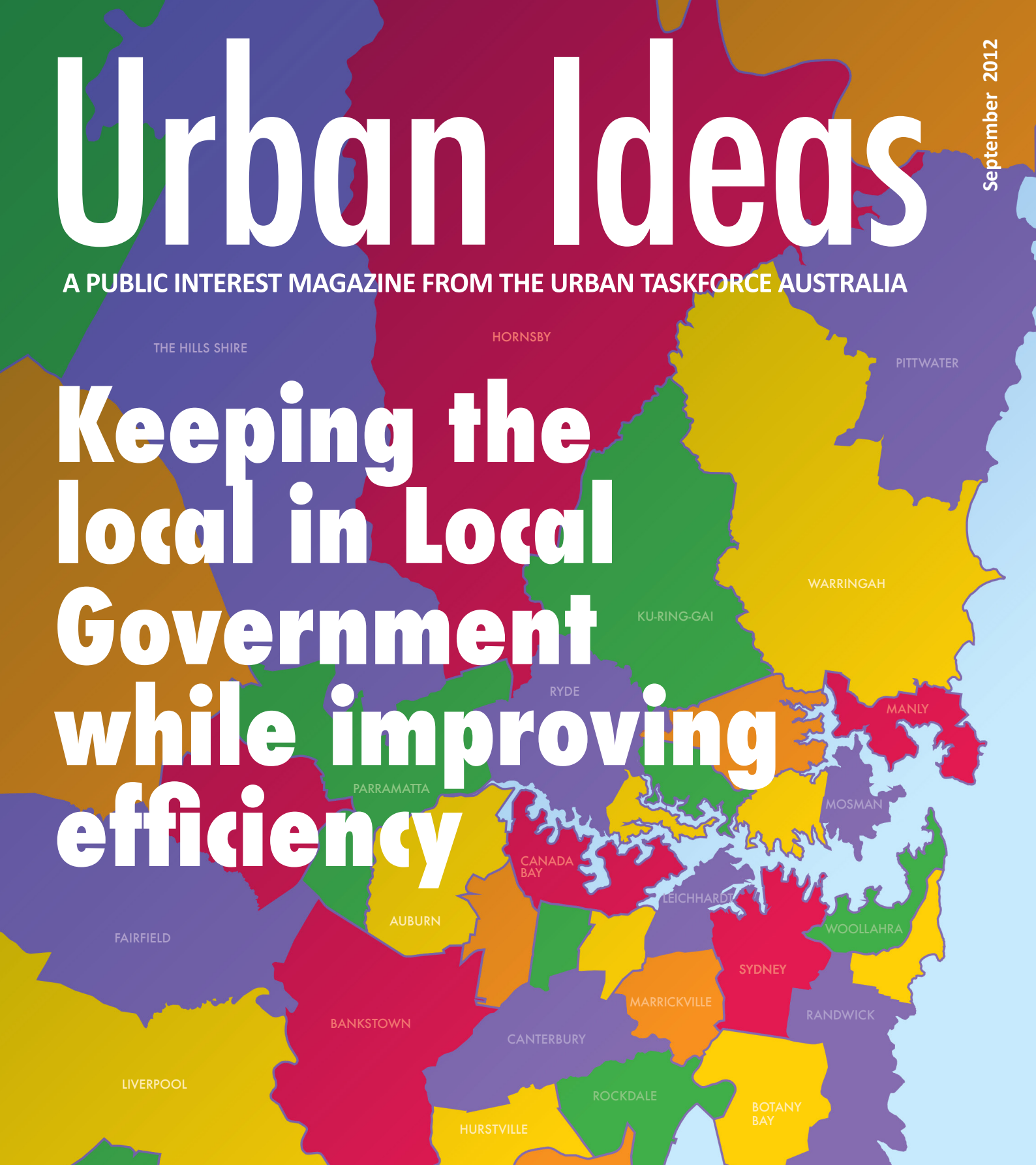


# Urban Ideas

September 2012

A PUBLIC INTEREST MAGAZINE FROM THE URBAN TASKFORCE AUSTRALIA

## Keeping the local in Local Government while improving efficiency



**Sydney's liveability crisis – reforming Local Government**

// **Shared Service Centres**  
 // **Independent planning assessment**

// **Remove rate cap**  
 // **Regional structures**  
 // **Pilot project**

Urban Taskforce  
AUSTRALIA

SUTHERLAND SHIRE

ASSISTED BY PERCY ALLAN & ASSOCIATES PTY LTD

# Rethinking the role of Local Government to help solve Sydney's liveability crisis

**Now is the perfect time to propose new structures for Local Government in NSW. The State Government has established an Independent Local Government Review Panel to identify options for governance models and structural arrangements of local government. At the same time the Minister for Planning has released a Green Paper outlining new approaches to planning that have an impact on local government. The overall driver of both of these reviews is the State Government's 10 year plan for New South Wales with its tag line "to make NSW number one".**

Unfortunately NSW is a long way from being number one in the areas of planning, housing supply, housing affordability, infrastructure provision and in managing metropolitan growth. A Productivity Commission report of 2011 found that 64% of Sydneysiders were against growth and change compared to 52% in Melbourne. The same report found that a number of Sydney council areas had high numbers of people who did not feel part of their local community. In 2006 Access Economics suggested that around 26% of NSW councils may be unsustainable and the 'Allan Inquiry' of the same year estimated a council backlog of infrastructure at over \$6 billion.

