

8. Beyond Whole-Of-Government: Varieties of Place-Centred Governance

Professor Ian Marsh

The prime focus of this report is governance. Whole-of-government is the currently favoured administrative design. The previous section discussed the fundamental difficulties that afflict present whole-of-government arrangements. In this respect, Australian experience matches that of other jurisdictions, which have tried whole-of-government and found it wanting. In its place, a number of new or supplementary frameworks have been introduced to shift the locus of choice and decision away from highly centralised arrangements towards more localised contexts. This is reflected both in the *Total Place* initiatives in England and in the attention to place-based approaches in current OECD work, which in turn reflects developments in particular states. In both cases, the drastic cuts in public spending following the 2008 GFC have coloured implementation (e.g. Crowe, 2011). Also relevant are 'learning-by-doing' approaches which offer a new accountability framework to reconcile national concerns with local initiative and freedom of action. Finally, imaginative 'place-based' developments, covering the provision of otherwise threatened local services and the realisation of efficiencies through collaboration between authorities at the local level, are also evident in Australia. These are detailed in a comprehensive report on local government RAPAD, (2007). These varied governance design are reviewed in turn. A concluding section explores the consistency of these approaches with recent official reviews of the public sector in Australia.

1 The *Big Society* in Britain.

David Cameron's Conservative Party won a majority of seats in the general election of May 2010 but not sufficient to form a government. His subsequent coalition with the Liberal-Democrat Nick Clegg was based on a formal agreement of which *The Big Society* was a key part. The agreement foreshadowed a series of decentralising actions including: a review of local government finance; reform of the planning system; the end of ring-fenced grants and Comprehensive Area Assessments; the establishment of directly elected Mayors in 12 English cities; the creation of a 'general power of competence' for local authorities, and new powers for communities to takeover threatened local facilities and to bid to operate services that are now provided by public authorities; new powers to instigate local referendums; more scope for mutual's, cooperatives and social enterprises in running public services; and the establishment of a Big Society Bank.

In the first instance, these broad commitments have been implemented via changes in the remit of central departments and through several specific programs. Apart from the Prime Minister and his Deputy who (as party leaders) carry prime responsibility for what is the government's principal domestic initiative, three ministers are leading implementation:

the Secretary of State for Communities and Local Government, who heads the eponymous department (DCLG); the Minister for Decentralisation who has a broad remit for decentralisation measures across government and is located in DCLG²¹; in addition a Minister in the Cabinet Office has overall responsibility for *Big Society* measures particularly as they affect the civil service, social enterprises, volunteering etc and a division with specific responsibilities in these areas has been established in that department.

In so far as it concerns the effectiveness of public services, *The Big Society* draws on strong empirical grounds: as we will see, it is powerfully justified by political, social and fiscal evidence. However, as will be clear from earlier discussion of the miscarriage of our own whole-of-government efforts, it also presents profound challenges to existing highly centralised governance arrangements. This includes, not least: how to preserve central influence on overall economic and fiscal management; how to persuade central departments and ministers to let go authority; and how to defuse media driven crises and reframe political accountability. These may not be insuperable problems. But the designs that might reconcile more decentralised responsibilities with desired central capabilities have yet to be worked through. As will be discussed in a later section, there are putative solutions – for example, ‘learning-by-doing’ designs offer one novel solution (on page 84) – but in moving to a new more decentralised governance configuration it would be self-defeating to underestimate their scale.²²

Decentralised governance represents a deliberate shift away from the top-down pattern which was common to both the Thatcher-Major and Blair-Brown governments. In particular, the Blair-Brown years were marked by substantially increased investment in the public sector and the development of arrangements to enhance central control but in conjunction with whole-of-government delivery at the local level. Organisational arrangements to buttress central control and to drive service improvement included special units in the Cabinet Office to facilitate strategy development and to drive program change. In addition, the performance framework was extended with a plethora of targets

²¹ The now Minister, Greg Clark wrote a book in 2003 which he describes as making the case that ‘if central government is everywhere, then local government is nowhere’ (*Total Politics: Labour’s Command State*, London: Conservative Policy Unit, 2003).

²² For example, in their report on the Localism Bill the Communities and Local Government Select Committee pointed to the lack of a coherent framework which would indicate how the various measures might fit together: ‘It is surprising that we have not come across a coherent, comprehensive vision of how public services and local democracy will change in response to the Government’s agenda’ para 21, p. 13. Later they noted the somewhat paradoxical situation in which an agenda designed to promote decentralisation was introduced without any consultation with the interests who would implement it: ‘The views of those outside government about how the policy should be defined have not obviously been taken into account. We recommend that the government undertake a formal consultation to gather the views of local government and other stakeholders about what sort of localism *they* would like to see.’ Para 32. P.18

and measures. To facilitate joined-up working, Joint Funding Agreements were also introduced. There is an extensive literature on all these development (e.g. Barber, 2008; Marsh and Miller, 2012, esp. Chps. 3 and 4).

