The Committee for
Sydney

Sydney adding to the dividend, ending the divide 2014 Update

Sydney Issues Paper No.4

July 2014

With thanks to Committee for Sydney members SGS Economics and Planning for contributing much of the core research and PricewaterhouseCoopers and University of Western Sydney (UWS) for additional contributions.

SGS Economics & Planning

pwc

University of Western Sydney

Introduction

Last year, the Committee for Sydney published its first Issues Paper on Sydney's productivity entitled, 'Adding to the Dividend, Ending the Divide'. In this current Issues Paper, published post both Federal and State 2014 Budget announcements, we update that research and focus on some key findings. In particular we highlight the following:

- Sydney's renewed momentum and importance to national economic performance.
- The massive tax contribution Sydney makes to the Federal treasury.
- The clear gap between that contribution and what Sydney gets in return.
- The need for a new national urban compact and a 'new deal' for Sydney to ensure it has the infrastructure investment it needs to carry on playing its nationally significant economic role: Australia's cities have been orphans of public policy and suffered from what has been called 'vertical fiscal imbalance'; they need more and more certainty around funding under a new fiscal settlement for cities within the Federation as part of a coherent and long term national urban compact.
- The need for the State also to review how infrastructure necessary to managing Sydney's growth is to be funded – and what innovations in funding approaches and mechanisms will now be required. Although we recognise and celebrate the fact that Sydney is now witnessing a wave of infrastructure initiatives, and we welcome the recycling of public assets as part of the sale of the State's poles and wires, we stress that this wave comes after more than a decade of under-investment.
- To meet the challenges of managing Sydney's growth requires that a continuous pipeline of significant infrastructure and funding be identified. Sydney's infrastructure is clearly being upgraded though the transformation is in its early state. It is vital that the public transport revolution which is underway is supported by all tiers of government, the media and the community – as many of the cities with which Sydney is in competition have already seen massive sustained investment in both rail and roads.

- Although there is new momentum in Western Sydney, there remains significant uneven spatial performance across Sydney in terms of income and GDP generation: so there must remain a policy and investment focus on Western Sydney over the long term to enable it to play its full role in the Sydney of the future. Sydney's success will depend, to a large degree, on how truly polycentric it becomes, developing large urban centres with high productivity and effective job density well distributed across the metropolitan area.
- There is a persisting concern that Sydney's progress is being held back not just by a lack of a national urban strategy but also by fractured governance. Greater Sydney needs to be the focus of alignment between Federal and State government on the key policies, projects and structures required to maximise the city's productivity and GDP – but also needs to have a more Metropolitan scale governance to manage its challenges and opportunities and to be a better partner for State and Federal governments: the announcement of the proposed Greater Sydney Commission is thus hugely welcomed by the Committee which has long campaigned for such an initiative.

Economic importance of Australian cities – and particularly Sydney

Australian cities are where most Australian wealth is generated. Essentially, cities bring together the most competitive enterprises and talent, reinforcing and greatly adding to their value through their agglomeration and proximity to one another and the valuable knowledge spill-overs they enable. Already vital to the success of the nation, as the resources boom moderates, cities' economic performance – and Sydney's in particular – will become ever more important.

Given their centrality to national economic performance, the Committee stresses the need for public policy and investment to focus on the needs and opportunities of our cities. Insufficient attention overall has been paid to their infrastructure and governance both of which are vital to their performance. While this is true of all Australian cities, it matters most in Sydney – which has the most fractured local government system of all Australian cities – precisely because of its huge contribution as an engine of national wealth and productivity and its role as Australia's global gateway.

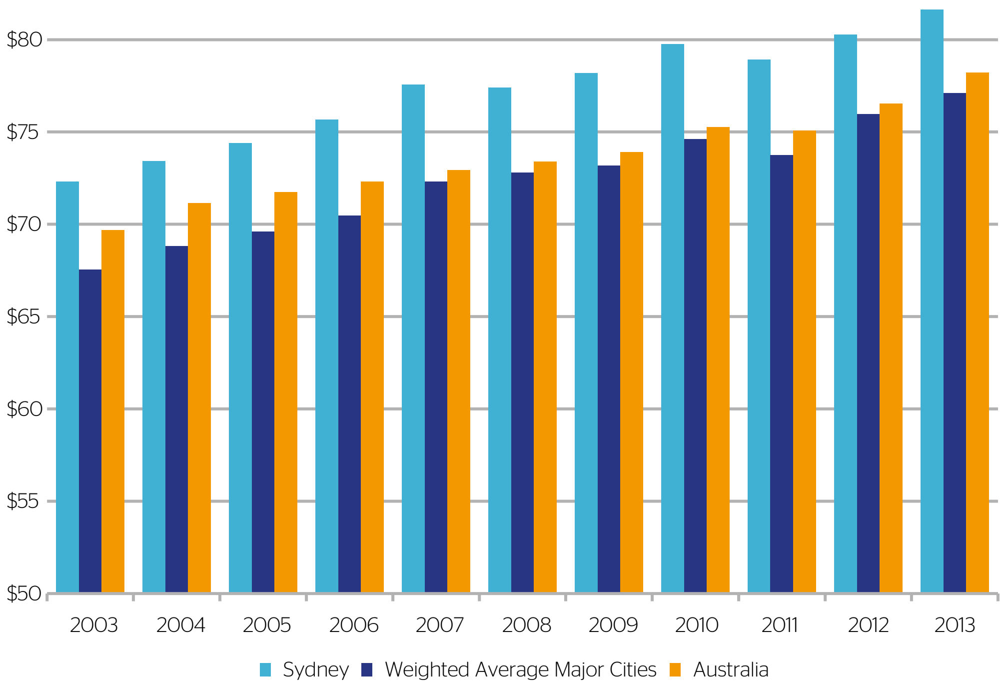
Sydney, as Australia's biggest city and with its high value added sectors, has always made a significant contribution to national growth, as can be seen in Exhibit 1 on the right: that contribution is growing again. The agglomeration here of key sectors – financial, professional, legal, ICT, media services – means that Sydney leads Australian cities and the nation in terms of labour productivity (see Exhibit 2). In this context the Committee for Sydney argument is clear and we think obvious: public policy and investment need to be targeted at Sydney so it can continue to play this essential role. Simply put a 'Sydney First' approach results in a bigger bang for the public buck than investing in alternatives.

Exhibit 1: Highlighting Sydney's significant contribution to Australia's Gross Domestic Product 2012-13

Region	GDP $ Million	Annual Growth	02-03 to 12-13	GDP
Sydney	337,450	2.1%	2.2%	22.1%
Melbourne	263,740	1.7%	3.0%	17.3%
Regional QLD	158,310	5.2%	4.1%	10.4%
Brisbane	136,238	1.7%	3.8%	8.9%
Perth	134,327	3.2%	5.7%	8.8%
Regional NSW	133,904	1.2%	1.6%	8.8%
Regional WA	118,672	7.3%	4.2%	7.8%
Regional Vic	69,653	1.1%	1.2%	4.6%
Adelaide	69,548	1.0%	2.4%	4.6%
Australian Capital Territory	34 414	2.7%	3.1%	2.3%
Regional SA	24,662	2.1%	2.5%	1.6%
Tasmania	24,191	-0.6%	1.8%	1.6%
Northern Territory	19 860	5.6%	4.1%	1.3%
Australia	1,524,969	2.6%	3.0%	100%

Source : SGS Economics & Planning

Exhibit 2: Labour Productivity



Source: SGS Economics & Planning

Key Findings

- Sydney represents 22.1% of the Australian economy
- For ten years to 2011 Sydney was the worst performing capital city
- In 2012-13 Sydney was second only to Perth in terms of growth
- Sydney has the highest productivity of all capital cities: this is the 'Sydney Dividend' in our title

Sydney's New Momentum

Sydney is re-emerging after a decade of under-performance, during which the city grew at a slower rate than all other major capital cities. Sydney's role as Australia's global city and the global connections and finance flows that this role brings are allowing it to tap into a global recovery while other parts of Australia seek to manage the slow-down in the mining investment boom and the continued reduction in large scale manufacturing.

