



NSW  
Revenue  
Professionals



2 August 2020

Review of Infrastructure Contributions in NSW  
Productivity Commission  
ICReview@productivity.nsw.gov.au

Dear sir or madam,

### **Submission to the Issues Paper – Review of Infrastructure Contributions in NSW**

Thank you for the opportunity to present this submission on behalf of the NSW Revenue Professionals Inc. (NSWRP).

The NSWRP is the peak body of NSW Local Government revenue employees and was formed in order to:

- unite in a common organisation, those Local Government employees who are engaged in rating and revenue functions,
- improve and elevate the technical and general knowledge of Local Government employees who are engaged in rating and revenue functions,
- distribute amongst its members, and the regional NSWRP groups, information on all matters affecting or pertaining to the profession of rating and revenue management within Local Government by way of meetings, newsletters, conferences, or any other method available to the Committee,
- promote a professional image of Rating and Revenue practitioners in Local Government New South Wales,
- promote quality services to Local Government in New South Wales through the dissemination of best practice,
- encourage members to keep up to date with finance related activities and legislative changes through continuing professional development,
- identify the skills and knowledge needed by employees and facilitate training and education,
- make the expertise of members available to professional bodies and government departments as required,

In this submission, we have addressed four of the twenty-four items, being the items that NSWRP are well placed to offer valuable input to the discussion. NSWRP would welcome any future opportunities to comment and participate in reform. Our organisation has previously worked closely with the NSW Government as active participants in the Fire and Emergency Services Levy working party during 2016 and 2017.

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We have not commented on Item 4.10 which relates to exemptions, however we would like this opportunity to make mention of exemptions to land rates in particular those that apply to community housing developments as these cross over the common funding principles raised.

The NSWRP understands that tax exemptions make sense where the functions of a particular level of government are being carried out by the private sector. We understand that this principle applies to community (or affordable) housing schemes as the state government not only provides financial support through grants but has its own costs reduced as the state is less involved. Accordingly, it would not make sense for the state to increase its grant funding by the same margin as any taxes raised and therefore exemptions between the state and community housing providers is appropriate.

What does not make sense is that community housing providers are exempt from contributing towards the functions of local government despite these organisations benefiting from access. This inequity results in the remaining members of the local community subsidising community/affordable housing in their areas. Local government's role is to provide works, services, activities and facilities to its local community which is funded (mainly) through annual land rate levies and any owner of land who has access to these functions should contribute fairly and therefore exemptions need to be removed.

Regional communities that manage their own water and sewer infrastructure have different funding models to metropolitan councils. Our reading of the issues paper does not seem to address this model which we suspect is due to the main development activity being within metropolitan areas. However, coastal communities are often under the pressure to meet their infrastructure needs which the issues paper has not addressed.

### **Submission:**

#### **Issue 2.1: Enable a broader revenue source for the funding of infrastructure**

- Are there any potential funding avenues that could be explored in addition to those in the current infrastructure funding mix?

One of the principles of sound financial management for local councils can be found in the Local Government Act 1993, requiring that any policy decisions are made after considering their financial effects on future generations. This principle of intergenerational equity has historically been applied to the ongoing maintenance of existing infrastructure or agreed infrastructure provided during the planning and development phase.

Developer contributions or Works in Kind represent infrastructure provided by the landowner (developer) prior to new communities forming cohesion and therefore prior to that community being in a position to determine if new services are required. Land rates provide funding opportunities to the community where new works, services, facilities or activities are identified and the community has agreed to pay for these.

This opportunity is available through the current special variation process. However, the special variation process is a very long and expensive process frequently avoided by local governments

even when funding existing levels of funding are insufficient to meet the infrastructure needs of its area.

It is noted that the Independent Local Government Review Panel acknowledged significant reforms to the infrastructure contributions framework. At the time it published the reform impacts had not been realised and therefore the panel was not able to comment on the outcomes in their review. The review panel commented, *'It is concerned, however, that the ability of councils to address their wider infrastructure and asset maintenance needs (including backlogs identified by TCorp and DLG) may be compromised if infrastructure contributions fall short of what is required to service development, and that an undue burden could be placed on ratepayers.'*<sup>1</sup>

The Panel concluded that neither councils or their communities should be adversely affected by any developer contribution funding arrangement change, its recommendation was to *'Carefully examine any changes to development (infrastructure) contributions to ensure there are no unwarranted impacts on council finances and ratepayers'*.<sup>2</sup>

It is not recommended that land rates be considered as a potential funding source due to the burden it could place on local communities unless changes in government policy were made to provide any funding shortfall.

#### Issue 4.1: Sharing land value uplift

If investment in public infrastructure increases land values, then the benefits are largely captured by private property owners. 'Value capture' mechanisms can return a share of the value created by public investment to the taxpayer.

There are several ways a 'value capture' mechanism could be applied, including land tax, council rates, betterment levy, or an infrastructure contribution.

- Where land values are lifted as a result of public investment, should taxpayers share in the benefits by broadening value capture mechanisms? What would be the best way to do this?

This concept has been discussed in numerous reforms and recommendations, one of the earliest references can be found in the Report of Committee of Inquiry into Local Government Rating and other Revenue Powers and Resources, April 1990, which in part discusses the principle of value capture and 'betterment levies'.