The profound limitations of this experience fanned interest in more radically decentralised approaches. An early move occurred in 2006 when the Lyons review of local government proposed attention to place based approaches. In subsequent years, within and beyond government, attention to alternatives flourished. Think tanks have been important contributors to the emerging agenda (e.g. ResPublica, 2008, 2009; Demos (Wind-Cowie), 2010 ; IPPR 2010 a, b, c, 2008; NESTA, 2011; The Young Foundation, 2010 ; the Institute for Government, 2011; new economics foundation, 2010). In addition, the House of Commons Public Administration Committee and the Communities and Local Government Committee have reviewed aspects of the new approach (HC 547, 2011). The number and variety of these sources indicates the vitality of this extra-mural policy discussion in the UK, a point which is relevant later when we consider the very limited extra-mural engagement in strategic policy development in Australia

The government has since taken several steps to advance its decentralising agenda. These include commitments to create elective Police Commissioners for each police area with responsibilities for overall strategy and public liaison, but in conjunction with Chief Constables. In addition, following a program introduced by Tony Blair, incentives for the creation of citizen or community-controlled schools (school academies) have been further developed and there are proposals to decentralise health administration – although these are now stalled as a result of political reactions. The government also abolished a variety of regional administrative structures.

But the most significant step so far involves the *Localism Bill* introduced in December 2010. The details will be reviewed shortly. But the general case for this approach was powerfully developed in the report *Total Place* published jointly by the Treasury and the Communities and Local Government Department (March 2010). The following quotes from this report document the basic case for change:

'Resource mapping demonstrated the complexity of funding streams. A pilot conducted over 2009 in 13 areas, which focused on social development spending, covered \$82 billion, approximately one-fifth of the total public spend in England. The per-capita spends ranged from L6000 in one area to just on L9000 in another. These differences reflect variations in relative deprivation. The pilots 'exposed the complexity of the 'internal wiring' of public service delivery. The large number of individual grants and poorly aligned objectives of similar services across different policy areas can limit the ability of delivery organisations to join up services around users.'

A citizen viewpoint shows how public services are often impersonal, fragmented and unnecessarily complex. For example, the Leicester and Lancashire survey identified almost 450 face-to-face service points, 65 separate call centres plus 75 web sites providing customer services. In Lewisham's the survey identified 120 projects or programs providing various forms of support to workless and unemployed people. The

Bradford review concluded: 'By adopting the culture of people and place rather than organisation and/or department at a central or local level we can significantly change the way public services are accessed and delivered.'

The system currently driving the delivery of public services is overly complex. Cross organisational working at the local level requires governance and accountability regimes which align the approaches of different auditors, inspectors, managers and national and local political leaders. Template protocols for pooled budgets and other joint working arrangements are being developed. Local authorities currently report performance against 188 indicators. For frontline services one authority reported against 706 measures and another against 930 measures! Reporting can also be on different metrics. For example the Police Department and a Youth Offending Team in Bradford measured the number of first time offenders differently – but both organisations need to work together to deliver outcomes.

Individuals and families with complex needs impose significant costs in areas but in most cases they are currently not tackled through targeted or preventative activities. The pilots demonstrated that much current public spending was focused on consequences not the causes of complex problems. Other research demonstrated the very substantial costs (and the potential savings) in moving families from 'chaotic' (£49,425 per child) to 'barely coping' (£6527 per child) and then to 'coping categories' (£643 per child). The pilots indicated that in order to target services, the involvement of a wide range of organisations was needed to 'wrap' services around the individual. Sharing data proved to be a particular problem. For example, one Family Intervention Project involved a single case worker who helped families with multiple problems to get the help they needed. The problems encountered included crime, anti-social behaviour, attendance/behaviour problems and evictions. Treated separately, costs were estimated to be ten-times larger' (*Total Place*, various pages).

The purpose of the Localism Bill was to 'devolve greater powers to councils and neighbourhoods and give local communities control over housing and planning decisions'.

The core elements of the Localism Bill were:

- **Regional Strategies:** Hitherto a variety of top down and Whitehall based targets and procedures have framed local decision making. These are abolished.
- **General Power of Competence:** Local authorities are empowered to do anything that is not specifically prohibited by law.
- **Communities' right to buy:** The Bill gives local communities the power to bid for local assets threatened with closure and to bid for the ownership and management of community assets. In addition, community organisations will have greater opportunities to bid for assets where these are essential or them to deliver existing or new services. Public services will also be encouraged to seek offers from staff who want to take over and run services constituted as employee-led mutuals.
- **Neighbourhood plans:** The Bill reforms the planning system by extending the rights of communities in planning processes.

- **Spending:** Much of the spending provided directly by central government via general grants remained ring-fenced. Most of these restrictions are to be progressively abolished. The move to community budgets which enable local areas to pool funds from different programs is also foreshadowed to be completed by 2013.
- **Community Right to Challenge:** The Bill incorporates a right for communities to challenge to run local authority services
- **Participation:** Opportunities for local referenda are extended. The Bill introduces elected Mayors for the ten largest English cities.

