



Land Acquisition & Dedication Discussion Paper

Acknowledgement of Country

The Western Sydney Planning Partnership acknowledges more than 60,000 years of continuous Aboriginal connection to the land that makes up NSW.

We acknowledge and pay our respects to the traditional custodians of Country within Western Sydney. As part of the world's oldest living culture, the traditional Aboriginal owners and custodians share a unique bond to the Country – a bond forged through thousands of years of travelling across lands and waterways for ceremony, religion, trading, and seasonal migration.

We acknowledge that Western Sydney is home to the highest number of Aboriginal people of any region in Australia and that the primary Aboriginal custodians with obligations for Country and connection to the place for many generations including the Dharug/Darug, Dharawal/Tharawal, Gundungurra/Gandangara, and Darkinjung people.

Western Sydney Planning Partnership partner organisations:

Blacktown City Council, Blue Mountains City Council, Camden Council, Campbelltown City Council, City Of Liverpool, Fairfield City Council, Hawkesbury City Council, Penrith City Council, Wollondilly Shire Council, NSW Department of Planning and Environment, Greater Cities Commission, Transport for New South Wales, and Sydney Water.

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Glossary of terms and abbreviations

The following terms and abbreviations are used throughout this report:

BAU	Business-as-usual
CP	Contributions plan
CPI	Consumer Price Index
DPE	NSW Department of Planning and Environment
Englobo land	Land that is undeveloped or has minimal development, largely unserviced and zoned to allow for subdivision into smaller parcels
EP&A Act	Environmental Planning and Assessment Act 1979
IPART	Independent Pricing and Regulatory Tribunal
Just Terms Act	Land Acquisition (Just Terms Compensation) Act 1991
LVI	Land Value Index
Market value	Market value as defined in the Just Terms Act
NDA	Net developable area
Nominal rate	Base contribution rate set by simple division of land cost by the number of dwellings or net developable area
Non-market value	Other compensable heads of compensation under the Just Terms Act
NPV	Net Present Value - the sum of the discounted values of a net cash flow
OLG	Office of Local Government
PPI	Producer Price Index
WSPP	Western Sydney Planning Partnership
WSPP councils	The nine member councils of the WSPP including Blacktown, Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Liverpool, Penrith and Wollondilly

EXECUTIVE SUMMARY



Executive Summary

The Western Sydney Planning Partnership (WSPP) is a local/state government partnership set up under the Western Sydney City Deal as a vehicle for collaborative strategic planning for the Western Parkland City. The nine WSPP councils represent some of the fastest growing areas of NSW, with projected resident increase of around 500,000 residents (or 44%) between 2021 and 2041.

New housing and employment developments and the infrastructure supporting those developments will drive most of this growth.

Councils are responsible for the planning and delivery of local infrastructure to support new development that will accommodate this planned population growth, including roads, drainage facilities, open space and community facilities. The costs of local infrastructure that is generated by new development is intended to be met by local infrastructure contributions imposed on and paid or provided by developers.

These costs are made up of costs of the infrastructure works, and the costs of the land that needs to be acquired from existing landowners by the council to provide those works. Land acquisition comprises a major part of the total local infrastructure costs in development areas in and around Sydney.¹

Acquiring infrastructure land using developer contributions represents an ongoing challenge and financial risk to the WSPP councils, as they often are unable to meet the full cost of acquiring these lands. This inability is driven on two fronts:

- Insufficient revenue collected through contributions plans, and
- High (often unanticipated) cost of acquiring privately owned land.

Continuing on the current business-as-usual approach represents a great financial risk for most of the WSPP councils. Without policy interventions, proactive early acquisition programs, and a more disciplined approach to contribution rates-setting, the funding gap between the total land costs in current contributions plans and the total expected contributions is conservatively estimated to be more than \$480 million.

In short, the consequences of doing nothing are significant. They include significantly greater funding shortfalls for councils and threats to housing supply, ad hoc or delayed delivery of enabling infrastructure which results in delayed development and delivery of dwellings.

