

Local Government Capacity in Australia

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Australia, the world's sixth-largest country by land area (7,692,024 km²), is home to one of the oldest living cultures, that of the Aboriginal Australians, and is today a complex, multicultural nation. In a country that is semi-arid and arid in substantial parts, the population of nearly 24 million is unevenly distributed and highly urbanised, with 71% of the population residing in a Major City. The population is growing by around 1.8% per annum, and population growth tends to be most prominent in the outer suburbs of metropolitan areas, inner cities, urban infill areas and along the coast (Australian Bureau of Statistics 2015).

Economically – and increasingly socially – identified as a nation within the burgeoning Asia-Pacific region, Australia's colonial past has bequeathed to the country a constitutional monarchy solidly located in liberal democratic traditions common to the developed countries of the Anglosphere. Australia was one of the first countries to establish democracy in the modern world, including being among the first to give women the vote. The mixed economy relies heavily on the services and construction sectors for employment and on the primary resources sector (especially mining) for its economic health, contributing to uneven growth and prosperity in the various regions of the country.

All of these factors have an influence on the structure and functioning of Australian local government. This paper explores whether local government in Australia performs its legislated functions in an effective and efficient way, and how local councils do so with regard to principles of

good governance, especially transparency, accountability, the rule of law, local democracy and the involvement of communities and non-government community organisations.

Conceptual considerations of local government capacity

According to Honadle (2001: 83), local government capacity refers to how current 'factors of production' are being used at a point in time, and how they might be converted if there was the need to meet additional demands. These factors of production are dynamic and difficult to measure, often only making sense when compared to other places or the same locality at a different time.

They include:

- **Human resource capacity**, based on the talent, intelligence, industry, educational background, commitment and experience of the councillors, staff and volunteers
- The **capacity to anticipate and influence changes** in the local government area (LGA), linked to the flexibility needed to govern and make rational policy choices, carry out policies and learn from experiences
- **Technical assistance, research and education**, which provide indispensable tools for local governments to understand their current conditions, to learn about alternative policies and the likely consequences of their choices, and to make course corrections as they proceed with policy implementation.

(Honadle 2001: 80-85)

Drawing on the international literature, Wallis and Dollery (2002: 79) put forward a typology of local government capacity, incorporating four interlinked areas:

- **Institutional capacity** refers to the ability of local governments to uphold authoritative and effective regulation of economic and political interactions. This capacity is mainly derived from their relationship with higher tiers of government.

- **Technical capacity** relates to effective leadership and strategic direction to the range of agencies and organisations that can potentially be brought together to advance local community and economic development.
- **Administrative capacity** is demonstrated through a track record of effectively administering local infrastructure and supplying local public goods and services.
- **Political capacity** refers to the ability to engage a plurality of groups in the deliberative processes and provide opportunities for people to take an active part in government and provide services in accord with local needs and preferences.

Sound and consistent leadership and management underpin many of these aspects of capacity and are crucial to the effectiveness, efficiency and accountability of local governments. Leadership has been studied and conceptualised in terms of its strategic and performance implications, transformational characteristics (impacting on organisations and people in a changing environment), in terms of ongoing discussion on public sector reforms, and with respect to the political dimension of public leadership (Vogel and Masal 2014). A key issue in local government leadership is the relationship between political and administrative leaders, in particular the relationship between the Mayor, as leader of the elected council, and the General Manager of the local public service (Martin and Aulich 2012).

The quality of management is 'a major determinant of how effectively a unit of government utilizes the capacity it has' (Honadle 2001: 81). A 'shared sense of strategy' is essential to enable managers to better position local government organisations within their environments and to ensure their organisations' long-term vitality and effectiveness (Poister, Pitts and Edwards 2010: 524), suggesting that strategic planning and management – and their enhancement – are other important contributors to efficient and effective local government.

A notable feature of recent decades has been the shift from 'local government' to 'local governance' (Denters and Rose 2005: 9), linked to trends such as increased urbanisation, globalisation and new

substantive and participatory demands. Governance implies that public decision-making concerning local issues increasingly involves multi-agency working, partnerships and policy networks which cut across organisational boundaries. In a governance milieu, local governments are taking part in networks that 'they cannot easily steer, let alone dominate...[and]...the private sector, the local civil society and individual citizens have a much larger influence than before' (Van den Dool, van Hulst and Schaap 2010: 551).

This suggests that the capacity for operating explicitly within a 'governance mode' has become a hallmark of modern local government. New forms of networked governance have been evolving in practice and theory to replace narrow, hierarchical, adversarial and managerial modes that limit the ability of any one level of government, or any single stakeholder, to actively solve the complex problems that communities face (Abbott 2012: 16-8). Good governance requires identifying individual community values, reconciling different interests, and developing shared understanding on 'what is in the best interest of the whole community and how this can be achieved' (Pillora and McKinlay 2011: 33). Governance is also collaborative, reflecting the growing interdependence amongst governments, non-government stakeholders and the community.

