

**Review of Fees for
Development Control Services**

**Research Paper:
Review of Local Government Costs for
Development Control Services**

By Pannell Kerr Forster

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

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This report was commissioned by the Independent Pricing and Regulatory Tribunal.

The views expressed here are those of the authors alone and do not reflect the position of the Independent Pricing and Regulatory Tribunal or the New South Wales Government. The authors of this report are Grant Saxon and Peter Simpson from Pannell Kerr Forster.

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The Tribunal has released a consultation paper on its findings, views and proposals on its review of development control fees.

Comments on the consultation paper and the research paper should be provided to the Tribunal no later than 31 August 1998.

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FOREWORD

In December 1997, the Tribunal released an Issues Paper which initiated its review of fees for development control services. In reviewing fees for development control services, there are a number of cost issues including:

- identification of the costs of providing development control services, including an appropriate allocation of council's joint costs and overheads
- disaggregation of costs according to the various assessment and control processes given the diversity of type and range of development services and applications
- extent of cost recovery in providing these services.

The Tribunal's findings, initial views and proposals on its review of development control fees are set out in a Consultation Paper. In the Consultation Paper, the Tribunal has put forward options for a new pricing system.

The Tribunal also commissioned a study by Pannell Kerr Forster to examine the costs of processing development and building applications in a sample of eight councils. The study provides highly averaged estimates of costs and processing time related to major categories of development and building applications for this sample.

This study may provide some guidance on the parameters against which new standard fees could be set. Interested parties are invited to study this report and provide comments on its potential implications for fees.

The Tribunal considers that the limited activity and cost information available from councils restricts its ability to set indicative fees. The data from the current PKF study is extremely useful and the Tribunal is considering commissioning further work to analyse cost variations by type of development in more detail. It is clear, however, that better costing system and information from councils is essential to any final recommendations on fee structures.

Thomas G Parry
Chairman
July 1998

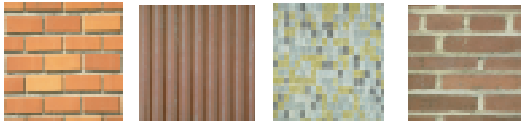
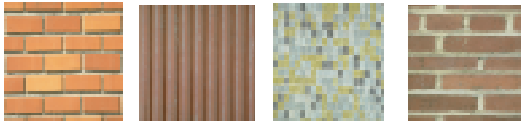


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EXECUTIVE SUMMARY

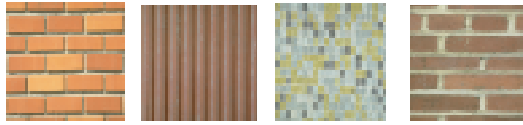
This study has been prepared to assist the Independent Pricing and Regulatory Tribunal of NSW (IPART) assess the efficient costs of local councils providing development control services, particularly the processing of Development Applications (DAs), Building Applications (BAs) and Subdivision Applications (SAs). SAs have been included for the purpose of this study as a category in DAs. The consultant's role in this project was to undertake a case study review of a sample of eight councils nominated by the Local Government and Shires Associations (LGSA), and to provide information regarding these case studies.

Upon visiting the councils, relevant development control staff were questioned in both focus group and interview situations. Their description of the application process was captured in a process flow diagram. These diagrams were standardised for all councils, and turned into spreadsheets containing all relevant steps in the process across all councils in the case study sample. Where a step was not relevant to a council, the time and cost of conducting that step were assessed as zero. The relevant steps were summed and multiplied by the proportion of the staff members salary and on-costs to arrive at a total direct cost for performing the process.

This spreadsheet was circulated to the eight councils, and they were asked to express the frequency at which a certain step would be necessary, by category of application. Thus, the percentage of applications in which a certain step would be necessary for, eg a Residential Single Dwelling Building Application, was recorded. This allowed direct costs to be determined which were weighted by the frequency they were necessary for each category of application. These categories are listed in the 'Background on Councils Included in this Case Study Sample' section.

Overhead was allocated using an activity approach, where all activities of a council were the relevant cost units. Activities were divided into core and support activities. All unallocated overhead costs were re-allocated into the support activities, and the support activities were then allocated into the Development Application process and the Building Application process. The cost allocation methodology is discussed in the "Methodology" section commencing on page 17.

The results of the study are summarised in a table over the page. The eight councils in the case studies are denoted as M1, M2, M3, M4, C1, C2, C3 and C4. Generally the Urban Developed Medium councils (UDM) had the most costly and time consuming application processes, and the three UDM councils were similar in cost structure. Other important trends are summarised on page 3, immediately following the table.

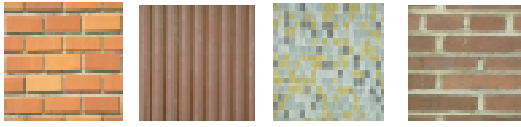


Review of Local Government Costs For Development Control Services

JUNE 1998

THE CASE STUDY COUNCIL SAMPLE – SUMMARY OF RESULTS

COUNCIL	M1	M2	M3	M4	C1	C2	C3	C4
Classification	Urban Developed Medium	Urban Developed Medium	Urban Fringe Very Large	Urban Developed Medium	Urban Regional Medium	Urban Regional Medium	Rural Agricultural Large	Rural Agricultural Very Large
Area km ²	11	12	407	20	4,900	4,000	2,200	6,000
Residential Population	53,000	51,000	170,000	48,000	60,000	58,000	9,000	15,000
Employee Numbers	258	361	850	200	484	399	70	131
Operating expenses \$m 1996/1997	31	32	67	19	46	32	8	13
Organisational Structure	Core business units & support units	Core business units & support unites	Core business & support units	Core business & support units	Integrated core & dedicated support units + admin support	Business units & support units	Small admin support + core functions	Small admin support + core functions
Number of DAs processed	765	1,204	701	221	304	368	88	94
Number of BAs processed	1,040	1,267	3,171	564	1,058	1,506	203	326
Average processing time (including post approval inspections)								
DA minutes	991	1470	584	802	868	841	471	953
BA minutes	1110	1429	475	822	412	525	542	642
DA - Average weighted costs (including post approval inspections)								
Direct	\$652	\$619	\$226	\$414	\$355	\$364	\$189	\$366
Indirect	\$428	\$525	\$333	\$290	\$290	\$468	\$272	\$312
Legal	\$554	\$243	\$142	\$183	\$17	\$75	\$5	\$2
Total excl legal costs	\$1,080	\$1,144	\$559	\$704	\$645	\$832	\$461	\$678
Total Incl legal costs	\$1,634	\$1,387	\$701	\$887	\$662	\$907	\$466	\$680
BA - Average weighted costs (including post approval inspections)								
Direct	\$580	\$594	\$195	\$399	\$234	\$194	\$191	\$260
Indirect	\$468	\$458	\$298	\$346	\$294	\$156	\$70	\$67
Legal	\$554	\$243	\$142	\$183	\$17	\$75	\$5	\$2
Total excl legal costs	\$1,048	\$1,052	\$493	\$745	\$528	\$350	\$261	\$327
Total excl legal costs	\$1,602	\$1,295	\$635	\$928	\$545	\$425	\$266	\$329
Cost Recovery (incl legal)	44%	67%	82%	46%	47%	41%	41%	38%
Relevant Cost Drivers								
Relative density of shire	Heavy	Heavy	Sparse	Medium	Low-medium	Low-medium	Sparse	Sparse
Topography	Diverse	Diverse	Not as relevant	Diverse	Not as relevant	Diverse	Not as relevant	Not as relevant
Objections	80-90%	85-95%	<40%	30%	10%	<20%	0-5%	5-10%
Notification/ advertising	95-100%	100%	5-10%	100%	35-40%	35- 40%	0-5%	60-70%
Use of dedicated committees	Yes	Yes	Seldom	Seldom	Yes	No	No	No
Development stance of residents	Anti development	Anti development	Pro development	Reasonably neutral	Pro development	Anti development	Predominantly neutral	Predominantly neutral
Ability to attribute costs	Reasonable	Average	Average	Advanced	Advanced	Reasonable	Average	Average
Allocation method	To support	To support	To support	To cost centre	To activity	To cost centre	To admin	To admin
Direct overhead allocation	Partial	Some	Little	Some	Most	Some	Little	Little
Size/Sophistication of support functions	Substantial	Moderate	Substantial	Moderate	Substantial	Moderate	Simple	Simple
Additional fee policy	Inspections & advertising	Advertising	Inspections & advertising	Inspections & notifications	None	None	Advertising	None
Inspection travel time	Low	Low	Moderate	Low	Moderate	Moderate	High	High

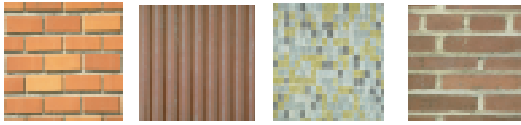


Some relevant trends were noted in comparing the case study council results. However it should be noted that these are trends observed on the average weighted costs. Some further trends can be observed between BA and DA categories that are included in the commentary on page 37.

Some general trends were as follows:

- UDM councils' processes are longer and more costly than country and Urban Fringe Very Large (UFV) councils in the study.
- Costs and time of processes between UDM councils were similar. M1 and M2 were very close in cost, but M1 had the longest and the most costly process.
- The cost and time of the BA, on average, for the metropolitan councils (UDM and UFV) is not markedly different from the cost of processing a DA. This result is due to the inclusion of post approval inspections and monitoring. If post approval inspections are excluded, a DA would take longer and cost more than a BA.
- The UFV council in the study displayed both lower costs and less time required for both BA and DA when compared to other metropolitan councils.
- The UFV had the highest number of BAs processed in the 1996/1997 financial year, and its BAs processed outnumbered DAs by 4.5.
- Country councils display a more noticeable difference in cost and time between the DA and BA process. However C1 has a similar structure to the metropolitan councils, in that the difference between DA and BA cost is not as large as the other country councils. This is possibly due to the ability of C1 to accurately attribute its overhead costs, and to its activity based organisational structure.
- Those councils with the highest costs and longest process time typically shared the same cost drivers. The diversity of the topography, density of population, organisational structure and development stance of residents all tended to drive up the average processing time.
- Residents of these councils tended to exhibit explicit behaviour, and councils typically respond to such behaviour. The explicit behaviour is displayed in increased objections, increased legal costs, increased mediation and dispute resolution costs. As a result, councils would increase the steps in the process by increasing neighbour notification, increasing advertising, site inspections, the involvement of council and the number of internal and external referrals to specialists. All of these steps directly drive up the application process in both time and cost.

Other relevant findings included the partial results gained from individual application reviews. Not all categories of application were available at the time of the council visit, and unfortunately the results are inconclusive. However the partial results gained do not directly support the IPART survey results on cost recovery rates.



The cost recovery rate including legal costs has been obtained from the IPART survey and is an average recovery rate for DA, BA and SA costs. They exhibit a similar trend in recovery rates between council categories, but it appears that typically, cross-subsidisation occurs between application categories. DAs for the metropolitan councils examined displayed better recovery rates than BAs.

BAs for two of the UDM councils M1 and M2 displayed marked cross-subsidisation between Residential Single Dwellings (RSD) and Medium / High Density Dwellings (RMHD). M4 appears to cross-subsidise commercial with the recovery in RSD. The UFV council M3 appears to recover well in all categories in both BAs and DAs. It should be noted that M1, M3 and M4 charge a fee for each building inspection.

Initially councils were requested to provide details of revenue and costs of processing applications by category of application, but were unable to furnish this information. This would have shed more light on the interpretation of the case study results.

The effect of organisational structure and the level of sophistication of the costing system were also found to have an effect on the cost. A scattered organisational structure, based on departments and a separate general administration department, made costing less reliable for the purposes of this report. More anomalies tended to appear, which may be due to incorrect estimations of the relationship between certain overheads and their apportionment.

The methodology used to capture, estimate and assess costs was the best one available for the consultancy, given the vast differences in the information available from the case study councils. Difficulties were experienced in obtaining information, due in some circumstances to slow council response, and the level of information available.

It is recognised that the methodology is vulnerable to the quality of subjective information, namely the time and frequency estimates of the council assessment staff. The cost information has been drawn from 1997-1998 Management Plan estimates, and in many circumstances required substantial manipulation to allow meaningful allocation across the development control activity.

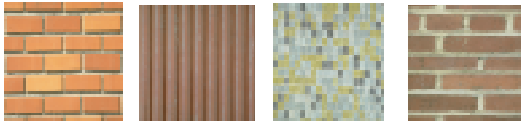
Recommendations resulting from this report can be summarised as follows:

1. Implementation of activity based costing

Costs should be assigned to the activities of the council rather than departments. This will allow better understanding of process costs and opportunities to recognise potential efficiency improvement.

2. Establish appropriate cost drivers to allocate indirect costs to activities

Councils need to examine the cost drivers both in their support activities and in the assessment process itself. The cost drivers currently in place may not reflect the true relationship between cost and usage at all.



3. Improve the accuracy of direct activity cost determination

The use of cost capturing systems such as charge codes, time sheet systems, extended general ledger codes, and systems that allow flexible data interrogation will improve the allocation of direct costs to an activity.

4. Process improvement and re-engineering

Many areas where processes can be improved were identified. The major scope for improvement is to convince councils to undertake an internal study similar to this one, employing process mapping and attempting to capture cost information. Through this, process bottlenecks can be identified and removed.

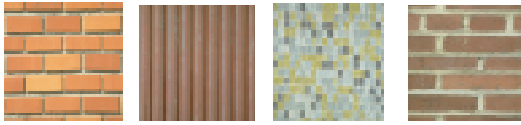
5. Implementation of an application tracking system

An electronic application system or workflow application on an Access or Lotus Notes platform can improve the flow of a process through an organisation, removing unnecessary steps and speeding up the processing time. It also performs a customer service role by allowing all assessment staff to answer application status enquiries at any time.

6. Tracking of DA and BA revenue by category

The tracking of revenue by application category allows better information and analysis on where the application process is stalling. This consultancy was unable to question whether the time taken in a step was appropriate. The only comparison possible was the benchmarking of the step time to 'best practice' across the sample of 8 councils. The revenue tracking would allow the council to determine where cross subsidisation occurs, and move resources appropriately.

Several pricing methods are possible based on the information contained in the result tables of this report. These are included in the "Conclusions" section. The most appropriate one will depend on the reader's objectives, but the results suggest it is reasonable to use a standard fee encompassing a standard cost and time, with the option of allowing variations to reflect council's own circumstances. A separate fee for each major category of DA should also be considered.



1. INTRODUCTION

Pannell Kerr Forster (PKF) has been engaged by the Independent Pricing and Regulatory Tribunal (IPART) to carry out this consultancy. The overall objective of the consultancy is to assist IPART in making recommendations on pricing principles and indicative fees for the development assessment system (excluding complying and exempt development), and in determining guidelines for the setting of fees for complying development and post approval processes.

The need for this consultancy has arisen from the introduction from 1 July, 1998 of The Environmental Planning and Assessment Amendment Act 1997. This legislation is intended to streamline the overall development control system, specifically in relation to applications currently categorised as Building Applications (BAs), Development Applications (DAs) and subdivisions.

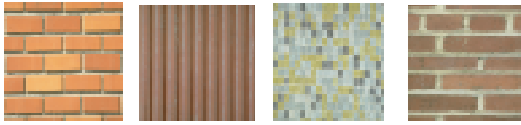
Until the introduction of the new legislation, the Environmental Planning and Assessment Act 1979 and the Local Government Act 1993 govern the processes of development and building approval. Issues relating to subdivision are governed by the Local Government Act 1919.

Under this current legislation, applications are made to local councils for a variety of development types. Councils differ in the actual processes undertaken in assessing these applications, depending upon a number of factors. Key differences in the approval process stem from factors such as the demographic composition of constituents, the willingness of Councillors to become involved in the approval process, political factors and location amongst others.

We understand, that an intention of the new legislation is to simplify these processes so as to introduce a single integrated system of development consent assessment. This will also enable the assessment process to be primarily influenced by the complexity and significance of the individual development being assessed. Furthermore, the new legislation will allow the private sector to become involved in the assessment process, in particular for what will become known as complying developments and in the post-approval inspection and certification process.

A key facet of the new legislation is that there will be 4 main categories of development permitted.

- *State Significant Development* – Requires consent by the Minister.
- *Local Development requiring consent* – Consent to be obtained from local councils.
- *Complying Development* – Applications that comply with guidelines and can be assessed by Councils or accredited certifiers.
- *Exempt Development* – Applications not requiring consent.



