

# SYDNEY'S LIVEABILITY CRISIS – REFORMING LOCAL GOVERNMENT

Keeping the local  
in Local Government  
while improving  
efficiency





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The appendices are not printed in this publication but are available on [www.urbantaskforce.com.au](http://www.urbantaskforce.com.au).

A number of the Urban Taskforce's key members, Lend Lease, Brookfield Multiplex, Mirvac, Meriton plus Leighton Properties and Australand have supported this special research project on Local Government Reform.

*September 2012*

# FOREWORD

**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 (including water and sewerage).

The state's 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 junction between state and local levels or at least on a shared basis.

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.

To undertake this research the Urban Taskforce engaged an expert in the area, Professor Percy Allan AM. Percy headed up the 2006 Independent Inquiry into local government financial sustainability for the Local Government and Shires Association and subsequently undertook in-depth enquiries into the financial sustainability of nine local government areas of NSW. The 2006 'Allan Report' on local government sustainability is still the benchmark for research on this subject. Percy is a former Secretary of the NSW Treasury (1985-94) and was Chairman of the Premier's Council on the Cost and Quality of Government (1999-2007) so has great knowledge of how governments work and how they can be made more effective. So we have mixed Percy's reformist zeal with the pragmatic experience of Urban Taskforce members who have been working with councils for years.

Our report learns from previous surveys about what services the community expect from councils and which areas do they see councils performing well or badly in. Communities seem to be comfortable with councils looking after the parks, roads and community facilities but less so with infrastructure and planning. New approaches are needed in these areas that lift responsibility to a regional level. The planning Green Paper seems to be heading this way.

The report develops the concept of councils being strongly local as place managers for community 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 proposed as a way to improve the appropriateness, effectiveness and efficiency of council services without the need for amalgamations. We suggest removing rate capping, but capping operating costs so that any revenue growth above inflation is used for rehabilitating and expanding long neglected 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 report 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 in the preparation of this report and much of the research has been undertaken by him. 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 -

# EXECUTIVE SUMMARY

## NOW IS THE TIME TO REFORM LOCAL GOVERNMENT

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. Within this document are commitments to build liveable centres, restore confidence in the planning system, establish infrastructure and transport plans and return decision making to local communities to look after their own neighbourhoods.

Supporting the State Plan are the Metropolitan Strategy that will define Sydney's growth up to 2021 and the Green Paper outlining a New Planning System for NSW. The Green Paper sets out new plan making processes that involve communities early, a move to code assessable for many projects, a more regional approach for strategic planning and a focus on Joint Regional Planning Panels to determine larger projects. The Green Paper advocates the de-politicisation of planning assessment through the use of independent panels.

Councils have been developing their own view of the future through Destination 2036 which focuses on effective service delivery, quality governance, financial sustainability and a strong partnership between state and local governments. Following on from Destination 2036 the NSW Government has appointed an Independent Local Government Review Panel to develop options to improve the strength and effectiveness of local government. The terms of reference specifically include the delivery of services and infrastructure and financial sustainability.

All of these reviews and restructuring proposals set a context in which there is an opportunity to rethink the role of local government and its partnership with state government. The Urban Taskforce is contributing to

the opportunity for reform through this report prepared with the assistance of Percy Allan & Associates Pty Ltd.

## 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.

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 councillors represent antidevelopment communities.

The Productivity Commission in a national research project on planning in Australia found that 64% of Sydney residents were against population growth 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. 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.

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 REQUIRES MIXED USE ZONING TO BECOME LIVEABLE AGAIN

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. Developing Sydney as a city of multi-use centres each offering a wide variety of work, shopping and recreation would reduce roads and public transport congestion because there would be less need to commute between suburbs. Also a network of denser centres would make a mass transit system more financially viable.

Sydney needs a metropolitan strategy that encourages denser dwelling and

business development in modern centres along major transport corridors and near transport nodes. This would preserve most of Sydney for low rise townhouses, terraces and detached homes.

An online and physical 3-D model of how Sydney will accommodate its projected 7 million residents by 2050 while enhancing its liveability should be the centrepiece of the new metropolitan plan. Public suspicion of and hostility to the city's development will persist as long as Sydneysiders don't have a clear vision of how their suburbs will look 33 years from now.

### WHAT CITIZENS WANT FROM LOCAL GOVERNMENT

A series of surveys of communities in NSW have found that most are reasonably positive about the role of councils with two important exceptions. The major concerns particularly in urban areas are about the dysfunctional planning approval process and the poor condition of local infrastructure including roads. In the determination of development applications only 8% of residents wanted elected councillors undertaking this role. A more recent Auspoll found that communities preferred independent assessment of planning applications.

### THE STATE OF LOCAL GOVERNMENT

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. By international standards local government in Australia has a narrower focus and is less well-resourced than that in other developed countries.

Yet by average number of residents served, Australian local councils are amongst the biggest in the world. The claim that Australia has too many local councils is not true by comparison with other western countries. Australia has 564 local government authorities whereas Europe has 88,000 and the USA 18,443.

The NSW Local Government Inquiry of 2006 found that there was no evidence in either Australia or overseas that the size of a local council 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.

In 2009 a survey of council financial sustainability in NSW found that 37 of the 100 largest councils were unsustainable and that a further 16 were vulnerable. The survey also found that (excluding local water and sewerage works) there was a major infrastructure renewal backlog of \$4.5 billion growing by about \$150 million a year. The key reason for this accumulated shortfall in infrastructure renewals was excessive real growth of operating costs which displaced spending on capital works. Over a 30 year period from 1977 NSW local government operating expenditure increased eleven fold while capital expenditure only doubled.

Notwithstanding rate pegging, local government operating expenditure in NSW grew significantly faster than in other states during this period while capital spending expanded more slowly than elsewhere. Correcting the imbalance in resource allocation between operating and capital spending is the most important action needed for restoring local government financial sustainability in this state.

### 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. 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 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 functions 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

# EXECUTIVE SUMMARY

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.

Development assessment projects under \$10 million would be assessed by an independent panel appointed by council and serviced by planners from the SSC. For projects over \$10 million assessment would be by a Joint Regional Planning Panel also serviced by planning staff from the SSC.

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 funding 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.

Joint state and local government funds may be required to service the regional planning and assessment bodies that are proposed in the government's Green Paper. A new structure of JRPPs will be required that align with the regional shared service centres.

A pilot shared service centre should be established for the councils along the Parramatta Road corridor which includes Ashfield, Burwood, Strathfield, and Auburn. These local government areas exhibit weaker social capital than most other parts of Sydney and so deserve special attention at rebuilding their sense of community by having them identify with Parramatta Road as a vibrant social corridor rather than a busy motor strip

## CONCLUSION

Local government has aggravated Sydney's housing crisis by:

- Not rezoning sufficient land for affordable multiple dwellings,
- Not adopting clear consistent plans and regulations to guide permissible development,
- Not ensuring individual development assessments are independent of political and vested interests,
- Not spending enough on capital works thereby creating a large backlog of unsatisfactory community infrastructure,
- Using depreciation provisions and reserves for non-capital purposes,
- Under-borrowing for infrastructure enhancements thereby forcing new homebuyers to contribute disproportionately towards this end,
- Not sharing the cost of greenfield infrastructure with existing communities that inherited free public assets from previous generations, and
- Not sharing or outsourcing activities that would benefit from economies of scale and scope nor focusing on specific place management to better respond to community needs at a street level.

## RECOMMENDATIONS

To solve Sydney's liveability crisis the state government should give priority to the following reforms that impact on local government:

- a. Zone all major Sydney transport corridors and hubs in lower density middle to outer suburbs for multi-use purposes to create vibrant self-contained centres where people can live, work, shop and enjoy themselves without having to travel outside their neighbourhood,
- b. Require councils to introduce form-based codes to "regulate

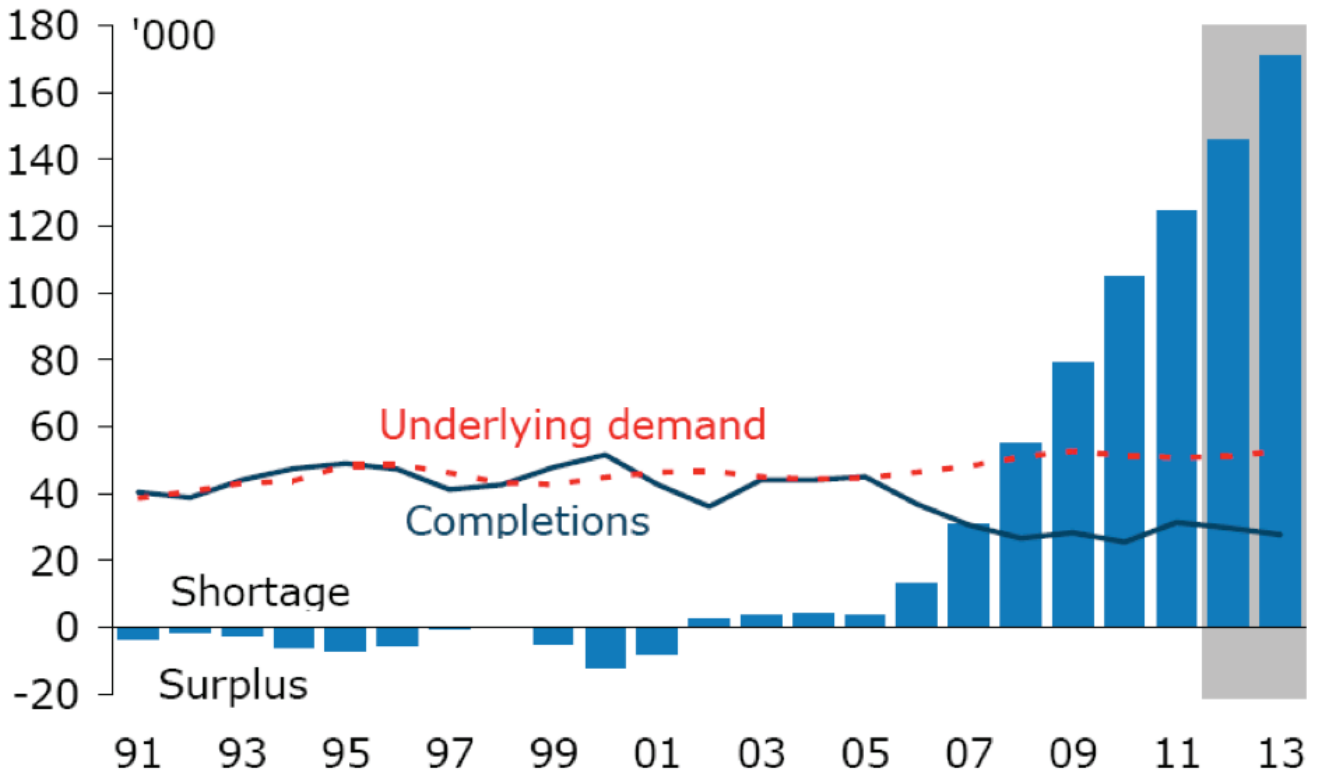
- c. the relationship between building facades and the public realm, the form and mass of buildings in relation to one another, and the scale and types of streets and blocks",
- c. Require all council development applications to be allocated (by size) for determination by expert local and regional planning panels independent of politicians,
- d. Require councils to use asset depreciation provisions and reserves for their intended purpose (i.e. renewing degraded infrastructure),
- e. Require councils to fund infrastructure rehabilitation and renewals by increasing their average net financial liabilities ratio from an average of 4% to a range of 40% to 60% ,
- f. Replace rate pegging with a cap on local government operating expenditure so that any future real growth in revenues is devoted to correcting the displacement of capital spending over many decades and to contribute to a regional fund to assist with the cost of providing essential utility infrastructure to greenfield sites, and
- g. Require councils to form regional shared service cooperatives for all back and front office activities that would benefit from economies of scale and scope to free up councilors and management to focus more on client and place needs requiring customised solutions.

<sup>1</sup> The net financial liabilities ratio of a council means its total liabilities less (i) unrestricted cash and investments, (ii) any restricted cash and investments matching restricted liabilities, and (iii) receivables expressed as a percentage of total operating revenue. A NFL ratio up to 60% should be compatible with an investment grade (single-A) credit rating provided a council had a minimum operating surplus/total operating revenue of 2.5% and a minimum unrestricted current assets/unrestricted current liabilities ratio of 1.25.



# PART 1: SYDNEY'S LIVEABILITY CRISIS

NSW housing market balance



Source: ANZ Research, *Australian Housing Chartbook*, January 2012, page 10

**This chapter is a synopsis of the research undertaken in the Appendix to this report.**

## SYDNEY'S HOUSING CRISIS

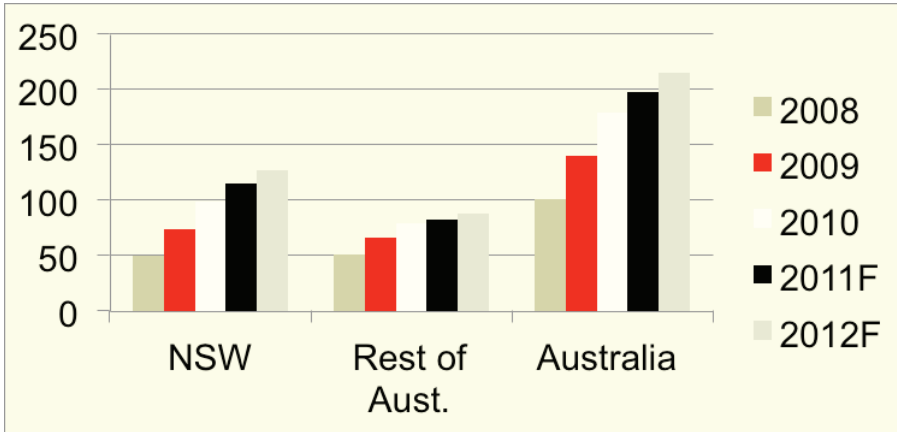
The state government's economic, planning, transport, infrastructure and local government plans all emphasise the need for Sydney to accommodate population growth which has averaged almost 1.3% per annum between the last two census years (2006 and 2011).

The NSW Government's Discussion Paper, *Sydney over the next 20 years*, defines the need for 570,000 more homes by 2031. Sydney will need to

build an extra 28,500 dwellings a year. But Sydney already has a housing supply backlog of about 83,000 homes (based on two thirds that of NSW as a whole) and will therefore need to build well over 30,000 dwellings each year over the next 20 years.

# PART 1: SYDNEY'S LIVEABILITY CRISIS

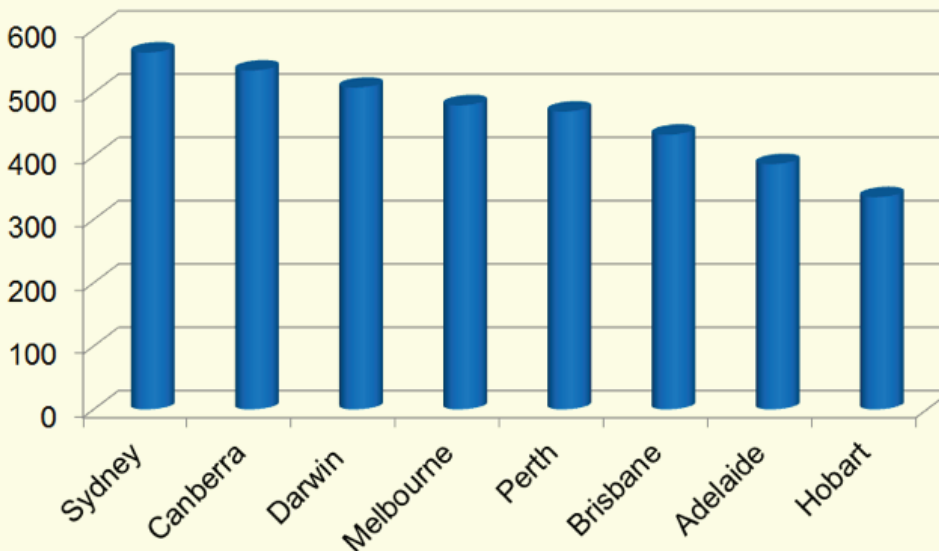
## Dwelling Stock Deficiency Trends - NSW versus Rest of Australia



NSW accounts for most of Australia's housing stock deficiency.

Source: BIS Shrapnel, Building Industry Prospects, March 2011, page 19

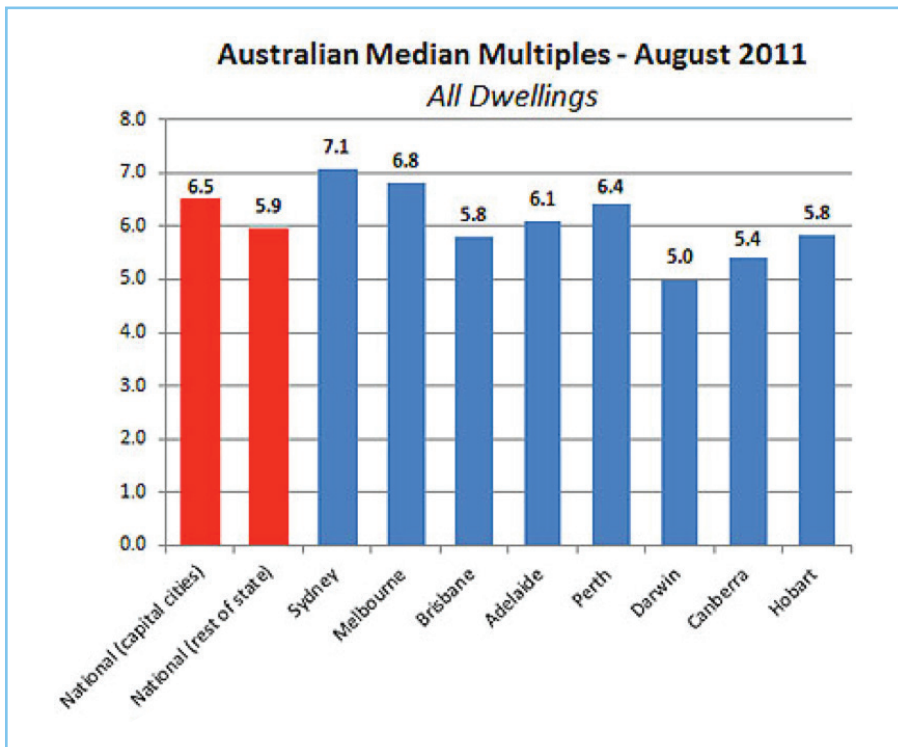
## Sydney has the highest average house price of any city in Australia



ABS 6416.0, House Price Indexes – Eight Capital Cities , March 2012

Sydney homes are more expensive than those of other capital cities.

## PART 1: SYDNEY'S LIVEABILITY CRISIS

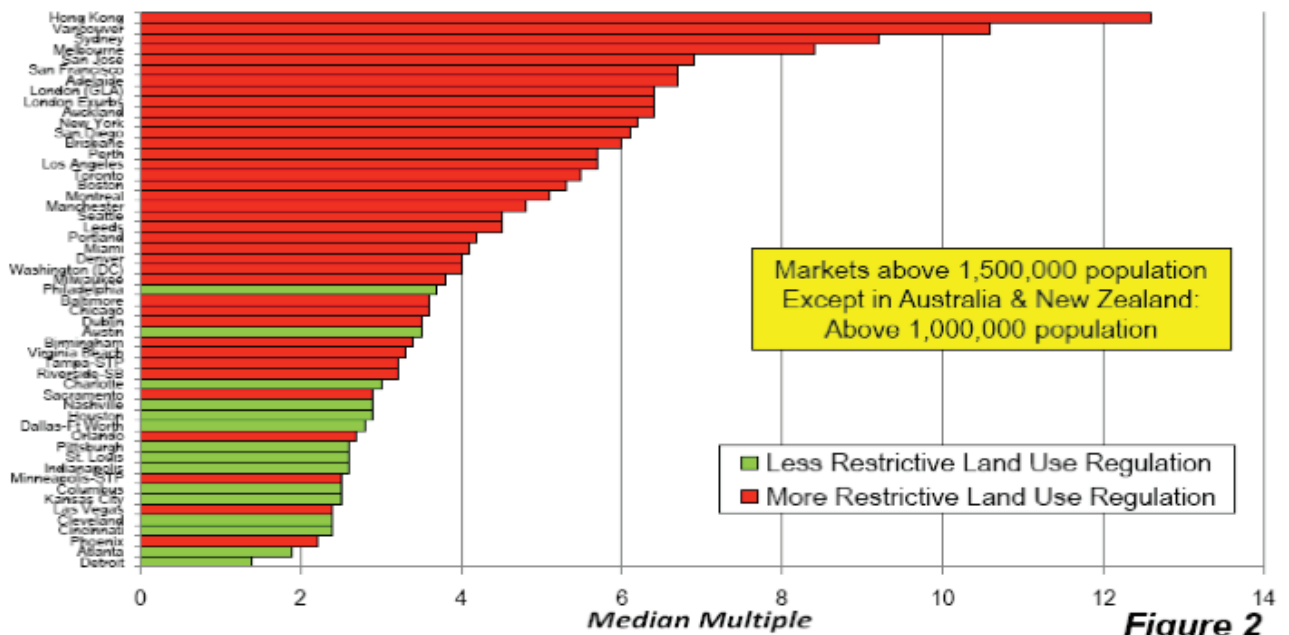


The price of an average house in Sydney already exceeds seven times the median income of a family, making Sydney the most expensive housing market in Australia.

