

Local Government in the Australian Country Town: New Challenges in the 21st Century

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Introduction

Australian local government is an established arm of Australian government. Its geographical proximity to local communities and towns suggests that local government is well placed to 'strengthen' these communities and assure their sustainability. In this paper we argue that the legislative and financial context within which local government functions - being highly dependent on state and Federal governments - does not encourage local government to take a proactive stance in the process to strengthen their community (as this process is currently defined by state government). We argue that, on the one hand, local government is encouraged through specific purpose state government grants (which are not available to all Victorian councils) to adopt strategies which actively strengthen their community's capacity to manage change. On the other hand they have been restrained in deliberate community strengthening activities because of the public management approach imposed on them by the state and Federal governments, which is compounded by ongoing resource constraints through cost shifting to local government and increasing proportions of tied funding through revenue sharing to local government. We argue that it is only when this bigger picture of public sector management change and intergovernmental financial relations is taken into consideration that we get a more accurate understanding of the likely success of the myopic package of community strengthening strategies currently being implemented by the Victorian State Government.

In this paper we first discuss the strategy of community building, or capacity building as it is also referred to, and the Victorian Government's approach in particular, before reviewing the managerial context in which local government now operates. Local government's dependence on state and Federal government funding is then discussed in the light of the Review of Commonwealth-State Funding by three state governments and the Federal

Parliamentary inquiry into cost shifting and local government. We raise questions indicating how local, state and Federal governments can work together to create an approach to local community strengthening that is central to the local government role, questions which see them fully competent and capable of performing. We also question local government's preparedness to evaluate its own performance within a wider strategic framework that accounts for the possibility of leading community strengthening activities. We conclude that the Victorian Government's policies and strategies for community strengthening through local government do not fit well with the managerial, legislative and fiscal reality that local government operates in in Australia today. Our view is that under the current legislative, managerial and fiscal arrangements it is unlikely that local government will take community strengthening to heart as advocated by the Victorian State government. We agree that it is a proper role for local government as rural towns and regions meet the challenges of a changing world.

What is Community Strengthening?

Community strengthening and community capacity building are now part of the rhetoric of state (Broad 2005, Department of Victorian Communities 2005) and Federal government (for example, see RIRDC 2005). A cursory view of Victorian local government web sites does not reveal that this lexicon has made its way into the council planning process and plans. This is ironic, as we note above, local government is the level of government closest to the people and we might reasonably expect that they will have the greatest interest in building their local communities, especially those in relatively isolated country towns. We argue that local government has not adopted this thinking, which is more closely controlled by the State Government, and, as the Cost Shifting Inquiry discussed below reveals, local governments have limited and declining resources which are largely committed under the New Public Management regime (NPM). They are reluctant to engage in programs to strengthen their communities because of these factors. We also identify below that community strengthening types of activities are not in local government's area of responsibility; therefore they lack the skill sets and competence to effectively deliver such programs.

In Victoria, the state with which this author is most familiar, the current government has embraced the rhetoric of social capital (Putnam 2000) and community well-being. It has funded a range of community strengthening and capacity building initiatives across a selection of communities to identify how to implement such strategies and to measure the benefits that accrue from such efforts. The Victorian government defines community strengthening as:

‘a process whereby communities, government, business and philanthropy work together to achieve agreed social, economic and environmental outcomes. It works by government listening to what local people believe could improve their community and sharing ideas about how these changes can be achieved. Community building can be relevant to any community but often targets communities that are characterised by inequity and disadvantage.’ (Department of Victorian Communities 2004).

The Department of Victorian Communities goes on to note that it ‘is not about more funding but about better use of existing resources. Community strengthening:

- Engages local people in a shared vision for revitalising their communities
- Develops a range of community initiatives and projects to achieve long-term positive change
- Builds local skills and knowledge to increase participation in community life and improved delivery of services locally
- Increases opportunities for positive social interaction within communities

- Improves understand, value of, and utilisation [of] community assets and strengths. (Department of Victorian Communities 2004).

