

# Balancing austerity with growth

Local authorities across Australia are being challenged to deliver more with fewer resources, some while carrying considerable debt. Additionally the historical neglect of asset renewal is adding further pressure. By 2006 New South Wales (NSW) alone had a backlog of asset renewals of AUD\$6.3 billion (compared with \$0.8 billion in Victoria). This is recognised as their biggest management challenge in *Local Government*. Other local authorities across Australia and New Zealand face similar challenges.

Reluctant to increase rates, many local authorities are dealing with this through top-down across the board cuts, often with significant consequences for their technical capacity, corporate culture, strategic objectives, and staff morale.

## A bottom-up approach

Some local authorities are looking at their financial pathway differently to the traditional top-down cuts method. This alternative approach uses a bottom-up and inside-out method to help local authorities progress their strategic objectives whilst committing to financial sustainability. Councillors, senior management and discipline leaders engage in a step-by-step inquiry process that includes:

- Open, collective analysis (in significant detail) of all services and their strategic value
- Options for further revenue generation
- Savings through remedying internal disconnects (analysis and development of efficiency and integration) through behavioral and structural changes and
- Increasing external effectiveness with less cost to council (leveraging and partnering with external entities).

This approach requires an early discussion to establish a target timeframe for achieving financial sustainability. This timeframe will need to be revised as the process progresses.

Recently applied in a smaller regional city in NSW this process achieved measurable results, including:

- Significant savings in the first year, increasing over time through strategic prioritisation of council services, internal efficiency and integration, partnership

