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Reading Room: Local Government

UNDERSTANDING COMMUNITY GOVERNANCE

A paper delivered to the Special Interest Group on Community Governance at the 1999 Local Government New Zealand Conference

It was part of the work being undertaken by Peter McKinlay on the potential of 'local governance' and drew heavily on international research and practice.

Contents

1 Introduction

1.1 The purpose of this paper is to give some meaning to the term "Community Governance" and in doing so to relate it to a number of different trends:

- the growing recognition that governing (the act of government) and governance may overlap but are not one and the same
- shifting perceptions of the role of local government
- recent New Zealand developments.

1.2 The concept of community governance (sometimes local governance) is still evolving. Within conventional local government practice it has been seen as shorthand for the belief that decisions should be taken as close as possible to those affected by them. In other words, it has been seen as a (significant) gloss on how governments, both central and local, should exercise their functions. As an example of this, in elaborating on their six underlying principles for effective community governance, Professors Michael Clarke and John Stewart have stated:

"Underlying the principles and our approach to community governance is a common theme. This is the need for **power to be exercised as close as possible to citizens and local communities.** This theme underlies the

importance of central government recognising the devolution of power as a necessary step in the resolution of issues confronting localities. It also serves as a reminder to local authorities and other local agencies that devolving their own power to the communities within is equally important"

1.3 In this paper, community governance is seen as being something more than simply the greater involvement of communities in decision making which was formerly the prerogative of central or local government. Instead, community governance is seen as the process of communities themselves deliberating on, determining and pursuing their preferred future(s) in the specific recognition that government (central or local) is only one of the available means through which the community may work even though, as we shall see later, local government's role as an enabler may play a critical part in the practice of community governance.

1.4 Interest in community governance is increasing against a background of distrust in or indifference to government at its various levels. Last month the National Academy of Public Administration[1] published "*A Government to Trust and Respect: Rebuilding Citizen Government Relations for the 21st Century*". The foreword to that report noted the sharp decline from the mid 60s to the mid 90s in the proportion of Americans who trust government "to do the right thing most of the time" and commented that "citizens are frustrated with what they perceive to be the poor performance of government, and troubled by what they view as the absence of effective public leadership".

1.5 In March 1999 the UK Government published *"Local Leadership, Local Choice"* setting out proposals for modernising local government. That paper included statements such as "there should be real local interest in what the leaders of the community are doing and planning for its future. There needs to be trust between those elected to represent and lead communities, and those who elected them and whom they serve. If communities are to have the leadership they need, then people need to identify with the way they are governed" and went on to recall that in an earlier white paper the government had made it clear that "it wanted to see councils move away from their present ways of working which are failing the people they serve".

1.6 In New Zealand, it is common for writers on politics to argue that trust in politicians has reached something of an all-time low. As a recent example, Gareth Morgan writing in the National Business Review for 30 April 1999 ("*What Has Happened To Ethics In Business*") put business people in context with the following comment:

"Polls tell us politicians are the least respected people of all. Not far from that bottom ranking are business people. In the melee known as the Tourism Board affair there have been some disturbing displays of incompetence and low moral or ethical standards. Such poor form makes Tau Henare's call for similar from errant beneficiaries, while petulant, understandable. His charge of what's good for the goose... has a resounding ring of requitative justice to it"

1.7 These are example of concerns about trust in government from developed countries. There is an equal if not higher concern about the quality of and trust in government (both central and local) in developing countries. The World Bank work programme on governance has concentrated not on issues of structural design and the separation of function, which preoccupies politicians and advisors in developed countries, but on eliminating corruption. A second concern for people involved in development administration is the capability of governments. All too often, it seems, governments in the developing world, both central and local, simply lack the human capital or institutional resources to deliver the services which their citizens should be entitled to expect.

1.8 Another factor driving interest in community governance, especially at the local level, is the growing awareness of the need to bring together the different influences affecting governance of the community ranging from the decisions made by central government agencies on how to deliver services, which of their very nature must be adapted to local circumstance, to the impact of a range of other public bodies (community trusts; energy trusts; licensing trusts), to the effect which private sector services can have. Financial services provide an example of this latter concern as banks and insurance companies adjust to an increasingly competitive environment, created by changes such as those in information technology.

