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Submission to the General Purpose Standing Committee No. 6

Inquiry into local government in New South Wales

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Executive summary

The Property Council of Australia has consistently articulated the case for reforms to improve the performance of councils across New South Wales.

The NSW Government's 'Fit for the Future' reform agenda presents a unique opportunity for the State to address the many challenges faced by local government. These challenges include financial instability, infrastructure backlogs, choked revenue, out-dated boundaries and a shortage of skilled professionals.

We have a crucial interest in seeing councils, particularly in Sydney, succeed given the scale of the city's growth and our industry's dependence on the efficient assessment of development applications and prudent spending of property-based taxes.

Amalgamation of councils is crucial to ensure local government remains relevant for the 21st century and delivers the long-term benefits communities deserve. The 'Fit for the Future' criteria contain valid and commendable objectives for local government. These criteria are:

- Scale and capacity to engage effectively across community, industry and governments
- Sustainability
- Effectively managing infrastructure and delivering services for communities, and
- Efficiency.

We look forward to continuing to contribute to the progression of local government reform.

Yours sincerely,

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About the Property Council of Australia

The Property Council of Australia is the nation's peak representative for the property and construction industry.

Our 2,000 member firms and 55,000 active individuals span the entire property and construction industry, which includes all:

- **dimensions of property activity** — financing, funds management, development, ownership, asset management, transaction and leasing.
- **major property types** — offices, shopping centres, residential development, industrial, tourism, leisure, retirement and infrastructure.
- **major regions** of Australia and **international** markets.
- **four quadrants of investment** — public, private, equity and debt.

We have a crucial relationship with local government. We are a major source of revenue for local government through the provision of property related services, contributing to the billions collected by councils in rates and charges.

In particular, our members contribute to local government infrastructure through significant development levies. In 2013-14, councils collected $377 million – with over $1 billion in levies sitting unspent in council accounts across Sydney's 39 councils.

We are also a major user of local government services. Our members rely on councils to progress development applications so they can do business. In 2013-14 (the most recent public data), councils approved 84,159 development applications, worth $28.7 billion.

The property and construction industry also underpins the health and prosperity of the NSW economy. The industry:

- generates almost **300,000 jobs** - one in ten workers
- provides **$16.6 billion in wages** to workers and their families
- pays **$7.7 billion in State taxes** to the NSW Government – the State's single largest tax payer
- is levied an additional **$6 billion** in local council rates and charges annually
- contributes **$44.5 billion directly to Gross State Product** - 10.2 percent of total GSP, and
- creates **$63 billion in flow on activity**.

The current status

In April 2013 the NSW Treasury Corporation released a report on the *Financial Sustainability of the New South Wales Local Government Sector*. The report found that the majority of councils are reporting operating deficits which is a trend that is unsustainable. The cumulative operating deficits for all councils over the 2009 to 2012 review period in NSW totalled $1 billion.

The report found that the sustainability positions over the short term for nearly 50% of all councils was expected to deteriorate, with 70 of the 152 councils in NSW (46%) expected to be rated as weak or lower within three years.

As at 2012 the infrastructure backlog for councils was $7.2 billion. It is clear that the status quo needs to change.

The NSW Government's *A Plan for Growing Sydney* has a vision for Sydney being a strong global city and a great place to live.

By 2031, Sydney's economic output will almost double to $565 billion a year and there will be 689,000 new jobs. In the 20 years to 2031, Sydney's population will grow by 1.6 million people. Sydney is projected to need around 664,000 additional homes over the next 20 years, meaning we're going to need an extra 33,000 dwellings per year on average.

Councils have an important role to play in fulfilling the vision and have to be capable of contributing their part. Local government should be the engine room for growth in housing and jobs.

The discussion on the future of local government is one which was started back in August 2011, where councils from throughout NSW gathered at the Destination 2036 event in Dubbo. That was half a decade ago. It is time for reform to be actioned to modernise our local government system and facilitate the growth needed in NSW.

Summary of recommendations

Recommendation 1: **The new *Local Government Act* should be drafted to facilitate the compulsory amalgamation of councils in the Sydney metropolitan area.**

Recommendation 2: **Incentives should be provided to improve council leadership, such as pay rises, promotions, appraisals and professional development.**

Recommendation 3: **Incentives should be introduced to enhance the status of mayors.**

Recommendation 4: **Ensure that all rate increases are clearly linked to specific increased services and the cost of providing these services and that any attempt to increase 'sub-category rates' over a set amount (e.g. three times the IPART approved cap increase) is subjected to a more rigorous analytical and consultation process, best practice tax principles, and Ministerial approval.**

Recommendation 5: **The Government should not amend the *Local Government Act* to allow rate increases on the basis of 'capacity to pay'. All rate increases should be clearly linked to specific increased services and the cost of providing these services.**

Recommendation 6: **The Government should introduce mechanisms which encourage councils to borrow more debt to finance infrastructure renewal, subject to limits and sound plans.**

Recommendation 7: **The new *Local Government Act* should make it mandatory for councils to spend development levies in full, on-time and for the purpose they were collected.**

Recommendation 8: **The new *Local Government Act* should prescribe strict penalties for non-performance. Unspent levies should be seized by the Local Government Grants Commission.**

Recommendation 9: **The Independent Pricing and Regulatory Tribunal is the appropriate body to review the future of local government in NSW.**

Council amalgamations

Recommendation 1: The new *Local Government Act* should be drafted to facilitate the compulsory amalgamation of councils in the Sydney metropolitan area.