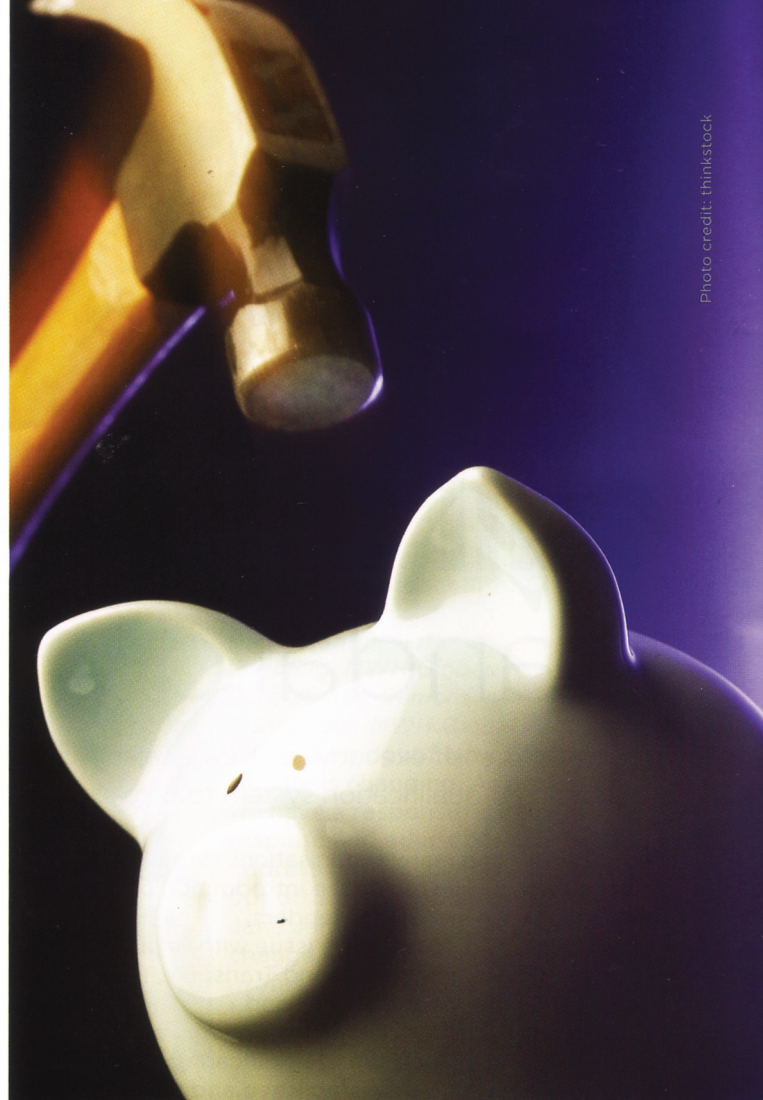


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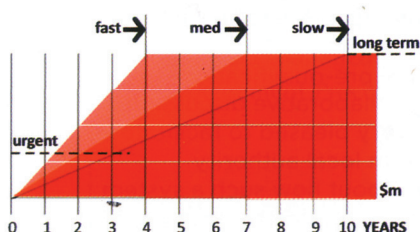
projects, increasing direct income, and retiring debt. Rates rises may need to be considered after year six.

- Investment to asset management in the first year premised on a stepped increase reaching the full amount required for asset renewal over 10 years.
- Investment into five community prioritised projects in the first year, dividing the savings between community and asset management priorities, rather than allocating the full amount to asset management. This provides for healthier, more balanced communities in the long-term, and unlocks leverage dividend, as described in more detail below.

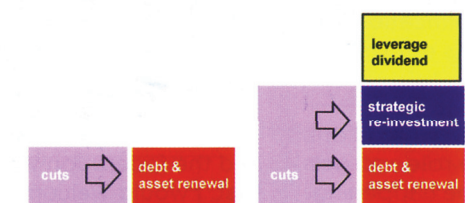
## Increasing external effectiveness (leverage)

Partnerships with external entities to leverage each other's strengths are an important part of this alternative approach. Leverage dividend can increase the local authorities' ability to deliver good outcomes with less money. Often service providers are able to deliver services more cost effectively with the support of council. Good strategies can encourage community engagement in projects they prioritise as

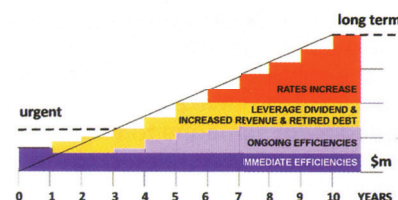
### SETTING FINANCIAL SUSTAINABILITY TARGETS



### PRUDENT+ STRATEGIC



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well as helping businesses to prosper, improving rates income and reducing social negatives. The aim is to create a virtuous circle by investing gains into a greater capacity to leverage more; also see 'LGA changes need care' article in this magazine (April 2012, pg32-33).

This approach has achieved:

- Economic returns: AUD\$50 million additional retail spend, 4680 new jobs, and an additional AUD\$1.2 million in council revenues in the first five years and AUD\$1.78 million in 5-10 years through unlocking a new growth area.
- Environmental benefits: A community-driven, but Council-assisted, re-vegetation project, which includes local people undertaking riverbank planting, enhancing biodiversity, and providing quality open space for the community that is accessible to the CBD.
- Social initiatives: Co-location of community services in a place that reflects the local people and is close to education and library services. This enhances accessibility, direct service delivery through a one-stop-shop for clients, and improves economies of scale.

However, for effective leverage dividend to be achieved local authorities need to ensure efficient internal integration.

#### Remedying internal disconnects (deFrag)

The deFrag methodology undertakes analysis of internal efficiency and integration to target disconnects between vision, policy, rules, procedures, and the projects. This enables organisational, behavioral, and structural changes between disciplines, or between different levels of management and implementation. The adjustments and additional strategies enable better on-the-ground outcomes by addressing evolving community expectations and optimising engagement with external entities.

#### The Growth to Austerity continuum



The combined involvement of councillor and senior staff allows all to better engage in the process, producing more consistent decision-making. Sustainable urbanism is achieved, not just pragmatic compromise, as place-based and community-based consequences are referenced. The process concludes by establishing a clear line of logic, producing a series of options across a continuum of austerity (Germany) to growth (Greece) for Councillors to consider. Significantly, in contrast to top-down or outside-in processes, the final decision has buy-in from all department managers, senior executives, and councillors, making budget setting and implementation routine. The result is the local authority moving from a position of debt and asset neglect to a pathway of financial sustainability in a more compassionate and strategic manner.

Urbanismplus is currently applying these methodologies in Australia and New Zealand. **LG**

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