using municipal vouchers.

In addition, Warner and Hefetz (2008) have also added local services provided by unpaid local volunteers.

Shared services in local government in its purest form are epitomised by option (a). However, other possibilities broadly fall under shared services. For instance, option (b) represents a ‘weak’ form of shared service since coordination rather than joint production occurs. Option (d) also constitutes a shared service model where a group of municipalities jointly contract with a state or national government department. Along analogous lines, option (e) is much the same where a constellation of councils deal with the same private firm in a joint contract. Finally, similar arguments can be applied to option (f) and option (g) provided joint arrangements are made.
6. Empirical Evidence on Shared Services in Local Government

In Australia, the existing empirical evidence on shared services is based almost entirely on case studies and surveys. To date, this evidence includes four case studies from South Australia (SA) and NSW, a literature review conducted by KM Management Consulting (KMMC) (2005) for the Local Government Association of Queensland (LGAQ) and three surveys undertaken for councils in NSW, SA and Western Australia (WA). In essence, this body of work indicates that shared services arrangements can offer a range of benefits to local councils. Table 6.1 contains the relevant information.

In a survey of 34 SA councils, Lawson (2007) found that the prospect of pecuniary benefits was a main reason cited for entering into shared services arrangements (although other reasons included the possibility of gaining access to a wider range of services). Lawson (2007) also found that the six most frequent areas for shared services encompassed: (i) waste management, (ii) town planning, (iii) joint purchasing and use of physical assets, (iv) ‘back-office’ operations, (v) access to IT services, and (vi) financial and governance services.

Surveys of WA and NSW councils (BJA, 2006; Byrnes, 2005) identified a number of areas suitable for shared services arrangements including: (i) waste collection and disposal, (ii) IT services, (iii) library and museum services, and (iv) land management services. Among WA councils it was noted that regional and remote councils were more likely to engage in shared services arrangements (BJA, 2006), while NSW councils identified a number of areas – public cemeteries, public toilets, public halls, and swimming pools – where ‘in-house’ service provision was the preferred method of delivery (Byrnes, 2005).
Table 6.1: Australian Empirical Evidence on Shared Services Arrangements

<table>
<thead>
<tr>
<th>Publication</th>
<th>Method</th>
<th>Sample</th>
<th>Summary of Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawson (2007)</td>
<td>Survey</td>
<td>34 South Australian 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>Burow Jorgensen and Associates (2006)</td>
<td>Survey</td>
<td>55 WA Local Councils</td>
<td>92% of councils were engaged in resource sharing in various areas, including waste collection, recycling and disposal, human resource, information technology, road works, library facilities and so on.</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 that should be provided locally.</td>
</tr>
<tr>
<td>Dollery and Byrnes (2006)</td>
<td>Case study</td>
<td>Walkerville Council, SA</td>
<td>Listed nine regional co-operative agreements Walkerville had entered into and provided estimates of benefits.</td>
</tr>
<tr>
<td>Dollery, Burns and Johnson (2005)</td>
<td>Case study</td>
<td>Armidale Dumaresq, Uralla, Guyra and Walcha Councils, NSW</td>
<td>Strategic Alliance of the Councils brought substantial benefits/savings through collaboration in the number of areas.</td>
</tr>
<tr>
<td>KMMC (2005)</td>
<td>Literature review</td>
<td>Not applicable</td>
<td>Identified six services most able to be successfully delivered through regional services units and three services most suited to delivery on a shared regional basis.</td>
</tr>
<tr>
<td>Local Government Association of Queensland (2005)</td>
<td>Case study</td>
<td>Wellington, Blayney and Cabonne Strategic Alliance, NSW</td>
<td>The Alliance achieved $720,000 savings in first ten month of operation through co-operative arrangements, joint purchases and staff and resource sharing.</td>
</tr>
<tr>
<td>Dollery et al. (2004)</td>
<td>Case study</td>
<td>Riverina Eastern Regional Organisation of Councils (REROC), NSW</td>
<td>REROC achieved savings of $4.5 million through reduced duplication, joint tendering, regional lobbying and co-operative sharing of resources.</td>
</tr>
</tbody>
</table>

Source: Adapted from Dollery and Akimov (2008).

