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DEVOLVING SUSTAINABILITY POLICY TO LOCAL GOVERNMENT: A CASE STUDY OF NEWCASTLE

Darren McKay and Ray Rauscher

Over the last decade there has been increased expectation that local governments around the world will accommodate principles of Ecologically Sustainable Development (ESD) in their urban policies. This has provided the support for many neo liberal governments, preoccupied with fiscal constraint, to devolve sustainability strategies to the local level.

This article explores the implementation of ESD by local government within the context of higher tiers of government withdrawing from the broader vision of the Australian sustainability strategy that had been established in 1992. A case study of Newcastle is used to demonstrate the folly in requiring unsupported local governments to implement ESD strategies, no matter how enthusiastic they may be.

The article begins by exploring the background to the devolution of ESD to local government, including discussion of the influence of international agreements and Commonwealth and State government legislation. Secondly, it outlines Newcastle Council's initiatives on ESD, in particular its ambitious programs of the late 1990s. These programs are then critiqued, noting that some failed to live up to the expectations of the initial vision. Finally, the lessons learnt from the Newcastle ESD program are considered, leading to discussion of how ESD policies may be better implemented through local government, even with shortcomings of support from higher tiers of government.

ESD: Global, National and Local

In 1992 the Australian government released the *National Strategy on Ecologically Sustainable Development* (NSES) (Commonwealth 1992). This placed the nation at the forefront of ecologically sustainable development (ESD) programs globally. By 1993 this *Strategy* had been adopted by all tiers of government in Australia through inter-government agreements. In New South Wales (NSW) the state government legislated through the Local Government Act 1993 (NSW 1993) for local councils to develop integrated urban strategies that incorporated environmental, social, and economic factors. The national ESD strategy was Australia's response to the 1992 environmental earth summit in Rio de Janeiro. From this summit the United Nations produced Agenda 21 (UN 1992a) that outlined ESD strategies for international adoption, defining the concept as 'the balance of social, economic and environmental factors in development so as not to impact the next generation'. Agenda 21 (chapter 28) nominated local government as a significant tier of government in the delivery of sustainability strategies and produced Local Agenda 21 (UN 1993) to guide this process. The concept of 'thinking globally and acting locally' was advocated through a series of additional international agreements beyond LA21, including the Framework Convention on Climate Change (FCCC) (UN 1992b) and the Kyoto Protocol (UN 1997).

Agenda 21 has 27 guiding principles to promote sustainability among nations. These included the support for trade and development that would not jeopardise the environment, and the protection of the environment through legislation, education and economic instruments such as pollution taxes. It promoted international cooperation in addressing environmental problems, including information sharing. The document was also concerned with poverty, and sought to elevate the participation of women, youth and indigenous peoples in environmental management. Local Agenda 21 was essentially a process of implementing the Agenda 21 principles through local and regional governance. The UN has since created the Commission of Sustainable Development (UN 2000a) and the Sustainable Cities Program (2000b) to advise local government in implementing ESD strategies.

Writers including Albrecht & Gutberlet (2000) have been critical of the UN promoting devolution of ESD planning responsibility, arguing that local government has least resources to implement ESD policies. The authors are cynical of national governments devolving more work to local government, further straining their finances.

Various studies have shown local government has performed poorly in implementing ESD strategies. In the UK, Patton & Worthington (1996) noted the lack of progress in local government implementing LA21 strategies. In Australia, Wittaker (1997) argued that councils mostly implement minor aspects of ESD strategies first, with little attention given to the major ESD issues. A Western Australian study by Marshall (2002) has shown a low percentage of councils developing an ESD strategy in that state. A paper by Mercer (2002) examined the progress of ten Victorian councils who had developed progressive ESD strategies in the 'nineties and concluded that most were unsuccessful in implementing their strategy. The devolution of responsibility to under-resourced local government has been one reason why some have claimed the notion of ESD is being seen as a motherhood concept and treated flippantly in practice.

