



## Governance and Sustainability in Local Government

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### Abstract

According to auditor reports in 2021, local government councils are failing their communities and their voters. Victorian Auditor General's Office (VAGO) Reports 2021 suggest that the Councils of local governments are rife with conflicts of interest, manipulation of land deals, lacking independence and captured by their CEOs. The Victorian Government has recently introduced a new *Local Government Act 2020 (VIC)* to address the corruption, poor professional conducts of particular individuals and poor organisational culture exhibited by local government councils. The paper raises questions about what this will mean for local government governance, risk management and accountability, culture and leadership, relationships within councils, and how the inclusion of community governance will impact on the selection of and efficient delivery of programs. A fundamental challenge facing local government is determining the sustainable governance structures and practices that meet the needs of their communities in ways that balance economic, environmental, social and governance concerns. The paper draws on previous research that touch on ESG issues and identifies some areas for further research.

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## INTRODUCTION

Environment, social and governance ('ESG') issues are a priority for all governments around the world. Not least, they are a concern for local governments because local government is at the coalface of implementing many initiatives. Responses to climate change, engagement with communities and changes to government structures and systems and organisation culture are all evidence of ESG responses.

Local government is the third tier of government in Australia below the Federal and State Governments. In Victoria there are 79 Local Government Areas (LGAs) administered by 79 Councils, 31 of which are metropolitan and 48 located in regional and rural shires. Councils are also responsible for 16 separate commercial entities. The Local Government Act 2020 (VIC) ('Act') sets out the roles and responsibilities of Councils, Councillors and Council Committees. Their constitutions are enacted by the State Parliaments, and they are accountable to State Government and audited by the Auditors General.

Local governments deliver a wide range of services to their communities. They include recreational and cultural facilities, waste management, family and community services, land use planning and building control, public health services, domestic animal control and environmental protection legislation, and local infrastructure including town halls, libraries, parks and gardens, roads, and bridges. However, it is widely recognised that the responsibilities of local authorities extend beyond the provision of local infrastructure and local services to include an obligation to deliver more holistic approaches to the well-being of their communities (Dollery 2014). This has become more critical than ever post-COVID-19.

The councils are funded from municipal rates and grants from Federal and State Governments. They also own 16 commercial entities. In the year ending June 2018 Victoria's 79 councils spent \$8.5 billion in service delivery and owned and maintained \$102.1 billion worth of assets and infrastructure. There are 600 councillors who receive an allowance between (\$8,833 and \$31,000 depending on the size of their Local Government Area ('LGA')). Together they employ around 50,000 staff (VAGO 2019).

The conflicting and growing demands now being made on local government Councils amid times of major disruption and uncertain resources are being recognised. Awareness of their growing need of preparing for the uncertainties in future was the driving force behind NSW local governments gathering in 2011 at a 'Destination 2036' forum to plan how local Councils could meet the challenges of the future. The following year an Independent Local Government Review Panel (Samson 2012) was formed and consulted widely. Their Report "Fit for the Future" proposed that regional councils develop greater strategic capacity and skills and assess the scale and capacity of councils against common performance benchmarks (Own Source Revenue, Debt Service Cover and Assets Renewable Ratios; Low 2015).

Developments in Victoria have taken a similar path. Following a recommendation in the Auditor General's 2012 Audit, Performance Reporting by Local Government, the Victorian Government in 2014 set up the Local Government Performance Reporting Framework ('LGPRF'). This is used to build a data base that allows comparative performance to be compared across the 79 councils. However, in their performance audits conducted across Victoria, the Victorian Auditor General's Office ('VAGO') found that council performance reporting and the use of the data was inadequate, and that it offered little insight into the impact of services on the community.

On 24 March 2020 Local Government Victoria ('LGV') introduced a new Act which introduced an integrated approach to planning, monitoring and performance reporting fully supported by guides and templates in the *Integrated Strategic Planning and Reporting Discussion Paper* (LGV 2021).

The Act signalled four key shifts in strategic planning and reporting arrangements that require Council engagement with and response to their communities. These are:

- Community Vision – the Act aims to bring community and its aspirations and longer-term sustainable thinking to the core of policy and strategy development, planning, and fiscal management
- Outcomes focus – a deliberate move to a principles-based Act shifts regulatory focus from prescriptive rules and defined processes towards broadly stated principles and strategic outcomes
- Community engagement – rather than prescribing requirements for community engagement all Councils must now develop appropriate consultation mechanisms (including deliberative engagement) in the context of their community and incorporate these into a policy which was required to be adopted by 1 March 2021
- Additional requirements – new medium and long-term planning elements have been incorporated in Financial Plan, Asset Plan and Workforce Plan requirements.