A number of case studies have concluded that shared services arrangements confer a range of economic and social benefits citizens. For example, in a case study of the SA Walkerville Council by Dollery and Byrnes (2006) it was found that shared services arrangements
between Walkerville and nine adjoining councils resulted in either cost-savings or improvements to service delivery. Similar benefits were also identified in a cases studies that examined the Strategic Alliance Model employed by Armidale Dumaresq, Guyra, Uralla and Walcha councils in NSW (Dollery, Burns and Johnson, 2005) and shared services arrangements arrangement of the Riverina Eastern Regional Organisation of Councils – a cooperative venture between 13 councils in southern NSW (Dollery et al. 2004). In addition, the LGAQ also noted that the strategic alliance among the NSW councils of Wellington, Blayney and Cabonne accrued significant cost-savings.

Finally, the literature review conducted by KMMC (2005) for the LGAQ argued in favour of shared services on the basis of theoretical conjecture and a review of related research. However, it is unfortunate that the report failed to distinguish between shared services arrangements at the local government level and other tiers of government. The report thus failed to adequately identify and justify the possible benefits of shared services arrangements.

In contrast, there is growing body of international empirical evidence on shared services arrangements, of which Table 6.2 presents a representative selection of studies from the UK and US. In the UK, for instance, many British councils have reported that the introduction of shared services has not only reduced costs but has also led to improvements in service delivery particularly in the areas of procurement, IT services, and ‘back office’ functions (Communities and Local Government [England] 2006a; 2006b; 2006c; 2006d; 2006e).
## Table 6.2: International Evidence on Shared Services Arrangements

### United Kingdom

<table>
<thead>
<tr>
<th>Publication</th>
<th>Method</th>
<th>Sample</th>
<th>Summary of findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Murray et al. (2008)</td>
<td>Case studies</td>
<td>15 English Councils</td>
<td>Some smaller councils benefited from shared services.</td>
</tr>
<tr>
<td>CLG [England] (2006a; 2006b; 2006c; 2006d; 2006e)</td>
<td>Case studies</td>
<td>73 Local Councils 81 Local Councils 69 Local Councils 80 Local Councils 64 Local Councils</td>
<td>Shared services arrangements were one of the approaches to efficiency gains.</td>
</tr>
</tbody>
</table>

### United States

<table>
<thead>
<tr>
<th>Publication</th>
<th>Method</th>
<th>Sample</th>
<th>Summary of findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawkins and Feiock (2011)</td>
<td>Logistic regression</td>
<td>75 US municipalities</td>
<td>Joint ventures are more likely when: (i) local benefits are combined with a ‘mayor-council’ form of government or (ii) when wider benefits are sought under a ‘manager-council’ form of government.</td>
</tr>
<tr>
<td>LeRoux and Carr (2010)</td>
<td>Quantitative case study</td>
<td>44 local governments in Wayne County, Michigan</td>
<td>Municipalities cooperate more extensively on local public services such as waste disposal. Councils are also likely to enter into inter-local agreements when senior managers belong to the same professional associations.</td>
</tr>
<tr>
<td>LeRoux and Pandey (2011)</td>
<td>OLS regression</td>
<td>134 large US municipalities</td>
<td>Municipalities with managers motivated by career advancement are more likely to pursue inter-local service delivery.</td>
</tr>
<tr>
<td>Chen and Thurmaier (2010)</td>
<td>Ordered logistic regression</td>
<td>US municipalities in the Iowa</td>
<td>Inter-local agreements increase the effectiveness and efficiency of local services.</td>
</tr>
<tr>
<td>Hawkins (2010a)</td>
<td>Logistic regression</td>
<td>206 US municipalities</td>
<td>Cooperation on joint ventures for economic development between local governments is influenced by range of factors including high levels of social capital and frequent communication.</td>
</tr>
</tbody>
</table>
Table 2 (cont.)

