Submission
No 157

INQUIRY INTO ENVIRONMENTAL PLANNING AND ASSESSMENT AMENDMENT (INFRASTRUCTURE CONTRIBUTIONS) BILL 2021

Organisation: Lane Cove Council

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Ms. Sarah Dunn
Principal Council Officer
Portfolio Committee No. 7 – Upper House Committees
Parliament of NSW
Macquarie Street, SYDNEY NSW 2000

Dear Ms. Dunn,

Re: Lane Cove Council Response to Inquiry into the Environmental Planning and Assessment Amendment (Infrastructure Contributions) Bill 2021

Lane Cove Council welcomes the opportunity to make comment on the Infrastructure Contributions Bill 2021, being mindful of the significant impact on Council's revenue of the proposed reforms. Council would also like to add its support to submissions made by Local Government NSW and NSROC to the Inquiry.

Introduction

The Northern Sydney Region Organisation of Councils (NSROC) commissioned GLN Planning (GLN) to assess the financial impact of the reforms on member councils and the region as a whole, and in doing so, tested the purported net gains recommended to the Productivity Commission (PC) by CIE consultants. GLN's assessment (Attachment 1 and in part Figure 1) 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 [in all NSROC councils]. 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. (GLN p.viii)

Council commends the NSROC (GLN) submission to the Inquiry. In addition, this submission represents Lane Cove's perspective, addressed below.

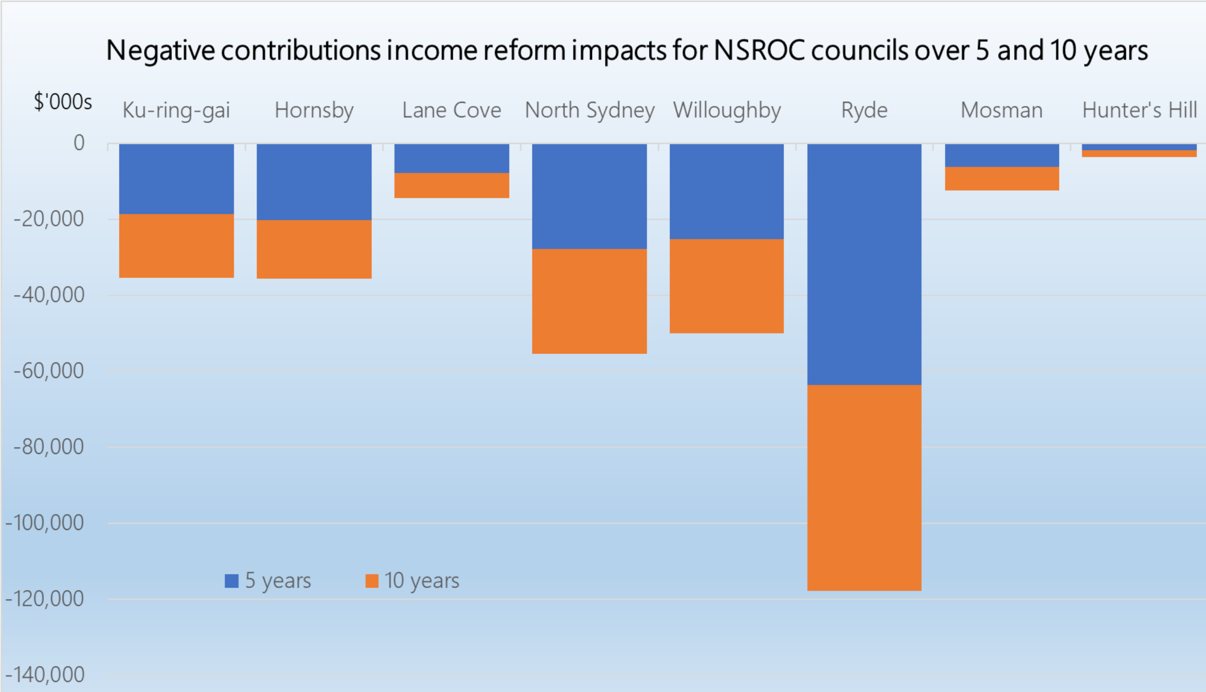


Figure 1 Overall impacts on each NSROC council - GLN Report

<u>Rate pegging related to population growth (Rec. 3.1)</u>

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 GLN's analysis. Firstly, "the Government's model is based on pre-covid projections, which are overly optimistic, and assume a 4.75% growth against the rate peg. The rate peg set by IPART averaged 2.2% over the last 5 years and 2.5% over the last 10."

According to GLN analysis, modelling shows that the extra rates income flowing from rate peg reforms fails to offset contributions income losses under all 6 contributions reforms scenarios tested. For example, if community and indoor recreation facilities are excluded from the essential works list' (EWL), and an exemption for alterations/ additions is applied to S.7.12 levies, it would result in a negative cumulative discounted net cashflow impact on the NSROC region for the first 15 years of the reforms' implementation.