These are noble aspirations for any democratic state; determining where communities are at in terms of these criteria and assessing the degree to which they change as a result of a community strengthening intervention is a much more difficult position to determine. Herein lays many of the institutional issues facing all levels of government as they work to strengthen communities reflecting the need to develop their regional ability to respond the economic and community development. A central government driven community strengthening strategy can be seen as a part of the regional place-based economic and community oriented policy development referred to as ‘new regionalism’ (see Wood and Valler 2004 for an extensive critical analysis). Critics of the decentralisation, or regionalisation strategy of central government (Herbert-Cheshire 2000), suggest that it can become an abdication of state level responsibility if it is not adequately structured and resourced, especially with people who understand the basis of this approach and who have the ability to facilitate the change required.

In addition the Victorian Government has articulated a set of principles for changing the way in which they will work with local communities. They are:

- ‘Client focussed – viewing the world through the lens of clients
- Place – creating a single face of government at the local level
- Enabling – emphasising the role of government as facilitator and enabler
- Subsidiarity – devolving service planning and delivery locally
- Partnership – developing cross-sectoral approaches between government and the corporate sector around a joint approach to social responsibility
- Local capacity and leadership – harnessing the capacity of local leaders and entrepreneurs. (Blacher 2005)

These are heady principles indeed, an ideal that people in local communities would also wish for in their aspiration for local autonomy and control. That the Department of Victorian Communities should publish such an aspirational set of principles is to their credit. The challenge of bringing them to action through local government is much greater. We (Martin 2004) have highlighted elsewhere Salvaris’ (2004) questioning of whether there has been ‘active collaboration’ with local government about its role in community strengthening. He claims that the ‘Community Building/Strengthening program of the State government is well short of maximising the opportunity of historic control of the Upper House, popular support, a strong resource base simply because it is:

- Not strategically coherent (but still a series of loosely linked pilot programs carried out at different levels);
- Seen and funded as an add-on special program and when funds run out and fashions change, it will fade away;
- Not sufficiently understood and supported in the government;
- Not built into government where it matters: across departments, into government culture, into the budget;
- Currently lacking in wider community support (though potentially it could have much more);
- Perhaps most importantly, it has no sufficiently strong and legitimate, ongoing vehicle in the Victorian community to operationalise and carry it forward as a long term, state-wide strategy.’ (Salvaris 2004, p. 56)

Salvaris suggests that ‘there is one obvious and immediate solution, again under the government’s nose. This is the potential role of an enhanced local government sector as the prime vehicle to carry community building throughout the State.’ (2004, p. 56). Clearly his view is that local government is not a close collaborator, but has the potential to be so. Given

the Victorian State Government has been searching for ways in which it can work with local communities to build their capacity, strengthen their relationships to make them more resilient to the external shocks they encounter the question has to be asked why hasn't local government become a more active partner in the community development opportunities presented by the State? Worthington and Dollery (2000) provide some answers to this question. They ask whether Australian local government is mandated to play a role in community capacity building. They conducted a comprehensive review of the functions performed by Australian local government and concluded with three telling observations that question Salvaris' optimism for local government. The first is that Australian 'local governments are responsible for a relatively narrow range of activities than in most comparable economies' (Worthington and Dollery 2000, p. 359). They note that when compared to other federations, education, health, public order and safety and other welfare functions are carried out by state governments, which is what we are seeing here with the Victorian State government sponsoring community strengthening programs. The second point of comparison made by Worthington and Dollery (2000) is that Australian local government plays an active role in housing and community services and recreation and culture and through these the ability to influence the 'sense of place' (citing Bolton 1992) in their communities. When local governments' role in regional development, local roads and infrastructure, town planning and building regulation is taken into consideration they have significant place-based influence in community building. The final point Worthington and Dollery (2000) make is that there is considerable diversity across Australian local government, not only between states but also within states between urban, rural and remote councils. There are also significant cultural, leadership (Martin and Simons 2002) and administrative differences (Kloot and Martin 2001, 2002) which impact on a council's preparedness and ability to undertake community building activities of the kind being implemented through the community strengthening initiatives.

As Worthington and Dollery (2000) note local governments are not set up to run community building initiatives like the CCBI. That is not to say that they cannot do this. They are not resourced to do it – in both revenue and skill sets. Importantly the recent history of cost shifting (Martin 2004) discussed below discourages the bravest amongst them for fear that they will once again be left with an unfunded program that the community expects them to carry.