In November 2020 the Victorian Minister for Local Government, the Hon. Shaun Leane MP issued a statement which spoke to the -

*“deplorable behaviour in monitor and commission of inquiry reports that have led to councils being dismissed and administrators appointed. I especially find disturbing the reports of former councillors berating staff members with sexist and racist comments. This is completely unacceptable in any workplace. I strongly believe that by working together we can improve the culture of the sector overall. Our goal should be to put out a clear message that, as a sector, we won’t accept this behaviour”.*

The Minister set out the Victorian Government’s priorities for the local government sector, including: supporting the social and economic recovery from the coronavirus (supporting local business, consideration for people experiencing hardship), building on the reforms in the Act and addressing cultural change. Particular emphasis was given to the Local Government Act 2020 features of stronger accountability and transparency mechanisms designed to facilitate genuine engagement with community on the work of Council.

LGV states that the requirement to develop a Community Vision (applying deliberative community engagement processes) is intended to ensure that councils incorporate a long-term view (more than 10 years) of the community’s desired future into strategic planning that reflects the ‘look, feel and liveability’ of the community in which their people live and work. While earlier reform initiatives have focused on the financial sustainability of individual councils, the new Act signalled a shift to a focus on the ‘system’ of local government and with this a new way of thinking about the longer-term sustainability of local government governance, council and councillors’ roles, responsibilities, capacities, and culture. The main issues are the conduct of Councils and Councillors, procedures for conducting council business, increased accountability, disclosure of conflicts of interest, community consultation, and compulsory training.

The reforms contained in the new Act specifically required Councils to adopt the Governance Rules put forward in Section 60 by 1 September 2020 and to implement the remaining sections by 2022.

However, there is little research in Australia about the consequences of this changing environment for local government, and what this will mean for its legislation and relationships with the State governments, its financial sustainability, and how the inclusion of community governance will impact on the selection of and efficient delivery of programs. The fundamental challenge facing local government is determining the sustainable governance structures that

meet the needs of their communities in ways that balance economic, environment, social and (ESG) governance concerns.

This paper reviews ESG practices in local government councils, particularly the consequences of this changing environment for local government, and what this will mean for its legislation and relationships with the State governments, its financial sustainability, and how the inclusion of community governance will impact on the selection of and efficient delivery of programs. The fundamental challenge facing local government is determining the sustainable governance structures that meet the needs of their communities in ways that balance economic, environment, social and (ESG) governance concerns.”

The research question for this paper is:

***What are the ESG practices in local governments in Victoria?***

The Victorian Government has recently introduced a new Act to address the corruption, poor conduct and poor culture exhibited by local government councils. The paper raises questions about what this will mean for local government governance, risk management and accountability, culture and leadership, relationships within councils, and how the inclusion of community governance will impact on the selection of and efficient delivery of programs.

**GOVERNANCE IN LOCAL GOVERNMENT COUNCILS**

Governance is about an organisation’s structures and systems, and the relationships, decision making and accountabilities of the leaders of an organisation (Armstrong 2020). Among the reasons why regulators have placed so much emphasis on assessment of the leadership is that to grow and expand, and especially if Councils seek to invest in and expand their asset base, people must be confident that they are functioning fairly - that there is no conflicts of interest, insider trading, that councillors and executives are operating honestly, that earnings are reported accurately, that the accounting is correct, and that there is complete and full information reported to everyone in a timely manner.

Good Governance practices for local governments have been proposed by the Municipal Association of Victoria (2019) and the Victorian Auditor General (VAGO 2019). They support risk management policies and practices including the formal and annual assessment of the leaders of entities (and organisations), monitoring of performance with appropriate measures and reporting actions taken in response. This process is intended to identify areas where performance can be improved and ensure that changes are made.

**Table 1. The MAV Framework for Good Governance in Local Government**

Decision making
Cultures and Behaviours
Structure, Systems and Policies
Communications and Community engagement
Capability
Risk and compliance
Monitoring and Review

Governance is a highly contextual concept, where processes and practices vary significantly depending on the environment in which they are applied. This is evident in local governments where sizes of LGAs vary and relationships in local government are complex. The councils and councillors engage with: the Minister for Local Government, who has the power to direct improvements in governance; the CEO and council administration; other councillors as members of their council; and with residents, community organisations and broader communities.

Frequent Independent Broad-Based Anti-Corruption Commission inquiries (see for example IBAC 2019), the Victorian Auditor General's Office (VAGO 2019) audits of corruption in local government councils, and the sacking of five councils namely Ararat Rural City Council, Central Goldfields Shire Council, Greater Geelong City Council, Frankston City Council and South Gippsland Shire Council, are indicative of the need for greater accountability in the governance structures of local government. VAGO Reports suggest that the Councils of local Governments are rife with conflicts of interest, manipulation of land deals, lack of independence in decision-making and 'CEO-capture'. The poor behaviour and corruption reported suggest that local government effectiveness and efficiency is being damaged by Councils' poor culture and behaviour.