Ongoing investments in key mega projects such as the Northwest Rail Link, WestConnex, Barangaroo, and going forward, the Second Harbour crossing, a second airport and light rail projects for the CBD and Parramatta, are required to continue to expand the productivity capacity of Greater Sydney. But even more investment and infrastructure projects will be needed to sustain Sydney's momentum in the long term.

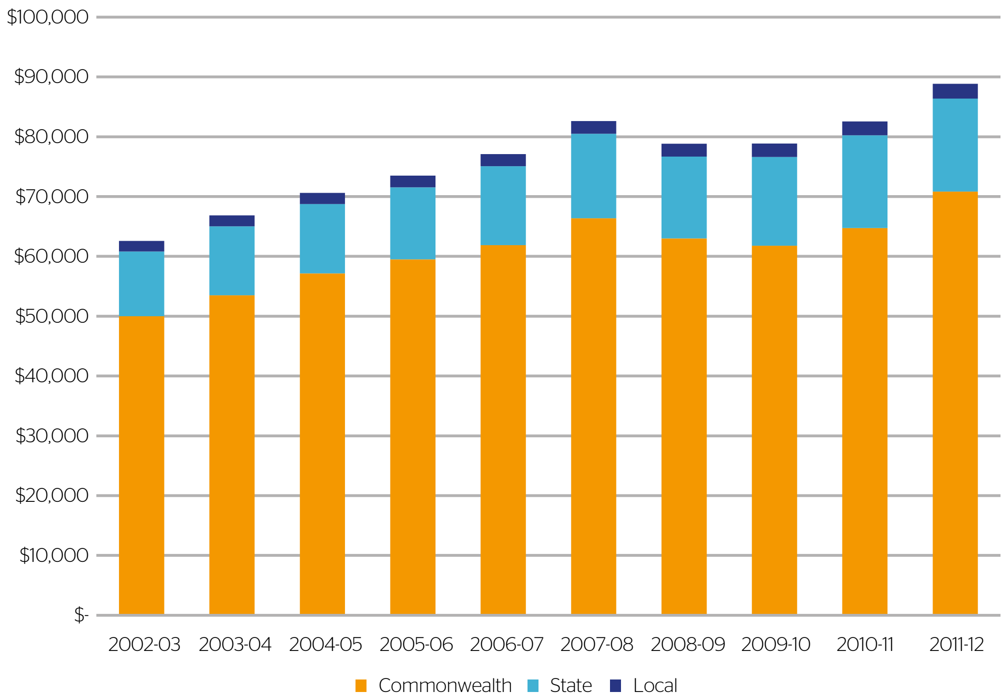
2014 Federal Budget further enhances Vertical Fiscal Imbalance

So, despite its current performance and recent announcements, there is a clear need in the Committee's view for a review of how Sydney accesses Federal infrastructure funding in the future. Clearly, the 2014 Federal Budget confirmed significant and welcome investment in some key Greater Sydney road projects and identified an innovative approach to Federal-State collaboration on recycling state government assets. However, the Federal Government indicated no new approach to the structural challenge of funding our cities' development or the 'vertical fiscal imbalance' which adversely affects them.

The costs of cities' mass transit projects are for example being deemed entirely State matters by the Federal Government when the economic returns of such projects – with their capacity to support Sydney's vital knowledge economy and enable the agglomeration of jobs and homes which has been shown to be associated with higher GDP – accrue to the nation and not just Sydneysiders. Mass transit will be under-provided in our cities in comparison with the global competition unless we achieve a better alignment of Federal and State funding over a sustained period for key urban infrastructure of this kind.

Furthermore, of the significant funding Sydney's tax base provides to the Federal Government – fully 82% of Sydney's tax-take goes to the Commonwealth (Exhibit 3) – the largest contributions returned to NSW (there is no city level data at this time) come in the form of spending on social services, education and health (see Exhibit 4). The Federal Government's preference, signaled in the 2014 Budget, to allocate greater responsibility for funding such services to the States must raise questions about how these services will be funded in NSW going forward. The proposal also raises questions about what the knock on impact would be on investment in urban infrastructure if scarce state funding had to be diverted to education and health.

Exhibit 3: 82% of Sydney's Taxation Revenue goes directly to the Commonwealth



Source: SGS Economics & Planning

Exhibit 4: The largest contributions returned to NSW come in the form of spending on education, health and welfare

State General Government Selected Expenses by Purpose ($ M)

Purpose	2002--03	2011-12	Annual Growth
Education			
Schools	$7,388	$11,278	4.8%
Technical & further education	$1,334	$1,732	2.9%
Other education	$1,030	$2,392	9.8%
Health & Welfare			
Acute care institutions	$6,442	$11,162	6.3%
Community health services	$1,682	$2,447	4.3%
Welfare services	$2,108	$4,574	9.0%
Other			
Public order and safety	$3,669	$6,371	6.3%
Road transport	$2,035	$3,346	5.7%
Rail transport	$1,171	$3,054	11.2%
General public services	$1,131	$2,503	9.2%
Public debt transactions	$809	$2,066	11.0%

Source: SGS Economics & Planning

Vertical Fiscal Imbalance

Such 'vertical fiscal imbalance' has long been recognised as one of the weaknesses of the Australian federal system. The fiscal power of the Commonwealth has increased markedly at the expense of the States. The current fiscal imbalance is depriving Sydney of investment funds for infrastructure. The constitutional/fiscal arrangements are taking funds not just from the State but from the city, which is the wealth creator. The recent Federal Budget has now further highlighted the need for decisive strategic action and for the longer term settlement of this imbalance.

Key Findings

- Sydney generated $90 billion worth of taxation revenue in 2011-12.
- 82% was collected by the Commonwealth via income tax and company tax, leaving only 18% for State and local councils.
- Some of this revenue is used to subsidise other states. Much is returned to fund health, aged care and education services in New South Wales.
- But relatively little is returned to the State in the form of Federal infrastructure funding. States clearly need to get a bigger share of commonwealth revenue or do more revenue raising themselves – or a combination of both

A ‘New Deal’ for Sydney between tiers of Government is needed more than ever

Sydney is a significant net contributor to the nation’s wealth and it is proud to play this leading economic role. However, it needs a long-term ‘New Deal’ around fiscal fairness and focus on infrastructure if this is to continue. With 82% of Sydney’s tax-take going to the Commonwealth, the Federal Government itself must recognise how important it is to get the right policy settings for Sydney and an effective alignment between tiers of government to ensure Sydney receives the focus and investment it merits – for the benefit of the nation.