The NSW Independent Local Government Review Panel (Independent Panel) was appointed by Local Government Minister, the Hon Don Page MP, in March 2012 to look at ways to strengthen the effectiveness of local government in NSW.

In October 2013 its report, *Revitalising Local Government*, was released. The report concluded that wide-ranging and concerted action is essential to make NSW local government sustainable and fit-for-purpose into the mid-21st Century.

The Independent Panel's view is that amalgamations are an essential element of reform, and are unlikely to occur voluntarily. Compulsory amalgamations must be undertaken to deliver high-performing and fiscally responsible councils with the scale to fund infrastructure and deliver improved services.

We support the Independent Panel's vision for reshaping metropolitan Sydney.

NSW is long overdue for significant amalgamation. Between 1990 and 2010, NSW councils reduced by only 14% whereas councils reduced by 62% in Victoria, 45% in Queensland, 45% in South Australia and 37% in Tasmania.

According to the Australian Centre of Excellence for Local Government (ACELG), council amalgamation could deliver the following benefits, if done properly:

- *Strategic capacity*: greater knowledge among council staff; better ability to attract talented staff; and stronger partnerships with state or national governments.
- *Financial capacity*: greater financial strength and stability; lower administrative costs; and increased purchasing power.
- *Service delivery*: better service delivery; quicker DA processing times; and more effective ability to deliver local infrastructure.
- *Local democracy*: more accountable governance, local democracy and representation; maintenance of local identity through more effective place management.

Importantly, the ACELG notes that "potential benefits are reduced or lost when the process is flawed due to inadequate planning and consultation or a failure to consider all the options available and precisely what each could achieve".

Our research indicates that the community wants change.

According to research commissioned by the Property Council and done by Auspoll, most homeowners are also in favour of merging councils to increase resources, add professional expertise and deliver better services, with 68% supporting amalgamation and only 11% opposing it.

Interestingly, support for amalgamation remains strong even if the NSW Government were to force councils to merge, with 66% supporting amalgamation under this circumstance and only 14% opposing it.

When prompted on a suitable number of councils, most homeowners (62%) believe Sydney should have 20 or fewer councils. 6% of respondents believe that Sydney should have just one council.

The Property Council sees value in the Independent Panel's recommendation to establish Community Boards, similar to the New Zealand model, in large amalgamated councils to maintain local identity and representation.

The NSW Government's 'Fit for the Future' package has provided comprehensive funding to assist councils in merging.

$258m
To help councils who have decided to merge to make the transition and provide services and facilities communities need.

$13m
To support local transition committees and ensure elected representatives are involved in the merger process.

$5.3m
To get new regional Joint Organisations up and running.

$4m
To help small councils (<10,000 population) develop innovative ways of working.

Up to $600m
Potential savings from cheaper finance for Fit for the Future councils to invest in local infrastructure.

Expert assistance
Funding for experts to help merging councils explore the options and prepare a sound business case.

One stop shop
Access to the Office of Local Government's One Stop Shop for local government reform, including a regional relationship manager who understands your area.

Facilitators
Access to fully-funded professional facilitators who can help councils begin discussions about how to merge and the benefits for their community.

Technical support
Access to a team of technical experts to help prepare your Fit for the Future proposal.

$153m
Groups of merging councils in Sydney can receive up to $22.5m to help support their new venture.

The State will provide access to technical experts and facilitators to help councils do the analysis before they proceed with merger plans.

Fit for the Future Councils will have more say in sub-regional planning for Sydney and greater involvement in planning determinations.

Political leadership and good governance

Incentives for council officials

Recommendation 2: Incentives should be provided to improve council leadership, such as pay rises, promotions, appraisals and professional development.

We acknowledge the many dedicated and professional officers working in local government, both in an elected and official capacity. Yet as the Percy Allan report found, there is a growing shortage of skilled planners, engineers and accountants. The skills shortage will intensify as they reach retirement age and is worse in regional and rural councils.

We support the Independent Panel's recommendation to improve political leadership through professional development, accreditation and increasing councillor remuneration.

Done properly, cultural reform could attract a new generation of council officials who are well qualified, well paid, who understand land economics and who focus on the strategic benefits of growth.

Other initiatives could include:

- matching local government reform with a better planning system
- increase investment in trainees, apprentices and cadets to expand the pool of skilled local government employees
- offer performance incentives to reward culture change, such as pay rises, promotions and performance appraisals.

