

# Collaborative Reform between State and Local Government: the Victorian Councils Reforming Business Program

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## **Abstract**

*Collaborative reform is a complex undertaking in the context of the state-local government relationship. The Victorian Government's Councils Reforming Business Program undertook such a challenge over three years. Two reform projects within the program enjoyed success: the alignment of engineering standards and the procurement excellence program. Both projects adopted a collaborative implementation approach, with the state government acting in a brokerage role. The need to work in a complex institutional environment resulted in the projects often operating outside formal government reporting lines, and creating alternative governance mechanisms for decision making. Collaborative reform was preferred because it encouraged sector led solutions and resource efficiency and increased the likelihood of long term sustainability. Having now concluded, the projects have highlighted the sustainability difficulties of integrating short term gains into the institutional structures of state and local government.*

## **Introduction**

This paper examines a three year local government reform program of the Victorian Government. It discusses how the reform program operated in a complex institutional environment that reflects a multitude of different priorities and capabilities. The paper takes a closer look at several of the program's components and their level of success, and addresses how they took a collaborative approach to reform. Finally, the paper examines the circumstances that made such a collaborative reform approach possible, with a view to identifying the necessary conditions for such program's success.

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The Victorian local government sector is diverse in size, capability and capacity. Victoria's 79 municipalities vary in size from just 3000 people to around a quarter of a million. Commensurately, the local government administrations, while undertaking a similar array of functional responsibilities have divergent skills and capacities. The significant disparity makes any approach toward reform or improvement on the part of the Victorian Government a difficult proposition.

## ***The State Government Context***

The local government sector is subject to several state government entities which exert power or influence. Local Government Victoria – a branch of the Department of Planning and Community has responsibility for administering the *Local Government Act 1989*. It also provides guidance and support to councils, as well as reporting to the Minister for Local Government. Other legislation that delegates powers to local government is administered by other parts of the Department and indeed several other departments. The many legislative responsibilities are sometimes accompanied by agreements between agencies, and in cases, mechanisms such as MOUs between a state agency and a local government.

Specialised government agencies that exert power over local governments include the Victorian Auditor General's Office who undertake annual financial audits, and periodic performance audits of local governments, and the Local Government Investigations and Compliance Inspectorate. This agency is a recent development in Victoria, and oversees council compliance with the *Local Government Act 1989*.

The local government sector, broadly defined, is a complex landscape of interests and agendas that rarely accord or align. There is coordinating mechanisms and interaction between entities, however it is possible for them all to be moving in slightly different directions. In the context of pursuing local government reform, there lies a significant challenge in establishing a chosen direction that can be feasibly executed. Steering a path through the many different interests and organisational imperatives can become the most consuming aspect of a reform program.

In Victoria, like many other jurisdictions, the approach to local government reform has taken either an incremental path, or significant systemic change entailing legislative amendment. The latter is most recently exemplified by the amalgamations of 1993-94 under the Government of Jeff Kennett (Galligan, 1998). It is no exaggeration to state that significant local government reform is traumatic, far reaching and possible perhaps only once in a generation. Contrastingly, incremental reform carries less risk, and greater initial support by parties. Nevertheless, such an approach can bring frustrations and difficulties, and the approach carries the danger that little or no progress is made. This is most acute for the entity or organisation leading or driving reform who can find itself stymied.

There is an alternate route possible which is the topic of this paper – a model premised on the concept of a collaborative approach that seeks to align aims, allowing institutions to progress change at their own pace, but pushed along in one direction by a broader program of change. The Victorian Government's Councils Reforming Business (2009-11) program took to operating in this manner. It realised some worthy successes, as well as frustrating failures over a three year period. Two specific projects stand out as examples of collaborative reform between state and local government. But it is worth first turning to

some of the broader literature on institutional interaction and collaboration, especially in the context of 'whole of government' concepts that has gained attention in recent years.

The 'whole of government' concept is perhaps closest in the mainstream literature to revealing how multiple institutions within a single tier of government can cooperate or not (Beal, 1995). Yet the term has become more orientated toward a managerial concept than as a reform model (see for example Commonwealth of Australia, Management Advisory Committee, 2004), and its application with regards to local government reform policy is limited.

