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Citizens Taking Back the City

Wednesday 1st November, 2017

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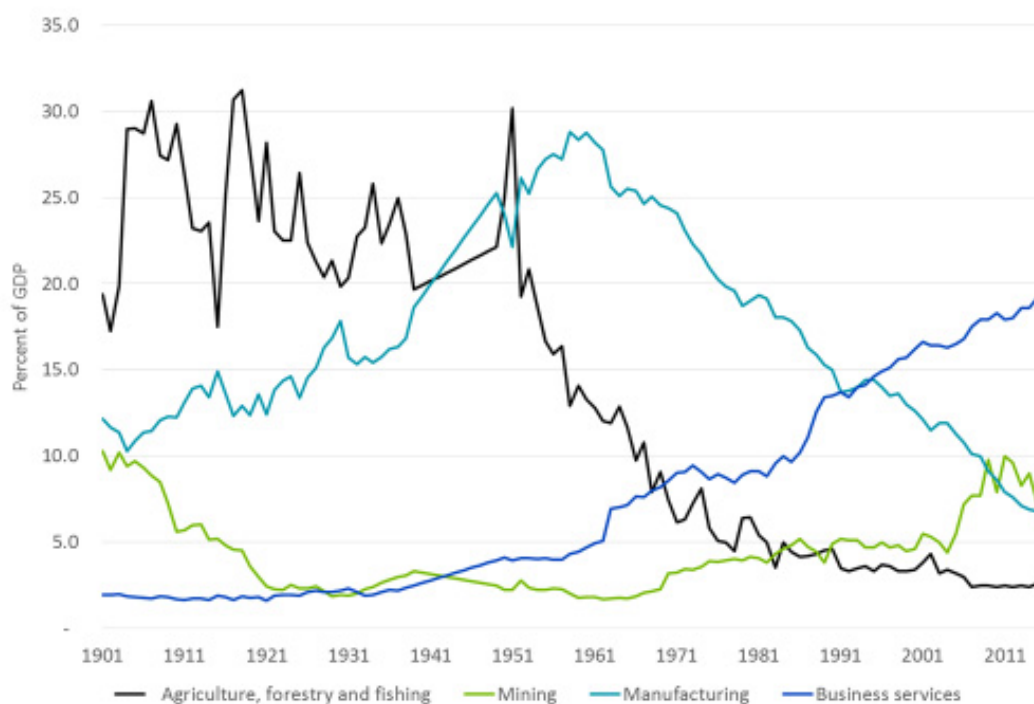
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Colonial legacy

Unlike our colonial progenitor in Europe, the nations of which can be thought of as merged urban principalities, modern Australia was never widely conceived of as a country of great cities. Rather, as portrayed in the national anthem which extolls 'golden soil and wealth for toil' and 'boundless plains to share', the institutional architecture for our country was, and is, configured for an advanced commodity producer where urbanisation is an incidental rather than defining element of social organisation.

As observed by Jane Frances Kelly, formerly of the Grattan Institute, even today's Australian passports are bereft of images celebrating city life. Instead, the watermarks feature stock musters, vistas of 'boundless plains' and the obligatory marsupials.



Arguably, this non-urban idea of Australia made sense for a considerable time in the nation's post-colonial development. *As recently as the early 1950s, agriculture's share of national GDP was as high as 30%. Even during the period of the long post war boom, when manufacturing took over the mantle as leading contributor to national income, there was a broad political consensus that growth in domestically focussed secondary industry was only possible because of commodity exports. Implicitly, the cities rode on the sheep's back.*

In these formative years of modern Australia, the Commonwealth and the State Governments could deploy an array of infrastructure, labour market and trade levers which, given the Fordist and protectionist orientation of the global economy of the time, were effective in stoking economic development. This was true up to and including the long boom. Perhaps, at that juncture in the country's history, there was no need for an urban or place based perspective on economic management.