This article adds to the above literature by examining the performance of Newcastle City Council, which attempted to implement a very comprehensive ESD strategy, as opposed to the watered down approaches of many other local governments. As early as 1992 it was acknowledging Agenda 21 and the national ESD strategy in developing its own policy documents. By the mid 'nineties it was attempting to integrate its ESD strategy with the need for economic restructuring, in particular the encouragement of green industries. The Council hosted the 'Pathways to Sustainability' conference (1997) that brought together local government representatives from around the world to explore best practice in implementing Local Agenda 21. In this sense, the Council saw itself as a model for others. The Pathways program from the conference would form the basis of the Hunter region's ESD initiatives. As a result of these initiatives the Council received praise from several environmental commentators, the most prominent being the internationally renowned ecologist David Suzuki.

Background to ESD Policy Formation

It is important to situate the Newcastle experience in the broader context of debates and initiatives in ESD policy formation. Perhaps the most important turning point was the 1987 report of the World Commission on Environment and Development (WCED) entitled *Our Common Future* (UN 1987) (also called the *Brundtland Report*) which had a major impact on international environmental policy. This report made it clear that the current form of economic development was not sustainable and that an alternative method that acknowledged ecological limits was needed. It would become a catalyst for international treaties, conventions and national strategies that accommodated environmental sustainability. This process led to the United Nations Earth Summit in 1992, Agenda 21 and LA21, as previously noted. Ten years later the United Nations reviewed the progress of Agenda 21 and adopted the *Political Declaration and Plan of Implementation* (PDPI) (UN 2002) at the World Summit on Sustainable Development, Johannesburg. The UN has continued since 2002 to review the political declaration through programs under the UN Commission of Sustainability and the UN Sustainable Cities Program. Although there has been progress with Agenda 21 in Europe, countries such as Australia and the USA have disappointed in their efforts.

Australia got off to a promising start. The environmental movement in the late 1980s and early 1990s accelerated action, and contributed to the Commonwealth Government's working groups on sustainability, leading to the completion of the *National Strategy for Ecologically Sustainable Development* (NSES) in 1992. This strategy defined ESD as 'conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, now and in the future, can be increased'. The NSES also identified the means to promote sustainability, including for example: required industrial adjustments; changes to transport; urban form guidelines; and, recycling methods. It also advocated the discretionary use of subsidies and taxes, and improved intergovernmental coordination, as methods to achieve ESD outcomes.

The Commonwealth signed intergovernmental agreements in order to implement its sustainability strategy and to ensure its presence in all

policy areas and among all tiers of government. Unfortunately, much of the agenda outlined in the strategy became watered down in public policy by the mid 1990s (Albrecht 1994). Though ESD was to gain a nominal foothold in many government public policy documents, it would not have the teeth anticipated in the 1992 NSESD. In particular, little was done on the industrial ecology and transport areas of the strategy. The use of taxes and subsidies to influence economic structures in accommodating sustainability guidelines was soon sidelined. The debate surrounding the eventual adoption of the goods and services tax (GST) and competition policy became distractions in implementing the national sustainability strategy.

One could point to the tension between neoliberalism and the environmental movement as a major factor in the withdrawal of national governments from sustainability policy. This tension can be seen on two levels in Australia. First, sustainability strategy, as outlined in Agenda 21, required significant resources, in conflict with Commonwealth government's objective to build budget surpluses to satisfy financial markets. Secondly, the adoption of green taxes could be seen to threaten major industries in energy production and exports that were viewed as essential for economic growth. Both factors were perceived as important for Australia, and these economic concerns dominated government policy as the 'nineties progressed, with environmental issues being treated as a lower priority by both major political parties.

The national ESD policy lost significant momentum with the release of the Hilmer report on competition policy, which was passed into legislation in 1995. Arguably, competition as opposed to sustainability policy could now be seen as the driving force behind the Commonwealth Government strategy for national development. Mercer (2002) noted that the government passed legislation on reforming its grants policy to local government in the same year, essentially tightening financing. This placed pressure on local government to competitively tender projects which, Mercer argues, acted against the spirit of the holistic approach required under an ESD strategy or LA21.

