



2 August 2024

The Hon. Emily Suvaal MLC, Chair
Standing Committee on State Development
Parliament House
Macquarie Street
SYDNEY NSW 2000

Via email: state.development@parliament.nsw.gov.au

Dear Madam Chair

**RE: Response to Inquiry into the ability of Local Governments to Fund Infrastructure and Services
Questions on Notice from 5 July 2024 – Gary Parsons, Acting Chief Executive Officer North Sydney Council
(NSC)**

I am pleased to provide the following responses to the questions on notice at the 5 July 2024 hearing, I have also provided further commentary to some of the issues raised.

NORTH SYDNEY OLYMPIC POOL

The CHAIR: In terms of how much it was originally budgeted for, my understanding is it was originally \$64 million. Is that correct?

GARY PARSONS: I'll have to take that on notice. It was before my time with council. I believe that's correct, but I would just need to confirm that"

NSC QON response: The original adopted budget allocation for the North Sydney Olympic Pool was \$61.7m. This budget was then increased to \$63.9m in March 2019 to allow for an expanded scope and potential cost escalation. An additional \$24.2m was provided in the 2023/24 budget process as contingency for costs not originally budgeted including project management, adequate design consultancy, long service levies, programming, quantity surveying, probity advice, risk management services, insurances and equipment. This additional amount increased the budget to \$85.87m.

“GARY PARSONS: We are seeing a lot of the increases in costs have been due to latent conditions on site, particularly that were unable to be foreseen or discovered prior to the opening up of the site with the development that was there in the pool. Once the existing pool was demolished, a lot of latent conditions became evident. But, also, the age of the structure has been a result of those. Those latent conditions have then resulted in changes or amendments in design to accommodate those latent conditions. But that's what we're seeing that a significant number of those costs increases have been. We've also seen the escalation in costs right across the construction industry at the moment. The project was also subject to COVID and the unprecedented rain events that hit the New South Wales east coast.

The CHAIR: Was that something that the community had wanted or asked for—a new swimming pool of that order of magnitude?”

NSC Response: I understand there was community consultation that was done in relation to the redevelopment and also the proposed plans.

NSC further comment: Consultation was undertaken in the early stages of the project planning, resulting in a decision to adopt what was called Option 2, an upgrade of the existing centre. However, in March 2019 Council decided to increase the scope of works from Option 2, Option 2b, which was communicated through the formal exhibition of the Development Application.

The community was consulted in relation to the expanded scope of the redevelopment through the Public notification of the proposed development through the Development Application process.

“The CHAIR: Sure. In terms of projects like that, noting the extent and the costs, how can the State help councils manage projects like the North Sydney pool better?”

GARY PARSONS: I'd welcome the State's assistance in delivering those projects. I have been in local government for almost 30 years and been involved in some large infrastructure projects that local government has delivered. I believe that local government's expertise is in smaller construction, maintenance, renewal-type projects. I don't believe that, generally speaking, local governments have the resources and capability to deliver those larger infrastructure projects, because it's not something that local government does every day. So we'd welcome the assistance of Public Works and bodies like that in assisting councils, stepping them through those larger projects, because it's not what councils do on a daily basis.”

NSC further comment: The Office of Local Government (OLG) Capital Expenditure Guidelines provide a well-considered framework for Council's to evaluate investment in major infrastructure. However, as with many Local Government projects these guidelines and the associated process for reporting was not undertaken by North Sydney Council. Even when Council undertook this process and submitted this information retrospectively little to no feedback was provided by the OLG. It is suggested there is a more active role that the OLG could take in ensuring the application of the guidelines, assessment of business plans and an ongoing audit process to verify adherence to the Guidelines.

BUILD TO RENT

"The CHAIR: You mentioned in your opening statement build to rent, and we have heard about this a little bit earlier on in the inquiry from another council. I'd invite you to make further comment on that and suggestions that you might have for us to include in recommendations for this report.

GARY PARSONS: Sure. Build to rent is not a new type of development proposal but is a development proposal that probably wasn't contemplated in the current rates structure. In a build-to-rent situation, you have a single owner and one rate, whereas in a strata-type situation you have multiple owners and multiple rates. So you are seeing, impact-wise, the same number of people come in but significantly less rates being generated from those. As I said, I don't think the current rate structure does currently contemplate build to rent.