1.9 Declining trust in government, and concerns about capability, are not the only influences. There is a recognition that we have moved on from the days when it seemed quite reasonable for governments to claim not just to know what outcomes were best for all of their citizens but the power to achieve those. Today, the power of national governments is being rapidly diminished by influences such as new technology, the freeing up of trade and capital markets, the increasing mobility of firms and labour - especially the skilled labour on which future prosperity depends - and a growing network of international treaties. Paradoxically, in many of the areas which most concern our citizens, local or regional government may now have more real power than central government. This was expressed in a paper presented at a recent World Bank conference as "with globalisation, it is increasingly becoming apparent that nation states are too small to tackle large things in life and too large to address small things".

1.10 These various strands underpin the growing interest in community governance and, as we shall see in the next section of this paper, a shift away from the conventional view that governance is something done by governments (whether central or local) towards one of putting the community at the centre of the governance process with government, especially local government, acting in an enabling role.

2 Government and Governance

2.1 It is perhaps natural that the first response to the recognition that there are growing limits on the capability of central government to deliver the wide range of outcomes which citizens have come to expect is that some other level of government should step in to the breach. In the area of small things[2] it is unsurprising that the natural response should be to view local government as the party best placed to fill the gap. Thus, in its March 1999 white paper *"Local Leadership, Local Choice"* the Blair Labour Government sets out proposals for restructuring local government in a framework which assumes that, at the local level, governance is something undertaken by local government for its community. In discussing different options for the future structure of local councils, the paper comments "the result of these arrangements would be that a council will need to put in place a form of local government that commands support from its citizens ….Only if local people failed to support a new form of local governance in a referendum could a council retain its traditional ways of working".

2.2 The discussion of local governance in "Scenarios for Local Government to 2010"[3] under the heading of Local Governance took for granted that this was a discussion about the way in which local authorities "go about doing their business".

2.3 On this approach, which is certainly the conventional way of thinking about the role of local government (or for that matter central government on matters

within its purview) governance is simply what a government does, acting on behalf of its community to achieve preferred outcomes (the selection of which may sometimes have resulted from community input but is at least as likely, under the conventional model, to have resulted from a top down exclusionary process).

2.4 As we have seen in the previous section, the emerging approach now is to treat community governance as something that the community itself does, with local government undertaking an enabling role. The following paragraphs look at some of the international background to this new approach.

2.5 One of the influences behind this approach comes from work in the area of development administration looking at the capability of governments, particularly in an urban environment. In this context, it is common to observe situations where some form of collective action is needed to achieve outcomes which have a very high priority for the community but where the formal instruments of government lack the needed capability. In this environment, the distinction between governance as community process and government as a means readily becomes apparent. One recent writer[4] describes what she has found in these terms:

> "When governance, defined as the *relationship* between civil society and the state, is considered at the local level, a notion of urban governance helps to shift thinking away from an equation with good government and, more generally, from state centred perspectives that have predominantly focused on urban management. An urban governance framework allows us to include elements which, in conventional terms, are often considered to be outside the public policy process, but none the less are instrumental in the socio-economic and cultural development of third world cities, and highly responsible for shaping the urban landscape and built form of these cities. These include civic associations, "illegal" operators, "informal sector" organisations, community groups and social movements, all of which in fact exert an indelible impact on the morphology and development of urban centres"

2.6 The same phenomenon can be observed in a somewhat different way from a perspective which sees government as just another interest group. This is another of the shifts which have taken place since the days when it was common to have confidence in government. It is probably no exaggeration to say that we have moved from a time when we used to see government as part of us to a situation in which it is increasingly common to see government as "them"; a group with its own objectives and priorities which do not necessarily coincide with ours and which may indeed conflict with the views of wider society.

2.7 This perspective informs the description of governance developed by the Governance Co-operative[5] as:

> **"Governance has to do with the institutions, processes and traditions for dealing with issues of public interest**. It is concerned with how decisions are taken and with how citizens (or stakeholders) are accorded voice in this process. The need for the concept of governance derives from the fact that today, government is widely perceived as an organisation. In its early form government was seen as a process whereby citizens came together to deal with public business….Today, government is viewed as one of several institutional players, like business or labour, with its own interests. …The emergence of government as a free-standing organisation in society

with its own agendas and interests has created the need for a word to describe a process distinct from government itself."