In keeping with the shift to the perceived significance of networked governance, an established role for local government in Australia is to support and facilitate citizen participation. It is widely accepted that citizen participation is 'a basic building block for contemporary democratic society and sustainable communities' (Cuthill and Fien 2005: 64). When facilitating community participation, local governments need to focus on both organisational and community capacities – the skills, knowledge, experience, leadership and managerial capabilities that would enable citizens, community groups and public officials to participate in local governance processes (Cuthill and Fien 2005: 76).

Carter (2013: 2) provides a framework for considering 'five pillars of strength' that would enable local government to be sustainable in the long term. These are:

- A strong and ethical governance structure with the authority to set the agenda and facilitate local solutions to local problems
- Engagement with its community through leadership, planning, communication and participation, and which can also lead to the economic development of its locality
- A strong knowledge and database, with the technological capacity to use the data to meet community expectations and solve business problems
- A skilled workforce, with mastery of new technology and focus on community involvement
- Effective long-term financial and asset management.

A synthesis of the conceptual understandings of local government capacity summarised above provides grounds for putting forward a conceptual framework for local government capacity, illustrated in Figure 1.

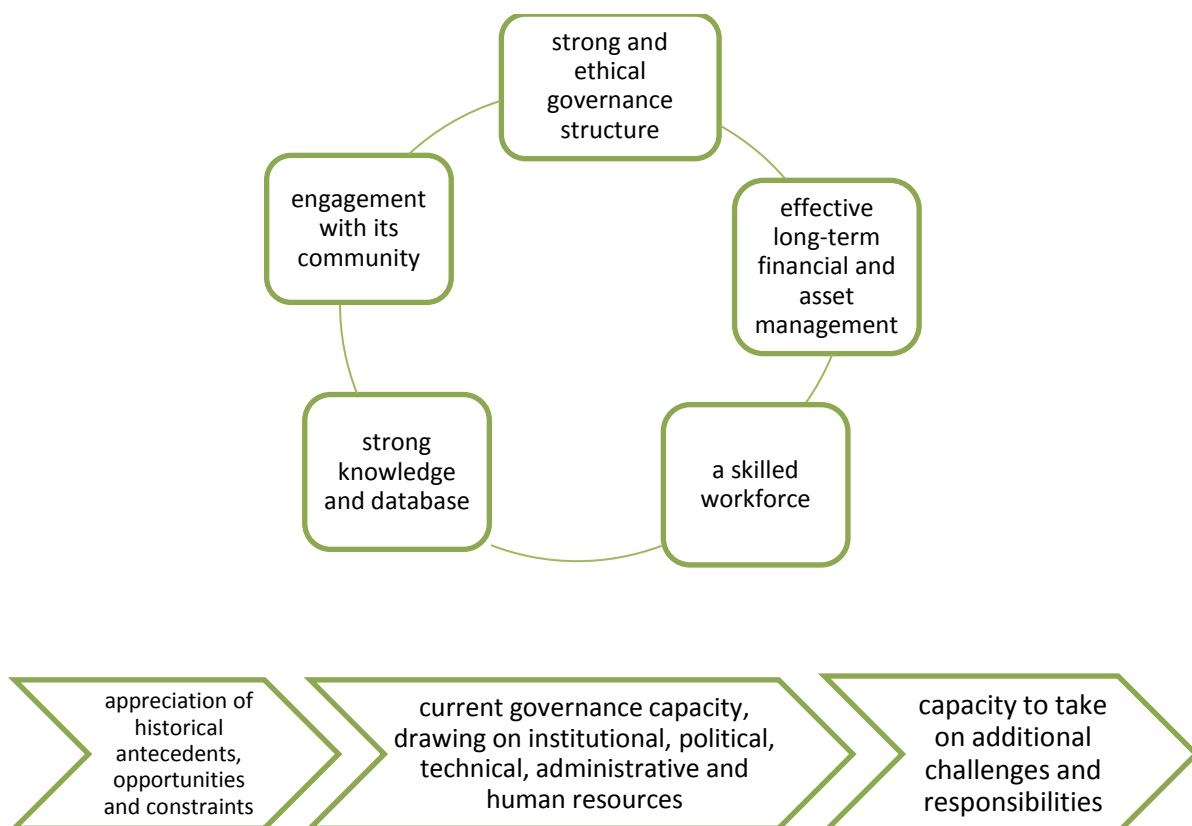


Figure 1: Local government capacity: A conceptual framework

Source: authors, adapted from Carter (2013: 2); Honadle (2001); Wallis and Dollery (2002)

Conditions under which local government functions in Australia

Contextual conditions

Historical determinants

After tens of thousands of years of settlement by Aboriginal Australians, parts of the Australian mainland and neighbouring islands were mapped by Dutch, French and British navigators in the 17th and 18th centuries. From 1788, Britain established penal colonies in New South Wales, Tasmania and Western Australia. Free settlers followed in increasing numbers, and relatively soon outnumbered convicts and corrective personnel.

The origins and development of local government in Australia is characterised by a series of tensions. From the early 1800s, the British Colonial Office made it clear to the colonies that it would not provide funding for local services such as roads, as it believed these were matters for local landowners (Larcombe 1973). This need for groups of landowners to fund the development of local services established the spatial or territorial basis for local government as an organising principle (Brackertz 2013). At the same time, it resulted in local government adopting a narrower range of services compared to its European counterparts, and often being regarded as little more than an administrative arm of their respective colonial state governments. Starting in Adelaide, South Australia in 1840, local governments were gradually established in localities throughout the country to enable these governments to deliver local services and allow local residents to contribute to their cost.

