

AUSTRALIA'S METROPOLITAN GOVERNANCE CHALLENGE

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Marcus Spiller PhD
Principal and Partner



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SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au
Offices in Canberra, Hobart, Melbourne, Sydney

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Marcus Spiller PhD

Principal & Partner SGS Economics & Planning Pty Ltd

Associate Professor, University of Melbourne

Adjunct Professor, RMIT University

Adjunct Professor, UNSW

1.2 Abstract

The famed livability of Australia's major cities is under challenge domestically due to worsening traffic congestion, inadequate public transport services, diminished housing affordability and delayed provision of essential facilities and services in growing suburban communities. Some commentators attribute this erosion of livability to rapid population growth, noting that Australian cities, notably Melbourne and Sydney, are amongst the fastest growing metropolises in the rich world. Some of these commentators are calling for a cut in Australia's relatively high intake of international migrants to enable the cities to 'catch their breath' and mitigate infrastructure backlogs.

This paper argues that the foregoing narrative represents a misdiagnosis of, and an ill-advised solution to, the growing pains of Australian cities. Rather the problem lies in systemic governance failure which has impeded the ability of Australian communities to harness the nation's elite economic standing to provide the facilities and services required by growing cities. This governance failure is characterised by limits to the democratic legitimacy of State Governments in transacting urban policy, foregone opportunities to efficiently fund infrastructure from land taxes and the development process and severe vertical fiscal imbalance which has cultivated generally unhelpful involvement by the Australian federal government in cities.

The paper further argues that the creation of genuine metropolitan governments is essential if Australian cities are to realise their full potential. A reform pathway is discussed whereby the Commonwealth (the Australian federal government) would facilitate the formation of metropolitan governments by sharing the national tax dividend from better cities with the States.

1.3 A reputation for livable cities

Australia has a global reputation for producing good cities. For example, Melbourne and Adelaide have been cited amongst the world's top 10 most livable cities by the Economist Intelligence Unit (EIU) in each of its past 4 surveys, with Melbourne topping the list on 3 occasions¹. Sydney and Perth also figure regularly at the top end of these rankings.

While such ratings are generally welcomed in the popular media, there is growing awareness that livability rankings geared to the lifestyle preferences of a globally roaming elite of knowledge workers do not reliably reflect the living requirements of ordinary citizens.

¹ See <http://www.eiu.com/topic/liveability>

Drawing on the UN Sustainable Development Goals, RMIT University (2018) characterises a 'truly livable' city as one which:

- *is safe, socially inclusive and cohesive*
- *is environmentally sustainable and biodiverse*
- *has affordable housing close to good public transport, walking and cycling infrastructure*
- *enables residents to live close to employment, education, public open space, local shops, health and community services*
- *has good leisure and cultural facilities, and*
- *has access to clean water, low carbon energy and healthy food.*

Taking this perspective there has been persistent and long standing concern in Australia's big cities about declining livability. Three issues are regularly canvassed in media commentary; housing affordability, traffic congestion and delayed provision of essential services like education, health and public transport to newly established communities on the suburban growth fronts of the metropolises.

1.4 Population growth

More recently, concerns with diminished livability in Australian cities have been linked to the nation's immigration program and associated rapid population growth.

Notwithstanding its ruthless treatment of refugees arriving by boat, Australia has run an historically strong immigration program over the past two decades. This program is geared to boosting national economic growth by plugging skill gaps and labour shortages in particular industries and regions.

Some 80% of immigrants prefer to live in the big cities, notably Sydney and Melbourne.

The shift to a knowledge based services economy in Australia has privileged the Sydney and Melbourne metropolitan economies in particular, rendering them magnets for internal and international migrants alike. As a result, these cities are amongst the fastest growing metropolises – measured in proportional and absolute terms – in the rich world. Both Melbourne and Sydney are growing at a pace that would add a million residents every decade or so.

Credible analysts such as the Grattan Institute have commented that "unless the states are prepared to reform their planning systems, the Commonwealth should consider tapping the brakes on Australia's migrant intake" (Daley & Coates, 2018).

However, concerns with infrastructure backlogs, housing affordability and congestion have been recurring themes in Australian urban policy, regardless of the pace of population growth.