The new Local Government Act aims to deliver on the Victorian Government's 'commitment to modernise how local government works in our state'. This means a focus on greater accountability to the community, a Code of Conduct for Councillors and an expanded reporting framework. Councils must also ensure a process of community engagement is followed in developing or amending rules. The Code of Conduct deals with misconduct and relationships with the Minister for Local Government who has the power to direct improvements in governance. Reforms contained in the new Act specifically required Councils to adopt the Governance Rules put forward in its section 60 by 1 September 2020, and all reforms by 2022.

The main issues identified in the Minister's 2020 statement concerned the conduct of Councils and Councillors: procedures for conducting council business, increased accountability, disclosure of conflicts of interest, community consultation and compulsory training.

## **SUSTAINABILITY**

The Minister's 2020 statement adopted a 'sustainability' approach to reforms. Sustainability in the local government context refers to developments that meet the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland report: WCED, 1987). Sustainable development implies that humans can improve their standard of living by using nature and natural resources in a way that does not lead to their depletion (Riley 2021). Interest in sustainability grew in the late-20<sup>th</sup> century driven by increased global awareness of the threat to the environment posed by climate change and the human-induced enhanced greenhouse effect produced largely by forest clearing and the burning of fossil fuels. In September 2015, the General Assembly of the United Nations adopted the 2030 Agenda for Sustainable Development that aimed to achieve 169 targets and meet 17 Sustainable Development Goals (SDGs).

Prominent among the goals is concern for the environment. In the most recent UN Report (Intergovernmental Panel on Climate Change, IPCC, 2021) scientists point out that evidence of observed changes in extremes such as heatwaves, heavy precipitation, droughts, and tropical cyclones, and their attribution to human influence, has strengthened. Many of the responses required to address environmental issues, and support the sustainability of our way of life, depend on local government actions. Local governments have an important role to play by leading from the front in climate action and protecting their communities from the harmful impacts of climate change through both adaptation and mitigation.

Business sustainability is often defined as managing the triple bottom line, a process by which companies manage their financial, social, and environmental risks (Armstrong and Sweeney 2002; Armstrong et al. 2001). By 2005 reporting of non-financial indicators was widely adopted (Heenetigala et al. 2017). Among the most popular was the GRI index (2005) which combined the disclosure of ESG performance. In Australia, business interest in sustainability expanded when the ASX issued its first Corporate Governance Principles and

Recommendations (2003) and Standards Australia issued Good Governance Standards (2003). These included Good Governance Principles AS 8000, Fraud and Corruption Control AS8001, Organisational Codes of Conduct AS 8002 and Whistle-blower Protection AS8003. More recently, Sustainability Victoria (2019) implemented a training course to encourage local governments to build or revise their carbon inventories and reduce emissions in accordance with the latest standards and guidance. This training course seeks to deliver the most relevant and up-to-date carbon accounting and reporting skills and knowledge to participants.

In the introduction to a review of 190 studies Clark et al (2015, quoted in Heenetigala et al 2017) made the point:

*Sustainability is one of the most significant trends in financial markets for decades. Whether in the form of investors' desire for sustainable responsible investing (SRI), or corporate management's focus on corporate social responsibility (CSR), the content, focusing on sustainability and ESG issues is the same.*

## **GOVERNANCE, RISKS AND LOCAL GOVERNMENT**

Risk is the potential disaster posed by the failure of corporate decisions: the exposure to such issues as economic or financial loss or gain, health and safety (COVID 19), environmental damage (think climate change), or delays as a consequence of pursuing or not pursuing a particular course of action (keeping up with advances in technology, workplace and workforce changes, community expectations). Risk policies and risk management are therefore an essential component of good governance.

Managing risk is about the application of policies and procedures to the tasks of identifying, analysing and assessing risks, determining the degree of exposure to risk that organisations can accommodate, and taking appropriate steps to avoid litigation, loss of reputation or injury. Two key aspects of risk management are: management of resources, and management of stakeholders. The former refers to such matters as corporate management (for example, managing investment, diversification, innovation, relationships with the external political/legal/social environment in which the organisation operates), administrative systems (debt management), technology (information systems), or human resources (loss of skilled personnel). Financial risk in local government has been extensively studied (Dollary et al 2016).

The emerging risks relate to decisions about stakeholder relations and the interests and well-being of people (such as customers, suppliers, employees, affected communities and others who have an interest in the performance of a Council). Managing these risks is an important dimension of organisational culture.

