

25 September 2009



Mr James Cox
Chief Executive Officer
Review of the Revenue Framework for Local Government
Independent Pricing and Regulatory Tribunal
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Dear Mr Cox,

IPART Draft Report - Review of the Revenue Framework for Local Government

HIA welcomes the opportunity to comment on IPART's Draft Report on the *Review of the Revenue Framework for Local Government*.

As Australia's peak residential building industry association, HIA represents over 16,000 members in NSW and 45,000 nationally. HIA members include building and development companies, large and small, who construct over 85% of the nation's new housing stock. They are involved in all facets of the residential building industry including land development, detached housing, multi-unit construction, the various trade areas, architects, building professionals and manufacturers and suppliers of building materials.

HIA's submission to IPART's Issues Paper on *the Review of Revenue Framework for Local Government* highlighted a number of concerns within the current local government revenue framework and provided recommendations for improvement.¹ HIA's submission emphasised the undesirable impacts of rate pegging on new homebuyers through local governments' reliance on development taxes and levies to fund community-wide infrastructure. HIA recommended a removal of rate pegging, an increase in government funding, an improvement in councils' building and planning systems and an expansion in the use of private certification to improve the current revenue framework within NSW local government. HIA believes that such changes would reduce the impact of damaging development costs on housing affordability.

NSW councils have three options to fund infrastructure – borrow funds, use recurrent funding or sell assets.² The net debt figures within the Draft Report indicate that NSW councils have held the least debt, at the aggregate level, from 1998/99 to 2006/07.³ Access Economics found that NSW councils are avoiding debt as a result of their reluctance to borrow even when it may be sensible to do so.⁴ The Draft Report also states that NSW councils have sufficient funds to service current debt requirements and have the capacity to take on further debt as appropriate for addressing infrastructure requirements that will benefit future generations of ratepayers. Removing rate pegging would allow councils to borrow upfront and increase general rates to service the debt. In this way, community-wide infrastructure would be paid for by a broad rate base - the general community, rather than by a small minority group – new homebuyers.

HIA generally supports the recommendations in the Draft Report to ease the current rate capping system on local governments in NSW. Option A and Option B provide some flexibility for local government in the rate setting process.

¹ HIA, September 2008, Submission to IPART on the *Revenue Framework for Local Government-Issues Paper*.

² *Ibid.*, p. 137.

³ IPART, July 2009, *Revenue Framework for Local Government-Draft Report*, p. 137.

⁴ Access Economics, 2006, *Local Government Finances in NSW – An Assessment*.

HIA believes that Option B would provide some welcomed relief to local government by offering them with an opportunity to seek autonomy from the current rigorous rate pegged system. However, HIA is concerned that Option B may generate some issues for local government in gaining the required amount of community support as stated in the Draft Report.⁵ Increasing rates across a jurisdiction is unlikely to yield community support amongst long established residents, who make up the majority of electorates. Due to the political sensitivity of local government revenue-raising through increased rates, the voting option recommended in the Draft Report may not effectively achieve the required community support for local government to proceed with Option B. HIA recommends that IPART consider a more practical and workable mechanism for community engagement for Option B, prior to finalising their Report.

Thank you for the opportunity to respond to IPART's Draft Report. If you require any further information in relation to this submission, please do not hesitate to contact either myself or Ms Clare Larkin on 9978 3389 or c.larkin@hia.com.au

Yours sincerely
HOUSING INDUSTRY ASSOCIATION



Graham Wolfe
NSW Executive Director

⁵ Ibid., p. 177.