

VIRTUAL LOCAL GOVERNMENT

Professor Percy Allan AM

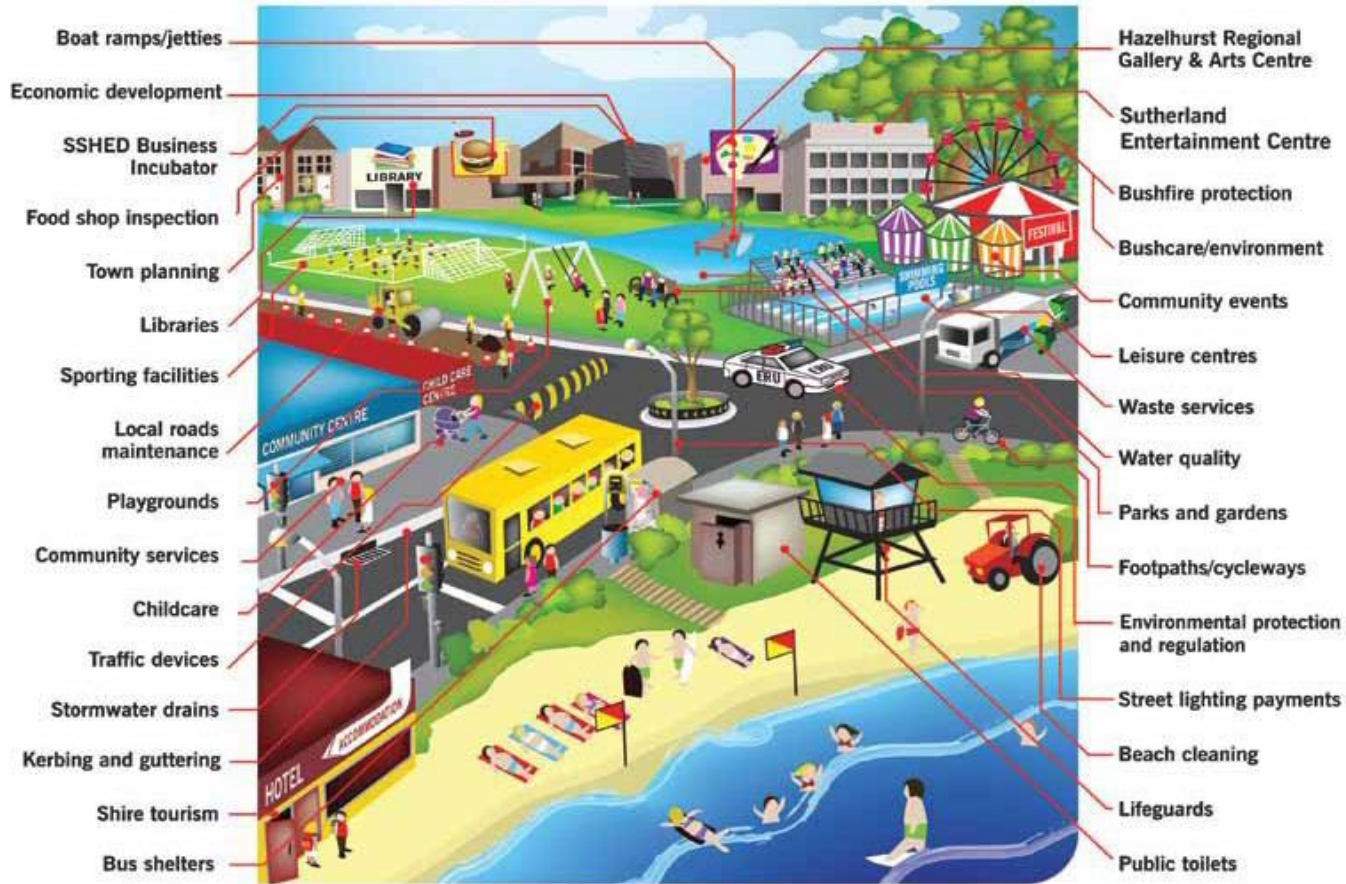
Principal, Percy Allan & Associates Pty Ltd