The states councils understand that change is needed and through Destination 2036 have begun a dialogue about how change may occur. The planning reforms proposed in the Green Paper will need new approaches by councils. Indeed the reforms propose a hierarchy of governance models from state to regional and to local. It is becoming clear that a number of planning decisions need to be made at a level between state and local levels or at least with shared responsibilities.

The Urban Taskforce believes that now is the time to get NSW moving again by developing responsibilities and structures across the various levels of government that support growth and support the development of quality built environments. A number of our key members, Lend Lease, Mirvac, Meriton, Brookfield Multiplex, Australand and Leighton have formed a steering committee to drive a special research project on local government reform.

As input to this research the Urban Taskforce engaged an expert in the area Percy Allan to prepare a detailed report which can be downloaded from our website. Percy headed up the 2006 'Allan Inquiry' into local government for the Local Government and Shires Association. This extensive inquiry is still the benchmark for research into local government. Percy is also a previous head of the NSW Treasury with a great knowledge of how governments work and ways to improve their performance. So the Committee mixed Percy's reformist zeal with the pragmatic experience of our members who have been working with councils for years to produce this submission to the NSW Government and its Local Government Review Panel.

The submission develops the concept of councils being strongly local as place managers for local precincts but with shared responsibilities for more regional scaled infrastructure and planning issues. The successful Lakewood model of local government in America where many services are contracted out is developed as a way to improve the effectiveness of council services without the need for amalgamation. We propose removing rate capping but capping operating costs so that any revenue growth above inflation is used along with appropriate borrowing guideposts for rehabilitating and expanding community infrastructure. A whole new system for how local government can operate is developed as a positive contribution to the evolving debate on this topic. Bold thinking is required to match local government roles with the bold new planning system that is evolving in NSW so together they can make the state number one in Australia.



The Urban Taskforce is keen to have responses to the proposals suggested in this issue of URBAN IDEAS and we welcome all comments to [admin@urbantaskforce.com.au](mailto:admin@urbantaskforce.com.au)

**Chris Johnson AM**  
Chief Executive Officer  
Urban Taskforce Australia



**Percy Allan AM**  
Percy Allan has assisted the Urban Taskforce in the preparation of a detailed report on Local Government that this shorter version is based on. He is very knowledgeable about Local Government in NSW and about public policy, finance and management generally. His roles include:

- Secretary, NSW Treasury and Chairman, NSW Treasury Corporation, 1985-1994
- Chair and Research Director, independent Local Government Inquiry supported by the Local Government and Shires Association, 2005-2006
- Research Director of in-depth reviews of 9 separate local councils, 2006-2011
- Chair, NSW Premier's Council on the Cost and Quality of Government, 1999-2007
- Visiting Professor at Macquarie University's Graduate School of Management, 1996 -

# Now is the time to reform Local Government in New South Wales

The NSW Government elected in March 2011 has set out a series of reviews and plans that involve Local Government. At the top level is the overarching state plan titled NSW 2021 – A Plan to make NSW Number One.

Supporting this plan are a number of reviews, plans and strategies that cover planning, transport, infrastructure and specifically Local Government. With the combination of all these reviews comes the importance of reforming Local Government.

## **NSW 2021 – A plan to make NSW number one**

- Build liveable centres
- Restore confidence and integrity in the planning system
- Develop a 20 year Infrastructure Strategy
- An integrated transport system
- Return decision making to local communities including planning
- Increase opportunities for people to look after their own neighbourhoods

## **Sydney over the next 20 years – Metropolitan strategy**

- Global city and Local city
- Appropriate and affordable housing
- Deliver jobs and economic growth
- Useable transport networks
- Place based planning approach

## **A new planning system for new south wales – Green paper**

- Reduce complexity and remove red tape
- Provide certainty in decision making
- Involve communities early
- Efficient decision making
- Greater cooperation between all levels of government
- More code assessable

- Regional and Subregional Delivery and Growth plans
- Establish Regional Planning Boards
- Encourage assessment by independent panels
- Maintain Joint Regional Planning Panels



## **State infrastructure strategy**

- 20 year forecasts
- Current state of infrastructure
- Long term objectives for transport etc
- Investment policies to address infrastructure needs
- Identify funding options including combined public and private investment

## **Long term transport master plan – Discussion paper**

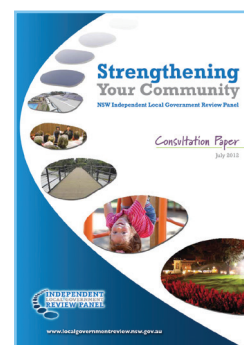
- Put customer first
- Integrated transport system
- Improve road network
- Strategic and multi-nodal
- Relate to regional land use plans

## **Destination 2036 – A draft action plan**

- Sound financial management
- Meaningful community engagement
- Creating places that people value
- Efficient service delivery
- Quality governance
- Financial sustainability
- Appropriate structures
- Strong relationship between state and Local Government

## **Strengthening your community – NSW independent local government review panel**

- Support the current and future needs of local communities
- Deliver services and infrastructure efficiently
- Financial sustainability of Local Governments
- Local representation and decision making
- Incentives to encourage boundary changes
- Develop options and models to enhance collaboration on a regional basis
- Research innovation and best practice
- Examine the revenue system to ensure it is contemporary
- Examine alternative governance models
- Develop alternative structural models
- Barriers to boundary adjustments
- Identify clear state and local government responsibilities



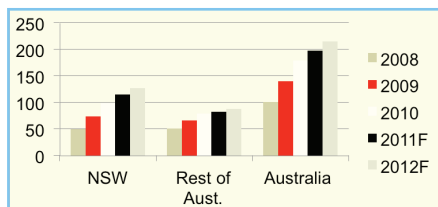
*The combination of all of the reviews and plans outlined above gives the best opportunity in a generation to reform local government.*

Clearly issues like financial sustainability, regional collaboration and clarifying the responsibilities between state and local government are vital to ensuring the prosperity of the state to ensure number one status.

