NSROC
Northern Sydney
Regional Organisation
of Councils

5 August 2021

Review of the Rate Peg to Include Population Growth
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
SYDNEY NSW 1240

Via the IPART online portal

Dear Mr Shields

NSROC Submission to IPART on the Review of the Rate Peg to Include Population Growth – Draft Report

Northern Sydney Regional Organisation of Councils (NSROC) appreciates the opportunity to make a submission to IPART on the Review of the Rate Peg to Include Population Growth – Draft Report.

In line with the LG NSW position, NSROC broadly supports the findings in the draft report but notes that a one-off mechanism to address historic per capita revenue losses is needed. NSROC also argues that the relationship between population growth and council costs is not always linear given increasing community expectations and other demands placed on councils by government policy reforms. Therefore the proposal to retain but simplify and streamline the Special Rate Variation process is supported.

NSROC engaged GLN Planning to assist in its analysis and consideration of the IPART Rate Peg Review and the Productivity Commission's recommendations regarding infrastructure contributions. We provide a copy of their report for your information. Please note that the modelling does not remove rate revenue that would be received from supplementary valuations for new dwellings. As such the modelling overstates the additional revenue that would be received from the population growth factor. Additional work is currently underway to refine the model.

NSROC notes that IPART has recently been asked by the Minister for Planning and Public Spaces to review the essential works list. NSROC strongly objects to the inclusion of the following constraint in the Terms of Reference. *'The essential works list must not expand beyond the current parameters and community facilities works must not be included.'* This is an unnecessary limitation on IPART. It will significantly fetter the consideration and identification of the most effective policy settings to support Councils' capacity to provide communities with much needed infrastructure.

NSROC strongly objects to the Government's decision to tie reform of the rate peg to cater for population growth to reductions in infrastructure contributions. This is a cost shift from developers onto ratepayers and councils. While NSROC acknowledges the need to reform infrastructure contributions it should be considered independent of the rate peg reforms.

NSROC's response to the questions raised in IPART's Draft Report are attached. NSROC member councils would welcome further engagement on these matters as the new policy settings are being finalised. If you require further information, please don't hesitate to contact me on [redacted] or [redacted]

Yours sincerely

[redacted]

Dr Meg Montgomery
Executive Director NSROC

Submission

IPART Review of the Rate Peg to Include Population Growth – Draft Report

5 August 2021

Prepared by Northern Sydney Regional Organisation of Councils

Member Councils: Hornsby Council

Hunter's Hill Council

Ku-ring-gai Council

Lane Cove Council

Mosman Council

North Sydney Council

City of Ryde Council

Willoughby City Council

Contact: Dr Meg Montgomery

Executive Director, NSROC

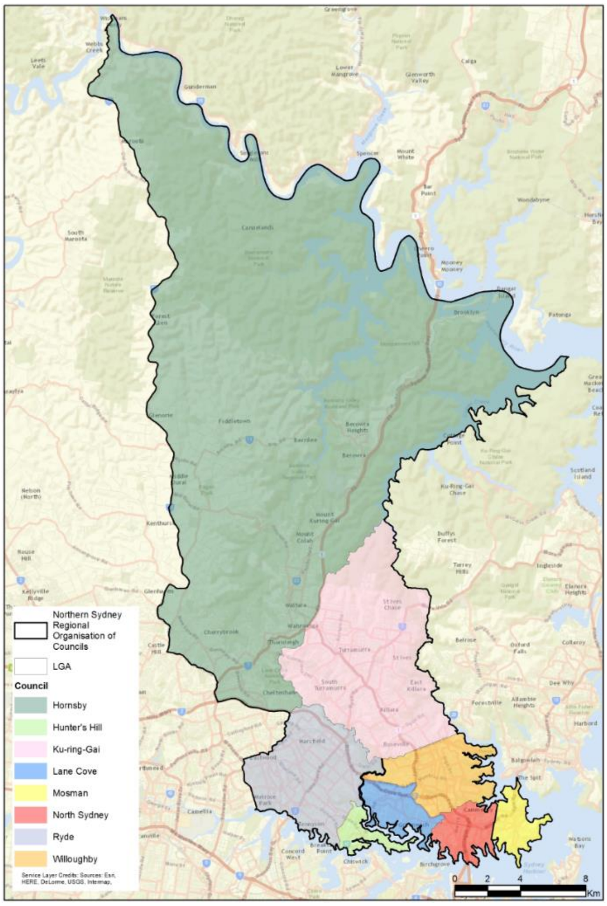
[redacted]

Introduction

The Northern Sydney Regional Organisation of Councils (NSROC) is pleased to make this submission to the Independent Pricing and Regulatory Tribunal's Review of the Rate Peg to Include Population Growth – Draft Report.

The Northern Sydney Regional Organisation of Councils (NSROC) is a voluntary association of eight local government authorities in Sydney. NSROC assists member councils to collaborate on key issues and activities to develop regional solutions that generate benefits – social, environmental and economic – for their communities and for the region as a whole.

NSROC member councils service an area extending from the Hawkesbury River in the north to Sydney Harbour in the south, west to Meadowbank on the Parramatta River, as shown in Map 1.



Map 1: Northern Sydney Regional Organisation of Councils area

The eight NSROC member councils are:

- Hornsby Shire Council
- Hunter's Hill Council
- Ku-ring-gai Municipal Council
- Lane Cove Council
- North Sydney Council
- Mosman Municipal Council
- City of Ryde
- Willoughby City Council.

The Gross State Product (GSP) for NSROC is estimated at $70.24 billion, or around 11% of the state's GSP (economy.id, 2019). The economy altogether provides over 400,000 jobs (NIEIR, 2020).

The Northern Sydney Region, as an established region, is experiencing residential densification and demographic change. In 2020, the NSROC Region had an Estimated Resident Population of 655,817 (profile.id), representing 8% of the NSW total, with a population density of 10.26 persons per hectare.

Forecast population growth in the Northern Sydney region is lower than for other regions of Sydney. The region has limited new release development areas and faces considerable cost constraints in sourcing land for community infrastructure. As at June 2018, the median house price in the region was 144% more than the state average (profile.id).

NSROC broadly supports IPART's proposed model

The proposal to allow rates to grow beyond the peg based on population growth represents a significant reform to the rating pegging system. The proposal will provide clear and quantifiable benefits to councils and the communities they serve. NSROC notes the model is not 'one size fits all' and welcomes a tailored approach that applies to each individual council.

NSROC is concerned there is no proposed adjustment for previous population growth

NSW per capita rates are lower than any other state and the Productivity Commission estimates that NSW councils have foregone $15 billion in rate revenue over the past 20 years compared to Victorian councils as the result of rate pegging.

IPART's proposed methodology is forward looking and there is no compensation proposed for revenue shortfalls due to historical population growth. NSROC seeks the inclusion of a mechanism for a one-off adjustment based on an average of historical population growth. Consistent with the forward looking model, the approach should ensure that a council whose historical population growth was negative is no worse off.

NSROC supports IPART's recommendation that a Council's general income on a per capita basis should be maintained as its population grows.

In addition, NSROC argues that the relationship between population growth and council costs is not always linear as suggested in the draft report. Other forces such as increasing community expectations and demands placed on councils by government policy reforms also impact council costs. The proposal to retain but simplify and streamline the Special Rate Variation process is supported.

Responses to questions in the IPART draft report

1. *Should our methodology be re-based after the census every five years to reflect actual growth?*

The methodology should be re-based for a council area if it would result in a material increase in income. Adjustments should not be made if it would lead to a decrease in income as this would introduce uncertainty into future revenue budgets and planning for service provision.

2. *In the absence of a true-up, should we impose a materiality threshold to trigger whether an adjustment is needed on a case-by-case basis to reflect actual growth.*

As flagged above, the methodology should include a one-off mechanism to address the revenue shortfalls due to historical population growth.

NSROC does not support the imposition of a materiality threshold. Thresholds and limits risk creating unintended consequences. Councils are best placed to understand when an adjustment is needed. However this 'as-needed' mechanism should be <u>in addition to</u> regular re-basing <u>not instead of</u> re-basing.

3. *Do you have any other comments on our draft methodology or other aspects of this draft report.*

As noted in section 3.5 of IPART's Draft Report, Councils are already receiving additional revenue from supplementary valuations. NSROC has undertaken its own modelling of supplementary valuations and identified that member councils on average receive approximately 50% of the proposed population revenue growth from supplementary valuations. As IPART proposes to reduce the revenue benefit from population growth by the supplementary valuations, the benefit of the proposed reforms will only realise about an 0.5% increase in rates revenue for each 1% increase in population.'

NSROC strongly objects to the Government's decision to tie reform of the rate peg to cater for population growth to reductions in infrastructure contributions. This is a cost shift from developers onto ratepayers and councils. While NSROC acknowledges the need to reform infrastructure contributions it should be considered independent of the rate peg reforms.

Overall NSROC supports the proposed reform and is firmly of the view that:

- Per capita rate revenue must be maintained over time
- A one-off mechanism to address historic revenue losses should be included
- a regular re-basing mechanism should be included
- that councils with negative growth should have a population factor of zero to ensure they are no worse off under the methodology
- Government should not link the rate peg reform with infrastructure contributions.

- ENDS –

gln.
planning
consulting
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IMPACTS OF LOCAL GOVERNMENT RATES AND INFRASTRUCTURE CONTRIBUTIONS REFORMS

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Impacts of Local Government Rates and Infrastructure Contributions Reforms

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Client:	NSROC
Project Number:	11497

Note: The rates modelling undertaken for NSROC has not removed revenue that would be received from supplementary valuations for new dwellings. Councils would receive this revenue without any reform of rate pegging. The CIE modelling is unclear in relation to this matter, and the NSROC model has therefore been undertaken using conservative assumptions. The NSROC modelling produces a more generous estimation of revenue - that is, the modelling overstates the additional revenue that would be received from inclusion of a population based rates component. Further modelling is currently underway to estimate the alternate scenario of the projected additional income from population growth being reduced by the projected additional income from supplementary valuations.

Document History and Status

Version	Issue To	Qty	Date	Prepared by	Reviewed by
Draft	Meg Montgomery	1-e	21/6/21	Nicole Haddock	Greg New
Final	Meg Montgomery	1-e	7/7/21	Nicole Haddock	Greg New

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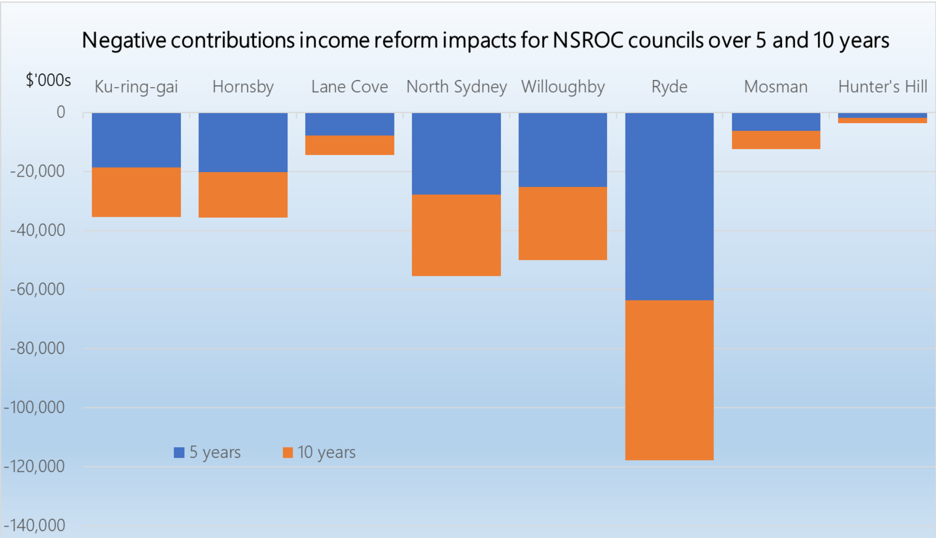
Executive Summary

The NSW Government in May 2021 announced reforms to the rating and infrastructure contribution systems estimated to result in NSW councils receiving a net gain of $400 million over the first 5 years of the reforms commencing.[1] This announcement followed the NSW Productivity Commission's (PC's) review of the local contribution system in NSW and the Independent Pricing and Regulatory Tribunal's (IPART's) earlier review of the rating system.[2] The net gain is estimated to come from additional rates income as a result of 'population growth' being included in the rate peg; offset partially, it is assumed, from reduced contributions revenue as a result of the contribution reforms.

The Northern Sydney Region Organisation of Councils (NSROC) commissioned GLN Planning (GLN) to assess the impact of the reforms on member councils and the region as a whole, and in doing so, test these reported net gains. Our assessment shows that the opposite would be true for these councils based on the net cashflow impact of the proposed reforms over the next 5, 10 and even 20 years, with potentially large net income losses over time. This will place councils under even more pressure to maintain services and assets for existing communities, let alone, catering for the infrastructure needs of growing communities.

Our modelling of both rate peg and contributions reforms indicates how NSROC councils face **combined net losses of $67 million (nominal) over the first 5 years** of implementation. Conversely, the Government's modelling showed the net gain in the 5th year alone would be $172 million (nominal) across NSW. As the chart below shows, **the cumulative revenue losses from the proposed contributions reforms for all NSROC councils over the first 5 and 10 years is driving these negative net income results** (chart results are in real terms and do not include rate peg gains).[3]



Note: Contribution revenue impact scenario is if community and indoor recreation facilities are excluded from the 7.11 essential works list, there is no s7.12 levy for alterations/additions and a consistent annual average development yield applies.

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1 Centre for International Economics (CIE) on behalf of the NSW Government (undated), *Revenue projections for changes to local government rates and local infrastructure contributions*, accessed on 20 June 2021 at https://www.olg.nsw.gov.au/wp-content/uploads/2021/03/CIE-Briefing-Rate-Revenue-Projections-24032021.pdf ('CIE modelling'). These reported gains are in nominal terms.

2 NSW PC, *Review of Infrastructure Contributions in New South Wales* for the Government , final report, November 2020 ('PC final report') and IPART, *Review of the Local Government Rates in System – Final Report*, 2016.

3 We have reported both nominal and real term results because the CIE modelled results in nominal terms and we need to make a like-for-like comparison, but otherwise, we consider that real term results which are adjusted for inflation (as well as discounted net cashflows), provide the most accurate assessment of the financial impact on councils.

Historically, councils have used income from rates to maintain services and renew assets, and income from infrastructure contributions to build infrastructure. The rate reforms were intended to maintain 'income per capita' to ensure services can be provided in line with the demand of increased population growth. Yet if contribution reforms also substantially reduce contributions income, councils will need to use additional rates funds through special rate variations to also provide a significant portion of its community infrastructure needs.

Forecasts based on optimistic rates growth assumptions and understated contributions reforms impacts

The State Government's modelling of the impact of the rate peg reforms is based on pre-COVID projections that are overly optimistic, as explained below.

The Government's modelling assumed **4.75% per annum growth in income** for every council before the population growth factor was even applied.

The **rate peg** set by IPART averaged 2.2% over the last 5 years and **2.5% over the last 10.**

Councils might receive around a quarter of a percentage in additional rates income for 1 percent growth through supplementary valuations, but apart from that, **it is only special variations that allow for further increases.**

The 4.75% assumes an average special variation for every council per year of around 2.25 to 2.55%. This is not realistic in the context of the reforms and many councils' individual circumstances. The population growth factor would make many councils less inclined to seek special variations in the short term at least, given that average rates levels will already be increasing beyond inflation.

The overestimation of initial rates income has significant implications on additional income over the forward years due to the compounding impact.

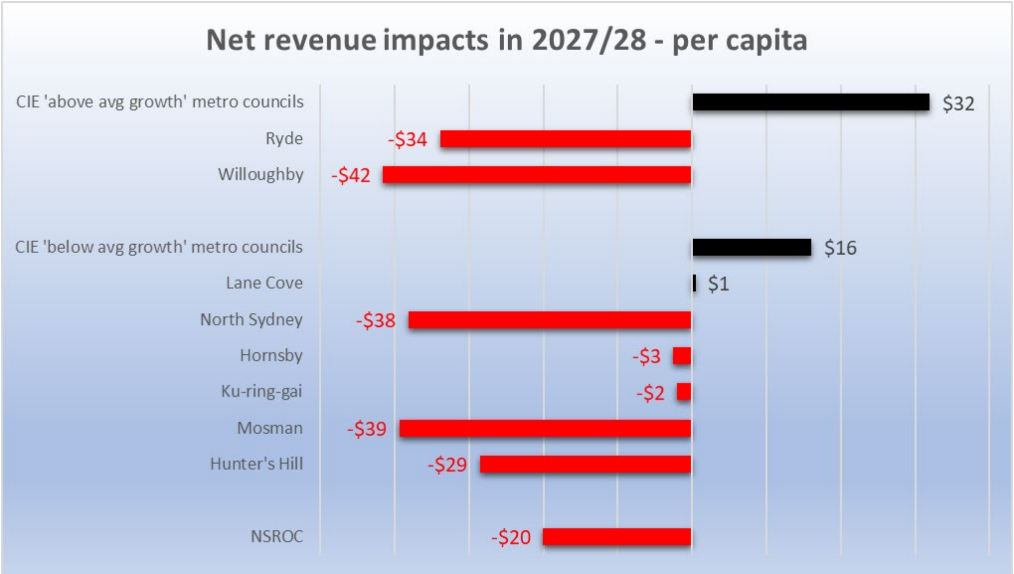
In addition, the Government's modelling assumptions regarding how contributions revenue might be affected were relatively arbitrary.[4] They did not appear to adequately reflect the extent of the potential impact given potential 'essential works' definition changes for s7.11 contributions, and the proposed changes to s7.12 levies, as reflected by the PC final report.

Net per capita income losses rather than gains

Councils need adequate funding to service the needs of their populations and a more accurate estimate of the impacts on different cohort of councils as a result of the reforms is needed. The Government's modelling showed the net gain in the 5th year alone would be $20 per capita more than if the reforms had not occurred. Our modelling of the reforms (using actual local contributions settings and receipt history, ABS building approvals data and forward growth projections) reveals a very different picture for the NSROC region, which we anticipate, would be similar for many Sydney infill councils.

[4] The CIE modelling assumed a 50% reduction in open space works costs and removal of community facility works costs entirely for a combined estimated reduction in contributions in infill plans of 21% (based on existing NSROC s7.11 plans, the reduction in contributions would be much higher than 21% with these assumptions). It also assumed a 50% reduction in planning agreement income without any changes to s7.12 income despite the PC findings and recommendations regarding s7.12 contributions.

The following chart compares the Government's (CIE's) result for the 'high growth' and 'low growth' metro council groupings and the results we have found from our modelling of the particular conditions in each NSROC council. It shows that **all but one NSROC council will experience net revenue declines per capita in the 5th year** (and in all the years preceding it).



Contributions reforms impacts

Although all the details of the contributions' reforms are not yet available, modelling of what is known about the reforms suggests significantly reduced contributions income for most metropolitan councils at least. Declines are likely to occur to both the s7.11 contributions and s7.12 fixed-rate levy projected income levels depending on the finer details of how the reforms are implemented. This will drive the cost of meeting increased infrastructure demand generated by developers to existing community members, or stifle growth altogether.

Raising the s7.12 levy from 1% to 3% will not result in the anticipated increase in income for NSROC councils; instead s7.12 changes could have further negative impacts. This is due to the proposed new monetary contribution limits of $10,000 on houses, $8,000 on apartments and other rate limits for all forms of non-residential development.[5]

We calculated these residential amounts to represent around 1.8% of the development cost for dwellings; not 3% . Non-residential rates amount to 0.2% of the development cost for non-residential uses, well below the existing 1%.

S7.12 income losses will be compounded by the proposal to exempt non-demand based development (essentially, alterations and additions, changes of use and fit outs) and instead only apply the levy to net additional floor area. For councils such as Hunter's Hill and Mosman that heavily rely on this form of s7.12 income, this proposed change alone would remove the majority of their contributions revenues.

[5] $35/sqm of additional Gross Floor Area (GFA) for commercial uses, $25/sqm for retail uses and $13/sqm for industrial uses.

Our modelling shows that **if NSROC councils adopted the s7.12 levies for demand-based development,** with the proposed new maximum limits AND they received the additional rates income from the population growth factor, **the cumulative net income loss after 20 years (2040/41) would be $249 million** (in discounted, real terms). This demonstrates just how unreasonable the proposed new maximum limits for s7.12 levies are.

GLN modelling results at a glance…

Currently in the NSROC region	
Councils receive infrastructure contributions income of (*average last 5 years)	around $108 million / year

In the first 5 years after the reforms commence:	
NSROC's cumulative contributions income as a result of the reforms is expected to be	$158 million lower than business as usual

In the 17 years to 2040/41:	
NSROC's estimated contributions income, depending on the final detail of the reforms, is likely to be	$682 million lower than business as usual

Notes:

Lane Cove Council is assumed to also no longer levy s7.11 contributions for open space legacy assets because this is unlikely to continue under the reforms.

Mosman and Hunter's Hill do not levy s7.11 contributions and so these councils are assumed to levy s7.12 contributions on demand-based development at the new proposed limits.

Willoughby City Council is assumed to levy non-residential development in its LGA at the new s7.12 proposed limits (as it currently levies development with additional commercial floorspace s7.12 contributions).

List of findings and recommendations

Our full list of findings (20) and recommendations (8) are listed below. The findings and recommendations below the summary list also appear throughout the body of the report in the relevant sections.

Summary of reform impacts

1. The premise of the Government's contributions reform package that the population growth adjustments to the rate peg will provide councils with sufficient revenue to meet the needs of growing communities is not borne out by our analysis of NSROC councils. Instead, the combined losses as a result of the s7.11 and s7.12 contributions reforms are $67 million (nominal) over the first 5 years and $73 million over 10 years and these net losses would likely continue for many councils, with the reforms as currently proposed.

2. The s7.11 recommendations alone which focus on restrictions to 'development-contingent' or 'essential works' only for contributions plans could easily reduce contribution revenues by around 32% for infill councils, rather than the 21% reduction identified in Government modelling.

3. The PC's intent of the s7.12 reforms to introduce a simpler, but still reasonable option for infill councils to levy demand-based development does not appear to be met for infill council areas. The s7.12 demand-based levies present a more complex approach with the combined percentage and threshold rates. The proposed maximum rates fall well short of the maximum percentages proposed as a share of development cost and if adopted by infill councils (instead of s7.11), would potentially restrict revenue to a point that most NSROC councils would not be able to deliver infrastructure needs nor recover financially over 20 years, even with the population growth factor also increasing their rates income.

4. The contribution reforms as proposed will force councils to either use rates from existing residents to provide capital for infrastructure to meet increasing demand, or delay or remove projects from their infrastructure contributions plans, or both.

5. **Recommendation** - The proposed changes to s7.11 and s7.12 contributions should be reviewed and adjusted by the NSW Government so that significant cost-shifting to ratepayers for growth infrastructure and infrastructure delays are avoided, and that all councils are no worse off.

S7.11 local contribution reform impacts

6. The impact of the removal of certain facility works from the Essential Works List (EWL), all else being equal, would reduce the NSROC region's combined s7.11 contributions revenue in real terms ($2021/22) by:
   (a) $29m per annum on average (equating to $44 per resident) or $497m in total by 2040/41, if community and indoor recreation facility items are excluded,
   (b) $39m per annum on average (equating to $18 per resident) or $690m in total by 2040/41, if open space facilities are also excluded, and
   (c) $12m per annum on average (equating to $59 per resident) or $205m in total by 2040/41, if public domain facilities are also excluded.

7. **Recommendation** - Rather than being 'category-based', the essential works in an infill area context should be public amenities and services needed to support the quality of life enjoyed by the residents and workers in an area, and which increases the carrying capacity of existing infrastructure networks.

8. **Recommendation** - Where possible, NSROC councils should provide actual evidence of their infrastructure costs to IPART during its upcoming reviews of benchmark costs (for s7.11 plans) so that they can demonstrate the actual cost of infrastructure provision in their LGAs and influence the cost outcomes.

S7.12 local contribution reform impacts

9. NSROC councils would receive more revenue by continuing to levy demand-based development s7.11 contributions, rather than s7.12 levies under the reforms, *unless* the s7.11 mechanism through the EWL is effectively restricted to levels below the s7.12 maximum rates. In this case, its future contribution revenues would be significantly reduced – by $117m or 42% over 20 years, or by an average of $5.8m and $69 per capita each year (all in real terms).

10. The maximum s7.12 rates in the reform recommendation are well below the maximum percentage charges (on development cost). The non-residential s7.12 dollar limits - purportedly representing 1% of development cost - would instead reflect about one-fifth of the existing 1% non-residential levy in the NSROC region. This is not an acceptable policy outcome when workers represent a large share of demand for growth infrastructure needs in various centres of the NSROC region such as North Sydney, St Leonards and Chatswood.

11. **Recommendation** - The maximum amounts per additional dwelling or additional area of non-residential floor space should be increased from the levels proposed so that they reflect the actual costs of development for infill councils, including NSROC councils (and equate to the proposed new standard 3% of development cost for residential development and continuation of 1% for non-residential development).

12. The cumulative revenue losses of the proposed contributions reforms would be further increased by the exemption of non-demand-based development from s7.12 levies. NSROC councils would lose a collective total of $11m per annum in real terms, all else being equal, if the NSW Government decides to exempt non-demand based development from s7.12 levies. This equates to an average loss of $16 per capita each year.

13. For some councils, such as Mosman and Hunter's Hill, the exemption of s7.12 levies would result in most contributions income being foregone (we have calculated the reductions to be as much as 91 and 96% of contributions income, respectively). These low-growth councils are also likely to generate less additional income as a result of the rate peg reform to include population growth.

14. **Recommendation** - The s7.12 reforms must be adjusted, phased-in or delayed (at least until the rates base has a chance to 'catch up' the revenue loss for Council) if the Government does decide to exempt non-demand-generating development from s7.12 levies. Alternative funding options must be available to councils such as Hunter's Hill and Mosman where s7.12 revenue losses would not be recouped over time.

15. **Recommendation** - At the very least, residential developments that result in additional floor area (including dwelling extensions or knockdown rebuilds) should continue to be levied s7.12 contributions as applicable as they provide the potential for higher occupancy and greater demands on infrastructure.

Rate peg reform impacts

16. Assumptions used in the Government's modelling of linking the rate peg to population growth are overly optimistic, and unrealistically distort the modelled impacts. In particular, the Government's assumption that councils would continue obtaining approval for special variations to income at levels seen in the past is unrealistic.

17. **Recommendation** - Modelling the impact of including a population growth factor in the rate peg should take the projected rate peg (2.5% from 2023/24) or approved special variation for a council as a base case only and not a higher base case percentage (e.g., 4.75%), to best isolate:
    (a) the actual revenue impact of the reform, and
    (b) the need for any supplementary funding as a result of any simultaneous negative contribution revenue impact.

18. NSROC councils would receive a combined total of $549m more revenue by 2040/41 in real terms as a result of the rate peg reform, ranging from +$1m for Hunter's Hill as the lowest growth council area in the NSROC region to +$192m for the City of Ryde, the highest growth council area. The per capita impacts in an LGA are correlated with income impacts, with the lowest average annual impact of +$4 per capita in Hunter's Hill and the highest +$54 per capita in the City of Ryde. It is acknowledged that a small portion of this growth is already being collected by councils through the supplementary valuation process.

19. Increasing rate peg income by population growth would increase council revenue in the NSROC region by an average of $2,012 per household by 2040/41.

20. Average rates are expected to increase with population growth in an LGA under the reforms but the impact on individual ratepayers will depend upon:
    (a) the allocation of rate increases among different categories and subcategories of ratepayers by a council, including minimum rates.
    (b) the net funding available by councils for additional infrastructure and services under the combined impact of the rate peg and contribution reforms, and the need for any special rate variations.

Net income reform impacts

21. The extra rates income flowing from rate peg reforms fails to offset contributions income losses under all 6 contributions reforms scenarios tested (as presented in Table 10, which reflect possible reform outcomes, consistent with the intent of the PC's report), for at least the first 5 years of the reforms implementation.

22. Scenario 1 (in our assessment in Table 10) which arguably best reflects the thrust of the PC's contributions reform recommendations (i.e. community and indoor recreation facilities are excluded from EWL and an exemption for non-based development (alterations/additions) is applied to s7.12 levies) would result in a negative cumulative discounted net cashflow impact on

the NSROC region for the first 15 years of the reforms implementation, before turning positive from 2038/39.

23. The outlook would improve over the first 10 years if, based on the scope of our model, one or more of the following adjustments were made:

    (a) The changes to the EWL for infill councils list were very limited (e.g., if all 'growth infrastructure' was permitted in the EWL regardless of infrastructure category) – this action alone would result in the cumulative discounted net cashflow position being +$17m in 2032/33.

    (b) The s7.12 exemption for non-demand based development did not apply - this action alone would result in the cumulative net position being +$32m in 2032/33.

    (c) Supplementary valuation growth was allowed to continue to increase general income for a council, in addition to the rate peg being adjusted fully for population growth - this action alone would result in the cumulative net position being +$23m in 2032/33).

Other contribution reform impacts

24. The short to medium term negative revenue impacts of the reforms will only be exacerbated by the delay of contribution payments to the development's occupation certificate (OC) stage, which is another reason why reforms should be adjusted to reduce negative contribution revenue impacts or at the very least, be delayed or phased-in.

25. The new Regional Infrastructure Contribution and Major Transport Charge will be levied on development in the NSROC region, the latter only if there is an increase in development capacity as a result of major transport projects. Councils must monitor the Government's future infrastructure list to be funded by these contributions to ensure that their LGAs are getting their 'fair share'.

26. The impact on development from the new state-based charges in the NSROC region appear to be offset at least partially by reduced local contributions, the extent of which will be determined with the release of further reform implementation details. The reduced funding from development contributions to councils is to be offset by the increase in rates revenue with the addition of the population growth factor.

27. The reforms encompass increased administrative and compliance burden for local councils in the short to medium term, particularly related to the needs of the new centralised (digitised) contributions system, the amendments to plans and the integration of the plans within the IP&R framework.

28. **Recommendation** - The NSW Government should adequately resource councils to meet the increased administrative and compliance burden in the short to medium term

1 Background

1.1 Reform context

Rate peg and contributions reform

The local government rate peg has been NSW Government policy since 1977 such that a council's 'general income' cannot increase by more than the rate peg percentage without a special rates variation.

IPART completed the Review of the Local Government Rates in System in 2016. The NSW Government's response to IPART's rates system review in June 2020 included that its policy position was to include population growth in the rate peg formulation. The Government issued terms of reference to IPART to undertake the review of the rate peg, which is now underway.

The NSW Productivity Commission (PC) in 2020 completed a holistic review of the infrastructure contributions system in NSW. The Final Report on the Review was released in November 2020, with a package of reforms which impact on local councils' capacity to fund local infrastructure and collect contributions from development in NSW.

In March 2021, the NSW Government confirmed it had accepted all 29 recommendations in the Final Report. While some recommendations may be implemented early, the principles-based framework for local contributions (and underpinning legislation) is expected to be established by 1 July 2022 and apply to new plans, and draft plans that have not been publicly exhibited after that date.

Financial impacts modelling

The NSW Government engaged the Centre for International Economics (CIE) to model the financial impacts of the PC's proposed reform package (December 2020), including the revenue projections as a result of:

- reform of the local government rate peg to enable rates revenue to grow in line with population - currently, the rate peg does not allow for any growth in line with population growth in each council area
- adjustments to local infrastructure contributions to restrict the use of planning agreements, increase the threshold for some S7.12 levies and allow S7.11 contributions for development-contingent costs only.

In general, CIE's results showed that under the combined set of reforms, councils will gain increased revenue from rates, but decreased revenue from infrastructure contributions, compared to what would be expected with current policy settings.

1.2 Brief

GLN was engaged by NSROC to prepare a study including developing a revenue impact model for the NSROC region.

