Master Builders Australia

Submission to the Competition Policy Review:

The Anti-Competitive Effects of Business Regulation

MASTER BUILDERS AUSTRALIA

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1 Introduction

1.1 Master Builders Australia is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders Australia's members are the Master Builder state and territory Associations.

1.2 Over 124 years the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, residential, commercial and engineering construction.

1.3 The building and construction industry is a major driver of the Australian economy and makes a major contribution to the generation of wealth and the welfare of the community, particularly through the provision of shelter.

1.4 The building and construction sector accounts for close to 8 per cent of gross domestic product, and around 9 per cent of employment in Australia.

1.5 Gross value added in the building and construction industry was $116 billion in 2013. The industry overtook manufacturing in 2011 to become the third largest sector in the economy. Similarly in employment terms, the building and construction industry is the third largest employer, employing over 1 million people or 9 per cent of the total work force.

1.6 Over the next decade the cumulative building and construction task in terms of value of work done is estimated at $2.8 trillion and for the number of people employed in the industry to rise to 1.3 million.

1.7 At the same time, the wellbeing of the building and construction industry is closely linked to the general state of the domestic economy.

2 Purpose of submission

2.1 This submission responds to the Issues Paper for the Federal Government's Competition Policy Review (CPR, 2014), addressing the potential anti-competitive effects of regulation.

2.2 Other submissions will deal with some of the more specific matters raised in the Issues Paper or other matters arising from its terms. Master Builders will also provide a considered analysis and commentary on the Review's draft report when it is released for public comment later this year (2014).

3 Overview

3.1 Master Builders believes regulation can and does adversely impact the nature, the incidence and the potential benefits from competition and, through this channel, productivity within the Australian economy.

3.1.1 In short, a less (and, where necessary, better) regulated economy means one where there is greater competition, with the attendant benefits it brings for entrepreneurship, for productivity, for employment and investment, and for higher standards of living.

3.2 The Review importantly contains as one of its main foci the identification of regulations and other impediments which restrict competition and reduce productivity, thus usefully underscoring the linkages between these three critical elements of our national economic performance.

3.3 Regulation is a particularly important issue for small businesses, given its capacity to divert scarce entrepreneurial time and energy away from operating and growing a business, and creating jobs, to filling in forms for a particular government agency or agencies, the purpose/need/benefit of which is not always apparent.

3.4 Industry surveys have found nearly 44 per cent of firms believed their industry is over-regulated, and more than 45 per cent believe they are required to comply with regulations which make no sense to them.

3.4.1 Such a result is hardly surprising when the Productivity Commission reports there are potentially as many as 480 regulatory agencies operating at federal, State and Territory level, let alone the regulatory footprint of the some 560 or so local governments with varying forms of regulatory power(s).

3.5 Master Builders is particularly concerned at the actual and the potential anti-competitive effects of regulations. These range across:

- raising barriers to entry by potential new competitors; impeding the exit of existing players, whose ongoing presence confounds market signals; and
- limiting the choices of other businesses and of consumers on the products and the services available to them;
- They also include acting as a disincentive to entrepreneurship, and to new research and development and providing usually invisible cross-subsidies from non-preferred to favoured businesses and consumers.
- All of these effects are ultimately reflected in lower-than-otherwise levels of productivity and rates of productivity growth, and through these channels lower employment, investment and broader economic growth.

3.6 Master Builders welcomes the release by the Abbott Government of its Australian Government Guide to Regulation (Australian Government, 2014) as a substantial down-payment on its 2013 election commitments to review, rationalise and reduce the regulatory impact borne by business, and by small business in particular.

3.7 We commend in particular the foundational principles underlying the Guide, most notably:

- regulation should not be the default option (with 'doing nothing' or preservation of the status quo being the appropriate benchmark);
- regulation should only be imposed when it can be demonstrated to have overall net benefit (although to whose "benefit" is not defined in the Guide);
- the cost burdens associated with any new regulations must be fully offset by reductions in existing regulatory burdens (presumably within the responsibilities of the regulating agency);
- every substantive regulatory policy change must be subject to a rigorous and transparent Regulatory Impact Statement (RIS), with the Guide usefully setting down the rigorous processes required to produce a bona fide RIS; and
- all regulations must be reviewed periodically (Master Builders recommends not more than every five years against the framework of the Guide, and the RIS process).

3.8 In the context of the current Review, the RIS process could be extended to including the anti-competitive effects of the regulation being proposed or under review.

3.9 A key performance metric of the Government's performance-against-promise in implementation of the Guide for the building and construction industry will be how the Australian Building Codes Board (ABCB; the de facto building industry regulator) deals with a number of regulatory reform priorities.

3.10 Most notable amongst these priorities is the ongoing problem of local government variations to, in particular those which set higher prescriptive standards than, the National Construction Code (NCC) and ensuring the Standards created by Standards Australia which are imported into the NCC meet the requirements of the new Guide.

3.11 While federal, State and Territory Governments have, with various degrees of commitment and intensity, been engaged in competition reforms within their respective jurisdictions, local Governments appear to have 'escaped under the policy reform radar'.

3.12 As a result, there is considerable potential for deeper and wider application of performance benchmarking to local governments both per se, and as a platform for effective use of 'yardstick competition', regarding their delivery of building, construction and housing related services.

3.13 Yardstick competition has the capacity to deliver a number of important advantages and likely dividends. These include improving transparency and comparability of performance to taxpayers, and strengthening political accountability of the governing entity (e.g. local government council) to the electorate.

3.13.1 It also motivates reform, especially in the face of resistant bureaucracies and enables the identification of best (and worst) performers, as well as signalling the policy options available to lift performance where necessary.

3.14 Master Builders' position should not be misrepresented to mean we are opposed to all and any regulation. Rather, we recognise the need for efficient, well-designed and administered regulations, with appropriate compliance burdens.

3.14.1 These must have minimal anti-competitive productivity impacts, and have clearly demonstrated net economic benefits, and which are subject to regular, rigorous, open and transparent public review as to their ongoing net benefits.

3.15 Examples of such constructive regulation include those which:

- establish appropriate minimum standards of competence or qualification for trades and/or professions involved in the building and construction industry;

- inform participants in the building and construction industry of the appropriate standard to build to, such as the widely used National Construction Code; and,
- prevent non-conforming products from entering the building supply and usage chain.

3.16 Master Builders also supports regulation 'in the right place'. For the building and construction industry, this generally means a single, national and uniform NCC, thus making compliance easier and more cost effective. Building regulation should not be pursued through planning schemes, or distributed across a plethora of State/Territory/ Local Governments and their agencies.

3.17 Master Builders observes the current review in considering the interface of competition and regulation is also testing the notion the current regime encapsulated in the *Competition and Consumer Act 2010* (Cth) (CCA) is deregulatory. As indicated by Bannerman (1982); at page 62:

> *In competitive enterprise it is axiomatic that competition is the main regulator. The market will test the efficiency of the companies and individuals and will control their prices and exercise eventual supervision, of the 'carrot and stick' variety, over their competitive decisions, whether as to investment, innovation, production, distribution or otherwise. Insofar as Trade Practices' law encourages this result, its own thrust is not at all regulatory but indeed is deregulatory.*

4 Terms of Reference

4.1 The terms of reference for the Review are sweeping, covering a wide range of issues relating to the design and conduct of competition law and policy in Australia. However, the terms of reference can be distilled into five key areas of focus namely:

- identification of regulations and other impediments which restrict competition and reduce productivity, which are not in the broader public interest;
- examine the competition provisions of the CCA to ensure they are driving efficient, competitive and durable outcomes;

- examine the competition provisions, and the special protections for small business, in the CCA to ensure large and small businesses can compete effectively;
- consider whether the structure and powers of the competition institutions (most notably the Australian Competition and Consumer Commission (ACCC)) are appropriate; and
- review government involvement in markets through government business enterprises, direct ownership of assets and competitive neutrality policy, with a view to reducing this footprint where there is no clear public interest need.

4.2 As indicated in section 2, this submission will focus largely on the first of these five areas, namely the identification of regulations et al which have the potential to impede competition and reduce productivity, and are unlikely to deliver net public benefit.

4.3 Master Builders in this submission will not enter into the debate over definition of 'public interest' (and related and similar concepts), although we regard the matter as a fulcrum for the Review.

5 Regulation and Small Business

5.1 As set out in paragraph 4.2 of this submission regulation is a particularly important issue for small businesses.

5.2 The Australian Chamber of Commerce and Industry (ACCI; of which Master Builders Australia is an organisational member) publishes the results of a major survey examining the incidence and the impact of 'red tape' (see, for example, ACCI, 2012).

5.3 While the survey reported the views of businesses of all sizes, given some 87 per cent of respondents were small to medium enterprises (SMEs) it is not unreasonable to regard the views as essentially those of the SME community.

5.4 Particularly notable findings from the survey-report include:

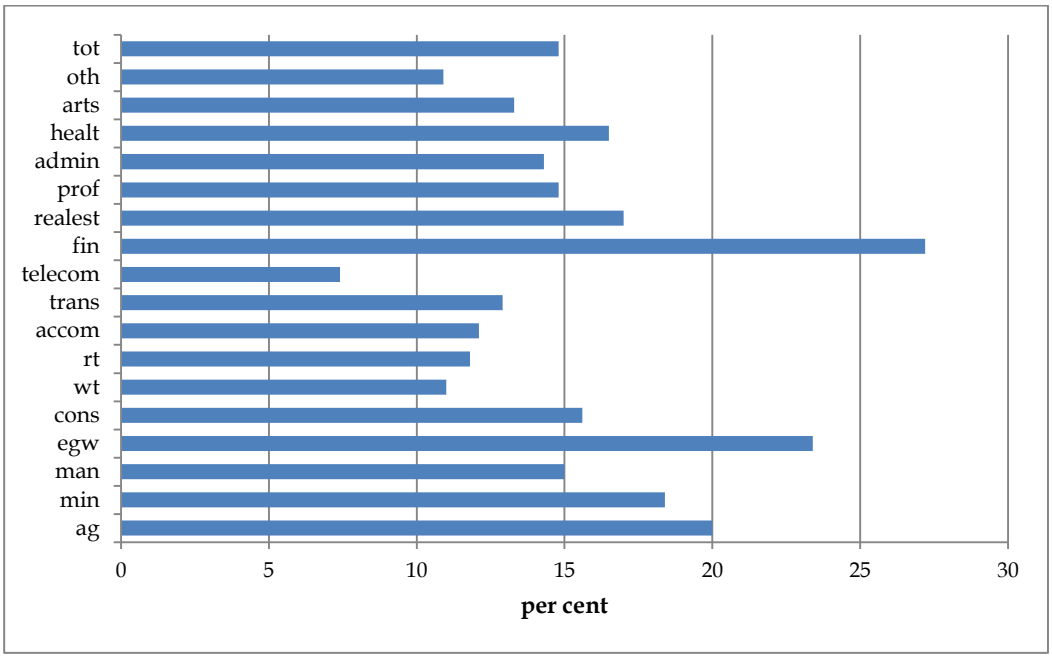
- 44 per cent of firms spend between 1 and 5 hours per week (and a further 16 per cent spend between 6 and 10 hours per week) complying with regulatory requirements;
- for 26 per cent of firms the cost of compliance ranges between $10,001 and $50,000 annually, while for a further 18 per cent of firms it ranges between $5001 and $10,000 annually;
- nearly 44 per cent of firms feel their industry is over-regulated;
- just over 45 per cent of firms feel they are required to comply with regulations which make no sense to them;
- more than 24 per cent said they found preparing information and reports, and nearly 27 per cent found implementing the compliance obligations, the most costly element of complying with regulations; and
- identified the three most important actions to reduce the costs of compliance as being:
    - better communication from regulators about how to comply with existing regulations,
    - reducing the number of existing regulations, and
    - better consultation with business when developing regulations.

5.5 A number of these messages have been echoed in data reports by the Australian Bureau of Statistics (ABS) which examined, inter alia, barriers experienced by firms in doing business (ABS, 2013).

