29 May 2024

Committee Secretariat
Standing Committee on Regional Development, Infrastructure and Transport
PO Box 6021
Parliament House
Canberra ACT 2600

By email: rdit.reps@aph.gov.au

Dear Committee Chair

Submission: Parliamentary Inquiry into local government sustainability

The National Growth Areas Alliance (NGAA) welcomes the opportunity to respond to the Parliamentary Inquiry into local government sustainability (the Inquiry).

The NGAA is the peak body for local governments in Australia's outer metropolitan growth areas and advocates to state and federal governments on growth area challenges and opportunities. Together, we represent more than five million people living in Australia's fast-growing suburbs and are united by shared experiences of population growth rates at double the national average and long-term under-investment in vital infrastructure.

Georgraphically, Australia's growth areas are located on the edge of Australia's major cities and were designated for future urban growth when they were established up to twenty years ago. These areas now comprise established urban centres and urban areas under development, as well as regional townships and agricultural land. Indeed, some of the NGAA Member Councils straddle the metropolitan and regional boundary.

We take an evidence-based approach, with a Policy Platform built on the foundations of our comprehensive research strategy. We also help to develop Alliance Councils' capacity to deliver good growth through best practice case studies, policy discussions, and extensive networks.

The NGAA applauds the stated intention of the Inquiry of gaining a deeper understanding of local government financial sustainability and funding frameworks in the context of changing infrastructure requirements and service delivery obligations for local governments. We agree that it is essential that local governments are financially sustainable so they can continue to support Australian communities through the provision of vital infrastructure and related services.

NGAA member council feedback reveals the current infrastructure funding arrangements for growth area councils are complex, opaque, and insufficient. A summary of the state and developer infrastructure contributions systems in the NGAA member states of Victoria, New South Wales, South Australia and Western Australia is outlined in **Attachment 1**. Further, there is evidence to show that

National Growth Areas Alliance
www.ngaa.org.au | info@ngaa.org.au | 0448 401 257 | Locked Bag 1, Bundoora MDC, VIC 3083

growth area councils in particular are expected to fund an increasing share of community infrastructure where the current infrastructure funding framework falls short.

Similarly, NGAA member councils are reporting an increasing transfer of costs and responsibilities from federal and state governments to local government in the context of service delivery. This tends to happen where there is a lack of data to demonstrate to federal and state government the service is required because communities are under development. Compounding this issue is state and federal government policy changes that directly impact on local government costs and service delivery.

This submission provides responses to the the following aspects of the Terms of Reference:

- The financial sustainability and funding of local government.
- The changing infrastructure and service delivery obligations of local government.
- The role of the Australian Government in addressing these issues.

Detailed responses to these are outlined below.

1. The financial sustainability and funding of local government

1.1 Local government funding streams for community services and infrastructure

Feedback from NGAA member councils indicates that they are increasingly responsible for delivering infrastructure and community services despite the funding streams remaining relatively constrained. These funding streams include:

- Rates, which make up about 38 percent of total revenue, and are capped in Victoria;
- User charges/sales of goods and services which represents about 28 percent of total revenue; and
- Grants from federal and state/territory governments, including the Financial Assistance Grant (FAG), which represents about 14 percent of total revenue.

Other programs such as the Federal Government Infrastructure Investment Program, Blackspot Program, and Roads to Recovery Program provide funding for nationally significant infrastructure and the road and freight networks. While these are critically important programs, the funding is not used to deliver community services and community infrastructure.

The recently announced $200 million for the Thriving Suburbs Program is designed to deliver investment in locally-driven urban, suburban and peri-urban community infrastructure projects. NGAA member councils welcome this funding however note that significantly more is required to address the infrastructure deficit in Australia's growth areas.

Overall, the Federal Government's Financial Assistance Grant (FAG) program is the primary source of recurrant funding for local governments to support the delivery of community services and infrastructure outside of rates. In particular, the general purpose component of the FAG is used by growth area councils to deliver services to the community as well as provide a funding contribution for community infrastructure. Funding for community infrastructure is also provided by developer contributions, and in some cases, there are contributions from State and Federal Government.

We have received strong feedback from the NGAA member councils that the general purpose component of the FAG program, which is based on population, is not keeping up with the rapid population growth in Australia's fast growing outer suburbs. This is impacting on the growth area councils' ability to provide services required as well as appropriate community infrastructure. NGAA member councils are of the view that future population growth should be considered as part of the calculation of the general purpose component of the FAG program which would provide additional funding to support rapidly increasing communities during the grant period.

Recommendations

In the context of the issues noted above, NGAA recommends:

1. Implement a staged or two-step rate cap for local governments experiencing rapid population growth so they are entitled to increase rates beyond the rate cap.
2. Create a specific additional funding stream under the general purpose componenent of the FAG for local governments where population growth rates are, have been, or are projected to be, at least two per cent annually. This additional funding stream would provide supplementary funding for the delivery of services and community infrastructure in Asutarlai's fastest growing areas.