The brief required GLN to undertake all investigations to meet the project objectives, namely:

(a) Understand the financial and economic impacts of the changes recommended by the NSW Productivity Commission to the rate calculations and infrastructure contributions from developers and landowners.

(b) Understand the appropriateness of CIE modelling assumptions and methodology used to reach conclusions, including the impact of grouping of councils into three population growth groups and not taking into account other modelled assumptions.

(c) Develop a historical record (fact base) of:

   i. rate increases gained by each member council over the last 10 years – allowing for population growth

   ii. summarised special rate variations sought, granted and reasons/drivers for the rate variations e.g., population growth, infrastructure backlog etc. for each NSROC member council.

   iii. S7.11 and s7.12 levies (section 94 previously) collected by member councils.

(d) Develop a robust model that can be used to investigate the financial impact of incorporating population changes, changes to s7.11 and s7.12 charges, such as thresholds, limiting to developer contingent costs (i.e., restricting expenditure to the 'essential works list' on capital works programs – see DPIE Practice Note), changes to timing of payment of charges.

(e) Develop case studies to demonstrate the impact of proposed changes to s7.11 levies and s7.12 contributions on Councils' income and capital works programs.

(f) Outline the long term (10 year) economic impact and forecasts for member councils.

(g) Recommend amendments to the IPART and NSW Productivity Commission approaches that would improve the financial impact for member councils reflecting the characteristics of the Northern Sydney Region.

1.3 Project approach

GLN, in collaboration with member council staff, developed a model for each NSROC council to show how rates and infrastructure contributions income:

- has tracked over the last 10 years (see Chapter 2 for a discussion about past expenditure and revenue trends for NSROC councils)
- would track over the next 20 years if there were no reforms
- would track over the next 20 years if the reforms were implemented in their current form (acknowledging that the details are still being determined)

To do this, GLN met with and obtained information from NSROC and council officers. Those inquiries were targeted at obtaining relevant data on historic and project population growth, historic movements in rate revenue, historic and future contributions income and expenditure, the characteristics and types of works included in each council's contributions plans.

Development of the model required the following data inputs:

- Forecast dwellings by year
- Forecast population by year
- Forecast additional workers per annum

- Forecast non-residential GFA per annum
- Current s7.11 contribution rates by catchment by development types
- Current s7.12 contribution rates
- ABS building approvals data - construction investment value in LGA - 5 year average (2015/16 - 2019/20) in $2020/21 terms
- Rates' revenue inputs
- Assumed rate peg
- Assumed base rates growth
- Permissible income 2020/21
- Discount rate - nominal
- Discount rate - real
- Indexation inputs

1.4 Model

A summary of the model – which in fact was 8 models for each council in the NSROC district – is shown in **Figure 1**.

Figure 1 Rate peg and contributions reform impact model

Inputs

- Historical rating, contributions and income statement (financial data)
- Development growth projections (DPIE and Council sources)
- Historical ABS Building Approval data for construction value projections
- Financial and indexing assumptions

Outputs

- Projected contribution revenues based on the council's existing contributions framework, works inclusions and rates
- Projected contributions based on different possible changes / contributions reform scenarios
- Projected rates revenue for 2 base cases (rate peg only 2% & higher than rate peg 4.75% scenario) & different population projections outcomes
- **Net impact on council income resulting from contributions and rate peg reforms**

Note: The rates modelling undertaken for NSROC has not removed revenue that would be received from supplementary valuations for new dwellings. Councils would receive this revenue without any reform of rate pegging. The CIE modelling is unclear in relation to this matter, and the NSROC model has therefore been undertaken using conservative assumptions. The NSROC modelling produces a more generous estimation of revenue - that is, the modelling overstates the additional revenue that would be received from inclusion of a population based rates component. Further modelling is currently underway to estimate the alternate scenario of the projected additional income from population growth being reduced by the projected additional income from supplementary valuations.

The Excel file that contains the data inputs and that informs the revenue impact results in this report has been provided to NSROC region councils separately.

On the contributions side, the model calculates:

- Estimated revenue under existing contributions framework
- Modelling of impacts of the individual contribution reforms (including changes to essential works, removing the ability to levy s7.12 on changes of use and alterations & additions, and the impact of the PC's new s7.12 approach)
- Estimated revenue impacts under different reform scenarios.

On the rate peg reform side, the model will show, against different population datasets:

- rate peg increase only
- rate peg plus population growth factor
- higher than rate peg increase (e.g. 4.75% p.a.)
- higher than rate peg (e.g. 4.75%) plus population growth factor

Combining the above, the model shows net income impacts due to both reform streams.

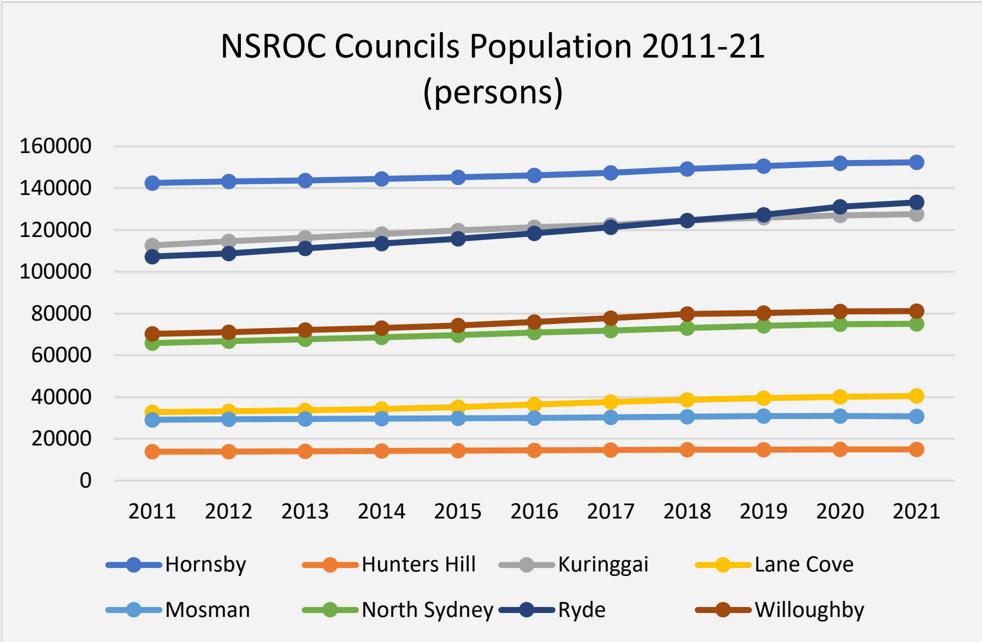
2 Rates and contributions revenue trends

2.1 Population

Figure 2 shows recent population trends in the NSROC region (based on data sourced from the ABS estimated resident population series).

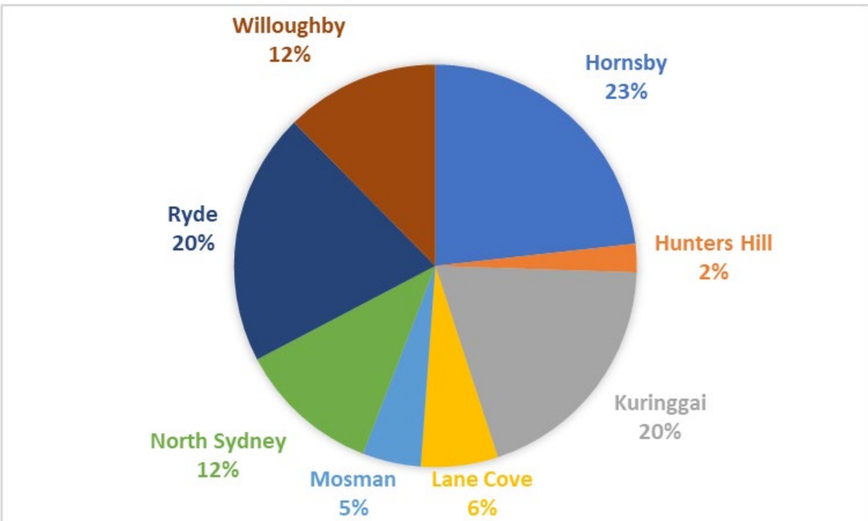
In 2021, NSROC region had a resident population of 655,000.

Figure 2 **Population trends**



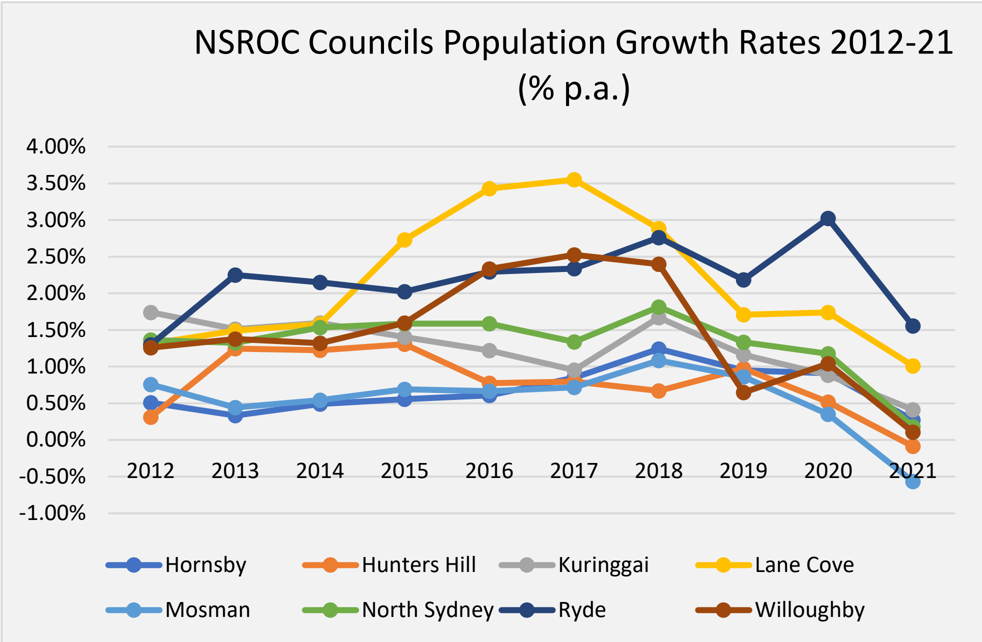
Hornsby LGA had the highest population in the region and Hunter's Hill the lowest. **Figure 3** shows the relative share of the total population of each member council.

Figure 3 **Population shares**



The average annual resident population growth rate has been the highest in Ryde and Lane Cove LGAs (both 2.4% per annum) in the 10 years to 2021, followed by Willoughby (1.6%) and North Sydney (1.4%) (**Figure 4**). Growth rates have varied significantly over the last decade, with most areas recording their highest annual growth around 2017/18. Recent data shows a general slowing of population growth across the region, including negative growth in Mosman and Hunters Hill. Significantly, the faster growing areas of Ryde and Lane Cove have seen their growth rates fall from 3% to 1.5% per annum and lower.

Figure 4 Population growth rates



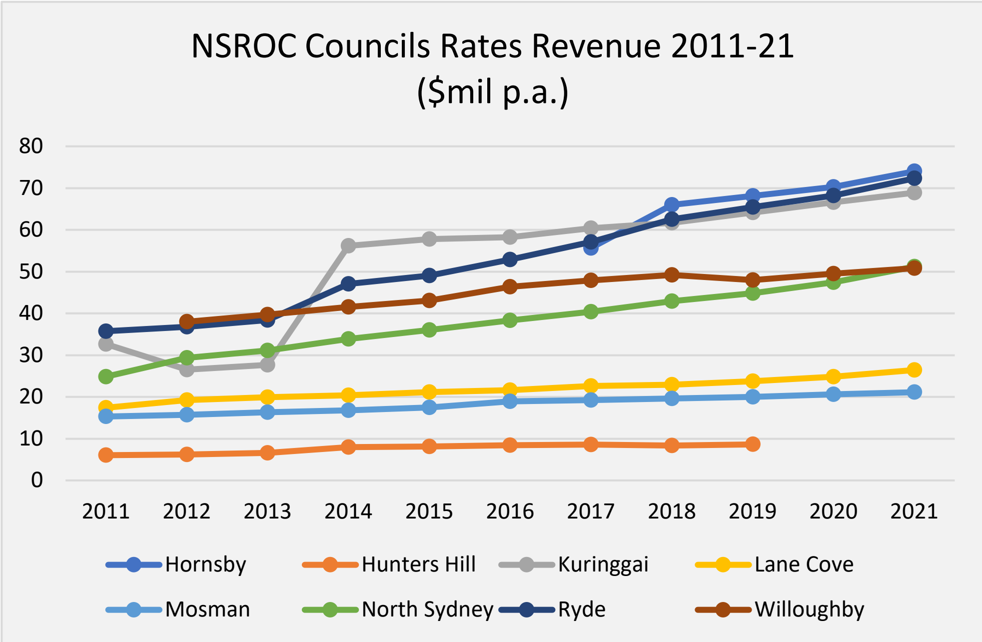
2.2 Rates revenue

Figure 5 shows how NSROC rate revenue has changed (based on data from the NSROC councils and NSW Office of Local Government). The highest rate of growth in rates revenue has been in councils that have successfully applied for special rate variations and where population growth has been strongest.

Figures 6 and **7** compare residential rate revenue and average rates on a per capita basis.

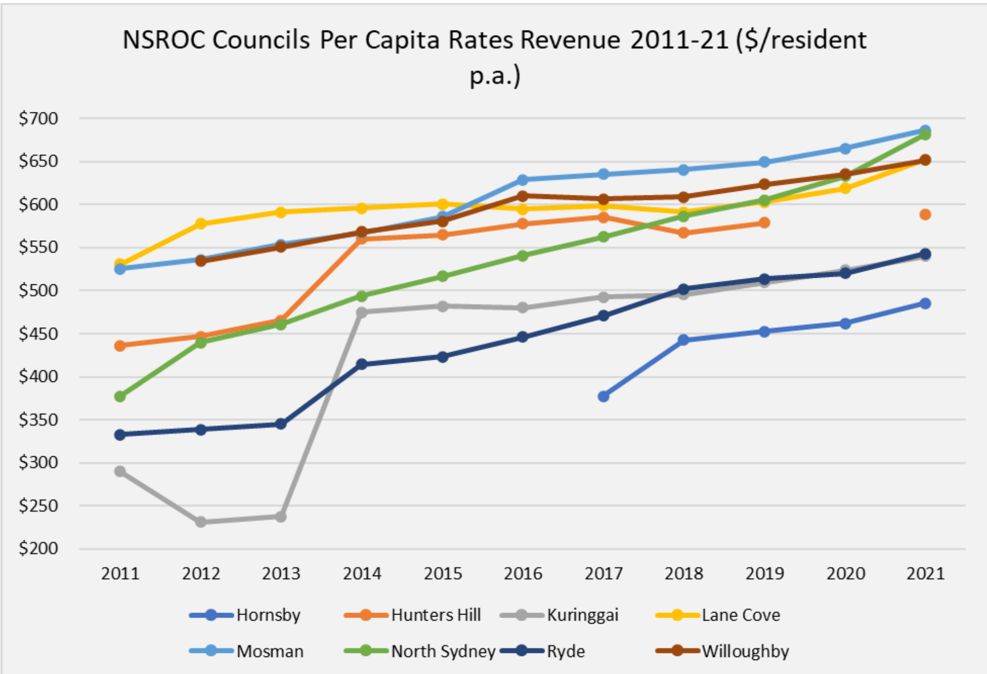
The smaller LGAs of Mosman and Hunters Hill are most reliant on residential rates because of their limited business areas, whereas the more varied land use profile in North Sydney, Ryde, Hornsby and Willoughby have much lower per capita residential rates. Total rates revenue in NSROC councils range between $486 in Hornsby and $686 in Mosman.

**Figure 5	Rates revenue**



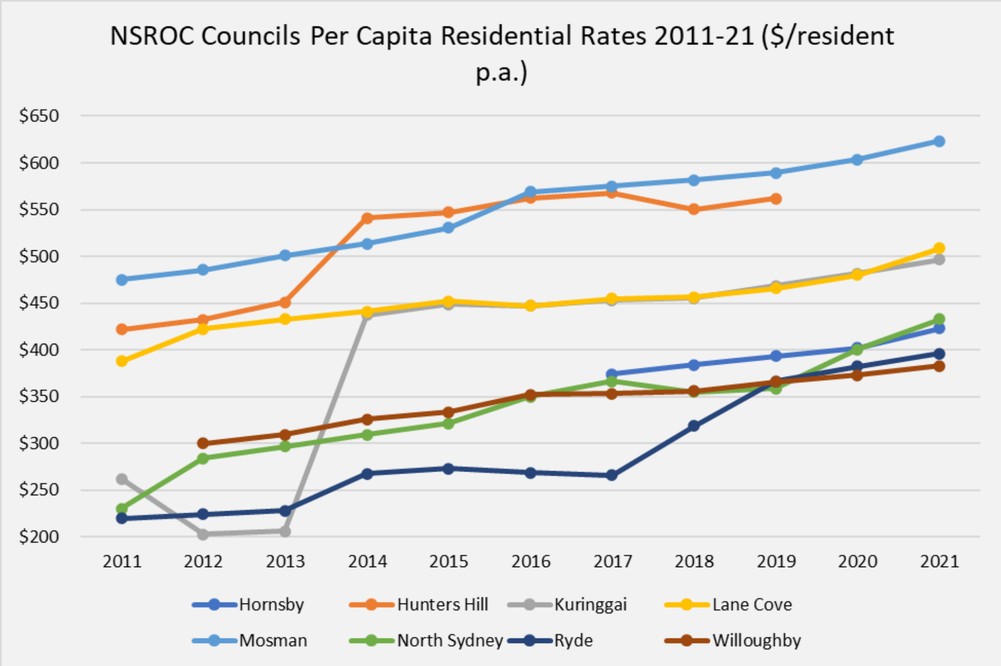
Note: Data was not provided by Hunter's Hill Council for 2020 and 2021.

**Figure 6	Per capita rates revenue**



Note: Hornsby Shire Council was subject to boundary changes in May 2016 and so data is not included before 2017.

Figure 7 **Per capita residential rates**



Note: Data was not provided by Hunter's Hill Council for 2020 and 2021.

Council costs

A range of costs are incurred by councils as a result of population growth. These can include:

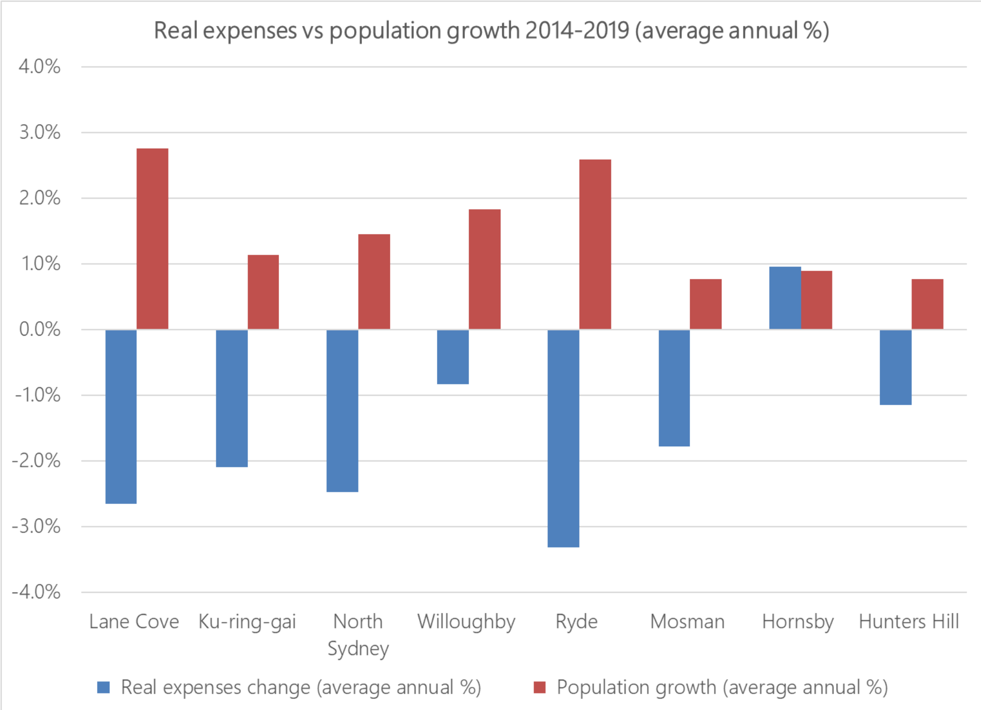
- Employees, materials and contract costs and other recurrent expenses to maintain existing service levels (and the asset base) over time.
- Capital works costs (and associated land take costs) for new community infrastructure requirements. Existing facilities eventually reach capacity with increased population growth. New or augmented infrastructure is required and existing assets have to be renewed more frequently. For new demographic growth cohorts, such as more younger people or more aged people, increased demand for specialist community facilities and services for their needs are also required.

Figure 8 demonstrates how with the existing rate peg, NSROC councils have needed to restrain their spending, in real terms, despite population growth. This suggests that the increased service needs associated with the population growth may eventually need to be recovered by future rate increases.

Councils' infrastructure facilities tend to be long lived assets that are fixed in place, costly and time-consuming to plan and build, and require routine maintenance and periodic upgrading to prolong their lives. Therefore, councils need to constantly spend on infrastructure at least in line with the rate of consumption of the assets, which can accelerate with increased use and demand pressure arising from population growth.

For infill areas, catering for the infrastructure needs of relatively dispersed population growth can be more challenging to plan for and fund, compared with greenfield release areas. There is often shared demand for the infrastructure between new and existing residents. The high cost of land can also prevent the provision of community infrastructure, despite population growth needs.

Figure 8 **Council expenses and population growth**



Special variations to rate income

Table 1 lists special rate variations (SRVs) that NSROC councils have had approved over the last decade.

Table 1 **Approved special variations in NSROC region**

Period	Council	% increase requested each year inc. rate peg	Timing of rates increase	No. of years (temporary increases only)	Extra approved funding above rate peg ($m) in approved years only	Reason
2013-2014	Hunter's Hill	10.67% one off increase	508(2) – Permanent 2% and temporary 5.27%	10 years in base	0.5	Fund ongoing operations such as infrastructure maintenance/renewals and enhance financial sustainability
2013-2014	Ku-ring-gai	8.4% one off increase	508(2) Permanent 2.3% and temporary 5%	1 year in base	2.6	Fund Council's road renewal program
2014-2015	Ku-ring-gai	7.3% one off increase	508(2) Permanent	-	2.7	Fund Council's road renewal program

Period	Council	% increase requested each year inc. rate peg	Timing of rates increase	No. of years (temporary increases only)	Extra approved funding above rate peg ($m) in approved years only	Reason
2015-2016	Mosman	13.0% one off increase	508(2) Permanent	-	1.8	Fund financial sustainability, asset maintenance and renewal
2015-2016	Ryde	7.0% p.a. for 4 years	508A Permanent	-	23.2	Maintain asset service levels, fund new capital and enhance financial sustainability
2015-2016	Willoughby	6.9% year1 and 4.6% year 2	508A	7	4.8	Address the infrastructure backlog
2019-2020	Hunter's Hill	9.74% one off increase	508(2) Permanent 4% and temporary 5.74%	10 years in base	0.61	Fund ongoing operations such as infrastructure maintenance/renewals and enhance financial sustainability
2019-2020	Ku-ring-gai	7.7% one off increase	508(2) Permanent	-	3.08	Fund environmental works and programs.
2019-2020	North Sydney	7.0% p.a. for 3 years	508(A) Permanent	-	12.8	Fund ongoing operations (infrastructure), invest in new infrastructure, reduce the backlog, maintain existing services and enhance financial sustainability.

It is significant to note that the focus of all of these special rate variation applications were to access additional rate income to fund Council operations, particularly asset maintenance and renewal, and to address existing infrastructure backlogs. Two councils - North Sydney and Ryde - proposed that some of the SRV would be directed towards capital projects.

Government linking rate peg and infrastructure contributions reforms

Seeking extra funds to meet the costs of operations and service backlogs has tended to be the focus of the majority of SRV applications submitted by metropolitan infill councils.

This is important because material produced by the Productivity Commission makes a formal connection between rate peg reform and infrastructure contributions. They are, in the Commission's view, intertwined and part of the whole package.

> *The Office of Local Government is progressing changes to the calculation of the rate peg that will allow councils' general discretionary income to grow with population. This will increase councils' capacity to service a higher population.*

PC final report, p6

Following reform of the revised local government rate peg, works that are not development-contingent should be removed from the essential works list

PC final report, p8

Reform to allow for population growth within a rate peg should enable general population costs to be removed from infrastructure contributions.

PC final report, p39

Adjusting the rate peg so that it accommodates population growth will provide New South Wales councils with greater ability to meet the needs of growing communities. This will also reduce excessive dependence on contributions.

PC final report, p41

Allowing for population growth within the local government rate peg will reduce reliance on less efficient funding mechanisms (including infrastructure contributions as a de facto tax on development).

PC final report, p43

Rate peg reform is happening in a context where NSW councils have been restricted from increasing their rate revenue beyond the rate peg. Councils have been only able to apply for special variations to increase rate income beyond the rate peg. In other words, incremental increases in rate revenue have been primarily directed towards 'catching up' in asset maintenance and renewal.

This catching up process continues to this day. Incremental rate revenue increases, such as the extra revenue that will flow from introducing the 'population growth factor' are likely to continue to be applied in a similar way.

It does not follow, as suggested by the PC, that a council that receives extra rates income from the introduction of the population growth factor will apply a large share of that income towards meeting the capital cost of works and land acquisition for infrastructure that is generated by new development.

It will more likely be spent on the marginal operational (rather than capital) costs incurred by the council in maintaining the asset base. This is both the existing asset base and the additional assets funded by infrastructure contributions and constructed or handed over to the council.

2.3 Infrastructure contributions revenue and expenditure trends

Figures 9 and **10** show recent s7.11 and s7.12 contributions income and expenditure by individual NSROC council. **Figure 11** shows the combined data.

Figure 9 Contributions income

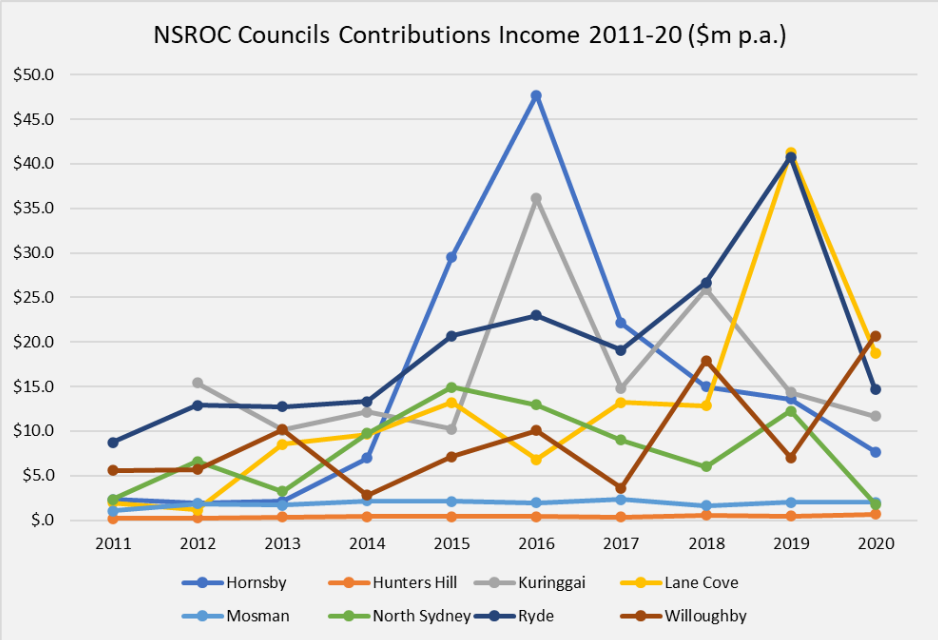


Figure 10 Contributions expenditure

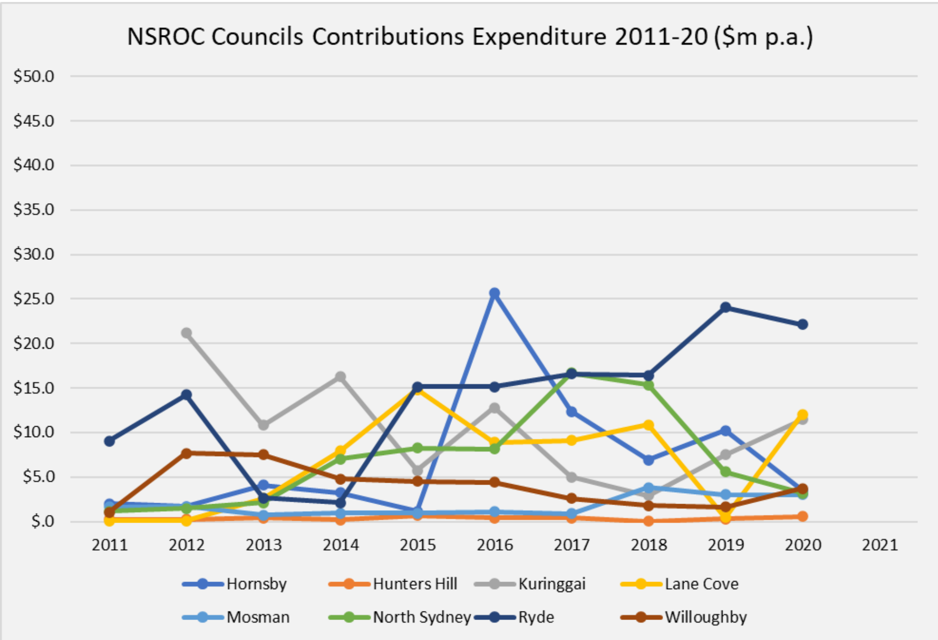
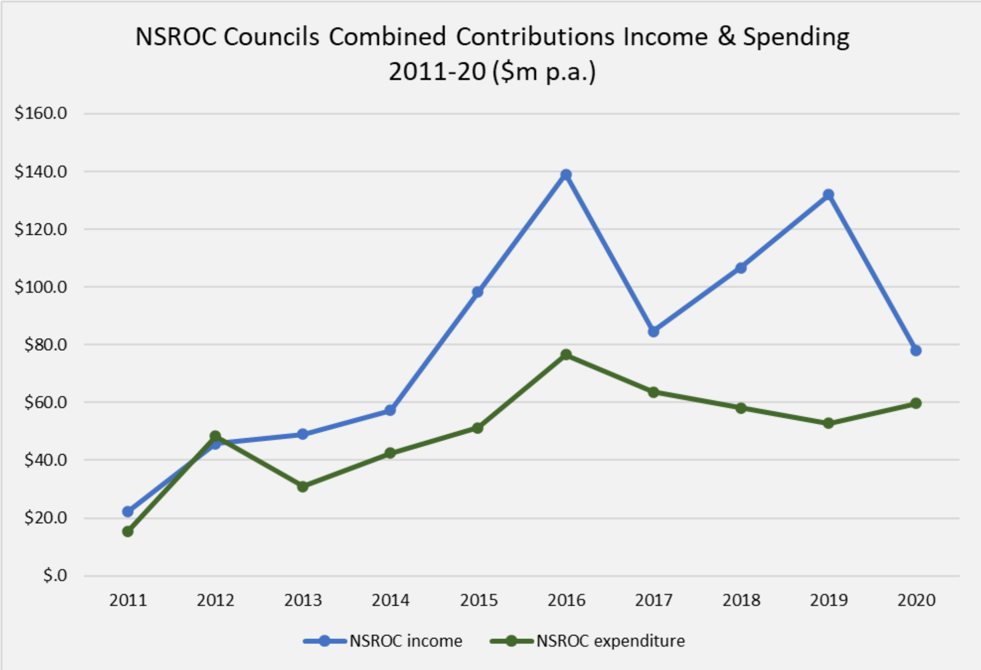


Figure 11 **Contributions income and expenditure (combined)**



The data show that over the last 5 years, NSROC contributions income averaged $108 million while expenditure averaged $62 million.