Collaborative federalism is a term that has also gained currency recently (Glover, 2005) attempting to describe how state governments can work with each other and the Commonwealth on reform work. The concept has been realised by the COAG reform drive, notably the Seamless National Economy program. This development has also been noted internationally, with the Organisation of Economic Cooperation and Development addressing the effectiveness of the approach (OECD, 2010). But the role of local government in the federal mix has had limited attention, and analysis suggests its place remains marginal (Fenna, 2007).

In other federal systems, such ways of working have also received scholarly attention, attempting to understand how different levels of government can work in concert. The Canadian experience of federalism and its commonalities to Australia is a helpful comparator, particularly in the interaction between the municipal governments and others (see Stoney 2009, Young 2004, Chenier 2009) and the drivers of changing relationships.

The challenges of multiple institutions coordinating their efforts are considerable, and there are many examples where ambition has far exceeded the actual results, especially with regards to service delivery (Richards 2000). Similarly, cooperative mechanisms between levels of government premised on 'partnership' has also gained considerable favour. There is some debate however whether such an approach enhances local decision making or in practice limits accountability and constrains local policy development, especially in the context of partnership between institutional unequals (Geddes 2006). A conclusion from recent experience is that without the use of additional funding as an incentive for institutions to play a constructive role, there is little prospect of success, and what is achieved can come at a cost elsewhere.

This brief review has sketched some of the complementary concepts that accord with that of collaborative governance and reform. All such concepts however share some challenges. These include the intransigence of institutional structures to operating in a more fluid, informal way. Operating in a manner that bypasses or challenges previously accepted norms can build institutional resistance. Traditional ways of working and patterns of organisational behaviour are perhaps the most significant hurdle to reform – sometimes more so than the problem itself being addressed or what is conceived of, in the increasingly popular phrase, a 'wicked problem'.

Local government reform may not be characterised as a wicked problem – indeed municipal improvement is hardly a headline grabber. But the complex institutional environment and the considerable disparity in organisational capabilities and interests make for a considerable reform task. The next section takes a look at the Councils Reforming Business program and in particular, two of its activities: the engineering standards project and the procurement roadmaps.

## ***The Councils Reforming Business Program***

Victorian councils oversee a range of activities within their boundaries including agriculture, industry, mining and commerce. Within each council there is a range of functions such as delivery of infrastructure, child care, environmental protection and local laws. This broad range of activities has resulted in councils developing their own policies, procedures and standards. Whilst it is important for councils to tailor solutions appropriate for their councils inconsistency in some areas has increased the regulatory burden for the private sector and created inefficiencies in council activities. Inconsistency between councils has been an impediment to collaboration. This potentially allows administrative and procedural constraints to hinder strategic undertakings. In procurement for instance, collaborative purchasing allows councils to achieve improved value for money and deliver on other council objectives however differences in procurement processes may make collaborative procurement too difficult to achieve in practice. A council should weigh up the benefits of a unique process against the lost opportunities afforded through coordination with other councils. This level of rigour has traditionally not been applied by local governments in decision making.

The Councils Reforming Business (CRB) program had as its genesis a wish to begin to implement the COAG Reform Agenda of 2007 into the state-local government relationship in Victoria. Yet beyond a general interest in improving local government capacity and skills, there was no explicit design for the program or clear approach. Project funding was provided to Local Government Victoria on the basis of a short project description with few details or specifics. As a consequence, the program struggled to gain traction for its first 12 months, with little progress in the form of outputs. Fortunately, with some renewed focus on devising specific activities and developing a governance structure, the Program began to build momentum. It commenced design of two tightly focused projects to develop common engineering standards, and improve procurement planning respectively.

## ***Infrastructure Design Standards***

Infrastructure design standards are a tool used by councils to communicate a range of design and construction expectations for civil infrastructure, from roads and drainage to water-sensitive urban design. In the absence of a central authority to oversee shared standards, individual councils have over many years, developed their own sets of standards. This has led to variation between councils, greater costs for business and the increased time and cost of new development and the delivery of civil infrastructure. The creation of individual council standards has also put increased pressure on council resources and increased council's exposure to risk.

Consultations between local government and developers identified the significant financial benefits, time savings and better outcomes that could be achieved with the adoption of shared state-wide infrastructure standards. With Victorian local government spending \$1 billion annually on civil works and the private sector spending an additional \$1.8 billion, a shared set of standards was recognised as an opportunity to free up millions of dollars.