This leads to a shortage of developable land, leading to higher priced, less affordable homes. It is a self-perpetuating cycle as delayed delivery of dwellings results in delayed payment of contributions which then affects the rate of cost-recovery for infrastructure from development contributions.

This study seeks to understand the scope of the problem and the factors contributing to the misalignment of costs and revenues.

¹ An information paper called *Contributions plan assessment: land costs* prepared by IPART stated that land costs represented 42% of total local infrastructure costs in contributions plans reviewed by IPART between 2011 and 2020.



The study developed and evaluated a range of policy responses, and developed a model for a hypothetical fragmented and unfragmented greenfield site to test the financial impact of the following policy interventions on the business-as-usual approach:

- (a) setting the contribution rates using a net present value approach
- (b) indexing the contribution rates using a market-responsive land value index
- (c) implementing an early land purchase program using borrowings, and
- (d) where infrastructure land is dedicated as part of the development, the value that is paid or credited to the owner is the value in the CP (as indexed), instead of market value.

A key finding from the modelling showed that using an NPV approach to rate setting with a market-responsive land index has the potential to significantly reduce CP revenue funding shortfalls. This outcome is contingent on, and do not remove the need for, councils to source other funds to meet the cost of infrastructure in the early years of the life of a CP. Pooling of funds from other CPs would be appropriate for this purpose.

A similar outcome might be achieved with a Nominal rates-setting approach, but the risk of shortfalls is higher because the Nominal approach requires lower 'real' contributions from early developments towards the future cost of land acquisitions than later developments.. Interventions (c) and (d) will have the effect of reducing contributions overall. Applied as a package, these policy interventions have the potential to significantly reduce and even eliminate the financial risks many councils currently experience in managing the land acquisition component of contributions plans.

The study's findings and related recommendations are included in chapter 5. A summary snapshot of the recommendations, grouped according to WSPP council / State government responsibility, is shown in **Figure 1**.



Figure 1 - Summary snapshot of recommendations

Western Sydney Planning Partnership Councils	NSW Government
Land Acquisition & Dedication Policy with early land acquisition program, and targets and criteria around their acquisition activities	Speed up the issuing of DA consents by permitting contribution conditions to be imposed under a 'provisional' CP
Contribution rate-setting using a net present value (NPV) approach so that contribution rates can recover what is spent on land	Adopt a package of measures that harmonise and improve land acquisition processes and that actively support councils in implementing an early acquisition program
Design and implement a market-reflective land value index	Pilot the recommended improvements to CPs as part of upcoming contributions planning for growth precincts
Land valuation advice at site master planning stage to assess land cost risks and minimise Just Terms costs	Prepare NPV Practice Note: guidance to councils on how they can implement an NPV approach to s7.11 rates-setting
CPs specify that indexed CP value (using a market-reflective index) will be paid or credited to developers dedicating land at the time of development	Prepare Funds Pooling Practice Note: guidance to councils on pooling other CP funds for financing early land acquisition and infrastructure provision
Greater use of funds pooling (across CPs) and internal borrowing	Develop a best practice acquisition policy and delivery model
Council CFOs to take a lead role in implementing infrastructure funding plans as part of the integrated planning and reporting framework	Revise T-Corp low cost loans rules and NSW Office of Local Government to update relevant 'Fit for the Future' benchmarks for high growth councils
Robust consideration of land costs in preparation of CPs (e.g. remediation, Just Terms Act compensation items)	Grant funding scheme to assist councils in funding hardship acquisitions, and to assist in joint funding of high priority early land acquisitions
Develop a regional approach to achieve scale and specialist expertise to improve acquisitions outcomes	DPE to provide funding to and collaborate with councils to implement projects that support the recommendations in the report
Update borrowing policies to allow loans for early land acquisition where other funds are insufficient, so long as debt service benchmarks are met	DPE to investigate opportunities for rezoning to be progressed only after suitable arrangements for meeting the cost of infrastructure land have been resolved

1 INTRODUCTION



1 Introduction

1.1 Study purpose

The purpose of this study is to clearly define problems with the current approaches to local council land acquisition and dedication, and the case for change to the current approach.

