

Northern Sydney Joint Organisation: Business Case



Draft Final Report

Ryde, Lane Cove and Hunters Hill Councils
May 2015



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EXECUTIVE SUMMARY

Overview

Establishing a Joint Organisation (JO) involving Ryde, Lane Cove and Hunters councils is an economically viable proposition, where the sub-regional scale planning and shared services roles of the separate councils are invested in the JO. The performance of the JO is further enhanced with more councils participating.

Background

The State Government has proposed to create a new amalgamated Northern Sydney Council through the amalgamation of six Councils: 1) Ryde, 2) Hunters Hill, 3) Lane Cove, 4) Mosman, 5) North Sydney, and 6) Willoughby.

The nominated Councils do not support this proposed amalgamation. As an alternative, Ryde, Hunters Hill, and Lane Cove Councils have proposed to establish a Joint Organisation (JO) to undertake the following subregional functions:

1. Subregional land use and infrastructure planning
 2. Subregional community and cultural planning
 3. Subregional economic development and tourism
 4. Joint subregional advocacy
 5. Joint strategic procurement initiatives, and
 6. Joint subregional service delivery.
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Scope and objectives

SGS Economics & Planning (SGS) was commissioned to articulate how these functions would operate under the JO transfer proposal and to describe the **strategic capacity enhancements** that would be generated; the ultimate goal of State Government.

SGS was also tasked with performing a **cost benefit analysis** of moving from the current situation to the proposed JO. That is, SGS's analysis takes a broad community perspective, and therefore considers the gamut of economic, social and environmental costs and benefits generated by moving the subregional functions to the JO.

It is noted that SGS's analysis does not cover the transfer of the 5) Joint strategic procurement initiatives and 6) Joint subregional service delivery functions to the JO, acknowledging that these are highly complex arrangements that need to be informed by further detailed investigations.

Options assessed

The cost benefit analysis has identified, quantified and contrasted over time the costs and benefits of moving from the existing situation (base case) to two alternative JO options as follows:

- **Base case:** each Council continues to undertake subregional functions separately;
- **Option 1:** 3 Councils (Ryde, Hunters Hill, Lane Cove) transfer subregional functions to a JO; and
- **Option 2:** 6 Councils (Ryde, Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby) transfer subregional functions to a JO.

Outcomes expected

If the subregional planning functions are transferred to a JO, there are likely to be improvements in targeting and achieving the shared spatial planning outcomes sought by the Councils collectively. This includes:

- The development of better plans for land use and infrastructure development;
- More efficient decision making in relation to planning and development proposals; and
- A more rapid advancement towards targeted subregional land use, infrastructure, social and economic development outcomes.

Ultimately this will mean that the urban development that occurs across the subregion will be managed in a better manner, ensuring that the functionality, productivity and liveability of the subregion is maintained over time. Importantly, no assumption has been made about changing the overall rate of urban development, but improvements can be expected in terms of the spatial location of development and its infrastructure servicing. These improvements apply to the three participating councils, and would be greater if six councils were to participate in the JO.

Achieving Strategic Capacity

The transfer of subregional functions to a JO would lift the capacity of the participating Councils to achieve a subregional strategic agenda – while boosting each individual council’s ability to achieve the local outcomes of their Community Plan. The JO is a customised approach to achieving Strategic Capacity, and the associated benefits, without the disruption and costs of amalgamation (as outlined in the reports by Morrison Low, Brian Dollery and Percy Allen and Associates). The JO would achieve each of the elements of Strategic Capacity as summarised below.

More robust revenue base and increased discretionary spending Resources to cope with complex and unexpected change

The Joint Organisation would represent 216,000 to 427,000 people by 2031 (3 or 6 councils respectively). The effect of the JO would be to reduce demand on the capital of participating councils, enable them to depreciate assets more efficiently and offer greater surpluses to invest in infrastructure and enhanced services. This would also improve the participating council’s capacity to make provision for and fund complex and unexpected change.

The JO would achieve public resource savings and more effectively deploy funds by: streamlining forward planning and development sequencing (including using pooled funds under a single s94 plan), improving utilisation of facilities across council boundaries and delaying new capital expenditure as a result.

Scope to undertake new functions and major projects

The strategic planning capacity to deliver and assess projects comparable in scale to, for example, Ryde’s urban renewal precincts would be available across all councils participating in the JO. Potential new projects and functions would include economic development of specialised hubs, transport precincts and town centre redevelopment across local government boundaries.

Knowledge, Creativity and innovation Advanced skills in strategic planning and policy development

The combined strategic planning staff resources of the JO would deliver economies of scope - as teams are able to avoid duplication, share knowledge, research resources and develop team size which enables specialisation. Enhanced in-house skills in transport and economic development planning will be valuable in delivering transit oriented urban renewal projects to achieve the subregional planning agenda, and realise the economic benefits of an efficient city structure.

Effective regional collaboration

A JO would build on economies of scale and institutionalise collaboration amongst participating councils for procurement, accessing grants, service delivery including the joint use of facilities.

The JO would provide a framework to enter into a single contract for services rather than multiple contracts across the participating councils. As a single entity it would be more competitive in accessing grant funding. It would collect larger bundled grant funds and have the flexibility to deploy matching council expenditure in the right place and right time to more rapidly achieve community plan outcomes.

Credibility for more effective advocacy

By 2031, the JO could represent up to 15% of Sydney's population and an even higher proportion of its jobs (assuming all six councils participated). The JO would adopt single clear positions across its councils for rating, funding infrastructure priorities, economic hubs and social planning agenda. This represents a less parochial and more powerful bloc of interest to argue for subregional priorities (e.g. light rail, economic development prospectus).

Capable partner for State and Federal agencies

The JO would serve as a single point of contact for State and Federal Government to identify shared positions on regional planning, economic development and social policy issues. This would replace the need for individual negotiations with up to six separate councils. This is critical for the smooth delivery of subregional strategy and social policy targets in partnership with NSW Government.

In addition shared subregional positions supported by an evidence base would provide a stronger justification for flow on planning and investment decisions for State infrastructure

High quality political and managerial leadership

The JO would be constituted by a board/council of Mayors from the constituent councils. They would be serviced by a secretariat and have access to pooled strategic planning resources and a shared services entity responsible for those services for which there are clear economies of scale. Accountabilities for the JO and its shared service facility would be established under the Local Government Act. The JO would be equipped to focus on subregional imperatives and would leave individual councils better placed to lead their local constituents.

Costs and benefits

The transfer of subregional functions to a JO would give rise to ***once off establishment costs*** for the JO (year 1), as well its ***ongoing operating costs***.

It has been assumed that the current operating costs associated with delivering the subregional functions across each of the participating Councils simply transfers to the JO upon its establishment. Some overlap has been assumed in years 1 and 2 (25% of existing operating costs), i.e. to overcome teething problems, but no operating cost efficiencies have been factored in after this period. This is an inherently conservative assumption, as efficiencies could well be generated through the JO's relative economies of scale and scope.

Two key benefits have been identified:

- The ***acceleration of more efficient urban development and infrastructure provisioning***, as the JO plays a significant role in enabling this transition. There is significant evidence that the spatial form of development impacts economic, social and environmental outcomes in the Australian context.¹ Our analysis simply assumes that the preferred form of future development for Sydney over the long term

¹ SGS Economics & Planning (2005) and (2011); Centre for International Economics (2010) and (2012), amongst numerous others.

(to 2031) applies at the subregional level, i.e. future housing and employment are increasingly accommodated into town centres, and that the array of benefits that result from this are accelerated by the JO (i.e. by 5 years).

