

## **LOCAL GOVERNMENT IS NOT A BUSINESS. (It is much more important than that)**

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### **Abstract**

For the past two decades public sector reform has been based on the idea of competitive provision and the introduction of business ideals and private sector styles of management into the public sector. The emphasis on adopting a business like approach has usually meant to imply better management through greater efficiency, reduced resources, smaller and leaner governments with a bottom line focus.

However, this focus has had very limited success as it fails to recognise the role of governments and that management in the government sector, and local government in particular, is a lot more challenging than the private sector. Governments deal with the real world of people and a complex mix of social, environmental and broader economic considerations and often opposing values, perceptions aspirations and prejudices.

This paper explores why local government is different, and why it needs to be managed differently. The presentation of the paper will also include examples of the irreconcilable clashes of private and public sector values, the different community expectations applied to local government plus an examination of one council's approach to governance. This approach to local governance endeavours to take the best of both worlds but firmly based on the belief that local government is different, and to be successful needs to be managed differently

### **Introduction**

Much of the debate in recent years - in fact over the past two decades - on local government and public sector reform has been based on the idea of competitive provision and the introduction of business ideals and private sector styles of management into the public sector.

The emphasis on adopting a business like approach has usually meant to imply better management through greater efficiency, reduced resources, smaller and leaner governments with a bottom line focus.

There are two points I would like to make:  
Firstly, no one sector or industry has any monopoly on efficiency and effectiveness, and  
Secondly, managing in the public sector requires a greater range of skill as management in the public sector is more complex and challenging than in the private sector.

The issues of economy (cost reduction) and efficiency, and giving value for money are important in all industries and sectors. However, they dominate in the private sector but the challenges of managing these issues does not compare with the critical social, environmental and broader economic considerations also managed by governments. Governments deal with the real world of people and the complexity of their varied and often opposing values, perceptions, aspirations and prejudices, - as well as the abstract world of fiscal and economic policies. Governments also provide leadership.

Today I've been asked to talk about Marrickville's model of governance. Before doing that which I will do in a fairly brief and summary form as it is a complex issue, I intend to discuss:

- Firstly - some of the differences in values between the public and private sectors, how the community perceives the

differences and what can happen when there is a clash of values.

- Secondly – to describe the fundamental differences inherent in the public sector that are not generally recognised in most management texts and in the classical management models, and
- Thirdly - to describe some of the key aspects of Marrickville's model of governance that is based on a recognition of and an attempt to accommodate these fundamental differences.

### **Examples of value conflict**

Possibly the best/or worst examples of the clash of private and public sector values and objectives, to the best of my knowledge, occurred in Victoria under the previous Kennett government - however unless you lived or worked in Victoria during that period you simply would not believe them.

Fortunately though - after spending the last five years working in NSW – I've realised that there are some very good examples in NSW. Examples that you will be familiar with.

The NSW examples not only demonstrate the differences in objectives but also how many people in the community, including some of substantial influence, have different values and expectations of governments than they do of private corporations.

The reality is that the same standards and principles for conducting a business do not necessarily apply equally to the private and public sectors.

In February 1999 ICAC surveyed the opinions of journalists on the issue of corruption. Whatever you think of the views of journalists and the media, they are very important information providers to the community and highly influential in forming public opinions.

Of those who had an opinion, 98% considered that corruption in the NSW public sector was a problem and one-third of them saw it as a major problem.

However, over half of the same journalists stated that what they considered to be corruption in the NSW public sector was actually good business in the private sector.

It wasn't corruption in their view – it was simply good business.

Possibly one of the best examples of the clash of values and objectives arose with the Olympics – IOC, AOC, SOCOG and an array of notable individuals.

In a previous life I ran the Australian Gallery of Sport and Olympic Museum as well as other operations at the MCG and gained a fair inside knowledge of the Olympic movement and the values and activities of the "Olympic Family".

These were highlighted by John Coates, AOC president, in defending the tactics and favours employed in winning the bid for Sydney – when he said.

"We didn't win it on the beauty of the city and the sporting facilities we had to offer".

Winning was the important thing and the ends were seen as justifying the means. It was simply good business.

In fact, I believe most people in Sydney (and maybe Australia) would support the tactics used.

The SOCOG ticketing debacle is also a good example of where the commercial side of the Olympics clashed with its public/community face.

In this case, concealed ticket sales and grossly restricted public access to key events really was a marketing/commercial decision. Best summed up by Paul Reading, SOCOG's commercial and marketing general manager – in justifying the actions when he declared that "I am the ugly face of capitalism. I'm not employed to give advice on equity, this is about raising money".

Paul Reading was actually doing the job for which he was paid. But he paid the price for the façade that was being presented.

