

Future of Local Government Summit: A New Zealand Perspective

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THE FUTURE OF LOCAL GOVERNMENT SUMMIT: A NEW ZEALAND PERSPECTIVE

Introduction

This paper has been prepared as part of the New Zealand contribution to the Future of Local Government Summit. It begins by providing an overview of New Zealand's governance arrangements as they currently are. It then sets the scene for current issues in local government in two ways; first by briefly considering the driving factors behind the establishment of local government in the 19th century and secondly by looking at the state of local government in the mid-20th century and changes since then. These are used to highlight lessons of relevance for the issues that the Summit itself is to address.

The paper then considers recent reforms, funding arrangements for New Zealand local government (recognising that with control over funding comes autonomy), the major structural and accountability changes of the 1980s and early 1990s and finally looks at changing roles and attitudes and the challenges and opportunities for local government in the 21st century.

New Zealand: Governance Context

New Zealand has no written constitution. Since the mid-19th century, its central government has operated with a unicameral legislature, placing considerable power in the hands of the executive. With effect from the 1996 general election, members of Parliament are elected under the mixed member proportional system. Generally, this means that the government is formed from a combination of the party that has the most seats in Parliament and either coalition partners or arrangements with one or more minor parties on confidence and supply.

Local government is best described as a "one and a half tier" system. Currently there are 74 territorial local authorities and 12 regional councils. The territorials undertake the full range of local government activity whilst the regional councils focus on environmental management, regional and coastal planning, civil defence and regional land transport policy¹. Debate remains over whether one sector can be seen as superior to the other or whether they are more in the nature of equals. The practical reality is that the regional plans and coastal plans adopted by regional councils are binding on the territorial local authorities whose own plans must comply with them.

¹ As a result of the Local Government Act 2002 regional councils now have the same wide range of legal powers as territorial local authorities. The act includes provisions for consultation, and finally ministerial arbitration, if a regional council proposes undertaking an activity that one or more territorial local authorities within the region is already undertaking or proposes to undertake.

The Historic Rationale

In reflecting on the future of local government, it can be useful to look back at the original rationale for its establishment in countries such as New Zealand and Australia. Generally, it was a combination of a wish to have some means of enforcing local law and order and the provision of needed infrastructure -- roads, harbours, rivers control and other facilities necessary for the development of business, trade and related activity. Theoretically, the provision of infrastructure could have been organised by the private sector. 18th century England had experience of toll roads. Canals were developed by private enterprise. So, in England, were a number of harbours.

In one way, the choice to develop through the establishment of local government, rather than through private enterprise, can be seen as a response to what economists referred to as transaction cost and free rider problems. Although it may be theoretically possible to establish a series of interlocking contracts to underpin the provision of infrastructure, the cost of negotiating and enforcing those contracts can be very high and you face a further risk of people who may decline to contribute but hope to benefit nonetheless.

Against this background, the choice to work through local government -- either general purpose authorities or special-purpose authorities -- can be seen as a means of minimising the cost by establishing what amount to compulsory clubs with the right to enforce payment of their dues. In other words, the needs of the business community, in particular, for essential infrastructure was met through resorting to a public mechanism with taxing powers rather than to private contract. With communities again facing major challenges to develop the rather more complex infrastructure of the knowledge society, perhaps it makes sense to revert to a 19th-century way of thinking about local government as the compulsory club which allows us to achieve objectives which we collectively endorse for what amount to strong economic reasons, but recognise will be difficult to achieve purely through the private market.

Starting the Recent Journey: Context

The period of the 1950s -- 70s was the period of "big government". There was both a public and a political expectation that central government could deliver "the good life". In this context, local government was relatively peripheral. Its primary role was to undertake a range of what could be described as local housekeeping activities generally summed up in the expression "roads rats and rubbish". Of perhaps greater importance, the regulatory role of local government was relatively minor. The now major undertaking of environmental management, with its extensive regulation of activity, was still well into the future. Councils themselves were relatively simple undertakings with very limited reporting and accountability requirements. It was easy for people to combine the role of councillor or even mayor with full-time employment.

In New Zealand, as a legacy of 19th century experience, local government in the mid 20th century was made up of nearly 800 elected bodies of various kinds including approximately 200 territorial local authorities (cities, counties, boroughs), harbour

boards, electric power boards, catchment boards, drainage boards, nassella tussock boards, pest destruction boards, reserve boards....