The CHAIR: So are you suggesting, then, amendments to the rating structure? And is that something councils have the capacity to do, or is it something that the State Government would need to?

GARY PARSONS: My understanding is that is something the State Government would need to do, on behalf of councils, to allow councils to levy the rates."

NSC further comment: The NSW Government has changed the planning legislation and allowed residential development in the form of "build-to-rent" development, where it was previously prohibited (for example in St Leonards and the North Sydney CBD). The result is residential growth of a significant nature (as these tend to be high rise developments) that were unanticipated prior to these changes to the planning legislation. We have had one approval in the North Sydney CBD and two other sites are actively investigating this proposition in the CBD.

New residents from these developments need to be accommodated in terms of Council's infrastructure yet only yield one rates source, rather than the many unit owners that would otherwise pay their annual rates to Council.

NON-RATEABLE INSTITUTIONS

“Dr AMANDA COHN: Thanks so much, Mr Parsons, for making the time to give evidence to us today. My first question was following up on your opening statement. You mentioned non-rateable institutions within your LGA. I am hoping you can speak to some of the current rate exemptions or what recommendations we should be making to address rate exemptions.

GARY PARSONS: Yes, we have a significant number of educational institutions in our LGA. You might say North Sydney has a disproportionate amount of educational institutions in our LGA, with significant land holdings, and some of those are growing land holdings. They utilise our infrastructure and particularly our open space. We welcome their use of our open space, but we are obviously unable to recoup any of the costs of the maintenance and upkeep of that open space, which then leaves our community to pick that up. So we would welcome some kind of mechanism, whether it's rates or whatever, to allow us to potentially recoup some of that to assist us with maintaining that infrastructure.”

NSW further comment: Council would like consideration given to cost to residents and other ratepayers to cover non-rate paying institutions and if this is fair. North Sydney Council services a large daily transitory worker and student (non-resident service) population within its CBD, multiple public and private primary and high schools, and a university campus. Therefore, Council's services and infrastructure obligations expand due to 'population factors' not captured in its local ABS residential population data. This is also the case for major events including New Years Eve, which costs North Sydney Council large sums of money and which are largely patroned by non-residents.

RATE BASE

“Dr AMANDA COHN: I also wanted to ask about the special rate variation process. I apologise; I do not know if you were with North Sydney Council at that time, but I understand you went through a special rate variation process in 2019. We have heard throughout this inquiry that that process is quite onerous for councils. It would be interesting if you could offer a perspective as well.

GARY PARSONS: Sure. No, I wasn't with North Sydney Council. I've only been with North Sydney Council for just on a year. However, I've been through the special rate variation with a number of other councils. What I would say is that we have found that the special rate variation process has improved and has got easier to use, but it still is an onerous process in that you may or may not get it. There is a lot of information that needs to be provided, and councils are generally using that to address backlogs and costs that have already been sunk, if you like.

NSC further comment: The special rate variation process has improved over the years, and we acknowledge the work IPART has done to assist in improving the process for councils, however as IPART identified in its Final report on the rate peg methodology (August 2023), the pursuit of this path is at a cost to councils:

The limitations of rate pegging have meant that Councils which have applied for a special rate variation have done so most typically to fund:

- cost increases above the rate peg
- asset maintenance/renewal
- maintain services
- financial sustainability.

This was evident in the 17 applications to IPART for a special rate variation to apply from 2023/24 onwards, that sought a variation of generally between 18% to 92.83% over multiple years, and from 2016-2021, 12 urban councils sought an average special rate variation of 20.1% for the same reasons listed above. This demonstrates that councils are having to rely on the special rate variation process to maintain services and deliver infrastructure, as a means to compensate for the insufficient revenue caused by rate pegging.

“The Hon. SCOTT FARLOW: Thank you very much for joining us today, Mr Parsons. We have been doing a whole range of regional hearings recently, and there are often complaints from regional councils about the amount of their rate base in terms of their income. What is North Sydney Council's rate base as a component of your income?”

