



Comments on the Productivity Commission Green Paper, Continuing the Productivity Conversation

Submitted online at <http://productivity.nsw.gov.au/green-paper>

## Infrastructure Comments

The Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of eleven local councils in the area south of Sydney Harbour, covering central, inner west, eastern and southern Sydney. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. Together, our member councils cover a population of about 1.7 million, one third of the population of Sydney. SSROC seeks to advocate for the needs of our member councils and bring a regional perspective to the issues raised.

SSROC appreciates the opportunity to provide comment on the Green Paper as part of the continuing conversation with local councils, community, industry bodies, representative organisations and not-for-profits about productivity-enhancing reforms.

Local councils, as the level of government closest to the community, play an important role in planning and delivering infrastructure for the needs of their communities. Adequately supporting this effort is critical to making NSW a better place to live, work and invest.

### General comments

One serious concern is that the Green Paper's executive summary provides more general recommendations than the detailed and specific recommendations that are found in the body of the Paper. This could lead to a misreading of the consultation responses as many of the executive summary recommendations are generally broad and positive in nature and arguably difficult to dispute.

The key point is that support for the high level recommendations may not translate to support for detailed recommendations. Often the detail recommendations will require a rigorous and transparent consultation process on their own following this Paper.

### Key report findings

Poorly coordinated land and infrastructure planning can create community resistance to change and costs the Government more.

Infrastructure investments are among of the most expensive and impactful decisions governments make. Identifying and prioritising the right projects can have long-lived benefits. Choosing badly can impose substantial costs on society.

Infrastructure congestion is a drag on productivity. Traffic and public transport crowding cost individuals and businesses valuable time and makes New South Wales a less attractive place to live and work.



### **Draft recommendation 6.1 Build up transport hubs**

*Change planning controls to enable more housing and business activity within reasonable walking distance of transport hubs on underutilised corridors.*

It is appropriate to plan for greater housing and business activity in areas where there is spare infrastructure capacity. Helpfully this recommendation forms part of a coherent planning strategy reflecting regional, district and local drivers of growth and which responds to accessibility, access to jobs, services and capacity of infrastructure.

### **Draft recommendation 6.2 Publicly justify infrastructure spending**

*Require Infrastructure NSW to publish, within one week of an announcement for all Tier 1 and Tier 2 projects:*

- *Gate 1 strategic business case and Gate 2 final business case documents*
- *a simple 'social value for money' rating based on the project Benefit Cost Ratio*
- *a risk report, drawing on historical experience, with probabilities where feasible.*

*To further increase the transparency of spending priorities:*

- *Have Infrastructure NSW publish its five-yearly infrastructure plan (and annual updates), along with underlying analysis, at the time of the Budget.*
- *Provide additional justification in the Budget where investments are prioritised that do not align with the Infrastructure NSW priorities.*

SSROC supports this recommendation along with a recommendation for further policy enhancements.

Business cases need to introduce environmental costs and benefits as well as social value for money. Our environment is part of critical infrastructure, providing essential ecosystem services.

Improved transparency of the environmental merits will help to create the right incentives for good infrastructure investment.

### **Draft recommendation 6.3 Make evaluation a priority**

*Ensure that agency project business cases comply with the NSW Government Business Case Guidelines, including planning for monitoring and evaluation at the detailed business case stage. Ensure that post-evaluation costs are included in funding requests.*

SSROC supports these recommendations. The rigor of robust evaluations will help to ensure that agencies' business cases align with Government guidelines, and that funding is provided to properly evaluate projects.

## **Conclusion**

SSROC member councils cover a large part of Greater Sydney and have a direct interest in supporting and advocating for infrastructure reforms to improve outcomes. We welcome the consultation and recommend that the issues raised, and recommendations proposed in this submission be given further consideration.

In order to make this submission within the timeframe for receiving comments, it has not been possible for it to be reviewed by councils or to be endorsed by the SSROC. I will contact you further if any issues arise as it is reviewed.



## Planning Comments

The Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of eleven local councils in the area south of Sydney Harbour, covering central, inner west, eastern and southern Sydney. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. Together, our member councils cover a population of about 1.7 million, one third of the population of Sydney. SSROC seeks to advocate for the needs of our member councils and bring a regional perspective to the issues raised.