Two Parliamentary Committees have since held extensive hearings on this Bill (Public Bill Committee, January to march 2011; Communities and Local Government Committee, HC547, 7 June 2011). Evidence to both committees covered issues which were seen to remain unresolved despite the government's stated intentions. These included:

- *Bundled funds and Community Budgets:* 'Community Budgets' covering services for at risk families are currently being trialed in 16 areas and being considered for a further 34. To work successfully significant funds that now flow via siloed departmentally based programs, would need to be bundled into single grant and devolved to an authority with appropriate governance capacities and public legitimacy. *Total Place* analyses indicated that approximately 70% of public funding for individual services came from three departments – Health, Works and Pensions and Education. The foreshadowed trials will only involve about 10% of the total funds. Further, since the change of government other new measures would seem to undercut the ability to bundle funds at the lowest appropriate spatial level. For example, the Department of Works and Pensions has reorganised welfare-to-work into a single Work Program, which is being administered centrally on the basis of regional contracts. Local government has been excluded from direct participation in these arrangements, thus complicating the development of context specific employment and developmental programs at the local level (see later references to OECD reports on the desirability of creating at appropriate spatial levels whole-system employment and development capabilities).
- *The 'right to challenge'.* Charities, social enterprises and co-operatives (but not so far for-profit providers) are accorded the opportunity to challenge to operate services now channelled through local government. For example, this might cover offender and community services, social care etc. This builds on a consultation Green Paper issued in October 2010 (*Building a stronger civil society*) in which the Government foreshadowed a much expanded scope for non-government bodies to bid for the delivery of public services. A White Paper had been promised for February 2011 however it has been delayed - according to press reports as a result of differences within the coalition about the relative emphasis on community involvement versus for-profit providers. The tensions surrounding choices between local and for-profit provision were succinctly expressed in evidence to the Communities and Local Government Committee by *Voice4Change England*: 'Whilst

localism and devolution of power to communities can support public service reform, it is not a given that public service reform supports localism. If proposals on opening up public services are not managed properly then it is not local businesses or charities that will take over services but large corporations'. The government is committed to ensuring 'social value in the local area' is taken into account in benefit-cost calculations but has yet to define how this will be valued. A metric for calculating 'local social value' will also be critical to facilitate evaluation.

- Localism requires new analytic tools to determine appropriate spatial scales and to properly value 'community development' and on-going innovation. The government has yet to develop a methodology that would allow an analysis of the relative merits of different spatial levels of service provision or one to assess the value of 'community development' or on-going innovation.
- For example, there is no automatic coincidence between a scale that maximises economic efficiency, a scale that is most likely to encourage innovation and a scale that is most likely to encourage economic and community development and job creation. Spatial levels for employment, economic development, infrastructure, social development, and policing, schooling and primary health care do not automatically coincide (see later discussion of this point in relation to collaboration between local authorities in Australia, pp. 88-89)
- Moreover, the government is committed to ensuring that 'social value in the local area' is taken into account but has yet to define how this will be accomplished. Similarly, it has not developed an approach that would allow potential for innovation, which is a key element of the case for change, to be incorporated in analyses.²³ One approach may promise an immediate benefit but another may offer one that is unfolding and perhaps more uncertain. A fair metric or framework to evaluate such alternatives is required. This also spills into accountability processes since any measures would be pertinent both at the both initiation and evaluation ends of the exercise.
- *Freer Use of Grant Funds:* The government has rolled more funds into Area-Based Grants for local authorities and proposes to add more as the program develops. The aim is to create more flexibility in how the money is spent by a community – but what if the local decision is to divert funds to other purposes? Take Supporting People's Grants. These provide housing-related support for vulnerable adults. Different stakeholders reacted differently to the government's proposal to return this money to general funds. Local government representatives welcomed it. NGOs representing the individuals involved were much more guarded. The government has not explained how it will ensure equity for the most marginalised or most

²³ Schumpeter's paradox of competition is pertinent: 'A system that at every point of time fully utilises its possibilities to the best advantage may yet in the long run be inferior to a system that does so at no given point in time, because the latter's failure to do so may be a condition for the level or speed of long run performance'.

needy or least articulate. Minimum national standards and enhanced transparency and scrutiny capabilities may be a way – but they have yet to be enacted.

- *Political accountability*: The Bill envisages devolving wider responsibility for public service provision to local levels but does not address issues of political accountability. Despite the government rhetoric, there are already gross examples of governmental reaction under media pressure to highly local issues.
- *Coordination at local levels*: The relationship between the various components of localism remains ill-defined. For example, the government's proposed reform for policing and schools devolve responsibility to other bodies with no incentives to link activities at the community level. Where does the expansion of school academies, GP commissioning and elected police commissioners leave the role of local government? A more diverse range of elected authorities and autonomous service provider complicates the task of ensuring approaches are strategic or joined up at the community level.

In evidence to the Public Administration Select Committee, Professor George Jones underlined the depth of the challenge that decentralisation presents to the dominant centralised ethos:

'Centralism pervades the legislation on the localism proposals.The Local Government Association has calculated there are at least 142 order and regulation-making provisions, in addition to the 405 pages in the Act, with its 208 clauses and 25 schedules. One foresees the forthcoming Act being accompanied by panoply of regulations and orders, as well as by almost endless pages of guidance, as the centre seeks to determine what should be done locally, rather than the local authority which knows local conditions and is accountable locally.