5.6 The ABS (2013: Table 2) found 14.8 per cent of all firms surveyed said government regulation and compliance acted as a barrier to their firm's business, with a slightly higher proportion (15.6 per cent) of construction firms giving the same response.

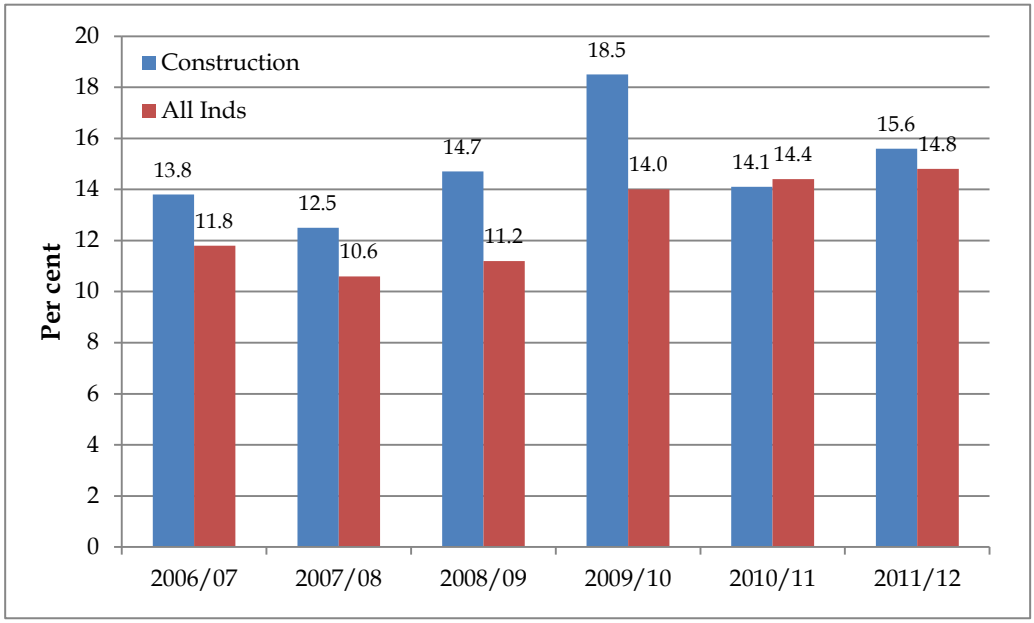
5.7 Graph 1 reports the incidence of firms by industry identifying government regulation and compliance as a burden on their firm doing business in 2011/12.

Graph 1: Government Regulation as a Barrier to Doing Business I



5.8 Graph 2 reports the proportion of firms in the construction industry and in all industries which regard government regulation and compliance as a barrier to doing business (derived from ABS 2013, and its predecessor issues) across a number of years.

Graph 2: Government Regulation as a Barrier to Doing Business II



5.9 As can be seen in Graph 2, in five of the six years under review firms in the construction industry were more likely than firms across all industries to regard government regulation and compliance as a barrier to doing business, with the difference being statistically significant ($t = 2.90$; $p = 0.03$) – that is, meaningful and highly unlikely to be due to chance alone.

5.10 The Productivity Commission published a useful report (PC, 2013) examining the impact of regulation and regulator behaviour on small businesses. Consistent with the findings of ACCI's National Red Tape survey, and a broad sweep of industry experience reported to Master Builders, the PC report found for some small businesses:

> *…compliance (with regulations) necessitates a diversion of a substantial proportion of productive business time and modifications to their production or service delivery processes in ways which are uncertain to deliver improvements in regulatory outcomes. (PC, 2013: 3).*

5.11 The report also usefully restated what is widely known within the business community, namely:

> *… a small business is not just a big business on a smaller scale, but one that operates in a fundamentally different way, and may lack the time, knowledge and often the motivation to distil the relevant compliance requirements. (PC, 2013: 9).*

5.12 The Productivity Commission estimated there were potentially as many as 480 regulatory agencies operating at federal, State and Territory level (130 at the federal level; 350 at the State/Territory level), with a further 560 or so local governments with varying forms of regulatory powers, many of which impact on the building and construction industry.

5.13 The PC report also made a number of useful proposals for reforming regulator engagement with small business, which have merit of themselves as well as potentially wider and deeper benefits for regulation design, review and reform. These include that governments, their regulators and regulations should:

- aim to achieve outcomes at the minimum necessary cost, which means avoiding the inappropriate transfer of costs to regulated parties (at page 4);
- encourage innovation by regulators in meeting their regulatory objectives (at page 4);
- place a premium on simplicity, clarity, brevity and accessibility in their communications with small businesses (at page 9);
- make better and wider use of compliance data from third parties (for example, other regulators or governmental agencies), and ensure there is no conflict between regulatory requirements (at page 12);
- make greater use of risk-based approaches to regulation design and enforcement, including explicit ministerial recognition that it is neither feasible or socially optimal to attempt to eliminate all risk (at page 12);

- reduce regulatory duplication, especially with multiple regulations covering the same domain, including greater use of third party certification, accreditation and audit (at page 15); and

- ensure regulators regularly report on their performances against agreed indicators, which should include metrics relating to measuring effectiveness against defined outcomes while minimising compliance costs (at page 18).

5.14 Master Builders considers all of these approaches to have merit in reducing the regulatory burden on business, and small business in particular, with several, such as those relating to risk- and outcomes- based approaches to regulation design, administration and compliance, likely to have positive benefits for competition.

5.15 Master Builders is also concerned about regulatory processes which occur on the fringes of the current system, most notably the silent and insidious practice of 'bid-peddling' (where sellers act to lower tender-bids on the basis of an original buyer's price) or 'bid shopping' (where buyers act to lower tender-bids on the basis of competitors' prices).

5.16 Whilst such practices are not generally unlawful, they distort effective and efficient competition in the market (as well as unethical), and are especially injurious for smaller businesses whom are generally not able to compete in these silent and invisible reverse auctions. Such practices should be prohibited within appropriate laws and policies, most notably those relating to government procurement.

6 Regulation and Competition

6.1 Regulations, especially inefficient regulations, can have substantial adverse economic and industry effects. By inefficient regulations, Master Builders includes those which are poorly designed, have excessive costs of administration and/or compliance, and/or whose purpose is no longer relevant.

6.2 Master Builders is particularly concerned at the actual and the potential anti-competitive effects of regulations. These range across:

- raising barriers to entry by potential new competitors;
- impeding the exit of existing players, whose ongoing presence confounds market signals;
- limiting the choices of other businesses and of consumers on the products and the services available to them;
- acting as a disincentive to entrepreneurship, and to new research and development; and
- providing usually invisible cross-subsidies from non-preferred to favoured businesses and consumers;

all of which are ultimately reflected in lower-than-otherwise levels of productivity and rates of productivity growth, and through these channels lower employment, investment and broader economic growth.

6.3 Such adverse impacts can be particularly burdensome where:

- the regulations mandate convergence to some narrow standard, which deters innovation;
- the regulated firms/industries are key inputs to other firms/ industries, thus potentially having cost-cascading effects through the production chain.

6.4 In short, Master Builders holds inefficient regulations are, as a general rule, anti-competitive and productivity-impeding, imposing net costs on consumers, on business and on the wider economy.

6.5 Against this background, and building on the solid foundations provided by the Abbott Government's Guide, the RIS process could be extended to include the anti-competitive effects of the regulation being proposed or under review.

6.6 We welcome recent media statements by the Federal Government (Frydenberg, 2013) which recognise the potential anti-competitive impact of regulation, in particular on prospective new entrants to a market.

6.7 However, as previously mentioned, Master Builders' position should not be considered to mean we are opposed to all and any regulation.

6.7.1 Rather, we recognise the need for efficient, well-designed and administered regulations, with appropriate compliance burdens, which have minimal anti-competitive impacts, and have clearly demonstrated net economic benefits, and which are subject to regular, rigorous, open and transparency public review as to their ongoing net benefits.

7 Regulation Review and Reform

7.1 The current federal Government outlined its policy priorities and action agenda for regulation review and reform in its "Policy to Boost Productivity and Reduce Regulation" released during the 2013 Federal Election (Coalition 2013).

7.2 The policy statement observed, by way of overarching principles, inter alia:

- reducing the burden of regulation was essential to improving business competitiveness and our national economic prosperity;
- "… regulation should only be imposed where absolutely necessary and should not be the default position in dealing with public policy issues." (at page 2).

7.3 The Coalition also set down a balance-sheet approach to the creation, reform and reduction of regulations, when it stated (at page 5):

> *Some degree of regulation is, of course, a necessary and desirable component of establishing efficient markets and harmonious communities that promote substantial positive benefits for society as a whole.*

> *But excessive red tape can detract from productivity and ultimately lower the standard of living of all Australians.*
>
> *Boosting productivity and reducing the burden of regulation is critical to making Australian businesses, entrepreneurs and workers better off.*

7.4 The Coalition committed to reduce the regulatory burden borne by industry and consumers, and reform the processes by which regulations are made or sustained by:

- cutting "excessive regulation, by reforming the processes by which regulations are created, implemented and reviewed" (at page 2); and
- repealing or amending existing costly and excessive regulations.

7.5 Specifically, the Coalition committed to, inter alia:

- reduce the burden of 'red' and 'green' tape by at least $1 billion annually;
- devote at least two parliamentary sitting days each year to the repeal of "counter-productive, unnecessary or redundant legislation" and associated regulations (at page 3);
- require all Cabinet submissions to include Regulatory Impact Statements (RIS);
- make regulation reduction and reform a standing agenda item for meetings of the Council of Australian Governments (COAG); and
- committing the Minister Assisting the Prime Minister for Deregulation to table in Parliament each year a 'red tape reduction' report.

7.6 Master Builders released its policy position on regulation review and reform (Master Builders 2013) during the 2013 federal election. Key features of the policy position were:

- unnecessary over-regulation shackles the building and construction industry, with 'red' and 'green' tape sapping entrepreneurial effort and productivity;

- such regulation stops the building and construction industry from doing what it does best – creating jobs, driving the economy and building homes, hospitals, schools roads and other vital community infrastructure;

- there has been a flood of legislation and regulation introduced in recent years that are anti-productivity and add unnecessary costs to business and households; and

- of particular concern has been the (then recent) tendency for legislation to be introduced without genuine or meaningful consultation.

7.7 Master Builders' policy prescription for dealing with this onerous situation includes:

- accelerating the process of removing regulations that are unnecessary, out of date or duplicate regulation in other jurisdictions, and simplify those that remain; and

- ensuring new legislation only be introduced with an accompanying Regulation Impact Statement (RIS), the latter of which cannot be circumvented by the Government of the day.

7.8 These RIS should be accompanied by rigorous and transparent cost-benefit analyses, and exposed to full public scrutiny, including Parliamentary inquiries, before the regulation is created, and closer and deeper engagement with the business community – both in terms of assessing the costs of new regulations, and in undertaking the review and reform of existing regulations – is essential.

8 Australian Government Guide

8.1 As previously observed, the Abbott Government has made a substantial down-payment on its election commitments to review, rationalise and reduce the regulatory impact borne by business, and by small business in particular. This down-payment takes the form of a whole-of-Australian framework for the creation, review and removal of regulations (Australian Government, 2014).

8.2 The challenge now for those responsible for its implementation (the Parliamentary Secretary to the Prime Minister, the Hon Josh Frydenberg MP and the Department of Prime Minister and Cabinet) is to ensure the worthwhile purpose is reflected in effective implementation. In this context, Master Builders reiterates the comments made about the Guide set out earlier in this submission.

8.3 Industry in general will be particularly interested to observe the effective compliance with, and implementation by, the ACCC of the Guide, especially as it relates to transparency and the requirement for intra-agency offsets (for new regulatory imposts).

9 Australian Building Codes Board

9.1 The ABCB, an agency within the now Department of Industry, will also be required to comply with, and implement, the Guide. How, and how well, it does so, will have important implications for competition and productivity within the building and construction industry.

9.2 The ABCB will, however, carry additional compliance and administrative burdens beyond those borne by many other regulatory agencies, given its practice of 'importing' (or cross-referencing with authority) into its regulations what are essentially de facto regulations created by third party organisations, in this case Standards Australia.