SSROC appreciates the opportunity to provide comment on the Green Paper as part of the continuing conversation with local councils, community, industry bodies, representative organisations and not-for-profits about productivity-enhancing reforms.

Local councils, as the level of government closest to the community, play an important role in planning and providing for the needs of their communities. Adequately resourcing this effort is critical to making NSW a better place to live, work and invest.

### General comments

The report is long, complex and challenging. Many recommendations are interrelated and contingent on other changes being adopted. Please note that this submission has broken the recommendations into smaller parts to better respond to each part of the recommendations as discrete proposals. This better enables to a more informative response.

One serious concern is that the Green Paper's executive summary provides more general recommendations than the detailed and specific recommendations that are found in the body of the Paper.

This can lead to a possible misreading of the consultation responses as many of the executive summary recommendations are generally broad and positive in nature and arguably difficult to dispute.

Detailed recommendations made by the Paper are more contestable. They are more technical, require deep insight into the (planning) system and much more narrowly propose solutions from a range of options to very complex problems. This approach can fail to balance multiple impacts, dependencies and real world needs. For councils there is a high risk that this approach misunderstands and or lacks a full historical context of previous Government advice and directives that have resulted in current practice and take some vested interests positions at face value. This can falsely give the impression that councils are unresponsive.

The key point is that support for the high level recommendations may not translate to support for detailed recommendations. Often the detail recommendations will require a rigorous and transparent consultation process on their own following this Paper.

### Key report findings

*Housing supply has failed to keep up with demand. That has led to an undersupply of housing, increasing the cost of living for households and making New South Wales a less attractive place to live.*

*Regulations on apartment design and car parking requirements add to the cost of housing and are out of step with the needs of the community.*



*Prescriptive rules on land use by businesses are inflexible and cannot accommodate innovative businesses and the evolving needs of the economy.*

*Development applications are taking longer to assess, restricting housing supply and reducing affordability.*

*As our population grows and our backyards shrink, access to open and green space is important for our productivity. It keeps people healthier, connects communities, and helps make cities more resilient to the impacts of climate change.*

*Infrastructure contributions are an important funding source to deliver infrastructure required to accompany growth. Over time the system has become more complex and is perceived as opaque and inefficient.*

## Comment

One of the key premises is that getting housing supply that is in balance with demand will make housing more affordable. While undoubtedly housing supply is important to containing prices, there is now a large body of evidence that even with sufficient housing supply prices in global cities have not become affordable and stable in part because of their power to tap into unlimited global investment when the right attractive conditions prevail.

Achieving a significantly more affordable housing market that involves significant declines in dwelling values is not in the interests of developers nor their shareholders, the banking system, deposit holders and probably the whole economy where individual household debt is at record levels. Australia's corporate fiduciary laws give directors of development companies an ongoing legal imperative to maximise profits for their shareholders as well as minimise operating costs. Some of the industry calls for more affordable housing are at best highly qualified by these system wide forces.

A goal to moderate and stabilise house prices relative to incomes could send a clearer more helpful signal to the market, to current and future residents and to local councils about the Government's intentions to make accommodation more affordable as the population grows.

Real solutions to this problem must extend beyond increased market housing supply. This business case appears to have received inadequate attention in the Green Paper and enables supply presumptions to prevail and short-circuits important arguments and conversations that critique the theme 'making housing more affordable'.

The Green Paper could have looked at the damage to productivity of our particular version of the current market driven system and policy settings that unhelpfully embed and promote land speculation and the pricing-out of essential workers from parts of the housing market and embeds long commutes to work. New settings need to look to targeting long term outcomes and influencing price setting mechanisms that can shape a more equitable economy that invests more in productive endeavours and has its population well housed.

## **Draft recommendation 7.1 Update planning documents regularly to show housing requirements**

*7.1.1 Require councils to analyse housing supply capacity and show that planning controls are consistent with the dwelling needs identified by Greater Sydney's 20-year strategic plans for 5-year, 10-year and 20-year windows.*

In principle this recommendation is supported, on condition that this is linked to integrated strategic planning by the Greater Sydney Commission, and where appropriate to NSW and Commonwealth Governments.

