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The Debate that Had to Happen But Never Did: The Changing Role of Australian Local Government

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The past few decades have witnessed a significant transformation in the composition of Australian local government service provision away from its traditional narrow emphasis on ‘services to property’ towards a broader ‘services to people’ approach. This process has occurred by default in an ad hoc incremental manner with virtually no debate on the changing role of local councils, unlike the New Zealand experience where a similar transition in service delivery generated public debate. In an effort to stimulate a ‘debate that had to happen but never did’, this paper seeks to establish whether a significant shift in the service mix of Australian municipalities has indeed taken place and then evaluates three stylized models of local government that could be adopted in Australia: minimalist councils; optimalist councils; and maximalist councils.

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Australian local government is presently in a state of flux characterised by ongoing and substantial changes in the composition of its service provision, with its traditional stress on ‘services to property’ giving way to an increasing emphasis on ‘services to people’. This transformation resembles a comparable earlier evolution in the role of local government in New Zealand—the country whose local government system most closely mirrors Australian municipal arrangements of all advanced nations. In New Zealand, the past 20 years have witnessed a significant restructuring of local councils with more than 800 local authorities consolidated into only 87 municipal bodies, each with a much greater degree of financial autonomy. With the passage of the Local Government Act 2002, these developments culminated in a reorientation of the statutory focus of New Zealand local government activities away from the traditional ‘roads, rates and rubbish’ bias towards broader social objectives based on ‘promoting the social, economic, environmental, and cultural well-being of communities, in the present and in the future’ (McKinlay 2006, 5).¹ This has been accompanied by a partial shift from central government oversight to local accountability—an important method of protecting the ratepayer—although considerable central government regulation and control remain, such as Audit Office reviews of long-term planning and detailed statutory provisions and requirements on councils to produce a public local government statement.

These changes in New Zealand were accompanied by a public debate on the appropriate role for local government. Although the long-standing need for local government reform in that country was recognised across the political spectrum, the ultimate role for local councils had not been agreed during the reform process. Indeed, beneath the surface of the post-reform consensus on accountability, divergent views emerged on the comparative institutional advantage of the restructured local authorities.

This led to the development of two divergent schools of thought. On the one hand, advocates for a more expansive role for local government conceived of the local council as an autonomous ‘sphere of government in its own right that derives its legitimacy from its effectiveness in meeting community expectations and local needs’ regardless of their nature (Dollery and Wallis 2001, 213). Mike Reid (1994, 2)—a leading participant in the New Zealand debate, advocate for ‘activist’ councils, and senior employee of the peak local government representative body Local Government New Zealand—proposed that local governance had four key elements: The ‘guardianship of difference’; ‘the protection of future selves’; the propagation of ‘positive rights’; and the preservation of ‘civic leadership’. Local governance should thus be based on a ‘participatory model’ that embraced and enhanced community diversity and community viability. Along analogous lines, another activist protagonist Mike Richardson (2004, 6) argued that municipalities enjoyed ‘three key advantages’ over national government for securing community outcomes: ‘its manageable scale, its local nature, and its ease of identification with the community’. To exploit these advantages, exponents of an activist role for local government claimed that it required greater autonomy to expand its range of activities beyond conventional local public good provision. This enlarged autonomy could be balanced

¹An analogous process has also occurred in England with the promulgation of the Local Government Act 2000 (see, for example, Cole 2003), although central government control in Britain remains strong and local government is still heavily dependent on national government funding. Canadian local government has also experienced a similar transition (see, for instance, Garcea and LeSage 2005)

by greater accountability to its local citizenry rather than by central government control.

A more pessimistic 'minimalist' policy coalition, led by the New Zealand Business Roundtable and representing the corporate sector in that country, drew on public choice theory and various theories of government failure to argue for a more limited 'minimalist' role to be accorded local government in New Zealand (Dollery and Wallis 2001). Based on the assumption that accountability in New Zealand local authorities had always been relatively weak, proponents of this view feared that greater autonomy would lead to fiscal irresponsibility at great cost to ratepayers. To reduce the scope for agency failure at the local level, it was argued that the residuality principle should be applied to the potential role of local councils in service provision so that 'local government should be selected only where the benefits of such an option exceed all other institutional arrangements' (New Zealand Business Roundtable 1995, 19). In practice, this meant that not only should local government retain its traditional narrow focus on genuinely local public goods, such as garbage collection and library services, but also contract out major activities like roads to the private sector.

