



Sydney First

Governance Arrangements for Sydney's Local Government Authorities



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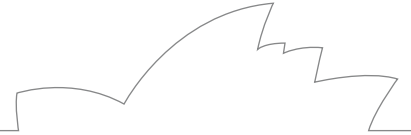
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In April 2007 the Sydney Chamber of Commerce launched its report *Who's Governing Sydney?*. The report was prepared by Prof. Edward Blakely, Chair of Urban and Regional Planning and Director of the Planning Research Centre at the University of Sydney, and marked the first major report commissioned by *Sydney First*. *Who's Governing Sydney?* questioned if Sydney's current governance structures were best suited to the contemporary needs of a global city.

Sydney First aims to promote Sydney as the number one place to live, work, learn and do business. *Sydney First* is made up of the city's best business minds and is committed to enhancing Sydney's competitiveness as a global city. Our mission is to reduce the barriers which threaten Sydney's growth and competitiveness.

To build on the conclusions drawn by Prof. Edward Blakely's report, the Sydney Chamber commissioned KPMG to report on the efficiencies of the current local government arrangements.

For too long the structure of Sydney's local government has acted as a barrier to improved operating performance, regional planning and the competitiveness of Sydney as a global city.

This report makes the case for change of Sydney's local government structure to one which supports global competitiveness, is cost effective, based around communities of interest, and is financially sustainable.

Sydney's economy would benefit from the transformation of the governance arrangements of Sydney by creating a more efficient, cost effective structure.

I look forward to this report generating much discussion and debate.

Yours sincerely

The Hon. Patricia Forsythe
Executive Director

Introduction

The Sydney Chamber of Commerce has requested KPMG to consider the potential benefits that may accrue from transforming the governance arrangements for Sydney's local government authorities which operate within a global city environment. Our study reveals that there is a need for strengthening Sydney's local government authorities so that Sydney maintains and enhances its role as a true global city, and in doing so, boosts its economic role and overall competitive advantage internationally. This is an important issue given that Sydney must compete with cities such as Singapore, Hong Kong and Los Angeles more so than just our national cities, such as Brisbane and Melbourne.

Local government is a fundamental pillar of the Australian democracy, performing critical local services for our communities and businesses, and also represents an important element of the economic and social fabric of our economy. This strong foundation is the basis for considering the planning and service delivery benefits from a reinvigorated organisation of Sydney's local government authorities to better meet the challenges of the 21st century.

To this end, this study proposes that prior to the next local government elections that the New South Wales (NSW) Government, in partnership with local government, achieve the following:

- 1 Harmonisation of the optimum scale of local authorities to reduce fragmentation and inefficiency;
- 2 Reorganisation of local authorities to achieve a fewer number of councils that represent regional communities of interest that looks forward to 2050, thereby increasing their capacity to tackle the major growth and change challenges confronting Sydney; and
- 3 As part of the foundation laid for reorganising local authorities for the long term, reform of the financial capacity of local government authorities so that they are self-sustaining and have the capacity to provide a level of service to local communities irrespective of geographic area.

Transforming the role of Sydney's local government authorities cannot be achieved with the current disparate size and scale of local government authorities, inequality in elected representation, marginal financial position of some local government authorities, backlog and demand for important infrastructure and the employment and housing demand generated from growth and change patterns across Sydney. Stronger governance for local government authorities will increase their capacity to take on greater service delivery functions for the benefit of communities and businesses in the long term. This role would place Sydney in a position consistent with those functions undertaken by local government authorities in other global cities.

Key Findings

Since the 1970's Sydney's local government authorities have largely remained unchanged. During this time the population has increased by over 1 million, many new suburbs have been created such as Newington, Harrington Park, Bella Vista, Kellyville Ridge, etc, and importantly, Sydney has become a global city and is one of the top 10 financial centres in the world.

Against this backdrop we have found that some issues can act as a barrier to improved operating performance, regional planning and competitiveness for Sydney. That is:

• The governance of Sydney's councils should be based on a global city organising principle.

- From an international perspective, Sydney's resident population of 4.3 million is represented by the Lord Mayor of Sydney who is responsible for a population of 162,000 people which equates to around 3.8 per cent of Sydney's population.
- Both Woollahra and Blacktown councils for example have 15 councillors and yet Woollahra council has one councillor for every 3,562 residents and Blacktown council has one councillor for every 18,801 residents.
- The governance and organisation of Sydney's council's should be harmonised to leverage the regional economic strengths of Sydney and support greater equality in the level of elected representation.

• Sydney's level of governance could be condensed.

- Sydney presently has 474 councillors¹ compared to 274 councillors² in Melbourne and 26 councillors in Brisbane.³
- This means that Sydney has one councillor for every 8,300 people, Melbourne has one councillor for every 13,073 people and Brisbane has one councillor for every 38,765 people.
- The level of governance should be strengthened and condensed in line with a regional governance of local government authorities.

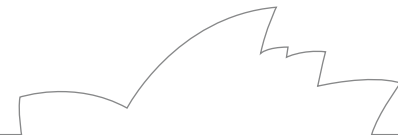
• Reconfiguring current council boundaries will eliminate artificial barriers to regionally based decision making.

- The State Government often intervenes in planning decisions covering a number of council areas to coordinate a single regionally based response.
- If councils were reorganised regionally this would enable greater coordination of State and local government decision making.

¹ NSW Department of Local Government, 'Local Government Directory – Local Councils', site search of individual councils, http://www.dlg.nsw.gov.au/dlg/dlghome/dlg_LocalGovDirectory.asp?index=1&CN=ALL#52, viewed 22 August 2008.

² Local Government Victoria, Find your local Council, <http://www.localgovernment.vic.gov.au/web20/dvclgv.nsf/headingpagesdisplay/find+your+local+council>, viewed 22 August 2008.

³ Brisbane City Council, 'About Council: councillors and wards'http://www.brisbane.qld.gov.au/BCC:BASE:1702215981:pc=PC_5, viewed 22 August 2008.



• **Planning system reforms will reinforce the role of elected representatives** towards strategic regional planning rather than on low risk development applications. The NSW planning system reforms are not unique in Australia and in fact have the following common features among the Australian jurisdictions:

- Clarifying those developments that are State significant and those that are local developments.
- Transforming low risk merit assessed developments to exempt or complying developments.
- Establishing independent and expert panels to assess regionally based developments.

Together, these reforms mean that Australian governments are reconfiguring the role of local government authorities towards stronger strategic planning. This raises the question on what should be the optimum scale for local government authorities.

• **Complex planning and service delivery issues will drive regionally based decisions.**

- Population and employment growth, economic development, increasing housing density, energy and water efficiency, infrastructure backlog and demand, and responses to make Sydney climate resilient require stronger regionally based decision-making.

• **The financial capacity and revenue raising capacity of local government authorities needs to be strengthened.**

- To respond to these significant challenges effectively means that councils must have the organisational and financial capacity to implement regionally based planning and service delivery decisions.
- Again this issue will bring into question the most appropriate scale and structure for local government authorities, their funding arrangements and capacity for raising revenue.

• **Significant financial savings could arise from a reconfiguration of smaller local government authorities to a larger scale. For example:**

- If the number of councillors in Sydney were reduced by 200, this could lead to a potential saving of 3.5 million per annum for the operating budget of Sydney's local government authorities.
- If local government authorities were reorganised such that they each had a population of 200,000, primary per capita expenses savings could be up to \$6.6 million per annum which could also contribute to the operating budget of Sydney's local government authorities.
- If the average council was to process 1,000 additional DAs per year this would result in a potential saving of around \$2 million per annum for a total of 2,000 DAs processed. Such potential savings could be redeployed to improve front line services or reduce the cost of doing business.
- A greater scale enhances the capacity of local government authorities to efficiently respond to a greater volume of work and increases the potential to attract skilled planning and management professionals.

Drivers for change

Trends in local government reform

In Queensland, the Government has introduced governance reforms that have taken the number of councils from 157 to 73. The motivation for such reforms were in part driven by a need to improve financial sustainability, a need to attract and train skills and a stronger regional presence to better respond to economic growth, population growth, demographic change, infrastructure requirements and adapting to the potential impacts of climate change. This reform compliments the governance for the City of Brisbane⁴ which serves the Brisbane metropolitan area providing (among other things) bus and ferry services as well as water and sewerage services for its population of 1,007,901 people.⁵

In South Australia, council amalgamations undertaken in the 1990's took the number of councils from 118 to 68 to improve the operating efficiency and drive stronger regional planning. There are now 19 local councils⁶ in Adelaide with a population of 1.13 million⁷ and some 256 councillors.⁸ In Victoria, council amalgamations in the 1990's decreased the number of councils from 210 to 78. In metropolitan Melbourne there are now 31 local councils and a population of 3.7 million⁹ and it has some 274 councillors.¹⁰

In NSW, the number of councils has fallen from 324 councils in 1910 to 177 in 1993 due to voluntary mergers or compulsory amalgamations. This number was further reduced to 172 in 2001.

A further reform program in 2003 reduced councils down to 152 with almost all councils that participated in the amalgamation program located in regional NSW. Importantly though, governance arrangements for the 41 local government authorities in metropolitan Sydney where there is a population of 4.3 million¹¹ with around 474 councillors have remained largely unchanged since the 1970's.

Governance arrangements in other global cities

New York City has a population of around 8 million people and Greater London has a population of around 7.7 million people and both have strategic governance arrangements organised to represent the whole city. While the services they deliver go beyond the types of services NSW local government authorities deliver, they nonetheless are organised to speak with one voice through a Mayor that represents their city both in a ceremonial capacity and a strong fiscal and service delivery capacity that includes development assessment, transport and policing.

Sydney's governance arrangements

By way of comparison, we have observed that there does not appear to be an organising principle supporting the governance arrangements for Sydney's local government authorities, or a principle that supports a sophisticated global city such as Sydney. For example, there appears to be inequities in the extent of local representation for Sydney's residents:

- Baulkham Hills council has one councillor for every 13,987 residents;
- Blacktown council has one councillor for every 18,801 residents;
- Hornsby council has one councillor for every 15,725 residents;
- Liverpool council has one councillor for every 15,822 residents;
- Parramatta City council has one councillor for every 10,265 residents;
- Sydney City council has one councillor for every 16,259 residents;
- Willoughby City council one councillor for every 4,789 residents; and
- Woollahra council has one councillor for every 3,562 residents.

In 20 or so years these big councils will continue to get bigger but the smaller councils will remain largely the same size. This fact points to a growing inequity. For example, Woollahra council's population will grow from 53,000 to 55,000 and maintain its representation of 15 councillors and Blacktown council's population will grow from 280,000 to 390,000 and it will also have 15 councillors. This means that in the future Woollahra will have one councillor for every 3,708 residents and in Blacktown will have one councillor for 26,108 residents. There does not appear to be a reason why the current levels of representation for smaller local government authorities is sustainable for the long term.

4 Prior to the introduction of the City of Brisbane Act there were 20 councils and joint boards, viewed 22 August 2008.

5 ABS, *Regional Population Growth, Australia*, cat. no. 3218.0, ABS, Canberra, 2008, as at 30 June 2007.

6 Local Government Association of South Australia, *council maps*, <http://www.lga.sa.gov.au/site/page.cfm?u=209>, viewed at 22 August 2008.

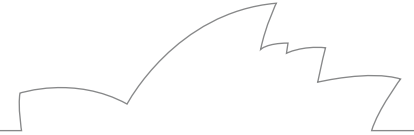
7 Planning SA, *Population Projections Enquiry System*, 2006 estimates, 2007, <http://www.planning.sa.gov.au/index.cfm?objectId=1EAEEDC0-F203-0D46-ADDE3AB8A1CA2487>, viewed 21 August 2008.

8 Local Government Association of South Australia, 'Councils', 2008, <http://www.lga.sa.gov.au/site/page.cfm?u=210>, viewed 22 August 2008.

9 Department of Sustainability and Environment, *Victoria in Future 2004*, 2008 estimates, 2004, <http://www.dse.vic.gov.au/DSE/dsenres.nsf/LinkView/B9023E3BAACA5A6ACA256EF60019E55806C7DF80826B65674A256DEA002C0DCA>, viewed 21 August 2008. 2008 estimates.

10 Local Government Victoria, *Find your local Council*, <http://www.localgovernment.vic.gov.au/web20/dvclgv.nsf/headingpagesdisplay/find+your+local+council>, viewed 22 August 2008.

11 2001 data estimated by TPDC from Australian Bureau of Statistics, *Population by Age and Sex, New South Wales – Electronic Delivery*, ABS Catalogue No. 3235.1.55.001, 2006 estimates, viewed 22 August 2008.



Planning reforms

Australian jurisdictions have begun to recognise the need to introduce planning system reforms to be adaptive to enable greater economic activity rather than continuing with systems that are reactive to economic issues. Such reforms have targeted strategic regional planning, plan making (such as local environment plans, structure plans and rezoning), development approval processes and land supply arrangements for housing and employment growth.

In NSW, planning system reforms have strengthened the role of strategic planning at a regional level. The Sydney Metropolitan Strategy is Sydney's long-term strategic regional planning tool detailing transparent housing and jobs targets that provides a clear line of sight to subregional planning and local environment plans. These reforms in turn, provide for clearer roles and responsibilities for State and local government. Further, expert review of development proposals through the establishment of Joint Regional Planning Panels determine projects of regional significance, particularly where a number of local government authorities have an interest in the proposal. These types of reforms will transform the role of the elected representatives away from minor low risk development applications (DAs) towards strategic planning and service delivery.

By way of example, the NSW Department of Planning has stated that 11 per cent of all development proposals can proceed as complying development, with the other 89 per cent forced to proceed as full-scale DAs.¹² For new homes, local authorities take on average 78 days to process a single dwelling DA, while renovations and extensions take 57 days.¹³

The impact of recent planning reforms will mean that up to 50 per cent of merit-assessed DAs will become complying development, taking the assessment time for single dwellings and renovations down to 10 days. This change will transform the volume and type of work performed by local government authorities and enables consideration of the application of these savings towards other enhancements to local government service delivery.

Potential benefits from a larger scale for local authorities

KPMG undertook a statistically robust analysis of the influence of a number of council characteristics, including those related to size, in order to examine the potential benefits from alternative governance arrangements in metropolitan Sydney local government. To our knowledge, this research represents the first analysis to employ sophisticated panel data analysis when investigating this question.

In summary, we find that a number of key metrics indicating local government performance are statistically correlated with measures of council size. In addition the analysis indicates that:

- Larger councils are more efficient in the processing of development applications both in terms of average days taken and the average cost of processing each development application;
- Councils that have a higher number of business properties within their boundaries typically levy lower rates on those businesses;
- Councils with relatively more population density also levy lower rates on businesses;
- Larger councils incur lower employee costs per capita; and
- Councils that are larger in terms of population exhibit marginally lower primary expenses per capita.

Creating a stronger global city

The above findings demonstrate that there is a need for a transparent local government organising principle for Sydney, to support Sydney's global competitiveness and drive cost effective service delivery, decision making and representation for its residents.

In order to create a stronger global city, the principles for city governance should seek to reinforce the Sydney Metropolitan Strategy key principles, that is:

1. Enhance Liveability;
2. Strengthen Economic Competitiveness;
3. Ensure Fairness;
4. Protect The Environment; and
5. Improve Governance.

Against this backdrop two city governance options may include:

- The sub-regional planning areas as identified in the Sydney Metropolitan Strategy. This would strengthen strategic regional planning and decision making on major infrastructure such as public and private transport; or

¹² NSW Department of Planning 8 May, 2008. NSW Housing Code: Community Guide, page 2, viewed 15 July 2008.

¹³ Ibid page 4.

Figure 2: Subregional planning areas for Sydney



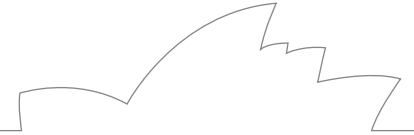
Source: City of Cities, Sydney Metropolitan Strategy.

- The economic features of Sydney as identified in the Sydney Metropolitan Strategy. This would provide a tailored approach to the key economic strengths in Sydney, such as the economic centres or corridors, including the global arc.

Figure 3: Sydney's cities, centres and corridors



Source: City of Cities, Sydney Metropolitan Strategy.



Such arrangements could transform service delivery by:

- Driving decision making towards coordinated regionally based planning and service delivery;
- Streamlining back office administrative functions, such as IT systems and payroll functions;
- Better coordinated response to infrastructure renewal such as local roads, sea walls, drainage, bridges, etc;
- Standardising and coordinating asset maintenance and replacement, such as park infrastructure, etc
- Increased purchasing power for services and facilities, such as libraries, waste management, community public transport, etc;
- Regionalising community transport with enhanced opportunities to integrate with public transport operated by the State;
- Reducing governance and administration costs due to reduced number of senior management and councillors; and
- Reducing charges for businesses and consumers due to more efficient processing of services.

Recommendations for improved city governance

The NSW Government needs to develop with local government the optimum scale for Sydney's local government authorities for the 21st century. To this end, the current organisation of local government authorities acts as an artificial barrier to effective strategic planning and service delivery and thus constrains Sydney's global competitiveness. To give effect to the beneficial gains from a larger scale, our recommendations for a stronger city governance arrangement for Sydney includes:

- 1 Before the next local government elections, the NSW Government in partnership with the mayors of Sydney's local government authorities should establish the optimum scale of Sydney's local government authorities and elected representation;
- 2 As part of the process to harmonise the scale of Sydney's local government authorities, the NSW Government should:

- undertake consultation with communities and stakeholders to inform the development of harmonising the scale of Sydney's local government authorities;
- undertake economic analysis to quantify the benefits for reform and the minimum scale requirements for new governance arrangements;
- develop options around the enhancement of service delivery and reforming the financial capacity of local government authorities;
- develop the optimum scale of local government authorities around regional communities of interest similar to those geographic regions contained in the Sydney Metropolitan Strategy. Such a configuration will contribute to, among other things, greater efficiency and enable the volume of work and critical mass to employ high performing planners and managers necessary to deal with future complex decisions;

3 Should local government authorities indicate an interest, the NSW Government should sponsor the development of regional authorities to allow councils to drive shared service delivery, pool resources, etc;

4 The NSW Government should identify as a priority the reconfiguration of the City of Sydney. It presently has a suboptimal geographical area that does not include the critical economic and transport corridors that influences the working of the city. To transform the City of Sydney to a truly global economic activity centre, its scale should be enhanced so that it can drive strong coordinated strategic planning and service delivery decisions and better implement the growth and change targets contained in its 2030 Sustainable Sydney Plan.¹⁴ As a starting point to transition the City would be to transform the role of the Central Sydney Planning Committee's jurisdiction to encompass the economic centres identified in the Sydney Metropolitan Strategy to reflect a holistic planning approach to the economic strength of the city; and

5 To avoid fragmentation of the economic strengths of some of the larger local government authorities, the NSW Government should not establish any new local government authorities in the Growth Centres of the North West and the South West of Sydney.