<table>
<thead>
<tr>
<th>Publication</th>
<th>Method</th>
<th>Sample</th>
<th>Summary of findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawkins (2010b)</td>
<td>Multinomial logistic regression</td>
<td>206 US municipalities</td>
<td>Evidence indicates that ‘mayor-council’ forms of local government as opposed to ‘council-manager’ form of government are more likely to pursue and form ‘developmental’ joint ventures (e.g. two local councils agree to develop vacant land spanning the councils’ borders).</td>
</tr>
<tr>
<td>Kwon and Feiock (2010)</td>
<td>Heckman probit regression</td>
<td>Various US local municipalities</td>
<td>Intergovernmental services agreements can be characterised as a two-step process. First, communities consider whether to collaborate or not. Second, the likelihood of entering into an inter-local agreement is conditional upon the likelihood that a community has a preference for collaboration.</td>
</tr>
<tr>
<td>LeRoux and Carr (2007)</td>
<td>Logistic regression</td>
<td>Municipalities in Michigan</td>
<td>Local economic factors, policy and planning, networks, population growth, and characteristics of communities in the area adjoining the local government may help explain cooperation.</td>
</tr>
</tbody>
</table>

Source: Adapted from Dollery and Akimov (2008).

Similarly, the consultancy report by PriceWaterhouseCoopers (2005) on the Anglia Revenue Partnership – a shared services centre established for residents in two rural councils – reported that these municipalities not only performed better but had accrued substantial cost-savings. In an interesting study, Murray, Rentell and Geere (2008) explored the benefits of procurement shared services arrangements for 15 English councils and found that some smaller councils benefitted from such an arrangement.
In the US, a range of studies have empirically examined shared services arrangements. For example, Hawkins (2009) identified that the three most common reasons for establishing a shared services arrangement include: (i) improving a municipality’s economic advantage; (ii) securing resources not otherwise available; and (iii) exploiting economies of scale. Along similar lines, Chen and Thurmaier (2009) found that the equitable sharing of benefits among participating councils was critical to the success of inter-local cooperative ventures.

Further studies by Hawkins (2010a, 2010b) have examined: (i) the conditions under which councils were likely to establish shared services arrangements; and (ii) the role that institutional arrangements play in promoting the establishment of joint economic development ventures. Hawkins (2010a) found that cooperation on economic development joint ventures between councils is influenced by a range of factors including regular communication and high levels of social capital. With regard to institutional arrangements, Hawkins (2010b) found evidence that compared to a ‘council-manager’ form of government, a ‘mayor-council’ form of government is more likely to participate in ‘developmental’ joint ventures. Hawkins (2010b, p.382) has argued that one possible explanation for this finding is that developmental joint ventures ‘provides a way for elected officials to claim for the benefits that can be directed to certain constituent groups’. In a further study, Hawkins and Feiock (2011) found empirical evidence to support the proposition that previous collaborative arrangements positively impact on the likelihood of entering into a future collaborative venture.
A succession of studies by LeRoux and Carr (2007), LeRoux and Pandey (2011) and LeRoux and Carr (2010) examined shared services in the US. For example, LeRoux and Carr (2007) considered local government collaboration on public services (e.g., sewerage) among Michigan councils. The authors identified that collaboration among councils is motivated by a range of factors including: (i) the characteristics of adjacent communities, (ii) population growth, and (iii) economic considerations. In another study, LeRoux and Carr (2010) examined shared services arrangements among 44 municipalities in Michigan. Their findings indicated that councils were more likely to participate in inter-local collaborative arrangements for the provision of local public services like waste disposal and water management. In a subsequent study, LeRoux and Pandey (2011) also established evidence that larger US councils are more likely to pursue inter-local collaborative arrangements if senior managers are motivated by career progression.