The Commonwealth of Australia was created in 1901 when the British colonies that had become established on the territory of the Australian mainland and Tasmania agreed to federate. These now form the six states of Australia (New South Wales; Victoria; Queensland; Tasmania; South Australia; and Western Australia), each with its own capital city, popularly elected legislature and administration. There are ten Australian territories outside the borders of the states and, of these,

the Australian Capital Territory (ACT), the Northern Territory and Norfolk Island are granted a limited right of self-government by the Australian Government (Australian Government 2014). Australia is thus an example of a ‘coming together’ federation in the sense that it was formed through aggregation of previously existing governments (Fenna and Hollander 2013: 222).

Socio-economic situation of country

Australia is fully integrated into the global world economy and is strongly impacted upon by macroeconomic trends, particularly as regards trade, currency values and the demand for commodities. It is the fourth largest economy in the Asian region and the 12th largest economy in the world. The country was ranked second in the United Nations Development Programme’s *Human Development Report 2014*. According to the Organisation for Economic Cooperation and Development (OECD), Australia performs favourably with respect to many measures of well-being. Key data for Australia, compared with the average of the 30 developed countries in the OECD, are provided in Table 1.

Table 1: Australia: Key socio-economic data and comparisons with other OECD countries

Indicator	Australia	OECD average (30 countries)
Life expectancy at birth	Women – 84 years	Women – 83 years
	Men – 80 years	Men – 77 years
Average household net-adjusted per capita disposable income	US\$ 31,197 per year	US\$ 23,938 per year
Average expenditure on housing (proportion of gross disposable income)	20%	21%
High school qualification (proportion of adults aged 25-64)	74%	75%
Working-age population in a paid	72%	65%

job		
Gender difference in employment (percentage points)	13	16
Unemployed for a year or longer	1.1%	2.7%
Youth unemployment rate	11.7%	16.3%
Voter turnout in most recent national elections	93% ¹	72%
Engagement in volunteering activities (average minutes per day)	6	4
Rating of general satisfaction with life (scale from 0-10)	7.4	6.6

Source: adapted from OECD (2014)

These data suggest that Australia compares favourably¹ with other developed nations on a range of socio-economic criteria. At the same time, Australia ranks 21st out of 30 countries in terms of social inequality, with the top 20% of the population earning almost six times as much as the bottom 20%. Women are still less likely than men to participate in the labour market in Australia (OECD 2014).

Australia is a highly diverse country. According to the 2011 Census, around 3% of the Australian population (approximately 670 000 people) were estimated as being of Aboriginal or Torres Strait Islander origin (i.e. Indigenous Australians) (Productivity Commission 2014b). Around one quarter (24.6%) of the population was born in a country other than Australia, 43.1% of people have at least one overseas-born parent and 8.5% of people were born in non-English speaking countries (Australian Bureau of Statistics 2015).

Australia's Aboriginal and Torres Strait Islander peoples are disadvantaged across many areas of social concern, including life expectancy, child mortality, school attendance and achievement, and employment (Productivity Commission 2014b). A profound socio-economic challenge for the country

¹ Voting is compulsory in Australia

has been to effectively address Indigenous disadvantage and reduce the 'gap' between Indigenous and non-Indigenous people in terms of these key indicators, while also acknowledging changes over time in outcomes for Indigenous Australians, not linked to this. Data from 2014 (Productivity Commission 2014b) suggest that there have been improvements in life expectancy, young child mortality and high school completion, but that challenges remain with regards to mental health, suicide and self-harm and imprisonments and juvenile detention.

While there have also been challenges relating to the settlement and integration of people – including refugees – from a wide range of countries, Australia's official policy of multiculturalism 'aims to strengthen social cohesion through promoting belonging, respecting diversity and fostering engagement with Australian values, identity and citizenship, within the framework of Australian law' (Department of Social Services 2014).

The Constitution and legislation

The federal government, which can also be referred to as the Commonwealth of Australia or the Australian Government, follows the British (Westminster) tradition in being a constitutional monarchy, with a Governor-General representing the Crown (Queen Elizabeth II) and Prime Minister as the head of the country. The Federal Parliament passes laws which affect the country as a whole. Like the United States of America, and unlike Britain, Australia has a written Constitution which defines the responsibilities of the Federal Government, which include foreign relations, trade, defence and immigration. Governments of the States and Territories are responsible for all matters not assigned to the Commonwealth. This includes public health services and primary and secondary school education. A federal law overrides any state law that is not consistent with it.

A distinctive feature of the Australian federal model is that there is a relatively high degree of shared functions between governments (National Commission of Audit 2014: 21) so that, in practice, the Commonwealth and States/Territories cooperate in many of the areas that are the formal responsibility of second-tier government, such as education, employment, transport, health and law

enforcement. Each state is also responsible for planning and major infrastructure and service delivery in the state's dominant urban regional area so that, in this sense, the states are the primary 'metropolitan managers' (Sansom, Dawkins and Tan 2012: 5).