In the early 90s, as far reaching structural adjustments gathered steam following the micro-economic reforms of the 80s, a (net) thousand Victorians a week were abandoning the (then) 'Rustbelt State' and making for the likes of Queensland and WA. At that time, slow, or no, population growth was the worry for Victoria and its then already high livability-scoring capital, Melbourne. Yet the State Government's metropolitan strategy of the day, dubbed "*Melbourne's Sprawl – Time to Act!*", rehearsed all the same issues that are being linked to 'excessive' population growth today – infrastructure deficits in greenfield suburbs, clogged roads and unaffordable housing.

For a rich country like Australia – which has a GDP per capita at 1.14 that of the UK, for example - the link between metropolitan livability pressures and population growth is intuitively spurious. This paper hypothesises that these problems are attributable to poor urban governance arrangements rather than the pace of growth per se.

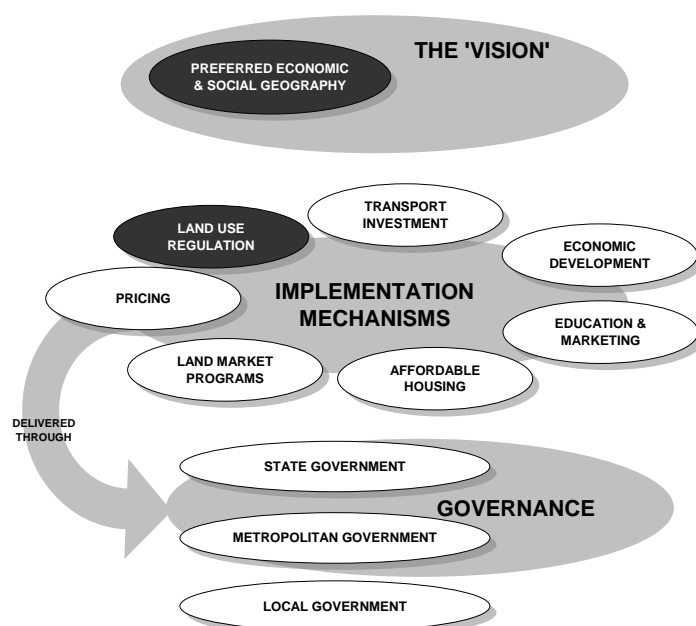
To some observers, this hypothesis may pose a paradox. If urban management in Australia is so deficient, why is it that the nation has historically enjoyed an international reputation for relatively good urban livability, notwithstanding ongoing reports of infrastructure delays, congestion and housing affordability? Apart from the mismatch between the EIU perspective on livability and the lived experience of suburban Australians, the paradox is explained by the changing *scale* of the metropolises under management. Australia's comparatively good record in urban management has been built up during a period when rather small cities held sway – generally of 3 million or fewer residents. In this environment, less sophisticated and less fit for purpose urban governance might 'do', delivering reasonable, albeit sub-optimal, outcomes. In a wealthy country like Australia, such sub-optimality may even generate quantitatively superior results to other less well-endowed nations. However, as Australia looks to manage cities of 5 million and well beyond in the cases of Melbourne, Sydney and South East Queensland, previously unencountered challenges associated with this scale are emerging, especially to do with the 'divided city syndrome', that is, new suburban communities increasingly locked out of the premium inner city labour market. Old, "muddle through", approaches to metropolitan governance may no longer do in this, more demanding, context.

1.5 Good metropolitan strategic planning necessary but not sufficient

The hypothesised governance deficit is not related to an inability to produce good metropolitan strategies. The uninitiated visitor to Australia is likely to be impressed by the quality of the spatial development plans produced for the nation's capital cities by the State and Territory Governments. These plans appear to offer a comprehensive perspective on the contemporary drivers of urban growth and change, and they typically embody a clear set of objectives and action strategies linked to an overarching vision.

However, good spatial planning and land use controls are necessary but not sufficient to produce good cities. Amongst other things, these plans must be backed by judicious deployment of city shaping transport projects, curation of economic development strategies that work in the spatial domain, application of infrastructure pricing policies and development licencing regimes which send market signals that support rather than militate against the preferred patterns of development and prosecution of appropriate affordable housing programs.

FIGURE 1 METROPOLITAN PLANNING TRILOGY



Source: Spiller (2005)

Herein lies Australia's metropolitan governance challenge. The current capacity to produce good metropolitan strategies far outstrips the capacity to bring them to fruition.