The passage of the Local Government Act 2002 in New Zealand symbolised the fact that the activist school had carried the day in this policy debate. It has been observed that the enactment of the new legislation 'sounded alarm bells, especially for the business community, which envisaged a world in which local councils, virtually unconstrained by legislative restriction, could spend ratepayers' dollars on a wide range of social service, welfare and community initiatives of little practical value' (McKinlay 2004, 2). However, both the nature and extent of this victory should not be exaggerated. For example, the impact of party politics seems to have been an important factor in passage of the Local Government Act 2002, with the influence of the Alliance Party in the 1999–2002 Labour Coalition government apparently critical in the process. Similarly, some aspects of the act constrained the extent of the change. For instance, lack of a general power of competence, onerous public consultation requirements, and various prohibitions on privatisation and contracting out, all serve to impose restrictions on municipal discretion. Nonetheless, a legal basis now exists for a local authority 'to promote the social, economic, environmental and cultural wellbeing of communities, in its district or region, in the present and in the future' (McKinlay 2004, 2) provided these and other statutory stipulations are met.

No similar debate has occurred in Australian local government despite the obvious advantages that public debate brings to the formulation of public policy. It is widely recognised that Australian local government has reached a pivotal threshold in its development. Legislative reforms to the various State and Territory local government enabling acts enacted during the 1990s served to empower local government with greater flexibility to change both the way in which it operates and the range of services that it provides. Over roughly the same period, community expectations of local government seem to have increased and higher tiers of government have simultaneously devolved various new functions to local authorities. This has seen councils provide a greater range of services, with a growing emphasis on human services. In essence, Australian councils are moving away from their traditional narrow emphasis on 'services to property' towards a broader 'services to people' approach (Dollery, Crase and Johnson 2006). This process has occurred in an incremental manner, largely in an ad hoc response to community demands, the devolution of activities

from both Commonwealth and State governments, technological progress, and a myriad other factors. Australian local government thus seems to be gradually changing its focus by default rather than design.

Whether or not this transformation is desirable has barely been considered in either the academic or practitioner literature on Australian local government, with notable recent exceptions being the Commonwealth Inquiry into local government (culminating in the so-called Hawker Report (2003)) and the Independent Inquiry into Local Government in New South Wales (LGI) (concluded in early 2006). Indeed, a debate on whether councils should adopt a broader more 'activist' role or confine themselves to their traditional narrow functions may thus be aptly described as 'a debate that had to happen but never did' in Australian local government.

Given the importance of local authority services in the everyday lives of almost all Australians, and the consequent need for informed policy making, there is an urgent need to consider this issue in some detail. Accordingly, the question of the appropriate role for Australian local government thus forms the subject of the present paper.

The paper itself is divided into five main sections. The second section seeks to establish that the service mix delivered by local councils has indeed changed substantially over the past three decades by providing a synoptic description of the transformation in the composition of municipal services. The third section provides a condensed summary of the international literature on the role of contemporary local government in advanced liberal democracies in order to place the discussion in a global perspective. The fourth section develops three stylised local authority service roles that could feasibly be adopted within the overall structure of Australian federalism. The fifth section considers the implications of the acceptance of any one of these three models. The paper ends with some brief concluding comments in the final section.

Evolution of Local Government Service Provision

At the lowest rung of government in the Australian federation, local councils have traditionally provided a comparatively narrow range of local 'services to property'—caricatured in the expression 'roads, rates and rubbish'—and financed through a complex mix of property taxes, local government grants, and fees and charges. However, amendment of the different Local Government Acts across all Australian State and Territory local government systems has created the legislative scope for a much greater role for municipalities. The powers of general competence embodied in these statutes have facilitated a substantial change in service provision away from traditional services to property towards human services.

In its *Rates and Taxes: A Fair Share for Responsible Local Government*, the Hawker Report (2003, 9) observes that it had discerned not only increasing diversity across Australian local government service provision but also an 'expansion of the roles beyond those traditionally delivered by the local sector'. This shift in service delivery had two main characteristics: firstly, local authorities had assumed responsibility for many more social issues, including 'health, alcohol and drug problems, community safety and improved planning and accessible transport'. Secondly, councils have been increasingly active in the application and monitoring of regulation, especially in 'development and planning, public health and environmental management'.

In its *Local Government National Report, 2003/04*, the Commonwealth Department of Transport and Regional Services (DOTARS) (2005, 2) has also recognised the changing role of Australian local government, noting that local authorities are ‘increasingly providing services above and beyond those traditionally associated with local government’. By way of qualification, it observes that ‘local government now delivers a greater range of services, broadening its focus from “hard” infrastructure provision to spending on social services such as health, welfare, safety, and community amenities’.

