Council Infrastructure Funding Performance Monitor FY22

Urban Development Institute of Australia
NEW SOUTH WALES

Executive Summary

Councils across the Sydney Megaregion have a fundamental role in providing critical enabling infrastructure for the future development of housing in NSW. Getting infrastructure right is therefore a significant step in creating a sustainable, development ready pipeline.

As part of our evidence-based research to inform our advocacy, **UDIA NSW has delivered the latest Council Infrastructure Performance Monitor FY22 which confirms that Councils are still facing headwinds in the delivery of critical infrastructure in a timely fashion.**

While UDIA is clear on the issues being faced across Local Councils in NSW, many of them resource and capacity based, the report found that **across the Sydney Megaregion, in the 2021-22 financial year, Local Councils are still sitting on close to $3.2 billion from developer contributions, up 46% over the last 6 years.**

The sentiment of 'infrastructure first' is entering industry discourse in NSW, but without a contributions mechanism that efficiently reinvests in community and city building, the pipeline will hit a trough.

UDIA has consistently led advocacy for infrastructure contributions reform as the key driver of productivity reforms - including delivering three Council Infrastructure Funding Performance Monitor reports, two Urban Development Program (UDP) Pilots, and bringing forward several Taskforce recommendations.

Despite this strong advocacy, action on reform continued to stall. Proposals to implement the recommendations of the NSW Productivity Commissioner did not properly resolve issues for Councils and faced innumerable public submissions, and resulted in its deferral.

While these reforms need to be right, the cost of not resolving them in a timely manner will extend much deeper than Government not keeping its promises. It is delaying critical pieces of social, enabling and catalytic infrastructure from being delivered. This has serious follow on impacts for developers to confidently deliver housing, causing delays and longer waiting times for the people of NSW.

This all starts with getting timely and adequate levels of infrastructure delivery. UDIA calls on Government to improve the governance around contributions. Resulting from this research, UDIA proposes three clear solutions:

1. A self-replenishing enabling infrastructure fund that enables Councils to bring forward infrastructure delivery.
2. Government to commit $450m to the Housing Acceleration Fund to deliver growth infrastructure over the next 3 years to unlock the supply of up to 40,000 housing lots.
3. Use Empowered UDP Committees to encourage evidence-based prioritisation in the creation of development ready land (see UDIA's *Empowered UDP Committees Policy Paper* for the more detailed recommendation).

Methodology

The ‘regional’ approach taken in this research has been consolidated according to the Greater Cities Commission Bill 2022 for Councils in the Sydney Megaregion.

Conducted over January/February 2023, this research was limited to Councils that have released their Annual Financial Statements for the 2021/22 Financial Year. As of March 2nd 2023, 42 of the 43 Councils of the Megaregion have released theirs. Only Kiama Council are yet to release its FY21 statements, and therefore is excluded entirely from this research to simplify comparisons.

Background

Government mechanisms for speeding up infrastructure delivery through funding and grants programs is not extensively covered in the research component of this report. However, it is important to note that discussions around funding for Councils and delivery agencies is ongoing at the State level. There are two key policy levers being deployed at the State level.

Accelerated Infrastructure Fund (AIF)

During the first year of COVID UDIA championed advocacy for double dividend investment in local enabling infrastructure to help unlock developer contributions to stimulate jobs for new housing. Commencing in 2020, the NSW Government has now instated three rounds of the AIF, a fast-track process for funding critical pieces of infrastructure that can help unblock development approvals and enable development activity to progress.

Key highlights:

- Round 1 funding was offered to Blacktown and The Hills Shire Councils, sharing approximately a 60:40 split of the State's contribution of $76 million across 14 infrastructure projects. This unlocked $146 million worth of community projects. As of February 2023, 8 of the 14 infrastructure projects have been completed.
- Round 2 provided an additional $139 million in funding, this time spread vastly across Western Sydney to cover 24 local infrastructure projects worth over half a billion dollars. However, more than a quarter of these projects have not yet commenced construction.
- Successful projects for Round 3 of the AIF was announced in February 2023, which will provide $300 million of co-funding across the Sydney Metropolitan and Regional NSW. 26 Sydney metropolitan projects and 10 Regional NSW projects were assigned to Tranche 1 of the AIF3 investment, which allocated approximately $254 million of the funding.