While State asset sales are one immediate solution and will be necessary to fill funding gaps, a longer term settlement needs to be found of the issue of vertical fiscal imbalance and the role cities play in our Federation. We need to have a new national conversation or compact about Federalism and how funding operates across government tiers– and the place of our cities as key engines of national economic growth. In this context we note that the Premier of NSW is now on record as calling for a national debate about a fairer sharing out of the receipts from income tax between Federal Government and the States. We agree and the evidence presented here supports a radical review of the current arrangements and that a more equitable and efficient distribution be designed which recognises the contribution of cities - and the need to invest in them.

In the past, programs such as Building Better Cities indicated how better alignment around urban infrastructure could be achieved: we can improve on this approach going forward – and must. The Commonwealth needs to target investment towards its cities and work with State governments to identify the key urban infrastructure projects of national significance. A lesson should be drawn here from the US experience where, although having a similar constitutional complexity, city projects can apply for funding from federal infrastructure programs. Many big city mass transit projects in the US are funded in this way, as you will hear more about later in the paper.

Clearly, the criteria and basis for appraisal of national funding for major infrastructure in our cities need to be objective and transparent and be firmly based on the economic return on public capital employed. Infrastructure Australia was established to regulate project selection on such criteria and should continue to do so. In any such transparent and objective procedure key Greater Sydney projects should command a priority as the ‘bang’ for the public buck in a city with Australia’s highest labour productivity will be commensurately greater.

Of course the quid pro quo for Federal investment in Australian cities might not be confined to an uplift in GDP and an increased tax return to the Commonwealth. Under the previous government, the Commonwealth tentatively moved to require the states to meet a set of good planning practice principles if they were to avoid “mark-downs” when priorities for federal transport and other spending were determined. While this was in danger of becoming highly bureaucratic as a tool, there is surely a way of increased Federal infrastructure investment in cities being linked to performance or structural reforms which will deliver better performance.

We see the need for what have been called 'untied boosts' to state discretionary revenues and incentives 'in return for far-reaching governance reform in the cities'[1]. The time has come for each capital city to have a metropolitan governance framework in a renewed Federation, so as to improve their economic performance and suitable and secure investment in it by all tiers of government. Federal Government must be more of an active partner with states in their capital cities going forward but they will need an agreed national framework and structures.

Further on in this paper, in the section entitled 'Governance Reform for Metro Sydney', we commend the NSW State Government's moves towards creating a metropolitan Greater Sydney Commission. The Federal Government should indicate its support for such a strategic initiative and at a minimum should seek alignment between its own employment, investment and development policies and programs and those of the Sydney Commission in due course.

The 'new deal' we seek between the Federal and State governments on urban infrastructure is meant to be precisely that: a something for something contract linking infrastructure investment to agreed outcomes from Sydney and the other key cities. From the Committee perspective the Commonwealth is not being asked to fund failure but invest in success by better aligning its investment program with that of State governments with a resolute and cost-effective focus on those urban infrastructure projects and programs which will lead to enhanced national productivity. Cities must stop being 'orphans of public policy' in Australia, left to over-stretched state and fractured local governments to manage. They are simply too important for that – or for our current vertical fiscal imbalance to be maintained.

Innovative alternative funding mechanisms and greater community buy-in

However, and very importantly, the 'new deal' also needs to be between those advocating new infrastructure investment and the community of Sydney itself. Essentially, the need for further infrastructure funding requires more than that extra Federal government funding be available. In the world of constrained public sector budgets, it also requires that more revenue be raised within NSW itself. That requires new funding mechanisms and community involvement. We need to see more innovation around funding mechanisms – and more buy-in to them by our communities in recognition of the benefits for them of investment in their urban infrastructure.

1. The Smith Institute, 'Investing in better places: international perspectives.' Chapter 7 (Spiller, M. Director SGS Economics and Planning) pg 94 (March 2011)

Although it is vital that reforms around local and regional infrastructure contributions and growth funds be delivered, as set out in the NSW Government's Planning White Paper[2], it is also clear that such initiatives are unlikely in themselves to be able to generate enough to fund the kind of Big City projects (discussed later in this paper) that Sydney requires to support and develop its economic role for the state and indeed the nation. Other mechanisms will be required – and ones also which spread the funding responsibilities more evenly as current levy approaches tend to focus on developers and first time buyers for benefits which are enjoyed by communities and businesses as a whole.

Communities need to be more deeply engaged in civic discussions about the infrastructure needs of their cities and to be better informed about the true costs and benefits of infrastructure with a more mature discussion about how such costs might be paid for.

There are many potential innovations being adopted around the world, as set out in the case study below, and indeed within Australia, from user charges and tolling through area improvement or community levies to various forms of value capture mechanisms.

Whatever the constitutional or structural differences between Australia and other counties, we must find ways to replicate such approaches – as well as the direct appeal to the public on which they are based to contribute to the true cost of infrastructure in and for our cities from which all benefit. Below we highlight a few options but note that the Committee is preparing a separate document on the options for release shortly.

Value capture

We need to see innovation around new sources of funding and particularly approaches that exploit the value uplift – in residential property values or commercial output – that accrues from public infrastructure investment. So-called value capture or 'beneficiaries pay' approaches need to be explored as has been done in many cities throughout the world including, Denver's Light Rail program and London's Crossrail project, as highlighted in the case study below.

In Sydney, the unearned private uplift to land values around the proposed second airport arising from public intervention and rezoning provides a real opportunity to introduce such value capture approaches with full public support. Such funding can be applied as a contribution to the cost of the infrastructure itself or to ensure that appropriate community infrastructure is in place to meet the needs of an expanded population enabled by, for example, a new road or rail link.

User charges

There is a wide variety of potential initiatives of this kind which could be explored. Road pricing/user charge strategies are variants of a 'beneficiary

2. NSW Government, 'White Paper – A new planning system for NSW' (2013)

pays' approach and they have been well explored recently by Infrastructure Partnerships Australia and Deloitte in conjunction with the NRMA and other road user organisations in their innovative research[3] which points out that as cars get more fuel-efficient the funding available from gas-taxes declines while road-usage increases. Policy innovation and a politically mature conversation with the community are vital as business as usual will not deliver the investment required.

Community levy/special rates

Other relevant initiatives which must be explored in NSW include an LGA wide levy on, or special rate charged to, all the community for infrastructure benefiting all the community. The levy could perhaps be time-limited (with use it or lose it provisions) and linked to a specific program of infrastructure investments. The current NSW approach of putting the cost of such infrastructure on new development and first-buyers is too burdensome for developers and asks too much of new entrants to the market and indeed the community.

Recycling public assets

The Government has announced its intention to seek a sale of the State 'poles and wires' and to hypothecate much of the funding released for key infrastructure projects long sought by the Committee such as the Second Harbour Crossing, a new rapid transit system and new light rail investment. By so doing the Government in our view has made a powerful case for the benefits to Sydney of such a sale. Though there must have been pressure on the NSW Government following the Federal budget to attempt to target the capital resources released to fill operational budget gaps in current state services, the temptation seems to have been resisted. The focus of the proceeds is the right one: to invest in wealth-generating infrastructure to support economic strengthening and future proofing of Sydney as the engine of state and national growth. The Committee, in supporting the sale of the 'poles and wires', commends the strategic view taken of community benefit. We note of course that such a sale on this scale can only happen once and does not diminish the need for Governments to plan long term for the sustainable funding of Sydney's infrastructure.