# Sydney is reaching a liveability crisis

Over the next 20 years Sydney will need at least 600,000 new homes located in infill sites and in greenfield sites on the fringes of the metropolitan area.

But Sydney has not built sufficient homes over recent years with its current production only half that of Victoria on a per capita basis. Already the average house cost in Sydney is one of the highest in the world and this is impacting on affordability for many families. The Sydney median house is \$100,000 more expensive than the equivalent in Melbourne. The average weekly earnings of a first homebuyer can afford a mortgage of \$331,000 while the average house price in Sydney is \$563,300.



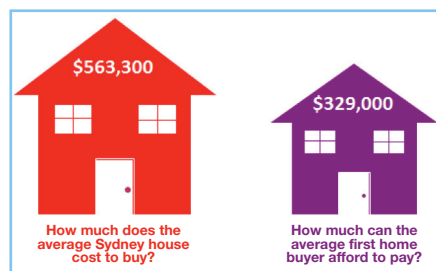
**Dwelling Stock Deficiency Trends - NSW versus Rest of Australia**

The lack of housing supply has led to an increase in rents by 40% over the last 5 years. Many developers indicate that they find planning approval processes in Sydney add enormous risk to projects. The slow and complex planning regime is mainly run by local government where councilors represent antidevelopment communities.

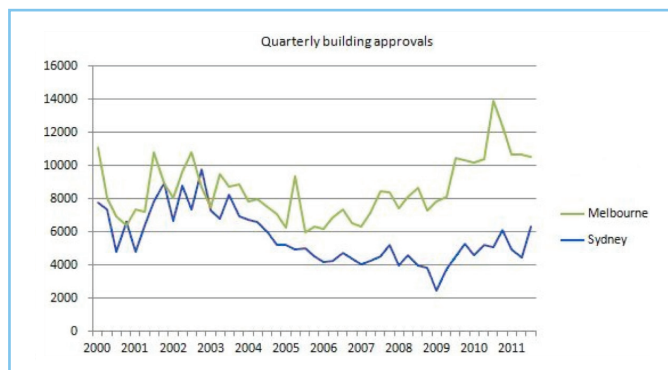


**Sydney has the highest average house price of any city in Australia**

The Productivity Commission in a national research project on planning in Australia found that 64% of Sydney residents were against growth and change particularly if this led to more dense development. This attitude is partly influenced by the fact that Sydney now has 27.6% of all dwellings as apartments and the traditional detached house is threatened by this change. Many younger people however prefer apartments closer to work and amenities and retirees want to downsize by moving to apartments too. Yet local government is reluctant to rezone land for this purpose.



A further reason for Sydney's lack of housing supply has been the impact of infrastructure levies required by state and local government. The combination of high infrastructure costs and a complex planning system is driving the development industry out of Sydney and out of NSW. The collapse of residential building has reduced NSW's share of Australian GDP over recent years.



**Quarterly building approvals - Sydney well below Melbourne**

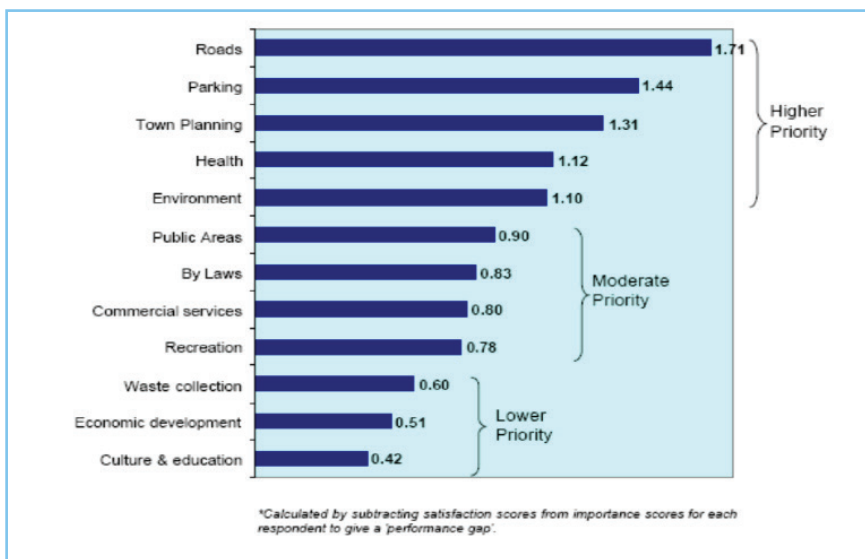
**Sydney's population is growing by 1.3% per year (60,000 people). Sydney already has a severe housing shortage.**

Sydney needs to build more homes to accommodate its population which is growing by 1.3% a year or about 60,000 people, more than the total size of any NSW regional city outside the metropolitan axis of Newcastle-Sydney-Wollongong. The way planning and the provision of infrastructure is managed will be the key to Sydney's future. It is the overlapping roles of state and local government that needs clarification if NSW is to become number one.