Housing Acceleration Fund (HAF)

Since 2012, billions of dollars have been filtered through the Housing Acceleration Fund, which in its 5 rounds has helped deliver over 25 projects state-wide, with another 12 under construction and a further 16 in the planning stage. Sitting alongside the AIF, the HAF draws funds from the Restart NSW Fund (controlled by NSW Treasury) and provides funding for delivery agencies that were nominated by industry participants to support the delivery of enabling infrastructure.

As part of UDIA NSW's State Election Campaign, we have called for the commitment of another $450 million to the HAF to deliver critical growth infrastructure in the short term. UDIA members applaud HAF as one of the most important policy investments to unlock housing development in Western Sydney over the last decade, and its continuation will help sustain development opportunities.

Many other Government funding arrangements have emerged over the years, including the NSW Regional Housing Fund (25 projects) and the Low Cost Loans Initiative (over $20 million towards co-funding the interest on infrastructure related loans). These funding arrangements are all designed to fast track grant access to projects that are critical for the future of appropriately located housing supply.

However, as the research component of this report will clearly reveal, declining expenditure over FY2021-22 means we can not solely rely upon competitive round funding for infrastructure, considering how long it takes to get moving and how critically linked it is to housing supply.

As part of UDIA NSW's State Election Campaign, we have called for the AIF to become a permanent recycling fund so that it becomes a loan without contingent liability, so that as developer contributions are made, Council's remit receipts and the fund opens for more projects. This will enable infrastructure delivery to be brought forward and provides ongoing support for Councils to facilitate growth certainty in their area.

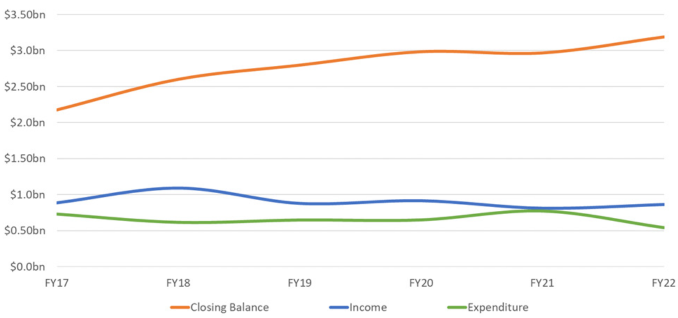
Six Cities Megaregion Findings

Across Councils in the Sydney Megaregion[1], as at the close of FY2021-22, nearly $3.2 billion is being held by Council's in the Sydney Megaregion from development contributions. This is a 46% increase over the last 6 years, including a 7% rise over just the last year alone. Expenditure also dropped below $600 million for the first time in the period analysed, falling a substantial 30% compared to FY21. This is despite income rising by 6% in this time.

On average, Councils in the Sydney Megaregion spend just 18% of their development contributions balance in any given year.

It is worth noting that FY2020-21 saw the highest expenditure from Councils in a financial year, with a 19% increase Megaregion-wide compared to FY2019-20. This was a result of injected government funding mechanisms, which brought more certainty to enable local infrastructure to support development. However, as FY2021-22 sees a return to expenditure levels lower than their historic counterparts, it's clear that no structural change to development contributions has been embedded.

Figure 1: Local Development Contributions in the Six Cities Megaregion, FY17-22



Source: NSW Local Council Financial Statements; UDIA NSW

Figure 1 demonstrates the change in Council spending of local development contributions compared to the amount held at the end of the relevant reporting financial year, as well as the amount received that year. Clearly, there is a major, and growing, pool of funding accumulating for local infrastructure that has gone unused.

For example, despite 95% of income in FY2020-21 being expended, Councils were sitting on close to $3 billion leading into that financial year. A minor dent was made on the overall balance, and this exacerbated over FY2021-22 where only 62% of contributions were spent, hence leading to the closing balance blowing out to close to $3.2 billion.