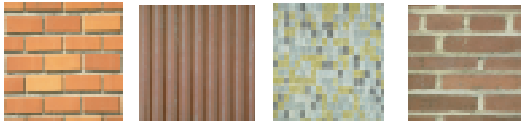
IPART have been engaged under section 12A of the Independent Pricing and Regulatory Tribunal Act 1992 to:

- develop principles and indicative fees for the development assessment system (excluding complying development); and
- provide guidelines to assist in the setting of fees for complying development and post-approval processes, which are to be opened up to competition.

2. OBJECTIVES AND SCOPE OF CONSULTANCY

We have been engaged by IPART to assist them in assessing the efficient costs of local councils providing development control services. This has been done by visiting a sample of eight local councils and undertaking a case study on the development control activities of each. In carrying out these case studies, we identified the major cost drivers affecting the development control activities and considered the allocation of council overheads. Many of these overheads can be allocated to the development control function of the council, whereas some contentious costs may not be able to be allocated, such as costs of governance.

We also provide benchmarking information regarding the development control processes of each council in the sample. The benchmarking analysis helped identify factors that influence the process and cost of providing development consent in the various councils studied. We also attempted to identify other factors that influence the cost of applications, including size and type of development, as well as the nature of the area.



3. BACKGROUND ON COUNCILS INCLUDED IN THIS STUDY

The sample of councils in this consultancy was selected in consultation with the Local Government and Shires Associations (LGSA). The sample was chosen by the LGSA on the basis of geographical locations which represent different operating environments. In terms of the Australian Classification of Local Governments criteria, the sample of councils is classified as follows:

Council	Australian Local Government Classification
M1	Urban Developed Medium
M2	Urban Developed Medium
M3	Urban Fringe Very large
M4	Urban Developed Medium
C1	Urban Regional Medium
C2	Urban Regional Medium
C3	Rural Agricultural Large
C4	Rural Agricultural Very Large

Therefore, in reviewing the results of this study, consideration should be given to the different situations of each council in the sample and the resultant differences in strategies.

Following is a general commentary of the councils included in the case study sample. Specific characteristics believed to affect their cost structure are summarised in the table "Case Study Sample – Summary of Results".

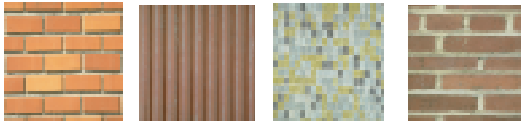
COUNCIL M1

M1 is a medium metropolitan council, but covers a relatively small geographical area. The council includes a wide range of zoning including substantial high rise residential and office developments, as well as established residential heritage conservation areas.

The council experienced significant development during the 1980's and early 1990's, especially in its Central Business District (CBD).

Council staff informed us that there were relatively few objections by residents to the large commercial developments in the CBD, however generally there are significant objections by residents to all types of residential BAs and DAs in the residential zoning. This, coupled with the demographic profile of residents and the topography and views of some areas within the region, has resulted in this council experiencing regular legal disputes and as a result, the council's legal costs are high.

The assessment core activity is within the Planning and Environmental Services Department, and a large number of staff spend all of their available time assessing DAs and BAs.



Notification of neighbours occurs in 100 percent of DAs and BAs, and residents tend to be anti-development. This, combined with the fact that the region is densely populated, makes the notification process protracted, with some cases of up to 2,500 notifications made. If there are significant changes recommended to a DA as a result of the assessment process, all neighbours previously notified are notified again of the changes.

Due to the relatively small geographical area, travel costs for each site inspection are smaller than in some other councils, with the majority of sites for inspection reached in less than 10 minutes of travelling.

Internal referrals are common in the DA and BA process, with a large number of specialists on the assessments team, and in related technical support activities.

M1 is organised into core business units and corporate services. Corporate services are further sub-categorised into various support units, many of which corresponded to the activities used in this consultancy. Others were re-allocated across the chosen support activities. For management plan purposes, M1 allocates all identifiable costs to the appropriate sub programs in both support activities and core activities. Partial re-allocation of costs has occurred between support services, and from corporate services to core activity units.

All administration costs have been allocated to a support activity, or to a core activity. However cost drivers are based on information currently available and may not be directly attributable to a support activity or a core activity.

In summary, in terms of developing a more appropriate cost allocation model, M1 has reached the first stage of the cost allocation process, by managing to break most administration costs into support activity centres.

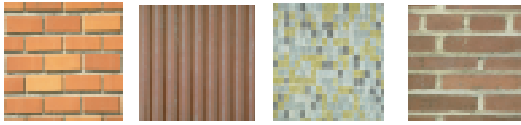
COUNCIL M2

M2 is an established metropolitan council where residents are in general, strongly opposed to development. The region is densely populated, but includes a mix of large free-standing houses, medium density and high density residences. The council does not seek development in many areas, confining large developments to select areas.

Most of the region is residential medium density, with a few areas containing a concentration of high-density residential and commercial development. Much of the region contains heritage conservation zones.

In general, neighbour notification is required in most applications, and to more than the adjacent neighbours. The council advertises all DAs and BAs in the local newspaper and receives objections to most developments. In some cases, the objections received may be in the hundreds.

Like M1, the demographic profile of residents of M2 makes them highly litigious and as a result, legal costs for the council are extremely high.



A large proportion of BAs and DAs for M2 involve minor and major additions to existing residential dwellings. However, due to factors such as the topography and views of the region, population density, heritage sensitivities and the litigious nature of residents, BAs that would involve simple assessment in other councils may attract objections and require mediation, and possibly be referred to council. In some cases, applications that would require only a BA in many councils, tend to require a DA as well. Approximately 80% of applications are combined DA/BAs, but there does not appear to be a great saving in time or cost as a result, as the DA is still processed prior to the BA.

Both internal and external referrals are common in the assessment process, and reflect the cautious nature of the Council's development policies given the environment mentioned above.

Travel costs for site inspections are low, due to the relatively small size of the region.

The organisational structure for assessments in M2 is centred around teams, with a separate compliance team responsible for building inspections in the post approval process.

M2 allocates costs for management plan purposes that are attributable and identifiable to its support units. The council is organised into core business units and support units, with an unallocated general operational expenditure cost pool. M2 is not advanced in its overhead allocation.

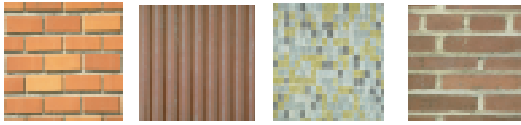
COUNCIL M3

M3 covers a large geographical area which is experiencing substantial growth in commercial, industrial and residential categories. Part of the region is rural, and is subject to conservation considerations. Council has developed a strategy to preserve the metropolitan / rural mix. The current development strategy of M3 reflects the transformation of the area from a rural area to a metropolitan one. The area is categorised by a large low density residential population and large commercial developments including industry, offices, recreation and shopping complexes.

The council processes a large number of BAs and DAs. Over 3,000 BAs are processed, along with 700 DAs.

The council and residents of M3 tend to look more favourably on development, and as a result, less neighbour notification is necessary and there is a lower level of objections.

The council employs a "fast-track" assessment process with a guaranteed turn around time of any application satisfying the fast track criteria. Any of the simple BAs on the fast track application require only minimum steps and as a result, the cost of such applications has been found to be less than similar applications in other councils.



The largest development category in the area is for low density, single story free standing residential dwellings. These attract minimal neighbour notifications, referrals or objections. The council did however, provide us with examples of developments that do not escape the maximum steps in the process, and may require protracted referrals and mediation.

Due to the relatively large geographical area, travelling costs for inspections may be higher than other metropolitan councils in the case study sample.

The council has stated that they consider DA and BA assessment to be one of their primary core businesses, accounting for up to 70% of council activity.

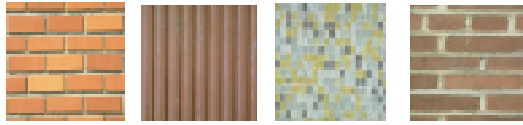
M3 is organised into core business units and support units, which for management plan purposes, are allocated across broad programs. Cost information in the plan is high level, and activities have been split according to the proportion of time staff spend in addressing objectives of these broad programs. Due to the aggregated nature of the financial information, and the fact that M3 had recently undergone an organisational restructure, the allocation process necessary for this consultancy was more subjective than with other councils.

M3's supporting general ledger system was organised around Australian Bureau of Statistics classifications, and bore little resemblance to the broad program layout in the management plan. It was difficult to ascertain specific costs within this framework. For example, we excluded legal costs from allocatable costs in all councils and it was not possible to identify all legal costs from the information at M3. However, we were able to identify a support activity classified as legal, and that was removed, to maintain some consistency with treatment of other councils' legal expenses. Legal costs have been included as a separate item, and have been estimated from another information source.

For management plan purposes, a proportion of support activity overhead had been allocated to core business units, and to other support units. Depending on the nature of the cost, allocation cost drivers included floor space, number of personal computers and head counts. However, a substantial proportion of overhead remained in two administration cost pools, and had to be re-allocated to support activities for the purposes of this consultancy.

It should also be noted that M3 had very high depreciation expenses, possibly due to their relatively high level of recent capital expenditure which included fit-out of a new administration building and high Information Technology (IT) costs.

M3's analysis was further hindered by the difficulty in defining many support activities, as they were split and allocated across the broad programs in the management plan. Attempting to identify the expenditure base for engineering services was difficult, due to the layout of information in the management plan. While such problems will not affect the direct costs displayed in the results, they may affect the overhead allocation.



COUNCIL M4

M4 is a metropolitan council covering a medium sized diverse geographical area, including some commercial development (mainly in the form of offices and shopping centres), but is mainly low to medium density residential. Parts of the council area have waterfrontage, which tends to make residents sensitive to factors such as waterfront access and view restriction.

M4 is an established region, with a rich multicultural background. Objections in most areas are minimal, and residents seem relatively indifferent to residential developments, with the exception of waterfront properties, properties with water views and those that have a significant heritage background.

The council has an advanced financial system, which allows flexible data extraction from its database. M4 is organised into core business activities and support activities, with both core activities and support activities having sub-activities. Unlike some other councils in the case study sample, financial information of sufficient detail and in the correct activity format could be extracted from the general ledger system. However to retain consistency across the sample, only the management plan estimated data was used as an input for the cost allocation model.

M4 has recognised the need for an activity based costing model in which every cost is allocated to the appropriate activity. All costs identifiable and attributable to activities have been coded to the activity directly in the general ledger. Management plan information and actual financial information can be compared in the same report format.

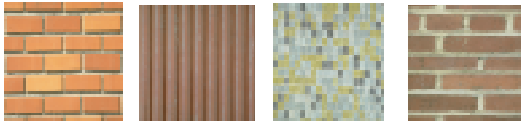
Support activity overhead has been allocated where possible to other support activities and to core activities. Financial staff at M4 have established all activity centres necessary to allow full overhead allocation in the future, and have identified many of the cost drivers necessary to allocate it (although in many cases, these drivers are not yet being measured). However, M4 still has a general administration overhead pool that has not yet been allocated to support and core activities. For the purposes of this consultancy, this overhead pool was reallocated to support activities in line with treatment in other councils.

It should be noted that staff of M4 strongly objected to this consultancy's approach in excluding both legal costs and the costs of policy and governance from overhead applied to the DA and BA assessment core activity.

COUNCIL C1

C1 is a rural council encompassing both the town and the surrounding rural districts. In total, the population serviced by the council numbers approximately 60,000. One of the council's objectives is to actively encourage growth, both in industry and residential development.

C1 refers all DAs to a Development Control Committee, even if just in noting the determination of the DA. BAs are also referred to members of the committee in many instances, even if the application is referred merely for comment.



The region contains industrial, commercial and residential zones, with views becoming an issue when building close to ridge lines in certain residential areas. Objections are more common in residential category DAs, with fewer objections to commercial or industrial developments. The council notifies neighbours and advertises for 100% of DAs in the residential single dwelling and medium/high density categories.

Due to the size of the region, travel time can be high for site inspections, and the council often has to conduct more than the average number of site inspections for a particular application.

C1's cost allocation system was the most advanced of the case study sample. The council's system of identifying costs directly attributable to business units was considered highly effective by the consultants. As a result, a much larger portion of costs could be directly allocated to the core business activities. C1 has a system in place to capture costs and allocate them upon payment.

Secondly, C1 has an organisational structure designed for management plan purposes around support units and core business activities, similar to the model used in this consultancy. Support units predominantly responsible for supporting individual core business units have been attached to those units. As a result, the core business unit bears a much larger share of the support unit costs than the consultancy model would have allocated to it.

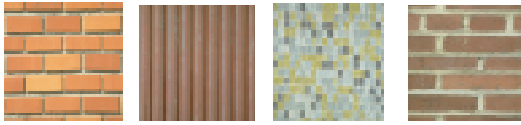
Thirdly, a job coding system is in place in the council, using timesheets for the engineers, and estimate numbers (job codes) for other support units. As part of a change in culture, most support staff are experienced in recording their time and allocating it to an estimate number. The estimate number is the equivalent of a general ledger code which reflects individual cost centres and sub centres.

C1 has already identified a series of cost drivers, and devised systems enabling them to record the information by cost driver. The cost drivers identified allow the council to more accurately reflect the relationship between support costs and the core business units which are their heaviest customers. Some of the cost drivers currently used are as follows:

Cost Category

Cost Driver

Building maintenance and utilities overheads	Floor Space
Finance Department Overheads	Number and size of transactions
IT / IT Support General Costs	Number of PCs
Human Resources	Head Count
Engineering Services	Estimate Number (job code)
Records Management	Number of file movements



Most resources that can be attributed to individual core business units, such as specialist IT software, equipment and office supplies are identified through the coding process, removed from support activity overheads and allocated directly to the core business unit. Examples of this include the Geographical Information System (GIS) software, which has been attached to the Development Control Services core business unit as a direct support unit.

The council is experimenting with even more accurate cost drivers for the 1998-1999 Management Plan, and is also experimenting with a software program which will track the application process from beginning to end, giving the status of the application at any stage.

The application assessment software will interface with the council's geographical information system (GIS) system, and will eventually automate the assessment stage of the application process.

COUNCIL C2

C2 is a rural council encompassing both the town and the surrounding rural districts. In total, the population serviced by the council numbers approximately 58,000. One of the council's objectives is to actively encourage growth, predominantly in the tourist industry.

The region serviced by C2 is large, covering approximately 4,000 square kilometres. As a result, travel costs for site inspections can be large, but the majority of BAs are confined to the town area of C2 and hence the average travel time is only 15 minutes.

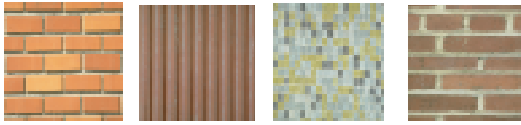
Due to the tourist orientation of this region, the majority of DAs involve residential and commercial developments. C2 processed 368 DAs in the year ended 30 June 1997, and 1,506 BAs in the same period.

The council notifies neighbours approximately 50 percent of the time for DAs, compared to approximately 20 percent for BAs. Residents tend to be anti-development, and as a result, a high proportion of Development Applications are subject to objections.

Building Applications which are for residential development attract far less objections with the exception of Residential Medium / High Density applications.

C2 allocates costs to core business activities and support activities. The council has the ability to identify a large proportion of costs that are directly attributable to core business activities, and as a result, direct costs allocated to the BA and DA processes are higher than in councils which did not have the ability to identify such costs.

The council allocates support activity costs where possible to core business activities, but does not allocate its entire overhead. C2 has a general administration overhead pool that is not allocated.



While in size and structure, C2 should be similar in overhead allocation to C1, the ability of C1 to more accurately identify attributable costs may result in a higher overhead allocated to the process. The lack of cost driver information in C2 has led to the arbitrary allocation of overheads, which in turn led to a lower allocation rate for support activity overheads.

COUNCIL C3

C3 is a small council with a resident population of around 9,000. The region experienced large growth during the 1970's, 1980's and early 1990's, but has now stabilised with little growth. The region is predominantly rural, with a small concentration of large industry, most of which is related to rural activity.

The council assessed 88 DAs and 203 BAs in the year ended 30 June 1997. Most BAs involved residential single dwellings, which rarely attract objections and do not require neighbour notification.

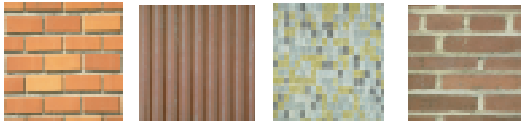
Land zoned rural requires a DA for all planned building, and the council has a strategy aimed at development that preserves the rural landscape. The region also contains a tourist area that is adjacent to a natural conservation area. As a result, development involving multi-story medium-density housing tends to be concentrated around the tourist area, and there have been DAs adjacent to the conservation area. Such developments raise issues of encroaching on water views, as well as Environmental Impact Study considerations and access to the foreshore. Such DAs tend to require a more lengthy referral process, and may attract more objections.