How marked has this shift been? The Commonwealth Grants Commission (CGC) (2001) has calculated trends in the composition of municipal outlays across Australian local government by function over the period 1961–62 to 1997–98. The outcome is reproduced in Figure 1.

Figure 1 vividly illustrates the fact that local councils have expanded human service functions sharply relative to their long-standing services to property focus over a 35-year period. For example, ‘general public services’ has fallen from slightly in excess of 20% of expenditure in 1961–62 to around 13% in 1997–98, and the decline in ‘transport and communication’ has been even more pronounced.

The CGC (2001, 53-4) ascribes four main characteristics to the observed changes in the composition of Australian local government expenditure over the period 1961–62 to 1997–98. In the first place, it comprised a continuous shift from ‘property-based services to human services’. Secondly, the relative weight of ‘recreation and culture’ and ‘housing and community amenities’ had increased to about 20% of expenditure in each case. Thirdly, expenditure on roads declined from more than 50% in the 1960s to slightly more than 25% by 1997–98. Finally, expenditure on ‘education, health, welfare and public safety’ expanded. The Commission concludes that ‘the composition of services being provided by local government has changed markedly over the past 30–35 years’. In essence, ‘local government is increasingly

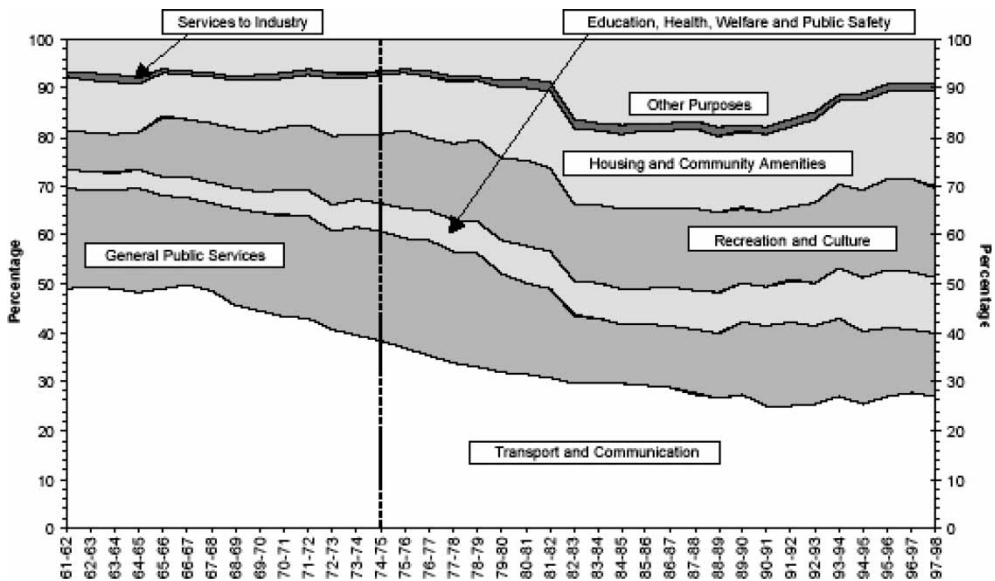


Figure 1. Local government outlays by function. *Source:* Commonwealth Grants Commission (2001, 173).

providing human services at the expense of traditional property-based services (particularly roads)'.

These trends appear to have continued. For example, in the context of NSW local government outlays, the LGI (2006, ch. 7, 5) observes in its *Interim Report* that changes in local government expenditure since 1995–96 contained three noteworthy features. Firstly, 'the fastest growing activities have been housing and community amenities, public order and safety, and economic affairs, particularly within Sydney City'. Secondly, 'transport and communications (largely road maintenance and depreciation, though not necessarily renewal) had a marked increase in 1996–97, but has stabilised since then'. Finally, 'health' and 'mining, manufacturing and construction' both fell relative to the Consumer Price Index (CPI).

A further indication of the magnitude of this process in NSW at least can also be gathered from the *Interim Report* based on a statistical analysis commissioned from Brooks (2006). Table 2 from the *Interim Report* is reproduced here as Table 1, with illuminating information on the change in composition of local government operating expenditure. Operating outlays in Table 1 include infrastructure maintenance and depreciation, but not the construction of new or upgraded infrastructure.