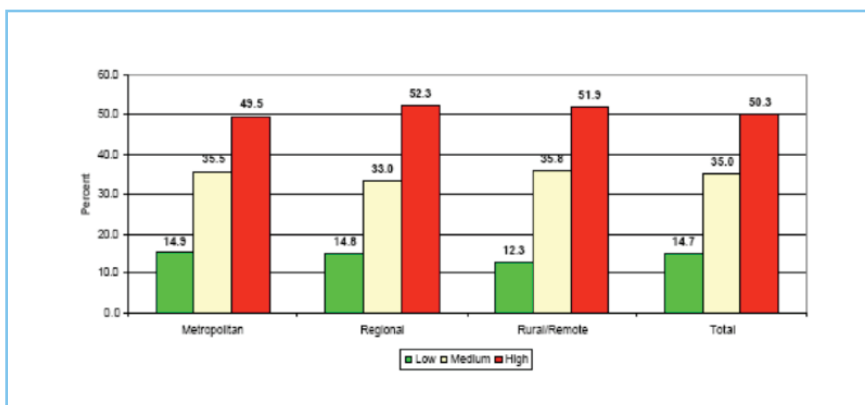
Sydney's population growth can't be stopped, but at the same time the settlement of NSW could be more evenly distributed by promoting major regional cities as exist in every other developed country. Resisting growth will not preserve Sydney, but risks turning it into overcrowded houses shared by a growing number of young people who can't afford their own homes. Sydney already has a severe housing shortage because developers find state and council planning and development restrictions and infrastructure taxes too onerous for doing business.

# What citizens want from Local Government

A number of surveys have been undertaken to assess the attitude of communities to councils.



Service Area Performance Gaps



Overall satisfaction with council performance

The 2006 "Allan Inquiry" commissioned IRIS Research to poll over 900 residents across NSW to gauge their views on local government. Respondents were asked to prioritise their local council services and express their degree of satisfaction with them.

Across the metropolitan areas in the state there were three areas that were of major concern:

- Town planning and timely processing of building applications
- Construction and maintenance of local roads, footpaths and kerbing
- Traffic management and parking facilities

Essentially the local development assessment process and the local transport infrastructure attracted the least satisfaction while most other services received good to high satisfaction scores. In metropolitan areas almost half of respondents rated overall satisfaction with their council's performance as being high.

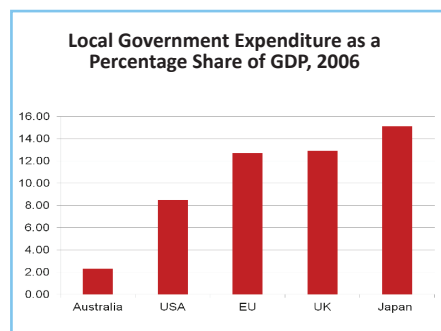
In a more detailed poll on how to best determine building and development applications only 8% of metropolitan residents wanted elected Councillors determining applications. Overall 63% wanted applications determined by independent panels or on the advice of such panels and 21% supported professional staff making the decisions. A more recent Auspoll in late 2011 found that only 27% of DA applicants felt their council did a good or excellent job in processing development applications.

A Productivity Commission Report on the role of local government as regulator surveyed the attitude of the business community to councils performance. The survey indicated that NSW councils were singled out for generating negative comments.

# The Local Government Sector

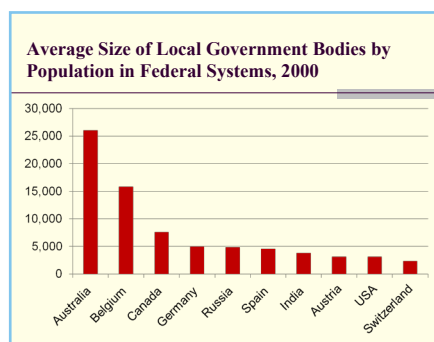
Councils originally focused on the 3Rs of roads, rubbish and rates. A new Local Government Act in 1993 had the effect of lifting the role to 8Rs including roads, rubbish, regulation, recreation, relief, regionalism, retail and rates.

Australian local governments expend only 2% of GDP compared to 8% in the USA, 12% in the UK and Europe and 15% in Japan. Clearly different services are undertaken in different parts of the world. Australia's councils are also big by world standards. Yet by average number of residents served, Australian local councils are by far the largest in the developed world. In other words compared with other countries we have fewer local councils relative to our population size.

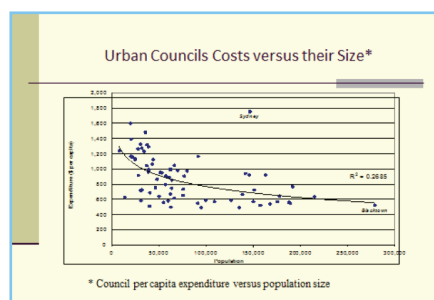


The NSW Local Government Inquiry of 2006 found that there was no evidence in either Australia or overseas that the size of local councils bore any relationship to its unit costs which is why the report did not recommend council amalgamations. There are strong arguments for more flexible and speedier contract councils employing a small full-time policy

advisory, place management and procurement secretariat to oversight services delivered by specialist external providers, shared service centres, temporary staff and part-time contractors.