This array of benefits includes the net benefits generated by savings in costs associated with infrastructure provisioning, transport congestion, environmental pollution, along with unlocking the benefits of improved workforce productivity (agglomeration economies) and land use efficiencies.

Another way of articulating this benefit is to say that the risks of the subregion not developing in the most efficient locations are ameliorated by the operations of the JO.

- **Private sector appeals savings (from more effective planning decisions):** It is anticipated that significant planning and development decisions will be made at the subregional level, ensuring that these decisions are consistent with adopted subregional policy. In turn, the cost of decisions related to planning proposals and the private costs of appeals, which act to ultimately overturn inconsistent decisions, are avoided.

Historic rates of Planning Proposals and Class A appeals, and the rate at which appeals are upheld, have been used, as has the assessed avoided private sector cost of each appeal (~\$22,500).

Results generated

A discounted cashflow analysis, comparing the costs and benefits over a 15 year period (2016 to 2031), has been used to evaluate the merit of moving from the Base Case to Option 1 and Option 2.

	OPTION 1	OPTION 2
NET PRESENT VALUE (NPV) (Note: if NPV is positive, the option is worth pursuing)	\$523,044	\$3,401,971
BENEFIT COST RATIO (BCR) (Note: if BCR >1, the option is worth pursuing)	1.5	2.4
INTERNAL RATE OF RETURN (IRR) (Note: if IRR > discount rate, the option is worth pursuing)	17%	31%

Note: a real discount rate of 7% has been utilised.

Option 1 (3 councils participating) has a strongly positive NPV and BCR greater than 1. The results are further enhanced when considering the participation of 6 councils in the JO (Option 2). The results of this economic analysis do not take account of the strongly positive impact of including the estimated 10-20% operating cost savings from the adoption of a shared service arrangement.

Sensitivity analysis

The results of the sensitivity analysis highlight that in terms of downside risk, the largest threats to the viability of the JO rests with:

- Operating cost penalties, i.e. if significant duplication exists amongst the JO and participating Councils;
- The failure of the JO to accelerate the movement towards more efficient urban development and infrastructure provisioning patterns; and
- The failure of the JO to remedy inconsistent decisions with respect to Planning Proposals and Development Applications.

Having said that, most of the assumptions invoked are inherently conservative, and there appears to be more upside potential (i.e. for additional benefits) than there is downside risk.

Distributional assessment

The distributional assessment indicates that ratepayers will bear any incremental establishment and operating costs, while the benefits will be more widely spread, with benefits accruing to local residents, commuters, workers, businesses and developers, as well as local and State infrastructure provisioning agencies.

Based on this it does not appear that moving to the JO will impose any disproportionate inequities amongst stakeholders.

Conclusions

Based on the above analysis, SGS concludes that:

- The move to the JO is both viable and advantageous. That is, the benefits outweigh the costs considerably, and the improvements to strategic capacity are significant; and
- The net benefits associated with Option 2 outweigh that of Option 1. That is, the JO will be much more worthwhile if the six Councils transfer their subregional functions to it.

For the JO to be most effective, participating Councils should not be able to ‘opt out’ of key decisions. That is, they all must sign up to the subregional transfer of functions, and in turn, the plans and policies that the JO develops and the decisions it makes in governing in line with these plans and policies.

The analysis demonstrates that the JO represents a customised approach to achieving scale and capacity and, given the disruption and costs associated with amalgamations, offers net benefits that amalgamations are unlikely to be able to match.

1 INTRODUCTION

1.1 Project background

Fit for the Future

On 10 September 2014 the NSW Government released its response to the final recommendations of the Independent Local Government Review Panel (Revitalising Local Government April 2014) and the Local Government Acts Taskforce.

The NSW Government packaged its response under the banner of 'Fit for the Future' (FFF). For details see <http://www.fitforthefuture.nsw.gov.au/>

All NSW councils (except those in the Far West) have been requested to undertake a self-assessment, then prepare a road map to become 'Fit for the Future' and submit it to the State Government by 30 June 2015.

The criteria to be considered and applied to the assessments are:

1. Financial sustainability
2. Effectively managing infrastructure and delivering services for communities
3. Efficiency – value for money, and
4. Scale & capacity – to engage effectively across community, industry and government.

NSW councils must initially demonstrate how they meet the scale and capacity criteria before moving onto the other criteria. IPART have now been appointed by the State Government to evaluate council proposals against these criteria.

Northern Sydney recommendations

The State Government's current proposal, emanating from the aforementioned process, is to create a new amalgamated Northern Sydney Council through the merger of Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby Councils. That is, the Government has supported the Independent Local Government Review Panel's recommendation that in Northern Sydney scale and capacity can only be achieved by merging the 6 councils (or some similar merger).

The participating councils resolved to:

- Reject the Independent Panel's recommended amalgamation of Ryde with the other five councils;
- Complete Template 2 – Council Improvement demonstrating how Council intends to address the Fit for the Future criteria on a standalone basis; and
- Investigate a modified Joint Organisation (regional body) proposal to enhance its position in meeting the State Government's scale and capacity criteria.

1.2 Project objectives

The participating Northern Sydney Councils have commissioned SGS Economics & Planning (SGS) to prepare a business case that can be provided to the Office of Local Government (OLG) as part of Council's Fit for the Future Submission.

The project's objective was to investigate and prepare a business case on the costs and benefits that would be generated by the formation of a joint regional body for Northern Sydney which would enhance the subregion's scale and capacity in undertaking the following functions:

1. Sub-regional land use and infrastructure planning
2. Sub-regional community and cultural planning
3. Sub-regional economic development and tourism
4. Joint strategic procurement initiatives
5. Joint subregional advocacy, and
6. Joint subregional service delivery.

SGS has been asked to prepare the material for points 1 to 3 and 5 above. Others are expected to prepare the material relating to points 4 and 6 (Percy Allen and Associates). SGS has been asked to compile an overall business case.

The OLG, in its information provided on Fit for the Future, has stated that the business case must:

- Provide a high level strategic and economic appraisal of the feasibility of the proposed JO; and
- Consider the factors set out in Section 263 of the Local Government Act 1993, including undertaking due diligence to assess any high level risks of the proposed Joint Organisation to enable the participating Councils to make a decision to proceed to a Joint Organisation.²

1.3 Project approach

SGS has developed this business case for the proposed Northern Sydney Joint Organisation (JO) by performing a high level strategic and economic appraisal. This has included working with the Councils to:

- Describe how specified regional functions are likely to be performed under the base case (current) scenario and under the JO scenario;
- Assess how the key elements of 'strategic capacity' are supported by moving from the base case to the JO scenario;
- Identify and describe the economic costs and benefits of moving from the base case to the JO scenario;
- Quantify how the identified costs and benefits evolve over time (i.e. over a 10-20 year period);
- Assess how these quantified costs and benefits compare in present day terms using discounted cashflow analysis and, in doing so, generating a variety of performance measures; and
- Document the processes, results and implications of the aforementioned tasks into a concise, professional report.

² Effectively this means examining how a proposal affects the areas concerned in terms of: 1) financial impacts on residents and ratepayers, 2) community of interests and geographic cohesion, 3) historical and traditional values, 4) attitudes of the residents and ratepayers, 5) elected representation patterns, 6) council's ability to provide adequate, equitable and appropriate services and facilities, 7) council employment levels, 8) the impact on rural communities, and other factors of relevance.

2 SCENARIO SPECIFICATION

This section highlights how the regional functions are likely to be undertaken across the Councils of Northern Sydney under the base case (current) scenario and under a Joint organisation (JO) scenario, i.e. with either three (Ryde, Hunters Hill, Lane Cove) or the entire six (adding Mosman, North Sydney, Willoughby) Northern Sydney Councils potentially participating. It also highlights how the establishment of the JO will deliver costs and benefits, as envisaged by the Councils.