It is thus evident that a significant change has occurred in the composition of the services provided by Australian local government. However, a caveat to this conclusion is warranted. These aggregate trends in the service mix disguise the high degree of diversity in municipal service provision between different local government systems across Australia, between metropolitan, regional, rural and remote local authorities, and between individual councils within each of these categories. For instance, water supply and sewerage is a local government responsibility in Queensland, Tasmania and country NSW, but not in other jurisdictions. Similarly, municipalities spatially far from major urban centres often provide services previously supplied by Commonwealth agencies and State governments, such as aged care facilities, postal services and even facilities for general practitioners. While it would be preferable to present statistical information disaggregated by State and Territory local government systems, inconsistencies in the way in which different State systems collect and publish these data unfortunately precludes this kind of decomposition.

Table 1. Growth in NSW local government operating expenditure (1995–96 = 100)

Function	2003–04	Consumer Price Index	Gross State Product
Housing & Community Amenities	187.6	120.9	158.8
Public Order & Safety	179.2	120.9	158.8
Economic Affairs	175.5	120.9	158.8
Transport & Communication	170.1	120.9	158.8
Community Services & Education	158.4	120.9	158.8
Recreation & Culture	152.0	120.9	158.8
Water Supplies	130.0	120.9	158.8
Administration	130.2	120.9	158.8
Sewerage Service	128.5	120.9	158.8
Health	108.7	120.9	158.8
Mining, Manufacturing, Construction	107.0	120.9	158.8

Source: NSW LGI (2006).

International Trends in Local Governance

Prior to the 1990s, the scholarly literature on local government in advanced liberal democracies focused largely on the discourse of crisis ‘with emphasis on the ideas of decline and dislocation supported by the pejorative imagery of centralisation and fragmentation’ (Orr 2005, 299). A sense of pessimism permeated much academic work on local government on both relations between central governments and municipal authorities and the bias in local government towards ‘government failure’ in its operations. Pollitt and Bouckaert (2004) argue that this line of thought led to a ‘distancing and blaming’ strategy that has been used to varying degrees over the past 25 years in advanced industrial democracies—much more heavily in Anglo-American countries than their European counterparts—to characterise policy orientation towards local government. After a distancing and blaming strategy has been successfully embarked upon, the next step has been to advance a strategy to reform the ‘failing’ state. ‘Maintain’, ‘modernise’, ‘marketise’ and ‘minimise’ each represented coherent strategies available to political leaders.

The essence of the ‘maintain’ approach is to ‘tighten up traditional controls, restrict expenditures, freeze new hiring, run campaigns against waste and corruption and generally “squeeze” the system of administration and law’ (Pollitt and Bouckaert 2004, 186). In effect, the plan is to reduce the resources employed in local authorities. By contrast, ‘modernising’ a local government system relies on ‘bringing in faster, more flexible ways of budgeting, managing, accounting, and delivering services to their users’, typically deploying techniques imported from the private sector, which seek to underline the need for public provision and serve to ‘strengthen rather than dilute the state’ (Pollitt and Bouckaert 2004, 187). It invokes two opposing methods: ‘top-down’ measures that seek to professionalise the bureaucracy and reduce heavy-handed bureaucratic regulation; and ‘bottom-up’ measures that attempt to engage recipients of services into a participatory role. The ‘marketising’ strategy usually involves the introduction of as many market-type mechanisms as possible into the operation of local governments; competition is encouraged to improve the efficiency and effectiveness of public services. Finally, ‘minimisation’ seeks to transfer activities and services previously produced in the public sector to the private sector through competitive tendering, contracting out and privatisation. In the literature, this strategy has sometimes been termed a ‘hollowing out’ of the state (Rhodes 1994). Taken together, these four strategies form a larger synergetic whole ‘that can be carried out in response to the demands of politicians for lower costs and higher legitimacy’ in local government (Pollitt and Bouckaert 2004, 193).

However, over time, discourse on local government policy shifted away from this emphasis on limiting the degree of local government failure and enhancing efficient service delivery towards a focus on governance. In essence, this change in direction served to stress the importance of partnerships at the local level and to blur the distinction between the public sector and the rest of civil society (Stoker 2004). Scholars highlighted the importance of improved governance capacity in local government, especially through increased citizen participation. Democracy rather than economic efficiency now became the key to successful local governance, with political accountability, participation and representation crucial links in the process. Policy should thus foster participative structures of local governance, seek to combine representative democracy and participatory democracy, and develop new mechanisms for participation. In this sense, ‘governance implies a move towards more inclusive decision

making, involving a wide range of governmental and non-governmental stakeholders' (Callanan 2005, 911). For instance, under New Labour in Britain, 'modernised local authorities have been promised new powers which will better reflect their policy making freedoms, greater accountability and enhanced local leadership role' (Chandler 2000, 4). Debate in Canada, the United Kingdom and elsewhere has considered the meaning of 'enabling councils' and 'community leadership' as appropriate goals of local government (Garcea and LeSage 2005). In part, the aim has been to re-create 'social solidarity' by recasting the relationship between government and the governed, echoing the work of James Nolan (1998) in his *The Therapeutic State*, which seeks to re-engage alienated and individualistic citizens in the broader society.