In more recent times the management and collapse of private sector companies in Australia - HIH, OneTel, Harris Scarfe, Ansett

plus others has given rise to some interesting management practices and concepts of accounting, disclosure, responsibility - corporate governance. Similar examples also abound overseas, the most notable in recent times have certainly been Enron and WorldCom but there are many more following their practices. Undoubtedly the examination of these collapses over the next few years will provide examples of what some see as being acceptable in this sector. The quote from Alan Hodgson (HarrisScarfe's former chief financial officer) is a good starting point for what is being exposed and likely to be further highlighted when he said "If I was requested or ordered to produce a particular profit result and I didn't have the means of doing it in a conventional sense...I would simply sit down with [accountant] Michael Johnson and say this is the result I am required to achieve this year, for whatever reason, can you put an adjustment through? And he would."

It is important to bear in mind that the current local government accounting standards are based on the private sector models - the business like approach.

### **Differences between public and private sector management**

I've identified 7 key differences between the public and private sectors. The information has been researched from studies in the UK and Australia.

The 7 key differences identified in these studies are not meant to imply that they apply equally to each and every local government unit, nor that local government has nothing in common with the private sector. That simply is not the case - as there are many things in common. The issue is that these differences are important differences when considering management in local government.

#### **1. Public expectations**

There are several components to this aspect.

#### *Greater standards of public financial accountability.*

The first is that through various legislation and regulations there is considerably greater standards of public financial accountability for the public sector than exists for the private sector.

#### *Higher general expectations*

Besides the statutory requirements, there is generally a public expectation of greater standards of public financial accountability – not necessarily requirements, but an expectation. The public simply expects a higher standard from a public authority.

#### *Extensive expectations – provision and range.*

The expectations are not confined to financial accountability. The public expects governments to have unlimited resources. They also expect that, if something goes wrong (natural disaster – economic downturn) governments should fix it up.

#### *Equity expectations*

People also expect to be treated fairly by public authorities.

#### *Information expectations*

The public expects to get any information that they want from a council. They expect to be told what is going on despite the occasional need for commercial in confidence restrictions.

In regard to a private organisation people do not expect to be told about nuances of commercial or delicate personal negotiations - they, at best, only anticipate an announcement at the end of the process. Not so with a public organisation - they expect a blow by blow description, they demand it and are outraged if they don't receive it.

#### *Public scrutiny*

Following on - everything done in the public sector is constantly under public scrutiny. You work and live in a goldfish bowl

#### **2. Complex organisational networks**

##### *Range of stakeholders*

All organisations in the public and private sectors nowadays operate in multi-faceted environments. But the range of stakeholders

in the public sector is usually considerably greater. This is particularly evident if you compare private and public organisations of the same relative size.

*More complex interface with community*

The range of stakeholders is usually more complex due to the government's interface with its community over the range of services and interests involving, say the council, and the fact that individuals in the community will most possibly have different opinions and commitments regarding each activity and decision of council (eg meals service - traffic officers).

*Stakeholders often unknown*

On top of this stakeholders are often not known until an incident occurs - they then tend to come out of the woodwork. (DA. Closure of a Library or any centre)

*Citizens v Customers*

It is critically important to distinguish between Citizens and Customers.

Books have been written on the important differences between citizens and customers. All I would like to add is that the differences are fundamental and to consider citizens as customers only misses many vital points and ignores the rationale for a public sector and public sector services, in that, not only can many people with the most need for public services not pay for them, but the purpose of public services goes beyond individual needs. Most citizens get council services, whether they want them or not, and in addition they have a right to have a say in what services are provided and how they are provided.

This places citizens in a position in relation to councils as providers that has no real counterpart in the private sector.

**3. Political accountability**

*There is a fundamental distinction between managerial accountability and political accountability.*

It should be quite obvious in that a fundamental distinction exists between managerial accountability and political accountability. In a government it is political accountability that needs to be recognised and accommodated.

Managerial accountability is a restricted notion that relies on those with delegated authority being answerable for carrying out agreed tasks according to agreed criteria of performance, usually couched in terms of achieving value for money through criteria of economy, efficiency and supposedly effectiveness.

Political accountability relates to politicians being answerable to the public that elected them. This involves justification of decisions and actions in terms of values (such as being reasonable, fair, honest, prompt) which reflect stewardship of community interests. The challenge in this context is that the issue of values is general, on many occasions not well defined and therefore, open to interpretation.

Unfortunately, the differences between political and managerial accountability often cannot readily be reconciled to optimise organisational performance.

**4. Clarity of goals and priorities**

*Difficult to set clear objectives and measure performance, particularly in an environment of scarce resource*

This follows on from the political element as the involvement of politics often makes it difficult to set clear objectives and subsequently measure performance.