The cities had negligible presence in the public imagination of the nation's destiny. There was no imperative to rethink the role of the metropolitan areas in the governance of the nation. Each of the cities delivered a broadly similar service function to their hinterlands; and the metropolises were not (yet) identified as independent drivers of productivity and wealth.

Certainly, there was a flurry of interest in the cities from the Commonwealth in the dying days of the long boom during the incumbency of the Whitlam Labor Government (1972 – 75). But this was premised on 'top down' remedies for the growing pains of the rapidly suburbanising capitals. The national urban agenda of the time barely recognised the integrity of the metropolises, dividing them up into sub-regions, each of which would, in the imaginings of the Whitlam Government, become direct and compliant clients of the feds. I would say that the Commonwealth Government of the time modernised, rather than challenged, the commodity based idea of Australia which had held sway since colonisation.

This situation, where the metropolitan constituencies are absent in the national discourse on sustainable development and the creation of a good society, is no longer workable. Whereas it was reasonable for the cities to play a secondary service role in the first 150 years of Australia's post-colonial development, given the nature of its commodity driven prosperity, a role reversal, in which the cities lead rather than simply support national development, is now vital to the country's interests and its international obligations.

A new metropolitan imperative

The fact that cities have become drivers in their own right in the knowledge economy is hardly contested in public policy, though there may be lingering nostalgia for a country built on the bush. Today, the criticality of better cities in the nation's fortunes is openly and enthusiastically acknowledged in the rhetoric of State and Commonwealth Governments alike, regardless of political colour.

These governments repeatedly highlight the need to boost innovation through urban agglomeration and place making. Similarly, it is increasingly well understood that climate change mitigation and adaptation are in, large part, urban issues reflecting the way we build, service and get around our cities.

More recently, there is growing awareness of, and development of (largely ineffectual) policy for, the social divides opening up in the metropolitan areas created by the bifurcated knowledge economy. Post-industrial cities powered by the centripetal forces of agglomeration economies will accelerate social division and inequality if left to unchecked market impulses as the Trump, Brexit, Le Pen and One Nation phenomena have underscored.

All stakeholders, it seems, agree that in the urban age Australia can ill-afford to have anything other than optimally planned and managed metropolises. The question is, can we put our faith in the current official custodians of our metropolises – the States – to deliver this outcome? The evidence would say ‘no’.

State Governments cannot speak for their metropolitan communities, and Commonwealth Governments even less so for that matter. Minister Roberts cannot go to, say, Dubbo and declare that he stands for Sydney; he certainly cannot do so in the way which Sadiq Khan might for London, or Bill Di Blasio for New York.

As far as State Governments are concerned, the metropolitan constituency presents but one ‘battleground’ within a much broader electoral challenge. Differentiation on both the big picture and detail of urban planning is likely to be a default position of political 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. This bespeaks political opportunism in contrast to the consistency of vision required in the reshaping of metropolitan settlement patterns, economies and communities.

State Governments (and Commonwealth Governments) seeking to manage the metropolises reach beyond their ‘natural competencies’. Higher order levels of government tend to operate standardised programs at scale designed to achieve consistency of citizen outcomes across broad geographies and over time. This calls for volume efficiencies and standardised delivery mechanisms, including commercialisation, corporatisation and privatisation of services like employment placement, subsidised housing, hospitals, income support and transfer payments generally. The natural and mandated mode of operation for these spheres of government is in ‘silos’, albeit efficient ones. These higher order spheres of governance have an innate inability to formulate policy for the citizen *in place*.

State Governments inevitably tend towards predict and provide planning methodologies, unhelpful deconstruction of networked urban infrastructure into discrete, narrowly purposed, projects and frustratingly clumsy and ineffective models of transport and land use planning integration.

We have seen State Governments resort to all manner of institutional gymnastics to counter this innate tendency to (hopefully) realise their common mantra of ‘connected up’ services and policy. For example, there are literally dozens of State agencies and advisory bodies with a significant say in how metropolitan Melbourne develops, including several co-ordination forums intended to harmonise the work of the inevitable silos. 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. 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.

