

Local government: shaping the future

A keynote address to the 2012 annual
conference of the Local Government
Association of New South Wales

**Peter McKinlay, Director, Local Government Centre,
AUT University, Auckland**

October 2012

peter@mdl.co.nz
m: 00 64 21614115
www.mdl.co.nz

This paper is Peter McKinlay's keynote address to the 2012 annual (and last) conference of the Local Government Association of New South Wales leading up to its merger with the Shires Association of New South Wales to form a new peak organisation, Local Government New South Wales. The focus of the paper is on how the sector should respond to the state government's reform agenda, including the important role of the new Association as the collective voice for the sector.

1 Introduction

The focus of this presentation is the opportunities ahead of local government over the next 10, 20, 30 years and how best to take advantage of those.

It is a focus which recognises not only the very major changes in the environment for local government, both within New South Wales, within Australia and internationally, but also the coming together of the Local Government and Shires associations as a single strong voice for the sector.

The combined association will have a unique opportunity to place the local government sector at the centre of decision-making. It is very clear from international trends that understanding of the role of local government is shifting dramatically, with local government increasingly becoming a respected partner with other tiers of government, and other major stakeholders. There is going to require a lot of time and effort, but it is certainly going to be worth it.

In this presentation I will first set the context, considering a number of the major influences affecting local government and what they mean for local government's place in the governance of your communities (including a reference to destination 2036) Then I will discuss some key themes for local government in shaping the future, including the role of a collective voice for the sector, the governance of local authorities themselves, different options for the governance of local authority and related community activity and the need for 'fit for purpose' governance using the Sydney metropolitan area as an example.

2 Context

If you like change, this is a really exciting time to be involved with local government. We are now confronting the implications of a series of major shifts both internationally and domestically which are dramatically reshaping the environment in which local government functions.

Internationally, the changes include the impacts of the globalisation process which really began to gather momentum at the beginning of the 1990s, the ongoing effects of the global financial crisis (which on some views looks like now being a permanent state of being), and the dramatic change in the fiscal position of higher tiers of government. This latter change is partly a flow on effect from the global financial crisis but is also very much a product of demographic change as populations age and the ratio of working age people to the total population becomes much less favourable.

Globalisation

Let's now look at some of the impacts of globalisation and what they mean for local government in Australia generally and New South Wales in particular.

The changing competitive environment

The first and obvious impact is the changing competitive environment for Australian business. If you are in the mining sector (or agriculture generally), then you have been doing very well, and should continue to enjoy a generally favourable business environment (acknowledging that there are some negative impacts from the continuation of the global financial crisis, and the potential for low-cost producers of products such as coal and iron ore to become serious competitors).

However, if you're in the tradables sector (those firms which export and/or compete with imports) outside mining and agriculture, then you are facing a very tough time at the moment. This is partly the impact of higher Australian dollar driven by the resources boom, and relatively high agricultural prices, it is partly the fact that globalisation has led to a greatly changed international environment so that previously protected industries and services now face intense international competition.

One response has been a focus on the need for entities in the non-tradables sector - those which produce goods or services purely for the local market - to be as efficient as they can in order to minimise the cost pressure on the tradables sector. Local government is an important component of the non-tradables sector. Your cost impact on the tradables sector is not just the immediately obvious elements such as rates and fees and charges, it is equally or more how you do your business. Do you design your processes so as to impose a minimal impact on users and the wider community? Are decisions as timely as possible (the opportunity cost of time is a critical factor for business investment). Are the structures through which you undertake activity 'fit for purpose'?

Two recent Australian reports have highlighted the need to rethink the way in which local government undertakes its activity, not just council by council, but across the sector proposing measures to ensure that scale and consistency results in least cost to users.

The final report of the Productivity Commission on the impact of local government's regulatory role has emphasised the importance of consistency - that local government's regulatory requirements should be consistent across councils unless there is good reason otherwise proposing as a leading practice that:

There is a case for state, territory and local governments to assess the mechanisms available to harmonise or coordinate local regulatory activities where the costs of variations in local regulation exceed the benefits.