The delivery of this reform involved two aspects for LGV. Facilitating state adoption of the standards and establishing a sustainable governance body to oversee long term development of the standards. Facilitating the state adoption firstly involved running a pilot

program with a small group of councils within a designated region. A review of the standards was undertaken by the councils and amendments drawn up to ensure the standards were appropriate for adoption. Industry and community consultation was then undertaken to determine the level of comfort with adopting the standards and identify any significant issues. This consultation process was largely positive with feedback supporting the adoption of the standards. Councils then individually adopted the standards without modification. In essence, the solution to inconsistent design standards came from the local government sector itself.

This pilot became the model for state-wide regional adoption of the manual. Information sessions were held for councils who hadn't adopted the standards. The sessions included speakers from council and the private sector. These sessions were followed up with consultation in the regions of key stakeholders whilst councils reviewed the standards. Consultation reports were provided to councils to support their approvals process.

## ***A Common Standard for Regional Councils***

A robust, common Infrastructure design standard for regional councils has now been created to harmonise civil construction standards across the state. The standard is the result of initial work undertaken by Greater Shepparton, Campaspe Shire and Greater Bendigo councils in 2006 and is currently being adopted by Victorian regional councils. The project was born in local government but councils sought state government assistance in increasing participation and providing a more formal structure for "roll out" and adoption.

## ***The Growth Areas Manual***

The Growth Areas Authority is a statutory body with a mandate to coordinate parties involved in planning and development of Melbourne's outer suburban growth areas. The Growth Areas Authority is involved in planning and coordinate infrastructure provision in Melbourne's growth areas: Casey, Cardinia, Hume, Melton, Mitchell, Whittlesea and Wyndham which all are currently experiencing a population boom.

The Growth Areas Authority and the six Growth Area councils have been working together to create an agreed set of metropolitan engineering standards. These standards have recently been completed and are currently being adopted by Growth Area councils, with other metropolitan and interface councils to follow late in 2011. LGV provided funding and facilitated governance arrangements, taking on the role of a broker between parties. It was this approach that defined the collaborative method. Rather than performing a leadership or directional role, the state government was able to bring parties with shared interests together, who in turn were able to progress take up of the standards at their own pace.

The project has several benefits for Victoria including benefits for councils in shared costs and reduced risks in updating and maintaining standards, greater opportunity for cross-council collaboration and skills sharing and training. Benefits for the private sector include greater certainty around design and construction requirements and faster approvals. A post completion evaluation established that estimated savings for business could be as much as \$14.3 million annually (Regulatory Impact Solutions, 2011).

There were some important lessons learnt from developing common engineering standards. Like many effective reforms, it had a common sense quality that led to some obvious benefits. But as will be noted later in this paper, the conditions required to realise such a style of reform are particular and not always present. Future collaborative reforms if planned, must be sensitive to these conditions. The next section of this paper examines another CRB activity: the Procurement Excellence Program.

## ***Procurement Excellence Program***

In recent years, procurement has been recognised as a key area for reform in the Victorian public sector. A 2009 Victorian Ombudsman's inquiry into procurement practice by one Victorian council resulted in a series of recommendations to improve tendering standards, processes, and manage conflicts of interest (Ombudsman Victoria, 2009). This jolt to the local government sector, combined with a growing recognition of the benefits that strategic procurement has delivered other levels of government and private sector, prompted the development of an innovative local government initiative – the Procurement Excellence Program (PEP) under the CRB umbrella. Launched in April 2010, the PEP focus was to initiate change and embed improved procurement practice in Victorian local governments.

Improved procurement practice is now widely acknowledged as holding the potential to yield significant savings and deliver improved outcomes for local government. To initiate the program, a survey of local government expenditure was undertaken that indicated approximately \$4 billion a year is spent procuring goods and services needed to support Victorian council operations. This considerable sum is over half of councils' overall annual expenditure and business activity. Significantly, analysis suggested annual savings in the order of \$180-350 million could be achieved by Victorian councils through improved procurement practice and increased collaboration.