Arguably, a sound urban governance framework would feature four key attributes:

1. Assignment of service delivery and regulatory responsibilities in line with the subsidiarity principle
2. Sufficient fiscal independence on the part of subsidiary spheres of governance so that they might discharge their responsibilities with significant autonomy
3. Democratic accountability for how subsidiary resources are raised and deployed, and
4. Transaction of State and national priorities through partnerships and incentives in a subsidiarity framework.

As discussed below, there are significant shortcomings in Australian urban governance across all four of these parameters

1.6 Subsidiarity

Spiller and Murrian (2018) propose a notional ideal allocation of funding and delivery responsibilities for a range of urban services with reference to the subsidiarity principle. We identify a provisional array of infrastructures starting at the top with what we characterise as 'highly local' facilities and services, that is, matters which would be within the domain of neighbourhood or community councils and descending to matters which we assign to national decision making and funding. We further map the jurisdictions of the various spheres of governance in Australia against this notional ideal (see Figure 1).

Our nominated 'ideal' portfolio of infrastructure interests for each sphere of governance in Figure 1 reflects a judgement about the capacity of the community sphere in question to resolve service standards and tax raising in relation to that service without unduly comprising choices available to communities within which it is nested.

This asserts that as one moves up the subsidiarity scale, from local to national and supra national spheres of governance, jurisdictions become less concerned with, and less competent in meeting, the needs of the citizen *in place*. Put another way, higher order jurisdictions are more likely to be concerned with (and better at delivering) non-geographically circumscribed entitlements to do with, say, social security, health insurance and freedom of movement. In this formulation, "higher" spheres of governance focus on programmatic or sectoral policies delivered at scale with a high level of uniformity for citizens across the jurisdiction in question, whilst "lower" spheres of governance may be more concerned with the inter-sectoral and urban synergies that can be achieved in delivering infrastructure and services to the community (see below).

From the citizen's standpoint, the bond or community of interest with fellow citizens at the State and national levels has no particular geographic reference point, other than historic or politically defined jurisdictional boundaries. Meanwhile, at the local and regional level, the community of interest will reflect spatial externalities in settlement patterns and joint use of physically located infrastructures like transport and water supply, all of which will routinely demand customised local responses rather than generic programmatic solutions.

What is evident from Figure 1 is the apparent centralisation of urban infrastructure responsibilities in Australian urban governance. This is reflected in:

- The absence of neighbourhood or 'parish' governance jurisdictions
- The absence of a metropolitan or regional sphere of governance, and, as the outworking of these two factors
- The extension of State or provincial spheres of governance into relatively local or regional service areas.

This occupation of local and regional service domains by State level governments is problematic from a number of perspectives. One is that States reach beyond their 'natural sphere of competence' leading to compromised service quality and efficiency.

As noted, as one travels up the geographic continuum from the local to the national, the natural competencies of governments relate less to communities defined by towns and cities, and more to the citizenry at large, regardless of where they live.

This means that, typically, the activities of government have a programmatic or sectoral focus at the upper end of the continuum with the emphasis on universality, equal access and economies of scale in delivery.

