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Council reference:
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Committee Secretary
House of Representatives Standing Committee on Regional Development, Infrastructure and Transport

Submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport

Inquiry into Local Government Funding and Fiscal Sustainability

Dear Committee Secretary,

Tweed Shire Council (TSC) welcomes the opportunity to contribute to the Inquiry into Local Government Funding and Fiscal Sustainability. Local government delivers essential infrastructure and community services within complex statutory frameworks and evolving expectations. In NSW, the Local Government Act and the Integrated Planning and Reporting Framework have strengthened the focus on sustainability, yet persistent structural and external factors still impede councils' capacity to achieve and maintain long-term financial sustainability.

This submission aligns TSC's evidence and recommendations directly to the Committee's Terms of Reference, drawing on Tweed's experience and broader sector issues.

Executive Summary

- **Lift Commonwealth Financial Assistance Grants to 1% of Commonwealth tax revenue** and provide multi-year certainty; current allocations around 0.55% constrain planning and renewal programs.
- **Remove caps and index developer contributions (NSW s7.11)** to match actual infrastructure costs, avoiding cross-subsidisation and intergenerational inequity.
- **Publish 3–5 year grant schedules** and **embed up to 5% project management allowances** to improve delivery capacity and reduce administrative churn.
- **Address cost shifting** by fully reimbursing state-imposed levies/mandates and removing statutory fee caps that preclude cost recovery.
- **Modernise rating frameworks**: permit a multiplier (e.g., 1.5X) for multiple dwellings on a single non-strata title for farmland rating / dual occupancy and manufactured home estates. Consider legislative changes in the build to rent development space enabling strata type rating or consider a long-term transition to capital improved value rating.
- **Mitigate NSW Water Industry Competition Act (WIC) risks**: ensure customer protections, cost recovery certainty, and clarity on Last Resort Provider obligations where private schemes fail.

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d. Emergency, disaster recovery and resilience funding

Ad hoc support during natural events is essential; aligning programs to **renewal/betterment** over longer horizons will strengthen resilience and planning certainty.

e. One-off or ad hoc funding streams

Volatile, episodic funding complicates resource planning and mobilization. Councils prefer predictable rolling programmes for essential renewal works.

ii. Local government own-source revenue (rates, fees, charges, commercial activities)

Local government income is generally derived from **rates and annual charges, fees and user charges, interest on investments, grants, and contributions**, with a clear distinction between **general-purpose** and **specific-purpose** income.

Key issues and improvements:

- **Rates (ULV methodology):** Efficient to administer but misaligned to additional demand from multiple dwellings on a single title; consider **multipliers** (e.g., 1.5X for example for two residences on a single title) or a gradual shift to **capital improved value** rating.

Rates provide the autonomous tax income for local government using unimproved land value as the basis for applying the benefit and ability to pay principles. While it is not a very reliable measure for either it is efficient and has survived many rating reviews over several decades. General rates must be levied on all ratable properties and special rates may also be levied for specific purposes to the ratable properties that are deemed to benefit.

With the current housing crisis councils are also under pressure to permit dual occupancy on both urban and rural allotments. Whilst land that is strata subdivided can be rated separately, dual occupancy or secondary dwellings on non-strata land obtains no additional rate income, due to the nature of unimproved land value (ULV) rating. This impacts a councils ability to service the additional demand placed upon assets and infrastructure such as water, wastewater, waste, library, roads, sports fields, etc. Additional people and residents with no corresponding increase to the rate base.

Given a trend to encourage dual occupancy and secondary dwellings, consideration should be given to introducing a multiplying factor for assessable rates for a property where more than one residence exists (1.5x for example for two residences). Alternatively, a move to

capital improved value rating may be necessitated over time to ensure full financial sustainability of local government.