Internationally, Sydney is the third most expensive housing market after Hong Kong and Vancouver.

Sources: RP Data ([www.macrobusiness.com.au](http://www.macrobusiness.com.au))

## Housing Affordability & Land Regulation LARGER METROPOLITAN MARKETS



Source: 8th Annual Demographia International Housing Affordability Survey 2012

# PART 1: SYDNEY'S LIVEABILITY CRISIS

Housing prices are set to escalate faster in Sydney than most Australian capital cities because its housing shortage is far worse than that elsewhere in the nation.

## Forecast Median House Price by Capital City

	MEDIAN HOUSE PRICE AS AT JUNE 2012 ESTIMATE (\$'000)	FORECAST MEDIAN HOUSE PRICE AS AT JUNE 2015 (\$'000)	FORECAST GAIN IN MEDIAN HOUSE PRICE OVER THREE YEARS TO JUNE 2015 (%)
<b>Sydney</b>	640	750	<b>17</b>
<b>Melbourne</b>	540	557	<b>3</b>
<b>Brisbane</b>	430	515	<b>20</b>
<b>Adelaide</b>	390	425	<b>9</b>
<b>Perth</b>	475	580	<b>22</b>
<b>Hobart</b>	357	375	<b>5</b>
<b>Darwin</b>	540	620	<b>15</b>
<b>Canberra</b>	525	530	<b>1</b>

Source: BIS Shrapnel, Residential Property Prospects, 2012 – 2015, 25th June 2012



**How much does the average Sydney house cost to buy?**



**How much can the average first home buyer afford to pay?**

Average housing rents in NSW have already jumped by 40% over the census period. Sydney is the least affordable housing market in Australia and one of the least affordable in the world. A first homebuyer on average weekly earnings can afford a mortgage that pays for only half the price of a typical house in Sydney. A family with average disposable income can afford barely 60% of the average cost of a home.

Only 2% of homes in Sydney are affordable to low income households, defined as the bottom 40% of income earners. Half such people already suffer rental stress, paying over 30% of their disposable income on rent.

Source: Percy Allan & Associates Pty Ltd based on ABS, House Price Indexes: *Eight Capital Cities*, (6416.0) Tables 7 and 8. *Median Price -Unstratified- and Number of Established House Transfers*.

### BASIS OF CALCULATION:

The median equivalised disposable household income for Australia in 2009/10 was just over \$44,000 a year according to the ABS: (<http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6523.0Main%20Features22009-10?opendocument&tabname=Summary&prodno=6523.0&issue=2009-10&num=&view=>)

A family on such an income could afford to buy a house worth \$331,000 assuming they had a 10% deposit (i.e. borrowed 90%), had no other debts (e.g. car or credit cards), the variable loan rate was 6.2% and the loan term was 30 years.

Source: <http://www.mortgage.com.au/calculators/what-can-i-afford-to-borrow.html>The average

### SYDNEY'S ANTI-DEVELOPMENT ETHOS

Two out of three Sydney residents don't want the city to grow bigger, yet Sydney's population is set to rise to almost 7 million by the middle of the century. The issue is not whether to have growth or not, but how to manage it. A majority of Sydnesiders oppose multiple dwellings replacing single dwellings. That is not surprising because a majority live in detached houses. But the proportion living in townhouses, terraces, apartments and units is already 41% and growing each year. Sydney is no longer a sea of terracotta red-tiled roves as it last was in the 1970s. Its accommodation is changing but not keeping pace with public demand.

New home seekers say they would prefer to live in a self-standing house, but in practice most buy flats, units, apartments, terraces and townhouses because they are more affordable. Also

many retirees plan to move to lower upkeep apartments by cashing in on the high value of their detached houses to bolster inadequate superannuation savings. Yet Sydney's housing shortage is most acute for denser dwellings where demand by both younger and older generations is strongest.

The shortage of dwellings comes from a combination of rising demand (due to population growth and higher incomes stemming from the resources boom) and restricted supply (caused by state and local government land use restrictions, developer charges and tardiness in approving developments). In NSW, state and local regulatory restrictions and tax imposts on developers is greater than in other jurisdictions.

Housing developers in NSW have struggled to make a profit for two reasons. Firstly, property holding costs prove prohibitive where a local council's approval processes are unclear,

cumbersome and slow. Secondly, state and local infrastructure charges and other taxes after adding uniform national taxes exceed the norm in other states. Councils are using development charges not just to serve new developments, but to help fund general infrastructure renewals and enhancements that have been neglected for thirty five years while council operating expenditures expanded strongly.

For the past decade home builders have gone broke or shifted their attention from Sydney to other state capitals. The majority have effectively gone on strike awaiting a better business climate in NSW. The home building industry since the late 1990s has shrunk from 7% to 4% of the state economy as measured by domestic demand. That's equivalent to losing more than the entire economic contribution of the electricity, gas, water and waste services industry in the space of a dozen years<sup>2</sup>.

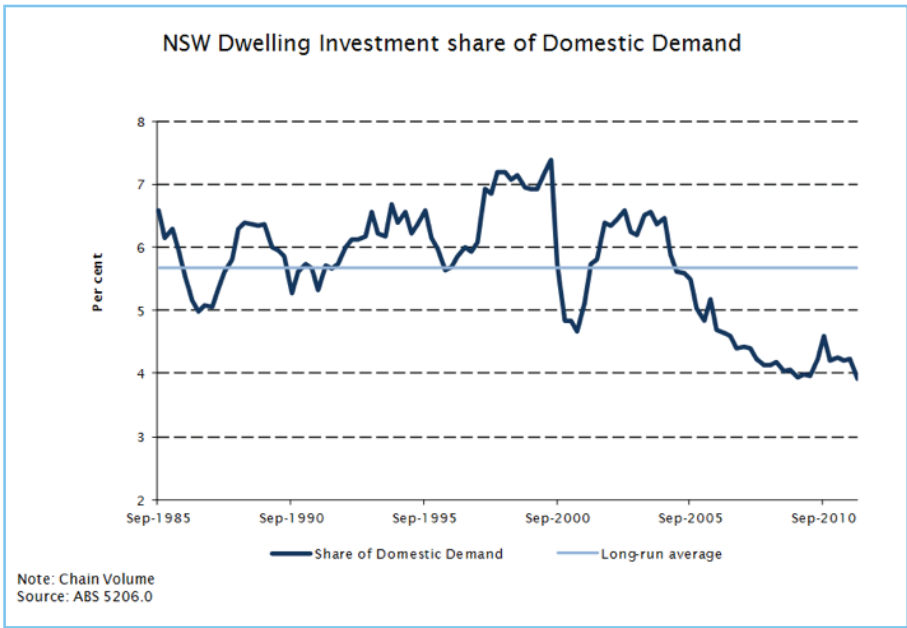
### Total Taxes on New Houses and Apartments

	New homes			New apartments		
	Sydney	Melbourne	Brisbane	Sydney	Melbourne	Brisbane
Direct	75 422	63 312	55 170	73 694	55 607	52 238
Hidden/ambiguous	106 276	45 398	56 346	51 331	28 545	46 718
Indirect	86 180	75 071	79 265	84 598	73 058	72 504
<b>Total</b>	<b>267 879</b>	<b>183 781</b>	<b>190 781</b>	<b>209 623</b>	<b>157 210</b>	<b>171 460</b>

Data source: TheCIE 2011.

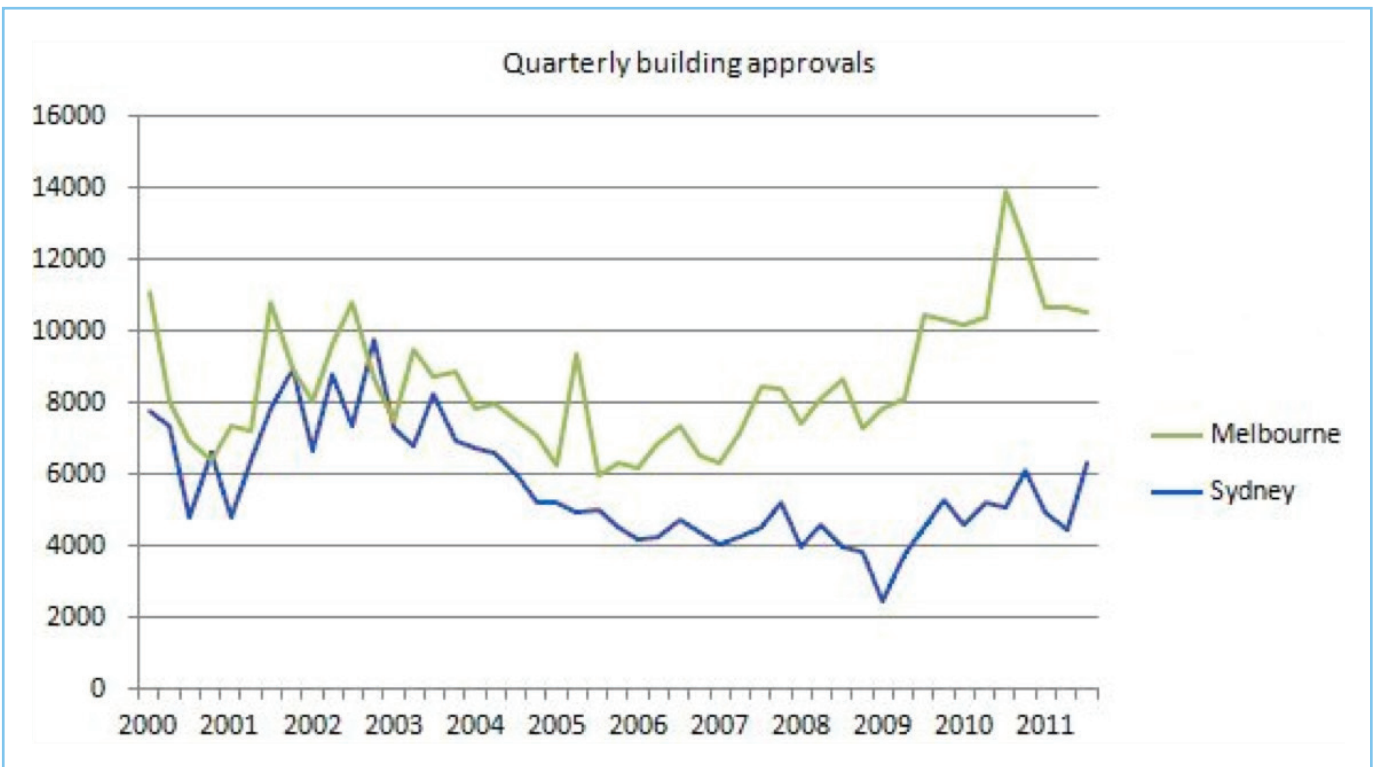
<sup>2</sup> See Access Economics, *The NSW economy in 2020, A foresighting study*, August 2010, page v.

# PART 1: SYDNEY'S LIVEABILITY CRISIS



For the majority of Sydneysiders who want developers to go away their wish has come true. Housing construction in Sydney has fallen to almost half that of Melbourne even though Sydney is a bigger city.

Source: NSW Treasury Budget Report Paper No. 2, 2012-13,



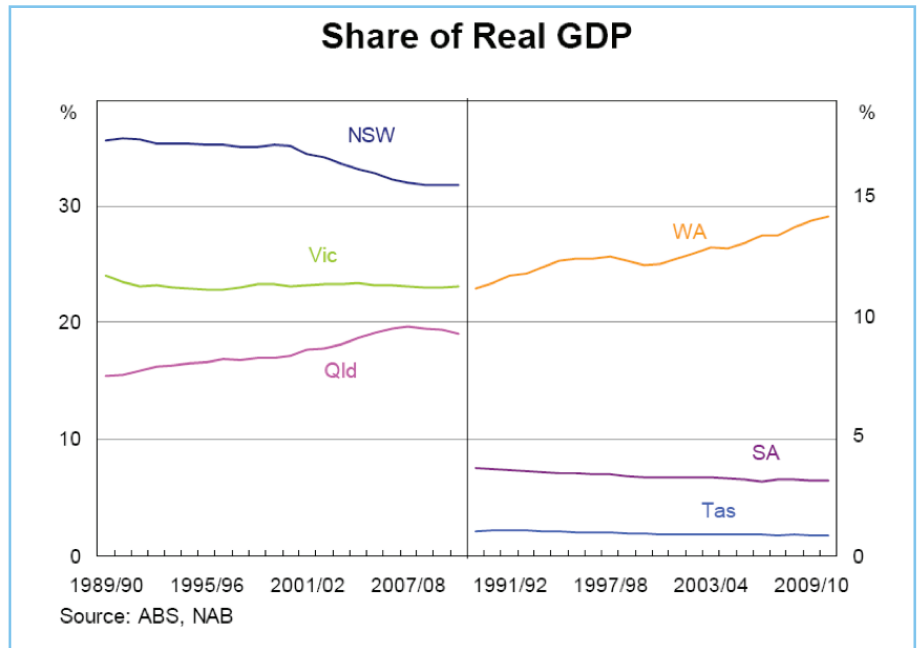
Source: Australian Bureau of Statistics

## ANT-DEVELOPMENT HAS NOT STOPPED POPULATION GROWTH

Sydney's collapsed home building industry has not stopped or even slowed Sydney's strong population growth as many wished. Instead it has depressed economic growth with the result that NSW's share of real national GDP has fallen sharply in the last decade while Victoria's has held its own notwithstanding booming economies in Western Australia and Queensland. As a result job opportunities in Sydney have not been as robust as in Melbourne let alone Perth or Brisbane. Ironically, NSW is also a major resource exporter (steaming and coking coal), but that has not been sufficient to offset its general economic malaise.

The state government in its latest budget identified low housing construction as the major brake on state prosperity and job creation. It announced a package of measures to stimulate the housing sector including half a billion dollars for additional infrastructure that accelerates the delivery of up to 76,000 more properties, fast-tracking approvals for major projects, clearing the backlog of stalled approvals and redirecting financial incentives to buying new houses not existing ones.

While the state government has made housing expansion its top spending priority, there is no evidence that local government recognises there is a problem let alone is addressing it with vigour. Instead many if not most local councils continue to act as a bulwark against development to pacify the six in ten Sydneysiders who live in a detached house and don't want any other form of housing within their community.

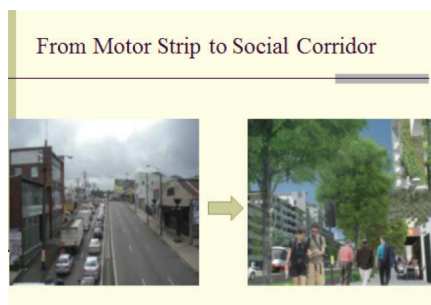


## MAKING A BIGGER SYDNEY BETTER

The state government's new metropolitan strategy should construct a physical or at least an online 3-D computer model of how Sydney would look after it accommodates the extra two million people that will inhabit it by 2050<sup>3</sup>. That should assure Sydneysiders that vast areas of detached housing will be protected by locating denser housing and commercial premises in centres near transport nodes or along road and rail corridors. Run down areas like Parramatta Road could be as smart and exciting as a tree lined European boulevard with medium rise apartments and offices built above shops and other public amenities.

Such a metropolitan network of modern centres would have the critical mass to support a mass transit system of light rail and ultimately a metro-underground. By encouraging employers to establish premises within self-contained centres it would reduce cross-Sydney traffic and thereby road and public transport congestion as well as motorised pollution. People would have more time for family and recreation activities because they would save on commuting. Community life would flourish because people would get to know their neighbourhood better by living, working, shopping and playing in it.

Such a vision is not a pie-in-the-sky fantasy. It's already successfully underway in San Diego, California's second largest city, where once it was understood, got strong public endorsement.



<sup>3</sup> Modern software can build a 3D city model to help citizens visualise how their city would look in future under different planning scenarios. See <http://www.prweb.com/releases/2008/06/prweb1001084.htm>

## PART 1: SYDNEY'S LIVEABILITY CRISIS

*Making the "city of centres" (is) the central organizing concept of the (San Diego 2008) General Plan. The centres are envisioned to be compact and walkable, to have a robust mix of uses focused upon transportation networks and to be defined by open-space networks.*

It was also the vision that inspired the Metropolitan Strategy document, City of Cities - a Plan for Sydney's Future which unfortunately proved stillborn for lack of follow through consultation, planning and action at a sub-regional level. Hopefully the new state planning model proposed in the July 2012 Green Paper – A New Planning System for NSW - will help make it a tangible reality.

For Sydney to become a genuine metropolis of modern centres it needs to reorganise its local government to address both regional and local planning and development issues on the one hand and to reallocate resources from recurrent to capital spending to overcome a huge infrastructure renewal backlog without making developers bear the cost for past neglect.

### CONCLUSION

There is a naïve view in Sydney that if developers are discouraged the city's population growth will cease and Sydney won't need to change its land use character. There is also a conviction that the Australian way of life is threatened by a shift from detached housing to mixed use neighbourhoods. Sydney's wish for developers to bow to popular resistance to further development has been realised. Developers have gone on strike refusing to develop until public attitudes and policies change. Housing construction in Sydney is now barely half that of Melbourne notwithstanding Sydney having 400,000 more residents. The retreat of developers has caused a severe housing shortage and economic slump that will require concerted effort by state and local government to reverse.

The reluctance of councils to rezone land occupied by detached houses for multiple dwellings and complex local planning laws and development regulations applied slowly and inconsistently has pushed up the cost of erecting units, apartments, terraces and townhouses. The shortage of such accommodation in Sydney is reflected in the current median rent for an apartment being only \$30 short of that for a self-standing house.

Young people are spending longer with their parents or seeking shared accommodation with strangers because they can't afford renting on their own let alone buying a house. Yet family formation typically requires access to private housing even if small. The denial of affordable accommodation to younger Sydney couples is delaying marriage and child-rearing and resulting in more congested living quarters. Rather than becoming more liveable Sydney is suffering housing stress with the price of the average house being beyond the reach of the typical young family starting out and rents reaching heights that push ordinary people into poverty.

Ironically existing residents while enjoying high home prices may have difficulty downsizing when they want to retire because most of Sydney is off bounds to multiple dwellings. So it could be harder to sell self-standing houses for which there is an oversupply and buying apartments and townhouses for which there is a scarcity especially in areas where people want to live. This resulting accommodation imbalance is disadvantaging both existing and aspiring home owners.

Something has to give or Sydney will increasingly become a self-detached housing slum as a growing population embraces living with parents or house sharing as the only alternative to blocked development. Extended family living may be an ideal for the collectively minded, but for most Sydneysiders the individual family unit with its own

accommodation is still the preferred mode of living. Likewise most singles want their own habitation as they grow older.

A more compact Sydney would still have vast tracts of single dwelling suburbs. Denser accommodation would be located in transport corridors and hubs where multiple use buildings would have shops and public amenities at street level and apartments and offices above them. Transport interchanges would become the foci of modern urban centre layout with a community hub consisting of smart shops, cafes and restaurants (like the Italian Forum in Norton Street, Leichhardt) surrounded by a wall of taller residential and office buildings falling off into medium to low rise suburbs with multi-use structures.