2 Introduction

The Sydney Chamber of Commerce (SCC) has requested KPMG to evaluate the potential benefits that may accrue from transforming the governance arrangements for Sydney's local government authorities, which will in turn contribute to:

- Increasing Sydney's position as a global city through greater economic performance of Sydney's local government authorities;
- Stronger economic activity and growth in Sydney; and
- Reducing the barriers (at a local government level) that threaten the regional and global competitiveness in the long-term.

2.1 Background

A key plank of the SCC 2008 program is Sydney First which seeks to improve Sydney's competitiveness as a global city against other major global cities. For Sydney to achieve this level of status there is a need to identify, develop and promote those core ingredients that deliver economic activity and growth and decrease barriers that threaten the city's global competitiveness.

The first report commissioned by Sydney First focused on City Governance and its impact on the above. Sydney First, *Who's Governing Sydney?*¹⁵ questioned whether current governance structures best serve the contemporary needs of a global city. The report highlighted the fragmented nature of Sydney's governance arrangements, the relatively large number of small local government entities across Greater Metropolitan Sydney and the impact this has on well-coordinated regional planning and implementation and the delivery of civic services.

In response to the findings of this report, and in light of planning and local government reforms currently underway in a number of Australian jurisdictions, including NSW, attention has turned on the debate for reforming Sydney's local government structures. The aim of which is to better reflect the needs of a growing and competitive global city and the potential benefits and savings to be realised from alternative governance arrangements for Sydney.

2.2 Objectives and approach

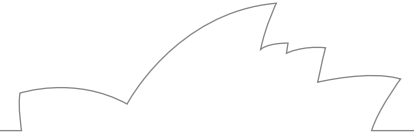
The objective of this project is to consider the potential qualitative and quantitative benefits that could be realised through alternative governance arrangements of Sydney's current local government structures. To this extent the approach we have undertaken for this assignment is as follows:

- **Cross-jurisdictional comparative analysis** – A comparative analysis of reform trends in planning and local government.
- **Benefits of alternative governance arrangements** – Observations of the financial and economic impacts and benefits of alternative governance arrangements for local government areas and the expected or realised savings and efficiency improvements.
- **Current challenges facing local government** – Identification of the current inefficiencies in the functions performed by councils in Sydney's local government areas.
- **Principles to improve city governance** – An outline of key overarching principles that should inform the reform of local government in Sydney.
- **Governance models** – KPMG have identified the potential governance models for local government authorities in Sydney and have outlined the options including aligning governance arrangements around the Sydney Metropolitan Strategy's 10 sub-regions.
- **Quantifying the benefits** – An assessment of the potential savings and efficiencies that may be realised as a result of council amalgamation in Sydney's local government areas, along with observations on what this will mean for Sydney's competitiveness.

This approach means that this report is structured as follows:

- **Section 3** – Role and functions of local government authorities;
- **Section 4** – Context for change;
- **Section 5** – Potential benefits of alternative governance arrangements; and
- **Section 6** – Transitioning towards a governance structure for the 21st century.

¹⁵ EJ Blakely & RY Hu, *Sydney First: Who's Governing Sydney?*, Sydney, Sydney Chamber of Commerce, 2007, <http://www.thechamber.com.au/images/stories/whosgoverningsydney.pdf>.



3.1 Introduction

Local government performs an important role in Australian society through their provision of infrastructure, delivery of services, and planning and regulatory activities and is an integral part of the Australian democracy. Local government has been in existence since the 1840's providing services such as building and maintaining roads and the collection and disposal of rubbish.

Today, the role and functions of local government in NSW has increased substantially and are diverse.

3.2 Functions

Local government authorities now undertake a broad range of functions under a number of pieces of legislation, but primarily under the *Local Government Act 1993* and the *Environmental Planning and Assessment Act 1979*. As identified by Percy Allan¹⁶, the functions can be broadly grouped as follows:

- *Policy making* to inform the shape of the environment and amenity of the local area in consultation with the community. Councils, through the services and programs provided and the facilities developed, substantially influence community character and quality of life;
- *Service delivery* which includes:
 - Planning and development services;
 - Domestic waste management and recycling services;
 - Environmental management services (including natural areas, pollution control, application of the principle of ecologically sustainable development);
 - Health and safety services (including water and food sampling, animal control, noise control, public toilets, immunisation, building inspections);
 - Community services (including child care, elderly care and accommodation, refuge facilities, counselling and welfare);
 - Recreation and leisure services (including management of parks, sport, camping facilities);
 - Cultural and educational services (including libraries, art galleries, museums);
 - Local economic development and tourism promotion;
 - Water supply and sewerage services¹⁷;
 - Infrastructure necessary for general transport and communication purposes, as well as for the provision of the described services (roads, footpaths, drainage and sewerage systems, waste management infrastructure, recreational infrastructure, public buildings, etc); and

- *Administering regulation* through the issue of approvals and licences for a variety of activities, such as building approvals, as well as providing oversight of the compliance with these requirements. They can also impose fines for a broad range of offences including breach of approval conditions, parking, dumping of rubbish and public disturbance.

Councils are also property owners holding and managing community land and infrastructure. Therefore, effective asset management is a critical requirement for councils. This is particularly so for those councils with major growth demands which in turn means significant implications for new infrastructure investment. In this respect an equitable approach to rate pegging may be a key issue into the future, given these demands in certain locations.

¹⁶ *Local Government and Shires Associations of NSW (LGSA), Are Councils Sustainable? Independent Inquiry into the Financial Sustainability of NSW Local Government – Final Report: Findings and Recommendations, (P Allan, Panel Chair; L Darlison & D Gibbs, Panel members), LGSA, Sydney, 2006, <http://www.lgsa-plus.net.au/www/html/1389-local-government-inquiry.asp>, pp. 46-50, viewed at 25 July 2008.*

¹⁷ *Councils in the Hunter, Sydney and Wollongong areas do not provide water and sewage services.*

3 Role and functions of local government in NSW

Percy Allan also identified the most common coincidences of services between governments and the private sector is highlighted in the following table.¹⁸

Table 1: Extent of service delivery by Government and the private sector

Policy Area	Function	Local	State	Federal	Private
Law and Order	Police and courts	X	✓	✓	X
	Traffic management	✓	✓	X	X
	Private security	✓	X	X	✓
	Public health and occupational safety	✓	✓	X	X
Health Care	Hospital/acute care	X	✓	✓	✓
	Medical/dental services				
	Aged care	✓	X	✓	✓
	HACC	✓	X	✓	X
Community Services	Public Transport	✓	✓	X	✓
	Welfare Services	✓	✓	✓	✓
Environment	Industry regulation	X	✓	✓	X
	Private property regulation	✓	✓	X	X
	Natural environment	✓	✓	✓	X
	Fire services	✓	✓	X	X
	Waste management	✓	✓	X	X
Transport and roads	Local roads	✓	X	X	X
	Regional/major roads	✓ (RTA contractor only)			
	Air and rail transport	✓ (Regional airports only)	✓	✓	X
Planning	Individual properties	✓	X	X	✓
	Large developments			X	
	Specific infrastructure	X	✓	✓	✓
Public Utilities	Water and sewerage	✓ (Rural and regional only)	✓	X	X
	Energy	X	✓	✓	✓
	Telecommunications	X	X	✓	✓
Recreation and Cultural Services	Sporting facilities	✓	✓	X	✓
	Library, gallery, museums	✓	✓	✓	✓
	Cultural events	✓	✓	✓	✓
	Nature/park facilities				X
	Childcare services	✓	X	X	✓

Source: Adapted from Kasper (2005)

Such arrangements mean that councils such as City of Sydney have no jurisdiction or financial capacity to implement the transport initiatives contained in its 2030 Sustainable Sydney Plan.¹⁹ By way of contrast, Brisbane City Council a modern metropolitan council established in 1924 operates bus and ferry transport services (as well as water and sewerage services) and can influence transport planning and deliver transport initiatives for the city.²⁰

¹⁸ LGSA, *op.cit.*, p. 49.

¹⁹ Sydney City Council, *2030 Sustainable Sydney* <http://www.cityofsydney.nsw.gov.au/2030/theplan/Default.asp>, viewed at 22 August 2008.

²⁰ Brisbane City Council, *Annual Report 2006-07*, p. 9, http://www.brisbane.qld.gov.au/bccwr/lib264/annualreport06-07_final.pdf, viewed at 21 August 2008.



3.3 Revenue

Local government authorities undertake many critical local services which are funded through the following major sources:

- Council rates (majority of funding comes from this source which is rate pegged);
- User charges and regulatory fees (fees are generally capped in the *Local Government Act 1993* and the *Environmental Planning and Assessment Act 1979*);
- Funding from the Commonwealth Government in the form of Financial Assistance Grants and Specific Purpose Payments and from the State Government in the form of financial grants for specific purposes and services; and
- Other sources of revenue include interest income, dividends, and fines.

In the Productivity Commission's report on *Assessing Local Government Revenue Raising Capacity Research Report*²¹ stated that the revenue raising and fiscal capacity of local government in Australia that:

Capital city (CBD) councils have the highest fiscal capacity, principally attributable to high business income, revenue from parking and fines, and comparatively small resident populations.

Some remote councils also have high levels of fiscal capacity because of substantial business income from mining and petroleum activity in their area, although the application of rates to those activities is sometimes constrained by State government policies. However, there are other remote councils that have particularly low fiscal capacities, such as Indigenous councils.

*On average, urban developed, urban regional and rural councils have intermediate levels of fiscal capacity. Urban fringe councils have the lowest levels of fiscal capacity, on average.*²²

In general terms, the Productivity Commission assessed that that local government own-source revenue raised per person:

- Increases with personal and business incomes per person of the community;
- Increases with the length of roads, the number of properties rated and served, and whether water and sewerage services are provided;
- Increases in communities experiencing population growth; and
- Decreases with population size.

However, the Productivity Commission found that the NSW rate pegging policy and only partial reimbursement of concessions appear to dampen revenue raised by councils. That is:

New South Wales appears to be an exception in a number of areas. The rate of growth in rates revenue in New South Wales has been among the lowest of all jurisdictions over the past seven years, for which reliable data are available. New South Wales also has rate revenue per person below that of most other jurisdictions.

*Rate pegging in New South Wales appears to be restricting revenue raised from rates, notwithstanding scope for councils to seek variations to mandated rate increases. In addition, only partial reimbursement of concessions affects the revenue of local governments in New South Wales. The evidence suggests that the NSW Government has chosen to have a more significant constraining influence on the revenue raised by local governments than have other State governments.*²³

For Sydney, in order to meet the major challenges of the 21st century and to maintain its competitiveness there is a need to review the financial capacity and local government authorities to properly meet the growing demand for infrastructure and service delivery.

²¹ *Assessing Local Government Revenue Raising Capacity, Research Report, Canberra, 2008, http://www.pc.gov.au/_data/assets/pdf_file/0010/78706/localgovernment.pdf, 1 October 2008.*

²² *Ibid*, p. XXV.

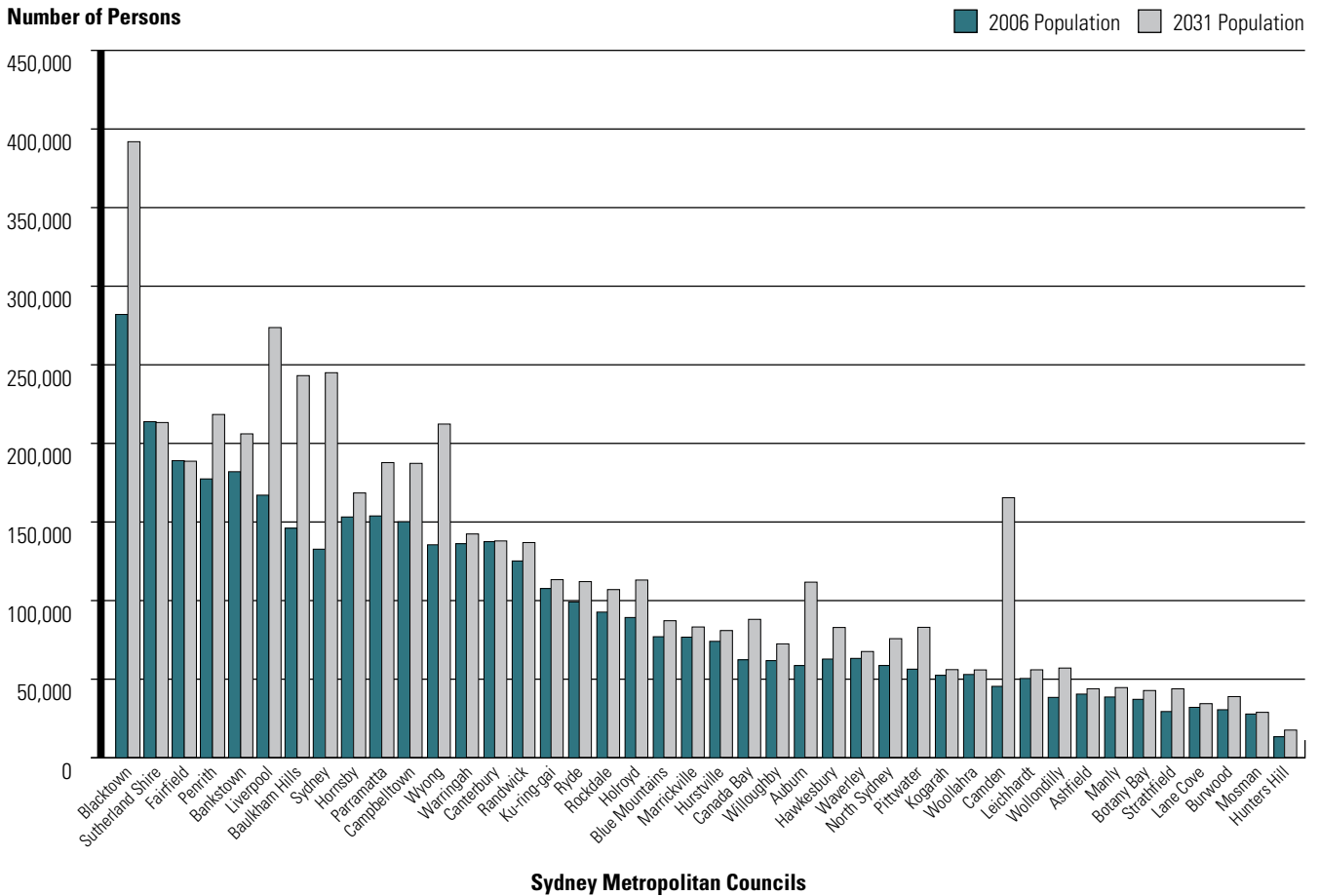
²³ *Ibid*, p. XXXIV.

3 Role and functions of local government in NSW

3.4 Governance

The future growth of Sydney will create major challenges to effectively respond to strategic planning decisions, local infrastructure requirements and coordinating local service delivery. For example, the extent of population change in some local government authorities shows both strong growth and stable growth up to 2031.

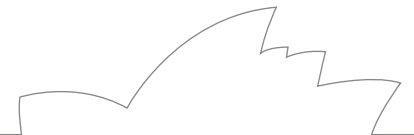
Figure 4: Population Projection Chart for Sydney Metropolitan Councils



Source: Department of Planning 2005, NSW SLA Population Projections, 2001 to 2031²⁴

²⁴ NSW Department of Planning, NSW SLA Population Projections, 2001 to 2031, detailed data excel spreadsheet, 2005, http://www.planning.nsw.gov.au/programs/services/population_projections.asp, viewed 21 August 2008.

Note this data is the latest information sourced from the NSW Department of Planning. Therefore, these figures do not reflect growth estimates presented in the recently released Metropolitan Strategy Sub-regional Plans.

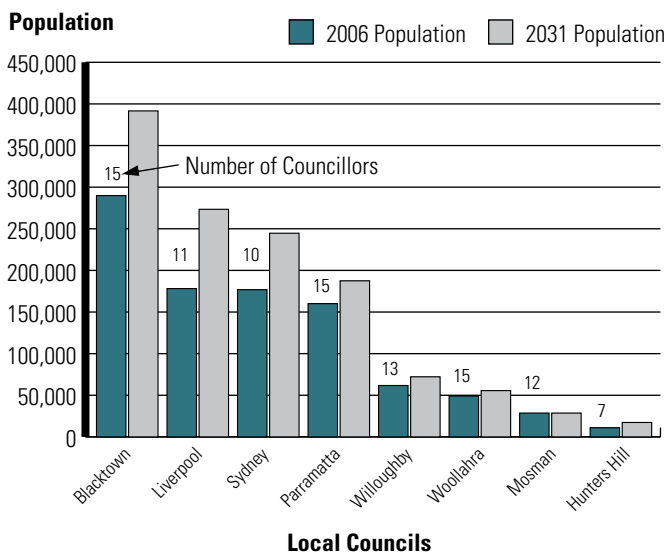


We have observed that there does not appear to be an organising principle supporting the governance arrangements for Sydney's local government authorities, or indeed a principle that supports a sophisticated global city such as Sydney. For example, there appears to be inequities in the extent of local representation for Sydney's residents. For example:

- Blacktown council has one councillor for every 18,801 residents;
- Sydney City council has one councillor for every 16,259 residents;
- Liverpool council has one councillor for every 15,822 residents;
- Hornsby council has one councillor for every 15,725 residents;
- Baulkham Hills council has one councillor for every 13,987 residents;
- Parramatta City council has one councillor for every 10,265 residents;
- Willoughby City council one councillor for every 4,789 residents;
- Woollahra council has one councillor for every 3,562 residents;
- Mosman council has one councillor for every 2,321 residents; and
- Hunter's Hill council has one councillor for every 2,020 residents.

