

**From Efficient to Responsive Government:
Developments and Prospects in
Australian Local Governance**

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Introduction

If institutional strength and stability are the corollaries of 'good governance' (World Bank 2000) then we can, without hesitation, place the Australian government system alongside other western governments as being responsible, accountable and democratic. Yet, despite its British heritage, Australia's local government remains institutionally weak. On most measures of institutional capacity, local government in Australia does not fare well. After one hundred and fifty years, local government continues to be characterised by central control, weak finances and policy deficits. There are, however, signs that the political landscape is shifting as new ideas of 'governance' and alternative modes of public service delivery emerge, encouraged by national and state governments.

These new ways of governing have resulted from a sustained period of public-sector wide reform. The reform program, intended to restore Australia's economic health and put it on an internationally competitive footing, included i) the introduction of new public management to all levels of the public sector, and ii) the implementation of micro-economic reforms, such as the National Competition Policy. In this important sense, the modernisation project in Australia has been primarily about efficiency. Ironically, the managerial reforms have contributed to changing concepts of governance which are more accountable and participatory. As a key player in the reform process local government has made, and continues to make, an important contribution to national development.

In the first part of this chapter, I will demonstrate the institutional weakness of Australian local government through tracing firstly, its origins and legal framework; secondly, Australia's system of intergovernmental relations; and thirdly, local government finance. This is followed, in the second part of the chapter, by an examination of recent reforms, both nationally and at local government level. While reform of Australia's public sector, like that of its neighbours in the Pacific and in Asia, has been driven by economic considerations and related fiscal retrenchment, it has also lead to new expectations of government action at the local level. It is argued here that the policy outcomes and new institutional arrangements created by the reform process, have resulted in a broad based demand for a higher quality of democratic rule, particularly to a strengthening of *local* accountability and institutional capacity.

Local Government in Australia

Australian local government is both a provider of multiple services within a local area and a democratic form of local governance. Local government is not, however, recognised in Australia's Constitution. Rather, it is incorporated as part of the state sphere of Australia's federal system. Local authorities were established, in the first instance, by state governments as local area service providers. Suffrage was extended variously and, in some states, only by degrees. The agency model, wherein local government is seen as a vehicle for the implementation of policies and decisions of central government, best describes the early and lingering view of Australian local government. In this model, central government will wish to see a decision-making process which allows local discretion to be exercised only to the extent that it does not conflict with the objectives of the centre (Smith 1996). Local government was thus not seen as the local 'government' of a defined area, but rather as an 'agent' of the colonial state. These historical beginnings go some way to explaining the 'poor cousin' syndrome that local government continues to suffer in Australia's governance system.

Local governments derive their powers from state legislation, namely the Local Government Act within each state. Until the 1990s when all states reformed their respective legislation to include a 'general competence' power, local governments were heavily constrained by the ultra vires doctrine of prescribed powers.⁽¹⁾ The general competence power enables councils to carry out any necessary actions to provide for the peace, order and good government of the local community. To this extent, legislative reform was intended to provide scope to local authorities to develop a strong capacity for local decision-making (Wensing 1997). Until the reforms, local government Acts were the longest and most complex of a state's statutes. Legislative change, therefore, was intended to bring simplicity, but the reforms also provided a necessary framework for a wider reform agenda. This agenda covered three main areas. These were: microeconomic reforms in local government; performance and accountability; and relations with other spheres of government (Wensing 1997). The first two mandates have largely been achieved, whereas the third has been 'under used' and remains a source of frustration for local government.