Local government is the third tier of government in Australia, although it is not recognised in the federal Constitution. Since Federation in 1901, Australian local government's key relationship has been with the state governments, based on 'the constitutional and legal frameworks, state oversight and control of local government activities and the close interrelationships between state and local government responsibilities for service delivery and infrastructure' (Sansom 2009: 22). In New South Wales, for example, the *Local Government Act 1993* stipulates:

A council may provide goods, services and facilities, and carry out activities, appropriate to the current and future needs within its local community and of the wider public, subject to this Act, the regulations and any other law.

(New South Wales *Local Government Act 1993*, Section 24)

This fairly 'open' interpretation of functions provides opportunities and constraints for local governments to be the institutional representation of democracy at the local level. Citizens in designated local jurisdictions elect representatives to serve as their local councillors, and in some cases directly elect the Mayor. These elected representatives serve as the policy-making arm of local government, while the management and administration is performed by a multi-faceted workforce. At the same time, local government is constrained due to its relatively weak position as a tier of government within the Australian federal model.

Other contextual conditions

Other key contextual conditions to take into consideration include:

- Firmly within the liberal democratic tradition, there is a strong focus in Australia on the rule of law, an independent judiciary and freedom of the press.

- Civil society is active and influential. Public consultation by all levels of government is taken seriously, albeit not always delivered consistently or effectively.
- While the federal government in particular takes an active role in wealth and income redistribution – and there is a functioning social security system that shifts between right-of-centre and left-of-centre approaches toward the welfare state in tandem with political shifts in an essentially two-party system – the private/corporate sector is a powerful actor. Issues of privatisation and ‘small government’ are regularly in the public debate.

Structural conditions

When focusing on the position of local government vis-à-vis other governments and on the degree of decentralisation in the Australian Federation, it becomes apparent that a noteworthy feature of the Australian model of federation is the extent of ‘vertical fiscal imbalance’ (National Commission of Audit 2014: 22). Income tax is levied federally – over 90% of Commonwealth revenue is sourced from taxation, and the amount it raises in revenues exceeds its spending responsibilities. At the same time, State and Territory governments have insufficient revenue from their own sources to finance their spending responsibilities. Total Commonwealth funding to the States and Territories represents around one quarter of the Commonwealth budget and 40% of the revenue of the second tier (National Commission of Audit 2014: 22).

Debates and practices relating to fiscal decentralisation, that is, the devolution of authority for public finances and the delivery of government services from the national to sub-national levels, has primarily been focused on the relations between the federal government and the second-tier (State and Territory) governments. There has been no concerted policy direction in recent years to devolve greater levels of responsibility for policy making, management, and implementation of national goals to the third tier. At the same time, there has been concern about ‘cost-shifting’, that is the transfer of more service delivery responsibilities to local government from other spheres of government

without appropriate resources, and thus reducing the ability of local governments to focus their own revenues on the priorities of their communities (Jones 2008: 24).

Australia has needed to focus on the relationship between the national and sub-national governments within its federal system, which has developed in a dynamic way over the decades in response to political, economic, demographic and international changes. Fenna and Hollander (2013: 225) point out that 'the Constitution makes little provision for intergovernmental relations... [but]...considerable need now exists for cooperative and collaborative action'. The Council of Australian Governments (COAG) is the key intergovernmental forum in Australia. Its members are the Prime Minister, State and Territory Premiers and Chief Ministers and the President of the Australian Local Government Association (ALGA).

Under the auspices of COAG, the *Intergovernmental Agreement on Federal Financial Relations* came into effect with the passing of the *Federal Financial Relations Act 2009* (Fenna and Hollander 2013: 225). This Agreement currently provides the overarching framework for the Commonwealth's financial relations with the States and Territories. While the States/Territories have increased budget flexibility under the revised federal financial relations framework, they are also subject to greater accountability through new reporting arrangements. One consequence has been a proliferation of National Agreements and National Partnerships on key public issues such as education, health and employment. In particular, there is a range of Agreements relating to 'closing the gap' between Indigenous and non-Indigenous Australians, briefly discussed earlier as one of the key socio-economic challenges of the country.

Institutional conditions of the local government sector

Institutional diversity

Local governments in Australia exhibit considerable diversity, not only in terms of the state-based legislative frameworks within which they operate, but also due to their size, the demographic,

geographic and economic attributes of their LGAs, their financial capacities, the preferences and expectations of their local communities, and the management capacity and skills base of their elected representatives (councillors) and staff (Productivity Commission 2008: 10-12).

While many local governments in urban areas have populations of 100,000 or more², around 200 local governments serve populations of less than 10,000 residents. Local governments range in size from a few square kilometres in some metropolitan areas to thousands of square kilometres in remote parts of the country³. The number of local governments in Australian state jurisdictions is summarised in Table 2.

Table 2: Number of local governments in Australia (2014)

Jurisdiction	Greater Capital City Area	Non-Capital City Areas	Total
New South Wales	43 ⁴	109	152
Victoria	31	48	79
Queensland	10 ⁵	63	73
Western Australia	31	108	139
South Australia	17	51	68
Tasmania	6	23	29
Northern Territory	3	13	16
Total	141	415	556

Source: authors, drawing on data on local governments in State/Territory jurisdictions as at January 2015

Due to structural reform in the various state jurisdictions, the trend over the past hundred years has been towards consolidation, and hence towards fewer individual local governments.