The full panoply of local democracy was rounded out with government funded but locally elected hospital boards and education boards.

Reform: The First Attempts

There was a growing recognition, in the years following the Second World War, that the New Zealand local government sector was overcrowded with small and poorly resourced councils and special-purpose authorities. In an early attempt to address this problem, central government established a body known as the Local Government Commission. Its statutory role was to review the structure of local government.

In practice, virtually any recommendation of significance from the Local Government Commission was undermined by political intervention. Too often, mayors, county chairmen and other significant local politicians were also office bearers or influential supporters of one or other of the major political parties. They were thus able to use their political influence to defeat any attempt at change.

The lesson this eventually taught central government was that, if radical change in the structure of local government was desired, it needed to be undertaken swiftly and with either a strong political commitment to a particular outcome, or an agreement that politicians would stand back from the process of reform.

The first significant reform came in 1964 with the establishment of the Auckland Regional Authority. The principal functions of the authority included bulk water and wastewater, regional parks and regional planning. Its establishment was very much a response to the inability of 29 separate territorial local authorities within the Auckland region to agree on any regional matter of significance.

1989 Structural Reform

The Labour government that had come into office in 1984 achieved an international reputation for the breadth and depth of the reforms it implemented across not only government but the entire economy. At the time, those reforms were probably the most comprehensive that any democratically elected government had attempted to implement. Against that background, it was hardly surprising that the government should turn its attention to local government.

The Minister of Local Government at the time was both an historian by profession and an experienced local government politician, having spent three terms as an Auckland city councillor. He was very well aware of the ability of the local government sector to thwart attempts at reform through using its very well-established political connections. Accordingly, he decided on a reform programme that would be both as distanced as possible from political interference, and completed within a single term of government.

The Local Government Commission was given a statutory mandate to "prepare such final reorganisation schemes as in its opinion are necessary to improve local government...".

A clear understanding was arrived at between the Minister and the then chair of the Local Government Commission that government would not attempt to second-guess the Commission's recommendations but would instead implement them (as a matter of procedure, the Commission's reorganisation schemes were implemented by order in Council). The choice of chairman was a critical factor in the success that followed. He was a highly respected former Mayor of Palmerston North. He was also someone who had stood as a National party candidate in the Palmerston North electorate. The fact that the Labour Government was prepared to appoint someone who would normally be seen as a political opponent to chair the body responsible for a major reform programme added considerably both to its credibility and to the sense its deliberations would be largely free of political bias.

The result of the Local Government Commission's work was the most comprehensive restructuring of the local government sector that had ever taken place in New Zealand's history. More than 800 territorial and special-purpose authorities were reduced to some 87 of which 74 were territorial authorities and 13 regional councils. The recommendations included quite major decisions over allocation of assets as well as responsibilities. As an example, the Commission's mandate extended to harbour boards which, at the time, were elected bodies which themselves had just been through a significant restructuring. This had included the corporatisation of their commercial port operations and associated assets, with the resulting port companies still owned by the boards. Shares in those companies were allocated by the Commission to local authorities -- regional councils in regions where there was only one port company, territorial authorities where there were two port companies (the rationale for this was that, generally, regions were a better reflection of the public whose transactions had built up the assets of harbour boards over the years, and so were the logical owners of port companies on the demise of harbour boards. However, in those two regions where there were two separate harbour boards and thus two separate port companies, competition and economic efficiency required that ownership be vested in territorial local authorities).

This phase of the reform process, when contrasted with the decades of failed reform which had preceded it, was a clear demonstration of the importance of using a process that, as far as possible, was insulated from the political process and established in a way that gave the local government sector confidence that it was free from political bias. This did not stop the inevitable lobbying. The chairman has commented privately that some of the decisions the Commission took were not their first preference but had been adopted in response to signals from the Minister that if it proceeded with its first preference -- as contained in the material it had put out for consultation -- he might not be able to contain the political pressure to intervene.

1990s Reporting and Accountability Reform

The New Zealand public management reforms of the 1980s and 1990s were driven out of a theoretical framework that:

- Placed a strong emphasis on designing organisational arrangements to minimise the risk of officials (elected or appointed) acting in a self-interested manner.
- Saw transparency and accountability as major tools for this purpose.