The institutional and fiscal context in which local government exists

The recent philosophical position of New Public Management (NPM), which has matured over the last two decades, has established the relationship between Australia's three spheres of government, and this now significantly impacts the way local government delivers local services. Nationally the New Competition Policy (NCP) legislation provides the administrative framework within which all spheres of government provide services according to NPM principles. The recent *Inquiry into Local government and Cost Shifting* (CSI) (Standing Committee on Economics, Finance and Public Administration 2002) provides a salient analysis of the institutional and fiscal position of Australian local government in the light of this new managerial context.

New Public Management and National Competition Policy

The principles of New Public Management (NPM) are now a central part of the policy debate on the structure and process of the three spheres of Australian Government. Hood and Jackson (1991) introduced the concept of NPM. Hood subsequently suggested it encompassed doctrines of:

- corporatisation of public sector units

- a shift to greater competition between private and public sector organisations and between public sector organisations
- a move towards private sector management practices
- a move to discipline and parsimony in resource use
- a move to explicit and measurable standards of performance
- preset output measures (Hood 1995)

Most noticeably NPM is reflected in the Federal Government's National Competition Policy (NCP). In discussing NCP and local government the National Competition Council (NCC) outlines the reforms as follows:

1. The extension of Trade Practices laws prohibiting anticompetitive activities (such as the abuse of market power and market-fixing) to all businesses, including government businesses.
2. The introduction of 'competitive neutrality' so that privately-owned businesses can compete on an equal footing with those owned by government.
3. The review and reform of all laws that restrict competition.
4. The development of a national access regime to enable competing businesses to use nationally significant infrastructure.
5. Price monitoring for all significant government businesses that have a market monopoly.
6. Specific reforms to the gas, electricity, water and road transport industries. (NCC 2000)

The NCC has assisted local government by codifying competitive behaviour for the different types, or categories of business relating to the services delivered by local government (Trembath 2002). These categories typically relate to the scale of government business with the implication being that smaller local governments in remote locations would not be subject to the same competitive regimes set for their larger urban counterparts. Ironically it might loosen the ties on local government in remote Australia enabling them to explore innovative and entrepreneurial strategies to ensure the future of their country towns.

Barzelay (2001) concludes that NPM is a field of discussion 'largely about policy interventions within executive government. The characteristic instruments of such policy interventions are institutional rules and organisational routines affecting expenditure planning and financial management, civil service and labour relations, procurement, organisation and methods, and audit and evaluation' (p. 156). The debate about NPM in Australia has more often been concerned with the philosophical basis of the structures and processes which are seen to result. Thus the rhetoric of NPM includes a focus on performance, which in more recent times has emphasised performance relating to outcomes and has driven thinking about public sector reform well beyond debates about public or private vehicles for delivery of government services. Thus NPM is not without its critics. Cetinic-Doral (2000), for example, suggested that by trading off social benefits the corporate approach to local government has resulted in a paradigm which has immoral consequences.

In this paper on the role of local government in Australia's country towns at the start of the 21st Century we cannot discount the impact of NPM beliefs and structures and processes that arise from policy instruments such as NCP. In Victoria, where this author undertook a review of local government after the extensive amalgamations and reforms in the mid 1990s (Martin 1999), 218 councils were amalgamated with their neighbours in various combinations to create new 78 councils. These new councils were managed by commissioners - professional administrators appointed by the State Government, were required to progressively subject increasing percentages (up to 50%) of their operating budget to competitive tendering, cut their rates by 20% in the first year (on the belief that economies of scale would immediately accrue to the newly amalgamated councils), and annually cap rates at 1% less than the official rate of inflation. These were dramatic changes watched with interest by other state

governments all of whom introduced changes in their own local government system following the principles of NPM, and the requirements of NCP. The only recent analysis of these changes has occurred in the comprehensive review of local government and cost shifting by the Australian Parliament's Standing Committee on Economics, Finance and Public Administration (2002).

Intergovernmental Financial Relations

The Commonwealth Government *Inquiry into Local government and Cost Shifting* (CSI) (Standing Committee on Economics, Finance and Public Administration 2002) highlighted areas for review into the Australian system of local government. The *Inquiry* provides important lessons for both established and developing federations on the most effective way to manage and develop this important level of government. This paper highlights important issues from submissions to the CSI, and the recently completed *Review of Commonwealth-State Funding* (CSF) (Committee for the Review of Commonwealth-State Funding 2002). The latter a review of intergovernmental revenue sharing initiated by three state governments is independent of the Commonwealth Government inquiry.