In 20 or so years these big councils will continue to get bigger but the smaller councils will remain generally the same size. This fact points to a growing inequity as identified in the following figure.

Figure 5: Example of Sydney Metropolitan Councils



Source: NSW Department of Planning; NSW Department of Local Government; KPMG Analysis.

The figure above indicates that Woollahra council's population will grow from 53,000 to 55,000 and maintain its representation of 15 councillors, and yet Blacktown council's population will grow from 280,000 to 390,000 and it will also have 15 councillors. In 20 or so years these big councils will continue to get bigger but the smaller councils will remain largely the same size. This fact points to a growing inequity. This means that in the future Woollahra will have one councillor for every 3,708 residents and in Blacktown will have one councillor for 26,108 residents. There does not appear to be a reason why the current levels of representation for smaller local government authorities is sustainable for the long term.

4.1 Sydney the global city

Sydney is a global city and is a top ten global financial centre.²⁵ Sydney is also ranked number 10 in the world for liveability.²⁶ Sydney is therefore a serious competitor on the world stage with a population of 4.3 million, 41 councils and some 474 councillors.

By way of comparison, global cities such as New York City and Greater London have organised their governance into one unifying system of local government.

New York City has a population of over 8 million.²⁷ It has one council representing the City of New York comprising 51 members from 51 different Council Districts throughout the five boroughs of the Bronx, Brooklyn, Manhattan, Queens and Staten Island. The New York City Council is the law-making body of the City of New York. The Council monitors the operation and performance of city agencies, makes land use decisions and has sole responsibility for approving the city's budget. It also legislates on a wide range of other

subjects. The Council is an equal partner with the Mayor in the governing of New York City.²⁸

London has a population of over 7.5 million and the Greater London Authority (GLA) is made up of a directly elected Mayor – the Mayor of London – and a separately elected Assembly – the London Assembly. The London Assembly comprises 25 members and covers the City of London and all 32 London boroughs, also forming the London region of England.²⁹ The Mayor is London's spokesman. He leads the preparation of statutory strategies on transport, spatial development, economic development and the environment. He sets budgets for the GLA, Transport for London, the London Development Agency, the Metropolitan Police and London's fire services.

Sydney's relative global position with cities such as London, New York, Singapore, Los Angeles and Hong Kong is demonstrated in the following figure.

Figure 6: Global Cities



Source: Map obtained from City of Cities, Sydney Metropolitan Strategy.

A. ALPHA WORLD CITIES

1. London, Paris, New York, Tokyo
2. Chicago, Frankfurt, Hong Kong, Los Angeles, Milan, Singapore

B. BETA WORLD CITIES

3. San Francisco, Sydney, Toronto, Zurich
4. Brussels, Madrid, Mexico City, Sao Paulo
5. Moscow, Seoul

C. GAMMA WORLD CITIES

- 6: Amsterdam, Boston, Caracas, Dallas, Dusseldorf, Geneva, Houston, Jakarta, Johannesburg, Melbourne, Osaka, Prague, Santiago, Taipei, Washington
- 7: Bangkok, Beijing, Montreal, Rome, Stockholm, Warsaw
- 8: Atlanta, Barcelona, Berlin, Buenos Aires, Budapest, Copenhagen, Hamburg, Istanbul, Kuala Lumpur, Manila, Miami, Minneapolis, Munich, Shanghai.³⁰

²⁵ Sydney ranked number 10 in the latest Global Financial Centres Index. M Yeandle, A Knapp, M Mainelli & I Harris, *The Global Financial Centres Index 3*, City of London, London, 2008, <http://www.zyen.com/Knowledge/Research/GFCI%203%20March%202008.pdf>, viewed at 15 July 2008.

²⁶ Mercer LLC, *Mercer's 2008 Quality of Living Survey: Survey Highlights*, 2008, <http://www.mercer.com/qualityofliving> viewed at 15 July 2008.

²⁷ New York City Department of City Planning, 'Population', 2008, <http://home2.nyc.gov/html/dcp/html/census/popcur.shtml> viewed at 15 July 2008.

²⁸ The New York City Council, 'About the City Council', n.d., <http://council.nyc.gov/html/about/about.shtml> viewed at 15 July 2008.

²⁹ Greater London Authority, 'The London Assembly', n.d., <http://www.london.gov.uk/gla/assembly.js> viewed at 15 July 2008.

³⁰ Globalization and World Cities Research Network, 'Inventory of World Cities', n.d., <http://www.lboro.ac.uk/gawc/citylist.html> viewed at 15 July 2008.

Sydney, along with our major cities is part of the fundamental organising principle of Australia. In 2006, Australia's population reached 20.7 million people. More than two-thirds of people lived in major cities (68%) and the remainder (32%) regional and remote areas.³¹ Australian cities also produce most of the country's economic activity. It has been said that the eight capital cities have:

- 68 per cent of the total population;
- 63 per cent of small, medium and large businesses;
- 78 per cent of economic growth in the past five years;
- 70 per cent of Gross Domestic Product (GDP); and
- 66 per cent of total jobs.³²

In nearly all jurisdictions local government has been under continual review and reform of its structural arrangements. Recently introduced planning and local government reforms have the potential to have a positive impact on the operating environment for local government authorities in Sydney.

4.2 Trends in planning reform

Planning systems in Australia were established around the 1970's and since this time little regulatory change has occurred. There is evidence to suggest that these systems have not kept pace of economic growth and have aggravated capacity constraints in the State and national economy.

Not until early in this decade have Australian jurisdictions begun to recognise these factors. This has driven Governments to reform planning systems to be adaptive to enable greater economic activity rather than continuing with systems that are reactive to economic issues. Such reforms have targeted areas of strategic planning, plan making (such as local environment plans, structure plans and rezoning), development approval processes and land supply arrangements for housing and employment growth. Together these represent a transformation in the role and functions for local government as decision-making will increasingly be directed to strategic decisions rather than on low risk DAs.

4.2.1 Drivers for reform

Some of the drivers for reform have included:

- High holding costs to consumers and industry;
- Diminishing housing affordability;
- Poor responses to population growth and change; and
- Poor infrastructure coordination and planning.

High Costs

The costs associated with the delay in planning approvals include holding costs and these can be substantial and unnecessary costs for consumers and industry.

Anecdotal evidence on planning delays received by the Productivity Commission indicated that delays associated with obtaining planning approvals are distorting property values.³³ The Housing Industry Association (HIA) has criticised the slow assessment processes which add to development costs and therefore make projects unviable.³⁴

This anecdotal evidence is supported by the following statistics on the time taken for planning approvals:³⁵

- In NSW just 11 per cent of all development proposals can proceed as complying development, with the other 89 per cent forced to proceed as full-scale DAs.³⁶ For new homes, local government authorities take on average 78 days to process a single dwelling DA, while renovations and extensions take 57 days.³⁷

Low value DAs are among those not being processed within the required timeframes. The evidence from NSW suggests that the delays are systemic right across councils in NSW.³⁸

- In South Australia the average time for determining an application is 120 days.³⁹

It can take up to an estimated 13 years from the time the need for more land is identified (through population and dwelling projections) to houses being built and people moving in. Industry groups estimate that it takes up to 13 years just for the rezoning of land, development approval and construction.⁴⁰

31 Australian Bureau of Statistics (ABS), *Australian Social Trends 2008*, cat. no. 4102.0, ABS, Canberra, 2008, viewed at 21 August 2008.

32 City of Sydney, 'Council of Capital City Lord Mayors – A partnership between capital city Lord Mayors and the Australian Government', Media Releases, July 2007, http://www.sydneymedia.com.au/asset/2/upload/CAPITAL_CITIES_FACT_SHEET.pdf.

33 Productivity Commission, *Performance Benchmarking of Australian Business Regulation*, Research Report, Melbourne, 2007, p. 100, http://www.pc.gov.au/__data/assets/pdf_file/0016/37141/regulationbenchmarking.pdf, viewed at 15 July 2008.

34 HIA Economic Research, *HIA Media Release*, 6 March 2007, <http://economics.hia.com.au/media/abs%20building%20approvals%20-%20Jan%202007.pdf>, viewed at 15 July 2008.

35 *There are inconsistent reporting arrangements across the jurisdictions.*

36 NSW Department of Planning, *NSW Housing Code: Community Guide-Draft for Discussion*, p. 2,

37 *Ibid.*, p. 4.

38 NSW Department of Planning, *Local Development Performance Monitoring: 2005-06*, Department of Planning, Sydney, 2007, pp. 3-4, http://www.planning.nsw.gov.au/planningsystem/pdf/localmonitoring_report_jul07.pdf.

39 *Planning and Development Review Steering Committee, Report to the Minister for Urban Development and Planning for consideration by Cabinet, Planning and Development Review Steering Committee*, Adelaide, 2008, <http://www.planning.sa.gov.au/go/planningreview>.

40 Urban Development Institute of Australia (UDIA), *An industry report into affordable home ownership in Australia*, UDIA, 2007, p. 46, <http://www.udia.com.au/resource/Part%201.pdf>.

4 Context for change

The Brisbane City Council has assumed that holding costs were \$1,000 per week for an average small development and \$1,500 per week for an average large development. The Brisbane City Council estimated that, if development approval processing times could be improved by four weeks for a quarter of applications in South East Queensland, the industry and community would save \$89 million per year. Holding cost savings were estimated to account for around 56 per cent of this amount (\$49.8 million).⁴¹

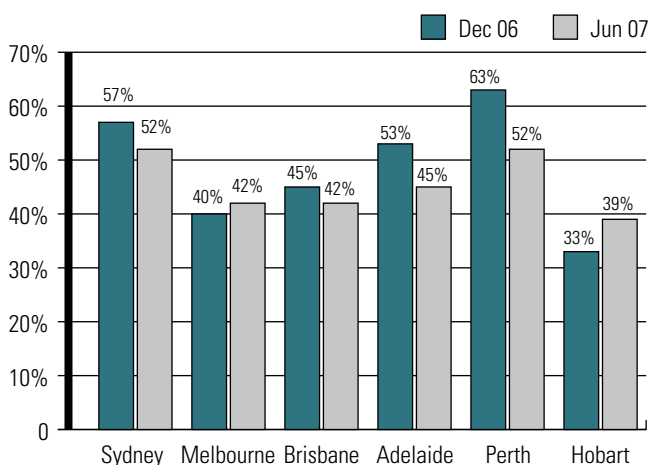
The HIA estimated that a one-month improvement in assessment times would save developers and industry some \$100 million.⁴²

Housing Affordability

Housing affordability is driven by macro economic factors such as interest rates, availability of debt, population growth and demographic change. Australian planning systems play a significant role in housing affordability through policies and practices, particularly in respect of the supply of land and efficiency of the development assessment process.⁴³ Allied with this is that if employment lands are not available at a competitive market price, businesses and industries will seek affordable opportunities elsewhere in the market place.

This feature is depicted in the figure below, which also shows that Melbourne and Hobart land values increased as a proportion of total prices during the same 6-month period. Even though this result shows a drop in land values as a proportion of house prices in the last 6 months, the overall long-term movement is still showing an obvious upward trending curve, resulting in increasing land values as a proportion of new house and land prices.

Figure 8: Land as a Proportion of Total Price

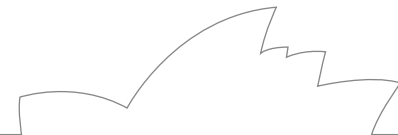


Source: HIA Economics Group, HIA-APM Land Monitor, iss. June, 2007, p. 2.

⁴¹ Productivity Commission, *Performance Benchmarking of Australian Business Regulation*, p. 73.

⁴² HIA Economic Research, *loc.cit.*

⁴³ K Barker, *Review of Housing Supply-Delivering Stability: Securing our Future Housing Needs*, Office of the Deputy Prime Minister, London, 2004, p. 6, http://www.hm-treasury.gov.uk/consultations_and_legislation/barker/consult_barker_index.cfm.



Population Growth and Change

Allied to these challenges are population growth and the changing age structure in Australia's population which will have a major impact on future housing demand and composition. Without clear signals on these requirements housing supply will be further constrained.

By 2056 the population of NSW is projected to reach 11.7 million people.⁴⁴ Sydney and Melbourne will remain the two most populous cities in Australia, with as much as 7.6 million people in Sydney and 7.9 million people in Melbourne.⁴⁵

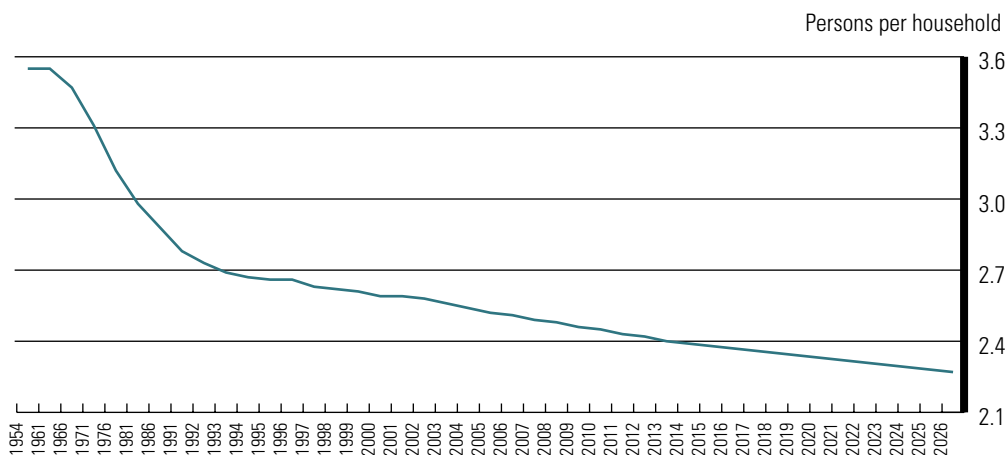
Australia's estimated resident population at June 2004 of 20.1 million people is projected to increase to between 30.9 and 42.5 million in 2056.

The ageing of Australia's population, already evident in the current age structure, will continue. This is the result of sustained low levels of fertility combined with increasing life expectancy at birth. The median age of Australia's population, 36.8 years at 30 June 2007, is projected to increase to between 38.7 years and 40.7 years in 2026 and to between 41.9 years and 45.2 years in 2056.⁴⁶

The age composition of Australia's population is projected to change considerably as a result of population ageing. By 2056 there will be a much greater proportion of people aged 65 years and over than at June 2007, and a lower proportion of people aged under 15 years. In 2007 people aged 65 years and over made up 13 per cent of Australia's population. This proportion is projected to increase to between 23 per cent and 25 per cent in 2056 and to between 25 per cent and 28 per cent in 2101.

Despite increasing net overseas migration, low fertility rates and decreasing mortality will mean that there will still be an overall rise in the average age of the population. This means that Australian households are changing considerably in number, size and composition. The average household size in Australia is projected to decline from 2.6 people per household in 2001 to between 2.2 and 2.3 people per household in 2026. Much of this decline can be attributed to a reduction in family size and the increase in one-person and two-person households.

Figure 9: Average Household Size



Source: Household and Family Projections, Australia (32360); ABS data available on request, Censuses of Population and Housing 1954-1981.

44 Australian Bureau of Statistics, Population Projections, Australia 2004-2101, cat. no. 3222.0, ABS, Time Series A, Canberra, 2008, viewed at 7 October 2008.
 45 Ibid.
 46 Ibid.

Infrastructure Coordination and Planning

Nationally infrastructure plays a significant role supporting the productive capacity of the economy. Total investment in economic infrastructure, comprising both public and private investment, has increased as a share of GDP over the past 20 years, from around 2.2 per cent of GDP in 1988 to around 3.2 per cent in 2007.⁴⁷ It has been said that 70 per cent of the total demand for economic infrastructure comes from Australian businesses that rely on these services to produce and market their outputs and to be leading edge innovators.⁴⁸

The Business Council of Australia has highlighted on a number of occasions its concerns about infrastructure bottlenecks in a range of areas, including bulk and container ports, intermodal transport hubs, rail freight networks, urban roads, urban and agricultural water supply and electricity networks.⁴⁹ Among other things it has attributed infrastructure bottlenecks to poor infrastructure coordination and planning.⁵⁰ The Export Infrastructure Taskforce has identified that infrastructure constraints in some areas of the economy are being driven by an increase in demand for Australia's resource commodities such as iron ore and coal and raised concerns regarding localised infrastructure bottlenecks.⁵¹

Other major demand issues for economic infrastructure arises from Australia's cities where the bulk of the population resides and where there are major transport hubs. Urban transport congestion has major impacts on the efficiency and the cost of freight and long distance passenger movements. The Bureau of Transport and Regional Economics (BTRE) projects that the avoidable social costs of congestion to the nation will double from \$9.4 billion in 2005 to \$20.4 billion in 2020.⁵² For Sydney this means a rise from \$3.5 billion (2005) to \$7.8 billion (2020).⁵³

The planning system plays a major role in facilitating infrastructure coordination and timely investment decisions for major projects through its strategic planning, land supply and development assessment processes. However, the concerns from commentators on the effectiveness of infrastructure investment to meet productivity requirements have led to the Council of Australian Governments (CoAG) establishing the following objectives:

- Better coordination of infrastructure planning and investment across the nation, across governments and the private sector; and
- To identify and remove blockages to productive investment in infrastructure.