In local government, this saw a series of legislative changes designed to improve the transparency and accountability of the way councils functioned and to distance politicians from day-to-day operations. Traditionally, councils had been the employers of staff and councillors had seen this as a giving them a mandate to interfere directly in the operations of councils. Under new legislation, the council chief executive became the employer and responsible to the council for the management of the council's business. The intention was that the council should focus on policy and the chief executive on implementation.

To meet the objectives of transparency and accountability, a number of changes were introduced. First, financial management was shifted from a cash accounting to an accruals basis. Local authorities now manage and report financial transactions in accordance with the same accounting principles that apply to private companies (generally accepted accounting practice).

Next, major changes were made in the way in which councils report to and engage with their communities. These included:

- Introduction of what became known as the special consultative procedure; a requirement that for a number of matters including the adoption of the council's annual plan and long term financial strategy, and the sale of significant assets, the council must put its proposals out for public consultation, allow at least a month for public submissions, and provide an opportunity for submitters to appear before the council, before making a decision.
- Detailed requirements governing the preparation of the council's annual plan and long term financial strategy, requiring councils to spell out the nature of the activities they were proposing to undertake, the rationale for those activities and the means of funding.
- Statutory guidelines, which became known as the "three step process", requiring councils to apply economic principles to their funding decisions. In essence, they were required to consider the extent to which any particular activity was a public or private good, who were the beneficiaries of the activity, and the means of funding appropriate to the economic character of the activity.

At the same time, New Zealand's planning system was undergoing significant review. A large number of acts, including the Town Planning Act, were repealed and replaced by the Resource Management Act. As well as consolidating existing legislation, the Resource Management Act introduced new principles regulating planning. Of particular significance was a change from the previous situation in which only people who had an interest in a planning matter greater than the public at large had standing for the purpose of lodging an objection to one in which any person had the right to object.

Local authorities were also given much greater discretion in how to conduct their activities. Most importantly, they were given the power to form what were known as Local Authority Trading Enterprises to undertake business activity. These were council owned companies modelled largely on the state owned enterprises legislation that had been introduced a few years previously for central government business activity.

Funding

Funding and autonomy are closely interrelated. New Zealand local government has always had discretion over the level at which it sets property rates -- in contrast to the varying levels of ministerial oversight that apply in Australia. Borrowing was regulated for many years through the Local Authorities Loans Board. That control ended in the mid-1990s.

The current situation is that New Zealand local government has a high level of discretion over both property rates and borrowing. The main restriction that still applies to borrowing is that it must be New Zealand dollar-denominated.

In respect of rates, local government has discretion not only in respect of the level but also can choose from a wide range of tools including a general rate, a uniform annual general charge (intended to ensure that each ratepayer pays at least a minimum amount regardless of the value of their property) and what is known as a targeted rate which can be very fine tuned in terms of purpose, amount, and the properties that are liable. Finally, local authorities can choose between capital value, unimproved value or annual value as the rating base.

The flexibility which local authorities currently have reflects a central government view that the appropriate means for control over local government is not so much ministerial intervention (which would be seen as relatively inefficient) as public accountability. Both the rating policies of councils and their funding policies can only be adopted after public consultation (the obligation on councils, in respect of consultation, is to consider submissions with an open mind and then make whatever decision seems appropriate. There is no obligation to comply with the views presented by submitters).

Notwithstanding the consultation requirement, New Zealand local government enjoys a measure of autonomy which sets it apart from both much of Australian local government and its United Kingdom equivalents.

As with Australia, there is a very real level of concern in the local government sector that property rates, by themselves, are an inadequate funding base for the range of functions which local government is expected to undertake. Also, as in Australia, there is growing concern at the habit of central government of imposing additional functions on local government without making any provision for the cost.

Changing Role and Attitudes: The Impact of Reform

The major changes, both structural and otherwise, which affected New Zealand local government during the 1990s can be seen in a larger international context of ongoing public management reform. England and Australia saw a number of changes driven by the same general concern of central or state governments to force what they regarded as greater efficiency and accountability on local government.