- **Build to rent developments** - local government rating impact**s**

Context and Issue

Build to rent developments are large scale residential projects, typically multi storey apartment buildings, in which all dwellings are owned and managed by a single entity and rented under medium to long term arrangements. These developments are intended to increase housing supply and rental stability and are expected to expand significantly over coming years.

As part of the 2025–26 NSW Budget, the Minister for Planning and Public Spaces announced the extension of tax concessions for build to rent developments. Under this initiative, eligible new build to rent projects will receive a 50 per cent reduction in assessed land value for land tax purposes on an ongoing basis, replacing the previous sunset date of 2039. While this reform is designed to stimulate investment in rental housing, it has unintended consequences for local government revenue and service delivery.

Current Legislative Treatment

Under section 516 of the Local Government Act 1993, build to rent developments are categorised as residential land for rating purposes, as their dominant use is residential accommodation. Because the development is held under a single ownership structure and valued as one assessment, councils are required to levy rates on the land as a single residential parcel.

This treatment mirrors longstanding challenges faced in the rating of farmland, where properties with intensive or commercial scale impacts are nonetheless constrained to residential or rural rate categories.

Impact on Councils and Communities

The residential classification significantly limits councils' ability to recover the true cost of servicing build to rent developments. Despite being rated as a single residential assessment, these developments can accommodate hundreds of residents and generate infrastructure and service demands more akin to small neighbourhoods. These demands include, but are not limited to:

- Local road and transport infrastructure
- Waste collection and recycling services
- Libraries, parks, and recreational facilities
- Community services and public amenities

Because councils cannot levy differential or additional rates to reflect these impacts, the cost of servicing build to rent developments is effectively cross subsidised by existing ratepayers. This outcome undermines the user pays principle and places increasing financial pressure on councils, particularly in higher density urban areas where build to rent developments are most likely to be concentrated and expand over time.

Council Position

To address this inequity, consideration should be given to rating build to rent developments in a manner similar to strata titled residential developments, where individual dwellings are separately valued and rated. Treating each unit as a discrete assessment for rating purposes would more accurately reflect population density and service demand, promote equity among ratepayers, and improve councils' capacity to sustainably fund the infrastructure and services required to support growing communities.

- **Manufactured home estates** - local government rating impacts

Context and Issue

As housing affordability becomes a higher priority for government, so to the potential for an increase in Manufactured Home Estates. Manufactured Home Estates are residential communities where an operator owns the land and leases individual dwelling sites to residents. These residents typically purchase a relocatable or manufactured home and pay ongoing site fees (rent) to the operator. This model allows for affordable housing options, particularly for retirees and low-income households, while maintaining a level of independence and home ownership.

However, from a local government perspective, Manufacture Home Estates present a unique challenge in terms of rating and service provision. Similar to issues seen with farmland rating, agritourism, and build-to-rent developments, council rates are levied on the landowner, in this case, the estate operator, based on the land's rate category, which is classified as business under the Local Government Act 1993 and the Local Government (Rates and Charges) Regulation 1999:

'121 Land used for caravan park or manufactured home not to be categorised as residential (the Act, section 516(2))

If the dominant use of land is for a caravan park or a manufactured home estate, the land is not to be categorised as residential for rating purposes.'

Despite the relatively low rate revenue generated from these estates, Manufactured Home Estates often house large populations and place significant demand on council services. These include waste collection, road maintenance, stormwater management, libraries, parks, and recreational facilities. Yet, councils are unable to levy rates directly on individual residents, nor can they adjust rates to reflect the intensity of use without legislative changes or sub-categorisation.

This creates a funding gap, where the cost of servicing these communities is disproportionately borne by other ratepayers. It undermines the user-pays principle, strains council budgets, and raises questions about the long-term sustainability of service delivery in areas with growing numbers of Manufactured Home Estates.

By way of example, a typical Manufactured Home Estate in Tweed with 250 sites and a land value of $16,200,000 generates $51,386.40 in ordinary rates, which is equivalent to 42 lots on the minimum ordinary rate.