I see initiatives like the Greater Sydney Commission and the erstwhile Metropolitan Planning Authority in Victoria as just another palliative response for the abiding inability of the States to deliver place based, connected-up government. I'm not saying they are worthless, but let's be clear that they represent administrative reform within the dominant State Government, rather than genuine governance reform.

Of course, I'm implying that genuine reform requires the institution of a new sphere of governance that, unlike the expansive States, is competent to manage the metropolitan challenge in the national interest.

I'm talking about governments owned and run by the metropolitan citizenry.

I'm talking about citizens taking back the city.

The scope of metropolitan government

So what do I mean by 'metropolitan government'. Here we need to return to the subsidiarity doctrine and identify the remit of this potential 4th sphere of governance.

I want to stress that my advocacy for metropolitan government ought not to be read as code for rationalisation or elimination of local governance, as some lobbyists have argued. All four spheres of governance have a part to play. 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.

Subsidiarity holds that nothing should be decided at a higher level of authority, if the matter in question can be resolved at a lower level competently and without compromise to the choices open to the higher order communities of interest.

Subsidiarity implies, firstly, 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.

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.

Against this background, 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.

We need 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. I have identified a set of candidate metropolitan / regional functions through such a lens, but readily acknowledge that there is great scope for debate in this area. My identified functions include 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 could include:

Metropolitan integrated planning, including, for example,

- *Metropolitan economic development*
- *Metropolitan level spatial planning*
- *Development assessment – projects with regional & metropolitan impact*

Transport system investment and management, including, for example

- *Intra-regional arterials*
- *Line haul (commuter) bus services*
- *Tramways*
- *Metro rail systems*
- *Line haul (commuter) rail services*

Regional water sustainability, including, for example

- *High level water harvesting infrastructure*
- *Waste water treatment plants - regional*
- *Waste water treatment plants - local and sub-regional*

Regional power grids

Regional resource recovery (household waste recycling, industrial waste processing)

Regional parks

Regional arts and cultural institutions, programs and events, and

Regional stadia.

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.

To properly fulfil the subsidiarity principle, a metropolitan government should be able to act autonomously on the matters within its jurisdiction. This means independent access to a sufficient tax base, and a process of democratic accountability for how this tax base is deployed. Working on the presumption that the overall tax burden on the community will be kept within bounds, the institution of genuine metropolitan government would entail some reallocation of existing tax revenues (for example GST), retirement or reduction of some distortive or otherwise unhelpful taxes (such as payroll taxes and several transaction taxes) and the introduction of market reforms which can simultaneously generate substantial revenues and play a part in optimising metropolitan economies and growth patterns. The latter could include the creation of metropolitan markets in development rights, as currently occurs in the ACT under that jurisdiction's leasehold system. More on this issue later.

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. 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. Look at the struggle which State Governments have had in bringing in 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.

As mentioned, the third pre-requisite for genuine metropolitan governance, after clarity of functional mandate and fiscal autonomy, is democratic accountability. There are any number of electoral models that could be applied to this end. 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.

So far, I have argued that:

- The nation could once get away with a passive attitude to cities and metropolitan governance
- This is no longer tenable; better cities are now the key to national aspirations for prosperity, sustainability and inclusion
- The problem is that State Governments are inherently unable to deliver better cities, and
- Therefore, a suitably mandated 4th tier of government is required.

What, then, is the role of the Commonwealth in all this?

The role of the Commonwealth

So, better functioning metropolitan areas is a vital *national* project. This 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. Indeed, vertical fiscal imbalance has shaped a generally counterproductive role for the Commonwealth in urban policy. 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 in the planning industry is to advocate for a more pro-active urban policy on the part of the Commonwealth, often invoking the ‘glory days’ of the Whitlam era, when the national government involved or imposed itself on the problems of the cities through direct, ‘fix it’, program. Amongst other things, these advocates argue that, after all, the Commonwealth controls immigration – the biggest driver of population growth - and the biggest urban problem we have is rapid growth straining infrastructure and environmental capacity, particularly in Sydney, Melbourne and SEQ.