## **GOVERNANCE AND ACCOUNTABILITY**

Good governance requires fairness, transparency, and accountability. Accountability in governance is the acknowledgment and assumption of responsibility for actions, products, decisions, and policies including the administration. It encompasses the obligation to be transparent in decision making, and report, explain and be answerable for resulting consequences. It includes the responsibility for money and other entrusted property and accountability to the wider society. The latter is the reason for the Victorian legislation that requires Councils to take citizens' views into account in their decision-making.

There is a requirement under the Local Government Act for Councils to respond should they receive complaints from their community. Their resolution can often raise ethical and moral issues for Councillors. The Act specifically requires Councils to adopt the Governance Rules put forward in Section 60 of the Act by 1 September 2020. A major purpose of the

governance guidelines is to increase accountability through better planning by local government administration, and better conduct by Councillors that includes disclosure of conflicts of interest, community consultation and compulsory training. The new Local Government Act requires Councils to “Set minimum training requirements for candidates and councillors and clearer standards of behaviour with stronger mechanisms to address poor conduct”

As noted above, Division 3 of the Local Government Act states that managing risks involves implementing performance monitoring and reporting arrangements and ensuring that any changes in the enterprises are reported to councils.

Performance is measured by ‘Key performance indicators’ (KPIs). However, KPIs and performance reporting have their own problems and fail to address ethical and moral dilemmas associated with their use (Francis & Armstrong 2021). For example, as data is collected and compared from widely differing LGAs, interpretation of the statistics can be biased in favour of bigger or more affluent communities. There is also an emphasis on financial indicators, a failure to adequately address social indicators (VAGO 2019) and perhaps to have the skills to understand and use the performance data that is collected.

VAGO recommended that both financial indicators developed by VAGO in the Local Government Performance Reporting Framework (LGPRF) and nonfinancial indicators should inform governance practices. In its most recent report VAGO stated:

*Audited councils do not sufficiently use the LGPRF, or other internally generated data to understand their performance and communicate it to their community or to inform their decisions. They need to shift their perception of performance reporting from a compliance exercise, to embracing it as a principal mechanism through which they will drive service improvement.*

Social indicators measure the effectiveness of programs. Previous research has shown that people are more supportive of actions when they are involved in the decision making affecting them (see Francis 2014). Dollery et al (2014) argue that local co-governance in which local residents work together in a participatory manner to pursue specific goals like local sustainability projects can generate benefits such as enhanced democratic accountability and greater community cohesion. They identified successful examples of sustainable neighbourhood programs in local government. Several models of local government engagement included: community forums where citizens are free to have a say; area committees and neighbourhood management groups; housing-led governance such as tenant management organisations; and devolved budgeting or community budgeting groups which offer indicative preferences on how local authority expenditure can be directed. How decisions are made is a cultural issue. The culture of an organisation comes from the top; leaders set the tone for their organisations. In local government Councils are responsible and accountable for the culture of their organisations.

## CULTURE

Organisational culture is the pattern of basic assumptions that a group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid and therefore to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein, 1985). It can be defined as a particular set of shared values and beliefs that interact with an organization’s people, structures, and systems to define work-related norms for

behaviour. In this sense, a culture represents a pattern of beliefs that have been learned with or from other members of an organisation. By rewarding those new members who fit in with them, and sanctioning those who do not, an organisation specifies the norms and rules for behaviour, i.e. what are acceptable behaviours and what are not.

A distinction is often made between corporate climate and corporate culture. They are closely related. Corporate climate is the experience of the physical environment and interactions with other staff in the workplace. The principles underlying the ways in which everyday tasks are done is driven by the culture, what is seen to be a priority and of value. Although culture in different contexts can appear different (the climate) people may adopt the same principles and values. Escalation of Australia's multi-culturally diverse population, raises many cultural issues (for example, how are gifts or corruption viewed). The inevitable challenges from changes to accepted norms and values raise issues relating to acceptance and tolerance of any changes.

There is a great deal of overlap in the features of desirable corporate cultures described by: Standards Australia (2003) in their criteria for best management practice, Senge (1995) in reference to building learning organisations, Armstrong (1996) when talking about building evaluation cultures and more recently in the Francis Inquiry (2014) when describing the culture in the health professions in the UK. Previous research into organisation culture has investigated its penetration, homogeneity, stability, (Schein 2006) direction and intensity (Fallon & Cooper 2015), cross-cultural differences (Vandekerckhove 2014), compared with organisational climate (Erhart et al 2014), cultural diversity in business (Hofstede and Hofstede 2005, Hampden-Turner and Trompenaars 1998), relationship to values and ethics (Hampden-Turner and Trompenaars 1997, Armstrong, 2020) and its relationship to governance (Armstrong 2016).