In each case, there seems to have been a general assumption on the part of central or state government officials, and their ministers, that local government was inherently inefficient and unaccountable to its citizens. The underlying motivations for change included getting better value for citizens and making local government more accountable.

There is good reason to believe that much of the reform process has in fact undermined accountability and the role of local government as democratic local governance. What supports this claim against the general belief that, worldwide, we have been watching a trend towards greater accountability? A number of factors are involved, all of which are significant when considering the future of the local government sector. They include:

- The business of local government has become far more complex. Even in the core activities of basic infrastructure, environmental, technical and other requirements are an order of magnitude more complex than they were a generation ago.
- The requirement for greater accountability has, at least in the New Zealand environment, and from the look of it elsewhere, transmogrified into a compliance nightmare. In New Zealand, the annual financial cycle, including consultation on the annual plan, is now a major undertaking absorbing significant amounts of elected member and officer time.
- There is little, if any, evidence that the vastly greater amount of financial and other material now made available to residents and ratepayers has had any real impact on public engagement with or influence over their councils as compared with the situation before the new requirements were introduced (there is evidence that it has led to significantly improved financial management and a better understanding of the requirements for long-term planning especially in areas such as asset management for local infrastructure)
- The greatly increased regulatory role of local government, as planning and environmental controls have become much more pervasive, has contributed to a significant change in the way in which councils are perceived by their citizens. More and more, the council is perceived as a bureaucratic constraint on private activity rather than as the repository of democratic local governance.

The result of these various influences has been a marked change in the relationship between councils and their communities.

First, the greatly increased compliance and accountability requirements have, in turn, led to a quantum leap in the time commitment required of elected members. This has made it much more difficult for people who are in full-time employment to make themselves available for elected office. The heavy compliance orientation may also have discouraged people with an interest in the strategic role of local government from putting themselves forward.

A second impact has been to shift significantly the relative influence of elected members and council management simply because of the breadth and complexity of the activity that councils now undertake. The basic assumption underlying local democratic representation, that elected members will have the time and capability to make informed decisions on matters before them, is now under challenge. In contrast with their equivalents in central government (ministers) elected members typically lack the benefit of either the contestability of advice in a central or state government system, where different departments put forward competing views on any significant proposal, or of the support that ministers have in their own offices to

provide an alternative view on the advice they receive from their departmental officials.

The third impact is the shifting nature of the relationship between councils and their communities. Here at least two influences are at work. First, is the much greater regulatory role of councils. Instead of being friendly providers of local services, more and more often councils are the bodies responsible for telling you that you cannot do something or that, if you want to do it, there are going to be significant additional costs and requirements beyond those you had planned for. The impact of this on public perceptions should not be underestimated.

Next, both because of the separation of the policy and administrative responsibilities as between elected members and management and because of the greater complexity of local government activity, much of the contact that people have with councils on matters that concern them is with management rather than elected members. This is typically the case, for example, in any major consultation even though elected members may also play a role. In a sense, there has been a shift from the democratic exchange between residents and elected members, to engagement with a bureaucracy that is not democratically accountable, may often appear itself to be determining the direction that the council (community) should take, and may be driven by the agenda of a professional discipline, or an organisational culture, rather than by a commitment to enabling local democratic decision-making.

None of these were intended consequences of recent reforms. Nor do they apply universally. There are examples of councils which have to a substantial degree have it been able to maintain strongly positive relationships with their communities despite the recent changes. Collectively, though, those changes do much to account for the declining public regard in which local government is held.

Our Current Baseline

There is an old saying -- a cliché -- that the urgent crowds out the important. This can be seen as the theme of the past decade or so. Local government has been so busy coping with increased demands, both in terms of compliance and in terms of new roles, especially regulatory roles imposed on it from central or state government, that it has risked losing sight of its true purpose, democratic local governance.

The result too often has been a decline in respect for local government and a growing sense of frustration for people working within the sector. Typically, the response from local government itself has been reactive. It has been responding to perceived pressures, rather than demonstrating a sense of leadership. Examples include the ongoing complaints that local government lacks the funding base required to be effective, that central or state governments are too ready to shift additional burdens on to local government without equivalent funding and that local government is not accorded the respect it deserves.