Lane Cove LGA, along with Ryde, is the fastest-growing LGA in the NSROC area. In addition, population forecasts by DPIE show a significant amount of growth in Lane Cove is concentrated in the next five years, though slower than previously (down from 3% p.a. to 1.1% p.a.). Relative to other councils, this increases the assumed rate peg income received in the first 5-10 years (compared with, say, an area where there is more constant growth over 20 years). Nevertheless, the projected yields (dwelling plus non-residential floorspace) have been shown by GLN analysis to <u>not generate enough revenue</u> to meet the total cost of Council's works program, even over 20 years.

IPART – Rates and Population Growth Draft Report

It is critical to note that IPART is currently reviewing the rate peg to include population growth. In a document recently released by IPART, ‘Review of the Rate Peg To Include Population Growth – Draft Report - June 2021’, the proposed formula for calculating the rate peg is outlined on Page’s 5 and 6, as follows:

$Rate\ peg = change\ in\ LGCI - productivity\ factor + other\ adjustments + population\ factor$

The population factor is proposed to be determined as follows:

$Population\ factor = \max\ (0, change\ in\ population - supplementary\ valuations\ percentage)$

The reality is an annual rate peg increase of circa 4.75% is grossly overstated. There is no population increase (past, present or future) that is likely to ever result in a rate peg of 4.75% for Lane Cove once supplementary rates are accounted for and deducted from the proposed rate peg formula.

A rate peg of between 2.75% and 3.00% is considered far more realistic and representative of Lane Cove’s population projections going forward. This being the case, Lane Cove will be approximately $16 million worse off under the proposed infrastructure contributions reforms over the next 20 years.

Increase S.7.12 levies (Rec. 4.11)

The intent of the S.7.12 reforms is to introduce a simpler, but still reasonable option for infill councils to levy demand-based development. This does not appear to be the case for infill council areas such as Lane Cove.

According to GLN, the S.7.12 demand-based levies present a more complex approach with the combined percentage and threshold rates. For most of the NSROC region, the S.7.12 proposed (increased) limits (of $10,000 per detached dwelling and $8,000 per other dwelling) “represent around half or less of the existing s7.11 rates implemented.” (GLN)

The proposed maximum rates therefore fall well short of the maximum percentages proposed as a share of development cost, and if adopted by infill councils (instead of S.7.11), 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.

This is further complicated because Lane Cove is the only NSROC council which does not currently levy S.7.12 contributions. Furthermore, Lane Cove levies S.7.11 rates on industrial and commercial development. “The proposed new maximum S.7.12 rates ($35/sqm for commercial development, $25/sqm for retail development and $13/sqm for industrial development) are well below these contribution rates” (GLN), further disadvantaging Lane Cove under a S.7.12 regime.

Note that if Lane Cove did introduce S.7.12 for non-demand-based development, this would represent only 15% of its total projected contributions revenue.

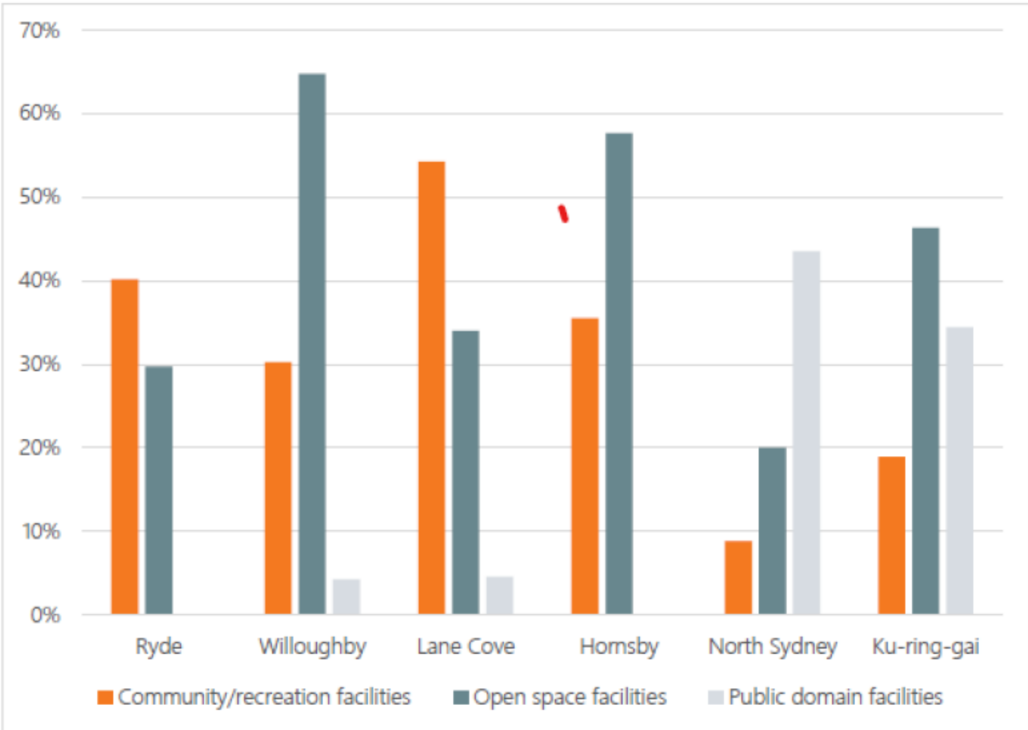
Developer-contingent "essential works" (EWL) costs only in S.7.11 Plans (Rec. 4.6)

The recommended restriction of contributions plans to 'development-contingent' works, assumed to mean only EWL, is shown by GLN to reduce contribution revenues by around 32% for infill councils such as Lane Cove, rather than the 21% reduction identified in Government modelling.