9.3 In this context, it is important to note the Guide states:

> *RIS requirements apply to the development of standards used for regulatory purposes, even if they have been developed by Standards Australia or other third parties. (at page 29).*

9.4 Against this background, the Department of Prime Minister and Cabinet (as the agency responsible for the Guide, and reporting to the relevant Minister(s)) needs to provide public guidance to the ABCB, and to the building and construction industry on important outstanding issues such as:

- are Standards created by Standards Australia required to conform with the Guide as part of their development and approvals process?

- is the ABCB required to warrant that any standards created by Standards Australia (or any other third party) which they (the ABCB) 'import' or reference-with-authority in their own regulations are fully compliant with the requirements of the Guide?

- is a Standard created by Standards Australia, or any other third party, which fails to meet the requirements of the Guide automatically without effect or status for the purposes of the work of the ABCB or similar agencies?

9.5 Such questions are far from trivial for the building and construction industry, given the very high status and pervasive impact of the work of the ABCB and of a NCC, the latter of which is generally regarded as 'the regulatory bible for the industry'.

9.6 The ABCB has already signalled (Thwaites, 2014) a sound approach to implementing key aspects of the Guide, and indeed for pressing ahead with regulation review, rationalisation and reform within its area of responsibility (most notably, reflected in the NCC).

9.7 The foundation of this approach is what the ABCB has called a 'Fourth Tranche Reform Package' (Thwaites, 2014:5) which it believes, if implemented comprehensively and effectively, has the potential to deliver up to $1 billion in annual benefits to the Australian economy.

9.8 Key elements of the Fourth Tranche Reform Package include:

- making the NCC free-on-line, which would expand access to this important document and reduce costs for business;

- reducing local government variations, in particular in their planning ordinances, which set higher prescriptive standards from those applying in the NCC; and

- continuing efforts to rationalise the NCC, including reconsidering the frequency of making alterations (to provide greater certainty for business, and in lowering costs for consumers).

9.9 Master Builders endorses the ongoing work by the ABCB to achieve these worthwhile outcomes.

10 Further Reform

10.1 The Abbott Government has set down a sound and sensible approach to regulation reduction and reform, which the building and construction industry is keen to see implemented at the earliest opportunity. However, much more needs to be done.

10.2 Master Builders has been impressed by the United States' Federal Register, a comprehensive and definitive compendium of all federal regulations in that country (McKinney, 2012).

10.3 Key features of the Register include:

- it contains all promulgated rules and regulations of the United States Government (other than those relating to national security);
- all proposed rules and regulations must be published on the Register, along with a description of the subject matter and the issues involved; and
- comments made on proposed rules and regulations, and agency answers/responses, are included in the preamble to those rules and regulations before their promulgation.

10.4 The building and construction industry in Australia operates under a compendium broadly similar to the United States Federal Register, namely the NCC.

10.5 Master Builders sees merit in the Australian Government implementing an Australian Federal Register of Regulations, covering all rules and regulations existent and proposed under its auspices.

10.6 Key features of an Australian Federal Register of Regulation would include being:

- a 'one stop shop' for all existing federal regulations;

- a ‘one stop shop’ for all proposed federal regulations;
- a ‘one stop shop’ for the mandatory Regulatory Impact Statements, and cost-benefit analyses for each and every regulation;
- more readily assist with the identification of ineffective, inefficient, duplicative and/or redundant regulations;
- facilitate a much deeper and wider understanding of the economic, commercial and social costs of regulation; and
- promote meaningful transparency in the regulatory process, on the basis ‘if a federal regulation is not listed in the Register, then it does not exist’, and so agencies do not have authority to administer, and business and consumers have no obligation to comply.

10.7 Master Builders believes a comprehensive, definitive and exhaustive Australian Federal Register of Regulation could be fully operational by no later than 1 July 2015, if there is the necessary political leadership and will. This objective should be readily achievable given every federal agency must, for reasons of good governance alone, already have full knowledge of every regulation under its authority.

11 Local Government

11.1 Local government has a critical role to play in any comprehensive and/or meaningful program of reform of competition-regulation policy and practice. Reforms to local government regulatory policies and practices, especially as they relate to land supply and usage, are of particular importance for the building and construction industry, and for the commercial, industrial and residential users of the structures they build.

11.2 Master Builders believes there is considerable potential for deeper and wider application of performance benchmarking to local governments both per se, and as a platform for effective use of ‘yardstick competition’, regarding their delivery of building, construction and housing related services.

11.3 Spatial econometric modelling indicates the benefits of such reforms would not be limited to those local governments implementing the necessary reforms, but are likely to spill-over to geographically proximate councils and shires.

11.4 Benchmarking the performances of governments in Australia in the delivery of publicly-provided goods and services is well established both in principle and in practice.

11.5 Notable examples include:

- the annual Reports on Government Services (ROGS) produced by the Productivity Commission;
- the performance benchmarking reports produced by the COAG Reform Council on a range of national partnership agreements between the federal, State and Territory Governments; and
- the 'MySchool', 'MyUniversity' and 'MyHospital' initiatives of successive federal Governments.

11.6 Master Builders has produced and widely distributed a report (Master Builders, 2012; a copy of which can be found at Attachment 1 to this submission) which outlines a practical agenda for expanding the application of performance benchmarking into the delivery by local governments of building, construction and residential housing related services.

11.7 In that report, Master Builders recommends a number of key performance metrics be collected and reported annually by all local governments across Australia, namely:

- median net and total time taken to process a development application (DA; in days);
- median net and total time taken to process the bottom quintile ('slowest' moving 20 per cent) of DAs (in days);
- DAs processed through code/complying assessment pathways (number and as a proportion of DAs);

- median total cost of a DA to the applicant (in current dollars, and as a proportion of the value of the relevant development);
- proportion of DAs processed within applicable statutory timeframes (percentage); and
- proportion of DAs process subject to successful legal challenge by an applicant before a higher administrative or judicial authority (percentage).

11.8 While such data collections, on a uniform and comparable basis, would provide useful information to the building and construction industry, and to prospective home buyers, they would also act as the platform for effective 'yardstick competition'.

11.9 Effective spatial yardstick competition exists when the decision-making and/or policy setting of one jurisdiction (say, a local government) is influenced by that of a geographically nearby (for example, a neighbouring) jurisdiction.

11.9.1 Such competition can be either observed (where the jurisdiction explicitly takes into account 'what is happening elsewhere') or latent (when it is done implicitly/ without acknowledgment).

11.10 Yardstick competition brings a number of important advantages and likely dividends. These include that it:

- improves transparency and comparability of performance to taxpayers;
- strengthens political accountability of the governing entity (e.g. local government council) to electorate;
- motivates reform, especially in the face of resistant bureaucracies; and
- enables the identification of best (and worst) performers, and signals the policy options available to lift performance where necessary.

11.11 Spatial econometric modelling undertaken by Master Builders Australia (Master Builders, 2013a; a copy of which can be found at Attachment 2 to this submission), using a case study approach, found very powerful spatial dependencies (spillovers) between local governments in NSW in their delivery of development approvals for residential housing.

11.12 The spatial econometric modelling found, for example a reduction of 5 days in the time taken by one local government to assess a development approval application is likely to lead to a 4.5 day reduction the time taken by a nearby local government areas, all other things being equal, to do the same thing.

11.13 The high spill-over effect found in the spatial econometric modelling point to a potentially powerful role for effective yardstick competition in improving service delivery by local governments in Australia.

12 Conclusion

12.1 Master Builders believes regulation can and does adversely impact the nature, the incidence and the potential benefits from competition and, through this channel, productivity within the Australian economy.

12.2 In short, a less (and, where necessary, better) regulated economy means one where there is greater competition, with the attendant benefits it brings for entrepreneurship, for productivity, for employment and investment, and for higher standards of living.

12.3 Master Builders is particularly concerned at the actual and the potential anti-competitive effects of regulations. These range across: raising barriers to entry by potential new competitors; impeding the exit of existing players, whose ongoing presence confounds market signals; limiting the choices of other businesses and of consumers on the products and the services available to them;

12.4 They also include acting as a disincentive to entrepreneurship, and to new research and development and providing usually invisible cross-subsidies from non-preferred to favoured businesses and consumers.

12.5 Master Builders views the current Review as an important opportunity to advance the regulation review and reform agenda, and to highlight and propose an action agenda to redress the anti-competitive nature and/or effects of poorly designed regulations.

12.6 At very least, the Review should recommend the Federal Government's Regulatory Impact Statement (RIS) processes be extended to require the identification, and a rigorous assessment, of any anti-competitive effects of the regulation being proposed or under review

13 Bibliography

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Attachment 1

MASTER BUILDERS
AUSTRALIA

Performance Benchmarking

Local Government in Australia

October 2012

Master Builders Australia Ltd ABN 68 137 130 182

building australia

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1 INTRODUCTION

1.1 This Position Statement is made by Master Builders Australia Ltd (Master Builders).

1.1 Master Builders is the peak national association for the building and construction industry in Australia.

1.2 Master Builders' primary role is to champion the interests of the building and construction industry, representing residential and commercial building, and engineering construction.

1.3 Master Builders has more than 33,000 member-companies with representation in every state and territory in Australia, the great majority of which, by number, are small to medium sized enterprises.

1.4 Master Builders' membership consists of large national, international, residential and commercial builders and civil contractors through to smaller local subcontracting firms, as well as suppliers and professional industry advisers.

1.4.1 Membership of Master Builders' represents 95 per cent of all sectors of the building and construction sector.

1.5 The building and construction sector accounts for almost 8 per cent of gross domestic product, and more than 9 per cent of employment, in Australia.

1.6 Owner-occupied housing and other property investments account for over two-thirds of the asset portfolio and wealth of ordinary Australians.

2 OVERVIEW

2.1 Benchmarking the performance of governments and their associated agencies is an integral part of improving the transparency, the accountability and the efficiency of such organisations,

2.1.1 to ensure taxpayers money is being well-spent, not just on the 'right things' but also not being wasted (or at least, hopefully, with least waste).

2.2 Benchmarking of government performance in Australia is already well-established both in principle and in practice, reflected in:

2.2.1 the Productivity Commission, an agency of the Federal Government, producing the Report on Government Services (ROGS) annually since the mid-1990s;

2.2.2 the COAG Reform Council, an agency of the Council of Australian Government's (COAG) process, producing regular performance benchmarking reports across a range of national partnership agreements which operate between the Federal, State and Territory Governments; and,

2.2.3 the 'MySchool', 'MyUniversity' and 'MyHospital' initiatives of the Rudd and Gillard Governments which are intended to deliver greater transparency and comparability of performances in the education and the health areas.

2.3 Master Builders believes the challenge now is to expand the application of the principle and the practice of performance benchmarking to local governments across Australia, especially as it relates to building and construction services provided to consumers and industry.

2.4 While a number of State Governments, for example, already publish some partial indicators of performance in the building and construction services area, this work needs to be broadened (to include other jurisdictions) and deepened (to embrace a wider range of indicators, reported in a more consistent form).

2.5 Against this background, Master Builders recommends the following key performance metrics be collected and reported annually by all local governments across Australia:

2.5.1 median net and total time taken to process a development application (DA; in days);

2.5.2 median net and total time taken to process the bottom quintile ('slowest' moving 20 per cent) of DA's (in days);

2.5.3 DA's processed through code/ complying assessment pathways (number; and, as a proportion of DAs);

2.5.4 median total cost of a DA to the applicant (in current dollars, and as a proportion of the value of the relevant development);

2.5.5 proportion of DAs processed within applicable statutory timeframes (percentage); and,

2.5.6 proportion of DAs process subject to successful legal challenge by an applicant before a higher administrative or judicial authority (percentage).

2.6 Oversight of the process should devolve to an independent panel, drawn from the private and the public sector, with its primary tasks, in the short term, centring around:

2.6.1 developing and promoting the key performance metrics amongst State, Territory and Local Governments (including oversighting the capacity-building payments for smaller, regional et al local governments);

2.6.2 publication of a single composite annual report on the key performance metrics, and any other relevant information; and,

2.6.3 undertaking the foundational, preparatory work for the implementation of a system of 'competitive performance payments' to 'best performing' local governments (and their respective State/Territory Governments).