Intergovernmental revenue sharing in Australia has long been a source of tension between Commonwealth, State and Local Governments (National Inquiry into Local government Finance 1985, Dixon *et al* 1993, Mathews & Grewel 1997, Dollery 2001). This has been an issue for other federations and the debate about the revenue allocation process and the outcomes is extensive (Buchanan 1950, Boadway & Flatters 1982). In 2002 the Commonwealth Minister for Local government in the Liberal-National Party Government established the CSI. This occurred around the release of a draft report reviewing CSF sponsored by the Australian Labor Party in power in New South Wales, Victoria and Western Australia. The Final Report of the CSF shows that the Commonwealth Government is providing proportionately less revenue to the States, and the proportion of untied grants versus Specific Purpose Payments (SPP) is shifting in favour of the SPPs. In a federal system of government, where the conservative Liberal-National Party coalition is in power at Commonwealth, or national government level, and the social democratic Australian Labor Party (ALP) is in power in all Australian states the submissions to the CSI, and the Final Report from the CSF show how the political imbalance between the Commonwealth and State Governments challenges the equalisation principles on which the Australian system of intergovernmental revenue sharing is based.

The CSI and the review of CSF surface many issues relating to the effectiveness of intergovernmental revenue sharing in Australia. Typically, these issues have been overlooked by all levels of Australian government, and include the expectations higher levels of government have on subordinate levels of government (in terms of revenue sharing) and the way in which local government measures its performance in relation to revenue sources and the performance expectations of state and federal governments. The many submissions to the cost shifting inquiry provides evidence on the changing role of Australian government, at all levels, as well as an understanding of the increasing complexity of intergovernmental financial relations in Australia's federal system of government. This paper draws on information provided by the CSI and the CSF to highlight the impact the current polarized political constituency between Commonwealth and State Governments is having on Australian local government and raises questions for all three levels of government about what the latter has to do to counter the impact of the diminishing cooperation between the two higher levels of government.

This paper also argues that local government must adopt performance management systems that allow them to demonstrate value for money services and the effective use of revenue allocated to them by higher levels of government. Without such a system of performance management local government is at the beckon call of higher levels of government, as they

are unable to respond to incremental shifts of diminishing revenue. Unless local governments have such performance systems in place it is only after some time that they realise the impact of this trend, being denied the revenue required to provide the services expected of them by higher levels of government and their community, putting them in a poor position to respond, both administratively and politically.

The Inquiry into Local government and Cost Shifting (CSI)

The empirical evidence presented in a number of submissions to the CSI confirms that cost shifting from state to local government has occurred, most noticeably from the mid 1990s. The Department of Transport and Regional Services' (DOTARS) submission to the Inquiry provides a comprehensive analysis of the nature and degree of change in Australian Local Governments sources of revenue. Interestingly, from the over 260 submissions posted to the Parliamentary Committee's web site (Parliament of Australia) one of the submissions that contained the most comprehensive account of the diminishing proportion of revenue from state governments to local government came from DOTARS. This was not surprising given their access to Commonwealth Grants Commission data, and the fact that none of the state governments have so far provided aggregate financial information relating to revenue sharing to the Inquiry. Specifically, DOTARS (Table 2.5, p 23) cites CGC data (CGC Review, 2001, p.50) showing that from 1974-75 to 1997-98 Commonwealth funding to local government increased from 10.5% to 12.1%, while state funding declined from 14.8% to 7.1%. Local governments' own efforts in revenue generation in this same period increased from 74.7% to 80.8%. This change in the source of local government revenue does impact on an individual councils ability to deliver efficient and effective services. Of concern to local government managers is the ability of council organisations to provide relevant, value for money services such that these organisations are sustainable, over the long-term.

This diminishing proportion of revenue from State Governments to local government was compounded over the latter half of the 1990s when state governments placed increasing requirements on local governments for additional service delivery. These requirements are reported on in the many individual local government submissions to the CSI. Characteristically, the information provided by local governments in their submissions to the CSI lack empirical rigour. Therefore there is no aggregate information on the exact nature of what is being asked of them, and thus cost shifting. Surprising as this may seem there are reasons for this, which relate to the nature of performance management systems in Australian local government.

