

30 April 2021

Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop  
SYDNEY NSW 1240

Dear Tribunal members

**Submission to the Issues Paper – Review of the rate peg to include population growth**

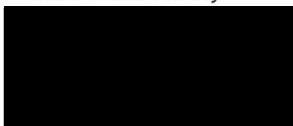
Thank you for the opportunity to present this submission on behalf of Campbelltown City Council.

Campbelltown City Centre is identified in the Greater Sydney Region Plan as a Metropolitan Cluster Centre that, together with the centres of Liverpool, Penrith and the emerging Aerotropolis, will support the growth of the Western Parkland City to a region that will be home to in excess of 1.5 million people by 2036.

Campbelltown City Centre is in a unique position as a Metropolitan Cluster Centre at the 'Southern Gateway to Sydney' serving regional and metropolitan communities that often extend outside our rate-base. Council is concerned about the potential (and the responsibility) of its ratepayers to fill a gap in reduced Infrastructure Contributions following the Productivity Commissioner's review earlier this year.

In this submission, we have addressed all of the 12 issues.

Yours sincerely



Phu Nguyen  
**Director City Governance**

**Submission:**

**Issue 1: What council costs increase as a result of population growth? How much do these costs increase with additional population growth?**

Costs in maintaining infrastructure, be it supplied by developer contributions or at the request of the community. These costs are represented by ongoing maintenance or capital costs and operational costs in the daily running of the asset.

There is a difference between pressures faced in brownfield areas and those faced as a consequence of greenfield developments. In brownfield development, much of the infrastructure already exists. Roads and trunk drainage infrastructure typically already exist and often need no further renewal or augmentation. Water quality and quantity requirements can often be managed on-site within a development and thereby requiring little to no capital or ongoing maintenance costs to the ratepayer. The greatest cost, if a council chooses to do the right thing by its community, is to acquire open space for active recreation, followed by provision of social infrastructure such as a library or aquatic facility.

Example 17 – Types of public facilities (Section 94 Contributions Plans Manual – Second Edition – Department of Urban Affairs and Planning – June 1997) details 2 classifications for public facilities, namely:

Physical infrastructure – required as a pre-requisite to development. This may include (but is not confined to) such public facilities as:

- Roads
- Bridges
- Traffic management facilities
- Drainage works
- Public car parking

Social/community infrastructure – required to serve the needs of the new population once established. This may include (but is not confined to) such public facilities as:

- Open space
- Recreation facilities
- Child care facilities
- Multi-function community facilities
- Libraries

The definition of essential and non-essential is a blurring of these two different classifications. What is particularly alarming is that the development industry has convinced the NSW Government to define “pre-requisite” infrastructure as essential, and deem infrastructure required to serve the new population as non-essential, with the exception of open space.

By way of example, all of Campbelltown's former S94 Contributions Plans only ever required development contributions for social/community infrastructure. That is, the developers create the roads and drainage to serve the torrens title lots they seek to sell and council seeks contributions for the open space and its subsequent embellishment. The only exception is the Glenfield Road plan which has a roads component of the works list which represents just 18.5% of the total plan cost. Social/community infrastructure represents 69% of the contributions sought under this Plan.

Open space for active recreation, as opposed to passive parks, demands a significant footprint usually in the order of 5 hectares to allow for two or more fields. It is estimated that by 2036, Campbelltown will require an additional 121 playing fields, comprising 243 hectares of sports land alone. Where the land can only be acquired by purchasing existing residential land, the costs are significant. As an alternative, councils are seeking to avoid high land costs and opt for increasing usage of existing fields with the introduction of synthetic fields and lighting. This alternative however has both a high capital cost and an expensive on-going maintenance cost, far greater than that associated with traditional turf fields.

The introduction of the \$20,000 cap by the NSW Government, including the subsequent determination of Essential versus Non-essential infrastructure has had a detrimental effect on service provision and the ability of councils to support growth which has occurred in the past 10 years since its implementation.

In the brownfield case above, the purchase of land at least is deemed essential. As such, councils could theoretically seek to exceed the cap and gain an IPART approved plan to cover the cost of land acquisition. However all building works associated with social infrastructure, such as a new or augmented library, community halls and aquatic facilities/centres are non-essential and the capital cost then becomes the responsibility of Council to deliver. The alternative is to maintain a contributions plan below the cap and deliver a lesser quantum of services and facilities to the community. The current planning regime is forcing most councils into doing just this.

