

5 July 2007
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Local Government Study
Productivity Commission
LB2 Collins St East
Melbourne VIC 8003

Dear Sir/Madam

Assessing Local Government Revenue Raising Capacity

Thank you for the opportunity to make a submission.

I have been working as a consultant to the housing industry for more than 40 years and consequently have had a great deal to do with local government. Since 2000 I have worked exclusively in assessing infrastructure charges (water and sewerage) imposed by water authorities (principally Councils) and social infrastructure contributions also imposed by Council.

I am aware to a limited degree what is happening with charges and contributions in Victoria and have worked in Queensland.

Quite frankly, by comparison NSW is a 'basket case' of demands for a raft of fees and charges that has severely impacted upon the viability of the housing sector in NSW. The strong anecdotal evidence is that some major developers are consequently moving their principal operations to other states. There have also been statements that some major developers are not participating in the new release areas in the NW and SW of Sydney because of the fees, charges and compliance costs.

I am currently working on the first release of about 11,000 lots near Narellan in NSW and it is unlikely that some areas can be developed in the current market because of the substantially higher costs now being imposed.

In 2006, I led a team of consultants who prepared a review of the Department of Energy, Utilities and Sustainability (DEUS) Guidelines for the Calculation of Developer Charges to be used by NSW local water authorities (principally Councils). I enclose a copy of the reports in digital form on CD. The documents of most relevance include:

The NSW Regional DSP Principles Study
and the background report number 4:
Review of Public Policy Issues in Recent Reports and Studies.
Since their publication the Minister for Water Utilities and the Premier have

agreed that the Guidelines be examined by the Independent Pricing and Regulatory Tribunal. Workshops have been held in Nowra (1 June) and Port Macquarie (18 June) by the Tribunal and their report is due out in September 2007.

I also attach a copy (on CD) of the Issues Paper issued by IPaRT and the two industry submissions.

In regard to the Commissions Issues Paper I comment as follows:

Trends in Local Government Revenue

There is little doubt that the fees and charges imposed on housing development is one of the most significant sources of "other" revenue for Councils given it is based upon the full cost of all future utility and social infrastructure. The situation is exacerbated by the flawed calculation methods that can be found in the determination of infrastructure charges and contributions. This includes excluding the cost of any actual benefit to existing users of the works and services and imposing the whole cost onto new development.

One reason given that "because of rate pegging legislation, we have no choice".

In addition new users or in fact any purchaser of new developments will pay the full cost regardless of the status as taxpayers and ratepayers in the past or future. At least for water and sewerage charges this double dipping is recognised and a discount is applied, albeit minimal amounts, in part because of the flawed DEUS Guidelines.

In summary, the housing sector is seen and used as a ready source of additional revenue. This has been the case for the last 20 years but the last few years has seen exponential increases in fees, charges and compliance costs.

Rate Pegging

While the restriction imposed by rate pegging is often quoted as being the reason for a lack of funds, this is far from being proven. Because Councils and individual employees are not subject to the same financial rigour as applies in the private sector, the cost and value judgements made in local government must be regarded with some scepticism. In 1985 the former head of the SA Public Service a Mr Hewitt stated that "public service accountants know the cost of everything and the value of nothing". This was more of statement of fact rather than a criticism given their isolation from commercial rigour. It cannot of course be routinely assumed.

It is certainly the case that most large Councils would be better off if there was considerably less interference by the state and federal agencies and thus less compliance

costs to local government. I believe that rate pegging is well past its use by date given the level of accountability expected and available in this decade, principally because so much now is published by Council's on their web pages. If there was a uniform reporting requirement for reporting on the web as well as a routine posting of documents in electronic form, access by all ratepayers would be a better constraint.

Setting Fees and Charges

Council's have significant latitude in setting charges as a review of fees and charges in NSW would reveal. \$100,000 per lot for fees and charges (Council, state levies and compliance charges, and utility charges) have been reported by the home builders Jennings, as being the reason for reducing their operations in NSW and transferring to Victoria and Queensland.

While there is dispute resolution process available to ameliorate the charges, in practice the process is fraught with difficulties. Not the least being the lack of accounting and mathematical skills in the various jurisdictions, let alone in Council's lack of skills. While Councils have accountants they are never in my experience consulted by the planners and engineers making the financial management decisions in setting charges.

What is required is a financial compliance regime on a whole of Council basis, and not the adhoc approach currently employed.

As recently identified by the submission to IPaRT by Albury Council, most in both local government and the housing industry do not understand the methodologies employed in setting development charges for water and sewerage.

Development Charges and Contributions

The attached submissions will illustrate the significant problems being encountered in the setting and the size of the charges currently being adopted, particularly in coastal regions of NSW. These charges together with contributions are a significant source of funds.

One of the problems is that the DEUS Guidelines have been recently varied to allow Councils to cross subsidise expensive areas, by lower cost growth areas. This was by increasing the charges for the latter area by up to \$1500 per lot.

The Department has a vested interest in increasing charges, in particular to subsidise backlog areas, as this will have the effect of also reducing state subsidy to Councils.

The housing industry has been described as a “cost plus industry”. This merely reflective of the fact that given the difficulties at every stage in the process, if the cost can be built into the price, then there will be no challenge to contributions and charges because of the

extra cost and time delays.

While there are limits placed on charges in Victoria, I understand to be \$500 for each utility (water and sewerage), a medium sized Local Government area of Bega on the NSW South Coast has \$18,000 per lot for water and sewerage charges.

I recently investigated the charges and charges for Gold Coast City Council which are also modest by comparison with most coastal Councils in NSW.

There are effectively no constraints on the size of fees, charges and contributions in NSW, as the law is not policed nor are planning documents used to set the charges and contributions vetted by state agencies. There are registration processes which merely accept and register that a DSP or Contribution Plan has been prepared.

Conclusion

In NSW the local government financial regime is in a parlous state, not all of its own making. Councils are asked to take more and more responsibility without getting the means to finance it. It is hardly surprising therefore that all other forms of revenue raising are used to their fullest. At the bottom of the “food chain” is the community and one significant cost is that of housing which is being used as a source of significant funds.

If there were limits on what additional fee, charges and contributions could be sought and less control on general fund raising the net effect would be potentially more efficient and equitable.

The 1994 submission by the Department of Planning to IPaRT stressed that upfront fees and charges impact most upon those that can least afford it. They argued for a better balance between annual and upfront charges.

In the current regime of controls on some revenue raising and not on others, we have the distortions that create inequitable impacts. There have been a number of planning papers that deplore the inter-generational inequities of some of these planning processes, but little is done.

I look forward to having your Commission’s recommendations for change.

Yours sincerely

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