Case Study

Sales tax and infrastructure: political leadership secures community support in global examples

Cities such as Denver, Los Angeles and London have become leaders in innovative 'beneficiaries/users pay' approaches to funding mass transit infrastructure. Local and city government are at the heart of this kind of approach to funding infrastructure.

In cities in the US, including Denver and Los Angeles, new public transport networks are being created following Metro-wide referenda approving a fraction of the city sales tax or GST being hypothecated over say 30 years as income for a bond to fund a specific public transport program. For example, in 2004 in Denver a 0.4% hike of GST was agreed to by Mayors and their communities throughout the metro area and suburbs to fund a bond which raised almost $5b for a regional light and heavy rail program which is now being implemented.

In London the massive Crossrail project is being funded by a cocktail of measures including a business levy, a small rate charged to all Londoners, value capture and a community infrastructure levy paid by developers – a package backed by the electorate and business.

3. Infrastructure Partnerships Australia, 'Road Pricing and Transport Infrastructure Funding: Reform Pathways for Australia' Discussion Paper (March 2014)

At the same time we urge the community of Sydney to engage in a mature civic dialogue about the challenges of funding and managing our growth – and to give the space to our politicians not simply to serve the short term diktats of an electoral cycle but to plan for the Sydney of the future and the generations to come. Big City thinking is not just something for our politicians to do. It's for us all.

At the heart of these successes was not some technical funding solution. Rather it was securing public support for growth supported by a credible and transparent program of public transport investments. Whatever the constitutional differences or challenges, we believe that some such innovation will also be vital to funding Sydney's infrastructure going forward. This plays to the need for political leadership to set out a bold vision of the city's future, to identify and take the steps required within NSW to enable it to happen and to build a new partnership and collaboration between the state and federal governments to maximise and align investment and policy behind a common approach to realise the economic potential of our key cities.

The need is for new infrastructure – and to sweat existing assets more effectively – to increase Effective Job Density (EJD) and productivity across Greater Sydney

We stress the need not just for entirely new infrastructure for Sydney but also to sweat existing assets more effectively – so that, for example, rail travel times between Greater Sydney's key regional centres and the Sydney CBD are greatly reduced as are journeys from say Parramatta to Penrith or Liverpool. Parramatta's intrinsic capacity to be Greater Sydney's second CBD will be fully realised when the journey time from there to the Sydney CBD is reduced from the current 30 minutes to the feasible 15 minutes achievable on the existing line. We share the view taken by Infrastructure NSW in its first 20 year strategy that this is deliverable through upgrading and better coordinating existing infrastructure – and that this should be a focus of the state's public transport program going forward.

We add that there is also a need to sweat existing key road assets and for the same reason: Sydney's geography and history have left us with a constrained CBD at the far edge of our city, as compared with Melbourne's which is at the centre of its metropolitan area, easily accessible from all directions. This puts a premium on ensuring enhanced connectivity to the opportunities in the CBD but also to ensuring easier access via all modes to other key centres of economic activity throughout Greater Sydney.

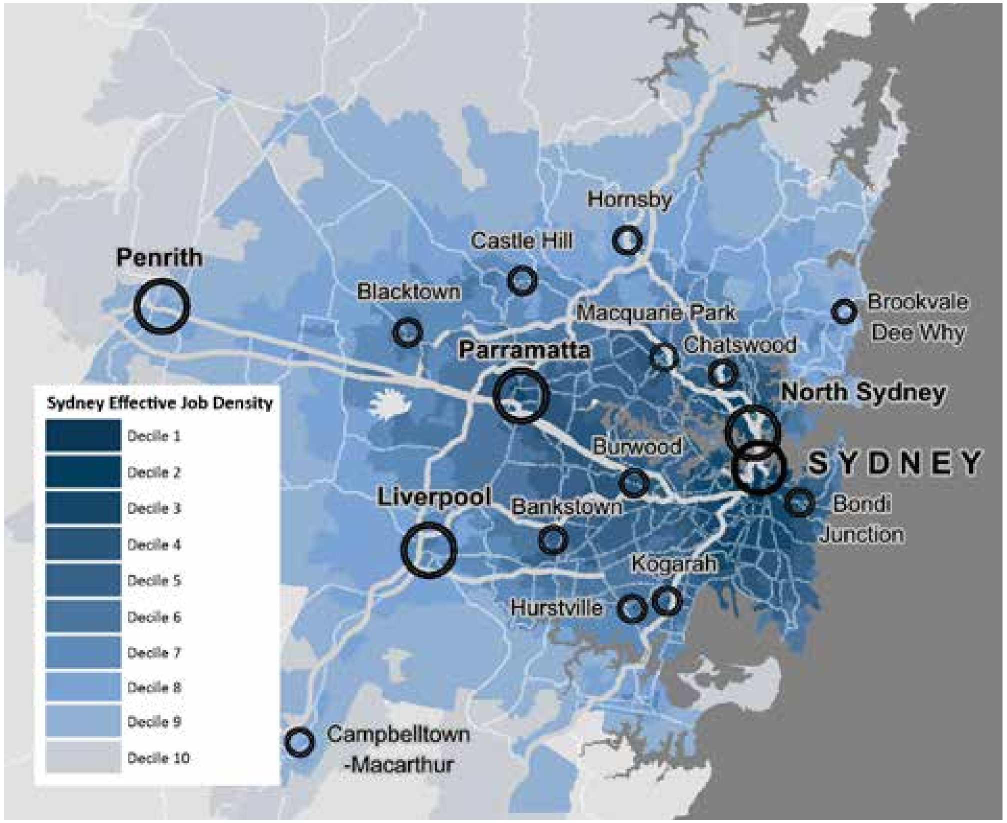
Effective Job Density (EJD) is an index of the level of employment relative to the time taken to gain access to that employment, adjusted by the current mode split of those workers in their travel to employment. It is a measure of agglomeration economies.

Parramatta Road is an example of the challenge and how barriers can be overcome. Exhibits 5, 6 and 7 show how areas with the highest Effective Job Density (EJD), Gross Value Added (GVA) and labour productivity are close to and well connected to the Sydney CBD and the emerging 'global economic arc'. But they also show the comparatively low EJD alongside extensive stretches of Parramatta Road quite close to the CBD – indicating the barrier effect created by the current blockages and congestion on this key transport corridor at the heart of Sydney. Although WestConnex is significant new high cost infrastructure which will change the way the city functions, almost as important to this area of Sydney will be the reduction of congestion along Parramatta Road and the diminishing of its barrier effect through traffic calming and urban renewal measures being implemented by UrbanGrowth, Roads and Maritime Services (RMS) and the Department of Planning and Environment in a partnership with local government. This coordination of new infrastructure and the more efficient use of existing infrastructure is encouraging – as is the cross-government collaboration on which it's based – and will enable many more jobs and homes to be provided at the population heart of Sydney. It will also add to the EJD of the area and its contribution to overall Sydney performance.