Summary of rates and contributions income

Relevant to later discussion on reform impacts, Table 2 shows the latest annual NSROC rates revenue and contributions income on a per capita basis.

Table 2 **NSROC rates and contributions income**

	Rates	Contributions	Rates + contributions
Hornsby	$486	$140	$625
Hunters Hill	$579	$33	$612
Ku ring gai	$540	$162	$702
Lane Cove	$652	$463	$1,116
Mosman	$686	$65	$751
North Sydney	$682	$112	$794
Ryde	$543	$189	$732
Willoughby	$626	$146	$772
NSROC	$570	$166	$735

3 Section 7.11 reform impacts

There are significant risks to NSROC councils' projected s7.11 contribution revenue as a result of the reform recommendations, none less than:

- Recommendation 4.6 which requires "development-contingent costs" in the "essential works list" (EWL) to be established by IPART and applied to s7.11 plans.

The expectation at this stage is for further restrictions to the EWL to meet the interpretation of "development contingent works", noting the EWL already excludes library, cultural / community facility, indoor recreation centre and aquatics centre capital works.[6] If a contributions plan includes works that are not on the new EWL, then they would need to come out of the plan when it is reviewed for the reforms (for implementation by 2024/25).

Recommendation 4.7 also requires IPART reviews "by exception" instead of when contribution rates are above the 'cap' or threshold (on the basis of the cap being removed altogether, which we understand is the DPIE's position). This could potentially have an offsetting (positive) revenue impact for councils that include contribution rates at the cap but have costs in excess of these rates.

This is because the assessed decline in revenue in our modelling compares with the existing framework (in which most areas residential contribution rates are capped at $20,000 per dwelling), not the maximum revenue without the cap.

The actual s7.11 impact on any one council depends on the relative mix of essential and non-essential works in its current contribution plan(s) schedule.

There are also risks to contribution plan cost estimates which might arise from the IPART determination of benchmark costs (as per Recommendation 4.5) if these benchmarks are materially lower than Council's plan estimates.

3.1 Council existing contribution frameworks

NSROC councils currently levy a mix of s7.11 and s7.12 contributions under various contributions plans. **Table 3** lists each of the plans for each council, together with the contribution mechanism and its application to different types of development.

Table 3 NSROC council contributions plans

Council	Contributions Plan(s)	Mechanisms	Development levied[1]
Hornsby Shire	*Hornsby Shire Council Section 7.11 Development Contributions Plan 2020 - 2030* *Hornsby Shire Council Section 7.12 Development Contributions Plan 2019 - 2029*	s7.11 s7.12	s7.11 demand-based development LGA-wide (excluding industrial) s7.12 non-demand based development (alts/adds) & industrial development LGA-wide

[6] For contributions plans with rates that exceed the residential development cap ($20,000 per dwelling).

Council	Contributions Plan(s)	Mechanisms	Development levied[1]
Hunter's Hill	*Hunter's Hill Council S94A Developer Contributions Plan 2014*	s7.12	All development LGA-wide
Ku-ring-gai	*Ku-ring-gai Contributions Plan 2010* *Ku-ring-gai s94A Contributions Plan 2015*	s7.11 s7.12	s7.11 demand-based development in & outside town centres of LGA (with cap exemption in town centres) s7.12 non-demand based development (alts/adds) and potentially industrial development LGA-wide
Lane Cove	*Lane Cove Section 94 Contributions Plan amended February 2004* *St Leonards South Precinct Section 7.11 Development Contributions Plan November 2020* (draft with IPART for review because rates are proposed above the cap)	s7.11	s7.11 demand-based development LGA-wide (outside St Leonards South for residential development once this plan is in force) s7.11 residential development in St Leonards South Precinct (once plan is adopted)
Mosman	*Mosman Contributions Plan 2018*	s7.12	All development LGA-wide
North Sydney	*North Sydney Local Infrastructure Contributions Plan 2020*	s7.11 & s7.12	s7.11 demand-based development LGA-wide s7.12 non-demand based development (alts/adds) & LGA-wide
Ryde	*City of Ryde Section 7.11 Development Contributions Plan 2020* *City of Ryde* Fixed Rate Levy Development Contributions Plan 2020	s7.11 s7.12	s7.11 demand-based development in Macquarie Park & s7.11 residential development (demand-based) outside Macquarie Park s7.12 non-residential outside Macquarie Park & and non-demand based development (alts/adds) LGA-wide
Willoughby	*Willoughby Local Infrastructure Contributions Plan 2019*	s7.11 & s7.12	s7.11 residential demand-based development LGA-wide s7.12 non-residential & non-demand based development (alts/adds) & LGA-wide

1. Excludes any development exempt from local infrastructure contributions (e.g., public infrastructure development or charities).

Mosman and Hunter's Hill councils are low-growth areas and so do not levy s7.11 contributions, only s7.12 levies.

The City of Ryde is a high growth council area which levies s7.11 contributions in two main catchments – in and outside Macquarie Park. The s7.11 contributions are levied on residential development in both catchments but on non-residential development inside the Macquarie Park catchment only. The council also levies non-residential development outside Macquarie Park s7.12 contributions, as well as all non-demand based development LGA-wide.

Hornsby Shire's boundaries were adjusted in 2016 and has s7.11 and s7.12 plans that are relatively new. These plans levy s7.11 contributions on additional residential dwellings and commercial floor space, and on heavy haulage developments in the Shire's rural areas; and s7.12 on other developments.

North Sydney and the City of Willoughby councils both have relatively new plans, which both cover s7.11 and s7.12 mechanisms under the one 'hybrid' plan with a combined works list.

Willoughby city levies s7.11 contributions on all net additional residential dwellings across the LGA, and levies s7.12 contributions on all other development. A higher fixed-rate levy rate applies to non-residential development in the Chatswood town centre (3% of development cost).

North Sydney levies s7.11 contributions on both extra dwellings and extra jobs-generating development, and s7.12 contributions on all other development.

Ku-ring-gai's s7.11 plan is more than 10 years old and consists of multiple catchments. It is the only area within NSROC that has an exemption from the residential cap of $20,000 per dwelling (in its Town Centre areas). Areas outside the Town Centres (North and South catchments) are still subject to the s7.11 cap. The council also levies s7.12 contributions on non-demand based development.

Lane Cove also has a relatively dated s7.11 plan (2004) but with a new works schedule introduced in 2013. It levies s7.11 contributions on all demand-based development in the LGA. It is the only NSROC council which does not currently levy s7.12 contributions on non-demand based development (alterations and additions).

3.2 Development-contingent works

The PC coined the term "development-contingent" works in its review and categorised them as follows:

> *This category builds on the impactor pays principle and encompasses infrastructure costs with a causal connection to a development because they would be avoided if the development did not proceed. The developer, in other words, has created these infrastructure costs because of its activities; it should therefore bear them.*[7]

It further stated that:

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[7] PC final report, p 34.

Development-contingent costs could include, for example:

- *within-development open space, road, and pedestrian facilities*
- *network connections for water facilities (potable, waste, and stormwater)*
- *facilities shared between multiple developments, e.g., local roads and open space.*[8]

There is currently little clarity on what "development-contingent" works would be in an infill context.

It could be assumed that development-enabling infrastructure such as transport and stormwater works will be considered "development-contingent" but that community and indoor recreation facilities probably would not. The provision of these facilities is generally not essential for development to proceed, and they often provide benefits to the broader community. They are also infrastructure types that do not appear on the current EWL used by IPART when assessing contributions plans which are 'above the cap'.

Therefore, on this basis, we have examined closely the impact of both capital works and land for these facilities being excluded from the EWL.

The PC conveyed that open space land and some base level open space embellishment would also be "development-contingent" and that even higher level open space embellishment might be reasonable in an infill context. The example provided was as follows:

> *For example, open space is generally only development-contingent when it is to a base standard of provision; higher order embellishment is a general cost. Synthetic sports fields may, however, be appropriate in areas (such as infill) where there is a shortage of land for active open space facilities—as a trade-off between quantity and quality—and not appropriate in other areas.*[9]

CIE in its modelling of contribution reform impacts on council groupings for the State Government[10] assumed that community facilities would not be included in the EWL, thereby reducing infill s7.11 contributions by around 9.5%. It also assumed that half of open space embellishment would also be excluded, thereby reducing s7.11 contributions in infill areas by a further 11.5%. This is a total reduction to infill plans of around 21%.

NSROC councils' exposure to the risk of infrastructure category removal from their plans is represented by the different shares of works in their current schedules, as shown in **Figure 12**.

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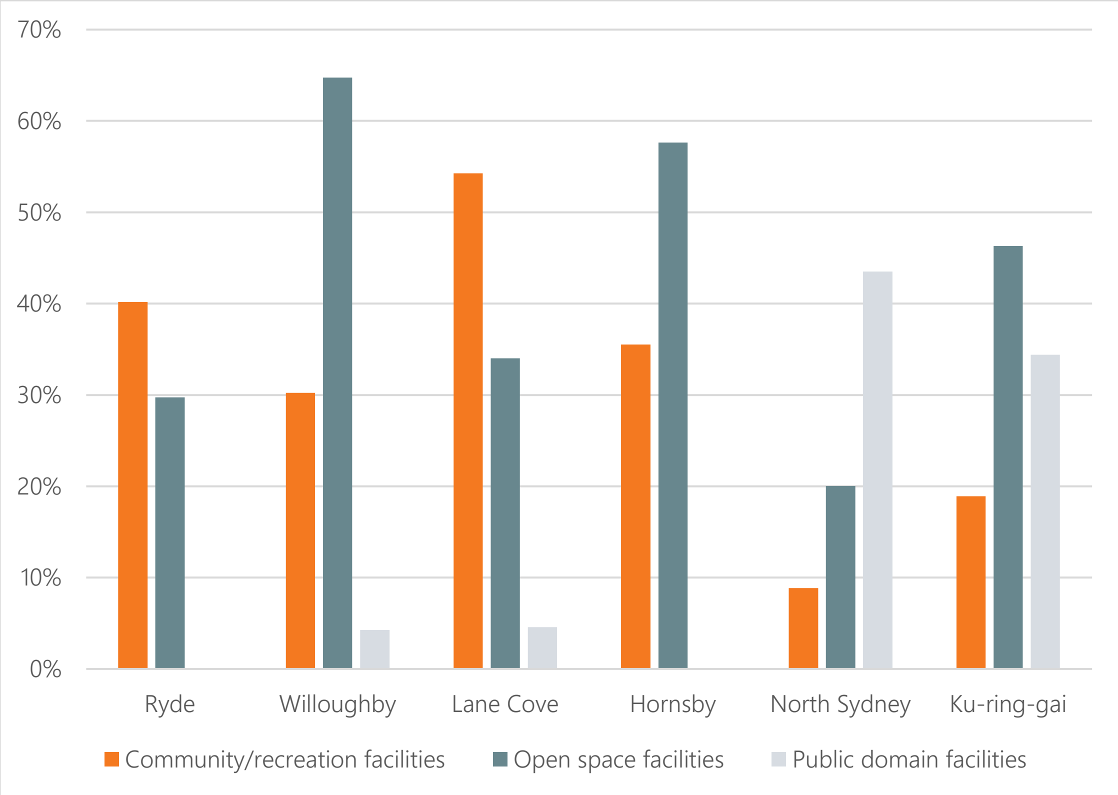
[8] PC final report, p 35.

[9] PC final report, p 63.

[10] The CIE, *Revenue projections for changes to local government rates and local infrastructure contributions*, released with the Government's response to the PC recommendations, March 2021.

Figure 12 Selected infrastructure category shares of existing s7.11 works programs for NSROC councils



Source: GLN Planning calculations based on NSROC council s7.11 contributions plans.

Community and indoor recreation facilities on average represent 31% of the NSROC council works program costs, where s7.11 contributions are levied, and these costs, could well be excluded from the s7.11 plans from 2024/25.

Councils such as North Sydney and Ku-ring-gai also appear to be at risk if public domain facilities are not included in the EWL with relatively high shares in their works programs (43% and 34% respectively). However, Ku-ring-gai's share does also include transport works, and many of its scheduled works have also already been undertaken.

The PC made no comment on public domain facilities in its discussion about different categories of works but it could be argued that such works are imperative for new development in a high density, urban context. The reasoning would follow a similar logic to the PC's example about higher order open space embellishment in infill areas. CIE did not model the exclusion of public domain works in its reform impact assessment.

NSROC councils' s7.11 works programs also consists of 42% open space items, on average. Many of the items are for higher embellishment open space works (comprising synthetic sports fields, grandstand seating and skate plazas), which could potentially be at risk of exclusion. However, as stated, the PC final report did provide an example of how these types of works could still be considered "development-contingent".

Another possibility is that the EWL is based upon the demand for the facilities rather than the nature of the facilities and whether there is shared demand with existing residents. NSROC councils' current s7.11 plans comprise 80% "growth-contingent" infrastructure costs which means that their costs are wholly (100%) apportioned to the plan. Therefore, this type of approach would represent even lower risk to the plan, but not if the test were applied only to other 'essential' categories like transport or public domain facilities (with other categories excluded entirely).

Therefore, modelling of s7.11 impacts has had to consider what might be 'development-contingent' works, and works that might be on the EWL. In fact, the numerous scenarios we used to assess net income impacts are due in large part to the complete uncertainty surrounding what will be listed in the final adopted EWL.

3.3 Impacts of different s7.11 'essential works' scenarios

At this stage, we can only speculate about the final EWL to apply to s7.11 contributions under the reforms.

We consider that the most likely scenario is that community and indoor recreation facility works and land will be removed from the EWL. There might be other exclusions depending on whether the infrastructure category is considered essential for development to proceed (such as certain open space or public domain facilities, especially where the demand is shared with existing residents).

For each NSROC council, we have modelled the revenue impact of various scenarios where certain categories of infrastructure are excluded from the EWL, or where 'shared demand' infrastructure is excluded, as well as the potential exemption of non-demand based development from s7.12 levies (e.g., alterations and additions).

To generate our projections, we have relied upon population, worker, dwelling and floorspace growth projections for each of the LGAs (with reference primarily to the DPIE, .id and council forecasts, as relevant) and the existing contribution plan rates and schedules. We have also estimated forward s7.12 revenues based on the historical values of construction (ABS Building Approvals), with reference to councils' s7.12 revenue receipt history.

Our results for the NSROC region as a whole are shown in **Table** (in real terms). A selection of the same scenarios are illustrated in **Figure 13.** The scenario results for each council are shown individually in the case studies in **Appendix B.**

Without any reform, we estimate that the eight NSROC councils will altogether generate $1.8 billion in s7.11 and s7.12 contributions revenue in real terms in the 20 years to 2040/41. This equates to average total revenue of $90m per annum and $127 per resident each year.[11]

Depending on the ultimate composition of the EWL, we have calculated that the eight NSROC councils' contributions income would be between $342m and $1.3 billion over the period to 2040/41 – a reduction of between 27 and 81 percent.

[1111] This includes the first three years from 2021/22 before reforms affect council plans, anticipated from 2024/25.

Table 4 Impact scenarios of potential changes to the 'Essential Works List' for s7.11 contributions on NSROC councils' collective projected revenue (2021/22 to 2040/21)

	Estimated revenue impact (real terms)			Compared with existing CP framework projections (real terms)		
Scenario description	Estimated regional revenue to 2040/41 ($m)	Average regional revenue p.a. ($m)	Average annual revenue per capita ($)	Revenue difference to 2040/41 ($m)	Average revenue difference p.a. ($m)	Average annual revenue difference per capita ($)
Business as usual, no reforms	1,794	90	127	0	0	0
Community and indoor recreation facilities excluded from s7.11 EWL; no s7.12 levied	1,032	52	78	-720	-42	-64
Community & indoor recreation facilities excluded from s7.11 EWL & s7.12 levied @ 1% on non-demand generating development	1,255	63	95	-497	-29	-44
Community, indoor recreation & public domain facilities excluded from s7.11 EWL; no s7.12 levied	827	41	62	-925	-54	-82
All open space & community facilities excluded from s7.11 EWL; no s7.12 levied	342	17	26	-1,414	-82	-123
All open space excluded from s7.11 EWL; no s7.12 levied	918	46	69	-914	-54	-81
Only "growth-contingent" infrastructure s7.11; no s7.12 levied	1,315	66	99	-514	-30	-46

Source: GLN Planning, NSROC LGA population, dwelling and floorspace projections (to 2040/41), current council contribution plans and works schedules, and ABS Building Approvals average construction values (2015/16-2018/19).

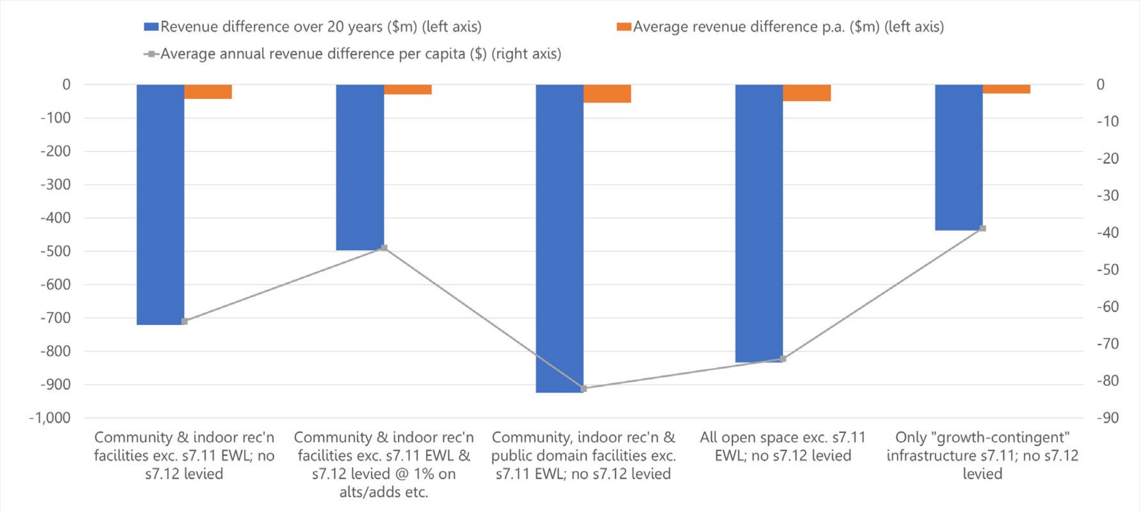
Notes: The estimated revenue to 2040/41 is the sum of all NSROC council revenues, the average p.a. is the sum of all NSROC average revenues p.a. and the average per capita is the NSROC average revenue p.a. divided by the NSROC average resident population (2021/22 to 2040/41).

The average revenue difference is based on the period of the reforms only from 2024/25 to 2040/41, and not from 2021/22 (so the total has been divided by 17 for the number of years, and not 20). This is why the average annual revenue from the s7.12 exemption suggested to be $13m by calculation in this table does not equal the $11m annual revenue figure (2021/22 to 2040/41) in Table 6. The total revenue difference over 20 years is not affected because the impact is zero in the first three years.

Scenarios related to the s7.11 EWL exclusions do not include Mosman and Hunter's Hill councils, which do not levy s7.11 contributions.

These scenarios also assume that Willoughby City Council levies non-residential development in its LGA the new s7.12 threshold limits (as it currently levies development with additional commercial floorspace s7.12 contributions).

Figure 13 Impact scenarios of potential changes to the 'Essential Works List' for s7.11 contributions on NSROC councils' collective projected revenue (2021/22 to 2040/21), real terms ($2021/22)



Source: GLN Planning, NSROC LGA dwelling and floorspace projections (to 2040/41) and ABS Building Approvals average construction values (2015/16-2018/19 annual average projected forward in real terms).

Notes:

The estimated revenue to 2040/41 is the sum of all NSROC council revenues, the average p.a. is the sum of all NSROC average revenues p.a. and the average per capita is the NSROC average revenue p.a. divided by the NSROC average resident population (2021/22 to 2040/41).

The average revenue difference is based on the period of the reforms only from 2024/25 to 2040/41, and not from 2021/22 (so the total has been divided by 17 for the number of years, and not 20). The total revenue difference over 20 years is not affected because the impact is zero in the first three years.

If community facilities and indoor recreation facilities are excluded from the EWL, we estimate that this would reduce contributions revenue by $29m on average for NSROC councils each year.[12] The reduced revenue would apply only to the six councils that levy s7.11 contributions and not Mosman and Hunter's Hill councils.

If the canvassed s7.12 exemption for non-demand-based development, such as alterations and additions, is also implemented, the reduction would increase to $42m on average for NSROC councils each year.

The additional exclusion of public domain facilities and open space facilities would further reduce average annual revenue for the region by $12m and $39m respectively (noting the scenarios in the table show the combined impact of these exclusions with community and indoor recreation facilities also excluded, and the s7.12 exemption in place).[13]

If only 'growth infrastructure' is permitted under the EWL, irrespective of infrastructure type, the annual average revenue reduction would be $19m for the NSROC region and $30m for NSROC

[12] In this case (and for subsequent revenue differences quoted in this section), we have isolated the average impact from years 2024/25 to 2040/41 only, so that the reform impact is not diluted.

[13] The s7.12 exemption for non-demand based development has not been publicly committed to by the Government at this stage and the implications of this policy option are discussed in more detail in Chapter 4.

region if the s7.12 levy exemption applied. This omits any infrastructure in NSROC council contributions plans that is apportioned less than 100% of the cost to the plan on the basis that costs are shared with existing residents and the demand is not solely generated by 'growth'. The impact of this policy stance could be less negative for councils' contribution revenue flow than blanket category exclusions.

In general, we consider that it would be best for the essential works in an infill context to include all works needed to support the quality of life enjoyed by the residents and workers in an area, and which increases the carrying capacity of existing infrastructure networks.

At this stage, the variation of the revenue impacts by different scenario demonstrates the extent of uncertainty and risk that arises from the upcoming review of the EWL and determination of "development-contingent" costs by DPIE and IPART.

The underlying premise is that additional rate revenue from the rate peg reform will be needed to offset the revenue reductions for councils that result from changes to s7.11 contribution plans, but the extent of this impact is still to be determined.

The comparison of EWL impacts on s7.11 revenue against the option of instead levying s7.12 on all demand-based development in the region is discussed more in Chapter 4. We estimate that the s7.12 approach would reduce revenues by an average of $69m per year. This indicates that s7.12 levies would appear to remain an inferior option to the s7.11 mechanism for demand-based development with the proposed threshold limits under the reform package, even if community and indoor recreation facilities are excluded from the EWL for s7.11 plans, and potentially public domain facilities as well for most councils.

Our key finding regarding the s7.11 EWL under the reforms is as follows:

6. The impact of the removal of certain facility works from the EWL, all else being equal, would reduce the NSROC region's combined s7.11 contributions revenue in real terms ($2021/22) by:
   (a) $29m per annum on average (equating to $44 per resident) or $497m in total by 2040/41, if community and indoor recreation facility items are excluded,
   (b) $39m per annum on average (equating to $18 per resident) or $690m in total by 2040/41, if open space facilities are also excluded, and
   (c) $12m per annum on average (equating to $59 per resident) or $205m in total by 2040/41, if public domain facilities are also excluded.

We recommend that:

7. Rather than being 'category-based', the essential works in an infill area context should be public amenities and services needed to support the quality of life enjoyed by the residents and workers in an area, and which increases the carrying capacity of existing infrastructure networks.

3.4 Application of benchmark costs

The reforms will require councils to include costs in its contributions plans that are consistent with the efficient benchmark costs which are to be established by IPART. Recommendation 4.5 requires IPART to establish benchmark costs and part ii of Recommendation 4.6 requires IPART to review the EWL and provide advice on the approach to considering efficient infrastructure costs (which are also "development-contingent" and "nexus-based" costs).

IPART already reviewed benchmark costs for the NSW Government in 2014[14] and this process demonstrated how difficult it is to establish a "one size fits all" approach to costing infrastructure across different local areas of NSW.)

These base construction costs had a range of "additional factors" to cater for traffic congestion in city areas, and long distances in regional areas, as examples, but were rarely used in this manner.

At this stage, IPART presumably has a lot more local CP infrastructure cost data based on its plan reviews to draw on for this new benchmarking task. This data is likely to be heavily skewed towards greenfield site-based infrastructure needs, not infill areas (although it has reviewed 'infill' area plans, such as Wolli Creek and Castle Hill North).

Many NSROC councils will need higher standard infrastructure than average to cater for the high density, high traffic urban areas which dominate the region. There is certainly a significant risk that the efficient costs, set as benchmarks, might not be adequate to cover NSROC councils' infrastructure cost needs.

PC has recommended that councils can also use 'actual costs' as evidence[15] but this appears to be only for cost recoupment purposes rather than to establish the cost of a new infrastructure item.

We recommend that:

8. Where possible, NSROC councils should provide actual evidence of their infrastructure costs to IPART during its upcoming reviews of benchmark costs (for s7.11 plans) so that they can demonstrate the actual cost of infrastructure provision in their LGAs and influence the cost outcomes.

[14] IPART, *Local Infrastructure Benchmark Costs – Final Report*, April 2014.

[15] PC final report, p 65.

4 Section 7.12 reform impacts

4.1 Maximum s7.12 levies allowed under legislation

Under the EP&A Regulation (clause 25K(1)(a)), councils can currently levy s7.12 contributions on any development without the necessity of establishing a connection or nexus with the public service or amenity funded, up to the following maximums:

- 1% of the proposed cost of carrying out the development if it is more than $200,000, and
- 0.5% if the proposed cost of carrying out the development is more than $100,000 and up to and including $200,000 (i.e. development is exempt up to $100,000).

Clause 25K(1)(b) also provides for higher maximum percentage levies in designated locations, including the Chatswood Central Business District (CBD) catchment in the NSROC region. A maximum levy percentage of 3% applies in this catchment of the Willoughby LGA for development proposed to cost more than $250,000 (with 0.5% for development proposed to cost between $100,001 and $200,000 and 1% for development proposed to cost between $200,001 and $250,000).[16]

4.2 Current s7.12 levies by NSROC councils

Seven of the eight NSROC councils currently levy s7.12 contributions LGA-wide. Generally the levy is applied to development which is otherwise not subject to s7.11 contributions (i.e. primarily development that includes net additional dwellings or net additional floorspace for non-residential development). Such non-demand based development includes alterations and additions, knockdown rebuilds, commercial fit outs and changes of use.

However, two of the councils levy s7.12 contributions differently – i.e. on non-residential development which does result in demand for infrastructure (with additional floorspace/workers), instead of levying this type of development s7.11 contributions:

- Willoughby Council levies non-residential development s7.12 levies on an LGA-wide basis including a higher maximum levy of 3% in the Chatswood CBD catchment, and
- Ryde City Council levies s7.12 contributions on all non-residential development outside its 'Macquarie Park' catchment only (Macquarie Park non-residential development incurs s7.11 contributions).

Lane Cove Council is the only NSROC council that does not levy s7.12 contributions; only s7.11 contributions.

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[16] The Chatswood CBD catchment is the land that the EP&A Regulation (s25K1(b)) states is "Land identified in Figure 1 to the *Willoughby Local Infrastructure Contributions Plan 2019*, as adopted by Willoughby City Council on 11 June 2019".

4.3 Proposed reforms to s7.12 levies

The reforms propose three main changes to how a council may charge s7.12 levies:

- An increase in the maximum levy percentage for residential development from 1% to 3% of development cost, but which is only to apply to additional dwellings, and with associated thresholds on the total contribution that can charged - $10,000 per additional house (or townhouse or semi-detached dwelling) and $8,000 per other additional dwelling (i.e. apartment or unit).
- The maximum of 1% of the development cost is still to apply to non-residential development but with new threshold rates applied only to the net increase in floorspace - $35/sqm for commercial development, $25/sqm for retail development and $13/sqm for industrial development; and
- A review to potentially exempt the levying of 'non-demand based' development, which seven of the eight NSROC councils currently implement.

Figure 14 shows an illustration of the proposed changes to the operation of s7.12.

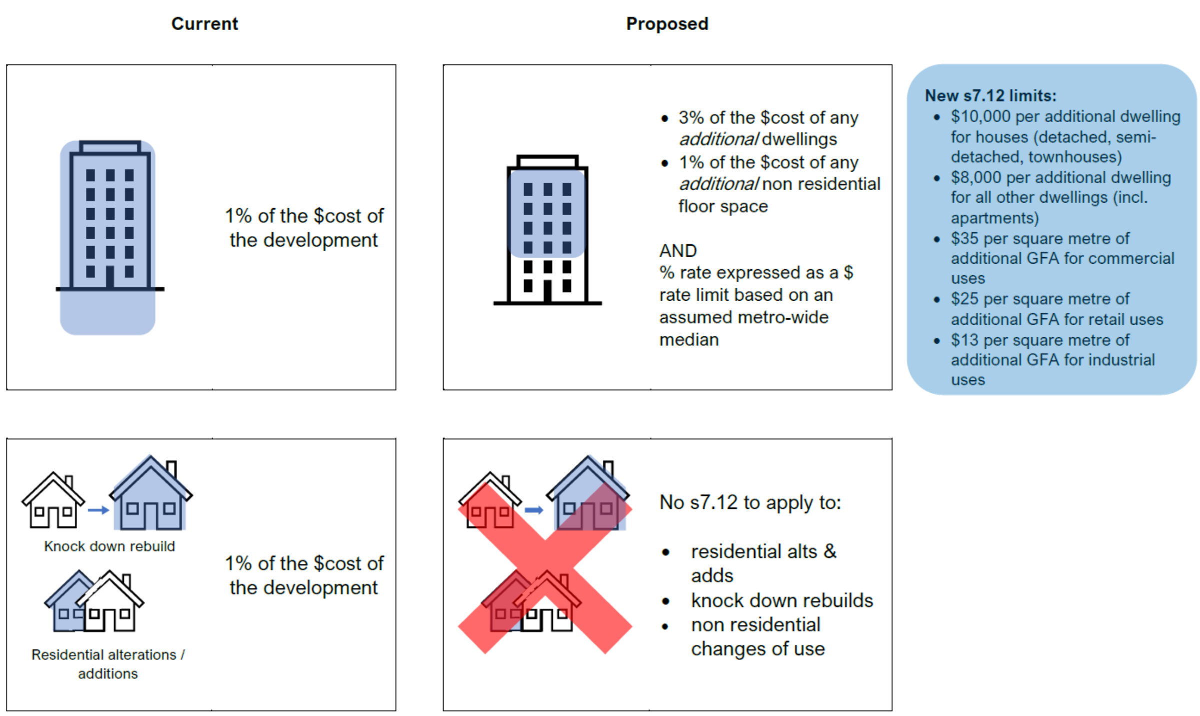


Figure 14 Section 7.12 - Current and proposed framework

This is instead of the current operation of s7.12 with levies generally limited to 1% of the cost of the development, but that rate applying the whole of the development, and no mandatory exemption on what type of development can be levied (save a few, including affordable housing).

The PC found that "section 7.12 fixed development consent levies are a simple and certain mechanism but are less cost reflective than section 7.11 contributions. As the current maximum allowable levy is only 1 per cent of capital cost, this contribution type is best suited to areas with low infrastructure need, or when developing a 7.11 contributions plan would be too costly" (PC final report, p 9).

It also stated that "increasing the maximum levy to 3 per cent for residential development would better balance the benefit of a simple section 7.12 levy against the desirability of councils developing section 7.11 plans for areas of high infrastructure need. The maximum 7.12 levy for non-residential development should be maintained at the equivalent of 1 per cent. Better aligning with the likely infrastructure requirements of a development will eliminate a possible disincentive for capital intensive developments".