The study will also develop a suite of potential policy interventions that will better deliver land acquisition identified in local contributions plans (CPs) in Western Sydney.

Matters considered by the study include the following:

- The costs and benefits of:
 - early acquisition of land and other cost settings to reduce the **cost of land** in local infrastructure CPs.
 - rate settings that **align revenue** that is collected with what is spent on land over the duration of a local infrastructure CP, and
- Using hypothetical scenario modelling, assessment of the relative impact of deploying different interventions on achieving cost neutral CPs.
- Development of policy responses that can address both the cost and revenue side of the equation of acquiring land in a CP:
 - Cost - interventions to contain the cost of land acquisitions, and
 - Revenue - interventions on rate setting to eliminate / reduce the shortfall of contributions needed to fund land costs.

The preferred strategy should be a mix of initiatives/ interventions that prioritises improving existing processes (in which Western Sydney local councils are able to implement) and also recommend actions that can be delivered through support of the NSW Government. These include the design of an early land acquisition program.

1.2 Background

Land acquisition represents a major part of the cost of local infrastructure in all CPs in Western Sydney.

Securing the infrastructure land as early as possible is crucial to providing enabling infrastructure in a timely manner and accelerate development and housing supply.

The current mechanisms for meeting the cost of growth infrastructure land are:

- Section 7.11 and 7.12 contributions
- Negotiation of Planning Agreements and/or Works in Kind agreements for in-kind provision of infrastructure, and
- State Government funding programs – e.g. Accelerated Infrastructure Fund (AIF).



The ways that Western Sydney councils (defined as the 9 WSPP councils) obtain infrastructure land are limited. They involve either the council actively initiating the transaction ((a) and (b) below), or being passive in the sense that they wait for developers of land to approach them ((c) below):

- (a) **Negotiated acquisition** – the local council acquires the land in a voluntary market negotiation with the owner
- (b) **Compulsory acquisition** – the local council compulsorily acquires the land using powers available under the Land Acquisition (Just Terms Compensation) Act 1991, or
- (c) **Land dedication** – the local council receives an offer by an owner / developer to dedicate the land free of cost in part or full satisfaction of s7.11 monetary contributions that have been imposed on a development approval.

Where land dedication is not a feasible option, a widespread practice of local councils is to time the acquisition of land for local infrastructure until sufficient contributions revenue has been collected from development to fund the acquisition.

Delays to land acquisition can create financial risks for local councils, as the value of land increases over time, and may delay development and growth in an area. On the other hand, early acquisition of land can, under the right circumstances, reduce the financial risks, reduce uncertainty for developers and act as a catalyst to expedite housing growth and other development.

Western Sydney councils are seeking to investigate whether they can reduce the financial risk by acquiring infrastructure land as soon as possible following the rezoning of land, allowing growth infrastructure to be provided sooner and less expensively than if they followed the business-as-usual approach.

This project is to evaluate various policy options to better manage the financial risks associated with securing the land needed for growth infrastructure, as essential social infrastructure for community development, with a focus on the land required for infrastructure in greenfield as well as major renewal areas.

Over the course of the project, it was evident that policy interventions were required not just to reduce the financial risk associated with land acquisition and land dedication, but policy interventions were also required to ensure that revenue collected matched the cost of land.

The local councils in Western Sydney and DPE contributed their expertise and experience of issues being experienced with the current business as usual approaches. In response, the GLN / Atlas team worked with WSPP to develop policy options that:

- contribute to development of contribution plans that collect sufficient revenue to cover actual costs of land over the long-term duration of a plan
- address the existing challenges and constraints of current approaches to funding and financing early acquisition / dedication of infrastructure land
- promote voluntary and earlier sales of land by landowners as part of proactive programs for securing land for infrastructure
- incentivise early land dedication by developers, or negotiation of values for dedicated land that are consistent with the income expected to be received from all development in the CP area



- establish efficient and fair land acquisition processes, and develop the expertise and capacity for local councils to effectively implement those processes, and
- provides for leadership, coordination, and other support by the State Government, as applicable.