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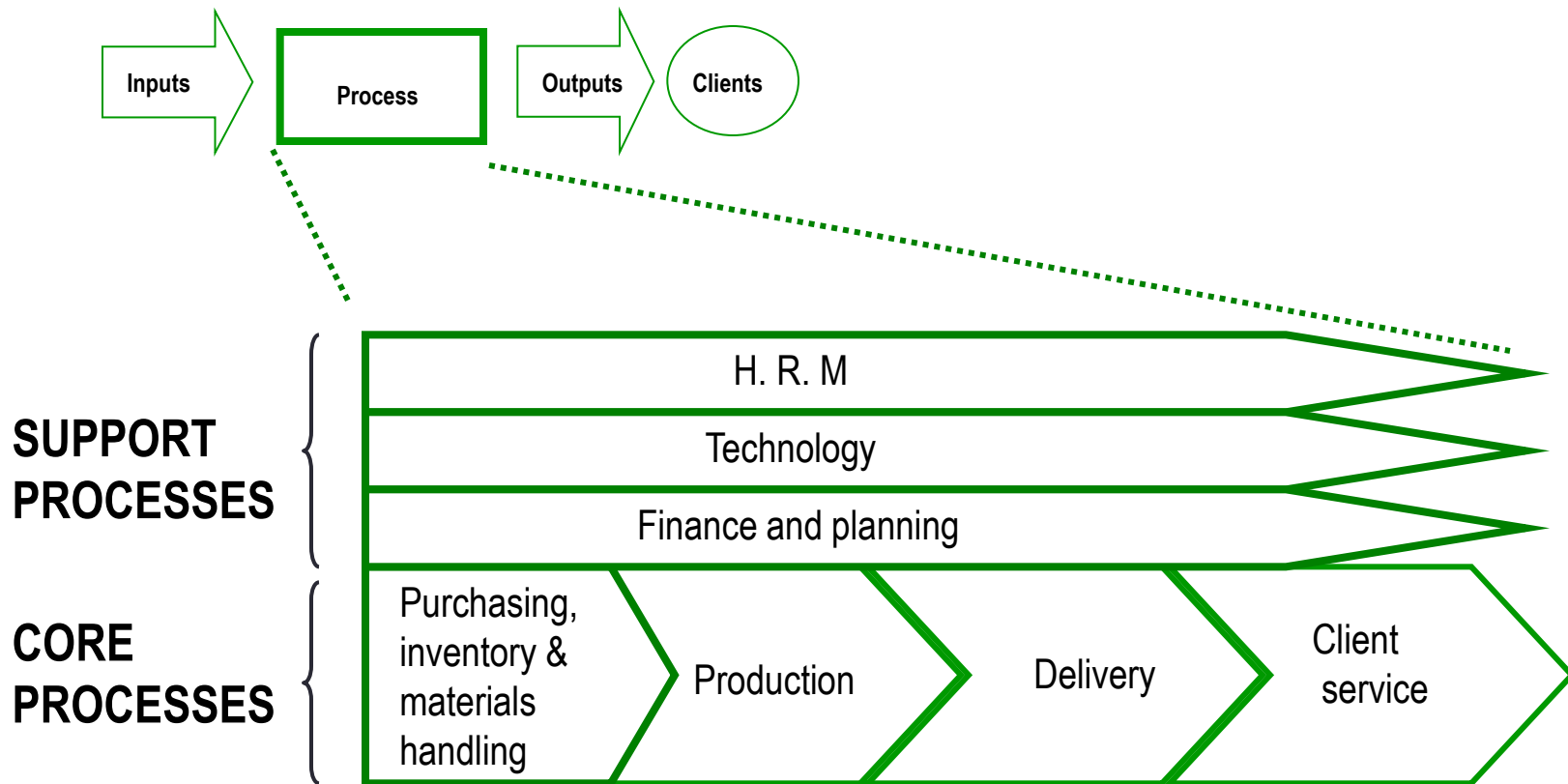
Local Council Functions



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

Local Council Functions

Council functions are either core or support processes



Local Council Functions

Core service delivery activities include:

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

Continued...

Local Council Functions

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

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

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

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

Local Council Functions

Corporate control and support activities are:

Planning & Monitoring

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

Policy Development

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

Continued...