C3 rarely needs to refer applications to Council for determination, and does not typically receive objections to Development. Several recent cases were cited, however, where advertising, extensive notification and resolution of objections were necessary in assessing DAs.

C3's assessment core business activity is small, with one staff member handling all assessments. The council allocates all costs that are identifiable as directly attributable to the business unit directly, for management plan purposes. BAs and DAs are assessed as part of the functions of the Environmental Services Unit, which comprises only a handful of staff. As a result, it would be expected that the overhead allocation rate would be relatively low, when compared to C1 and C2.

Property and salary costs are generally lower in the region, leading to lower per hour costs. The council allocates some overhead to its support functions, and core business activities, but a large proportion of overhead remains unallocated in a general administration cost pool.

Of the overhead allocated, most is allocated to the water and sewerage core business units, and to other core business activities.



Due to the nature of rural councils, a large amount of travel time may be required to perform site inspections. C3 contained a development area that was approximately 45 minutes drive from the office. As a result, travel costs are a large proportion of assessment cost. C3 attempted to minimise the cost by booking inspections, and travelling to the development region only two days a week to conduct them.

COUNCIL C4

C4 is a rural council comprising the town and surrounding districts, servicing approximately 15,000 residents. The geographic area of the region is large, covering approximately 6,000 square kilometres.

C4 is similar in size and composition to C3, but has experienced significant development in the 1990's due to new industries.

C4 processed 94 DAs and 326 BAs in the year ended 30 June 1997. The majority of DAs involved Residential Single Dwellings and subdivisions. Most BAs related to residential single dwellings.

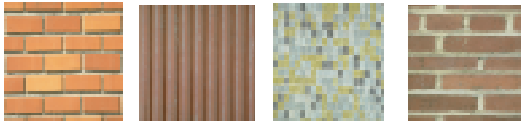
Neighbour notification is a relatively simple process, occurring in about 25 percent of DAs and 60 percent of BAs. The majority of applications do not attract objections, however as with C3, DAs attract a higher objection rate than BAs.

The referral process is limited in C4, as there is a small number of staff in the assessments core business activity, and they have a broad job responsibility. Only the larger DAs will require specialist referrals, and these are typically external ones.

As with C3, a large proportion of assessment costs are for travelling time for site inspections. It is not uncommon for one site inspection to involve 3 hours of travelling time.

C4 has a simple cost allocation system which is similar to C3. Most overheads are collected in a general administration cost pool. Those which are identifiable as directly attributable to a support unit or business unit are allocated. The cost of support activities is not allocated to core business units, and units may contain more than one business activity.

Most information for C4 was obtained from their management plan, and arbitrary allocation of general administration and support overheads was necessary. C4 has a lower salary cost and property costs, and would have a similar overhead allocation rate to C3.

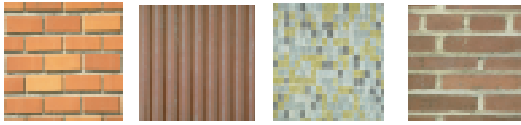


4. METHODOLOGY

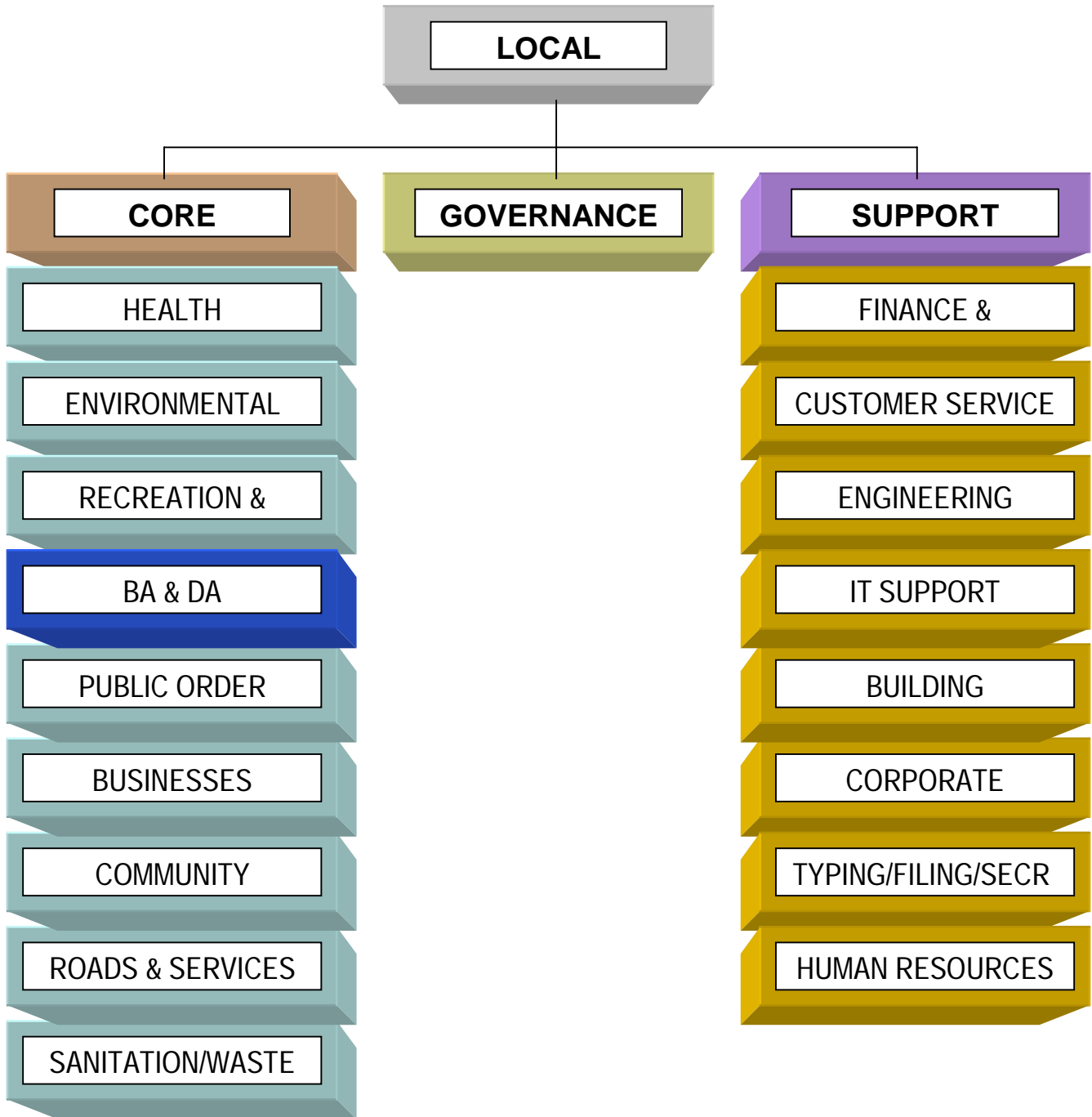
OVERALL METHODOLOGY

It should be appreciated that each council included in our sample had varying degrees of cost information available and employed different processes in respect of the DA and BA assessment process. Therefore in undertaking this consultancy, we found it necessary to develop a standardised model of local council activities and assigned costs to the activity being analysed. It should be stated that the quality of financial systems and measurements varied across the sample of councils and therefore our model had to allow for comparison of costs on a like basis between councils. Where adequate cost allocation information does exist, our approach does not result in the most accurate cost allocation possible. However if we used different cost allocation bases for each council, meaningful comparisons across the sample would not be possible.

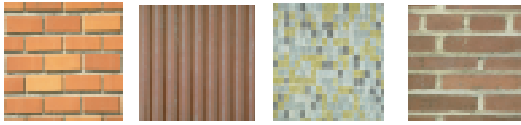
The cost model developed for this consultancy was based on the identification of the various activities undertaken by councils and the determination of direct and indirect costs for each.



The following diagram represents the generic activities of councils:



If the scope of this consultancy permitted, council costs would be allocated to all of these activities. However, we have restricted our analysis to the assignment of direct costs to the BA and DA Assessment process and the allocation of costs of support activities to the extent they relate to the BA and DA Assessment process.



Through our interviews conducted during council visits, we identified the time taken for each stage within the BA and DA assessment process. This enabled us to assign direct costs, consisting mainly of salaries and on-costs to this particular core activity. Similarly, there were other direct costs that could be directly assigned to the various support activities.

However, we found that in many cases, it was not possible to directly assign certain costs to either support activities, governance or core activities. These generally consisted of administration costs. This was due to the variations in quality of reporting systems between the sample councils.

Administration costs were therefore pooled and allocated across support activities based on proportionate head-count borne by the particular support activity.

Once we were satisfied that direct costs for BA and DA assessments had been determined and costs of support activities ascertained, support activity costs were allocated to the core BA / DA assessment activity as indirect costs.

Each stage of the consultancy methodology is now addressed in detail.

CONSULTANCY STAGE 1

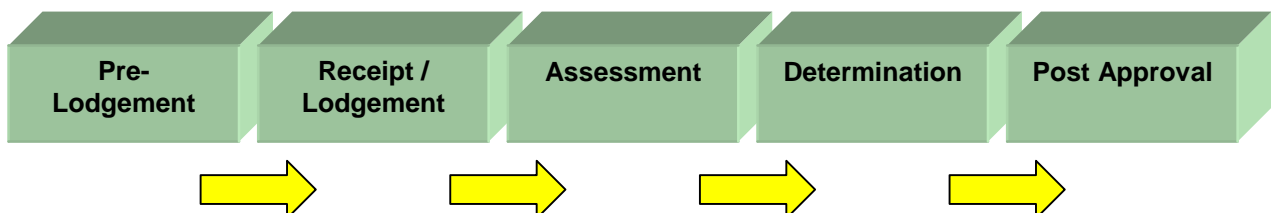
Understanding and documenting steps in the BA and DA process

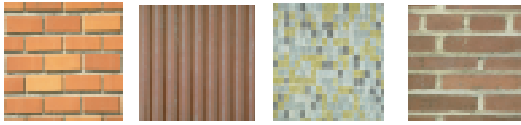
The first stage of the consultancy involved mapping the processes involved in the assessment of Development Applications (DAs) and Building Applications (BAs) from the first point of Council contact to the final point of contact.

Our approach to process mapping in each council involved undertaking an initial focus group meeting with participants consisting of the chief personnel of each council's assessment teams. The focus group was directed through a typical application with the intent of recording each possible step in the process, regardless of whether this step was the norm.

The process was divided into 5 standard stages across the case study councils, and all analysis has been performed using these common stages.

The stages used for the council case studies are as follows:





During the initial focus group meeting, each step was recorded in a flow chart diagram, which was used to make further enquiries into the process. This approach was effective in ensuring the participants contributed to recording and understanding the process. In some cases, where possible, we also utilised existing systems documentation to assist with the process mapping.

CONSULTANCY STAGE 2

Flowcharting the BA and DA process, and identifying the participants in the process

The focus group members identified each step, the business unit or staff responsible for performing the step, the name and title of the person(s) and where possible, the average time to complete the step.

Following this initial focus group and process documentation, detailed interviews were undertaken with the key person(s) identified for each step in the process. These interviews were undertaken to further improve the accuracy of the flow charts and to refine the average time estimates established in the earlier session.

Appendix 1 shows a standardised flow chart of the BA and DA assessment process across all councils in the sample. Specific flow charts for each council are available upon request.

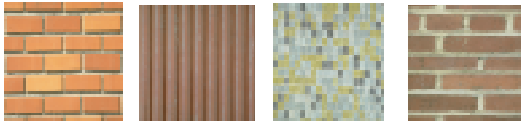
CONSULTANCY STAGE 3

Designing a direct cost allocation model for all steps in the process

Once the flow charts for the DA and BA processes had been established and the interviews completed, the steps in each process were recorded on an Excel model. The estimated average time to complete the steps, the department, name(s) and title(s) of the person performing the step were then applied against the steps in the model.

The average annual salary (including on-costs) for each person in a department performing a given task was established from council financial records. This was then added to the spreadsheet, resulting in a direct cost in dollars, for each step in the BA and DA process.

The sum of these individual step costs will approximate the total direct cost of performing *each* possible step in the process. This information has been used to establish the cost of each possible step in the BA and DA process. For illustration purposes, we have summarised these costs in a series of process decision trees in section 6. Overhead allocation is discussed at Consultancy Stage 5.



While it is recognised that salaries and on-costs represent only one part of the total direct variable costs in the BA and DA process, it is the only direct variable cost that can be readily identified within the scope of this consultancy. Other direct variable costs, such as motor vehicles, some stationery and mobile telephone expenses have been included in the overhead allocation, as cost information was not available across all councils in the case study sample.

CONSULTANCY STAGE 4

Designing a direct cost allocation model for expected cost of the process

The model described in Consultancy Stage 3 depicts the direct cost of each process step, however, not all process steps are performed for every BA and DA. Some steps, such as neighbour notification, internal and external referrals and committee reviews may only be performed for certain types of BA and DA. Other steps, such as referrals to council, assessment of objection letters and mediation may occur with any type of BA and DA, but may only be performed in rare circumstances.

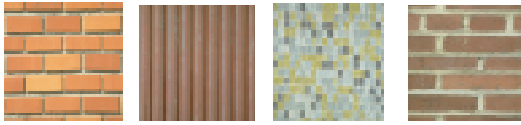
To address this, the direct cost allocation model was split into 6 categories of DA and BA. Those categories are as follows:

1. Residential Single Dwellings
2. Residential Medium / High Density
3. Commercial
4. Designated Development
5. Subdivisions
6. Other (eg. pools, fences etc.)

It should be noted that councils had previously categorised applications into a series of categories identified by IPART in an earlier survey. Some of these earlier categories were consolidated for this consultancy to allow simpler analysis of our sample. These categories are considered sufficient to reflect differences in the total time taken to complete the DA and BA process for both types of applications and different circumstances surrounding them.

In order to calculate the expected cost of a typical BA or DA we used the model generated in Consultancy Stage 3 above and attempted to ascertain the likelihood that the various steps possible would occur.

In the absence of statistically accurate revenue and cost break-ups, a copy of the model, containing each step, person and department responsible and average time to complete the step was forwarded to each of the case study councils. Councils were asked to determine with what frequency a step would be applicable within the process for a particular application category.



This frequency percentage represented the applicability of each possible step in the process to each category type. For example, an assessor of a DA at Council M3 may make an internal referral to a Traffic Engineer in another department of the council. The average time to complete this step may be 20 minutes of the assessor's time and 20 minutes of the engineer's time.

For a DA in category 1 "Single Medium Dwelling", this step may be rarely required, whereas for category 4 "Designated Development" this step will occur in every case. Therefore, the frequency of this step may be below 1 percent for category 1; but for category 4 the frequency may be 100 percent.

For verification purposes, the eight councils were also instructed to consider the steps identified, the average time required to complete each step and the department and title responsible for the step. Where necessary, councils made amendments to the model to ensure that the processes had been documented correctly.

Once these frequency percentages were collected, the model was updated so as to provide a *weighted direct cost* for DAs and BAs across the 6 categories. This cost represents the benchmark direct cost to process each application for a particular category.

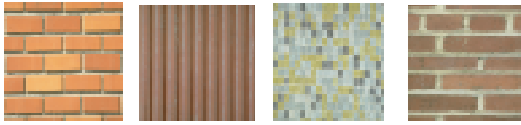
Using the example described above:

Step	Average Time	Direct Cost	Category 1 Weighted Time	Category 1 Weighted Direct Cost
Referral to Traffic Engineer			1% Frequency	1% Frequency
Assessor Involvement	20 min	\$7.12	0.02 min	\$0.0712
Engineer Involvement	20 min	\$8.05	0.02 min	\$0.0805

Step	Average Time	Direct Cost	Category 4 Weighted Time	Category 4 Weighted Direct Cost
Referral to Traffic Engineer			100% Frequency	100% Frequency
Assessor	20 min	\$7.12	20 min	\$7.12
Engineer	20 min	\$8.05	20 min	\$8.05

While the direct cost of the standard step would be $\$7.12 + \$8.05 = \$15.17$; for Category 1 DAs, the *expected* cost would be $\$0.0712 + \$0.0805 = \$0.1517$, and for Category 4 DAs would be $\$15.17$. These weighted direct costs for each category of DA and BA are presented in a table in section 5.

An example of the complete model for both standard steps and the weighted direct costs is presented as Appendix 3.



CONSULTANCY STAGE 5A

Methodology for a standard method of overhead application across the case study councils - Assumptions

When determining costs for their own purposes, the case study councils had each applied differing amounts of overhead, using different methods and overhead application methodologies of varying complexity. Some councils had not seen the necessity of overhead application, some did not yet have the resources to employ accurate overhead allocation and some were at different stages along the path to full overhead allocation.