Where a CP has not yet been reviewed by IPART and the maximum \$30,000 per dwelling threshold remains in place, the financial risk associated with land acquisition and land dedication will be significantly greater than that analysed/ discussed in this project. For the purpose of this analysis it assumes that contribution rates in all scenarios are **not capped**.

2 PROBLEM DEFINITION



2 Problem definition

2.1 Inability for councils to meet the cost of infrastructure land

One problem to be addressed is the issue that local **councils are often unable to meet the full cost of acquiring the land needed for the local infrastructure that is required to support new development.**

The inability of councils to meet the full cost of land is driven on two fronts:

- Insufficient revenue collected through CPs, and
- High (often unanticipated) cost of acquiring privately owned land.

The current process of land acquisition / purchase with funding from developer contributions is at high risk of structural funding shortfalls. This is because the available mechanisms (or the application of the planning mechanisms by local councils) for funding development-generated local infrastructure (i.e., developer contributions under the *Environmental Planning and Assessment Act 1979* (EP&A Act)) do not align well with the requirements of the broader mechanism for public authorities acquiring privately owned land for public purposes in NSW (i.e. *Land Acquisition (Just Terms Compensation) Act 1991* (Just Terms Act)).

Under the Just Terms Act, all interests in land (not just the freehold owner) are entitled to be compensated for market value of the land acquired. The 'market value' of land is determined according to the characteristics of the land at the date of the acquisition - which could be substantially different to the assumptions regarding the cost of land (often englobo land) provided for in a CP.

Additionally, there are other heads of compensation in addition to 'market value' that a landowner may be entitled to, including severance loss or a reduction in value of adjoining lands (if only part of a landholding is acquired), relocation costs, financial disturbance costs, etc. All interests in land (e.g. leaseholders, tenants, etc.) could have compensable interests under the Just Terms Act.

The misalignment of planned costs and reality costs for land expresses itself in several ways, including the following:

- Mismatch between revenue receipts from development to recover the cost of land in present value terms (cost of land needing to be expended early whereas contributions revenue received later across the life of the plan).
- Cost estimates used in CPs do not always include all of the costs associated with the acquisition of land.
- Land purchase that occurs in the future is at risk of cost escalation greater than that provided for in the CP. This "cost escalation" arises on two fronts:
 - The indexation of contribution rates in plans (and the indexed contribution amounts in consents) may not reflect the changing value of land due to property market cycles, and
 - When land is acquired, it is recognised/ valued as serviced land that is permitted for more dense development, resulting in a higher cost of land than provided for in the CP (which for example assumes the cost of englobo land).

- The main source of funding for land (developer contributions receipts) are very low at the most advantageous time to acquire land. For example, land prices are cheapest in the period immediately following rezoning when minimal development has occurred.
- The limited use of debt by local councils to forward fund early acquisition of land can be a constraint, due to concerns about risk in council financial management, the limited scale of councils' borrowing capacity and competing operational needs for use of debt, and State Government financial sustainability requirements limiting local councils' capacity to raise debt.
- There are currently also complex and cumbersome procedures for updating CP rates for land to better reflect actual market prices.

Ad-hoc or delayed delivery of enabling infrastructure results in delayed development and delivery of dwellings (especially in precincts that have smaller fragmented private landholdings). This can be a self-perpetuating cycle where delayed delivery of dwellings results in delayed payment of contributions which then affects the rate of cost-recovery for infrastructure from development contributions.