It is important to recognise that the Greater Sydney Region Plan 2018 (GSRP) is only a couple of years plus old and local councils' Local Housing Strategies and LEPs are still being prepared. Criticisms of the outcomes of this process seem very premature.

Greater Sydney's housing demand is largely driven by migration and largely outside of NSW Government, local councils and the development industry's control. There will always be a degree of frustration that growth housing targets will quickly become outdated, or stale.

In the main market driven part of the housing delivery system, government and its agencies can plan and facilitate growth but not cause it to happen. Local councils and the State Government can and should take responsibility for timely assessments, and approvals but not for housing delivery, which is reliant on the commercial decisions of investors, developers and builders.

It is important to recognise that the economic, environmental, settlement and transport developments and technologies now all change very rapidly. Planning needs to keep pace to keep relevant and be useful. However, the first priority is to be up to date at the state government level to achieve strategic outcomes. The key is that Greater Sydney Strategic Regional and District Plans continue to provide critical strategic integration of land uses and transport through updates.

For Sydney this will mean the Greater Sydney Commission continues to be adequately resourced to be able synthesise diverse information and then fully consult the public on their revised integrated transport and land use plans to inform concurrent local council plan and place-making with sound information and advice.

SSROC considers that this should be a priority recommendation for the Green Paper on Planning for housing. At their release 5 year plan updates of the GSRP are committed to 2022.

**SSROC Recommendation 1: The Greater Sydney Commission be resourced to update and consult on revised integrated strategic transport and land use plans to inform updated local council placemaking and supply targets on a regular basis every five years.**

Given there is at least a two year process leading up to strategic integrated plan making, planning for this activity should be well underway. However, the Green Paper unfortunately appears to omit this critical information. It would be an objectionable and retrograde step, if increased housing supply targets were required outside the frame of strategic integrated land use and transport planning.

There is an urgent and pressing need to update plans and targets because of the Covid -19 pandemic. Addressing the National Press Club, the Hon **Alan Tudge** MP Minister for Population, Cities and Urban Infrastructure, said Australia's fast population growth of recent years had largely relied on migration. It was now "effectively down to zero" and Mr Tudge said it would take some time to get back towards normal (*Sydney Morning Herald 28 August 2020 Inner-city Sydney growing rapidly before hit from coronavirus, Shane Wright*).

The housing market has been supported by high rates of international migration, which have fuelled higher house prices and residential construction. (*Saunders, T and Peter, T (2019), RBA Research Discussion Paper 2019-01: A Model of the Australia Housing Market, Economic Research Department, Reserve Bank of Australia.*)

In *Supporting the Economic Recovery in NSW*, Equity Economics and Development Partners (available: [www.sheltersnsw.org.au](http://www.sheltersnsw.org.au)) estimate that the forecast drop in international migration of 30 per cent in 2019-20 and 85 per cent in 2020-21 will translate to reduced demand for housing of 38,000 units over 2020 and 2021.<sup>18</sup> This is equivalent to two-thirds of the annual residential housing construction in NSW. This recovery period is an opportunity that will test the Government's resolve to drive down housing prices and reset them to a lower level, as demand drops relative to housing supply to make housing prices more affordable for many.

Significant price drops could have a devastating impact on the State's economy: undermining the feasibility of housing projects in the system and on the drawing board: cutting of tax receipts, challenging stability of our banking system; and increasing business bankruptcies. Clearly a more affordable housing outcome is not going to be embraced and pursued rigorously by NSW Treasury at this time; rather the focus and effort will be limiting such a rapid decline. It exposes an imperative for a more nuanced policy rethink. We need a credible goal reset that is less ambitious, realistic and more politically palatable - house price stability and moderated price growth relative to household income.

This new business context also highlights the need to resist special interest parties urgings for spot rezonings outside the existing strategic plans of councils as these are unlikely to lead to new housing supply, nor new construction jobs, but more likely deliver windfall gains to a few developers as sites with DAs are traded as a future investment asset. Government interventions will need to be well targeted.