Institutional theory (Ashforth et al (2007) has also been used extensively to understand the processes by which structures such as rules, norms and behaviour are established as authoritative guidelines for social behaviour. There appear to be three levels of forces impacting on the development of organisation culture: macro and external influences, pressures from within an organisation and those exerted by individual members of an organisation (Figure 1).

A circumfluent theoretical model assists in understanding an organisation's culture (Armstrong 2019). It is circumfluent because culture is dynamic, all encompassing, flowing around and interacting backwards and forwards, driving change and responding to change. It is based upon the wide range of previous research drawn from several disciplines. In the model, organisation culture operates and is influenced at three levels (Armstrong, 1996):

- at the macro level by external influences: normative pressures including (a) national norms, expectations, standards and regulation; and (b) external stakeholder expectations. External influences on local government culture include (though this list is not exclusive), the Local Government Act, Ministerial expectations, Australian Public Service, the Municipal Association of Victoria (MAV), Local Government Codes of Conduct and community expectations.
- at an organisation level by Council leadership, governance (policies, structures, processes, risks, ethics, values, and accountability); and aspects of the internal physical, social, economic and political factors; and the operation of an administration and its interaction with Council.
- at an individual Councillor level theory of reasoned action, planned behaviour and prosocial behaviour suggest that behaviours are determined by value judgements, beliefs, attitudes, habits and expectations (that include perceptions of organisation and peer support, and self-interest).