It is certainly true that local government is too often seen as something of a necessary evil, rather than as a critical component in democratic governance. There is a story of a senior central government official, involved in the rewrite of the New Zealand Local Government Act, telling a local government official also involved in the process that local government was inefficient, corrupt, and the sooner it was

abolished the better. That is probably an extreme example of a central view and would not be typical of New Zealand central government officials as a whole. What it does illustrate, more than anything, is a relative lack of understanding of both the role and the potential of local government.

Where are we now? Quite probably at a low point in both public and central or state government perception of the potential for local government to play a lead role in enabling democratic local governance. With hindsight, the reasons are easy to see. Few if any councils understood the impact on their relationship with their citizens of the changing nature of their roles especially in a regulatory context. Few realised the consequences of increasing the burden on elected members and thus reducing the pool from which future elected members might come.

It is something of a paradox that a commitment to greater transparency and accountability should have been associated with an undermining of public confidence in local government as genuinely acting on behalf of the community.

Fortunately, conditions are again changing. There is now good reason to believe that the role of local government will move back to centre stage in response to the opportunities created by trends, both local, national and international, that are changing the relative capability of central or state governments on the one hand and local governments on the other to effect or enable meaningful change for their communities. In New Zealand, this includes the recently legislated changes to the purpose of local government which signal a more strategic role for the sector. In Australia, a number of councils are actively considering the implications of their statutory role (expressed differently in different states) of exercising community leadership.

From Outputs to Outcomes

Internationally, the process of public management reform has seen an increasing focus on outcomes rather than outputs. Governments have been moving from a focus on the things they do to a focus on the results of their actions.

It is a change which both reflects and highlights the complexity of the social, cultural, economic and environmental contexts in which government interventions play out. It has not always been enthusiastically embraced. In New Zealand for some years influential officials resisted the concept of outcome accountability on the grounds that outcomes were the result of a multiplicity of different influences and argued that, for this reason, officials could only be held accountable for the outputs their agencies produced. Ministers, in turn, also rejected attempts to hold them accountable for outcomes, because of what they perceived as the political risks involved.

Eventually, despite earlier ministerial reservations, central government itself drove the process of shifting from output to outcome accountability. The reason? A growing recognition that unless there was a focus on the consequences of government interventions, the prospect of producing the results that government required would become more and more remote. The very fact that outcomes are the result of a multiplicity of different influences became the reason for moving to outcome accountability. Governments needed to have as good an understanding as possible of what mix of different activities and circumstances would best contribute to the outcomes they wanted to achieve in complex areas such as social and

economic development, and in addressing the education, health, employment and other needs of their citizens.

What this new focus has also done is direct attention to the level at which effective interventions need to be developed and implemented. Governments are recognising that, in addressing the complex social, economic, cultural and environmental issues they are seeking to resolve, there is no such thing as a "one size fits all" approach. There may be some generic principles, but the factors which will determine success or failure are more and more unique to a regional or local context. They are a function of local networks, knowledge, commitment and understandings. These can neither be fully understood nor effectively managed from the centre.

Modern governments have long recognised that bureaucratic decision-making cannot replace the market. They are now coming to grips with the realisation that the same constraints apply in respect of non-market interventions.

In New Zealand, this has been recognised in the recently rewritten local government legislation (the Local Government Act 2002) with its significant changes in the role and function of local government including:

- A statutory provision that the purpose of local government is now enabling local democratic decision-making and action by and on behalf of communities and promoting the social, economic, environmental and cultural well-being of communities in the present and for the future.
- A requirement that local authorities adopt a process for **identifying** community outcomes. That process is to involve "other organisations and groups" who themselves are capable either of identifying or promoting community outcomes. It is also to provide opportunities for communities to discuss their desired outcomes in terms of the present and future social, economic, environmental, and cultural well-being of the community and to discuss the relative importance and priorities of identified outcomes.

What is very clear from considering the central government policy that lay behind these changes is that government wished to put in place a mechanism that would enable the collaboration/cooperation at a regional/local level considered essential in order to achieve the outcomes it now seeks.

New Zealand local government has thus been given a powerful new tool to facilitate community governance and act as a focal point for collective action at the local or regional level. This may be by inter-agency groupings (including business and the social sector agencies and interests). It may result from local initiatives taken by one or more stakeholders seeking to engage the wider community. Experience so far shows that adjusting to this will require dealing with a number of quite major challenges including the shift from a consultation culture to a facilitation culture, and overcoming the relatively low regard in which local government generally is held -- something which is essential if local government is to exercise the leadership role now available to it.