² Brisbane City Council in Queensland is the most populous, with a population of 1,052,458.

³ The largest is East Pilbara in Western Australia, covering an area of 371,696 square kilometres, with a population of 7,954.

⁴ This number includes the LGAs in the Blue Mountains and the Central Coast, which have close links to the Greater Sydney Metropolitan region, also as dormitory cities.

⁵ This includes all the LGAs of the South-east Queensland region in which Brisbane, the capital city, is located.

Functions

In contrast to other English-speaking countries such as the United Kingdom and the United States of America, Australian local government has a relatively narrow range of functions. Initially, it acted as the primary mechanism to transfer to the community the ‘administrative and financial burden for the provision of basic local services’ (Brackerz 2013: 5). Services to property were at the core of its responsibilities, with provision of local roads being the most prominent⁶. Following the Second World War, local government functions broadened to include town planning and a range of welfare, environmental protection and leisure services.

The past few decades have been marked by expansion of local government functions and there has been a shift in emphasis in service provision away from the traditional focus on ‘services to property’ towards a more expansive ‘services to people’ orientation (Dollery, O’Keefe and Crase 2009: 280). This has been partly due to devolution of roles and responsibilities by other spheres of government, but also due to market deregulation; industrial relations reform; the privatisation of public utilities; competition policy; technological advancement; and expanding service provision in response to community demands (Brackerz 2013: 7). Key service areas that are common to local governments throughout the country at the present time, whether as provider, contractor and/or coordinator, are summarised in Table 3.

Table 3: Services provided by local government in Australia

Service category	Service examples
Engineering and infrastructure	Public works design, construction and maintenance of local roads, bridges and footpaths, drainage, waste collection and management, water supply
Property-related	Domestic waste management, including solid waste and recycling
Administration, regulation and	Land use and town planning, development approvals, building inspection,

⁶ As of 2011, Australia’s total road network length was 911,418 km, with local councils being responsible for the majority – approximately 670,000 km – of roads (ALGA 2014).

planning	licensing, administrative functions related to cemeteries, parking stations and street parking
Environment and health	Catchment management, parks and gardens, tree removal, pest and weed control, public toilets, noise control, animal control
Community and social	Aged services, child care services, youth centres, community housing facilities, counselling and welfare services, arts and cultural development
Recreation, cultural and education	Libraries, swimming pools, recreation centres, community halls, sports facilities, camping grounds, community festivals, museums
Other	Abattoirs, bus services, livestock sale-yards, markets

Source: Productivity Commission (2008: xx)

As is evident from the description of service categories and service examples in Table 3, local government in Australia delivers substantial levels of public services and manages considerable economic activity. Australian local governments generally have responsibility for a homogenous stock of assets including the local road network (more than half the total stock by value), bridges, stormwater and drainage systems, swimming pools, parks and community centres. Some local governments are also responsible for managing local water supply and wastewater, waste management facilities, and regional airports.

Assets and finance

In 2011-12, according to data from the Australian Bureau of Statistics, Australian local governments raised \$37 billion in revenue, spent \$31 billion, and invested a net additional \$5 billion in its infrastructure assets (Carter 2013: 3). A summary of revenue and expenditure for 2011-12 is provided in Box 1.

Box 1: Australian local government revenue and expenditure in 2011-12

Revenue (totalling \$37 billion) comprised:

- \$13.2 billion in tax revenue (36% of total)
- \$9.2 billion of 'other' revenue, such as capital grants and infrastructure levies for new upgraded assets (this has grown over the decade from 2002-03 from 16% to 25% of general revenue)
- \$9.0 billion in sales of goods and services (24% of total)
- \$4.3 billion in current grants and subsidies (12% of total)
- \$1.2 billion in interest (3% of total)

Expenditure (totalling \$31 billion) included:

- \$7.3 billion on transport and communications (24% of total)
- \$6.9 billion on housing and community amenities (22 % of total)
- \$5.6 billion on general public services (18% of total)
- \$4.6 billion on recreation and culture (15% of total)
- \$1.7 billion on social security and welfare (5% of total)
- \$633 million in debt repayments (2% of total).

Source: Carter (2013: 3)

According to Carter (2013: 4), Australian local government is 'asset rich and income poor' and the sector's total income of about \$37 billion is 'dwarfed' by the billions of dollars in fixed assets it needs to manage and maintain. Nationally, the value of total land and fixed assets of local government in 2012-13 was \$333 billion, of which local roads infrastructure constituted \$165 billion (Australian Local Government Association [ALGA] 2014). The Australian Bureau of Statistics estimates that these assets grew at the rate of 7.4% between 2002 and 2012 (Ernst and Young 2012: 13).

Local government revenue comprises own-source revenues and grants from other tiers of government. Own-source revenue derives from taxation on property (about 37 percent of total revenue), user charges, income from public enterprise and fines, and interest on investments and dividends (Productivity Commission 2008: xxvii). Factors affecting own-source revenue per person raised by local governments include the size of the population and population growth, the number

of properties serviced per person, personal income of residents, business income, total length of the local road network (greater length representing higher expenditure needs), and the class of the council. The latter reflects in part the preferences and needs of classes of local communities as well as differences in the cost of services across geographic locations (Productivity Commission 2008: xxvii).