It is clear from the information provided to the CSI that state governments have, since the mid 1990s, used their legislative power over local government to require them to deliver a wider range of higher quality services to local communities, without a commensurate increase in financial resources. While local governments across Australia have responded by improving their productivity many now claim that if state governments continue with this trend of devolving service delivery responsibilities to them without commensurate resourcing they will become financially unsustainable. Equally the three state government funded Review of Commonwealth-State Funding has identified that an increasing proportion of funds from the Commonwealth to the States are now dispersed as Specific Purpose Payments (SPP) as opposed to the traditional per capita based untied allocation through the Commonwealth Grants Commission (CGC).

The Review of Commonwealth-State Funding (CSF)

This Review was commissioned by three State Governments; New South Wales, Victoria and Western Australia. These States are ‘donor’ states as determined by the CGC. Table 1 shows the Australian States’ share of general-purpose grants over the past twenty years, and the reasons why these three states would be interested in sponsoring such a review.

The Review of CSF notes the ‘extreme complexity of the actual methodology applied’ (p. 52) to the determination of each states allocation. The CGC calculate each State’s expenditure needs

‘on many indicators of demand and cost of services, including population size and age structure; income; indigenous population; degree of low English fluency; number of welfare recipients; community size and remoteness, isolation from other States; use of public versus private services; wage rental and electricity costs; industry size; and road length.’ (p. 51)

Table 1: Relative per capita shares of general purpose grants (Australia = 100)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
1983-84 to 1987-88	79.4	79.7	109.3	117.8	122.3	147.5	208.2	551.9
1988-89 to 1992-93	78.8	78.3	107.0	118.5	126.6	149.6	190.9	595.3
1993-94 to 1997-98	83.7	84.7	103.6	104.4	119.7	161.1	115.5	586.9
1998-99 to 2002-03	84.4	81.6	102.9	92.9	128.5	186.8	128.1	611.5

(Source: Committee for the Review of Commonwealth-State Funding 2002, p. 53)

The CSF Review also notes that the data used in the CGC formula ‘are not available for the grant allocation year, [so] actual calculations are based on a rolling five-year average of data before the grant allocation year.’ (p. 52). This means that the rationale for allocation follows economic trends, having a delayed effect assisting states experiencing relative economic difficulty. While the CGC reviews its criteria and processes through a full consultation process, its allocation process is based on historical information.

The CSF Review highlights the increase in SPPs by the Commonwealth to State Government, ‘from 22% in 1942-43 to 50% in 1999-2000, before falling back to 40% under the Howard Government’s *New Tax System*’ (p. 59). In 2002-03 \$16 billion was paid directly to States for programs administered by them and \$5 billion through the States to be passed on to other bodies, principally non-government schools and local governments (p. 60). As noted above in our discussion of the CSI the proportion of Commonwealth funding to local government, from 1974-75 to 1997-98, increased from 10.5% to 12.1%, while State funding declined from 14.8% to 7.1%. This includes untied State Grants Commission allocations and SPPs.

Under the Australian Constitution the federal Commonwealth Government may grant financial assistance to any State as it thinks fit. This means the Commonwealth can use SPPs to, for example:

- Introduce programs reflecting Commonwealth wishes in areas of State constitutional responsibility (most SPPs)
- Impose or encourage national standards (eg free public health and vocational training standards (Review of CSF 2002, p. 60)

The Commonwealth Government is changing the balance of revenue sharing to local government, both directly and also through the states, from untied grants to SPPs. The long-term strategic issue with this change is that, increasingly, Commonwealth policy will come to dictate the nature and quality of services provided by state and local government.

State Government strategic choices

From the Department of Transport and Regional Services (2002) submission to the CSI, and the numerous submissions from individual local governments, it is clear that state governments have both reduced their contributions to local governments while at the same time asking them to provide more services without revenue support from the state, nor the ability to raise revenue via fees and charges for the service. If this situation continues more local governments will become financially unsustainable. There are important strategic choices facing state governments if their local government systems are to provide the right economic and social context for effective community development. We argue that while local governments will reluctantly accept direct political and managerial overtures from state government to participate in community strengthening they are unlikely to want to embrace these initiatives in an open-ended fashion, regardless of how convinced they are of the merits of the approach, simply because of this underlying fear that they will be left with a program with high levels of community expectations for which they cannot service once the state government withdraws support.