Globalisation

The shift from outputs to outcomes as the focus of central government policy-making is only one of the influences leading to a new emphasis on the importance of the region/locality and, with that, the importance of local governance.

Of perhaps greater significance is the impact of globalisation. For reasons that may not be immediately obvious, globalisation has the potential to be the single most important influence in the revival of local governance.

For most of the 20th century, central governments have seen it as their role to deliver the quality of economic and social environment their societies desire. Whether of the left, the centre or the right, governments have acted on the belief that they had both the responsibility and the capability to intervene in order to alter outcomes in the direction they see as appropriate. Typically this has included the use of a mix of instruments such as tax policy, border protection, support for industry, capital markets regulation and a range of other tools.

At the heart of much of this activity has been the belief that government intervention can smooth the impact of a purely market approach on outcomes for its citizens, especially in areas such as access to social services (health; education as examples) and on relative incomes. For those in employment, a variety of protective devices (sometimes collectively referred to as industry policy) were justified in terms both of maintaining employment and protecting (enhancing) wage levels. For those not in employment -- and for a number who were -- redistribution from better off to less well off citizens through the tax and benefit systems were seen as the appropriate way of achieving greater equity.

The move to freer trade which began in the last quarter of the 20th century has had a quite dramatic impact on the effectiveness of the tools traditionally used by central governments to pursue their preferred outcomes. Generally, it is no longer lawful to protect employment -- or industry sectors -- through means such as import licensing or tariffs. Governments are now party to international treaties which makes this type of behaviour unlawful.

Perhaps more to the point, the growing interconnectedness of the international economy means that, even when governments try to intervene to protect a domestic industry, their efforts may now be counter-productive. The move by the US government in 2001 to impose tariffs on steel imports to protect the domestic industry provides a good example. Until the government was forced to abandon it as a breach of its WTO obligations, the tariff initiative appeared to be effective in its short-term objective of protecting production and employment in its domestic steel industry. However, analysis of the impact demonstrated quite conclusively that the overall impact on employment within the US was negative. Steel using industries found that the higher prices they now had to pay made much of their output uncompetitive. They lost market share domestically to imports, and they lost market share internationally to lower cost producers.

What implications can we draw from these changes? Increasingly, the answer appears to be that central governments are losing the power they once had (or at least believed they had) to protect their domestic economies against international trends through the use of protective mechanisms.

A critic of this argument might suggest that it overstates the long-term impact of globalisation, especially given the quite widespread opposition which can be seen in evidence when ever world trading bodies meet. From this perspective, globalisation in the sense of ever freer trade can be seen as a reversible trend as public opposition demands that governments take back the power to protect domestic markets and domestic employment. At this moment in time, that can only be seen as a possibility with very strong influences, including the impact of freer trade on the cost of living of the average consumer, working against a move back to protectionism.

A much more important but less understood influence is the impact of demographic change. In March of this year the Commission of the European Communities issued the Communication: "Green Paper "Confronting demographic change: a new solidarity between the generations".

The projections in that paper included an estimate that in the period 2005 -- 2030 the number of people in the age bracket 15 -- 64 in the countries of the European Community would fall by 21 million. At the same time, the number of people aged 65 and over is expected to increase by 40 million.

This represents a dramatic turnaround in what is known as the dependency ratio -- the number of people in the workforce to support each person in the retirement age group. Amongst the policy responses being concerned is a greater emphasis on immigration.

The paper was written in the usual convoluted style of European policy agencies. The blunt reality it signals is a greatly increased competition for skilled workers. New Zealand and Australia are already concerned at the potential for loss of skilled workers, particularly recent graduates, because of the attractions of working elsewhere -- not only higher salaries but also, often, more challenging and better resourced work environments.

The impact of what is happening now pales into insignificance compared with what is likely to happen as demographic change gathers pace. The consequences of demographic change will be far more important to the medium and long-term future of our economies than the move to freer trade.

Notwithstanding the economic arguments against protectionism, it is at least possible that central governments may be able to roll back some of the direct impact on freer trade to return to a more controlled environment (although the economic cost of doing so would be high). No such option is available to combat the impacts of increased demand for skilled labour. Instead, we will need to concentrate on how to make remaining or returning a more attractive option.