This, in my view, is a misguided perspective on the rationale for, and means of delivering, an appropriate national urban policy. If our metropolises were well structured and managed with good access to employment, affordable housing, efficient public transport and accessible natural environments, we could readily accommodate more people. The problem is not population growth but poor metropolitan planning and infrastructure provision. In short, the problem is poor metropolitan governance.

Solving the problems of the cities is beyond the competence of the Commonwealth notwithstanding its fiscal might. But 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.

The formation of metropolitan governments is a pre-requisite for the cities to take a trajectory aligned to national goals. This means the Commonwealth must facilitate the formation of metropolitan governments – a matter for which it has no constitutional authorisation.

However, 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 relentless 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 has 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.

Over-government?

A common refrain in Australia's metropolitan governance discourse is that the nation can ill-afford to burden itself with still more public sector bureaucracy and the associated taxes. Perhaps there is an underlying, historically premised, view that Australia's primary mission is, still, to produce commodities efficiently and a simple governance structure should do. The Honourable Andrew Wallace, a member of the Commonwealth House of Representatives Standing Committee on Infrastructure, Transport and Cities stated in August 2017 that ...

"It is extremely brave to suggest that we should have four levels of government in Australia rather than our already existing overly governed country with three levels of government and with 25 million people but, I suppose, the only dumb idea is one that does not get raised.Personally, I would have thought that is the last thing that the Australian people would want or need." (Wallace, 2017)

In simple numerical terms, Australia is probably under-governed. The citizens of most European and American metropolises are likely to have some dozens of elected members and officials speak for them in some way, compared to the typical number for Australian cities (usually fewer than 20). In any case, it is odd to focus on the direct cost of running a sphere of governance without considering the benefits that might arise. Would not the investment in additional governance be warranted if it avoided or mitigated the wastage in mega infrastructure investments, the structural inability of State Governments to integrate transport and land use planning, chronic unstructured sprawl and car dependence, retarded adaptation to a changed climate and the risk of socially divided cities?

A conventional cost benefit analysis would most likely show stellar returns from such institutional reforms.

Imagine if greater Sydney had had a Greater London Authority style institution in place over this past decade:

- Would we now have road pricing to manage congestion and generate funds for public transport investment?
- Would we be systematically capturing a fair share of value uplift generated by rezonings and DAs?
- Would Inclusionary Zoning for affordable housing be a normal and uncontested part of the development process?
- Would our technology and innovation districts be benefitting from better integrated planning?
- Would land release for housing in both greenfield and brownfield situations be more closely tied to transport investment?

Synthesis (concluding remarks)

In the final ten minutes of my presentation, I want to retrace the argument I've put to you and frame it in terms of a common lament in our industry – our failure to implement the urban plans we make.

There is no problem in this country with writing good metropolitan strategies. In fact, Australian planners, engineers and kindred professionals are sought after the world over for their expertise in this field. There is no shortage of know-how. Where the nation has a problem is taking these plans into action. The cities that we see today do not reflect the plans that the States and Territories have been churning out for the past 25 to 30 years.

As things stand, state and Commonwealth governments cannot do this job of plan implementation. First and foremost, they do not stand for the metropolitan areas and cannot speak for them. Their constituencies may well incorporate the metropolitan areas but they do not have a mandate from these communities of interest. They lack legitimacy in prosecuting implementation of metropolitan strategies as, perhaps, is most evident when we see state governments clashing with local governments over urban consolidation policies. Local communities do not accept that state governments have the authority to impose these plans, regardless of their objective merit.