The strategic questions state governments must address if they are to have a viable local government system include: how do state governments determine the optimum amount of unfunded service delivery to devolve to local government? Do they know what the thresholds are, that is, the limits to which they can ask local government to take on this extra work before the organisation of local government becomes unworkable? How do state governments assess the institutional and organisational capability of local government to deliver?

The question of unfunded service mandates to local government can only be answered after states, and their local governments, have agreed on the role and function of local government. In all Australian States over the last 15 years local government legislation has changed to 'enable' local government to have a greater say in determining the nature of local service. This has occurred within a legislative framework where local government is required to regulate local development and planning as determined by state government legislation.

There comes a point in any organisation where revenue and expenditure must be in balance. For a local government to live beyond its means, to over extend its ability to resource services is a basis for state governments to dismiss an elected council and appointment an administrator. Equally it can be argued that it is gross impropriety for a state government to demand specific services be provided without ensuring commensurate resources. What are the financial thresholds within each local government, what is a reasonable request from state government to local government before the local government becomes unviable?

These are questions that both state and local governments need to address, together. If local governments are not measuring the performance of their service delivery is it reasonable for them to claim that they cannot take on unfunded mandates? If the state government does not have a clear understanding of the performance of every local government in their state, keeping in mind that state government is legally responsible for the role and functions of local government, is it reasonable for that state government to require local governments to deliver additional services? What mechanisms do they have in place to assess the institutional and organisational capability of local government to deliver? When both state and local governments have answers to these questions they will be in a better position to decide on the appropriate level of service, and the degree of revenue sharing and other financial support required.

Federal and State Government intergovernmental revenue sharing

Similar questions to state and local government revenue sharing relations can be asked of federal and state government revenue sharing, service delivery and role clarification. How do federal and state governments differentiate the performance requirements of different types of local governments, given there is wide variety in the types of local governments and their capacity to respond to requirements to deliver additional services, without commensurate resources? There are over 660 local governments in Australia, which are currently classified into 21 different types, covering diverse categories from capital city (a single category), developed metropolitan (containing four categories; small, medium, large and very large); regional town/city (also containing the four categories); fringe (with four categories); significant growth (a single category); agricultural (with four categories); and remote (with four categories). For effective local public policy this diversity in type of local government demands that a more systematic assessment of their capacity to absorb cost shifting by way of unfunded mandates be carried out.

The federal and state governments also have the facility to grant SPP to local government. As already noted these grants have increased as a proportion of total federal government grants to state and local government. To avoid the claim of political 'pork-barreling' federal and state governments will need to negotiate the optimum strategic resource allocation choices to local government, through both revenue sharing and SPP funding. The Federal Government is already committed to a review of the mechanisms of the Commonwealth Grants Commission with a review of the *Financial Assistance Grants (Act) 1996*. These decisions will need to be driven by effective analysis of intergovernmental revenue sharing and local government productivity performance.

Local government performance management

Finally, the attitude of individual local governments to performance management plays an important role in the process of ensuring equitable revenue sharing across the national system of local government. While higher levels of government will advocate a rational strategy for the basis of revenue allocation there will be local governments who will argue for relatively more, because of special needs. Notwithstanding their right, and responsibility, to ensure that the best case for their community is put forward, ideally this would be based on utilitarian principles where criteria are agreed upon, at least by the representative associations of state local government systems. Such an approach requires that local governments effectively monitor their revenue and expenditure over time correlating these with actual service delivery outcomes.

More specifically, what performance management systems guide state government to determine the effectiveness of local governments' service delivery capacity? How are local government's reporting to the state government, such that the latter is aware of the changing fortunes of each local government? Clearly the 'price sensitivity' for local government services will vary dramatically across each state and the national system of local government. How are local 'prices' determined and what is the connection with revenue sources?