Local planning and development decisions remain with the individual councils under all scenarios.

2.1 Base case scenario

As per the project objectives, the subregional functions that are proposed to be performed by the JO with the aim of enhancing the subregion's scale and capacity include:

- Subregional land use and infrastructure planning
- Subregional community and cultural planning
- Subregional economic development and tourism
- Joint strategic procurement initiatives
- Joint subregional advocacy, and
- Joint subregional service delivery.

Consequently, under the base case scenario, each of these functions will continue to be undertaken separately by each council with limited subregional cooperation, as follows:

Strategic Planning/ Infrastructure

- Subregional Plans - strategic subregional land use planning
- Local and State Infrastructure Planning
- Local Environment Plans (LEPs), Plan making, Development Contribution Plans (DCPs)
- Separate council s94 Plans
- Place making – including cross border issues
- Strategic planning research
- No obligation to seek views of other councils

Statutory Planning

- Development Approvals (DAs) (meetings, mediation and approvals) remain with councils
- Separate council Independent Hearing & Assessment Panels (IHAPs) remain
- Joint Regional Planning Panels (JRPP) remains for major DAs

Community Planning

- No collaboration on corporate / community plan preparation
- Social and transport strategies (e.g. Bike Plans) do not integrate across borders

- Different fees / costs for facilities among different councils

Subregional Economic Development

- No coordinating role of Northern Sydney Regional Organisation of Councils (NSROC)
- No specialisation among councils for different skill sets

No Joint Subregional Advocacy, Representations & Campaigns

- Individual council approach re: funding/ rating policy, governance
- No shared State liaison, other referrals or consultation

Governance and Organisation Structure

- Separate councils and staffs - staff numbers and roles unchanged on same awards
- NSROC remains as currently staffed and funded
- Joint procurement for a range of services currently occurs across NSROC (e.g. Asphalt, Waste).

2.2 Joint Organisation scenario

Under the JO scenario there would be much more commonality in approach, coordination and centralisation of the subregional functions below.

The JO scenario assumes the involvement of at least the three councils of: Ryde, Hunters Hill and Lane Cove (Option 1). The JO scenario could be extended to include up to six council members of NSROC (Option 2: also potentially North Sydney, Willoughby and Mosman).

Strategic Planning/ Infrastructure

Common strategic planning on subregional planning / infrastructure matters:

- Single endorsed approach to subregional plan priorities and content
- Agreed centres hierarchy /collaboration promoting subregional hubs (e.g. bulky goods, education precincts)
- Single endorsed set of priorities on State infrastructure (e.g. preferred location and scale of education, health, sport, transport and social infrastructure)
- Shared approach to local infrastructure planning - recognising spare capacity within and across borders
- Single subregional LEP and DCP harmonisation (i.e. common design standards)
- Single subregional s94 Plan (i.e. larger total fund / more flexibility / better liquidity)
- Shared strategic planning research resources
- Obligated to seek views of other councils on matters with the potential to be of subregional interest
- For 3 councils - the scope for subregional scale strategic planning is somewhat limited to border planning issues and stronger infrastructure capacity utilisation among the 3 councils involved
- For 6 councils - the scale is equivalent to the majority of Sydney's North subregion and benefits would be realised across a wide range of strategic and infrastructure planning parameters.

Subject to agreement and decisions by the member councils the JO provides the opportunity for a shared Independent Hearing and Assessment Panel to decide medium size local development applications in accordance with jointly adopted council planning and development policies. All councils within a region would continue to have a say in appointing the Joint Regional Planning Panel (JRPP) that decides major

development applications of a regional nature. The outcome would be development decisions that work to deliver a broader subregional planning agenda.

Statutory Planning

Over time, subject to agreement by member councils, it is anticipated that statutory planning and approval powers would transition to more centralised JO authority on major DAs – potentially replacing role of JRPP. Other elements of the approvals regime could be as follows:

- Small DAs (<\$5M) remain with councils under existing arrangements
- Medium DAs (\$5M-\$20M) assessed / determined by shared single IHAP under delegated authority
- Large DAs (>\$20M) assessed / determined by JO
- For 3 councils – a shared single IHAP would be considered
- For 6 councils – there is the potential for NSROC (as a JO) to structure itself to take on the role of the JRPP for large DAs

Corporate and Social Planning

- Collaboration on corporate and community plan preparation
- Integrated Community Plans
- Joint approach to local implementation of State social policy targets and agendas (e.g. youth policy)
- Pooled grant funding for subregional facilities (e.g. SSHAP, Metro Greenspace)
- A JO would build on economies of scale and institutionalise collaboration amongst participating councils for procurement, accessing grants, service delivery including the joint use of facilities.
- Common fees for facilities
- The nature and benefits of joint community planning are scalable upwards from 3 to 6 councils

Subregional Economic Development

- Coordinating role of JO:
 - Common subregional economic development plan
 - Shared prospectus for investment / development
 - Council specialisation - identification and promotion of a council for best practice
 - Shared support for identified clusters/hubs for a skill or industry
- Although scalable upwards from 3 to 6 councils – the full advantages of joint regional economic development effort would be achieved as the scale of cooperation approached 6 councils and addressed issues and initiatives spanning most of Northern Sydney

Joint Subregional Advocacy, Representations and Campaigns

- Representations and campaigns on key policy, funding and governance issues
- Single point of approach to State / Federal Government on subregional matters (e.g. Light rail routes)
- Shared promotion of a common set of grant funding opportunities
- No change to approach to rating
- The impact of joint subregional advocacy would be scalable upwards from 3 to 6 councils

Governance and Organisation Structure

- Separate councils and staffs remain in place – with the assumption that strategic planning staff are engaged via the JO
- For 3 councils – NSROC remains to service non-participating councils (scalable model required)

- For 6 councils – NSROC fully subsumed into JO - funding and resourcing as per NSROC (included CEO/ 2.6 EFT seconded staff – and including Executive Director)
- JO structured as a board or council of Mayors - with the authority of a County Council responsible for subregional planning matters and issues crossing boundaries.
- The service delivery functions of the JO would be executed via a Regional Services Group (RSG a corporate entity / company limited by guarantee)(refer Percy Allen and Associates)

2.3 Summary of enhanced performance of JO scenarios relative to base case

The JO scenarios can achieve efficiency advantages by getting the most return (relative to cost) out of the resources used by the JO in strategic planning, decision making and through operation of the organisation.

The JO can also be more effective in targeting and achieving the shared spatial planning outcomes sought by the councils acting together. The economic advantages of a JO can be characterised under the efficiency and effectiveness categories below.

Plan Making Efficiency

A JO is expected to prepare enhanced strategic plans for land use and infrastructure with the same or fewer staff, administrative and capital resources - where there is:

- Integration and prioritisation of shared planning and infrastructure priorities – leading to more streamlined forward planning and development sequencing
- Savings from infrastructure investment prioritisation – avoiding duplication of infrastructure planning processes in the subregion
- Savings from shared research – avoiding duplicated effort and enabling economies of scope as expertise develops
- Savings from joint planning for social outcomes, economic development and tourism – avoiding duplication and inconsistency
- Savings and flexibility in infrastructure contributions planning via a common s94 plan and fund pool

The plan making capacity of the JO would be enhanced by the economies of scope and scale experienced among the participating councils in delivering major projects and precincts outlined in Section 3.2 (Scope to undertake new functions and major projects).