Alternative Models for Australian Local Government

The New Zealand debate on the appropriate role for the local government sector in that country generated two alternative competing models: 'Activist' councils that deliver a mix of services constrained only by the desires of the communities they serve and their financial capacity; and 'minimalist' local government confining itself to local goods and services provision on the basis of the residuality principle. Given the close parallels between the Australian and New Zealand local government systems, these theoretical models can offer considerable assistance in evaluating the trends in service provision evident in Australian councils. Unfortunately, the comparatively narrow range of services delivered by all Australian local government systems, which largely excludes education, policing and welfare services commonly tackled by local government in other Western democracies, means that models developed in the international literature, outlined in the third section of this paper, have little meaning in the Australian municipal context. Fortunately, however, the very limited discussion in Australia on the most suitable role for local government has yielded a third conceptual model that can guide this analysis—'optimalist' local government. In its *Interim Report*, the NSW LGI (2006, 11–12) offers helpful working definitions of 'minimalist' councils, 'maximalist' municipalities (ie activist councils in the New Zealand discourse), and 'optimalist' local authorities within the NSW local government milieu that can clarify the terms of the debate.²

Minimalist councils represent 'the body corporate for the local community and as such should look after the common property and regulate the usage of private properties'. Moreover, 'this role would ensure that councils live within their meager resources dictated by a single tax base (land rates) subject to a state imposed ceiling [in NSW]'. Minimalism in the Australian local government milieu is thus based on the presumption that 'local authorities should adhere to their traditional "services to property" functions and avoid branching out into either more complex "services to people" functions characteristic of higher tiers of government or any commercial activities that could be undertaken by the private sector'. As we shall see, this perspective implicitly assumes that local government is more susceptible to 'government failure' than higher tiers of government due to its unique features. Accordingly, 'councils should thus deliver only those limited "services to property"

²In this paper the term 'alternative models' of local government applies to broad stylised depictions of different policy positions. It thus differs from the Australian literature on alternative operational models of local government in which several typologies have been developed (see Dollery, Crase and Johnson 2006, ch. 7).

where they enjoy a comparative institutional advantage over other public agencies or private firms, such as superior local knowledge’.

The *Interim Report* argues that, in NSW at least, the adoption of an explicitly minimalist approach ‘could send a powerful signal to the community that councils will reorder their policy and spending priorities to address the infrastructure crisis which is the most pressing financial problem facing them’. This would not only reduce the acute financial stress confronting many councils and thus make funds available to tackle the ‘infrastructure crisis’ but would also meet ‘the popular view that roads, pavements, kerbing, etc should be the second highest local priority (after waste collection), but have been given the least attention by councils’. However, the *Interim Report* questions what the minimalist ‘back-to-basics approach would constitute in actual policy priority and expenditure terms given that a large majority of citizens don’t want Councils to abandon their existing activities, but simply to give some higher priority than others’. Moreover, a minimalist policy stance would undermine ‘the critical role of councils in regional, rural and remote NSW in articulating community needs and acting as provider of “last resort” when public and private services are reduced’.

The *Interim Report* defines the maximalism as the assumption that local councils represent authentic governments of their defined spatial jurisdictions in their own right and consequently ‘should foster the welfare of the whole community even if this means duplicating work of other tiers of government’. This implies that, after due consultation with constituents, ‘they should undertake such services that local communities want and are prepared to pay for’. This view suggests that councils enjoy local comparative advantages over other possible institutional arrangements, including ‘strong democratic legitimacy, capacity to foster local “social capital” and develop “trust” and co-operation with their manifold “communities”, superior knowledge of local needs, and better ability to “network” with other public agencies, nonprofit organisations and private firms’.

Municipalities are thus in a sound position to ‘expand their range of functions from the present limited “services to property” focus to embrace a far wider “services to people” approach because they are ideally suited to handling many competing pressures, demands and expectations from their various “publics”’. In essence, local councils are ‘real’ governments in the sense that they are closest to the people they serve and are thus best placed to improve community well-being through a broad range of service functions, even at the cost of duplicating the activities of other public agencies. However, the *Interim Report* cautions that the ‘more complex “activist” functions by councils will generate inefficiency, “capture” by special interest groups, wasteful expenditure, unnecessary regulation, invasive infringements on property rights and needless service duplication’, citing work by Kaspar (2005).