By the mid 1990s the national sustainability *Strategy* had retreated into a handful of land use programs, which were more palatable as they required smaller financial commitment. The Commonwealth had failed

to implement the spirit of the NSESD, with few programs flowing directly from this document. The one program that offered the best prospects of accommodating ESD approaches was the Commonwealth and States' *Building Better Cities* program under the Keating Government's Department of Housing and Regional Development (DHRD) (1994). This program was discontinued in 1996 by the Howard Government, and was followed by the Commonwealth's refusal to sign other global environmental agreements, including not ratifying the Kyoto protocol. At the State level, ESD continued to be advocated through land use and natural resource policy. This became expressed in State planning policy through land use strategies (i.e. urban consolidation), natural resource planning (i.e. catchment management plans) and social policy. Some examples of State ESD based documents included NSW State of the Environment (NSW 2002), Catchment Management Planning (NSW 2003a) and Coastal Protection (NSW 2003b).

Meanwhile, new thinking on urban planning in the late 1980s and 1990s was incorporating the principles of ESD. This made it easier to connect the schools of thought (though often overlapping) on 'urban consolidation', 'new urbanism' and 'smart growth' with ESD. 'Urban consolidation' was to encourage higher density living, closer to inner cities. 'New urbanism' emphasised building neighbourhoods with a diversity of residential, commercial and light industrial uses in close proximity. 'Smart growth' presented a realisation (especially in the US) that urban sprawl was not efficient and required planning alternatives. In NSW a number of State metropolitan planning documents, including *Sydney's Future* (Planning NSW 1993), *Cities for the 21st Century* (Planning NSW 1995) and *Shaping Our Cities* (Planning NSW 1998), were marketed as incorporating an ESD agenda. These documents advocated compact public transport orientated cities. One suspects that urban consolidation as a planning approach was supported by government as it reinforced the neoliberal approach: it reduced required infrastructure expenditure, thereby reducing government budgetary pressure. This approach was further reinforced by the increasing use of public private partnerships (PPPs) for large urban infrastructure projects (such as tollways).

In the 1990's the State increased pressure on local government to adopt

strategies that supported an ESD approach, included strategies for consolidation through infill housing development and higher densities in new urban release areas. The NSW Local Government Act 1993 (NSW 1993) introduced guidelines for councils to incorporate biodiversity principles into their planning and management practices. In terms of catchment planning, the State required councils to map and protect local rivers, flood plains, wetlands and threatened species. The Metropolitan Residential Development Policy (State Environment Planning Policy 53) (SEPP 53) (Planning NSW 1997) required all councils to adopt residential strategies to repopulate inner cities and curb urban sprawl. This SEPP included the need for councils to produce new Local Environmental Plans (LEPs) that would direct their development approval processes to facilitate the State strategy. The State also adopted the Design Quality of Residential Flat Development Policy (SEPP 65) (Planning NSW 2001) to provide greater design guidance for councils in considering higher density development proposals.

The effective withdrawal of the Commonwealth and State governments from the national ESD vision of 1992 allowed sustainability policy to be confined to selected land use and natural resource planning policies that would not impact on their budgets or on the energy resource sector. The responsibility for implementation of these policies was increasingly devolved to local government through Commonwealth and State legislation regarding development consent procedures. It is within this context that an ambitious Newcastle Council attempted to implement a comprehensive ESD strategy, accepting the international challenges of LA21 more seriously than most local governments. The Council pursued strategies including: industrial ecology; recycling; small business development; community housing; and, sustainable energy.