The PC explained that it considered that s7.12 levies should also only be collected to fund "development-contingent" infrastructure (PC final report, p 73), instead of the existing legislative requirement that the levy imposed on a development does not need to have any connection with the infrastructure levied for (s7.12(4) Environmental Planning and Assessment Act 1979). However, this much more stringent requirement does not appear to have been reflected in the reform recommendation (4.6), which states that the new Essential Works List will apply to s7.11 contributions plans, not s7.12 plans.

4.4 Potential revenue impact of demand-based s7.12 levy reforms

Table 5 provides a summary of our revenue estimates for the NSROC region under the current and proposed s7.12 operating environments – i.e. the revenue from the maximum levy percentages (as a share of development cost), compared to the revenue from the maximum threshold rates (per additional dwelling or additional floorspace area) that the PC has also recommended. These revenues are in real terms (expressed in 2021/22 dollars).

Table 5 Potential impact of s7.12 reforms on NSROC region's projected revenue (2021/22 to 2040/41)

Development type	S7.12 levy or rate assumptions	In 'real' terms ($2021/22)		
		Estimated regional revenue to 2040/41 ($m)	Regional average revenue p.a. ($m)	Average revenue per capita across the region ($)
Current s7.12 framework				
Residential development – additional dwellings	s7.12 @ 1% without $ contribution limit	314.8	15.8	22
Residential development – additional dwellings	s7.12 @ 3% without $ contribution limit	944.3	47.3	67
Non-residential development - with demand (worker increase)	s7.12 @ 1% without $ contribution limit	181.6	9.1	13
Proposed s7.12 framework				
Residential development – additional dwellings	s7.12 with contribution limit ($10,000 per detached dwelling; $8,000 per other dwelling)	574.4	28.8	41

Development type	S7.12 levy or rate assumptions	In 'real' terms ($2021/22)		
		Estimated regional revenue to 2040/41 ($m)	Regional average revenue p.a. ($m)	Average revenue per capita across the region ($)
Non-residential development - with demand (worker increase)	s7.12 with contribution limit (avg $30/sqm assumed)	30.5	1.5	2

Source: GLN Planning, NSROC LGA dwelling and floorspace projections (to 2040/41) and ABS Building Approvals average construction values (2015/16-2018/19 annual average projected forward in real terms).

Note: the estimated revenue to 2040/41 is the sum of all NSROC council revenues, the average p.a. is the sum of all NSROC average revenues p.a. and the average per capita is the NSROC average revenue p.a. divided by the NSROC average resident population (2021/22 to 2040/41).

Our assessment of the revenue that could be generated by the new s7.12 dollar rates for the NSROC region[17] indicates that it would be:

- Higher than the revenue that could be generated by the existing 1% s7.12 levy for residential development (by an average of $13m per annum).
- Nonetheless, it would be well below the revenue that could be generated at the maximum 3% of development cost if it were calculated under the current s7.12 method - by an average of $18.5m per annum. (**We estimate it would be around 1.8% of development cost instead of the 3% of development cost it is supposed to reflect.**)
- Significantly lower (by $7.6m per annum on average) than the revenue that could be generated by the existing 1% levy for non-residential development. (**We estimate it would be around just 0.2% of development cost instead of the 1% of development cost it is supposed to reflect.**)

A comparison of the revenue that could be generated under either approach is shown in **Figure 15**.

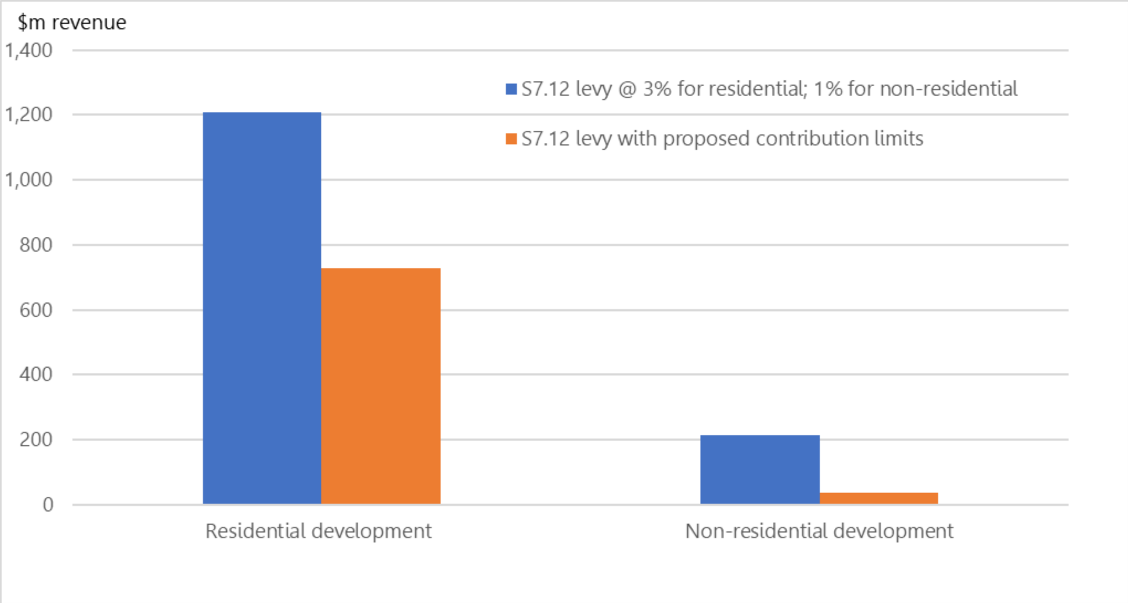
We estimate that the projected revenue from residential development would be 66% higher if a maximum 3% levy were implemented without the set dollar rate limits, compared with the revenue generated with set dollar rate limits. Non-residential development would be 458% higher at the existing 1% maximum levy without the set dollar rate limits.

The large difference for non-residential development revenue is due to the low threshold rates that have been set by the PC, relative to the actual cost of construction in the NRSOC LGAs and the equivalent revenue that can currently be generated at 1%.[18] A comparison of these rates against current s7.11 rates for non-residential development in NSROC LGAs is also provided in section 4.5 below.

[17] If the s7.12 levy was to be applied to demand-based development instead of current s7.11 contributions.

[18] Development in the Chatswood CBD catchment can be levied s7.12 contributions at a maximum of 3% of the proposed development cost.

Figure 15 **Projected s7.12 revenue under maximum % levy and maximum set dollar contribution rate limit approaches, 2021/22 to 2040/41, nominal terms**



Source: GLN Planning, NSROC council projections and ABS Building construction values.

Note: Forward s7.12 contribution projections have been indexed by the relevant ABS PPI.

These comparisons suggest that the reforms to s7.12 contributions would operate more as a price-limiting mechanism, at greatly reduced rates, rather than as a reasonable infrastructure charging mechanism. Therefore, it would appear to be counterintuitive to the principles stated by PC for the reforms (of simplicity and better alignment with growth infrastructure), certainly from the perspective of NSROC councils.

The basis for the PC's recommended threshold residential rates is based on its observation of the median cost of construction for developments (presumably in all of NSW) in 2018/19 based on DPIE development monitoring data. We note that the DPIE monitoring data is possibly dominated by greenfield development in Sydney's growth areas rather than development in infill or established areas.

Table 6 compares these values with the average cost of construction in the NSROC LGAs (based on ABS Building Approvals data) for the same types of development over the past five years. (Note that we have not applied any additional indexation to the PC cost estimate only because the ABS Producer Price Index (PPI) for residential construction was negative over the period 2018/19 to 2020/21).

Table 6 **Cost of residential construction – CIE's recommended values for NSW vs NSROC LGA values (5-year average (2015/16-2019/20) ($2020/21))**

	Cost of construction – house ('000s)	Cost of construction – other dwelling (e.g. unit housing) ('000s)
CIE's recommended value ($2018/19)	$334	$279
Hornsby Shire	$397	$333
Hunter's Hill	$1,078	$378
Ku-ring-gai	$792	$384
Lane Cove	$742	$350
Mosman	$2,428	$677
North Sydney	$1,099	$570
Ryde City	$562	$355
Willoughby City	$828	$389
NSROC council average (2015/16-2019/20) ($2020/21)	$991	$430

Source: CIE (202) using data from the Department of Planning, Industry and Environment (DPIE) and Local Development Performance Monitoring data for 2018/19 and GLN calculations based on ABS Building Approvals construction value data for NSROC LGAs, 2015/16-2019/20 and ABS PPI for Residential Construction.

Note: CIE's recommended value has not been indexed because of deflation in the ABS residential construction price index over the period 2018/19 to 2020/21.

The comparison shows how low the PC-recommended costs for construction are compared with the *actual* costs in the NSROC LGAs. The average cost of housing construction in the NSROC region is almost three times higher than the PC-recommended costs and the cost of other dwelling construction is one and a half times higher. If the Mosman LGA value is excluded as an outlier, the average cost of housing construction in the NSROC region is still more than twice the PC-recommended costs and the cost of other dwelling construction is 20% higher.

Regarding the proposed non-residential rates, the PC proposed to convert the 1 per cent rate to a rate per metre of gross floor area."[19] Our comparisons of the likely revenue Council would receive from non-residential development under s7.12 levies at 1% indicate that these rates are well below 1% across NSROC LGAs.

We would contend that infrastructure costs are largely indicative of the costs of construction in a local area, or at the very least, correlated with local building costs. Therefore, the capacity of NSROC councils and other councils to levy contributions to cover those infrastructure costs should not be restricted by a much lower estimate of those costs based on other areas. For this reason, the s7.12 percentage levy should not seek to be equated to threshold dollar rates across different areas of NSW.

[19] PC final report, p 74.

4.5 Demand-based s7.12 levies still likely to generate less revenue than s7.11 contributions

Most of the NSROC councils do not currently levy demand-based s7.12 levies on either residential or non-residential development in their LGAs, instead relying on the s7.11 mechanisms. The exceptions, as stated in section 4.2, Willoughby and Ryde, which levy s7.12 contributions on non-residential development where it will result in additional floorspace.

Most councils are already levying residential development at or near the maximum s7.11 rates of $20,000 per dwelling (at least for 2 and 3+ bedroom dwellings) or above the maximum rate (in the case of Town Centre areas in the Ku-ring-gai LGA and St Leonards South in Lane Cove LGA once IPART reviews the contributions plan). Therefore, for most of the NSROC region, the s7.12 proposed limits ($10,000 per detached dwelling and $8,000 per other dwelling) represent around half or less of the existing s7.11 rates implemented.

For non-residential development, the average s7.11 contribution rates across the five council areas where such contributions apply are:

- $150/sqm of additional floorspace for retail development (ranging from an estimated average of $91/sqm in Ryde's Macquarie Park catchment to an average of $215/sqm in the Ku-ring-gai LGA),
- $138/sqm for commercial development (ranging from an average of $60/sqm in the Hornsby Shire to an estimated average of $221/sqm in North Sydney LGA), and
- $46/sqm of additional floorspace for industrial development (noting this is the rate for the Lane Cove LGA because this is the only area that levies s7.11 contributions on industrial development).

Clearly, the proposed new maximum s7.12 rates ($35/sqm for commercial development, $25/sqm for retail development and $13/sqm for industrial development) are well below these contribution rates.

For these reasons, the NSROC councils which are already levying s7.11 contributions would not be affected by the reforms to s7.12 levies unless they are forced to consider shifting to a s7.12 mechanism. This would occur if the new EWL applied to s7.11 contribution plans was so restrictive that it excluded infrastructure that NSROC council s7.11 plans now include and levy non-residential development for.

For Willoughby and Ryde City Councils, the application of the threshold s7.12 rates would reduce the revenue that they otherwise receive under their s7.12 levies for demand-based, non-residential development.

For Ryde City, the impact would be relatively small and we have not distinguished between demand-based and non-demand based development outside the Macquarie Park catchment in this council's reform impact model.

For Willoughby City, the impact would be dramatic, particularly given that it can already levy Chatswood CBD commercial and retail development at a maximum of 3% of the cost of the entire development (and not just the additional floor space). We estimate that the application of the threshold rates could reduce revenue by as much as $43.5m over 20 years, or an average of $2.2m per annum (in nominal terms).

Our findings on the proposed demand-based s7.12 levy reforms are as follows:

9. NSROC councils would receive more revenue by continuing to levy demand-based development s7.11 contributions, rather than s7.12 levies under the reforms, *unless* the s7.11 mechanism through the EWL is effectively restricted to levels below the s7.12 maximum rates. In this case, its future contribution revenues would be significantly reduced – by $117m or 42% over 20 years, or by an average of $5.8m and $69 per capita each year (all in real terms).

10. The maximum s7.12 rates in the reform recommendation are well below the maximum percentage charges (on development cost). The non-residential s7.12 dollar limits - purportedly representing 1% of development cost - would instead reflect about one-fifth of the existing 1% non-residential levy in the NSROC region. This is not an acceptable policy outcome when workers represent a large share of demand for growth infrastructure needs in various centres of the NSROC region such as North Sydney, St Leonards and Chatswood.

We recommend that:

11. The maximum amounts per additional dwelling or additional area of non-residential floor space should be increased from the levels proposed so that they reflect the actual costs of development for infill councils, including NSROC councils (and equate to the proposed new standard 3% of development cost for residential development and continuation of 1% of non-residential development).

4.6 S7.12 levies for development that does not generate 'demand'

As stated, seven of the eight NSROC councils levy s7.12 contributions on development that does not in all cases generate demand for growth infrastructure such as alterations and additions, knockdown rebuilds or commercial fit outs and changes of use.

We have examined actual s7.12 revenue receipt history for NSROC councils and the ABS building approvals data to estimate the likely revenue from these types of development (**Table 7**). We made various assumptions about the share of construction value for different types of development that would be exempt as low cost development[20] or that would fall into demand-based categories for non-residential development.

Over the next 20 years, the NSROC region is projected to receive an average of around $11m per annum in revenue from s7.12 contributions on non-demand-based development, in real terms. The majority (61%) of this is to come from residential sources.

[20] That is, not meeting the $100,000 threshold or making up a smaller levy share if estimated to cost between $100,001 and $200,000.

Table 7 **Projected value of s7.12 revenue for the NSROC region from 'non-demand based' development (2021/22 to 2040/41)**

Development type	Levy assumptions	In 'real' terms ($2021/22)		
		Estimated regional revenue to 2040/41 ($m)	Regional average revenue p.a. ($m)	Average revenue per capita across the region ($)
Residential development - knockdown rebuilds, alterations/additions etc.	s7.12 @ 1%	135.6	6.8	10
Non-residential development - fit outs, change of use etc.	s7.12 @ 1%	86.5	4.3	6
Total 'non-demand-based' development		222.1	11.1	16

Source: GLN Planning, NSROC LGA s7.12 contribution receipt history and ABS Building Approvals average construction values (2015/16-2018/19 annual average projected forward in real terms).

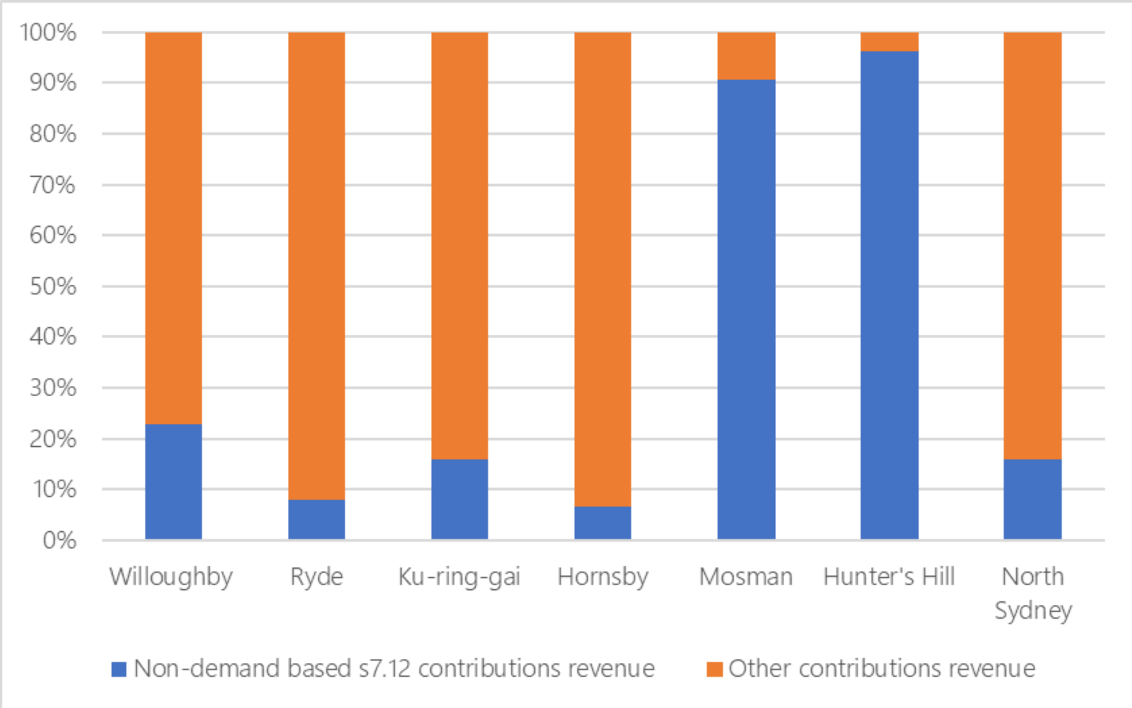
Note: the estimated revenue to 2040/41 is the sum of all NSROC council revenues, the average p.a. is the sum of all NSROC average revenues p.a. and the average per capita is the NSROC average revenue p.a. divided by the NSROC average resident population (2021/22 to 2040/41).

We found that two NSROC councils, Mosman and Hunter's Hill, are most heavily reliant on the s7.12 levies from regentrification development that does not, on its face, generate any demand for infrastructure.

Figure 16 shows the relative breakdown of contribution sources for each of the seven councils that levy s7.12 contributions. We estimate that 91% of Mosman Council's contributions revenue over the next 20 years is likely to be generated from non-demand-based development and in the case of Hunter's Hill Council, 96% of contributions revenue.

By comparison, the other four councils collect a much larger share of their developer contributions from demand-based development. S7.12 contributions from non-demand based development are estimated to account for 23% of Willoughby City's contributions revenue, 16% of Ku-ring-gai's contributions revenue, 8% of Ryde City's and 7% of Hornsby Shire's.

Figure 16 **Non-demand-based projected s7.12 revenue vs other contributions revenue for NSROC councils, 2021/22-2040/41 (nominal terms)**



Source: GLN Planning calculations based on NSROC LGA historical s7.12 contributions receipts, growth projections and contributions plans, and ABS Building Approvals average construction values (2015/16-2018/19).

Note: Lane Cove Council is excluded because it does not levy s7.12 contributions.

While Lane Cove Council does not currently levy s7.12 contributions, we estimate that it could potentially generate around $750,000 per annum if it did introduce them for non-demand-based development. This would represent 15% of its total projected contributions revenue.

Implications of exemption for development that does not generate 'demand'

The PC did not make an explicit stand-alone recommendation regarding 'non-demand-based' s7.12 levies (that is, distinct from demand-generating development) but it did recommend in its report that the DPIE should review use of the levy for these purposes, with a view to disallowing it.

The PC final report states (p 74):

> *A section 7.12 levy can be applied to all development regardless of whether it increases demand. This has been a source of concern for development that does not generate an increase in demand for infrastructure, such as a change of use, replacement housing, and ancillary agricultural structures. While development with a construction value below $100,000 is exempt, this still captures some development that arguably does not generate additional demand. The Department should review the applicability of section 7.12 to these types of development, particularly given the recommendation for higher percentage rates.*

We do not consider that the Government would allow a 3% levy on these types of residential development; but the 1% maximum levy could still be retained for these purposes to avoid a significant revenue shortfall for councils. At the very least, it should be applied to any development which incorporates additional floorspace since this can place additional demand on community infrastructure in an area.

However, the Government has also endorsed PC's recommendation to introduce a standardised exemption policy from 1 December 2021, which might include these forms of development, and potentially bring forward revenue losses if they are to occur before other contributions system reforms.

To summarise, our findings and recommendations on the proposed non-demand-based s7.12 levy exemption for DPIE review, are as follows:

12. The cumulative revenue losses of the proposed contributions reforms would be further increased by the exemption of non-demand-based development from s7.12 levies. NSROC councils would lose a collective total of $11m per annum in real terms, all else being equal, if the NSW Government decides to exempt non-demand based development from s7.12 levies. This equates to an average loss of $16 per capita each year.

13. For some councils, such as Mosman and Hunter's Hill, the exemption of s7.12 levies would result in most contributions income being foregone (we have calculated the reductions to be as much as 91 and 96% of contributions income, respectively). These low-growth councils are also likely to generate less additional income as a result of the rate peg reform to include population growth.

We recommend that:

14. The s7.12 reforms must be adjusted, phased-in or delayed (at least until the rates base has a chance to 'catch up' the revenue loss for Council) if the Government does decide to exempt non-demand-generating development from s7.12 levies. Alternative funding options must be available to councils such as Hunter's Hill and Mosman where s7.12 revenue losses would not be recouped over time.

We recommend that:

15. At the very least, residential developments that result in additional floor area (including dwelling extensions or knockdown rebuilds) should continue to be levied s7.12 contributions as applicable as they provide the potential for higher occupancy and greater demands on infrastructure.

5 Rate peg reform impacts

5.1 Policy context

The rate peg has been NSW Government policy since 1977 such that a council's 'general income'[21] cannot increase by more than the rate peg percentage without a special rates variation.

Since 2011/12, IPART has determined the rate peg and council requests for special rates variations.[22] IPART has set the rate peg each year to take account of council cost increases, productivity and the need for special 'one-off' adjustments only.

The fiscal constraint that rate-pegging has placed NSW councils under and the need for improved financial sustainability has been a central theme of local government reviews in recent years. In particular, the Independent Local Government Review Panel in 2013 recommended that the Government commission IPART to review the local rating system, which eventuated in IPART's Review of the Local Government Rates in System in 2016.

The NSW Government issued its response to IPART's rates system review in June 2020 and announced that its policy position was to include population growth in the rate peg formulation.

The Government stated that this policy would provide "greater flexibility in the current rating system through the creation of additional rating categories and sub-categories" and ensure that "councils can align income growth with population growth, in order to improve the distribution of the rating burden at significantly less cost, and low impact to the community."

In May 2021, the Government announced the *Local Government Amendment Act 2021* to allow the creation of these additional rating categories and subcategories, along with other changes.

IPART had earlier recommended in 2016 that the legislation be amended so that the growth in rates revenue outside the rate peg is calculated using a Capital Improved Values (CIV) method related to properties, rather than population growth.[23] However, the Government considered that:

- there was not enough broad-based support for a CIV method,
- that it would bring about a redistribution of the rating burden rather than an increase in rates, and
- implementation would take several years before a potential improvement to the equitable distribution of rating revenue would be evident.

Consistent with the Government's position, the PC final report recommended that councils' general income be allowed to increase with population, subject to a review of the IPART (Recommendation 3.1).

The PC highlighted the disparity between New South Wales average rates and the rest of Australia, with NSW average rates trailing the Australian average by 29 per cent or $244 per capita in 2019.

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[21] General income mainly comprises rates revenue, but also includes certain annual user charges but not stormwater, waste or water and sewerage charges.

[22] Previously, the Minister for Local Government determined the rate peg and special variation requests each year without reference to any methodology.)

[23] IPART, *Review of the Local Government Rates in System – Final Report,* 2016, Recommendation 5, p 17.

It contended that allowing for population growth within the local government rate peg would reduce the reliance on less efficient funding mechanisms (including infrastructure contributions as a de facto tax on development) and improve service provision.

It further stated that the rate peg should fund operating, maintenance and debt-servicing costs but not 'development-contingent' costs, which should be covered by infrastructure contributions. The implication is that any infrastructure costs that are not considered 'development-contingent' would need to be funded by an alternative funding source to contributions, namely rates.

The Government issued terms of reference to IPART to undertake the review of the rate peg, which is now underway.

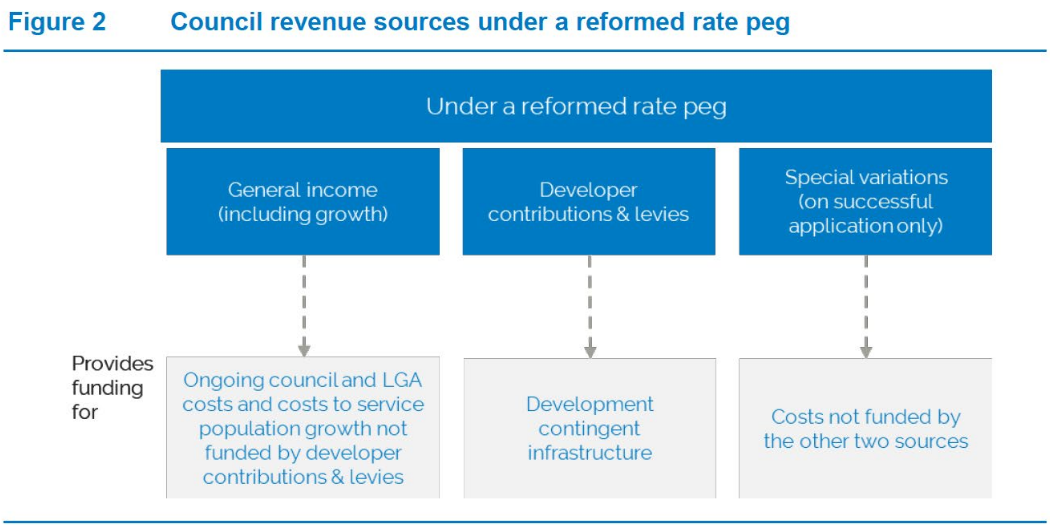
5.2 Anticipated features of rate peg reform

IPART published its Issues Paper in March 2021 on the review of the rate peg to include population growth. NSROC made a submission to the Issues Paper with input from GLN Planning at the start of this project.[24]

Funding options

The council revenue sources under a reformed rate peg are demonstrated by IPART as follows:

Figure 17 Council revenue sources under a reformed rate peg



In addition to the rate peg and developer contributions, councils still have the option to apply to IPART for a special variation to increase their general income by more than the rate peg. Chapter 2 discussed the special variations that NSROC councils have been granted by IPART and the associated impact on income trends.

The process is resource-intensive because Council must comply with a set of criteria for assessments established by the NSW Office of Local Government, which includes (but is not limited to):

[24] At the time of finalizing this report, IPART released its draft report.

- integration of the proposal into its Integrated Planning and Reporting (IP&R) documents
- consultation with the community about the proposed rates increases and why, and
- consideration of the ratepayer impact.
- It is reasonable to assume that councils might be less inclined to seek special rates variations when the rate peg increases with population growth, at least in the short term, to reduce the cumulative impact on their communities.

The rate peg components

IPART intends for the rate peg to be made up as follows:

LGCI + productivity adjustment + any one off adjustment + population growth factor

where:

- the IPART's Local Government Cost Index (LGCI) reflects the increase in costs experienced by the average council, with operating cost components around 70% of total costs and capital cost components around 30% of the total costs,
- the productivity adjustment is a negative deduction to reflect productivity gains of the local government sector, but which has been set to zero in recent years,
- one-off adjustments cater for special circumstances which impact council income and are not otherwise captured by the LGCI, such as carbon price and election cost impacts, and
- the population growth factor is set as an additional percentage, on top of the other components of the rate peg, to represent a council's population growth as closely as possible.

Different population growth methodology options

The recent Local Government Act amendments included changes concerning the rate peg so that different percentages could apply to different areas of councils and a methodology for calculating a percentage rather than specifying a particular percentage was permissible (s506(2)(a)(b)).

In its Issues paper, IPART introduced some of the different methodology options for setting the population growth factor, such as:

- Grouping councils into growth cohorts and setting one growth percentage for a grouping, rather than a council-by-council percentage,
- The different data source options upon which population growth should be based, including projected versus actual historical population datasets, DPIE versus alternative population datasets (such as the .id data) and other datasets such as DAs or rating assessments.
- Adjustments for supplementary valuation growth which already increases council general income.[25]

The methodology that IPART establishes will have implications on an individual council's revenue growth. As an example, if IPART groups councils into growth cohorts where an average growth percentage applies, a higher growth council in that cohort would not be able to increase rates by as much as it could have if its actual growth percentage applied. Conversely, a council at the lower end

[25] At the time of finalizing this report, IPART released its draft report (June 2021).

of the growth cohort would gain from increased revenue. Further, supplementary valuations are estimated to account for a quarter percentage growth in the rates base for every one percent of growth, and an adjustment for this occurrence in the methodology would also reduce the revenue available to councils.[26]

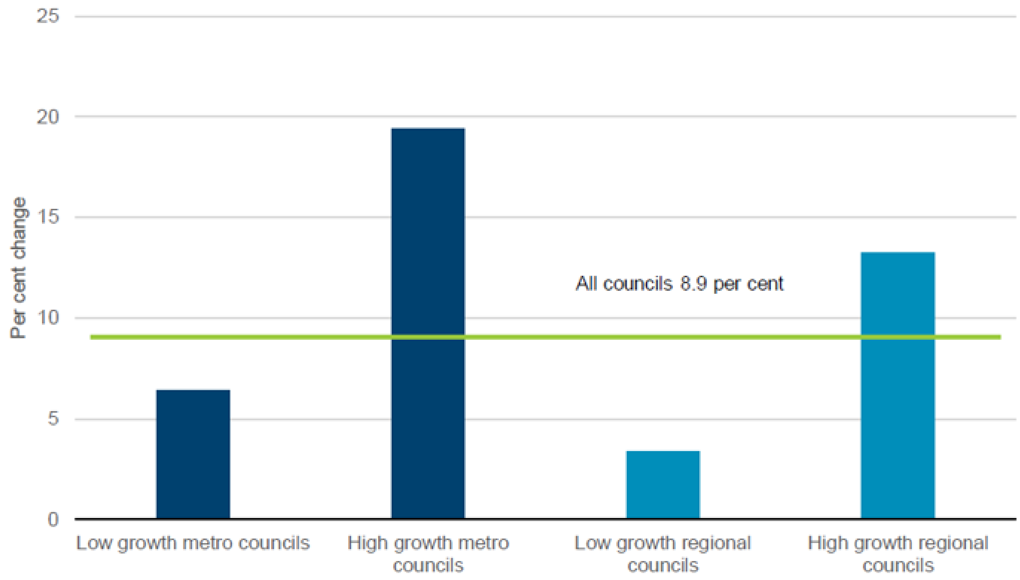
Nonetheless, the intention of the Government reforms appears to be that a council's rates revenue growth captures its population growth. This is demonstrated by the modelling commissioned by the Government to estimate the impact of the reforms which is based on LGA population growth projections published by DPIE.

5.3 Government modelling of rate reform impacts

The Government commissioned the Centre for International Economics (CIE) to model the revenue impacts of local government rate peg reform from 2023-24 to 2042-43 (see Figure 18).

CIE found that collectively, councils will receive a modest increase in aggregate rates revenue (up 8.9 per cent or $18.5 billion over 20 years, undiscounted) under the reform scenario. The revenue impacts differ between council types. High growth councils (defined as those with forecast population growth exceeding the State's average of 1.1 per cent) would benefit more than low growth councils.

Figure 18 Percentage change in rates revenue for different council types (2023-24 to 2042)



Source: NSW Productivity Commission's analysis based on Centre for International Economics' data

The CIE modelling suggested that low growth metropolitan council rates would increase by an annual average of 5.3 per cent instead of a baseline of 4.8 per cent and high growth metropolitan councils would increase from an annual average baseline growth of 5.1 per cent to 6.6 percent. Of

[26] IPART's draft report (June 2021) indicates that the population growth would be applied on a council-by-council basis, based on historical (lagging) population estimates only (and not any projections). This is broadly consistent with our modelling assumptions given that future growth can only be forecast (although we would also expect actual growth to vary from projections to some degree for all councils).

course, the increase is not a uniform one between councils. For each council, it depends on individual population growth and whether special variations are sought, in addition to the rate peg.