The second reason that the states and the Commonwealth cannot implement metropolitan strategies relates to their primary purpose in the delivery of services and entitlements to the citizenry at large and at scale. This includes services like health, education, justice and income support, where citizens expect a roughly equal outcome regardless of where one might live. In a governance sense, these services require a production method which is tuned to scale and reliability. They encourage and demand delivery through what are disparagingly called administrative silos. This modus operandi makes it difficult for state governments to deal with questions of metropolitan development which require a connected up way of thinking at the level of place.

The third reason why state and Commonwealth governments cannot follow through with metropolitan strategies is that vertical fiscal imbalance obfuscates accountability for implementation. If the roads are not going in on time the Commonwealth blames the states for incompetence, the states blame the Commonwealth for lack of funding and the local citizen is left confused and frustrated. Nobody really understands who is responsible for what. Allied to this predicament is that when state governments engage, as the 'owners' of the cities for the time being at least, with the metropolitan community on preferred futures, the public participation programs in question become a hollow gesture. The citizens being consulted have no real stake in the outcome; that is to say, their tax outcomes do not change. If they want a more compact, public transport friendly city, and if it involves paying more taxes, that does not come into the equation. These are matters that are dealt with in other circuits, which means that the consultation process is robbed of relevance.

Fourthly, the state and Commonwealth governments do not have the wherewithal to undertake the taxation and market reforms necessary for implementation of metropolitan strategies. 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 such as the one which currently applies in the Australian Capital Territory. The States have not been able to manage even a discussion on this, let alone substantive reforms.

Similarly, Australian cities lack road congestion pricing, despite the overwhelming evidence in its favour. Again, the lack of a mandate from the metropolitan community makes it difficult for state governments to successfully prosecute the case for these market reforms.

Local governments cannot do the job of metropolitan plan implementation either, whether they are working individually or collectively. This is because they stand for local communities. It is a fanciful aspiration that they can somehow lift their sights to the interests of the metropolitan area when they are obliged to prioritise local interests.

Metropolitan governments are necessary but we need not think of them as competitors to state governments. This fourth tier of government would have a relatively narrow, but highly strategic, scope of responsibilities to do with regional integrated planning, running the public transport system, managing arterial roads and ensuring water and energy sustainability through distributed networks. For their part, the states would still be responsible for the high volume (and costly) services mentioned earlier—education, health, policing and kindred service. States would remain a senior and important sphere of governance.

Metropolitan governments would need to be fiscally autonomous and have a credible democratic mandate. This is a momentous institutional reform, but it would correct a major deficiency in Australia's governance fabric - a deficiency that is now demonstrably holding back the nation's performance.

While this is an ambitious reform agenda, it is not unrealistic. Australia has had, in the past, quasi metropolitan governments. The Melbourne and Metropolitan Board of Works, for example, had a scope of functions similar to that described above. It was responsible for metropolitan strategic planning. It was in charge of metropolitan roads. It had carriage of the metropolitan water supply and sewer networks which gave it great power, alongside planning rules, to manage the direction and sequencing of urban growth. It developed a regional open space system which is a treasured metropolitan asset today. It was fiscally autonomous in the sense that it had an independent rate base. It issued infrastructure bonds. It had a democratic mandate insofar as its board comprised elected members from constituent councils mandated via electoral colleges, while the state government appointed other members to establish a controlling interest. In short, it was an institution owned by and accountable to the metropolitan constituency.

The Commonwealth's role is not to fix the cities but to nudge the states into the creation of metropolitan governments so that citizens may take back the city...

The Commonwealth's role is not to fix the cities but to nudge the states into this major institutional reform. It could do this by rewarding the states with additional Commonwealth tax transfers based on the productivity dividend from better cities. We have done all of this before with NCP when the federal government induced the states to undertake all manner of reforms outside the jurisdiction of the Commonwealth. NCP changed the country forever. Now a similar effort is required on the creation of metropolitan Governments for Australia, so that citizens may take back the city.

Thank you.



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