1.2 Infrastructure funding

This submission focuses on funding for community infrastructure because local governments are responsible for delivering this infrastructure. Examples of community infrastructure include libraries, aquatic and recreation centres, community centres, business hubs, and in some states, kindergartens.

While there are varying experiences across NGAA member councils in receiving funding for community infrastructure, these can generally be grouped into two geographic categories: established growth areas, and emerging growth areas.

1.2.1 Established Growth Areas

Established growth area councils are designated growth areas that are typically the original growth areas that have been under development for up to twenty years and include townships and suburbs that are fully built out. An example in Victoria is the City of Casey where Narre Warren is one of the older growth area suburbs and Clyde is relatively new and still under construction. An example of an established growth area in New South Wales (NSW) is Camden and an emerging growth area is Appin in Wollondilly Shire.

The NGAA member councils that are established growth areas include the following:

NSW

- Blacktown City Council
- Camden Council
- Campbelltown City Council
- Penrith City Council

Victoria

- City of Casey
- Wyndham City Council
- City of Melton
- Hume City Council
- City of Whittlesea

Western Australia

- City of Wanneroo
- City of Swan
- City of Cockburn
- City of Kwinana
- City of Armadale
- City of Gosnells

South Australia

- City of Playford

Established growth areas exhibit the issues with the current infrastructure funding and delivery models, and are characterised by a **chronic deficit** in infrastructure provision relative to the population including road upgrades, schools, aquatic and recreation centres and community facilities.

Whilst the issues noted below are common throughout Australia's established growth areas, each state has developed a bespoke model of community infrastructure funding and delivery (refer to **Attachment 1**). Feedback from NGAA member councils demonstrates that these models are not delivering infrastructure commensurate with the delivery of new housing and population growth. Further, councils are increasingly expected to fund the gap between the infrastructure contributions collected from developers and the current higher costs for infrastructure which is directly impacting on their financial viability.

Common issues for established growth areas throughout NGAA member councils include the following:

- The Developer Infrastructure Contribution is paid as development occurs, which council does not control, rather than when the community infrastructure is required based on a population threshold.
- Each developer contribution is only a percentage of the full cost of the infrastructure, and structure planned areas can take up to fifteen years to build out, so the total funding for the infrastructure is technically only available when the structure plan area is fully built out and all developers have contributed. This results in piecemeal and insufficient funds for community infrastructure during the construction of the structure planned area despite there being a threshold population requiring community infrastructure.
- The indexation of developer contributions has not kept pace with inflation and the cost increases over the life of the structure planned areas are higher than indexation. This is the key issue for most councils.
- The infrastructure needs are calculated based on the minimum housing density not the maximum housing density. Density targets have increased over the past decade which has resulted in more residents moving into these areas but the allowance for infrastructure has not changed during this time.
- Structure planned areas are often required to include a prescriptive list of community infrastructure, regardless of whether there is a structure planned area adjacent with the same infrastructure. This results in duplication of infrastructure that could have been more efficiently delivered (for example as a regional centre) to service more than one structure planned area and better use council resources.

Case Study: Cost Escalation - Proposed Aquatic Centre, City of Gosnells (WA)

The City of Gosnells is currently finalising costings for a proposed aquatic centre through a Quantity Surveyor. This has focussed attention on current cost expectations in comparison to costs incurred when undertaking construction prior to COVID. Based on NGAA Member Council feedback, many local governments put big projects on hold due to uncertainty and cost escalations.

By way of example, the City of Armadale built an aquatic centre approximately eight years ago at a cost of $25 million. This aquatic centre involved the refurbishment of an existing 50 metre pool with new indoor facilities. Even if half of the new facility had not already been in place, the Armadale facility would have probably cost circa $50 million eight years ago.

In comparison, the current costings show that the City's current proposal is approximately $100 million more ($125m). Further, the City is planning construction in four years' time which involves an additional cost escalation between now and the tender for construction. Consequently, in light of a difference of 12 or more years between the Armadale construction and the Gosnells construction, and the cost increases associated with COVID, the City's price is considered realistic.

1.2.2 Emerging Growth Areas

As noted above, emerging growth areas lie within designated growth areas but are still undergoing structure planning and signficant development to transform them from rural to urban. These areas are often still referred to as Shires rather than City Councils and will accommodate much of the new housing delivery over the next twenty years.