In addition, CoAG has an interest in the streamlining of planning and approval processes and standardisation of project appraisal techniques.⁵⁴ It is understood these matters are being addressed through the work of Infrastructure Australia.⁵⁵

Recently, the Commonwealth Government announced that all Australian mayors and shire presidents will be invited to attend the first meeting of the Australian Council of Local Government at Parliament House at one-day meeting which will address issues of national and local significance including:

- Building national and local infrastructure to boost our economic capacity and improve the quality of life in our communities;
- Tackling immediate challenges facing major cities and growth corridors, including urban congestion, urban planning and design; and
- Steps towards constitutional recognition for local government.⁵⁶

4.2.2 Types of reform

In recent times, jurisdictions have embarked upon major planning reforms to address complexity, population growth and change and improve housing affordability. In doing so, there appears to be general consensus that planning processes need to focus on upfront strategic planning based on regions and subregions with a move away from applying resources to low value, low risk matters. This has meant that there is now a clearer definition of roles for the State and local government.

The following discussion provides an overview of some of the features of reforms in NSW, Victoria, South Australia and Queensland (the "States") while acknowledging some subtle differences.

Strategic Planning

A crucial component of effective planning systems is a focus of effort and resources on strategic planning which leads to greater certainty, greater predictability and, in turn, effectiveness in delivering outcomes that are consistent with the strategy and efficiency. It is also necessary to foster sustainable economic growth and the creation of vibrant communities. In practice, this means the resources of the system are focused on strategy, implementation, and resolving complex land use and development matters upfront, with less emphasis on resolving these matters on a site-by-site basis through development assessment and dealing with assessing minor low-risk matters.

All States have moved towards implementing strategic planning for major cities and regions setting targets to manage growth and change and provide for vibrant and prosperous communities. The following are just some examples.

47 Series based on Coombs and Roberts (2007) revised to include updated data (ABS cat. no. 8762.0) and includes: bridges; electricity generation, transmission and distribution; harbours; pipelines; railways; roads, highways and subdivisions; sewerage and drainage; and telecommunications. Note this reference was sourced from 2008-09 Australian Budget Papers, Budget Paper 1, Statement 4: Boosting Australia's Productive Capacity: The Role of Infrastructure and Skills, http://www.aph.gov.au/budget/2008-09/content/bp1/html/bp1_bst4-03.htm#P62_15304.

48 Business Council of Australia (BCA), *Infrastructure Action Plan for Future Prosperity*, BCA, 2005, <http://www.bca.com.au/Content/101265.aspx>, p. 9.

49 BCA, *Infrastructure: Roadmap for Reform*, BCA, 2007. <http://www.bca.com.au/Content/101167.aspx>; *Id*, *Infrastructure Action Plan for Future Prosperity*.

50 For example see BCA, *Infrastructure Action Plan for Future Prosperity*, p. 6.

51 Exports and Infrastructure Taskforce, *Australia's Export Infrastructure, Report to the Prime Minister, Exports and Infrastructure Taskforce*, Canberra, 2005, <http://www.abareconomics.com/infrastructure/pdf/Report.pdf>.

52 Bureau of Transport and Regional Economics (BTRE), *Estimating urban traffic and congestion cost trends for Australian cities, Working paper 71*, BTRE, Canberra, 2007, <http://www.bitre.gov.au/publications/49/Files/wp71.pdf>, p. xv.

53 *Ibid*.

54 Council of Australian Government, *Council of Australian Government's Meeting Communiqué-20 December 2007, 2008*, <http://www.coag.gov.au/meetings/201207/index.htm>.



Sydney Metropolitan Strategy: City of Cities; A Plan for Sydney's Future

The *Sydney Metropolitan Strategy* is a broad framework to secure Sydney's place in the global economy by promoting and managing growth and guiding the process of planning for where an additional 1 million people will live and work in Sydney to 2031. This strategy underpins infrastructure planning and provides the foundation for a clear line of sight to recently introduced subregional plans, centres plans and local environment plans.

To cater for this growth the strategy is planning for:

- 640,000 new homes;
- 500,000 more jobs are being planned for over the next 25 to 30 years;
- 7,500 hectares of extra industrial land if current trends continue;
- 6.8 million square metres of additional commercial floor space; and
- 3.7 million square metres of additional retail space.

Melbourne 2030 Metropolitan Plan

Melbourne 2030 is a plan for the growth and development of the metropolitan area. The main thrust is to continue to protect the liveability of the established areas and to increasingly concentrate major change in strategic redevelopment sites such as activity centres and underdeveloped land. While a good supply of land for development will be maintained in growth areas, over time there will be a shift away from growth on the fringe of the city.

Six Implementation Plans support *Melbourne 2030* – planning for sustainable growth. The plans cover these topics: urban growth boundary, growth areas, housing, activity centres, green wedges, and integrated transport and implementation plan statements.

A Plan for Adelaide

The South Australian Government has recently announced it will put in place a 30-Year Plan for Adelaide to guide the growth and development of the Greater Adelaide Region. The Plan will include directing growth into selected transport corridors and new 'transit oriented developments', as well as providing a guaranteed 25-year supply of broad acre land for structure planned fringe suburban growth.

The South East Queensland (SEQ) Regional Strategy

The SEQ Regional Plan provides the framework for managing growth, change, land use and development in the SEQ region to the year 2026. A key objective underpinning the Regional Plan is to ensure future growth and change is managed in the most sustainable way possible. Urban growth areas are distributed across the region to facilitate choice, assist housing affordability and strengthen regional identity. Any plans, policies and codes that relate to the SEQ region being prepared or amended by State agencies must reflect and align with the Regional Plan.

Streamlined Plan Making

The spatial expression of planning policies occurs through planning instruments and schemes. The development of local planning schemes is generally the responsibility of local government, and over time this led to inconsistency and complexity in planning law.

In response, the eastern seaboard States have been moving towards:

- Rationalising planning instruments;
- Increased State involvement in the preparation and direction of planning schemes in order to increase standardisation in the drafting of schemes;
- Streamlining the re-zoning (plan amendment) process to facilitate development and reduce approval times; and
- Providing a clear line of site between strategic planning documents such as metropolitan and regional plans.

This process is enabling greater certainty, predictability and efficiency for the community and development industry.

In NSW environmental planning instruments are the legal and spatial expression of planning policy and are made by the Minister or the Governor. The Act prescribes consultation processes for the preparation of planning instruments. In 2005, reforms were implemented to standardise the form and content of local environmental plans through the preparation of a LEP template. The most recent NSW planning reforms seek to address delays, complexity and confusion in the plan making process by:

- Removing regional environmental plans as an additional, unnecessary layer of environmental planning instruments; and
- Increasing efficiency in the local plan making process by establishing a Gateway process that ensures that local environmental plans are only prepared if they are credible and agreed in principle with the Department of Planning. An assessment process is also determined at this point that reflects the complexity and impacts of the specific proposal.

⁵⁵ *Infrastructure Australia Act 2008, No. 17, 2008.*

⁵⁶ *Joint Media Release with the Minister for Infrastructure and Local Government, Anthony Albanese, First Meeting of Australian Council of Local Government: A New Partnership with Local Government, Canberra, 18 September 2008, http://www.pm.gov.au/media/Release/2008/media_release_0479.cfm.*

⁵⁷ *Department of Planning and Community Development, Planning – A Short Guide, 2008, [http://www.dse.vic.gov.au/CA256F310024B628/0/2F7B0FF8F3E81A4CCA25734C0080F86F/\\$File/Planning+_+a+Short+Guide+2007.pdf](http://www.dse.vic.gov.au/CA256F310024B628/0/2F7B0FF8F3E81A4CCA25734C0080F86F/$File/Planning+_+a+Short+Guide+2007.pdf), p. 27.*

4 Context for change

Victoria has had a single set of planning schemes for many years which incorporate State and local policies and controls. Local planning policies and local planning provisions must be prepared in a form consistent with the Victorian Planning Provisions, and have policy content that is consistent with the State Planning Policy Framework, which are both made by the Victorian Minister for Planning. In Victoria, the process for making and amending planning schemes is set out in the *Planning and Environment Act 1987*. The process must be followed exactly and includes public consultation, review by an independent panel, and Ministerial consideration and approval. It usually takes between six and eight months for amendments to be prepared, considered and approved.⁵⁷

In South Australia, all state and local development assessment policies and controls are integrated into a single development plan for each council area. Recent reforms have involved developing standard provisions for development plans to increase their consistency. South Australia has also just announced further changes to improve strategic planning at the State and regional levels and ensure that those strategic policies are reflected in the planning controls within development plans. It has also announced changes to the re-zoning process for State significant projects, which will allow the re-zoning and development approval to be granted in a single step.

In Queensland, under the *Integrated Planning Act 1997* local government authorities prepare planning schemes for the Minister's approval. The Minister may also make a planning scheme if the local council fails to comply with a Ministerial direction. The process of making amendments to planning schemes allows the Minister to consider the proposal early in the process. This consideration includes whether the proposal complies with State interests and policies and to determine the appropriate plan making process. The Minister may determine that public consultation is not required if there has already been public consultation on the matter and the proposal reflects a recommendation of a regional planning advisory committee; a regional or State plan or policy, a previous decision on a DA or an infrastructure charging policy.⁵⁸

As part of the foreshadowed planning reforms, the Queensland Government has committed to reforming the plan-making process by clarifying State policy and interests and standardising the form and content of planning schemes. A commitment has been made that standardising council planning schemes will not reduce flexibility as councils will have the ability to adapt the schemes to their local areas. The standardised council planning schemes will involve:

- Specifying a standard structure/format that incorporates strategic elements, definitions, zones, and levels of assessment to reduce regulatory burden and provide greater consistency between council planning schemes;
- Infrastructure planning provisions; and
- Certain development assessment codes.

Clear Roles for State and Local Government

Ensuring there are clear and transparent roles for State and local governments in the planning system is essential to avoid confusion, duplication and inefficiency. Consequently States are moving towards a leadership role in setting the strategic direction with local government performing a key role at a regional and sub-regional level to implement and adapt Statewide policies to suit local and regional conditions.

Consequently, the States are moving towards reforms that enable the States to provide for strategic up front planning and become the primary decision maker for State and regional development, or high value, high-risk developments. The reforms maintain the important role local government provides in making development decisions at the local level through preparing local planning policies and controls that implement State and regional objectives/policies and assessing development. There are some differences between States in the types of matters that are considered to be State significant and the assessment process.

Major Project Developments

Implementing efficient and effective assessment of major projects is critical for economic prosperity and the achievement of liveable and sustainable communities. Across all jurisdictions, reforms are being pursued that seek to:

- Maximise transparency, accountability and certainty;
- Deliver streamlined and timely assessment processes; and
- Are proportionate to the scale of risk and impact of the development.

All States have provisions which enable the Minister responsible for planning to 'call in' a development or for the State (e.g. through a Commission) to deal with developments of State and regional significance. Recent reforms in this area aim to strengthen and/or clarify the State's, or Minister's power to intervene, simplify and streamline the development assessment processes and establish panels and bodies to facilitate major projects.



In NSW, key reforms dealing with major development and planning were enacted in the *Environmental Planning and Assessment Amendment (Infrastructure and other Planning Reform) Act*.

The major development provisions achieved greater up front certainty through the introduction of concept approvals for major projects, created a single assessment and approval system, which removed the need for up to 15 different approvals and licenses, removed the need for concurrences for major development and abolished the stop-the-clock provisions which had contributed to delays in assessment. They also facilitated critical infrastructure provision and introduced independent hearing and assessment panels to strengthen the assessment process.

The accompanying *State Environmental Planning Policy (Major Projects) 2005* consolidated into one instrument major projects for which the Minister is the determining authority which had been spread over 85 planning instruments, directions and declarations.

The latest reforms in NSW will establish a new Planning Assessment Commission that may be delegated the Minister's decision making powers in relation to major projects (except critical infrastructure projects), or regional projects where no regional assessment panel is in place. Delegation of around 80 per cent of major projects is expected.

In Victoria, the Minister for Planning has the power, under Section 97 of the *Planning and Environment Act 1987*, to 'call in' a planning permit application being considered by a responsible authority, if the Minister considers it raises a major issue of policy, the application has been unreasonably delayed and based on other criteria.

In response to concerns that major projects were being delayed, the Victorian Government established the Priority Development Panel (PDP) to provide independent advice to the Minister on major project developments. The PDP is an advisory body, not a decision maker. Its role is to:

- Identify ways to provide faster approval processes for developments of State or regional significance;
- Work closely with project proponents and local government to speed up decision-making; and
- Provide expert advice to assist in resolving issues and facilitating strategic planning outcomes.

The Victorian Government has also announced a review of the *Planning and Environment Act 1987* which may allow further consideration of major projects development.

In South Australia, the recently announced planning reforms aim to:

- Better define State significant development in the *Development Act 1993* and through a policy that specifies the types of projects and developments that are of importance to the State, namely those affecting the economic, social and environmental interests of the State or regions;
- Strengthens the Minister's powers to 'call in' projects and developments to declare an entire area a State significant area and deal with the full range of planning and development issues for the site;
- Allow re-zoning and development assessment to occur in one, streamlined step; and
- Improve the integration of other consents and approvals into the planning approval process.

It is important to note that South Australia has had a strong system for the assessment of Crown development for some time. This has involved the exemption of many Crown developments from approval under the *Development Act 1993* and the associated referrals and concurrences. Instead these matters have been assessed through a streamlined process under their own legislation (eg *Highways Act*).

Queensland planning reforms propose to give greater flexibility for the Minister to consider and decide a called-in application on the basis of State interest grounds or to undertake a full assessment as if the Minister is the assessment manager.

Risk Based Assessment

The States are moving towards regulation that is more strategic, provides up-front assessment and is risk-based which in turn provides greater certainty and efficiency in the planning system. KPMG has observed that the level of assessment is gearing towards the extent of risk and potential impact of proposed land use changes or the risk and potential impact of specific developments.

Accordingly, the States have commenced or have implemented reforms that provide:

- Merit and impact assessments for high-end developments or major projects that pose high risk and significant impact; and
- Exempt provisions, self-assessment and/or code based assessment for low-end or local developments that pose little or no risk and impact if they are permitted in the zone and meet the relevant development standards.

In Queensland, RiskSmart is a development assessment regime for low risk development. This regime streamlines processing of low-risk applications and in so doing:

- Reduces development assessment timeframes;
- Provides confidence about council decisions; and
- Improves the transparency of application assessment.

Expansion of Complying Development for Local Developments

The expansion of complying development is a core strategy for achieving risk based development assessment for low value, low risk developments to enable greater economic efficiency. Complying development is firstly consistent with the relevant zone, which was determined through the preparation of the planning scheme that included public consultation. It is then assessed through a streamlined process against pre-determined and measurable quality design development standards that are set out in Development Codes (that are also subject to public consultation).

The NSW reforms include measures to expand the range of exempt and complying development in order to ensure that relatively low value; low risk developments are assessed in an efficient and effective way. Presently, 62 per cent of all DAs are for residential alterations and additions, or single houses and the vast majority of these applications are for work valued at less than \$1 million. Following the proposed reforms, single storey houses on lot sizes over 600 square metres, internal alterations for two-storey houses, and internal fit-outs and change of use for certain commercial and industrial uses will be able to be assessed as complying development. As such, the proportion of applications considered as complying development is expected to increase from 11 per cent, to 30 per cent in two years and 50 per cent in four years.⁵⁹

In Victoria, planning permits for most single detached have never been required for the construction and alteration of certain residential dwellings. Specified residential development that complies with measurable standards in the ResCode has been dealt with through the building approval process, and compliance with the ResCode is assessed at this stage. The Victorian Planning Provisions provide that a planning permit is not required for work on a single detached dwelling on lots over 300 or over 500 square metres, depending on the municipality. The report "Cutting Red Tape" flagged further reforms to introduce a faster code-based assessment process for those developments that still require a planning permit. Work is underway to evaluate a code-assess process for buildings and works applications in industrial or commercial zones, and residential extensions captured by the small lot control in residential zones.⁶⁰

South Australia has recently announced reforms to dramatically extend the types of development that may be assessed as complying development. Like NSW, South Australia has to date required many low value applications for residential development to undergo full merit assessment. Following the implementation of the changes, work to new detached, and semi-detached and dual occupancy dwellings will be assessed as complying development. This will increase the proportion of matters assessed as complying development from 13 per cent to between 50 and 70 per cent.

Queensland has had a system for some years that allows local planning schemes to establish the appropriate assessment levels for all forms of development. A considerable amount of small-scale development is classified as "self-assessable" and does not require consent from Council. Queensland has also announced reforms to more consistently fast track the assessment of low risk residential development across the State (RiskSmart). It is proposed to standardise planning schemes, definitions, zones and development codes, resulting in approvals for housing being determined within five days. This is expected to free up 50 per cent of resources and capacity in the system within four years.⁶¹

Development Codes

Putting in place robust and transparent development codes is an essential pre-requisite for increasing complying development and reducing red tape in the planning system.

In NSW, planning reforms include measures to prepare new NSW Housing and Commercial Development Codes that will allow more applications to be assessed as complying development within 10 days. The Draft Codes contain objective and measurable standards that developments must meet if there are to be assessed more quickly as complying development.

Victoria and Queensland have already implemented similar Codes for single dwellings, and a Residential Development Code is currently under development in South Australia.

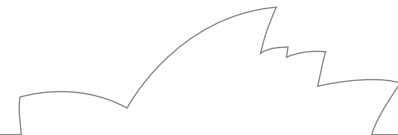
Enhancing Private Certification

An important aspect of reform is to enable private certifiers to certify low-risk development against measurable, objective standards in a transparent and accountable way. Increasing private sector involvement in the planning system has the capacity to lessen the burden on government assessment authorities and to free up resources for better strategic planning and assessment of more complex development. A key focus of reform effort has been to foster private certification while ensuring there is accountability in the system and that the quality of development is not undermined.

⁵⁹ Minister's Second Reading Speech, 15 May 2008.