Newcastle's ESD Initiatives

The Newcastle Local Government Area (LGA) has a population of 137,307 (ABS 2001) and, when combined with the adjoining LGA of Lake Macquarie City, has a metropolitan population of 314,926. Newcastle suffered problems of urban sprawl, inner city decay and auto dependency throughout the 1960s-1980s. Its economy has been

traditionally based around manufacturing, mining and energy generation, which experienced slowdown in the 1990s¹. The region's unemployment rate moved from 16% in the mid nineties to 10% by the end of the decade, still several percentage points higher than the state average (HVRF 2002). Further, the region suffered the closure of some large manufacturing plants from the mid 'nineties, including the BHP steel works.

Between 1995 and 1999 Newcastle City Council was dominated by elected Labor and Green Party representatives, with the Greens headed by Cr. John Sutton. The then Labor Lord Mayor Greg Heys was 'anti-smokestack' in his thinking and interested in industrial ecology strategies. The announcement that the Newcastle steel works would close meant the time was ripe to map out new strategies for a more sustainable future for the region. Lord Mayor Heys was a strong advocate of the ESD movement, and travelled to the UN Habitat Conference in Istanbul in 1997, where he reported on Newcastle Council's promotion of ESD strategies and how the City was adjusting to the closure of its steelworks. His later paper (Heys 1998), presented at a regional science conference in Wellington NZ, demonstrated a belief that ESD programs could be used to promote local economic development. The Council's revenue constraints meant that it had to concentrate on implementing its ESD strategy through partnership arrangements with government departments, agencies and industry groups. Its role was that of a coordinator of these groups to provide example projects of sustainable development in order to modify the behaviour of the wider business community.

An important part of the Newcastle Council's ESD program was the *Newcastle Urban Strategy* (NUS) (NCC 1998). The *Strategy* was initiated by former Lord Mayor McNaughton in the early 1990s in response to State government legislative requirements. It was seen as a mechanism to revitalise Newcastle by promoting development in the City's CBD. Lord Mayor Heys inherited this *Strategy* upon election in

1 Newcastle Council programs that aimed at addressing the Hunter region's shortcomings included: Newcastle Urban Strategy (NUS) (NCC 1998), Newcastle Economic Development Strategy (NEDS) (NCC 2000a), Newcastle Social Plan 2000-2005 (NSP) (NCC 2000b), Newcastle Local Environment Plan (NLEP) 2003 (NCC 2003a), and the Newcastle Environmental Management Plan (NEMP) (NCC 2003b).

1995, and more comprehensively integrated the ESD principles of new urbanism into it. The plan was adjusted to promote a multi-nodal metropolitan structure, with an urban hierarchy designed to improve accessibility of people to jobs, services and transport. The broad plan of the urban strategy was to facilitate inner city development, while simultaneously revitalising established suburban commercial centres. Urban dispersal would be slowed to improve infrastructure efficiency and promote public transit. The *Strategy* was implemented through zoning adjustments in the Newcastle LEP. Inner city rejuvenation was also aided by the *Building Better Cities* project under the Honeysuckle Development Corporation, which developed disused public land on Newcastle Harbour foreshore and was jointly funded by the Commonwealth and State governments.

The land use aspects of the *Newcastle Urban Strategy* (NUS) sought to indirectly influence economic, social and environmental outcomes over the longer term². The 'new urbanism' emphasis on increasing building density had the potential to benefit social and business interaction and improve the viability and vibrancy of local shops and town centres. This process began with the rejuvenation of Newcastle CBD, as evidenced through increased building activity data over the last six years - reflecting the ongoing commitment of the present Lord Mayor Tate and his Council to the *NUS* Council strategies, including shop-top housing and place management (Crofts 1998&2000), but the process has largely depended on the increased market-led demand for inner city apartment living.

Apart from utilising land use planning to achieve longer term ESD outcomes, the Heys' Council pursued more direct economic, social and environmental strategies. The Council's approach was to establish strategic partnerships with government departments, agencies, and industry groups. The Council's social program considered issues of youth unemployment and housing affordability. The Council also sought to organise assistance under youth apprenticeships and building projects containing a percentage of affordable housing. Funding was provided by the Commonwealth's *Building Better Cities* program for demonstration projects with sustainable designs and for those projects that offered

2 The NUS incorporates links to other policy documents and is the basis for the Newcastle Local Environmental Plan (NLEP) 2003 (NCC 2003).

community housing benefits. Projects included sites in the inner suburbs of Wickham and Hamilton, with revenue from sales financing further expansion of the scheme. Unfortunately, revenue from this project has fallen short of expectations, thereby delay the program's expansion.