Key Findings

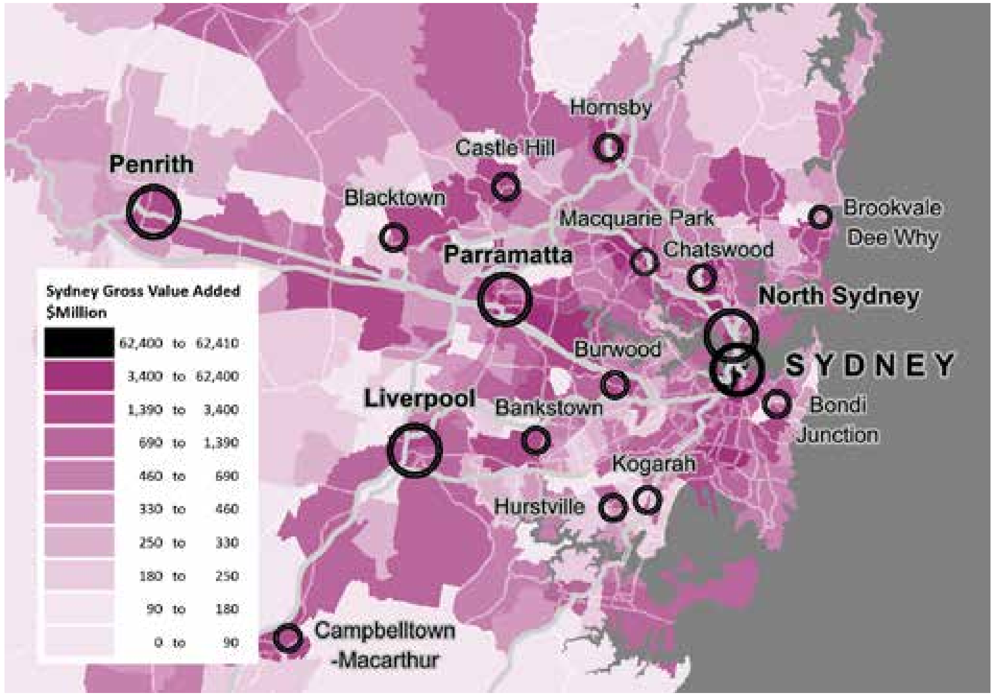
- The inner west between Glebe and Burwood has low levels of EJD. This is associated with connectivity and amenity issues related to congestion along Parramatta Road.
- WestConnex and the renewal of Parramatta Road have the potential to increase EJD along this corridor and better link Parramatta and the CBD.
- However, both Parramatta and Macquarie Park will need new public transport connectivity enhancements to support further economic growth – both to connect them faster to Sydney CBD, to each other and to their surrounding hinterlands. The same goes for Penrith and Liverpool – plus enhanced connectivity to the new airport.

Exhibit 5: EJD is very uneven across Sydney: Low EJD along Parramatta Road shows the growth potential of reducing its barrier effect



Source : SGS Economics & Planning

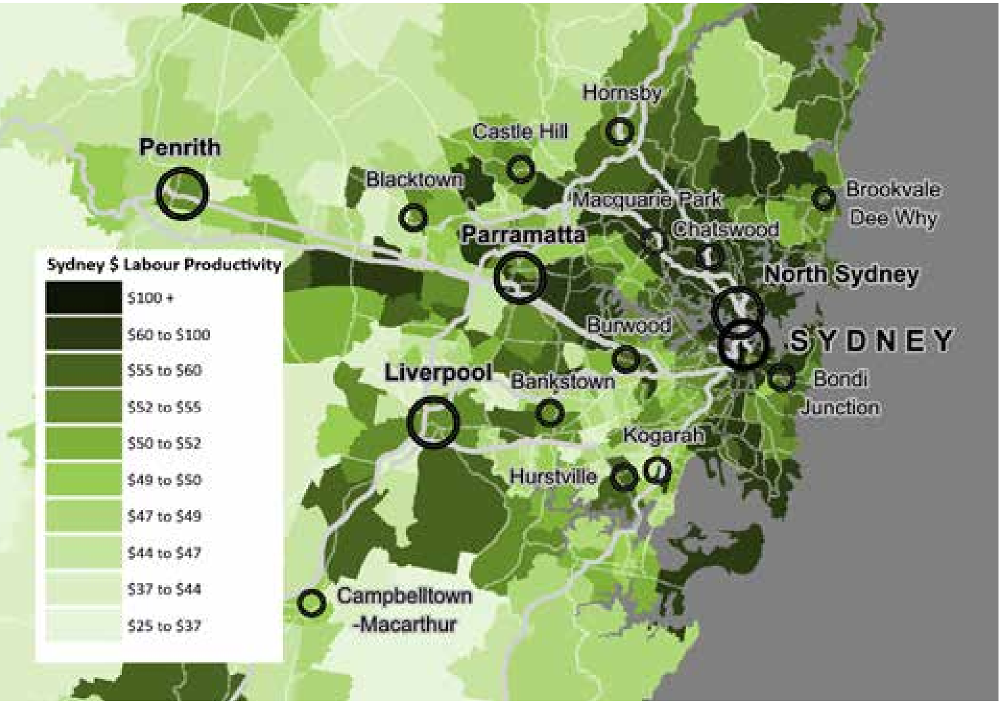
Exhibit 6: Highlighting the 'global economic arc' (with the CBD at its heart), which is clearly taking shape, the map below shows the uneven gross value added (the sum of wages and profits) across Sydney.



Key Findings

- The businesses located in the CBD generate almost one quarter of Greater Sydney's income.
- Other major centres of economic activity are North Sydney (3.6 per cent), Macquarie Park (2.6 per cent), Parramatta (2.6 per cent) and Pyrmont – Ultimo (2.1 per cent).
- The 'global economic arc' is clearly taking shape but, as is clear from the map below, Parramatta Road and areas alongside it are economically underperforming.
- The challenge for Sydney is that population growth is more dispersed than economic growth. It is also challenged by having a constrained CBD in the far-east of the Metro region well away from expanding population centres.

Exhibit 7: The highest labour productivity is concentrated in areas close to or well connected with the CBD and the emerging 'global economic arc': with Parramatta Road clearly acting as a barrier



Key Findings

- The CBD has the highest labour productivity in Sydney. For every hour worked in the CBD, $104 of income is generated.
- North Sydney and Macquarie Park are also highly productive centres at $91 and $82 respectively, with Parramatta generating $77 of income.
- Sydney Airport with $71 is in the top ten most productive places in Sydney. The median labour productivity of all suburbs in Sydney is $51.
- Given its relative proximity to the CBD, the inner west has surprisingly low productivity exacerbated by the barrier effect of Parramatta Road and by the low value economic uses currently along it.

EJD, the puzzle over the North Shore – and the implications for Western Sydney

Given the high EJD of the North Shore, the relatively low number of homes identified for the North Shore in the draft Metro strategy for Sydney is anomalous. Equally, the very high number of homes planned for the south-west corridor and growth area must lead to much more enabling infrastructure investment and be matched by new, higher value jobs.