⁶⁰ Department of Sustainability and Environment, *Cutting Red Tape*, 2006, [http://www.dse.vic.gov.au/CA256F310024B628/0/5B31F7E058D49820CA2571D50003CD82/\\$File/Cutting_red_tape+report.pdf](http://www.dse.vic.gov.au/CA256F310024B628/0/5B31F7E058D49820CA2571D50003CD82/$File/Cutting_red_tape+report.pdf).

⁶¹ Qld Department of Infrastructure and Planning, 'Presentation to the Local Government Association Qld Symposium', 2008, http://www.lgaq.asn.au/imported/LGAQ_LIBRARY/LGAQ_FACILITY/Corporate/Conferences,%20Events%20and%20Seminars/Symposium%202008%20presentation%20DIP%20forum%2018%20Apr%202008.pdf.



In NSW, a private certifier can approve certificates such as compliance and construction certificates, complying development certificates, and conduct mandatory inspections of buildings. The most recent planning reforms include new legislative provisions to clarify the role of councils and certifiers, and tighten and further strengthen the accountability of the certification system. These changes will support the extension of complying development to more DAs, delivering a faster assessment process for certain types of low impact residential, commercial and industrial development.

In Victoria, private building surveyors certify compliance with the Building Code and certain ResCode requirements for specified classes of development as part of granting a building permit.

In Queensland, the *Integrated Planning Act 1997* allows private certification of development requiring code assessment, i.e., the assessment of development against standards prescribed in a code. The private certification provisions allow accredited practitioners to assess DAs for building works in direct competition with local government, applying the standards in the Standard Building Regulation.⁶²

Reducing Referrals and Concurrences

A common feature of all Australian planning systems is the practice of referring certain applications to other State government agencies for consideration, advice and concurrence. The objective of referrals is to ensure that expert advice is taken into account in the assessment of environmental and other impacts of development. This practice has however, been identified as a key source of inefficiency and delay across most planning systems and in recent times reforms have been focused on reducing the number of referrals and improving the efficiency of this process.

In NSW, planning reforms include measures that will further reduce the number of referrals and concurrences on DAs. The current review has identified 1,100 concurrences that will be deleted, on top of the previous removal of 1,130 concurrences. These will leave only 140 concurrences. For those remaining concurrences, the Bill contains provisions to remove all fixed statutory referrals and concurrences except for threatened species. For threatened species, the timeframe for providing a concurrence is reduced to 21 days. Once the Bill has passed, further regulatory changes will be made to reduce the time all agencies have to provide their concurrence to 21 days.

Queensland, South Australia and Victoria all have prescribed referral authorities, and all are understood to be in the process of streamlining their referral arrangements. South Australia has set an initial target to reduce referrals by 35 per cent by December 2008. The timeframes for considering referrals will also be reduced. In Queensland, in 2007 a target was set to reduce State agency referrals by 40 per cent within four years.⁶³

Expert Review

Incorporating expert advice into the assessment of development is a crucial element of sound, evidence based decision-making. It is a way of ensuring that the positive impacts of development are maximised and that the adverse impacts are appropriately understood and mitigated through the assessment process.

In NSW, planning reforms include several measures to strengthen confidence in decision-making and increase accountability, through incorporating expert review of applications into the assessment process and enhancing rights of appeal against decisions. Specifically, the reforms include:

- Establishing a new Planning Assessment Commission that may be delegated the Minister's decision making powers in relation to major projects (except critical infrastructure projects), or regional projects where no regional assessment panel is in place. Delegation of around 80 per cent of major projects is expected. The Commission is to comprise up to nine members with expertise in planning or related fields;
- Establishing new Joint Regional Planning Panels to determine projects of regional significance, particularly where the relevant local government authorities have an interest in the proposal. Panels will have five independent experts as members: three State appointed members and two appointed from the relevant local council. The types of development to be dealt with by the Panels will be spelt out in a State Environmental Planning Policy; and
- Clarifying and standardising the use of Independent Hearing and Assessment Panels. These Panels are advisory and may be established where a council elects to do so, or where prescribed by an environmental planning instrument. Appropriate accountability measures will apply and regulations made to govern their procedures and other matters.

⁶² *Integrated Planning Act Explanatory Notes*, p. 6.

⁶³ *Ibid.*

4 Context for change

Victoria has an established system of planning panels, which may consider both planning policy and development assessment matters. Panels are appointed by the Minister for Planning to give independent advice to the planning authority and/or Minister about a proposal and about the submissions referred to it. They are usually comprised of one or more members, depending on the complexity or significance of the matter and the type of issues that have been raised. The report issued by the Panel will make recommendations (not decisions) for consideration by the relevant planning authority and/or the Minister.

The Victorian Government has recently announced its intention to introduce Development Assessment Committees (DACs), in partnership with local government⁶⁴, to make planning permit decisions in relation to areas and matters of metropolitan significance, including Melbourne's 26 Principal Activity Centres. Criteria will be developed that specify which areas and matters will be considered as having State, regional or metropolitan significance. When fully introduced, it is anticipated that 3-5 DACs will operate in the metropolitan area, grouped on sub-regions of councils. Each DAC will comprise: one independent chair, two standing State Government nominees, and two local government nominees.

For some time South Australia has made use of Independent Assessment Panels for local development and a Development Assessment Commission for State significant projects (which provides advice to the Minister). The Minister has the ability to list in the regulations the developments that are to be assessed by the Commission. South Australia's recently announced reforms also include a commitment to consider the establishment of regional panels.

Adequate and Timely Land Supply

Land supply is fundamental to ensuring the social and economic future of Australian States and Territories. Improving the efficiency of the land supply process creates greater certainty, can cut rezoning timeframes, cut processing costs (which are passed to the average consumer) and cut holding costs for individuals and businesses. Accordingly the States are moving towards establishing authorities to provide new land supply and providing structure plans.

Over the past few years, NSW has reformed its approach to land supply with the aim of increasing the supply of land for development. While this is not a feature of the current round of legislative reform, it has previously been the focus of reform attention and continuing effort in implementation through the Growth Centres Commission and the Metropolitan Development Program.

Some common reforms that are being implemented across other jurisdictions, such as Victoria, Queensland and South Australia include:

- Driving the development and delivery through robust strategic planning at the State and regional level and a Metropolitan Development Program that identifies and tracks land for urban release;
- Undertaking detailed Structure Planning at the regional level to resolve land use issues and streamline the re-zoning and development approval process; and
- The creation of dedicated land management agencies to assemble and redevelop land as required, such as the Growth Areas Authority in Victoria and the Urban Development Authority in Queensland.

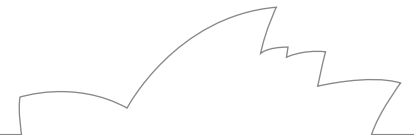
4.3 Trends in local government reform

Over the years, local government in Australia has undertaken continual reform to keep pace of the social and economic changes in Australian society. The following provides an overview of some of these recent reform initiatives.

4.3.1 Drivers of reform

Throughout Australia, reform of local government structures has been taking place to remove structural inefficiencies to enable more responsive and professional local governments.

In the early to mid 1990s, South Australia, Victoria and NSW completed significant reforms to improve the efficiencies and sustainability of their local government systems. These reforms were characterised by the need to improve the medium to long-term sustainability of local government. In the large majority of local government reform processes, a non-voluntary approach was adopted.



4.3.2 Types of reform

Queensland

Queensland has been the most recent State or Territory in Australia to commence a whole-of-State reform of its local government system. This was undertaken parallel to recent dramatic changes in the state's economic growth, regional population growth, demographic change, infrastructure requirements, coping with the potential impacts of climate change and responding effectively to sustainable development.⁶⁵

In 2005 the Local Government Association of Queensland instigated the *Size, Shape and Sustainability* (SSS) initiative. This was a voluntarily self-determination of what structural reform options best provide for its long-term sustainability. The SSS process had bi-partisan support in the Queensland parliament and The Local Government and other *Legislation Amendment Bill 2006* was introduced to implement the legislative requirements of the SSS process.

A major feature of the initiative was the 10-year financial sustainability forecasts which involved the assessment of the capacity of each local government to meet its community commitments in the short to medium and long-term. The Queensland Treasury Corporation (QTC) reviews of the financial sustainability forecasts concluded that approximately 43 per cent of all Queensland councils will be rated as having a weak or worse financial outlook. The key financial challenges faced by the local government sector included:

- The impact of depreciation, including depreciation charges, the appropriateness of the useful life estimates valuation of assets and residual value estimates;
- The financial focus of the majority of local governments on the current year (cash accounting approach);
- Longer term financial forecasting (i.e. greater than three to five years) is generally poor (lack of appropriate tools and processes);
- Many councils do not have integrated Asset Management Plans connecting future capital expenditure and asset management estimates with financial forecasting;
- Historically many local governments have not recognised their 'true' underlying costs, with revenue increases often based on the consumer price index;
- Asset maintenance often becomes an early casualty when budgets are tight; and
- Business case development (including risk assessment and whole of life costing) for major projects is sporadic at best.

Since this report the Queensland Government announced on 17 April 2007 reforms to local government structures and also established an independent Local Government Reform Commission to guide the reform process. In a report provided to the Government on 27 July 2007, the Commission stated that the reform was about ensuring "strong balance sheets, together with the capacity to absorb shocks associated with significant change or unexpected events". The ability to attract and retain management and other expertise is essential if councils are to equip themselves to handle such eventualities. They must also be of a size and scale sufficient to:

- Remove inefficiencies resulting from duplication and sub-optimal use of assets;
- Enable growth of knowledge, development of capacity and fostering of innovation; and
- Provide effective political leadership to and advocacy for, communities facing fast-paced change."⁶⁶

These factors lead to the following recommendations:

- Consolidation of Queensland councils through amalgamation from 157 to 73 (including Brisbane City).
- South East Queensland councils be consolidated from 17 to 10 councils (including Brisbane City).
- No boundary change to 37 council areas (including Brisbane City).
- No amalgamation of large western councils due to the inability of structural reform to lead to any significant service delivery or capacity benefits.
- Formation of the Torres Strait Island Regional Council and the Northern Peninsula Area Regional Council involving Aboriginal and Torres Strait Island councils.
- No amalgamation of Aboriginal and mainstream councils at this time, due to the unique features of Aboriginal councils that require further investigation.
- Giving councils the ability to petition the State Government to alter the name of a new local government area proposed by the Commission.
- Changing the electoral arrangements of councils (with the exception of Torres Strait Island Regional Council and Northern Peninsula Area Regional Council) to conduct their election on 15 March 2008 on an undivided basis.
- Changing the electoral composition of councils to reduce the number of councillors in Queensland from 1,250 to 526, a reduction of 724, to emphasise the need for stronger strategic leadership to local government in Queensland.

⁶⁵ Local Government Reform Commission, 'A summary of the Commission's views and recommendations', Report of the Local Government Reform Commission – Volume 1, 2007, http://www.localgovernment.qld.gov.au/docs/local_govt/stronger-councils/04_PreparingLGfor21stCentury.pdf.

⁶⁶ *Ibid*, p. 13.

4 Context for change

- Financial sustainability reviews be undertaken on a regular basis for Queensland councils.
- Provision of State Government assistance to manage transition and early implementation of the reforms and build the capacity of councils that have existing capacity or sustainability issues.

The Queensland Government accepted these recommendations (albeit under some community pressure⁶⁷) and took the boundary recommendations, which reduced the number of councils in Queensland from 157 to 73, to the council elections on 15 March 2008. This reform compliments the governance for the City of Brisbane which is one council for the Brisbane metropolitan area which was some 20 local government authorities and joint boards prior to the introduction the *City of Brisbane Act* in 1925.

Legislative reform is also proposed the *Local Government Act 1993* to give effect to the recommendations.

New South Wales

Since the reforms in the 1990's which culminated in the introduction of the Local Government Act 1993 (NSW), the NSW Government announced the program in September 2003 to improve the delivery of local government services to local communities.⁶⁸ This has included:

- Regional reviews to examine the options for communities considering reform across a number of local government areas and for other reform initiatives such as promoting better practice reviews; and
- The Boundaries Commission to examine and report on proposals developed by each regional review and conduct formal inquiries and community consultations.

Since February 2004, the total number of councils in NSW has been reduced from 172 to 152. This includes the 22 new councils constituted as a result of amalgamations and boundary changes.

The second phase of the reform program has focused on promoting better practice and encouraging resource sharing and strategic alliances which are aimed at achieving better service outcomes and more efficient service delivery for their communities.

There are now twenty-one alliances complementing the work of regional organisations of councils (ROCs) and other forms of partnerships around the State. As well as alliances advising that they are helping councils to achieve a range of financial savings, councils have advised they are able to improve their service standards and complete projects that would not otherwise have been achievable.

Better practice are reviews undertaken by the NSW Department of Local Government have a number of objectives including:

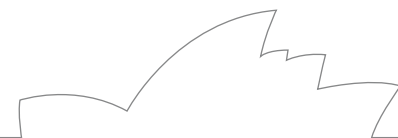
- Promoting continuous improvement and greater compliance;
- Promoting good governance and ethical practice;
- Identifying innovation and sharing good practice;
- Helping to more effectively identify legislative and policy issues requiring attention;
- Providing an early intervention option for councils experiencing operating problems; and
- Helping councils assess their performance in key areas and focus attention on key priorities.

So far, the reviews have found that:

- Most councils are able to exhibit some degree of strategic focus, but it is at times poorly articulated and not effectively documented or communicated to the community.
- Most councils reviewed have at least the basic elements of a good governance framework in place, and many councils respond to the review process by actively trying to "fill the gaps" in their framework.
- Weaknesses are still evident in the areas of risk management and complaints handling.
- Enforcement policies and practices are a continuing concern.
- Efforts to implement asset management systems are more widespread, but many councils have a long way to go.
- Business planning for council business activities is not as widespread as it should be.
- Community land management is often poor, and surprising numbers of councils still have a lot of community land that is not subject of plans of management many years after the requirement was introduced.
- Smaller councils are particularly impressive in their efforts to fill any gaps in human service provision in their communities.
- Workforce policy frameworks are of a good standard in most councils.
- There is evidence councils are recognising the need for improved workforce planning.

67 K Roberts, 'QLD council amalgamations pose risk for Labor', transcript from *The World Today*, 2007, <http://www.abc.net.au/worldtoday/content/2007/s1925857.htm>, viewed 21 August 2008.

68 This section has been sourced from the NSW Department of Local Government, *Annual Report 2006-07, 2007*, http://www.dlg.nsw.gov.au/dlg/dlghome/documents/Reports/DLG_AR_2006-07.pdf, p. 6.



Victoria⁶⁹

In the early 1990s, Victoria reduced the number of its local governments from 210 municipalities to 78, through an intensive 12-month restructure⁷⁰ and together with rate market-based governance models underpin capping and the introduction of compulsory competitive tendering, among others, these initiatives. Continual efficiency reform can be seen through the adoption of the Best Value Program via the *Local Government (Best Value Principles) Act 1999 (Vic)* which is aimed at quality and cost standards.

In June 2006, the Municipal Association of Victoria hosted the second Future of Local Government Summit. The aim of the summit was to identify strategies for local government to embrace reform and improve innovation. The summit identified a roadmap for the future of local government and included principles such as:

- Global forces and events in Australia have presented local government with the opportunity of a lifetime, which local government must use to its advantage; and
- Local government must demonstrate efficiency and effectiveness.

In addition, the summit established that individual state local government associations and the Australian Local Government Association (on an opt-in basis) should progress development of three 'tools' for councils, namely:

- A regional cooperation framework to enable joint collaborative projects such as shared services and regional collaboration;
- A sector accountability framework that identifies community needs and priorities and reports on how councils are responding to those requirements; and
- A sector performance and funding framework that identifies performance targets and measures for local government and develops a sustainable funding model.

Further, several projects in Victoria examined the potential for business cases to include collaborative provision of services to increase scale economies, and hence, council efficiency. Three examples of these projects include:

- A proposal from a number of north-eastern Victorian councils to establish a structure for group provision of infrastructure, such as roads;
- A proposal from a consortium of north-western Victorian councils to establish shared information technology and back-office facilities; and
- A consortium of councils appointed the Municipal Association of Victoria as an agent to procure an integrated library management system and managed services on their behalf. This represents approximately 50 per cent of municipal libraries in Victoria.

South Australia⁷¹

In the mid 1990's the South Australian Government established a Government Boundary Reform Board in December 1995, to facilitate the structural reform of local government. The reforms focused on the amalgamations of whole councils to establish larger councils in size and scope, to enable them to:

- Increase their capacity to contribute to local and regional economic and community development; and
- Expand community and service delivery provisions.

These reforms reduced the number of councils from 118 to 68.⁷²

Since this time the Local Government Association of South Australia established a nine-point plan in August 2004 to address a range of rating and financial issues. In August 2005, a review board, commissioned by the Association to undertake an independent inquiry into the financial sustainability of local government in South Australia, released its final report.

The report made significant recommendations regarding the need for local government to improve its financial governance. The Association subsequently mounted a comprehensive Financial Sustainability Program designed to provide practical assistance to councils.

The *Local Government (Financial Management and Rating) Amendment Act 2005 (SA)* was passed in November 2005. The Amendment Act was introduced to strengthen accountability and financial governance measures, including new obligations for a council to adopt long-term financial plans and asset management plans and a new requirement to consult with communities about annual business plans in the lead up to adopting their annual budgets.

The joint State and Local Government Financial Accountability Advisory Committee finalised the Local Government Financial Governance Code of Practice in April 2006. The code is designed to:

- Establish best practice benchmarks in financial governance;
- Reinforce community confidence in the information sources upon which council decisions are based; and
- Establish consistency within the sector to improve the transparency, accountability, quality and accessibility of financial information.

69 This section is drawn from the M Carter, et al, 2005-06 Local Government National Report-2005-06 Report on the Operation of the Local Government (Financial Assistance) Act 1995, 2007, Appendix G, http://www.infrastructure.gov.au/local/publications/reports/2005_2006/pdf/LGFR_2005-06.pdf.

70 Qld Department of Local Government, Planning, Sport and Recreation, *Local Government Reform: A new chapter for local government in Queensland*, 2007, p. 44.