Federally-provided revenue is the most important source of external funding for local governments (Sansom 2009: 20), accounting for around 12% of aggregate local government income (Carter 2013: 4). The federal government financially supports local government by means of 'untied' Financial Assistance Grants (in keeping with the *Local Government (Financial Assistance) Act 1995*) and 'tied' Specific Purpose Payments. Financial Assistance Grants are distributed on the basis of recommendations made by the Commonwealth Grants Commission, operating under the *Grants Commission Act 1973*. The grants are paid to the States/Territories and in turn passed onto local governments. The most significant Specific Purpose Payment has been the *Roads to Recovery* program to assist in the construction and maintenance of extensive local road networks.

The grants, first introduced in the mid-1970s, have aimed to reduce the vertical fiscal imbalance discussed earlier; and to promote horizontal equalisation between the more and less financially secure local governments. Funds are distributed to local governments via the states' *Local Government Grants Commissions*. Around two-thirds of total funding is allocated to non-metropolitan areas, where the local councils are generally in greater need (Sansom 2009: 20-21).

Knowledge and sources of information

Key sources of knowledge and information that contribute to the local government include:

- The *Australian Bureau of Statistics* conducts the five-yearly Census of Population and Housing, as well as making publically available a range of data under its 'Local Government Portal', including population, economic and social statistics (Australian Bureau of Statistics 2015).

- The *Council on Federal Financial Relations* is responsible for maintaining a register of national minimum data sets to allow comparative reporting of governments' achievements against agreed objectives and outcomes (Council on Federal Financial Relations 2014).
- The *Productivity Commission*, the Australian Government's independent research and advisory body, conducts 'public inquiries at the request of the Australian Government on key policy or regulatory issues bearing on Australia's economic performance and community wellbeing' (Productivity Commission 2014a: 3).
- Research-based expertise is provided through organisations such as the *Australian Centre of Excellence for Local Government* (UTS:ACELG) located at the University of Technology, Sydney and other university-based public administration, political science and economics faculties.
- Local governments tender out or conduct their own research, including community profiles, community satisfaction surveys and evaluations of programs.

Human resource conditions

Key data on human resource conditions in Australian local government are provided from the recently-conducted *Australian Local Government Workforce and Employment Survey* (Hastings, Ryan, Gibbs and Lawrie 2015):

- Local government employs a large and diverse workforce that comprises around 10.2% of the total public sector – as of 2013, there were 192,500 people working in Australian local government, out of a total of 1.8 million public sector employees nationally.
- Compared to the Australian labour force average of 29%, 37% of employees in local government are aged 50 years or over, and males are on average older than female employees.

- Local governments employ a large number of Aboriginal and Torres Strait Islander people – while local government employees represent only 9% of the total public service workforce, 22% of all Indigenous public sector workers are employed by local government.
- Employees of local governments have higher levels of educational attainment than the all-industries-workforce across Australia, with 65% of men and 70% of women in local government having a post-school qualification compared to the national average of only 45%.
- In areas where local government has difficulty recruiting staff due to skills shortages, it is also often in competition with other industries for these workers. Vacancies are higher for engineers, planners, child care staff, environmental health workers, surveyors and managers.

There is a diverse range of roles, responsibilities and activities required by local government to efficiently and innovatively deliver the range of local services that satisfy community and stakeholder needs and ‘without an effective local government, local economies and communities would struggle to operate, especially in regional Australia’ (LGMA and ACELG 2013: 22). The range of occupations employed by Australian local government can be classified into four main streams, namely: corporate services and governance, including councillor support, customer services and finance; engineering and infrastructure; human and community services; and planning and environment, including regulatory services and natural resource management (LGMA and ACELG 2013: 24-25). As a sector, local government is supported by national and state-based local government associations, who provide networking, training and advocacy services to their members (Australian Local Government Association [ALGA] 2014).

Recent attempts to improve local government capacity

Structural reform

Structural reform, which includes mechanisms such as closer collaboration amongst local governments, shared service arrangements, boundary changes and mergers, has been a key strategy adopted by State and Territory governments in order to reform local government. Cost savings due to economies of scale have often been seen as the prime motivation for such reforms, which are ongoing (Aulich, Gibbs, Gooding et al 2011). Questions of representation and local democracy, and the loss of local identity that may follow amalgamation are important aspects of an often vigorous debate and research is continuing in respect of the impact and outcomes of these structural reforms.

Despite difficulties with, and opposition to, reforms that may lead to the consolidation of local government jurisdictions, there is growing acceptance in the local government sector that enhanced strategic capacity is important. Due to factors such as increased size and resourcing levels, pooling of knowledge and expertise, and encouraging a focus on operating in a broader regional and system-wide context, enhanced capacity appears essential to its long-term success as a valued partner in the federal system of government (Aulich et al 2011) and in the face of changing capacity required for an enhanced governance role.