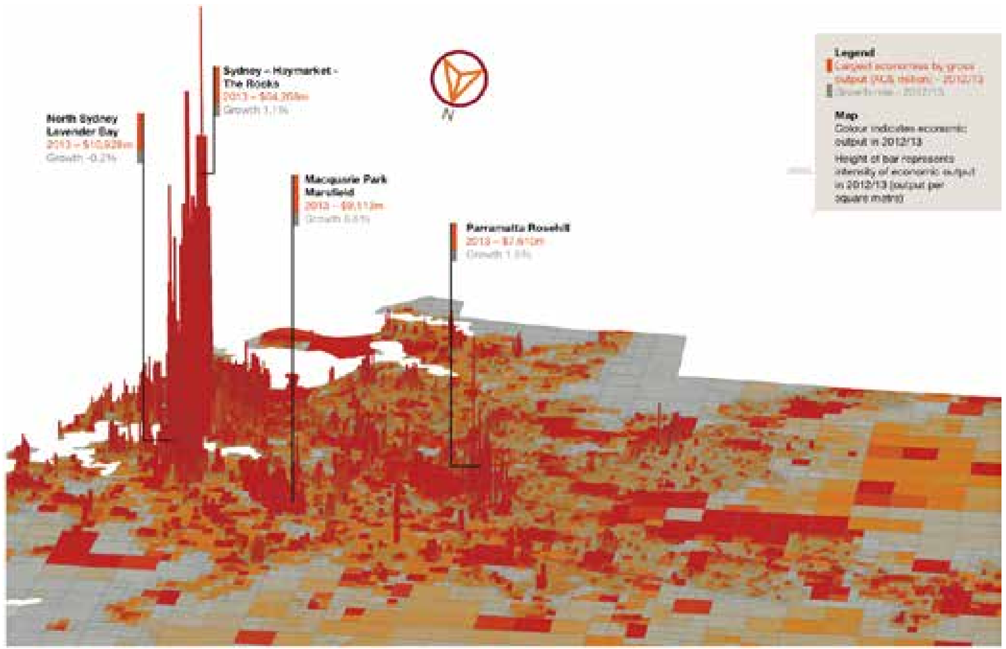
Liverpool and Penrith must be enabled to add to their EJD not just by faster links to the Sydney CBD but by better transport links also between those two key regional centres and their surrounding districts. On the evidence presented here, the improved public transport and road links between Liverpool, Penrith and Badgery's Creek now being considered by State and Federal governments will be vital if Western Sydney is to exploit the economic potential of the second airport. The Western Sydney Light Rail scheme is clearly justified on the data presented here in terms of its potential impact on EJD and its contribution to the strengthening of Parramatta as a key centre – with enhanced links to the fast-growing Macquarie Park – in a more polycentric Sydney.

The Committee thus welcomes the Government's recent announcement of support for the Light Rail scheme which we believe is vital to increase EJD in the area and to help fill some of the jobs gap in Western Sydney – not just in the quantity of jobs in relation to housing development in the sub region, but their quality, particularly the relative absence of higher value knowledge jobs so critical to economic success. Residential growth in the area without a bigger growth in such jobs will only add to the jobs gap.

Ending the divide: further transformation in Western Sydney

First the good news. Innovative recent research by PwC[4] shows the economy of Western Sydney has actually been growing faster than the Sydney CBD for much of the last decade though this is in part because Sydney's CBD had dropped into a low growth trajectory in the same period, from which it is now emerging. The spatial distribution of output in Greater Sydney is shown in Exhibit 8: the CBD remains dominant with other centres coming forward.

Exhibit 8: Sydney's economic output remains the most intense in the CBD but other centres are coming forward.



Source: PwC Australia uncovered: A new lens for understanding our evolving economy (March 2014)

4. PwC, 'Australia Uncovered: A new lens for understanding our evolving economy' (March 2014)

Parramatta, now at the demographic heart of Sydney, has experienced much of Sydney's new growth and is now attracting major attention from premium developers. Increasing investment attention is also now being targeted at Liverpool and Penrith: the second airport is likely in the longer term to attract even more investment and development to the area.

However, though Western Sydney has been the fastest growing part of Sydney in terms of population growth, economic output grew faster in Macquarie Park in the last dozen or so years, as is shown in Exhibit 9: this also shows the extent to which other cities have been increasing their output and catching up on Sydney but also suggests how important it is that the performance of Sydney CBD is supplemented by the performance of the other key centres in polycentric Sydney.

Exhibit 9: Though there is momentum in Western Sydney, economic output grew fastest in Macquarie Park: Sydney needs its CBD and other centres to perform well to stay ahead of other cities

Location	2001/02
1 Sydney CBD	$50,441
2 Melbourne CBD	$34,684
3 Roebourne (WA)	$28,726
4 Perth CBD	$17,597
5 Brisbane CBD	$15,657
6 Adelaide CBD	$11,725
7 North Sydney (NSW)	$10,484
8 Parramatta (NSW)	$6,614
9 Churchill (La Trobe Valley, VIC)	$5,296
10 Dandenong (VIC)	$5,275
Top 10 as a per cent of total economic output	**16.9%**

Location	2012/13
1 Sydney CBD	$64,208
2 Melbourne CBD	$55,315
3 Perth CBD	$28,461
4 Roebourne (WA)	$24,488
5 Ashburton (WA)	$24,353
6 East Pilbara (WA)	$24,168
7 Brisbane CBD	$23,395
8 Adelaide CBD	$16,136
9 North Sydney (NSW)	$10,928
10 Macquarie Park (NSW)	$9,113
Top 10 as a per cent of total economic output	**18.4%**

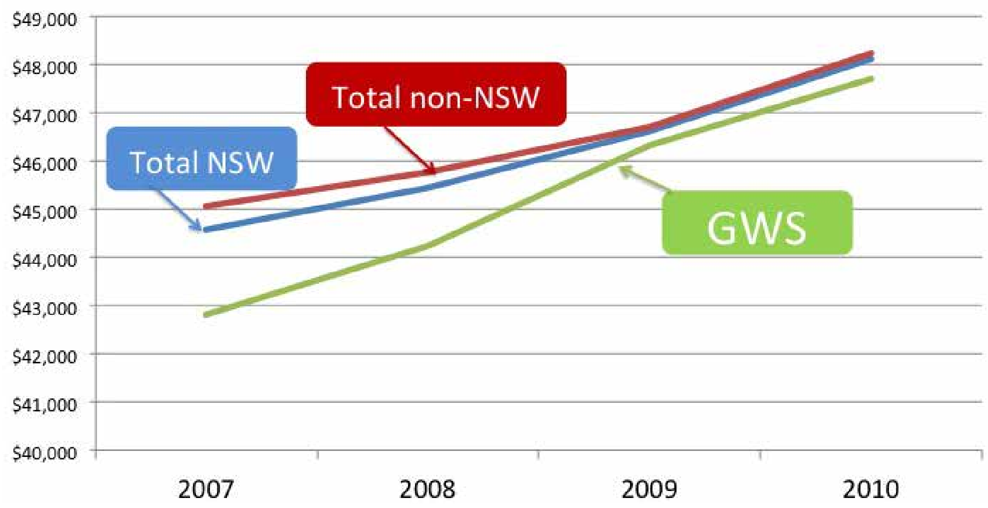
Source: PwC Australia uncovered: A new lens for understanding our evolving economy (March 2014)

Key challenges remain

Although there is clearly momentum underway with the income gap of people living in GWS narrowing (see Exhibit 10), the PwC analysis is that this is being driven by some higher income earners now living in Western Sydney but actually being employed in other parts of Sydney: while the income gap of those both living and working in Western Sydney continues to grow in comparison with the rest of Sydney. Additionally, despite progress in some areas, the spatial divides in key socio-economic outcomes in Greater Sydney as between West and East remain unambiguous and in need of concerted, long term action and investment (Exhibit 11 and 12). This is why the Committee has entitled this research 'Adding to the Dividend' (the policies and investments needed to build on Sydney's competitive advantage and productivity), 'Ending the Divide' (breaking through the line of disadvantage).