The CIE released further results concerning the impact of councils based on different growth cohorts in December 2020 (an extract of the reported results for metro councils is in **Figure 19**). Significantly, CIE assumed a 4.75% base rates revenue growth assumption. This means, that for an average rate peg of 2.5% over the long term, average rates are expected to increase by another 2.25% each year due to the impact of special variations (and to a much smaller extent, supplementary valuations).

The reported revenue growth for councils as a result of the population growth factor is therefore much higher than if it is assumed to be only in addition to the forecast rate peg.

Figure 19 Revenue impact of changes over 5 years

1 Revenue impacts of changes over five years

Council group	Average over five years			In fifth year		
	$m/year	Per cent	$/capita/ year	$m/year	Per cent	$/capita/ year
Below state-average growth metro councils						
Rates	29	1.6	13	51	2.6	22
Contributions	- 11	-6.1	-5	- 14	-7.3	-6
Total	18	0.9	8	37	1.7	16
Above state-average growth metro councils						
Rates	82	4.5	27	147	7.3	49
Contributions	- 39	-6.2	-13	- 52	-7.6	-17
Total	42	1.7	14	96	3.5	32

Source: CIE (2021), Revenue projections for changes to local government rates and local infrastructure contributions

The PC final report acknowledged that the aggregate financial impacts on councils of rate peg reform over many years are significant and that it would take time to ramp up to meet the needs of maintaining existing service levels and delivering additional infrastructure for growing populations.

The cumulative nature of a sustained population growth factor is such that the income and average rates growth is lower in the earlier years of implementation but will tend to rise exponentially over time.

5.4 Rate peg reform impact on NSROC councils

As part of this project, we modelled the impact of rate peg reform on each NSROC council and estimated the additional income that it would receive.

We modelled the impact of the proposed policy change on top of the projected rate peg without any additional assumed increase in the rates base. This approach best isolates the actual impact of the population growth factor on a council's rates base, without representing other revenue impacts. This will also help a council to determine whether it might *need a special variation as well*, as a result of the combined impact of the reforms.

The Government's modelling (by CIE) had assumed a higher base case of 4.75% growth each year for every council. As noted in NSROC's submission to the IPART Issues Paper, we question this assumption because it is predicated on councils being approved special rates variations, and:

- NSROC councils do not currently have any special rates variations approved beyond North Sydney Council's existing special variation which ends in 2021/22.
- The population growth factor would make many councils less inclined to seek special variations in the short term at least, given that average rates levels will already be increasing beyond inflation.
- There are residual COVID impacts apparent in the broader economy, which might make some councils even more reluctant to increase rates further in the short to medium term.
- Special variations would only apply in the years approved and would not represent a blanket increase each year upon which additional income is accumulated – a 5% increase in year one delivers more revenue cumulatively than a 5% increase in year five.
- IPART does not always approve special variations requested by councils, as was apparent with Willoughby City's application in 2018/19, which was denied by IPART on the basis that the council did not need the funds.
- IPART has canvassed the possibility of removing the impact of supplementary valuations (which have a small impact on revenue) from the population growth calculation (which would lower it further).

Table 8 shows the impact on rates revenue on each NSROC council and the NSROC region overall as a result of the inclusion of the population growth on top of the long-term rate peg average (2.5% per annum from 2023/24).

The assumed growth is based on the population projections for councils which we considered were most reasonable to adopt, in consultation with councils. Some councils' projections are based on projections produced for the council by demography specialists (e.g., .id); others are based on DPIE projections that were last published in 2019. On average, NSROC LGAs are expected to experience population growth averaging 0.9% per annum, ranging from growth averaging 0.1% in Hunter's Hill to 1.9% in Ryde.

The total additional income that would be generated as a result of the reforms is estimated to be $42.8m per annum and $769.5m in total to 2040/41. This represents a total additional charge of $1,086 per capita in the region over this period.

Ryde, as the highest growth council in the region, would generate an additional $15.0m on average which would provide a cumulative increase totalling three and a half times its permissible income level in 2020/21. North Sydney's general income would also double by 2040/41. There is a stark difference between the income that would be generated for the smaller 'low growth' Mosman and Hunter's Hill councils and the other higher growth councils – Hornsby, Ku-ring-gai and Willoughby. Hunter's Hill Council would receive just $0.1m per annum on average as the lowest growth council, and Mosman $0.6m per annum.

Table 8 Projected revenue impact of rate peg reform to include population growth for NSROC councils (2021/22 to 2040/21) (nominal terms)

Council	Permissible income 2020/21 ($m)	Assumed average annual population growth	Average annual additional income ($m)	Average annual additional income per capita ($)	Cumulative additional income by end year 5 (2027/28) ($m)	Cumulative additional income total to 2040/41 ($m)	Cumulative additional income per capita to 2040/41 ($)
Hornsby	72.4	1.0%	7.9	48	12.6	142.7	859
Hunter's Hill	9.8	0.1%	0.1	4	0.1	1.5	106
Ku-ring-gai	68.9	0.70%	6.7	46	13.5	121.0	835
Lane Cove	26.3	1.10%	2.1	43	7.1	37.6	783
Mosman	21.1	0.30%	0.6	19	0.8	10.3	333
North Sydney	51.8	0.90%	5.8	69	10.0	104.9	1,205
Ryde	75.4	1.90%	15.0	80	28.2	269.9	1,435
Willoughby	53.0	0.90%	4.5	49	7.3	81.6	882
NSROC total		0.9%	42.8	60	79.6	769.5	1,086

Source: GLN Planning calculations based on NSROC LGA population projections (DPIE and .id) to 2040/41 and council financial statements.

Note: the assumed rate peg (without population growth) is 2% in 2021/22 and 2022/23 and 2.5% p.a. from 2023/24.

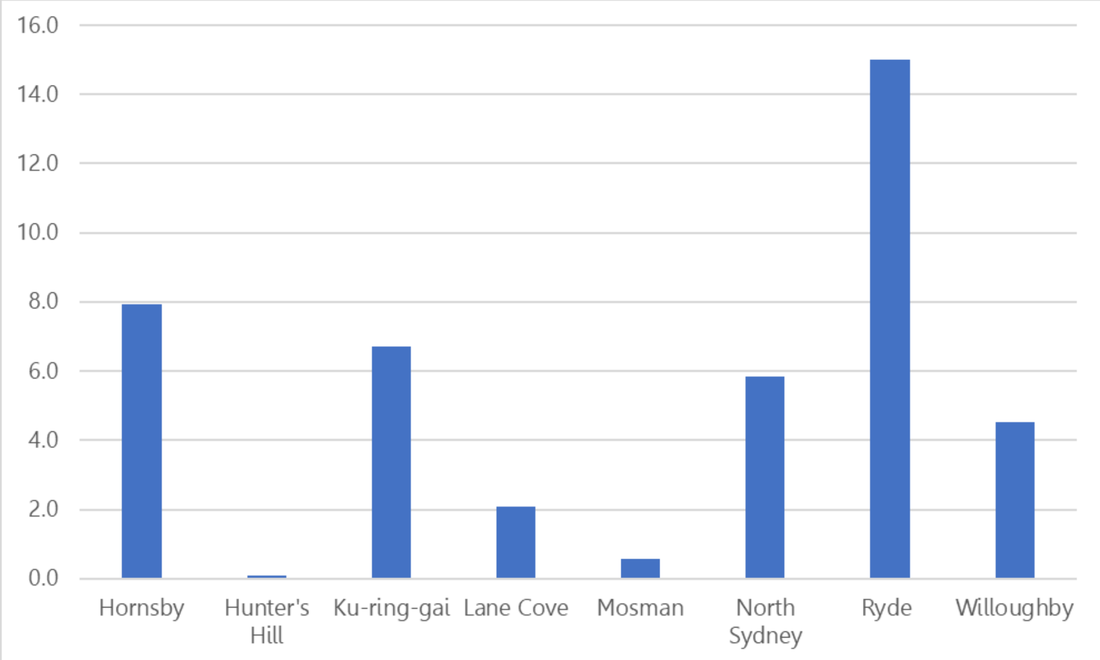
The average revenue difference is based on the period of the reforms only from 2023/24 to 2040/41, and not from 2021/22 (so the total has been divided by 18 for the number of years, and not 20).

The additional income due to population growth includes any supplementary valuation income already collected.

Growth projections for each LGA are in five year tranches and those estimated to experience higher growth in earlier years (such as Lane Cove) will receive more revenue than councils with higher growth in later years, all else being equal.

The NSROC total for population growth is the average growth of eight councils, unweighted. The additional income is the sum of each council's additional income. The per capita estimates are based on the NSROC average projected population from 2021/22 to 2040/41.

Figure 20 **Additional average rates revenue per annum for NSROC councils as a result of population growth in the rate peg (2021/22 to 2040/21), nominal terms ($m)**



Source: GLN Planning calculations based on NSROC LGA population projections (DPIE and .id) to 2040/41 and council financial statements.

Comparing these results to the CIE results in year 5 (**Figure 20** above), the highest income generated is for Ryde with $28.2m cumulatively, which compares with the metro high growth council estimate of $147m by CIE. (Ku-ring-gai would generate the highest of the 'low growth metro -councils ($13.5m) compared with CIE's estimate of $51m. Clearly, the 4.75% assumption loads the estimated revenue gains due to the reforms.

We have presented the results above in nominal terms, largely to compare our estimates against the CIE estimates which were also presented in nominal terms. **Table 9** presents a summary of the results in real terms to allow a like-with-like comparison against the contribution revenue reductions in real terms estimated as a result of the contribution reforms already discussed.

Table 9 **Projected revenue impact of rate peg reform to include population growth for NSROC councils (2021/22 to 2040/21) in real terms ($2021/22)**

Council	Average annual additional income ($m)	Average annual additional income per capita ($)	Cumulative additional income total to 2040/41 ($m)	Cumulative additional income per capita to 2040/41 ($)
Hornsby	5.6	33	101.2	600
Hunter's Hill	0.1	4	1	69
Ku-ring-gai	4.8	33	86.3	586
Lane Cove	1.5	32	27.6	568
Mosman	0.4	13	7.3	234

Council	Average annual additional income ($m)	Average annual additional income per capita ($)	Cumulative additional income total to 2040/41 ($m)	Cumulative additional income per capita to 2040/41 ($)
North Sydney	4.1	48	74.5	858
Ryde	10.7	54	192.9	980
Willoughby	3.2	33	57.8	599
NSROC total	**30.4**	**43**	**548.6**	**774**

Source: GLN Planning calculations based on NSROC LGA population projections (DPIE and .id) to 2040/41 and council financial statements.
Note: nominal annual projections have been deflated by the rate peg (2.5% from 2023/24).

The average revenue difference is based on the period of the reforms from 2023/24 to 2040/41, and not from 2021/22 (so the total has been divided by 18 for the number of years, and not 20).

The additional income due to population growth includes any supplementary valuation income already collected.

Our findings and recommendations regarding the impact on the NSROC region as a result of rate peg reform are as follows:

16. Assumptions used in the Government's modelling of linking the rate peg to population growth are overly optimistic, and unrealistically distort the modelled impacts. In particular, the Government's assumption that councils would continue obtaining approval for special variations to income at levels seen in the past is unrealistic.

We recommend that:

17. Modelling the impact of including a population growth factor in the rate peg should take the projected rate peg (2.5% from 2023/24) or approved special variation for a council as a base case only and not a higher base case percentage (e.g., 4.75%), to best isolate:
    (a) the actual revenue impact of the reform, and
    (b) the need for any supplementary funding as a result of any simultaneous negative contribution revenue impact.

18. NSROC councils would receive a combined total of $549m more revenue by 2040/41 in real terms as a result of the rate peg reform, ranging from +$1m for Hunter's Hill as the lowest growth council area in the NSROC region to +$192m for the City of Ryde, the highest growth council area. The per capita impacts in an LGA are correlated with income impacts, with the lowest average annual impact of +$4 per capita in Hunter's Hill and the highest +$54 per capita in the City of Ryde.

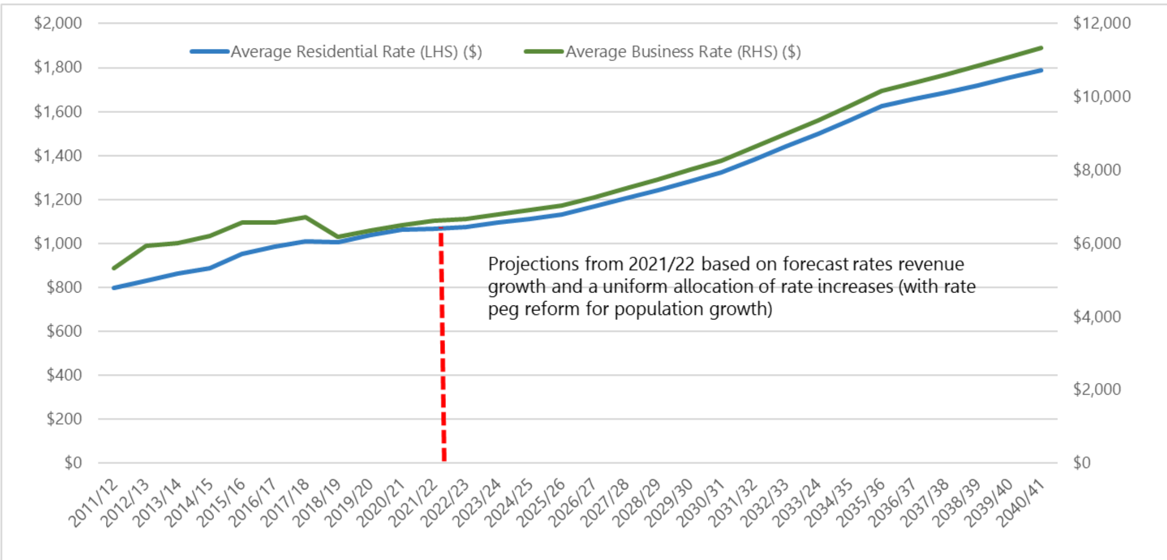
5.5 Impact on ratepayers

We estimated that increasing rate peg income by population growth would increase council revenue in the NSROC region by a total of $774 per capita by 2040/41. Based on an average household size of 2.6 in 2016[27], this equates to an additional $2,012 per household.

Given the dynamic of the net income impacts which result from a combination of the rate peg increases and declining contribution revenues, it is unclear whether NSROC councils will have a net increase in funds available to provide additional services to its ratepayers, consistent with the quantum of these rate increases. The case studies in **Appendix B** provide more detail for each council on its net income impacts under different reform scenarios and we have also assessed the net income outcomes similarly for the NSROC region as a whole in Chapter 6. If contribution declines are significant enough, councils may also need to seek special variations which would further increases rate levels.

On average, it can be reasonable to assume that residential and business rates could increase in an LGA by the amount of the rate peg, including any population growth. **Figure 21** provides an example of the highest growth council in the NSROC region, the City of Ryde, with assumed average residential and business rate increases aligned to its projected population growth. This demonstrates the exponential nature of cumulative rate increases for projected growth over time.[28]

Figure 21 Projected average rates for City of Ryde as a result of rate peg increases for population growth (2021/22 to 2040/21), nominal terms



Source: GLN calculations based on City of Ryde Council rating history, OLG time series and City of Ryde growth projections.

Council areas such as Mosman and Hunter's Hill, where there is limited projected growth, will also have very small increases in their average rates accordingly.

Every council will also have an option as to how they wish to allocate rate increases across different categories of ratepayers, including business and residential ratepayers.

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[27] Profile.id data.

[28] Nonetheless, the rates trend would be flatter if projected average rates were in 'real terms'.

Under the *Local Government Amendment Bill 2021*, councils will have more opportunity to apply the increases more selectively to specific growth areas within the LGA, rather than as a blanket application to its main rating categories. To some extent, this might mitigate the increases on a council's remaining rates base.

Councils will also be able to apply the rate peg increases including population growth automatically to its minimum rates, without an additional application to IPART. Some councils in the NSROC region have a heavy reliance on minimum rates already e.g., Lane Cove has 54% of its residential rating assessments on minimum rates and the City of Ryde has 61%, and one possibility is that these minimum rates will be increased with population growth. But with increased flexibility around rating categories in the new rating system in NSW, councils might also wish to create new subcategories for growth areas based on ad valorem rates, rather than minimum rates.

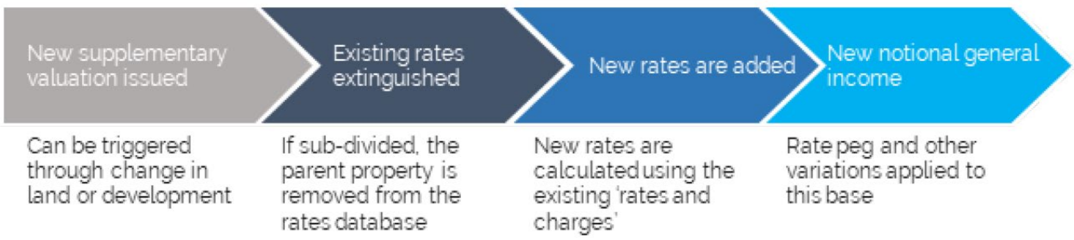
To summarise, our findings regarding the impact on ratepayers from the proposed rate peg reform are as follows:

19. Increasing rate peg income by population growth would increase council revenue in the NSROC region by an average of $2,012 per household by 2040/41.

20. Average rates are expected to increase with population growth in an LGA under the reforms but the impact on individual ratepayers will depend upon:
    (a) the allocation of rate increases among different categories and subcategories of ratepayers by a council, including minimum rates
    (b) the net funding available by councils for additional infrastructure and services under the combined impact of the rate peg and contribution reforms, and the need for any special rate variations.

5.6 Supplementary valuations

Councils can receive additional income from growth through the 'supplementary valuation' process which often occurs when new properties are created. This process is illustrated by IPART as follows:[29]



The supplementary valuation process does not sufficiently cater for population growth, as CIE found in its assessment. It identifies a ¼ percentage increase in council revenue for 1 percentage of growth.[30] This is largely because of the high proportion of apartment development among Sydney councils, in particular, and the fact that councils have been able to only charge these property owners minimum rates given how low the ad valorem rates are relative to detached and semi-detached

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[29] IPART, *Review of the Rate Peg to Include Population Growth*, Local Government - Issues Paper, March 2021, p 6.

[30] CIE, *Evaluation of infrastructure contributions reform in New South Wales*, Final Report prepared for Productivity Commission, 2 December 2020, p 69.

houses. There are also other forms of development such as granny flats which do not trigger the supplementary valuations.[31]

IPART's methodology for setting the rate peg to include population growth will need to establish whether it will require an additional adjustment for supplementary valuations. In its Issues paper, it flagged the possibility of double counting growth if it did not adjust for additional income already generated through supplementary valuations.[32] In addition, CIE assumed that the allowance for rates revenue growth from supplementary valuations would be replaced by the population factor.[33]

For these reasons, in our modelling of the net income impacts from rate peg reform, we also assumed that the population growth factor would be adjusted for supplementary valuations. It is acknowledged that the reported net income gains as a result of the reforms do include the supplementary valuation income, which councils are already receiving.

We also included a scenario where supplementary valuations are included (at a rate of ¼ percentage point for every 1 percentage point population growth) on top of the population growth factor. The positive impact this has on the region's net income result under contribution reforms which reduce councils' revenue is demonstrated in Chapter 6.

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[31] IPART, *Review of the Rate Peg to Include Population Growth*, Local Government - Issues Paper, March 2021, p 6.

[32] At the time of finalizing this report, IPART released its draft report which also assumed that the population growth factor would be adjusted for supplementary valuation growth, consistent with our assumption.

[33] CIE, *Evaluation of infrastructure contributions reform in New South Wales*, Final Report prepared for Productivity Commission, 2 December 2020, p 68.

6 Net income impact of reforms

The projected results under different contribution reform scenarios (which will likely reduce income) and rate peg reform scenarios (which should increase income) combine to give the net income result for each of the NSROC councils.

Estimating the net income impact over time is important for a council because it indicates how much better or worse off financially it is likely to be as a result of the reforms, and when it will be in negative, break even and positive financial territory under different scenarios. It might also inform the need for special variations for each council under different reform outcomes.

Our modelling assumes the rate peg income will vary with population growth in a year, contributions revenue is expected to be constant each year based on average dwelling yields. Contributions revenue can be highly volatile from one year to the next, depending on dwelling yields achieved and the timing of payments and the actual revenues received will affect the annual net income results. But in the absence of development timing information for each council area, we consider that the average yield is reasonable to assume in the context of the model.

We have presented our results of the annual net income impact from possible reform outcomes with the cumulative discounted net cashflow position for councils. Discounting net cashflows accounts for councils being able to earn interest on funds held and having to forego the opportunity for interest on funds lost. We have discounted net cashflows by the IPART recommended discount rate for the local government sector.[34]

The 'cumulative discounted net cashflow' line in our charts indicates whether the 'break even' point for a council or the region as a whole can be reached or exceeded as the expanding rates base takes time to offset lower average contributions.

6.1 Net income results from possible contributions reform outcomes

This section presents the impact on net income for the NSROC region as a result of some of the key reform possibilities discussed in the previous section.

The case studies in **Appendix B** for each council provide further council-specific net income impact charts.

Contributions reform scenarios

One possible reform scenario that we discussed in **chapter 3** was the possibility that:

- community and indoor recreation facilities will be excluded from essential works for s7.11 councils (because these facilities are currently not on the essential works when contributions exceed the s7.11 limit threshold rate), and
- there could be a s7.12 exemption for non-demand-based development i.e. alterations/additions. ('Scenario 1')

Table 10 shows that this would result in a negative cumulative net cashflow position of negative $71m for the NSROC region in 2032/33 and a continued negative position in 2037/38 ($9m).

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[34] IPART, *Fact Sheet – Local Government Discount Rate*, 26 February 2021. The real discount rate as at the end January 2021 is 0.8%.

If s7.12 levies for non-demand based development (alterations and additions) are not exempt ('Scenario 2'), the net income position would improve considerably for the NSROC region with a positive net position of $32m in by 2032/33. However, there would still be a negative position of $21m after the first five years.

('Scenario 3') depicts Scenario 1 but with public domain facilities also excluded. This demonstrates the significant risk to councils' financial positions if relatively severe changes to the EWL eventuated, with a negative cumulative discounted net cashflow position of $124m in 2037/38.

If councils needed to opt for s7.12 contributions only for demand-based development with the new threshold limits applying because the EWL was so exclusive[35] that it was not worthwhile to levy s7.11 contribution anymore ('Scenario 5'), then the cumulative discounted net cashflow position would be negative $260m in 2037/38.

If instead, the EWL changes allowed 'growth infrastructure' in s7.11 contributions plans (i.e. infrastructure costs apportioned wholly to development only and still satisfying nexus), regardless of infrastructure category, then the financial outlook would be improved for the region (compared with other EWL changes) with a positive net cashflow position of $131m in 2037/38.

A final scenario presented in **Table 10** that demonstrates an improved financial outlook for NSROC councils is if the supplementary valuation growth is allowed to continue to increase their general income as it does presently, in addition to the addition of the population growth factor in the rate peg ('Scenario 6').

Consistent with CIE's findings on supplementary valuations, we have assumed that every 1% population growth for an LGA results in 0.25% additional growth in the council's general income due to supplementary valuations. Applying this outcome to Scenario 1 (as Scenario 6 entails) would result in positive cumulative discounted net cashflow position of $23m by 2032/33. There would still be a negative position of $42m at the end of the first five years as the rates base takes time to expand for growth.

In addition, the individual impacts on councils would vary considerably depending on their individual circumstances. Mosman and Hunter's Hill councils, for example, would still experience sustained negative income impacts under this scenario due to the assumed s7.12 exemption for non-demand based development.

Table 10 presents the net income results for six different reform scenarios discussed above and in previous chapters.

The subsequent charts (**Figures 22-27**) show the net income impact for each of the scenarios from 2021/22 to 2040/41. The rate peg reforms are assumed to impact revenues from 2023/24, while the contribution reforms are assumed to impact revenues from 2024/25.

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[35] For example, if community, indoor recreation and public domain facilities, as well as high-standard open space embellishment, are all excluded from the EWL on the basis that they are not classified 'development-contingent' works.

Table 10 Cumulative discounted net cashflow position for the NSROC region for various reform scenarios (2021/22 to 2040/41), real terms ($2021/22)

Contributions reform scenario:	2027/28 5 years of reformed rate peg ($m)	2032/33 10 years of reformed rate peg ($m)	2037/38 15 years of reformed rate peg ($m)	Summary of tracking of cumulative discounted net cashflow position
Scenario 1 - Community & Indoor Recreation facilities excluded from EWL & s7.12 exempt for non-demand based contributions (alts/adds)	-67	-71	-9	Starts negative and remains negative until 2038/39
Scenario 2 - Community & Indoor Recreation facilities excluded from EWL but with s7.12 still applying for non-demand based contributions (alts/adds)	-21	32	148	Starts negative but returns to positive in 2030/31, and increases from there
Scenario 3 – Community, Indoor Recreation & Public Domain facilities excluded from EWL & s7.12 exempt for non-demand based contributions (alts/adds)	-101	-146	-124	Starts heavily negative and remains that way beyond 2041
Scenario 4 - Growth infrastructure for s7.11 in EWL only & s7.12 for non-demand based development exempt (alts/adds)	-29	17	131	Starts negative but returns to positive in 2030/31, and increases from there
Scenario 5 - The s7.12 contribution with new limits is applied by all councils instead of s7.11, exemption for alts/adds applies	-144	-237	-260	Starts heavily negative and losses increase beyond 2041
Scenario 6 - Supplementary valuation growth permitted on top of population growth in rate peg AND Community & Indoor Recreation facilities excluded from EWL;s7.12 exempt for non-demand based contributions (alts/adds),	-42	23	213	Starts negative but returns to positive in 2030/31, and increases from there

Source (including for Figures 22 to 27 below): GLN Planning calculations based on NSROC LGA historical s7.12 contributions receipts, growth projections and contributions plans, and ABS Building Approvals average construction values (2015/16-2018/19).

Note: In scenarios 1-2 & 6, Lane Cove Council is also assumed to no longer levy s7.11 contributions for open space legacy assets because this is unlikely to continue under the reforms.

In scenario 4, 'growth infrastructure' is assumed to be infrastructure for which costs are levied 100% to growth (rather than being shared with existing residents) in council contributions plans.

In scenario 6, supplementary valuation growth is assumed to result in 0.25% income growth for every 1% population growth.

Figure 22 **Scenario 1 - Community & Indoor Recreation facilities excluded from EWL & s7.12 exempt for non-demand based contributions (alts/adds), 2021/22-2040/41, real terms, ($2021/22)**

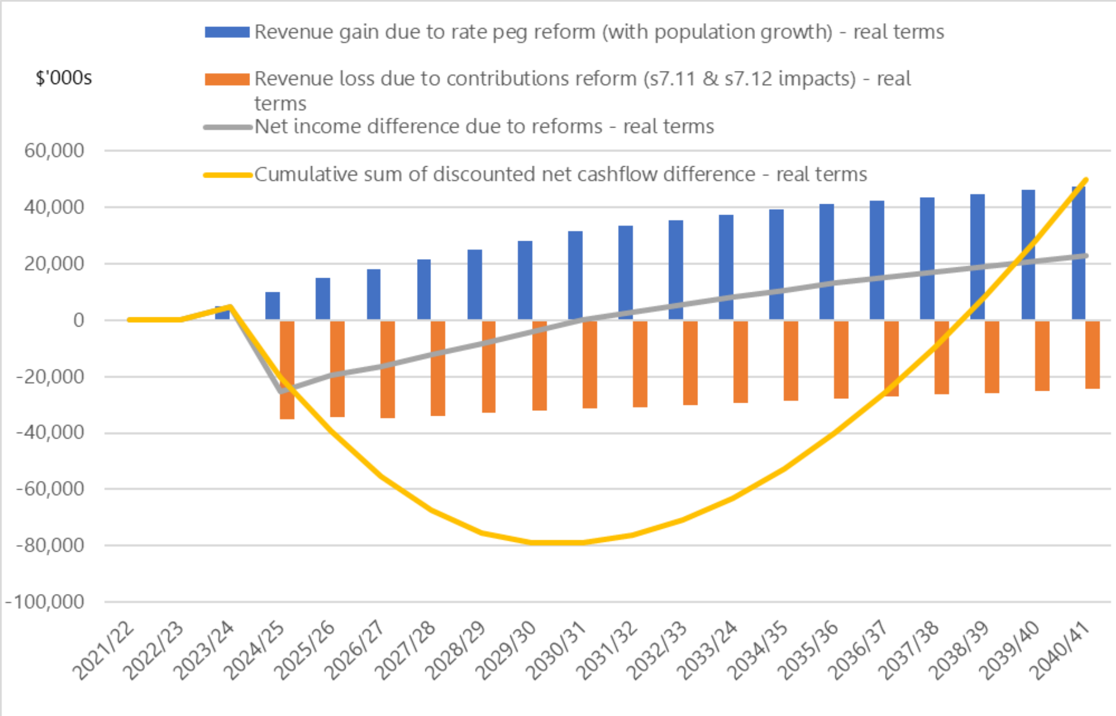


Figure 23 **Scenario 2 - Community & Indoor Recreation facilities excluded from EWL & s7.12 still permitted for non-demand based contributions (alts/adds), 2021/22-2040/41, real terms, ($2021/22)**

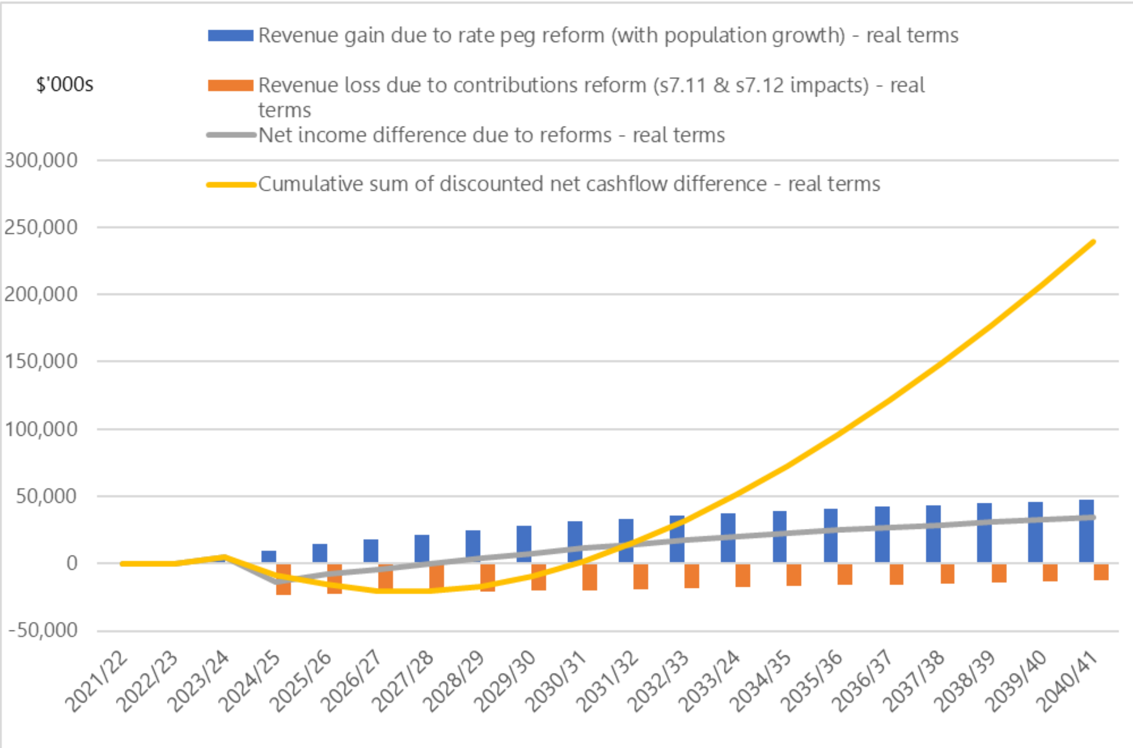


Figure 24 **Scenario 3 - Community, Indoor Recreation & Public Domain facilities excluded from EWL & s7.12 exempt for non-demand based contributions (alts/adds), 2021/22-2040/41, real terms, ($2021/22)**