Enhancing the role of mayors

Recommendation 3: Incentives should be introduced to enhance the status of mayors.

We support the Independent Panel's considerations of measures to enhance the status of mayors, including full-time, well paid positions in larger councils, professional development opportunities and popular election for mayors of large councils.

We support the Panel's recommendations in relation to the election of Mayors, including direct election. We recommend that the final *Local Government Act* also consider requiring Mayors to serve fixed four-year terms.

Strengthening the revenue base

Rates

Recommendation 4: **Ensure that all rate increases are clearly linked to specific increased services and the cost of providing these services and that any attempt to increase 'sub-category rates' over a set amount (e.g. three times the IPART approved cap increase) is subjected to a more rigorous analytical and consultation process, best practice tax principles, and Ministerial approval.**

Recommendation 5: **The Government should not amend the *Local Government Act* to allow rate increases on the basis of 'capacity to pay'. All rate increases should be clearly linked to specific increased services and the cost of providing these services.**

We welcome the NSW Government's plan to commission the Independent Pricing and Regulatory Tribunal (IPART) to review the equity of the current rating system. IPART should particularly consider excessive exemptions and concession. We also seek analysis by IPART of the current inequitable application of rates and Special Rate Variations (SRVs) to different categories of landowners.

We recommend that the new Act:

- expressly rule-out the creation of subcategories that apply to one or a few properties, particularly when they are being applied subjectively to comparative properties
- expressly rule-out 'capacity to pay' as a rating principle to prevent it from being used in any form
- ensure that any attempt to increase 'sub-category rates' over a set amount (e.g. three times the IPART approved cap increase) is subjected to a more rigorous analytical and consultation process, best practice tax principles, and Ministerial approval
- ensure that all rate increases are clearly linked to specific increased services and the cost of providing these services.

We strongly oppose any rate increase based on perceived capacity to pay. It is:

- unfair and discriminates against certain types of properties
- not related to any specific additional burden on local infrastructure
- a burden on affordability because the rate increase will be passed to the consumer
- inconsistent with the 'reasonableness' requirement under the *Local Government Act*.

We are open to conversation about amending the system of rate pegging. NSW is the only state in Australia to retain rate pegging. According to IPART, rate pegging diminishes the financial viability of local government, stifles the ability to raise debt, limits the growth of rate revenue and increases infrastructure backlogs.

Greater use of debt financing

Recommendation 6: The Government should introduce mechanisms which encourage councils to borrow more debt to finance infrastructure renewal, subject to limits and sound plans.

We support the Independent Panel's view that debt is an appropriate way to fund long term assets.

Councils are often cautious in their use of debt to finance infrastructure. Elected officials take pride in their ability to manage their organisation with little debt. The community has a perception that low debt is a reflection of sound financial management. This means that many councils prefer to use current year funding – such as rates or grants – to finance infrastructure.

Yet local government has a significant capacity to leverage its balance sheet further and should borrow to finance infrastructure investment.

Councils should be encouraged to use more debt finance for infrastructure, subject to:

- compliance with Integrated Planning and Reporting (IPR) requirements, including the preparation of long-term financial and asset management plans
- ministerial approval for new borrowings over a certain amount
- upper limits on borrowing based on a considered assessment of the cost and benefit of alternative financing options.

We commend the NSW Government's plans to establish a State borrowing facility, managed by Treasury Corporation. This will provide 'fit for the future' councils, with a demonstrated capacity to borrow prudently, with access to low cost loans, saving councils up to $600 million over ten years.

Spend development levies

Recommendation 7: **The new *Local Government Act* should make it mandatory for councils to spend development levies in full, on-time and for the purpose they were collected.**

Recommendation 8: **The new *Local Government Act* should prescribe strict penalties for non-performance. Unspent levies should be seized by the Local Government Grants Commission.**

An audit of Section 94 infrastructure levies done by the Property Council for the 2013-14 year concluded that over $1 billion had not been spent. The amount of unspent levies rose by $119 million in the past year. This represents a 12.5% increase over the last year.

The Government should introduce mechanisms to ensure that levies are spent in-full, on time and for the purpose they were collected. Poor performers should be held to account.

We would welcome a robust and market-based investigation into infrastructure financing that is open-minded, independent and considered.

The role of the Independent Pricing and Regulatory Tribunal

Recommendation 9: The Independent Pricing and Regulatory Tribunal is the appropriate body to review the future of local government in NSW.

We welcome the involvement of the Independent Pricing and Regulatory Tribunal (IPART) in reviewing the future of local government in NSW. IPART is the appropriate body to undertake the review in light of its interaction with local government through:

- IPART's review and assessment of applications by councils that are seeking special variations to general income above the rate peg limit, or are seeking to increase minimum rate levels above the statutory limit.

- IPART's review of the content of certain development contributions plans on behalf of the Minister for Planning where the development contributions are above the relevant cap, and the council is seeking a gap funding from a special variation or through the Local Infrastructure Growth Scheme.

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