71 This section is drawn from the M Carter, et al, loc.cit.

72 Ibid.

4.4 Challenges facing local government

A number of studies have been completed in recent years that have focused on identifying the current challenges facing the local government sector. A summary of these reported issues are contained below.

Independent Inquiry into the sustainability of NSW Local Government May 2006

An Independent Inquiry was commissioned by the Local Government and Shires Association of NSW (LGSA) to investigate the financial sustainability of NSW Local Government sector.⁷³ The inquiry used a 'gap analysis' methodology whereby the 'requirements' (i.e. what should be) were compared to the 'reality' (i.e. what is).

A number of problems inherent within councils and requiring urgent attention were identified in the study. The key finding was the large backlog in infrastructure renewals (over \$6.3 billion) amongst NSW councils. This was identified as partly due to increases in services provided causing funds to be diverted from capital expenditure.

Other issues identified included:

- Council's role and relationship with higher tiers of government including the problem of cost shifting;
- Insufficient planning and development processes and laws;
- Limited revenue raising opportunities;
- Inadequate governance structures;
- Inadequate management structures; and
- Inadequate financial processes including lack of appropriate staff to perform adequate financial processes and a general lack in the financial performance of councils.

The proposed options for overcoming the financial problems of councils included:

- Boosting supply (broadening or increasing the tax base);
- Reducing demand (charging for services or imposing tighter eligibility rules);
- Shedding responsibilities (abandoning or transferring certain functions);
- Revising obligations (resetting standards or renegotiation with other tiers of government);
- Re-ordering priorities (implementing credible long-term strategic and financial plans);
- Pursuing efficiencies (including merging smaller councils where other alternatives are not viable); and
- Improving capacity (raising management and governance capacity).

PwC Report November 2006

In 2006 PricewaterhouseCoopers⁷⁴ undertook an independent study of the financial sustainability⁷⁵ of local government councils in Australia. Seven hundred councils were included in the analysis with two approaches applied to assess council viability. Firstly, financial ratio analysis was undertaken using a survey of 100 councils and data obtained from state/territory grants commissions. Secondly, PwC drew on a number of state based sustainability studies undertaken in NSW, South Australia, Western Australia and Victoria and extrapolated the results.

The results of the analysis suggested around 10-30 per cent of councils across the four states were not financially sustainable. The key financial issues impacting on financial sustainability included:

- Minimal (or negative) revenue growth;
- Cost growth which has typically exceeded revenue growth;
- Increasing involvement in non-core service provision due to escalating community demands;
- A tendency by some councils to run operating deficits creating a need to defer or underspend on renewal of infrastructure;
- Limited access for some councils to strong financial and asset management skills; and
- Limited access to rate revenue due to relatively small annual rate increases and a low initial rating base.

One of the key findings coming of the study was the large infrastructure backlogs occurring across councils. The report identifies some of the key infrastructure challenges facing local government are:

- A backlog in infrastructure renewals;
- An underspend on existing infrastructure renewals; and
- A funding gap to rectify the underspend and clear the backlog.

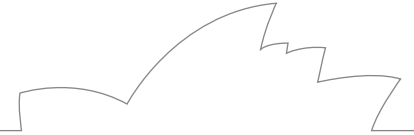
Broad findings on the relationship between the type / size of a council and the viability issues it faced included:

- The majority of larger metropolitan councils were generally viable or had the ability to self-effect an improvement in financial sustainability;
- Urban fringe councils were mixed, with some councils experiencing large viability issues with some scope for internal improvement and some councils who were considered viable but had minor scope for internal reform; and

⁷³ LGSA, 2006.

⁷⁴ PwC, *loc.cit.*

⁷⁵ Financial sustainability defined as having the capacity to manage expected financial requirements without needing to introduce substantial or disruptive revenue (and expenditure) adjustments.



- Rural remote and rural agricultural councils generally had more pronounced viability issues.

The report concludes that the councils with stronger financial positions are generally those with reasonable scale in operations and population. Such councils typically have stronger rates income and economic bases with more sophisticated asset management and financial governance systems. The less financially viable councils tend to be smaller and a lack economies of scale. This is compounded by weaknesses in financial and asset management capabilities.

The report also identified councils (mostly large) who had achieved efficiencies through the following measures:

- Structural reforms including amalgamations in NSW, Victoria, South Australia and Tasmania;
- Regional arrangements for services such as waste removal, purchasing and procurement, recruitment and road and infrastructure maintenance; and
- Shared service models particularly in corporate services.

The report makes the following recommendations for improving financial sustainability:

- Internal reforms for some councils;
- Improving efficiency, effectiveness and scale;
- Expanding own-source revenue;
- Set clear and appropriate priorities; and
- Deepen asset management and financial capacity.

4.5 Consequences of these initiatives and issues

All of the reform initiatives indicated above are aimed at improving the financial position of councils, ensuring their sustainability, enhancing service delivery to local residents. Moreover, this analysis tends to suggest that there are potential benefits from increasing the scale of council functions, joint sharing or regional coordination of service delivery and planning functions.

These points also indicate an appealing feature arising from these reforms. If one were to also consider the objectives and benefits with the reform of planning systems, that is, improving the time take with processing DAs, risk based assessment and expert assessment on a regional level, then potentially there is a coalescence between the local government and planning system reforms. We have observed that the pace, sequence and extent of planning system and the local government reforms have been occurring independently of each other without regard to the potential combined benefits that may accrue from these initiatives.

Accordingly, there is the potential combined service delivery efficiencies that could be achieved to stimulate greater economic performance particularly in a global city such as Sydney.

5 Potential benefits from alternative governance arrangements

5.1 Introduction

KPMG undertook a statistically robust analysis of the influence of a number of council characteristics, including those related to size, in order to examine the potential benefits from alternative governance arrangements in metropolitan Sydney local government. To our knowledge, this research represents the first analysis to employ sophisticated panel data analysis when investigating this question.⁷⁶ In summary we find that a number of key metrics indicating local government performance are statistically correlated with measures of council size.

The key metrics of council performance investigated in our high-level analysis draw upon indicators used in the NSW Department of Local Government⁷⁷ and work conducted by Price Waterhouse Coopers⁷⁸ and Percy Allan investigating Local Government financial sustainability.⁷⁹ Our aim was to build on the existing evidence relating to council performance, however with a clear focus on the Sydney metropolitan area. The key metrics investigated are as follows:

Creating a Favourable Business Environment

- Total expenses from ordinary expenses per capita;
- Total ordinary activities revenue per capita;
- Mean days in Calendar days for determining Development Applications;
- Total planning and building control costs per Development Application; and
- Average business rate per business property.

Local Government Financial Sustainability

- Proportion of revenue from user fees and charges; and
- Proportion of revenue from grants.

Improving Local Government Fiscal Capacity

- Debt Service Cost Ratio; and
- Current Asset/Liability Ratio.

An explanation of these indicators is provided in *Appendix 1*.

The suite of council specific characteristics thought to be drivers of variation in the above indicators were:

- Area of council (square kilometres);
- Population density (number of people per square kilometre);
- Population growth (growth in population (%) over previous 5 years);
- Proportion of population that identify as Aboriginal and Torres Strait Islander;

- Proportion of population that are from a non-English speaking background;
- Residential population in council boundary;
- Number of business properties within council boundaries;
- Proportion of revenue from user fees and charges;
- Proportion of revenue from grants;
- Number of Full Time Employees; and
- Number of Development Applications processed in Calendar year.

5.2 Quantifying the benefits

5.2.1 Approach

The underlying approach followed was aimed at testing the hypothesis that providing some council functions at a regional scale has the potential to deliver benefits in terms of reduced average costs to council and/or increased service levels.

The data set analysed was the 'comparative information'⁸⁰ panel dataset maintained by the NSW Department of Local Government since 1995/96. It is widely acknowledged that the quality of the dataset is questionable prior to the 2000/01 financial year. As a result we analysed data over the period 2000/01 to 2005/06 (the last year of the dataset).

Previous reports examining the potential for local government reform have largely analysed data from a single year⁸¹ or examined the relationship between a council performance measure and a single explanatory variable, such as population⁸². The advantage of the analytical method followed in this report, so-called 'panel data analysis', is that the influence of any individual characteristic unique to a particular council (such as population size) can be evaluated while simultaneously accounting for the effects (if any) of a range of other characteristics (such as population density and the proportion of population from a non-English speaking background). A detailed outline of our approach and the corresponding results are contained in *Appendix 3*.

⁷⁶ To KPMG's knowledge the only other study of NSW councils to employ a multivariate analysis of the relationship between size and council service provision was Byrnes, Dollery and Webber (2003), who found that scale economies exist in the provision of waste collection services, particularly in metropolitan councils.

⁷⁷ PwC, *loc.cit.*

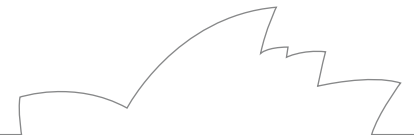
⁷⁸ NSW Department of Local Government, *Comparative Information on NSW Local Government Councils – Time Series of Comparative Information*.

⁷⁹ LGSA, *loc.cit.*

⁸⁰ NSW Department of Local Government, *Comparative Information on NSW Local Government Councils – Time Series of Comparative Information*.

⁸¹ PwC, *loc.cit.*; LGSA, *loc.cit.*

⁸² For a comprehensive review of the existing evidence on the matter of scale economies in local government service provision, see JD Byrnes, BE Dollery, & A Webber, 'Measuring Economies of Scale in Australian Local Government: The Case of NSW', *Australasian Journal of Regional Studies*, vol. 8, iss. 2, 2003, pp. 201-218.



A potential stumbling block in the use of the dataset mentioned above is accounting for the influence of a series of amalgamations that took place during 2003 and 2004 in regional NSW. However, since this report is limited to investigating councils in the Sydney region, none of which were subject to significant reform, we have been able to make use of the full six years of data. This strengthens the importance of the results since the risk of 'one-off' factors distorting results is minimised by analysing this sector over such a relatively lengthy time period. Notwithstanding, five councils were removed from the possible database because they were involved in structural reform between 2000/01 and 2005/06: Sydney City Council, South Sydney Council, Drummoyne Council, Concord Council and Canada Bay Council. Sydney City Council is also an outlier that cannot be meaningfully compared to all other councils in Sydney. This resulted in 43 councils being analysed over a six-year period.

Finally, in order to remove the potential for general increases in prices and expenses of the period distorting our results, all expenditure variables were deflated using the GDP deflator, while employee related expenses were deflated using the wage rate deflator.

5.2.2 Performance of Sydney based councils

Our analysis reveals that there are potential gains from certain services being delivered at a larger scale through reform of governance arrangements. Our key findings indicate that:

- Larger councils are more efficient in the processing of development applications both in terms of average days taken and the average cost of processing each development application;

- Councils that have a higher number of business properties within their boundaries typically levy lower rates on those businesses;
- Councils with relatively more population density also levy lower rates on businesses;
- Larger councils incur lower employee costs per capita; and
- Councils that are larger in terms of population exhibit marginally lower primary expenses per capita.

The results of our detailed analysis of each of the performance indicators identified in section 5.1 are presented in the remainder of this chapter.

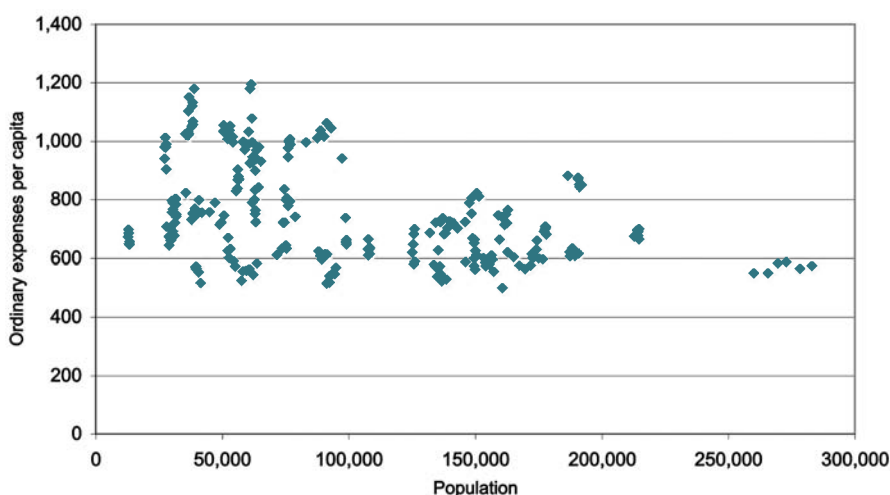
5.2.3 Performance for Creating Favourable Business Environment

Total expenses from ordinary expenses per capita

Per capita primary expenses indicate a level of direct average services costs covering the costs on employment, materials and contract and others.

Figure 10 below suggests that councils with a larger population tend to incur lower total expenses from ordinary expenses per capita. However, the variation in ordinary expenses per capita for the majority of councils indicates that other factors may be driving this indicator.

Figure 10: Total expenses from ordinary expenses per capita & population



Other factors worthy of consideration include the population density of councils and the demographic profile of councils. Figures 10 and 11 illustrate the relationship of each with total expenses per capita.

5 Potential benefits from alternative governance arrangements

Figure 11: Total expenses from ordinary expenses per capita & population density

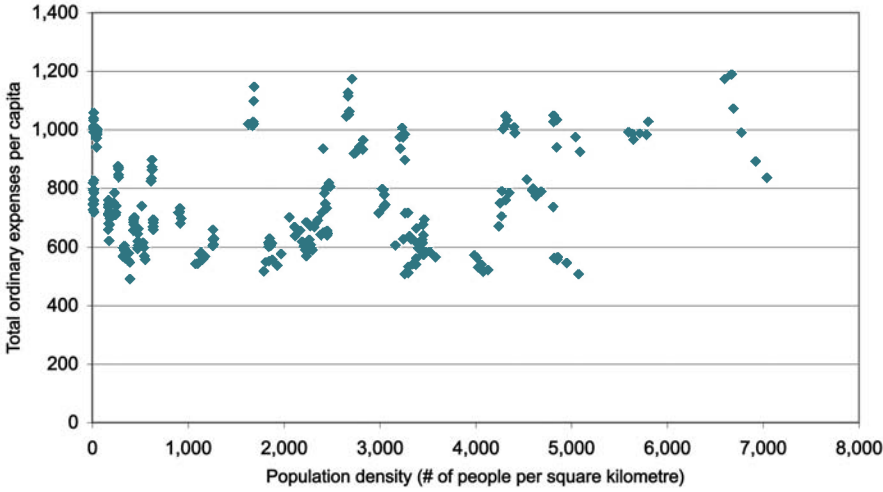
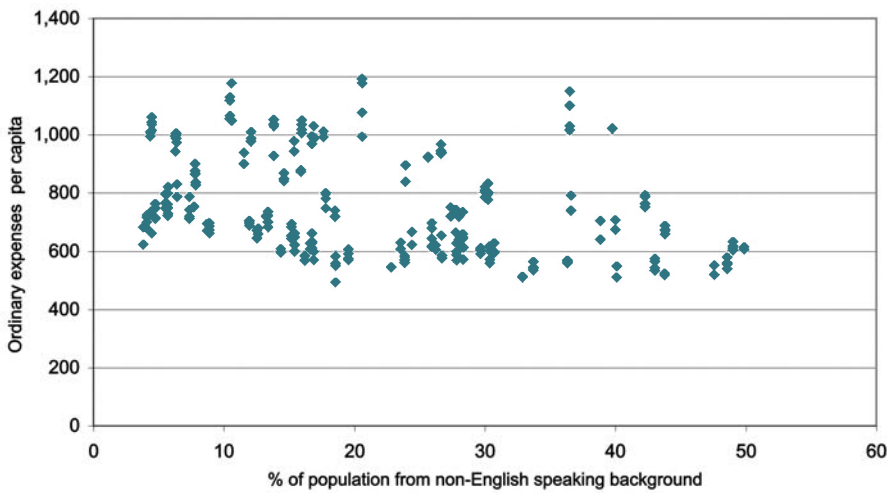
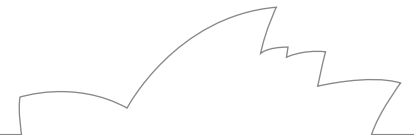


Figure 12: Total expenses from ordinary expenses per capita & proportion of population from non-English speaking background





To determine the relationship between total ordinary expenses per capita and population, a panel data regression analysis was undertaken. The purpose of this was to control for the influence of the following factors:

- Area of the council;
- Population density;
- Population growth;
- Number of full-time equivalent staff; and
- Proportion of population from a non-English speaking background.

Our results indicate that for the average council an increase in population of 10,000 residents would result in a decrease of per capita primary expenses of around \$33.30.

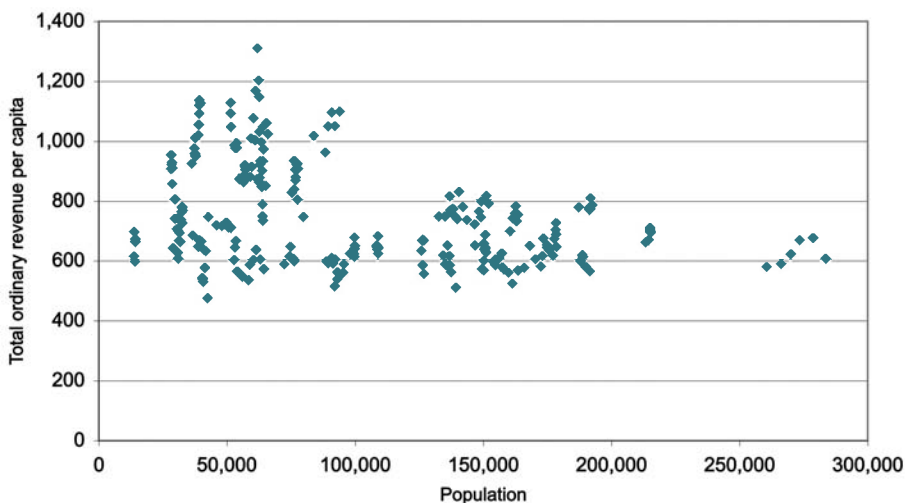
To illustrate, if a council was organised to have a population of 50,000 residents it could reduce total expenditure by around \$1.6 million per year. For local government authorities organised with a population of 100,000 this saving is potentially around \$3.3 million per annum. For local government authorities organised with a population of 200,000 this saving is potentially up to \$6.6 million per annum.