One council visited was close to developing a comprehensive overhead allocation model, whilst another had completed the first stage of adoption. However, other councils in the case study sample had either partially allocated overhead on an ad-hoc basis or had not allocated them at all.

Notwithstanding the sophistication of some of the councils' models, it was necessary to employ a cost allocation method that can be compared and benchmarked across the full sample of eight councils. Therefore, for the purposes of this consultancy, it was not possible to adopt any of the models used, although a commentary on the different councils' overhead allocation models can be found in the "Background of the Councils included in the Case Study Sample" in section 3.

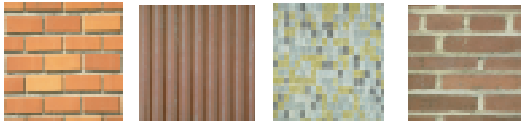
For the purpose of this analysis, it was necessary to use a common model of overhead allocation for all councils in the sample. The model used was designed as part of this consultancy. It should be stressed that this model is neither the most accurate nor the most robust available, but is the only model which could be used across the whole sample within the scope of this engagement. It should be further noted that some overhead allocation models currently in use in some of the sample councils are likely to more closely reflect the correct overhead allocation than that used in this consultancy.

Three major problems were encountered in the formulation of our overhead allocation model. Firstly, the available information and detail of cost breakdowns varied significantly from council to council. Different levels or standards of information were available at each council, and as a result, the least detailed has been used.

Secondly, differing council organisational structures made it difficult to standardise the processes and functional activities. As a result, some arbitrary reallocation of departmental costs was necessary.

Thirdly, in order to identify standardised processes and standardised functional activities, it was necessary to use cost drivers which could be identified across all councils. In some cases, judgement was necessary.

In each case, the overhead cost information used was obtained from the 1997-1998 Management Plan estimates. It is considered that this information is sufficiently detailed and reliable to allow meaningful comparison across the case study sample.



CONSULTANCY STAGE 5B

Methodology for a standard method of overhead application across the case study councils – Identification of support activities

Each council had a different organisational structure, and persons responsible for performing steps in the BA and DA process had different position titles and were located in different departments. For the purposes of designing a new activity-based overhead allocation model it was necessary to re-define functional activity units, and then attempt to allocate overheads into these units.

It should be noted at this point that we have allocated support activities to the core BA and DA assessment activity where a suitable nexus could be identified. However, we have not allocated the costs of governance. We have adopted this approach as it is our considered view that such costs are community costs that result from statute. Such costs would not be attributed to the process if it was undertaken by an entity which was not bound by local government requirements.

These activities have been used to classify all councils, regardless of their organisational structure, or the names given to these activities.

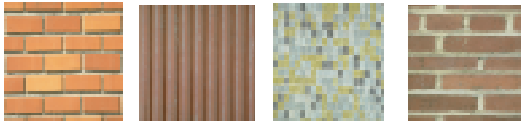
CONSULTANCY STAGE 5C

Methodology for a standard method of overhead application across the case study councils – Reallocation of costs to support activities.

Cost estimates for activities that could be readily identified were ascertained from the Management Plan. Costs directly attributable to support activities were tabled in a separate model under the activity heading. Any costs that bore little or no relevance to the DA and BA assessment and processing core activity were excluded where identifiable.

Other costs that were not directly attributable to a particular support function (ie remaining general administration and overhead costs) were totalled. These typically represented costs from a general administration pool that had not been allocated to any support or core activity.

Using the head count of each support activity as a cost driver, the costs in the general administration pool (and any other unallocated overhead) were fully allocated into the support functions. All costs clearly attributable to another core activity or to council governance were excluded. Where a support activity did not have a head count, (eg there were no personnel identifiable as performing this activity as a title) no additional overhead was allocated. Instead, the remaining support activities bore a higher proportion of general administration overhead.



COST DRIVER = SUPPORT ACTIVITY HEAD COUNT

$$\text{COST ALLOCATION} = \frac{\text{Support Activity Head Count}}{\text{Total head count – support activities}} \times \text{Total unallocated \& general admin. costs}$$

The resulting overhead cost totals for each support activity reflected the total cost of support which could be attributable to the DA and BA assessment process (including any processing stages performed by council personnel other than assessors).

CONSULTANCY STAGE 5D

Methodology for a standard method of overhead application across the case study councils – Allocation of support costs to BA/DA process

It should be noted that for the purposes of this consultancy, only the portion of the support activity costs which are attributable to the BA/DA assessment process have been allocated. Partial allocation of support activity costs is subjective, and in reality it would be necessary to allocate all support activity overheads to all core activities as well as to governance activities to ensure completeness and accuracy.

Such an exercise is beyond the scope of this consultancy, however a commentary on cost allocation methodology across the case study councils is presented in the “Background of the Councils included in the Case Study Sample”. The appropriate cost drivers for full overhead cost allocations to all core activities of councils are also discussed in this report.

Despite the limitations of allocating overhead to only one core activity of councils, a method of allocation has been devised which attempts to allocate each support activity to the BA/DA process based on their involvement in the process.

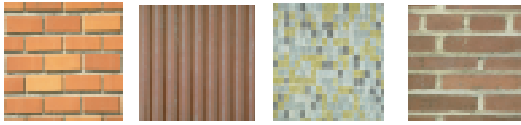
CONSULTANCY STAGE 5E

Allocating overhead to the BA/DA Assessment as a Core Activity

Costs other than the salary costs of personnel directly involved in the BA/DA process have been allocated as follows:

DIRECT OVERHEAD

Costs attributable to the BA/DA assessment process have been fully attributed to the process. (BA/DA assessment costs other than direct salary and on-costs). These include stationery, telephone and motor vehicle expenses, software and other expenses identified and charged directly to the development control activities.



INDIRECT FIXED OVERHEAD

It was then necessary to allocate costs of support activities (including salaries and on-costs of those support activities) not directly involved in the BA/DA assessment process, but expected to perform some support functions for the process. These include the *Corporate Management, Finance and Reporting, Building Maintenance, IT Support and Human Resources* support activities.

Because of the inability to obtain more suitable cost drivers across all councils, *the proportion of total expenditure for the assessments core activity as a proportion of total core activity expenditure* has been used. This cost driver will reflect the relationship between the scale of core activities sufficiently to allow a meaningful comparison across councils, despite its obvious limitations.

The formula used is as follows:

$$\frac{\text{Total Expenditure Assessments Core Activity}}{(\text{Total Council Expenditure}) - (\text{Total admin expenditure})} \%$$

This represents total share of these support activity costs to be allocated to the BA/DA assessment core activity.

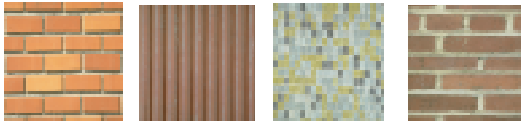
The total fixed overhead applied using this proportion was then assigned to individual activities undertaken by the key members of the BA/DA assessment team who have the primary responsibility of assessing BAs and DAs. This was achieved by determining the proportion of their total time allocated to the BA and DA assessment process.

INDIRECT VARIABLE OVERHEAD

Costs of support activities (including salaries and on-costs of those support activities) which are directly involved in the BA/DA assessment process were then allocated. These include the *Customer Service, Typing/Filing/Secretarial and Engineering Services* support activities.

A portion of total costs for these support activities was allocated to the BA/DA process according to the amount of time each support activity was directly attributable to the process.

Therefore, the proportion of total costs for each of these support units to allocate to the process, is calculated using the sum of the time each support activity contributes directly to the BA/DA processes, divided by the summed total available time for all members of the support unit.



The formula is presented as follows:

$$\frac{\text{Total Time Assigned to Steps in BA/DA Process}}{\text{Total Hours Available for All Support Staff per annum}} \quad \%$$

This method ensures that the allocation of total costs for support services reflects their direct involvement in the BA/DA processes.

CONSULTANCY STAGE 5F

Calculating the total overhead applied to each step in the BA and DA processes.

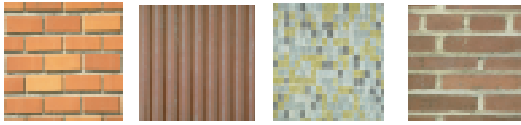
Once the proportions of overhead to allocate had been calculated, the original direct cost model developed in Consultancy Stage 4 was modified to include the overhead allocation formulas described above.

Two separate overhead allocation rates were calculated. The first overhead rate uses the standard step time for *each* step in the DA process and BA process. This overhead rate is allocated to the step itself.

The resulting cost, when added to the direct cost of steps calculated as a result of Consultancy Stage 3 represents the total cost of performing a step in the process, independent of category of application or individual circumstances. It shows the total cost, should the step be necessary in the processing of an individual application. This information has been displayed in the decision trees later in this report.

The second overhead rate has been calculated using the *weighted step time* for each category, taking into account the fact that certain categories of applications do not require certain steps, or all steps are performed but some in only certain circumstances.

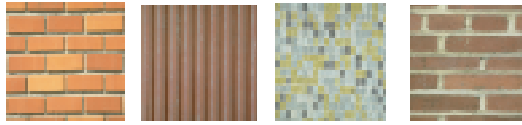
The resulting cost, when added to the weighted direct cost of steps calculated as a result of Consultancy Stage 4, represents the total cost of performing a step in the process for each category, considering the likelihood of a step being required. It is the cost that can be expected to occur for a particular category of application; the cost, should the step be necessary, in the processing of an individual application. This information has been displayed in the tables included in the summary of results below.



5. SUMMARY OF RESULTS

The following tables summarise the results of the study. They display an estimated cost and time of completing a BA and DA, and an hourly rate applicable for each category across the sample of councils examined, and other summary information which is considered useful in interpreting the results.

The first table is a summary of relevant background information, and a broad summary of costs, processing time and the cost drivers most likely to have an impact on the results which follow the table. All information which was considered to have significance in interpreting the cost results has been displayed here. A commentary on each council follows the "Summary Matrix of Costs" tables.

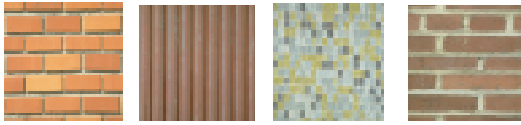


Review of Local Government Costs For Development Control Services

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THE CASE STUDY COUNCIL SAMPLE – SUMMARY OF RESULTS

COUNCIL	M1	M2	M3	M4	C1	C2	C3	C4
Classification	Urban Developed Medium	Urban Developed Medium	Urban Fringe Very Large	Urban Developed Medium	Urban Regional Medium	Urban Regional Medium	Rural Agricultural Large	Rural Agricultural Very Large
Area km ²	11	12	407	20	4,900	4,000	2,200	6,000
Residential Population	53,000	51,000	170,000	48,000	60,000	58,000	9,000	15,000
Employee Numbers	258	361	850	200	484	399	70	131
Operating expenses \$m 1996/1997	31	32	67	19	46	32	8	13
Organisational Structure	Core business units & support units	Core business units & support units	Core business & support units	Core business & support units	Integrated core & dedicated support units + admin support	Business units & support units	Small admin support + core functions	Small admin support + core functions
Number of DAs processed	765	1,204	701	221	304	368	88	94
Number of BAs processed	1,040	1,267	3,171	564	1,058	1,506	203	326
Average processing time (including post approval inspections)								
DA minutes	991	1470	584	802	868	841	471	953
BA minutes	1110	1429	475	822	412	525	542	642
DA - Average weighted costs (including post approval inspections)								
Direct	\$652	\$619	\$226	\$414	\$355	\$364	\$189	\$366
Indirect	\$428	\$525	\$333	\$290	\$290	\$468	\$272	\$312
Legal	\$554	\$243	\$142	\$183	\$17	\$75	\$5	\$2
Total excl legal costs	\$1,080	\$1,144	\$559	\$704	\$645	\$832	\$461	\$678
Total Incl legal costs	\$1,634	\$1,387	\$701	\$887	\$662	\$907	\$466	\$680
BA - Average weighted costs (including post approval inspections)								
Direct	\$580	\$594	\$195	\$399	\$234	\$194	\$191	\$260
Indirect	\$468	\$458	\$298	\$346	\$294	\$156	\$70	\$67
Legal	\$554	\$243	\$142	\$183	\$17	\$75	\$5	\$2
Total excl legal costs	\$1,048	\$1,052	\$493	\$745	\$528	\$350	\$261	\$327
Total excl legal costs	\$1,602	\$1,295	\$635	\$928	\$545	\$425	\$266	\$329
Cost Recovery (incl legal)	44%	67%	82%	46%	47%	41%	41%	38%
Relevant Cost Drivers								
Relative density of shire	Heavy	Heavy	Sparse	Medium	Low-medium	Low-medium	Sparse	Sparse
Topography	Diverse	Diverse	Not as relevant	Diverse	Not as relevant	Diverse	Not as relevant	Not as relevant
Objections	80-90%	85-95%	<40%	30%	10%	<20%	0-5%	5-10%
Notification/advertising	95-100%	100%	5-10%	100%	35-40%	35-40%	0-5%	60-70%
Use of dedicated committees	Yes	Yes	Seldom	Seldom	Yes	No	No	No
Development stance of residents	Anti development	Anti development	Pro development	Reasonably neutral	Pro development	Anti development	Predominantly neutral	Predominantly neutral
Ability to attribute costs	Reasonable	Average	Average	Advanced	Advanced	Reasonable	Average	Average
Allocation method	To support	To support	To support	To cost centre	To activity	To cost centre	To admin	To admin
Direct overhead allocation	Partial	Some	Little	Some	Most	Some	Little	Little
Size/Sophistication of support functions	Substantial	Moderate	Substantial	Moderate	Substantial	Moderate	Simple	Simple
Additional fee policy	Inspections & advertising	Advertising	Inspections & advertising	Inspections & notifications	None	None	Advertising	None
Inspection travel time	Low	Low	Moderate	Low	Moderate	Moderate	High	High



SUMMARY OF APPLICATIONS RECEIVED BY COUNCILS BY CATEGORY

DEVELOPMENT APPLICATIONS

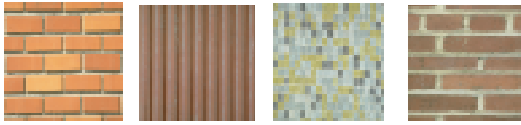
CATEGORY	M1	M2	M3	M4	C1	C2	C3	C4
Residential - Single Dwelling	285	740	47	48	73	66	11	24
Residential - Medium/High density	195	166	45	29	31	56	0	3
Commercial	240	155	106	55	134	186	25	26
Designated Development	0	0	2	0	6	1	3	1
Subdivisions	45	52	79	23	49	42	23	33
Other (pools & fences etc)	0	91	422	66	11	17	26	7
TOTAL	765	1,204	701	221	304	368	88	94

BUILDING APPLICATIONS

CATEGORY	M1	M2	M3	M4	C1	C2	C3	C4
Residential - Single Dwelling	260	859	2,001	489	803	1,239	138	291
Residential - Medium/High density	300	168	42	21	0	68	0	5
Commercial	460	205	96	33	115	153	27	25
Designated Development	0	0	0	0	0	0	0	0
Subdivisions	0	0	0	0	0	0	0	0
Other (pools & fences etc)	20	35	1032	21	140	46	38	5
TOTAL	1,040	1,267	3,171	564	1,058	1,506	203	326

COMMENTARY

M2's split between DAs and BAs reflects the usage of its combined BA/DA as well as its policy of requiring a DA for most building work, regardless of how minor. In the IPART survey, M2 reported 80% usage of its combined BA/DA. While most other councils offered such a service, few applicants were using it outside of M2. M1's usage rate is lower at about 50%. Other councils such as M3 have a usage rate of the combined service of only 20%, with most country councils having virtually no incidences of use.



COMMENTARY ON RESULTS

Average processing time

The time displayed in the summary table is the expected time to process an application in each category, weighted by the proportion of applications in each category, in an attempt to arrive at an average cost across all DAs and BAs. In this analysis, post approval monitoring costs (eg inspections) are included.

If post approval monitoring costs are included, the average weighted time to process a DA is very similar to that of a BA for all metropolitan councils. The country councils do display a large difference in the processing time between BAs and DAs, with DAs on average taking about 1.5 times longer to process. Much of the time differences have been smoothed by creating a weighted average of the individual categories, and more meaningful analysis of the comparison between DAs and BAs can be found in the summary matrices which follow this commentary. If post approval monitoring costs are excluded, a DA would take longer and be more costly to process than a BA.

Some small economies of scale can be noted in the processing time for M2 and M3 resulting from the larger number of BAs processed over DAs, but it is not proportional from council to council. M3 processes 4.5 times as many BAs as DAs but only shortens the processing time by 1.5 hours per BA application. This is despite the existence of a fast track BA process for minor applications. Economies of scale may exist in the country councils, where the time difference more closely follows the difference in numbers of applications processed.