TABLE 1 TABULATION OF INFRASTRUCTURE – LOCAL DESCENDING TO NATIONAL

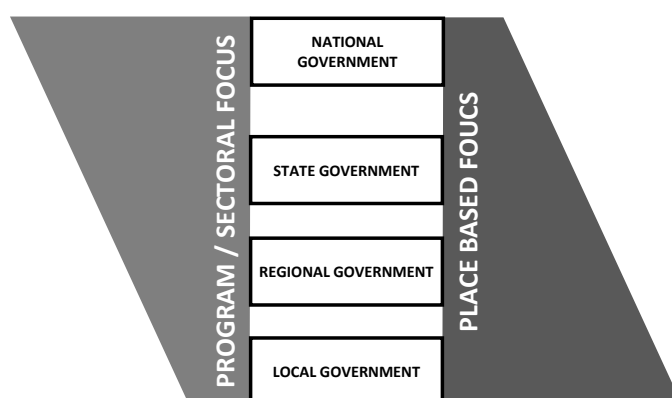
Service/function	Notional ideal					Australia (approximation)				
	1 neighbourhood/suburb	2 town / municipality	3 metropolitan / regional	4 state/province	5 national	1 neighbourhood/suburb	2 town / municipality	3 metropolitan / regional	4 state/province	5 national
Local streets, sewers and drains										
Local parks										
Local community facilities (libraries, childcare, neighbourhood multi-purpose facilities)										
Heritage protection - local										
Collector and sub-arterial roads										
District main sewers and drains										
Local spatial planning										
Development assessment - local										
Local arts programs, facilities and events										
Pre-schools										
Primary schools										
Secondary schools										
Collector bus services										
Intra-regional arterials										
Dams and other high level water harvesting infrastructure										
Waste water treatment plants - regional										
Waste water treatment plants - local and sub-regional										
Inter-regional and inter-urban highways and freeways										
Line haul (commuter) bus services										
Tramways										
Metro rail systems										
Line haul (commuter) rail services										
Regional economic development										
Metropolitan level spatial planning										
Regional spatial planning (non-metro)										
Development assessment - regional & metropolitan										
Flagship arts and cultural institutions, programs and events										
Household waste recycling										
Industrial waste processing										
Electricity transmission										
Electricity distribution										
Hospitals - regional and metropolitan										
Hospitals - sub-regional										
Regional stadia										
Universities										
Technical and trade training										
Police - local										
Police - regional / metropolitan										
Inter-urban bus services										
Development assessment - state / national significance										
Electricity generation										
Airports - regional										
Prisons										
Courts, judicial review and administrative review										
Heritage protection - regional / state										
Social housing provision										
Food standards										
Public health standards and enforcement										
Aged care - hostels										
Aged care - nursing homes										
Airports - international										
Transfer payments- health insurance										
Transfer payments - unemployment										
Transfer payments - disability										
Transfer payments - age pension										
Transfer payments - housing assistance										
Defence										
Aviation regulation										
Broadcasting regulation										
Heritage protection - national										
Indigenous affairs										
Immigration and border protection										
Police - federal										

The disparaging term for this mode of public service delivery is via ‘silos’. But this model of service provision may best reflect the mandated role of these higher order spheres of governance and the expectations of citizens.

As one moves down the spatial continuum, governance becomes more concerned with the citizen in place context. Governments at this level have greater natural competence in connecting up services within a place and optimising their impact taking into account the peculiarities and particular advantages of those places.

If the operational limits generated by these natural competencies did not exist, one could say that governments could handle everything from the centre. This is rarely, if ever, possible, other than in the case of national emergencies (like war) or geographic alignment of national and local jurisdictions (as occurs, for example, in the case of Singapore).

FIGURE 2 HYPOTHESISED ‘NATURAL COMPETENCIES’ OF GOVERNMENT



While silos work well for the provision of single purpose services, this mode of public administration inclines State Governments towards ‘predict and provide’ planning methodologies, unhelpful deconstruction of networked urban infrastructure into discrete, narrowly purposed, projects, and clumsy and ineffective models of transport and land use planning integration.

Beset with their silo modus operandum, State Governments are forced to resort to all manner of institutional gymnastics to realise their common mantra of ‘connected up’ services and policy. There are literally dozens of State agencies and advisory bodies in NSW and Victoria with a significant say in how metropolitan Sydney and Melbourne develop, including several co-ordination forums intended to harmonise the work of the major line agencies in transport, housing and land use planning (see Table 1).

It is not uncommon for some of these agencies to be unaware of the work of others, as occurred with the development of a State Government vision for a \$50 billion suburban rail loop in Melbourne in the run up to the 2018 State elections. This plan was prepared, it seems, in secret, by Development Victoria, the State Government’s land development company. Senior officials of the Department of Environment, Land, Water and Planning (DELWP) – the agency officially in charge of metropolitan strategic planning – were oblivious of this major city shaping initiative when it was publicly announced.

In a relatively recent development in the continuing State Government struggle to mitigate silo tendencies, investment co-ordination bodies have been set up which, ironically, are mandated to take a *partial* view of how cities grow. Examples include the creation of Infrastructure Victoria and Infrastructure NSW. These are intended to ‘take the politics out of major infrastructure decisions’ by entrusting an independent agency with an authoritative advisory role in Government investment priorities.