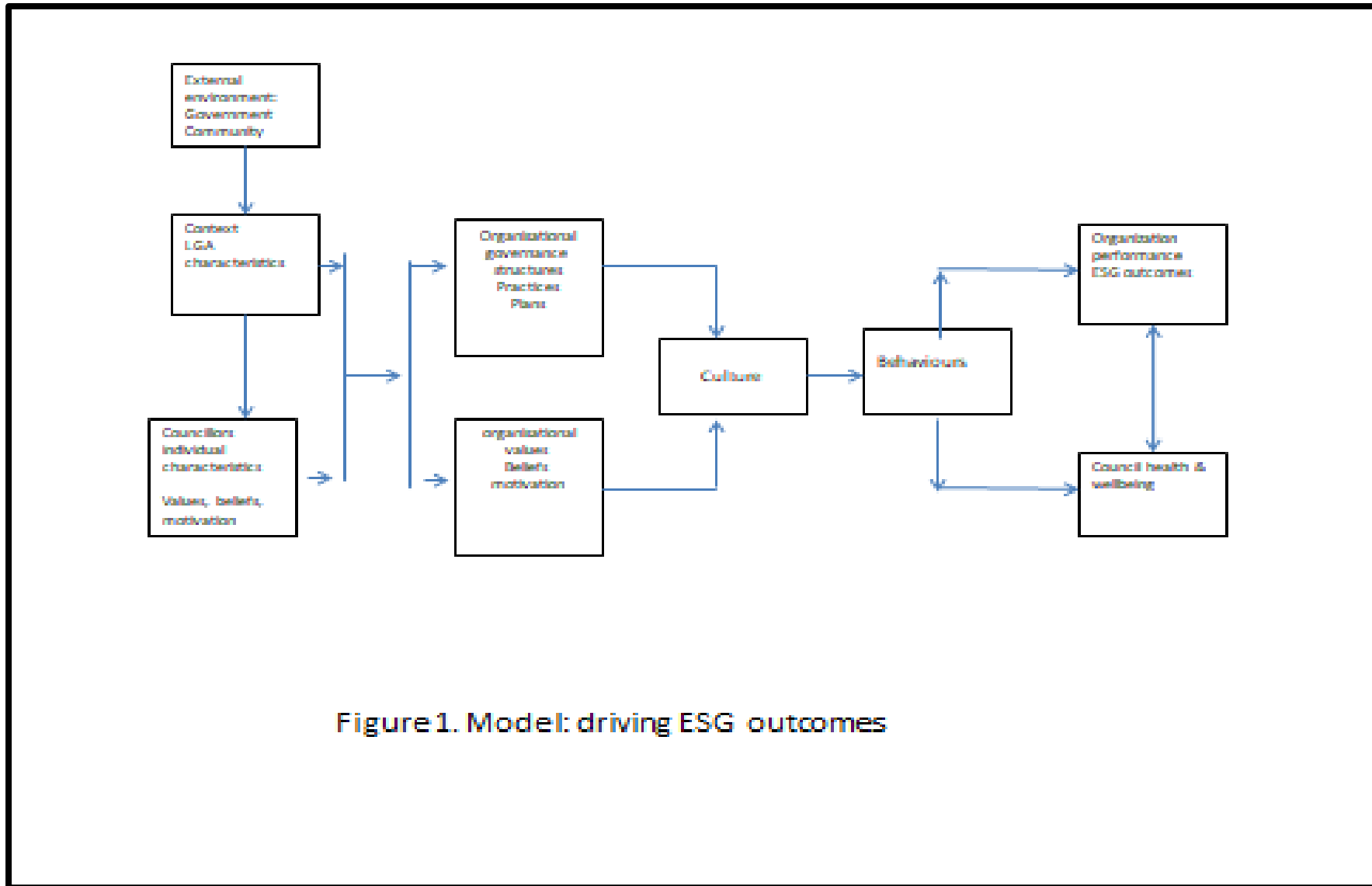


Figure 1. Model: driving ESG outcomes

These factors may overlap, others may disagree with some of the descriptive variables, and they will vary across different contexts. However, they work together to shape a person’s experience of their organisation’s culture. In turn, an organisation’s culture is shaped by the behavioural responses of its members.

Values influence ethics, morals and behaviour (Armstrong 2021). Ethical principles guide the actions and practices that are directed at improving the welfare of society. Theories of ethics can assist in determining what is good or right, what goals people and society ought to pursue, and what actions they ought to perform. The study of ethics represents a systematic attempt, through the use of reason, to question the rules that should govern human conduct and the values worth pursuing. Concerns with what is good for society and what actions are considered proper raise overlapping issues of social mores and morals. An ethical decision is one in which somebody’s welfare is at stake and in which somebody will be positively or negatively affected by the decision. In this case, concepts of justice and rights become considerations.

Characterising a decision as ‘moral’ is concerned with determining conduct to be ‘right’. This can relate to social manners or customs: holding the door open for a visitor; giving up a seat in a tram to an older person; respecting people at work. More broadly [... insert example]. Groups are seen as the “moral anchors” of moral behaviour as their endorsement of specific moral guidelines is a way to define their distinct identity, disagreements between groups, and their interpretation of outgroups (Ellimera, 2017). Emotions raised by feelings of guilt or shame associated with the likelihood of rejection by a social (or political) group can also inhibit good behaviour because they raise self-defensive mechanisms (Ellemers 2017). Group pressures and fear of loss of membership of a group may be one reason why misbehaviour may be tolerated, and whistleblowing avoided.

Morality also relates to individual values that involve attitudes and biases as well as deliberations about what is right and wrong, judgements and emotional experiences. Individuals are often seen as moral when their actions are compatible with communal attitudes, for example displaying self-control honesty, reliability, other-orientedness and dependability (Frimer et al 2012).

**Table 2 Attributes of culture in local government**

<b>Supporting structures and practices</b>	<b>Council</b>	<b>CEO</b>
Governance and accountability	Ethics & morals	Ethics & morals
Compliance	Integrity	Integrity
Teamwork	Values	Values
Plans, Systems & policies	Beliefs	Beliefs
Information access & distribution	Power structures	Org. support
Learning & Development	Respect	Respect
Transparency	Understanding political context	Innovation
VPS values	Demonstrates justice, fairness, balance	Professionalism
Formal Relationships	Manages conflict	Trust
Innovation	Trust	Sense of purpose

Clarity of roles, rules	Independence	Commitment
Code of Conduct	Professionalism	Teamwork
Capacities	Commitment	Expectations
Technology	Sense of purpose	
Resources	Managing relationships	
	Teamwork	

Some research suggests that it is the interplay between thinking and intuitive knowing that shape moral behaviours (Haidt, 2004) A moral leader will give weight to the traditions of their country but recognise that what may be regarded as moral in one situation or time period will be considered immoral in another.

One of the major sources of conflict in today’s society is the views about resolution of ESG issues related to the environment (such as climate change; use of land), social issues (compulsory vaccination; free support for people who are out of work) and governance (the rules, responsibilities and accountabilities of councillors in today’s society).

Issues that raise questions for Councils, and Councillors as individuals, emerge in relation to each of the environment, social and governance categories and require ethical decision making in order to arrive at an ethical response.

Ethical decisions in business are difficult because they do not usually demand a Yes or No answer. They relate to complex issues that often have extended consequences for multiple stakeholders and the outcomes can often be mixed and different. They also have personal outcomes for the individuals making the decisions. A clash between personal values and the values espoused by an organisation can also lead to dissonance and stress for decision-makers.

In ethical decisions, leaders often confront decisions between facts and values. A full description of an ethical business decision does not automatically give a just answer. Many interest groups use the same facts to argue their cases. [The Gun lobby following the Tasmanian tragedy argued that if people have guns they will feel safer (Australian Parliament 1996). Others argued that the tragedy demonstrates the danger of weapons in a community.