2.8 This allows us to form a concept of community governance as the process of the community deliberating on, determining and pursuing its preferred future(s). It is a concept which does more than just recognise that governments (central or local) may not always act primarily in the interests of their communities or have the capability of achieving the outcomes the community desires. It is a concept which also recognises that, in today's world, the achievement of a number of what may be community priorities requiring collective action may lie well outside the proper role of central or local government. As we have seen, the increasingly competitive environment within which financial institutions (banks; insurance companies) now operate is forcing a concentration on localities and customers who are individually profitable and who are able to deal with institutions on a least cost basis, something only possible if the customer has access to information technology. The inevitable consequence is a withdrawal of services from smaller communities and less well off individuals.

2.9 There is a recognition that structuring your business to accommodate these changes is a rational and perhaps inevitable response for an individual financial institution but one which has the potential, collectively, to be disastrous if the result is that a significant proportion of the population end up being denied access to financial services.

2.10 Work is now moving ahead on developing collective responses capable of creating new means of access which will probably arise as the result of between commercial entities and the community.

2.11 This is but one example of a process which, interestingly, is something of a throw-back to the 19th Century interest in the development of co-operatives, something which largely passed New Zealand by (other than in the agricultural sector) but which has seen quite major development internationally in areas such as access to credit, housing and employment.

3 Changing Perceptions of the Role of Local Government

3.1 Local government in New Zealand developed primarily as a means of enabling the creation of local infrastructure (roads, river control works, harbour works) in situations where the power to tax was seen as an essential prerequisite to the provision of necessary infrastructure. Theoretically, all of these services could have been seen as private goods capable of being delivered through contract between providers and potential end users. In practice, transaction costs (the costs of developing, monitoring and enforcing what would have been a very complex series of contracts) and free rider problems - the risk that some individuals would hold back in the belief that they could enjoy the benefit without voluntarily agreeing to pay the costs - ruled out private provision.

3.2 Over the years local government has expanded into other areas of activity, notably the provision of arts, culture and recreation services and facilities and the administration of local regulation but infrastructure still remains the core of the business, at least in terms of revenue, expenditure and the composition of the typical balance sheet.

3.3 In contrast to England, there was never any real suggestion that local government should play a major role in the provision of social services. The abolition of the provinces saw education placed firmly with central government.

The part funding of New Zealand's public hospitals (and their related welfare activities) through rates finally disappeared with the creation of the welfare state by the first labour Government.

3.4 As a consequence of the way in which the two different tiers of government evolved, for many years we had an accepted understanding that local government was responsible for local infrastructure, arts culture and recreation at the local level, and a range of regulatory activities best delivered locally. Central government had responsibility for major social services, income redistribution, economic development and the classic central government functions of defence and law and order. From time to time there was some blurring at the edges (as with housing) but this was usually on the basis that local government was acting, substantially, as agent for central government.

3.5 This allocation of functions fitted within a perception of New Zealand as an homogeneous society. It was entirely appropriate that responsibility for defining and putting in place measures to pursue desired social outcomes rested with central government.

3.6 Evidence of how entrenched this view had become can be seen from one response to the publication in 19 of "*New Zealand at the Turning Point*" a study prepared by a task force led by (now) Sir Frank Holmes with the brief "to study previous experience with planning in New Zealand and to recommend an institutional framework to meet present-day requirements for planning." That report raised the possibility of establishing regional government in New Zealand. It attracted a letter from the then head of the Department of Social Welfare totally rejecting the suggestion on the grounds (amongst others) that we were an homogeneous society - New Zealanders drank the same beer, played the same rugby and watched the same television.

3.7 Those days have gone. We recognise that there are major differences between New Zealand's regions, culturally, economically and socially. Depending on our perspective, we variously speak of New Zealand as a bi-cultural or multi-cultural society.

3.8 We are also seeing a breaking down of the traditional roles of both local and central government. I have earlier spoken of the impact of trends such as globalisation on central government. At the local level a different set of trends is having an equally dramatic impact. It is no longer automatic to see the provision of infrastructure services as the primary function of local government. Some (electricity) have been corporatised and, to varying degrees sold off. Others, such as roading and water and wastewater face the possibility of corporatisation or more radical change.

3.9 Regardless of whether change actually proceeds in those areas, I think we all now recognise that the way that local government approaches these services has changed forever. We now draw a sharp distinction between physical provision on the one hand and the question of setting standards, defining service quality, and monitoring performance on the other, thus raising the possibility that physical provision may quite acceptably be undertaken by others (even if those others are only consortia of local authorities seeking economies of scale).