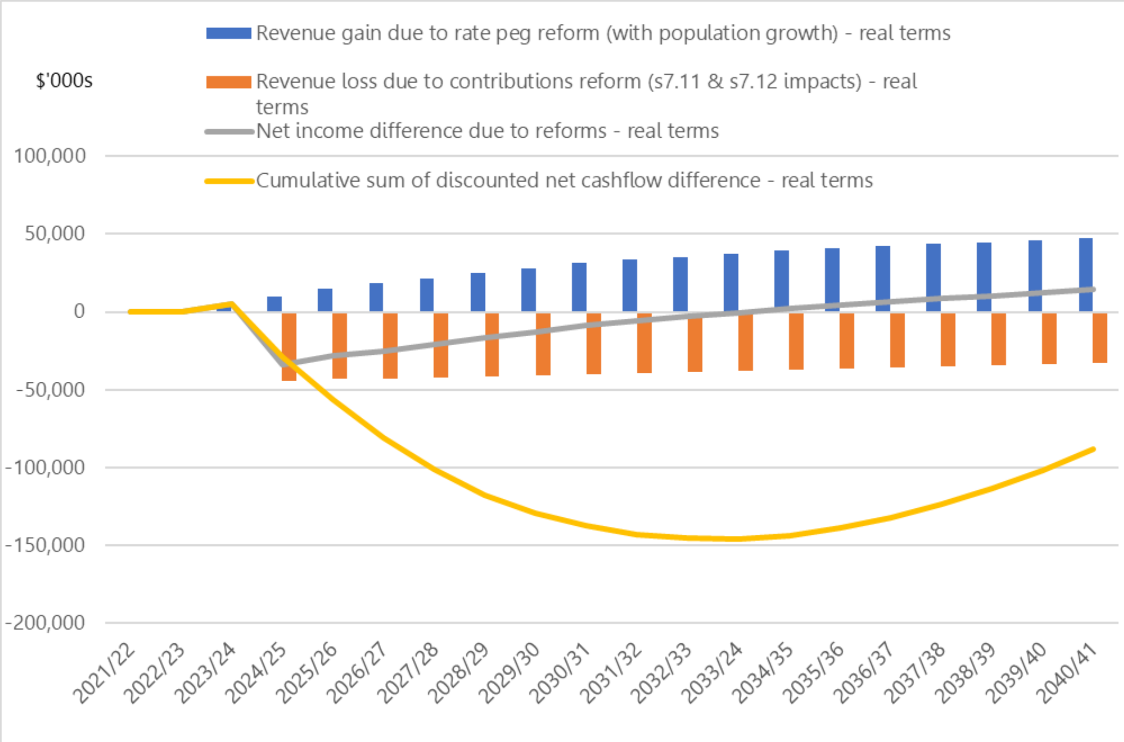


Figure 25 **Scenario 4 - Growth infrastructure only in EWL and s7.12 for non-demand based development exempt (alts/adds), real terms $2021/22.**

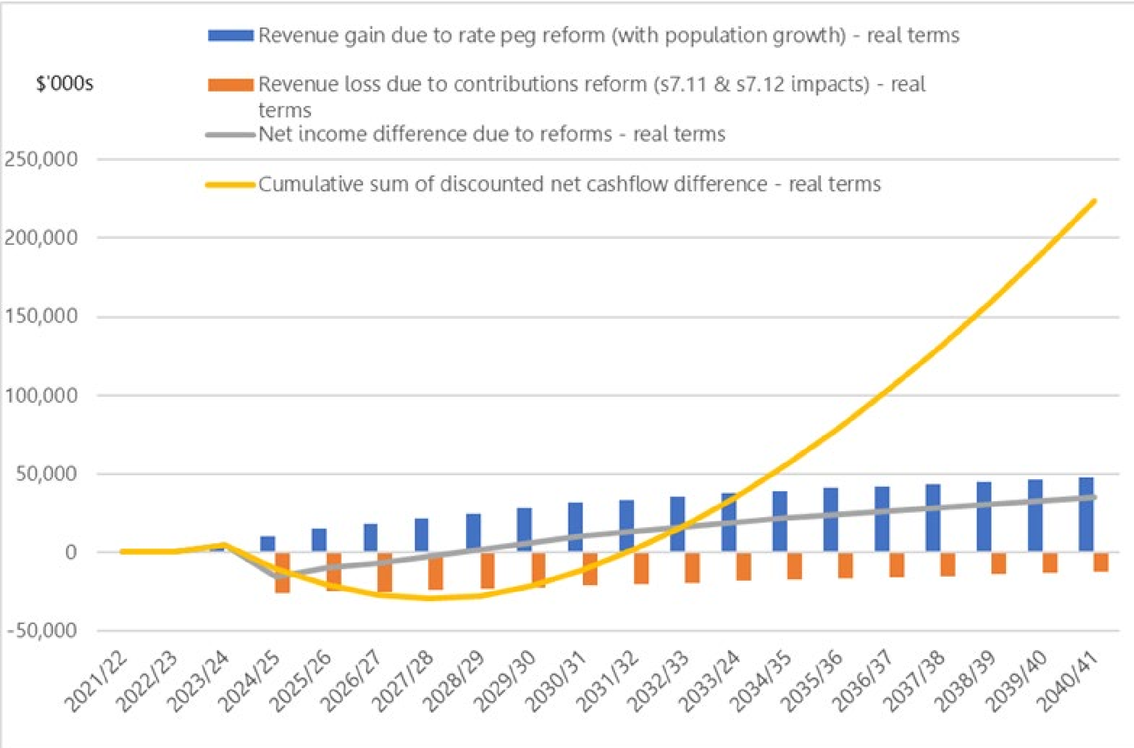


Figure 26 **Scenario 5 - Proposed s7.12 'demand-based' contributions only (with rate peg reform component), compared with existing CP (s7.11 & s7.12) & rate peg revenue projections $2021/22.**

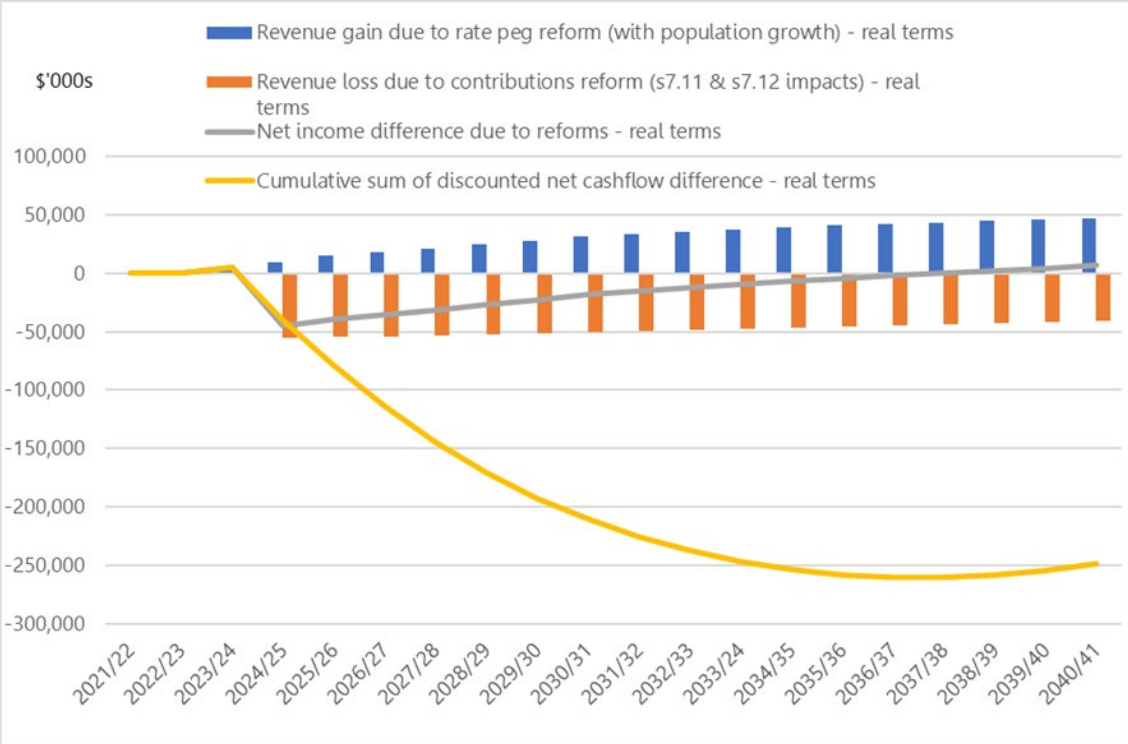
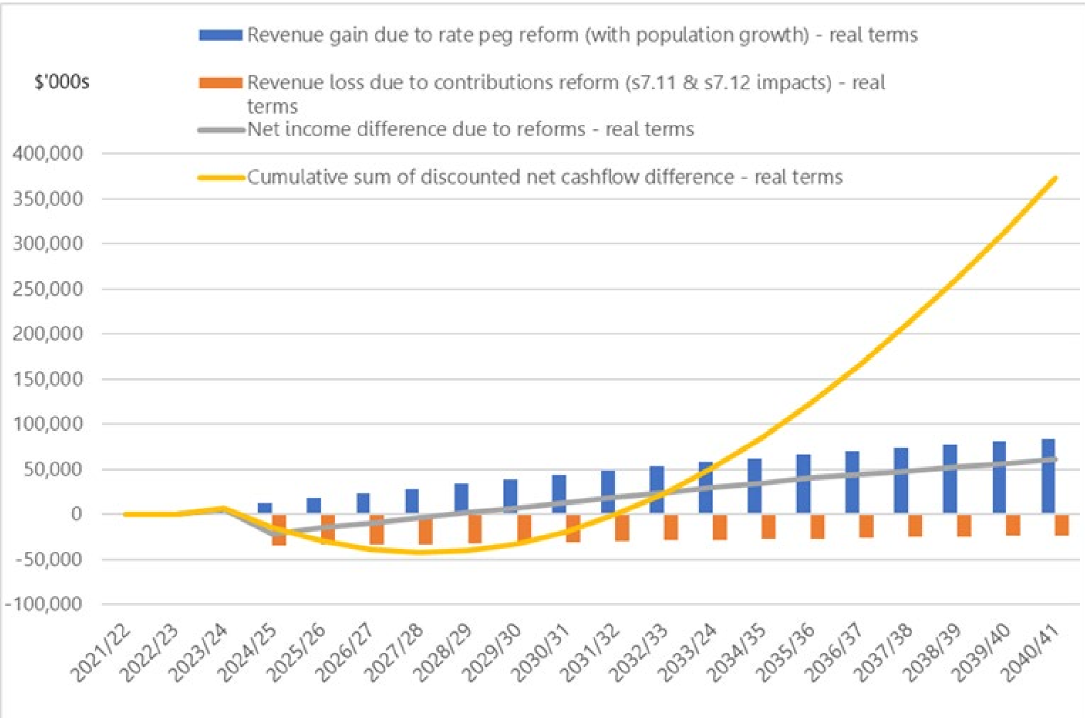


Figure 27 **Scenario 6 - Supplementary valuation growth permitted on top of population growth in rate peg AND Community & Indoor Recreation facilities excluded from EWL & s7.12 exempt for non-demand based contributions (alts/adds), 2021/22-2040/41, real terms, ($2021/22)**



6.2 Summary of findings

To summarise, our net income findings for the NSROC region are as follows:

21. The extra rates income flowing from rate peg reforms fails to offset contributions income losses under all 6 contributions reforms scenarios tested for at least the first 5 years of the reforms implementation.

22. Scenario 1 which arguably best reflects the thrust of the Productivity Commission's contributions reform recommendations (i.e. community and indoor recreation facilities are excluded from EWL and an exemption for non-based development (alterations/additions) is applied to s7.12 levies) would result in a negative cumulative discounted net cashflow impact on the NSROC region for the first 15 years of the reforms implementation, before turning positive from 2038/39.

23. The outlook would improve over the first 10 years if, based on the scope of our model, one or more of the following adjustments were made:

    (a) The changes to the EWL for infill councils list were very limited (e.g., if all 'growth infrastructure' was permitted in the EWL regardless of infrastructure category) – this action alone would result in the cumulative discounted net cashflow position being +$17m in 2032/33.

    (b) The s7.12 exemption for non-demand based development did not apply - this action alone would result in the cumulative net position being +$32m in 2032/33.

    (c) Supplementary valuation growth was allowed to continue to increase general income for a council, in addition to the rate peg being adjusted fully for population growth - this action alone would result in the cumulative net position being $23m in 2032/33).

7 General assessment of other reform impacts

So far, our assessment has focused on four main reforms which would impact contributions revenue for NSROC councils, along with a possible future reform possibility:

- Recommendation 3.1 for councils' general income to increase with population
- Recommendation 4.5 for s7.11 plans to use IPART benchmark costs
- Recommendation 4.6 about development-contingent (as well as efficient and nexus-based) costs on the EWL in s7.11 plans only
- Recommendation 4.7 on the removal of IPART reviews when rates are above the 'cap' (on the basis of assuming a removal of the cap altogether)
- Recommendation 4.11 on the changes to the s7.12 levy and new maximum threshold rates for both residential and non-residential development, and
- A non-explicit recommendation for a review of s7.12 levies on non-demand-generating development (that is, alterations, additions etc.), with a view to disallowing them.

We have also adopted the recommendations regarding indexation (e.g., Recommendation 4.11) in escalating projected revenue flows under the reforms (when they are reported in nominal terms).

In general, we have found that there will be a potentially significant impact on net council revenues as a result of the reforms, the quantum of which is dependent upon:

- The details of the reforms actually implemented, including the actual reductions to the EWL that occur for s7.11 and whether s7.12 levies exempt 'non-demand generating' development,
- The timing of the implementation of the reforms (including the different s7.11 and s7.12 changes) and when councils adopt new or amended plans consistent with the reform requirements, integrated into their Integrated, Planning and Reporting (IP&R) frameworks,
- The amount and timing of development that actually occurs (to generate the income receipts from year to the next, noting the projections assume an average annual rate of development), and
- The actual population growth allowance in the rate peg (given the different options available for this).

As part of this project, we have also undertaken a generalised assessment of each of the 29 reform recommendations endorsed by the NSW Government, from the perspective of NSROC. This is contained in **Appendix A**.

There are a number of other proposed reforms which will still have important implications for NSROC councils. These include the other changes to the contribution payment timing (to the occupation certificate stage as is now occurring), the state-based contribution reforms which will apply to development in the region, and reforms which will increase administrative or compliance costs for councils, particularly in the short to medium term.

There are also a small handful of recommendations which we consider will have nil or very limited impacts on NSROC councils, as shown in **Appendix A**.

In the next few sections, we have discussed the reform timing which dictates when changes to the local contribution framework would need to occur for NSROC councils and when there are likely to be opportunities for consultation and advocacy on the proposed reforms. We have also provided a summary of the key messages from our generalised assessment of the impact of each of the other reforms.

7.1 Timing of reforms

The timing of the reforms is particularly important for assessing the short to medium term revenue impacts on councils. **Figure 28** from PC's final report shows the intended policy and legislation change timing attached to the reforms.

The PC's more detailed implementation plan also included the following advice about timing:

- The new contributions system reforms would commence immediately, with all relevant legislative amendments in place by 1 July 2022 such that they would be applicable to new or revised contributions plans from 1 July 2022
- However, councils must only review existing plans by 1 July 2024, as part of the integration into the existing IP&R framework, and every four years thereafter to align with their delivery program. This means that existing contribution plans amended for reforms would presumably need to be in operation by 2024/25 at the latest.
- The new recommendations for the rate peg with the population growth factor would occur by November 2021 (noting IPART is currently undertaking a public review of this reform) with new arrangements in place for 2023/24 rates.
- The new standardised exemptions policy (for development types paying contributions) to be in place by 1 December 2021
- IPART's review of the essential works list was supposed to occur by 1 July 2021. There is no publicly available information yet to suggest this review has commenced.
- The standard provision rates and benchmarks, based on efficient costs, would be established by IPART by 1 July 2022 and then apply to contributions on/after 1 July 2022
- IPART's review of plans 'by exception' to occur following development of standard provision rates and benchmarks, and supposed to apply from 1 January 2023
- The land valuation practice note to be published by end 2021.
- The occupation certificate stage contribution payment timing is to occur immediately with an extension of the current Ministerial Direction until legislative change can be implemented
- The digital tool is to be made available (rolled out) by mid-2022 after development during 2021 and user testing and onboarding early 2022
- Low cost loans initiative changes in place for next funding round
- There is supposed to be an immediate adoption of the draft planning agreement practice note, with updates for the reforms in place by 1 July 2022
- For all new state-based charges, there will be a Ministerial Determinations by 1 January 2022.

Figure 28 PC's summary of the Implementation Plan

Source: PC final report, p 6.

Based on this timing, we have assumed in our modelling that contributions reforms for NSROC councils would start impacting contribution revenues from 2024/25 at the latest, but rate peg reforms would start impacting rates revenues from 2023/24.

S7.12 revenues for councils could be affected earlier depending on the legislative amendments.

Standardised s7.12 exemptions might also be enforced sooner, given the power of practice notes and Ministerial Directions in the system.

Regardless of the intended timing from the reforms, we believe there is merit from NSROC advocating for any council contributions revenue reductions to be phased in as late as possible so that the rates base grows enough to compensate the contributions revenue loss over time.

Our net income charts shown in chapter 6 best show the cumulative net revenue impact on the NSROC region as a result of the combined impact of the reforms.

There is the risk that the timing of contributions revenue reductions alone could force many councils to consider requesting a special rates variation in the short term when further population growth rises are already on the horizon permanently.

7.2 Delayed contributions payment timing to OC stage

PC's Recommendation 4.10 is that contribution payments be delayed until the occupation certificate (OC) stage, as currently in force for COVID-related impacts by Ministerial Direction. This suggests that the current Ministerial Direction will remain in place before the legislative amendments enforce this reform.

The deferral of contribution payments to the occupation certificate stage will continue to delay contributions on developments with a value of $10 million or more, thereby:

- Delaying the delivery of infrastructure by Council until sufficient funds are available.
- Reducing the interest accruing to contribution funds held before they are spent.

We have not modelled the impacts of this delay because the initial delays will most likely create a temporary 'clot' in the system that should eventually settle with the continued flow of funds to Council.

However, the delays will further exacerbate the short to medium term negative revenue impacts that are suggested by the reform package for NSROC councils. Our summarised finding is that:

24. The short to medium term negative revenue impacts of the reforms will only be exacerbated by the delay of contribution payments to the development's occupation certificate (OC) stage, which is another reason why reforms should be adjusted to reduce negative contribution revenue impacts or at the very least, be delayed or phased-in.

7.3 Other state-based contributions

The Government endorsed PC's recommendations for a Greater Sydney Regional Infrastructure Contribution (RIC) (Recommendation 5.1) and major transport contribution charge (Recommendation 5.3).

The only area in the NSROC region which is currently subject to a state-based Special Infrastructure Contribution (SIC) is St Leonards / Crows Nest. New residential development in specific up-zoned sites is subject to a contribution rate of $15,100 per dwelling.

RICs, which are intended to apply broadly, are intended to replace SICs that apply to specific areas. The RIC rates proposed by the PC, which are intended to apply to additional floor area / dwellings, are as follows:

- $12,000 per dwelling for houses (detached, semi-detached, townhouses)
- $10,000 per dwelling for all other residential accommodation
- $10 to $15 per square meter for industrial
- $20 to $30 per square meter for commercial
- $30 to $40 per square meter for mixed uses.

The transitional arrangements for existing SIC areas are not yet known.

The major transport contribution charge is only to apply to those developments (both residential and non-residential) with increased capacity as a result of major transport works. It will be set on a case-by-case basis and applied to service catchment areas. The PC has suggested a minimum charge of $5,000 per dwelling should apply, and the revenue collected would be used to recoup some of the major transport project costs.

The overall intention of the reform package appears to be to keep the level of development charges (made up of state and local contributions) fairly neutral, if not lower overall, with the additional funding foregone from local contributions to come from council rate bases. A comparison of the new proposed s7.12 residential levy for apartments ($8,000 per dwelling) given the current s7.11 cap of $20,000 per dwelling, and the new RIC for apartments ($10,000 per dwelling) suggests this type of logic.

From NSROC's perspective, it is most important that the additional state-based contributions from development within the region fund new state-based infrastructure projects which also benefit the region, and do not cross-subsidise other region's infrastructure needs.

25. The new Regional Infrastructure Contribution and Major Transport Charge will be levied on development in the NSROC region, the latter only if there is an increase in development capacity as a result of major transport projects. Councils must monitor the Government's future infrastructure list to be funded by these contributions to ensure that their LGAs are getting their 'fair share'.

26. The impact on development from the new state-based charges in the NSROC region appear to be offset at least partially by reduced local contributions, the extent of which will be determined with the release of further reform implementation details. The reduced funding from development contributions to councils is to be offset by the increase in rates revenue with the addition of the population growth factor.

7.4 Increased administration and compliance costs

There are a range of reform recommendations which will involve increase administrative or compliance costs for NSROC and other local councils, particularly in the short to medium term. It is also acknowledged that if the reforms are implemented successfully, then over time, there may be reduced administrative costs for councils.

A prime example is Recommendation 6.1 for a contributions digital tool, integrated with the NSW Planning Portal, which will require:

- councils and the State to make contributions plans
- the State to receive and track payments,
- reporting on contributions, including the infrastructure delivery pipeline, and
- landowners and developers to be able to estimate, calculate and pay their contributions, ideally in one payment.

This system will need to be synchronised or replaced with a council's existing financial systems and councils will also need to ensure that they do not lose holding interest by delays to receiving the local contribution funds. In addition, councils will also need to inform DPIE about their current contribution information.

Some of the other reform recommendations will also carry administrative costs to councils, including having to integrate the contributions planning process into the IP&R framework and the review of plans and charging approaches for consistency with reforms.

The remainder of our assessment against each reform recommendation is in **Appendix A**.

27. The reforms encompass increased administrative and compliance burden for local councils in the short to medium term, particularly related to the needs of the new centralised (digitised) contributions system, the amendments to plans and the integration of the plans within the IP&R framework.

We recommend that:

28. The NSW Government should adequately resource councils to meet the increased administrative and compliance burden in the short to medium term.

APPENDIX A: REVIEW OF THE IMPACT ON NSROC COUNCILS FROM EACH LOCAL CONTRIBUTION REFORM

	Reform recommendation (Government accepted)	Council impact assessment
2.1	**Enhance efficiency of the infrastructure contributions system** Implement reform to deliver an efficient infrastructure contributions system so: • local contributions are cost-reflective charges on impactors, applied through a consistent framework but with flexibility for adaptation to local circumstances • State contributions are simple and certain charges on impactors and beneficiaries of State service delivery.	Efficiency of the infrastructure contributions system is beneficial to the NSROC councils and their communities, in principle. Local contributions should already meet a reasonableness test for cost-reflectivity (as per s7.11 of the EP&A Act). Thus, any reforms which seek to enhance cost reflectiveness by limiting charges to direct 'impactors' only (rather than 'beneficiaries' of growth infrastructure) or to perceived 'efficient costs' (which are lower than the actual cost of provision) are likely to reduce contributions revenue for councils and their communities. It is critical that local contributions are flexible for adaptation to local circumstances. Consistent with this theme, the reforms need to cater for the specific needs of infill areas (indicative of the NSROC region) regarding community infrastructure, as well as greenfield sites.
3.1	**Allow councils' general income to increase with population** Subject to review by the Independent Pricing and Regulatory Tribunal, reform the local government rate peg to allow councils' general income to increase with population.	In general, the reform impact should result in additional revenue for councils with positive population growth over time, but it will take some years before the rates base grows enough to cover any significant shortfalls from reduced local infrastructure contributions. There is also the risk that the cumulative impact on ratepayers may not be sustainable or politically acceptable should there be a maximum increase in rates each year. With the *Local Government Amendment Bill 2021*, a council will have enhanced flexibility to allocate the rate increases to different groups of ratepayers as it considers necessary, including residential and business ratepayers.

	Reform recommendation (Government accepted)	Council impact assessment
		The challenge will be to recoup costs for growth infrastructure needs from the ratepayers who benefit from the infrastructure most, through the levying of differential rates for targeted rating categories and subcategories. NSROC councils such as Lane Cove and Ryde City which collect a high percentage of their rates revenue from minimum rates, should still be able to increase the minimum rates by the full rate peg amount.
4.1	**Develop infrastructure contribution plans upfront as part of the zoning process** Amend legislation to require: • where land is being rezoned, the draft infrastructure contributions plan must be publicly exhibited at the same time as the planning proposal. • adoption of the infrastructure contributions plan before any determination is made on a development application. The NSW Government noted that: "Consideration will be given to managing the time taken for councils to adopt contributions plans, which would otherwise unreasonably delay the rezoning of land."	It is assumed that this recommendation will mostly impact LGAs with greenfield sites, ensuring that contributions planning is undertaken at the rezoning stage, rather than months or years afterwards. Where this applies to infill areas (with rezoning of urban renewal areas, for example), the reform should increase certainty for councils and developers about the cost of infrastructure. In order to develop the contributions plans with the rezoning process, councils will be reliant on accurate and timely information about proposed zones, the associated infrastructure list, including that which is state-funded infrastructure (e.g., major roadwork), and forecast development yields.
4.2	**Introduce a direct land contribution mechanism to improve both efficiency and certainty for funding land acquisition** i. Amend legislation to introduce a direct land contribution mechanism to: • apply a statutory charge on the land at the time of rezoning that requires land contribution be made	It is unclear how the direct land contribution will work in infill contexts since councils will need to be specific about acquisitions and this is not desirable in many infill cases. Councils are more likely to negotiate acquisitions through negotiation with developers of key sites. The cost of infrastructure in NSROC councils' existing contributions plans generally includes only a small allocation for land acquisition. Given the scarcity

	Reform recommendation (Government accepted)	Council impact assessment
	• require the contribution on sale of the land, or subdivision development application, whichever comes first • allow the contribution to be satisfied as a monetary payment, or dedication of land. 29. ii. Consult with key stakeholders from councils and industry in the design and implementation of a direct land contribution mechanism. The NSW Government noted that "A case study (would) be prepared in consultation with the External Advisory Group."	and high cost of land in the NSROC region, councils are unlikely to seek to acquire large amounts in the future for their growth infrastructure needs and will presumably continue to look for ways to enhance the quality and useability of existing open space and other infrastructure facilities. The reform recommendation incorporates a redistribution of costs from the developer to the landowner. Should NSROC councils need to acquire land for a renewal area as a result of rezoning in the future, in principle, this recommendation should reduce the risk of acquiring land at a much inflated cost from landowners post-rezoning.
4.3	**Issue advice for land valuation to improve consistency and accuracy** Develop a practice note, in consultation with the Valuer General, to guide land valuation, including assumptions and methodology, particularly for land that is yet to be rezoned and may be constrained	Noting the negligible impact on NSROC councils specifically (for the reasons noted above), this reform should better inform the land valuation process in the context of estimating the cost of land acquisition requirements for contributions plans. Accordingly, there should be reduced risk for both councils and developer in this process.
4.4	**Index land contribution amounts to changing land values** /. The Valuer General prepare a methodology and publish appropriate land value indices. /. Amend legislation to require new contributions plans to separately identify and escalate land contribution amounts by the appropriate index The Minister to direct councils to separately identify and escalate land contribution amounts by the appropriate index when reviewing contributions plans	This reform should be beneficial for councils in that it seeks to better align the land acquisition cost estimates in a contributions plan with changing land values over time. However, for most NSROC councils it would be relatively complex and burdensome to index just a small proportion of the costs in a plan by a separate index. The practicality of this recommendation will ultimately be determined by how streamlined and accommodating to such cases the new (more digitised and centralised) contributions planning system becomes.

	Reform recommendation (Government accepted)	Council impact assessment
4.5	**Section 7.11 contribution plans use benchmark costs** Independent Pricing and Regulatory Tribunal to develop and maintain standardised benchmark costs for local infrastructure that reflect the efficient cost of provision.	Infrastructure costs will vary considerably from greenfield to infill area sites in the NSROC region and are likely to be higher due to the extent of requirements for highly urbanised, densely populated areas. If the benchmarks costs are set at below the actual infrastructure delivery costs for councils, this could result in increased expenditure pressure and/or delays or reductions to infrastructure delivery. The PC report had noted that actual costs could also be used to inform cost estimates in a plan (p 65) but the requirements for compliance are unclear at this stage. Regardless, it is imperative for councils to consult with IPART when it is developing the benchmark costs and provide sufficient cost evidence to support the case for the benchmarks to reflect the delivery costs in their LGAs. Otherwise, there is the risk that local infrastructure capex would need to be further subsidised by the councils' rates base, potentially beyond the intent of the reform package.
4.6	**Contributions plans reflect development-contingent costs only** i. Apply the essential works list to all section 7.11 contributions plans. ii. IPART to review the essential works list and provide advice on the approach to considering efficient infrastructure design and application of nexus. iii. Subject to review by the IPART issue a revised practice note. The NSW Government responded:	All s7.11 contribution plans will need to include only 'Essential Works' which is different to the current policy whereby only plans 'above the cap' must have 'Essential Works' only. The potential impact to NSROC councils as a result of only essential work list (EWL) items appearing in s7.11 plans could be considerable, depending on what the final EWL will comprise. Council's new plan includes the current mix of facilities and associated costs in the plan: • Public domain facilities $79m or 43% of plan costs.

	Reform recommendation (Government accepted)	Council impact assessment
	"DPIE and IPART to work together to interpret 'efficient infrastructure design', particularly as it relates to greenfield development and land use planning to support creation of liveable and resilient communities."	• Open space $36m or 20% of plan costs. • Indoor recreation facilities (including aquatic centres) $43m or 24% of plan costs. • Community facilities $16m or 9% of plan costs. • Active transport facilities $4m or 2% of plan costs. Most of the costs (some 85%) are considered 'growth infrastructure' items in the plan, such that costs are not apportioned to existing residents (by way of the rates base), just development. Therefore, if a similar test was to apply to the criteria for 'development-contingent' infrastructure, then the impact on North Sydney's contributions plan revenues could be relatively limited. However, it was mooted in the PC report that some 'social infrastructure' items such as community facilities, recreation centres and libraries should not be classified as 'development-contingent' in any circumstance and should be instead funded through the rates base. Exclusion of social infrastructure items (from the EWL) would have a significant impact on NSROC councils' contributions revenues. Exclusion of public domain facilities from the EWL would have an even greater impact on some councils like North Sydney, given the high share of these facility costs in its plan. We have quantified the impact of excluding these infrastructure categories from the s7.11 EWL for NSROC councils as part of this project.

	Reform recommendation (Government accepted)	Council impact assessment
		However, at this stage, there is no clear indication as to what infrastructure items will be excluded from the EWL.
4.7	**IPART review of contributions plan be 'by exception' and based on efficient costs** i. Remove the monetary trigger for review of contribution plans by IPART. ii. Develop Terms of Reference for the IPART to review any costs in a section 7.11 contributions plan on a 'by exception' basis with the option of a 'targeted' review of specific sections of a plan. iii. Prepare a practice note to reflect the 'by exception' review process and requirements for local contributions plans.	With the new 'by exception' rule for IPART review of plans, there will be reduced administration costs for councils that would have needed to submit plans to IPART but no longer need to. To ensure efficiency, the 'by exception' process needs to be for rare occasions only, where there are significant concerns about the impact or feasibility of a contributions plan, rather than simply on request of a developer, for example. The broader impact on council revenues is also very much determined by whether the removal of the monetary trigger for a review of contributions plans by IPART also represents the removal of any limits on s7.11 contributions (assuming they also meet the other proposed tests for efficient, development-contingent infrastructure costs).
4.8	**Contributions plans are prepared using standard online templates** i. Develop standard online contributions plan templates for section 7.11 local contributions and section 7.12 fixed levies. ii. Amend legislation to require new contributions plans to be made using the standard templates and housed within the contributions digital tool to be developed on the NSW Planning Portal.	These initiatives should reduce the administrative costs to councils from developing a contributions plan and implementing payments from developers, although it is expected that there will be short term administration costs from transforming plans to the new templates and tools.