Council Position

A similar mechanism to that outlined in the Farmland rating/ dual occupancy i.e. 1.5x or 2x rating would be beneficial if applied to Manufactured Home Estates.

- **Pensioner rebate**: Councils often receive representations from seniors requesting an increase to the pension rebate. The pensioner concession rebate amounts have not been amended since the commencement of the NSW Local Government Act 1993. To fund increased pensioner concession rebates across all NSW local governments would require a change in the position of the NSW state government.

  Council is not in a financial position to provide any additional funding support above the current 45% contribution without a major change in service delivery or to apply for increased rate revenue through a special rate variation which would increase rates for the 75% of rate payers who are not pensioners.

- **Fees and user charges:** Apply user-pays principles; remove State statutory caps that force councils to subsidise services, in particular for planning and assessment fees.
- **Developer contributions:** Critical to fund growth infrastructure; capping since 2012 in NSW, shifts costs onto existing ratepayers, creating intergenerational inequity.

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- **Investment income & reserves:** Essential for maintaining purchasing power of future renewal funds. Funding Reserves are a critical feature of local government sustainability to ensure current consumers are paying their way for future replacement costs.

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3. Impacts and Effectiveness

i. Impact of funding arrangements (including indexation freezing) on sustainability, service delivery, and infrastructure investment

Revenue constraints, statutory caps, and developer contributions limits have driven **renewal backlogs** and **cross-subsidies**, undermining sustainability.

Tweed case: Over the past 15 years, TSC has borrowed **over $130 million** for water/wastewater plant investments to service growth. With delayed lot releases and capped contributions, servicing these loans increases user/access charges, disproportionately affecting pensioners and existing ratepayers. Continued **underfunding** will result in failing assets and **intergenerational inequity**.

ii. Do existing mechanisms address evolving responsibilities of local government?

Council responsibilities have **expanded significantly** across environmental protection, waste, drainage, roads/bridges, footpaths/cycleways, recreation, cultural/community services, economic development, and modern administration.

Funding mechanisms and indexation have **not kept pace** with these expanded roles, increasing expectations without commensurate resourcing. For example:

Public Order and Safety

Growing urban and more mobile populations have impacted on services such as animal control, beach control, graffiti and vandalism management, enforcement of regulations and general ranger services;

Environmental protection

Greater awareness and need for protecting the natural environment has increased demands for noxious plant and animal control, native flora and fauna protection and mitigation of floods and fire;

Waste Management

It is no longer suitable to just provide a hole in the ground for waste to be dumped and left smoldering until rudimentarily covered up. Waste collection and facilities need to cater for various forms of recycling and hazardous waste control to minimise landfill demands. Strict environmental controls require ongoing management of landfill leachate and gas emissions and eventual remediation;

The NSW Government levies a waste levy on all waste to landfill, however less than half of this is returned to the local government authority collecting and managing the waste into perpetuity. It is an indirect form of taxation;

Stormwater Drainage

Increased urban development, expectations and weather events have put greater demands on drainage with vastly improved networks of kerb and gutter, underground drains and outlets;

Roads and bridges

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Increased use of road transport has required greater quantity and quality of sealed roads and the replacement of ageing wooden bridges and low culverts with wider, greater load bearing and more all-weather concrete structures;

Footpaths and Cycleways

The need for more, safer and accessible pedestrian and cycle paths has required the replacement of old and the construction of a vastly increased footpath network;

Recreational Services

Councils play the major role in facilitating passive and active recreational pursuits for all ages. Facilities are now expected to be of high quality to meet required standards and ensure safety, maximum participation and attraction of events. Facility improvements now required include - sport lighting minimum standards, playground equipment design, materials and accessibility, skateboarding facilities, aquatic centres, picnic and barbeque facilities, access to beaches, waterways and reserves and car parking to expected community levels;

Cultural and Community Services

Councils have been required to maintain and upgrade historic town and public halls as well as providing modern facilities in the form of community centres, arts and performance venues, and various youth and aged care facilities;