3 KEY CONCEPTS AND PRINCIPLES

3.1 The economic dividends likely to flow from broader and deeper application of performance benchmarking in the Australian public sector, especially where it results in a reduction in the regulatory burden and more efficient regulatory practices and systems which remain, are likely to be substantial.

3.1.1 The Productivity Commission has estimated (PC, 2007: xix) if regulatory reforms lowered compliance costs by just 20 per cent, this could deliver cost savings of as much as $7 billion (in 2007 dollar terms) and even greater dividends for national output.

3.2 Rigorous and transparent performance benchmarking of public services in Australia, in particular those undertaken by local governments, would also assist in lifting Australia's poor productivity performance, building on the management maxim '*what is measured gets managed, and what is managed gets done'.*

3.3 Effective performance benchmarking can deliver a number of substantial economic, commercial and, through them, social dividends. These include (but are not necessarily limited to):

3.3.1 increased availability of information to taxpayers (the ultimate owners of the public sector) on the inputs, the processes, the outputs, and most importantly, the outcomes, from their hard-earned taxes for the various goods and services provided by local government;

3.3.2 the capacity for taxpayers and public policy makers to compare and contrast (benchmark) the performance of local governments in the provision of goods and services, in particular in terms of their efficiency (eg standardised unit cost of supplying service X, such as garbage collection);

3.3.3 generating a corporate culture of continuous improvement (or at least reducing resistance to change) within process- and rules-oriented public sector organisations, which can, of itself, generate efficiency dividends beyond those arising from any benchmarking initiatives;

3.3.4 enabling taxpayers and public policy makers to examine the drivers of differences in performance, both learning from better performers and providing guidance to weaker performers (recognising there can be legitimate exogenous reasons for differences in performance, such as geography or demography);

3.3.5 such best/worst practice could then be used as 'torch-lights' for identifying the likely causes of those differences, potential improvements in systems, processes and practices within local government, ranging across management, financial or regulatory reforms; and,

3.3.6 over time, such performance benchmarking could usefully evolve into 'yardstick competition' amongst local governments, allowing taxpayers to see how their local administration has performed in absolute and relative terms on a number of key performance criteria.

3.4 Such information could likely be useful to both commercial and residential taxpayers when making choices on where to locate their businesses or homes – migrating toward/ away from the better/lesser performing local government.

3.4.1 This would likely be especially important to potential commercial and residential taxpayers concerned about property tenure matters, such as development approvals, infrastructure charges, and rates and other service charges.

3.5 In the medium to longer term (the time taken dependent upon the breadth, robustness and transparency of the performance benchmarking system) would see continuous improvement and convergence of performance by local governments to the most efficient outcomes,

3.5.1 including the less costly and distortive regulatory and/or most efficient service delivery processes whether in terms of design, or costs of administration and compliance.

3.6 As the Productivity Commission (2007: 14) observed: *"Reporting performance potentially encourages ongoing improvement in the regulatory environment by promoting 'yardstick' competition across jurisdictions or levels of government."*

"To the extent that gaps between better and current practices can be identified, benchmarking could also increase accountability through transparency. Increased accountability places incentives on policy makers to generate systemic improvements in their regulations that reduce unnecessary burdens on business."

3.7 Expansive use of rigorous and transparent benchmarking systems can also deliver other benefits to taxpayers by promoting contestability in the delivery of local government services,

3.7.1 whether between local governments (eg the more efficient local government provides building assessment services to its less efficient nearby local government)

3.7.2 or when contracted out to the private sector (eg a building assessment business can provide those services more efficiently than the responsible local government).

3.8 A key consideration in any benchmarking initiative is the selection of the performance criteria. While there are no 'one size fits all' criteria (applicable to all domains at all times), Master Builders' favours key performance indicators with the following characteristics:

3.8.1 quantitative – metrics which can be measured objectively (eg X units of output per month), rather than subjective evaluations (eg 'doing better' than last month);

3.8.2 availability – metrics should be readily accessible or capable of compilation at a reasonable cost relative to the value expected to be obtained;

3.8.3 actionability – metrics should be within the control of and capable of being actioned by relevant authorities as part of any policy or service delivery reform (eg while it can be important to take into account the effects geography on service delivery, it is not necessarily appropriate to benchmark such exogenous factors).

3.8.4 causality – metrics should have some causal link to relevant policy reforms (eg regulation reduction) or performance outcomes (eg improved service delivery);

3.8.5 comparability – metrics which can be measured, in a meaningful manner, across jurisdictions and across time;

3.8.6 reliability – metrics should be good and representative indicators of the activity or outcome the are intended to report;

3.8.7 relevance and significance – metrics should be of practical importance to the activity or outcome being measured; and,

3.8.8 timeliness – metrics should become available within a reasonable (that is, sooner rather than later) time frame, ideally close to the reference period concerned.

3.9 While performance benchmarking can deliver substantial dividends, in terms of identifying best practice, and indeed transparency in general, it is not without its limitations. These include:

3.9.1 collection of the necessary data and related information can be costly, especially for smaller jurisdictions;

3.9.2 ensuring metrics are comparable is not necessarily straight-forward, whether in concept or practice;

3.9.3 the simple collection of performance metrics does not, of itself, reveal the drivers of those outcomes; and,

3.9.4 gaming and goal displacement by public officials (who skew their behaviour and resources toward narrow-minded achievement of key performance indicators regardless of the costs).

3.10 The nature, extent and vigour of public sector resistance to performance benchmarking should not be under-estimated. As one senior Australian Government official said, summarising discussions at an international forum of public servants:

3.10.1 *"Benchmarking appears to require a fairly strong central impetus – ie when there is no competition or other incentive, organisations are reluctant to benchmark without central directive."* (Trosa, 1997: 6).

3.11 Nevertheless, such hurdles can be readily overcome, either through:

3.11.1 specific-purpose funding (of benchmarking schemes);

3.11.2 specialist advice on the design of comparable metrics;

3.11.3 the use of advanced analytical techniques (such as from accounting, econometrics and operations research) to identify potential drivers of performance outcomes – that is, *why* the differences in performance exist;

3.11.4 the use of multiple indicators to give a broader indicator of performance;

3.11.5 the use of effective monitoring to oversight and independent audit processes to verify outcomes; and,

3.11.6 strong central direction from heads of agencies (officials) or of government (first ministers, or mayors), or appropriate financial incentives.

3.12 Master Builders in this report adopts a broad definition of performance benchmarking, embracing the benchmarking of both performance and of standards.

3.12.1 Read narrowly, performance benchmarking can mean simply measuring and comparing quantitative metrics of performance across local governments and over time. While such indicators can have informational value, they are essentially an input into standards benchmarking.

3.12.2 Standards benchmarking evaluates the quantitative metrics from the performance benchmarking stage across jurisdictions and/or time in absolute and/or relative terms, and against minimal accepted practice or preferably 'best practice'.

This approach can result in rewards (financial and/or peer acclamation) for best practice jurisdictions, and guideposts and motivation for lesser performing jurisdictions to help them improve their own performances.

3.13 In reality, no single agency or local government is likely to be 'best practice' across all indicators at all times in all situations, meaning all local governments (and other interested parties, such as federal and state/territory governments, and private sector stakeholders) are likely to 'gain from learning' from the benchmarking experiences and reports.

3.14 Master Builders' would emphasise the importance of clearly distinguishing between different elements of the performance benchmark chain – that is, inputs, processes, outputs and outcomes from local government regulation and service delivery.

3.14.1 While public service culture, at whatever tier of government, traditionally focuses on inputs and processes, the private sector is generally driven by outputs and more importantly outcomes.

3.14.2 Nevertheless, there is a degree of commonality, to the extent business is concerned with performance benchmarking of regulatory systems ('process'), and both the private and public sectors are interested in ensuring value-for-money service delivery ('outcomes').

4 CURRENT AUSTRALIAN PRACTICE

4.1 Benchmarking of Australia government regulations and service provision has been endorsed both in principle and in practice. Broadening and deepening its application to local government is only a matter of extending its use; it would be a small (but high dividend) step forward on existing practice.

4.2 Prominent examples of performance benchmarking of Australian Governments, whether federal, state/territory or local, include:

4.2.1 The Report on Government Services (ROGS), produced annually by the Productivity Commission since 1995;

4.2.2 The COAG Reform Council, under a range of national partnership agreements;

4.2.3 The National Performance Measures Report on Development Assessment Performance produced under the auspices of the Council of Australian Governments (LGPMC, 2008/09); and.

4.2.4 The ‘MySchool’, ‘MyUniversity’ and ‘MyHospitals’ initiatives of the Rudd/ Gillard Governments, designed to encourage transparency and comparability of performances of individual entities in each of these areas.

4.3 The **Report on Government Services (ROGS)** is probably the most prominent and wide-reaching of the various public sector-based performance benchmarking projects undertaken in Australia.

4.3.1 The driving motivation for the ROGS process has been the collection and reporting of data to enable ongoing comparison of the efficiency of federal, state and territory government service provision.

4.3.2 The government services covered by the ROGS range across education, health, justice, public housing and community services, with attention being increasingly given metrics of outcomes rather than those relating to inputs and/or outputs;

4.3.3 The ROGS processes are seen (Banks and McDonald, 2012) to have delivered a number of benefits, including:

- driving improvements in information collection and reporting, especially where the required information was not previously or consistently collected;
- helping the federal, state and territory governments to simply learn more about what is going on within their own jurisdictions;
- similarly allowing them to learn about practices and performances in other jurisdictions; and,
- becoming a key tool for transparency and accountability for governments and their agencies, and for leverage on poor performers to ‘lift their game’.

4.3.4 While ROGS was not intended to be, nor is it expressly, a benchmarking exercise, there is a tendency for those using the Report, whether private or public sector, to identify best practice – that is, resulting in implied performance benchmarking;

4.4 The **COAG Reform Council** oversees a system of federal-state/territory financial arrangements, operating through a series of six national partnership agreements, which include a framework for performance and assessment of the delivery of government services.

4.4.1 The assessment processes reflect commitments by participating governments to greater accountability through simpler, standardised and more transparent performance reporting, and a commitment to the achievement of defined outcomes (O'Loughlin, 2012).

4.4.2 These processes contain two streams for performance benchmarking:

4.4.2.1 of the federal, state and territory governments in achieving the outcomes and other benchmarks defined in the relevant national agreements; and,

4.4.2.2 requiring the COAG Reform Council to determine whether performance benchmarks for nationally significant reforms have been achieved, before the federal government makes performance-based reward payments to the states/territories.

4.4.3 In this regard, the COAG Reform Council provides annual reports to COAG Leaders containing, inter alia, comparative analyses of the performance of the participating governments against agreed outcomes.

4.4.4 Importantly, this approach cements into practice the principle of financial reward for benchmarked, comparative performance against pre-defined outcomes within the Australian inter-governmental processes.

4.5 The **National Performance Measures Report on Development Assessment Performance**, produced under the auspices of COAG, examined the performance of the States and Territories in the administration of their respective systems for development assessment for building development. The first (and seemingly only published) Report examined performance against three main themes:

4.5.1 process performance: focusing primarily on the timeliness of decision making in development assessment (using metrics such as the time taken decide an application, and the level of compliance with statutory time limits);

4.5.2 system performance: looking at the extent to which applications are handled by the most appropriate authority, especially those of a 'code-assessed' or low-risk nature; and,

4.5.3 outcome performance: comparing development assessment outcomes against policy objectives (using metrics such as the incidence with which development assessment decisions are challenged before judicial or other review authorities).