Despite the important and long overdue reforms brought by the local government Acts, the legal environment remains cluttered and complicated. To give an example from New South Wales, there are fifteen separate state statutes which impact on the functions of local government. These are listed below. Planning legislation is perhaps the most contentious given the very large range of planning functions carried out by local authorities:

- Community Land Development Act 1989
- Conveyancing Act 1919
- Environmental Planning and Assessment Act 1979
- Fire Brigades Act 1989

Fluoridation of Public Water Supplies Act
Food Act 1989
Impounding Act 1993
Library Act 1939
Public Health Act 1991
Recreation Vehicles Act 1983
Roads Act 1993
State Emergency Services Act 1989
Strata Schemes Acts 1973 and 1986
Swimming Pools Act 1992
Protection of the Environment Operations Act 1997
Waste Minimisation and Management Act 1995

Each of the six Australian states has a number of local government jurisdictions which combined, number 770 nationally. Each state's local government system and functional responsibilities vary according to the peculiar political and economic history of individual states. In Queensland, for example, local government has carried responsibility for a more diverse range of development functions including the provision of power and water services and, in the larger councils, public transport. In Victoria, local government has traditionally been more active in social services, expending a considerably larger proportion of its budget in this area than other states (Lang 1991). By and large though, Australian local government has been restricted to property service functions with state governments reluctant to delegate responsibility for major areas of social expenditure such as health and education. Social services that are provided by local government have flowed from Commonwealth rather than state government specific purpose grants.

The Commonwealth government's role in local government affairs was minimal until the election of a national Labor government in 1972. The Whitlam Labor government was committed to the notion of smaller, regional governments to replace state governments. It saw the administrative unit of local government as a potential vehicle for its radical reform proposal and poured money into this, hitherto, neglected third tier in the Australian governmental system. An important Commonwealth role in local government affairs was established and even though subsequent national governments were no longer interested in pursuing institutional regionalism, they have continued a portfolio responsibility.

The administrative size of local government units varies from state to state, and within states. On average, each council in Australia has a population of 30,000 but in Victoria the average is 60,000. Queensland's capital city, Brisbane, has the largest single authority in Australia, the Brisbane City Council (BCC) which has a population of around 800,000. The BCC is the only metropolitan-wide local municipality, established in the 1920s as part of the 'Greater Cities' movement (Caulfield and Wanna 1995). Australia's vast and largely uninhabited hinterland has produced wide variations. Some rural authorities span huge geographical distances covering hundreds of kilometers, while urban authorities are much smaller spatially but have

much larger populations. The effect of these differences has been felt in resource terms, with the suggestion that there is a rural-urban divide in Australian local government. Many rural councils which have high infrastructure costs and low rate bases depend on government grants for their very survival, where many urban authorities are almost totally self-funding. This issue is returned to in the discussion on local government finance.

State governments seized the reformist mood of the 1990s to seek to consolidate smaller authorities which, they argued, were inefficient. Between 1991 and 1998 there was a 25% decrease in the number of councils throughout Australia, while in the state of Victoria, the decrease was as high as 60% (Kiss 1997). Most state governments followed a consultative review process in the amalgamation exercise, but the state government of Victoria suspended democracy at the local level and installed Commissioners to carry through the reforms.

Democracy was restored in 1997, but not before amendments to the Act were made which strengthened the relative position of appointed CEOs over elected officials, and set tight fiscal constraints on local government budgets. Halligan and Aulich (1998) have argued that the process of reform, and the extent to whether it was 'top down' or more participative, depended on the economic condition of the states.

The three southern states, Victoria, Tasmania and South Australia all experienced 'rustbelt' problems with the restructuring of Australian industry from a manufacturing to a service industry economy. As a result, the governments of each of these states were more determined to force their local governments to reform. By contrast, the states of New South Wales, Western Australia and Queensland which have relied heavily on the success of their primary industries have not faced the same degree of pressure to reform or, at least, have been willing to work with local government on their reform agendas. The amalgamations nationally effectively reduced the per capita proportion of councilors in Australia with a corresponding diminution in local democratic representation (Marshall and Sproates 2000, Kiss 1997). This raises important questions for governance which are discussed later in this chapter.