Figure 2 illustrates the implications of a Nominal rate-setting approach. In Year 0, \$100 spent is recovered from \$100 received. In present value terms, in Year 5, the same \$100 spent has a value of \$122 whereas \$100 received has a value of \$82. This results in a shortfall of \$40. The mismatch of timing is structural and accordingly rate-setting approaches should consider this.

Figure 2 - Mismatch of timing of costs and revenues

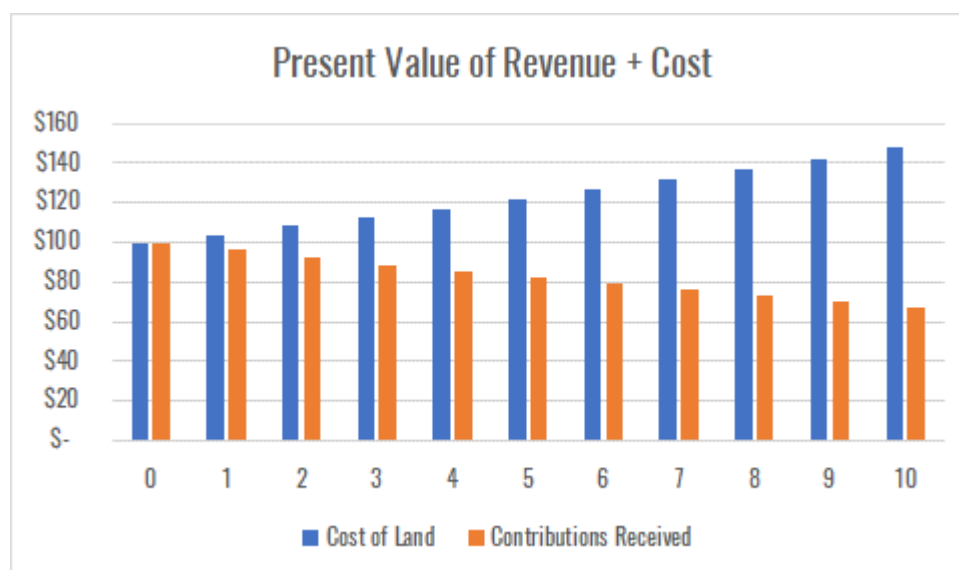
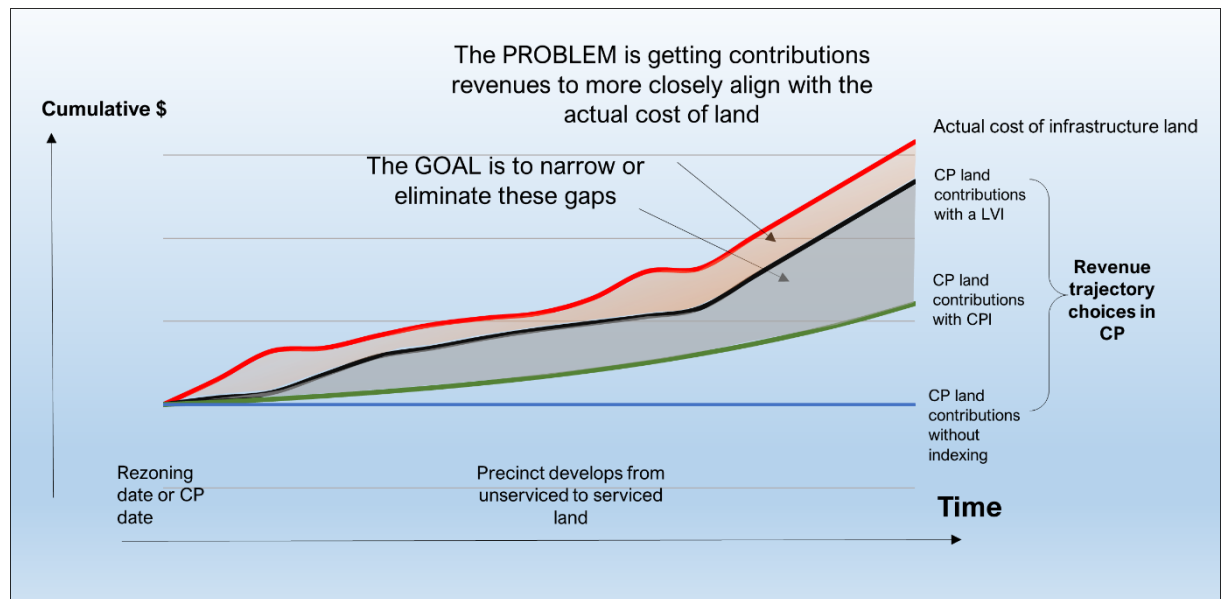