Finally, optimalist municipalities are defined as ‘champions of their areas and as such should take a leadership role in harnessing public, NGO and private resources to promote particular outcomes rather than attempt to fund and operate local initiatives on their own’. In addition, ‘because of funding constraints an “optimalist” approach may allow a minimalist council to exercise maximum leverage’. Optimatism may be considered as a moderate ‘third way’ between the other two models since it marries minimalism (in terms of demands on council resources) with maximalism (in terms of the scope of council objectives). It builds on the solid twin conceptual foundations of contemporary public administration by combining a ‘steering not rowing’ perspective on the function of modern government (see, for example,

Osborne and Gaebler 1992) with a 'governing by network' *modus operandi* (see, for instance, Goldsmith and Eggers 2004). Optimism in local governance thus envisages municipalities leading and coordinating coalitions of stakeholders to secure particular outcomes, such as local economic development, using appropriate partnership instruments, like local public–private partnerships. However, the *Interim Report* warns that this approach could 'simply represents cost shifting by local government onto other players, especially NGOs'. Moreover, it would necessitate granting local authorities 'far more autonomy in their range of activities, methods of raising revenue and capacity to enter into partnerships'.

Evaluation and Implications of the Three Models

We have already demonstrated that a marked shift has occurred in the aggregate composition of local government services in Australia. At least three important questions surround this shift in service provision. Firstly, what are the causes of this transformation? Unfortunately, the answer to this critical question is not yet fully understood, despite considerable debate in the relevant literature, and in any event it falls outside the scope of this paper. Secondly, what are the consequences of the change in the service mix? This issue has attracted much less attention and remains to be settled. Finally, from a policy perspective, what are the implications of the three stylised models for local government in Australia and how should the applicability of these models be evaluated in an effort to determine their desirability? This latter question will be considered in the present context.

Various approaches can be brought to bear in the assessment of the three models. In this paper, we will invoke (1) the literature of local government failure; (2) the related question of local government capacity; and (3) the problems posed by the acute financial constraints operating on Australian local government. Of course, this should not be taken to imply that other approaches would not also be informative. In addition to these three evaluative perspectives, we also add a few comments on the methodological status of the models under consideration.

Local Government Failure

Government failure may be defined as the inability of a public agency (or agencies) in a given tier of government in a multi-tiered system of government to achieve its intended economic efficiency and equity objectives. The government failure paradigm developed largely in the public choice tradition as the conceptual analogue to the older literature on market failure and now forms a standard part of policy analysis (see, for example, Wallis and Dollery 1999).

In contrast to the extensive literature on government failure in the State and federal spheres of government (Mueller 2003), little effort has been expended on government failure at the municipal level. However, at least three taxonomic approaches exist on local government failure. Bailey (1999) and Boyne (1998) have both advanced typologies of local government failure drawn from the British experience based on the assumption that government failure is less frequent in local governance compared to state and central agencies. By contrast, Dollery and Wallis (2001) produced a four-fold classification of local government failure on the premise that institutional failure is much more widespread at the local government level. Byrnes and Dollery (2002) extended this typology in the Australian municipal context. They advanced

a taxonomic system in which five main sources of local government failure were developed: ‘voter apathy’, where constituents are typically disinterested in their local councils; ‘asymmetric information and councillor capture’, where part-time elected councillors are dominated by better informed professional bureaucrats; ‘iron triangles’, where elected standing committees, bureaucrats and private contractors develop informal collusive arrangements excluding potential competitors; ‘fiscal illusion’, where voters cannot determine whether they receive ‘value for money’ from council services due to the fiscal complexities involved; and ‘political entrepreneurship’, where councillors intent on political office in higher tiers of government use municipal activities to advance their careers. Byrnes and Dollery (2002) assessed this typology using evidence from NSW local government and found significant empirical support for their typology.