Decision Making Efficiency

Savings are expected to arise from economies of scale in the joint use of development decision making resources such as a shared IHAP. Economies of scope are also expected as council staff and resources are able to specialise and up-skill in major development assessment. Potential decision making efficiencies include:

- Cost savings from reduced appeals / mediations resulting from more consistent and expert DA assessment
- Savings from avoided duplication of assessment mechanisms including a shared Independent Hearing and Assessment Panel (IHAP)
- Potential for JRPP costs to be reduced by transfer of certain assessments to JO
- Single point of approach on major decisions involving State and Federal Government (e.g. rating, grants)

Operating Cost Efficiency

A JO would achieve economies of scale and scope from the operation of a shared services facility (managing rates, shared procurement, major facilities charging and management – especially where the involvement of all 6 councils could lead to the absorption of NSROC functions within the JO). However there would be:

- Once off establishments costs for new JRA and Shared Services arrangement (much less cost if converted NSROC)
- Additional meeting costs for JO (Board/Council of Mayors - County Council)

More Effective Plan Outcomes

There is potential for a JO to more rapidly and accurately achieve targeted subregional land use, infrastructure, social and economic development outcomes associated with:

- Delayed or avoided new capital expenditure for planned state infrastructure (e.g. schools, hospitals)
- Improved utilisation of existing local facilities (including sharing capacity across subregion)
- More efficient urban development patterns as better plans are made and investment decisions are more consistent with these plans (and antagonistic development is avoided)
- Increased agglomeration economies with improved place management - a more rapid adjustment towards identified objectives (e.g. knowledge clusters at Macquarie Park, TODs at Epping, mixed use outcomes at St Leonards etc.) or alleviating social exclusion.
- Travel time, vehicle operating cost and emission savings – associated with clearer subregional centres hierarchy and more effective transport systems
- More effective achievement of social plan outcomes - clearer prioritisation of social policy implementation from integrated community plans and joint approach to State social policy targets (e.g. youth policy)
- Amplified benefits from pooled grant funding for subregional facilities (e.g. SSHAP, Metro Greenspace)
- Enhanced policy and grant funding success – leading to more rapid achievement of funding priorities – e.g. single point of approach to State / Federal Government on regional matters (e.g. Light rail funding)

3 ACHIEVING STRATEGIC CAPACITY

The section provides a high level assessment of how the proposed JO improves the Northern Sydney region’s strategic capacity by examining the elements of strategic capacity as identified by the ILGRP.

3.1 Elements of Strategic Capacity

According to the ILGRP the concept of ‘strategic capacity’ highlights the need for councils: to

- Shift their focus towards a more strategic view of their operations
- Have the ability to respond to the diverse and changing needs of different communities, and
- Take on new functions or deliver improved services in order to meet those needs.

This implies a move to larger, more robust organisations that can generate increased resources through economies of scale and scope, and then ‘plough back’ efficiency gains into infrastructure, services and other benefits for their communities.

The ILGRP defines the key elements of ‘strategic capacity’ as follows:

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ wider range of skilled staff
- Knowledge, creativity and innovation
- Advanced skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership.

Scale to undertake strategic programs / projects

Scope to engage expert staff and advance skills

Influence for effective regional collab. / advocacy

The JO offers the prospect of achieving these elements, and the associated benefits, without the disruption and costs of amalgamation (as outlined in the reports by Morrison Low, Brian Dollery and Percy Allen and Associates). In fact a JO represents a customised approach to addressing these strategic capacity elements, as outlined below.

3.2 Assessment of JO proposal against elements

More robust revenue base and increased discretionary spending Resources to cope with complex and unexpected change

Population and housing growth is not directly proportional to a council’s revenue base, however the projections shown in

Table 1 give an indication of the scale of growth in the subregion to 2031. An extra 47,000 dwellings and 104,000 people are expected over a 20 year period (for six participating councils).

Table 1: LGA Population and DWELLING PROJECTIONS 2011-31

LGA	2011	2011	2031	2031
	Population	Dwellings	Population	Dwellings
Ryde	108,700	44,050	153,000	62,950
Hunters Hill	13,900	5,400	17,500	7,200
Lane Cove	33,250	13,900	45,250	18,850
North Sydney	66,750	37,000	85,750	47,850
Mosman	29,350	13,750	35,350	16,900
Willoughby	71,150	29,050	90,300	37,700
Total	323,100	143,150	427,150	191,450

Source: Department of Planning and Environment (2014) LGA Population, Housing and Dwelling Projections (final)

The financial sustainability of the councils participating in a Joint Organisation is discussed separately by Morrison Low. As an example of the benefits from such an approach, evidence from the WBC Strategic Alliance (of Central West Councils) indicates savings of \$5.7M arising from joint tenders and funding, shared teams and collaboration on over 55 projects in the last 12 years.

The Joint Organisation would offer public resource savings and the ability to more effectively deploy s94 funds for local infrastructure via:

- Streamlined forward planning and development sequencing (new provision of better sequenced and coordinated infrastructure)
- Delayed or avoided new capital expenditure for planned state infrastructure (e.g. schools, hospitals)
- Improved utilisation of existing local facilities (including sharing capacity across the subregion – e.g. sports fields, community centres, health centres, regional libraries)
- Agreed infrastructure investment prioritisation - avoiding duplication within the subregion
- Savings from shared research – avoided duplication and economies of scope/ specialisation
- More effective collection and deployment of s94 funds under single s94 Plan (i.e. larger total fund/ more flexibility / better liquidity)

The effect of the JO would be to reduce demand on the capital of participating councils, enable them to depreciate assets more efficiently and offer greater surpluses to invest in enhanced services. This would also improve the participating council's capacity to make provision for and fund complex and unexpected change.

Scope to undertake new functions and major projects

The participating councils already have a demonstrated track record in delivering major mixed use redevelopment projects linked with transport infrastructure (e.g. Top Ryde City, Herring Road and North Ryde Station Urban Activation Precincts). The strategic planning capacity to deliver and assess comparable projects would be available across all councils participating in the JO. The capacity to make strategic plans more efficiently and effectively under the JO (see Section 2.3) would lead to clearer project priorities and more streamlined forward planning and development sequencing for major projects.

Councils in Northern Sydney already have a track record in a range of shared services, these capabilities would be enhanced and better shared amongst the participating councils via a JO. Current examples of collaboration include:

- Synthetic turf playing field strategy
- Regional asphalt tender
- Regional waste disposal tender
- Regional community recycling centre
- Aboriginal heritage program
- Metropool insurance and risk scheme
- Shorelink regional library support services

- Northern Sydney internal audit service
- Family day care
- Emergency management committee
- State Emergency Service

Potential new or enhanced projects and functions facilitated by a JO could include:

- More complex and larger mixed use urban renewal projects (e.g. Urban Activation Precincts)
- Town centre redevelopment across local government boundaries
- Land use and supporting infrastructure planning for major transport infrastructure (e.g. light rail, busways and new heavy rail station precincts)
- Economic development of specialised employment / health / education hubs (e.g. North Ryde / Macquarie Park)
- Assessment by the JO of major DAs currently assessed via JRPP

Knowledge, creativity and innovation

Advanced skills in strategic planning and policy development

The combined strategic planning staff resources of a JO (involving 3 councils) would exceed 13 FTEs. At this scale a range of economies of scope become possible as teams are able to avoid duplication, share knowledge and research resources and develop critical mass for specialisation.