Local Council Functions

Public Representation

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

Advocacy & Promotion

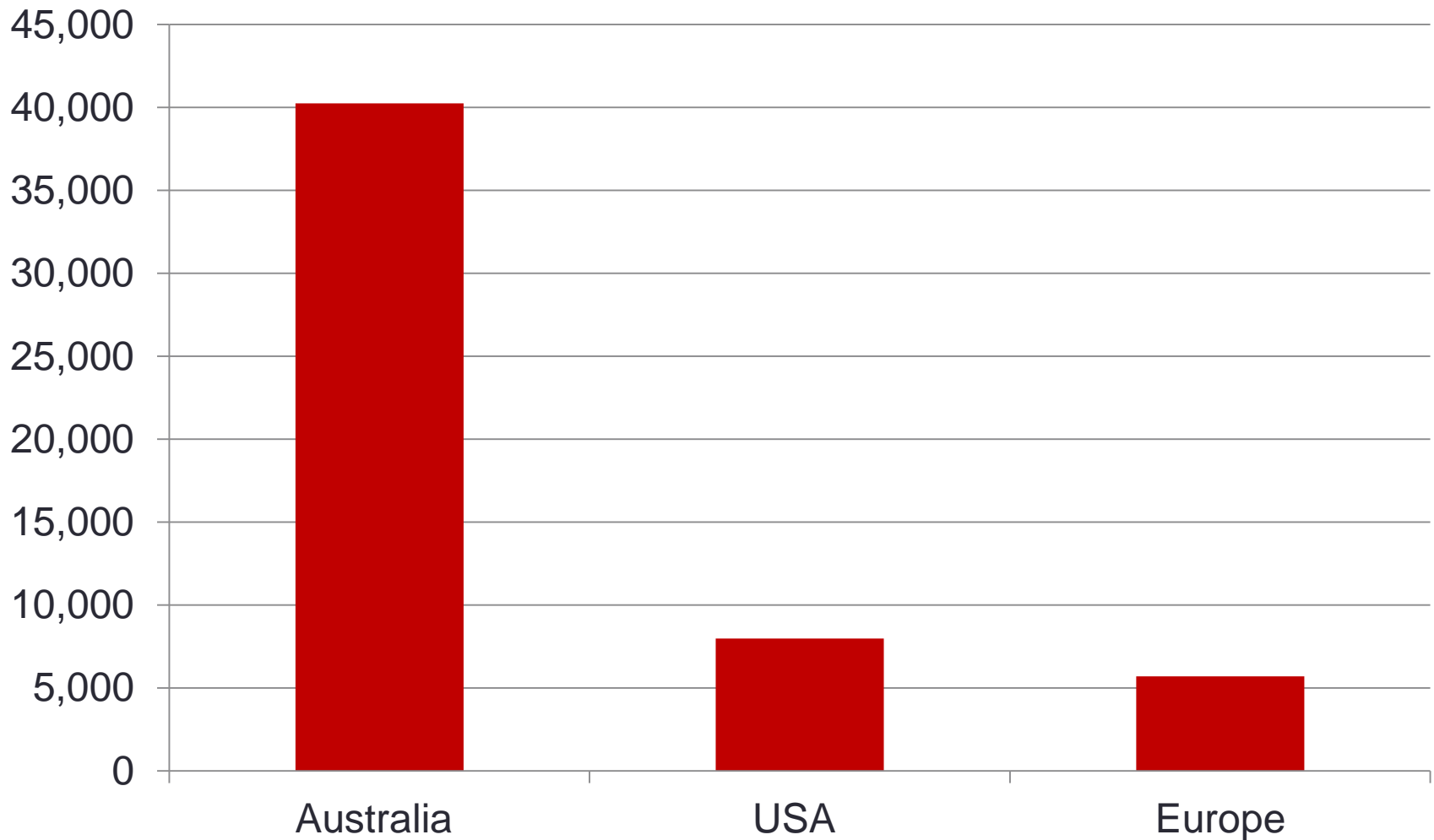
- Local governments have a role in advocating on behalf of their constituencies to state and federal levels of government, statutory authorities and other sectors. Also in promoting local economic development and tourism.

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

Australian local councils are big by population size

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

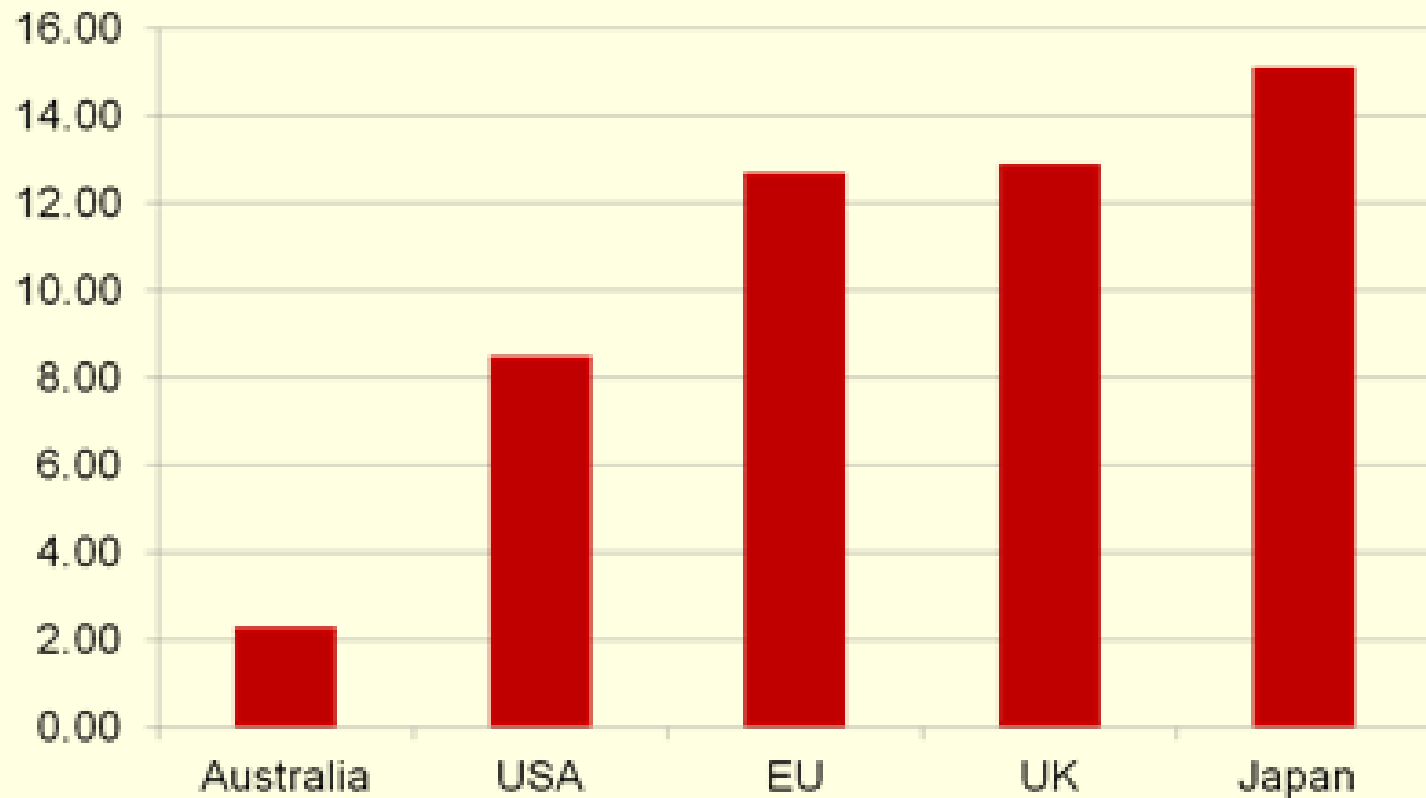
Average Size of Local Government Bodies by Population, 2011