However, the mere fact that an ‘infrastructure view’ of the world is institutionalised and separate from the ‘planning view’ of the world, which is the province of other State agencies, is problem laden, regardless of the talents, technology and insights which these new agencies might bring to the question of infrastructure prioritisation. And it is hardly a solution to the silo proclivity of higher order governments; Infrastructure Victoria had no involvement in the aforementioned Melbourne suburban rail loop proposal, and the State Government had no convincing explanation as to why it was pursuing a particular mega-rail plan with zero guidance from its principal adviser on such issues.

TABLE 1 AGENCIES FULLY OR PARTIALLY MANDATED TO INFLUENCE METROPOLITAN SPATIAL PLANNING IN MELBOURNE (2017)

Agency	Function / responsibilities
Department of Environment, Land, Water and Planning (DELWP)	Preparation of the metropolitan spatial development plan
Victorian Planning Authority (VPA)	Implementation of key initiatives in the State Government’s spatial development plans for Melbourne and other parts of Victoria
Office of Suburban Development – Metropolitan Partnerships	Advising Government on infrastructure and development priorities in suburban Melbourne
Infrastructure Victoria	Advising Government on infrastructure priorities for the State
VicRoads	Planning and implementation of an arterial road and highway network for Melbourne and Victoria
Transport for Victoria (TfV)	Planning and implementation of all transport infrastructure for Victoria
Development Victoria	Implementation of the Government’s urban planning strategies through land development projects
Partnerships Victoria (DTF)	Processing unsolicited private sector proposals for major infrastructure development
Infrastructure Planning & Major Projects DPC	Advising Government on infrastructure project implementation in Victoria, including city shaping investments generated through public – private partnerships
Special purpose agencies (e.g. Fishermans Bend Taskforce, Latrobe Valley Authority, Birrarung Council, Level Crossing Removal Authority etc)	Various

1.7 Fiscal autonomy to act on subsidiary responsibilities

Subsidiarity also implies that each sphere of governance within a federated system should be able to stand on its own two feet and enjoy a high degree of self-determination for those issues falling within its scope of competency. This, in turn, implies a relatively high degree of fiscal autonomy, including in revenue raising powers. To have some spheres of governance dependent on, or beholden to, other spheres for the resources to fund decisions within their competency inevitably leads to blurring of accountability and inefficiency in service provision. Vertical fiscal imbalance is a defining structural problem in Australian governance – urban or otherwise. The States routinely blame poor service delivery on inadequate funding from the Commonwealth, while the Commonwealth routinely ascribes blame to the States for wastage or incompetence. The citizen is left frustrated.

The lack of a regional or metropolitan sphere of governance in Australia generates structural barriers in the application of efficient taxes and charges to help fund essential urban services. One example is the creation of metropolitan markets in development rights.

There is a great deal of speculation in Australia's planning and urban development systems linked to the generation and allocation of development rights. The property sector is replete with agents chasing rezonings and uplifts in land value. A clear planning and economic solution to this inefficient speculation is to design an explicit market in development rights like the one which currently applies in the Australian Capital Territory.

In such a system, proponents would separately have to apply for planning permission with approval based on the usual compliance criteria relating to design, consistency with local precinct objectives and fulfilment of infrastructure contributions. If approval is granted, the proponent would then need to purchase a development licence from, say, State Treasury where the licence fee is linked to the uplift in residual land value associated with the approval in question. As demonstrated by ACT experience, these licence fees can be standardised and codified for different precincts and land use types rather than having to be calculated on a case by case basis.

The States have not been able to manage even a discussion on this, let alone substantive reforms. This is, in part, because the States are not seen as legitimate agents for the tax base represented by metropolitan communities.

Another important market reform and revenue source for metropolitan governments would be road congestion charges, the proceeds of which can be funnelled into sustainable transport infrastructures and programs. Again, the States have been notably inactive or ineffective in this area, partly because this issue lies outside their natural competence and perceived mandate as outlined earlier.

Australia has a comparatively low tax share of GDP within the OECD spectrum in part because of the absence of a sphere of governance with the legitimacy to more heavily tax land for the provision of urban services (Mangioni, 2018). State Governments have struggled to introduce broad based land taxes to replace stamp duties on property transactions. Interestingly, only the ACT has made headway on this, and the ACT is probably Australia's only genuine metropolitan government.