As already noted, previous research into strategic performance management in Australian Local government (Kloot and Martin 2000, Kloot and Martin 2001, Kloot and Martin 2002) has focused on the way local government develops performance management systems that enable it to assess its performance against a range of criteria (such as the Balanced Scorecard approach) and the value manager's place on a comprehensive performance management approach. The inability of local governments to demonstrate cost shifting associated with the requirement to deliver unfounded mandates imposed by federal and in particular state governments highlights a deficiency in local governments' performance management that needs to be corrected if they are to counter this trend, informing both their community and higher levels of government that cost shifting is occurring.

Cost shifting is a phenomenon that has occurred because of the quest for ‘small government’ (Committee for the Review of Commonwealth-State Funding (2002) throughout the Australian system of government. Local government’s ability to carry out the additional functions imposed on it by state government, without the commensurate gain in resources, can also be credited to local government productivity improvement. It is clear that local government has become more productive, it has responded to community demand for more efficient and effective governance while taking on additional unfunded responsibilities. The key question is, how far can this cost shifting go (in some cases already too far?) before it becomes dysfunctional? There is an optimum position, where many local governments have achieved an efficient and effective delivery of local services. To push them beyond this point, demanding they take on more responsibilities without the resources may have dire consequences.

Local governments have a range of choices in responding to the politics of intergovernmental revenue sharing. These include highly political approaches to more technical-rational approaches based on the development of valid performance management systems that clearly demonstrate the nature and extent of cost shifting. We envisage that both approaches will play a role, at varying times, to decision making about intergovernmental revenue sharing. Therefore we advocate that local governments develop performance management systems that:

- measure the unit cost of service delivery, per service (and that the local government’s work be defined as services so that the recipient is also clearly defined);
- develop strategic plans which clearly identify desired outcomes (and that performance measurement be carried out to determine whether these outcomes, relating to services, were achieved);
- adopt management accounting techniques that enable a comprehensive assessment of services delivered, and the means by which they were delivered (the ‘balanced scorecard’ is a strategic performance management model that enables such an assessment); and
- actively report on their performance to their community so that there are few surprises in the community about the imposition of additional service delivery requirements by state government.

We would also argue that a transparent and accountable local government, dependent on state government for its authority and direction in an increasingly politicised system of intergovernmental revenue sharing, is the basis for a sustainable local government, over the long term. If the community is well informed as to the degree of unfunded mandates from state to local government then it becomes a state government political issue. The irony of local governments being secretive about the degree of cost shifting is that the community does not know where the authority lies and blames local government.

The submissions to the CSI make the point that local government needs to provide better information on their performance to assess the degree of cost shifting. Fitzgerald and Garnaut (Committee for the Review of Commonwealth-State Funding 2002) also acknowledge that this may be impossible in our current system of revenue sharing as they believe it encourages ‘game playing’ by officials at all levels of government as they deny the evidence of cost shifting and attempt to address the issue through political means.

The authority of local government is eroded and constantly challenged as a result of the changes outlined in Australia’s system of intergovernmental revenue sharing. When we overlay the policy initiatives broadly defined as community strengthening it becomes clear just how challenging it is for local government to respond to this new regime of local leadership.

Conclusion

There appears to be an inherent conflict in the public policy and management rules-of-the-game local government is required to operate by and the outcomes they are expected to achieve. They are an instrument of state government which corporately manages its own agencies, and therefore treats local governments in much the same light. In reality they have little autonomy and room to move. Given the need to raise more resources locally local governments appear overly cautious and guarded about new types of programs to build and strengthen community capacity. That there is little widespread evidence of this happening in Victorian local government confirms this position. For most this way of working is also not in their skill set as they are staffed by people whose whole training and development has been focussed on hard infrastructure development and maintenance – roads, rates and rubbish prevails.

To date the Victorian State Government has established pilot programs with minimal funding for all local governments to be involved in community strengthening and capacity building. Combined with the lack of skills and insight into these processes in local government it will be a major challenge for state governments who aspire to devolve autonomy and responsibility to local government to get this level of government actively involved in deliberate, long-term community strengthening programs that are central and core business for local government. We expect this will be the case in all Australian states, most of whom have to deal with additional factors, the most obvious being the tyranny of distance, which further challenge state government efforts to build and empower local communities. This is especially so for many country towns in remote locations.

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