3.10 This is, if you will, a shift away from outputs towards outcomes - what quality of service and related quality of life do local government's communities want.

3.11 At the same time as local government's relationship to its own functions is changing, so is its relationship to those traditionally undertaken by central

government. Most councils now find that their citizens now want them to intervene on their behalf with central government in areas such as health, welfare, employment and economic development. The following statement from "outstanding Auckland "the 1996 review of the Auckland City Council city plan, is typical of how many local authorities now think about their changing role:

"Increasingly, the role of local government will be centred on democracy, advocacy, leadership and working with others to supply services and activities"

3.12 It seems a reasonable prediction that the role of New Zealand local government is shifting away from a primary emphasis on service delivery towards one of working with its communities to enable the achievement of its desired outcomes across a very wide spectrum - economic, social and cultural.

3.13 Although the New Zealand government still seems, at best, ambivalent about this development its equivalent is being actively encouraged in the Blair Labour Government's current initiatives for the reform of local government in England. The white paper "*Modern Local Government: in Touch with the People*" includes among its list of items for "Action Now" the recommendation that councils should develop a strategy for promoting the economic, social and environmental well being of their area setting out the strategic priorities for their area and the contribution of each of the key contributors." This recommendation is complemented by a commitment (in the discussion paper "*Local Leadership: Local Choice*") to legislation including "new duties for councils to promote the economic, social and environmental well being of their area".

4 Recent New Zealand Developments

4.1 In the previous section I looked at some of the influences which are changing the role of local government. These have helped set the context for the shift towards a community governance mode. In this section I look at recent developments in New Zealand, which, in my assessment, are both creating the tools needed for community governance and highlighting the importance of moving to this mode.

4.2 New Zealand's local authorities now have one of the most comprehensive set of statutory requirements for reporting and accountability of any country. The present framework was imposed rather than sought by local government and was driven by (at least) two separate motivations.

4.3 The first, reflected in the 1989 amendment to the Local Government Act, which introduced the annual plan/annual report cycle and required local government to adopt accrual accounting, was part of a wider concern government had to improve transparency and accountability in the public sector. To a large degree, the 1989 amendments followed the spirit (and sometimes the letter) of the State Sector Act 1988 and the Public Finance Act 1989.

4.4 The further strengthening of reporting and accountability requirements introduced by the Local Government Amendment Number 3 Act 1996 (the "No 3 Act") had a different motivation. Its primary purpose was to place constraints on what was seen as the freedom of local councils not just to spend rate payers money without what critics saw as adequate justification, but to exercise what were seen as arbitrary decisions on who should pay through the manipulation of rating differentials which business critics saw as driven by electoral considerations as councillors sought to grant benefits to voters (residents) at the expense of non voters (businesses). It is a matter of record that the original draconian intention was substantially watered down by the inclusion of a series of provisions which left

local authorities' discretion relatively untouched so as long as they followed due process in making their decisions.

4.5 For my purposes the most significant effect of the No 3 Act was the requirement to prepare a long term financial strategy. That requires a local authority to state, for a period of not less than ten years, matters such as:

- the estimated expenses necessary to meet the needs of the local authority over the period of the strategy
- the rationale for involvement in the activities giving rise to those expenses
- its proposed sources of funds, forecast cash flows and balance sheets
- the assumptions on which the strategy is based and contingencies that could affect it.

4.6 Necessarily, the focus of the LTFS is on what facilities and services will the local authority need to have in place in order to meet the requirements of other actors within the community (residents; businesses; visitors; central government; voluntary agencies). What this amounts to in practice is a requirement to prepare a strategic plan for the district so that the local authority can have an informed understanding of the matters for which its long term strategy will need to make provision.

4.7 I see this as a fascinating example of the law of unintended consequences. Legislation whose initial purpose was clearly to restrict the activity of local authorities has had the practical consequence of requiring them to operate a planning mechanism not just for their own activities but for those of the district as a whole. To put it another way to develop one of the key instruments required for the governance of the district.

4.8 Part of the significance of this is the impetus it gives to the development of legitimate process - process which can be accepted by observers as having made adequate provision for the views of different interests to be expressed and taken into account. As an observer of local government, I would be one of the first to argue that there is still much to be done. The initial expectations for public consultation, when the special consultative procedure was first introduced, have been clearly disappointed, especially when consultation has been seen as the equivalent of a referendum. However, I also believe that local government not only recognises that those initial expectations have been disappointed but also accepts the need to deal with that. There are a number of different initiatives emerging across the country which show the potential to adapt a relatively rigid statutory process to the needs of effective consultation.