Total ordinary activities revenue per capita

Total ordinary activities revenue per capita is the total continuing operations income before capital, per head of population (excluding water and sewerage rates). It shows the revenue available to service the needs of the community.

The Figure below illustrates that total ordinary revenue tends to decline with population. However, the ability for councils to autonomously set rates is largely constrained by the policy of rate capping in NSW. It follows that any relationship with council size is largely a function of the extent to which regulatory arrangements in place that support this policy allow for council size.

Figure 13: Total ordinary revenue per capita & population



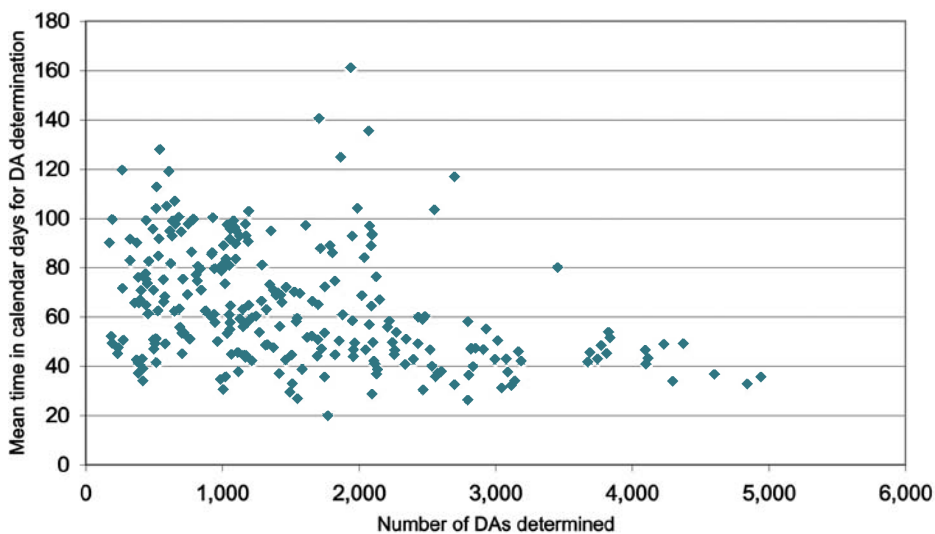
5 Potential benefits from alternative governance arrangements

Mean days in Calendar days for determining Development Applications (DAs)

This indicator measures the speed with which DAs are determined. The processing time for an application starts when the application is lodged and ends at the date of the notice of determination, not the decision date.

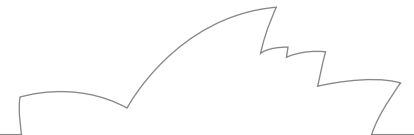
There appears not to be a theoretical reason why population and the mean number of days taken to process a DA would be related. However, the economic theory of returns to scale suggests that as the number of DAs determined increases, the days taken to process each DA should reduce and/or the cost associated with each DA should reduce. The relationship between the mean number of days taken to process a DA and the number of DAs processed per year is illustrated in the Figure below.

Figure 14: Mean days in calendar days for DA determination & Number of DAs determined



We note that larger councils tended to take less time to process DAs,⁸³ however there was a large degree of variation for smaller councils, suggesting other factors were at play.

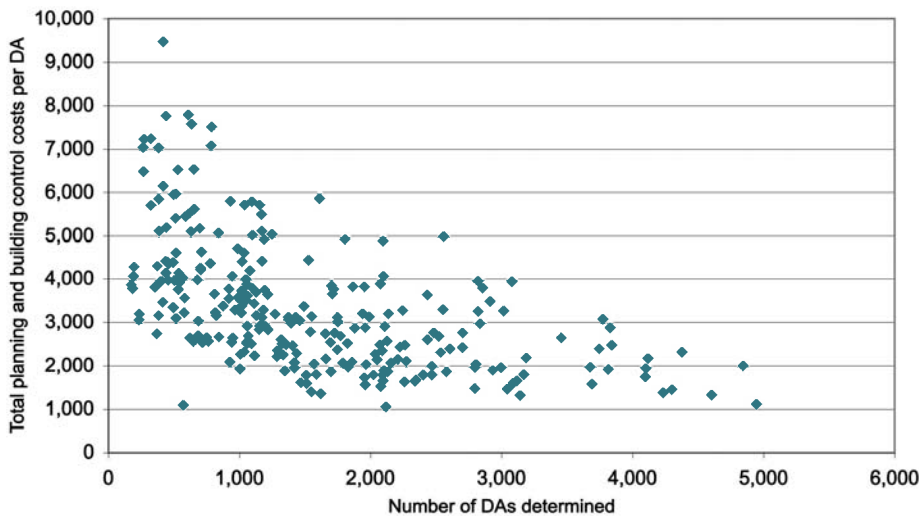
When we controlled for a range of factors, including population, population density, the area of councils, and the proportion of revenue generated from user charges and fees, councils that processed a larger number of DAs were found to take fewer days to process each DA. For example, if the average council was to process 1,000 additional DAs per year this would result in each DA being processed in around 6 fewer calendar days.



Total planning and building control costs per Development Application

We followed a similar approach when investigating the role of council size in determining the average cost of determining each DA. When the average council process an additional 1,000 DAs per year, this would reduce the council costs associated with processing each DA by around \$1,025. For a council currently processing 1,000 DAs this could lead to a potential saving of around \$2 million per annum to process 2,000 DAs in total. This result was found after having controlled for a range of other council characteristics, including the area of councils and the percentage of a council's population from a non-English speaking background. The clearly negative relationship with the number of DAs determined is illustrated in Figure below.

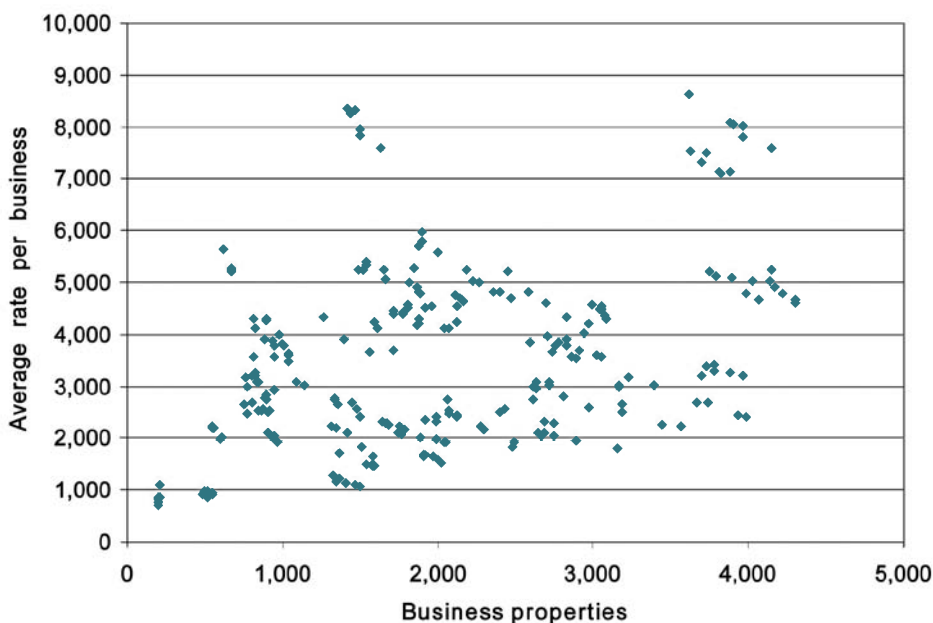
Figure 15: Total planning and building control costs per DA & Number of DAs determined



Average business rate per business property

This indicator measures the average rate levied on properties deemed to be housing a business. Clearly, lower rates payable to council represent a welcome reduction in the fixed costs faced by businesses. The measure of size considered relevant in this context was the number of business properties within council boundaries. This relationship is illustrated in the Figure below.

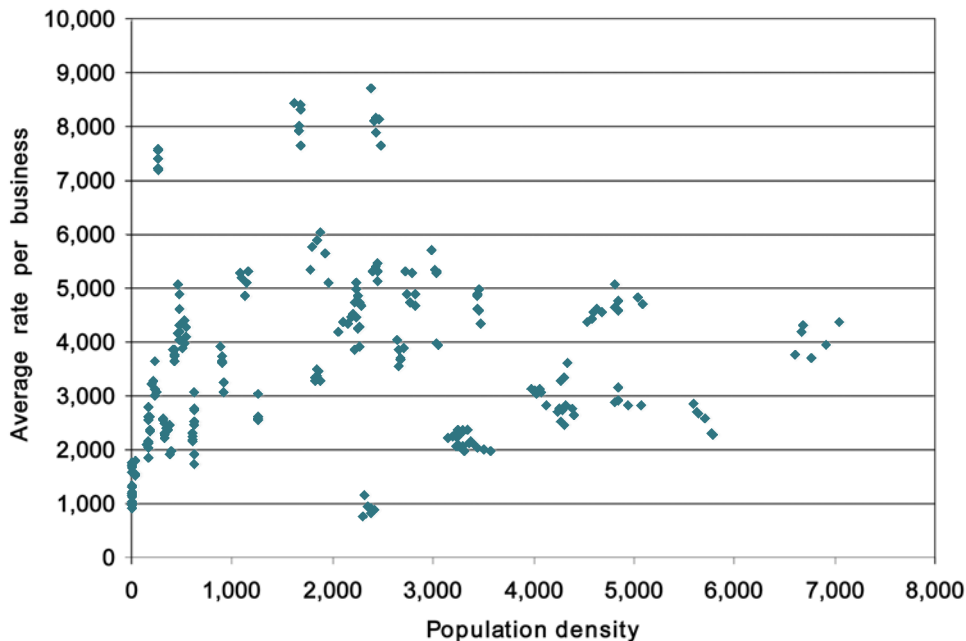
Figure 16: Average rates payable per year by business vs number of business properties



5 Potential benefits from alternative governance arrangements

While the relationship is not obviously negative between the number of business properties and the average rate paid by businesses, the presence of a small number of outliers in the top right hand corner of Figure 16 can be deceiving. Furthermore, other factors may be at play. In particular, the population density of councils appears to be significant, as illustrated in Figure 17.

Figure 17: Average rates payable per year by business vs population density

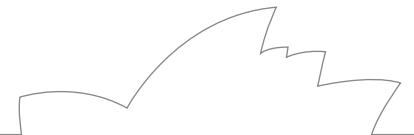


To determine whether the number of business properties in a council's boundary was an important driver of the average rates paid by business, we controlled for the following variables in our regression analysis:

- Area;
- Population density;
- Population growth;
- Proportion of population from non-English speaking background; and
- Proportion of revenue generated from grants.

Our results indicated that those councils that had more businesses within their boundaries tended to charge lower rates on those properties on average, and that councils with relatively greater population density also levy lower business rates.

To illustrate the benefits from increasing the number of business properties in councils, an addition of 100 business properties would reduce the average rate levied by \$85 per year, representing an average reduction in rates by 2.5%. For a council with 1,000 existing business properties, this would mean an overall saving for businesses of \$253,660 per annum.



5.2.4 Local Government Financial Sustainability and Fiscal Capacity

The relationship between population and the two indicators of financial sustainability chosen for analysis in this study is illustrated in Figures 18 and 19 below. In general the relationship between council size and the measures of local government financial sustainability were weak, and although the results of our statistical analysis suggest a statistically significant relationship was present, the increase in council size required to generate any meaningful change in either indicator was implausible.

The relationship between population and the two indicators of fiscal capacity analysed in this study is illustrated in Figures 20 and 21 below. The large vertical spread of data points for councils with roughly similar populations indicates the fiscal sustainability is unlikely to be determined by councils size.

Figure 18: Proportion of revenue from user fees and charges vs Population

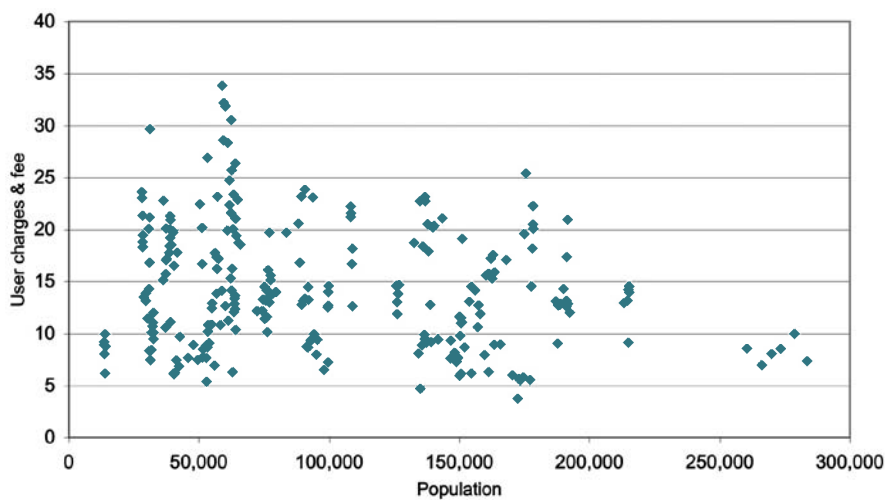


Figure 19: Proportion of revenue from grants vs Population.

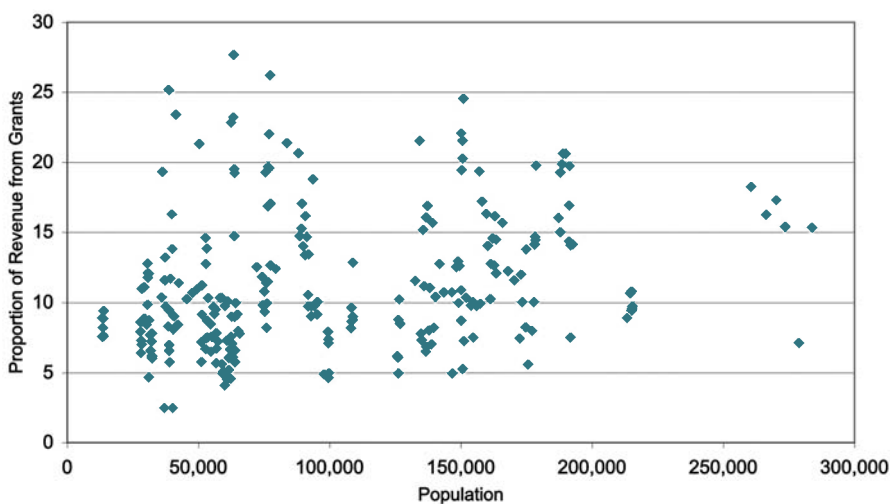


Figure 20: Debt Service Cost Ratio vs Population

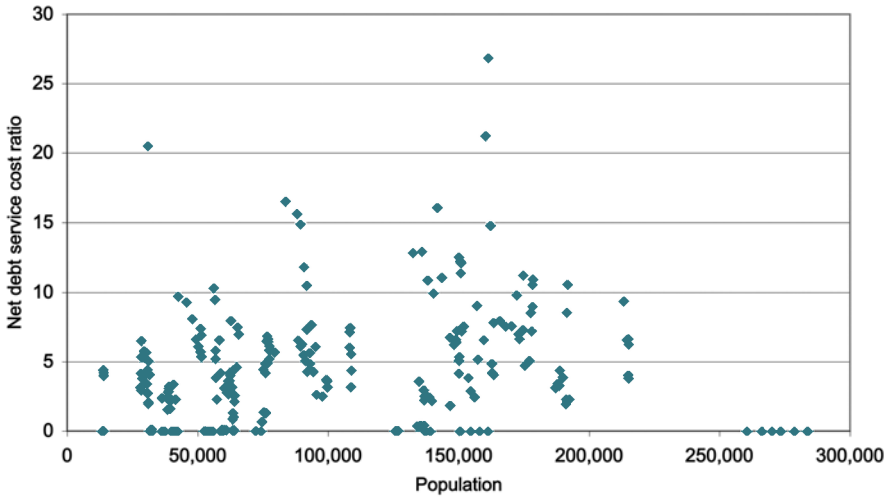
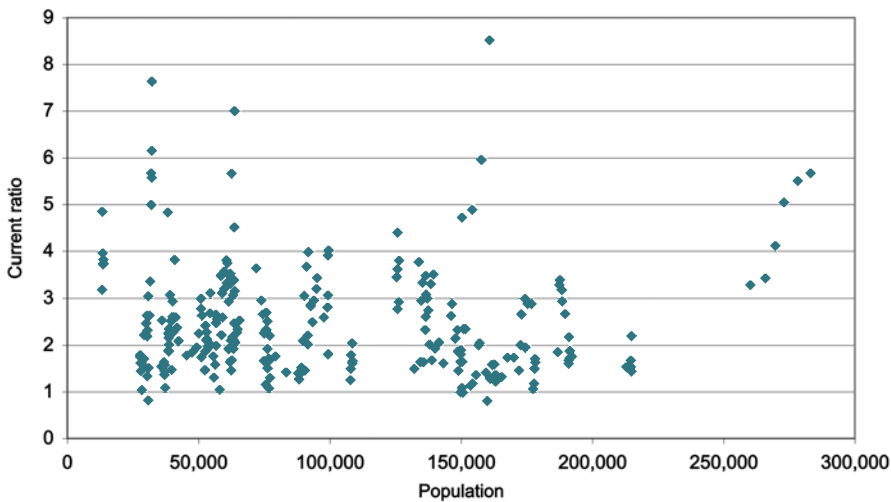
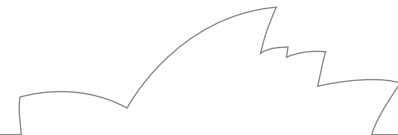


Figure 21: Current Asset/Liability Ratio vs Population



This group of findings is consistent with recently published evidence regarding the drivers of local government financial sustainability. In particular, the work led by Percy Allan⁸⁴ investigating councils in NSW argued that financial sustainability was a function of a multitude of factors (ranging from poor financial planning to the tendency for higher levels of government to 'shift' costs onto local government without providing additional revenue sources), none of which may be population density.