The NGAA member councils that are emerging growth areas include the following:

NSW

- Wollondilly Shire Council

Victoria

- Cardinia Shire Council
- Mitchell Shire Council

Western Australia

- Shire of Serpentine Jarrahdale

South Australia

- Mount Barker District Council

Emerging growth areas typically have a number of structure planned areas under construction at the same time and can have expansive development fronts. Common issues in these areas relate to connections to existing civil infrastructure such as water and sewer systems, upgrading rural roads to suburban standard roads, and the early provision of community infrastructure to support communities as they move in. These area are characterised by **insufficient funding to deliver community infrastructure alongside new housing** as these areas transition from rural to urban.

NGAA member council feedback from emerging growth areas highlights the different experience with infrastructure funding in general, and community infrastructure funding in particular. Where established growth areas have some community infrastructure - but not enough to properly support their communities - emerging growth areas typically have none or it is very limited.

There are a range of issues in emerging growth areas that are similar to those for established growth areas but that have a proportionally larger adverse impact on emerging growth area councils due to their stage of development. These include the following:

- The cost escalation in the construction industry with building materials and labour costs having increased by nearly 40 percent since late 2019.
- As noted previously, structure planned areas can take fifteen years to build out, so any developer contributions that were costed and finalised before the pandemic include an annual indexation that is much lower than the actual construction cost increases. In these situations, councils are expected to fund the gap which disproportionately impacts on emerging growth areas that still have many infrastructure projects to construct, whereas infrastructure projects in established growth areas may be almost complete.
- Further to the point above, there is no requirement for landowners in structure planned areas to develop their land so it can sit idle for many years before being developed. An example in Victoria is the Lockerbie North PSP which was approved in 2012 but the land within it sat idle for ten years before development coomenced. In this case the developer contributions were calculated in 2012 but the community infrastructure will be constructed in the 2020s at far higher construction costs.

- A general change in planning policy to encourage higher density development in the structure planned areas which results in higher population growth. This in turn creates increased demand for services and community infrastructure, however there is no mechanism to retrospectively update the developer contribution to align with higher density development and increased population density.

- The cost of land for community facilities in the structure planned areas has increased at a higher rate than the allowance within the developer contributions so council has to pay the difference.

Issues specific to emerging growth area councils include the following:

- The changing conditions of grant funding programs has had an impact on emerging growth area councils' ability to deliver community infrastructure. For example, in Victoria the Growing Suburbs Fund originally funded up to 50 percent of a community infrastructure project however now it is capped at $1 million per municipality. This cap, combined with soaring construction costs, has resulted in this program having less of an impact.

- Further to the point above, emerging growth area councils have less resources than established growth area councils to apply for funding through public application processes.

- A potential solution to the funding gap for community infrastructure is allowing councils to borrow the difference, however councils are subject to capped borrowings based on the current rateable income. Emerging growth area councils can have 40 years of future urban and population growth and should be allowed to borrow against this rather than the current rate base.

Case Study: Community hub with kindergarten, Mitchell Shire (Victoria)

The time and cost associated with delivering community infrastructure projects has significantly increased each year, and costs alone have increased by 40 percent since 2019. The overall cost of delivering community infrastructure projects today is often double the cost allowed for in the structure planning process.

A recent example is in Mitchell Shire in Victoria where a community centre that includes a kindergarten was costed at $7.6 million in 2019 and is now estimated to cost $20 million to construct. This is due to cost increases in the construction industry combined with Victorian Government policy changes requiring children to attend more hours of kindergarten each week which then requires a larger facility.

Despite this, developer contributions for community infrastructure haven't changed to meet the higher density, policy change, and construction costs. This is resulting in significant planning shortfalls for land and development contributions to adequately fund and deliver new community infrastructure.

Recommendations

In the context of the issues outlined above, NGAA recommends the following:

1. Expanding the borrowing cap for growth area councils to enable them to borrow against the future rate base not the current rate base (i.e. future population not the current population).

2. The Federal Government establish a low cost loan facility for growth area councils (or councils where population growth rates are, have been, or are projected to be, at least two per cent

annually) to fund the deficit between developer (and other) contributions and the current cost of constructing community infrastructure. This would complement the recently announced additional $1 billion in funding for the Housing Support Program to build 'enabling infrastructure' such as water, power, sewerage and roads. The low cost laon facility should have $1 billion in available funds for community infrastructure projects that are aligned with the National Urban Policy Vision of productivity, equity, and resilience.

2 The changing infrastructure and service delivery obligations of local government

We agree that local governments are better placed to provide some types of public services directly to their communities because they have a better understanding of their specific needs and preferences. This model relies on the Federal Government providing sufficient funding to deliver the breadth and scale of services required by local communities, and it is this aspect that NGAA member councils have raised concerns with.

Further, we acknowledge that local governments also have responsibilities to provide local services to their communities in their own right which is funded through a combination of rates and fee for service charging. Our concern is that significant disparities exists in the revenue raising capacity of councils, especially growth area councils, as a result of variations in geographical location, size and composition of population.