The Ernst & Young report, *Strong foundations for sustainable local infrastructure*, prepared for the Department of Regional Australia, Local Government, Arts and Sport, argues the case for greater collaboration amongst councils. This includes the establishment of structures which would allow the joint ownership and management of infrastructure assets as a means of achieving needed efficiencies and economies of scale, as well as the ability to structure financing arrangements not readily available to individual councils.

The rise of metropolitan centres

Another important impact of globalisation is the rise of metropolitan centres. This is not just a consequence of globalisation - concentration of urban centres would almost certainly be happening globalisation or not, but it's particularly important because of the way globalisation has opened economies, and made location very much a matter of choice.

Putting aside the major commodity trades (minerals and agriculture), whose locations are normally determined by natural endowments, location for major economic activity is increasingly a matter of choice. 15 or 20 years ago we thought that the rise of the Internet would mean that location became almost irrelevant. People would be able to work wherever they chose, and connect through cyberspace.

We now know that almost the exact opposite has happened. High skilled people, and the firms who employ them, are increasingly concentrating in major urban centres. A recent review of research in the discipline of economic geography (McCann and Acs 2011) spells out what this means in practice:

- Whereas up until the early twentieth century, city growth was largely a matter internal to the individual nation-empire-state; today, the situation is the reverse. In a world of falling trade barriers and increasingly permeable national borders, combined with falling spatial transactions costs for low knowledge activities and rising spatial transactions costs for high-knowledge activities, the global connectivity of cities is therefore critical, rather than simply the scale of cities. Modern transportation and communications technologies and the ability to exploit knowledge assets globally mean that the performance of a country increasingly depends on its city-regions, whose performance in turn increasingly depends on the connectivity, global engagement and competitive performance of its multinational firms.
- Obviously, cities that are too small to provide the scale of international transportation infrastructure necessary to be part of these global networks will be unable to sustain global companies in the long term. Yet, infrastructure alone is not the answer, as there does appear to be a minimum threshold of approximately 1.5–2 million people in order for a city-region to achieve sufficient knowledge-related agglomeration effects to sustain the local multinationals.

Australia is fortunate in that its major metropolitan centres are of sufficient scale, and do have for the most part good international transport connections. However, they do face challenges in terms of quality of infrastructure and question marks over long-term sustainability of some services (there is anecdotal evidence that Melbourne is starting to be preferred over Sydney as a location because of doubts about the capacity of Sydney airport over the medium to long term).

The implication for local government, which is clear from analysis of census data to provide projections of future population (numbers and composition) is that Sydney will continue to be increasingly dominant, followed by regional centres, with much of the rest of local government experiencing either slow, static or declining growth. Some councils may need to consider seriously how to manage with a declining population¹.

¹ this may be particularly the case for councils whose population decline has been driven by agricultural productivity - with machines gradually replacing labour. That is an issue which raises

Finally, there is one additional an important matter which needs to be dealt with. Australia is very much a part of the Asian region. Some of the world's most dynamic, influential and rapidly growing metropolitan centres are in Asia. Inevitably in a world in which city to city relationships are gradually becoming more significant even than state to state relationships, how Australia's metropolitan centres connect with the metropolitan centres in Asia will become more and more important.

There is one simple fact which stands out. Mayors matter. Australia's metropolitan centres at play a full role in working internationally, they need to be represented by mayors who are the equals of their fellows. This is about much more than status. It is also about effectiveness and the ability to deliver. The current situation in which Lord Mayors represent just a tiny fraction of the population of their metropolitan centres (other than Brisbane) looks to be unsustainable.

The global financial crisis - the fiscal position of governments

I have lumped these two influences together for what I believe is a very good reason. If you have been reading the financial press, and following different interpretations of the origin and significance of the global financial crisis, you will know that we are very far from having a consensus about either its long-term significance, or what we can expect to happen over the next few years.