The NSW Productivity Commissioner notes in the Foreword to the Green Paper, "the pandemic has demonstrated that when the need is there, we can quickly change how we do things. And such change is the way to lasting improvement."

Despite the NSW Government Planning System Acceleration Program, the current recession is likely to cause a hiatus in Sydney's growth. It is an unfortunate gap that the Green Paper avoids a practical discussion of this immediate problem of declining project commencements. Obviously, the current house growth plans will not, and cannot, be met in the short term by the market. The Green Paper makes a cogent case for developing more up-to-date and realistic targets that can inform council plans and their timings. It will be critical to use this opportunity to prepare and develop robust realistic plans that will meet long term housing needs and position the State for recovery but also respond to the reality of our current recession where many existing developments are no longer feasible.

The Greater Sydney Commission is well positioned to understand the complex interactions of land economics, existing capacities and the sequencing of infrastructure expenditure that this will entail. As the Green Paper notes, "to improve the affordability of housing, we need more development, not less". Potentially this shift and housing growth will include a larger role for non-market housing (affordable and social housing) and more institutional investment by superannuation funds with their longer term investment horizons directed towards rental properties, to address unmet housing need and provide jobs in the construction industry.

A Covid-19 update of the GSRP, with revised population projections and economic advice from the Australian Reserve Bank, could be then used by local councils developing their plans and strategies and help to focus their efforts on supporting the recovery in ways that align with long term strategic planning objectives. It could retain the current housing targets that would be rebadged as 'aspirational', and could provide scenarios of likely dwelling commencements based on a range of projections and durations for the recovery of the NSW economy and its housing markets.

This transparency would help to confirm and build public confidence, as well as give greater exposure to the NSW Productivity Commission's projections of housing under supply (Figure 7.5). Of concern is that the NSW planning system has undergone/is undergoing significant changes at the state and local levels that make such predictions of future system performance highly problematic as they assume no improvements.

Furthermore, the assumptions in Figure 7.5 appear to assume that the new housing supply is all provided by the private housing market. An alternative view is that most of this housing shortfall will need to be provided as non-market affordable housing. According to the City Futures Research Centre, in 2019 the social and affordable housing shortfall in NSW was estimated to be 137,100 and 79,400 units respectively. The research also projected an additional 76,100 social housing and 24,100 affordable housing units will be needed by 2036, bringing the combined housing shortfall in NSW to 316,700.

**SSROC Recommendation 2: The Greater Sydney Commission prepare an urgent update of the Greater Sydney Region Plan targets for the remaining next two and half years as a matter of urgency, incorporating revised growth projections to guide Government, business and community expectations in response to the economic impact of the Covid-19 pandemic.**

While this may involve some bad news, a credible position based firmly in reality should build business confidence, align and focus expectations with what is still achievable, especially through government funding support of affordable housing and infrastructure.

*7.1.2 Where a lack of capacity is identified, ensure councils revise their Local Housing Strategies and Local Strategic Planning Statements to reflect the objectives identified in the Greater Sydney strategic plans.*

As the Local Strategic Planning Statements have only just been on public exhibition and then approved by Government following a rigorous strategic assurance by the GSC, this step is unnecessary and unwarranted. See also comments and recommendations made in reference to 7.1.1. above.

**SSROC Recommendation 3: The Greater Sydney Commission be resourced to develop 6-10 year housing supply targets (that include non-market housing) for District Plans in consultation with local councils as stated in the GSRP.**

*7.1.3 Ensure councils immediately update relevant planning instruments to meet 6-to-10-year housing targets and report housing completions by LGAs every six months.*

It is appropriate that councils update relevant planning instruments to meet 6-to-10-year housing targets. The Department of Planning, Infrastructure and Environment should report the housing completions by LGAs every six months from information in the Planning Portal.

The delivery of realistic housing targets often needS to be accompanied by further developing strategic plans for growth precincts (such as detailed master-planning of town centres) which councils are progressing in accordance with advice and direction from the Department of Planning Infrastructure and Environment. Progressively they will form Planning Proposals to revise the LEPs. This process will deliver the targets over 6-10 year period and beyond. The fact that some of this work may be obscure to developers is entirely appropriate for probity reasons.