Exacerbating this disparity is the types of services growth area communities require based on their composition which includes higher cultural diversity, a lower than average SEIFA index indicating socio-economic disadvantage, as well as comprising higher First Nations populations than the greater capital city metropolitan areas. For NGAA member councils, the result is funding gaps where the revenue raised by NGAA member councils is insufficient to cover the cost of provision.

Exacerbating this issue is the increasing shifting of costs and responsibilities from federal and state governments to local government in the context of service delivery. This tends to happen where federal or state services are not being delivered in particular areas and council steps in to fill the void.

An example is in Camden, NSW, where Camden Council took a proactive approach and partnered with Headspace Campbelltown to provide preventative mental health support and services for 12 to 25 year olds. Key to achieving fast delivery was political support from Camden Council and having a Council-provided furnished space ready to occupy. The case study is outlined below.

Related to this issue is state and federal government policy changes that directly impact on local government costs and service delivery. An example in Victoria is the State Government policy decision to increase the mandatory minimum hours to be provided per child for kindergarten. Given councils generally deliver kindergarten services, this will directly impact on the cost of delivery as well as the size of the kindergarten facilities required to accommodate children over a longer period each week.

Case Study: Access to mental health services, Camden Council, NSW

Access to mental health services is a significant challenge for many NGAA member councils and their communities. The lag time between population growth and sufficient delivery of health services is evident in all states and improvement is needed in advance planning for communities being established in growth areas.

Nearly 1.7 million people under the age of 25 live in Australia's growth areas. Even before COVID-19, mental health ranked as one of the most pressing problems for young people in growth areas. The detrimental impact of the pandemic on health, employment, study, family and community dynamics is further exacerbating the problem.

In this context, Camden Council, situated an hour south west of the Sydney CBD, has experienced significant population growth since 2007 when it was designated part of the south-west growth corridor. A primary challenge has been the lack of data to convince the state and federal government to fund mental health services. We acknowldge that planning for a community that doesn't yet exist is difficult, however waiting for data to become available results in planning with outdated evidence and vulnerability has often already set in.

In response, Camden Council took a proactive approach and partnered with Headspace Campbelltown to provide preventative mental health support and services for 12-25 year olds. Key to achieving fast delivery was political support from Camden Council and having a Council-provided furnished space ready to occupy. Today, over 40 percent of youth in the area are accessing Headspace resources.

Recommendations

In the context of the issues noted above, NGAA recommends:

1. Where a federal or state government policy decision impacts on the cost of local governments delivering services it must be fully funded.
2. Create a specific additional funding stream under the general purpose componenent of the FAG for local governments where population growth rates are, have been, or are projected to be, at least two per cent annually. This additional funding stream would provide supplementary funding for the delivery of services and community infrastructure in Australia's fastest growing areas.

3 The role of the Australian Government in addressing these issues

Australia's fastest-growing outer metropolitan local government organisations are increasingly burdened with the dual responsibilities of maintaining quality services for their communities while also planning, developing, and building for future population growth. Exacerbating this is the significant infrastructure deficit experienced by growth area councils which creates a disproportionate financial burden on growth councils compared to other regions.

For local government organisations in these growth areas to effectively perform their roles, there must be genuine collaboration across all levels of government, ensuring a cohesive approach to planning, funding, and delivering housing and infrastructure to new communities. There must be mandated coordination between all levels of government, led by the Commonwealth.

The current lack of coordination and sequencing within and between various levels of government and the development sector creates substantial barriers for local governments striving to provide high-quality services. This disconnect has had tangible negative impacts on communities. For example, new homes in the outer suburbs of southwest Sydney are being built without connected sewerage systems, and in Adelaide's north, a single-lane road serves as the sole access route to four new suburbs where 25,000 homes are under construction.

These examples illustrate the critical need for improved coordination and strategic planning to support sustainable growth and ensure that local governments can meet the needs of their expanding populations. Better coordination, including improved cross-portfolio planning processes, would ensure Government priorities are aligned and result in the delivery of holistic outcomes.

Recommendation

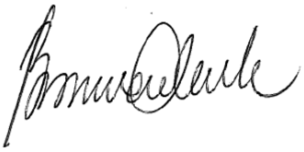
In the context of the issues outlined above, NGAA recommends the following:

1. The Federal Government to mandate and lead genuine collaboration across all levels of government, ensuring a cohesive approach to planning, funding, and delivering housing and infrastructure to new communities.

Contact

The NGAA welcomes the opportunity to respond to the Parliamentary Inquiry into local government sustainability and provide the growth areas perspective on this issue. Should you wish to discuss any of the matters raised in this response, please contact me on bronwen.clark@ngaa.org.au.

Yours faithfully



Bronwen Clark
Executive Officer
National Growth Areas Alliance