Figure 3 - Misalignment of costs and revenues for infrastructure land acquisition



After land is rezoned, Councils have before them the task of acquiring land to deliver enabling infrastructure so that development can occur. In the early years of a contribution plan (CP), there would be no or limited contributions income received, yet expenditure on early infrastructure is required.

Councils have a number of options for financing the expenditure that is needed:

- Funds collected under the CP (which would be insignificant in the early years of the plan)
- Funds-pooling and borrowing from funds accumulated in other CPs
- Funds borrowed internally from general rate income or from other council income sources or reserves, or
- External borrowing (T-Corp in state government or from a commercial lender).

In some instances councils may have to delay expenditure until sufficient contributions are received from the relevant CP. This delays the development that can occur, particularly in a greenfield precinct, and prevents an orderly development of the precinct, resulting in ad-hoc development.

The need to fund early works from outside the relevant CP is therefore a given for an effective infrastructure delivery program to accommodate growth, regardless of how well the CP calculates contributions to cover the cost of land over the duration of the plan.

2.3 Process for land acquisition and dedication

What is the land acquisition process from a council perspective?

Councils are responsible for providing a range of local infrastructure and services to meet community needs across their Local Government Areas. This can often involve the need to acquire privately owned land in order to provide the public with infrastructure or a public service.

Council powers to acquire land are derived from section 177 of the *Roads Act 1993* (for road purposes) and from section 186 of the *Local Government Act 1993* (for other purposes). These legislations authorise a Council to acquire land or interest in land by either agreement with the landowner or by a compulsory process in accordance with the *Land Acquisition (Just Terms Compensation Act) 1991* (**Just Terms Act**). The decision to undertake the acquisition of land must be made by resolution of Council and cannot be delegated. Councils must also ensure that they comply with the *Minimum Requirements – Minimum Negotiation Period for Acquisition of Land* and the *Minimum Requirements – Owner Initiated Acquisition in Cases of Hardship*.

What are the basic steps involved?

The two ways that councils can acquire land for a public purpose are **by agreement, or compulsory acquisition**. The basic steps involved with each type of acquisition are summarised below.

Table 1 - Land acquisition processes

By Agreement Acquisition	Compulsory Acquisition
▪ Council identifies the need to acquire a parcel or parcels of land for the provision of local infrastructure.	▪ If agreement hasn't been reached between Council and the relevant interest holder – the Council will decide whether to proceed with compulsory acquisition of the land required. Council then lodges an application with the Office of Local Government (OLG) to obtain approval for the compulsory acquisition
▪ Council contacts the landowner (and other interests that may subsist on the land) to explain the land acquisition process.	▪ Where Council decides to proceed with compulsory acquisition – it will issue a <i>Proposed Acquisition Notice</i> which states the Council's intention to acquire the impacted property after a certain time period. The landowner usually has sixty days to lodge a <i>Claim of Compensation</i> form with the Council and NSW Valuer General to ensure their issues are recorded for consideration by Council and the NSW Valuer General.
▪ Council then issues a <i>Commencement Letter</i> to the landowner to explain that they will acquire their land as well as cover any reasonable legal and valuation costs involved, explain the landowners' rights and obligations, advise that Council will	▪ The NSW Valuer General sends a letter to the landowner explaining their role with regard to the compulsory acquisition process involving an independent determination of compensation. A new valuation is then prepared by an