Under State Government planning laws, the relevant planning instruments cannot be immediately updated by a council, even if this is desirable. There are defined statutory processes and consultation periods that must be followed. Approval is by the Minister for Planning.

Providing early indications of areas where development due to up zoning to a greater density is planned to occur will almost certainly generate land price speculation and foster price escalations. This outcome is likely to directly undercut the NSW Productivity Commission's core theme of 'making housing more affordable'.

It is appropriate that councils keep precise areas identified for rezoning confidential as long as possible until land use and transport plans are well formed, developer contributions are known, and affordable housing contributions schemes are in place. This will help to dampen price speculation and reduce risk for developers by helping them to make more informed decisions when acquiring sites once their development potential is actually known and the council contributions can be factored in for essential community infrastructure.

#### *7.1.3 Publish annual 10-year forecasts for State-led/partnered precincts.*

SSROC supports the publication by the Department of Planning Industry and Environment of annual 10-year forecasts for State-led/partnered precincts, consistent with the plans agreed with local councils.

#### *7.1.4 Monitor housing forecasts and projections on a six-monthly basis. Where housing shortfalls arise, require councils to revise housing strategies and Local Strategic Planning Statements to indicate how the shortfalls will be remedied.*

Local councils are not and cannot be responsible for shortfalls in a market-driven housing supply. Clearly in a deep economic recession, housing growth is not something that can be compelled and relies on many macro- and micro-economic factors, like bank lending, that are out of the control of local councils. Likewise, so are many of the remedies to housing shortfalls. Governments (and local councils) do not compel developers to build even if they have substantial landholdings which will add valuable permissible additional housing capacity that is in demand, even when this activity is profitable.

Monitoring and revising strategies currently occurs through the Department of Planning, Industry and Environment. Local Strategic Planning Statements are 20 year vision documents owned by their communities as well as councils, and approved by the NSW Government. It is not appropriate to require short-term updates of LSPSs to deliver housing supply targets. This would have dubious value and would undermine the public's confidence in the planning system.

### **Draft recommendation 7.2**

#### *7.2.2 Review and revise SEPP 65, aiming to minimise prescriptions so as to ensure maximum flexibility for housing to match choice while maintaining minimum basic quality.*

This recommendation is not supported as proposed. While there may be an opportunity to improve the Apartment Design Guide with respect to small apartments, it is a guideline and innovation can occur within it. It is fundamentally a sound policy which works to improve the base standard of design quality and maintain trust in the standard of product provided to the market. Research is available on the net economic benefit of comparable policies and should be investigated. The Guide is sufficiently flexible to lead to lower and environmental and social costs to the community without significantly affecting housing affordability.

### **Draft recommendation 7.3**

#### *7.3.1 Rationalise existing business and industrial zones in the Standard Instrument LEP to reduce the number of zones.*

#### *7.3.2 Broaden the range of permissible activities to ensure prescriptions are reserved for genuinely incompatible land uses.*



*Expand application of the complying development assessment pathway to the newly consolidated employment zones.*

**Draft recommendation 7.4 Generate economic strategies**

*7.4.1 Require councils to prepare economic strategies (including commercial centre strategies) with the aim of increasing employment and productivity outcomes when updating Local Environmental Plans.*

**Draft recommendation 7.5 Optimise industrial land use**

*7.5.1 Better manage the retain-and-manage category of industrial and urban services lands in Greater Sydney to optimise employment and productivity outcomes.*

Recommendations 7.3-7.5 are commented on collectively.

Different business and industrial zonings exist to perform particular strategic purposes. SSROC considers these recommendations require further investigation before proceeding to rigorously test their merits. This analysis should examine whether the zones' strategic objectives remain valid and if they are, can whether they be achieved by the proposals. This investigation should assess the costs and benefits of the proposals and their underlying assumptions.

SSROC also notes that consolidation of zones in Victoria combined with increased permissibility of retail and some housing uses has not been a success and is not transferable to NSW. This is because complexity has been reintroduced via overlays and other mechanisms in the Victorian system – while the ability to implement strategic outcomes for these places has been diminished from less precise tools being available. This evaluation should also consider a funding provision for councils to pay for the increased resources and expertise needed to implement the reforms effectively.