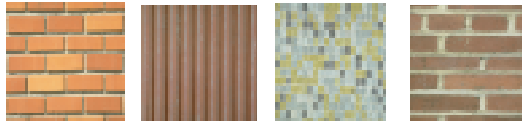
Average weighted costs

Average weighted cost is the average cost of processing an application across all categories, taking into account the proportion of applications in each category. As with average weighted processing time, it tends to smooth out differences between categories, but is still useful in comparing DA processing costs to those of BAs.

As with average weighted time, average weighted cost for DA processing closely resembles that of BA processing, with DA processing costs being marginally higher than BA processing costs for all metro councils except M4. Country councils have substantially higher DA processing costs than the equivalent BA costs.

Direct costs are the highest component of total costs for most councils, and account for roughly 50% of total costs. Legal costs are a significant component of total costs in all metropolitan councils, with M2 having the highest proportion of legal costs included in total costs. The country councils have a very low legal cost component, which is in line with the typical development activity and density of population. The more densely populated the shire, the higher the average weighted cost. The high legal cost of C2 is in line with its residents' anti-development stance and a higher number of objections than other country councils.

This is true for the metropolitan councils as well, with the pro-development stance and lower objections in M3's case leading to a lower overall cost than other metropolitan councils. In general, all of the cost drivers identified in the summary table move in line with the average weighted costs.



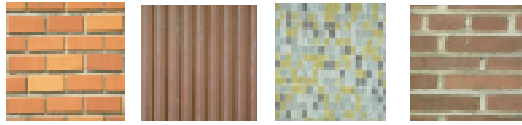
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DEVELOPMENT APPLICATIONS - SUMMARY MATRIX OF COST INFORMATION

USING WEIGHTED COSTS BASED ON STEP COSTS MULTIPLIED BY THE FREQUENCY EACH STEP IS APPLICABLE

COUNCIL	M1	M2	M3	M4	C1	C2	C3	C4
WEIGHTED DIRECT COST	652	619	226	414	355	364	189	366
WEIGHTED INDIRECT COST	428	525	333	290	290	468	272	312
LEGAL COST	554	243	142	183	17	75	5	2
WEIGHTED TOTAL COST	1,634	1,387	701	887	662	907	467	680
Residential- Single Dwelling								
<i>Prelodgement</i>	26	11	6	28	19	0	4	13
<i>Receipt & Lodgement</i>	23	13	20	25	15	8	7	20
<i>Assessment</i>	261	374	91	172	179	80	45	100
<i>Determination</i>	251	235	73	166	153	157	82	166
<i>Post Approval</i>	3	0	18	26	31	0	0	32
<i># APPLICATIONS</i>	285	740	47	48	73	66	11	24
Direct Cost Total	566	633	209	416	397	245	139	331
Overhead	370	537	312	279	302	422	236	263
CATEGORY TOTAL	936	1,170	521	695	699	667	375	594
Residential - Medium/High								
<i>Prelodgement</i>	63	14	105	15	19	25	4	20
<i>Receipt & Lodgement</i>	23	13	17	25	15	8	7	20
<i>Assessment</i>	355	408	133	221	159	241	97	223
<i>Determination</i>	310	393	148	188	153	214	82	175
<i>Post Approval</i>	3	0	22	26	31	0	0	39
<i># APPLICATIONS</i>	195	166	45	29	31	56	0	3
Direct Cost Total	754	828	425	475	377	488	190	478
Overhead	510	680	479	354	272	524	288	414
CATEGORY TOTAL	1,264	1,508	904	829	649	1012	478	892
Commercial								
<i>Prelodgement</i>	78	1	70	15	19	22	4	18
<i>Receipt & Lodgement</i>	23	13	17	25	15	8	7	20
<i>Assessment</i>	329	297	102	216	136	152	155	119
<i>Determination</i>	235	171	61	181	133	191	104	175
<i>Post Approval</i>	3	0	26	26	31	0	0	39
<i># APPLICATIONS</i>	240	155	106	55	134	186	25	26
Direct Cost Total	669	483	276	463	334	374	271	371
Overhead	425	411	347	364	345	469	299	294
CATEGORY TOTAL	893	623	827	679	843	570	665	
Designated Development								
<i>Prelodgement</i>	78	0	117	0	82	31	5	44
<i>Receipt & Lodgement</i>	23	0	17	0	15	8	7	20
<i>Assessment</i>	553	0	212	0	240	310	308	299
<i>Determination</i>	356	0	149	0	191	243	297	178
<i>Post Approval</i>	3	0	37	0	31	0	0	51
<i># APPLICATIONS</i>	0	0	2	0	6	1	3	1
Direct Cost Total	0	532	0	559	593	618	591	
Overhead	0	683	0	356	605	355	416	
CATEGORY TOTAL	0	1215	0	915	1198	973	1007	
Subdivisions								
<i>Prelodgement</i>	42	0	18	19	19	19	4	20
<i>Receipt & Lodgement</i>	23	13	17	25	15	8	7	20
<i>Assessment</i>	346	184	61	156	130	160	79	134
<i>Determination</i>	257	231	65	164	135	178	82	169
<i>Post Approval</i>	3	0	37	26	31	0	0	39
<i># APPLICATIONS</i>	45	52	79	23	49	42	23	33
Direct Cost Total	671	428	197	389	329	365	173	382
Overhead	453	401	286	253	132	464	306	359
CATEGORY TOTAL	829	484	643	461	830	480	741	
Other (pools & fences etc)								
<i>Prelodgement</i>	5	0	6	0	9	16	4	7
<i>Receipt & Lodgement</i>	23	13	20	25	15	8	7	20
<i>Assessment</i>	186	219	91	137	123	97	51	138
<i>Determination</i>	214	231	78	164	131	171	82	172
<i>Post Approval</i>	3	0	0	26	31	0	0	32
<i># APPLICATIONS</i>	0	91	422	66	11	17	26	7
Direct Cost Total	431	463	194	352	310	293	145	369
Overhead	275	412	318	219	266	450	250	317
CATEGORY TOTAL	706	875	512	571	576	743	395	686
TOTAL APPLICATIONS	765	1204	701	221	304	368	88	94



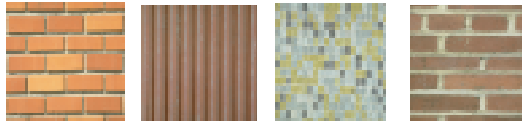
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BUILDING APPLICATIONS - SUMMARY MATRIX OF COST INFORMATION

USING WEIGHTED COSTS BASED ON STEP COSTS MULTIPLIED BY THE FREQUENCY EACH STEP IS APPLICABLE

COUNCIL	M1	M2	M3	M4	C1	C2	C3	C4
WEIGHTED DIRECT COST	580	594	195	399	234	194	191	260
WEIGHTED INDIRECT COST	468	458	298	346	294	156	70	67
LEGAL COST	554	243	142	183	17	75	5	2
WEIGHTED TOTAL COST	1,602	1,295	634	928	545	424	266	330
Residential- Single Dwelling								
<i>Prelodgement</i>	16	7	0	1	15	3	0	10
<i>Receipt & Lodgement</i>	23	13	17	25	15	12	5	16
<i>Assessment</i>	287	235	47	157	77	22	19	49
<i>Determination</i>	102	139	42	120	38	31	54	71
<i>Post Approval</i>	105	153	77	95	65	110	120	113
<i># APPLICATIONS</i>	260	859	2001	489	803	1239	138	291
<i>Direct Cost Total</i>	533	547	183	399	210	178	198	260
<i>Overhead</i>	398	428	283	341	298	145	73	59
CATEGORY TOTAL	930	974	466	739	508	323	271	318
Residential - Medium/High								
<i>Prelodgement</i>	35	11	0	1	58	25	5	12
<i>Receipt & Lodgement</i>	23	13	17	25	15	12	5	16
<i>Assessment</i>	343	274	42	153	60	162	54	59
<i>Determination</i>	146	560	50	98	38	87	54	71
<i>Post Approval</i>	112	136	77	133	65	117	120	119
<i># APPLICATIONS</i>	300	168	42	21	0	68	0	5
<i>Direct Cost Total</i>	657	995	186	409	236	402	238	277
<i>Overhead</i>	511	737	285	404	284	275	77	153
CATEGORY TOTAL		1,732	471	813	520	677	314	430
Commercial								
<i>Prelodgement</i>	42	10	0	1	287	25	3	5
<i>Receipt & Lodgement</i>	23	13	17	25	15	12	5	16
<i>Assessment</i>	298	196	42	159	65	50	13	67
<i>Determination</i>	96	123	47	98	38	42	54	71
<i>Post Approval</i>	107	136	77	123	65	110	119	113
<i># APPLICATIONS</i>	460	205	96	33	115	153	27	25
<i>Direct Cost Total</i>	566	478	183	405	470	239	193	272
<i>Overhead</i>	488	369	283	412	365	198	72	151
CATEGORY TOTAL		847	465	817	835	437	266	423
Designated Development								
<i>Prelodgement</i>	42	0	0	0	287	31	5	0
<i>Receipt & Lodgement</i>	23	0	17	0	15	12	5	0
<i>Assessment</i>	378	0	43	0	69	210	197	0
<i>Determination</i>	153	0	52	0	38	92	49	0
<i>Post Approval</i>	112	0	77	0	65	110	120	0
<i># APPLICATIONS</i>	0	0	0	0	0	0	0	0
<i>Direct Cost Total</i>	708	0	188	0	474	455	376	0
<i>Overhead</i>	550	0	290	0	372	305	86	0
CATEGORY TOTAL		0	478	0	845	761	463	0
Subdivisions								
<i>Prelodgement</i>	24	0	0	0	0	0	0	0
<i>Receipt & Lodgement</i>	23	0	0	0	15	0	5	0
<i>Assessment</i>	370	0	0	0	38	0	29	0
<i>Determination</i>	139	0	0	0	12	0	49	0
<i>Post Approval</i>	112	0	0	0	0	0	120	0
<i># APPLICATIONS</i>	0	0	0	0	0	0	0	0
<i>Direct Cost Total</i>	667	0	0	0	65	0	203	0
<i>Overhead</i>	518	0	0	0	93	0	69	0
CATEGORY TOTAL		0	0	0	158	0	272	0
Other (pools & fences etc)								
<i>Prelodgement</i>	3	0	0	3	15	2	0	6
<i>Receipt & Lodgement</i>	23	13	17	25	15	12	5	16
<i>Assessment</i>	166	164	84	138	53	20	11	42
<i>Determination</i>	77	179	41	120	38	33	49	71
<i>Post Approval</i>	93	136	77	93	56	94	97	106
<i># APPLICATIONS</i>	20	35	1032	21	140	46	38	5
<i>Direct Cost Total</i>	361	491	219	380	178	161	162	241
<i>Overhead</i>	260	395	328	300	210	125	59	46
CATEGORY TOTAL	621	886	547	680	388	286	221	286
TOTAL APPLICATIONS	1,040	1,267	3,171	564	1,058	1,506	203	326



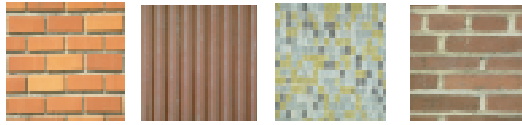
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DEVELOPMENT APPLICATIONS - SUMMARY MATRIX OF STAGE TIME (MINUTES)

USING WEIGHTED TIME BASED ON STEP TIME MULTIPLIED BY THE FREQUENCY EACH STEP IS APPLICABLE

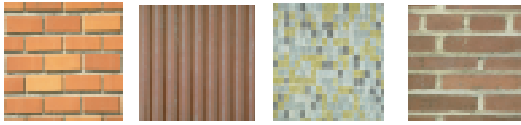
COUNCIL	M1	M2	M3	M4	C1	C2	C3	C4
WEIGHTED TIME	991	1,477	584	802	869	841	471	954
Residential- Single Dwelling								
<i>Prelodgement</i>	34	24	5	54	18	0	11	30
<i>Receipt & Lodgement</i>	70	45	65	65	60	35	30	65
<i>Assessment</i>	414	925	254	324	459	233	74	261
<i>Determination</i>	355	510	198	311	346	313	130	408
<i>Post Approval</i>	10	0	60	55	90	0	0	92
<i># APPLICATIONS</i>	285	740	47	48	73	66	11	24
CATEGORY TOTAL	883	1,504	583	809	973	580	246	856
Residential - Medium/High								
<i>Prelodgement</i>	68	30	95	30	18	24	11	45
<i>Receipt & Lodgement</i>	70	45	55	65	60	35	30	65
<i>Assessment</i>	563	1014	371	416	406	710	178	586
<i>Determination</i>	421	894	324	353	346	378	130	426
<i>Post Approval</i>	10	0	72	55	90	0	0	110
<i># APPLICATIONS</i>	195	166	45	29	31	56	0	3
CATEGORY TOTAL	1,131	1,983	916	919	920	1,147	349	1,231
Commercial								
<i>Prelodgement</i>	80	3	63	30	18	21	11	42
<i>Receipt & Lodgement</i>	70	45	55	65	60	35	30	65
<i>Assessment</i>	488	731	285	404	331	446	270	312
<i>Determination</i>	352	428	170	341	317	347	172	426
<i>Post Approval</i>	10	0	84	55	90	0	365	110
<i># APPLICATIONS</i>	240	155	106	55	134	186	25	26
CATEGORY TOTAL	999	1,208	657	895	816	849	849	954
Designated Development								
<i>Prelodgement</i>	80	0	105	0	60	30	15	90
<i>Receipt & Lodgement</i>	70	0	55	0	60	35	30	65
<i>Assessment</i>	945	0	591	0	613	910	515	784
<i>Determination</i>	455	0	389	0	430	575	550	433
<i>Post Approval</i>	10	0	120	0	90	0	0	140
<i># APPLICATIONS</i>	0	0	2	0	6	1	3	1
CATEGORY TOTAL	1,560	0	1,259	0	1,253	1,550	1,110	1,512
Subdivisions								
<i>Prelodgement</i>	50	0	16	36	18	18	11	45
<i>Receipt & Lodgement</i>	70	45	55	65	60	35	30	65
<i>Assessment</i>	539	452	168	288	316	468	154	352
<i>Determination</i>	365	491	182	308	317	342	130	410
<i>Post Approval</i>	10	0	120	55	90	0	0	110
<i># APPLICATIONS</i>	45	52	79	23	49	42	23	33
CATEGORY TOTAL	1,033	988	541	752	801	863	325	982
Other (pools & fences etc)								
<i>Prelodgement</i>	7	0	5	0	9	15	11	15
<i>Receipt & Lodgement</i>	70	45	65	65	60	35	30	65
<i>Assessment</i>	300	537	254	258	297	287	87	362
<i>Determination</i>	339	491	210	308	317	339	130	420
<i>Post Approval</i>	10	0	0	55	90	0	0	92
<i># APPLICATIONS</i>	0	91	422	66	11	17	26	7
CATEGORY TOTAL	726	1,072	535	686	773	676	258	954
TOTAL APPLICATIONS	765	1,204	701	221	304	368	88	94



BUILDING APPLICATIONS - SUMMARY MATRIX OF STAGE TIME (MINUTES)

USING WEIGHTED TIME BASED ON STEP TIME MULTIPLIED BY THE FREQUENCY EACH STEP IS APPLICABLE

COUNCIL	M1	M2	M3	M4	C1	C2	C3	C4
WEIGHTED TIME	1,110	1,429	475	821	413	525	542	642
Residential- Single Dwelling								
<i>Prelodgement</i>	25	15	0	3	15	3	0	10
<i>Receipt & Lodgement</i>	70	45	17	65	15	12	5	16
<i>Assessment</i>	425	554	47	315	165	64	53	126
<i>Determination</i>	207	330	117	239	116	91	160	179
<i>Post Approval</i>	305	382	215	198	95	310	340	300
<i># APPLICATIONS</i>	260	859	2001	489	803	1239	138	291
CATEGORY TOTAL	1,032	1,325	396	819	406	480	557	632
Residential - Medium/High								
<i>Prelodgement</i>	44	24	0	2	28	72	15	30
<i>Receipt & Lodgement</i>	70	45	55	65	60	45	20	60
<i>Assessment</i>	515	655	118	312	116	470	78	179
<i>Determination</i>	273	1297	133	200	116	120	160	179
<i>Post Approval</i>	323	342	215	280	95	330	340	315
<i># APPLICATIONS</i>	300	168	42	21	0	68	0	5
CATEGORY TOTAL	1,225	2,363	521	859	415	1037	613	763
Commercial								
<i>Prelodgement</i>	50	23	0	2	125	72	8	12
<i>Receipt & Lodgement</i>	70	45	55	65	60	45	20	60
<i>Assessment</i>	464	454	118	324	131	150	32	188
<i>Determination</i>	200	289	127	200	116	98	160	179
<i>Post Approval</i>	311	340	215	259	95	310	340	300
<i># APPLICATIONS</i>	460	205	96	33	115	153	27	25
CATEGORY TOTAL	1,095	1,150	515	850	526	675	559	739
Designated Development								
<i>Prelodgement</i>	50	0	0	0	125	90	15	0
<i>Receipt & Lodgement</i>	70	0	55	0	60	45	20	0
<i>Assessment</i>	562	0	121	0	141	605	240	0
<i>Determination</i>	296	0	135	0	115	135	145	0
<i>Post Approval</i>	323	0	215	0	95	310	340	0
<i># APPLICATIONS</i>	0	0	0	0	0	0	0	0
CATEGORY TOTAL	1,301	NA	526	NA	536	1185	760	NA
Subdivisions								
<i>Prelodgement</i>	35	0	0	0	0	0	0	0
<i>Receipt & Lodgement</i>	70	0	0	0	60	0	20	0
<i>Assessment</i>	548	0	0	0	60	0	51	0
<i>Determination</i>	264	0	0	0	50	0	145	0
<i>Post Approval</i>	323	0	0	0	0	0	340	0
<i># APPLICATIONS</i>	0	0	0	0	0	0	0	0
CATEGORY TOTAL	1,240	NA	NA	NA	170	NA	556	NA
Other (pools & fences etc)								
<i>Prelodgement</i>	6	1	0	7	11	5	1	15
<i>Receipt & Lodgement</i>	70	45	55	65	60	45	20	60
<i>Assessment</i>	236	390	236	274	102	57	30	103
<i>Determination</i>	168	348	116	239	117	94	145	179
<i>Post Approval</i>	269	340	215	195	71	266	281	282
<i># APPLICATIONS</i>	20	35	1032	21	140	46	38	5
CATEGORY TOTAL	748	1,124	622	779	360	466	477	639
TOTAL APPLICATIONS	1,040	1,267	3,171	564	1,058	1,506	203	326



COMMENTARY ON SUMMARY MATRICIES

It should be noted that the information contained in the summary of matrices is based on our interviews and discussions with council staff. Number of applications is an estimate made by staff of the volume of each category of application.