14. It is as if central government knows no other way to act than through command and control enforcing detailed prescription. Yet localism will develop only if centralism in the culture and processes of central government is effectively challenged.

15. Centralism pervades central government in forming its attitudes and determining its procedures and practices. It draws strength from the culture of the various departments of central government, which do not trust local authorities to run their own affairs and know no other way to deal with them than through regulation and detailed guidance designed to ensure they act in ways determined by the centre. Departmental attitudes are reinforced by ministers who have their own views as to how local authorities should act and wish to require them to act in that way.

17. Past experience suggests that ministerial words calling for localism do not translate into localism in practice because of the dominance of centralism in central government. Michael Heseltine, the Secretary of State in 1979, announced a bonfire of 300 controls, but the centralist culture remained unchallenged and over

time new controls were introduced, more than replacing those abolished. The Labour government often set out policies for decentralization to local authorities but the reality was detailed control in targets, inspection, prescriptions and guidance. There is no better illustration of this approach than the at least twelve regulations, five directions and nearly two hundred pages of guidance specifying exactly how local authorities should introduce new political structures, virtually all of which will remain in force after the Localism Bill becomes law.

18. Unless challenged the culture of centralism will prevent localism becoming more than words from a Minister or in a White Paper as has happened in the past. If the Government wants, as it asserts, to see localism developed in practice, it must recognise the need for changes in the attitudes and practice of the departments of central government. Words by themselves will not be sufficient. Measures are required to entrench localism

Ideas advanced in the Bill hearings may have wider application. One involved the creation Public Service Boards, which could be established at an appropriate opportunity-focused spatial level. They could be composed of existing elected council members and nominated members representing both other community bodies and central government agencies and departments. Their role would be to allocate resources and commission services from other public bodies. These Boards could also be accorded the right to bid to manage resources that are now allocated by central or state departments on a regionalised or local basis. For example, unemployment, policing, welfare and educational programs might be opened to bids to bundle money and reassign resources according to local priorities and needs. This would require the creation of a separate authority both to adjudicate such bids and to ensure accountability.

The British initiatives involve decentralising proposals in a familiar political culture and institutional setting. Another approach is explored in a number of current and recent OECD reports. These suggest that, in further developing effectiveness in the provision of public services, place based approaches are the primary candidate. These analyses are summarised in the next section.

2. Place-based Approaches in Recent OECD Work.

The extent and variety of place-based approaches in recent OECD studies indicate the emergent appeal of this framework. In the quest for sustainable economic development, jobs and the effective provision of public services, the establishment of context-specific capabilities are seen to be primary. They represent the next move in the development of public management. Place-based approaches are suggested for a variety of contexts including economic development and innovation, social development, city and rural development, unemployment, deprived areas and high needs contexts. This is indicated in the following list of recent studies (with additional studies listed in the footnote):

- Managing Accountability and Flexibility in Labour Market Policy(2011)
- Breaking out of Policy Silos: Doing more with less (2010)

- Strategies to Improve Rural Service Delivery (2010)
- Regions Matter: Economic Recovery, Innovation and Sustainable Growth (2009)
- How Regions Grow: Trends and Analysis (2009)
- Linking Regions and Central Government: Contracts for Regional Development (2007)
- Governing Regional Development Policy: The Use of Indicators (2009)
- Flexible Policy for More and Better Jobs (2009)
- Linking Regions and Central Government: Contracts for Regional Development (2007)
- The New Rural paradigm: Policies and Governance (2006)²⁴

One proposition is common to these reports: whilst it is paramount to get institutions right at the local or regional level, there is no one-size-fits-all solution. According to one OECD analyst: 'In many countries, the regional/central vertical governance gap is significant: the centre faces information gaps and the regions confront capacity gaps. Moreover, it makes little sense to speak of 'centralisation' or decentralisation in general – the details are always the key' (William Coleman, *Presentation to Australian MPs*, October, 2010). Historic, institutional and local characteristics should shape governance designs. For example, in relation to development, the emphasis is on differentiated strategies and organisational designs which can detect and then exploit existing or potential niches or opportunities. Implicit in all of the foregoing is the key role of local engagement and empowerment.

In designing place-based arrangements, the OECD has developed two frameworks. The first sets out systematically the seven core dimensions of a governance system: information; capacity; funding; policy; administration; objectives; accountability (Mind the Gaps – A Tool for Diagnosis, see Table 1 following). These individual elements are defined as follows (Chairbit, 2011 a and b):

'i. *An information gap* is characterised by information asymmetries between levels of government when designing, implementing and delivering public policies. Sometimes the information gap results from strategic behaviours of public actors who may prefer not to reveal too clearly their strengths and weaknesses, especially if allocation of responsibility is associated with conditional granting. However, it is often the case that the very

²⁴ Delivering Local Development through a Comprehensive Approach to Strategy, System and Leadership – Highlighting the Case of Derry-Londonderry, Northern Ireland (2011); New Approaches to Rural Policy: lesson for Around the World (2005); The New Rural Paradigm, Policies and Governance (2006); OECD Territorial Reviews, France (2006); Job Rich Growth: Strategies for Local Employment, Skills Development and Social Protection (2011); OECD Science, Technology and Industry Outlook (2010)

information about territorial specificities is not perceived by the central decision maker whilst sub national actors may be ignorant about capital objectives and strategies.