	Reform recommendation (Government accepted)	Council impact assessment
	iii. Require contribution plans upon review to transition to the new digital tool.	
4.9	**Encourage councils to forward fund infrastructure, through borrowing and pooling of funds** i. Amend legislation to allow: • pooling of contributions funds as the default option • interest costs associated with borrowing for infrastructure to be collected through contributions plans. 30. ii Incentivise councils to borrow to forward fund infrastructure, including by: • • Treasury Corporation reviewing their lending criteria to consider allowing capital grants and contributions (including infrastructure contributions) to be included in debt serviceability calculations where contributions relate specifically to the project for which council is seeking funding • establishing a program to provide an additional financial incentive when councils borrow to build infrastructure.	Pooling of funds for infrastructure needs is standard practice among local councils. Interest costs recoupment for infrastructure loans is not authorised by law but is also common practice in contributions plans. There can be clear benefits to the community from forward funding infrastructure by council borrowing or pooling contribution funds. However, lending must still be in accordance with councils' loan borrowing policies which generally have specific criteria for loan funding. All else being equal, the cost of infrastructure will also be increased by the loan due to the interest costs. If a council took out a loan to fund growth infrastructure for \$10m over 15 years at a rate of 2% with monthly repayments, it would still pay more than \$1.5m in interest alone over this period. This is in a low-interest environment. For infrastructure loans to be feasible for local communities, the State Government should continue to provide subsidised loan costs.
4. 10	**Defer payment of contributions to the occupation certificate stage** i. Extend permanently the Environmental Planning and Assessment (Local Infrastructure Contributions – Timing of Payments) Direction 2020 that was introduced as a temporary measure in response to the COVID-19 pandemic.	The deferral of contribution payments to the occupation certificate stage will delay contributions by up to two years in some cases, thereby: • Delaying the delivery of infrastructure by a council until sufficient funds are available.

	Reform recommendation (Government accepted)	Council impact assessment
	31. ii. Design the NSW Planning Portal so that the release of occupation certificates is contingent upon payment of infrastructure contributions. iii. Increase oversight of private certifiers by requiring that the certifying authority must confirm payment of contributions before issuing an occupation certificate. Amend legislation to create an offence should certifiers issue a certificate without an infrastructure contribution payment.	• Reducing the interest accruing to contribution funds held before they are spent. However, the initial delays will most likely create a temporary 'clot' in the system that should eventually settle with the continued flow of funds. The contingent release of occupation certificates upon payment of contributions including for CDCs, should increase compliance for contribution payments. But the system needs to be failsafe so that the community is confident that payments are being used.
4.11	**Increase the maximum allowable rate for section 7.12 fixed development consent levies** i. Amend the maximum rate for section 7.12 contributions as follows: • $10,000 per additional dwelling for houses (detached, semi-detached, townhouses) • $8,000 per additional dwelling for all other residential accommodation • $35 per square metre of additional GFA for commercial uses • $25 per square metre of additional GFA for retail uses • $13 per square metre of additional GFA for industrial uses. ii. Index contribution rates quarterly using the Producer Price Index (Road and Bridge Construction – NSW) and review periodically (approximately every three to five years) to ensure they remain in line with the intended proportion of development costs. The NSW Government responded that "Final rates subject to confirming the charging methodology" which suggests there will	If NSROC councils decided to levy new development s7.12 levies instead of s7.11 contributions, the impact from this recommendation would most likely be negative because: • The contributions limits on residential development do not represent 3% of the likely construction value of the developments in North Sydney (more like half). • The contribution limits on non-residential development are also well below the existing maximum levy of 1% of construction value (instead only around 20% of the value). Councils except Mosman and Hunter-s Hill currently levy s7.11 contributions but if there are enough significant changes to the EWL then it is possible that these councils might need to consider s7.12 levies instead. It was also suggested in the PC report that an s7.12 levy exemption for non-demand generating development (i.e. alterations, additions, change of use, conversions etc.) was advisable in principle (since no demand was being created for growth infrastructure from the development) but that the implementation of such a policy be the subject of further review by the NSW Government .

	Reform recommendation (Government accepted)	Council impact assessment
	be opportunities for further consultation on the reform and limits that have been set.	We estimate that s7.12 levies for these types of development will generate an average of around $2m p.a. in real terms or $2.5m p.a. in nominal terms over the course of the plan. Therefore, this additional exemption would have a significant impact on the NSROC region contribution revenues, and at the very least, should be phased in after additional rates revenue (for the population growth factor in the rate peg) is sufficient to offset the revenue loss.
4.12	**Planning agreements consistent with the principles-based approach** i. Adopt the Draft Planning Agreements Practice Note 2020 and EP&A Regulation amendments exhibited by the Department in April 2020 to provide immediate improvements to the operation of planning agreements. ii. Amend the practice note to embed the principles of the contributions system so that planning agreements are: • for the delivery of infrastructure to support development that is out-of-sequence or unexpected. • to facilitate the direct delivery of development-contingent infrastructure or impact mitigation works. iii. Amend the legislation to require planning authorities to: • register planning agreements and draft planning agreements in a centralised system, contained within the NSW Planning Portal. 'publicly exhibit' rather than 'publicly notify' planning agreements, including requirements to receive and consider public submissions.	The reforms seek to limit planning agreements for local infrastructure to 'out of sequence' development and 'development-contingent' infrastructure or impact mitigation works only. It could be argued that many agreements in urban areas like in the NSROC region would be considered 'out of sequence', since sequencing is more relevant to greenfield development areas. But the requirement for proposals to only cover 'development-contingent' or 'impact mitigation' works, similar to the proposed requirements for s7.11 plans, could significantly limit the application of planning agreements. Planning agreements entered into by councils have provided for material public benefits to the community (including affordable housing), as agreed by a developer, and not just 'development-contingent' works. The implication of this restricted revenue source is that these 'benefits' will either not be provided at all or will need to be funded by the rates base or alternative contribution sources.

	Reform recommendation (Government accepted)	Council impact assessment
		Discussions with key stakeholders (including DPIE) suggest that It is unclear whether or not the recommendation to restrict the application of planning agreements to this extent will be progressed.
4.13	**Publish guidelines for planning agreements for mining and energy related projects consistent with the principles-based approach** Publish a guideline for mining and energy related projects consistent with the principles-based approach, so that planning agreements primarily relate to direct delivery of development-contingent infrastructure.	This reform is unlikely to be relevant to NSROC councils.
4.14	**Improve accountability for affordable housing contributions** i. Require affordable housing contributions received through section 7.32 contribution mechanisms and planning agreements be reported by councils, including: • the amount of monetary contributions received • the value and location of any in-kind provision, both works and land • expenditure of monetary contributions • transfer and management of assets. Undertake a future evaluation of section 7.32 affordable housing contribution programs to determine their effectiveness and efficiency.	This will increase compliance costs for NSROC councils in accordance with the increased reporting requirements for affordable housing.
5.1	**Adopt regional infrastructure contributions**	The main outcome of this reform, in combination with other reforms to local contributions, is that there is a redistribution of monetary contributions from local councils in the affected regions, to the State Government.

	Reform recommendation (Government accepted)	Council impact assessment
	i. Prepare and implement state contributions for Greater Sydney, Central Coast, Hunter, and Illawarra-Shoalhaven regions. ii. Greater Sydney region charges (subject to no substantial impacts on feasibility) as follows: • $12 000 per dwelling for houses (detached, semi-detached, townhouses) • $10 000 per dwelling for all other residential accommodation • $10 to $15 per square meter for industrial • $20 to $30 per square meter for commercial • $30 to $40 per square meter for mixed uses. iii. Central Coast, Hunter and Illawarra-Shoalhaven region charges (subject to no substantial impacts on feasibility) as follows • $10 000 per dwelling for houses (detached, semi-detached, townhouses • $8 000 per dwelling for all other residential accommodation • $10 to $15 per square meter for industrial • $20 to $30 per square meter for commercial • $30 to $40 per square meter for mixed uses. iv. Governance arrangements and criteria for infrastructure projects to be established. The NSW Government noted that: "Savings and transitional arrangements for SIC determinations made prior to 1 July 2022 (are) to be determined." "Final rates (are) subject to confirming the charging methodology" and	Even with the new charges in infill areas of Greater Sydney, the net impact on developers could still be relatively low with commensurate reductions to local contributions (e.g., from a s7.12 levy cap of $10,000 per dwelling or from a reduced Essential Works List for s7.11 contributions). Without a commitment by the State Government to provide increased funding towards community infrastructure in the NSROC region, the impact in the short to medium term at least is likely to be reduced revenue and therefore, lower local infrastructure provision for communities.

	Reform recommendation (Government accepted)	Council impact assessment
	"Allocation methodology (is) to be confirmed."	
5.2	**Improve guidance for State planning agreements** Publish a guideline for State planning agreements to ensure they: • support out-of-sequence development in areas not supported by special infrastructure contributions plans, or • facilitate the direct delivery of development-contingent infrastructure.	No direct impact on NSROC councils.
5.3	**Adopt transport contributions for major projects** i. Prepare and implement a transport contribution for major projects that: • is additional to regional infrastructure contributions, where these apply • applies to properties within a service catchment and is subject to additional development capacity created as a result of the investment. ii. Contribution charges should be established for residential and non-residential uses. A minimum charge of $5,000 per dwelling should be applied, with Transport for NSW required to apply higher charges where costs and benefits are relatively higher.	This contribution is intended to be paid by new development benefiting from new public transport projects. This type of contribution could potentially impact development within the vicinity of the new Metro stations in North Sydney, as an example, should such a charge be implemented on development in the vicinity of these stations. The charge would reduce the feasibility of payment of local infrastructure contributions for these developers, as it is proposed to be in addition to new broad-based regional infrastructure contributions and local contributions.
5.4	**Create a new category of contributions plan specific to biodiversity**	The impact of new biodiversity contributions on development in the NSROC area is unclear at this stage.

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	Reform recommendation (Government accepted)	Council impact assessment
	(d) i. Create a new contribution category under Part 7 of the EP&A Act for biodiversity offsets. ii. Prepare and implement a biodiversity contribution for areas subject to biodiversity certification.	
5.5	**Phase in metropolitan water contributions for more efficient delivery of water infrastructure** 32. i. Rescind the 2008 Section 18 Direction that approved zero developer charges for water, wastewater and stormwater services for Sydney Water and Hunter Water. ii. Direct Sydney Water and Hunter Water to reintroduce water charges and include provision for: • the approach to phase-in, and • exemptions for development completed prior to 1 July 2026. iii. Establish a service level agreement for Sydney Water and Hunter Water for expenditure of water charges funding.	These charges are unlikely to be imposed on development in the NSROC region.
6.1	**Develop and implement a centralised contributions digital tool** i. Develop a contributions digital tool in the NSW Planning Portal, integrated with the spatial mapping and development application system, which requires: • councils and the State to make contributions plans • receive and track payments • report on contributions spending, fulfill accounting requirements, and report on the infrastructure delivery pipeline	The digital tool development costs will be limited for councils if it is fully implemented and funded by the NSW Government. However, it is likely that there will still be short term costs for councils in providing the information requirements for this new system and ensuring that its own systems also comply with the centralised system. Council should advocate for funding from the State Government should material costs arise in synchronising its systems with the new tool.

	Reform recommendation (Government accepted)	Council impact assessment
	• landowners and developers to estimate, calculate, and pay their infrastructure contributions for both local and state infrastructure in one place, ideally in one payment. ii. Amend legislation to support the digital tools and require their use to be phased in.	There could also be ongoing compliance costs to Council if it needs to provide continual updates on the status of the infrastructure delivery pipelines for development areas in the LGA. Council should seek to ensure that local contribution funds are directly transferred to it with minimum delay, otherwise there will be reduced interest accruing to the payments before it spends the funds on infrastructure. It is important that the centralised system also properly cater for CDC contributions payment compliance (via private certifiers) so that councils can also track these payments efficiently.
6.2	**Promote consistency and transparency in works-in-kinds agreements** Develop a practice note to guide efficient and consistent use of works-in-kind agreements.	NSROC council contribution plans generally provide for works in kind and land dedications as payment for development contributions if certain conditions are met. The conditions ensure a level of consistency and transparency regarding when such proposals are accepted, and the associated obligations of developers. Councils generally reserve the right to accept offers and it is envisaged that this right will remain with the additional guidance from State Government on the usage of these agreements. Otherwise, it is unknown the degree to which a council's WIK practices will be consistent with the Practice Note but there are unlikely to be significant impacts for NSROC councils from this reform.
6.3	**Build the capability and expertise of the planning sector** i. Create and maintain consolidated guidance material for each contribution mechanism that reflects up-to-date information and integrates with the digital tool.	Assuming that the guidance material, training and professional development program is to be funded by the NSW Government, the implications for NSROC councils should be beneficial.

	Reform recommendation (Government accepted)	Council impact assessment
	Implement a training and professional development program to support planning practitioners and build a knowledge sharing culture within the planning system.	Such initiatives should result in increased knowledge, awareness and capability for its planning and development contributions staff.
6.4	**Introduce a simple, clear, centralised exemptions policy** Produce a simple, clear, standardised exemptions policy, underpinned by guiding principles, to ensure a consistent and transparent application of exemptions.	There will be an impact on NSROC councils from this reform if it is forced to exempt development from contributions that it currently levies. This might, for example, include non-demand generating development such as knockdown rebuilds and alterations and additions (for residential development) or change of use or fit outs (for non-residential development) which are currently levied s7.12 contributions under its contributions plan. The impact on NSROC councils is unknown until the Exemptions Policy is exhibited.
6.5	**Better synchronise State and local strategic planning frameworks** i. Amend legislation to update the review timeframes of Local Strategic Planning Statements to five years, in line with other State and regional plans. ii. Issue a Ministerial direction extending the regional implementation plan timeframe to cover a 4-year period to align with councils' delivery program.	The requirement for a review of the Local Strategic Planning Statement to five years rather than seven years is logical and should have limited impact on NSROC councils. It also makes sense for the regional implementation plan timeframe to cover a 4-year period to align with a council's delivery program.
6.6	**Incorporate the local infrastructure contributions system into the Integrated and Performance Reporting Framework** Update the Integrated and Performance Reporting guidelines to require councils to: • include infrastructure contribution plans in their reporting	These requirements will increase administrative costs for councils, particularly in the first IP&R cycle that it applies to. Thereafter, it should reduce overall strategic and contributions planning costs for councils by reducing duplication and inefficiencies and improving consistency within the overall planning and reporting framework.

	Reform recommendation (Government accepted)	Council impact assessment
	• review their infrastructure contributions plans by 1 July 2024, and every four years thereafter (or earlier if required), to align with their delivery program.	
6.7	**Strategic planning to maximise the efficient use of land** i. Issue a Ministerial Direction to require planning proposals to demonstrate consideration of efficient use of land, including opportunities for dual-use and joint-use. ii. Develop a practice note to establish performance-based benchmarks for open space planning. The NSW Government noted that "Consideration will be given to creation of liveable and resilient communities and ensuring quality outcomes."	Councils must already maximise efficient use of land in the NSROC region. Therefore, this reform is likely to just increase the administrative compliance costs for councils when undertaking planning proposals for community infrastructure needs. Performance-based benchmarks for open space should inform planning but should not replace a council's own policies on open space provision for its communities.
7.1	**Strong governance to guide implementation** Establish an Implementation Steering Committee to oversee implementation of the reforms.	No direct impact on NSROC councils.

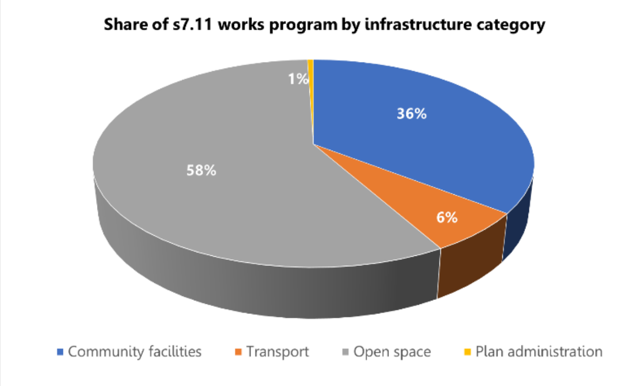
APPENDIX B: COUNCIL CASE STUDIES OF NET INCOME IMPACTS FROM CONTRIBUTION & RATE PEG REFORM SCENARIOS

HORNSBY SHIRE LGA CONTRIBUTIONS & RATE PEG REFORM IMPACTS

- Existing framework: Relatively new s7.11 contributions plan August 2020 with $157.3m growth infrastructure & s7.11 contributions on additional dwellings + non-residential floor space LGA-wide, s7.12 levies on all other development in separate plan, including alts & adds ($7.9m in works)
- Population growth to avg 1% or 1,596 residents/744 dwellings p.a. to 2041 New workers 265 p.a. to 2041
- Additional rates growth with the population factor estimated to avg $5.6m p.a.to 2041 (real)
- Community & indoor recreation facility s7.11 revenue $5.3m p.a. (real)
- Alts/adds & change of use another $1.8m p.a. (real)
- Significant risk of cumulative income losses for around 10 years as a result of possible reform outcomes

Exposure risk to 'essential works' s7.11 & s7.12 proposed changes informed by:

	Table of revenue impacts (real terms):	Estimated total revenue to 2040/41 ($m)	Average revenue p.a. 2021/22-40/41 ($m)	Average annual revenue per capita ($)
	Business as usual developer contributions, no reforms	283.8	14.2	85.4
	Possible reform scenario:	Revenue difference to 2040/41 ($m)	Average revenue difference p.a. from reform start ($m)	Average annual revenue difference per capita ($)
1	Rate peg includes population growth	101.2	5.6	33
2	S7.12 levy exemption (alts/adds)	-13.8	-0.8	-4.9
3	Community & indoor recreation facilities exc. from s7.11 EWL only	-90.0	-5.3	-31.9
4	Open space facilities (not indoor) exc. from s7.11 EWL only	-141.9	-8.3	-50.2
5	Community/indoor recreation facilities exc. from s7.11 EWL + with s7.12 exemption (alts/adds)	-105.5	-6.2	-37.4
6	s7.12 levied LGA-wide on demand-based development with proposed new limits applied + s7.12 exemption non-demand generating development (alts/adds)	-161.9	-9.5	-57.3
7	Only "growth-contingent" infrastructure in s7.11 (not demand shared under current CP), s7.12 exemption	-78.9	-4.6	-27.9



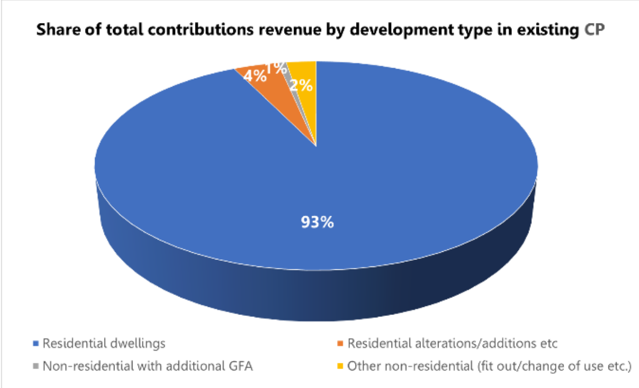


Table scenarios 1 & 5: Net cashflow impact of reforms if community/indoor recreation facilities excluded from s7.11 EWL & no s7.12 levied plus population growth factor in rate peg

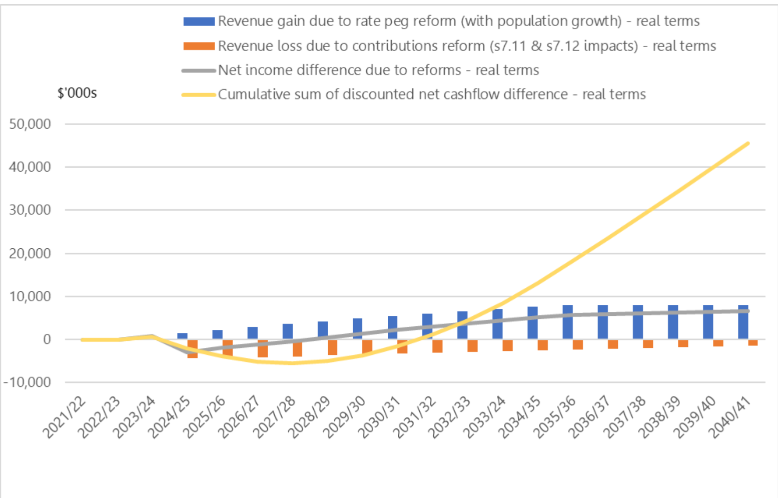
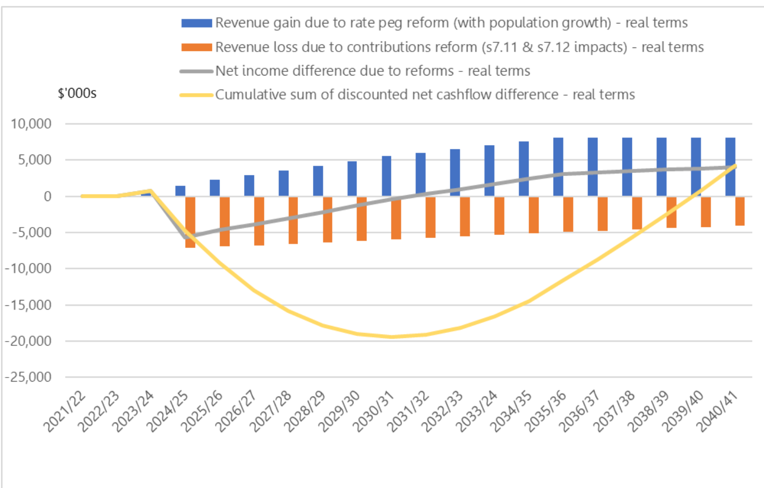


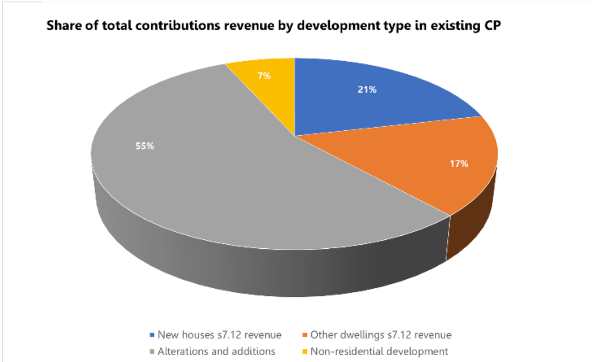
Table scenarios 1 & 6: Net cashflow impact of reforms if s7.12 levied LGA-wide on demand-based development within new limits but non-demand generating development (alts/adds) exempt plus population growth factor in rate peg



HUNTER'S HILL LGA CONTRIBUTIONS & RATE PEG REFORM IMPACTS

- Existing framework: s7.12 fixed-rate levy plan 2019 with $3.9m growth infrastructure (88% public domain facilities). Levied on all development LGA-wide with the majority of development knockdown rebuilds/alts & adds/change of use
- Low population growth to avg 0.1% or 14 residents/5 dwellings p.a. to 2041
- Additional rates growth with the population factor estimated to avg $0.1m p.a.to 2041 (real)
- Maximum 3% s7.12 levy for residential development minimal impact - $0.1m p.a. revenue (real)
- Alts/adds & change of use - $0.3m p.a. revenue (real)
- Significant risk of permanent contributions income losses with 7.12 reforms esp. exemption for alts/adds
- *Note: with such low rate peg growth, net income projections sensitive to even small no. of dwelling additions*

	Table of revenue impacts (real terms):	Estimated total revenue to 2040/41 ($m)	Average revenue p.a. 2021/22-40/41 ($m)	Average annual revenue per capita ($)
	Business as usual developer contributions, no reforms	8.2	0.4	29.0
	Possible reform scenario:	Revenue difference to 2040/41 ($m)	Average revenue difference p.a. from reform start ($m)	Average annual revenue difference per capita ($)
1	Rate peg includes population growth	1.0	0.1	4.0
2	S7.12 levy exemption only - alts/adds	-5.1	-0.3	-21.1
3	S7.12 @ 3% for residential development with limits & alts/adds exempt from s7.12	-7.2	-0.4	-30.0
4	S7.12 @ 3% for residential development with limits & s7.12 @ 1% alts/adds	-2.1	-0.1	-8.9



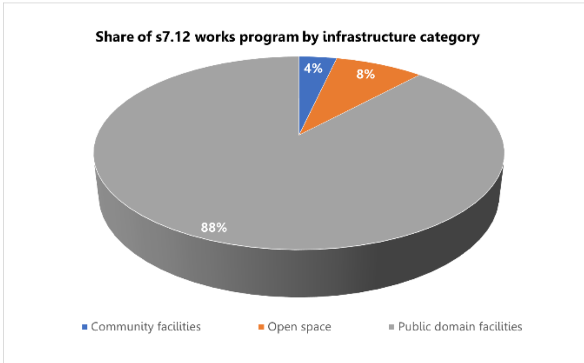


Table scenarios 1 & 3: Net cashflow impact if 3% s7.12 with limits applying to additional dwellings & s7.12 exemption for alts/adds plus population growth factor in rate peg

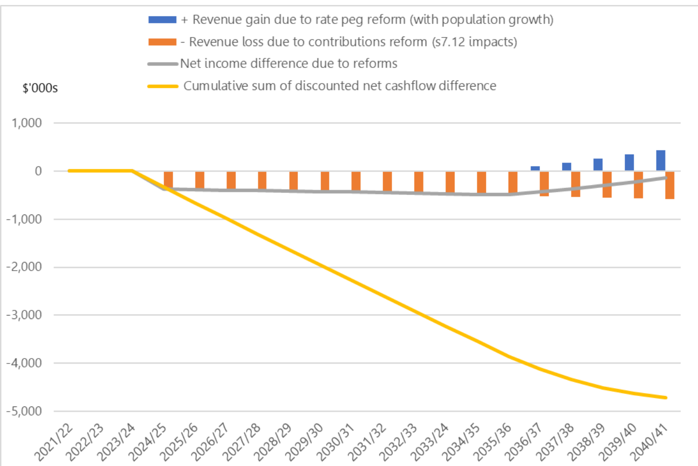


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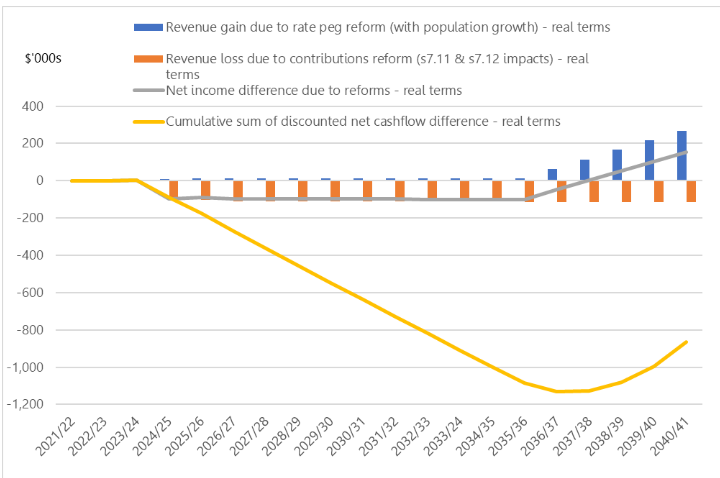
Table scenarios 1 & 8: Net cashflow impact if 3% s7.12 with limits applying to additional dwellings but no exemption for alts/adds (1%) plus population growth factor in rate peg

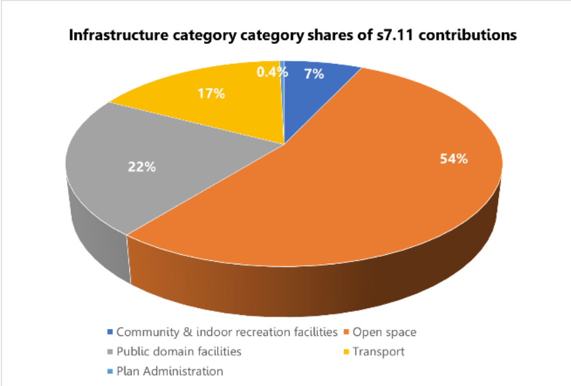


KU-RING-GAI LGA CONTRIBUTIONS & RATE PEG REFORM IMPACTS

- Existing framework: Older 2010 contributions plan last amended in September 2017 with $383.5m growth infrastructure of which 54% of contributions are for open space. s7.11 contributions above the cap on additional dwellings + on commercial/retail floor space in town centres plus capped s7.11 contributions on additional dwellings outside centres. s7.12 levies on other development LGA-wide (in 2015 plan), including alts & adds
- Population growth to avg 0.7% or 959 residents/533 dwellings p.a. to 2041 New workers 626 p.a. to 2041
- Additional rates growth with the population factor estimated to avg $4.8m p.a. to 2041 (real)
- Community & indoor recreation facility s7.11 revenue only relatively modest - $0.9m p.a. (real)
- Alts/adds & change of use another $3.6m p.a. (real)
- Risk of sustained income losses for at least 10 years as a result of possible reform outcomes

Exposure risk to 'essential works' s7.11 & s7.12 proposed changes informed by:

	Table of revenue impacts (real terms):	Estimated total revenue to 2040/41 ($m)	Average revenue p.a. 2021/22-40/41 ($m)	Average annual revenue per capita ($)
	Business as usual developer contributions, no reforms	392.6	19.6	135.5
	Possible reform scenario:	**Revenue difference to 2040/41 ($m)**	**Average revenue difference p.a. from reform start ($m)**	**Average annual revenue difference per capita ($)**
1	Rate peg includes population growth	86.3	4.8	33.0
2	s7.12 levy exemption (alts/adds)	-60.4	-3.6	-24.5
3	Community & indoor recreation facilities exc. from s7.11 EWL only	-15.9	-0.9	-6.5
4	Open space facilities (not indoor) exc. from s7.11 EWL only	-160.2	-9.4	-65.0
5	Community/indoor recreation facilities exc. from s7.11 EWL + with s7.12 exemption (alts/adds)	-76.3	-4.5	-31.0
6	s7.12 levied LGA-wide on demand-based development with proposed new limits applied + s7.12 exemption non-demand generating development (alts/adds)	-310.6	-18.3	-126.1
7	Only "growth-contingent" infrastructure in s7.11 (not demand shared under current CP), s7.12 exemption	-88.5	-5.2	-35.9



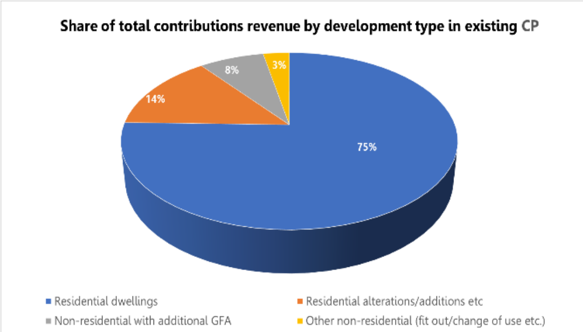


Table scenarios 1 & 6: Net cashflow impact of reforms if community/indoor recreation facilities excluded from s7.11 EWL & no s7.12 levied plus population growth factor in rate peg

