

11 September 2009

Mr James Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office, NSW 1230

By email: ipart@ipart.nsw.gov.au

Dear Mr Cox

Re: Revenue Framework for local government: Draft report, July 2009

The Urban Taskforce represents Australia's most prominent property developers and equity financiers. We provide a forum for people involved in the development and planning of the urban environment to engage in constructive dialogue with government and the community.

We note that the tribunal has found that local government does experience difficulties achieving satisfactory provision of infrastructure.¹ We also note that councils have sought to deal with this issue by finding alternative sources of funding. In many cases development contributions are being relied upon to fund a significant proportion of local infrastructure and services. In some cases, the provision of local infrastructure is being provided entirely by developer contributions of some type.

This level of taxation on development has without doubt caused a slowing of development activity, particularly in the residential sector, which has contributed to the current collapse in NSW property development. **Local government taxes, fees and charges have had a significant and adverse impact on the development industry.** Some key figures are worth noting:

We suggest that the following performance measures be included in the plan. The figures cited are drawn from Australian Bureau of Statistics data.

- For every \$1 invested in building activity in NSW, \$1.34 is invested in Victoria and 99 cents is invested in Queensland. In the June quarter this year, the value of Victoria's building activity was \$5.32 billion, NSW was \$3.98 billion and Queensland was \$3.93 billion.
- NSW accounts for 33 per cent of Australia's population, but only 22 per cent of the building activity.
- For every NSW resident, the state attracts just \$1.02 in new private sector residential construction investment each year. Victoria receives \$1.91 for every resident and Queensland secures \$2.15. In the 12 months to March 2009 construction commenced on only 24,577 privately-funded new homes in NSW, compared to 40,304 in Victoria and 33,262 in Queensland.
- In NSW 35 new homes are built each year by the private sector for every 10,000 residents in the state. In Victoria, for every 10,000 of its residents, 75 new homes are built annually. In Queensland for every 10,000 residents, 76 homes are built each year.

The most significant impact of increased fees and charges is that the cost must be passed on to the end-users of developed property, such as homebuyers. If the purchaser of a developed property is unable to bear the increased cost, the development does not proceed. The increase in the cost of housing brought about by escalating developer charges has been recognised as a key contributor to the housing affordability crisis.

¹ Independent Pricing and Regulatory Tribunal, July 2009. *Revenue Framework for Local Government-Draft Report*. pp.159-160.

In our previous submission we suggested that the tribunal must consider how rate pegging has made local government seek alternative means of income. There has clearly been a growth in local government fees and charges relative to council rates. Local government is partly overcoming constraints on rates income by shifting some of its funding efforts towards user fees and charges. Fees and user charges have been found to be the second most significant source of revenue for councils after rates. In fact, fees and user charges have grown from 13 per cent of total revenue in the 1970s to exceed 30 per cent in 2003-04.²

The Federal Government's independent economic advisor, the Productivity Commission, prepared a report titled *Assessing Local Government Revenue Raising Capacity*. It revealed that Baulkham Hills Shire Council, Mosman Municipal Council and Willoughby City Council had each admitted that rate pegging creates an incentive to increase fees and charges as an alternative source of revenue to rates.³

Regretfully, in NSW there is a very broad basis to councils to recover their costs through development charges. The Productivity Commission has found that:

New South Wales and Victoria appear to have the most flexible legislative arrangements for accessing developer contributions, with legislative scope to levy for a broad range of economic and social infrastructure needs (such as public transport, child care centres, libraries, community centres, recreation facilities and sports grounds) beyond basic infrastructure. Other jurisdictions may not have scope to apply a levy for these facilities.⁴

IPART's review seems to support our view that there has been an increased reliance on alternative sources of income to enable local councils to continue to provide services. For instance, IPART found that while rate pegging has constrained NSW councils' taxation revenues, substitution of other revenue sources, particularly user charges and fees has enabled growth in overall revenues to be relatively consistent with those of other Australian councils.⁵ However, it is unfortunate that the tribunal has not further investigated this matter and articulated to what extent councils rely on alternative sources of revenue to fund local infrastructure and service provision.

Your investigations suggest that local councils are providing services far in excess of legislative obligations. It was found that in many cases there is no direct obligation for councils to provide this increase level of service, nor was there evidence of "cost shifting" (as defined by IPART) making it mandatory that councils provide services on behalf of the State or Commonwealth governments. Regretfully, for political reasons, councils often choose to deliver a higher than mandated level of service.⁶ However, the cost of providing these services and the source of funds have in the past, been poorly articulated to the community.

It is encouraging that tribunal recognises this deficiency and places emphasis on the need for councils to be more accountable to their communities, particularly when raising revenue for expenditure to meet community "needs". It is refreshing to note that tribunal's assessment sees that there is considerable scope to improve transparency in this area of council business.⁷

The Urban Taskforce is a firm supporter of the concept that where a council is elected or seeks re-election on the platform of improved services such council must be obliged to be honest with its community and clearly, simply and unambiguously articulate how these services are to be funded. We do not support funding new discretionary services either directly or indirectly through higher levies on development. **A greater share of rates revenue should be used to fund the infrastructure that is necessary for new homes. This may necessitate some relaxation of rate pegging.**

The tribunal's proposal for councils who are able to demonstrate sound financial and planning practices eligible to seek autonomy when setting revenue requirements and annual rate increases may have merit, provided that an independent and rigorous assessment of councils performance is

² ALGA [Australian Local Government Association]. (2005). Federal Budget 2005–06: Towards a Fair Share. Canberra: ALGA, in Dollery, B., Crase, L., & Byrnes, J. (2006) Local government failure: Why does Australian local government experience permanent financial austerity? *Australian Journal of Political Science*, 41:3,339 — 353

³ Productivity Commission (2008) *Assessing Local Government Revenue Raising Capacity: Productivity Commission Research Report April 2008* 112

⁴ *ibid* 172.

⁵ Independent Pricing and Regulatory Tribunal, July 2009. *Revenue Framework for Local Government-Draft Report*. pp.159-160.

⁶ *ibid*. 25

⁷ *ibid*. 56

conducted as part of the application process. IPART should be the authority that conducts the assessment of council performance. However, **such councils should be compelled to lower their development levies below \$20,000 per home cap set by the NSW Government for greenfield areas, and below the traditional 1 per cent (of projects costs) levy in existing urban areas.**

These comments are offered to encourage constructive dialogue between Government and the development industry and we ask that you accept these comments as our contribution to the local government revenue reform process. We are always able to provide a development industry perspective on planning policy and we would welcome the opportunity to meet and discuss these issues in more detail.

Yours sincerely

Urban Taskforce Australia

A handwritten signature in black ink that reads "Aaron Gadiel". The signature is written in a cursive style with a long horizontal stroke at the end.

Aaron Gadiel
Chief Executive Officer