Enhanced in-house skills in key disciplines such as transport and economic development planning will be valuable in delivering transit oriented urban renewal projects needed to achieve the Metropolitan Strategy agenda. The resulting advantages of a JO stemming from the adoption of consistent subregional planning priorities would include:

- More efficient urban development patterns (or the acceleration thereof), as more progressive and regionally focussed plans are made, decisions are more likely to be consistent with these plans, and as private sector investment is better harnessed to these ends.
- Travel time, vehicle operating cost and emission savings – associated with clearer subregional centres hierarchy and more effective transport systems
- Avoided negative externalities of major development – by consultation and shared priorities avoiding antagonistic development
- Increased agglomeration economies with improved place management - a more rapid adjustment towards identified objectives (e.g. knowledge clusters at Macquarie Park, TODs at Epping, mixed use outcomes at St Leonards etc.) or alleviating social exclusion.

Effective regional collaboration

The benefits of regional collaboration are widely spread, with benefits accruing to local residents, commuters, workers, universities, hospitals, businesses and developers as well as local and state infrastructure and service providers.

The JO will enhance collaboration in subregional planning via shared plan making and infrastructure priorities outlined in Section 2.3 (Plan Making Efficiency). A shared focus on environmental planning priorities and a single LEP would improve interaction with the development industry. Regional collaboration on corporate and social planning and economic development initiatives (including Regional Action Plans, refer Section 2.2) also deliver a clearer and more consistent message to the subregional community and business enabling better targeted and more timely action and investment to achieve the outcomes of these plans.

A JO would also build on economies of scale and institutionalise collaboration amongst participating councils for procurement, accessing grants, service delivery including the joint use of facilities.

There are already shared procurement strategies for materials such as asphalt and resource recovery. The JO would provide a framework through a board/council of Mayors and statutory / corporate entity (i.e. shared services group) to enter into a single contract for services rather than multiple contracts across the participating councils.

A JO would be able to receive grant funding and deploy funds according to shared strategic priorities. As a single entity it would use evidence from all member councils to offer more integrated grant applications in support of project funding from the Sharing Sydney Harbour Foreshore Access Program and Metropolitan Greenspace Programs. The JO would collect larger bundled grant funds and have the financial flexibility to deploy matching council expenditure in the right place and right time to more rapidly achieve community plan outcomes.

A case study of an effective regional collaboration is summarised in the box below.



Track record of the WBC Alliance

Four regional councils from Central West NSW have operated in a strategic alliance for 12 years. They claim savings and efficiencies of over \$5.7M arising from joint tenders and funding, shared teams and the completion of over 55 collaborative projects¹ including:

- Common engineering guidelines
- IT projects (\$400K savings)
- asset plan framework and templates (\$90K savings)
- plant and fleet management
- joint training and sharing of specialised staff
- joint road contracts

A strategic alliance operates as a co-operative relationship among councils pursuing a set of common goals while remaining independent of each of other. They are not required to 'opt in' on every key decision but frequently cooperate. The WBC Alliance submission to the ILGRP indicates that the councils may take the relationship further and are considering the potential of a County Council structure.

Credibility for more effective advocacy

A JO could advocate for the shared interests of between 216,000 and 427,000 people by 2031 (across 3 to 6 participating LGAs respectively). This would represent around 8 to 15% of Sydney's population and an even higher proportion of its jobs. The JO would adopt single clear positions across its councils for rating, funding infrastructure priorities, economic hubs and social planning agenda. This represents a less parochial and more powerful bloc of interest to argue for common priorities in the subregion such as:

- Preferred route for light rail / BRT proposals
- Station sites / public domain improvements for precincts affected by a second harbour rail crossing
- Shared economic development prospectus – including support for specialised economic hubs in the subregion (eg Macquarie Park)
- Social policy priorities - including affordable housing provision in urban renewal areas

Capable partner for State and federal agencies

The JO would serve as a single point of contact for State and Federal Government to identify shared positions on regional planning, economic development and social policy issues. This would replace the need for individual negotiations with up to six separate councils.

The State Government has indicated that the preparation and delivery of subregional strategies in partnership with local government will be critical to achieve the Metropolitan Strategy growth planning agenda. The subregional strategies will need to allocate housing and job growth targets between subregions

and among LGAs within them. The determination by a JO of shared positions supported by an evidence base would be very productive and highly appreciated by State Government. It would provide stronger justification for flow on investment decisions for State infrastructure.

The benefits for state infrastructure planning will also be substantial as a shared understanding of regional capacity and potential is reflected in better subregional planning. For example, shared subregional positions on where future development should occur or which centres are prioritised for an employment focus, will be highly beneficial for the State Government in planning for infrastructure.

The NSW Government relies on councils to deliver on key state social policy targets, including elements of youth policy, community health and affordable housing delivery. A JO represents a more effective and consistent partner in the achievement of social policy outcomes.

High quality political and managerial leadership

The JO would be constituted by a board/council of Mayors from the constituent councils. They would be serviced by a secretariat and have access to pooled strategic planning resources and a shared services entity responsible for those services for which there are clear economies of scale. The subregional mandate of the board would generate a focus that transcends individual local government boundaries and broadens the scope for high quality decision making. This would improve the understanding and ability of the board to relate to the State Government's agenda.

The more frequent interaction of mayors and GMs through the JO would also involve pooling of their collective knowledge and expertise with the prospect of economies of scope.

Percy Allen and Associates recommend that the JO could be constituted to include:

- A Regional Council of Mayors (constituted as a County Council) to conduct regional advocacy and lobbying and to engage with the State Government in regional growth planning and related decisions.
- A Regional Shared Services Centre (potentially registered as a Company Limited by Guarantee and governed by a Board of Council GMs) to provide shared services to its member Councils and other prospective clients as well as staff and an independent Regional Planning Panel (potentially located within the County Council) to assess regional development applications.

Percy Allen and Associates note that such an approach is superior to merging Councils because it:

- Focuses on regional imperatives rather than everything
- Merges only those functions that benefit from centralisation
- Drives efficiencies by making shared services market contestable
- Frees up councils to focus on services that are done best locally, and
- Avoids the enormous cost and disruption of mass amalgamations.

According to Percy Allen and Associates a well designed and carefully implemented Shared Services arrangement offers enhanced capacity potential and recurrent cost savings of approximately 10-20% pa, (after major establishment costs including IT have been absorbed), These savings have not been quantified in detail as yet and would be an additional benefit to those identified in the cost benefit analysis in the section that follows.

Accountabilities for the JO and its shared service facility would be established under the Local Government Act. There is precedent in the Hunter where an existing ROC (Hunter) has been using a State Incorporated Association (Hunter Councils Inc) to undertake regional advocacy and a wholly owned Public Company Limited by Guarantee (Hunter Councils Ltd) to perform shared services functions.

4 COST BENEFIT ANALYSIS

This section applies a strict cost benefit analysis (economic appraisal) framework to the stakeholder reported cost and benefits, before moving onto concisely identifying, describing, quantifying and contrasting relevant (community) welfare costs and benefits. Discounted cashflow analysis is used to generate performance measures, which are subsequently assessed for sensitivity.

4.1 Overall approach

The ultimate objective of the cost benefit analysis (CBA) is to provide an assessment of the broad welfare impacts that result from moving from the base case scenario to each of the JO scenarios, when taking an integrated perspective across economic, social and environmental considerations.

The CBA eliminates any duplication that is present in the stakeholder identified costs and benefits presented in Section 2, and also removes any 'transfer effects' (between societal groups); focussing the analysis on how 'aggregate' welfare is enhanced. It then attempts to quantify and monetise (i.e. express in dollar values) as many of the identified costs and benefits as possible.