The Newcastle Council also developed policies on sustainable energy generation and waste management. Renewable energy schemes were supported, including the wind turbine generator at Kooragang Island. The Council also supported attempts to generate electricity through methane landfill gas emissions converted to electricity at the Summer Hill Waste Management Facility. It encouraged solar energy schemes, including the Newcastle Harbour foreshore historic rail shed project, which feed into the local electricity grid. The Council also implemented an energy floodlighting project for thirty seven City sites. To date however, these demonstration projects have failed to generate momentum for other renewable energy projects; and therefore the overwhelming reliance on coal-fired energy production in the region remains.

The Council's waste minimisation strategy explored a secondary market in recycling waste products. This would be part of the Waste Management Facility at Summer Hill, where organic waste, tyres, plastics and other household recyclables could be converted into varying commercial products. It was initially envisaged that this project could divert eighty percent of waste away from landfill. By 2010 it was estimated that no landfill would be required. At present there is still no secondary market in waste developed and there are proposals to increase landfill. In the late nineties the Council supported the creation of the Centre for Sustainable Technology at Newcastle University and the Clean Hunter Centre, and these centres have since been established.

Newcastle Council's approach to sustainability extended beyond environmental matters to economic development during the Heys' period. The Council believed the region's economic base should be diversified away from dependence on a small number of large enterprises such as BHP (now Billiton-BHP Ltd.), towards a greater prominence of small and medium sized enterprises (SME's), particularly environmentally-friendly companies. Fortunately, the region had access to State, Commonwealth and BHP grants, predominantly post steel works adjustment funding. This was one factor that enabled financing of

retraining and small business programs. Regional funding included the Hunter Advantage and Newcastle Development Fund. The partners in this endeavour included the Hunter Urban and Regional Development Organisation (HURDO), BHP, and the Hunter Economic Development Corporation (HEDC).

In 1997 the Council announced the Newcastle Steel River Project (NSRP) in conjunction with the State government. This planned for part of the BHP-Billiton land on the western side of the City to accommodate firms that would focus on environmentally sustainable production. The concept was that one company's waste would become another's material input. The site was to be provided with infrastructure and incorporated an accelerated development approval process. The latter meant that if companies fulfilled the broad intentions of this green industry zoning then their development would be fast-tracked by Council and the State government. It was also hoped the Commonwealth would grant the site 'free trade zone' status. The project was predicted to generate up to 2000 jobs and was part of a wider objective of the Council to work with the regional body HURDO (1997) to develop Sustainable Industry Clusters for the Hunter. In 2005 the site had only created 500 jobs and has been sold to private owners who will utilise it for more conventional commercial uses instead of its initial eco industrial purpose.

Newcastle Council also aimed to facilitate small business development by providing a fund for successful local business initiatives. It intended to create a Local Enterprise Facilitation Program (LEFP) (NCC 1997b), which was to help with establishment grants and business coaching. Unlike the State-run business enterprise centres, the objective was to establish a service that would provide ongoing mentoring to ensure opportunities for business sustainability. The intention was for the Council to target businesses that were environmentally friendly and located in areas of job deficiency. Discussions with Greg Heys revealed the scheme had private sector backers, but there were concerns that it would duplicate the work of the State government's business enterprise centres. Though Heys disputed the issue of duplication, unfortunately the program was abolished.