It is not always in the best interest of politicians to identify clear objectives, particularly in an environment of scarce resources. Invariably, some interest groups will not benefit and are likely to withdraw support. It is often easier to leave priorities unstated, with everything listed as being important, to maintain electoral support.

In politics - if you are not for something - you are deemed to be against it. There is no middle ground or ability to have not formed an opinion. You cannot expect to retain electoral support if you say I haven't thought about an issue - or even worse say you don't care.

**5. Relationship between provision, need, demand and revenue**

*Fundamental difference between private and public sector and how they are managed.*

This is a fundamental difference between private and public sectors and how they are managed.

In the private sector, goods and services are sold at a price to cover their cost of production plus a profit margin. Consequently, any increase in demand leads to increased sales and more profit with the company using every endeavour to increase production to make more and more profit.

The opposite is often the situation with a council - not always, but most times.

Although there is a trend towards user pays for government services, most public works and services are still either provided free of charge or at a subsidised rate. Consequently, any increased demand in the public sector causes difficulties due to fixed revenue bases and the requirement that increased volumes of services have to be supplied from a static resource base. In this situation, unlike the private company, which will endeavour to produce more goods and make a greater profit, public organisations usually institute some form of rationing to substitute for the open market's covert rationing by price.

Governments ration by professional judgments, tightening the eligibility criteria or the attachment of a stigma to a service, or simply saying the budget allocation is depleted.

## **6. Decision making and professional autonomy**

*Decision making in local government a public affair with opposing opinions expressed.*

Decision making in Local Government is (generally) a very public affair.

Before a decision is made on a major issue it is often debated openly and strongly by opposing political groups or opinion holders and this is seen as part of being accountable. Certainly at the local level it is usually the minority view/opposing view that gets the most coverage.

Open conflict rarely occurs in the private sector - there are notable exceptions - NRMA.

*High degree of professional autonomy*

Local Government certainly has a higher degree of professional autonomy than most other levels of government and certainly higher than private organisations.

*Professional opinions often expressed before council determination*

It is common for any of a range of professionals in local government to be required to express their professional opinion before a council position is determined on a matter. This may result in the officer recommendation not being adopted for political or other reasons or even an officer being required to express to a council meeting a professional opinion that is contrary to the established council position.

Such a position or positions are a rarity in the private sector where the emphasis is on closed decision making and professional opinions (expert opinions) only being sought to support a company objective.

## **7. Legal status**

*Local government creature of statute*

Whilst all organisations have legal constraints and requirements, local government organisations are creatures of statute and are subject to constraints not present in company law and not taken into account in general management theories.

*Range of services often prescribed*

Most public organisations have been created to provide services or a range of services. The important implication is that in many cases, they do not have the choice of moving out of that business if it is not profit making. That is usually why they are in it in the first place – because the service was not attractive to the private sector but there was a community need.

*Methods of operation and standards set*

The statutes establishing many public organisations also set out the methods of operation and standards to be achieved and this can constrain operations and ability to adapt compared with the private sector.

The factors listed are not meant to imply that they apply equally to each and every unit and

level of government, nor that management in government has nothing in common with management in the private sector. As stated earlier, that is not the case, as there are many things in common. The issue is that these factors are important consideration for management in the public sector. Critically they are fundamental aspects inherent in the public sector that are not generally recognised in most management texts and in the classical management models.

They are also the factors that make management in the public sector much more complex and challenging than management in the private sector.

### **How then does local government tackle its corporate governance role?**

In addressing this issue I need to refer to the approach that Marrickville Council has taken. That is not to imply that Marrickville's approach is right for all local government units. That is not the case as each Council should consider its objectives, the needs of its community and its own philosophical stances.

In regard to Marrickville there are a couple of points that I would like to make - that give the basic stance of Council and its approach to corporate governance in the context of the issues I have already discussed.

Firstly: Council sees itself as local government – a form/level of government, not a business enterprise simply providing a service for reward and profit. We certainly adhere to good management principles but Marrickville Council is not a business (in the business sense) – it is a level of government – and the level clearly closest to the people.

Secondly: we define corporate governance as: ...the processes and structures used to direct and manage the functions and activities of the Council aimed at enhancing citizenship and corporate accountability with the ultimate objective of realising long-term community wellbeing and prosperity.

Many definitions define corporate governance purely in the terms of rules, regulations and accountability.

Three key components exist in this statement:-

- The aim of enhancing citizenship, and
- Corporate accountability, with the objective of realising-
- Community wellbeing and prosperity.

The issue of the objective of community wellbeing and prosperity is vitally important. To achieve this there is no single formula and it is dangerous to encourage the belief that rules and regulations will. True community well being and prosperity cannot be dictated. It takes a lot more e.g. people, teamwork, leadership, innovation, experience, enthusiasm, energy and skill to produce wellbeing and prosperity.