Australian local government has seen an expanding range of functions being devolved from higher levels of government in recent years. New functions include environmental management, community housing, lifestyle amenities, waste management, and an expanding regulatory regime for the building industry (ALGA 2000). Urban local authorities, notably in Sydney, Melbourne and Adelaide, have had to make new resource commitments to ensure access and equity for migrant groups, even though they have no input into immigration policy (Thompson 1998). Continued population growth through internal as well as external migration has seen a steady increase in demand for urban municipal services more generally. While the last fifteen years have witnessed measures of legislative and administrative decentralisation to meet these various demands (reforms which have tended to broaden the economic and social functions of councils), these measures have not been matched by a decentralisation of financial control.

'Unfunded mandates' have become a serious problem for local governments in Australia. Where financial decentralisation has occurred, it is generally the intermediate level of government (the states) that have benefited, often in the name of 'new federalism' (Painter 1998). As a result, there has been a growing mismatch between the functional competencies and fiscal responsibility of local government in Australia. This is a pattern repeated in many countries. Even in unitary countries without regional level governments, the problem of fiscal autonomy for local government has not been given a high priority (Owens and Norregard 1991, Martin 1991).

Local Government Finance

Local government finance remains a controversial and unresolved aspect of Australian intergovernmental relations. Commonwealth grants come in three forms: general purpose; specific purpose; and roads grants.⁽²⁾ Each state has a Local Government Grants Commission (LGGC) which is responsible for distributing Commonwealth grants. In principle, the LGGCs follow the federal formula for the distribution of grants to the states.

The Commonwealth government's equalisation grants are based on the principle of giving each state government the capacity to provide an average level of service without needing to levy above average taxes and charges. The equalisation grant forms part of the general financial assistance grant which is based on a per capita distribution, with an adjustment to the formula to compensate states for relative revenue and expenditure disabilities.⁽³⁾

The shortcoming of the Australian system is evidenced by the rural bias in per capita expenditure outlays of recipient states, even though their populations are heavily concentrated in their capital cities (AURDR 1994). Australia's economic dependence on primary production, but highly urbanised settlement pattern means that fiscal equalisation has been a cause for much debate and contestation between the sparsely populated (but resource rich) states and those containing the largest metropolises in Victoria (Melbourne) and New South Wales (Sydney). The latter states argue that fiscal equalisation takes insufficient notice of the additional, recurrent social and economic costs of large cities, for example, congestion costs in communication and transport facilities, and the costs of concentrated ethnic minorities (Australian Industry Commission 1993).

The rural bias evident in the federal grants distribution system is reinforced by a states based system of horizontal equalisation for local government distributions. While the principle of equal standard of service for equal revenue effort will inevitably favour high cost non-metropolitan areas, most state commissions differentiate between and within metropolitan and rural councils in applying the formula. For example, an Australian classification of six categories of metropolitan council now exists to take account of the different expenditure needs of different areas, as well as their different basis for revenue raising.

Notwithstanding this practice, a federal review of the Local Government (Financial Assistance) Act in 1986 found that there was considerable variation of outcome

between the states, and that only in Victoria was there a grant bias in favour of metropolitan areas (AURDR 1994). The rural-city imbalance is compounded by a city to city imbalance in horizontal equalisation. This is because the Commonwealth government distributes its grants for local government on a per capita basis only, leaving it to the states and the LGGCs to apply an equalisation formula. The effect is that metropolitan areas in the less populated states are seriously disadvantaged compared to metro areas in the most populated states. Some fringe metro councils in the city of Brisbane, for example, receive only half the per capita amount of equivalent metropolitan councils in New South Wales (AURDR 1994).

These difficulties in distributional equity have led to yet another review of the Local Government (Financial Assistance) Act of 1995 (CGC 2000). The Commission of Inquiry is due to report its findings in June, 2001. Its terms of reference include:

- the consistency of the methods and policies used by each of the states Grants Commissions in distributing funds to councils.
- the effectiveness of the arrangements in ensuring that the allocation of funds for local government purposes is made on a full horizontal equalisation basis.
- the impact of the Act on the raising of revenue by local governing bodies and on the assistance provided by the states to local governing bodies.