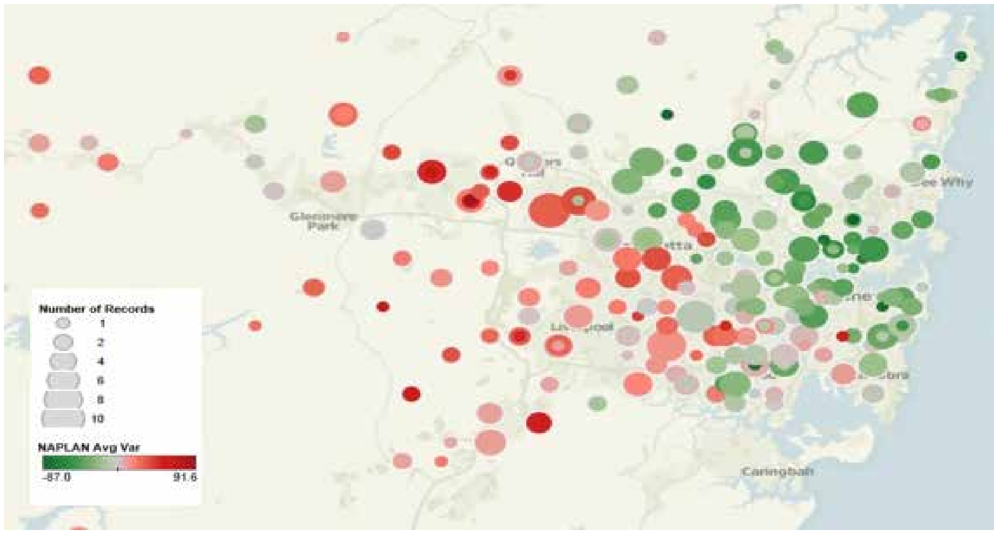
In addition, although there is clearly new impetus in Western Sydney and the announcement of the second airport is very welcome – particularly alongside the package of investment in road and rail connectivity to it – the evidence presented shows how much more will need to be done to reduce the divides between outcomes, in particular around income, education and health in the Western and Eastern parts of Greater Sydney, thereby raising the performance of all of Sydney.

Exhibit 10: The average income gap between Western Sydney and the rest of NSW is already narrowing but policy and investment focus needs to be sustained.



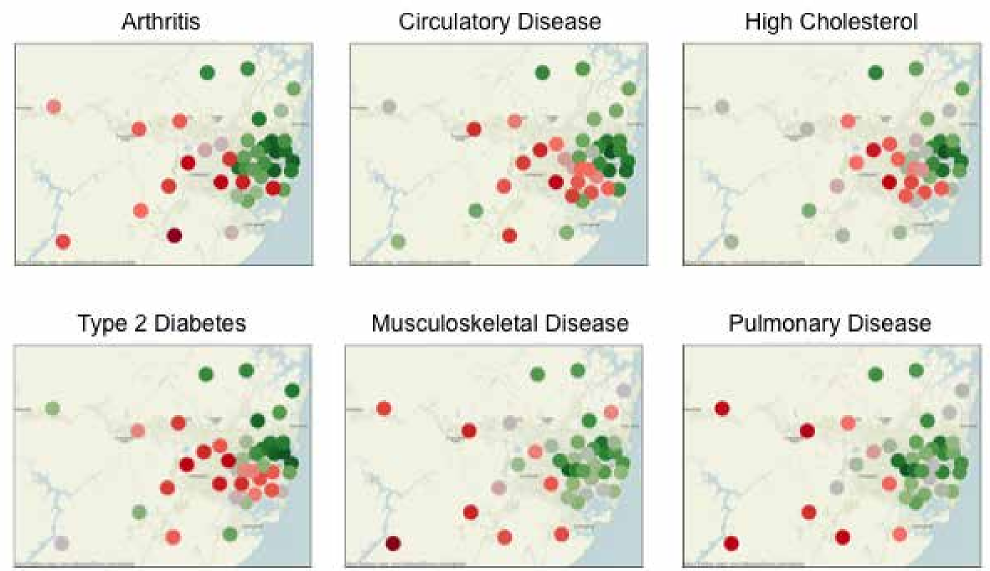
Source: UWS Presentation to the Committee for Sydney Board (April 2014) (original source ABS, 2014)

Exhibit 11: The divides in education outcomes remain unambiguous and require long term action and investment.



Source: UWS Presentation to Committee for Sydney Board (April 2014)

Exhibit 12: The spatial divide in terms of health outcomes is clear, despite the clear momentum underway.



Source: UWS Presentation to Committee for Sydney Board (April 2014)

A genuinely polycentric Sydney

Underpinning the current divides within Sydney is the decline of manufacturing, once dominant in Western Sydney and the rise of the knowledge economy to the East. This differential process is currently leading to differential outcomes in income, access to jobs and share of housing wealth. Under current conditions, Sydneysiders with high level qualifications are seeking to live close to the centre of our city where the knowledge economy enterprises cluster – or close to transport links which enable access to them. Meanwhile, those without such qualifications are living further and further from the centre. As the Grattan Institute puts it: 'If this polarisation continues, then many people risk being locked out of the parts of the city that offer the richest access to jobs'.[5]

Individual Western Sydney projects, however important, need to be coordinated and delivered as part of a wider long term strategy for the area and for Greater Sydney which has at its core a vision for economic and social outcomes to be more balanced across Greater Sydney over time. Strategy, policy and investment need to recognise the deeply polycentric nature of Greater Sydney (as contrasted with Melbourne). To ensure maximisation of the economic and residential capacity of all of Greater Sydney requires that Sydney's regional centres in Parramatta, Liverpool and Penrith, and an increasingly important economic agglomeration in Macquarie Park, flourish alongside the CBD.

Achieving the full potential of polycentric Sydney means enabling new, higher value, economic activity to locate to centres in Western Sydney, not just housing – though we also stress that greater affordability in housing and intergenerational equity will also be promoted by such a polycentric approach. This is because the current approach is focusing high demand in too narrow an area of the city with a premium on locations closer to the Sydney CBD. Because of this, the 'value-gap' between homes in such areas and centres in Western Sydney increased dramatically over the first 14 years of the century.

We think there are 5 ways to tackle this – all supporting a core objective of moving 'polycentric Sydney' from rhetoric to reality and effective urban management so as to enable more of Sydney to pull its weight in delivering metropolitan economic outcomes.

To achieve this objective we need to:

1. Enable more homes to be built – at higher densities – closer to economic activity and public transport nodes.
2. Radically improve the transport system's capacity to connect jobs and people: while welcoming Westconnex and the new roads planned to the second airport this also means recognising that in the knowledge economy era a public transport revolution is required in Greater Sydney which will not just connect people much faster to the CBD and the 'global economic arc' but also radically reduce transport times between as well as to Parramatta, Liverpool and Penrith, better linking them to their surrounding communities and employment areas as well as to 'global Sydney'.
3. See a renewed focus on developing the economic capacity and international competitiveness of the Sydney CBD and its extension via the 'global economic arc'.
4. Ensure sufficient policy focus, planning and cross-government coordination are in place to realise the economic potential of the key regional centres of Parramatta, Liverpool and Penrith: the Committee repeats its call for an economic strategy for Western Sydney – and we add the need now for

5. Kelly, J-F., Mares, P., Harrison, C., O" Toole, M., Oberklaid, M., Hunter, J., 2012, Productive Cities, Grattan Institute

specific measures to enable local business and communities to leverage the economic benefits of the second airport.