1.8 Democratic accountability

State Governments cannot speak for their metropolitan communities, even if the metropolitan areas in question make up the great bulk of the population of the State in question. For example, the WA Minister for Planning cannot go to, say, Kalgoorlie or Broome or Bunbury and declare that she stands for Perth; she certainly cannot do so in the way which Sadiq Khan might for London, or Bill Di Blasio for New York City.

This creates a legitimacy challenge for State Governments when they seek to prosecute the case for metropolitan interests over local interests, as has been a constant theme in Australian urban consolidation plans over the past 40 years. This legitimacy challenge also impedes efficient fiscal reform as mentioned.

Moreover, as State Governments are not as closely engaged with, and mandated by, the metropolitan constituency they have a tendency towards exaggerated differentiation on both the big picture and detail of urban planning versus opposition parties aspiring to government.

In the first 17 years of this century, State Governments in NSW and Victoria produced no fewer than four comprehensive metropolitan strategies each, at seemingly ever decreasing intervals; in the case of Sydney in 2005, 2010, 2014 and 2016, and in the case of Melbourne in 2002, 2008, 2014 and 2017, and another is in the works on the fly in the run up to State election in November this year, with the Victorian Government's surprise announcement of the multi-billion dollar suburban rail loop.

In the likes of London or NYC, there is much greater consistency in overarching vision, regardless of the political colour of the incumbent city government.

1.9 Transaction of state and national priorities for the cities

The subsidiarity principle also implies that non-central governments are seen as partners rather than the mere foot soldiers of a central government that may be providing funds to address horizontal fiscal imbalance or national priorities. The central government is entitled to be clear about what is to be achieved via any inter-jurisdictional funding program. Having said this, the means by which these outcomes are to be achieved with the resources on offer should be a matter for recipient governments to determine.

Better functioning metropolitan areas is a vital *national* project because a range of national objectives, including those derived from international agreements to mitigate climate change, inevitably involve reshaping the city. However, this requirement for national urban policy is not to be confused with a call for the national government to directly solve the economic, social and environmental challenges of metropolitan development as it has been wont to do in its sporadic incursions into urban and infrastructure policy in the past. Indeed, vertical fiscal imbalance has shaped a generally counterproductive role for the Commonwealth in urban policy. This includes the Commonwealth using its over-dimensioned taxing powers (it collects 80% all revenues – substantially more than is required for its own purposes) to dictate city shaping infrastructure priorities to subsidiary jurisdictions. State Governments, already grappling with their own structural incapacity for integration of transport and land use planning, have found themselves dancing to a Commonwealth infrastructure tune built on an even lesser aptitude for such integration.

The default position amongst many urban planners in Australia is to advocate for a more proactive urban policy on the part of the Commonwealth, often invoking the ‘glory days’ of the Whitlam era (1972 – 1975), when the national government involved or imposed itself on the problems of the cities through direct, ‘fix it’, program. Arguably, such interventions deepened vertical fiscal imbalance, diluted electoral accountability for effective service delivery and provoked spurious connections between the problems of the cities and matters of national policy, such as immigration.

Solving the problems of the cities is beyond the competence of the Commonwealth notwithstanding its fiscal might. Nevertheless, achievement of better metropolises remains a national project because, as discussed, Australia is otherwise unlikely to fulfil its nationally shared aspirations for prosperity, social inclusion and sustainability. This demands a more nuanced exercise of influence by the federal government, pursued with due recognition of the subsidiarity principle.

1.10 Rectifying Australia’s urban governance deficit

The formation of fiscally autonomous metropolitan governments, that is, resolving the gaping deficiency in Australia’s hierarchy of governance evident in Figure 2, is essential if the nation’s cities are to better manage population growth and maintain high levels of livability.

Initiatives like the Greater Sydney Commission and the erstwhile Metropolitan Planning Authority in Victoria do not address this reform imperative. They are but another palliative response for the abiding inability of the States to deliver place based, connected-up government. This is not to say that such initiatives are worthless. But, it should be clear that they represent *administrative* reform within the dominant State Government, rather than genuine *governance* reform. Governance reform, as noted, would involve devolution of significant decision making and tax raising powers to a metropolitan constituency.