The last of these has a particular poignancy because the states saw Commonwealth financial intervention as an opportunity to withdraw from their own general purpose grants to local government. State funding has dramatically declined over the last two decades, and in some states, general purpose funds have been terminated altogether (NSWLGSA 2000). At the same time, the states failed to make adequate representation to the Commonwealth on behalf of their respective local governments to maintain, in real terms, the level of federal funding, and national government grants have also been declining. The current Committee of Inquiry has been asked to consider whether the Commonwealth should retain a general purpose funding component.

The states' neglect of local government finance was, in effect, a flow-on from a national fiscal squeeze which has seen a steady decline in Commonwealth general purpose grants to the states. Most recently, in July 2000, the introduction of a national goods and services tax (the GST) has halted deteriorating state finances by providing a guaranteed revenue source for the states. The GST represents a landmark in federal financial arrangements in Australia but local government was effectively excluded from this historic agreement, even though they were affected by it. In negotiating the new tax the federal partners (the Prime Minister and the six State Premiers) agreed that the states would assume total responsibility for funding local government, thereby ending a thirty year Commonwealth-local relationship. This agreement subsequently collapsed when the Commonwealth government, under electoral pressure, changed its mind and decided to retain a direct funding responsibility for local government. Queensland was the only state in which its local government had been able to reach a settlement with the state for a percentage share of the GST.

The machinations of intergovernmental finance overshadow a startling fact in

local government finance. On average, own source revenue represents approximately 80% of local revenue (bearing in mind the wide variation that exists between authorities). Because the bulk of its income is locally sourced, Australian local government can be said to have a high level of fiscal autonomy. However, a recent study carried out by the OECD (1999) into local government finance maintains that while fiscal autonomy is important because it increases local accountability, local government's capacity to manage its financial affairs is heavily circumscribed by its tax base and the degree of flexibility given to it to vary the base and rate of tax. In Australia, state governments have typically sought to restrain local government's financial autonomy by capping rates ('rate pegging'), imposing other restrictions such as rate concessions for certain groups, and denying local authorities additional tax sources. Comparatively, Australian local government is unique for its total dependence on a single tax source, namely the property tax. There are both advantages and disadvantages with the property tax, but these are compounded in Australia because of its central importance in local government finance. Problems include: its high visibility and thus political resistance; its unpredictable in terms of fluctuating property values; and its regressive nature. On the plus side, as an immovable tax the property tax is, in some respects, a more reliable source of revenue than other tax forms because it cannot be exported to other jurisdictions (Bird and Slack 1991). In all, the property tax remains fundamental to the survival of Australian local government and it is jealously guarded.

Non tax sources of revenue such as fees and charges have grown steadily during the 1990s. In large measure this is due to the market reforms introduced into Australian local government. User charges are generally viewed as highly efficient and politically acceptable. Unless they are pure public goods or the policy intention is redistributive, there is the presumption that local public services should be charged for. To the extent that local government has been able to tap into this alliterative source of revenue, it has demonstrated a 'residual power of local autonomy' (Pierre 1990). Its restricted tax base, however, combined with the low level of intergovernmental grants, means that local government in Australia is grossly underfunded. In global comparative terms, total local government revenue in Australia represents just 2.5% of gross domestic product, whereas in most other federal countries of the OECD the average is closer to 10% (OECD, 1998).

New Public Management and Micro-economic Reform

Australia has followed its New Zealand neighbour in reforming its whole public sector, applying market principles to increase efficiency and service quality. The reforms have had two main objectives: one has sought to reshape the way in which public sector activity is conducted, and the other has sought to rationalise that activity so that functions considered to be performed more efficiently by the private sector have been privatised. The Australian public sector 'revolution' has not, however, been as pure or complete as the New Zealand experiment, due in large part to the politics of federalism. Nonetheless, very substantial strides have been taken with

privatisations of public enterprises, contracting out production of goods and services, and administrative reorganisations to introduce contestability into the public sector. Administrative reform has involved a universal application of new public management practices, with a shift in orientation away from administrative process to policy outcomes. 'Managing for results' has included the introduction of program budgeting, accrual accounting, performance contracts, and benchmarking (Zifcak 1994, Wanna and Forster 1990, Weller, Forster and Davis 1993).