Such European style city-planning would allow more people to live, work and relax in their own neighbourhood thereby reducing commuting time, traffic congestion and car pollution. Denser transport corridors would make a modern mass transit system economical to build. The basic planning tenet that divides where people work, live and leisure is a vestige of the industrial revolution which is turning Sydney into a Los Angeles of car commuters.

Adopting a mixed-use cityscape akin to a pre-industrial network of centres would make communities more self-contained economically and socially thereby strengthening local identity and pride, increasing neighbourhood interaction, fostering more voluntary activities and discouraging delinquency and crime stemming from social exclusion and isolation.



# PART 2: THE LOCAL GOVERNMENT SECTOR

## SYDNEY'S LOCAL COUNCIL PROFILE

According to the NSW Department of Lands, Sydney has 38 local councils that range in size from Hunters Hill (15,000 residents) to Sutherland (220,000) and Blacktown (300,000). The population of remaining councils varies from 29,000 (Mosman) to 186,000 (Bankstown). The median size of Sydney councils is 78,000 people<sup>4</sup>. The smaller councils tend to be in the inner metropolis where population first settled.

The NSW Division of Local Government divides Sydney's councils into four categories:

- Capital City (Sydney City Council which covers the central business district and suburbs to its south)
- Small to medium sized metropolitan developed (15 councils)
- Large to very large metropolitan developed (16 councils), and
- Regional Towns and Cities (6 councils, namely Campbelltown, Camden, Liverpool, Penrith, The Hills and Hornsby).

Yet the NSW Department of Planning's March 2010 discussion paper *Sydney Towards 2036* recognised 43 local government areas as constituting the metropolis of Sydney - the additional five sub-regions being Wyong, Gosford and Hawkesbury to the north and the Blue Mountains and Wollondilly to the west of the first map above.

The City of Sydney municipality covers only 3.3% of the population of the total metropolitan area of NSW which extends from Wollongong through Sydney to Newcastle. As the following chart shows only Brisbane and Hobart have large city councils relative to their total metropolitan populations.



<sup>4</sup> Productivity Commission, *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*, Volume 2, April 2011, page 575

## PART 2: THE LOCAL GOVERNMENT SECTOR

**Table 3: Populations of states, metropolitan regions and capital city local governments**

State	State population 2010	Metropolitan region population 2008/09	Capital city population 2008/09	Capital city share of metro region
New South Wales	7,238,819	5,316,379	City of Sydney: 177,000	3.3%
Victoria	5,547,527	4,014,361	City of Melbourne: 89,759	2.2%
Queensland	4,516,361	2,706,302	Brisbane City: 1,052,458	38.9%
Western Australia	2,296,411	1,519,510	City of Perth: 17,093	1.1%
South Australia	1,644,642	1,275,041	City of Adelaide: 19,444	1.5%
Tasmania	507,626	205,566	City of Hobart: 49,887	24.3%

**Note:** Another 590,000 people live in Australian territories including the Northern Territory and the Australian Capital Territory (Canberra).

Source: G. Sansom, J. Dawkins and S. Tan, *The Australian Model of Metropolitan Governance: Insights from Perth and South East Queensland*, UTS: Centre for Local Government, University of Technology, Sydney, May 2012, page 11, <http://www.clg.uts.edu.au/consultancyandresearch/projects/metropolitangovernance/Documents/MetroWorkingPaper2012.pdf>

More than 100 State acts impinge on Council activities, but the main ones are the Local Government Act 1993 (LG Act) and the Environmental and Planning Assessment Act 1979 (EPA Act) and subsequent amendments thereto. The Department of Local Government (DLG) oversees the first act while the Department of Planning administers the second.

### LOCAL GOVERNMENT'S ROLE

Unlike other federations, Australian local government is not involved in providing major community services such as schools, hospitals, police or social security. Its traditional functions were typecast as 'the three R's' - roads, rubbish and rates. But a new Local Government Act in 1993 encouraged councils to serve people, not just property, yet did not give them the revenue base to do so. This accelerated a shift from infrastructure spending

to human services with the result that Council services now cover at least 8 R's (Independent NSW Local Government Inquiry, 2006, – Ch1):

- Roads (including footpaths, kerbing, drains and street lighting)
- Refuse (including recyclable waste collection and disposal tips)
- Regulation (e.g. town planning, land use zoning, development approvals, safety inspections and environmental controls)
- Recreation (e.g. parks, sport grounds, swimming pools and libraries)
- Relief (e.g. community welfare, health, education and transport)
- Regionalism (e.g. tourist and other forms of economic development)
- Retail services, which are provided by regional and rural Councils (e.g. water and sewerage, gas supply, salesyards, aerodromes and caravan parks)
- Rate collections also absorb a Council's resources, but of course this activity is only a means to an end.

The Australian Productivity Commission describes the tasks of local government as follows:

**Table 2.2 Roles and functions of local government**

Role	Description
Governance	To provide open, responsive and accountable government and ensuring that available resources are used fairly, efficiently and effectively.
Service and infrastructure provider	To provide and plan for adequate, appropriate and equitable services and infrastructure in their local communities (either directly or on behalf of other levels of government) striking a balance between social, environmental and economic objectives.
Advocacy	To promote proposals which are in the best interests of local communities, including to state and Australian governments.
Coordinator	To share resources and work consultatively and cooperatively with other LG authorities and the tiers of government.
Regulator	To exercise regulatory functions either directly or on behalf of other levels of government; and making and enforcing local laws in the best interests of their local communities.
Financial manager	To raise funds for local purposes by the fair imposition of rates, charges and fees, fines, and by responsibly managing the assets for which they are responsible including income from investments.

Sources: Local Government Act 1993 (NSW); Local Government Act 1989 (Vic); Local Government Act 2009 (Qld); Local Government Act 1999 (SA); Local Government Act 1995 (WA); Local Government Act 1993 (Tas); Local Government Act 2008 (NT); VCEC (2010); IPART (2009).

Source: Productivity Commission, *Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator*, Ch.3 - Chapter 2 Local government in Australia and Overseas, page 52

[http://www.pc.gov.au/\\_data/assets/pdf\\_file/0003/118533/05-local-government-chapter2.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0003/118533/05-local-government-chapter2.pdf)

It also shows its tasks by functional areas:

**Table 2.3 Local government activities by functional area<sup>a</sup>**

Functional area	Roles
Engineering and infrastructure	Public works design; construction and maintenance of roads; bridges, footpaths; drainage; cleaning; waste collection and management.
Property-related	Domestic waste management including solid waste and recycling services, water and sewerage. <sup>b</sup>
Planning and development	Land use and town planning (including heritage); development approvals; building inspection; licensing, certification and enforcement; administration of aerodromes <sup>c</sup> , quarries, cemeteries, parking stations, and street parking.
Environment and health	Catchment management, parks and gardens, tree removal, pest and weed control, water sampling, food sampling, immunisation, toilets, noise control, meat inspection and animal control.
Community and social	Aged care and child care services, health clinics, youth centres, community housing refuges and facilities, counselling and welfare services.
Recreation, culture and education	Swimming pools, recreation centres, community halls, sports facilities, lifeguards, camping grounds, community festivals, libraries, art galleries, theatres and museums.
Other	Bus services, abattoirs, sale-yards, markets and group purchasing schemes.

<sup>a</sup> A majority of these activities are not provided by Northern Territory. In the Northern Territory, LG responsibilities are limited to traditional property-related services. <sup>b</sup> Water and sewerage are provided by some LGs in New South Wales, Queensland and Tasmania only. These services are not provided by Northern Territory LGs except in the town of Jabiru in West Arnhem Shire Council. Some LGs in South Australia are involved in the operation of effluent drainage schemes. <sup>c</sup> In Victoria, administration of aerodromes (etc) falls under the functional area 'engineering and infrastructure'.

Source: PC (2008a).

Source: Productivity Commission, *Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator*, Ch.3 - Chapter 2 Local government in Australia and Overseas, page 53

[http://www.pc.gov.au/\\_data/assets/pdf\\_file/0003/118533/05-local-government-chapter2.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0003/118533/05-local-government-chapter2.pdf)

## PART 2: THE LOCAL GOVERNMENT SECTOR

### LOCAL GOVERNMENT'S SIZE

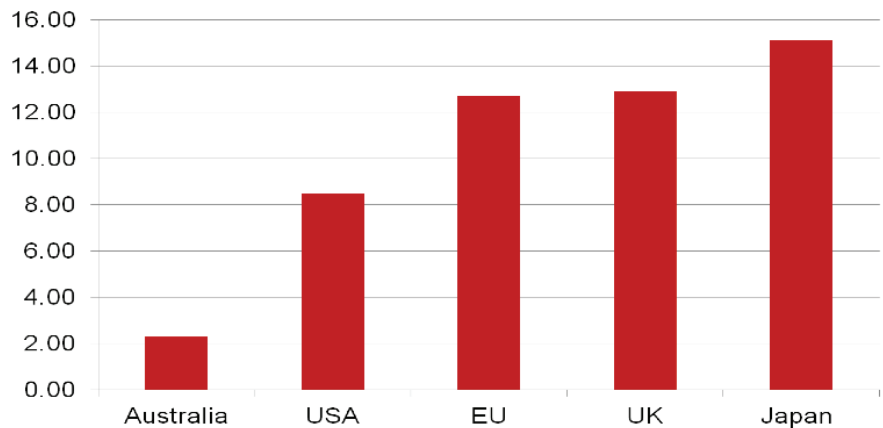
Australia's local government sector is small by world standards, partly because its only tax is residential rates which account for only one third of the nation's property taxes. Local government accounts for only around 6% of general government outlays and 3-4% of total taxes collected in Australia. Local government expenditure as a proportion of GDP is only 2% in Australia compared with 8% to 15% in other developed countries.<sup>5</sup> As mentioned by the Local Government Inquiry of 2006<sup>6</sup>:

The 1993 LG Act gave General Managers the powers of management and Councillors the role of strategy and policy makers. Yet most Councils still see their role as making decisions on individual matters (e.g. building applications), not just strategic policies (e.g. floor space ratios). This distinguishes Councils from other tiers of government where the executive and legislative functions are completely separate.

Moreover, Councils can also take on the role of the judiciary in certain matters, further confusing and combining roles that in other tiers of government are distinctly separate. This combination of powers, and the lack of a clear understanding of governance issues, is fundamental to understanding Council behaviour.

Yet paradoxically, Australia's local councils are big by world standards. In 2000 the average residency size of local government units in other countries was generally much smaller than in Australia<sup>7</sup>.

### Local Government Expenditure as a Percentage Share of GDP, 2006



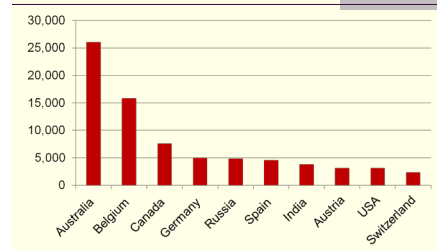
Source: Dexia Bank

Since 2000 the average population served by an Australian local council has increased from 26,000 to 40,000. This is because the total number of councils has shrunk from 730 to 564 and the population has risen from 19 million to almost 23 million.

Those who favour local government amalgamation because they think the average Australian local council is too small by world standards are misinformed. They are not aware that the 27 member states of the European Union have 88,000 local municipal authorities<sup>8</sup> compared with just 564 in Australia even though our land mass is almost twice the size of the European Union.<sup>9</sup>

While our population of 22.7 million is overshadowed by the European Union's 501 million people, the average

### Average Size of Local Government Bodies by Population in Federal Systems, 2000



Source: M.L. Drummond

number of residents covered by a European local authority is 5,693, while the average population served by an Australian local council is 40,248. In the USA the average size of a local government unit (county, municipality and township) is 7,981.<sup>10</sup>

<sup>5</sup> Private correspondence by P. Allan with Dexia Bank, July 2008. Dexia specialises in local government finance.

<sup>6</sup> P. Allan, L. Darlison and D. Gibbs, *Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report: Findings and Recommendations*, Local Government and Shires Association of NSW (LGSA), Sydney, May 2006

<sup>7</sup> Mark Lea Drummond, *Costing Constitutional Change: Estimates of the Financial Benefits of New States, Regional Governments, Unification and Related Reforms*, School of Business and Government, PhD Thesis, University of Canberra, Nov 2007.

<sup>8</sup> Dexia, *Sub-National Governments in the European Union – Organisation, responsibilities and finance*, Paris, July 2008, page 31

<sup>9</sup> Wikipedia, *Local Government in Australia*, [http://en.wikipedia.org/wiki/Local\\_government\\_in\\_Australia](http://en.wikipedia.org/wiki/Local_government_in_Australia)

<sup>10</sup> Wikipedia, *Local Government in the United States*, [http://en.wikipedia.org/wiki/Local\\_government\\_in\\_the\\_United\\_States](http://en.wikipedia.org/wiki/Local_government_in_the_United_States)

### THE MERGER MYTH

There is a widespread misconception that amalgamations are necessary because the average Australian local council is small by world stands. As we have seen, the reverse is true. Also there is little evidence either in Australia or elsewhere that smaller local government units necessarily suffer diseconomies of scale.

Where small scale is a handicap it can be overcome (especially in metropolitan areas) using shared services centres or outsourcing functions (e.g. rate collections, capital works) to specialist providers. Today more than a quarter of California's cities (about 130) are contract cities based on the Lakewood model. Here's a description of how that blueprint came about<sup>11</sup>:

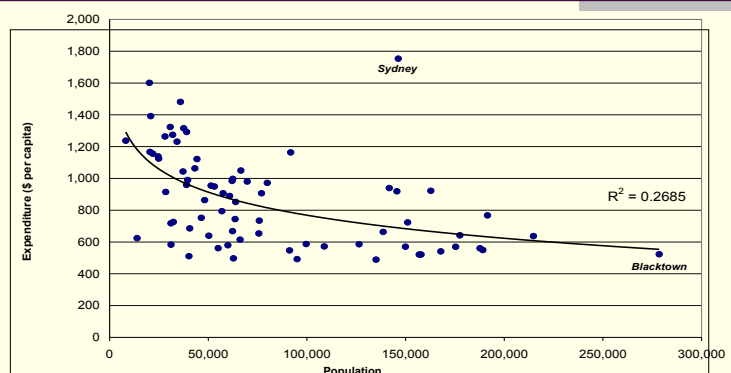
*Lakewood of the early 1950s was David fighting the Goliath of Long Beach, a city intent on gobbling up its unincorporated neighbour parcel by parcel. The legal turf battles were exhausting Lakewood's defenders, most of whom were transplants drawn to the promise of this sleepy centre-turned-post-war 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, firefighting - 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.*

Except for the smallest councils (under 8,000 in rural areas), the 2006 NSW Local Government Inquiry found no conclusive evidence that mergers would reduce unit costs. Even in these cases a lack of population density rather than size appeared to be the main cause of higher operating costs per resident.

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

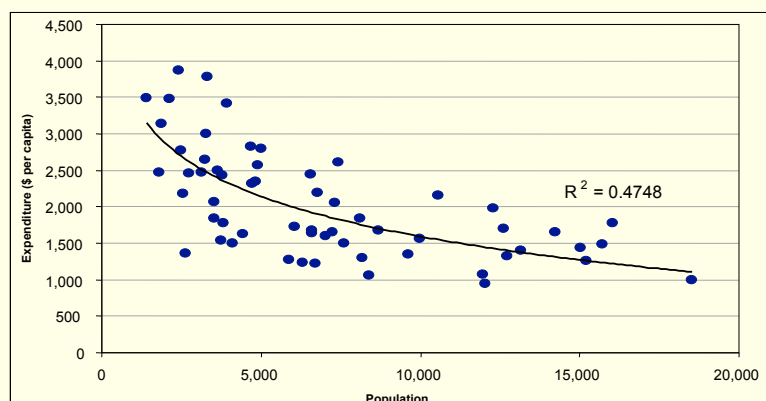
### Urban Councils Costs versus their Size\*



\* Council per capita expenditure versus population size

The second chart shows that the relationship was stronger for rural councils (about 47%).

### Rural Councils Costs versus their Size\*



\* Council per capita expenditure versus population size

<sup>11</sup> <http://wikimapia.org/10156810/Lakewood>

## PART 2: THE LOCAL GOVERNMENT SECTOR

But the third chart shows that lower population density largely explains why smaller councils are more expensive than larger ones. Councils with small populations generally cover large geographical areas that are expensive to service. Unless their residents were compelled to live in cities such shires' expenditure per capita would remain high even if they were amalgamated. Indeed to the extent that a merged group of councils centralised their administration in one city the costs of servicing outlying regions could escalate.

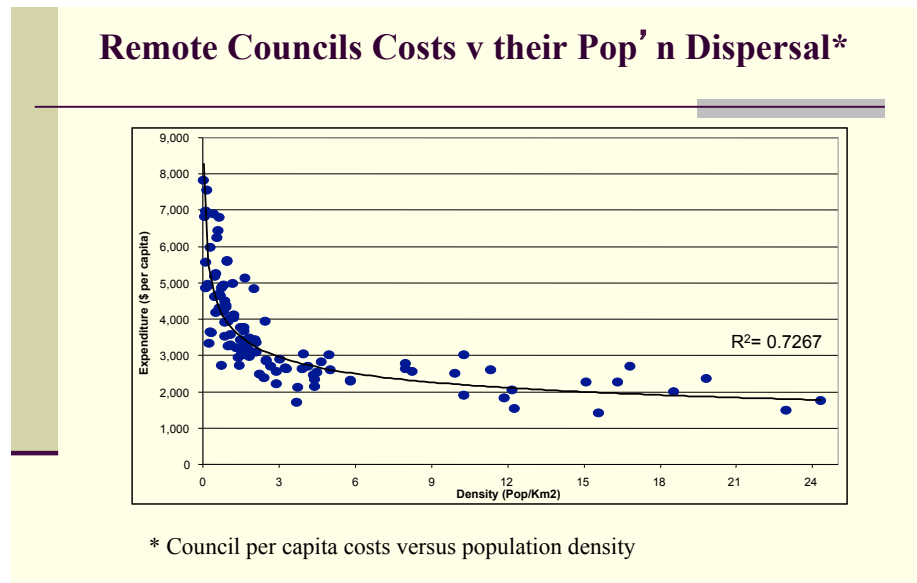
Professor Brian Dollery, Director of the Centre for Local Government at the University of New England recently criticised pro-amalgamation reports produced by state governments and other parties that assume the bigger bureaucracies always lower unit costs<sup>12</sup>.

*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...*

*But unfortunately reports of this kind almost always repeat the same fundamental error in their empirical estimations of scale economies...*

*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.*

The big is better argument is not always apt for a public bureaucracy where being nimble, flexible and cost conscious can be difficult the bigger the span of control. Yet private industry groups that see council amalgamations as the key to local government reform (e.g. NSW Business Chamber and Tasmanian Property Council) should heed the lesson of Australia Post when it moved all Sydney's mail sorting to one building, the Redfern Mail Exchange. Instead of achieving economies of scale the result was a demoralised workforce, union dargs and lower productivity. Australia Post was forced to restore decentralised mail sorting and to focus on the real problem – getting the work flow processes right.

<sup>12</sup> Brian Dollery, *Council merger debate must stick to the facts*, Local Government column, SMH, 5th June 2012, page 12, [http://newsstore.fairfax.com.au/apps/viewDocument.ac?sessionId=F9FFD2E29169FFE3704B0B93A79BB1A2?sy=af&pb=all\\_ffx&dt=selectRange&dr=1month&so=relevance&sf=text&sf=headline&rc=10&rm=200&sp=brs&cls=17297&clsPage=1&docID=SMH120605H1CA27QVDM](http://newsstore.fairfax.com.au/apps/viewDocument.ac?sessionId=F9FFD2E29169FFE3704B0B93A79BB1A2?sy=af&pb=all_ffx&dt=selectRange&dr=1month&so=relevance&sf=text&sf=headline&rc=10&rm=200&sp=brs&cls=17297&clsPage=1&docID=SMH120605H1CA27QVDM)

The next table shows how some services enjoy economies while others suffer diseconomies from being centralised to achieve a larger scale of operation. A one suit fits all approach is both crude and dangerous.