What is it that a metropolitan government could do that local governments and State Governments (and Commonwealth Governments) could not do? There is no hard and fast ‘province’ for metropolitan governance. The appropriate locus for a particular urban service

or regulatory function is both culturally specific and reflective of established political traditions.

Moreover, the bailiwick of metropolitan governments is open to influence by technological change. For example, recent innovations in distributed approaches to water and power supply enable a more devolved method of infrastructure provision compared to the long-distance poles, wires and pipe technologies of the past.

It is also necessary to interpret subsidiarity through an Australian cultural lens. This means recognising that functions like health, housing and policing are likely to remain in the domain of State Governments, even though other spheres of governance often deal with these matters in other countries. The metropolitan subsidiary functions identified here centre on primary responsibility for planning, funding and delivering higher order 'city shaping' infrastructures. They also include policy making and regulatory activities that transcend local neighbourhoods but require a spatially integrated approach which, on the evidence, is beyond the capability of State Governments.

Such functions are listed in the following table.

TABLE 2 SCOPE OF HYPOTHESISED METROPOLITAN GOVERNMENTS IN AUSTRALIA

<p><i>Metropolitan integrated planning</i>, including, for example,</p> <ul style="list-style-type: none"> • Metropolitan economic development • Metropolitan level spatial planning • Development assessment – projects with regional & metropolitan impact
<p><i>Transport system investment and management</i>, including, for example</p> <ul style="list-style-type: none"> • Intra-regional arterials • Line haul (commuter) bus services • Tramways • Metro rail systems • Line haul (commuter) rail services
<p><i>Regional water sustainability</i>, including, for example</p> <ul style="list-style-type: none"> • High level water harvesting infrastructure • Waste water treatment plants - regional • Waste water treatment plants - local and sub-regional
<i>Regional power grids</i>
<i>Regional resource recovery</i> (household waste recycling, industrial waste processing)
<i>Regional parks</i>
<i>Regional arts and cultural institutions, programs and events</i> , and
<i>Regional stadia</i> .

This represents a relatively confined, but crucially important, portfolio of functions. It would leave local government in control of neighbourhood planning (within the framework of the metropolitan spatial plan), assessment for the vast majority of development proposals, local place making and small business development, open space provision and management and unfettered operation of a wide range of human services geared to the nuanced requirements of the local community. Meanwhile, State Governments would retain responsibility for

jurisdiction-wide services such as education, health and disability, housing and policing. These functions account for around two thirds of State Government outlays signifying a continuing senior role in Australian governance.

A more propitious distribution of decision making and tax raising powers recognising the innate separateness of the State and regional/metropolitan communities of interest would generate more efficient policy, as argued above. The productivity gains from just two, currently out of reach, reforms - congestion pricing and development licencing –would most likely pay for a fourth tier of governance many times over.

The formation of metropolitan governments with the scope set out above would in no way imply rationalisation or elimination of local governance, as some lobbyists have argued. All four spheres of governance have a part to play – federal, state, regional and local. They have complementary natural competencies. Full empowerment of the citizen requires that all four forums are available for them to express their solidarity and shared destiny.

Experience in NZ is instructive. The formation of a mega Auckland Council has, indeed, enabled better integration in land use and transport planning as well as a sharper focus on spatial aspects of economic development. However, the failure to implement other key recommendations of the NZ Government's expert committee of enquiry into governance options for Auckland, namely the retention of local Councils for local matters, has created a new governance dilemma – how to meaningfully engage citizens in local policy making.

On the question of democratic accountability in the notional metropolitan sphere of governance outlined here, there are any number of electoral models that could be applied. A minimalist approach in an Australian context would adopt an electoral college under which groups of constituent local governments covering logical segments of the metropolis select, by ballot, one or more of their pooled councillors to sit in the metropolitan governing body. This could operate with or without direct popular election of a metropolitan mayor.

This would establish a genuinely autonomous sphere of governance to deal with the portfolio of regional matters listed earlier. It could be thought of as regional council with its own tax base (including land taxes, development licence fees and congestion charges) but operating in conjunction with local municipal councils rather than in their place. This is along the lines of the Greater London Authority model.

A less radical, interim, reform would be to set up a regional metropolitan authority which still has the same tax base and portfolio of functions but which is governed by a board comprising a mix of State Government appointees and democratically mandated members from constituent Councils appointed via electoral college. The State might reserve a majority of seats on this board.