The 1990s was also a period of wide reaching and sustained reform in local government, and while the reforms had their own momentum, they were essential to the success of the wider reform program. In this sense, the reform of local government in Australia has been 'top down' (Halligan and Aulich 1998). While a key purpose of the legislative reforms was to reduce the prescriptive nature of earlier legislation, other key purposes were to reform essential elements of council operations, to set out accountability mechanisms, and to introduce commercial principles and practices into local government. To achieve these goals, the new local government Acts in all states incorporated managerialist doctrines and sought to redefine the roles of elected councilors, mayors and general managers, and to provide a new status and autonomy for appointed chief executive officers (Caulfield 1999, Wensing 1997). 'Letting the managers manage' was an important prerequisite to micro-economic reform. Strategic management practices provided the necessary framework within which local governments could meet these objectives. Developing corporate plans became mandatory and, it was envisaged by the reformers, these would facilitate participatory democracy. Measures were introduced to promote transparent and responsive government, and to encourage more extensive consultation between councils and constituents. In other words, the strategic management cycle was not simply a tool for promoting efficiency but required public input in the formulation phase to ensure that policy directions reflected public opinion (Marshall and Sproates 1999).

Local government has seen a considerable improvement in the quality and skills of its workforce. A particularly important trend has been the broadening of the recruitment base for professional staff, reflecting the wider range of functions to be performed, the demand for higher order management and corporate planning skills, and the removal of restrictive qualifications requirements. Recruitment from outside local government has been the result. Micro-economic or 'structural adjustment' reforms have had an impact on the size of local council staff, local councils are leaner but more highly skilled than 10 years previously (ALGA 2000). Indeed, the loss of council jobs has been a contentious issue in rural areas, many of which depend on council employment opportunities to safeguard the viability of their communities.

Local governments in Australia are learning how best to work within the new managerial and contract frameworks imposed on them from above. Benchmarking, contracts and the concept of 'best value' all provide examples of councils taking control of the national reform agenda and moulding it to suit their needs. The benchmarking model for achieving organisational efficiency and effectiveness, for example, has been held up as a preferable alternative, especially in rural areas, to that

of contracting out. In this way, councils now argue they are able to protect their communities from adverse social impacts such as loss of jobs (NSWLGA 2000).

Dealing with the problem of unfunded mandates is another example of innovative approaches to the new regime. In Queensland, local government is exploring the potential use of contracts in intergovernmental relations, so that the state government (or anyone else requiring the services of local government) be asked to enter into a formalised contract. Councils are often encouraged to enter new areas of activity by state and Commonwealth agencies through the provision of short-term financial assistance or one-off capital grants. Councils take on devolved functions, often in response to pressure from their local communities, invest heavily in new programs and suffer the consequences when funding dries up (LGAQ 2000). The idea of contracts would require that state or Commonwealth governments provide a specified level of funding for a specified service, for a specified time thereby securing for local government some certainty in taking on devolved responsibilities.

Best value is a concept borrowed from Britain in recent times. This concept is defined as 'a duty imposed on Councils to deliver services to clear standards — covering both cost and quality — by the most effective, economic and efficient means available' (DETR 1998). A change of government in Victoria, in 1999, is making a transition similar to that made by the Blair government in the UK, from 'compulsory competitive tendering' (CCT) to 'best value'. Best value combines all the elements of managerialism, including performance management, benchmarking, market testing and/or contracting out, and auditing of councils activities. For councils in other states, these practices were part and parcel of the mandates given to them by the new Acts. In New South Wales, for example, councils are required by the Act to report annually, comparative information on their activities for purposes of benchmarking.