In the case of greenfield development, it is noted that there has been a change in the type of infrastructure being delivered and ultimately owned/maintained by the community. Infrastructure such as water quality/quantity basins have significantly increased to meet improved standards. While these facilities should be a cost of development as they are pre-requisite facilities, because they serve a larger catchment than just a single development, they have been lumped in as essential infrastructure for contributions when they should not have been. As such, councils have been forced to accept the cost of these facilities within the limited amount allowed for contributions and subsequent displacement of traditional infrastructure funded by contributions, such as social infrastructure. These facilities also result in substantial ongoing costs to maintain.

Changing standards are also leading to councils inheriting environmentally sensitive land and the inherent cost associated with their ongoing maintenance. In the past, flood prone land and bushland was given to councils by developers as worthless land not able to be developed. Councils undertook very little maintenance and management of these lands and they continue to be utilised by the public. However, depending on the quality of the land to be dedicated, the range of encumbrances and constraints, and interface with the urban environment – dedication lands represent an ongoing financial burden to Council whom are then required to fund the in-perpetuity costs to manage and maintain these lands into the future. As a result, Council assumes a growing portfolio of dedication lands with limited to no ongoing funding resources to support the management of these lands. In particular, dedication lands identified to contain high biodiversity and/or water quality treatment (WQT) infrastructure with intensive maintenance schedules come at a particularly high financial cost to Council.

With consideration to the fact that the maintenance of dedicated lands are to be undertaken for a purpose that directly services and/or benefits the community, the financial cost of dedication lands would be best resolved by a rate increase equivalent to that required to recover the associated management and maintenance costs of these lands (on an annual basis).

Secondary dwellings are emerging as a growth sector in a lot of council areas. Secondary dwellings occupy most of the area designated on a property and mostly offer no off-street parking. The foot print of the dwelling occupies available open space on the property leaving little for recreation. Councils have noted increasing numbers of secondary dwellings being listed on the rental market, however there is no change to the land rates payable.

While Campbelltown currently levies secondary dwellings for the infrastructure they demand, they do not contribute anything towards the maintenance of the resulting infrastructure. This is at odds with all other residential type developments, including greenfield subdivisions, where historically contributions are paid up front for infrastructure required to service the population and rates are subsequently paid and used to maintain that infrastructure. Since the introduction of the Campbelltown Local Infrastructure Plan 2018 (Dec 2018), Council has received approximately 360 approvals for secondary dwellings. Accordingly, secondary dwellings, are not a minor form of affordable housing and is driving significant infill growth occurring in the LGA.

This growth does not provide an ongoing land rate revenue stream to meet the infrastructure to be delivered in accordance with community expectations. We are also of the view that this does not align with the key taxation principles of Efficiency or Equity.

## **Issue 2: How do council costs change with different types of population growth?**

Changes in the demographic, socio-economic status and age of a community has an impact on the types of council costs. For example young families have different expectations to older populations, high density metropolitan areas have different needs to regional and rural communities. Likewise there is a difference between the needs of new residents in greenfield subdivisions as opposed to residents in brownfields development.

As noted above, Campbelltown is experiencing a significant growth in secondary dwellings (360 since January 2019 – equating to 3 per week) predominately approved under the SEPP (Affordable Rental Housing). This development type is equally shared between greenfields and brownfields areas and is an unexpected form of population growth. While Council considers this development type to be the equivalent of a 1 bedroom unit for the purposes of development contributions (due to the 60m<sup>2</sup> limitation in floor area), it is not uncommon to see 2 bedrooms internally. Effectively this would enable a family of 3-4 to live reasonably within the secondary dwelling and thereby matching the number of residents in the principal dwelling. It is essentially a scaled down version of a dual occupancy, but without being either strata titled or Torrens titled and therefore not resulting in an adjustment for rating purposes. This development type is becoming prevalent and flying under the radar when it comes to payment of rates to provide infrastructure and/or maintain existing infrastructure.

Further, community housing and aged care are increasingly being run by not-for-profit Public Benevolent Institutions which are exempt from land rates. Local councils with this type of residential accommodation continue to provide services to the occupiers of these premises such as libraries, footpaths, open space and leisure facilities however there is no contribution made towards supporting the network of services. The costs are therefore distributed amongst the rate paying community increasing their vulnerability.