A central government level, this put an emphasis on issues such as tax policy, and thus creates a conflict with the traditional redistribution role. Although governments, such as that currently holding office in New Zealand, appear very uncomfortable with the argument that tax policy is a crucial factor in migration decisions, the weight of evidence suggests that it will become a critical factor. The cost of using tax policy as a redistributive tool may become prohibitive in terms of its impact on net migration of skilled workers. Arguably, central governments are losing or have already lost the ability to intervene effectively in order to alter economic and social outcomes either

through the use of instruments designed to protect or encourage local industry or through the use of redistributive tools to improve the equity of economic outcomes.

More generally, demographic change places an emphasis on what can be done to encourage people to make the positive choice to remain or return. What we know from work which has been done on location choice is that although people may appear to be choosing countries, in practice they are choosing localities -- where do they want to live, work and play? Perhaps the best-known recent work in this area is that of Richard Florida with his emphasis on the role of the creative class in the development of regional/local economies.

Although this work has attracted strong criticism, it has highlighted the debate on what drives economic development. Is it, as Richard Florida argues, factors such as diversity, tolerance and a distinctive artistic, cultural and recreational environment, or is it as his critics argue low taxes combined with good quality public services? Either way, the answer is clearly in terms of the quality of the regional/local environment.

What the forthcoming competition for skilled labour tells us, coupled with the work on location choice, is that the crucial choices that will influence people's decisions about whether to remain or return will increasingly be made at a regional or local level. Central (State) governments will continue to play an important role in setting frameworks in areas such as tax policy and education. However, it is the choices that communities make about the quality of environment they deliver which will play the crucial role in determining who are the winners and who are the losers in the competition for skilled labour.

What this will do -- and should already be doing -- is signal a new and crucial responsibility for local governance. Responding to the challenge of competition for skilled labour will require that the institutions, networks and understandings through which communities choose their future direction have both the capability and the foresight to create the environments needed to attract and retain skilled workers.

Local government should be at the centre of this. It has both the community leadership mandate and the resource base needed for this purpose. To be effective, local government will need to reach out to the whole of its local community. Successful councils will understand that their role is more in the nature of the conductor of the orchestra bring together a range of different talents, interests and perspectives into a unified whole than one of imposing a "council view".

Local government should be assisted in this by one of the paradoxes of globalisation; the growing attachment to locality as part of personal identity. Glocalism as it has become known provides a new context for effective local governance.

Glocalism

"Globalisation has a seemingly paradoxical impact on local space, and particularly on the local space occupied by major urban centers. At the same time that it orients individuals more and more to a transcendent global community and economy, globalisation also enhances the importance of local communities. The simultaneous

emphasis on the global and local space is not coincidental for the growing importance of locality is in many ways a response to globalisation².”

Recent years have seen the publication of a great deal of research highlighting the importance of the region/locality as:

- Increasingly the place with which people identify and to which they give their commitment as citizens seeking to improve the quality of the environment within which they live.
- The node point at which knowledge and networks combine together with local, regional, national and sometimes international stakeholders to develop the strategies required for effective economic, social and cultural development.

It is against this background that the term glocalism has emerged as a way of naming the new reality we now face as the context for local governance. The implications for the role of local government should be clear. In any regional or local community the obvious source of leadership should be local government. It has both the resources and, usually, the statutory mandate to exercise community leadership. Regrettably, too often what it does not have is the real mandate; the acceptance by its community that local government is indeed the primary source of community leadership.

A pessimist might see this as a reason for dismissing the potential of local government to provide the leadership required in a world in which central government interventions are less able to deliver the outcomes that citizens require. Certainly, there is plenty of evidence currently available to demonstrate that local government falls far short of its promise. Even a casual perusal of local media will reinforce an impression that councils typically are less than unified, that neighbouring councils are more often seen as rivals than as partners, and that councils are peripheral to any serious initiatives focused on the future direction of the local economy and society.

An optimist would take a different view. Local government is currently treated as peripheral precisely because of the role it has played through decades in which “big government” was seen as the instrument through which the “good life” would be achieved. So long as this was the general view, then all we required of local government was a range of housekeeping functions.