ii. *The capacity challenge* arises when there is a lack of human, knowledge or infrastructural resources available to carry out tasks, regardless of the level of government (even if, in general sub national governments are considered to be suffering more from such difficulties than central government).

iii. *The fiscal gap* is represented by the difference between territorial revenues and the required expenditures to meet local responsibilities and implement appropriate development strategies. In a more dynamic perspective, fiscal difficulties also include mismatch between budget practices and policy needs: in the absence of multi-annual budget practices for example, local authorities may face uncertainty in engaging in appropriate spending, and/or face a lack of flexibility in spending despite its appropriateness in uncertain contexts. Too strict earmarking of grants may also impede appropriate fungibility of resources and limit ability to deliver adapted policies.

iv. *The policy challenge* results when line ministries take a purely vertical approach to be implemented at the territorial level. By contrast, local authorities are best to customise complementarities between policy fields and concretise cross-sectional approaches. Limited coordination among line ministries may provoke a heavy administrative burden, different timing and agenda in managing correlated actions etc. It can even lead to strong inconsistencies when objectives of sectoral policy-makers are contradictory.

v. *The administrative gap* occurs when the administrative scale for policy making, in terms of spending as well as strategic planning, is not in line with relevant functional areas. A very common case concerns municipal fragmentation which can lead jurisdictions to initiate ineffective public action by not benefitting from economies of scale. Some specific policies also require very specific and often naturally fixed, boundaries.

vi. *The objective gap* refers to different rationalities from national and sub-national policy-makers which create obstacles for adopting convergent strategies. Common examples arise from political and departmental purposes. Divergences across levels of government can be used for 'cornering' the debate instead of serving common purposes. A local mayor may prefer to serve constituents perceived aspirations instead of aligning decisions to national or state wide objectives which may be perceived as contradictory.

vii. *The accountability challenge* results from the difficulty to ensure transparency of practices across different constituencies and levels of government. It also concern possible integrity challenges of policy makers involved in the management of public investment.'

These 'gaps' together constitute the architecture that is essential for effective place designs. In the absence of appropriate arrangements in any one building block, the entire design of place governance is put at risk. In turn, this emphasises the significance of a diagnostic phase in which local conditions, needs and circumstances need to be clearly identified.

The second framework, Bridging the Coordination and Capacity Gaps (Table 2), illustrates the approaches adopted in various states to overcome coordination and capacity gaps. A particular state might use various combinations of these instruments, depending on what it seeks to achieve through decentralisation and what coordination and capacity gaps are relevant. The key point again is the variety of approaches that are evident around OECD states and the specifically 'local' character of any particular design.

Because of the importance of employment as the key to social development, particularly in deprived areas, economic development is a particular concern. This involves an initial strategic focus on economic opportunities. There is however no unambiguous empirical evidence concerning drivers of growth at regional levels or indeed about the propensity of different types of regions to grow. 'A large number of urban regions grow faster than the average rural region, but many rural regions grow faster than the urban average. Hence opportunities for growth exist in all types of regions..... Human capital and innovation are positively correlated with growth and infrastructure influences growth only when human capital and innovation are present..... Agglomeration also influences growth.' The presentation noted that these findings omit important interaction effects and that many policy interventions can have unintended effects if undertaken in isolation. 'If this implies a constraint in terms of policy coherence, it also points to opportunities arising from policy complementarities' (Seminar for Visiting Australian MPs. OECD, 8 October 2010)

Mind the Gaps : a Tool for a Diagnosis

Administrative gap	“Mismatch” between functional areas and administrative boundaries => Need for instruments for reaching “effective size”
Information gap	Asymmetries of information (quantity, quality, type) between different stakeholders, either voluntary or not => Need for instruments for revealing & sharing information
Policy gap	Sectoral fragmentation across ministries and agencies => Need for mechanisms to create multidimensional/systemic approaches, and to exercise political leadership and commitment.
Capacity gap	Insufficient scientific, technical, infrastructural capacity of local actors => Need for instruments to build capacity
Funding gap	Unstable or insufficient revenues undermining effective implementation of responsibilities at subnational level or for crossing policies => Need for shared financing mechanisms
Objective gap	Different rationalities creating obstacles for adopting convergent targets => Need for instruments to align objectives
Accountability gap	Difficulty to ensure the transparency of practices across the different constituencies => Need for institutional quality instruments

Bridge the coordination and capacity gaps

Contracts	France, Italy, European Union, Canada
Performance Measurement & Transparent evaluation	Norway , United Kingdom, United States
Grants, co-funding agreements	All countries: general purpose grants v. earmarked, equalisation mechanisms
Strategic planning requirements, Multi-annual budget	Along with investment contracts
Inter-municipal coordination	Mergers (Denmark, Japan) v. inter-municipal cooperation (Spain, France, Brazil etc.)
Inter-sectoral collaboration	Finland, France ... One ministry v. interministerial mechanisms
Agencies	United Kingdom, Canada, Chile
Experimentation policies	Sweden, United States, Finland
Legal mechanisms and standard settings	All countries, but more or less implemented
Citizens' participation	A question of degree
Private sector participation	From strategy design... to vested interest
Institutional capacity indicators	Italy for sub-national level