Australian local government has been in the front line of the national micro-economic reform program but typically, not as an equal partner, rather as an agent. This is best illustrated by the example of National Competition Policy (NCP). NCP emerged from the Council of Australian Governments (COAG) meeting in 1995 with the signing of the 'Competition Principles Agreement' by the six State Premiers and the Prime Minister. NCP was itself a central plank in the Commonwealth government's micro-economic reform agenda. The Agreement identified local government as an important area for competition reform and, although not a signatory to the Agreement, Australian local government was nominated as the first level of government to implement the policy. The Agreement required the states to develop implementation guidelines and a program of legislative review for their respective local authorities. The principles of NCP aimed to achieve a clear delineation between the regulatory and commercial activities of local councils and expose their commercial activities to competition. By the year 2000, many of the reforms had been implemented, including regulatory reforms, the commercialisation or divesting of council managed utilities, and the application of competitive neutrality to the significant business activities of councils.

Each State responded differently to the NCP principles in reforming their local government operations. The Kennett government in Victoria (and prior to the re-

cent change of government there) was the only state to introduce compulsory competitive tendering of council business, following the earlier Thatcher model in Britain. Other states relied on a more cooperative approach to bring about structural reforms and operational efficiencies, for example, allowing councils to decide which business activities should be subject to cost-benefit analysis before introducing market reforms. While the efficiency and competition principles embedded in NCP were generally supported by local government, issues of effectiveness and equity of outcomes in service provision and regulation of communities were contested. Of particular concern, was whether the benefits of micro-economic reform outweighed the costs. Assessment of the public interest became a focal point for a subsequent national parliamentary inquiry (Standing Committee on Financial Institutions and Public Administration 1998). Another, major sticking point has been around council finances, especially their access to a share of 'competition payments' offered to the states by the national government, as an incentive to implement the policy. While it was intended that local authorities share in the financial rewards, not all states have passed these payments on.

Policy Innovation and National Development

Local government has moved a considerable distance in the last ten years, from a reactive body to a proactive and innovative one. Traditionally, local government has been fearful of policy innovation, in large measure because of its precarious financial position and the high visibility of the property tax. To spend money on community programs unrelated to property improvement, for example, was hard to justify. The degree of policy innovation has continued to be restrained by resource limitations, but within these constraints local government has made some important, independent or 'bottom up' contributions to national development. Three notable policy innovations are: Integrated Local Area Planning; Regional and Economic Policy; and Environmental Policy.

The concept of Integrated Local Area Planning (ILAP) was developed over the period 1990–1993. With financial support from the Commonwealth, ILAP represented an attempt at local area coordination of government and non-government services and planning. It was strategic planning which sought to achieve, not only better outcomes, but more efficient means for achieving those outcomes. ILAP is an example of what might elsewhere be called 'joined-up government' (Stoker 1999). Better use of available resources and the elimination of unnecessary gaps or duplication between government programs have been its strengths. An example of this coordinated activity is the south-east Queensland Planning Project 2001. During the 1980 and early 1990s, the south east metropolitan corner of the state of Queensland was the fastest growing region in Australia, placing huge demands not only on the government of Queensland but also on the numerous councils involved in providing services, approving land and construction developments and building public infrastructure (Caulfield, 1992). Queensland has now formalised integrated planning in its Planning Act of 1997.

More recently, 'place management', a planning concept which uses ILAP principles has been adopted by several Sydney councils and the government of New South Wales to integrate the activities of multiple governments and agencies in specified localities (Weeks, S. 1998). In Tasmania, local and state governments have moved towards negotiated 'partnership agreements'. These involve joint identification by teams of state agency and council officials of key issues in a local area which require cooperative action. These agreements are formalised in a written statement which commits each of the parties to specified actions. The first of these was developed by the Launceston City Council and the Tasmanian government in late 1999 (Dept. of Premier and Cabinet). The partnership approach developed out of ILAP projects has contributed not only to improving intergovernmental relations but relations among the policy community more broadly defined.

Project successes in integrated planning, however, remain isolated examples and there remains much room for policy learning. A major stumbling block is that many state agencies still fail to understand how the capacity of local government can best be utilised to realise shared goals, or how the provision of the Local Government Act in each state can be applied creatively to help eliminate multiple systems of program administration at local and regional levels. Different state agencies employ widely varying approaches, some working effectively in partnership with councils, others adopting a highly centralist stance (NSWLGA 2000).