Yet Australian local councils are small by spending capacity

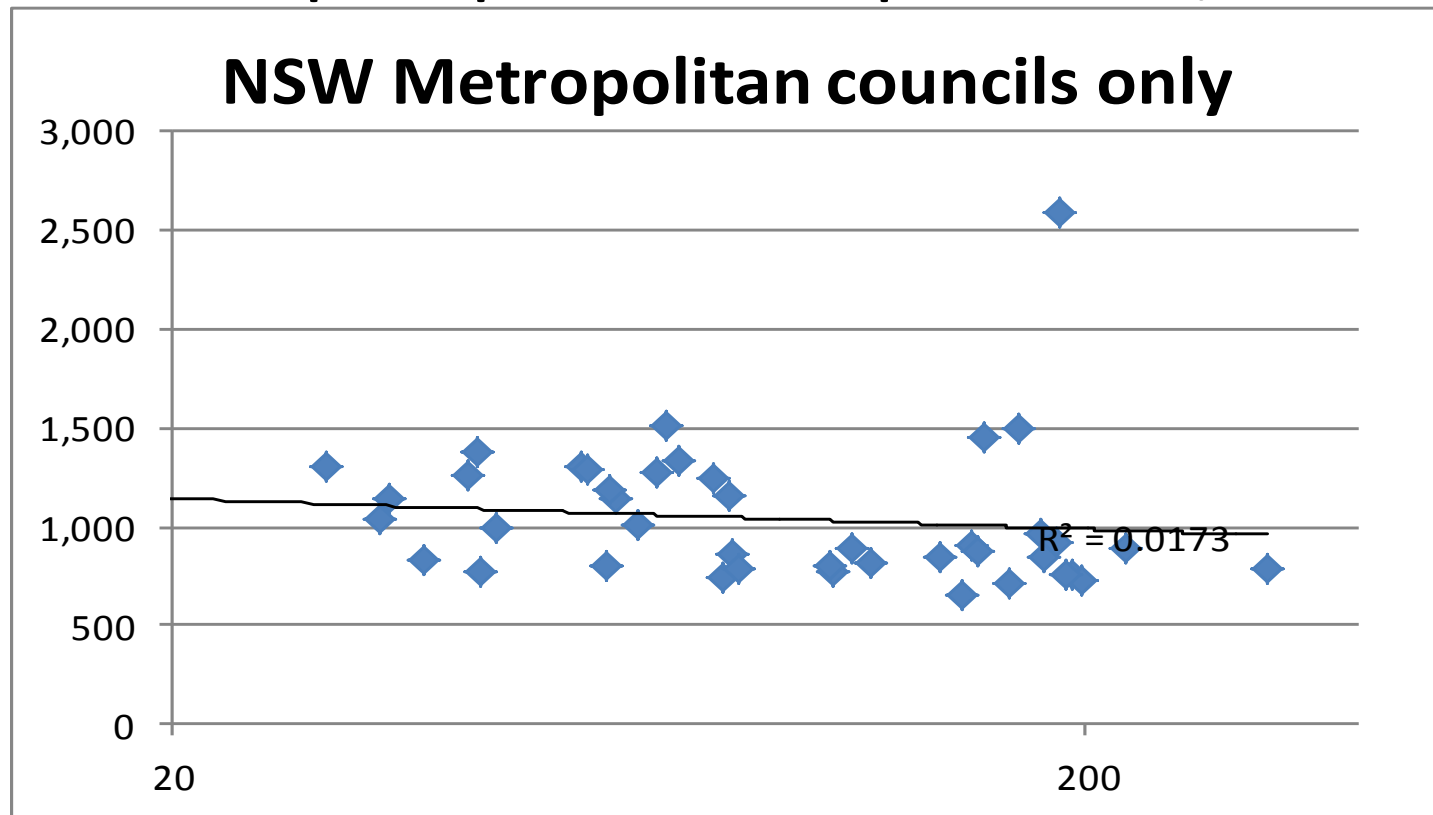
- **But based on spending to GDP local government in Australia is the poorest in the developed world.**