Finally, Kwon and Feiock (2010) argued that inter-local collaborative arrangements should be best viewed as a two stage process. Employing a two-part econometric model, the authors first consider whether communities wish to participate in shared services arrangements and, in the second stage, consider the likelihood of entering into an inter-local cooperative agreement conditional upon the likelihood that a community has a preference for such an arrangement. Kwon and Feiock (2010, p.881) report that, in the first stage, inter-local cooperation is ‘likely to be considered in relatively affluent cities experiencing population declines and economic conditions’ while in the second stage, ‘at large’ election of US councillors and a former inter-local agreements were predictive of local communities entering into shared services arrangements.
By way of summary, the findings from the empirical literature suggest that shared services can improve local service delivery although some services appear to be more conducive in interlocal arrangements than others (Dollery, Grant and Kortt, 2012).
7. Optimal Design of Shared Service Operations

In common with local government systems in many other countries, Australian local government exhibits considerable diversity. This is especially true between metropolitan and non-metropolitan local councils, but also between regional, rural and remote local authorities. Moreover, this diversity extends far beyond population size, population density and population composition. In particular, local community preferences for municipal services differ widely between different local authorities. This is particularly marked for metropolitan councils as compared with their regional, rural and remote counterparts, but it is also evident between metropolitan councils, especially where average household income and other socio-economic characteristics vary widely between different local governments in the same city.

These differences are amplified by other ‘environmental’ factors. For example, the physical, economic, social and cultural environments of local government areas differ markedly across Australia which gives rise *inter alia* to significant differences in the costs of service provision. Along similar lines, demographic factors also have significant ramifications for council functions and thereby council financial sustainability.

Thus, from the perspective of the optimal design of shared service arrangements in Australian local government, these considerations place significant constraints on the architecture of shared services entities:

(a) Given the comparatively modest average size (by population) of Australian regional, rural and remote local authorities, such as Guyra Shire Council and its neighbouring councils, shared service arrangements must be designed to minimise the
administrative and overhead costs involved. If these costs are too high, then this will discourage local councils from engaging in shared service provision, resource sharing and the like, and thereby inhibit the growth of shared services in local government. A Common Service Model should thus seek to minimise administrative and overhead costs.

(b) Given the aggregate size of Australian regional, rural and remote local authorities, which vary greatly in administrative and technical capacity as well as local service requirements, shared service arrangements must foster the employment of limited and small-scale shared service provision between single council service providers and single council service recipients. In the case of Guyra Shire Council, an example of this kind of arrangement would be for Guyra Shire Council to purchase a specific service from another council, such as a large metropolitan municipality with excess capacity in that service. It would also allow Guyra Shire Council to provide a service to other council(s) in an area in which it had surplus expertise. Shared service agreements of this kind require that transactions costs be kept as low as possible, administrative hassles minimised and flexibility maximised. A Common Service Model should thus seek to maximise flexibility to stimulate small, limited forms of shared services.

(c) Given the fact that local councils are public sector entities, whose transactions must be both transparent and accountable to local ratepayers, there is a need for independent scrutiny and oversight of shared service arrangements between provider and recipient councils. This requires the existence of an ‘independent arbiter’ as well as accurate record keeping. These requirements will also provide a degree of certainty
to both provider councils and recipient councils. A Common Service Model should thus provide an external ‘independent arbiter’, together with minimal but adequate secretarial assistance.

(d) Flexible low-cost shared service arrangements, which can facilitate even small-scale single service arrangements between two councils (i.e., a single provider council and a single recipient), are best employed by groups of councils which willing participate in shared service arrangements on a voluntary basis rather than by regional groupings of councils which are obliged under law to belong to shared service entities. A Common Service Model should thus be comprised of councils which voluntarily wish to participate in shared service arrangements.

At a more general level, empirical work on shared services in local government systems in Australia and elsewhere by Tomkinson (2007), Warner and Hefetz (2008), Hawkins (2009), Dollery, Grant and Kortt (2012) and many other scholars has demonstrated that shared service entities everywhere must overcome several common barriers which inhibit their effective operation. In *Councils in Cooperation: Shared Services in Australian Local Government*, Dollery, Grant and Kortt (2012) have provided an exhaustive account of these barriers to success.