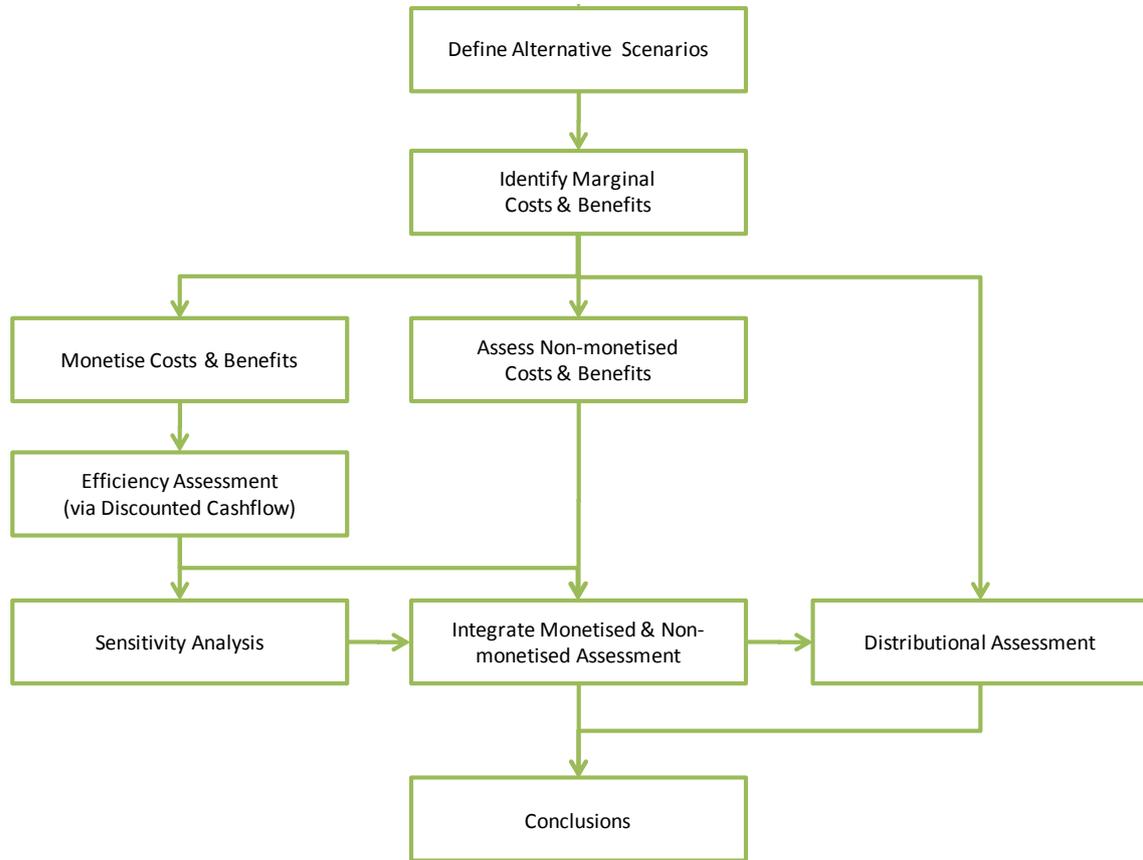
If the assessed benefits of moving from the base case to the JO scenario outweighs the costs, this will indicate that its establishment is worth pursuing. Similarly, if the six Council JO scenario generates a higher rate of net benefits (i.e. benefits minus costs) than the three Council JO scenario, then it will be rightly regarded as a superior regionalisation option from a community welfare perspective.

In performing the CBA, it is noted that:

- Not all costs and benefits can be adequately quantified and monetised. This can reflect their inherent intangibility. It also means that those impacts that cannot be adequately monetised must be integrated into an overall assessment where they can be compared with monetised costs and benefits.
- The distribution of costs and benefits may not be evenly experienced throughout the community, leading to socially inequitable outcomes. A potentially 'efficient' assessment, where benefits outweigh costs, may be rendered unworkable if social 'equity' is significantly compromised (or if those adversely affected cannot be appropriately compensated for their losses).

The approach adopted by the CBA takes both of these issues into consideration (refer figure overleaf).

FIGURE 1 APPROACH TO COST BENEFIT ANALYSIS



4.2 Distilled list of costs & benefits

After reviewing the list of stakeholder identified cost and benefits, SGS has distilled the following list of incremental costs linked with moving from the base case scenario to each of the JO establishment scenarios:

Incremental costs

Once off JO establishment costs

The once off costs of establishing the JO.

These costs are likely to include establishing the preferred legal framework for the JO, as well as its governance, performance, management, administrative support, reporting and funding arrangements.

The participating Councils have advised that these arrangements are well developed throughout the subregion through the existing functioning of the IHAP, JRPP and NSROC (all of which will effectively be replaced by the functioning of the JO).

It has been assumed that the once off establishment costs of the JO are as follows:

TABLE 2: JO ESTABLISHMENT COSTS

	3 Council JO (Option 1)	6 Council JO (Option 2)
Establishment costs	\$200,000	\$300,000
Timing of costs	Year 1	Year 1

Source: Consultation with Ryde, Hunters Hill and Lane Cove Councils.

Recurrent JO operating costs

These costs include the ongoing operating costs of the JO less the cost savings generated for participating Councils in terms of the subregional planning functions taken off their hands.

In this analysis SGS has assumed, in consultation with the 3 participating Councils, that there will be no operating costs impacts, as functions will directly transfer to the JO in year 1. However, for the sake of conservatism, even though the aim will be to minimise all forms of duplication, SGS has assumed that there will be a 25% operating cost penalty in years 1 and 2, i.e. to account for any teething problems that might eventuate.

The calculation of this penalty is based on the current full time equivalent staff numbers invested in the subregional planning functions at each participating Council. The table below profiles these existing costs for the 3 participating Councils, with an average salary level of \$100,000 p.a. applied to each FTE along with a loading of 30% for on costs.

TABLE 3: RECURRENT COSTS FOR EXISTING SUBREGIONAL FUNCTIONS

Recurrent costs	Staff full time equivalents (FTE)	Recurrent costs
Ryde	8.5	\$1,105,000
Hunters Hill	2	\$260,000
Lane Cove	3	\$390,000

Source: Consultation with Ryde, Hunters Hill and Lane Cove Councils.

These costs have been increased by a factor of 2.5 for Option 2, i.e. the six participating Councils, reflecting the scale of the overall operating costs for Mosman, North Sydney and Willoughby, as published in their annual financial returns to the OLG.

Incremental benefits

More efficient urban development/ infrastructure provisioning

This relates to the Northern Sydney constituent Councils effectively ‘buying into’ the key elements of the Northern Sydney urban/ infrastructure development strategy.

This would lead to local plans better aligning with regional priorities, local development approval decisions better reflecting these regional priorities, and the improved ability to place management key locations within the urban fabric towards their ultimate development aspirations.

Ultimately this would lead to a more efficient pattern of urban development that would generate savings in terms of:

- Infrastructure provisioning savings

- Transport congestion savings
- Reduced environmental costs
- Land use change efficiencies, and potentially
- Industry agglomeration/ clustering benefits.

Effectively this benefit can be seen as the benefits of bringing forward this efficient urban development pattern or the ameliorated risk of it not eventuating because of inconsistent policy, planning and investment decisions.

To broadly quantify these benefits SGS has scaled the outputs of the work undertaken by CIE for the Department of Planning and Infrastructure (August 2012)³.