If we assume that each of these categories represents an empirically sound encapsulation of Australian local government failure, then they can be used to appraise the minimalist, maximalist and optimalist models. In the first place, invoking the presumption that the role of councils in service delivery does not itself influence the degree of voter apathy (ie voter apathy is not determined endogenously), then what does widespread apathy on the part of electors imply for the three models? As we have seen, local accountability forms the touchstone of the maximalist model and serves to legitimise any expansion of service provision. It follows that if local accountability is lacking, and is thus less intense than the accountability at the federal and State levels, this undermines the case for maximalism in local government since councils will not be adequately constrained in their use of resources. By the same token, if higher levels of government are more accountable to electors, and the scope for government failure is accordingly lower, then they should therefore assume responsibility for all services not strictly limited to traditional local goods. The same argument obviously applies to optimalism to a less acute degree. On the criterion of local voter apathy, it therefore seems that minimalism is least harmful since it requires the lowest level of voter scrutiny of council behaviour.

‘Asymmetric information and councillor capture’ is amenable to the same line of logic. Since virtually all Australian elected representatives serve in a part-time capacity, and are often burdened with other job responsibilities, superior insight and knowledge of council affairs will almost inevitably rest with general managers and other senior officials, who are thus in a position to manipulate councillors. This problem will therefore confront minimalist, maximalist and optimalist council models alike. But because the decision-making latitude enjoyed by maximalist councils is greater than their minimalist and optimalist counterparts, the damage that can be inflicted by maximalism is greater.

Thirdly, iron triangles pose dangers for all types of councils since they allow privileged private contractors preferred access to lucrative municipal contracts, particularly where these contracts involve complex judgements on potential service quality in awarding tenders. Following the Byrnes and Dollery (2002) conceptualisation of iron triangles, these are more likely to evolve in static environments involving frequent iterative interaction between suppliers, council managers and councillors all operating in a familiar ‘comfort zone’. Since minimalist councils providing largely repetitive basic services generate the most static contracting-out environments of the three models, we argue that they will be most afflicted by this problem.

The fourth source of local government failure in the Byrnes and Dollery (2002) taxonomy resides in fiscal illusion. They contend that this problem is most pronounced in local government due to the significance of two types of fiscal illusion; the 'flypaper effect' and 'renter illusion'. The flypaper effect—so-called because 'money sticks where money hits'—refers to the illusionary nature of intergovernmental grants; constituents regard grants from higher tiers of government as 'gifts' rather than simply a transfer of their total tax liability between tiers of government. Complex intergovernmental financial transfers to councils are more likely in maximalist and optimalist local authorities, and especially the latter model, since these kinds of councils will probably enter into more partnership arrangements than minimalist councils.

The renter illusion derives from that fact that people who rent accommodation do not directly pay rates, but instead make an equivalent financial sacrifice through higher rentals to property owners who must pay property taxes. This can result in an illusion that local government services are 'free' and renters will thus be inclined to demand more services regardless of the costs involved. Accordingly, in municipal jurisdictions characterised by substantial numbers of rental properties, this would imply that the broader scope to offer services enjoyed by maximalist councils could lead to expensive service proliferation and attendant financial imposts on ratepayers.

Finally, the phenomenon of political entrepreneurship in local government refers to the observed large number of elected municipal representatives using their positions as a 'stepping stone' to higher political office. Its potentially malevolent nature derives from the impact that it can have on council activities. 'Headline grabbing' projects initiated by ambitious councillors to capture public attention and thus further their political careers can entail the waste of scarce resources that could be used for more mundane basic services, to the detriment of residents. This kind of activity is more likely to emerge under the maximalist and optimalist models.

Local Government Incapacity

While the Byrnes and Dollery (2002) typology provides a useful method of evaluating the suitability of the three alternative models of local governance to Australian local government, it can be attacked on various grounds, including the fact that it is not complete since it does not incorporate 'bureaucratic failure' as a source of local government failure. In this respect, their taxonomy has neglected an important strand of the broader literature on generic government failure made prominent by the work of Niskanen (1972). In the present context, local bureaucratic failure refers to the inefficient, inadequate or inept implementation of council policies by council employees because they lack sufficient incentives, oversight or skills to implement policies properly. A component of local bureaucratic failure thus resides in a lack of the requisite administrative and technical capacity.

An argument sometimes advanced in the Australian debate over amalgamation is that larger councils tend to possess greater levels of administrative and other expertise, in part due to the fact that their size permits the employment of specialist skills that cannot be acquired readily by smaller municipalities (Dollery and Crase 2004). It is held that this confers a significant advantage on larger municipal units because it enables them to accomplish a wider and more complex range of tasks in a more efficient manner. There is undoubted empirical merit in this argument. Small regional

and rural councils do struggle in terms of acquiring necessary expertise and cannot always use consultants in an effective and prudent way.