Two factors in particular must be accommodated in the design of successful shared service entities:
(1) Dollery, Grant and Kortt (2012) have shown that historically the nature of membership of shared service entities has proved problematic. In particular, where members of a shared service alliance consist of local councils in a regional area, experience has shown that this commonly results in the alliance progressing at the pace amenable to the least enthusiastic member council, sometimes referred to as the ‘convoy’ problem, whereby maritime convoys can only proceed at the pace of the slowest ship. To avoid this problem, several steps must be taken in the institutional design of shared service entities, including: (i) making membership entirely voluntary; (ii) allowing councils to ‘pick and choose’ which shared service options they wish to engage; and (iii) facilitating participation/non-participation by local councils at the discretion of those councils.

(2) Dollery, Grant and Kortt (2012) have demonstrated that structural factors in the design of shared service entities make a significant difference not only to their operations, but also to their long-term performance. In particular, the following issues must be addressed with care: (i) the ownership structure of the shared service entity, including the ownership of assets and the determination of voting rights; (ii) the attribution of the costs of setting up the entity and the ongoing costs of running the entity; and (iii) the disbursement of any profits and losses among member councils.

Thus, a Common Service Model suited to regional, rural and remote councils in Australia and elsewhere must thus be carefully designed to accommodate all these factors and their associated conditions. Some existing shared service models, notably the Brighton Model (Valle De Souza and Dollery, 2011), meet some of these requirements.
8. Common Service Model for New England Region

Given the challenges presented by attributes (a), (b), (c) and (d), as well as factors (1) and (2) on the design of a Common Service Model outlined above, as well as the need to stimulate the greater use of shared services in local government as a cheaper and more effective method of reaping the benefits of scale and scope than forced mergers, what would such a model look like?

In essence, groups of local councils with a desire to willingly participate in a Common Service Model would initially establish a Board comprised of all General Managers of these councils, chaired by an independent mutually agreed Chair, and assisted by a mutually agreed Chief Administrator. The Board of these participating councils would then form a Common Service Model founded on a series of *ad hoc* but formalised Shared Service Agreements (SSAs) between the service provider council(s) and the recipient council(s) of the service(s).

An SSA would specify the nature of the service to be provided, the costs involved and the duration of the period of service provision. The SSA would be monitored by a Committee comprising a representative of each of the participating provider council and recipient council to the SSA, together with the agreed independent Chair and the Chief Administrator. The costs of establishing and administering an SSA would be borne in equal parts between provider councils and recipient councils in proportion to the percentage of the service provided and consumed by each provider council and recipient council respectively. The SSA would specify the details of service provision, together with procedures for dealing with disputes, extensions of service provision, and the like.
A Common Service Model which operates along these lines would offer a number of advantages which would clearly meet conditions (a), (b), (c) and (d). For example, by minimizing costs and maximizing flexibility, an SSA would meet condition (a) and condition (b). Since a Common Service Model would set up a Committee with an independent Chair and a Chief Administrator it would also ensure that the SSA operation is conducted in a transparent manner, meeting condition (c). Finally, because participation in any SSA is decided entirely by participating councils, condition (d) regarding participation and voluntarism is fulfilled.

The Common Service Model also meets the more general inhibitory problems presented by factors (1) and (2). For instance, with respect to (1), only councils which either wish to provide a service or wish to receive a service participate in a given SSA, obviously implying entirely voluntary participation. In this regard, it is noteworthy that voluntary participation by councils means the optimal area for any service provider is decided by participating councils on the basis of detailed local knowledge rather than by any *a priori* predetermined rule.

With respect to (2), since an SSA only applies to participating provider and recipient councils, problems centred on ownership structure do not exist. Nor do problems arise with profits or losses since these apply only to participating councils and have already been agreed in the terms of the SSA. In sum, all the potential hurdles presented by (1) and (2) have been avoided by the SSA approach in the Common Service Model.
The formal objectives of SSAs are straightforward. An SSA seeks to foster cooperative relationships between participating councils under a Common Service Model framework and provide cost-effective access to expensive and scarce expertise. It establishes a Committee to coordinate and monitor the provision of services under the SSA, generates a single legal document specifying the responsibilities of all councils in the provision and use of services, provides for administration of the Committee, and secures the funds necessary to oversee the SSA.