This work assessed the costs and benefits of alternative ways of accommodating growth in Sydney's established areas (between 2016 and 2031) under a variety of scenarios, including:

- Base case (baseline) where growth follows the current trends established in the projections from the Bureau of Transport Statistics for employment, population and dwelling growth. Under this base case, 56% of new dwellings and 69% of new jobs were projected to be located in-centres, with the remaining shares being accommodated outside of centres.
- Balanced centres – where this growth in dwellings and employment is focused on local centres and strategic centres, with little growth across dispersed infill areas. Under this scenario, 80% of new dwellings and 100% of new jobs were projected to be located in-centres, with the remaining shares being accommodated outside of centres.

SGS believes that these scenarios accord well with what is likely to occur in Northern Sydney under the base case and JO scenarios respectively.

The CIE assessed that for each new dwelling accommodated in the established areas of Sydney, moving from a baseline spatial distribution to the balanced centres distribution would generate a net benefit of ~\$1,800 per dwelling (in Net Present Value terms).

These benefits were comprised by the net effect under the headings of:

- Infrastructure provisioning costs, which covered the comparative costs of water and sewerage, primary and secondary education, health and municipal infrastructure
- Transport infrastructure and congestion costs (travel time costs)
- Environmental costs covering the GHG emissions, air and noise pollution that is generated by dwelling mix and transport patterns that result under each scenario
- Social impacts covering the promotion of more active travel patterns (health savings) and reduced social exclusion (by improving accessibility)
- Productivity spill-overs (or the economic productivity effects) that are driven by transport accessibility changes, and
- Land use change impacts which relate to the value that is unlocked by changes in land use zonings under each scenario.

SGS has applied these benefits to the forecast growth in dwellings in Northern Sydney under each JO scenario. That is, given that the NPV\$1,800 assessed applied across all of Sydney (2016-31), this value has

³ CIE (2012) Costs and benefits of alternative growth paths for Sydney focussing on existing urban areas (for DP&I)

been scaled back to the proportion of future growth that will be accommodated in Option 1 (~4%) and Option 2 (~8%).

Moreover, SGS has assumed that without the JO, the preferred form of development in Northern Sydney is likely to be delayed, i.e. by (say) 5 years. This delay reflects the capacity of a JO to better integrate subregional land use and infrastructure planning to achieve earlier major infrastructure investment and more rapidly establish a planning and development decision regime in line with the best performing growth scenario in the CIE (2012) study. The table below summarises the assumptions:

TABLE 4: KEY ASSUMPTIONS: JO ACCELERATED URBAN DEVELOPMENT/ INFRASTRUCTURE PROVISIONING EFFICIENCIES

	3 Council JO (Option 1)	6 Council JO (Option 2)
Net benefit per additional dwelling (2016-2031)	NPV\$73.20	NPV \$146.40
Acceleration of benefits due to operations of JO	5 years	5 years

Note: The CIE (2012) assessment follows a recognised methodology that has been in other jurisdictions. For example, other studies have examined the costs and benefits of shifting development patterns across urban areas in metropolitan Melbourne (SGS 2005), the Lower Hunter (SGS 2014), Sydney (CIE 2010) and south east Queensland. These studies have unanimously found that a more consolidated, strategic development pattern generates benefits that significantly outweigh the costs.

Across these studies changes to development patterns have been found to generate benefits from improved public transport utilisation, congestion cost savings, infrastructure cost savings, reduced environmental emissions and pollution, workforce productivity enhancements, improved housing and social choice and unlocked land value.

In 2001, SGS prepared a business case calculating the benefits to the planning process associated with the PlanFirst reforms. This project asserted that the planning system provides the basis for the aforementioned benefits to occur. The PlanFirst business case found that a more efficient and effective planning process would see an acceleration of these benefits of some 10 years.

More efficient development approvals

This benefit relates to the savings generated to the community by ensuring that planning and development approval decisions are in accordance with regional priorities/ policies. In essence that means avoiding the transaction costs that are unnecessarily incurred in the statutory planning process for development projects which accord well with regional priorities.

The cost savings that arise for local and state government that might be generated under the JO scenarios have already been captured in the recurrent cost estimates above. What still needs to be captured is the savings generated for development proponents who effectively avoid unnecessary appeals because of poor decisions made in the course of the Planning Proposal and DA processes.

The table below shows the number of Planning Proposals and Class 1 appeals that have occurred and been upheld across the relevant councils over the past 3 years.

TABLE 5: PLANNING PROPOSALS & CLASS 1 APPEAL RATES (& APPEAL UPHELD RATES)

	Number of pre-gateway reviews			Number of pre-gateway reviews upheld			Percentage of pre-gateway reviews upheld		
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Ryde	0	0	4	0	0	2	n.a.	n.a.	50%
Hunters Hill	0	0	0	0	0	0	n.a.	n.a.	n.a.
Lane Cove	0	0	0	0	0	0	n.a.	n.a.	n.a.
Willoughby	0	2	0	0	1	0	n.a.	50%	n.a.
North Sydney	0	1	0	0	1	0	n.a.	100%	n.a.
Mosman	0	0	0	0	0	0	n.a.	n.a.	n.a.

Source: Department of Planning and Environment, 2015

	Number of Class 1 appeals determined			Number of Class 1 appeals upheld			Percentage of Class 1 appeals upheld		
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Ryde	0	1	1	0	1	0	n.a.	100%	0%
Hunters Hill	5	0	0	0	0	0	0%	n.a.	n.a.
Lane Cove	7	2	5	6	1	2	86%	50%	40%
Willoughby	4	11	7	1	6	5	25%	55%	71%
North Sydney	5	15	12	4	10	2	80%	67%	17%
Mosman	3	8	7	0	4	5	0%	50%	71%

Source: Department of Planning and Environment, 2015

Based on the tables above, it appears that:

- Across the 3 participating Councils, approximately 8 appeals are made each year, with ~50% of these appeals being upheld, and
- Across the 6 Northern Sydney Councils, approximately 32 appeals are made each year, with ~50% of these appeals being upheld.

The appeal savings have been monetised assuming that these quantities and rates continue into the future (i.e. annually until 2031), and applying the VPELA advised cost saving of \$20,000 to \$25,000 per 2 day appeal hearing.

4.3 Discounted cashflow analysis

Discounted cashflow analysis contrasted the aforementioned costs and benefits over the 2016 to 2031 period. A discount rate of 7% real was adopted.

The table below presents the performance measures that were generated for each option.

TABLE 6: KEY PERFORMANCE MEASURES

	3 Council JO (Option 1)	6 Council JO (Option 2)
NET PRESENT VALUE (NPV) (Note: if NPV is positive, the option is worth pursuing)	\$523,044	\$3,401,971
BENEFIT COST RATIO (BCR) (Note: if BCR >1, the option is worth pursuing)	1.5	2.4
INTERNAL RATE OF RETURN (IRR) (Note: if IRR > discount rate, the option is worth pursuing)	17%	31%

The results indicate that moving to Option 1 is worthwhile but moving to Options 2 generates significantly superior returns. This is not surprising given that Option 2 covers the vast bulk of the entire Northern Sydney subregion, whereas Option 1 covers only a comparatively small subset of the subregion.

4.4 Sensitivity assessment

The table below highlights how the BCR changes for Options 1 and 2 given varying changes in the underlying assumptions.