A second area of innovation has been in regional and economic development. The approach taken by local government in this area has two dimensions; one is the organisational arrangements necessary to implement regional policy which has focused on cooperation between councils; the other has been to foster partnerships and networks with the private and non-government sectors. Regional cooperation amongst councils is seen as a basis for effective regional development. To this end, councils have formed themselves into voluntary regional organisations of councils (VROCs) and other co-operative arrangements. While the regional form of organisation is not new in Australian local government, it has expanded enormously in the past decade. Approximately 50% of councils throughout Australia today participate in a VROC (ALGA 2000). Two reasons for this are firstly, the growing scarcity of resources and recognition of the benefits, or economies of scale, to be achieved through working together; secondly, VROCs have been a response to the economic difficulties faced by regional Australia and a belief in the pivotal role councils can play in facilitating economic regeneration and longer term sustainability of localities.

Regional development has always attracted some level of financial commitment from national and state governments. Australia's highly urbanised pattern of development and continuing population drift from country to city has necessitated some level of action to either halt or encourage decentralised regional development. In the 1990s, the VROCs were instrumental in the establishment of Regional Development Organisations (RDOs). These organisations formed out of the Commonwealth government's Regional Development Strategy. The intention of the strategy was to empower communities in the process of economic change. Not unlike the ILAPs,

RDOs were a spatial, whole of government strategy for regional as distinct from local development, but in addition to integrated planning by government agencies, the strategy sought the inclusion of both private and non-government actors. Local governments have assumed a leadership role in many RDOs, and there have been important project successes in infrastructure and tourism (Office of Local Government 1995-99). Local government also took the initiative in developing information sharing technology with an online network called Regionlink. But local government's potential for contributing to economic development through partnerships with the private sector in joint venture arrangements, has been limited. State imposed restrictions have been a major influence in curtailing the entrepreneurial spirit of local government. For example, in Queensland enterprise powers amendments to the Local Government Act, limit the amount of venture capital over a five year period to 5% of own source revenue (Caulfield 1991). Local government continues to demand more flexibility in this regard to enable it to make a real commitment to, in some cases, the economic survival of their communities (ALGA 2000).

Another major activity of local government, which has demonstrated some important policy innovation, is in the environment. Local government has a primary responsibility in areas such as water catchment and land conservation. Currently, 50% of the national environment budget is expended at the local level. The reduction of green house gas emissions, the protection of biodiversity, the preservation of wilderness, and the prevention of further depletion of the ozone layer are matters of national, and indeed, global significance. but the implementation of policy is largely a matter for local government. Recent policy initiatives on the environment such as the Coastal Management Policy, therefore, have been intergovernmental in nature, but the implementation of the policy is a matter for local government. The Intergovernmental Agreement on the Environment (IGAE) recognised this expanded and significant role for local government and, unlike other federal agreements, included it as a signatory to the Agreement.

There is room for improvement in the development of local government's capacity in this major policy area. For example, local government does not have full representation on national environmental bodies such as the National Environment Protection Council. Nor does it have adequate planning powers to ensure proper adherence to the principles of environmental management. Often it is subject to state legislative over-rides where, for example, local government action is circumscribed by reference to 'matters of state significance', an all encompassing phrase which effectively gives the states a veto on council policy (Caulfield and Painter 1995).

Despite some important innovations and expanded responsibilities, policy remains a limited and underdeveloped sphere of local government activity. The role of elected officials in providing leadership remains a contentious area in this regard. Councilors are often accused of taking a 'pot hole' mentality to community problems. This is where councilors respond to the complaints of their constituents with personal representations to Council to 'fix the problem', rather than thinking strategically. Role ambiguity between appointed chief executives and councilors encour-

aged an often unhelpful intrusion by the latter in the minutia of council business, although it has been suggested that this day to day involvement sometimes suited the chief executive. If the elected representative looked after complaints, they had less time to think about broader policy, leaving the field to management (Jones 1989). Legislative reform in all Australian states has sought to clarify the roles and responsibilities of these two groups, where the 'day to day management of council business' has been assigned to the appointed manager, and emphasis placed on the strategic role of councilors in deciding policy (Caulfield 1999). But old traditions die hard and there is renewed concern that new managerialism will lead to 'government by objectives' rather than government by policy.