### Should our councils be bigger?

#### Local Council Processes

Process	Example	Scale Efficiency
# Routine Processing.	# Rate notices, paying invoices.	✓
# Case-by-case Determinations.	# LEP's, new traffic signs.	X
# Capital works & maintenance.	# Footpaths, lawn mowing.	✓
# Corporate Services.	# Policies, codes, Community consultation.	✓ & X

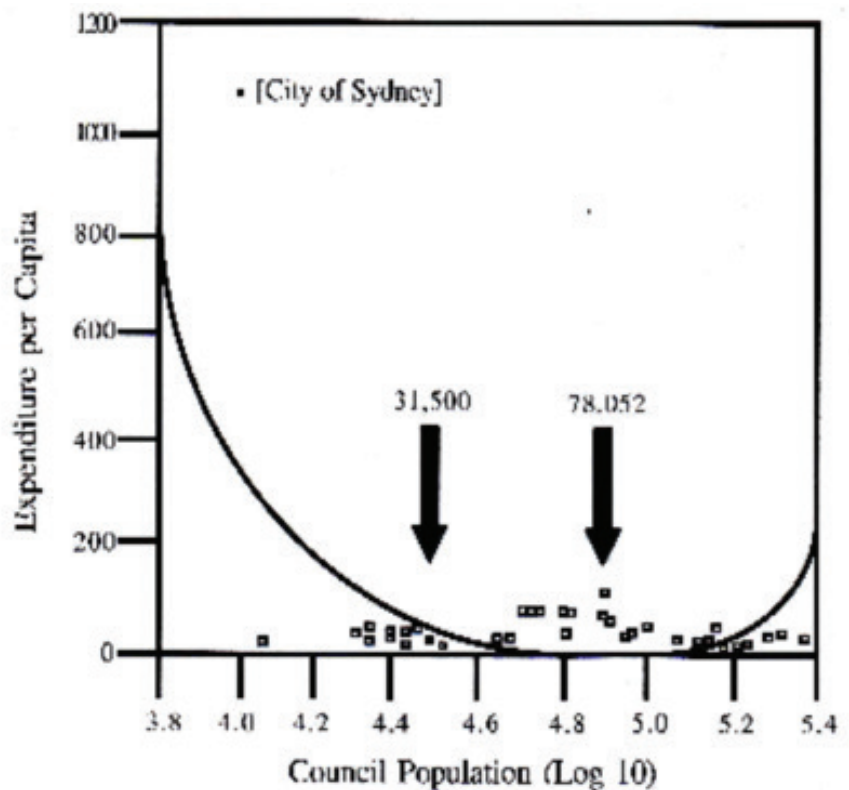
Source: Review Today

Stephen Soul in his PhD thesis of 2000<sup>13</sup> championed NSW council amalgamations not because they would deliver economies of scale, but because they might be less influenced by grassroots politics when it came to planning and development decisions. Indeed he found the following when it came to council costs and rates:

Firstly, "Increasing population yields a lower level of gross expenditure per capita, however, **once this reaches a point between 31,500 and 100,000, increasing population size results in higher levels of gross expenditure per capita.**" (Page 179)

In essence, the data showed that for Sydney lower average council costs per resident were evident for municipalities with less than 31,500 residents or more than 100,000 residents. This implied that optimal cost efficiency was achieved by a metropolitan council being either very small or very big. See next chart. The City of Sydney being a CBD council was not comparable to suburban councils.

#### Average Cost versus Council Size



Source: Stephen Soul, Population Size and Economic and Political Performance of Local Government Jurisdictions, 2000

<sup>13</sup> Stephen Soul, *Population Size and Economic and Political Performance of Local Government Jurisdictions*, research thesis submitted to the Southern Cross University to fulfil requirements for a Degree of Doctor of Philosophy, 2000.

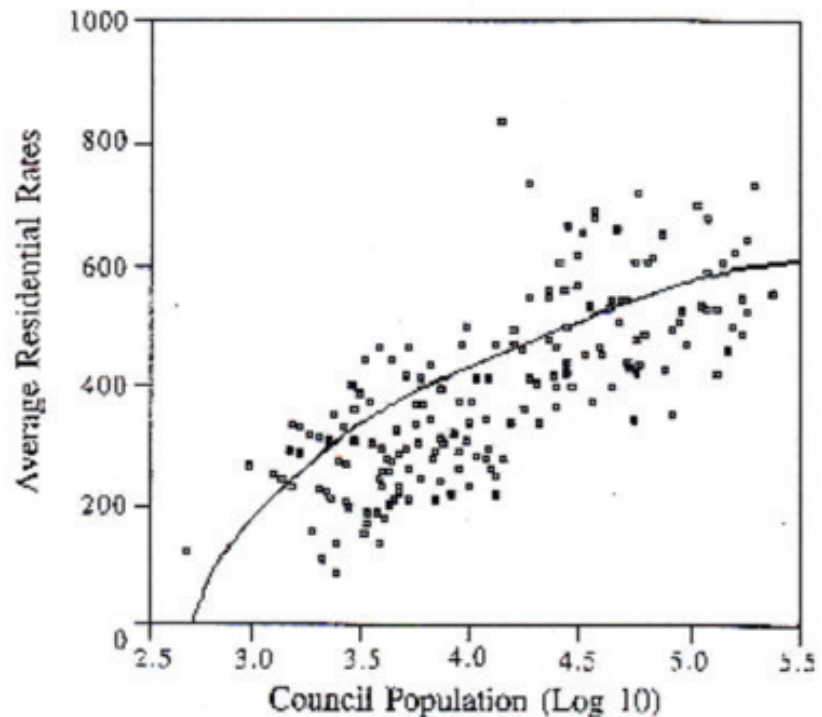
## PART 2: THE LOCAL GOVERNMENT SECTOR

Secondly, “The line of best fit indicates that the **average rate per residential assessment among NSW jurisdictions rises consistently throughout the population of jurisdictions and will continue to rise to at least 2.3 Million residential assessments.**” (Page 185) In other words, larger municipalities and shires had higher council rates than smaller ones. See his next chart.

Other researchers both here and abroad have also found that larger councils do not exhibit lower unit costs of servicing than smaller ones. Indeed there is evidence to suggest the opposite<sup>14</sup>.

- **G.A. Boyne (1992):** “Concentrated structures were associated with higher spending than more fragmented local government and that there may be diseconomy of scale factors operating that outweigh the technical benefits of larger units.”
- **M. Jones (1993):** “It was once thought that small local governments allowed more community control but were more costly than larger units.” “Now the view is that smaller units are the most democratic and participative, and also the most efficient.” “Research shows that larger units tend to spend more per head than smaller units, even with the same general population characteristics.”
- **A. Sancton (1996):** “By 1991, the issue had been thoroughly investigated, and there was precious little evidence to support the consolidation position”
- **Australian Institute of Urban Studies (1999):** “When combined with the empirical evidence from overseas, the economic and public policy literature supports the contention that there is not a single, or standard size that is appropriate for local authorities”
- **R. J. Oakerson (1999):** “Fragmentation is associated not

Average Rates versus Council Size



Source: Stephen Soul, *Population Size and Economic and Political Performance of Local Government Jurisdictions*, 2000

with higher, but with lower local government spending per capita. Numerous empirical studies have found this relationship.” “Moreover the relationship holds up when indicators of public demand for services are controlled, supporting an inference that fragmentation is positively related to efficiency.” “Fragmented metropolitan areas tend to get more service from less spending”

- **Australian Centre of Excellence for Local Government – ACELG (2011):** “There is little evidence that amalgamation will automatically yield substantial economies of scale. What is more obvious is that various forms of consolidation have the capacity to yield economies of scope.”
- **B. Dollery, Director of the Centre for Local Government, University**

**of New England (Council merger debate must stick to facts, SMH. 5th June 2012, page 12):** “The twin problems of ignoring available empirical evidence and fallaciously using population size means that Australian amalgamation wars are typically fought over phantom claims regarding the benefits of size”.

Furthermore, mergers are unlikely to yield efficiency gains where legislation (such as that in NSW) prohibits:

- merged councils from having forced redundancies for 3 years,
- changing employees terms and conditions,
- relocating staff outside the boundaries of the former council area if they claim hardship, and
- reducing pre-existing employment levels in rural areas

<sup>14</sup> For references see Percy Allan, *Why Smaller Councils Make Sense*, Australian Journal of Public Administration, Vol. 62, No. 3, Sept 2003, pages 74-81



### POST INDUSTRIAL EFFICIENCY EQUALS SPEED NOT SCALE

The argument in favour of larger councils is based on the theory of economies of scale first proposed by Ronald Coase in 1937<sup>15</sup> to explain the efficiency of large corporations using assembly lines. “Large organisations, such as companies, make sense when the “transaction costs” associated with buying things on the market exceed the fixed costs of establishing and maintaining a bureaucracy.”

However, Coase also recognized that there were limits to scale efficiencies beyond which unit costs rose with each extra output. Initially cost efficiencies were obtained from division of labour and specialisation of tasks, increased scope for shared services and increased dimensional capacity, but beyond a certain point unit costs rose from control span limits, coordination complexity and communication / information network requirements.

But a lot has happened to organisations since Henry Ford discovered mechanizing production on a large scale

using assembly lines. The Economist in a Special Supplement on the The Future of the Company (22nd Dec 2001) declared “Modern technology is shifting the balance of advantage away from firms and towards markets. The current goal is to focus on the few things at which they undoubtedly excel and to hand over everything else to equally focused specialists.” This is something that Lakewood County and its successors found.

Aggregating activities together in a large organization does not necessarily ensure economies of scale let alone service effectiveness. Take for instance anti-dumping laws designed to protect local producers from subsidised imports sold below cost. They are administered by a branch within the Australian Customs and Border Protection Service. Recently the federal government established an inquiry (to be chaired by the former Victorian Premier, John Brumby) into whether the function should be performed by a separate standalone ant-dumping agency following evidence that the existing complaints process is too slow and cumbersome<sup>16</sup>.

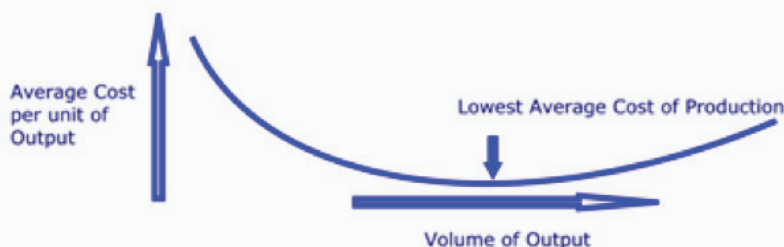
What matters in both business and government now is not size, but speed. Speed is obtained through greater flexibility using a Shamrock style structure as advocated by Charles Handy<sup>17</sup>, not a giant bureaucracy as preached by Coase. Shamrock organisations concentrate on their core role and outsource everything else.



*Shamrock organizations have an organizational structure with three distinct parts. The first part, or leaf, represents the core staff of the organization. They are likely to be highly trained professionals who form the senior management. The second leaf consists of the contractual fringe and may include individuals who once worked for the organization but now supply services to it. These individuals operate within broad guidelines set down by the organization but have a high degree of flexibility and discretionary powers. The third leaf describes the consultancy (professional/high-tech). These workers are sufficiently close enough to the organization to feel a degree of commitment to it, ensuring they maintain a high standard of work.<sup>18</sup>*

## Efficiency and Size - Theory

### ■ Economies and diseconomies of scale.



<sup>15</sup> Ronald Coase, *The Nature of the Firm*, *Economica*, Vol. 4, Issue 16, Nov. 1937, pages 386–405

<sup>16</sup> John Kerin, *Brumby heads review into anti-dumping*, AFR, 4th July 2012, page 5, [http://afr.com/p/national/brumby\\_heads\\_anti\\_dumping\\_agency\\_n7JbWjuU1llzhY9KUyHDP](http://afr.com/p/national/brumby_heads_anti_dumping_agency_n7JbWjuU1llzhY9KUyHDP)

<sup>17</sup> Charles Handy, *The Age of Unreason*, Harvard Business School Press, Boston MA, 1989

<sup>18</sup> [http://en.wikipedia.org/wiki/Shamrock\\_Organization](http://en.wikipedia.org/wiki/Shamrock_Organization)

## PART 2: THE LOCAL GOVERNMENT SECTOR

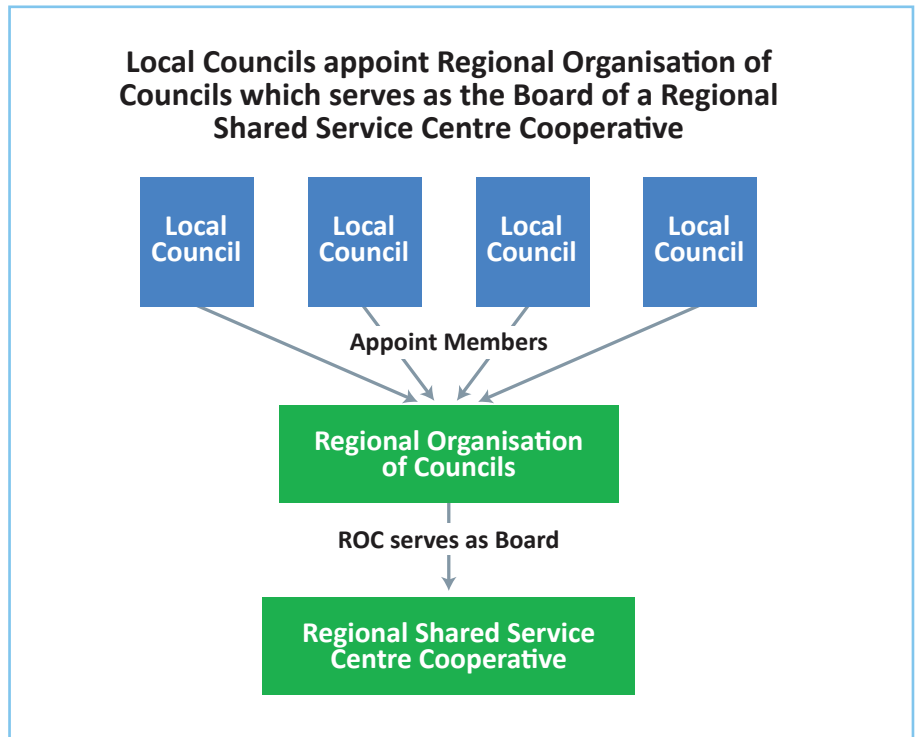
### REDESIGNING COUNCILS TO PERFORM

Local government needs to find a solution that addresses both the popular demand for small discrete municipalities that are close enough to residents to address their special needs, and the administrative advantage of doing some things on a large scale to achieve cost efficiencies and standardized outputs. That's the nub of the challenge facing local governance.

Lakewood style councils use a shamrock organisation structure to achieve such an outcome. They employ a small full-time professional staff who outsource generic tasks and use part-time contractors for specialist work. Sydney councils should be encouraged by the state government to adopt such a model. It could be trialled in one region with the state offering its local councils infrastructure rehabilitation grants in return for their active cooperation.

The first step would be to merge 90% or more of the administrative offices of councils within a region into a linked shared services centre (SSC) that would be run as a commercial cooperative by member councils. Alternatively only those functions that would benefit from economies of scale and scope (as established by an expert enquiry) would be transferred from existing councils to a SSC.

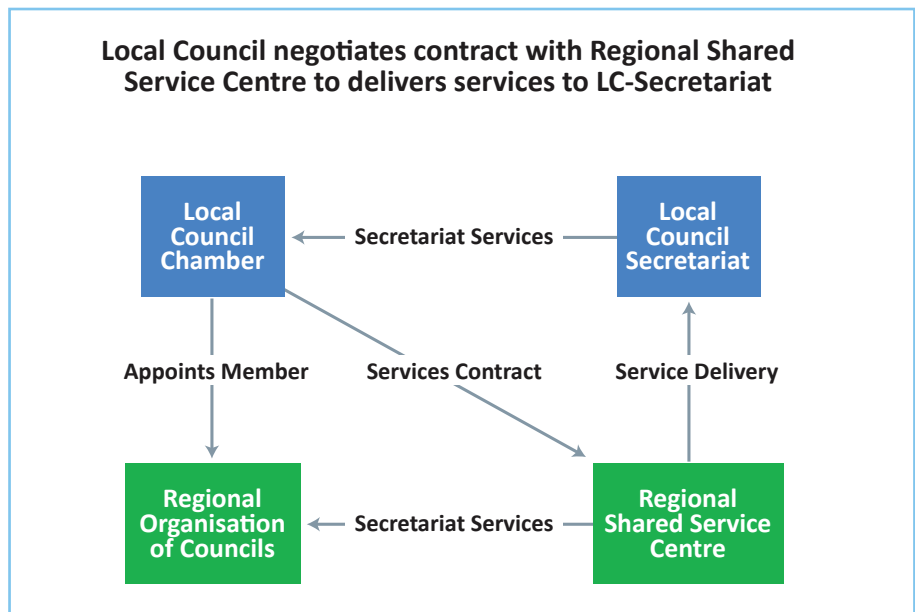
The SSC would have its own management structure with a CEO appointed by the cooperative's board consisting of Regional Organisation of Council members or their appointees. As a cooperative the SSC would pay an annual dividend to each council member commensurate with the value of services sold to it.



Source: Percy Allan & Associates Pty Ltd

Each council would retain a general manager with a small support staff to provide it with secretariat services including strategic planning and policy advice, to place manage the municipality

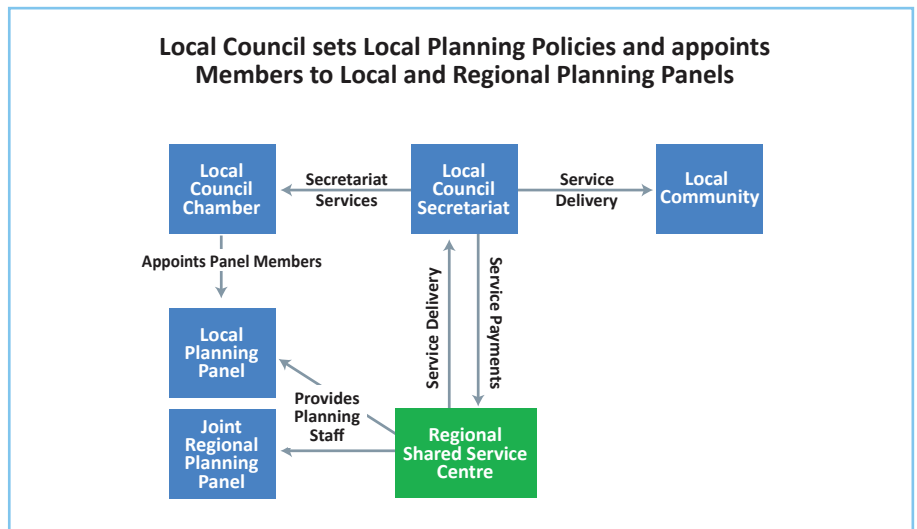
and ensure the services centre fulfilled its contractual obligations. Each council with the assistance of its general manager would negotiate a services contract with the CEO of the SSC.



Source: Percy Allan & Associates Pty Ltd

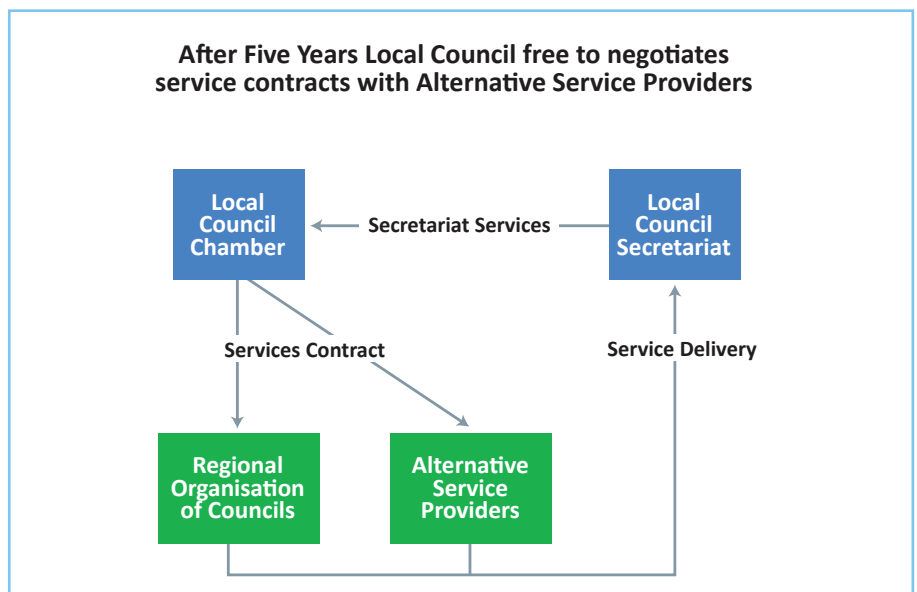
## PART 2: THE LOCAL GOVERNMENT SECTOR

Each council would appoint an independent Local Planning Panel (LPP) to decide all local development applications in accordance with council planning and development policies. All councils within a region would continue to have a say in appointing the Joint Regional Planning Panel (JRPP) that decides development applications of a regional nature. The SSC would have an ongoing mandate to provide professional staff to assist the local and regional planning panels with fees charged for providing such planning expertise set by the NSW Independent Pricing and Regulatory Tribunal (IPART).



