

ECONOMIC PLANNING ADVOCACY

15 January 2008

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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 - Development Charges

Thank you for the opportunity to make a further submission.

I point out that from my own knowledge development charges in NSW are, in dollar terms, substantially more than those charged in Victoria and Queensland. This is confirmed by your Figure 6.4. The effect of this has not been given much attention in your report. I note however that nationally rates are going down and other revenue, most likely development contributions, are going up. It is noted that other revenue sources remain at about the same percentage of revenue. Therefore the relationship of annual rates to development contributions seems to be fertile ground for further investigation.

The same phenomena (annual rate revenue vs developer charge revenue) is occurring in Sydney Water Corporation revenue based upon recent submissions by SWC to IPaRT. This is for a current enquiry to which I am also making submissions. The consequence seems to be that development charges are cross subsidising annual charges.

The most notable financial analyses have been undertaken as part of the Commonwealth Cost of Housing Study in 1978 and by the NSW Department of Planning in 1994. The first report recommended removal of development charges and the second report observed that such charges impacts most upon those LGAs where residents can least afford it. This included areas where first and new home buyers are most prevalent.

The Cost of Housing Study pointed out that if the water authority merely maintained rates closer to inflation (+2% at the time), development charge revenue could be eliminated. SWC have revealed from a study of their 2000-01 revenue that a 2% increase in annual revenue would have been necessary to remove development charge revenue.

Increasing reliance upon development contributions and charges in local government is seen as a substitute for the restrictions on rate revenue raising. Local government complains that the state is restricting revenue while at the same time shifting responsibility for service provision to them.

I note the reference to Professor Dollery's paper. I have been discussing utility charges with other members of his faculty. The problem I have identified is that while the academics have the necessary research and analysis skills, they rely too much on published material. The actual practice and reasons for financial management decisions for the calculation of contributions and charges is often quite different to what they perceive. For example regarding the quote on page 115, costs estimates are routinely excessive, works are abandoned at a whim, Council's collect grants and contributions for the same works, contributions are indexed and most works are new. While historical cost was an issue for the limited number of works that has been remedied in that these are now also indexed to the date of the Contribution Plan, before the contribution calculation is made.

I also note (p 117) the claim that Queensland exceeds NSW in per dwelling contributions. I find this hard to believe. One cause may be that the largest part of the per lot charges in NSW is the contribution for utility services (water and sewerage) which is imposed by separate authorities in the major metropolitan areas and also some regional authorities. In most NSW councils the water authority is at least a separate department with its own revenue streams.

In Queensland their provision to impose contributions is relatively new and less widespread. One investigation I undertook in 2005 was for charges between \$3,000 to \$5,000 set by the Gold Coast City Council. Water and Sewerage charges are sought separately but also by the Council. I would therefore be interested to see the data sources for this claim.

It should also be noted that in NSW, grants for water/sewerage schemes are linked to a requirement for the water authority to satisfy the state agency that sufficiently high charges are being levied (minimum \$10,000 per lot).

In summary the rate fixing and development contribution regimes in NSW are sorely in need of rationalisation and less subject to arbitrary state interference.

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

Yours sincerely

Peter M Price