1.11 Role of the Commonwealth

The greatest challenge in this reform vision is that the State Governments would have to give up or share jurisdiction over the metropolitan areas on the matters identified above - metropolitan spatial planning, transport system investment and management, regional water sustainability, regional power grids, regional resource recovery, regional parks, regional arts and cultural institutions, programs and events, and regional stadia.

The State Governments would remain in charge of the big spending areas of health, education, policing and justice and inter-regional transport. They would be far from an irrelevant sphere of governance. Nevertheless, the States would take some convincing to give up control of their cities, even if they persuaded on the technical arguments.

This is where the Commonwealth comes in.

The question is, how can the federal government facilitate the formation of metropolitan governments as a pre-requisite for the cities to take a trajectory aligned to national goals when this is matter for which the Commonwealth has no constitutional authorisation.

The Commonwealth (in both its partisan stripes) pursued a reform program of similar scope and ambition when it successfully prosecuted the case for National Competition Policy (NCP) in the 1990s and 2000s. This represented a global best practice model whereby a federal government effected sweeping change in many areas outside its constitutional jurisdiction, without interfering in the local service delivery mandate of sub-national governments. This was achieved by offering to share the productivity dividend from the competition reforms (i.e. the increased national tax revenue collections) with the non-central governments.

The Commonwealth could apply the same dividend sharing principle to advance better metropolitan governance. In fact, the federal government has, to some extent, proto-typed this model in urban policy. In the early 1990s, as part of an unheralded departure from the then Government's market liberalisation agenda, the 'Building Better Cities' program was launched. This offered State Governments untied Commonwealth transfers on the basis that the recipient government would commit to achieving a range of economic, social and environmental 'outcomes' defined in an 'Area Strategy'. The Area Strategies generally covered substantial sub-regions within metropolitan and non-metropolitan areas and called for co-ordinated investment across relevant State Government 'silos'. The Commonwealth used its financial muscle to cultivate a degree of behaviour change in a subsidiary sphere of governance without prescribing how States should go about their strategic planning and without 'picking winners' in terms of infrastructure projects. The Better Cities program was well received across State jurisdictions and the urban development industry but disappeared with the demise of the Keating (Labor) Government in 1996.

More recently, the Turnbull (Coalition) Government developed a 'City Deals' program ostensibly based on similar performance principles, but with a seemingly stronger focus on electorally important regions.

A larger scale version of 'Better Cities' or 'City Deals' could prompt the reforms required at State level to initiate metropolitan governments. This could be couched within a 21st century version of national urban policy in which the Commonwealth sets national targets for more sustainable city development but leaves it to subsidiary governments to deliver these outcomes in ways which reflect local preferences, circumstances and capabilities.

A national urban policy of this type would feature three key elements, starting with an urban adjustment fund linked to the productivity boost generated by better cities. SGS has estimated that expanded tax flows from more productive cities could amount to more than \$4 billion per annum (AUD 2011).

Secondly, reflecting the successful experience with NCP, the Council of Australian Governments (COAG) would resolve national priorities of productivity, sustainability and liveability which would condition access to the urban adjustment fund. This would require the transformation of outcome statements into measurable and auditable performance requirements dealing with, say, productivity enhancement at the firm level, human capital development, greenhouse gas emissions, water cycle management, transport mode share etc, for cities as a whole. While it would offend subsidiarity disciplines for the Commonwealth to prescribe the 'how tos' for these outcomes, metropolitan governance reform could be cited as a potential 'milestone' in a State Government-led reform program aimed at achieving the national outcomes.

Thirdly, an arm's length body would be required to audit State performance against the charter for the urban adjustment fund and to provide an 'umpire's decision' on whether payments should continue to be made as agreed, slowed down or withheld altogether. Preferably this would occur through a process of public enquiry, so responsibility for performance or lack thereof can be transparently sheeted home to the jurisdictions in question. The National Competition Council performed this independent audit role in the early (most effective) years of NCP.

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Contact us

HOBART

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

SYDNEY

209/50 Holt Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au

CANBERRA

Level 2, 28-36 Ainslie Avenue
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

MELBOURNE

Level 14, 222 Exhibition Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au