In relation to rural and remote regions, the following are suggested as key messages from recent surveys and conferences:

- Investment priorities for rural development – uniformity in service delivery is not an option. Differences in opportunities and characteristics between regions suggest investment requirements will differ. Provision should build back from strategies that are devised at regional levels.
- Innovative rural regions: human capital development, financial support and ICT are all important – no less critical is how take-up is embedded and orchestrated (see later discussion of Regional Innovation Systems).
- Innovative service delivery: meeting the challenges of rural regions – Service delivery is a key to rural development. National minimum standards may apply, but modes of delivery can vary widely between regions.

The work on rural development has culminated in what the OECD describes as a paradigm shift in regional policy with a switch from compensatory and redistributive approaches to arrangements that can identify and capitalise on opportunities on a progressively unfolding basis:

This attention to economic opportunities is reinforced in literatures on regional innovation systems to which we now turn.

3. Regional Innovation Systems

Innovation shifts the focus of economic strategy from markets to capabilities. Fully assimilated, this represents another fundamental paradigm shift. The concept of

regional innovation is the heart of this new frame. This is because capabilities develop at regional not economy-wide levels. This approach has gained in currency in Australia as a response to at least three developments:

- A slackening of productivity growth in Australia from the late 1990s which persisted into the early twenty-first century.
- Increased intensity of international competitiveness in a globalising economy;
- A switch in focus from the development of economy-wide market structures to the development of region-specific capabilities;

A region is the key unit for research and action because capabilities develop only at this spatial level. Capabilities which are inherently 'local' in character create competitive advantages. This involves specialised resources, skills, institutions and locations which share in common social and cultural values, competencies and learning processes (surveyed in Asheim and Gertler, 2005; also Lipsey, Carlaw and Bekar, 2005). They also include institutional endowments, built structures, knowledge and skills (e.g. see West 2009, for an exposition of this approach in the context of regional Tasmania). There is an extensive literature on the contribution of cluster strategies to this outcome (Porter, 1998; Dunning, 1997).

In contrast to a top-down 'picking winners' approach, regional development occurs as localised capabilities are mobilised. Regions gain competitive advantage by mobilising all their assets including institutional and governmental ones. For example, this might involve infrastructure (including education, communications, logistics etc) or commercial capabilities (such as finance). Where gaps are identified, appropriate infrastructure needs to be sought. Key platforms to develop these outcomes include: clustering and broader network collaborations, often involving leadership by industry or community associations. The Australian wine industry provides a classic example of this process (Smith and Marsh, 2009).

The outcome is a Regional Innovation Strategy (RIS), which becomes a platform for building a provisional consensus around the steps that need to be taken to realise opportunities (e.g. high-potential sectors like culture, tourism, environmental management etc). For example, specific examples in the Tasmanian context include Coal River Valley development; the North West Regional Alliance; and the Dorset Pilot.²⁵

Where capabilities depend on distributed knowledge (as distinct from that wholly developed internally by an individual commercial actor), RIS analysis is particularly

²⁵ West Jonathan, 2009, *An economic strategy for Tasmania*, University of Tasmania: Australian Innovation Research Centre

concerned with the structures that are required to develop and disseminate appropriate or context-specific knowledge.

Social conditions are another key element. Innovation and regional development require an assessment of the population and settlement patterns most likely to support development in a particular location and the social infrastructure required to support such populations.

4. EU 'learning-by-doing', experimentalist or pragmatist governance:

The EU is a complex multi-level governance design for which it is hard to find precedents. In areas where common action has been agreed the diversity of approaches and structures between member states ruled out top-down or one-size-fits-all designs. So how could action be co-ordinated? In answering this latter question, the EU has introduced an approach which may have applications to co-ordinated action between and within levels of government in Australia, specifically in the context of remote Australia.

The EU approach replaces principal-agent designs with a 'learning-by-doing' or pragmatist one (Sabel and Zeitlin, 2010). The former design continues to dominate public policy thinking in Australia (e.g. Marsh and Spies-Butcher, 2009). A central tenet of principal-agent theory is that the principal can determine desired outcomes in advance. Pre-determined performance metrics allow the principal to hold the agent accountable for outcomes, thus obviating shirking, opportunism or other deceptive behaviour on the part of the agent. This has been widely applied in public sector settings in Australia, for example in a variety of human services contracts. But the diversity of conditions across the country has required adaptation. Hence in equalising comparisons the centre adds in a variety of qualifying factors that it considers appropriate. Influenced by this thinking, elaborate contractual, co-production, outsourcing and reporting structures have developed in a variety of fields (e.g. surveyed in Productivity Commission, 2010)

At least three basic features of human service (and other) contexts undercut advance determination of outcomes by a centrally located principal:

- First, the knowledge guiding the decisions of both principals and agents is provisional.