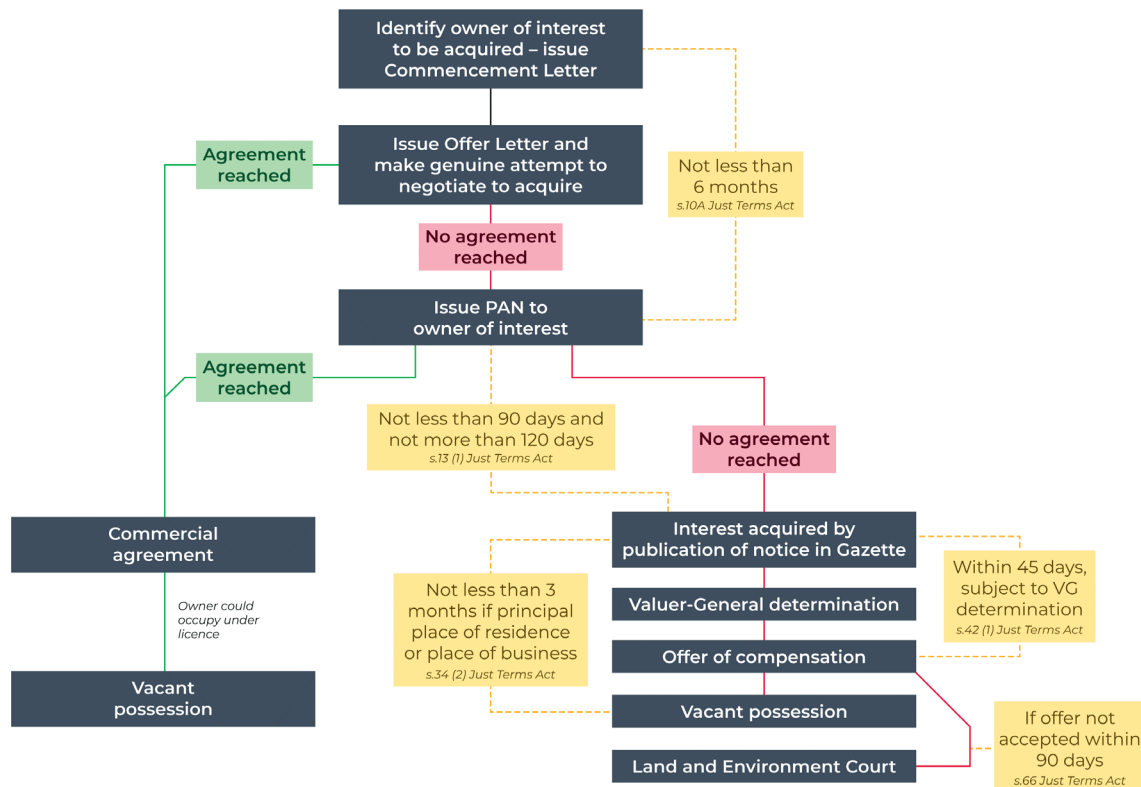


By Agreement Acquisition	Compulsory Acquisition
organise for a valuation by an independent valuer, and encourage the landowner to organise their own valuation.	independent valuer on behalf of the Valuer General.
Both Council and the landowner conduct <i>valuations</i> and prepare reports which are usually shared between the parties.	Council publish a notice in the NSW Government Gazette meaning that the NSW Governor has approved the acquisition.
Council then issue a <i>Letter of Offer</i> to the landowner (and other interest holders if applicable)	The Valuer General review the landowners' claim and make a new assessment on the amount of compensation and a <i>Preliminary Determination</i> before a final determination of compensation is issued.
Council and the landowner meet to work towards an agreement on the compensation offered. This is generally undertaken within a six month period from the issue of the <i>Commencement Letter</i>.	Council then send the landowner a <i>Compensation Notice</i> that contains the Final Determination for compensation. If agreed by the landowner, Council then issues a <i>Deed of Release and Indemnity</i> for completion by the landowner. Compensation is then usually paid within 28 days of receiving the signed Deed.
Once agreement on compensation has been reached the Council arranges for contracts to be prepared and sent to the landowner's lawyer, to formalise the property transfer.	If the amount of compensation determined by the Valuer General isn't agreed by the landowner – the landowner can lodge an objection with the NSW Land & Environment Court within 90 days of receiving the <i>Compensation Notice</i> from Council. The Court then determines the final compensation for the landowner.
If the parties are unable to reach agreement the Council may commence the Compulsory Acquisition process (refer next Column).	