### **Issue 3: What costs of population growth are not currently funded through the rate peg or developer contributions? How are they currently recovered?**

The introduction by the NSW Government of the cap on development contributions will leave a legacy of substantial reduction in levels of service particularly in the delivery of social type infrastructure. Infrastructure such as libraries, multi-purpose community centres, aquatic facilities and long day care centres are highly utilised and desired facilities, yet these are deemed non-essential. As such, a council is forced into one of two positions:

- Develop a contributions plan which exceeds the cap and remove social infrastructure in order to gain IPART approved status; or
- Accept a contributions plan capped at \$20,000 per dwelling/lot to incorporate social infrastructure.

The first option maximises contributions gained, however at the cost of the building of social infrastructure. Land costs for the social infrastructure are permitted. The latter option allows Council to collect and spend contributions on social infrastructure but requires no justification for the infrastructure that will not be provided as a consequence, particularly land acquisition. This option simply kicks the can down the road for future generations to potential deal with the lack of infrastructure being provided.

**Issue 4: Do you have any views on the use of the supplementary valuation process to increase income for growth, and whether this needs to be accounted for when incorporating population growth in the rate peg?**

For the purposes of clarification we understand this question to relate wholly to the current system where an existing parcel (or parcels) of land are redefined due to the registration of a new plan (mainly Deposited Plan or Strata Plan). This process results in an increase to the council's property database and triggers new valuations that are (except for Strata Plans) determined by the Valuer-General and consequently supplied via a supplementary valuation list.

It does not take into account new valuations made due to re-ascertainment or objection etc. that are also provided via supplementary valuation process.

Council supports the current process and does not believe there needs to be any changes in the current practice.

**Issue 5: Are there sources of population data we should consider, other than the ABS historical growth and DPIE projected growth data?**

We are unsure how tangible this data is and how efficiently it can be obtained, we would recommend that IPART consider the following data points in addition to the blended hybrid model of averaging past ABS data with future DPIE projected growth.

- Department of Education – Primary and High School registrations
- New Domestic Waste Collection services – Environmental Protection Authority
- Department of Planning – Occupation Certificates issued

**Issue 6: Is population data the best way to measure the population growth councils are experiencing, or are there better alternatives (number of rateable properties or development applications, or other)?**

Given annual population figures released by the ABS, outside the Census which occurs every five years, are estimates and not necessarily a reflection of the actual population the use of occupation certificates and supplementary valuations seems the most appropriate way to account for growth.

Alternatively population figures benchmarked against cost of service per resident as determined by calculating average service costs across council groups.

**Issue 7: Do you think the population growth factor should be set for each council, or for groups of councils with similar characteristics? How should these groups be defined?**

This will depend upon the model that is developed based on the consultation process. We believe that it may be necessary to set growth rates at a minimum on cohorts of councils.

**Issue 8: Should we set a minimum threshold for including population growth in the rate peg?**

If the rate peg is consistent across all NSW's councils the minimum population threshold should be the NSW population growth rate, or more accurately the average or median population growth rate across all councils.

This will also depend heavily on how the population growth factor is determined if an average cost of service per resident by council groupings is used as a proxy. The minimum threshold could be determined by calculating the growth in rate revenue due to supplementary valuations compared with the assumed increase in cost of service as a result of population growth (i.e. population growth x cost of service per resident).

An apparent shortfall in additional revenue to cater for the increased population could be the appropriate threshold.

**Issue 9: What is your view on the calculation of the growth factor – should we consider historical, projected, projected with true-up, a blended factor or another option?**

This will depend on the amount of data points that are considered. If additional data points such as those suggested in issue 5 it may be possible to blend past growth, current growth and projected growth to determine the factor.

A blended option that factors in population growth both historical and projected as well as number of dwelling through occupation certificates.

**Issue 10: How should the population growth factor account for council costs?**

Benchmark the average costs of services across the 26 cost components used in the LGCI on a per resident basis across all councils in NSW. This will then provide an indication of the extra funds needed on a service level to cater for any growth in population. Again this will assume that the current rate revenue received by councils is appropriate to deliver a high level of services.

**Issue 11: Do you have any other comments on how population growth could be accounted for?**

This again could be benchmarked against the indicative cost to council of each service on a per resident basis.

**Issue 12: Do you have any comments on our proposed review process and timeline?**

We do not have any further comments and look forward to the IPART findings.