My personal view, which I believe stacks up, is that the global financial crisis can be seen as the last major excess of the practice of passing current costs on to future generations. This is a reasonable interpretation, for example, of what happened in global mortgage markets. People were prepared to borrow to the hilt in the belief that some future purchaser would pay a higher price when they wished or needed to sell. In essence, today's generation of home buyers were increasing their consumption of housing services in the hope of passing those costs on to the next generation (and in a very real sense, the significant increase in the ratio of median house prices to median incomes suggests that homeowners generally have found a way of extracting significant additional capital from future generations).

Governments, of course, have traditionally done the same when they run deficits (unless those deficits are genuinely funding long-term investment, which is going to be paid for by future users).

In practice, the two trends came together. Excess in private markets was complemented by and to a degree drove excess in government borrowing. Australia is comparatively fortunate in that it has suffered neither the worst consequences of private market meltdowns, or of excessive government debt. However, it is very clear that governments at both federal and state level have learnt the lesson of recent experience. Balanced budgets (at least over the business cycle, if not year by year) are not just prudent in general terms; they are now becoming a long-term necessity especially as demographic change shifts the balance between earners and non-earners within the community. For local government this means the likelihood of higher tiers of government finding new and significant sources of revenue for local government must be regarded as low to extremely low. The pressure will be on for local government to generate more

special conditions outside the scope of this paper, but there is clearly a case for an ongoing dialogue between local government and farmers' representatives on how to manage, not just in terms of decline as such, but in terms of what this means for the agricultural sector's ability to recruit and retain increasingly high skilled labour in the longer term.

own resources, either through making better use of what it already has, or finding new ways of getting its own communities to fund desired activities

As an indication of general trends, it may also be worth reflecting that one of the most recent substantive commentaries on how to lift the performance of the Australian economy has argued for significant tax reform, including a rationalisation of State taxes, which would have major implications for local government rates. The Grattan Institute's Game Changers report (<http://grattan.edu.au/publications/reports/post/game-changers-economic-reform-priorities-for-australia/>) includes the following comments (extracted from a larger discussion):

Currently, stamp duty revenue is roughly equivalent to rates revenue. Doubling rates would thus be sufficient to abolish stamp duties. Increasing rates by a factor of four would be enough to abolish stamp duty, land tax, payroll tax, insurance tax, and some other minor state taxes

Property taxes should be increased by raising rates rather than land taxes, as rates tax a much broader base. In practice this could be achieved by a state government setting a state-wide rate, with the council rate as an additional charge that varies by council. In practice, this would probably lead to rates being collected centrally by a state government, which would potentially reduce the costs of collection compared to current systems.

The impact of the global financial crisis, and the associated fiscal disciplines being adopted by higher tiers of government, is not all bad news for local government.

There is increasing evidence from international practice, and some experience in Australia, that the growing recognition by higher tiers of government that there are limits on their ability to meet the community's expectations for increasing services and associated funding, is leading to a reappraisal of the role of local government. Specifically, there is an emerging acceptance that local government has a unique role to play in facilitating effective and least cost delivery of major social services (and some others). Good targeting and effective delivery means good local knowledge and networks. Least cost delivery means not only good collaboration at a local level, but also the ability to engage the community as a partner in the delivery process.

Local government is uniquely placed to undertake this role. It knows its communities far better than higher tiers of government. It can engage communities in ways which higher tiers of government cannot.

In England, this has seen the gradual iteration from community well-being, community strategic plans and local strategic partnerships through Total Place, to Big Society, Open Public Services and now Whole Place as successive governments have experimented with how best to engage communities.

A year ago, the government issued its Community Budgets Prospectus as part of a process of establishing a series of pilot projects to test the Whole Place approach.

The Minister of Local Government in his foreword to the prospectus had this to say in terms of the government's objectives:

...we want to go further and to test how local places can make best use of all the money that is spent in their area on public services on a wide range of problems. The pilots set out in the prospectus provide a real opportunity to overcome the long-standing barriers to real local design and leadership of services.