In this context the challenge to Council has been that when we refer to the community and what it/they want it becomes an extremely complex challenge - bearing in mind that Council provides a myriad of works and services, from hard services like building construction and maintenance, road construction and maintenance to garbage collection and recycling to libraries, child care centres, and services for the aged, families and a range of different cultural groups. Councils are very accessible – and Marrickville averages over 15,000 contacts with the public daily.

The community is so diverse – 80,000 population with over 100 different cultures, speaking over 70 different languages. It is an area that is culturally, socially and economically diverse undergoing rapid gentrification. It has a significant Aboriginal and Torres Strait Islander population, major gay and lesbian communities and the largest population of artists in Sydney (Australia). Mixture of heritage and new developments plus residential and industrial properties.

The complexity and dynamics of Marrickville's community demands sensitive and attentive governance

## **How have we approached it?**

### **Council's Approach**

Has been to combine what might be termed the 'economic' and 'social' models of governance into a unified framework.

#### Economic Model

- Cost efficiency
- Performance management
- Accountability

#### Social Model

- Community building
- Treating people as social beings, and as
- Citizens within our community

The components of the Economic Model were actually not seen as the domain of the Economic Rationalist Approach, or of the business sector. Rather, Cost efficiency, Performance Management and Accountability were simply seen as good management principles.

The components of the Social Model were seen as the fundamental roles of governments.

### **Elements of the program**

Like any model that is designed for a complex organisation there is a comprehensive range of elements that need to be addressed and were addressed in our program - some of the key ones in the program are:

Ensured that Council's Strategic Plan clearly set out Council's role of

- Serving the community
- Involving the community
- Increasing community confidence
- Building community prosperity.

The plan emphasised that developing a sense of community, and sustainable community practices was just as important as delivering programs and services.

Document widely available to staff and the community. Actually well read but by itself had little impact. However it provided the platform for defining the role and the direction of Council and its impact on the community.

One of the first steps was to establish new performance standards and expectations for senior managers that encompassed this broader leadership role.

Agenda for Senior Staff Meetings changed to emphasise:

- organisational communication
- community relations
- mechanisms for encouraging staff initiative and innovation
- a program of manager's forums and staff presentations
- a new language evolved – encouraging, coordinating, representing, leveraging, seeding, building and supporting – not simply delivering services.

Council's Strategic Plan also established the objectives of Council – to focus all areas of Council on a common set of Key outcomes for the community. This was also important to bring together many areas of Council that had developed their own culture and ways of operating.

### **Objectives**

Value for Money - by designing programs to get the results citizens want for their community

Active Citizenship/ Leadership – by energising citizens' interest and involvement in their community.

Social Capital – by building the trust and connection between people that make a community strong and resourceful, and

Sustainability – by encouraging responsible practices and behaviours for environmental and community health.

**Skills (values) for the future** – Council recognised that success in the future would require the development of a new set of organisational skills and behaviours.

The key skills identified by Council were:

Strategic thinking and innovation – to ensure flexibility to new challenges

Communication and citizen participation - to respond to diverse needs and manage potential conflict that could arise through gentrification

Performance management and teamwork – to ensure the best results are achieved for the community through integrated efforts across Council.

These skills are being developed through a Management Leadership program, staff training program and a staff recognition scheme.

Council developed a comprehensive performance management system at the corporate, program, service and individual staff levels (triple/quadruple bottom line)

A 'plain English' description of Council's new direction to focus staff attention on the way that Council works with the community to enhance:

- The look of public places – so that they are safe, clean and green; and
- The feel of community life – to support Marrickville's diverse, innovative and vibrant community.

Also an important tool in ensuring that all staff understood their role in the development of the community. Their own leadership role internally and externally.

Other important elements included:

Further developing council's community leadership role - through selected projects.

Expanding and consolidating the extent of community consultation

The establishment of the Citizens 'Service centre was a key aspect of developing a strong citizen focused culture with 24 hour call centre, 5 community languages and a presence at all major community festivals, events and consultation meetings.

The establishment of an E-business web site that provided real time access and true self service which was critical to Council's concept of Corporate Governance.

The integration of Council's 'citizens not customers' philosophy into every aspect of our work.

## **Author Biography**

**Mr Peter Black** is the General Manager at Marrickville Council, a position he has held for the past five years. Marrickville Council represents the most diverse, vibrant and innovative area of inner Sydney. To meet the needs of its citizens it has developed an approach to governance that has taken the business principles of cost efficiency, performance management and accountability and joined them with the social principle of community building and the need to treat people as social beings and citizens. This formula and its management won the LGMA Management Excellence Award.

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