Both are operating with corrigible information and judgements. Unintended consequences, ambiguity and difference abound. It is impossible to devise programs from first principles that survive the effort to realise them. In the case of the principal, this involves judgements about attainable outcomes and, in the case of agents this involves judgements about the practices most likely to enhance performance in the pursuit of these outcomes.

- Second, providers have information that is essential to adapting performance outcomes

for the overall system that recognise best practice. The principal is setting outcomes that need to reconcile efficiency and quality in a way that minimises incentives for provider gamesmanship, creates incentives for efficiency and that does so in a way that also promotes quality services for clients. Any one of the outcomes is complex. Their achievement in combination is a daunting challenge. Only the providers have information that is relevant to making this latter judgement. The principal needs routine access to provider information in order to refine and develop her understanding of desired outcomes in the light of provider and client experience.

- *Third, providers' own knowledge of how to attain quality services for clients is varied and developing.* Providers own knowledge of how best to serve clients – and how best to establish organisational and governance routines that reinforce these outcomes, is itself corrigible and experimental. Different organisations will attain different outcomes and it will not be immediately apparent which represents the best achievement of not necessarily consistent purposes. Dynamic efficiency through the whole system thus requires the routine collection, assessment and dissemination of performance information amongst providers.

An 'experimentalist' or pragmatist approach represents an alternative to these architectures – but one that promises to shift exchanges from a primarily punitive to a primarily learning basis (Sabel 2006, 2007). This builds on earlier work on continuous performance improvement and 'learning by doing' – an approach to dynamic efficiency that was developed by the Toyota Motor Company in its management of buyer-supplier relationships (Sabel 1992). Here is how this might be translated to public policy settings: 'General goals or designs are set provisionally by the highest level – parliament, a regulatory authority, or the relevant corporate executives . . . then the provisional goals are revised in the light of proposals by lower level units responsible for executing key aspects of the overall task (Sabel, 2006:11).

Sabel proposes to recast fundamentally the terms of the accountability relationship between principals and agents:

'Compliance or accountability in the principal agent sense of rule following is impossible. There are in effect no fixed rules, or, what comes to the same thing, a key rule is to continuously evaluate possible changes in the rules. *Accountability thus requires not comparison of performance to a goal or rule, but reason giving: actors in the new institutions are called upon to explain their use of the autonomy they are accorded in pursuing the corrigible goals* (our italics). These accounts enable evaluation of their choices in the light of explanations provided by actors in similar circumstances making different ones and vice versa.'

Sabel's approach also alters the frequency and the substance of the exchange between principals and agents:

‘To encourage this kind of ongoing mutual reflection monitoring is continuous, or nearly so, rather than occasional or episodic: and it is less concerned with outcome measures than with diagnostic information – information that can redirect the course of ‘treatment’.

Finally and critically, it also alters the patterning of carrots and sticks. Sabel envisages that agents who fail to perform to best-practice levels will be first given the chance to improve via an exchange of knowledge about their potential to improve. ‘When failure to follow the rule in principal-agent systems is, in theory, immediately penalised, in pragmatist systems non-compliance in the sense of inability or unwillingness to improve or otherwise respond to change at an acceptable rate triggers . . . increased capacity enhancing assistance from the oversight authority. Repeated failure to respond, even with assistance, is, however, likely to bring about the dissolution of the offending unit’ (Sabel 2006:14).

This broad approach has been widely tested in a variety of human services and other public policy settings in the United States including teaching disadvantaged students (Liebman and Sabel 2003); defence contracting (Dorf and Sabel 1998:332), environmental regulation (Dorf and Sabel 1998:373), nuclear regulatory safety (Dorf and Sabel 1998:370), policing in deprived neighbourhoods (Dorf and Sabel 1998:327), occupational health and safety (Dorf and Sabel 1998:358) etc.

Pragmatist or experimental principles define an approach to the management of inter-governmental and purchaser-provider relations wholly different from the structure that is now dominant in federal and state jurisdictions. Earlier sections explored the fit between the present whole-of-government architecture and outcomes in remote Australia. Empirical evidence concerning the structural impedimenta to these arrangements was also reviewed. The alternative ‘experimentalist’ or pragmatist approach to system design avoids these difficulties. It builds on a broad structure of inter-governmental and purchaser-provider relationship, but places exchange in a context that emphasises learning by both parties. This approach merits consideration not only because it would encourage continuous performance improvement but also because it promises to transcend difficulties that have consistently worked against reform.

5. Australian Local Government Practice.

The foregoing discussion focused on regions as the relevant spatial unit and involved governance models drawn from international practice. Parallel experiments and possibilities are also evident in Australian local government practice. The models that have been developed here have clear implications for imagining various possible forms of regional governance. These local government

arrangements are comprehensively explored in a report of the collaborative practices of shires in remote Queensland (Dollery and Johnson, 2007).