Overall, Newcastle Council was at the cutting edge of ESD policy, promoting itself as a model to other councils that were addressing only

the land use aspect of ESD. Its support for the establishment of the International Centre in Local Sustainability and Environment (ICLSE) within the University of Newcastle was a further indication of how Council promoted ESD policies. Council also adopted a set of Newcastle Sustainable Community Indicators (NSCI) (NCC 2000c) in order to measure the City's progress on ESD. However, many of the Councils programs that operated through partnership agreements have been scaled down and not achieved their initial vision. The Council was more successful in completing sustainability projects within its own institutional operations rather than in the wider community, including improving energy efficacy and waste recycling with Council's daily operations.

Under Greg Hey's leadership the Council had also sought to reposition the region towards sustainable economic development. Between 2000 and 2005 the region's unemployment rate had fallen from 10% to 6%, with a more diversified small and medium enterprise base, growth in knowledge-based employment and rising educational attainment. On the downside, it has a more casualised workforce and less people employed in the knowledge sector than the state average³. More people are employed in retail than the State average, leaving the region vulnerable to increased unemployment from the effects of economic downturns. Fortunately, the recent downturn in the property sector has been offset by higher commodity prices in the region's mining sector. There are also signs of structural improvement through industry diversification and a higher educational and skills attainment, but it would be difficult to discern to what extent these changes were market-led or influenced by Council programs.

Improving the Implementation of ESD Strategies

The election of the present Newcastle Council, led by Lord Mayor Tate (first elected in 1999), has seen changes to the initial ESD vision of the

3 Discussions were held with Andrew Searle (Research Director) at the Hunter Valley Research Foundation on the trends in the Newcastle regional economy over the period this article was examining. The Foundation is the peak institution in the Hunter for regional statistics collection, collecting economic data quarterly.

1990's. Though the present Council continues to promote ESD through policies such as the 'urban forests' and 'Creeks Alive' programs (stormwater/creeks rehabilitation projects), more interventionist ESD programs have been scaled down. In its defence, the current Council may not have access to the grants that were available to the region during the late 1990s that gave some support to ESD initiatives. Further, the need for economic restructuring was more pressing during that time, given the closure of the Newcastle steelworks, compared to the more buoyant economic circumstances enjoyed by the current Council. However, as noted, the region's economic growth since 2000 has been associated with the property boom and higher commodity demand, which has driven local retail consumption and construction.

Though Newcastle has experienced some positive structural change since the mid nineties, there remain concerns regarding its reliance on consumption-led growth and unsustainable industries. Albrecht & Gutberlet (2000) estimate the region (as opposed to the State) has approximately 50 years of winnable coal supplies remaining. This is based on State government estimates of the life of current and soon-to-be approved mines in the region. New mines proposed are increasingly to the periphery of the Hunter Region. One might also expect that escalating environmental concerns, particularly internationally, might put pressure on this region to re-examine its sustainability vision. Though ambitious, Council's intentions during the 'nineties to reposition itself towards sustainable industries and built urban form may again be seen as its major priority. If this occurs then an initial step would be for the Council to re-establish its leadership role on ESD. The elected leaders will then need to re-establish the resources for, and enthusiasm of, its staff for the projects that were earlier identified. Even though key personnel from the 1990s have moved on, arguably they have left behind some intellectual capital and soft planning infrastructure that could be mobilised for this purpose.

Discussions with the previous Mayor Greg Heys⁴ indicate three factors

⁴ Several discussions were held with Greg Heys who was the Lord Mayor of Newcastle between 1995 to 1999. These discussions focused on the Council's difficulties in implementing its ESD strategies in the late nineties, and approaches that would have improved implementation.

that could have improved the implementation of his Council's ESD program. There was a need for greater cooperation and support from higher tiers of government; being aware of the potential to capture property betterment; and planning for potential conflict when implementing strategies. The first of these is paramount. The devolution of sustainability strategy to the local level came with limited support from State and Commonwealth governments, causing many councils to adopt a limited approach to ESD. If the comprehensive approach outlined in Agenda 21 and the national ESD strategy is to be seriously attempted by councils such as Newcastle, then it requires greater coordination and support from higher tiers of government. State and Commonwealth governments should better coordinate the activities of their departments and agencies towards supporting local initiatives, as well as providing more direct funding. As one example, the attempt of the Heys' Council to create a small business development program would have benefited from better coordination with the State's regional development agencies.