Source: Percy Allan & Associates Pty Ltd

After say 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 SSC on notice that unless it performed efficiently and effectively it could expect to lose custom once its five year exclusive contract expired.



Source: Percy Allan & Associates Pty Ltd

## PART 2: THE LOCAL GOVERNMENT SECTOR

Where a community wanted a smaller council for better place management of its services and infrastructure such a contract model would allow municipal councils to splinter along precinct lines without sacrificing economies of scale and scope.

Indeed a community contract council would bear some resemblance to a strata and community title owners' corporation that used a body corporate service secretariat to plan and engage its services from external providers such as a shared services centre (jointly owned with other body corporates) and/or a variety of other specialist services providers serving multiple clients.

The main difference with the body corporate analogy would be that:

- The council chamber would remain a political body required to service the social, environmental and economic needs of the wider community rather than just focus on property management,
- The council's secretariat would remain a public service organisation accountable to elected councillors, and
- The SSC would be a commercial cooperative using activity based costing to price its services and (except for planning panels) subject to market contestability after five years.

Critical to establishing community contract councils is the concept of a shared service centre (SSC). Here are examples of such centres used in not-for-profit organisations, private enterprise and state government.

### **CREDIT UNION MOVEMENT:**

Independent shop fronts offer sophisticated financial services because they are linked to a shared service centre that acts as their bank, raise their finance, process their mortgages, service their ATMs, etc. For example, CO-OP Financial Services, the largest credit union owned interbank network in the USA, provides an ATM network

and shared branching services to credit unions. In Australia Cuscal Limited does the same.

### **AMERICAN UNION MOVEMENT:**

Small local unions with only a few hundred members offer full services because behind each is a shared service centre that provides them with membership processing, collection of dues, specialist legal advice for employee contract negotiations, newsletter production, discount deals, etc.

### **LARGE CORPORATIONS:**

Conglomerates such as General Electrics often pool their support services (e.g. recruitment and training, payroll and leave processing, bulk purchasing, environmental and legal advice, financial transaction processing) to free up their autonomous business units to concentrate on their core operations.

### **BUSINESS RIVALS:**

Vipro, co-owned by the Commonwealth Bank, National Australia Bank and Westpac, was formed in 2005 to jointly process cheques on behalf of its owners. The consortium outsourced its operations to financial information services company Fiserv Inc., in a \$600 million 12-year deal. It claims this shared service arrangement reduced costs, improved fraud prevention and saved capital investment associated with cheque processing.

### **GOVERNMENT DEPARTMENTS:**

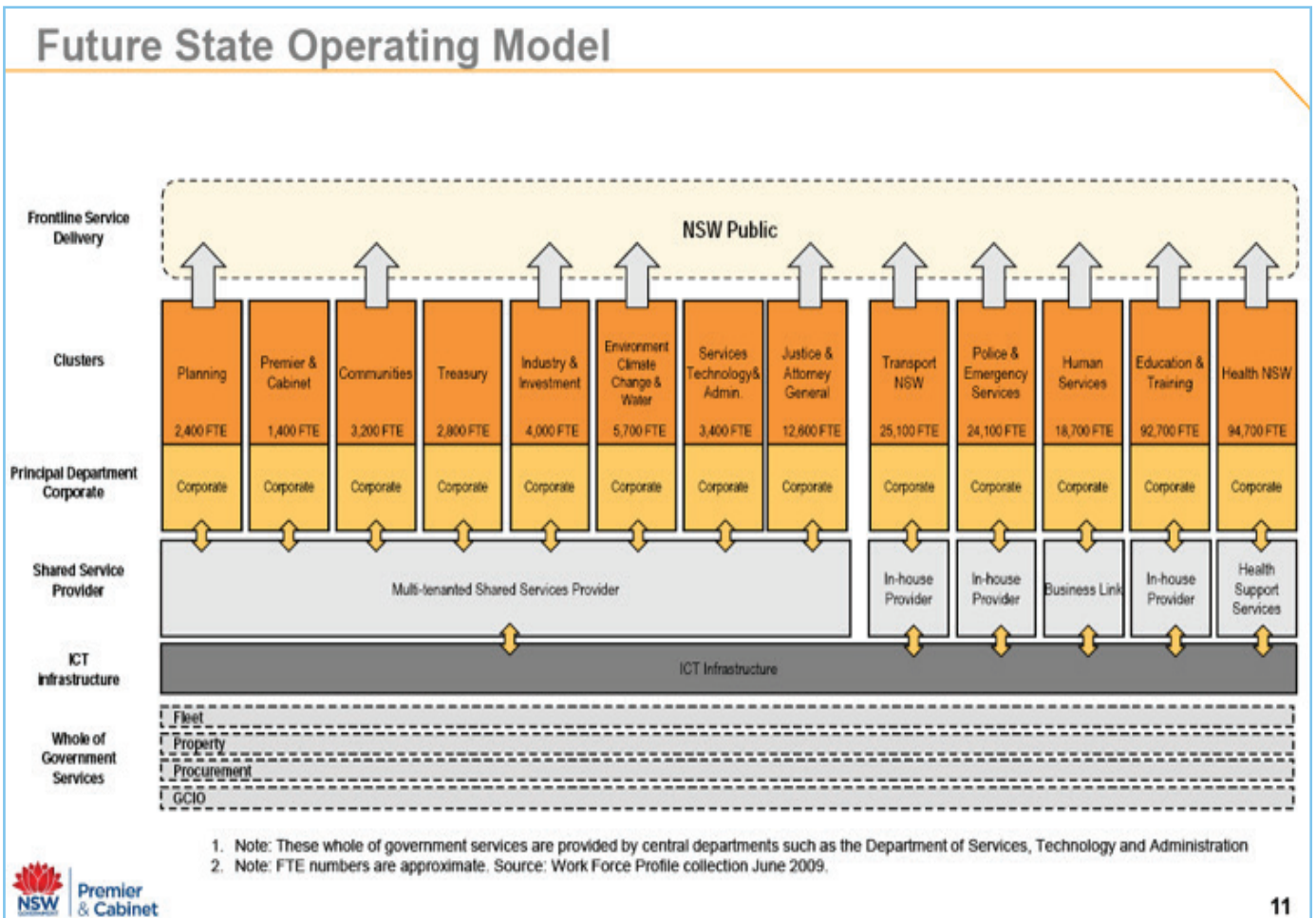
Within the NSW Government several small departments banded together in 1997 to buy their administrative support (e.g. records, accommodation, purchasing, fleet management, HR, financial management, etc.) from a Central Corporate Services Unit located in the Department of Works and Services. Other intra-government shared service centres mushroomed thereafter.

In mid-2009, the NSW Government restructured its general government agencies into 13 clusters and for 8 of them decided to merge the following back-office functions - Finance, Human Resources Management, Industrial Relations, Occupational Health and Safety, Information Technology and Communications, Contracts and Procurement, Governance and Risk, Executive Services, Records and Knowledge Management, Property, Facilities and Fleet Management and Operational Asset Management. The functions of fleet, property and procurement management have been conducted government wide for many years. An independent Government Chief Information Officer was first appointed in 2007.

If other spheres of private and government activity can achieve efficiencies without amalgamating existing independent operations surely the same can be done in local government.

Other examples of shared service centres in the public and private sectors are provided in the box below right<sup>19</sup>. It also shows the claimed benefits from centralising back-office activities.

<sup>19</sup> [http://www.dpc.nsw.gov.au/\\_data/assets/pdf\\_file/0003/97572/100715\\_Blue\\_Print\\_for\\_Corporate\\_and\\_Shared\\_Services\\_in\\_the\\_NSW\\_Government.pdf](http://www.dpc.nsw.gov.au/_data/assets/pdf_file/0003/97572/100715_Blue_Print_for_Corporate_and_Shared_Services_in_the_NSW_Government.pdf), page 7



Source: NSW Department of Premier and Cabinet, *Blueprint for Corporate and Shared Services in the NSW Government*, 15th July 2010, page 11

### SHARED SERVICE EXAMPLES

#### Public Sector

##### Queensland Government (State)<sup>1</sup>

- Nearly 200,000 full time equivalent (FTE) supported by three Shared Services operations
- Single technology wholesale provider supporting the three operations
- \$100m in benefits achieved

##### Australian Defence Force (Federal)<sup>2</sup>

- Single service provider including Finance, HR, procurement and base and facilities management services to 100,000 FTE
- Multi-billion dollar forecast cumulative savings over a ten year period

##### UK Government (International)<sup>3</sup>

- Six Shared Service providers servicing target of >20,000 and in excess of 100,000 FTE
- Department for Work and Pensions year one 15% savings and continuing to deliver efficiencies
- National Health Service delivered ~\$500m in savings

#### Private Sector

##### Carrefour (France)<sup>4</sup>

- Consumer staples in France with 490,000 employees
- Shared Services Provider delivering finance, procurement and ICT services
- Three year payback on initial \$170m investment

##### General Electric (US)<sup>5</sup>

- 240,000 payroll employees, \$80bn AP, 80,000 AR, two million calls/month
- Single Shared service organisation
- \$480m in savings (\$17/employee hour)

##### Barclays (UK)<sup>6</sup>

- Established a Finance and Reporting Shared Service Centre
- 148,000 FTE
- 16% service level improvement 12% headcount reduction

Source: NSW Department of Premier and Cabinet, *Blueprint for Corporate and Shared Services in the NSW Government*, 15th July 2010, page 11 Source: NSW Department of Premier and Cabinet, *Blueprint for Corporate and Shared Services in the NSW Government*, 15th July 2010, page 7

## PART 2: THE LOCAL GOVERNMENT SECTOR

According to the NSW Department of Premier and Cabinet a 2009 review of 193 public and private shared service centres in the US, EU and Asia Pacific by the Hackett Group Shared Services Performance Study found that:

- Shared Service reform delivers over 20% reduction in cost with improved levels of service and quality;
- 71% of Shared Services Operation plan to achieve over 20% reduction in costs; and
- 61% of Shared Services Operations have achieved over 20% in savings.

The Department said<sup>20</sup>:

*Reform of Corporate and Shared Services within the NSW Government offers a significant opportunity for improvements in consistency of customer service and efficiency benefits.*

*Achieving these benefits requires significant change and the bringing together of similar capabilities and reengineering processes to leverage scale including:*

- *Consolidating ICT platforms (fixed cost spread across greater user base, higher utilisation of infrastructure, reduced maintenance/support per user)*
- *Amalgamation of workforce to service multiple clients (increased depth of skills, increased supervisor/agent ratio, increased utilisation, greater flexibility of workforce)*
- *Knowledge exchange (learn it once – not twice, supports standardisation and maintains vision)*
- *Location and facility alignment (e.g. consolidated office space, location based on skills availability)*

If diverse spheres of private and government activity can achieve greater efficiency and effectiveness through sharing services without full

amalgamation then surely the same can be done in local government.

### ASSESSING ALTERNATIVE STRUCTURES

The last word on the subject of how to structure local governance should come from the Australian Centre of Excellence for Local Government (ACELG) which in 2011 took a fresh and objective look at the results of consolidation in local government both in Australasia and the rest of the world.<sup>21</sup>

It concluded that:

*Ongoing change in local government is unavoidable, and consolidation in its various forms will be part of that process. As a general rule benefits of some sort do accrue when councils adopt mechanisms to collaborate or consolidate with other local authorities. Potential benefits are reduced or lost when the process is flawed due to inadequate planning and consultation or a failure to consider all the options available and precisely what each could achieve.*

Its primary research finding was:

*There is little evidence that amalgamation will automatically yield substantial economies of scale. What is more obvious is that various forms of consolidation have the capacity to yield economies of scope.*

Economies of scope come from sharing services whereas economies of scale come from purely size. The verdict is in – sharing services makes sense, simply getting bigger does not.

In exploring future structures of local government one should not confine oneself to the binary choice of status quo versus amalgamation. There are other choices in between these

extremes that can achieve both the efficiency of scale (through service outsourcing) and scope (via shared services) and the effectiveness of specificity (by local place management) and speed (from codified practice with time limits).

Professor Ronald Oakerson<sup>22</sup> identified seven possible avenues for delivering services, six of which involve the procurement of shared services. They are:

- a. 'In-house production' when a local council arranges its own production
- b. 'Co-ordinated production' where two or more councils co-ordinate production activities
- c. 'Joint production' where two adjacent councils organise a single production unit
- d. 'Intergovernmental contracting' where one council contracts services from another council or state or federal government agency
- e. 'Private contracting' where a council outsources the service to an external private service provider.
- f. 'Franchising' where a council gives a commercial producer the right to produce a given service from which residents can purchase the service
- g. 'Vouchering' where a council sets standards and the level of provision allow households to select their own producer using a voucher.

Professor Brian Dollery has identified seven alternative models of local governance that cover a "continuum given by the degrees to which political and operational control can be centralised or decentralised between local councils and the new organisational entity they join".<sup>23</sup> They are:

<sup>20</sup> NSW Dept. of Premier and Cabinet, Blueprint for Corporate and Shared Services in the NSW Government, 15th July 2010, page 6 [http://www.dpc.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0003/97572/100715\\_Blue\\_Print\\_for\\_Corporate\\_and\\_Shared\\_Services\\_in\\_the\\_NSW\\_Government.pdf](http://www.dpc.nsw.gov.au/__data/assets/pdf_file/0003/97572/100715_Blue_Print_for_Corporate_and_Shared_Services_in_the_NSW_Government.pdf), page 6)

<sup>21</sup> Chris Aulich, et al., *Consolidation in Local Government: A Fresh Look*, ACELG, May 2011 <http://www.acelg.org.au/upload/Options%20for%20Consolidation%20-%20Flyer.pdf>

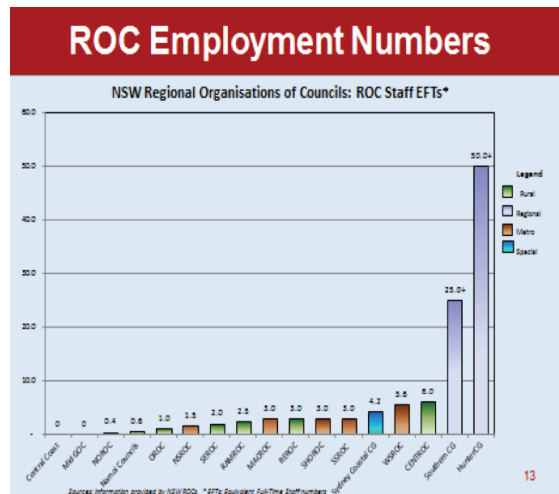
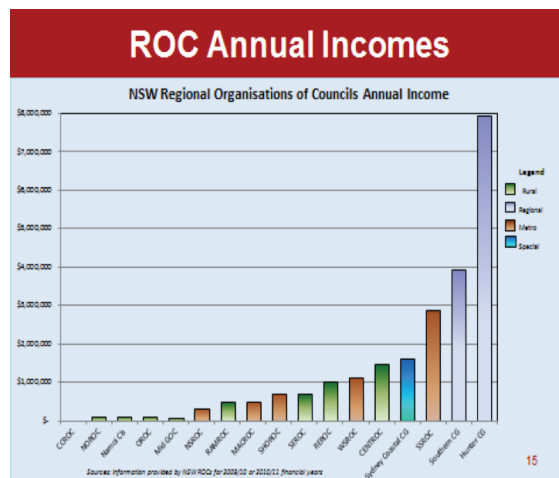
<sup>22</sup> R. J. Oakerson, *Governing Local Public Economies: Creating the Civic Metropolis*, ICS Press, Oakland, Ca, 1999, pages 17-18. See also ACELG, *Legal and Governance Models for Shared Services in Local Government, Interim Report*, May 2012, page 7

<sup>23</sup> Brian Dollery, Alexandra Akimov, Joel Byrnes, *Shared Services in Australian Local Government: Rationale, Alternative Models and Empirical Evidence*, Australian Journal of Public Administration, June 2009, pages 2008-2019. See also ACELG, *Legal and Governance Models for Shared Services in Local Government, Interim Report*, May 2012, pages 6-7

## PART 2: THE LOCAL GOVERNMENT SECTOR

	MODEL TYPE	CHARACTERISTICS
1	Existing small councils	High level of political and operational autonomy and highest degree of decentralisation
2	Voluntary arrangements between Geographically adjacent councils sharing resources on an ad hoc basis	Operate on an as needs basis whenever and wherever the perceived need for voluntary arrangements arises
3	Regional Organisations of Councils (ROCs)	Constitute a formalisation of the ad hoc resource Sharing model, typically financed by a fee levied on each member council as well as a pro rata contribution based on rate income, population, or some other proxy for size, which provides shared services to member councils
4	Area integration or joint board	Retain autonomous existing councils with their current boundaries, but create a shared administration overseen by a joint board of elected councillors
5	Virtual local government	Consists of several small adjacent 'virtual' councils with a common administrative structure or 'shared service centre' that would provide the necessary administrative capacity to undertake the policies decided upon by individual councils, with service delivery contracted out to private companies or to the shared service centre
6	Agency	All service functions are run by state government agencies with state government funds and state government employees in the same way as state police forces or state emergency services presently operate. Elected councils would act as advisory bodies.
7	Amalgamation	Constituent councils surrender completely all political autonomy and operational control to the new entity and cease to exist

In terms of Dollery's options, models 2 and 3 were originally mandated by the Whitlam government, but only two of the seventeen Regional Organisations of Councils (ROCs) in NSW have annual incomes over \$3million and total staff over 6 equivalent full-time staff. These two ROCs are the Southern CG (\$4 million annual income and 50 staff) and Hunter CG (\$8 million annual income and 25 full-time equivalent staff). This suggests that voluntary relinquishment of in-house council services that could be done more economically on a joint basis is unlikely to happen on a mass scale without state intervention.



Source: A. Gooding, A Comparative Analysis of Regional Organisations of Councils in NSW and Western Australia, Australian Centre of Excellence for Local Government, University of Technology Sydney, 2012, pages 31-33

Mandating models 4 or 5 using ROCs as the foundation stone for a shared services centre offers the best opportunity to keep politics local, but making administration more efficient by taking advantages of economies of scale and scope. Of these two approaches, Model 5 is strongly preferred because it would create a purchaser – provider contractual relationship that would ensure councils with a skeleton staff could decide what services they bought from a shared service centre or other providers rather than risk being dominated by an all-powerful administrative behemoth. Model 6 would effectively abolish Australia's third tier of government thereby removing local control over local services which would cause a public outcry.

## PART 2: THE LOCAL GOVERNMENT SECTOR

### CONCLUSION

Local government's share of GDP is much lower in Australia than other countries. Yet the average residency of Australian councils is much larger than that of local government authorities in most other countries. There is no empirical evidence either here or overseas that larger councils result in lower costs, rates, fees and charges. Indeed in NSW larger councils charge higher rates. Mergers distract from the real issues which are massive under-spending on capital works and slow development approval processes. We shall deal with these problems in later chapters.

The administrative reality is that the efficiency and effectiveness of a local council is not just a function of its size, but its speed, scope and specificity in delivering services whether they be processing rate notices, repairing roads, answering enquiries or considering development applications. Speed and scope require:

- Front office place management focusing on the particular problems of a local place,
- Mid office strategic management making strategic decisions locally and regionally, and
- Back office process management achieving economies from specialist providers.