4.5.4 Specific performance indicators considered in the Report were:

- percentage of applications decided within the statutory time (overall and by type of application);
- average and median approval times of all DAs decided in days (overall and by type of application);
- is there a system of business process or review in place (yes/no);

- percentage of referrals responded to within the statutory time (overall);
- average and median response times of all referrals in days (overall and by type of application);
- percentage of applications decided through a 'low risk' assessment process (overall and by type of application);
- percentage of DAs lodged electronically (overall and by type of application);
- is there a system in place to measure the effectiveness of DA outcomes against planning policy objectives (yes/no);
- percentage of DAs subject to review/appeal (overall and by type of application);

4.5.5 Amongst the main lessons which can be drawn from the Report (LGPMC, 2008/09) are the heterogeneity of approaches to development assessment across the States and Territories, and large number and diverse range of domains for which no data was either available or reported (reflected in data tables populated by cells with 'n/a' responses).

4.6 The **'MySchool', 'MyUniversity' and 'MyHospitals'** initiatives of the Rudd/ Gillard Governments, were designed to encourage transparency and comparability of performances of individual entities in each of these areas.

4.6.1 The **'MySchool'** facility allows stakeholders (in particular, parents and their local communities) to obtain comparable statistical and contextual information on more than 10,000 schools around the nation.

4.6.2 Key performance indicators collected and reported by 'MySchool' relate to the literacy and numeracy achievements of students in the school, and student achievement under the NAPLAN assessment processes over a number of years;

4.6.3 **'MyUniversity'** is expressly a platform for improving transparency in the higher education sector, allowing the universities to benchmark their absolute and relative performances, and provide information to support consumers (prospective students) in their study-choice options.

4.6.4 Key performance indicators under 'MyUniversity' include staff/student ratios, measures of graduate skills, the quality of teaching and learning outcomes and graduate outcomes (much of which is already held by federal education authorities);

4.6.5 **'MyHospitals'** is similar to the 'MySchool' initiative, providing information to taxpayers about the performance of individual hospitals.

4.6.6 Key performance indicators under 'MyHospitals' include waiting time for emergency department care and for elective surgery, measures of quality and safety (eg hospital-sourced infection) and services to cancer sufferers.

5 LOCAL GOVERNMENT IN AUSTRALIA

5.1 As noted earlier, the principle and the practice of performance benchmarking for Federal, State and Territory Government service provision is well established.

5.1.1 The challenge is to expand the application of that principle and the practice to local governments across Australia, especially as it relates to building and construction services.

5.2 While a number of State and Territory Governments already publish some partial indicators of performance, this work needs to be broadened (to include other jurisdictions) and deepened (to embrace a wider range of indicators, reported in a more consistent form).

5.3 Several State Governments already publish useful reports which allow a 'first look' at some indicators of local government performance in providing services to the building and construction industry, and through them to residential householders and commercial occupants. For example:

5.3.1 The New South Wales Department of Planning and Infrastructure (NSW P&I) publishes an annual "Local Government Performance Monitoring Report" (NSW P&I, 2012).

5.3.1.1 This report provides a vast amount of information on planning and development related matters for the State, regions and individual local governments within NSW;

5.3.1.2 Volume-based metrics include: the total number of development DAs received (both new and amended); total number of decisions made (approved; refused; referred); planning-staff resources; and, number of decisions appealed;

5.3.1.3 Performance-based metrics include: the time taken to process a DA (average and median, in days); and, DAs processed by local government taking less than 50 days and more than 100 days (per cent of total).

5.3.2 The Queensland Department of Local Government and Planning (Qld LG&P) publishes an annual "Development Assessment Monitoring and Performance Assessment Program" report (Qld LG&P, 2012).

5.3.2.1 This report provides useful information on planning and development related matters for the State and individual local governments within Queensland;

5.3.2.2 Volume-based metrics include: total number of DAs received (new and amended); total number of decisions made (approved; refused; referred); and total decisions appealed;

5.3.2.3 Performance-based metrics include: the time taken from start to finish of the DA approvals process (average, in days); and, time taken for information requested from applicants to be received (average, in days).

5.3.3 The Victorian Department of Planning and Community Development (Vic P&CD) publishes an annual "Planning Permit Activity in Victoria" report (Vic P&CD, 2011).

5.3.3.1 This report provides useful information on planning and development related matters for the State and regions, and individual local governments within Victoria;

5.3.3.2 Volume-based metrics include: total number of DAs received (new and amended); total

number of decisions made (approved; refused); and total decisions appealed;

5.3.3.3 Performance-based metrics include: the gross time taken to make a DA decision (average, in days); time taken to process a DA (median, in days); and, proportion of decisions made within statutory time (per cent).

5.4 The ready availability, and the richness, of the data reported by the New South Wales Government (NSW P&I 2012) provide a useful foundation for a case study into performance measurement of local governments.

5.4.1 The NSW Government data set contained detailed volume and performance metrics for 152 local government areas (LGAs), across 6 regions, thus facilitating analysis by individual LGA and LGAs-by-region;

5.4.2 The six regions were, in alphabetical order: Hunter (which covered 12 LGAs); Murray/ Murrumbidgee (36 LGAs); North Coast (13 LGAs); Southern (10 LGAs); Sydney (43 LGAs); and, Western (38 LGAs);

5.4.3 The analyses undertaken in this report focus on four key metrics:

5.4.3.1 The median net time taken for a DA to be determined (average, in days): mnemonic = datime;

5.4.3.2 The number of staff working on DAs (number, equivalent full time): mnemonic = staff;

5.4.3.3 The total number of DAs determined (annual): mnemonic = datot; and,

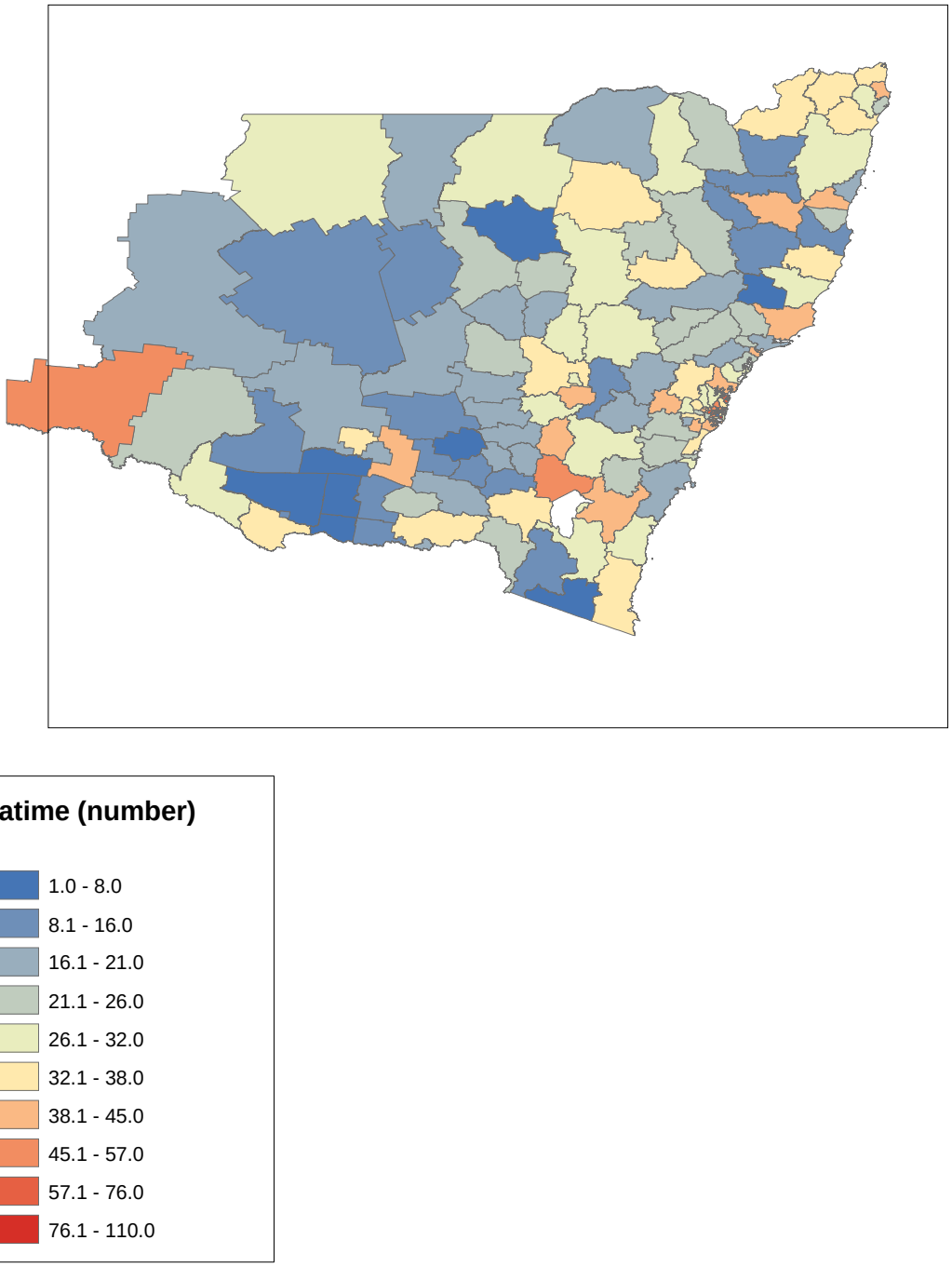
5.4.3.4 The total number of complying development certificates determined by Council (annual): mnemonic = cdc.

5.5 Master Builders considers ‘datime’ (the median net time taken for a DA) to be a reasonable performance benchmark for local governments in providing key building related services to householders, and the building and construction industry.

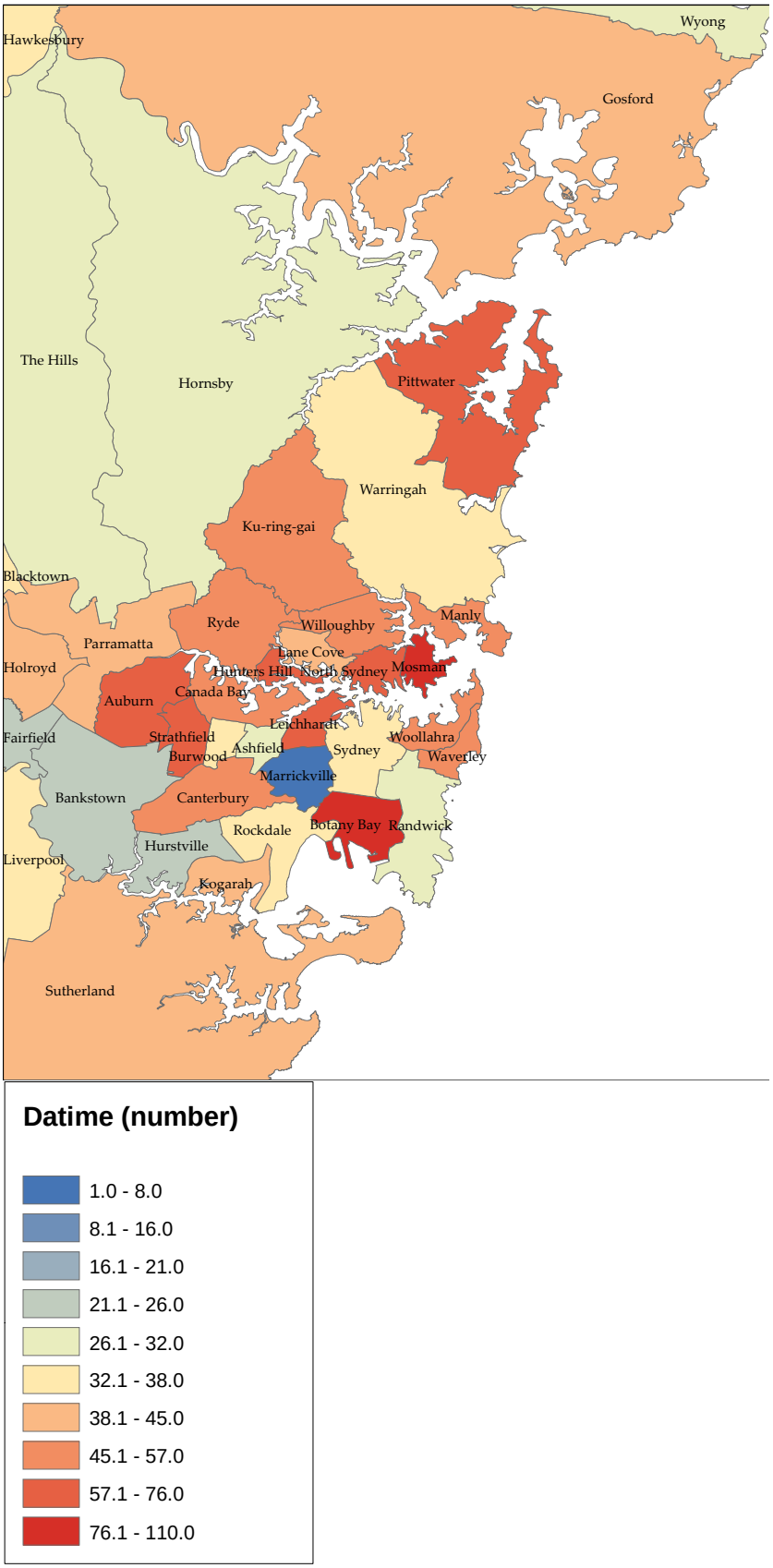
5.6 However, we recognise median ‘datime’ can be subject to influences relating to factors such as the composition of DAs, for example by the purpose for the DA (Alterations and Additions, versus a New Multi-Unit development) and the value of the DA (less than $100,000, compared to more than $1 million).