**Draft recommendation 7.6 Cut NSW planning assessment gap**

*Continue to implement measures to reduce red tape and complexity in the planning system. Bring NSW approval assessment times into line with other jurisdictions' times by the end of 2023.*

This recommendation is supported but as a means to implement strategic planning outcomes. New processes need to be adequately resourced by the Department of Planning Industry and Environment.

**Draft recommendation 7.7 Make the most of our open and green space**

*Develop a consistent approach to measuring benefits to community welfare from the provision of open and green space to help inform government business cases involving development. Develop better options for taking into account green infrastructure and public space in strategic land use planning.*

This recommendation is supported. SSROC considers ecosystem services to be a key community benefit. It is important to develop:

- a consistent approach to measuring benefits to community welfare from the provision of open and green space to help inform government business cases involving development;
- better options for taking into account green infrastructure and public space in strategic land use planning.

**Draft recommendation 7.8 Reform infrastructure contributions**

*Progress reforms to the infrastructure contributions system after the Productivity Commissioner's current review, to deliver a principles-based, transparent and certain system.*

In general, SSROC welcomed the review of infrastructure contributions.



Infrastructure and services are vital to create healthy and liveable communities. This includes public transport, health and education facilities, local roads, pedestrian and cycle networks, local water, sewerage and stormwater facilities, parks, recreation, cultural and community services facilities and a high-quality public domain. Contemporary community expectations are that these essential services and facilities will be properly maintained for existing residents and have the required additional capacity as and when new residents move into an area.

The Infrastructure Review is an important opportunity to develop new ways to collaborate to deliver better housing outcomes for all. SSROC would welcome further dialogue about how this can be achieved. Please refer our recent submission to the NSW Productivity Commission dated 12 August 2020 for more specific details and recommendations.

## **Conclusion**

SSROC member councils cover a large part of Greater Sydney and have a direct interest in supporting and advocating for changes to significantly improve how we plan for housing and jobs. We welcome the consultation and recommend that the issues raised, and recommendations proposed in this submission be given further consideration.

In order to make this submission within the timeframe for receiving comments, it has not been possible for it to be reviewed by councils or to be endorsed by the SSROC. I will contact you further if any issues arise as it is reviewed.

## Comments on the Productivity Commission Green Paper, Continuing the Productivity Conversation



Submitted online at <http://productivity.nsw.gov.au/green-paper>

### Taxation Comments

The Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of eleven local councils in the area south of Sydney Harbour, covering central, inner west, eastern and southern Sydney. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. Together, our member councils cover a population of about 1.7 million, one third of the population of Sydney. SSROC seeks to advocate for the needs of our member councils and bring a regional perspective to the issues raised.

The NSW Productivity Commission's review of the infrastructure contributions system (Part 7 of the Act) is welcomed and supported.

SSROC appreciates the opportunity to provide comment on the Green Paper as part of the continuing conversation with local councils, community, industry bodies, representative organisations and not-for-profits for productivity-enhancing reforms in consultation with community, industry bodies, representative organisations and not-for-profits about productivity-enhancing reforms.

Local councils, as the level of government closest to the community, play an important role in planning and providing for the needs of their communities. Adequately resourcing this effort is critical to making NSW a better place to live, work and invest.

#### **Draft recommendation 8.2: Reform systems for rate setting and infrastructure contributions**

*Use the Review of Infrastructure Contributions to find ways to deliver a more sustainable system of rates and infrastructure contributions, so that councils can provide infrastructure and services required to accompany development and growth.*

*Evaluate reforms within three years and if reforms do not provide sufficient funds to deliver services, councils should undertake a plebiscite of ratepayers to test support for abolishing the rate peg.*

#### **Key report findings**

New South Wales is overly reliant on inefficient taxes. Property transfer taxes are the most costly and unreliable.

The existing rates mechanism does not sufficiently compensate councils for population growth. This leaves local governments with insufficient revenue to meet demand, and with an incentive to resist development.