Economic Development

Regional councils in particular have undertaken a growing role in enhancing the economic progress of their regions. This can include programs to attract tourism, events or commercial development, or direct involvement in development such as, land subdivisions, commercial properties and airports; and

Administration and support services

This area has experienced greater demands and resource requirements from things like: legal requirements, technology and communications, human resource management and records management. The replacement of ageing and inadequate administration and civic buildings and works depots with modern equivalents necessitate significant outlays and ongoing funding.

iii. Barriers to infrastructure service delivery (workforce attraction/retention, security, labour hire)

- **WIC Act uncertainty:** Councils face risk investing in infrastructure where private WIC schemes may service developments; Last Resort Provider appointments can impose unfunded liabilities and reputational risks on councils and customers.

Infrastructure Investment Uncertainty Created by the Water Industry Competition (WIC) Act

The NSW Water Industry Competition (WIC) Act creates significant uncertainty and risk for local councils, particularly in relation to infrastructure investment, financial exposure, and customer protection.

Uncertainty arising from the potential for private sector servicing under WIC schemes undermines Council's ability to responsibly plan and invest in water and sewerage infrastructure. Where there is a risk that a development may ultimately be serviced by a private provider, Council cannot be assured it will recover capital expenditure through developer charges. To manage this financial risk, Council is often required to delay infrastructure provision until service responsibility is confirmed, resulting in development delays.

The Act also exposes Council to substantial risks through the "Last Resort Provider" framework. In circumstances where a private provider fails, the Minister may appoint a Last Resort Provider following an IPART investigation. While councils are no longer automatically appointed, the legislation requires IPART to give primary consideration to the relevant public water utility. In practice, this makes it highly likely that Council will be appointed, with no practical ability to refuse.

This creates serious financial and operational risks for Council, which may lack the resources or capacity to assume responsibility for a failed private scheme. Appointment may also require Council to operate parallel water or sewerage systems with different pricing structures and service standards, potentially damaging Council's reputation and confusing customers.

Cost recovery for acting as Last Resort Provider is uncertain. While IPART may approve cost recovery, the final decision rests with the Minister, and there is no guarantee costs will be fully recovered. Where costs cannot be recovered from the failed provider or the industry, they may be passed on to customers. This exposes customers to higher charges for services over which they had no control, and potentially inferior service compared to council-serviced customers.

Tweed Shire Council has consistently advocated for stronger protections for both councils and customers, including safeguards against:

- Failure of private water and sewerage providers,
- Financial structures in WIC schemes that disadvantage customers compared to council services, and
- Infrastructure investment uncertainty and delays caused by unclear service responsibility.

These risks could be mitigated by mandating use of the local public water authority unless it has formally confirmed it is unable to service the development, thereby justifying a private scheme. Additionally, full and transparent funding of infrastructure should be prioritized to consolidate progress made in improved measurement and reporting practices.

- **Workforce pressures:** Skills shortages, an ageing workforce (52% over 50), and housing affordability constraints, particularly in the Tweed in terms of rental supply and housing prices limit capacity to deliver services and renew assets.
- **Labour hire practices:** Councils need safeguards ensuring continuity, safety, fair conditions, and secure pipelines for critical skills (to complement apprenticeships/traineeships).

iv. Opportunities to improve productivity and coordination

- **Multi-year grant schedules (3–5 years)** with embedded **project management allowances** (up to 5%) to improve delivery efficiency and reduce bid-driven churn
- **Asset management and data maturity** to optimise maintenance and renewal timing; **renewal funding** from grants should be prioritised over new assets that add operating burdens. Factoring this into State and Federal grant policy frameworks would be very beneficial to local government.