The report documents the many imaginative responses of individual Councils to preserve community amenities and to reconcile local responsiveness with efficient resource management and relationships with other levels of government. The focus of the report is the Remote Area Planning and Development Board (RAPAD) which is a not-for-profit ASIC listed company involving a collaboration of 11 councils in Western Queensland. According to the report: 'The RAPAD mission is to "plan, facilitate and encourage sustainable growth for the future of Outback Queensland....It intends achieving this by:

- Being future oriented
- Being a consultative advocate and lobbyist
- Proactively working and networking with all shires as well as private and public sector organisations
- Adding value to individual shires and other regional organisations in a non-duplicative manner
- Coordinating and facilitating the provision of relevant research to their region
- Supporting all miners and their respective communities"

Its core concerns are transport, regional planning, capacity building, natural resource management, service development, technology and communications, development of sustainable industries and investment attraction.

The report documents the many imaginative roles that are being undertaken by the individual councils to ensure community amenities are maintained at desired standards: 'In the absence of any other feasible service providers, local councils must provide a large range of essentials services. For instance, there are not many councils in Australia that provide the postal services (as in Barcoo and Ilfracombe); offer banking facilities (Blackall, Boulia, Tambo and Winton); a café (as in Boulia, Isisford and Winton); undertaker services (Barcoo, Blackall, Boulia, Ilfracombe and Tambo); real estate agency activities (Diamantina); operate general stores (Ilfracombe and Isisford); provide freight services (Isisford); or operate the local newspaper (Blackall)...In addition, each council provides extensive support to the numerous community and sporting organisations in their boundaries'(p. 104)

Other services include:

‘..Aramac Shire either directly or indirectly provides...a bakery, Home and Community Care programs, and a rural transaction centre. Similarly, Barcaldine Shire delivers a number of state government programs including

rural family support, 60 and Better, Home Assist Secure and a HACC program.....BARCO Shire Council provides the Jundah Post Office....the Council provides a bus service and a 4WD vehicle for the three schools in the Shire; the Council provided land for the Windorah Medical Clinic; it provided land for state community housing; it has undertaker services and provides burial services.....Barcoo Shire has set up a bursary system for residents undertaking tertiary, diploma or trade qualifications.....Blackall Shire assist its residents by providing an 'in-store' Westpac Bank facility in the Council office and it acts as a 'developer' by providing an industrial estate as well as residential land for sale.....(it) runs an extensive local economic development program....an airport (with 3 commercial flights a week); SBS radio transmission; youth development services, including employment initiatives' (p 105-106).

Earlier, the report discussed at least seven ways common services might be provided by collaboration between local communities:

- i.. Ad hoc resource sharing: 'The most limited and flexible alternative to municipal amalgamation resides in voluntary arrangements between geographically adjacent councils to share resources on an ad hoc basis' (p. 23). The examples cited include skilled staff (environmental experts), capital equipment, IT systems, domestic garbage removal and disposal.
- ii. Regional organisations of councils: These are 'voluntary groupings of spatially adjacent councils....ROCs are usually governed by a Board consisting of two members from constituent municipalities' (p. 24). The authors comment that continuing engagement can provide wider opportunities to build understanding and identify new and emergent opportunities for collaboration that might have occurred to no individual council acting alone.
- iii. Area integration or joint board models: This would involve 'a shared administration and operations overseen by a joint board of elected councillor's from each of the member municipalities. Member councils retain their political independence, thus preserving local democracy, whilst simultaneously merging administrative staff and resources into a single enlarged bureau (p. 24-25).
- iv. Virtual local government: This model of local government 'would consist of two main elements. Firstly relatively small councils would encompass elected councillors and a small permanent secretariat. They would decide on questions of policy formulation and monitor service delivery to determine its effectiveness...Several small adjacent councils would share a common administrative structure or "shared services centre" that would provide the necessary

administrative capacity to undertake the policies decided upon by individual councils. Service delivery could be contracted out' (p.25-26).

v. Agency models: In this model councils would occupy a 'principal-agent' relationship to state governments. 'Municipalities would surrender completely operational control of these services they direct, but at the same time still enjoy political autonomy as elected bodies for a spatially defined jurisdiction. Thus all service functions would be run by state government employees with state government funds....Elected councils would act as advisory bodies to these state agencies charged with determining the specific mix of services over their particular geographical jurisdictions.

vi. Amalgamations: This is noted as the most extreme form of centralisation.

6. Implications

The foregoing suggests the timeliness of a shift of governance towards place based or regional spatial levels. This is the next logical step in the development of public sector designs to strengthen economic and social development. As noted earlier, this is wholly consistent with the vision for public sector reform advanced in a number of recent official reports, for example at the federal level, in the Moran Review (*Ahead of the Game, Blueprint for the Reform of Australian Government Administration*, March 2010); and at a state level, in the Western Australian Economic Audit Committee Report (*Putting the Public First, Partnering with the Community and Business to Deliver Outcomes*, October 2009). This latter report specifically foreshadows the replacement of 'agencies operating in silos' with more decentralised even individualised arrangements. Both these reports underline the profound challenge to centralised processes, cultures and organisational and budgetary protocols that are involved in the next iteration of public sector reform. But, as British experience attests, the difficulties in translating aspirations into practice remain formidable. Many hurdles remain to be surmounted if governance in remote Australia is to shift to a place based pattern.