Most council frontline services require very local attention which small councils excel in. Urban planning and large developments need a regional focus through regional institutions. Routine corporate services and public works need scale to capture economies which either outsourcing or shared service centres do best.

The political reality is that people believe small is beautiful – they want

their local council centered on their neighbourhood. Residents identify with distinct neighbourhoods not amorphous regions. People expect their local councils to address micro issues within their local community, but expect the state government or joint state/ local government bodies to address wider regional issues. They want impartial authorities divorced from vested interests to determine development applications based on long term urban planning strategies agreed at a local, regional or state level depending on the significance of the project.

Citizens should be free to decide what size municipality they want. The State Govt. could put lower and upper limits on this (e.g. 10,000 –100,000). Councils would be required to transfer those services that would benefit from being done on a larger scale to a shared service centre (SSC) and those decisions that need to be done at a regional level to joint regional political (e.g. Regional Organisations of Councils) or judicial bodies (e.g. Joint Regional Planning Panels). The SSC could also service regional judicial institutions such as Joint Regional Planning Panels. The SSC would be jointly owned and governed by its member councils. The SSC would be run strictly as a business providing works, maintenance, IT, financial services, planning, etc. to participating councils, ROCs and JRPPs on a fee-for-service contract basis.

To ensure that a SSC gave value for money, there would be a sunset clause on its exclusive mandate. Thereafter, Councils, ROCs and JRPPs would be free to choose alternative suppliers if they offered better value for money. The SSC would be required to cease those services for which it had insufficient clients. This would ensure it never took its clients for granted, thereby always giving them good service.

Finally, there are at least seven models of service delivery and seven models of political governance when it comes to local government. Hence the choice for politician and the community is not just one of the status quo versus amalgamation. Of these different approaches the contract council model would deliver the best of both worlds – small councils able to focus on local needs through intensive place and client management, but with the capacity to buy-in services economically from a ROC regional shared service centre cooperative or a specialist public, private or not-for-profit provider.

If we want true reform of local government then we need to recast it, not just reassemble what exists on a bigger scale. Otherwise we risk repeating the mistake of Australia Post which in merging its mail sorting operations created a monster - the notorious Redfern Mail Exchange



# PART 3: WHAT CITIZENS WANT FROM LOCAL GOVERNMENT

## HOW CITIZENS RATE COUNCILS

A qualitative survey of 1010 NSW homeowners and four discussion groups by Auspoll in late 2011<sup>24</sup> found that 80% felt their local council did a fair, good or excellent job in serving community needs. Just 20% were dissatisfied.

However, only 27% of DA applicants felt their council did a good or excellent job in processing development applications. Also only 26% had confidence that their councils had the ability to assess large development projects (i.e. over \$20m). Arguments in favour of JRPPs found more favour than those against. The most convincing case for JRPPs was:

- Qualified planning professionals were preferable to local politicians without such a background.
- Reasons behind planning decisions should be disclosed to ensure honesty and compliance with planning laws.
- Planning decisions should be consistent for all applicants.

On the issue of council size, 68% of homeowners favoured amalgamating councils to increase resources, add professional expertise and deliver better services. Only 11% opposed it. Surprisingly, 66% would still support amalgamations even if they were mandated by the State government. Only 14% would object and 62% believed Sydney could do with 20 or fewer Councils.

Yet whenever the state government has proposed amalgamating particular local councils there has been a huge community backlash which has often caused it to retreat. It would seem that people like the idea more in theory than in practice. We dealt with

amalgamations earlier and concluded that there was more than one way to skin a cat. If the objective is greater efficiency and effectiveness then a move to small contract councils rather than big centralized ones is more likely to deliver results. To the extent that some services benefited from economies of scale these could be achieved through establishing shared services centers as has already occurred in Regional Organisations of Councils, albeit on a small scale. Gauging public attitudes to these options might be worthwhile.

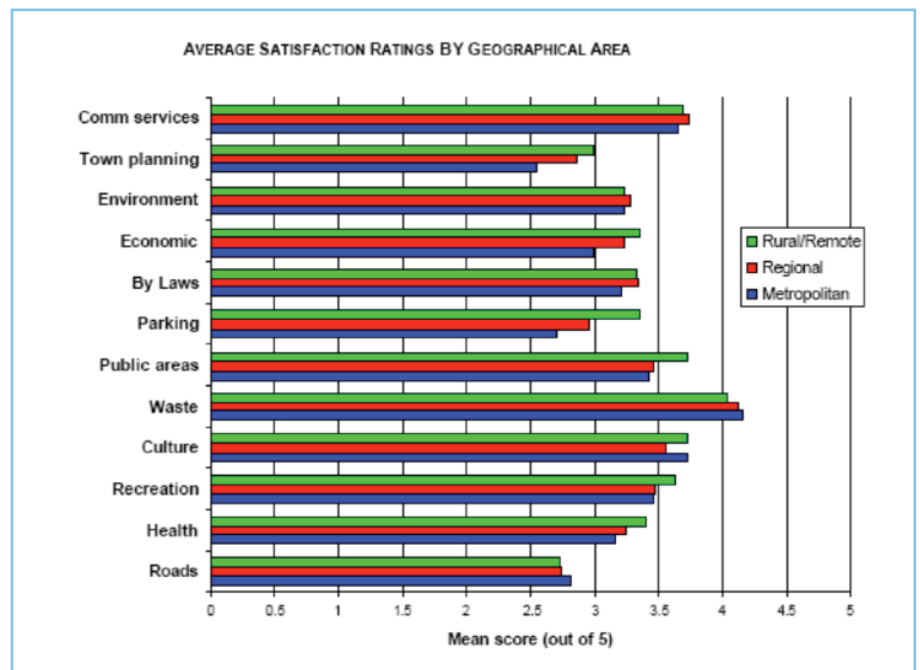
The 2005/06 independent Inquiry into Local Government Sustainability (Allan Report)<sup>25</sup> commissioned IRIS Research to poll over 900 residents across NSW to gauge their views on local government.

Respondents were asked to prioritise their local council services and express their degree of satisfaction with them.

In the Wollongong, Sydney and Newcastle metropolitan areas the major concerns were:

- Town planning and timely processing of building applications,
- Construction and maintenance of local roads, footpaths and kerbing;
- Traffic management and parking facilities, council provision of street and off-street parking and local road safety.

Essentially the local development process and local transport infrastructure attracted the least satisfaction. Other metropolitan council services received good to high satisfaction scores.



Source: Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report, 2006, Iris Poll 2005

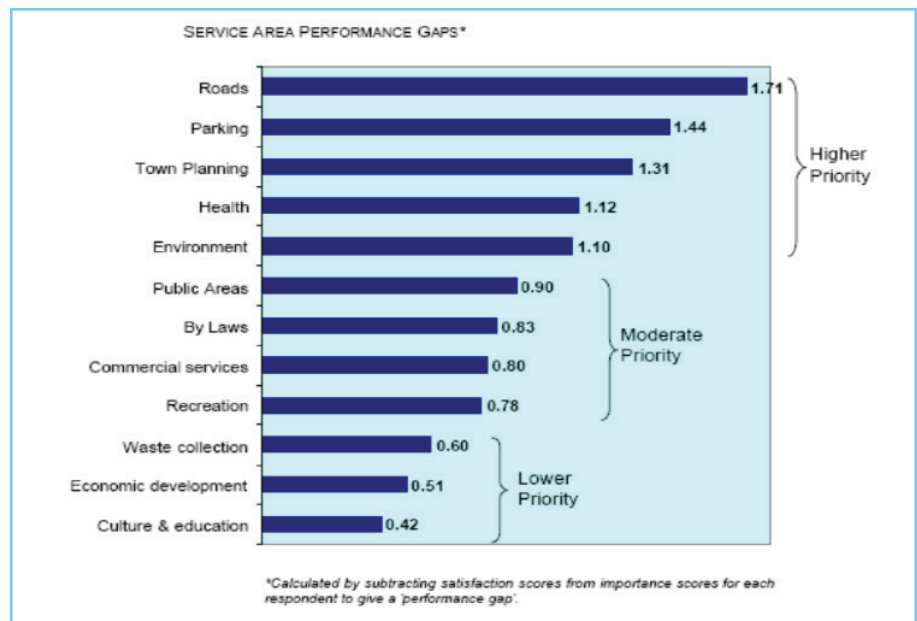
<sup>24</sup> Auspoll, *Homeowners attitudes to local councils, the planning process and NSW Joint Regional Planning Panels*, Property Council of Australia, 2011

<sup>25</sup> P. Allan, L. Darlison and D. Gibbs, *Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report: Findings and Recommendations*, Local Government and Shires Association of NSW (LGSA), Sydney, May 2006

## PART 3: WHAT CITIZENS WANT FROM LOCAL GOVERNMENT

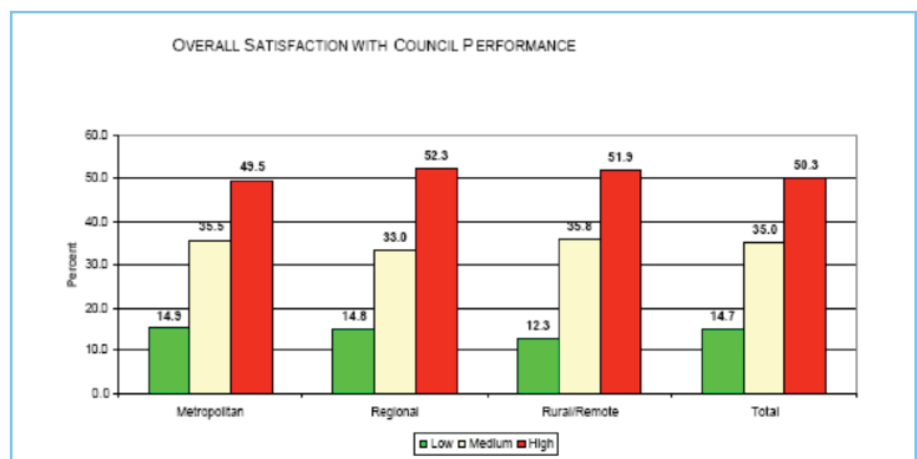
In terms of Council service gaps, roads, parking and town planning (including approval process) topped the league table.

Source: *Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report, 2006, Iris Research Public Poll 2005*



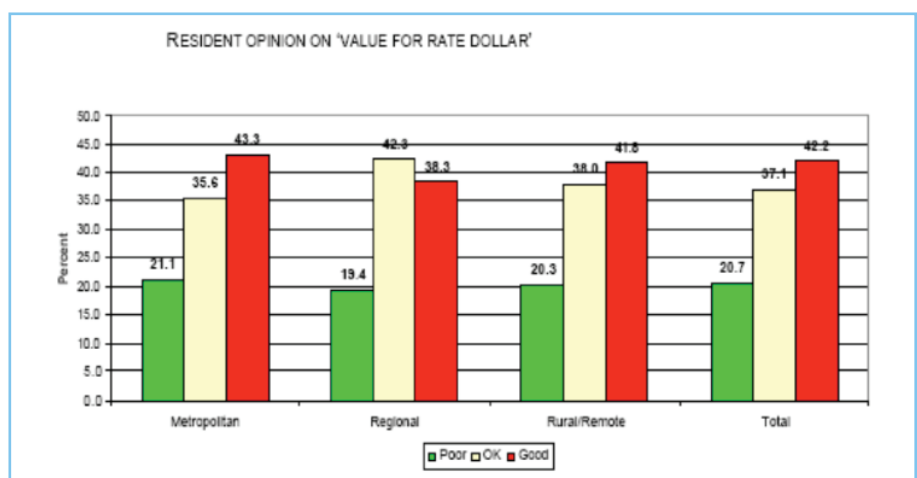
In metropolitan areas almost half of respondents rated overall satisfaction with their Council's performance as being high. Only 15% gave it a low score.

Source: *Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report, 2006, Iris Research Public Poll 2005*



In terms of value for money 43% thought local government was good compared to 21% who thought it was poor. The balance of 36% thought it was fair.

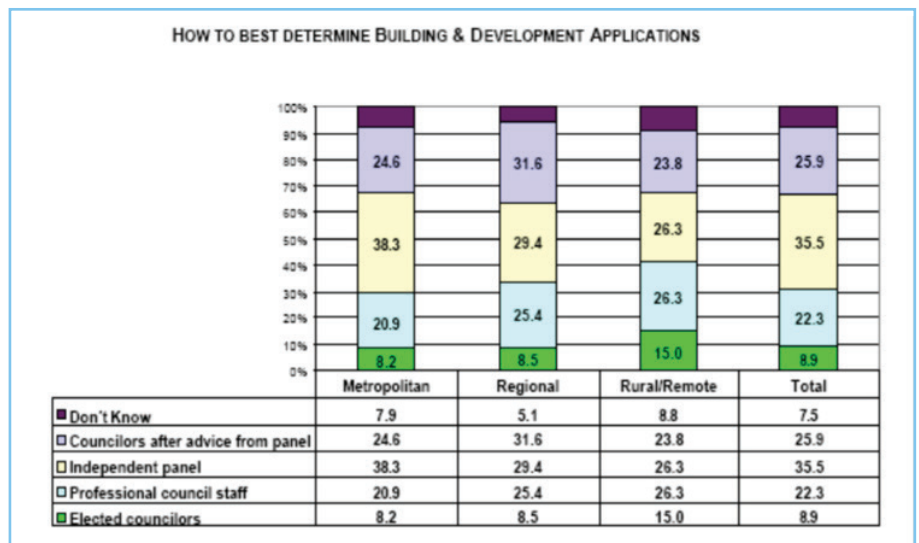
Source: *Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report, 2006*



## PART 3: WHAT CITIZENS WANT FROM LOCAL GOVERNMENT

Only 8% of metropolitan residents polled wanted elected Councillors determining building and development applications. In all, 63% wanted such applications decided by independent panels or on the advice of such panels and 21% would entrust B&DA decisions to professional council staff.

Source: *Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report*, 2006, Iris Research Public Poll 2005



A net balance of residents wanted more spent on every local government service other than economic development. The public's low faith in Councillors exclusively undertaking the development approval process may account for the bias against Council's facilitating further development.

Source: *Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report*, 2006

**SPENDING ON COUNCIL SERVICES & FACILITIES -METROPOLITANAREAS**

Service Area	Proportion of Respondents (%)			
	Spend More	Spend Same	Spend Less	Can't Say
Roads, footpaths and kerbing	63.7	34.1	1.1	1.1
Health and Human Support services	62.5	32.6	3.0	2.0
Traffic management and parking	55.1	36.9	6.0	2.0
Environment	48.5	49.8	1.3	0.3
Appearance of Public Areas	38.9	57.8	2.7	0.7
Town Planning	34.9	46.8	12.6	5.6
By laws	30.6	62.5	5.6	1.3
Recreation	30.2	63.5	5.3	1.0
Commercial services	27.9	52.5	3.3	16.3
Culture and education	26.2	65.4	7.3	1.0
Economic Development	20.9	52.2	24.3	2.7
Waste management	15.3	81.4	2.7	0.7

43% of metropolitan respondents felt that their local council did not consult them enough before making decisions.

Only 29% thought there was a high level of community engagement by their Council.

Given the respondents concerns about economic development, engaging the community up-front about major projects seems critical to winning its trust on town planning.

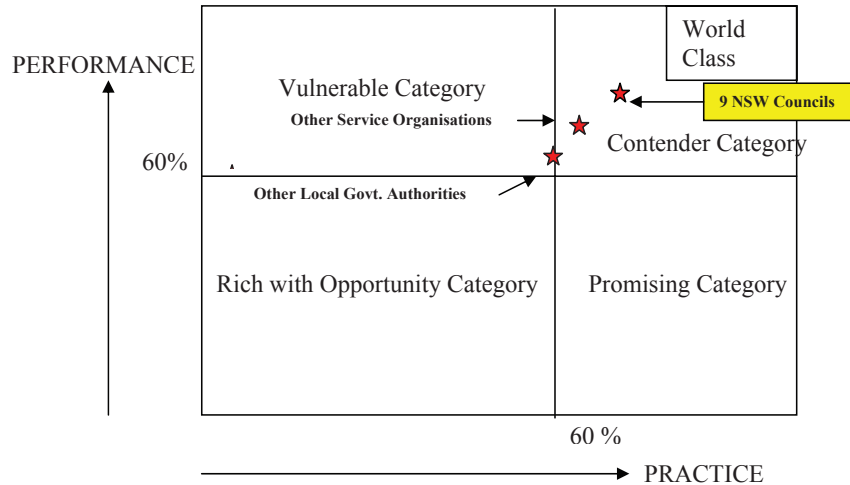
## PART 3: WHAT CITIZENS WANT FROM LOCAL GOVERNMENT

### ADMINISTRATIVE CAPACITY OF COUNCILS

The Local Government Inquiry commissioned a local affiliate of *Comparison International* to benchmark the administrative practices and performance of nine 'volunteer' NSW local councils (three metropolitan, three regional and three rural) using the PROBE evaluation methodology. While none of the councils rated in the elite 'best practice' league they were close to it except in terms of client focus where the result was still reasonable. The three metropolitan councils rated the highest of the nine councils surveyed in terms of both overall performance and overall practice.

The conclusion was that councils have the professional capacity to serve their communities well.

Average management practice and performance ratings of a sample of NSW councils compared with other local government authorities and service organisations worldwide.



Source: QMI Solutions 2005, pp4-5.

Source: QMI/Probe Services Report

### BUSINESS VIEWS OF COUNCILS

Whereas citizens by and large are satisfied with local councils except in regards to local infrastructure, town planning and development approvals, the business community according to a recent Productivity Commission survey is more critical. Its findings apply to local councils Australia-wide, but NSW councils get singled out for generating particularly negative comments:

- Business stakeholders raised many concerns regarding local government regulation including complex regulatory frameworks, jurisdictional overlaps and inconsistencies, protracted timeframes, lost business opportunities, lack of transparency, regulatory creep and the inadequate resourcing of local governments.
- Many businesses reported that it is the cumulative cost of all regulation

that concerns them the most — this compounding effect of regulation can have pervasive effects, particularly on small business.

- More than one in five surveyed businesses indicated that regulatory dealings with local and territory governments in the last three years have had a negative impact.
  - The perception that regulation had a negative impact on business was highest in New South Wales, Western Australia and Queensland.
  - The view that regulation had a positive impact on business was most common among businesses based in South Australia and Victoria.
- A significant majority of surveyed businesses with dealings in multiple areas of regulation reported that regulations in the areas of planning and land-use and building and construction had the most impact on business.
- While the majority of surveyed

businesses were satisfied overall with their recent regulatory dealing there were a number of areas of concern:

- half stated that approval times were uncertain
- 43 per cent of businesses said the time and effort to comply was excessive
- one third considered that there was too much duplication with state government regulation, rules and guidance were too complex and fees were unreasonable.
- Businesses with recent regulatory dealings with local governments in Queensland, Western Australia and New South Wales were not satisfied with their overall dealings while businesses with local government dealings in South Australia and Tasmania were the most likely to be satisfied with their dealings. Complaints that:
  - the time and effort to comply were too long was most common

## PART 3: WHAT CITIZENS WANT FROM LOCAL GOVERNMENT

among businesses with dealings in Queensland and New South Wales – approval times were uncertain were most common for businesses with dealings in Western Australia and Queensland

– there was too much duplication with state government regulation were common among businesses with dealings in New South Wales and Queensland

– rules and guidance were too complex and that business was treated unfairly were most commonly reported among businesses with dealings in New South Wales

– fees were unreasonable were most common among businesses with recent dealings in Queensland.

Source: APC - Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator, Ch. 6 Business perceptions of local government regulation (age 207)

[http://www.pc.gov.au/\\_\\_data/assets/pdf\\_file/0020/118550/09-local-government-chapter6.pdf](http://www.pc.gov.au/__data/assets/pdf_file/0020/118550/09-local-government-chapter6.pdf)

### CONCLUSION

An overwhelming majority of NSW metropolitan residents think their local council does a good job in serving community needs, with three exceptions. They are planning, roads and parking.

More specifically the major concerns are:

- Town planning and timely processing of building applications,
- Construction and maintenance of local roads, footpaths and kerbing;
- Traffic management and parking facilities, council provision of street and off-street parking and local road safety.

These popular views of councils are backed up by performance reviews and indicators that show they rate well except on development processing and infrastructure management.