Our analysis has found, of the 41 Councils analysed:

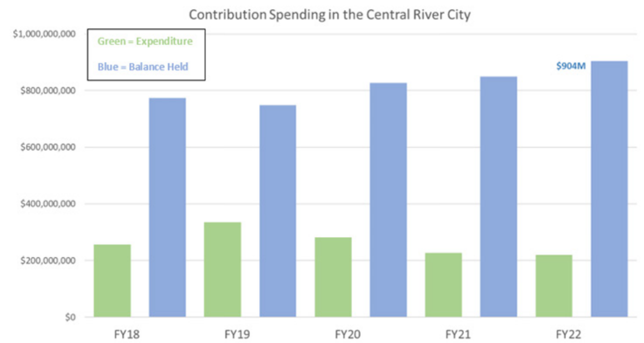
- Only 10 spent more in FY2021-22 than they received, while 14 spent less than 50% of their contributions income.
- In FY20211-22, not a single Council spent more than 50% of their total balance holdings, while 17 spent no more than 10%.
- Only 12 Councils spent more in FY2021-22 than they did in the previous financial year, despite 25 Councils receiving more income in FY2021-22 than the year before.
- More funds are held for 'Open Space' than any other line categorisation, with around $1.07 billion held at the close of FY2021-22.
- Close to $660 million is being held for 'enabling infrastructure' (roads and transport, sewer, water). Only around $150 million was spent in FY2021-22.

[1] Please see methodology notes at the start for more on the Councils included

Regional Breakdown

We can further analyse infrastructure delivery performance across the Six Cities of the Megaregion.

Central River City

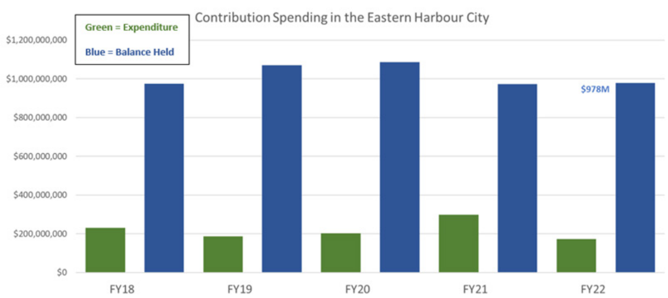


Three of the top six highest spending Councils for local infrastructure in FY2021-22 were in the Central River City.

In FY2021-22, Councils across the Central River City spent 79% of their income, the largest 'expenditure as a proportion of income' across the Megaregion. Despite this, the balance held in the region has now exceeded $900 million.

Similarly, annual expenditure is 35% below the impressive performance of FY2018-19, despite income only dropping 16% between those time frames.

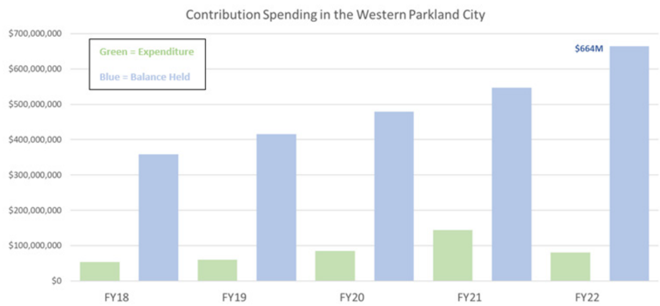
Eastern Harbour City



Six of the top ten Councils for expenditure as a proportion of income in FY2021-22 were in the Eastern Harbour City.

Following a strong performance in the previous year with record high expenditure in the region, FY201-22 saw the lowest expenditure of the last 5 years at just over $170 million, a 42% decline from the previous year.

Western Parkland City

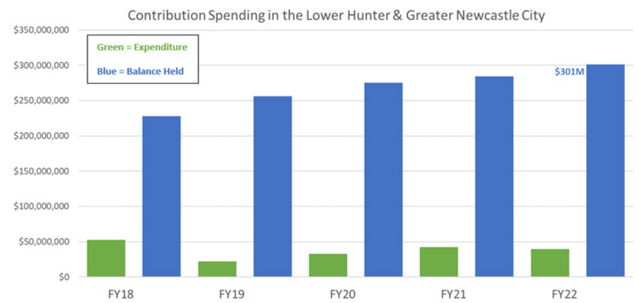


Councils in the Western Parkland City spent less than one-third of their FY2021-22 income, with only Central Coast reporting worse on this metric. This amounts to a 44% decline in expenditure compared to the previous financial year.