TABLE 7: BCR RESULTS: VARYING ASSUMPTIONS

	3 Council JO (BCR)	6 Council JO (BCR)
Original analysis	1.5	2.4
Discount rate reduced to 4% real	1.7	2.8
Discount rate increased to 10% real	1.3	2.1
Establishment costs reduce by 50%	1.7	2.5
Establishment costs increase by 50%	1.4	2.2
Recurrent cost penalty (years 1 and 2) changes to 0%	7.9	19.6
Recurrent cost penalty (years 1 and 2) changes to 50%	0.8	1.3
JO accelerates more efficient urban development/ infrastructure provisioning by 10 years	2.1	3.2
JO accelerates more efficient urban development/ infrastructure provisioning by 0 years	0.7	1.2
More efficient development approvals benefit increases by 50%	1.8	2.9
More efficient development approvals benefit decreases by 50%	0.7	1.1

The results of the sensitivity analysis highlight that in terms of downside risk, the largest threats to the viability of the JO rests with:

- Operating cost penalties, i.e. if significant duplication exists amongst the JO and participating Councils
- The failure of the JO to accelerate the movement towards more efficient urban development and infrastructure provisioning patterns, and
- The failure of the JO to remedy inconsistent decisions with respect to Planning Proposals and Development Applications.

Having said that, most of the assumptions invoked are inherently conservative, and there appears to be more upside potential (i.e. for additional benefits) than there is downside risk.

4.5 Distributional assessment

The table below illustrates who bears the costs and who experiences the benefits of moving towards the JO.

It suggests that the local ratepayers will bear any incremental establishment and operating costs, i.e. through municipal rates or through sacrificed municipal services elsewhere. The benefits are more widely spread, with benefits accruing to local residents, commuters, workers, businesses and developers, as well as local and State infrastructure provisioning agencies.

TABLE 8: DISTRIBUTIONAL ASSESSMENT

Cost bearer	
Establishment costs	Local/ subregional ratepayers
Operating cost penalties	Local/ subregional ratepayers

Beneficiaries	
More effective urban development/ infrastructure provisioning	Local/ subregional residents, commuters, workers, and businesses, as well as local & State infrastructure provisioning agencies
More efficient development approvals	Local residents, local developers

Based on this it does not appear that moving to the JO will impose any disproportionate inequities amongst stakeholders.

5 CONCLUSIONS

Based on the assumptions and the analysis presented in previous sections, SGS concludes that:

- The move to the JO is both viable and advantageous. That is, the benefits are likely to outweigh the costs considerably, and the improvements to strategic capacity are significant.
- The net benefits associated with Option 2 outweigh that of Option 1. That is, the JO will be much more worthwhile if the six Councils transfer their subregional functions to it.

For the JO to be most effective, participating Councils should not be able to opt out. That is, they all must sign up to the subregional transfer of functions, and in turn, the plans and policies that the JO develops and the decisions it makes in governing in line with these plans and policies.

The analysis demonstrates that the JO represents a customised approach to achieving scale and capacity and, given the disruption and costs associated with amalgamations, offers net benefits that amalgamations are unlikely to be able to match.

APPENDIX A: STAKEHOLDER IDENTIFIED COSTS & BENEFITS

Representatives of each of the Northern Sydney Councils, after articulating how the regional functions of the JO would enable better regional cooperation by function, identified the following potential costs and benefits of establishing the JO.

Strategic Planning / Infrastructure

Public resource savings (effective and efficient infrastructure planning)

- Streamlined forward planning and development sequencing (new provision better sequenced / coordinated infrastructure)
- Delayed or avoided new capital expenditure for planned state infrastructure (e.g. schools, hospitals)
- Improved utilisation of existing local facilities (including sharing capacity across subregion)
- Agreed infrastructure investment prioritisation - avoiding duplication within subregion
- Savings from shared research – avoided duplication and economies of scope/ specialisation

More effective use of s94 funds

- More effective collection and deployment of s94 funds under single s94 Plan (i.e. larger total fund/ more flexibility / better liquidity)

Efficient subregional settlement patterns and targeted place management

- More efficient urban development patterns (or the acceleration thereof), as better plans are made, decisions are more likely to be consistent with these plans, and as private sector investment is better harnessed to these ends.
- Travel time, vehicle operating cost and emission savings – associated with clearer subregional centres hierarchy and more effective transport systems
- Avoided negative externalities – by consultation and shared priorities avoiding antagonistic development
- Increased agglomeration economies with improved place management - a more rapid adjustment towards identified objectives (e.g. knowledge clusters at Macquarie Park, TODs at Epping, mixed use outcomes at St Leonards etc.) or alleviating social exclusion.

Statutory Planning

Public and private resource savings as planning certainty is improved

- Costs of mediation / appeals reduced – more efficient development approvals. A % enhancement in efficiency on the current level of building activity
- Resourcing cost savings from a single IHAP
- JRPP costs transferred to JO – no net saving

Community and Cultural Planning

Better value for State Government in social plan delivery

- More effective achievement of social plan outcomes - clearer prioritisation of social policy implementation activity across subregion – from integrated community plans and joint approach to local implementation of State social policy targets and agendas (e.g. youth policy)
- Amplified benefits from pooled grant funding for subregional facilities (e.g. SSHAP, Metro Greenspace)

More efficient utilisation of community / cultural / sport facilities

- Common fees for facilities

Economic development and tourism

Increased economic activity in NSW economy from reduced delay and more development consistent with an efficient urban structure.

- Additional and more effective investment in economic development - common priorities via single subregional economic development plan

Economies of scope from economic development specialisation

- From council specialisation in aspects of economic development (e.g. IT/ Bulky goods/ education hubs)

Joint regional advocacy

Enhanced policy and grant funding success – leading to more rapid achievement of valued outcomes

- Shared promotion of a common set of funding priorities - improved success via single point of approach to State / Federal Government on regional matters (e.g. Light rail)

Governance and Structure

JO establishment and operating costs

- Once off establishments costs for new JO and Shared Services arrangement (much less cost if converted NSROC)
- Additional meeting costs for JO (Board of Mayors / County Council)
- Three councils in JO - additional operating costs (as NSROC costs for non JO councils remain) – all six councils no net change because JO replaces NSROC.

SGS has reflected on this list of costs and benefits this to distil relevant items for inclusion in the economic appraisal (cost benefit analysis) presented in Section 4.

APPENDIX B: DISCOUNTED CASHFLOWS

Option 1 – Discounted cashflow

	Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
INCREMENTAL COSTS																	
Establishment costs		\$200,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Recurrent cost penalties (duplication)		\$438,750	\$438,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total		\$638,750	\$438,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
INCREMENTAL BENEFITS																	
More efficient urban development/ infrastructure provision		\$0	\$0	\$215,545	\$215,545	\$215,545	\$215,545	\$230,975	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
More efficient development approvals		\$0	\$0	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000
Total		\$0	\$0	\$305,545	\$305,545	\$305,545	\$305,545	\$320,975	\$90,000								
NET BENEFITS		-\$638,750	-\$438,750	\$305,545	\$305,545	\$305,545	\$305,545	\$320,975	\$90,000								
NET PRESENT VALUE		\$523,044															
BENEFIT COST RATIO		1.5															
INTERNAL RATE OF RETURN		17%															

Option 2 – Discounted cashflow

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
INCREMENTAL COSTS																
Establishment costs	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Recurrent cost penalties (duplication)	\$1,128,862	\$1,128,862	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$1,428,862	\$1,128,862	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
INCREMENTAL BENEFITS																
More efficient urban development/ infrastructure provision	\$0	\$0	\$767,107	\$767,107	\$767,107	\$767,107	\$772,992	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
More efficient development approvals	\$0	\$0	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
Total	\$0	\$0	\$1,127,107	\$1,127,107	\$1,127,107	\$1,127,107	\$1,132,992	\$360,000								
NET BENEFITS	-\$1,428,862	-\$1,128,862	\$1,127,107	\$1,127,107	\$1,127,107	\$1,127,107	\$1,132,992	\$360,000								
NET PRESENT VALUE	\$3,401,971															
BENEFIT COST RATIO	2.4															
INTERNAL RATE OF RETURN	31%															

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