Ambitious Community Budgets, designed locally and not by Whitehall, will make a significant contribution to ensuring that our public services benefit us all, with the poorest in our most disadvantaged communities no longer at the back of the queue.

In Australia, the Municipal Association of Victoria has been taking the lead in introducing a Canadian initiative, co-design, to assist in the process of collaboration between social service agencies and communities, with promising results in terms of demonstrating how knowledge held at a community level can add very real value to government service delivery (see Lenihan and Briggs 2011).

Community governance

Traditionally, we been used to accepting that the way people engage with their councils is partly through the election process, and partly through the formal consultation and exhibition requirements in local government legislation. With this understanding, many within and outside local government have become quite gloomy about the apparent detachment evidenced through declining turnouts in local government elections even where compulsory voting applies.

You get a very different picture if you look both at research, and at emerging practice, about what people actually want to do. European research shows that many people are at least as interested, and seek their involvement, through other forms of engagement including network, consumer and participatory democracy. Network democracy is a variant on the theme that much of community governance is negotiated between formal and informal institutions, including civil society. Consumer democracy reflects the fact that on a number of matters citizen engagement is essentially as a service user rather than as a participant in the democratic process. Finally, participatory democracy reflects the fact that increasingly citizens want to be engaged in those decisions which affect 'their place' (Haus& Sweeting, 2006; Schaap et al, 2009).

A recent Australian example shows how this changing attitude is coming through in practice. One of Sydney's northern beaches councils, in a recent community satisfaction survey, was extremely surprised to find that engagement was at the top of its community's priorities. As its general manager commented in a blog:

What has surprised the council about the survey results is the fact that residents appear to be less concerned about what I would call the 'traditional' activities of local government – and much more interested in what could loosely be termed participatory democracy. The survey findings go on to say that out of ten drivers of satisfaction – what residents really want – the top two were access to Council information and support and community involvement in decision-making. development came third, domestic waste fourth and perhaps most surprising of all, maintaining local roads came seventh.

What's happening increasingly across local government in Australia is that councils are finding new and innovative ways of working with their communities, creating opportunities for people to have a genuine say about initiatives which affect their own area. Some, especially smaller councils, this is not news as their

closest to their communities has long meant that this is how they used to working. For others, especially larger councils, its new territory but very promising territory, an important part of the changes which are reinforcing the importance of local government in the lives of its citizens.

A recent overview of emerging practice in Australia can be found in the Australian Centre of Excellence will Local Government publication *Evolution in Community Governance: Building on What Works* available at http://www.acelg.org.au/upload/program1/1334208484_Vol1_Community_Governance.pdf

DESTINATION 2036

Finally, one of the obvious influences on the future of local government is the destination 2036 process including the work of the independent panel, and the review of the Local Government Act. It is obviously premature to comment on what might come out of all that work other than to note the repeated commitments made by the State government that it is not contemplating forced amalgamations, and the high degree of consultation which is accompanying both processes.

However, if precedent elsewhere is anything to go by, it would be sensible to assume that local government in New South Wales is now in the middle of a process which, in one way or another, is intended to result in a significant lift in local government capability and quality of performance. It is really over to the sector to decide whether it achieves this primarily on its own initiative, or ultimately, as with Queensland, has change imposed.

3 A collective voice for the sector

I'm told that the well-known political lobbyist Graeme 'Richo' Richardson once stated that local government should be one of the most powerful lobby groups in Australia, and then went on to explain why it was very far from being that.

In essence, it was simply that local government couldn't get its act together. Instead of speaking with a single well reasoned voice, it was more like a combination of the Tower of Babel and a talkback show.

It is actually easy to understand why it is so extremely difficult for local government to speak with a single voice. The one thing we all want from our elected members is a passionate commitment to the place they represent. It is hardly surprising this means that people fight their corner, almost regardless of council or sector interest. Whether you're a delegate to a sector meeting or a ward councillor at a council meeting, you are there to represent your people, and success is showing that you really dealt to that other lot!

The trouble is, it comes at a very high cost. Local government's destiny is determined by others, because local government itself cannot find a way to achieve a common and effective position.