Local Government Expenditure as a Percentage Share of GDP, 2006



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

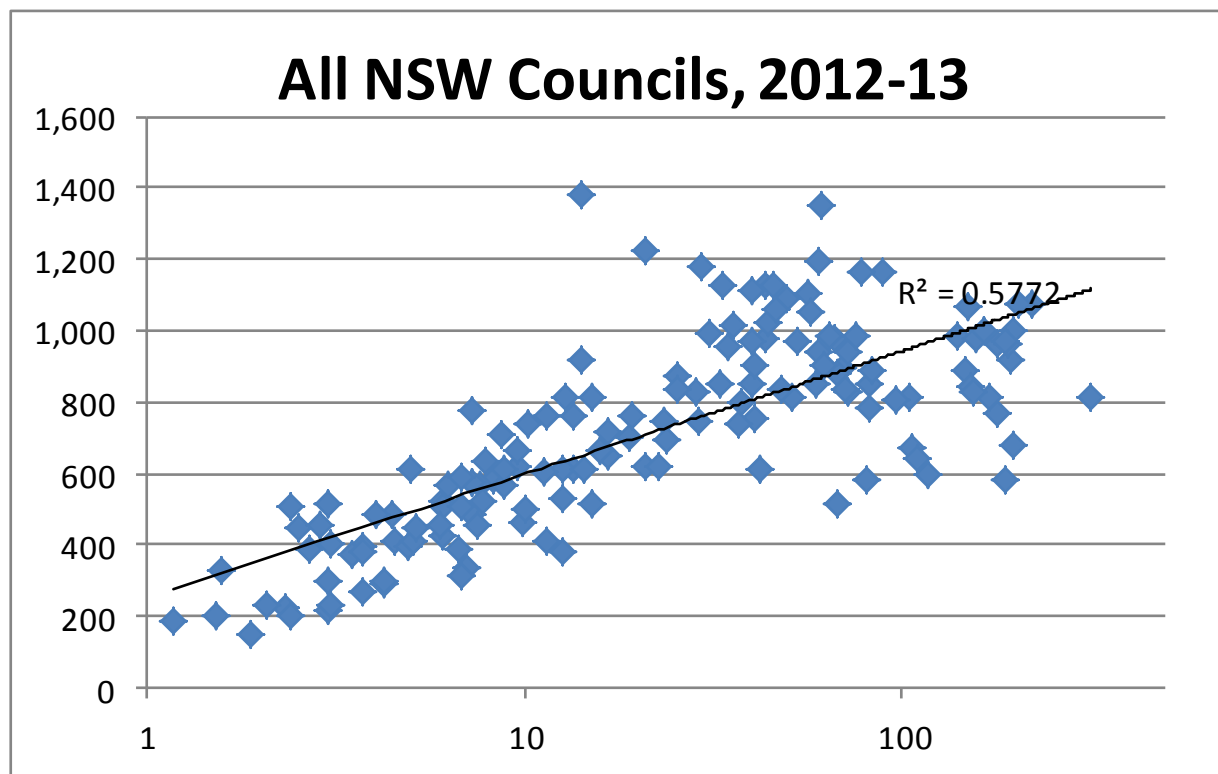
Council Per Capita Expense versus Population Size, 2012-13