What benefits would flow from the adoption of SSAs under a Common Service Model? It is possible to identify several benefits to provider councils and recipient councils alike which flow from the SSA approach. Firstly, SSAs allow access to skills and expertise in circumstances where councils cannot acquire otherwise these skills themselves, due to expense or the availability of appropriately skilled workers, a common problem faced by regional, rural and remote local authorities. A related benefit resides in enabling small councils to fully deploy their existing staff and generate revenue from them, where they are ‘under-employed’. Along similar lines, SSAs permits councils to secure commercial returns on investments in information technology systems, as well as other capital investments by making these available to other local authorities through a Common Service Model.
9. Implications for Guyra Shire Council and its Neighbours

In this Report we have presented a Common Service Model which has been designed to meet the special circumstances of regional, rural and remote local authorities, such as the Guyra Shire Council and its neighbouring local authorities.

In essence, the Common Service Model has been fashioned to minimise establishment and transactions costs, maximise flexibility and facilitate shared service provision at even the most modest level. Special care has been taken to avoid the pitfalls associated with rigorous membership requirements, onerous governance arrangements and collective risk-sharing provisions which have beset shared service entities in Australian local government (Dollery, Grant and Kortt, 2012).

By employing a ‘minimalist’ organisational structure, centred on individual SSAs, each overseen by a Committee comprised of a mutually agreed independent Chair, and a representative of each participating council, assisted by a Chief Administrator, which is financed entirely by participating parties, the Common Service Model provides the least costly and most flexible method of providing shared services to local government.

By way of example as to how the Common Service Model could be applied in practice to the Guyra Shire Council and to other councils which wish to participate, consider two typical services employed by all NSW local authorities: Function A and function B. Suppose further that while the Guyra Shire Council has experienced ongoing difficulties in attracting, training and retaining skilled staff to perform function A. By contrast, assume it has longstanding expertise in providing service B.
Under a Common Service Model, the Guyra Shire Council could seek to purchase service A from another council using an SSA approach. This council could be anywhere in NSW or indeed anywhere in Australia. All that would be required would be a willingness to supply function A to the Guyra Shire Council at a price and under conditions which satisfied Guyra Shire Council. In practice, this might mean a larger council with excess capacity in function A. Supplying A would thus simultaneously solve Guyra Shire Council Council’s problem of getting function A performed in a cost-effective and professional manner, as well as the partner council’s excess capacity problem. In addition, using an SSA would serve to minimise administrative and overhead costs for both councils.

For function B in which Guyra Shire Council has existing expertise, SSA agreements with other small councils without this expertise would enable Guyra Shire Council to provide function B to one or several of these local authorities in an economic manner. Supplying B would thus resolve Guyra Shire Council’s neighbouring council’s problem of getting B performed in inexpensively and efficiently. It would simultaneously allow Guyra Shire Council to earn additional revenue and retain the expertise necessary to deliver function B over the long-run.

The Common Service Model developed in this Report allows voluntarily participating local authorities to reap not only the benefits of scale and scope, in local services where economies of these kinds apply, thereby securing gains normally attendant upon council size, but also acquire administrative, managerial and technical skills not otherwise available to regional, rural and remote local authorities. In contrast to forced amalgamation, these advantages do
not come at a heavy cost in terms of community divisiveness, dismantling small councils and merging them into larger entities, and attenuated local democracy.

Under the NSW Government’s *Fit for the Future*, the NSW Office of Local Government has adopted the Independent Panel’s recommendations for structural reform of NSW local government, including its proposal for the Guyra Shire Council. As we have seen in this Report, *Revitalising Local Government* (2014, p.115) recommended that the Guyra Shire Council form part of the ‘New England Joint Organisation or merge with Armidale’.

Given that neither the Panel nor *Fit for the Future* have defined the desired structure for Joint Organisations, and the fact that the Common Service Model represents an optimal low-cost, flexible and voluntary approach to regional collaboration, an obvious way forward is for Guyra and other New England councils to adopt the Common Service Model as the most appropriate structure for a New England Joint Organisation. This would meet the requirement for ‘scale and capacity’ under the *Fit for the Future* criteria and avoid all the costs, disruption and division which inevitably flow from forced amalgamations.
10. References


NSW Office of Local Government (2015). *Fit for the Future*  