While Councillors will often hold similar views about outcomes and goals, conflicts arise about how they are to be achieved. Both the Public Service Commission and the MAV have issued a Code of Conduct to guide Councillor behaviour and the Local Government Act also contains guidance about what kinds of behaviour are expected of Councillors.

## **ORGANISATIONAL CULTURE AND RISK MANAGEMENT**

Several studies illustrate the importance of organisational culture to risk management. Chen et al (2019), for example, define risk culture as shared perceptions among employees of the relative priority given to risk management, including perceptions of risk related practices that are expected, valued and supported. Their paper also investigated the relationship between risk culture and risk structures (effective training, framework, remuneration, risk managers) finding that they are distinct but correlated constructs that together lead to enhanced behavioural outcomes. Most variation in risk culture scores occurs at the business unit level and seems to be driven by the local team environment (Sheedy and Griffin 2014). This is consistent with the hypothesis that culture is a local construct and very much dependent on interactions with close colleagues and the immediate manager.

## **COUNCIL CONFLICT AND PERFORMANCE**

Although research into local government council culture is scarce, research into boards, groups and teams provides a basis for understanding the processes relevant to an exploration of local government councils. For example, research by Minichilli et al (2001) found that the three major roles of a Board are service, strategy and control. In its service role the Board provides advice, help and resources to the CEO; scans the environment for threats and opportunities; and provides a forum for negotiating conflicting interests. Strategy refers to the setting of objectives and deciding how to achieve them, and even could be seen as an extension of the management team. Control refers to holding management to account, i.e. monitoring performance (and the factors which affect performance: Finance, HR, IT, Compliance, etc.).

Performance is measured by effectiveness (meeting output targets from operations, and longer-term strategic objectives) and efficiency (value for money in the production of products or services). Achievement of the outcomes by a Board is a product of a combination of environmental context, group and task design, intergroup processes (e.g. conflict management), how power is exercised, and the psychosocial traits of a Board such as cohesiveness. Cohesiveness is defined as “a dynamic process which is reflected in the tendency for a group to stick together and remain united in the pursuit of its goals and objectives” (Carron, 1982).

Wildenauer (2019) argues that a major influence on the effectiveness of Boards is cohesion of a Board, and this is reflected in the management of power and conflict. In his research, power moderated the relationships between formal governance structures, the responsibilities of directors and their performance. Acquisition of power by Councillors is based on length of service, expertise and leadership of coalitions. This means that how power is exercised on Boards, or Councils, affects both performance and the cohesion and hence a Board or Council’s effectiveness.

Two major types of conflict are task conflict and relationship conflict. Task conflict refers to disagreement about objectives and how to achieve them. In our research we found evidence that groups formed into opposing groups based on support for different visions of what was valued for performance objectives, especially in regard to seeking revenue and its distribution to meet perceived community needs (Li and Armstrong 2021). Relationship conflict is driven by conflicting and often competing values, beliefs, and behaviour of the members of a Council. It can be moderated by the type of task and the cultural context of an organisation. Decisions about the use of land and environmental issues are particularly divisive and spill over beyond a Council to relationships with different sections of a community, and the political stance of State and Federal Governments.

Conflict appears to have an inverse relationship with performance. Too much diversity, particularly in relationships, leads to relationship conflict and lack of cohesion. However, debate and questioning by a Board, especially in regard to a task, are positive and can drive effective decision making (De Wit et al 2012).

## **COUNCILLOR LEADERSHIP AND CAPABILITIES**

Conflicts of interest and division in Council due to formation of power blocks is a common occurrence. Under our democratic government system citizens are supposedly sovereign over the public policy process. Buchholz (1995) identified two problems with this system. First, candidates for elected public office are often packaged and marketed with little consideration given to the merits of issues important to an electorate. Second, because citizens are not interested in public policy much of the time, their lack of participation opens the door to powering minority groups

who may seek power to promote their self-interests rather than those of their communities. VAGO has identified many examples.

Buchholz adds that the reward for achieving public office is the exercise of power. “Power is the lifeblood of the politician.... Power accrues to people who make correct decisions, are skilful at compromise and negotiation, and who can persuade people that they can be trusted with power and will use it in the public interest so that the society as a whole can benefit” (p.65). These attributes suggest that high levels of skills are required for appointments by elected officials. A major purpose of the governance guidelines is to increase accountability through better planning by local government administration, and better conduct by Councillors that includes disclosure of conflicts of interest, community consultation, and compulsory training. The new Local Government Act addresses the skills and capabilities of Councillors by requiring Councils to “Set minimum training requirements for candidates and councillors and clearer standards of behaviour with stronger mechanisms to address poor conduct”.