5.7 The following maps provide an interesting first look/overview of the ‘datime’ of LGAs in NSW as a whole, and around the Sydney area, respectively.

5.8 Map 1: ‘datime’ across NSW LGAs



Map 2: ‘datime’ across Sydney LGAs



5.9 A visual review of Maps 1 and 2 draws out several points:

5.9.1 Looking first at Map 1, which represents ‘datime’ across all NSW LGAs (although most clearly showing those outside of the Sydney area) indicates most of the LGAs tend to have fairly low ‘datimes’

5.9.1.1 generally in the blue-shade range (that is, with ‘datimes’ of 26 days or less)

5.9.1.2 although with some in the yellow-green range (that is, around the State average of around 28 days).

5.9.2 Turning to Map 2, which highlights ‘datime’ for the LGAs in the Sydney area, most LGAs tend to have fairly high ‘datimes,

5.9.2.1 often in the milder orange color range (datimes between 38.1 to 57 days)

5.9.2.2 with a number in the stronger orange color range (datimes greater than 57.1 days) such as Pittwater, Mosman and Botany Bay.

5.10 For New South Wales as a whole, the average ‘datime’ was 28.2 days (that is, the median net time taken by an LGA to process a DA was, on average, 28.2 days). However, ‘datime’ performances for the individual regions ranged

5.10.1 from 22.9 days for the Murray/Murrumbidgee and the Western regions, 24.3 days for the Hunter region, and 24.5 days for the Southern region

5.10.2 to 30.5 days for the North Coast region, and a sizeable 44.2 days for the Sydney region.

5.11 In broad terms, a householder or a builder looking to process a DA in the Sydney region can expect to their application to take around four working weeks longer than their counterpart elsewhere in the State.

5.12 These observations are borne out in rigorous statistical modelling, with Analysis of Variance (ANOVA) methods comparing datimes for the Sydney region with those of the other regions as a group.

5.12.1 The ANOVA modelling found notable practical and statistically significant differences in their 'datime' performances. For example:

5.12.1.1 LGAs in the Sydney region have 'datimes' some 20.1 days longer than those in the other five regions as a group;

5.12.1.2 these differences are strongly statistically significant ($F = 66.0$; $p = 0.00$);

5.12.1.3 With these geographic drivers (Sydney vs other regions) explaining a sizeable proportion (just under one-third; Adj R2 = 30.1) of the difference in regional performances.

5.13 This 'Sydney vs everyone else' profile is borne out in more finely grained comparisons (again using ANOVA methods) which compares all of the individual regions against each other.

5.13.1 In broad terms, there are practical and statistically significant differences between the 'datime' performances of the each of the regions ($F = 13.48$; $p = 0.000$).

5.14 A simple regression model found two variables (the underlying average performance of LGAs and the Sydney regional effect) were the main drivers of ‘datime’, with modest impacts from ‘staff’, ‘datot’ and ‘cdc’.

5.14.1 This result could reflect a number of potential factors, such as State-wide commonalities (eg regulatory requirements or procedures) or bureaucratic culture/ practices.

6 KEY PERFORMANCE METRICS

6.1 While the metrics reported, for example, by the New South Wales, Queensland and Victorian Governments are useful and informative,

6.1.1 the compilation and publication of key performance indicators for State, Territory and Local Governments in the planning, infrastructure and related areas needs to be both broadened and deepened:

6.1.2 broadened in the sense of all States, Territories and Local Governments across Australia reporting annually against key performance metrics and

6.1.3 deepened in the sense this reporting be against common performance metrics, and in a standardised and comparable format.

6.2 Such reporting will substantially improve the transparency of, and drive continuous improvements in the efficiency of, State, Territory and Local Governments in planning et al areas, thus facilitating more effective use of performance benchmarking at local government level.

6.3 While there is potentially a wide range of performance indicators which could be applied to local government engagement in the planning et al area,

6.3.1 Master Builders generally prefers a smaller number of higher priority metrics (over a larger number of metrics of varying importance to industry and householders).

6.4 Our 'fewer but most significant' approach reflects the importance we attach to:

6.4.1 transparency (the fewer the indicators, the lower the cost of collection and publication); and,

6.4.2 rigour (the more difficult it is for performance-resistant bureaucrats or local councillors to evade, or game).

6.5 Against this background, Master Builders would propose the following key performance metrics be collected and reported annually by all LGAs across Australia:

6.5.1 median net and total time taken to process a DA (in days);

6.5.2 median net and total time taken to process the bottom quintile ('slowest' moving 20 per cent) of DAs (in days);

6.5.3 DAs processed through code/ complying assessment pathways (number; and, as a proportion of DAs);

6.5.4 median total cost of a DA to the applicant (in current dollars, and as a proportion of the value of the relevant development);

6.5.5 proportion of DAs processed within applicable statutory timeframes (percentage); and,

6.5.6 proportion of DAs process subject to successful legal challenge by an applicant before a higher administrative or judicial authority (percentage);

6.6 Master Builders would not expect this reporting to be a ‘numbers game’ only – that is, State, Territory and Local Government’s simply completing forms with the figures required for reporting.

6.6.1 Consistent with the processes used by the Federal Government in its Report on Government Services (ROGS),

6.6.2 State, Territory and Local Governments would have reasonable opportunity to provide relevant narratives to explain irregular or unusual performances, for example outlier outcomes due to natural disasters such as flood or cyclone.

6.7 Master Builders recognises broadening and deepening such performance monitoring and benchmarking may involve additional costs to local governments, both in terms of

6.7.1 broadening - simply collecting the data (where this is not already done across the defined metrics), which may be of particular concern to smaller local governments and/or those in regional areas; and

6.7.2 deepening - in particular producing consistent, standardised metric (which may require structural changes in the way such information is collected).

6.8 The Federal Government, in the short run (say for a maximum of three years), may need to provide some modest, additional funding

6.8.1 on an ex poste reimbursement against proven costs basis,

6.8.2 to smaller, regional and/or lower volume local government areas to broaden and deepen their relevant data collections and reporting.

6.9 Oversight of the process should devolve to an independent panel, drawn from the private and the public sector comprising:

6.9.1 senior executives from private sector firms active in building and construction, and infrastructure provision; and,

6.9.2 senior officials from key federal agencies such as the Departments of Finance and of Local Government (however named at the time), and the Grants and the Productivity Commissions (for their experience in federal-state financial relations, and performance monitoring respectively).

6.10 The primary functions of the independent panel, in the short term, would centre around:

6.10.1 developing the key performance metrics;

6.10.2 publicising them amongst State, Territory and Local Governments (including oversighting the capacity-building payments for smaller, regional et al local governments);

6.10.3 publication of a single composite annual report (and associated electronic platforms) on the key performance metrics, and any other relevant information; and,

6.10.4 undertaking the foundational, preparatory work for the implementation of a system of 'competitive performance payments' to 'best performing' local governments (and their respective State/Territory Governments)

6.10.4.1 with modest remedial performance payments to the 'least performing' (say, bottom decile of) local governments - but not their respective State/Territory Governments - assist them in lifting their performances.

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Attachment 2

MASTER BUILDERS
AUSTRALIA

Yardstick Competition in Local Government

September 2013

Master Builders Australia Ltd ABN 68 137 130 182

building australia

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1 INTRODUCTION

1.1 This Analysis has been undertaken by Master Builders Australia Ltd (Master Builders).

1.2 Master Builders is the peak national association for the building and construction industry in Australia.

1.3 Master Builders' primary role is to champion the interests of the building and construction industry, representing residential and commercial building, and engineering construction.

1.4 Master Builders has more than 31,000 member-companies with representation in every state and territory in Australia, the great majority of which, by number, are small to medium sized enterprises.

1.5 Master Builders' membership consists of large national, international, residential and commercial builders and civil contractors through to smaller local subcontracting firms, as well as suppliers and professional industry advisers.

1.6 Membership of Master Builders' represents 95 per cent of all sectors of the building and construction sector.

1.7 The building and construction sector accounts for almost 8 per cent of gross domestic product, and more than 9 per cent of employment, in Australia.

1.8 Owner-occupied housing and other property investments account for over two-thirds of the asset portfolio and wealth of ordinary Australians.

2 OVERVIEW

2.1 Australia has a serious housing supply challenge, both in terms of improving housing affordability and closing the housing supply shortfall.

2.1.1 International economic research (Demographia, 2013) has found Australia continues to have the second most unaffordable housing market in the world (after Hongkong) with median house prices being around 5.6 times median household income, well ahead of Canada (3.6 times) and the United States (3.1 times).

2.1.2 The Federal Government's own National Housing Supply Council (NHSC 2011) has estimated the cumulative housing shortfall will blow out from an already substantial 178,400 dwellings in 2010 to 328,800 by 2015, and potentially top 640,200 by 2030 (that is, within the next two decades), absent meaningful action.

2.2 While there is 'no single magic bullet' which will unilaterally close the serious housing unaffordability and housing supply gaps, a key element of any meaningful action agenda must include reforming and improving the performance of local government in the housing regulatory and supply chain.

2.3 Against this background, Master Builders last year produced a report (Master Builders 2012) examining the potential for deeper and wider application of performance benchmarking to local governments, in particular regarding their delivery of building, construction and housing services.

2.4 This report extends that work, focusing on how yardstick competition, in conjunction with performance benchmarking, could deliver dividends beyond the boundaries of just the immediate local governments.

2.5 Using spatial econometrics, this report finds reducing the time taken to process development applications by 5 days in one local government can lead to a 'spill-over' effect of reducing such times in nearby local governments by as much as 4.5 days.

2.5.1 That is, reform within one jurisdiction brings dividends within that local government, but also spill-over benefits to other nearby local governments – in short, a virtuous wave of reform.

3 PERFORMANCE BENCHMARKING

3.1 Benchmarking the performance of local governments and their associated agencies is an integral part of improving the transparency, the accountability and the efficiency of such organisations,

3.1.1 to ensure taxpayers money is being well-spent, not just on the 'right things' but also not being wasted (or at least, hopefully, with least waste).

3.2 Benchmarking of government performance in Australia is already well-established both in principle and in practice, reflected in:

3.2.1 the Productivity Commission, an agency of the Federal Government, producing the Report on Government Services (ROGS) annually since the mid-1990s;

3.2.2 the COAG Reform Council, an agency of the Council of Australian Government's (COAG) process, producing regular performance benchmarking reports across a range of national partnership agreements which operate between the Federal, State and Territory Governments; and,

3.2.3 the 'MySchool', 'MyUniversity' and 'MyHospital' initiatives of the former Rudd and Gillard Governments which are intended to deliver greater transparency and comparability of performances in the education and the health areas.

3.3 Master Builders believes the challenge now is to expand the application of the principle and the practice of performance benchmarking to local governments across Australia, especially as it relates to building and construction services provided to consumers and industry.