Accountability within the Federation

Notwithstanding its relatively weak constitutional and legal position, local government in Australia has made some progress towards its acceptance as a partner in the federal system. This is due in no small measure to the growing power of the Australian Government vis-à-vis the states as a result of High Court decisions, income taxing powers and revenue capacity, key referenda results and the policy objectives of governments, particularly the federal government (Department of Prime Minister and Cabinet 2014: 7). The *Public Governance, Performance and Accountability Act 2013*, which came into effect on 1 July 2014, is intended to modernise and simplify the financial, accountability and audit obligations of government agencies and departments (National Commission

of Audit 2014: 32). The regulatory framework governing the activities and performance of local governments is similar in the different state and territory jurisdictions, including that they each have a *Local Government Act* and supporting legislation, a ministry, division or department of local government (and in some cases of regional affairs), and a Local Government Grants Commission and ancillary regulatory bodies (Dollery et al 2009: 280). Research and reporting, and the accountability it enables, is consistent and reliable in the country, although improvements are always desired and encouraged, highlighting the point that capacities in strategic planning, research, reporting, finance and asset planning are necessary for the functioning of councils in their communities.

Performance reporting

All local governments in Australia have the legal requirement to report on their performance to their respective state government in the form of Annual Reports, performance statements and financial statements. The model in the state of Victoria represents a new level of sophistication in local government performance monitoring and reporting in Australia. It comprises indicators that measure performance across three thematic areas, namely service performance, financial performance and sustainability. To provide a comprehensive picture of local government performance, four indicator sets were developed across the three thematic areas. These indicator sets are Service Performance (quantitative measures); Financial Performance (quantitative measures); Sustainability (quantitative measures); and Governance and Management (qualitative measures) (Local Government Victoria 2014; Victorian Government 2014).

Strategic planning

There are differences in the nature and scope of strategic planning in the various jurisdictions, but common components include long-term Community Strategic Plans that are based on sound engagement of the local government within its community and progress on which is reported back to the community via Annual Plans; Corporate and Workforce Plans; and Financial and Asset Management Plans. Examples of the diversity evident in the different jurisdictions is that, in

Queensland, regional as well as local issues are considered in the long-term Community Plans; and in South Australia, the local governments have to show in their strategic planning that their activities are aligned with those of the other levels of government. All local governments in New South Wales (NSW) are required to prepare a suite of integrated documents, the preparation of which requires extensive community consultation guided by a community engagement strategy. This is known as the Integrated Planning and Reporting Framework. Western Australia has adopted a similar system of integrated planning and reporting as the model developed in NSW.

Financial performance and capacity

Factors that have raised interest in local governments' financial performance and capacity in recent decades have included an increased range of responsibilities, but without revenues keeping pace with expenditure requirements, demands and implication of demographic change, concern that local government assets are aging and that renewal expenditure is not occurring at the rate necessary to maintain service levels and volatility in the local taxes (rates) paid by many ratepayers (Comrie 2013: 8). Steps have been taken by the federal government and local governments to assess the status of local government financial and asset management, and a national approach to the issue has been adopted, by pulling together information from state-based data and creating national data. Prior to this, in the mid-1990s, amendments to local government acts obliged local governments to change from cash accounting to accrual accounting, which 'values assets according to their replacement cost, not their historical cost [requiring]...provisions for the cost of restoring ageing assets to a sound operating condition' (Carter 2013: 9). Still, local governments were slow to move from a 'balanced budget' mindset, and Comrie (2013) has recommended that the sector consider using debt instruments more broadly as a means to deal with infrastructure backlogs. The ability of the sector to accelerate new investments is constrained by a perceived limited access to capital, the absence of projects of sufficient scale and the use of methods of procurement that do not involve significant ongoing maintenance and operation activities (Ernst and Young 2012: 60). Dollery et al (2013) show support for the establishment of a national collective financing vehicle for the local government

sector that could address this suboptimal use of debt. The Local Government Finance Authority of South Australia, which has been functioning since 1984 as a municipal bond bank, provides an example of a state-based borrowing and investment program for the benefit of councils and prescribed local government bodies that could serve as model for a nation-wide institution.

Rural-remote and Indigenous local governments

The diversity in both geographic and population size of local governments in Australia has been referred to earlier. As a key example of this institutional diversity, rural-remote and Indigenous (RRI) local governments in the vast and sparsely-populated interior of the continent are often obliged to assume responsibility for local services that are delivered in urban municipalities by state and federal government agencies or by organisations in the private sector (Dollery et al 2009: 280). In regional and remote areas, local government employs a larger proportion of the workforce than most other industries, with the exception of health care, social assistance and education (Hastings et al 2014: 9).

While Australian local government commonly faces challenges such as critical skills shortages, problems with recruitment and retention of staff, infrastructure backlogs, and increasing service demands from communities, ACELG through its *Rural-remote and Indigenous Local Government Program* has identified a group of 105 RRI local governments where such challenges are significantly magnified due to:

- Geographic size – these 105 Councils account for 65% of Australia’s total land mass
- Geographic isolation, low populations, and a higher proportion of Indigenous people
- A higher proportion of workers who do not make their places of employment their communities of residence, and consequently commute over long distances
- A high demand for community services normally delivered by other tiers of government
- Large infrastructure maintenance requirements
- High financial dependence on grants from higher tiers of government.