Whilst some councils are already working on implementing and reaping benefits from strategic procurement initiatives, others remain at an emergent stage and are focusing on bedding down the policy and operational foundations needed to get them on the road to improved practice. It became evident during the initial survey work that the procurement function was located in different parts of local government organisations. Some councils were already on a path to integrating their procurement functions with other areas of operations; critically finance and planning. Others were yet to organise procurement in such a fashion, with procurement units remaining isolated within their organisational hierarchies. A few local governments were yet to understand the importance of procurement in their operational structures, with high levels of decentralisation. In these examples, difficulties were apparent in consistent contracting, weak quality control and cost management.

Such variation required a reform approach that acknowledged the different stages of organisational maturity. The centrepiece of the PEP was the Procurement Roadmap – an improvement plan individually tailored to all of Victoria's 79 councils, attempting to set them on a two-year journey towards improved procurement. Roadmap exercise which enables councils to prepare and implement a detailed roadmap to transform their procurement operations, based on a clear understanding of their individual needs.

Roadmaps were informed by an analysis of each organisation financial data and procurement performance, benchmarked against an existing third party model. Each council was assessed against common factors which formed the basis for workshop discussions and

analysis to determine the current stage of procurement development for each council, relative to best practice in industry and government.

## ***Collaborative Approach to Procurement Reform***

The road map process brought together between five to 20 council staff, from across council operations, to develop a plan ('Roadmap') that reflected the organisational needs as a whole. To ensure that, where appropriate, regional priorities and aggregation opportunities are harnessed, the process culminated in a final workshop for participants to come together with their regional counterparts to share key actions from their Roadmaps. A particular success of the program was been the establishment of nine metropolitan and regional Procurement Networks across the State that are acting as a forum for councils to share best practice, work collaboratively on projects and strengthen their market position.

## ***Future Opportunities***

Common themes emerged from the Roadmap process. Most significantly and as already noted councils across Victoria are at varying stages in their procurement development. This further highlighted the great potential for improvement, with few organisations able to confidently assert that their practices were fully advanced. The road mapping exercise positioned councils to adopt improvements such as standardised procurement documentation, processes and technologies. Organisationally, increased involvement by the procurement team in all stages of the procurement process increased coordination and improved commercial outcomes and compliance with internal policies.

Critical to the program's success has been its ability to bring a combination of stakeholders to the table, including professionals from other organisations, council representatives, peak bodies and State Government representatives. The model was rolled out as a collaborative exercise, with the two tiers of government working in a cooperative way to deliver savings to councils and their communities.

The Roadmaps have provided a useful insight into the procurement needs of Victorian councils, and are highlighting some opportunities that lay ahead for councils. Notwithstanding the progress made, the PEP experience demonstrates that many local government organisations struggle to integrate their procurement with planning and finance. The development of more sophisticated models of procurement is a goal for the future however it is one that councils themselves must pursue. Fortunately the growing professionalism of the procurement trade is providing impetus for reform by local governments.

The growing influence of the procurement profession is starting to deliver some results within local government. What was once understood as a purely administrative function, holding limited appeal and priority for staff and councils themselves, is moving, in an unprecedented way, to a more central place in a council's approach to its business. This momentum has been aided by the growth of training by third party providers. It is also helping to position local government procurement as a progressive, professional and rewarding field. With resources, professional development and collaborative opportunities more readily available than before, it is a promising time for local government procurement

professionals. The evaluation conducted in late 2011 identified potential savings of up to \$4.3 million per annum (Regulatory Impact Solutions, 2011) for Victorian businesses tendering for council work.

## ***Making CRB Work***

The discussion thus far has covered what the CRB program did in terms of activities and projects. It is now time to turn to the how, in the context of the opening consideration of contemporary governance models such as joined up and whole of government, as well as inter-governmental cooperation. The how is significant in understanding how a reform orientated activity can achieving its goals. It is also important in establishing the future viability of local government reforms premised on a collaborative approach. The variables in shaping the CRB program fall under the categories of authorisation, autonomy and governance.

### *Authorisation*

While it may seem an obvious point, the authorising environment was critical factor in delivering. CRB was fortunate to enjoy support by the then Minister for Local Government, who took a detailed interest in the program as a whole, as well as its component parts. This provided an authorising environment that gave immediate credibility with stakeholders. This level of support and engagement was initiated early, with the opportunity provided for the minister to be briefed by the officers directly involved in the program.