3.4 While a number of State Governments, for example, already publish some partial indicators of performance in the building and construction services area, this work needs to be broadened (to include other jurisdictions) and deepened (to embrace a wider range of indicators, reported in a more consistent form).

3.5 Against this background, Master Builders has recommended (Master Builders 2012) the following key performance metrics be collected and reported annually by all local governments across Australia:

3.5.1 median net and total time taken to process a development application (DA; in days);

3.5.2 median net and total time taken to process the bottom quintile ('slowest' moving 20 per cent) of DA's (in days);

3.5.3 DA's processed through code/ complying assessment pathways (number; and, as a proportion of DAs);

3.5.4 median total cost of a DA to the applicant (in current dollars, and as a proportion of the value of the relevant development);

3.5.5 proportion of DAs processed within applicable statutory timeframes (percentage); and,

3.5.6 proportion of DAs process subject to successful legal challenge by an applicant before a higher administrative or judicial authority (percentage).

3.6 Oversight of the process should devolve to an independent panel, drawn from the private and the public sector, with its primary tasks initially centring around:

3.6.1 developing and promoting the key performance metrics amongst State, Territory and Local Governments (including oversighting the capacity-building payments for smaller, regional et al local governments);

3.6.2 publication of a single composite annual report on the key performance metrics, and any other relevant information; and,

3.6.3 undertaking the foundational, preparatory work for the implementation of a system of 'competitive performance payments' to 'best performing' local governments (and their respective State/Territory Governments).

3.7 While this information would be important of itself in promoting transparency in the delivery of local government services to taxpayers, it would be particularly valuable as a platform for broadening and deepening 'yardstick competition' between (and even within) local governments.

4 YARDSTICK COMPETITION

4.1 Yardstick competition involves jurisdictions, such as local governments, competing against each other based on an individual or a suite of quantifiable metrics

4.1.1 for example, the time taken or unit cost of perform a common task, such as processing building development applications, cleaning up graffiti, or collecting the rubbish.

4.2 Yardstick competition brings within a number of important advantages and likely dividends. These include it:

4.2.1 improves transparency and comparability of performance to taxpayers;

4.2.2 strengthens political accountability of the governing entity (eg local government council) to electorate;

4.2.3 motivates reform, especially in the face of resistant bureaucracies; and,

4.2.4 enables the identification of best (and worst) performers, and signals the policy options available to lift performance where necessary.

4.3 Economic research has found spatial yardstick competition – that is, between geographically proximate units – can have a powerful effect on performance within the regions concerned,

4.3.1 especially where political competition is higher: for example, members of the local council have low vote-margins to lose office and/or are close to an election (Borignon et al 2003; Solle Olle 2003; Klien, 2012; Sedmihradska 2013; Silva Costa and Caverlha, 2013).

4.4 Geographically mobile and/or tax sensitive decision-makers (such as businesses and relocating households) may use yardstick competition to inform their own locational decisions (for example, where to buy commercial and/or residential property).

4.5 Effective spatial yardstick competition exists when the decision-making and/or policy setting of one jurisdiction (say, a local government) is influenced by that of a geographically nearby (for example, a neighbouring) jurisdiction.

4.5.1 Such competition can be either observed (where the jurisdiction explicitly takes into account 'what is happening elsewhere') or latent (when it is done implicitly/ without acknowledgment).

4.5.2 An example of latent spatial yardstick competition would be where a local government does not proceed with a course of action on the basis they are aware it proved to be financially costly and inefficient, and electorally unpopular when applied elsewhere.

4.6 Spatial yardstick competition can be driven from 'the top down' or 'the bottom up'.

4.6.1 'Top down' yardstick competition occurs when the governing authority (say, a local council) initiates the process, either at its own volition or in anticipation of voter pressure.

4.6.1.1 Under this approach, higher authorities (say, elected local councillors) put in place a system of performance based rewards for staff-officials to meet/surpass defined benchmarks. Such an approach has been used successfully with regional administrations in China (Caldeira, 2010).

4.6.2 By comparison, 'bottom up' yardstick competition arises from pressure from organised groups (usually business and other taxpayers) and/or voters at large wanting 'better value for their taxes'.

4.6.2.1 Under this approach, voters determine either explicit or implicit metrics (such as 'better outcomes than in neighbouring districts') against which elected officials are judged at the ballot box.

4.7 Economic research into the application of yardstick competition has found, inter alia:

4.7.1 the take-up of information technology by school boards/districts in the United States is greater when neighbouring school districts are more innovative, and where political competition is higher (Rincke, 2007);

4.7.2 strong spillovers in the pattern of public spending in Chinese provinces (where a 10 per cent increase in government spending in neighbouring provinces leads to an almost 6 per cent rise in similar spending in the 'home' province: Caldeira, 2010);

4.7.3 a high incidence of tax mimicking by municipalities in a number of European countries (that is, upward/downward movements in tax settings by local governments tend to be associated with similar movements in spatially proximate local governments),

4.7.3.1 in Holland (Allers and Elhorst, 2005), Italy (Bordignon et al 2003), Spain (Sole Olle, 2003) and Portugal (Silva Costa and Carvalho, 2013).

4.7.3.2 The Allers and Elhorst (2005) study of property tax mimicking in Holland found a spatial dependence coefficient of 0.35, indicating a 10 per cent increase in property tax in nearby local governments leads to a 3.5 per cent increase in such taxes in the home local government, all other things being equal.

4.7.3.3 The Bordignon et al (2003) study of business property taxes applied by local governments in Italy found a spatial dependence coefficient of 0.3, that of Sole Olle (2003) looking at local government property taxes in Spain estimated a coefficient of 0.39, and that of Silva Costa and Caverlha (2013) looking at local government property taxes in Portugal found a coefficient of just under 0.3; and,

4.7.4 in the pricing of goods and services provided by government-owned utilities, for example water supply in Austria (Klien, 2012), where the spatial coefficient was found to range between 0.16 and 0.37 (depending on location on the political cycle – being higher closer to elections).

5 MEASUREMENT – NON SPATIAL

5.1 Building on Master Builders' previous work (Master Builders, 2012), this report examines the potential for yardstick competition between local governments in Australia,

5.1.1 using a data set of performance indicators of building related services delivered by local governments in NSW as a demonstration-case study.

5.2 The current analysis will focus on the median net time taken by each local government to process a development application (measured in days: mnemonic = datime).

5.2.1 In broad terms, a local government which takes longer to process a development application – that is, has a higher 'datime' – will be viewed as less efficient than a local government which takes lesser time to perform the same task.

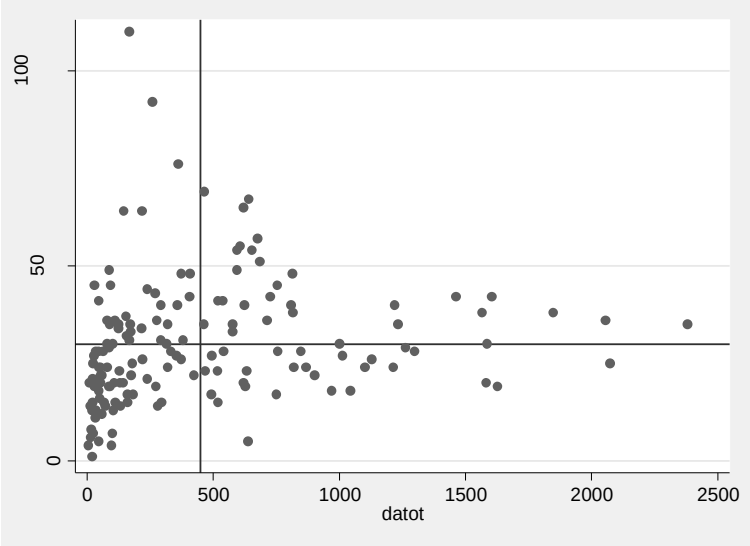
5.2.2 Master Builders' recognises development applications, like the properties to which they apply, are exactly the same or even reasonably homogeneous. However, the median net time measure would appear to be the most reasonable available metric for comparing performances for delivering essentially the same service.

5.3 The data set used in this analysis is the same as that for the preceding report (Master Builders, 2012), with the exception the Broken Hill City Council (local government) is omitted to better enable geo-spatial modelling (it would, otherwise, be an 'island' observation).

5.4 This section of the report will examine the performance of the remaining 151 local governments in NSW, using the 'datime' metric, on a non-spatial basis, with the following section using spatial analytic and modelling methods.

5.5 A good first look at the performance-efficiency of local governments can be obtained from a review of a scatterplot of datime (measured in days) against the total number of development applications processed by each council (mnemonic = datot; measured in absolute number), which can be found in Graph 1 following.

Graph 1: Scatterplot of DATIME and DATOT



5.6 The horizontal line is the average for datime (about 30 days), while the vertical line is the average for datot (449 development applications), for all of the NSW local governments under consideration.

5.6.1 The south-west quadrant reports those local governments with below average performances for both datime and datot (of which there are n = 59), while the north-east quandrant reports those with above average performances on both indicators (n = 31).

5.6.2 Of particular interest are those local governments in the north-west quadrant, which have above average datime but below average datot performances (n = 34) – that is, seemingly take longer to process fewer development applications.

5.6.3 Of this latter number, 10 local governments are located in the Sydney area (with an average datime of 60 days), with the remaining 24 local governments located outside the Sydney basin (with an average datime of 37 days).

5.6.4 These datime performances (60 vs 37 days respectively) are highly statistically significantly different (t = -4.13; p = 0.00) – that is, most unlikely to be due to chance alone.

5.7 Amongst the worst performers (that is, outliers whose performances where statistically significantly different above the average) were Botany Bay (datime = 110 days), Mosman (92 days), Auburn (76 days), North Sydney (69 days) and Pittwater (67 days), all of which were in the Sydney basin.

5.7.1 By comparison, the best performers (outliers whose performances where statistically significant below the average) were Coonamble (1 day), Berrigan and Jerilderie (both 4 days), all of which were located outside of the Sydney basin, and notably Marrickville (5 days) within the Sydney basin.

5.8 Not surprisingly, there was a positive correlation between datime and datot for all of the 151 local governments under consideration, implying as the number of development applications (datot) increased the time taken to process them (datime) also increased.

5.8.1 However, this aggregate, general result conceals some interesting patterns for sub-regions within NSW.

5.8.2 Where there were no statistically significant correlations between datime and datot in the Hunter, Murray/Murrumbidgee, North Coast, Southern and Western Regions (that is, those outside the Sydney basin),

5.8.2.1 for the Sydney region the relationship was sizeable and negative ($r = -0.493$) and highly statistically significant ($p = 0.00$).

5.8.2.2 That is, as the number of development applications processed by local governments in the Sydney region declined, the amount of time taken to process them (datime) tended to rise

5.8.2.3 or, as they had less to do, it took them more time, generally, to do it.

5.9 At the same time, it is interesting to note the substantial practical and statistically significant difference in the datime metric between local governments located outside and within the Sydney region.

5.9.1 The average datime for local governments outside the Sydney region was around 24 days, just over half the average datime for those councils within the Sydney region (44 days), with the difference being highly statistically significant ($t = 6.65$; $p = 0.00$).

6 MEASUREMENT – SPATIAL

6.1 The appropriate method to measure and evaluate yardstick competition is spatial econometrics – that is, econometric analyses and models which expressly allow for activities to have geographic inter-dependencies (or spill-overs).

6.1.1 Such methods were used in a number of the studies considered in this report (for example, Allers and Elhorst, 2005; Brett and Tardif, 2005; Klien, 2012; Silva Costa and Caverlha, 2013).