Given the number of analytical permutations possible in these tables, it is not possible to comment on the comparison of every stage, category, council and DA/BA combination. The commentary below focuses on general trends and specific comparisons of note.

General Observations regarding stages of BA and DA process

The first observation is that the Assessment and Determination steps in every category of both BA and DA are the most time consuming and costly elements in the process. This is the core activity of the process, and thus would be expected to consume the highest proportion of time and resources. As such, they also involve the more senior staff members of the council and a higher proportion of qualified professional staff than other stages of the process.

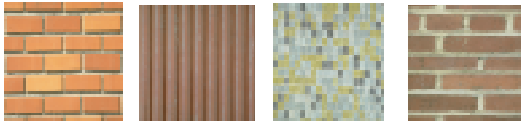
The assessment and determination steps also involve referral processes, involvement of council, detailed reporting and the majority of contact with the applicant. All of these steps are highly labour intensive, and the hardest to standardise.

The proportion of direct costs which are absorbed by these two stages are similar across all councils in the sample.

Time and cost for Pre-Lodgement is predictably higher for DAs than BAs due to the involvement of senior staff and committees in the process. It is more likely for such pre-lodgement discussions and meetings to be necessary in the case of proposed development than in building applications. In the case of BAs which require DAs, much of the pre-lodgement discussions have already taken place during the lodgement of the DA.

Time and costs for Post-Approval are similarly higher for BAs than DAs, due mostly to the number of site inspections required for the average building from initiation to completion. The proportion of time and costs absorbed by this stage of the process is similar across metropolitan and country councils, although the proportion is noticeably higher in non-urban areas. This is due to travelling time and costs for post approval site inspections, and is particularly high in the councils with the more sparsely populated shires.

Some councils have post-approval time in DAs and others do not. This reflects a difference in policy between the councils. M1, M3, M4, C1 and C4 all undertake post approval steps, predominantly being site inspections. Some councils undertake more than one site inspection for each category of DA, and others only for certain categories.



Comparisons of application categories

DEVELOPMENT APPLICATIONS

The most time consuming and costly application categories are Residential Medium/High Density, Residential Single Dwelling and Designated Development. Councils M1, M2 and M4 have the highest costs of the sample in these categories, which is consistent with the anti-development stance, number of objections and notification policies and time consuming steps in the process.

C2 is the costliest of the country councils in all categories, with a pronounced difference in most categories except Residential Single Dwelling. Its costs in each category are similar to C1, except in Residential Medium/High Density and Designated Development where it is subject to a stronger resident backlash. It is also a target for such developments due to its tourist nature.

BUILDING APPLICATIONS

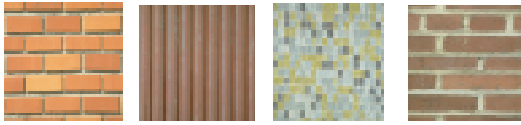
M1 and M2 are fairly similar in BA costs, reflecting their common features in high rates of objection, dense population and involvement of senior staff in the process. Residential Medium / High density is markedly more costly than other categories for M1 and M2, especially M2 where the cost is almost double that of the Residential Single Dwelling application cost. M4 is reasonably constant in all categories, and similar in cost to M1 and M2 in Commercial and "Other" categories.

M3 is consistently lower in all categories of BA. This could be due to several factors, the first being the amount of BAs not requiring a prior DA consent. Secondly, it is likely that some economies of scale exist in the sheer number of BA applications processed. Thirdly, the council has a low density population, with the majority of BAs falling in the Residential Single Dwelling category, rather than Medium or High Density. Fourthly, the low rate of objections and notifications required would tend to lead to a more standardised process across categories.

All country councils have a much lower cost for Residential Single Dwelling category applications than metropolitan ones, reflecting the effect of low density population on the time and complexity of applications. C1 and C2 are similar in cost for each category, with the exception of Residential Medium/High Density and Commercial. C1 expressed more problems and complexities with its typical commercial development whereas C2 had more problems with Residential Medium/High Density Building Applications. While it could be assumed that the expense relating to these applications would come at the DA stage, many of the objections arose after the building had commenced, increasing the cost of the post-approval stage.

C1 had an extremely high Pre-Lodgement cost for Commercial and Designated Development categories, as they involved a committee meeting in 100% of the applications.

Although the costs are proportionately higher in the Residential Medium/High Density, Commercial and Designated Development categories across the sample, the results should be read in conjunction with the case study commentary in this report.



While the cost for a building application may be as much as double in M2's case, the fee is related to the value of the development. Therefore, in the case of multi-million dollar developments, the cost recovery rate may be far greater than with less costly applications such as minor building applications or Residential Single Dwelling applications.

It should be noted that the costs shown in the above tables represent the expected cost of performing BAs and DAs. This means that implicit in these calculations are the estimated frequency of occurrence by council officers. There may be some bias that has occurred because of incorrect estimates of frequency or time by officers, however we have attempted to alleviate this through our standard interview process.

There are some unusual results in the above tables. To some extent this can be expected because of sampling methodology and possible biases. The spreadsheet used to calculate the weighted costs for each category was circulated to the sample councils for verification, but it is expected that there is a certain amount of judgement required by council staff. Staff used judgement in making estimates of time involved and also in estimating the frequency of performing each step in the process for each category of development. It is expected that the ability of councils to provide revenue for DAs and BAs by category would lead to a better overall analysis of the costs presented above.

FACTORS AFFECTING THE RESULTS

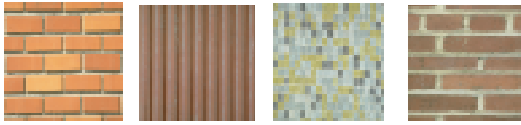
Overhead allocation policies

It was clear from our analysis that some councils have in place a more sophisticated means to capture costs and allocate overheads to individual departments or activities. The implications here are that where this is the case, it is likely that costs will be higher as the existing accounting system is able to measure such costs more accurately. Where accounting systems were less sophisticated, it is possible that we were unable to identify all indirect costs that relate to the BA and DA Assessment process due to inadequate or poor descriptions of cost identification procedures.

Core business functions of councils

Another aspect that should be taken into account when comparing results across the sample is that strategic and extraneous factors will impact on the volume and mix of applications and this will influence the level of resources contributed to this part of the council's activities. For example, a council where development activity is a relatively minor component of overall council activities will have a smaller assessment division and that division process will receive a smaller application of overheads.

Similarly where development control services represent a core activity of council, it is likely that significant resources will be allocated to these activities and as a result, overhead allocation will be higher.



Mix of BAs and DAs and level of complexity of applications

Another aspect of the volume and mix of applications is that if there are a significant number of relatively uncomplicated applications, additional resources may not be required to carry out assessments. This means that economies of scale will be achieved and the level of overhead applied to individual applications will be less. Council M3 had a high volume of relatively uncomplicated applications.

Lack of information

It became apparent from our council visits that in some cases, sufficient information was not available, either from the accounting system or from people involved in the process to enable a consistent cost allocation across the sample.

Differing council structures

The organisational structure of councils differed significantly across the sample. We attempted to counter this through approaching the costs from an activity perspective, however, analysing councils from a cross-functional viewpoint was difficult within the scope of this consultancy. A more thorough activity based costing analysis of councils would require a much larger amount of time than was allowed for with this assignment.

Cost structures and salaries

There are variations in cost structures between councils that should be considered. For example, salaries are likely to differ between metropolitan councils and country councils. In addition some costs will differ because of geographical considerations of councils. For example building inspections in some country councils involved significant travel time, whereas in metropolitan councils this was not the case.

Complexity and size of councils

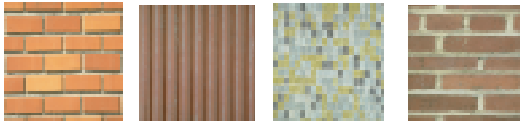
Councils visited differed significantly in terms of their size and the range of activities undertaken. For example some country councils undertake services that would be conducted by other utilities in metropolitan areas such as sewerage services.

Additional businesses undertaken by councils will provide a greater number of activities for indirect costs to be allocated against, resulting in less applied overhead to the BA and DA assessment process.

Demographic factors and attitudes of constituents

One of the most significant determinants of BA and DA assessment times seemed to be the attitude of constituents to development control in their respective areas. In areas where residents take an active interest in the level and type of activity that takes place, the assessment procedure generally took a longer amount of time as notifications were seen to be more important. In these areas, litigation was more common and this contributed to the amount of verification and validation that took place during the assessment process.

After taking into account the above factors, the total costs per hour per council are presented in the table over the page.



SUMMARY OF COST PER HOUR RATES - DEVELOPMENT APPLICATIONS

AVERAGE HOURLY RATE USING TOTAL STEPS IN EACH STAGE OF PROCESS AND TOTAL STAGE COSTS

COUNCIL	M1	M2	M3	M4	C1	C2	C3	C4
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Pre Lodgement

<i>Direct Rate Per Hour</i>	\$58	\$28	\$67	\$31	\$82	\$63	\$38	\$27
<i>Overhead Rate Per Hour</i>	\$30	\$25	\$30	\$26	\$36	\$22	\$17	\$13
Total Cost Per Hour	\$88	\$53	\$96	\$56	\$118	\$85	\$55	\$39

Receipt & Lodgement

<i>Direct Rate Per Hour</i>	\$20	\$17	\$19	\$23	\$15	\$14	\$14	\$20
<i>Overhead Rate Per Hour</i>	\$30	\$25	\$30	\$26	\$36	\$22	\$17	\$13
Total Cost Per Hour	\$50	\$43	\$48	\$49	\$51	\$36	\$32	\$32

Assessment

<i>Direct Rate Per Hour</i>	\$34	\$24	\$21	\$33	\$24	\$20	\$36	\$23
<i>Overhead Rate Per Hour</i>	\$30	\$25	\$30	\$26	\$36	\$22	\$17	\$13
Total Cost Per Hour	\$63	\$49	\$51	\$59	\$60	\$42	\$53	\$35

Determination

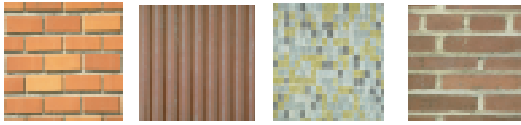
<i>Direct Rate Per Hour</i>	\$47	\$27	\$25	\$32	\$32	\$29	\$33	\$24
<i>Overhead Rate Per Hour</i>	\$30	\$25	\$30	\$26	\$36	\$22	\$17	\$13
Total Cost Per Hour	\$77	\$52	\$55	\$57	\$68	\$51	\$50	\$37

Post Approval

<i>Direct Rate Per Hour</i>	\$19	\$17	\$28	\$30	\$20	\$21	\$38	\$22
<i>Overhead Rate Per Hour</i>	\$30	\$25	\$30	\$26	\$36	\$22	\$17	\$13
Total Cost Per Hour	\$49	\$43	\$57	\$56	\$56	\$43	\$55	\$35

Average Rate Across Process

<i>Direct Rate Per Hour</i>	\$36	\$23	\$32	\$30	\$35	\$30	\$32	\$23
<i>Overhead Rate Per Hour</i>	\$30	\$25	\$30	\$26	\$36	\$22	\$17	\$13
Total Cost Per Hour	\$65	\$48	\$62	\$55	\$71	\$52	\$49	\$36

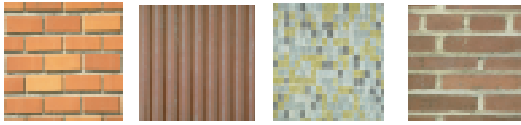


COMMENTARY ON HOURLY RATES

The hourly rates displayed above are based on the total step time for a particular step multiplied by the cost for that time, and translated into an hourly rate. Overhead is allocated based on the time taken to perform all steps in the process, regardless of whether they are performed for a particular category. For this reason, overhead may be under-allocated for applications that involve less steps than those which require more. They do not include legal costs, but do roughly equate to the average weighted cost divided by the average process time displayed in the summary matrices. They have been included to allow a standard cost per hour to be applied to an application, regardless of whether it falls within the standard processing time.

Due to errors in the data collected, and its subjective nature, it is suspected that the hourly rate across the metropolitan councils should be increased to account for incomplete cost information, underestimated employee oncosts and the arbitrary overhead allocation method. While no other consistent allocation method was available, the method adopted in this consultancy may have understated the relationship between certain overheads and the assessment activities of the Development Control function.

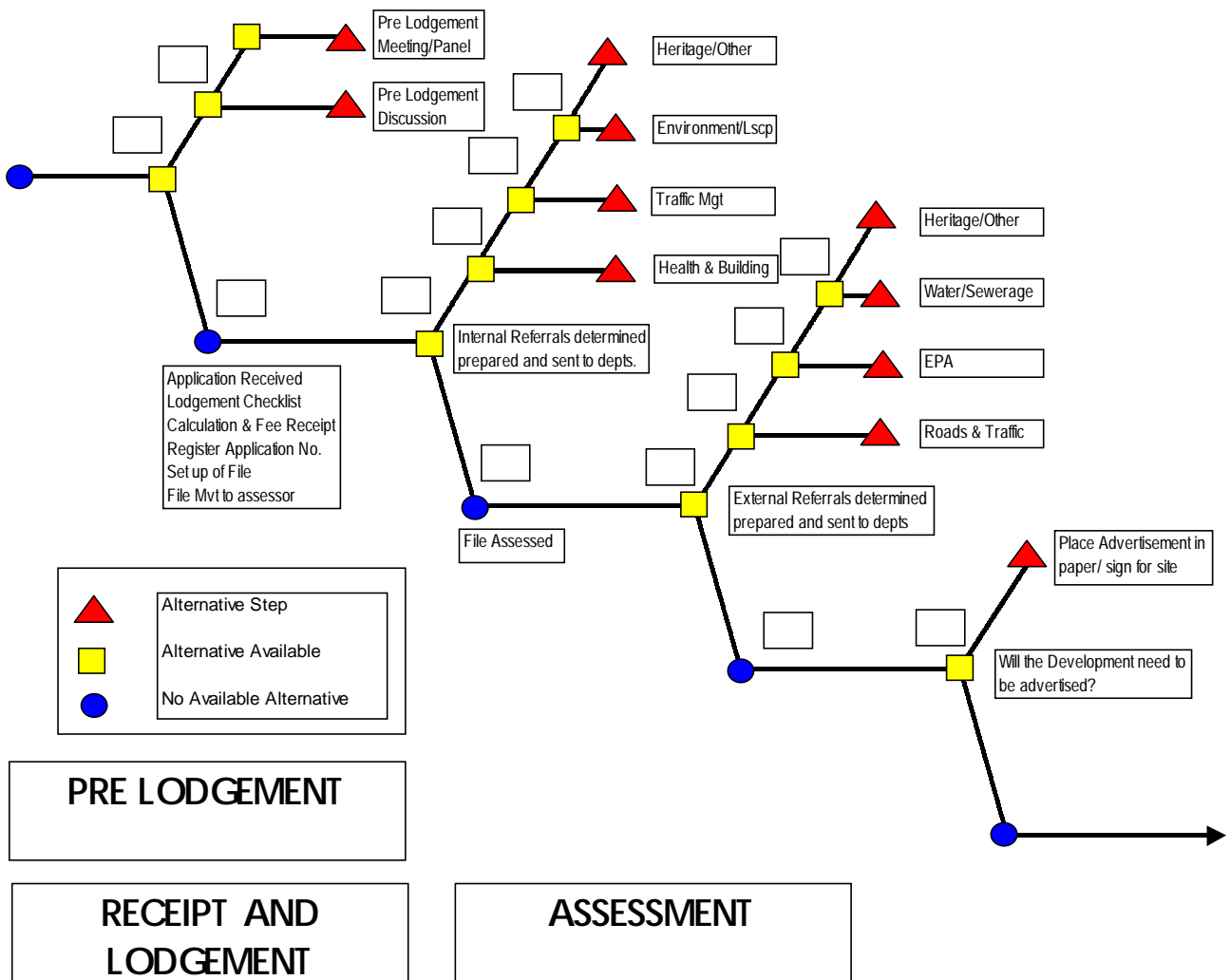
It is recommended that a total rate of \$60-\$70 per hour be used for the metropolitan councils and \$50 per hour for country councils as a guide.