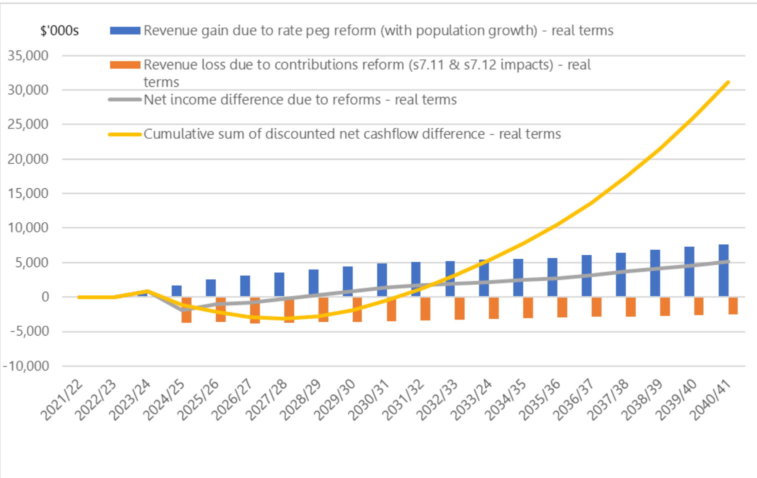
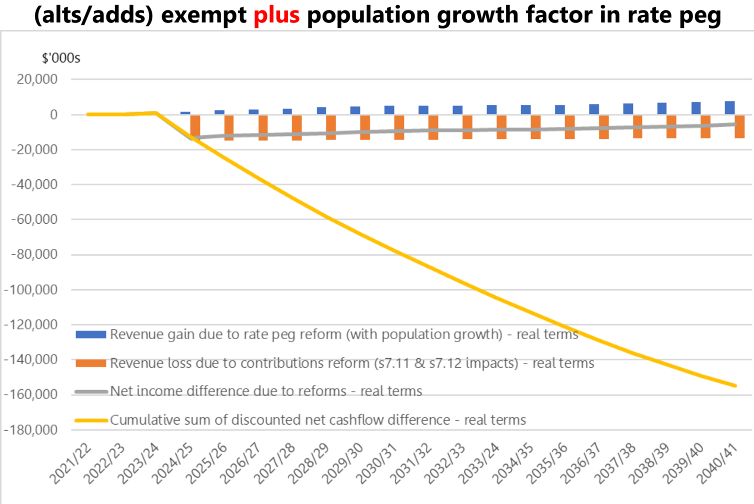


Table scenarios 1 & 8: Net cashflow impact of reforms if s7.12 levied LGA-wide on demand-based development within new limits but non-demand generating development (alts/adds) exempt plus population growth factor in rate peg

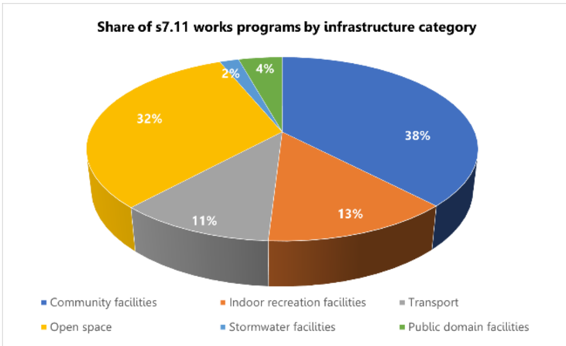


LANE COVE LGA CONTRIBUTIONS & RATE PEG REFORM IMPACTS

- Existing framework: Older 2004 contributions plan with updated works schedule in 2013 and s7.11 contributions at capped levels on additional dwellings & non-residential floorspace funding $219m growth infrastructure & some legacy assets (unlikely to remain with reform), St Leonards South new s7.11 plan for residential development ($56.8m) under review by IPART with rates above cap; across both plans 51% community /indoor recreation facility works, no s7.12 levied in LGA.
- Population growth to avg 1.1% or 467 residents/224 dwellings p.a. to 2041 New workers 291 p.a. to 2041
- Additional rates growth with the population factor estimated to avg $1.5m p.a. to 2041 (real). Higher growth concentrated in the first 5 years will increase cumulative revenue flows
- Community & indoor recreation facility s7.11 revenue $1m p.a.; with open space legacy assets $2.0m (real)
- Risk of only minor income losses for 10 years if 'early' rate peg growth realised under reforms

	Table of revenue impacts (real terms):	Estimated total revenue to 2040/41 ($m)	Average revenue p.a. 2021/22-40/41 ($m)	Average annual revenue per capita ($)
	Business as usual developer contributions, no reforms	117.0	5.9	121.7
	Possible reform scenario:	**Revenue difference to 2040/41 ($m)**	**Average revenue difference p.a. from reform start ($m)**	**Average annual revenue difference per capita ($)**
1	Rate peg includes population growth	27.6	1.5	32
2	Community & indoor recreation facilities exc. from s7.11 EWL only	-17.3	-1.0	-21.2
3	Public domain facilities exc. from s7.11 EWL only	-10.6	-0.6	-13.0
4	Open space facilities (not indoor) exc. from s7.11 EWL only	-55.8	-3.3	-68.3
5	Community/indoor recreation facilities & 'legacy open space' exc. from s7.11 EWL	-33.4	-2.0	-40.9
6	Community/indoor recreation/public domain facilities exc. from s7.11 EWL only	-27.9	-1.6	-34.2
7	s7.12 levied LGA-wide on demand-based development with proposed new limits applied + s7.12 exemption non-demand generating development (alts/adds)	-76.9	-4.5	-94.1
8	Only "growth-contingent" infrastructure in s7.11 (not demand shared under current CP), s7.12 exemption	-28.2	-1.7	-34.5

Exposure risk to 'essential works' s7.11 & s7.12 proposed changes informed by:



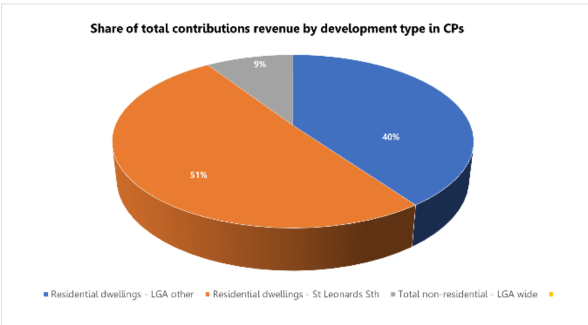


Table scenarios 1 & 5: Net cashflow impact of reforms if community/indoor recreation facilities excluded from s7.11 EWL plus population growth factor in rate peg

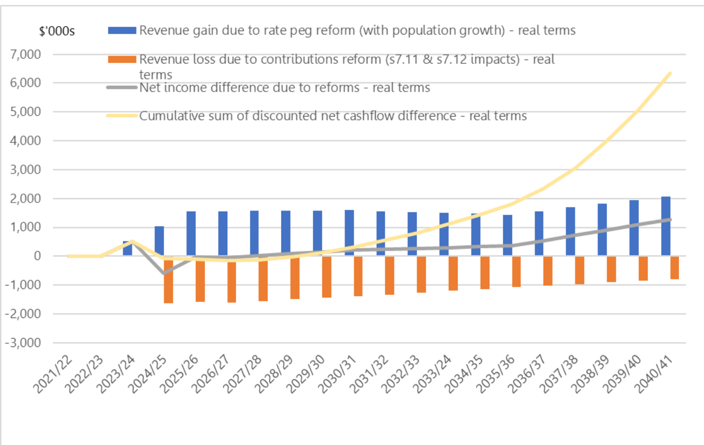
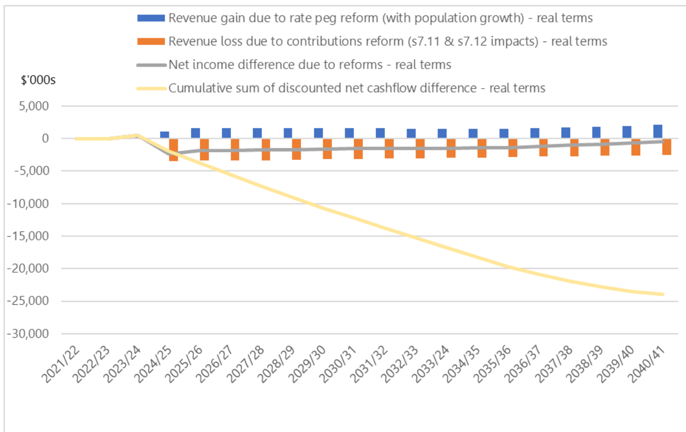


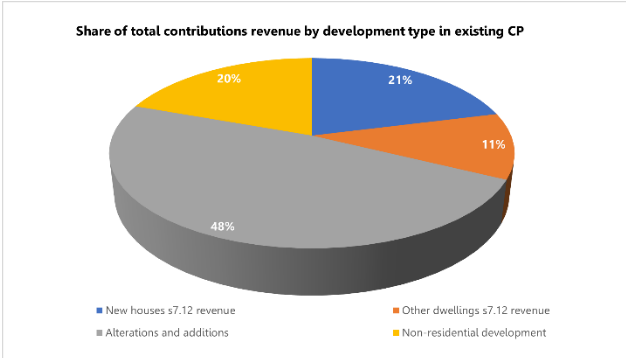
Table scenarios 1 & 7: Net cashflow impact of reforms if s7.12 levied LGA-wide on demand-based development within new limits (no non-demand generating development (alts/adds) levy) plus population growth factor in rate peg



MOSMAN LGA CONTRIBUTIONS & RATE PEG REFORM IMPACTS

- Existing framework: s7.12 fixed-rate levy plan 2018 with $15.3m growth infrastructure (37% community/indoor recreation facilities & 56% open space). Levied on all development LGA-wide with the majority of development knockdown rebuilds/alts & adds/change of use
- Low population growth to avg 0.3% or 82 residents/52 dwellings p.a. to 2041
- Additional rates growth with the population factor estimated to avg $1.7m p.a.to 2041 (real)
- Maximum 3% s7.12 levy for residential development minimal impact - $0.1m p.a. revenue (real)
- Alts/adds & change of use - $1.4m p.a. revenue (real)
- Significant risk of permanent contributions income losses with 7.12 exemption for alts/adds

	Table of revenue impacts (real terms):	Estimated total revenue to 2040/41 ($m)	Average revenue p.a. 2021/22-40/41 ($m)	Average annual revenue per capita ($)
	Business as usual developer contributions, no reforms	34.0	1.7	55.0
	Possible reform scenario:	Revenue difference to 2040/41 ($m)	Average revenue difference p.a. from reform start ($m)	Average annual revenue difference per capita ($)
1	Rate peg includes population growth	7.3	0.4	13
2	S7.12 levy exemption only - alts/adds	-23.1	-1.4	-44
3	S7.12 @ 3% for residential development with limits & alts/adds exempt from s7.12	-25.5	-1.5	-48.5
4	S7.12 @ 3% for residential development with limits & s7.12 @ 1% alts/adds	-2.4	-0.1	-4.6



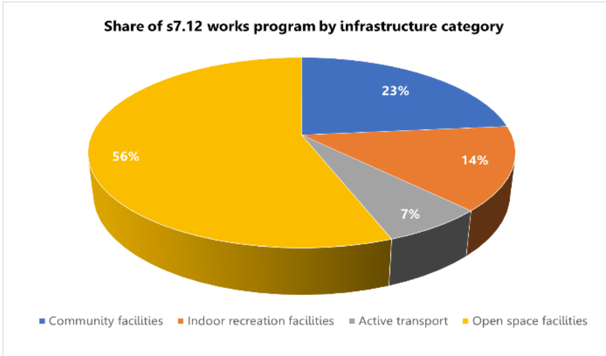


Table scenarios 1 & 3: Net cashflow impact if 3% s7.12 with limits applying to additional dwellings & s7.12 exemption for alts/adds plus population growth factor in rate peg

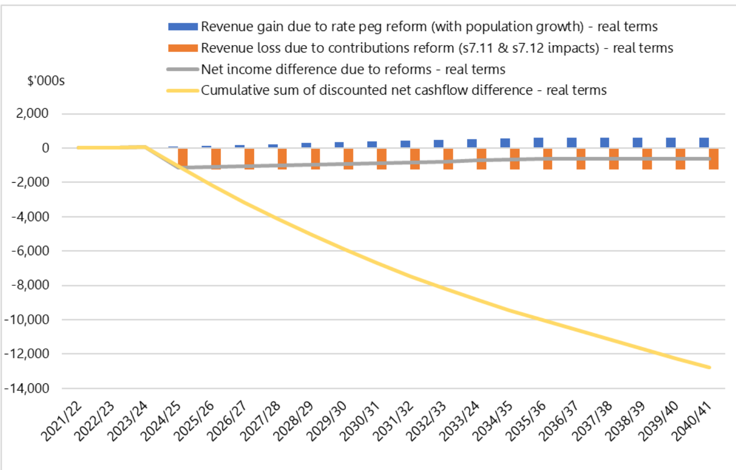
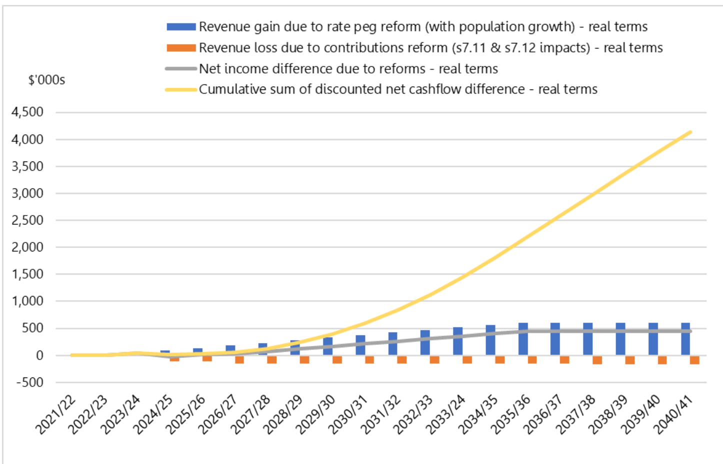


Table scenarios 1 & 8: Net cashflow impact if 3% s7.12 with limits applying to additional dwellings but no exemption for alts/adds (1%) plus population growth factor in rate peg

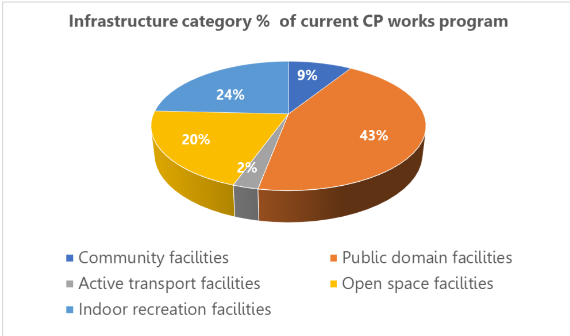


NORTH SYDNEY LGA CONTRIBUTIONS & RATE PEG REFORM IMPACTS

- Existing framework: New hybrid contributions plan March 2021 with $181m growth infrastructure & s7.11 contributions on additional dwellings + commercial floor space LGA-wide, s7.12 levies on all other development, including alts & adds
- Population growth to avg 1% or 720 residents/410 dwellings p.a. to 2041 New workers 1,116 p.a. to 2041
- Additional rates growth with the population factor estimated to avg $4.1m p.a.to 2041 (real)
- Community & indoor recreation facility s7.11 revenue $4.9m p.a.; with public domain facilities $8.9m (real)
- Alts/adds & change of use another $2m p.a. (real)
- Significant risk of sustained income losses for at least 15-20 years as a result of possible reform outcomes

	Table of revenue impacts (real terms):	Estimated total revenue to 2040/41 ($m)	Average revenue p.a. 2021/22-40/41 ($m)	Average annual revenue per capita ($)
	Business as usual developer contributions, no reforms	277.1	13.9	163
	Possible reform scenario:	**Revenue difference to 2040/41 ($m)**	**Average revenue difference p.a. from reform start ($m)**	**Average annual revenue difference per capita ($)**
1	Rate peg includes population growth	74.5	4.1	48.0
2	S7.12 levy exemption (alts/adds)	-39.8	-2.0	-23.4
3	Community & indoor recreation facilities exc. from s7.11 EWLonly	-84.1	-4.9	-58.1
4	Public domain facilities exc. from s7.11 EWLonly	-151.9	-8.9	-105.0
5	Open space facilities (not indoor) exc. from s7.11 EWLonly	-95.8	-5.6	-66.2
6	Community/indoor recreation facilities exc. from s7.11 EWL+ with s7.12 exemption (alts/adds)	-84.1	-4.9	-58.1
7	Community/indoor recreation/public domain facilities exc. from s7.11 EWLonly	-186.7	-11.3	-133.1
8	s7.12 levied LGA-wide on demand-based development with proposed new limits applied + s7.12 exemption non-demand generating development (alts/adds)	-197.9	-11.6	-136.7
9	Only "growth-contingent" infrastructure in s7.11 (not demand shared under current CP), s7.12 exemption	-48.7	-2.9	-33.7

Exposure risk to 'essential works' s7.11 & s7.12 proposed changes informed by:



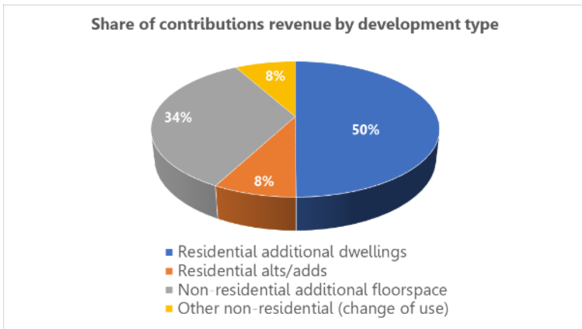


Table scenarios 1 & 6: Net cashflow impact of reforms if community/indoor recreation facilities excluded from s7.11 EWL & no s7.12 levied plus population growth factor in rate peg

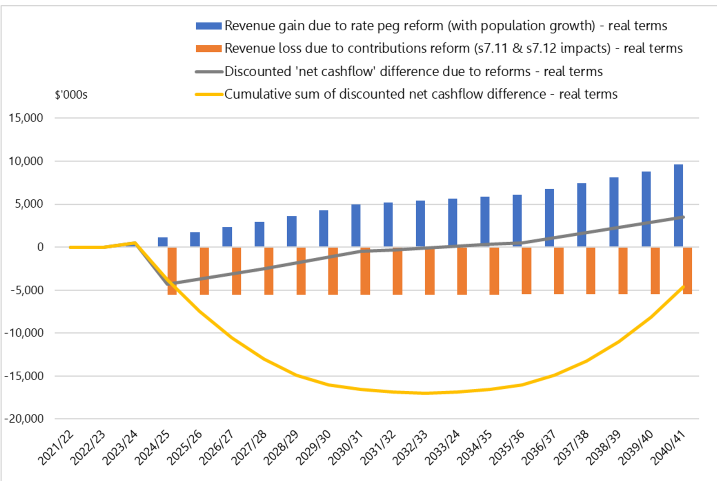
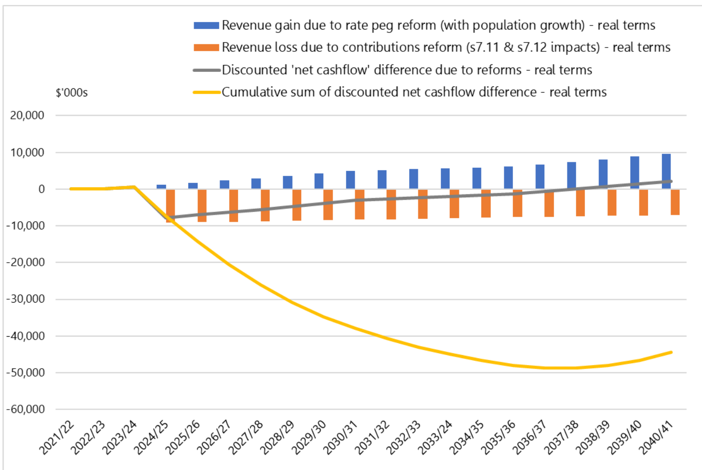


Table scenarios 1 & 8: Net cashflow impact of reforms if s7.12 levied LGA-wide on demand-based development within new limits but non-demand generating development (alts/adds) exempt plus population growth factor in rate peg

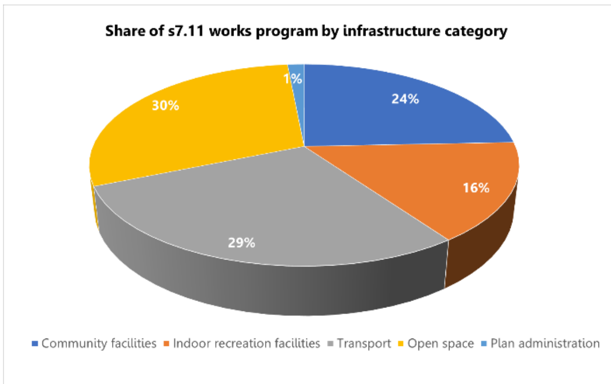


CITY OF RYDE CONTRIBUTIONS & RATE PEG REFORM IMPACTS

- Existing framework: New s7.11 contributions plan July 2020 with $393m growth infrastructure & s7.11 contributions on additional dwellings LGA-wide + commercial floor space in Macquarie Park only, s7.12 levies in separate plan on all other development, including commercial floorspace outside MP & alts & adds ($34m works)
- High growth: population growth to avg 1.9% or 2,729 residents/1,224 dwellings p.a. to 2041
- New workers 1,663 p.a. to 2041
- Additional rates growth with the population factor estimated to avg $10.7m p.a.to 2041 (real)
- Community & indoor recreation facility s7.11 revenue $15m p.a (real) – significant impact if works are excluded
- Alts/adds & change of use etc. under s7.12 another $2m p.a. (real)
- Significant risk of sustained income losses for more than 15 years as a result of possible reform outcomes

	Table of revenue impacts (real terms):	Estimated total revenue to 2040/41 ($m)	Average revenue p.a. 2021/22-40/41 ($m)	Average annual revenue per capita ($)
	Business as usual developer contributions, no reforms	498.7	24.9	132.6
	Possible reform scenario:	Revenue difference to 2040/41 ($m)	Average revenue difference p.a. from reform start ($m)	Average annual revenue difference per capita ($)
1	Rate peg includes population growth	192.9	10.7	54
2	S7.12 levy exemption (alts/adds)	-34.0	-2.0	-10.6
3	Community & indoor recreation facilities exc. from s7.11 EWL only	-255.4	-15.0	-79.9
4	Open space facilities (not indoor) exc. from s7.11 EWL only	-129.0	-7.6	-40.3
5	Community/indoor recreation facilities exc. from s7.11 EWL + with s7.12 exemption (alts/adds)	-289.4	-17.0	-90.5
6	s7.12 levied LGA-wide on demand-based development with proposed new limits applied + s7.12 exemption non-demand generating development (alts/adds)	-286.1	-16.8	-89.5
7	Only "growth-contingent" infrastructure in s7.11 (not demand shared under current CP), s7.12 exemption	-166.3	-9.8	-52.0

Exposure risk to 'essential works' s7.11 & s7.12 proposed changes informed by:



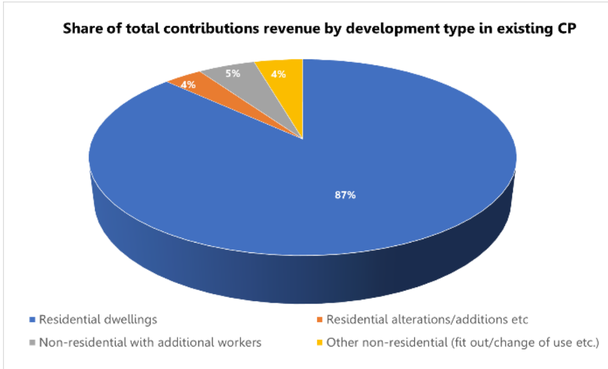


Table scenarios 1 & 5: Net cashflow impact of reforms if community/indoor recreation facilities excluded from s7.11 EWL & no s7.12 levied plus population growth factor in rate peg

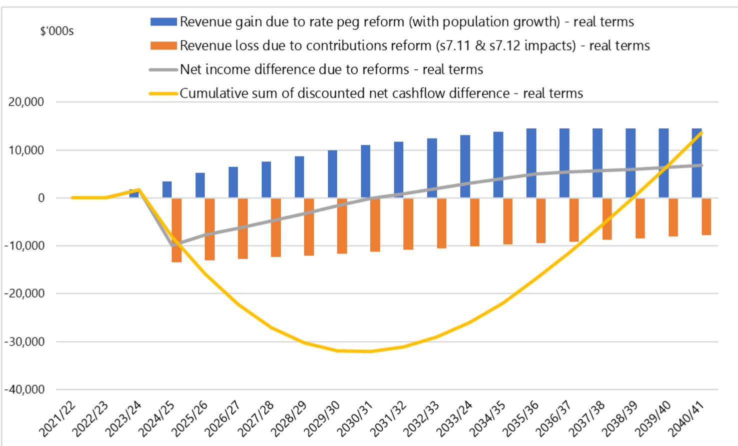
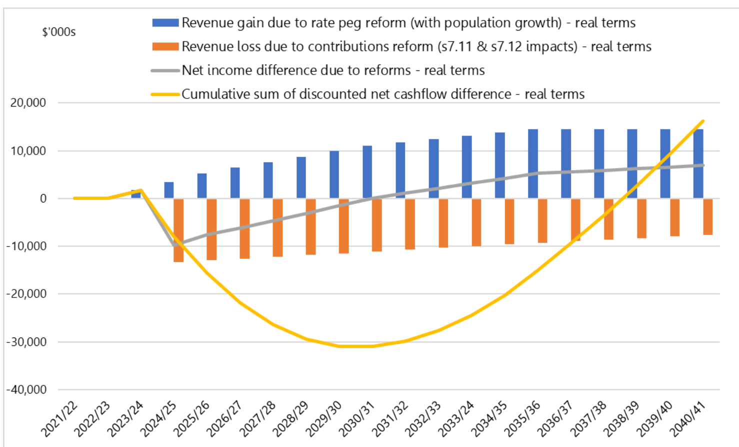


Table scenarios 1 & 6: Net cashflow impact of reforms if s7.12 levied LGA-wide on demand-based development within new limits but non-demand generating development (alts/adds) exempt plus population growth factor in rate peg

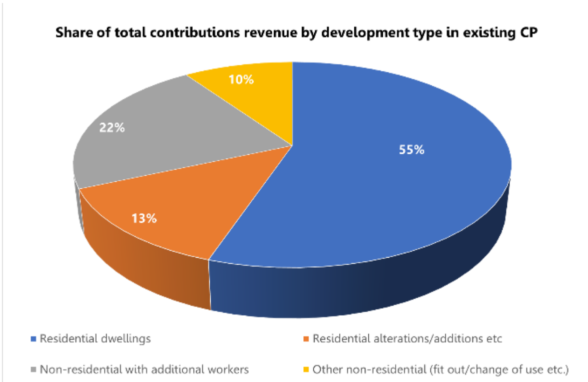


WILLOUGHBY LGA CONTRIBUTIONS & RATE PEG REFORM IMPACTS

- Existing framework: Hybrid contributions plan June 2019 with $82m growth infrastructure & s7.11 contributions on additional dwellings LGA-wide at cap (3 bedders), s7.12 levies on all other development inc. non-residential development (with additional floorspace) & alts & adds. Chatswood CBD s7.12 levy @ 3%
- Population growth to avg 0.9% or 692 residents/338 dwellings p.a. to 2041 New workers 530 p.a. to 2041
- Additional rates growth with the population factor estimated to avg $3.2m p.a.to 2041 (real)
- Community & indoor recreation facility s7.11 revenue $2.0m p.a.; public domain facilities $0.9m (real)
- S7.12 revenue $2.5m p.a. for non-residential 'demand-based' development & $2.5m p.a. for alts/adds etc. (real)
- Significant risk of sustained income losses for 20 years+ as a result of possible reform outcomes, partly because of s7.12 changes which affects its non-residential and alts/adds revenue but also because of possible EWL changes

	Table of revenue impacts (real terms):	Estimated total revenue to 2040/41 ($m)	Average revenue p.a. 2021/22-40/41 ($m)	Average annual revenue per capita ($)
	Business as usual developer contributions, no reforms	182.5	9.1	98.7
	Possible reform scenario:	**Revenue difference to 2040/41 ($m)**	**Average revenue difference p.a. from reform start ($m)**	**Average annual revenue difference per capita ($)**
1	**Rate peg includes population growth**	57.8	3.2	33.0
2	S7.12 levy exemption (alts/adds)	-42.7	-2.5	-27.2
3	New s7.12 rate limits on non-residential development	-42.0	-2.5	-26.7
3	Community & indoor recreation facilities exc. from s7.11 EWL only	-34.1	-2.0	-21.7
4	Public domain facilities exc. from s7.11 EWL only	-15.3	-0.9	-9.7
5	Open space facilities (not indoor) exc. from s7.11 EWL only	-58.6	-3.4	-37.3
6	**Community/indoor recreation facilities exc. from s7.11 EWL + with s7.12 non-residential limits & exemption (alts/adds)**	**-107.7**	**-6.3**	**-68.6**
7	Community/indoor recreation/public domain facilities exc. from s7.11 EWL + with s7.12 non-residential limits & exemption (alts/adds)	-123.0	-7.2	-78.3
8	**s7.12 levied LGA-wide on demand-based development with proposed new limits applied + s7.12 exemption non-demand generating development (alts/adds)**	**-112.3**	**-6.6**	**-71.5**
9	Only "growth-contingent" infrastructure in s7.11 (not demand shared under current CP), s7.12 exemption	-103.8	-6.1	-66.0

Exposure risk to 'essential works' s7.11 & s7.12 proposed changes informed by:



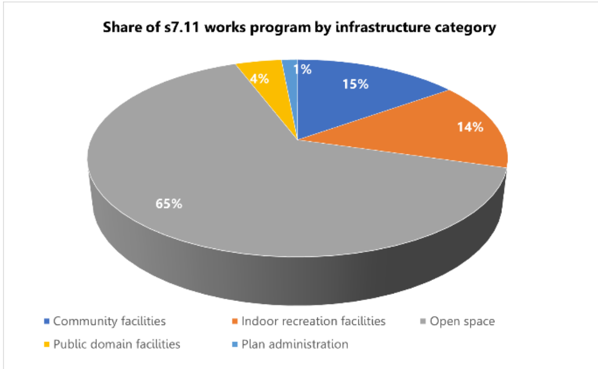


Table scenarios 1 & 6: Net cashflow impact of reforms if community/indoor recreation facilities excluded from s7.11 EWL; new commercial floorspace s7.12 limit applies & s7.12 exempt alts/adds plus population growth factor in rate peg

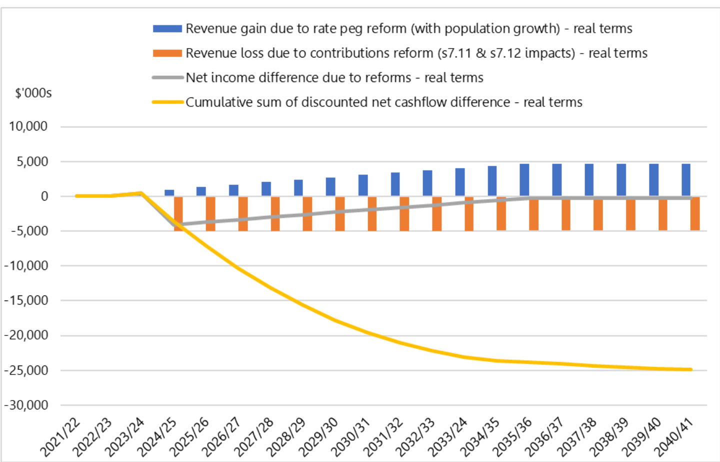


Table scenarios 1 & 8: Net cashflow impact of reforms if s7.12 levied LGA-wide on demand-based development within new limits but non-demand generating development (alts/adds) exempt plus population growth factor in rate peg