In particular, community and indoor recreation facilities would not be included in the EWL, thereby reducing infill S.7.11 contributions by an assumed 9.5%. The P.C. analysis also assumes that half of open space embellishment would also be excluded, thereby reducing S.7.11 contributions in infill areas by a further 11.5%. This suggests a total reduction to infill plans of around 21%, which is a significant underestimation when compared to the actual percentages (averaging 31%) shown in Figure 2. In Lane Cove especially, community/recreation facilities represent over 50% of its existing S.7.11 works programme. Such community works as Lane Cove's proposed $52m sport and recreation centre are at risk.

NSROC councils' exposure to the risk of infrastructure removal from their plans is represented by the different shares of works in their current schedules, as shown in Figure 2 (orange column).

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.

GLN concludes that the removal of community and indoor recreation facilities from S.7.11 plans effectively restricts S.7.11 rates to levels below the S.7.12 maximum rates. In this case, future contribution revenues would be significantly reduced, and would 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.

The cumulative revenue losses of the proposed contributions reforms would be further worsened by the exemption of non-demand-based development from S.7.12 levies.

<u>IPART to benchmark S.7.11 costs (Rec. 4.5)</u>

Table 6 of the GLN analysis indicates "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." This underestimation could further result in increased expenditure pressure and/or delays or reductions in infrastructure delivery.

Also, infrastructure construction costs vary considerably from greenfield to infill areas, and between regional and metropolitan areas. Therefore, standardised benchmarking (a one-size-fits-all approach) across the entire State is not considered appropriate.

<u>Payment of contributions moved to Construction certificate stage from occupation certificate stage (Rec. 4.10)</u>

This could create a delay in payments of up to two years in some cases. "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. This could also reduce the interest accruing to contribution funds held before they are spent. "These are reasons why such reforms should be adjusted to reduce negative contribution revenue impacts, or at the very least be delayed or phased-in." (GLN) Thirdly, it would create delays in the delivery of much-needed public infrastructure in large-scale developments such as St Leonards South.

<u>Regional infrastructure charge (Rec. 5.1)</u>

> "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 impact in the short to medium term at least is likely to be reduced revenue and therefore, lower local infrastructure provision for communities." (GLN)

Council is concerned that the replacement of SICs (which are area-specific) with more general RICs does not lead to cross-subsidising other regions' infrastructure needs ahead of locally-based regional facilities.

Timing / modelling

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.

By contrast, councils are only required to 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. However, the 1 July 2022 reform deadline means that existing contribution plans amended for reforms would presumably need to be in operation by 2024/25 at the latest, creating a conflict between timing of both processes.

Conclusions

A council's social licence to respond to increased density/development comes from the associated improvements in community infrastructure and services it engenders. Any proposals that shift the burden of funding new infrastructure from developers, or the State government, onto residents fractures this licence. Council in all likelihood may need to respond by scaling back community infrastructure and service levels or not deliver some at all. Reduced spending on the public realm will have significant economic and ultimately social well-being impacts.

Although the details of the infrastructure contributions reforms are not available, modelling based on the information available indicates significantly reduced income for NSROC councils. Under the proposed reforms NSROC councils have been shown to face losses of $171 million in the first five years, $325 million over 10 years and $461 million over 15 years. Declines are likely to occur in both the S.7.11 contributions and S.7.12 fixed-rate levy projected income levels depending on the details – as yet unsighted and not consulted upon.

Recommendations

Council therefore wishes the Committee to consider the following. That:

1. The issue of rate reform be uncoupled from the review of development contributions, to ensure the cost of providing new facilities to meet the needs of a growing population is not shifted to the existing community.

2. Assurance be given that no council is worse off under the reforms.

3. Further detailed modelling be carried out by the State Government at the individual council level to understand impacts on each council, rather than at the higher, more generalised level done to date.

4. Implementing the reforms currently anticipated to commence from 1 July 2022 be delayed so that the above points can be carried out. In addition, a review of the population projections be considered in light of COVID and the resultant virtually ceasing of immigration.

5. Payment of developer contributions be restored to the Construction Certificate stage rather than Occupation Certificate stage.

6. The ‘Essential Works List’ be removed from developer contribution plans, as it essentially prohibits the funding of social infrastructure.

Yours sincerely,

Mark Brisby
Executive Manager, Environmental Services

Attachment 1 – Impacts of Local Government Rates and Infrastructure Contributions Reforms (GLN)
Attachment 2 – Council report