But the same argument can be applied to local government as a whole compared to specialist State and federal agencies. For example, complex public–private partnerships require very high levels of skill on the part of government officials charged with negotiating with commercial companies, and this expertise is difficult and expensive to acquire. Higher tiers of government devoted to infrastructure development and the like clearly have a strong comparative advantage in negotiations of this kind with a consequent higher probability of achieving satisfactory public policy outcomes. By contrast, even large metropolitan municipalities struggle to secure equivalent results—as the recent Liverpool City Council Oasis Project debacle illustrates (Liverpool City Council Public Inquiry 2004). This suggests that models of local government reliant on complicated partnerships, like maximalist and optimalist local authorities, which do not typically possess the necessary skill base, will place the interests of their ratepayers at greater risk than more pedestrian minimalist councils.

Local Government Financial Constraints

There is widespread recognition that Australian local government is under fiscal stress stemming largely from inadequate sources of funding (see, for example, the Hawker Report (2003)). In the absence of any imminent solutions to the problem, this has important implications for the role that local government can play in the Australian federation.

We have seen that local government service delivery has steadily expanded into new areas over the past few decades, transforming councils from their traditional minimalist range of services into de facto maximalist local service providers. However, this process has not been accompanied by an attendant increase in the financial resources available to council. The *Interim Report* of the NSW LGI (2006) has argued that the result has been the paradoxical juxtaposition of maximalist service provision with a minimalist funding base. It commissioned a report by Roorda and Associates (2005), entitled *The Present Condition and Management of Infrastructure in NSW Local Government*, which demonstrated that the resultant funding ‘gap’ had been bridged only at the expense of infrastructure maintenance and new infrastructure construction. As a consequence, critical local infrastructure had deteriorated sharply—an unsustainable situation with ominous long-run implications.

If current financial arrangements continue, and no new sources of funding are found, then the present maximalist range of service provision can only continue at the cost of further infrastructure degradation, with severe consequences. This means that if the infrastructure shortfall is to be reduced, service provision will have to contract to make the necessary financial resources available. In terms of the present discussion, this implies that the current implicit maximalist model will have to give way to either the cheaper optimalist or minimalist alternatives.

Other Considerations

A salient question concerning the applicability of these three models to Australian government revolves around their methodological status. It could be argued that

they represent an uneasy combination of normative, empirical and analytical dimensions rather than simply clear-cut models against which to assess trends in the role of local government.³ This criticism seems largely justified. However, while we fully recognise the need to refine and improve the nature of these models as a tool of policy analysis, it must be stressed that this paper represents an initial effort at stimulating a 'debate that had to happen but never did' rather than an attempt at drawing authoritative conclusions.

Concluding Remarks

We can now draw some salient implications from the preceding analysis for public policy on Australian local government. In the first place, the assessment of the three stylised models of local government using the Byrnes and Dollery (2002) taxonomy of local government failure suggested that, on balance, the maximalist model would be most susceptible to organisational failure. Of course, this conclusion can clearly be undermined by successfully empirically or theoretically rebutting the Byrnes and Dollery (2002) taxonomic model, but this has yet to occur in the literature.

Secondly, we sought to cast doubt on the technical capacity of local councils to effectively provide an increasing range of services and indicated that the complexities inevitably involved in many new areas give federal and State agencies a comparative advantage in complicated service arrangements. In essence, maximalism expects a relatively small organisation to cope with the complexity of being a conglomerate service provider. For instance, within the Australian State governments distinct tasks have been bundled into dedicated organisational units that are either self-standing or largely autonomous divisions of a given department. By contrast, councils do not enjoy the luxury of having large specialised units to deal with each of their services. Hence the wider they throw their service net, the less specialist they must become, and so the greater the risk of failure. It follows that maximalism, with its emphasis on varied and complex services, thus falls prey more readily to the problem of local government incapacity.

Thirdly, it has been argued that the minimalist financial resources of contemporary Australian local government are not symmetrical with maximalist service provision and can be maintained only at ever increasing cost to municipal infrastructure. While it could be argued that this problem could be solved by new funding arrangements, this has obviously not yet occurred and does not appear imminent. Accordingly, as long as current financial constraints remain, the maximalist model is not sustainable.

Finally, by way of a caveat to the analysis presented in this paper, it should be stressed that our evaluation of the three conceptual models of local government must be regarded as a tentative exploratory assessment of their applicability. Indeed, this article is intended to stimulate the 'debate that had to happen but never did' over the appropriate role for Australian local government. It is hoped that further effort is devoted to this important public policy question.

³We are grateful to an anonymous referee for pointing out this problem.

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