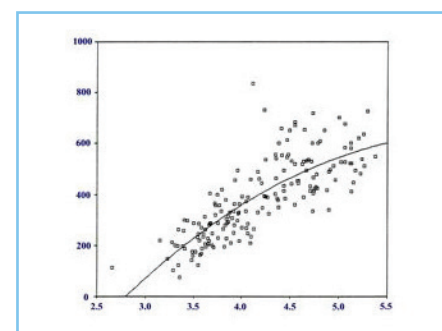
The following chart was produced by the Independent Local Government Inquiry of 2006. It shows there is a very low correlation (about 27%) between an urban council's population size and its per capita operating expenditure.



*Australian local governments expend only 2% of GDP compared to 8% in the USA, 12% in the UK and Europe and 15% in Japan.*

## The Merger Myth

Professor Brian Dollery, Director of the Centre for Local Government at the University of New England recently summed up the problem with pro-amalgamation reports produced by state governments and other parties that assume bigger bureaucracies always lower costs.



'A peculiar feature of Australian amalgamation wars is that all too often inquiries and reports are essentially "fact-free" and simply assert the manifold advantages purportedly flowing from size...

However, sometimes investigations into structural reform do engage with available empirical evidence on scale and even attempt to estimate the magnitude of scale economies. The (Tasmanian Property Council) Deloitte report is an example of this rare breed.

But unfortunately reports of this kind almost always repeat the same fundamental error in their empirical estimations of scale economies and this is regrettably also true of the Deloitte effort.

It is wrongly assumed that population size accurately represents the size of a council. What follows is invariably a statistical correlation of council population size with per capita costs and a claim that larger population sizes lead to lower per capita costs.

A moment's reflection suffices to demonstrate the basic errors involved. Numerous factors apart from population size affect service costs. For example, not only does the composition of service vary greatly between councils, but demographic, environmental, socio-economic, topographical and other factors render calculations based solely on population size fraught with difficulties.

Secondly, inquiries which employ population size as a proxy for council size almost never disentangle the relationship between population size and density. Cutting edge academic research - such as the 2009 work by Holcombe and Williams in the US - shows that local authorities with larger populations also tend to have higher population densities.

Population density is bound to have an impact on costs as it is cheaper to provide services over small rather than large geographic areas. A smaller council area inevitably means fewer "network services" such as roads, water and sewers per household, as well as lower travel and other costs.'

## Financial Sustainability

The 2009 NSW local government sustainability survey

|                        | Sustainable | Vulnerable | Unsustainable |
|------------------------|-------------|------------|---------------|
| Inner-Metropolitan     | 13          | 4          | 2             |
| Outer-Metropolitan     | 11          | 4          | 7             |
| Regional Coastal Urban | 3           | 3          | 12            |
| Regional Inland Urban  | 6           | 3          | 8             |
| Regional Rural         | 13          | 2          | 8             |
| Total                  | 46          | 16         | 37            |

Local council sustainability has been measured by a group called FiscalStar who were commissioned by Review Today to do the third survey in 2009. FiscalStar defined financial sustainability in terms of maintaining an investment grade credit rating through achieving three primary goals.

A minimum 2.5% budget surplus ratio so that future taxpayers are not left with an excessive share of the costs of capital works.

- A maximum 60% net debt and other financial liabilities so that debt charges remain affordable.
- A maximum 2% unsatisfactory infrastructure that is unsound.

Applying these benchmarks FiscalStar found that 37 of the 100 largest councils in NSW were financially unsustainable. Another 16 councils also needed to take drastic action because their financial sustainability was marginal. The unsustainable group included a large number of fast growing regional urban councils including 12 of the 18 regional coastal urban councils. Half of the 22 outer metropolitan councils were either unsustainable or vulnerable.

## 37 of the 100 largest councils in NSW were financially unsustainable.

### Infrastructure backlog crisis

The heart of the problem is that most councils have a huge backlog of infrastructure (roads, stormwater drains, buildings, etc.) in an unsatisfactory condition that needs to be rehabilitated to be "safe, sound and sightly". For the 99 councils surveyed, the (unweighted) average proportion of infrastructure in an unsatisfactory condition was 6%. In one case (Cabonne) it was 39%.

FiscalStar estimated that the total infrastructure backlog for all 152 NSW councils (excluding Water and Sewerage assets) was \$4.5 billion in June 2008, about 15% less than the LGI's estimate of \$5.3 billion for June 2005. One suspects this improvement was a result of better asset condition assessment since local government is still under-spending on required renewals by about \$150 million a year.

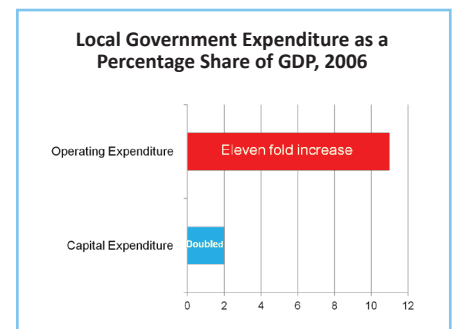
Infrastructure backlogs have dangers including road potholes, uneven pavement, concrete cancer in buildings and car parks, collapsed culverts and storm water drains below roads, rotten timber bridges and unstable retaining walls.

The average net debt and other financial liabilities of councils as a proportion of total operating revenue was only 4%, but it ranged from nil to 193% (Coffs Harbour). It should not exceed 60% for a single – A credit rating. On average councils had an operating surplus of 2% compared with a desirable range of 2.5% to 8%. Overall the operating result ranged from a surplus of 43% (Parkes) to a deficit of 29% (Tweed).