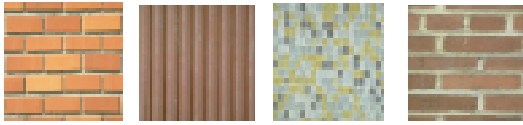


6. DECISION TREES

The expected cost model displayed above, although indicative of the average expected cost of development control assessment activities across each council, will not necessarily reflect the cost of an individual application in every individual situation.

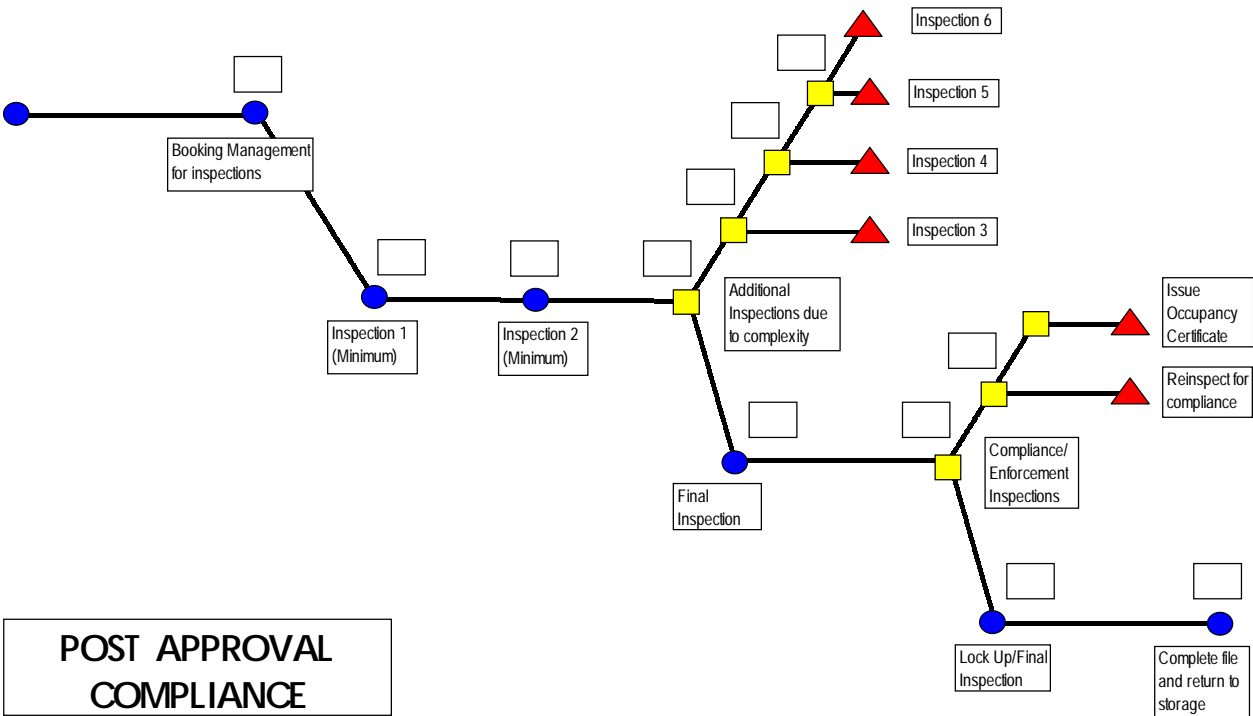
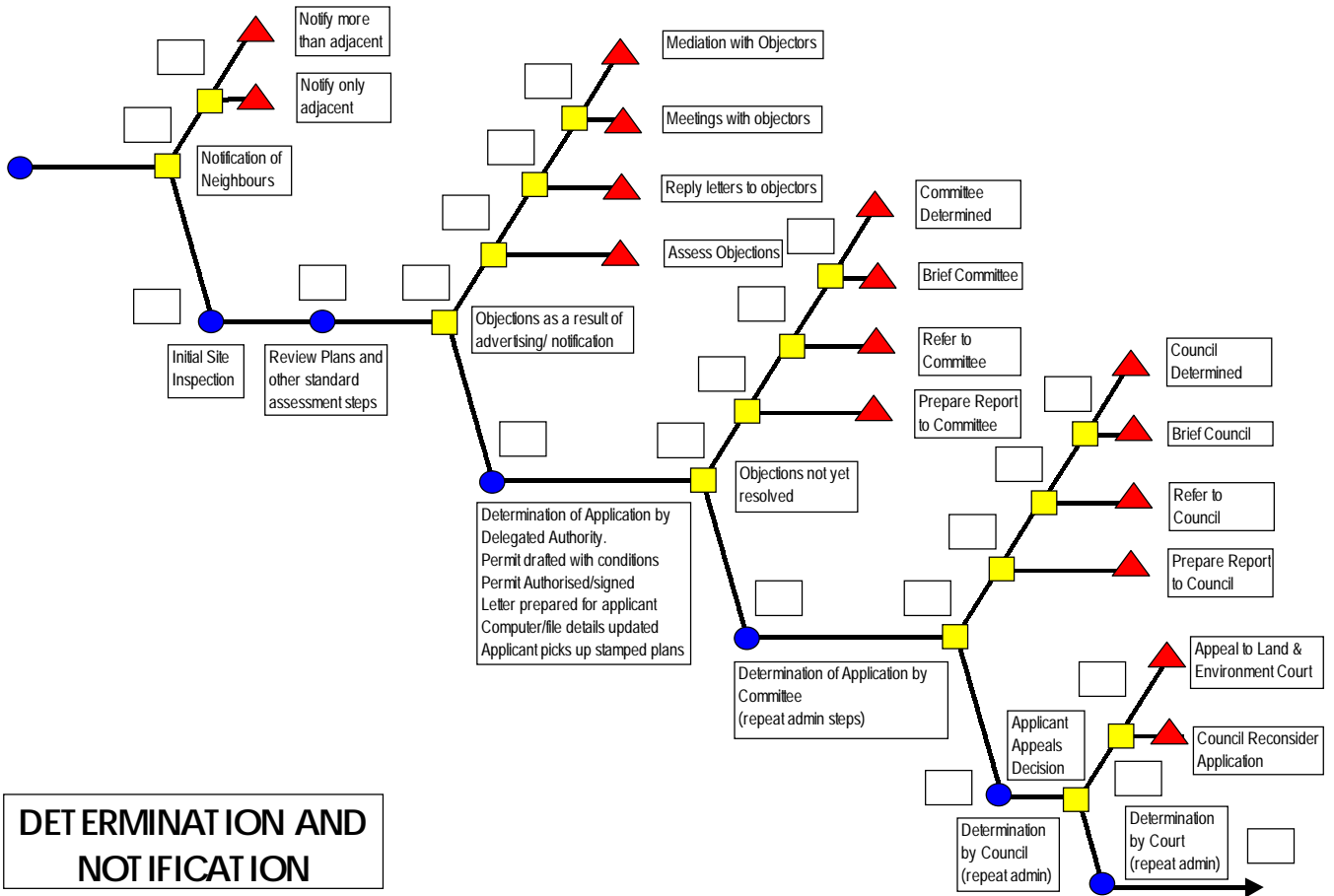
This is because there are a number of possible routes any particular application can take in the process and no two applications involve the same variables. Therefore, in order to demonstrate the costs of each part of the BA and DA assessment process, we have prepared "decision trees" that show the possible permutations an application can take. In order to do this, we have standardised the BA and DA assessment process to the extent possible. Below is an uncosted decision tree based on the standardised process. Copies of these decision trees are available on request from IPART. Separate trees have been prepared for the BA process and DA process for each council in the sample.

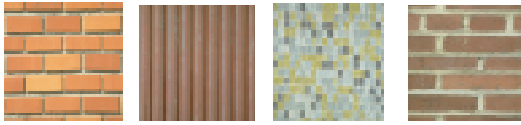




Review of Local Government Costs For Development Control Services

JUNE 1998





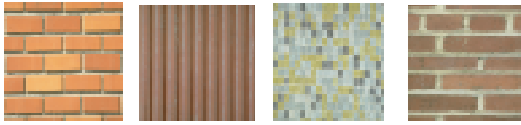
HOW TO READ THE DECISION TREES

Using the trees, an application can be traced through each stage of the assessment process and the total time and cost added to determine the cost of performing the assessment. This should be done from left to right.

In analysing cost using the decision trees, the application should be traced along the bottom line of the tree. Each dot is a stage in the process where there are no available alternatives. Each square represents a point in the process where an alternative is available, for example whether an external referral is required. When the process reaches a triangle, the alternative stage of process is finished and the application returns to the next sequential dot.

The direct and indirect costs of each stage in the process are shown in boxes. The top figures are the direct costs, the bottom are the indirect costs.

Through this mechanism the direct and indirect cost of each possible stage can be ascertained and a total cost determined for any application.



7. CASE STUDY SAMPLE OF COST RECOVERY BY CATEGORY

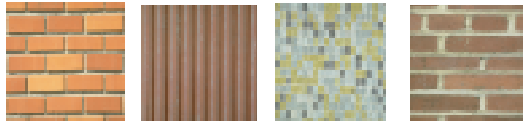
We have sought information from councils in the sample to allow us to ascertain whether cross-subsidisation occurs between categories of developments. However, councils were unable to provide us with an allocation of revenue by classification. As a result, we were unable to obtain satisfactory evidence as to the actual level of cross-subsidisation.

In order to understand whether some degree of cross-subsidisation exists between categories of development, we undertook case studies of recent applications in each of the categories shown in Consultancy Stage 4 across the sample and compared the revenue and costs for each of these applications. It should be noted that these were isolated case studies only and are not necessarily indicative of any patterns of cross-subsidisation that exist between types of development.

The case studies consisted of recent applications for each category of development selected at random. The file for each of these applications was obtained and interviews were conducted with the various officers involved in the application. The officers estimated the amount of time taken for each step in the process and where possible, this was corroborated with evidence in the file.

Once we had established the resources and time involved in each case study, we applied the standard cost of carrying out these applications and compared the total cost with the revenue received in relation to the application.

The following table summarises the results of these case studies. The results are expressed as a percentage cost recovery. A percentage score of less than 100 percent indicates that in the subject case, costs were not recovered and the application was unprofitable to the particular council. Similarly a percentage score of more than 100 percent indicates that the application was profitable. A percentage score of 100 percent would indicate that the costs were recovered and no profit generated (breakeven).



7.1 DEVELOPMENT APPLICATION CASE STUDIES

Comparison of Cost Recovery by Category (expressed as a percentage)

The recovery rates exclude legal costs

%	M1	M2	M3	M4	C1	C2	C3	C4
Residential single dwelling	140	191	80	150	NA	NA	NA	20
Residential medium/high density	147	156	106	201	80	154	NA	NA
Office/business/commercial	422	140	92	58	547	37	15	29
Designated development	NA	NA	77	NA	NA	NA	19	NA
Subdivisions	57	8	50*	30	NA	NA	NA	26
Other	79	71	NA	52	NA	70	NA	NA

**If inspection fees are included, the recovery rate may exceed 100%.*

N/A – Samples were not undertaken.

COMMENTARY

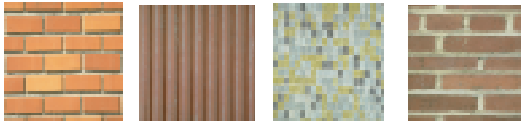
M1 experienced a recovery rate in excess of 100% of costs for all categories except subdivisions and other. It should be noted, though, that these exclude legal costs that may add another 30 – 40% to the cost of an application for M1 and M2. Office / business/commercial was the highest recovery rate, in excess of 400%. This is consistent with the background of the council, where large high value developments in this category are common, and typically attract less objections than smaller residential developments.

M2 was also profitable in the case study examples for all categories except subdivisions and other, and may reflect the effect of high cost development on recovery rates. The survey results for councils in this category suggest only 57% recovery, excluding legal costs. This suggests that the average DA experiences full recovery, but the small proportion of DAs which do not follow standard step time may lead to astronomical cost blow-outs.

M3 is relatively constant in recovery rates, but far less profitable in residential single dwelling applications than M1, M2 and M4. It closely approximates the survey result for its category of 95% excluding legal costs. These results are consistent with the council's background, where residential property prices are lower, and development more consistent. Furthermore, the council charges for all inspections.

C1 experienced an enormous recovery in the office/business/commercial category of over 500%, but this can be compared to a recovery of only 12% for the BA case examined in the same category. The other results for C2, C3 and C4 all suggest low rates of recovery, which are in line with the IPART survey statistics for their categories of 50% for C1 and C2, and 33% and 37% for C3 and C4.

The country DA results are inconclusive, since there are no case study examples for residential single dwelling applications, and they do not display any evidence of cross-subsidisation between application categories.



However, on the whole, the recovery rates are much lower for country DAs than the metropolitan councils, and suggest that the lack of large developments does not allow cross subsidisation.

The case study example of residential medium/high density applications for C2 suggests a recovery rate of 150%, despite frequent objections to such developments. About 25% of their applications fall into this category, and may lead to cross subsidisation of the office/business/industrial category, which accounts for about 40% of DAs and experienced a recovery rate of only 37% in the case study example. Examination of the case study table in Appendix 2 reveals that the actual time taken for this application was nearly four times the standard processing time.

Other poor recovery rates could usually be attributed to “worst case” examples throughout the case study examples, by comparing the standard process time to the time actually taken in the example. Please see Appendix 2 for details.

7.2 BUILDING APPLICATION CASE STUDIES

Comparison of Cost Recovery by Category (expressed as a percentage)

%	M1	M2	M3	M4	C1	C2	C3	C4
Residential single dwelling	26	56	116	185	NA	249	113	112
Residential medium/high density	370	87	142	98	NA	NA	NA	NA
Office/business/Commercial	25	172	189	28	13	NA	NA	159
Designated development	NA	NA	NA	NA	NA	NA	NA	NA
Subdivisions	NA	NA	NA	NA	NA	NA	NA	NA
Other	27	50	83	122	178	79	NA	99

The recovery rates above exclude legal costs.

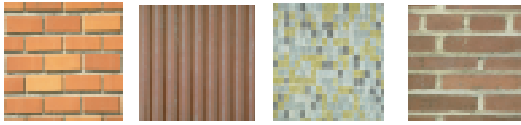
NA – Samples were not taken.

Detailed tables in relation to these case studies are contained in Appendix 2.

COMMENTARY

Unfortunately the case file studies were inconclusive, as they may or may not be representative of the overall categories, and many category examples were not available at the time the council was visited. However the limited information pertaining to cost recoveries still allows some analysis.

The data suggests that there is a large difference in cost recovery from one category to another. Councils M1 and M2 experienced low recovery in residential single dwellings. M2 has experienced 170% recovery on office/business while M1 has only recovered 25%. M2, on the other hand, recovered 87% on residential medium/high density while M1 recovered costs by nearly fourfold. M3 was more consistent, with a



healthy cost recovery in all categories sampled. M4 recovered costs well in all categories except office/business/commercial applications.