The local government reforms and the planning system reforms, as well as the high-level economic analysis provide reasonable grounds to give consideration to alternative governance models for Sydney's local government authorities. This is considered important particularly as Sydney should continue to explore the best arrangements to better position itself for the 21st century to meet the challenges of economic growth, population growth, demographic change, infrastructure requirements, attracting investment, coping with the potential impacts of climate change and responding effectively to sustainable development.

Among other things, two questions arise in considering alternative governance models for Sydney's local government authorities:

- What should be the principles to improve city governance; and
- What are the elements for transitioning for improved city governance?

6.1 Principles to improve city governance

This high-level analysis indicates the potential economic gains to local government service delivery and the business environment by considering a larger scale for Sydney's local government authorities.

In formulating what might be an appropriate scale, we believe that it is important to consider effective principles to drive improving the governance for Sydney's local government authorities. Such principles may be the *City of Cities, A Plan for Sydney's Future*, the Sydney Metropolitan Strategy key principles:

1. Enhance Liveability;
2. Strengthen Economic Competitiveness;
3. Ensure Fairness;
4. Protect The Environment; and
5. Improve Governance.

In doing so, it should have regard to:

- Cost effective regional service delivery;
- Competitiveness;
- Financial capacity and sustainability;
- Business investment confidence;
- Community access and participation; and
- Coordinated strategic planning functions.

6.2 Transitioning to improved city governance

There are a range of governance models to be considered. These can range in:

- Compulsory amalgamations;
- Voluntary amalgamations;
- Virtual regional shared service delivery and collaboration while maintaining the established identity and presence of Sydney's local government authorities; or
- Collaborative businesses cases for the development and implementation of new services across a region to enhance purchasing power and enhance value for money – also maintaining the established identity and presence of Sydney's local government authorities.

However, such decisions on governance arrangements are policy questions for government and we do not advocate a position on this point.

Nevertheless, the governance arrangements could be modelled on a combination of enhanced strategic planning, economic analysis, geographical features, economic features or population density. Importantly, this analysis should also include consultation with businesses and the community.

Based on these types of features, two city governance options may include:

- The sub-regional planning areas as identified in the Sydney Metropolitan Strategy. This would strengthen strategic regional planning and decision making on major infrastructure such as public and private transport; (see Figure 2 on page 6).
- The economic features of Sydney as identified in the Sydney Metropolitan Strategy. This would provide a tailored approach to the key economic strengths in Sydney such as the economic corridors including the global arc; (see Figure 3 on page 6).

6 Transitioning towards a governance structure for the 21st century

Such arrangements could transform service delivery by:

- Driving decision making towards regionally based planning and service delivery;
- Streamlining back office administrative functions such as IT systems and payroll functions;
- Better coordinated response to infrastructure renewal such as local roads, sea walls, drainage, bridges etc;
- Standardising and coordinating asset maintenance and replacement such as street and park lighting, park infrastructure, etc;
- Increased purchasing power for services and facilities such as libraries, waste management, community public transport, etc;
- Regionalising community transport with enhanced opportunities to integrate with public transport operated by the State;
- Reducing governance and administration costs due to reduced number of senior management and councillors; and
- Reducing charges for businesses and consumers due to more efficient processing of services.

6.3 Recommendations

As a consequence, the NSW Government needs to develop with local government the optimum scale for Sydney's local government authorities for the 21st century. To this end, the current organisation of local government authorities acts as an artificial barrier to effective strategic planning and service delivery and thus constrains Sydney's global competitiveness. To give effect to the beneficial gains from larger scale out to 2050, our recommendations for a stronger city governance arrangement for Sydney includes:

- 1 Before the next local government elections, the NSW Government in partnership with the mayors of Sydney's local government authorities should establish an optimum scale of Sydney's local government authorities and elected representation;

2 As part of the process to harmonise the scale of Sydney's local government authorities, the NSW Government should:

- undertake consultation with communities and stakeholders to inform the development of harmonising the scale of Sydney's local government authorities;
- undertake economic analysis to quantify the benefits for reform and the minimum scale requirements for new governance arrangements;
- develop options around the enhancement of service delivery and reforming the financial capacity of local government authorities;
- develop the optimum scale of local government authorities around regional communities of interest similar to those geographic regions contained in the Sydney Metropolitan Strategy. Such a configuration will contribute to, among other things, greater efficiency and enable the volume of work and critical mass to employ high performing planners and managers necessary to deal with future complex decisions;

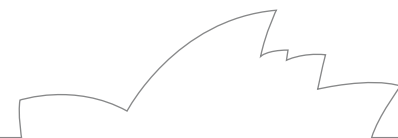
3 Should local government authorities indicate an interest, the NSW Government should sponsor the development of the creation of regional authorities to allow councils to drive shared service delivery and pool resources;

4 The NSW Government should identify as a priority the reconfiguration of the City of Sydney area. It presently has a suboptimal geographical area that does not include the critical economic and transport corridors that influences the working of the city. To transform the City of Sydney to a truly global economic activity centre, its scale should be enhanced so that it can drive strong coordinated planning and service delivery decisions and better implement the growth and change targets contained in its 2030 Sustainable Sydney Plan.⁸⁵ As a starting point to transition the City is to transform the role of the Central Sydney Planning Committee's jurisdiction to encompass the economic centres identified in the Sydney Metropolitan Strategy to reflect a holistic planning approach to the economic strength of the city; and

5 To avoid fragmentation of the economic strengthens of some of the larger local government authorities, the NSW Government should not establish any new local government authorities in the Growth Centres of the North West and the South West of Sydney.

⁸⁵ Sydney City Council, 2030 Sustainable Sydney <http://www.cityofsydney.nsw.gov.au/2030/theplan/Default.asp>

⁸⁶ Not only residential population but visitors are recipients of local government's services. Assuming the number of visitors are proportional to the residential population, the latter can be used as an indicator to the target population for overall services provided by local governments. However, such assumption would not be applicable to Sydney City Council as the visitors are much higher than the residential population. For detailed functional activity, the total population may not be a good indicator to outputs. Often the number of children and elderly, the number of households, number of businesses, and the size of covered land can be more accurate indicators to their outputs. However, if such detailed output indicators are broadly proportional to the entire population, per capita expenses can be considered to be a reasonably good indicator to the efficiency of local government's service delivery.



This Appendix provides an explanation of the indicators used for our analysis.

1 Creating Favourable Business Environment

- (A1) Capital expenditure/depreciation ratio:

This indicator will test whether a minimal level of capital expenditure is spent to maintain the physical infrastructure. If the ratio is less than one, depreciated infrastructure is not adequately replaced. The higher ratios are the more active new additional capital infrastructure is created.

- (A2) Duration of Development Assessment (DA) process

This indicator shows the potential holding costs of investment borne by the business and residential community. The longer processing time is generally viewed as biggest barriers to making timely investment by business. In this report, median calendar days for DA determined is examined for the planning aspect of the local government performances.

- (A3) Costs of DA processes and Building Control

Few information to represent the business costs of DA process and building control by local governments are available. It is however reasonable to assume the business costs are highly related to the local government's costs on this planning related functional activities. As a proxy to the business costs associated with DA and building maintenance, the local government's planning and building control cost per DA determined is selected as a performance indicator to the capability of creating favourable business environment.

- (A4) Overall Effective Service Delivery Capacity – per capita total expenses

Assuming that the overall outputs of the local government's activities are closely related to the residential population size⁹⁶, the efficiency of overall service delivery functions is measured by two indicators – (i) per capita total primary expenses, and (ii) per capita employment costs.

Total ordinary expenses exclude expenses on water and sewerage, but include costs on employment, materials and contract, borrowing, depreciation and other costs. Note that the ordinary expenses does not include capital expenditure. As the borrowing and depreciation costs are not directly related to direct service delivery, total primary expenses are defined to cover the costs on employment, materials and contract and others.

2 Providing Competitive Prices for Economic/Social Services

- (B1) Per capita rate revenue

Local government rates are the payments for the local government services by residents and business. To make more accurate assessment, the business rates for the average size of business would be a good indicator. However, little information on business characteristics is available. The information on the number of business does not provide the compositional nature of large and small business. From this point of view, business rate revenue per business does not provide adequate information on the prices paid by the average business for the service delivered to them.

Assuming that the aggregate size of the business community whether it is defined in terms of turnover or the number of employment is related to the total population, and the residential rates are also proxy to indirect business costs for the regional business such as insurance and storage costs related to local environments, the per capita overall rate revenue is selected as a price indicator of the local government services.

- (B2) Per capita user charges and fees

As user charges and fees are collected for specific services of which recipients are identifiable, the per capita user charges and fees can be regarded as an indicator to a price indicator of the local government services.

3 Improving local government capacity of contributions to business growth via:

Local government capacity for the longer term contributions to the business community can be measured by their financial viability. The strength of financial viability can be assessed in terms of the sustainability of debt management and the sustainability of service delivery operation. Two indicators are selected for each aspect of financial viability.

3 (a) Improving Sustainability of Debt

- (C1) Debt Service Cost Ratio

This indicator is defined as a ratio of net debt service cost to total ordinary revenue. This ratio shows the ability to pay the debt using recurrent revenue, reflecting the sustainability of on-going provision of new capital and new operational need without incurring any sales of commercial and economically valuable assets.

- (C2) Current Asset/liability Ratio

This ratio indicates a degree of net liability, showing longer-term capacity of debt management. Often asset sales are required to finance the large capital projects. If this ratio is low, such capability is limited.

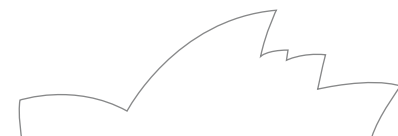
3 (b) Improving Sustainability of Operation

- (C3) Operating Surplus Ratio

This ratio is defined as a ratio of ordinary operating surplus (equal to revenue from continuing operation less total ordinary expenses) to ordinary revenue. It is an indicator to meet its operating expenses with its operating revenue stream which include grants and donations.

- (C4) Total Rate Revenue Coverage

This is defined as a ratio of the total rate revenue to total ordinary expenses. The rate revenues are directly collected from residents and local business. Therefore this indicates the own revenue capacity to meet its operating expenses.



Average of variables over period 2000/01 to 2005/06

Councils	Population	Area (Km3)	Population Density (Person/Km3)	Non-English Speaking Background
Ashfield	40715	8.3	4906	38
Auburn	60866	32.4	1878	48
Bankstown	174191	76.9	2268	30
Baulkham Hills	151177	400.7	377	18
Blacktown	271920	240.0	1133	23
Blue Mountains	76984	1431.7	54	6
Botany Bay	37086	22.1	1678	38
Burwood	30862	7.2	4291	41
Camden	47861	201.4	238	7
Campbelltown	150355	312.2	482	15
Canterbury	136285	33.6	4057	43
Fairfield	188945	101.7	1858	49
Gosford City	162014	940.2	172	5
Hawkesbury	63409	2775.7	23	6
Holroyd	90243	40.3	2240	28
Hornsby	154742	462.4	335	19
Hunters Hill	13732	5.8	2370	14
Hurstville	74654	22.8	3274	26
Kogarah	53876	15.6	3455	27
Ku-ring-gai	108486	85.5	1269	17
Lane Cove	32193	10.6	3039	18
Leichhardt	57860	11.8	4915	14
Liverpool	162653	305.4	533	29
Manly	38906	14.5	2682	10
Marrickville	76719	16.5	4648	32
Mosman	28229	8.7	3242	12
North Sydney	59873	10.5	5702	17
Parramatta	149217	61.0	2446	29
Penrith	177515	404.8	439	12
Pittwater	56766	90.6	627	8
Randwick	126139	36.4	3465	26
Rockdale	93674	28.1	3333	33
Ryde	99218	40.5	2450	28
Shoalhaven	89509	4568.0	20	4
Strathfield	30097	13.9	2166	42
Sutherland	214543	334.5	641	9
Warringah	137368	149.6	918	13
Waverley	62829	9.3	6790	22
Willoughby	62955	22.6	2789	26
Wollondilly	39306	2556.7	15	6
Wollongong	190782	684.1	279	15
Woollahra	53686	12.4	4348	16
Wyong	138635	745.0	186	4

Appendix 3: Results and Statistics

The statistical analysis undertaken utilised a data set containing 43 councils, observed of the six year period 2000/01 to 2005/06. There were no missing observations for any councils over that period. As a result the panel data set was balanced. Panel data analysis was performed for each statistical model (for further information on the benefits of panel data analysis see Kennedy, 2003). For all models the presence of heteroskedasticity and autocorrelation were assumed and corrected for in the estimation procedure. In all separate models were estimated. Detailed results are presented below.

Total expenses from ordinary expenses per capita

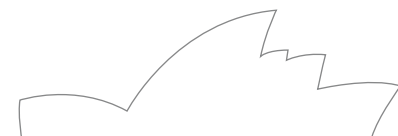
Variable	Coefficient	Standard error	t-ratio	p-value
Area	-0.00731	0.029799	-0.245	0.8061
Population density	0.026791	0.011421	2.346	0.019
Population growth	-5.20766	7.607322	-0.685	0.4936
Non-English speaking background	-2.79953	1.662083	-1.684	0.0921
Population	-0.00332	0.000508	-6.524	0
Equivalent full time employees	0.330494	0.090295	3.66	0.0003
Adjusted R-squared: 0.93				
F-test for overall model significance: 63.04 (0.000)				

Total ordinary activities revenue per capita

Variable	Coefficient	Standard error	t-ratio	p-value
Area	0.03612	0.023946	1.508	0.1315
Population density	0.055247	0.012285	4.497	0
Population growth	25.16757	8.916422	2.823	0.0048
Population	-0.00095	0.000464	-2.054	0.04
Non-English speaking background	-7.27845	1.805696	-4.031	0.0001
User charges and fees	1.033721	0.619647	1.668	0.0953
Adjusted R-squared: 0.91				
F-test for overall model significance: 44.00 (0.000)				

Mean days in Calendar days for determining Development Applications

Variable	Coefficient	Standard error	t-ratio	p-value
Population growth	-2.44825	3.432262	-0.713	0.4757
Non-English speaking background	-0.2152	0.314082	-0.685	0.4932
Population	0.00089	.827368D-04	1.078	0.2811
Number of DAs determined	-0.00679	0.003633	-1.868	0.0617
Adjusted R-squared: 0.46				
F-test for overall model significance: 4.99 (0.000)				



Total planning and building control costs per Development Application

Variable	Coefficient	Standard error	t-ratio	p-value
Area	1.305165	0.602235	2.167	0.0302
Population density	0.69385	0.133611	5.193	0
Population growth	212.2001	178.242	1.191	0.2338
Non-English speaking background	56.92786	14.60761	3.897	0.0001
Population	0.018738	0.004469	4.193	0
User charges and fees	14.96171	11.77084	1.271	0.2037
Number of DAs determined	-1.02578	0.193253	-5.308	0
Adjusted R-squared: 0.62				
F-test for overall model significance: 8.03 (0.000)				

Average business rate per business property

Variable	Coefficient	Standard error	t-ratio	p-value
Number of Rateable Business Properties	-0.85264	0.120084	-7.1	0
Area	-0.41429	1.21825	-0.34	0.7338
Population density	-0.3732	0.149905	-2.49	0.0128
Population growth	33.63926	42.78416	0.786	0.4317
Non-English speaking background	23.2247	13.46301	1.725	0.0845
Grant	-2.16832	4.107807	-0.528	0.5976
Adjusted R-squared: 0.33				
F-test for overall model significance: 18.27 (0.000)				

Proportion of revenue from user fees and charges

Variable	Coefficient	Standard error	t-ratio	p-value
Area	0.001226	0.001297	0.945	0.3447
Population density	0.001209	0.000497	2.433	0.015
Population growth	0.615757	1.064363	0.579	0.5629
Aboriginal and Torres Strait Islander	-0.08265	1.566196	-0.053	0.9579
Non-English speaking background	-0.15496	0.061878	-2.504	0.0123
Population	-0.00011	.150660D-04	-0.728	0.4666
Adjusted R-squared: 0.09				
F-test for overall model significance: 4.40 (0.003)				

Proportion of revenue from grants

Variable	Coefficient	Standard error	t-ratio	p-value
Population density	-0.00134	0.000265	-5.051	0
Population growth	-0.63522	0.841722	-0.755	0.4512
Non-English speaking background	0.040983	0.033342	1.229	0.2202
Population	.470696D-05	.689263D-05	0.683	0.4953
Adjusted R-squared: 0.37				
F-test for overall model significance: 3.80 (0.000)				

Debt Service Cost Ratio

Variable	Coefficient	Standard error	t-ratio	p-value
Area	0.00162	0.000775	2.089	0.0367
Population growth	-0.74148	0.529561	-1.4	0.1615
Population	.334444D-05	.113710D-04	0.294	0.7687
User charges and fees	-0.06162	0.037119	-1.66	0.0969
Adjusted R-squared: 0.44				
F-test for overall model significance: 4.66 (0.000)				

Current Asset/liability Ratio

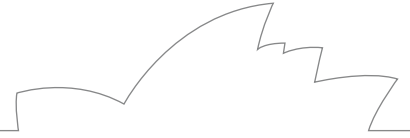
Variable	Coefficient	Standard error	t-ratio	p-value
Population growth	-0.00027	0.000169	-1.589	0.112
Population	-0.03732	0.374136	-0.1	0.9205
Non-English speaking background	0.055403	0.024282	2.282	0.0225
Population	.134825D-06	.526969D-05	0.026	0.9796
User charges and fees	0.000986	0.023968	0.041	0.9672
Grant	0.015239	0.03124	0.488	0.6257
Adjusted R-squared: 0.09				
F-test for overall model significance: 0.96 (0.5592)				

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