4.9 To conclude this part of this section, I argue that what the 1989 and especially the 1996 legislation has done is to create a set of tools which a local authority is now able to use on behalf of its community as a means of recording the community's views on its preferred future(s) and how to achieve them. Note the emphasis on the community's views rather than the local authority's. In effect I am arguing that the planning and accountability process is shifting from being a means of compliance imposed on local government by central government to becoming a set of tools held in trust by the local authority, to be used on behalf of its community.

4.10 The second significant development is the growing recognition both within local government, and within its communities, of the roles played by other locally based public bodies in the governance of the community. Examples include trust bank community trusts, energy trusts and licensing trusts. Collectively, these trusts now manage assets with a value in excess of $5 billion. Their decisions on

how they distribute their income, manage their assets or place their investments can now have as great if not greater an impact on the well being of the community than the decisions of the local authority itself.

4.11 As understanding of their influence and potential grows, so does concern that decisions they take should be embedded in a process which is both responsive and responsible to the community.

4.12 This highlights, in a very practical way, the difference between community governance and local government. The case for a greater degree of community input into the activities of these trusts is overwhelming. But equally, it is clear the need is for community input, not local government oversight - there is little merit in arguing that this particular situation should be addressed by handing control of these various trusts to the local authorities for the districts which they serve. Instead, what is required is a common approach which recognises that both the trusts and the local authorities are acting on behalf of the same communities in addressing the governance needs of those communities.

4.13 At the same time, it is also important to recognise the complementary resources of the various bodies. Typically, local authorities have a significant research and analytic capability, along with a well established reporting and accountability process. On the other hand, most local authorities lack significant capital resources (other than those already committed to existing infrastructure). In contrast, trusts have significant discretionary capital resources which (subject to meeting such things as rate of return criteria), have clear potential in areas where the community needs capital but cannot readily access it from outside.

5 Conclusion: Towards Community Governance

5.1 We are at the early stages of a new understanding of the nature of government, both central and local. For a variety of reasons, some of which have been canvassed in this paper, power and influence is shifting away from central government. At the local level, the result can be seen as a vacuum or as a opportunity.

5.2 What is emerging is a growing understanding of the difference between government as a means and governance as a process. In turn, this is building an understanding of community governance as a model in which the role of the local authority is that of enabling community governance by providing much of the infrastructure and resource (research, advocacy) which the process requires. In a sense there is a parallel with the circumstances which lead to the creation of local government in New Zealand more than a hundred years ago. Then the need was for collective action to deal with infrastructure. Today the need is for collective action to deal with the community's needs in more difficult areas such as the nature and quality of the social, economic and cultural outcomes which contribute to the community's well being but which can only be realised effectively through collective action.

5.3 It is a model which can provide the strongest rationale yet for local government as a central part of New Zealand's constitutional arrangements and the main instrument through which our communities plan for and achieve the futures they seek.

5.4 Development of the full potential of community governance will require more than just the insight to understand the possibilities, and the development of the formal and informal tools (planning processes, consultation, networking, research and policy analysis) needed fully to enable community governance. It will require

a degree of tolerance and understanding amongst the different participants ranging from community activists, to ordinary citizens, to special interest groups such as business, to the different partners in New Zealand's emerging bi or multi-cultural society (both the principles of the Treaty of Waitangi, and the process of decision making within Iwi and Hapu clearly have an important part to play). It will also require a willingness on the part of entities such as central government, local government and the various trusts who now play an important role in community governance to recognise that the community governance model is not a zero sum game but an opportunity to increase the effectiveness with which each of them carry out their respective functions.

FOOTNOTES

1. NAPA is an independent non-partisan organisation chartered by the US Congress to assist Federal, State and Local Governments improve their effectiveness, efficiency and accountability.

2. a purely relative term; it clearly includes such things as health, education and welfare services, employment and economic development at the local or regional level.

3. The discussion paper on the future of local government released last year jointly by Local Government New Zealand, the society of :Local Government Managers and the Department of Internal Affairs.

4. Professor Patricia McCarney of the University of Toronto.

5. a grouping of major Canadian governmental and non-governmental agencies with an interest on development administration.

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