#### **Comment**



SSROC recently made a detailed submission to the NSW Productivity Commission Review of Infrastructure about ways to deliver a more sustainable system of rates and infrastructure contributions, so that councils can provide infrastructure and services required to accompany development and growth. We would therefore ask you to refer to this submission for detailed commentary and recommendations.

We note that *Productivity Commission Review of Infrastructure Contributions in NSW* Issues Paper suggested that rate-pegging had contributed to the State's complex infrastructure contribution system.

Broad reforms are needed to deliver a rating-setting system which is fairer, more competitive, more effective and less complex. Ending rate-pegging now needs to be a priority reform. As the Green Paper notes NSW rates are much lower compared to other jurisdictions. A flexible and responsive rating system is the most efficient way of helping councils to meet the rising costs of serving their communities. Communities expect councils to take on increasing financial responsibilities resulting from population growth, increased infrastructure requirements and extensive service demands. The NSW Productivity Commission's Green Paper notes that rate-capping greatly hampers councils' ability to deliver local services and infrastructure such as parks, libraries, bridges, cycleways and sports centres.

The report echoes findings from previous ones such as the Henry Review of Taxation, the NSW Treasury Corporation's assessment of the financial sustainability of NSW councils and the NSW Independent Local Government Review Panel's Final Report. Business lobby groups, the Committee for Sydney and the Sydney and Western Sydney business chambers have also called for abolishing the pegging system.

The case for change is conclusive and the current situation is creating increasing financial hardship for councils and their communities. The Office of Local Government decision to change the rate-peg to account for population growth is welcomed, following IPART's Review of the Local Government Rating System.

A plebiscite of ratepayers is unnecessary. A determined transition that relaxes rate-pegging is now needed to effect a positive structural change. SSROC does not agree with the Productivity Commission's recommendations about a plebiscite as a pathway to abolishing rate-pegging, as it would be highly unlikely to produce a rationale that would challenge the established case and imperatives for change. We welcome the start of the conversation about indexation and for transitional arrangements to address this longstanding structural problem. However, increased rate flexibility must not come at the cost of other vital funding streams councils rely on, such as infrastructure contributions from developers to support development and growth of local communities.

## Conclusion

SSROC member councils cover a large part of Greater Sydney and have a direct interest in supporting and advocating for changes to significantly improve the rates system in NSW and provide a better mix of state and local taxes that can encourage productivity. We welcome the consultation and recommend that the issues raised, and recommendations proposed in this submission be given further consideration.

In order to make this submission within the timeframe for receiving comments, it has not been possible for it to be reviewed by councils or to be endorsed by the SSROC. I will contact you further if any issues arise as it is reviewed.

Comments on the Productivity Commission Green Paper, Continuing the Productivity Conversation



Submitted online at <http://productivity.nsw.gov.au/green-paper>

## Water and Energy Comments

The Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of eleven local councils in the area south of Sydney Harbour, covering central, inner west, eastern and southern Sydney. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. Together, our member councils cover a population of about 1.7 million, one third of the population of Sydney. SSROC seeks to advocate for the needs of our member councils and bring a regional perspective to the issues raised.

SSROC appreciates the opportunity to provide comment on the Green Paper as part of the continuing conversation with local councils, community, industry bodies, representative organisations and not-for-profits about productivity-enhancing reforms.

Local councils, as the level of government closest to the community, play an important role in energy procurement and regulating building construction for their communities. Adequately supporting this effort is critical to making NSW a better place to live, work and invest.

### General comments

One serious concern is that the Green Paper's executive summary provides more general recommendations than the detailed and specific recommendations that are found in the body of the Paper. This could lead to misreading of the consultation responses as many of the executive summary recommendations are generally broad and positive in nature and arguably difficult to dispute.

The key point is that support for the high level recommendations may not translate to support for detailed recommendations. Often the detail recommendations will require a rigorous and transparent consultation process on their own following this Paper.

