

**Submission
No 111**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Northern Sydney Regional Organisation of Councils

Date Received: 10 May 2024

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Ms Emily Suvaal
Chair NSW Legislative Council Standing Committee on State Development
Parliament House
Macquarie St
Sydney NSW 2000

Re: Inquiry into the ability of local governments to fund infrastructure and services

Dear Ms Suvaal

Thank you for the opportunity to make a submission to the Parliamentary Inquiry into the Ability of Local Governments to Fund Infrastructure and Services. This submission has been prepared with the input and support of our member councils but should be considered draft until it is formally endorsed by the NSROC Board.

Northern Sydney Regional Organisation of Councils (NSROC) is a voluntary association of eight local councils who have come together to collaborate and promote a united voice on key issues in our region. Our member councils are Hornsby, Hunter's Hill, Ku-ring-gai, Lane Cove, Mosman, North Sydney, Ryde and Willoughby. Collectively, the NSROC member councils service an area of 639km² with a population of 633,978. We work together on policy and operational matters to drive efficiency and to enhance our region.

Comments

Councils require sufficient income to fund both the operational and capital expenditure necessary to provide services and facilities to meet the needs and priorities of their local communities.

Councils' capacity to generate income is heavily reliant on their ability to charge user fees and their rate base. While many costs can be controlled by councils, they are also influenced by forces outside their control including the rate peg, weather events, population growth and cost-shifting by state government.

Councils are required to engage with their communities and undertake comprehensive planning under the Integrated Planning and Reporting Framework. This process ensures that councils have a strong understanding of the services the community wants, the standards they expect, and the infrastructure required. It enables councils to set appropriate rates, fees and charges to deliver key priorities, projects and services.

The Rate Peg is a barrier to councils generating sufficient income to deliver against community expectations. It does not allow councils to adjust rates to reflect actual changes in their costs. It does not take account of changes in service levels, the impacts of extreme weather events, the impacts of climate change, the increasing costs associate with cyber security and cost shifting by other levels of government.

Statutory limits imposed on a range of fees and charges levied by councils are generally well below the cost of delivering these services. Examples include planning fees and the Stormwater Management Charge. These fees should be reviewed regularly to ensure they operate on an effective cost recovery basis.

Build To Rent housing (BTR) is increasingly a concern for councils. The current legislation does not allow councils to maintain average rates per capita funding to service the new population. This is because BTR is generally held in single ownership and subject to the unimproved capital value (land value) rate assessment rather than separate assessments for each residential dwelling.

Case study – An existing BTR development in the NSROC region consisting of 327 apartments pays \$47,000 in council rates. The equivalent 327 strata titled residential apartments would attract approximately \$370,000 p.a. if minimum rates were levied. This presents an inequity for existing ratepayers, who will effectively be cross-subsidising these developments. This anomaly creates an unsustainable financial position for councils to service the greater population. The problem will only increase as more ‘Build-to-Rent’ developments are built.

Impact of rating-exempt land on Councils’ rate base. Rates exempt properties include Crown Land, religious bodies, schools, national parks, public hospitals, and universities. This can create the situation where a council’s rate base is too barrow to raise enough income to cover the costs of services. Inequities associated with rating-exempt land are increased when development of this land causes population growth.

The Special Variation process through IPART is onerous. It is resource intensive, costly and can be politically contentious. IPART requires that the impact on affected ratepayers must be reasonable and there is consideration of the community’s capacity to pay. This process can often take between 18 to 24 months due to extensive planning, community consultation, detailed justification to IPART, and support from Council even prior an application being submitted. This long lead time deters Councils from applying for a Special Variation, and Councils often need to reduce existing services or service levels to attempt to fund these shortfalls.

Conclusion

NSROC councils would welcome the opportunity to work constructively with Government to further consider effective mechanisms that ensure councils have the resources to fund the infrastructure and services their communities demand and deserve.

Thank you for the opportunity to provide a submission to the Parliamentary Inquiry into the Ability of Local Governments to Fund Infrastructure.

If you require further information, please don’t hesitate to contact me on

Yours sincerely

Dr Meg Montgomery
Executive Director
Northern Sydney Regional Organisation of Councils