Increased State government support for local government is also required in the development of transport strategies and master planning for town centres. The lack of a metropolitan transport strategy has been a long running concern of the Newcastle region. Apart from the Honeysuckle *Better Cities* project in inner Newcastle, master planning does not exist, which creates less certainty for the development of the region's commercial centres and more conflict than needed between the community activists, developers and Council. The recently released *Lower Hunter Regional Strategy*, produced by the NSW government, identified a centres development approach but has not provided master planning for town centres or a transport strategy. Its critics have also pointed to its lack of infrastructure planning. However, this regional strategy and local government urban strategies have infrastructure demands, with urban infill requiring infrastructure upgrades (Troy 1997). This dilemma has been acknowledged by Lord Mayor Tate through his advocacy of an infrastructure levy that is creating present controversy. However, State support for local government on infrastructure is still required and should be seen as a performance dividend. By implementing the policy of urban consolidation, local governments are saving State government resources, and therefore in return they should expect greater funding.

If the Commonwealth government had implemented its 1992 sustainability strategy then this would have put in place actions that would have supported the Newcastle ESD program. In particular the Steel River project would have benefited from changes to government taxation and subsidies that supported sustainable industries. Carbon taxes would have provided a competitive advantage for non-polluting and recycling firms, and placed pressure on the coal industry to change its production methods. The national sustainability strategy would also have reviewed various subsidies or tax concessions for transport and urban development, which would have helped reinforce the region's urban consolidation strategies. The Commonwealth government's recent release of the document *Sustainable Cities* (Commonwealth 2005a) demonstrates that there are members of parliament from different political parties who are still motivated on these issues. If the 1992 program could be resurrected then it would provide a regulatory and fiscal environment for more successful implementation of ESD strategies at the local level. Further, the Commonwealth's *Cost-shifting to Local Government* report (Commonwealth 2005b) is examining restructuring local government financing arrangements that, if implemented, would help local programs, including ESD initiatives.

Forging cooperation and dealing with conflicts at the local level is important too. Given the budgetary limitations on Newcastle Council, its ESD program in the 1990s was heavily dependent on establishing a network of partnerships. Consequently, the Council's comprehensive ESD program was implemented through indirect channels requiring its coordination of many players. This taxing management task included working with government agencies, industry partners and community groups. In the long run it was difficult to maintain the momentum between the Council and its partners, so the initial ESD vision was watered down.

If councils had more direct revenue sources, these problems of dependency – on higher tiers of government and on local partnerships – would be less pressing. One obvious revenue source could arise from land betterment capture. Local government ESD programs can add to property values, in particular through their urban planning strategies, so it makes sense that some of this increased wealth ('betterment') should

be captured for community expenditure purposes. Different methods of betterment capture could include local land taxes, development charges and public/private partnerships in development.

At the local government level, land betterment is partly captured through the *ad valorem* component of council rates, which is an annual tax as a percentage of land value. Unfortunately, the State of NSW has a rate capping system, restricting councils to small percentage increases each year. However, there are good equity and efficiency arguments for councils applying for the maximum increases permitted, as well as rejecting any move toward a fixed rate component. Ironically, this was at odds with Newcastle Council's 2004 policy to reduce the *ad valorem* component of rates in favour of a larger fixed component. Thus the new rating system is more dependent on population growth, rather than land appreciation in raising revenue. In addition, the fixed component of rates (as against *ad valorem*) is less justifiable on equity grounds and less efficient in reinforcing the ESD strategy. The effect of *ad valorem* land tax is to place incentives on land owners and developers to re-construct properties in areas up-zoned under an urban strategy. This is because it creates a larger annual holding cost on such property as it appreciates. In contrast, a fixed rate component reduces this incentive to develop. Arguably, local government should ensure that the pricing affects of its revenue raising are consistent with each council's ESD programs.