## What caused the infrastructure backlog?

NSW has been underspending on capital works relative to operations in the 30 years since rate pegging was introduced in 1976/77. Over this 30 year period local government in NSW expanded the cost of its recurrent operation eleven fold whereas its real spending on capital works only doubled. Hence its proportion of its total spending dedicated to infrastructure renewal fell dramatically.

To fix the infrastructure crisis and therefore restore financial sustainability, local councils need to put a brake on their fast growing operating costs so that future growth in their revenues can be applied to capital rather than recurrent spending.



Over 30 years operating expenditure grows eleven fold while capital expenditure only doubled

# Reforming Local Government

Local government needs to find a solution that addresses both the popular demand for small discrete municipalities that are close to residents and the administrative advantage that comes from size to achieve cost efficiencies.

## Shared Service Centres

The ideal role model is Lakewood County in California which in the 1950s adopted a contract model for delivering its services that proved so successful that it was replicated by many other local government authorities in California and the rest of the United States.

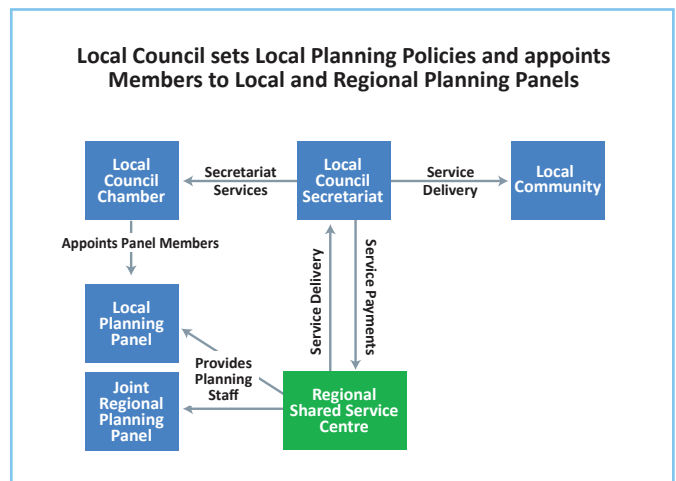
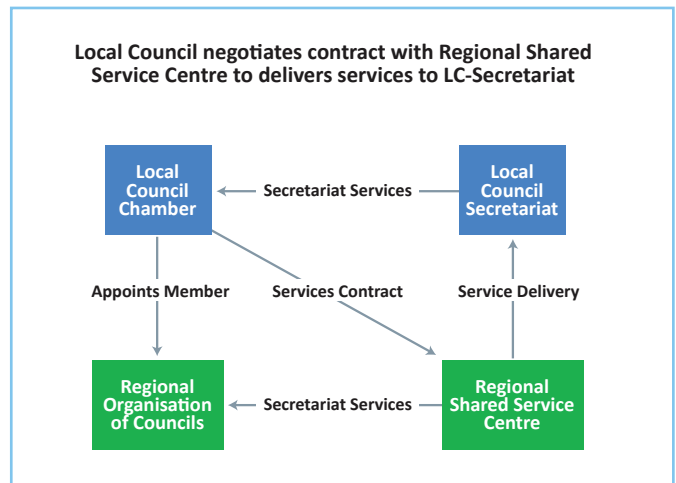
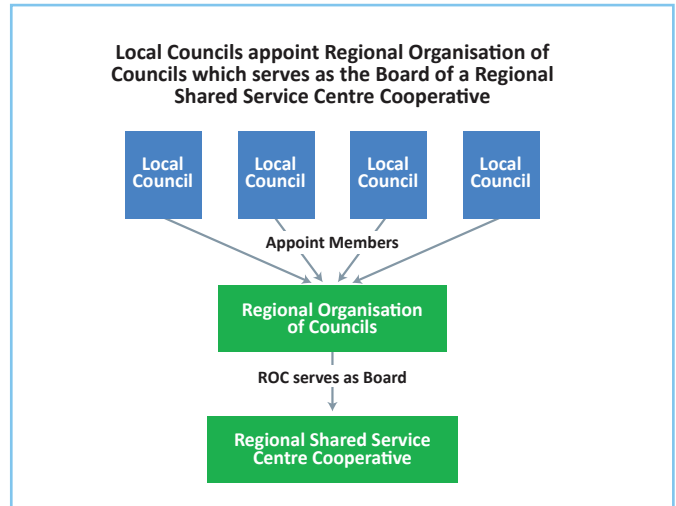
The information revolution unlike the industrial revolution requires speed not size. Amalgamating councils into a monolithic behemoth won't encourage flexibility and agility. Nor will it solve the two key problems of local government, namely:

- Prolonged underfunding of essential infrastructure assets; and
- Dysfunctional planning and development approvals processes.

To move towards contract councils in Sydney the first step would be to merge 90% or more of the administrative offices of a number of councils in a pilot region into a shared services centre (SSC) that would be run as a commercial cooperative by its member councils.

The Hunter Regional Organisation of Councils in the Hunter Valley many years ago established a shared services centre for providing some services to its members on a joint basis. Nevertheless the ROC movement though almost forty years old has not achieved its potential because individual councils are reluctant to outsource their service delivery to a jointly owned third party. To achieve a genuine SSC demonstration model will require strong State incentives.