In this review the writer acknowledges that a betterment tax would have a detrimental effect on land values. The report goes on to say, *'It is argued that if the price of land is determined on the market, mainly as a function of the demand for land, then the landowner will not be able to pass on the betterment tax by increasing the price of land. On the other hand, if the betterment tax results in land being held off the market and being made scarce, the tax will have the effect of increasing land prices.'*<sup>3</sup>

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<sup>1</sup> Item 7.3 page 50 Revitalising Local Government Independent Local Government Review Panel October 2013

<sup>2</sup> Recommendation 15 page 53 Revitalising Local Government, Independent Local Government Review Panel October 2013

<sup>3</sup> Item 11.07 page 80 Report of Committee of Inquiry into Local Government Rating and other Revenue Powers and Resources, April 1990.

Further, this review went on to say, *'While a betterment charge could be a useful source of revenue to councils in developing areas the previous experience with such a charge in this State (Land Development Contribution Levy introduced 1st July 1970) when the charge was dropped after two years (7th February 1973) because of opposition by land owners, demonstrates the difficulties which would be experienced. In the current context of a shortage of home sites the end result would seem to be an increase in land prices.'*<sup>3</sup>

It is also noted that the IPART considered the principles of value capture in the Review of the Local Government Rating System, December 2016. In this report the IPART recommended a model based on the uplift in Capital Improved Values (CIV). The IPART identified revenue benefits from a transition to CIV stating, *'Over 10 years, we estimate that our approach would deliver the local government sector an additional \$1.8 billion revenue (in real terms), funded by future ratepayers, and about \$330 million per annum by Year 10. Councils would receive a sustainable revenue stream to support growth and urban renewal, while ensuring rates per household do not rise in real terms.'*<sup>4</sup>

The NSW Government through the Office of Local Government (OLG) has responded to the IPART report. The NSW Government does not support a transition towards mandating the use of CIV, commenting that it would be cost prohibitive and lacked the support from stakeholders. *'Given the lack of a clear case in support of introducing CIV, the significant implementation costs involved and the strong stakeholder views, the Government will not implement CIV as a basis for setting ad valorem rates at this time.'*<sup>5</sup>

It is worth noting that the stakeholder feedback released in February 2020<sup>6</sup> revealed 35% of stakeholder feedback supported the use of CIV as the valuation method for calculating rates and 15% partially supported the recommendation.

There are concerns that a shift in taxes could give rise to an uplift in the market value and therefore affect affordability. Conversely, the affect could simply result in improved profit margins for developers and a greater burden on the community, depending on the model.

The NSWRP support a transition to CIV for the purposes of calculating land rates. Any reforms will need to include this methodology to be able to adequately interpret and transform movements in the property market to changes in landowner contributions or changes in taxes.

A change in the rating base from unimproved value to CIV would have a significant impact on the ability of a council to achieve appropriate growth in annual rates required to support the ongoing maintenance of infrastructure and provision of services to the larger population achieved from vertical developments and/ or redevelopment areas.

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<sup>4</sup> Item 4.3.2 page 56 Review of the Local Government Rating System, December 2016

<sup>5</sup> Item 1 page 13 IPART Review of the Local Government Rating System, Government Response, June 2020

<sup>6</sup> Page 7 IPART Rating Review Submission Summary and Analysis February 2020

#### Issue 4.2: Land values that consider a future infrastructure charge

When land is rezoned, there is often an increase in land values as a result of the change in development potential.

- Should an “infrastructure development charge” be attached to the land title?

Consideration when formulating state policy direction in property taxes should be given to the key principles:

- efficiency
- equity
- simplicity
- sustainability, and
- competitive neutrality.

We are unsure if the proposal would meet each of these principles and would welcome the opportunity to discuss this concept in detail and in-line with the items identified in the issues paper.

To be considered efficient taxes, charges or levies should not result in a change in behaviour, accordingly any proposed charge could, depending on scale result in a change in behaviour.

#### Issue 4.9: Shortage of expertise and insufficient scale

The ability of the local government sector to efficiently deliver contributions plans are impaired by shortages of skilled professionals and lack of scale for smaller councils.

- What can be done to address this issue?
- Should the contributions system be simplified to reduce the resourcing requirement? If so, how would that system be designed?

The NSWRP has identified the issue of significant skills shortage in the areas of local government rating and revenue. NSWRP responded by supporting the sector through a series of measures. Through our own source funding we conduct industry training across five modules, the two day training modules listed below are offered every year and are available through the Local Government Training Institute so that participants can attain recognised competencies.

- Module 1: Introduction to Local Government and the Basics of Rating
- Module 2: Rating Issues at the Enquiry Counter
- Module 3: Rates Financial & Property Controls 1
- Module 4: Rates Financial & Property Controls 2
- Module 7: Understanding Statutory Rating Requirements & Special Schedule 2 work papers

In addition to the above, we host our own website with important information for members on, legislation changes, submissions made to government and the opportunity for members to share matters relevant to the sector. In the last 22 years we have also hosted successful three-day conferences represented by up to 200 delegates, regular guest representation includes many government agencies including the Valuer-General, Office of Local Government, IPART and LGNSW.

We believe that our organisation is contributing significantly to address the skills shortage gap and to also provide an on-going system of training to ensure rating and revenue raising professionals are at the forefront when supporting their councils in the decision making process.

Thank you for providing this opportunity, I trust this submission is of some assistance to the Commission, if you have any enquiries or require clarification please do not hesitate to contact me directly.

Yours sincerely

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