Stilwell and Jordon (2004) note that land taxation can encourage outcomes consistent with the ESD agenda, including improving housing affordability by reducing speculative price pressure on land, and limiting urban sprawl when accompanied by appropriate town planning policies. Developer charges are an alternative way of capturing revenue from land. In NSW developer charges, known as *Section 94 (S94)* contributions, vary between councils. Some see this charge as adversely affecting dwelling affordability; but it is an empirical question as to whether the cost is passed to the end consumer or back to the original land suppliers. In theory developers will not bid as high for their land supply if they know council contributions (or, for that matter, any other cost) are higher. This is so they may maintain the profit margins required to satisfy their financiers. The newly amended *S94* legislation (NSW 2005) gives councils and developers many more options. Councils may choose to

collect contributions in kind from developers. In Newcastle there has been some experimentation with this, with contributions benefiting redevelopment of a suburban library.

Local government also has scope for greater use of public-private partnerships in urban development. Councils can generate their contribution to such partnerships through bestowing increased development rights. Community facilities, including libraries, childcare, museums, and small business incubators, can be provided by allowing developers greater residential or commercial yield in their developments than initially envisaged. Such community facilities can be provided within the developer's project or at other locations. In some instances the council may own property in town centres, including car parks, where it may conduct a joint venture with the private sector to facilitate additional provision of commercial space, affordable or aged housing, etc. Alternatively, after master planning an area, local government could auction development rights. There are many variations on the concept of property value capture that are not currently exploited, yet which would offer local government greater scope in implementing ESD strategies.

Although there is much scope for councils to generate funding from land betterment, the problem of conflict of interest needs to be considered. That is because it may require the council to combine its roles of property owner, developer, and consent authority. Many of the concerns generated by local government consent for higher building densities - antagonising such groups as "Save our Suburbs" - would be even more contentious if councils were involved in joint ventures with developers. The only way of addressing this problem is to make the public well aware that the involvement of a council is part of a wider strategy to fund an ESD program that is popularly supported. In this respect, the support of the State governments is significant in validating the local government strategy.

Local government is presently constrained in its revenue raising capacity. This is particularly the case in NSW, where the State government caps the percentage amount of councils' annual increases in rates. These fiscal constraints are unfair on councils in a situation where greater ESD responsibilities have been devolved to them. The Commonwealth and States may believe much of ESD policy would be more efficiently

implemented at the local government level, and that councils have the advantages of local knowledge and ability for a 'hands on' approach. However, this is also a convenient excuse to minimise the support of ESD programs. Councils are increasingly resorting to special environmental and downtown levies to raise revenue to meet program requirements, such as Newcastle Council's present infrastructure levy proposals. They will find it difficult to meet many current and anticipated ESD requirements unless higher tiers of government work with local government to address issues of coordination and fiscal constraint.

Conclusion

The ambitious approach to implementing an ESD strategy in Newcastle offers an important case study in the present political economic environment where more is expected of local government. Though there is a need for councils to improve their performance on ESD strategies, the Newcastle experience demonstrates that this requires improved coordination between all levels of government and greater fiscal assistance to be successful. Councils in NSW continue to be constrained by legislation in raising revenue through property rates; and they face inadequate support from State and Commonwealth governments. Consequently, many are forced to take a very limited approach when adopting ESD strategies. The alternative is for local government to take a more adventurous approach to revenue collection, in particular through land value capture and public-private partnerships. Ideally, such initiatives should complement State and Commonwealth financial assistance and not be seen as a substitute. A lasting solution to this issue must include the Commonwealth and State governments recommitting themselves to the initial comprehensive agenda for sustainability that they signed up to in the early 1990s.

*Darren McKay is in the School of Economics/Politics/Tourism, at the Callaghan Campus of the University of Newcastle.
Darren.Mckay@newcastle.edu.au*

*Ray Rauscher is in the School of Environment and Life Sciences at the Ourimbah campus of the University of Newcastle.
ray.r@idl.net.au*

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