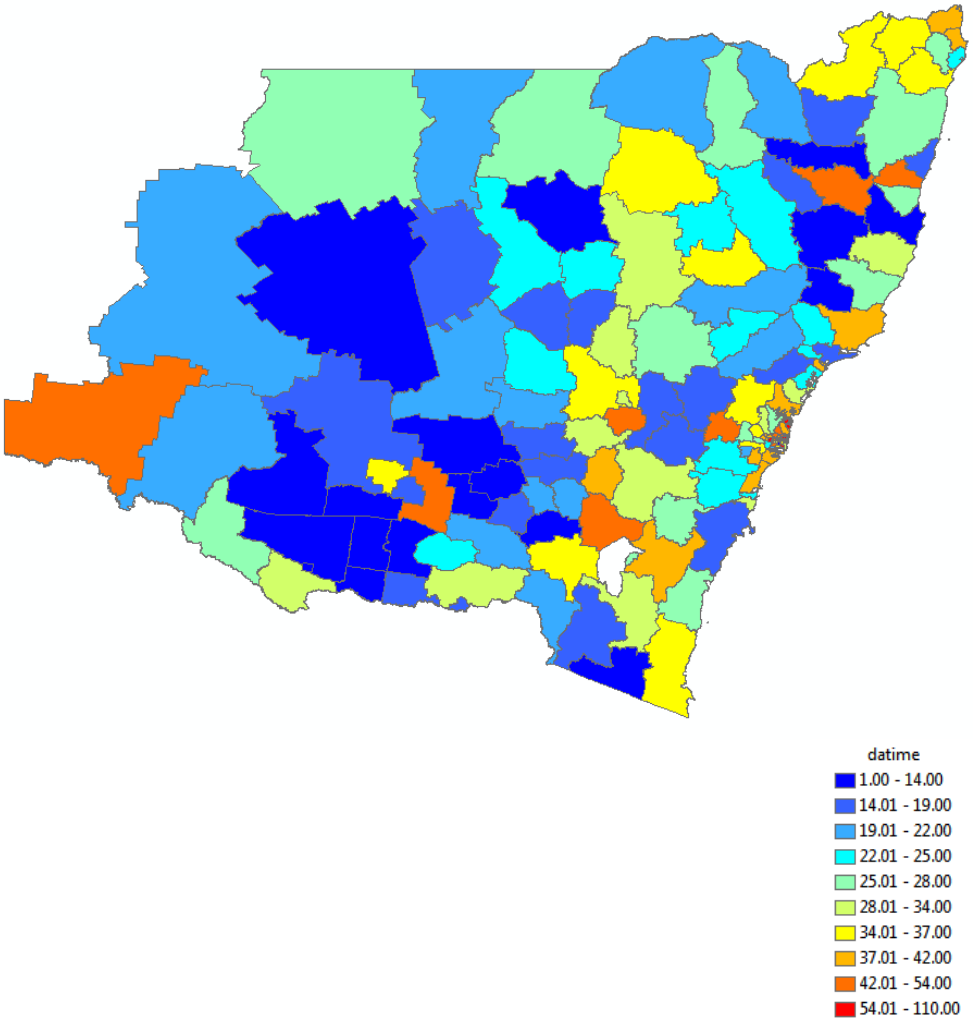
6.2 The following maps report 'datime' for each of the local governments in NSW under review, with Map 1 showing all such local governments across the State while Map 2 shows those in the Sydney Basin.

6.2.1 In broad terms, local government areas colored toward the blue end of the spectrum have lower 'datimes', whilst those at the red end of the spectrum have higher 'datimes'. A detailed color code, measured in number of days, accompanies each of the Maps.

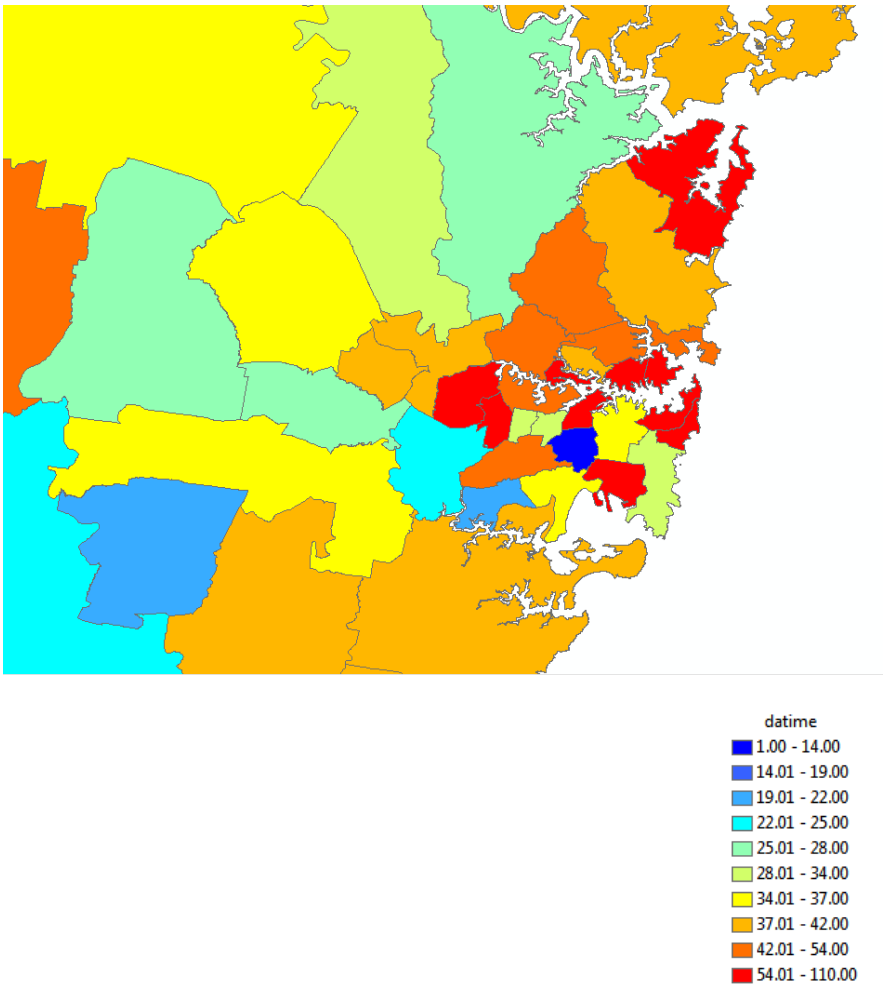
6.2.2 The color bands reflect performance deciles – the dark blue color identifies the 10 per cent of local governments (roughly 15 in number) under review with the lowest datimes,

6.2.2.1 while the red color identifies the 10 per cent of local governments under review (again, around 15 in number) with the highest datimes.

Map 1: DATIME in Local Governments – NSW



Map 2: DATIME in Local Governments – Sydney Basin



6.3 A visual review of Map 1, which reports datime for all of the local governments under review, shows a patchwork of performance results, with not much in the way of any obvious pattern,

6.3.1 with the possible exception of a 'blue band' running in a north-south direction toward the western side of the State.

6.4 By contrast, a visual review of Map 2, which reports datime for the local governments in the Sydney basin, shows a sizeable number of jurisdictions with (poor) performances – that is, in the orange to red range of the color spectrum.

6.4.1 A standout feature from Map 2 is the large number of local governments colored red – that is, being in the worst performing 10 per cent of local governments in terms of their datime performances (ranging from 54 to 110 days).

6.5 Amongst the worst performing local governments (those with the highest datimes) were Botany Bay (110 days), Mosman (92 days), Auburn (76 days), North Sydney (69 days), and Pittwater (67 days).

6.6 An important issue is 'to what extent, if any, are there geographic linkages between the local government areas in NSW in terms of their 'datime' performances?'

6.6.1 In short, does the datime performance of one local government area impact on that of other local governments, particularly those nearby (known as spatial dependence or geographic spillovers);

6.6.2 or are they spatially independent – that is, the datime performance of one local government has no meaningful impact on that of nearby jurisdictions.

6.7 All other things being equal, performance benchmarking and effective yardstick competition, and through them improved operational efficiencies, by local governments are likely to be superior where there is greater spatial dependence (geographic spillovers) between jurisdictions.

6.8 Spatial econometrics offers three useful tools for investigating the presence, and if so the practical and statistical significance, of potential geographic spillovers.

6.8.1 These tools are spatial global correlation, spatial local correlation, and spatial regression modelling.

6.9 Spatial global correlation examines whether there is a correlation between all of the cases under consideration – in this situation, is there an overall geographic correlation in the datime performances of all of the NSW local governments under review?

6.9.1 In short, 'do they all have an impact on each other? The answer is "yes".

6.9.2 The conventional Global Moran's I and Global Geary's C statistics point to a notable practical and statistically significant results (Global Moran's I = 0.241, z = 14.93, p = 0.00; Global Geary's C = 0.914; z = -2.06; p = 0.04).

6.9.3 In plain English, the datime performance of any one local government in NSW is meaningfully correlated with that of any other local government, regardless of how near or far away they are geographically from each other.

6.9.4 In a manner, such a result is not wholly surprising given all of these local government areas are operating under a common State-wide set of land planning laws and policies.

6.9.5 However, the divergence in their individual datime performances, as demonstrated in Maps 1 and 2, suggest diversity in operational outcomes and/or in application of those supposedly common laws and policies.

6.10 The color patchworks seen in Maps 1 and 2 would, however, suggest this global spatial correlation is not uniform across the State, with the clustering in some of the color patterns (especially in the Sydney basin) pointing toward spatial local correlation.

6.10.1 That is, the datime performances of local governments are more highly correlated with those of geographically nearby local governments, and potentially less so with more spatially distant local governments.

6.10.2 The results of the local spatial correlations for datime for local governments with the ten highest spatial correlations (using the Local Moran's I measure) are reported in Table 1 following:

Table 1: Ten Most Highly Locally Correlated Local Governments

LGA	Region	I	z	p	datime
Canada Bay	Sydney	1.51	8.99	**0.00**	54
Strathfield	Sydney	1.56	8.59	**0.00**	64
Waverley	Sydney	1.65	8.63	**0.00**	57
Pittwater	Sydney	1.70	13.73	**0.00**	67
Woollahra	Sydney	1.73	9.75	**0.00**	55
Auburn	Sydney	1.94	13.94	**0.00**	76
Hunters Hill	Sydney	1.99	11.90	**0.00**	64
North Sydney	Sydney	2.69	16.65	**0.00**	69
Botany Bay	Sydney	3.58	24.88	**0.00**	110
Mosman	Sydney	3.83	23.34	**0.00**	92

6.10.3 As can be seen in Table 1, all of the top ten most highly locally-spatially correlated local government areas in NSW, based on datime, are located in the Sydney basin.

6.10.3.1 That is, these local governments are likely to have the greatest spillover effects, in terms of datime, on other nearby local government areas.

6.10.3.2 Most importantly, higher datimes in one local government tend to be strongly associated with higher datimes in other nearby local governments.

6.10.4 The most locally spatially correlated of the local government areas are Mosman (I = 3.83; z = 23.34; p = 0.00), Botany Bay (I = 3.58; z = 24.88; p = 0.00), and North Sydney (I = 2.69; z = 16.65; p = 0.00).

6.10.5 Taken as a whole, Table 1 would suggest poor performance (higher datimes) in local government areas in the Sydney basin tend to spillover to other local government areas in the same broad area.

6.11 However, correlation points only to coincidence, not causality. Regression modelling is the appropriate tool for identifying and measuring causality between variables.

6.11.1 In the current context, this means estimating two models

6.11.1.1 a conventional non-spatial regression model, and then testing that model for omitted spatial effects; and,

6.11.1.2 a spatial regression model which explicitly looks for, and estimates, spatial relationships.

6.11.2 The non-spatial regression model finds substantial omitted spatial effects (Moran's I = 14.72, with p = 0.00; and, LM = 153.90, with p = 0.00), meaning the model is deficient by leaving out spatial effects.

6.11.2.1 That is, the diagnostics show 'spatial effects matter', and leaving them out of the model means it is likely to produce misleading results.

6.11.3 The spatial lag regression design finds substantial practical and statistically significant spatial effects (rho = 0.89; z = 10.91; p = 0.00), pointing to very powerful spatial dependence/ spillovers between local government datime performances.

6.11.4 For example, a reduction of 5 days in the datime of one local government is likely to lead to a 4.5 day reduction in datimes in nearby local government areas, all other things being equal.

6.12 The high spill-over effect (almost 90 per cent), and the strong statistical significance of these results point to a potentially powerful role for effective yardstick competition in bringing down datimes amongst local governments in Australia.

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