Governance

There are two perspectives on 'local governance' that have emerged in the Australian community. One is the perspective of local government; the other is the perspective of the wider community. Local government has developed, through its strategic approach to managing council business, a much greater awareness that governance matters. Out of the managerial reforms of the 1990s have emerged a new appreciation of 'whole of government' approaches to solving community problems. Systems capacity has become a high priority. Most councils recognise the importance of management systems which encourage efficiency and accountability, where the organisation can operate to some specified standards and be accountable for these. Councils are now thinking strategically and keen to shape their environment, rather than simply react to it. They have become acutely aware of the importance of 'inclusionary' rather than 'exclusionary' politics in their local communities. This new awareness is reflected in the establishment of 'governance officers' in a number of councils. Their roles combine a range of activities from management co-ordination to public relations.⁽⁴⁾ Some councils are now exploring the concept of 'service level agreements', an idea borrowed from reforms in British local government (Stoker, 1999). In sum, the management perspective on 'governance' can be summarized as follows:

- Performance Improvement and Corporate Planning to articulate key directions and goals.
- Human Resource Development with a focus on rights as well as responsibilities
- Customer Satisfaction and improved communications with the community

Australian electors are both more educated and more demanding, and increasingly focused on the quality of community life (Eckersley 1998). Because local government is closest to the people, communities will naturally turn to local government for solutions to community problems. Mark Latham, a progressive federal politician, has used the concept of social capital as an appropriate framework for reflecting on the needs and the desires of the Australian community. He identified several trends which include:

- a growing desire within the community for people to make their own choices

- a corresponding need for more effective means of participation in the processes of government, so that everyone feels they have a real stake in decisions
- questioning of market forces due to apparent inequity and fragmentation within society
- growing demands for a local response in social and economic policy to offset the forces of globalisation (2000)

Latham noted the failure of central governments in Australia to respond effectively, citing in particular the massive scale of some state bureaucracies. The New South Wales Police department, for example, is the largest police organisation in the world. He concluded that new, more flexible and innovative forms of government are required. Latham calls this 'entrepreneurial government' based on dynamic partnerships and a positive agenda for devolution to local government. Mandatory consultations as part of the reform process, combined with an expanded range of local services, have no doubt raised community expectations for better local governance.

Conclusion

The managerial reforms in Australian local government have brought a revolution of sorts. For the first time, local government is both more autonomous and more accountable. Significant strides have been taken in improving the efficiency and transparency of its operations. Corporate plans, performance targets, benchmarking, best value, and competitive neutrality are all substantial improvements made to the business of government. There is room for improvement in areas such as performance monitoring and linking budget decision processes to targets but, overall, the reforms have contributed to a more accountable institution, and some would argue, a more democratic one. The unintended consequences of the reforms have been to focus attention on the distribution of power in Australia's governance system. The reforms have brought to the fore tensions between local government's potential and its reality in Australian federalism. On most measures of institutional capacity, constitutional, resources and policy, Australian local government remains the poor cousin. Yet despite these constraints, local government has made a significant contribution to national development. Engagement with its community offers the best chance for more meaningful reform in the future.

Notes

- (1) Brisbane City Council was the only exception. It had a general competence power enshrined in its founding legislation in 1923.
- (2) Local government is responsible for approximately 80% of the national road network and road funding which comes from the Commonwealth government remains the most substantial grant component.
- (3) Among federal systems, Australia has the most comprehensive fiscal capacity equalisation procedure (MacDougall 1977).
- (4) Interview with Local Governance Officers in New South Wales, 1999.

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