Yet, few questions are asked about how they are selected, elected and, in particular, perform. Are Councils failing because of ineffective leadership? Leadership, in its broadest sense is vitally important to the effective implementation of socially responsible and environmentally sustainable strategies. Have the leaders of our Councils become tied to outmoded views of their roles and in their desire to ensure survival and growth “become guardians and protectors of practices that continue to deplete resources and in effect become blockers rather than enablers of development and transformation” (Eweje and Bathurst 2017)?

## **GOVERNMENT BUSINESS ENTERPRISES**

Research into the financing of local government organisations suggests that their financing models require attention (VAGO 2019). Local Councils have a history of providing a diversity of local services such as childcare, garbage disposal, car parks and local markets. However, income-generating enterprises such as markets, housing developments, and theatres can raise conflicts of values for Councillors. To what extent should these ‘services’ be free and an expense in Council finances, or should they be sources of Council revenue? Are they too much of a risk to a Council? Do Councils and their government appointed administrators have the business knowledge required to assess business performance?

As communities are exposed to more change and disruption due to COVID19 there is increasing disquiet about whether present local government structures and processes are sustainable in today’s society and whether they should be changed.

A further complication is that ownership of independent companies by local governments will involve meeting the Governance Principles of the ASX which are the foundation for many governance guides and recommendations (2003). VAGO (2019) suggested the Governance Principles that should guide governance in Local Government Councils could equally be applied to local government beneficial enterprises.

The involvement of local governments in commercial activities raises significant issues for Councils including real or perceived conflicts of interest between the regulatory and ownership roles, the capacity and competence of local Councils to manage such enterprises, relationships with the Board of the entity and balancing the potential conflict between the financial and social objectives of most of these types of enterprises. Conflicts emerge between those people who want Councils to support the establishment of local enterprises and others who regard government enterprises as unfair competition.

Several reviews of the governance of Victorian Councils have been conducted (VAGO 2019) but few appear to have investigated the governance arrangements between Local Government Councils and their commercial enterprises.

## **IMPACT OF COVID19**

One result of COVID19 has been signs of a recent shift in the thinking underpinning economic and political theory. Over the past twenty years, there was a move away from government involvement in providing services to a position of contracting out and monitoring the performance of service providers (the “steering, not rowing” imperative; Armstrong 2013). The results of Royal Commissions in the domains of disability, aged care and finance (VAGO 2019; Hayne Royal Commission 2019) have indicated failures in many aspects of service provision. Consequently, State and local governments are experiencing pressure to meet public requests to become more involved in local economic support and local service provision. This may include partnerships or other arrangements with the private sector.

There is a realisation that the future of local government is tied to sustainability. This connotes heightened sensitivity to sustainability concerns expressed by community groups and wider society. If this trend continues, there will be an increasing likelihood that local governments will need to broaden their sources of revenue, placing question marks around continuing revenue from commercial (beneficial) enterprises. This has already exposed new governance concerns related to potential or perceived conflict between regulatory and ownership roles of local governments and the need for greater monitoring of performance and outcomes of their commercial enterprises. Division 3 of the Local Government Act states that this involves managing the risks involved, implementing performance monitoring and reporting arrangements, and ensuring that any changes in the enterprises are reported to Councils. A further complication is that ownership of independent companies by local governments will involve simultaneously meeting the Governance Principles of ASIC and the ASX (which are the foundation for many governance guides and recommendations) and the regulatory requirements specific to local government. VAGO (2019) suggested the Governance Principles that should guide governance in business could equally be applied to local government beneficial enterprises.

## **CONCLUSION**

Perceptions of local government in Victoria have been challenged by dismissals of Councils and exposure of unprecedented levels of conflict and corruption within Councils. The aim of a new Local Government Act is to bring about changes in the behaviour of Councils through changes in governance, attention to the culture of Councils and encouragement of heightened engagement with their communities.

The paper argues that sustainability of future growth and well-being of local government in our communities can be assisted by good ESG practices. If carefully implemented, measures of ESG will provide vital missing information in measuring local government performance, i.e. well-designed social indicators which complement financial performance indicators. This paper has addressed essential components of good governance (risk management, accountability, managing conflicts within Councils), the role of ethics and moral values in culture, and raised the issues of Council capabilities and potential conflicting values in seeking alternative revenue sources. The paper draws on previous research that touched on ESG issues in local government, but it has identified that there is a pressing need for further research. Among the questions that need to be

addressed are: To what extent are local governments complying with the new Local Government Act? What is still missing? What should be changed? How is ESG being addressed in practice? What is the relationship between ESG and culture in a local government context? Further research into cultural and ethical considerations particular to Councils, community governance and ESG 'in practice' will provide a strengthened basis for understanding the processes relevant to in-Council behaviour.

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