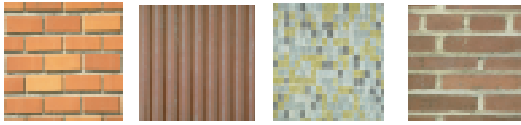
It would appear, in these cases, that M1 and M2 are cross-subsidising their cost recovery in the residential single dwelling category with either office/business/commercial or medium/high density residential dwelling applications. Recoveries in the medium/high-density applications are good in all metropolitan councils. M1, M2 and M4 compare favourably to the Urban Developed Medium (UDM) council category results in the IPART Survey. The overall BA/DA/SA cost recovery for councils in this category was 57%, excluding legal costs. Our result suggests that the actual recovery rate is far higher than this for some application categories, and lower for others.

M3 had the most consistent recovery rate, which was more than cost for 3 of the 4 categories in which case study information was collected. The IPART survey result for M3 suggested a recovery rate of 97% (excluding legal costs and including other development control fees). Two factors likely to aid such a recovery rate in the case of M3 are the pro-development attitude of residents, and the fact that M3 charges for inspections.

Too little information is available to draw conclusions about the country councils, except to note that C2, C3 and C4 all experienced a recovery above cost for residential single dwelling applications, even though the IPART survey results suggest overall low recoveries. The council category in which C1 and C2 are contained, Urban Regional Medium (URM), had a recovery rate of 50% excluding legal costs. C3 was in the Rural Agricultural Large (RAL), which reported a recovery rate of 33%, and 37% for Rural Agricultural Very Large (RAV), which contains C4. The case study results do not support the survey results, and suggest the recovery rate is much higher than indicated by the survey.

In Appendix 2, the actual results are displayed. It should be noted that the recovery rates have been calculated using the "Actual Time" column, and it is interesting to compare this column with the "Standard Time" column calculated as a result of the consultancy. M1, on average, had variation between actual and standard, but the two were sufficiently close to deem the case study examples as representative of the application cost. M2 was similarly representative, with the exception of Office/Business/Industrial which took about 50% of the standard time to assess. All actual times for M2 were below standard, either suggesting the consultants chose "best case" examples, or suggesting that M2 had overstated the amount of time required at each stage.

M3 and M4 were also reasonably close to standard time in each category, with the exception of residential medium/high density in M3, which was fivefold the standard time. It should be noted that even with this result, M3 achieved a recovery of 141%. For M3, other applications were about 50% of the standard time, but due to the amount of applications M3 grouped as "other", no conclusion can be drawn from this.



8. RECOMMENDATIONS REGARDING COST ALLOCATION BASES

Throughout this consultancy, we noted that it was difficult to effectively allocate costs to individual activities due to the inconsistent state of accounting records and the lack of measurement of cost drivers. This section of the report recommends action that should be taken by councils in the sample to enable such cost allocation to take place.

It should be noted that these recommendations are made in relation to councils generally and not with respect to any individual council in the sample. Because the quality of information and measurement varied across the sample, some of our recommendations will not apply to councils where systems are already relatively sophisticated.

RECOMMENDATION 1 Implementation of Activity Based Costing (ABC)

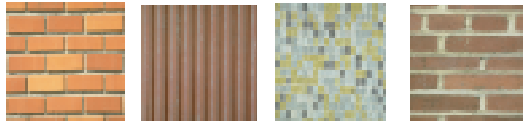
We noted that several councils had already identified this as a priority and were working towards an effective ABC method of costing processes. Such a cost allocation method will enable councils to more readily ascertain the cost of given activities and where applicable, determine cost recovery levels.

RECOMMENDATION 2 Establish appropriate cost drivers to allocate indirect costs to activities

As discussed above, it was not possible in this consultancy for us to carry out a definitive, accurate allocation of indirect costs because the quality of measurement varied across the sample of councils.

Councils should seek to measure the appropriate cost drivers so that accurate cost allocation can take place. Some cost drivers that should be measured include the following:

Indirect Cost	Cost Driver
Finance	Volume and value of transactions
Customer service	Time in process (consider use of timesheets or customer service register)
Building Maintenance	Floor space
Engineering services	Time in process (consider use of timesheets)
Telephone	Bill usage
Information Technology	Percentage usage of Central Processing Unit storage capacity, or number of terminals
Depreciation of equipment	Value of assets employed
Human resources	Head Count
Stationery	Head Count
Light & power	Floor space



RECOMMENDATION 3

Improve the accuracy of direct activity cost determination

The most logical method of improving the accuracy of direct cost allocation is through the introduction of a time monitoring system such as maintenance of timesheets. This would allow the effective determination of direct costs such as salaries, on-costs, and motor vehicles by process and ultimately, by individual application or job.

It is appreciated that this may initially appear onerous for some councils, however we believe that the discipline of accountability for time spent on various processes will result in an improvement in productivity. Furthermore, such measurement of process time will enable councils to more readily ascertain the cost recovery of various applications and assist in the determination of contestable processes.

Ultimately electronic timesheets may form part of an overall management information system that can be used to more effectively allocate resources and develop council strategy.

Sophisticated costing systems using activity charge codes and databases which can be interrogated in a flexible manner will allow the capture of overhead costs more accurately. Once cost drivers have been identified, a system of recording cost driver information is necessary, allowing costs to be assigned directly to the activity responsible for incurring them. This includes more sophisticated capturing of costs in the accounts payable area, using activity charge codes or more detailed general ledger codes, and other subsidiary reporting systems.

The identification of cost drivers should lead to the development and measurement of the key performance indicators for these cost drivers, which are reported regularly. An example might be the records section recording the number of file movement requests in a month, broken down into the activity centres requesting them.

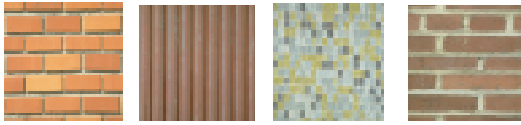
The use of activity charge codes in conjunction with timesheets for support staff allows the capture of relevant cost driver information. This will provide a more accurate reflection of which activity uses the most capacity of the support activity.

The organisational structure of councils should reflect the activities performed. For the purpose of recording costs and revenue, any support activities responsible primarily for the development control activity should be directly incorporated into that activity's cost centre. Support activities should be organised into the services they provide, and their total activity costs allocated to the activities they serve according to the service they provide.

RECOMMENDATION 4

Process improvement and re-engineering

Our visits to the various councils included in the sample revealed significant variation in process efficiency. Whilst it must be appreciated that there are extraneous factors that influence the time taken for the assessment of BAs and DAs across the sample



we did note that some councils are better equipped to deal with process bottlenecks than others. For example, some councils could improve customer waiting time in the customer service area by taking some of the initial assessment process away from front desk personnel. M3's customer service team was fully trained in all aspects of the customer service process. Any member of the team could handle pre-lodgement enquiries and also handle the central reservation unit functions. As such, the central reservation unit (which was comprised of customer service team members) could handle pre-lodgement steps, and receipt and lodgement steps such as checklist completion away from the counter. This tended to remove counter bottlenecks.

Another area of efficiency demonstrated by some councils is the use of technology through graphical interface systems that assisted with the notification process.

In some cases, council staff had not previously recorded or mapped processes until our visit. Our initial focus group meetings were the first time such analysis had taken place. It is our view that councils could improve efficiency by analysing business processes and identifying bottlenecks in a focus group setting.

All overhead and support costs should be allocated using an internal charging system, where support activities earn recharge revenue from the activities they support. This concept of the "Internal Customer" will normally lead to more efficient processes and more accountability for costs in both support and core activities. One council currently using such a costing method could accurately determine exactly what value each support activity added to a core activity, leading to a cost conscious attitude throughout the Development Control activity.

RECOMMENDATION 5

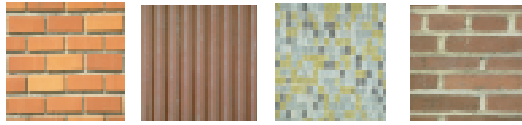
Implementation of an application tracking system

One council visited was in the test stage of implementation of an Access based application tracking system. While only in its early stages, the system will eventually interface with the activity's GIS system and allow an application to be assessed electronically. Such a system cuts down unnecessary steps such as manually retrieving certain information needed in the assessment process. Once access to the database is established for all staff who have input in the process across the council, the transfer time of the application from one step to another is reduced, and any staff member can answer inquiries as to the status of a particular application.

RECOMMENDATION 6

Tracking of DA and BA revenue by category

None of the councils visited were able to provide detailed cost recovery information, due to a lack of information on revenue by application category. Without such information, it is difficult to evaluate the cost of assessment and allocate resources appropriately. It is recommended that revenue information by category be captured from the point of lodgement.



9. OVERHEAD COST COMPARISONS TO OTHER INDUSTRIES

We have compared the overhead cost allocations determined in this consultancy to certain other industries. This information is presented below.

It should be noted that direct comparison between industries is not always meaningful due to the fact that cost allocation methods are often not sophisticated in other industries and processes are likely to vary significantly.

COMPARISON TO PROFESSIONAL & TECHNICAL SERVICES INDUSTRIES

EXPRESSED AS A PERCENTAGE OF TOTAL COSTS

	M1	M2	M3	M4	C1	C2	C3	C4
Councils From the Case Study Sample - Building Applications								
<i>Direct Costs %</i>	41.9%	49.0%	40.4%	54.4%	41.1%	65.4%	66.3%	61.1%
<i>Indirect Costs %</i>	58.1%	51.0%	59.6%	45.6%	58.9%	34.7%	33.8%	38.9%
Total Costs (100%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.00%	100.00%

Councils From the Case Study Sample - Development Applications								
<i>Direct Costs %</i>	54.6%	47.4%	52.0%	53.5%	49.2%	57.3%	65.1%	64.8%
<i>Indirect Costs %</i>	45.4%	52.6%	48.0%	46.5%	50.8%	42.7%	34.9%	35.2%
Total Costs (100%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

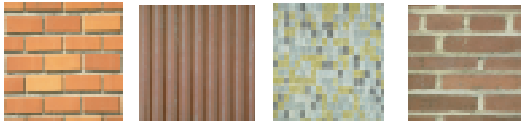
Advertising Services	
<i>Direct Costs %</i>	46.7%
<i>Indirect Costs %</i>	53.3%
Total Costs (100%)	100.0%

Market Research Services	
<i>Direct Costs %</i>	56.7%
<i>Indirect Costs %</i>	43.3%
Total Costs (100%)	100.0%

Business Management Services	
<i>Direct Costs %</i>	51.8%
<i>Indirect Costs %</i>	48.2%
Total Costs (100%)	100.0%

Legal Services	
<i>Direct Costs %</i>	48.7%
<i>Indirect Costs %</i>	51.3%
Total Costs (100%)	100.0%

Accounting Services	
<i>Direct Costs %</i>	58.0%
<i>Indirect Costs %</i>	42.0%
Total Costs (100%)	100.0%



In general, professional service firms have a 50/50 rule of thumb in relation to allocation of overheads. That is, indirect costs and support costs are roughly the same proportion of total costs as salaries and oncosts. Salaries and oncosts are the single largest cost in all process driven service industries, where technical services of some kind are offered. Typical overhead costs include the cost of specialist software, technical equipment and other professional support services. It can be seen from the above table, that the metropolitan councils on the whole have a higher proportion of costs in overheads. This is consistent with the other overhead proportions for the other service industries. The information on other service industries has been obtained from the Australian Bureau of Statistics, and would be influenced by the concentration of service firms in capital cities, where property costs are high.

The proportion of total costs representing direct costs is different for each service industry. It is reasonable to expect indirect costs to be higher in the advertising industry, where production and creative departments would add considerable expense, than market research, which is very labour intensive. Accounting services have lower indirect costs than legal services and business management services, but on the whole, a general rule of 50/50 appears to be reasonable.

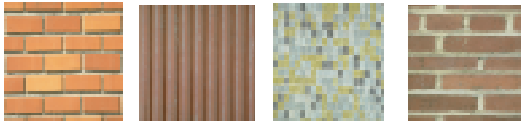
Included in the costs for other industries presented above are the following costs:

Direct Costs:

Wages and Salaries
Employer contributions to superannuation funds
Workers Compensation
Payments to sub contractors and consultants

Indirect Costs

Rent, leasing and hiring expenses
Telecommunications
Professional library expenses
Postal, mailing and courier services
Motor vehicle running expenses
Audit and other accounting expenses
Travelling, accommodation and entertainment expenses
Clerical fees
Utilities
Payment for training services



10. CONCLUSIONS

The sample councils examined in the case study exhibit a cost structure which is reflective of their particular categories. Urban Developed Medium councils generally have the highest cost structure. This is attributable to higher overheads, the density of their resident population, and the attitude of their residents towards development. More densely populated regions tend towards more Medium and High Density developments, which are more costly to assess.

Typically the residents of densely populated councils are more anti-development and will object to development proposals. This will lead to extended notification, dispute resolution and referral processes as an attempt to minimise resident backlash on the council. Legal fees constitute a higher proportion of total costs in this category.

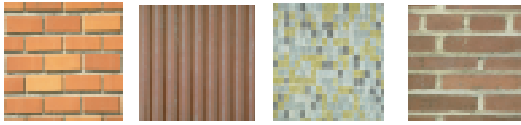
Urban Fringe Very Large councils tend to have lower assessment costs as a result of being lower density, pro-development and achieving some economies of scale. The attitude of residents toward development enables less stringent procedures to be adopted in many applications, such as the proportion of building applications that require a DA consent.

Country councils in the Urban Regional Medium category experience costs only marginally smaller than the Urban Developed Medium councils. Those examined had additional costs due to travel for inspections and residents who were anti-commercial and Medium/High Density development. Rural Agricultural councils tended to have lower assessment costs due to lower overheads and more simple processes, but experienced high travel costs for inspections.

The sophistication of cost allocation is generally greater in the Urban Developed Medium category, leading to higher total costs. The more sophisticated the costing system, the better it can allocate costs to those activities in the council that are the heaviest users. However, no council had yet achieved full overhead allocation, nor had they yet implemented a costing system capable of accurately allocating their costs, with the exception of C1. Each council was at a different stage in the process of costing.

The cost recovery results tabled in this report more or less follow the pattern of the IPART Development Control Fees Survey. However, on average the metropolitan councils' recovery rate appeared higher in the case studies performed in this consultancy. More importantly, the limited results do point toward some cross subsidisation between categories, with a tendency towards subsidisation of Residential Single Dwelling applications by Commercial and/or Residential Medium/High Density Dwelling applications.

While the source of the calculated costs tabled in this report are based on subjective estimates, and may suffer from some sampling bias, some methods of determining a suitable fee structure can be suggested.



METHOD 1

Using the standard application cost tables, a separate fee set for DAs and BAs based on council category. This is a weighted average cost for each application in each category, according to the proportion of total applications and their relative cost in each category.

METHOD 2

Use the standard application cost tables, a separate fee set for DAs and BAs based on council category and application category. This is an average cost for each application in a particular category, according to the proportion of applications in that category that require certain steps in the assessment process.

METHOD 3

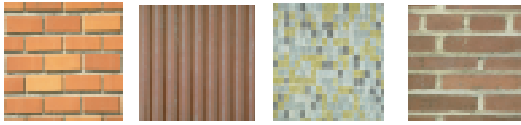
Using the hourly rate tables, a separate fee set for DAs and BAs based upon the steps required in each application. This can be pegged against the standard time for an application, with a certain overrun permissible.

METHOD 4

Using the decision trees, a base “problem free” fee can be determined, with add on increments for the various steps that are necessary for a particular application.

METHOD 5

Using the application cost tables, together with the decision trees, setting a standard fee encompassing a standard cost and time, with the option of allowing variations to reflect council’s own circumstances. Separate fees for major DA and BA categories would also be considered.



ABBREVIATIONS USED IN THIS REPORT

IPART	Independent Pricing and Regulatory Tribunal (NSW)
DA	Development Application
BA	Building Application
M 1	Urban Developed Medium case study council 1
M 2	Urban Developed Medium case study council 2
M 3	Urban Fringe Very Large case study council 3
M 4	Urban Developed Medium case study council 4
C 1	Urban Regional Medium case study council 1
C 2	Urban Regional Medium case study council 2
C 3	Rural Agricultural Large case study council 3
C 4	Rural Agricultural Very Large case study council 4
EIS	Environmental Impact Study
RSD	Residential Single Dwelling
RMHD	Residential Medium / High Density Dwelling
CBI	Commercial / Business / Industrial
DD	Designated Development
SD	Subdivisions
OTH	“Other” application category
IPART survey	IPART Survey on Development Control Fees
UFV	Urban Fringe Very Large
URM	Urban Regional Medium
RAL	Rural Agricultural Large
RAV	Rural Agricultural Very Large