Yet a survey of the Australian business community by the Productivity Commission found it was particularly critical of NSW local councils in regards to:

- Business regulations having a negative impact on doing business in the state;
- Businesses with recent regulatory dealings were not satisfied with their overall dealings;
- The time and effort to comply with regulations were too long;
- There was too much duplication with state government regulation; and
- Rules and guidance were too complex and that business was treated unfairly.

At an abstract level, two out of three residents favour forcible amalgamation of councils with only about one in seven opposing it. Yet in practice, attempts by government both here and interstate to force council mergers has met strong community opposition. In Victoria's case the unexpected defeat of the Kennett government in 1999 was caused by a regional backlash to a cut in state services and reducing local councils from 210 to 78, now 79. State governments expend a lot of energy promoting amalgamations when the real issues for the community at a local level are planning, roads and parking. As covered in an earlier part of this report, achieving economies of scale can be done by either outsourcing functions to a cooperative shared services centre or to specialist service providers with numerous private and public sector clientele.

This would allow local councils, which are already large by international standards, to subdivide into genuine body corporates for their neighbourhoods along the lines of the Lakewood county model that has been replicated America. It would mean councils covering a much smaller population as is the norm in other

countries. Given the community's desire for local government to remain local such a move should prove popular.

# PART 4. RESTORING COUNCIL SUSTAINABILITY

## COUNCIL SUSTAINABILITY RATINGS

In 2009 Review Today commissioned FiscalStar to undertake its third survey of local council sustainability using the latest data available from councils.<sup>26</sup> This survey updated the work of the Independent Inquiry into NSW Local Government Financial Sustainability, 2006 and was undertaken by the same analysts.

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 to total operating revenue ratio so that debt charges remain affordable, and
- A maximum 2% unsatisfactory infrastructure that is unsound, unsafe or unsightly.

Secondary goals included achieving high revenue discretion through having more own source revenues than external government grants, keeping operating expenditure growth below revenue growth, making excess capital expenditure to catch up on infrastructure renewal backlogs and having a modest physical asset base compared with revenue capacity.

It then defined a sustainable council as one that can achieve responsible and prudent financial and infrastructure outcomes within ten years without raising rates, fees and charges each year by more than one and two thirds the rate of CPI price inflation. An unsustainable council was one that needed to increase its rates, fees and charges each year by more than double the inflation rate to achieve sustainable

financial and infrastructure outcomes. Vulnerable councils were those that fell between being sustainable and unsustainable.

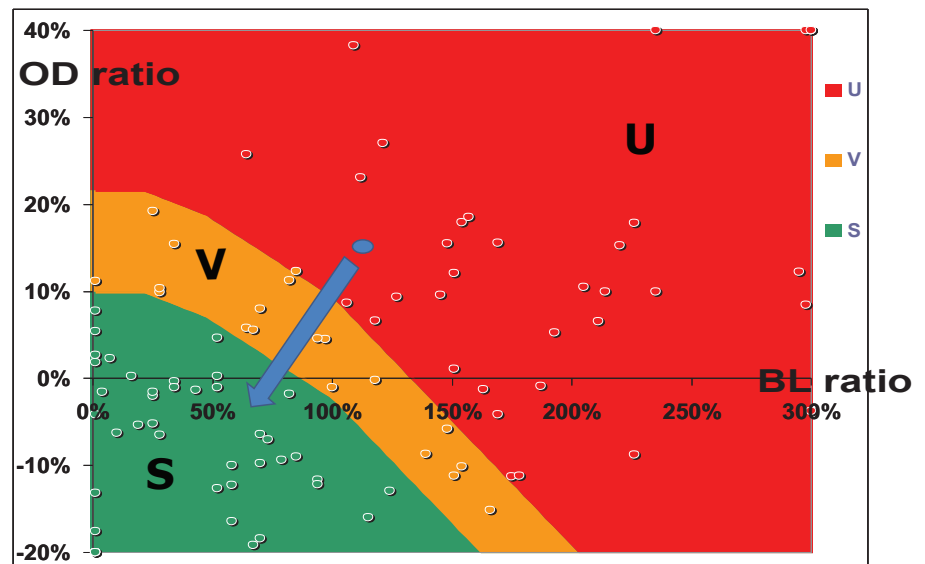
Of course a council could have unsustainable policies, but still be solvent because like all governments it could theoretically tax and levy itself out of bankruptcy (notwithstanding rate pegging). Nevertheless, Orange County, California, the sixth most populous in the USA, became bankrupt in 1994. In recent years Menasha county/ Wisconsin went bust and Jefferson County/Alabama, Harrisburg/ Pennsylvania and Detroit/ Michigan are on the verge of bankruptcy.

Councils with unsustainable or vulnerable revenue and spending policies usually have to undertake unpopular actions to make their finances and infrastructure sustainable.

The longer they leave it the more disruptive the changes will eventually be. Also there could be a community backlash against the councillors and officers who ignored the warning signs.

The next chart shows the journey that one particular council which is in the 'unsustainable' red zone must take in order to achieve a minimum 2.5% operating surplus ratio, a maximum 60% net debt and liabilities ratio and a zero infrastructure backlog. Note that in this example the un-sustainable council presently has an operating deficit (OD) ratio of 15% and a broad liabilities (BL) ratio of 120%. The OD ratio is the operating deficit as a percentage of total own source revenues from rates, fees and charges and the BL ratio as the sum of the net financial liabilities and infrastructure renewal and maintenance backlog as a percentage of total operating revenue.

The 2009 NSW local government sustainability survey



Source: FiscalStar: 2009 NSW Local Government Financial Sustainability Review, Review Today Pty Ltd.

<sup>26</sup> FiscalStar: 2009 NSW Local Government Financial Sustainability Review – How sustainable are the existing financial and infrastructure policies of NSW Councils, May 2009, [http://reviewtoday.com.au/2009\\_FS\\_report.php](http://reviewtoday.com.au/2009_FS_report.php)

## 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
<b>Total</b>	<b>46</b>	<b>16</b>	<b>37</b>

Source: FiscalStar: 2009 NSW Local Government Financial Sustainability Review, Review Today Pty Ltd.

To achieve sustainability the particular council in the last chart would clearly have to increase its rates, fees and charges and / or cut its services by a substantial amount. Such action would be disruptive to its local community, which is why its fiscal situation is designated as red, not green.

Applying its benchmarks, Fiscal Star found that 37 of the 100 largest councils in NSW needed to increase their rates, fees and charges by

between 80% and 300% over the next ten years or severely cut their services in order to achieve financial sustainability. Another 16 councils also needed to take drastic action because their financial sustainability was marginal. By contrast, the sustainable councils faced increases of under 60% between 2008 and 2018. These estimates assumed general price inflation of the order of 3% per annum over the next ten years.

The unsustainable group included a large number of fast growing regional urban councils. 12 of the 18 regional coastal urban councils were unsustainable. Only 3 were sustainable. 8 of the 17 regional inland urban councils were unsustainable and another 3 vulnerable. Half of the 22 outer metropolitan councils were either unsustainable or vulnerable. By contrast a majority of inner metropolitan councils and regional rural councils were sustainable.

## PART 4. RESTORING COUNCIL SUSTAINABILITY

### THE 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 was 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). Up to 60% is consistent with 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).

FiscalStar found other weaknesses in unsustainable and vulnerable councils such as a heavy reliance on tenuous grants from other governments; little or no spare cash to meet emergencies and special needs; expenses growing well in excess of underlying costs; and insufficient capital works spending to renew ageing infrastructure.

### Regional Infrastructure Backlogs



### The 2009 NSW local government sustainability survey

Sustainability Indicator	Sustainable Benchmark	NSW Local Govt Average	NSW Local Govt Range
Operating Surplus Ratio (a)	2.5% to 7.5%	2.0%	29% Deficit to 43% Surplus
<b>Infrastructure Backlog Ratio (b)</b>	<b>0% to 2.0%</b>	<b>6.0%</b>	<b>0% to 39%</b>
Net Financial Liabilities Ratio (c)	40% to 80%	4.0%	0% to 193%

- (a) Operating surplus to revenue from rates, fees and charges
- (b) Infrastructure renewal backlog to total infrastructure carrying value
- (c) Net debt and other financial liabilities to total operating revenue

Source: FiscalStar: 2009 NSW Local Government Financial Sustainability Review, Review Today Pty Ltd.



## PART 4. RESTORING COUNCIL SUSTAINABILITY

In depth financial sustainability reviews of eight NSW regional councils by Review Today (Newcastle, Albury, Wollongong, Great Lakes, Greater Taree, Armidale, Dubbo and Bega) over the period 2006 – 2011 confirmed that large infrastructure backlogs and/or renewal gaps existed in each of these municipalities.

Source: [www.ReviewToday.com.au](http://www.ReviewToday.com.au)

### Council Asset Renewal Backlogs

(excluding water & sewage) from Review Today's findings

Local Council	Total Assets	Renewal Backlog	Renewal Backlog	Yearly Under-Investment	Backlog in 20 yrs
Newcastle 2006/07	\$1,680m	\$134m	8.0 %	\$20.8m a year	\$475m
Albury 2006/07	\$1,000m	\$102m	10.2%	\$7.9m a year	\$156m
Wollongong 2006/07	\$2,500m	\$192m	7.7%	\$38.6m a year	\$1,030m
Great Lakes 2006/07	\$465m	\$26m	5.6%	\$6.4m a year	\$99.8m
Greater Taree 2007/08	\$734m	\$148m	20.2%	\$20m a year	\$422m
Armidale 2008/09	\$393m	\$8.7m	2.2%	\$2.8m a year	\$67.8m
Dubbo 2009/10	\$506m	\$25.5m	5.0%	\$12.9m a year	\$130m
Bega 2010/11	\$764m	\$5m	0.7%	\$4.2 m a year	\$112m

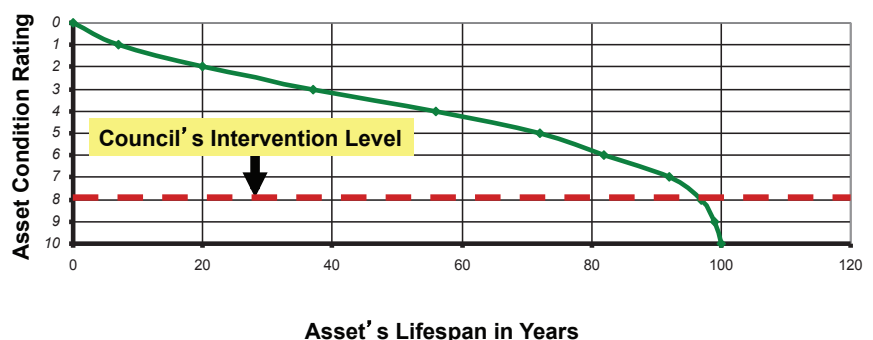
Source: Percy Allan, *Australia's Regional Infrastructure Crisis*, Presentation to IPAA Regional Conference, Albury, Review Today, 15th March 2012

A council's infrastructure backlog is the total cost of renewing all physical assets whose condition has fallen below minimum condition standards called intervention levels. This can be illustrated with a chart showing the degradation curve for a typical asset (e.g. a concrete road kerb) from its construction (when its brand new and has a condition rating of zero) to a 100 years later when it is expected to be worn out and inoperable (with a condition rating of 10).

### How a Council's infrastructure backlog is arrived at

Asset Degredation Curve for a Concrete Road Kerb showing the Condition Rating at which Bega Valley Council would intervene to Refurbish or Renew the Asset.

The Council's infrastructure backlog is the total cost of renewing all physical assets whose condition has fallen below intervention levels (min condition standards).



Source: Percy Allan, *Australia's Regional Infrastructure Crisis*, Presentation to IPAA Regional Conference, Albury, Review Today, 15th March 2012

## PART 4. RESTORING COUNCIL SUSTAINABILITY

Bega council has an intervention level of 8 for such an asset meaning that with regular maintenance it expects the asset's condition to reach a grading of 8 by its 95th year of usage at which point it would be completely renewed. The council's total infrastructure backlog is the cost of renewing all assets that were not renewed when they degraded below their planned intervention levels (i.e. minimum acceptable condition standards).

Using the latest FiscalStar results for NSW and the findings of interstate local government enquiries Review Today estimated that in 2008 local government Australia-wide had:

- An infrastructure backlog of \$10 billion;
- An annual infrastructure renewal gap of \$500 million; and
- NSW accounted for almost half of that infrastructure problem.

### WHAT CAUSED THE INFRASTRUCTURE BACKLOG?

The question is how did NSW's large local infrastructure backlog come about? This is relatively easy to answer – according to ABS and IPART, NSW local government has been under-spending on capital works relative to operations in the 30 years since rate pegging was introduced in 1976/77.

For the NSW local government sector over this period, the real annual growth in operating expenditure was 8.3% whereas that of capital expenditure was only 2.5%. In the rest of Australia local government operating expenditure grew by 6.4% per annum and capital expenditure by 4.7% per annum in real terms.

### National estimates of council sustainability by Review Today

State LGI Estimates (excluding Water & Sewerage)	Infrastructure Renewals Backlog	Infrastructure Renewals Gap (per annum)
NSW (152)	\$4,528m	\$150m
SA (68)	\$300m	\$20m
WA (142)	\$1,750m	\$110m
Vic (79)	\$806m	\$81m
Tas (29)	\$85m	\$25m
Subtotal	\$7,469m	\$386m
<b>Pro-rata National Estimated Total</b>	<b>\$9,867m</b>	<b>\$510m</b>

Source: Percy Allan, *Australia's Regional Infrastructure Crisis*, Presentation to IPAA Regional Conference, Albury, Review Today, 15th March 2012

### Real Average Annual Growth in Local Govt. Expenditure, 1976/77 to 2006/07

Capital and Operating Expenditure – Real Annual Growth Rate	NSW Local Government	Rest of Australia Local Government
Capex per capita	1.4%	3.2%
Opex per capita	6.9%	4.7%
<b>Total Capex</b>	<b>2.5%</b>	<b>4.7%</b>
<b>Total Opex</b>	<b>8.3%</b>	<b>6.4%</b>

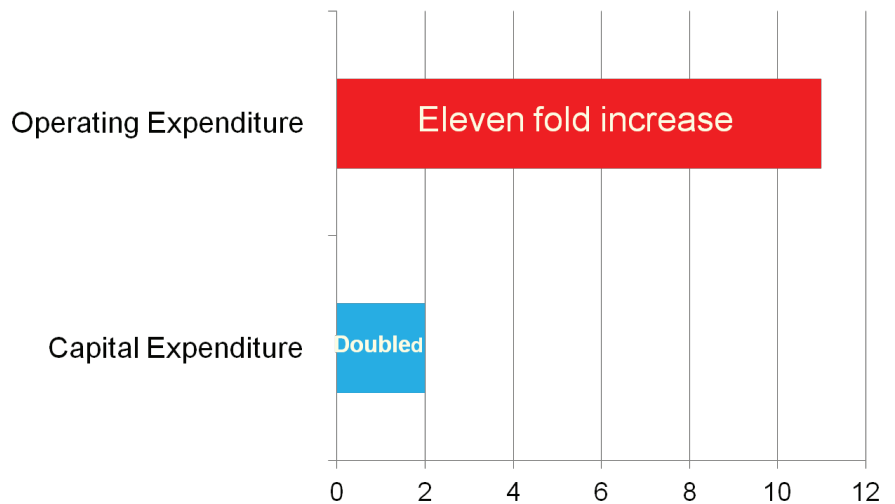
**From 1976/77 to 2006/07 NSW local government operating expenditure rose eleven fold whereas capital expenditure only doubled.**

Source: Percy Allan, *NSW Local Government Financial Sustainability*, Review Today, 11th July 2012

## PART 4. RESTORING COUNCIL SUSTAINABILITY

Between 1976/77 and 2006/07, NSW local government expanded the cost of its recurrent operations eleven fold whereas its real spending on capital works only doubled. Hence the proportion of its total spending dedicated to infrastructure renewal and enhancement fell dramatically.

### Real Total Growth in Local Govt. Expenditure, 1976/77 to 2006/07



Source: Percy Allan, *NSW Local Government Financial Sustainability*, Review Today, 11th July 2012

Rate pegging was not the main reason for this under-spending on capex because total NSW local government revenue outpaced price inflation by 4.3% per annum over the 30 years to 2006/07.

Nevertheless the real annual growth of NSW local government revenue has lagged that of the rest of Australian local government which was 4.9% over this period.

### Real Average Annual Growth in Local Govt Revenue, 1976/77 to 2006/07

Revenue Sources	NSW Local Govt	Rest of Aust Local Govt
Taxation (i.e. Rates)	3.0	4.9
User Charges (ex water)	8.7	6.4
Grants and subsidies	4.1	4.7
Interest income	7.3	6.0
Other revenues	6.8	6.5
<b>Total Revenue</b>	<b>4.3</b>	<b>4.9</b>

Source: IPART, *Revenue Framework for Local Government*, Dec 2006, pages 50 and 56

Source: Percy Allan, *NSW Local Government Financial Sustainability*, Review Today, 11th July 2012

## PART 4. RESTORING COUNCIL SUSTAINABILITY

To fix the infrastructure crisis and thereby 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. In addition most metropolitan councils have considerable capacity to borrow more to overcome renewal backlogs and enhance infrastructure stock without jeopardising their strong credit standing.

Rate pegging should be replaced with an operating expenditure cap to allow councils to strengthen their revenue base to fund extra capital works via bigger operating surpluses and increased borrowings. For severely unsustainable councils the state and commonwealth governments should assist with special infrastructure grants because such municipalities and shires don't have the revenue raising capacity to solve the infrastructure backlog problem on their own.

### CONCLUSION

The findings of Review Today drawing on official survey data, the Local Government Inquiry, IPART, ABS and its own council sustainability reviews is that:

- Half of NSW local council are financially unsustainable or close to it.
- The main reason for this is a \$4.5 billion infrastructure renewals backlog that is growing by \$150 million a year.
- This backlog arose because since 1976/77 local govt. operating expenditure has grown almost six times faster than capital expenditure.

To restore local government financial and infrastructure sustainability:

- Councils should be compelled to cut operating costs (or at the very least cap them), boost ordinary revenues and borrow to responsible limits to reduce their excessive infrastructure backlogs.
- Councils should be required to use their depreciation provisions for the purpose for which they were designed, namely to renew ageing infrastructure.
- Rate pegging should be scrapped to restore chronic under-spending on capital works.

- Developer charges should contribute towards the cost of new road, footpath, kerbing and storm-water infrastructure necessary for making a new development possible, but they should not be used to compensate councils for diverting money from capital to operations.
- Commonwealth and state governments should grant local government a bigger share of the public purse to help fund infrastructure enhancements especially for greenfield sites.
- Council's should run sizeable operating surpluses so that infrastructure enhancements can be funded on a shared basis by existing residents (who generate the surplus), new residents (through developer charges) and future residents (through borrowings).
- NSW local government should be encouraged to lift its average net financial liabilities/total operating ratio from 4% to a range of 40% to 60% by borrowing more to fund infrastructure rehabilitation and expansion.<sup>27</sup>
- Intergenerational equity dictates that existing, new and future residents of a municipality as well as all the citizens of NSW and Australia (via their state and federal governments) should contribute towards new local public works whose utility can be accessed by all.

<sup>27</sup> The net financial liabilities ratio of a council means its total liabilities less (i) unrestricted cash and investments, (ii) any restricted cash and investments matching restricted liabilities, and (iii) receivables expressed as a percentage of total operating revenue. A NFL ratio up to 60% should be compatible with an investment grade (single-A) credit rating provided a council had a minimum operating surplus/total operating revenue of 2.5% and a minimum unrestricted current assets/unrestricted current liabilities ratio of 1.25.

# PART 5: RESOLVING PLANNING RESPONSIBILITIES

## DEVELOPERS CONCERNS WITH COUNCILS

The complexity and uncertainty that mark NSW's development planning and approval processes are deterring builders from addressing the huge housing backlog that exists in Sydney. They are effectively on a go-slow strike because the development application logjam is resulting in prohibitive planning, design and land holding costs.

A recent Australian Productivity Commission inquiry confirmed such complaints.<sup>28</sup> It found that planning systems in Australian cities suffer from 'objectives overload', which has been increasing over time. The Commission called for 'broad and simple land use controls to: reduce red tape, enhance competition, help free up urban land for a range of uses and give a greater role to the market in determining what these uses should be'.