Tweed Shire Context (Illustrative)

- In NSW, s7.11 of the EP&A Act, 1979 (NSW) provides for developer contributions, and these have been capped by the State Government since August 2012 at $20,000 per each brownfield dwelling and $30,000 for a greenfield dwelling; without regard to Council's costs in providing those services. It is widely known and accepted that capital costs and materials, land etc. has increased significantly since August 2012. The average lot in **Tweed** around 2012 sold for approximately $300,000 with developer contributions at $30,000 representing 10% of the land value. Today lots are in excess of $800,000 and contributions are still at $30,000 (4%).

  The NSW Government believes that by restricting contributions payable to councils, it will open up supply and make land more affordable. This is a folly. If councils cannot forward plan and build infrastructure because they cannot fund it, they simply won't. In the longer term this will result in the necessary infrastructure for development not being available which will lead to a significant housing crisis (worse than currently being experienced) with long lead times to resolve.

  Deloitte recently produced a report paper for DPE on the NSW Housing Status showing over the next 8 years, four out of five lots (66,000 lots) that could be developed do not have the required infrastructure to service those lots. 76% require sewer infrastructure, 70% require water and 50% require electricity and roads. Furthermore 27,000 lots have been identified by greenfield developers where the only constraint on supply is enabling infrastructure such as sewer, water, power or roads.

  Now is the time for the developer infrastructure caps to be lifted and indexed annually to avert a future housing crisis even worse than what we are currently experiencing. The capping results in councils (ratepayers) having to subsidise the cost of infrastructure. It does not provide for cheaper housing supply, as recently evidenced in the "Staged Release – Peering behind the land supply curtain" report by Prosper Australia.

- TSC's **$130M+** borrowing for treatment plant upgrades to service major developments requires ongoing loan servicing; delays in land release reduce contributions inflows and raise user/access charges.

  New houses lots have in that time been largely limited to the remaining sites in Salt, Casuarina and the start of Area E Terranora. The delay in the other sites coming to market, is an impost on council finances as we must continue to pay loans on the money borrowed, without recouping developer contributions to pay down the capital. This in turn affects the current rate base and users of the system, as the user and access charges must increase so the council can meet its interest payments.

- In the Tweed, **approximately 25% of our rate base are pensioners**. It is simply nonsensical to have pensioners subsidising the cost of development. In the end it becomes a strain on the Commonwealth as cost-of-living pressures increase for those who can least afford it.

  The combined impact of regulated service income and capping of contributions from developers, all with little regard to the cost of providing the services and infrastructure, is that councils are forced to cross subsidise these services and infrastructure costs from other revenue. In turn, this restricts the ability of the Council to deliver other essential services to the community including asset maintenance and asset replacement as well as investment in new assets, not funded through developer contributions, to service growth.

Continued underfunding of infrastructure will result in failing assets and intergenerational inequity.

Recommendations

1. **Restore Financial Assistance Grants to 1% of Commonwealth tax revenue** with transparent indexation and **3–5 year** forward schedules.
2. **Lift and index developer contribution caps (s7.11)** to reflect actual infrastructure costs and avoid cross-subsidies and delays.
3. **Reform grant programs:** publish rolling schedules and **mandate project management allowances** (up to 5%).
4. **Address cost shifting:** fully reimburse state-imposed levies/concessions; remove statutory fee caps that prevent cost recovery.
5. **Modernise rating frameworks** to reflect occupancy/demand (e.g., **multipliers** for multiple dwellings and legislative changes in the build to rent industry) or consider gradual transition to **capital improved value** rating.
6. **Clarify WIC Act arrangements:** prefer public authority servicing unless unavailable; guarantee customer protections and council **cost recovery** if Last Resort Provider is triggered.
7. **Support workforce capability:** fund **apprenticeships/traineeships** and housing initiatives; plan sector-wide succession strategies for ageing workforces.
8. **Prioritise renewal funding** to tackle infrastructure backlogs and **intergenerational inequity**.

Thank you for considering this submission.

Yours sincerely

[redacted]

Troy Green PSM
GENERAL MANAGER