This led to the development of a national capacity-building strategy launched in 2011 (Morris, 2011), which includes a focus on aiming for a shared understanding of the 'core' local government responsibilities that can be delivered sustainably by RRI local governments and against which actual services provided can be assessed, and appropriate governance training and practices for councillors and staff, including education for the community on the roles and responsibilities of local government and councillors to parallel the governance training of councillors and staff.

Key activities since the launching of the capacity-building strategy have included scoping studies (such as on community engagement and local government service delivery), developing case examples, sharing information and lessons learned through networks, and delivering learning programs to the local government sector, particularly in rural and remote regions (Morris 2011: 4-5).

Human resources

Current local government workforce challenges include the following:

- There are skill shortages in some occupations that are critical to the functioning of local government, and challenges in attracting and retaining skilled staff.
- There is a widespread problem of the ageing of the workforce and inadequate succession planning associated with the expected widespread retirement of mature workers
- In keeping with the workforce in general, there is an increasing need for higher qualifications and technological changes require the workforce to continuously upgrade its qualifications and skills.

(LGMA and ACELG 2013: 25-26)

ACELG was requested in 2010 to develop a local government workforce strategy and follow-up actions with respect to sustainability, based on funding provided by the Australian Government. This included the design and initial collection of a National Minimum Data Set and the development of a National Assessment Framework for asset and financial management (ACELG and LGMA 2013).

Based on a program of research and consultations, a *National Local Government Workforce Strategy* was put forward that is designed to move the sector towards a more sustainable workforce through adoption of strategies and actions relating to issues such as exploring workforce demands and skill shortages, promoting local government as a place-based employer of choice, maximising management and leadership and investing in technology to increase workplace productivity (LGMA and ACELG 2013).

Local government in Australia is a significant employer nationally, and particularly so in regional and remote areas. Strengthening the local government sector represents an opportunity to secure and strengthen the economic, environmental and social foundations of many communities in Australia (Hastings et al 2014: 37).

An important human resource issue in Australian local government relates to the importance of leadership as discussed earlier in this chapter, and specifically the relationship between the Mayor, as leader of the elected council, and the chief executive officer (CEO) or General Manager leading the council organisation. Recent research suggests that local government capacity is enhanced when this relationship effectively focuses on challenges, based on having a sense of purpose, a clear and well-articulated vision, a facilitative leadership style and a willingness to share the honour of serving the community they represent with others (Martin and Aulich 2012: 21). This remains a focus of local government capacity building in Australia.

Conclusion

The concept of capacity can be regarded as the sum of all the factors and resources that, over time, enables a local government to implement public policies in keeping with its societal role, public service principles and community needs and expectations. While it is difficult to make generalisations about the sector as a whole, key issues that contribute to the multidimensionality of

local government capacity in Australia have been outlined in this paper. Drawing on the framework provided in Figure 1, the following points are made.

Appreciation of historical antecedents, opportunities and constraints

From its origins as administrative arm of state government, with a traditional focus on 'services to property', there has been a shift to a more expansive 'services to people' and now a governance orientation for local government. The sector's position in the Australian Federation remains weak. Local government's primary relationship remains with the states, and there has been no concerted policy direction in recent years to devolve greater levels of responsibility for policy making, management, financial autonomy and implementation of national goals to the third tier of government.

Current governance capacity

A potential gap between expectations and resourcing to carry out necessary functions within the Federation remains one of the prime concerns with regard to local government capacity in Australia. The workforce is highly educated on the whole, but there are skills shortages in key areas and the sector is facing problems with the aging of the workforce. Local governments in Australia exhibit considerable diversity, and there are different opportunities and challenges for metropolitan and other urban municipalities compared to local governments in regional, rural and remote areas. In many rural and remote communities, local government is a major employer, the primary economic driver and the only level of government delivering basic social and community services.

Capacity has recently been enhanced by focusing on effective long-term financial and asset management, a renewed emphasis on strategic planning and performance reporting, and structural reforms, which include mechanisms such as closer collaboration amongst local governments, shared service arrangements, boundary changes and mergers. Efficient and effective capacity in a local governance milieu focuses more and more upon explicit functioning within a governance context and there is a growing recognition that this places emphasis on networking and collaborative capabilities, underpinned by sound public service and democratic principles.

Capacity to take on additional challenges and responsibilities

There is growing acceptance in the local government sector that enhanced strategic capacity linked to factors such as increased size and resourcing levels, pooling of knowledge and expertise, and encouraging a focus on operating in a broader context appears essential to local government's long-term success as a valued partner in the federal system of government. Capacity-building requires a skill set and enhanced capabilities at both local political and administrative levels, underpinned by greater levels of collaboration within the sector, and a consistent focus on being the strategic enablers for local communities.

In order to set the agenda and facilitate local solutions to local problems, there is a need to retain and attract a flexible and multi-skilled workforce that is informed by the multi-faceted community which it serves. Leadership and management capacity is crucial in this regard and, in this quest for enhanced capacity, local government as a sector is supported by national and state-based local government associations, an established and continuously improving tradition of research and reporting, and a growing emphasis on education and training for both elected local politicians and for local government personnel.

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