According to the Commission's 2012 report<sup>29</sup>, the main complaints of the business community about planning and zoning were:

Local government regulation of planning, zoning and DA activities is a significant source of excessive and unnecessary burdens.

- Most business concerns are about the direct and indirect costs arising from the rezoning and DA process. Costs associated with gaining approval for a proposed development include: accessing and understanding relevant information; requests for excessive and unnecessary information to support applications; uncertainty arising from the decision-making process; assessment fees and infrastructure charges.

- Other businesses indicated that costs can arise from the on-going impact of poor planning and DA decisions through the imposition of excessive and unnecessary development controls and consent conditions.
- Planning, zoning and DA regulation can also create lost business opportunities through holding costs associated with time delays and restrictive zoning that prohibits certain business types.

The main business complaints concerning building and construction were:

- Local governments impose a range of costs on businesses through regulation of building and construction activity. In combination, these costs can have a material impact on building firms. The main costs imposed stem from:
  - Local governments mandating standards beyond those in the Building Code of Australia (BCA)
  - Delays in assessing and processing building applications
  - Conditions placed on construction site activity
  - Inspection regimes used to assess compliance for building and plumbing work
  - Often inconsistent fees and charges for assessing building applications.

## REMEDYING COUNCIL DEFICIENCIES

The Productivity Commission's key findings on business regulation, planning, zoning and development assessments in its 2011 research report on the subject are worth noting in regards to local councils<sup>30</sup>:

- The success of local councils in delivering timely, consistent decisions

depends on their resources as well as their processes. It is also influenced by the regulatory environment created by state governments — in particular the clarity of strategic city plans, the coherence of planning laws and regulations, and how well these guide the creation of local level plans and the assessment of development applications.

- Significant differences in state and territory planning systems include the degree of integration between planning and infrastructure plans, and how capably the states manage their relationships with and guidance for their local councils.
- Significant differences between jurisdictions are evident for:
  - business costs — such as the median time taken to assess development applications and the extent of developer charges for infrastructure
  - the amount of land released for urban uses
  - the provision made for appeals and alternative assessment mechanisms
  - community involvement in influencing state and city plans, in development assessment and in planning scheme amendments (such as rezoning).
- Competition restrictions in retail markets are evident in all states and territories. They arise: from excessive and complex zoning; through taking inappropriate account of impacts on unestablished businesses when considering new competitor proposals; and by enabling incumbent objectors to delay the operations of new developments.

<sup>28</sup> Productivity Commission, *Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator, Overview*, April 2011, page xviii

<sup>29</sup> Productivity Commission, *Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator, Ch. 12 Planning, zoning and development assessment*, July 2012, page 425 [http://www.pc.gov.au/\\_data/assets/pdf\\_file/0005/118553/15-local-government-chapter12.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0005/118553/15-local-government-chapter12.pdf)

<sup>30</sup> Productivity Commission, *Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator, Chapter 7 Building and Construction*, April 2011, page 251 ([http://www.pc.gov.au/\\_data/assets/pdf\\_file/0005/118535/10-local-government-chapter7.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0005/118535/10-local-government-chapter7.pdf))

## PART 5: RESOLVING PLANNING RESPONSIBILITIES

In the same report the Commission said leading practices to improve planning, zoning and assessment include:

- Providing clear guidance and targets in strategic plans while allowing flexibility to adjust to changing circumstances and innovation (as long as good engagement Transparency and probity provisions are in place)
- Strong commitment to engage the community in planning city outcomes
- Broad and simple land use controls to: reduce red tape, enhance competition, help free up urban land for a range of uses and give a greater role to the market in determining what these uses should be
- Rational and transparent rules for charging infrastructure costs to businesses
- Risk-based and electronic development assessment
- Timeframes for referrals, structure planning and rezoning
- Transparency and accountability, including for alternative rezoning and development assessment processes as well as having limited appeal provisions for rezoning decisions
- Limiting anti-competitive objections and appeals, with controls on their abuse
- Collecting and publishing data on land supply, development assessment and appeals.

The Productivity Commission in its 2012 final report on the subject said leading practices relating to local government regulation of land use and DAs include<sup>31</sup>:

- Measures that facilitate the early resolution of land-use and coordination issues and provide more flexibility to the market, such as: regularly updating local planning schemes; consistently adopting broad

land-use zones; and establishing regional or state bodies able to assess all impacts, particularly for large projects seeking planning scheme amendments for development approval

- Further adoption of code-based assessment and streamlined administrative processes, such as pre-lodgement meetings, electronic lodgement and assessment processes, and resolving referrals simultaneously
- Making lodgement and decision outcomes publically available and implementing a graduated framework for reviews and appeals (that is, internal and external review mechanisms and formal appeal processes) with provisions limiting the scope for frivolous, vexatious and/or anti-competitive appeals
- Providing clear guidelines for the assessment of development proposals related to specific sectors.

### THE SAN DIEGO CASE STUDY

A good example of how to successfully fuse central and community planning is provided by the City of San Diego which decided in 2008 to stop urban sprawl by concentrating development on over 50 distinct modern centre precincts within its existing metropolis.<sup>32</sup>



### GENERAL PLAN

The General Plan is the foundation upon which all land use decisions in San Diego are based. It expresses a citywide vision and provides a comprehensive policy framework for how the City should grow and develop, provide public services, and maintain the qualities that define San Diego. The General Plan was comprehensively updated in 2008. It does not change land use designations or zoning on individual properties, but rather provides policy direction for future community plan updates, discretionary project review, and implementation programs. It is comprised of an introductory Strategic Framework section which includes the plan's Guiding Principles, and the following elements: Land Use and Community Planning; Mobility; Economic Prosperity; Public Facilities, Services and Safety; Urban Design; Recreation; Historic Preservation; Conservation; and Noise.

### COMMUNITY PLANS

Larger cities often create policy documents for specific geographic areas within the city's boundaries. The City of San Diego calls its community-based policy documents either community plans or, precise or specific plans.

Because of the size and diversity of the communities in the City of San Diego, there are more than 50 planning areas called community plans.

### THE GENERAL PLAN AND THE COMMUNITY PLANS WORKING TOGETHER

The community plans are a part of the Land Use Element of the General Plan. Community plans provide more

<sup>31</sup> Productivity Commission, *Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator*, Ch. 12 Planning, zoning and development assessment, July 2012, page 425 [http://www.pc.gov.au/\\_data/assets/pdf\\_file/0005/118553/15-local-government-chapter12.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0005/118553/15-local-government-chapter12.pdf)

<sup>32</sup> City of San Diego: *General Plans & Community Plans Work Together- The "Big Picture"* <http://www.sandiego.gov/planning/genplan/together.shtml>

## PART 5: RESOLVING PLANNING RESPONSIBILITIES

detailed land use designations and site-specific policy recommendations than is practical at the citywide level. Community plans typically address community issues such as: the local street and transit network; distinctive environmental characteristics; community landmarks; location, prioritization and provision of public facilities; community urban design guidelines; and identification of gateways. Together, the General Plan and the community plans seek to guide future growth and development to achieve citywide and community level goals. All of the adopted land use plans must be consistent with the goals and policies of the General Plan.

### THE PRODUCTIVITY COMMISSION'S VERDICT

In terms of building and construction the Commission's 2012 report said<sup>33</sup>:

- In terms of leading practices, a gateway model to vetting deviations from the Building Code of Australia (BCA, similar to that used in Victoria, Queensland and Western Australia) lowers the risk of unnecessary compliance costs on business. Tasmania's use of enforceable standards for construction site regulation similarly imposes the lowest compliance cost on business. Tasmanian local governments also had, on average, the lowest building application fees and among the fastest approval times of any state. Western Australia and South Australia had the most cost-effective and least onerous building inspection regimes.
- Adoption of leading practice approaches to the regulation of building and construction activity across jurisdictions could materially reduce building compliance costs. The main differences evident in 2010-11 involved the:
  - basis on which local governments set fees for building consent

- cost, breadth and frequency of inspections during the construction phase
  - extent and substance of conditions placed on construction site management
  - deviations from standards contained in the BCA (e.g. sustainable building design).
- The compliance costs associated with these differences could be reduced by:
  - introducing charging regimes for assessing building applications based on the time taken to efficiently conduct the assessment
  - subjecting standards beyond those specified in the recently adopted National Construction Code to independent cost-benefit assessment before introduction
  - implementing consistent state-based guidelines or enforceable standards in relation to construction site management
  - moving to risk-based building and plumbing inspections.

### SYDNEY'S WAY FORWARD

The Urban Taskforce believes the NSW Government must adopt a back-to-basics approach such as advocated by the Productivity Commission when reframing its planning and development approval policies, structures and processes. That means returning to basic principles, winning consensus for them and working up from there:

- Have an overriding state vision and strategy
- Separate council policy making from policy execution and policy arbitration
- Recognise state, regional and local impacts in planning and infrastructure
- Cap council operating expenditure which has expanded strongly so future revenue growth is applied to infrastructure spending which has been neglected

- Share infrastructure costs among all beneficiaries
- Encourage local government to increase its borrowing for infrastructure so that capital costs are more evenly shared with future generations.
- Require public consultation and accountability
- Have a state population settlement strategy
- Have Planning Minister decide state/regional plans and Local Councils decide local plans.
- Have independent state, regional and local authorities approve specific developments.
- Require public consultation and accountability on all planning and development decisions.

Some basic conclusions derive from these principles:

- State and Regional planning and development policy should be decided by the Planning Minister in consultation with relevant Local Councils.
- Local planning and development policy should be decided by the Local Council in accordance with a long run land usage plan for municipality or shire.
- Communities should shape the character of their local areas by being involved in development during its town planning phase when the height, setback and floor space ratios of structures are determined. Local plans need to be consistent with the state govt. metropolitan planning policy to create affordable quality housing for a sustainable city.
- There should be independent State, Regional and Local Development Approval Authorities (RLDAAs).
- To ensure adequate resourcing, the RLDAAs should be served by a planning staff funded jointly by councils through a shared service centre within their Regional Organisation of Councils (ROC).

<sup>33</sup> Productivity Commission, *Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator, Chapter 7 Building and construction*, July 2012, page 251  
[http://www.pc.gov.au/\\_\\_data/assets/pdf\\_file/0005/118535/10-local-government-chapter7.pdf](http://www.pc.gov.au/__data/assets/pdf_file/0005/118535/10-local-government-chapter7.pdf)

## PART 5: RESOLVING PLANNING RESPONSIBILITIES

All plans and projects should be distinguished by whether their spatial costs and benefits are primarily state, regional or local.

The Planning Assessment Commission should deal with projects of state-wide significance, Joint Regional Panels with those of regional impact and Local Panels with those of mainly local impact.

Once the community has agreed on the key drivers of the character of a precinct (e.g. height, mass, minimum lot size of a particular form of development), then projects should be able to be assessed against these criteria without further public involvement. Such form-based codes apply in Queensland. There should always be a merit based assessment process for projects outside code requirements, but these will take more time to resolve.

### HOW FORM-BASED CODES WORK

Form based codes were developed as an antidote to the soulless uniform structures of single-use zoning. To quote one source<sup>34</sup>:

A **form-based code (FBC)** is a means of regulating development to achieve a specific urban form. Form-based codes create a predictable public realm by controlling physical form primarily, with a lesser focus on land use, through city

or county regulations.

Form-based codes are a new response to the modern challenges of urban sprawl, deterioration of historic neighborhoods, and neglect of pedestrian safety in new development. Tradition has declined as a guide to development patterns, and the widespread adoption by cities of single-use zoning regulations has discouraged compact, walkable urbanism. Form-based codes are a tool to address these deficiencies, and to provide local governments the regulatory means to achieve development objectives with greater certainty.

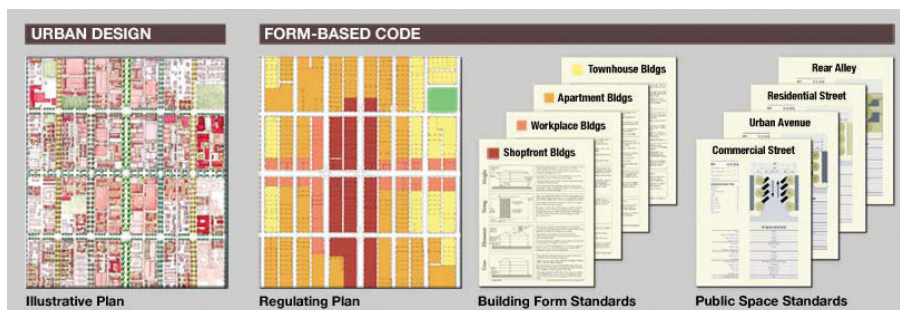
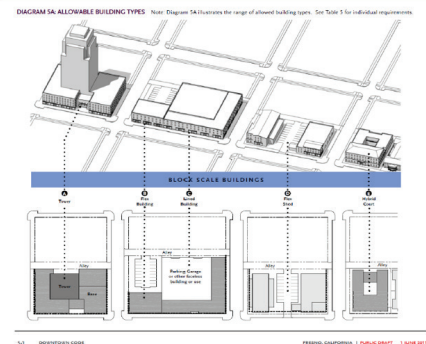
Form-based codes address the relationship between building facades and the public realm, the form and mass of buildings in relation to one another, and the scale and types of streets and blocks. The regulations and standards in form-based codes, presented in both diagrams and words, are keyed to a regulating plan that designates the appropriate form and scale (and therefore, character) of development rather than only distinctions in land-use types.

This is in contrast to conventional zoning's focus on the micromanagement and segregation of land uses, and the control of development intensity through abstract and uncoordinated parameters (e.g., floor area ratios, dwelling units per acre, setbacks, and parking ratios) to the neglect of an integrated built form.

Form-based codes commonly include the following elements<sup>35</sup>:

- **Regulating Plan.** A plan or map of the regulated area designating the locations where different building form standards apply based on clear community intentions regarding the physical character of the area being coded.
- **Public Space Standards.** Specifications for the elements within the public realm (e.g., sidewalks, travel lanes, on-street parking, street trees, street furniture, etc.).
- **Building Form Standards.** Regulations controlling the configuration, features, and functions of buildings that define and shape the public realm.
- **Administration.** A clearly defined application and project review process.
- **Definitions.** A glossary to ensure the precise use of technical terms.

### Urban Coding



(Source; [http://en.wikipedia.org/wiki/Form-based\\_code](http://en.wikipedia.org/wiki/Form-based_code))

(Source: <http://acnu.org/data/perth-light-rail-masterclass-2011/Day-2-24-September-3-Evan-Jones-Finance-Options-LRT-Perth.pdf>)

<sup>34</sup> [http://en.wikipedia.org/wiki/Form-based\\_code](http://en.wikipedia.org/wiki/Form-based_code)

<sup>35</sup> Ibid



## PART 5: RESOLVING PLANNING RESPONSIBILITIES

### WHO SHOULD PAY FOR LOCAL INFRASTRUCTURE?

New housing estates naturally need supporting civic infrastructure (e.g. local roads, kerbing and footpaths, street lights, storm water drainage). The beneficiaries of such civic infrastructure are developers and home-buyers (land value capture), local and state governments (property taxes) and the wider community (locality access). Being beneficiaries each party should contribute to the cost of these physical assets so that the home buyer does not bear all costs. Long life infrastructure enhancements within a region should be funded by a combination of council operating surpluses and loans so that the cost burden is shared between existing ratepayers and future ones.

The precise ratio of operating revenue to debt finance will depend on the population growth of the municipality. Fast growing communities can rely on more debt in the expectation that a bigger revenue base in future can service that debt. Communities with static or falling population will have to give more weight to using current revenues than borrowings for funding infrastructure expansion

### HOW PLANNING SHOULD BE DECIDED

State and Regional planning and development policy should be decided by the Planning Minister in consultation with relevant Local Councils. Local planning and development policy should be decided by the Local Council in accordance with a long run land usage plan for the municipality or shire. Communities should shape the character of their local areas by being involved in development during its town planning phase when the height, setback and floor space ratios of structures are determined.

The Minister for Planning, the Hon Brad Hazzard<sup>36</sup>, was recently reported as saying that new planning laws will:

- End uncertainty faced by developers who buy land not knowing if their plans will be approved when they submit development applications.
- End the current practice where individual development applications turn into “site-specific planning wars”
- Introduce a system where communities agree in advance on building types, heights and densities for a whole area. Once such agreements were reached they would not be varied and developers could get on and build.
- Give communities a voice upfront in the strategic planning of their areas but, having done that strategic planning, it will be a case of “full steam ahead,”

The Minister added:

*“We will have to make sure communities switch on at a much earlier stage, make sure they actually listen to the fact there’s a strategic plan going on in their area but, having done that, those who provide the housing, those who provide the offices, business spaces should know that if they provide this particular parcel of land they can get on with it.”*

The Minister’s comments are consistent with a more structured, objective and streamlined approach to planning and development approvals which is essential for satisfying the growing and changing dwelling needs of Sydney residents while encouraging local communities to have input upfront without stymying final decisions by councils and planning panels once all design and environmental factors have been taken into account.

The Green Paper – A New Planning System for New South Wales - released in July 2012 goes a long way to achieving a more rational and inclusive approach to planning Sydney’s future development. It seeks to:

- Reduce complexity and remove red tape
- Provide predictability and certainty about how decisions are made
- Base decisions on strong community participation and evidence
- Achieve time frames for completion of planning processes through increased accountability for efficient decision making
- Facilitate investment and manage change
- Promote greater cooperation and partnerships between all levels of government
- Provide flexibility to respond to change and ensure markets are competitive

It is discussed in Part 1 of the Appendices covering the main Plans Shaping Sydney.

<sup>36</sup> Matthew Moore, *Residents to lose objection rights in new planning laws*, Sydney Morning Herald, 27<sup>th</sup> June 2012. <http://www.smh.com.au/business/property/residents-to-lose-objection-rights-in-new-planning-laws-20120626-210mx.html#ixzz1zAXp85Nn>

## PART 5: RESOLVING PLANNING RESPONSIBILITIES

### CONCLUSION

Developers are at a breaking point with the complex policies and tortuous processes used by Sydney's local councils to determine land use zones and development applications. When a developer buys a block of land enormous uncertainty surrounds their right to develop it. Long delays and onerous development conditions add to their holding and building costs. A history of project losses has convinced many builders to seek work interstate rather than focus attention on their home city.

Indeed it is no exaggeration to say that developers are on a go-slow strike until they see tangible evidence of both the NSW government and Sydney councils not only recognising their dilemma, but once and for all rectifying it. No other jurisdiction in Australia is as hostile to developers as NSW and in particular Sydney. The recent package of housing initiatives in the NSW Budget made a start at winning back their confidence in Sydney as a place where they could do business.

The wish of residents to freeze development in this city has come true and the consequences are now seen in a massive dwelling shortage that hurts

poorer families more than anyone else. Homes are now beyond the reach of lower income people both in terms of price and rents. Few other cities in the world have a crisis of this magnitude. Local government contributes to growing developer disengagement in three ways:

- Restricting the amount of land available for attached houses and apartment buildings
- Increasing the holding cost of land by creating uncertainty on development applications
- Expecting developers to make up for the shortfall in Council spending on infrastructure

The NSW Government must adopt a back to basics approach in simplifying and codifying planning and development policies and processes so that developers have clear guideposts by which to act. The state should replace complex planning instruments with simple and flexible planning laws for ease and consistency of interpretation.

Local government must cooperate in such reforms by confining its political chamber to deciding planning policy and leaving it to professional staff and panels to apply such policy to

individual sites. At every other level of government executive and judicial functions are strictly separated from legislative ones.

The same principle should apply to councils with councillors in consultation with their constituents determining the type, height and density of buildings for a whole area, but thereafter leaving it to independent local and regional panels (with the support of council staff) to interpret the application of such policies and regulations to individual developments. Anything short of this is open to corruption and manipulation by vested interests on all sides.

Sydney's urban planning and approval process needs urgent overhaul if the city is to have a prosperous future and be affordable to young families. The status quo might enrich existing landowners speculating on higher housing prices fuelled by housing scarcity, but is not in the interests of the wider public let alone the next generation of Sydneysiders.



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The extensive appendices for  
this report are available on the  
Urban Taskforce website.

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Graphs supplied by  
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