5. Create more Metro-scale governance so that Sydney's communities can come together to solve strategic challenges, exploit opportunities across and break down divides which undermine the performance of the city: the new Premier must grasp the opportunity for reform of the governance of Sydney – and how its growth is managed and planned.

This comprehensive and integrated approach will help to ensure that Greater Sydney can continue to add to its dividend for the state and the nation as a source of high value jobs and enhanced labour productivity. But it will also help us end the divide in performance between East and West and thus add to the total size of the economic 'cake' for all.

Clarifying a vision for Greater Sydney: Urgent Priorities for State Government

While the State needs to secure for Sydney its fair share of Federal infrastructure investment, there also needs to be a clearer vision for, focus on and strategy for Greater Sydney at a State level. Improving coordination of government departments at work in the city and identifying interventions that take advantage of Sydney's unique polycentricity will both 'add to Sydney's dividend' and 'end the divide' between its West and East and increase the economic performance of the whole. Such interventions must include new approaches to the delivery of stalled reforms to the planning system itself but crucially must include governance reform – both strengthening local government and providing a more balanced policy of subsidiarity than currently in place through the creation of fewer but bigger and better resourced councils and some kind of metropolitan governance framework for Greater Sydney.

Governance Reform for Metro Sydney

The ground-breaking announcement of the Greater Sydney Commission by the Premier indicates that he has speedily accepted that the issue of better Metro scale governance for Sydney cannot any longer be sidelined. Recognising and developing Sydney's polycentric nature through strengthening metro and sub-regional planning is a key tool for realising its full economic potential and in managing its performance in areas such as economic development, infrastructure planning and housing. Greater Metro self-governance for Sydney and better alignment between all tiers of government – which many competing cities are achieving – are vital to Sydney maintaining and indeed improving its status and performance as an internationally competitive city.

The proposed Greater Sydney Commission – which the Committee has played its part in encouraging and on which it is actively involved with the Government in deliberations on its functions – represents considerable progress towards the coordination Greater Sydney needs. We welcome such an initiative and stress the need for the Government to also support the program of local government amalgamations advocated by the recent Independent Local Government Review Panel Chaired by Graham Samson[6] and to ensure a good fit between reformed local government and the Greater Sydney Commission. We see the need for stronger local governments with more responsibility for strategic planning and delivery as an integral part of the overall governance settlement for Greater Sydney. Sydney's fractured local governance makes it an outlier now amongst global cities and will hamper its ability to compete going forward.

6. Final Report of the NSW Independent Local Government Review Panel: 'Revitalising Local Government' (October 2013)

Conclusion

A new national urban compact and a 'new deal' for cities in a refreshed Federation

A new national conversation and compact is required around Australian cities, which are the engines of national growth and wealth. In particular, the vertical fiscal imbalance from which Sydney suffers needs to be fixed along with the governance gap which hinders its performance. Without fundamental reform of both, Sydney will lose further ground to competing cities, both domestically and internationally, with frankly better infrastructure and governance. The national conversation around the 'new deal' must bring to the surface the issue of how our key cities are to be managed and resourced in a modern Federation which recognises that the performance of our cities – where most Australian wealth is created – cannot be left to chance or poor governance. It has been said of Australian cities that they are the 'orphans of public policy', falling between the stools of Federal and State governments. Greater Sydney cannot realise its full potential without the governance and resources that are fit for the purpose of managing the growth of Australia's global city.

To achieve these reforms we will need to see bolder political leadership and innovation in the relationship between the federal and state governments in how they align policy for our key cities and together fund urban infrastructure of national significance. A strict separation of functions must be avoided within a new Federal system as such a division will not guarantee cities' wellbeing or prosperity. An absence of collaboration and coordination could lead to one-sided, uncoordinated outcomes. For example, the issue of public transport and the impact on productivity in our cities is something that all tiers of government should be concerned with. In addition, governance reform must go hand in hand with fiscal reform. Metro Sydney's governance needs sorting, urgently. Local issues should be dealt with locally, although this would be difficult with the current governance arrangements which leave local government disempowered. The State can focus on the delivery of health, education & public safety but managing the long term growth of Greater Sydney in the Committee's view, needs some kind of metropolitan co-ordination authority and governance that embraces the advantage that Sydney's polycentric nature could provide over other Australian cities and works with larger, better resourced and more empowered local government to have a serious civic discourse with the communities of Metropolitan Sydney about what is needed to manage growth sustainably and to ensure that Western Sydney gets the strategic focus it requires, both adding to the dividend and ending the divide.

What Sydney needs to add to the dividend and end the divide

- A National conversation on the importance of cities to economic growth, in particular Sydney's significant contribution to the national economy.
- Reform of the existing vertical fiscal imbalance.
- A new national urban compact with a 'new deal' between all tiers of Government focusing on a long term investment strategy for Sydney.
- A review of infrastructure funding mechanisms.
- Delivery of metro scale government in the form of the Greater Sydney Commission – combined with larger, better resourced and more empowered local councils - to manage long term growth and to 'end the divide' across East and West Sydney.

The Premier has clearly indicated that he wants to promote the national debate about how States are to be funded and has put the crucial issue of a share of income tax on the table. Given the evidence presented here about how much of Sydney's tax-take goes to Federal Government that is a long overdue debate. However, equally welcome is the Premier's openness to governance reform and the creation of a Greater Sydney Commission to coordinate and focus on the growth of Sydney. The Committee for Sydney strongly supports these bold initiatives and will seek to ensure that the contribution and needs of Sydney are reflected in the key policy debates ahead and in whatever form the 'new deal' for cities takes.

The 'new deal' must secure adequate long term funding for Big City projects which make a difference

This 'new deal', while highlighting a need to embed proper Metro-scale strategic planning and governance – Big City Thinking - also needs to have at its core a commitment to 'Big City' projects. These include both new city-shaping infrastructure initiatives as well as less visible but as impactful initiatives which 'sweat' existing assets more effectively than they are being at present. In outlining such Big City projects below we have in mind not the needs of a city of 4.5m, our current population. We need to plan now for a city of 7 million by mid-century, continue to invest in Big City projects and complete the public transport revolution currently underway, with the ambition of remaining Australia's first city.

'Big City' Projects

- Second Harbour Crossing to boost rail capacity to the network including CBD and potentially Barangaroo.
- Improvements to the 'western rail corridor' to reduce travel times from Penrith to Parramatta, Liverpool to Parramatta and the three centres to Sydney CBD: Western Sydney Light Rail also needs support.
- Deliver WestConnex to improve connectivity between the CBD and west/south west and catalyse reduction of traffic on Parramatta Road to enable delivery of homes and jobs where people want to invest.
- Second Airport connectivity – rail as well as road improvements.
- Start thinking now about the next generation of Big City public transport projects for a city of 7m at mid century: plan now for a Greater Sydney Metro.

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