Political support was crucial in bolstering the program as a governmental priority and to make sure that sufficient resources are available to deliver on the reform. Political support can be a product of a highly invested minister who is keen to see the reform be successful or in having sufficient access to a minister to provide information and advice. The political support was reinforced by policy support of the Victorian Auditor General's office and Victorian Competition and Efficiency Commission which both identified local government reform as a priority. Also noteworthy was the impact such authorisation has within a state government department. Approvals and endorsements tended to move quicker, with an understanding that political support translated into bureaucratic momentum and quicker decision making. Ministerial authorisation directed the department, as a government institution toward support for the collaborative approach.

### *Autonomy*

Autonomy for a collaborative reform program in delivery is crucial. Needs varied from council to council and from region to region. A feature of the procurement excellence program was its ability to be flexible and adapt to the needs of particular councils whilst still focussing on the broader project objectives. A key part of this autonomy was a clear understanding that reform was about brokering or catalysing a change in the sector. The reform program didn't seek any long term or ongoing role by the state government in the initiatives. This independence from ongoing governance created an opportunity to engage with all councils and identify best sector practice where it existed and spread this more broadly throughout the sector. This independence also assisted in establishing credibility quickly with all stakeholders as there was no agenda beyond the reform itself.



## *Governance*

A third factor critical to the successful delivery was early establishment of project governance. Committees and boards were established that were forearmed with a clear purpose and roles. The governance allowed a clear identification of issues and was integral in identifying solutions that satisfied participants. Without stakeholder commitment implementation of reforms were likely to be impeded through lack of acceptance and adoption of new practices. Stakeholders became responsible for promoting the reforms to the sector which could be informal. The governance arrangements were therefore removed to a degree from the institutional hierarchies of the state and local governments. The brokerage approach taken by the state government was reinforced through the governance arrangements, negating the likelihood of withdrawal by local governments.

## ***Limitations and Conclusions***

The above discussion has sketched a picture of a collaborative reform program that enjoyed some successes. It is however necessary to note the inherent limitations of such a reform approach as well as its drawbacks. Certainly the CRB program, as exemplified by the projects described above, was able to introduce better practises to councils and enjoy some take up and support. Nonetheless, the improved practises espoused by the Procurement Excellence Program were primarily located at the officer level within local government organisations. Similarly, the common engineering standards were able to be implemented because the change occurred in the lower rungs of the organisations concerned, in a mostly technical realm where consistent standards were understood as an easy win and mutual benefit. By contrast, another CRB program that focussed on improving local law making, enjoyed far less success. It is possible to identify the pitfall of targeting a reform at a level that is likely to generate great resistance. In this context, local law making is a treasured power of councils, regardless of its unpopularity among many local government officers. The pilot Better Practice Local Laws project, while producing useful support material for council officers, was unsuited to a collaborative reform approach. It was not able to situate itself in a space where interests were aligned, indeed quite the opposite, for while state government was keen to see increased harmonisation of laws, councils pulled in the opposite direction.

In this respect, aligning interests, which was central to the collaborative approach meant staying away from legislative reform. The nature of the state-local government relationship is hierarchical, and regardless of state government rhetoric to the contrary, the threat of systemic change of local governments is a permanent condition. Any reform that entertains legislative change, the imposition of tougher requirements, or a restriction of existing powers is unlikely to succeed in a collaborative model. These drawbacks take us to the biggest drawback of the collaborative reform model, that of long term sustainability.

The brief period between the end of the CRB program and the writing of this paper has already begun to highlight the problem of sustainability. While enthusiasm for many of the reform activities was great when funding and support was available, it has already begun to wane in areas. Gains that were made have not always changed practices within councils. It is already apparent that without reformed practises becoming adopted by high levels within local government, much of the past 3 years of investment will be limited in reach and impact. Furthermore, reforms were often embedded in individual staff, rather than

organisational processes, let alone norms. As staff move on, or find their new approaches challenged by colleagues, reform is likely to lose traction further.

The three factors outlined above that led to the CRB program working well during its existence: authorisation, autonomy and governance, are also the key weaknesses for supporting long term sustainability following the program's conclusion. In this respect, the challenge for the local governments involved in the CRB program is how to embed reforms into the fabric of their respective organisations and maintain them as more permanent and internalised features. For the state government, the question remains whether collaboration is a viable approach to undertaking genuine reform, or whether it is a short term salve to future, more systemic reform.

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