From my perspective, one major barrier is the confusion between speaking with a single voice, and taking a 'one size fits all' approach. Councils differ remarkably one from another. Even apparently similar councils - such as a number of Sydney's medium-sized councils - have different characteristics, priorities, communities and so on. It's hardly surprising. Each wants to ensure that its own special voice and character is recognised.

In my view, this is not and should not be a barrier to speaking with a single voice **so long as that single voice recognises the inherent differences between different councils.** Achieving this is partly a matter of political will, and the leadership to understand the critical importance of building sector credibility. It is partly developing research and policy capability which can spell out a common position, whilst recognising the different interests of different members - it's really a matter of being able to say, as a common position, that like situations should be treated in a like manner, and unlike situations should be treated on their own merits.

It also recognising that higher tiers of government based on natural constraints on how they deal with local government. No government agency can deal in depth with 152 different councils. Each needs to work through intermediaries able to manage the time intensive costs of transacting with the sector. Each needs to know that each time a similar issue arises, it won't have to reinvent the wheel.

Over the past few weeks I've had discussions with number of different senior officials as part of work I'm doing with a group of New South Wales councils. Each has emphasised the importance of being able to deal at a sector level. To give a practical example, I met with one of the officials involved with the Property Assets Utilisation Task Force report to discuss the vexed issue of the shared use of public sector assets held by different public agencies. The official was very open to the argument that it was simply common sense assets held by anyone public body should not be sitting idle for part or all of the time they could be used, if another body accounts on behalf of its communities - could find a suitable use (obvious examples include shared use of sports and other recreational facilities, halls, libraries, et cetera).

We went on to discuss the question of the conditions under which use should be made available. He was very clear that the State would be looking for a common protocol, an approach to dealing with issues such as meeting the associated costs. From this perspective, the obvious party to represent local government in agreeing a common protocol is your association. This was not the only example I encountered of official stating position which amounted to saying they need a strong association able to work on behalf of the sector, to agreed positions on matters which have sector wide implication, and to work with State government in strengthening local government (a greater role in training is one obvious area).

Building a strong collective voice is very much a matter of capability within the Association, and understanding amongst its members, of the inherent policy implications of the issues they wish to have addressed.

Let me take two examples from the motions up for discussion at this conference.

Motion 6: early childcare services, reads:

That the Local Government Association calls on the Council of Australian Governments to ensure that Local Government is realistically compensated by State Health Authorities for the provision of Early Childhood Health Services within Council Facilities.

On the face of it, this motion does seem to be taking a whole of local government perspective looking as it does for a policy which would apply to all councils. Dig a little deeper, and the motion raises issues about the delivery of community-based healthcare services generally, and rather than compensation, issues about how cost should be shared between different tiers of government and potentially others, including users and the third sector.

The difference is significant in a world in which fiscal pressures on higher tiers of government are shifting the focus from how governments compensate others for costs, to how we best manage, resource and fund services in a world in which all sectors face significant constraints.

Motion 25 - intermodal freight facilities reads:

That the Local Government Association lobby the NSW Government to adopt a more fair and consistent approach to the spread of intermodal, freight and logistics facilities around the Sydney metropolitan area, rather than focus significant intermodal, freight and logistics centres in only a few locations.

What this motion (and several others) is really about is the governance of metropolitan Sydney - how and by whom are decisions taken which are inherently metropolitan in their impact. If local government is to have a strong voice in decisions of this type, and local government needs a strong position on what is required for the effective governance of metropolitan Sydney, and how this should be achieved. I return to this theme later.

REFERENCES

Lenihan, D. & Briggs, L. (2011) CoDesign: Toward A new Service Vision for Australia? Accessed at www.humanservices.gov.au/spw/corporate/publications-and-resources/resources/co-design-toward-a-new-service-vision-for-australia.pdf

McCann, P. & Acs, Z. (2011): *Globalization: Countries, Cities and Multinationals*, Regional Studies, 45:1, pp17-32