Each council would retain a general manager with a small support staff to help with strategic planning, policy advice, place management and managing the contract with the services centre. After 5 years each council could buy services from any provider. The current Regional Organisation of Councils (ROC) could take on the SSC role.





## Shared service centres are not new

Many organisations use shared service centres as shown by these examples.

### Credit Union Movement

Independent shop fronts offer sophisticated financial services because they are linked to a shared service centre that acts as their bank, raises their finance, processes mortgages and services ATMs.

### Australian Banks

Vipro is co-owned by the Commonwealth Bank, the National Australia Bank and Westpac and it processes cheques on behalf of its owners. The operations have been outsourced to Fiserv Inc in a \$600 million 12 year deal that has reduced costs.

### NSW Government Departments

In 2009 the NSW Government restructured its agencies into 13 clusters and 8 of them merged back-office functions including Finance, Information Technology, Contracts and Procurement, Records and Knowledge Management and other functions.

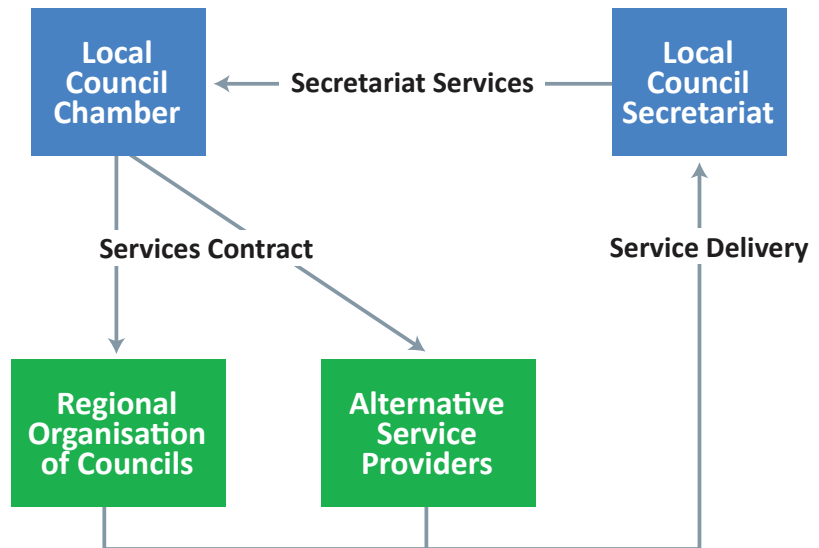
### UK Government

A shared service centre approach for the National Health Service saved \$500 million.

### Hunter councils shared service centre

The Hunter Regional Organisation of Councils in the Hunter Valley has established a shared services centre to provide services to its members. The shared service centre has a staff of 25 and an annual income of \$8 million. While this is still relatively small it is a working model that can easily be expanded.

## After Five Years Local Council free to negotiate service contracts with Alternative Service Providers



### Lakewood model of local Government

'Lakewood of the early 1950s was David fighting the Goliath of Long Beach, a city intent on gobbling up its unincorporated neighbour parcel by parcel. The legal turf battles were exhausting Lakewood's defenders, most of whom were transplants drawn to the promise of this sleepy village-turned-post-war boomtown. Then along came John Sanford Todd, a struggling attorney and proud Lakewood resident, who dreamed up a way to preserve his community's independence without it going broke: It would become a new kind of city, one that contracted out for police protection, trash collection, fire fighting - just about every service a city provides.

That practice is commonplace in the USA today, but it was a revelation a half century ago.

Todd's vision, dubbed "the Lakewood Plan," became a model of local government that informed incorporation drives throughout Southern California and beyond. Suburbia took shape in a rash of "contract cities," including the neighbouring Dairy Valley (now Cerritos), La Puente, Bellflower, Duarte, Irwindale, Norwalk and Santa Fe Springs, which sprang up in such rapid succession that some observers began proclaiming the end of big cities.'

*Then along came John Sanford Todd, a struggling attorney and proud Lakewood resident, who dreamed up a way to preserve his community's independence without it going broke.*

# Reforming Local Government

## Replace rate pegging with operating cost caps

Councils operating costs should be capped so that any future real boost to ordinary revenues was applied to overcoming infrastructure renewal and maintenance backlogs and the funding of increased borrowings for expanding infrastructure stock to meet population growth. Rate pegging should be scrapped and councils required to use their depreciation provisions for the purpose they were intended for, namely to renew ageing infrastructure.

## Independent assessment of development applications

In line with the Green Paper proposals councils should appoint independent panels to assess projects that are under \$10 million. These independent panels should be serviced by planners from the shared service centre. Projects over \$10 million should be assessed by a Joint Regional Planning Panel. With the increase in work load likely there will need to be more JRPPs. It may be appropriate to align the JRPP areas with that of the SSC. The JRPP would be serviced by planning staff from the SSC.

## Broad based levies for infrastructure

In line with the Green Paper statement that..“Levy contribution should spread costs to the broadest base of beneficiaries – including over time where possible” levies for infrastructure need to be considered on a regional basis. It is also important that levies are not hoarded by councils and need to flow to infrastructure projects in a timely manner. The proposal to identify regional infrastructure in Growth Infrastructure Plans further reinforces the importance of more regional approaches to decision making.