Source: DLG, Comparative Information on NSW Councils

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

Council Average Rates versus Population Size, 2012-13

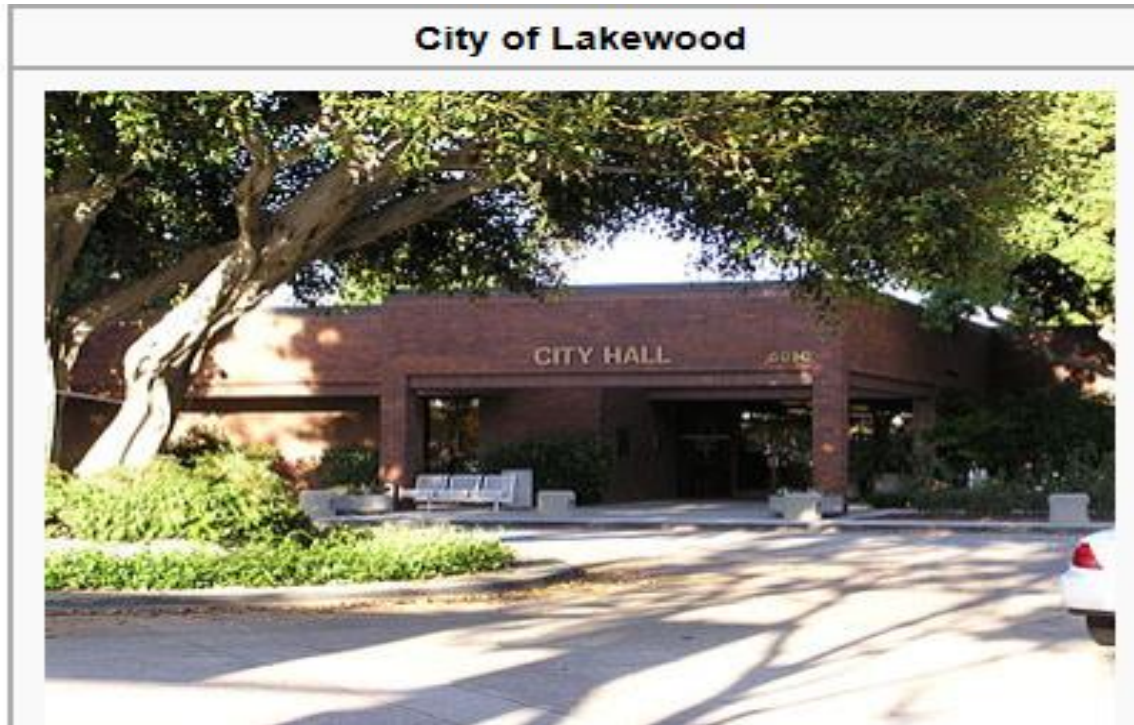


Source: DLG, Comparative Information on NSW Councils

The Lakewood county model should be adopted for urban councils

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

The Origin of Virtual Councils



- Lakewood City has 80,000 residents in an area just under 25,000 square km situated north of Long Beach County.


The Origin of Virtual Councils



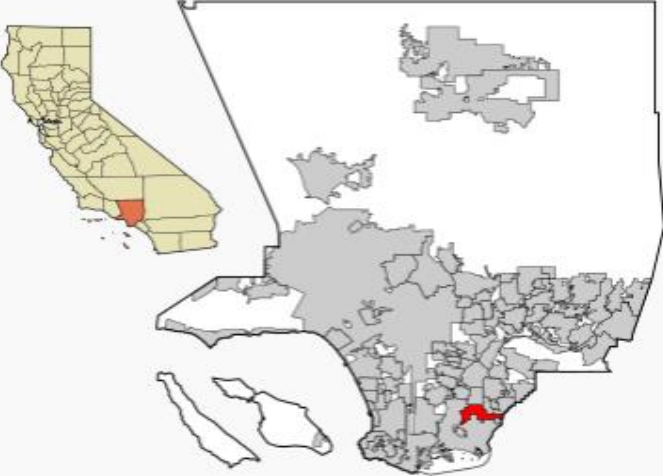
Location in the United States

Coordinates:  33°50'51"N 118°7'12"W

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



Motto: *Tomorrow's City Today*



Location of Lakewood in Los Angeles County, California

The Origin of Virtual Councils

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

The Origin of Virtual Councils

- Lakewood pioneered the concept of a Virtual Council. It was the first city in the USA to contract for all of its municipal services when it incorporated as a municipality in 1954, making it the nation's first “Contract City”.
- Lakewood now contracts most of its municipal services to public and private agencies with Los Angeles County still being the biggest provider.
- Many other Los Angeles suburbs, such as Cerritos and Diamond Bar, have adopted the "Lakewood Plan". Other areas include Sandy Springs and Dunwoody in Georgia, Centennial in Colorado and Maywood in California.

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

Some Council activities have scale economies while others don't

Local Council Processes

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

Source: Review Today Pty Ltd

The Future of Local Government

- **Amalgamation is an extreme form of shared services where every activity of a group of councils is centralised in a new administrative body reporting to a single new council.**
- There is no compelling evidence that centralising all local council activities in a single mega-council produces cost efficiencies. That's because with scale some activities obtain economies while others develop diseconomies.

The Future of Local Government

Hence the most efficient and effective path for local government is to....

- Share and outsource those activities that benefit from size (i.e. corporate services and regional strategy), and
- Keep councils small or downsize them for activities best done on a neighbourhood scale (i.e. local issues and place management).

Shared Services

Activities most suited for sharing are:

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

Shared Services

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

Specific examples are:

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

Shared Services

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

Shared Services

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

Executive Summary

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

Executive Summary

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

Shared Services

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

Shared Services

Successful SSCs offer:

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

Shared Services

Successful SSCs offer:

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

The information revolution demands speed not size

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

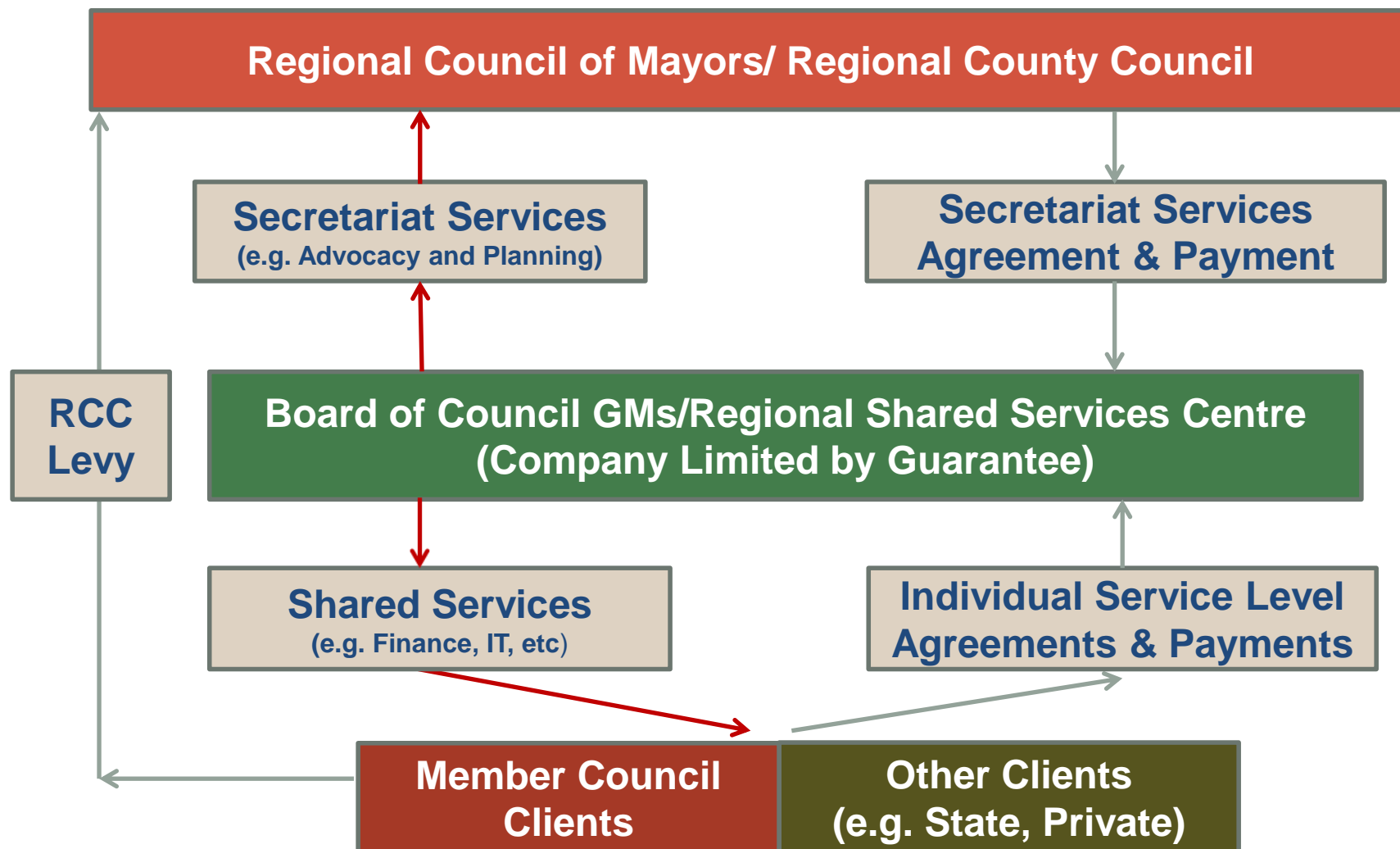
Making already big councils bigger wont expedite works and approvals