Over the 5 years to FY2021-22, Councils in the Western Parkland City are holding 85% more of their developer contributions, which is the largest increase of all regions, and by some distance.

Only 1 Council in the Western Parkland City spent more in FY2021-22 than the year before.

Lower Hunter & Greater Newcastle City



Councils in the Lower Hunter & Greater Newcastle City are holding an increasing amount of funds from developer contributions. The balance has risen 32% over the last 5 years while expenditure has dropped 24%. Only the Western Parkland City (10%) spent a lower proportion of its total cash holdings in FY2021-22 than the Lower Hunter region (11%)

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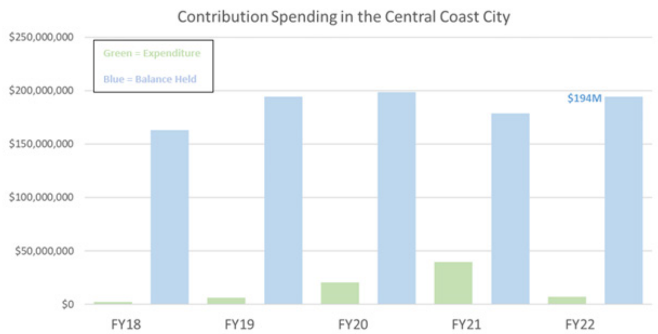
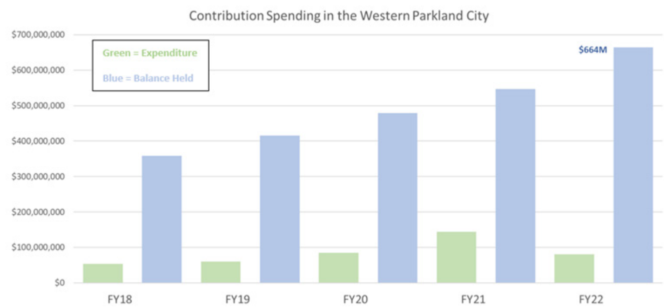
Central Coast City



The Central Coast City reported the lowest proportion of its income spent in FY2021-22 across the Megaregion. This is off the back of a very impressive result the year before, which saw the City spend double it's income and put a solid dent in the balance held, albeit temporarily. This fluctuating performance in its spending has led to an increase in its balance held of 19% over the last 5 years.

Illawarra- Shoalhaven City



In FY2021-22, Councils in the Illawarra-Shoalhaven are holding 41% more than they were 5 years ago.

Compared to record high expenditure in FY2018-19, where 25% of the cash balance was spent, only 12% of the total cash balance was spent in FY2021-22. This was onset by a 44% decline in expenditure compared to 4 years ago.

Conclusion

"Advocating for efficient processes across the entire housing supply pipeline is central to the work of UDIA NSW and its members as one of the central issues to the housing supply and affordability crisis" said Mr. Steve Mann, UDIA NSW CEO.

Infrastructure must be in place to support the maturation of the housing supply pipeline, but reform is needed to the funding mechanisms that support infrastructure delivery, so that funds are not left to idly accumulate in the way they have historically.

UDIA is clear on the issues being faced across Local Councils in NSW, many of them resource based. Efficient solutions on the structural side to simplify the system should therefore be welcome relief for these key arbiters of local infrastructure.

UDIA has proposed three clear solutions to this issue, one to address the issue in the short term, a long-term, structural mechanism to help support the continual funding of infrastructure in a timely manner, and the long standing advocacy for Empowered UDP Committees to glue the governance together and achieve more rapid solutions to unlock development.

Without action, infrastructure bottlenecks will continue to delay urban development in NSW, and industry will not be able to produce the homes needed in great communities to reverse the housing shortage and put downward pressure on affordability.