## Local Government remains local

The structure proposed of using shared service centres on a regional basis across a number of councils means that each council can remain as a local centre for its community. The average citizen would see no difference to the current circumstances in terms of location and front of house services. Importantly they would have a more efficient council structure and a process that caps recurrent costs. Amalgamations are therefore not needed unless there is a specific reason to adjust boundaries or to better represent communities. Indeed under the system proposed some councils could even break up into smaller units all serviced by a common shared service centre.

## Contract services after 5 years

After 5 years each council would be given the discretion to buy services from any provider, public, not-for-profit or private. Shifting business to alternative providers would mean forfeiting cooperative dividends. Nevertheless such a sunset clause would put the SCC on notice that unless it performed efficiently and effectively it could expect to lose custom once its five year exclusive contract expired.

## New techniques for community involvement

With Sydney increasing its population significantly over the next 20 years and communities expressing concern at the inevitable changes that flow from this comes the need to improve how communities are involved in strategic planning. This is likely to lead to involvement techniques that ensure the broader community and not only narrow focussed groups are involved. It will also lead to the use of visualisation techniques that give realistic impressions of how future development will look. The use of form based codes and virtual models of precincts will become more common.

## Stopping growth will impact on rates

Local communities will need to understand that growth in appropriate locations assist with the future income of the local council. If communities want to stop the growth occurring then this may lead to increased rates to service a static community.

## State and Local Government partnerships

Within the three tiers of government in Australia there will be many areas of overlap. This is particularly so between local councils and the state government on issues like jobs, economic development, regional infrastructure and strategic planning for growth. In these areas there must be joint responsibilities and the government's Green Paper makes this clear with Regional Growth Plans, Subregional Delivery Plans, Regional Planning Boards and the existing Joint Regional Planning Panels. The most appropriate level for these partnerships to occur will be at that of a region involving up to 10 councils.

# Pilot Project: Parramatta Road Corridor - Shared Service Centre

## Pilot Project – Parramatta Road Corridor

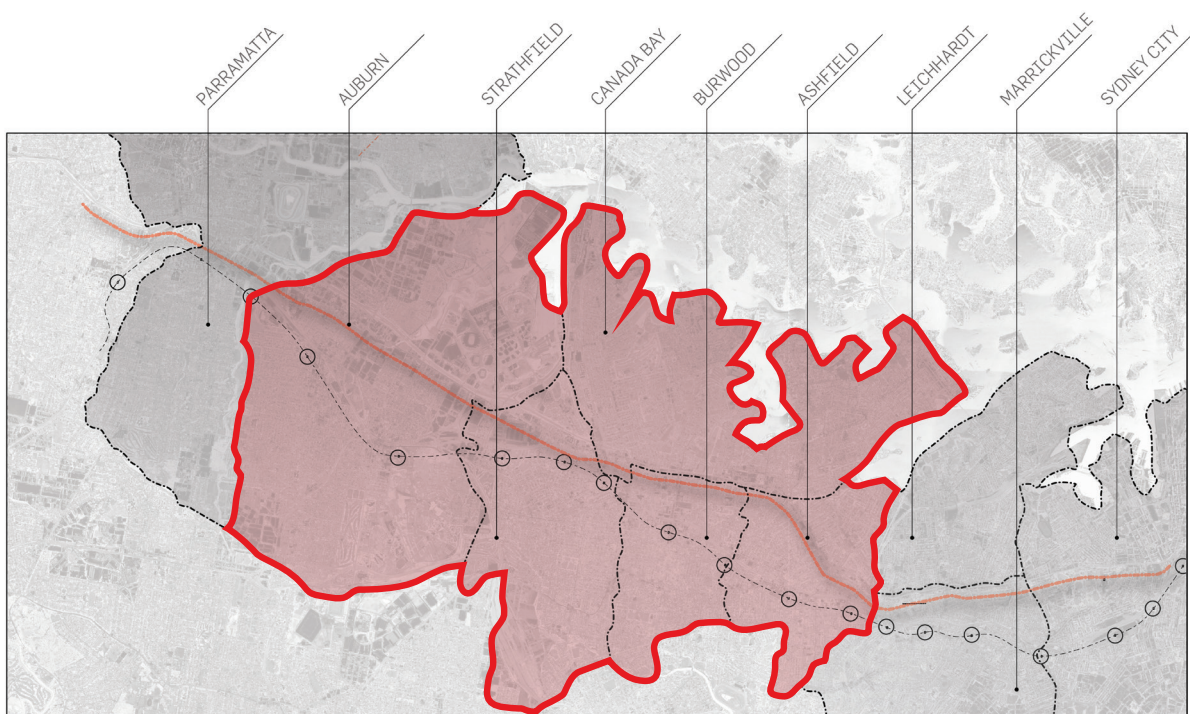
An ideal pilot project to develop a Shared Services Centre and the more regional structures for planning and infrastructure is the reasonably degraded area along Parramatta Road between Sydney and Parramatta. Survey work by the Productivity Commission in 2011 found that residents in a number of councils in this area did not feel part of their local community. Auburn, Strathfield and Burwood were particularly negative about their sense of community. This gives an opportunity to build a new approach to the cluster of councils along the corridor. Sydney Olympic Park can also be involved and could be the ideal location for a shared service centre facility.



*Parramatta Road Before*



*Parramatta Road After*



# Urban Taskforce

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For the full report Sydney's Liveability  
Crisis – Reforming Local Government  
and the extensive appendices go to  
the Urban Taskforce website.

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Graphs supplied by  
Percy Allan & Associates