GARY PARSONS: I would have to take that question on notice.

The Hon. SCOTT FARLOW: If you could, that would be appreciated, just in terms of a comparison.”

NSC Question on Notice response: Rates and annual charges are Council’s primary source of operating income, making up approximately 43%-45% of own-source revenue for 2024/25. It is probably also beneficial to view rates in NSW from a broader perspective. We have reviewed available information on the rates levied by local government in the different States of Australia. In summary, it is overwhelmingly apparent that the application of rate pegging in New South Wales since 1977 has resulted in much lower council rates in that state than others. This is highlighted in the table below which compares average council rates per capita for each state of Australia:

State Average rates per capita Percentage difference to NSW

ACT \$1,309 - 121% higher

Western Australia \$924 - 56% higher

Victoria \$814 - 38% higher

Queensland \$786 - 33% higher

NSW \$591

All states \$835 - 41% higher

SIC – Infrastructure Projects

The Hon. SCOTT FARLOW: Mr Parsons, there is a specific issue in terms of North Sydney. It's a little bit complicated in the St Leonards-Crows Nest area because there is the interaction between yourselves, Willoughby and Lane Cove councils in that area. That area had a SIC around it previously and you, of course, would have had a large infrastructure pipeline around that. Now it's a tier one TOD accelerated precinct, so we'll wait to see what the Government will do in terms of that infrastructure—funding and the like. But as you've seen, the Housing and Productivity Contribution has come into place now, with a \$12,000 application for houses and \$10,000 for apartments within Greater Sydney. Some of that money is supposed to be directed to regional structure and there is the phasing in and out, so to speak, of the six that were in place. What clarity do you have in terms of infrastructure for that St Leonards-Crows Nest area where the draft SIC was formerly in place and how some of that will be potentially funded or contributed to by the State Government?

GARY PARSONS: I can't talk directly to the SIC. I am probably not as familiar with that as I need to be to answer your question. Council does have a number of infrastructure projects or proposals in that area— Hume Street Park and the Holtermann Street car park, which are infrastructure projects that look to increase open space and amenity for that increased development within that area. They are currently looking for funding for those projects.

The Hon. SCOTT FARLOW: And that will rely on State or Federal government funding in order to be able to deliver those projects, will it?

GARY PARSONS: Correct. Yes, I would suggest so. The magnitude of the funding required for those projects would require that. The council would also look to make some contributions through development contributions and things like that. But, yes, I would suggest it would require Federal or State government funding to assist to get those projects across the line.

The Hon. SCOTT FARLOW: With the introduction of the Housing and Productivity Contribution, a local government pool of money, so to speak, was also flagged—\$100 million from the Government as part of that. Have you seen any notification or do you have any understanding of how that money can be accessed or competed for by councils?

GARY PARSONS: No, I have not, but I'm not saying that hasn't happened. That information hasn't come through

The Hon. SCOTT FARLOW: If you could take that on notice for anything further from North Sydney Council, that'd be great.

GARY PARSONS: Sure, thank you."

NSC QON Response: NSC has just been invited to participate in the Department of Planning, Housing and Infrastructure's "Urban Development Program". This forum will deliberate on the distribution and funding allocation of various infrastructure requirements across Sydney. Our understanding is that a plan will be prepared by the Department to guide this (Infrastructure Opportunities Plan). The previous SIC, will be something of an input into this but will not necessarily be adopted as previously drafted. As yet, there is no clarity about how this process will impact upon the infrastructure requirements of St Leonards and Crows Nest.

NSC additional information regarding Housing Productivity Contribution (HPC)

It is understood that the contributions collected by the HPC program, are expected to be distributed and invested by way of the Infrastructure Opportunities Plan described above. It is understood that the NSW Government is currently determining governance arrangements to oversee how these contributions are distributed and spent. Whilst Council is invited to participate, this process is yet to be established so remains unclear exactly how it will work.

If the Standing Committee requires any further information or clarification on any matters raised, I can be contacted

Kind regards,

Gary Parsons
Director Open Space and Infrastructure
North Sydney Council