### Key report findings

*The water sector's functions are spread across a number of agencies and corporations. That makes coordinated long-term decision-making harder.*

*Integrated water cycle management can achieve better economic, social and environmental outcomes—but some barriers still remain to its uptake in New South Wales.*

*Many regional water utilities face operational challenges because they are small and remote, and cover large areas.*

*Managing demand for water can ease supply pressures, but it can also have social and economic costs.*



### **Draft recommendation 5.8: Review and redesign NSW's Building Sustainability Index**

*Review NSW's Building Sustainability Index (BASIX) scheme to ensure it meets both environmental and economic objectives.*

SSROC supports a review of BASIX that would look to increase the BASIX water efficiency targets as a way of reducing water demand. The review should also identify inefficiencies in the regulation and the availability of other alternative measures. This review should:

- separately assess the water and energy components of BASIX, as well as the key technologies used to meet targets
- identify where BASIX can be made more responsive to new water and energy-saving technologies
- survey the range of alternative policy measures available to meet the same objectives to ensure that BASIX is still the most appropriate.

### **Draft recommendation 5.9: Develop a reliability system that reflects consumer needs**

*Revisit the NSW Energy Security Target in the context of reliability standards endorsed by the Council of Australian Governments (COAG) Energy Council:*

*If it imposes greater reliability requirements, demonstrate that this is consistent with consumers' willingness to pay.*

*Otherwise, adopt the COAG Energy Council standards in its place.*

SSROC supports the requirement for effective reliability standards, however, this requirement should not conflate willingness to pay with ability to pay: there are concerns with energy equity. For example, low-income households, which are highly likely to be experiencing rental stress, may be unable to afford to pay more for energy, yet have a need to consume it. The situation can be fatal for elderly or sick people living in poverty and unable to afford heating in winter or air-conditioning in summer. Heatwaves in Victoria and South Australia in 2009 caused the deaths of 432 people.

### **Draft recommendation 5.10: Adopt an integrated market-oriented climate change and energy policy**

*Commit to a contestable private energy market based on technology-neutral, competitive neutrality principles.*

*Create a NSW-specific emissions intensity scheme to help optimise investment in electricity, having regard to climate change mitigation objectives and the pace of innovation.*

While SSROC supports the recommendation, the more detailed elements of the recommendation must be made more prominent so that there is no risk of the link to climate change and the pace of innovation being lost. Several SSROC member councils have declared a climate emergency would be unlikely to accept that "technology-neutral" could include fossil fuels.

Some SSROC member councils are also strongly opposed to hydraulic fracturing (commonly known as fracking) methods of extraction, and would be unlikely to accept this within the acceptable options for energy supply. SSROC would support an extension of "having regard to climate change mitigation" to "and environmental protection".

### **Draft recommendation 11: Price electricity to reflect costs**

*Evaluate options for rolling out smart meters to all consumers and for time-of-use, cost-reflective electricity pricing.*

SSROC supports smart meters for all consumers, which would enable far better control of electricity consumption as a result of much more refined information about their own consumption patterns.

Cost-reflective electricity pricing would be appropriate only if it is genuinely least-cost generation and distribution. For example, renewable energy is recognised as the least-cost mode of electricity generation, and yet serious consideration is being given to the use of more expensive gas extracted by fracking:

“The cost estimates for technologies in Australia are (all figures in US dollars).

Tracking PV \$26-67 per MWh

Fixed-axis PV \$29-80 per MWh

Onshore wind \$32-83 per MWh

Combined cycle gas turbine power plant \$66-96 per MWh

Onshore wind plus storage \$50-124 per MWh

Fixed-axis PV plus storage \$58-178 per MWh

Utility-scale battery (four-hour storage duration) \$145-167 per MWh

Open cycle gas turbine power plant \$146-309 per MWh”

Source: <https://reneweconomy.com.au/solar-wind-and-battery-storage-now-cheapest-energy-options-just-about-everywhere-95748/> Giles Parkinson, Renew Economy, 28 April 2020

## Conclusion

SSROC member councils cover a large part of Greater Sydney and have a direct interest in supporting and advocating for water and energy reforms. We welcome the consultation and recommend that the issues raised, and recommendations proposed in this submission be given further consideration.

In order to make this submission within the timeframe for receiving comments, it has not been possible for it to be reviewed by councils or to be endorsed by the SSROC. I will contact you further if any issues arise as it is reviewed.