A new regional governance structure

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

A new regional governance structure



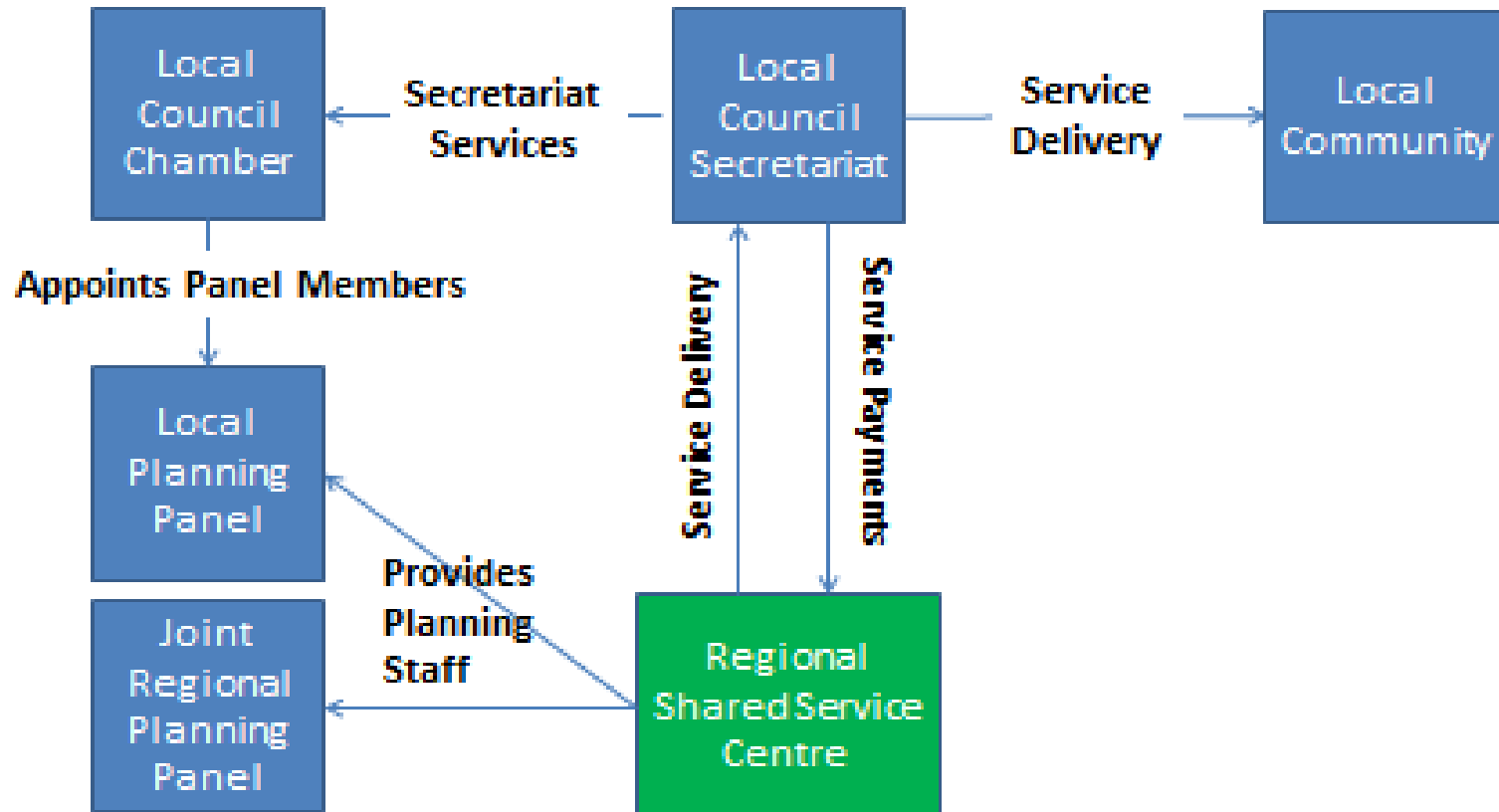
Shared services

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

Development planning

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

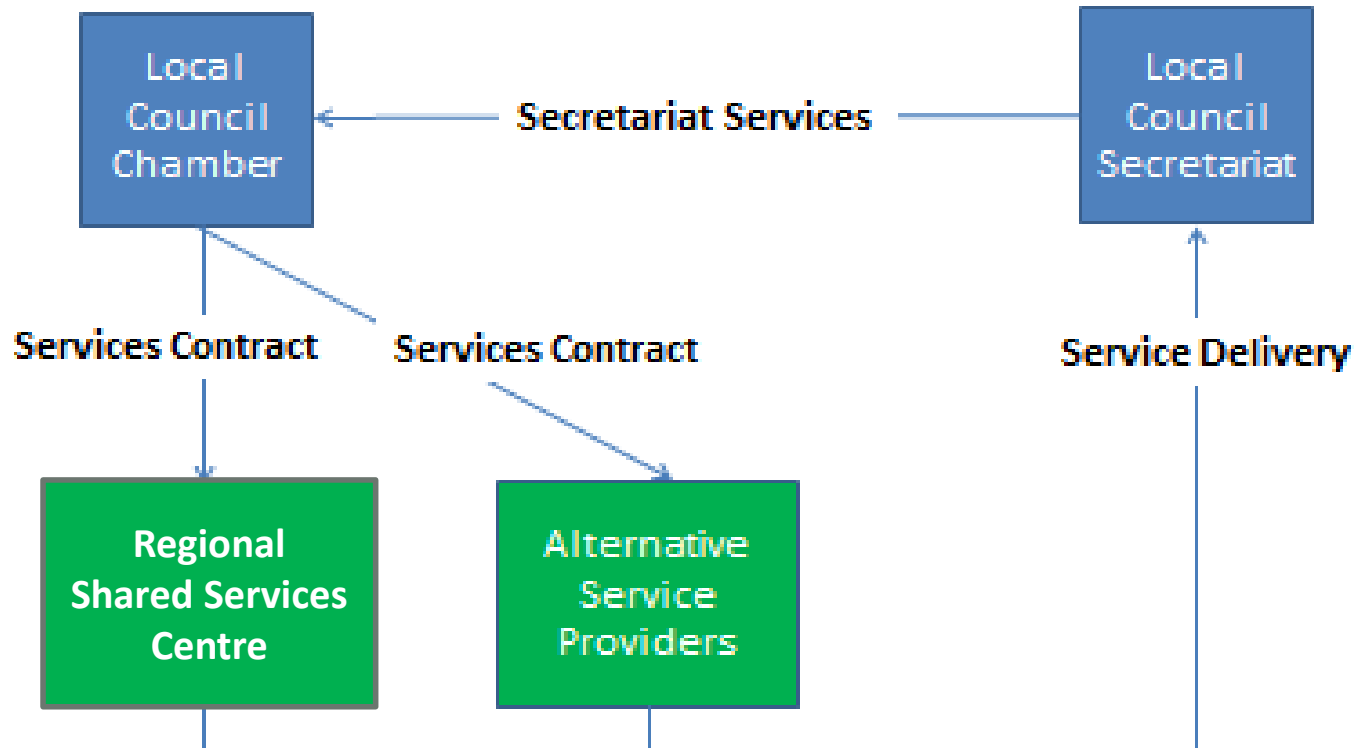
Local Council sets Local Planning Policies and appoints Members to Local and Regional Planning Panels



Keeping shared services honest

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

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



Virtual Local Government

THE END