For the optimist, the issue we now face is how to deal with a world in which “big government” can no longer deliver the outcomes we require. Finding the answer is a matter of understanding the context in which we now find ourselves. If, as I have argued, it is increasingly a world in which the region/locality is the key decision-making node, then necessarily we are looking for mechanisms that can operate at a regional/local level, a requirement which includes:

- Being able to tap into local knowledge and networks
- Having the capability to draw together and analyse extremely complex and multisectoral issues and initiatives.

² This quotation is taken from a paper published by the Canada West Foundation in 2001 “*glocalism: the growing importance of local space in the global environment*”

- Above all, being able to exercise local leadership in the positive sense of attracting people and organizations into joint undertakings with the benefit of the region and locality as their objective.

We could start from a “clean sheet” approach. That would beg a number of questions including how to identify the “we” who should do the starting, and how to resource the work that would be required. A better option is to start with what we have; the local government structures which already possess both the statutory mandate and the funding capability required (notwithstanding persistent complaints about the inadequacy of local government funding mechanisms).

The challenge we need to resolve is how to transform what have been largely peripheral housekeeping organizations into dynamic tools for community leadership. Put this way, the task appears daunting. Put in a different manner, the potential gains for individuals, for community groups, for businesses and the numerous other interests that make up the typical geographical community of a local authority, the case can become compelling. What it requires is a recognition across the community that it is their future at stake and unless they can come together in helping transform their local authorities into the leaders the community needs, the chances of achieving the future they want will be much diminished.

It also requires a recognition within local government that much of its traditional behaviour must now be seen as dysfunctional. There is a need to shift from parochialism – a negative and destructive force – to local patriotism, a positive expression of community values. Organizational cultures need to mature. Good leadership is not imposing the views of those who happen to work for local government on their communities. Instead, it is the ability to work in a facilitative manner, both drawing out and drawing together the range of skills abilities and insights which the wider community holds.

It requires a shift on the part of the community also. In a very real sense, we get the local government that we deserve. If we treat those who lead our communities with a lack of respect, we should not expect quality leadership. If we make it difficult for people to put themselves forward, by making it harder to combine public service with employment, then we risk restricting ourselves to people who are not part of the mainstream. If we follow the standard practice of criticizing every mistake local government makes (often with the benefit of hindsight) and failing to compliment local government’s successes, we will perpetuate risk averse mediocrity.

Perhaps it is time to return, but in a somewhat more enlightened way, to the motivation that lay behind much of the development of local government in the mid-19th century; a recognition that local economic growth depended on the success of collective endeavours to provide the required infrastructure. The difference is that we are now looking at the soft infrastructure of quality of place rather than the hard infrastructure of roads, ports and water and wastewater.

The future of local government is in our hands. We should treat it as we would treat our own futures – the two are inextricably intertwined.

Some Preconditions for Success

What are some of the factors that will help contribute to an enhanced role for local government? First, councils and their elected members should stop treating power as though it were a zero sum game. The experience of successful local authorities shows that widening the circle of power and influence within the local community has a positive impact; it increases the credibility and mandate of the local authority both within the local community and more widely.

Next, if local government is to realise its potential, it will need to develop a sector wide vision and capability. One of the landmark buildings in the city in which I grew up was the New Zealand head office of the Mutual Life and Citizens assurance company, an Australian insurer which has long since disappeared. I have always remembered it, partly because of the quality of the building and partly because of the company's motto carved onto it: "United we stand, divided we fall". This should be the motto of the local government sector. Too often legitimate arguments that local government puts before central government, the business community or others, are undermined by the clamour of discordant voices as different interests within local government squabble over who should get what crumbs from the government's table.

Associated with this is regaining the confidence of local government's citizens. This will require reaching beyond the burden of compliance requirements, and the organisational culture that has developed into many councils over the 1990s, to a genuine respect by councils for the communities they lead. In practical terms, it will require developing a genuine service culture – not just treating its residents in the customer relationship management mode of the private sector but in the citizen mode for which Peter Drucker has argued.

Finally, as a challenge not just for local government but for all of the different interests within the community, we need to recognise that unless we celebrate and respect local leadership, no one else will. Perhaps local government will finally realise its potential when the mayor has the same public standing in the community as our leading sports people.