Figure 4 shows the acquisition process under the Just Terms Act. The process commences with commercial negotiations.

Councils can receive applications from landowners for the early acquisition of land on the grounds of hardship. Under the hardship provisions of the Just Terms Act the landowner would need to demonstrate that they would suffer hardship if the acquisition of their land is delayed.

Figure 4 - Acquisition process under Just Terms Act



Dedication of land by a developer as part of a development

Developers can also dedicate land to council through the process of developing land. There are two key pathways available for a developer to dedicate land to the council including:

- **Conditions of consent** – council can impose a condition of consent requiring a developer to dedicate land identified in the CP free of cost to partly or fully satisfy the requirement to pay monetary contributions towards the acquisition of land. The land would be identified for public purpose on the plan of subdivision and dedicated to Council via the registration of the land. This does not expose Council to financial risk where the value of the land is less than or equal to the monetary contribution authorised by a contribution plan.
- **Planning Agreement** – a developer can offer to enter into a planning agreement where the value of land to be dedicated to council at, or in excess of the monetary development contribution authorised by a contribution plan. The *Environmental Planning and Assessment Act 1979* and *Environmental Planning and Assessment Regulation 2021* set out the requirements for planning agreements, including matters that must be addressed and the exhibition process. This also does not expose Council to financial risk where the value of the land is less than or equal to the monetary contribution authorised by a contribution plan.

Case study – Blacktown City Council's procedures for acquisition of land

Blacktown City Council developed their *Land Acquisition Policy* in early 2020 to provide guidance for affected landowners and council staff. The Policy covers a summary of when and how council will acquire land, along with information as to when council will compulsorily acquire land if negotiation with landowners has failed to result in an agreement and how council will determine compensation to landowners affected by land reserved or zoned for a public purpose.

The Policy also includes three related detailed guidance notes covering the detailed processes for the three main types of land acquisition (which generally follow the steps outlined above) including:

- Acquisition By Agreement
- Compulsory Acquisition
- Conduct a Hardship Acquisition

Council's policy and guidance notes are consistent with the provisions of the Just Terms Act.

2.4 Key issues leading to shortfalls

WSPP councils extensively workshoped the issues and problems regarding the acquisition of land for growth infrastructure. **Table 2** documents the results of that scan of the issues and they are explored further throughout the following sections of this report.

Table 2 - Key issues leading to shortfalls

Key issue	Relevant matters
How the rates are set affects the income generated	Contribution rates are mostly set through a nominal approach – simple division of the estimated land cost by number of total dwellings. The councils: • Estimate the cost of land in current dollar terms, then • Divide this amount by the size of the catchment area, expressed as NDA or net increase in population In reality, the process of land purchase/ acquisition occurs upfront, necessitating upfront cost to be incurred whereas the receipt of contributions revenue only occurs much later. This 'front-loading' of costs and deferred receipt of revenue, result in a shortfall of funds collected in present value terms. This static approach does not recognise the fact that \$1 spent today on land is only offset by \$1 collected in the future. This results in the initial CP rate being set too low. Calculation of contribution rates based on their 'present value' would, as will be discussed later, eliminate the mismatch of revenue and cost. Given that a dollar today is worth more than a dollar in the future, contribution rates should be set in present value terms.
CP income fails to keep pace with the land costs	In the WSPP council areas, CPs are indexed to a mix of Consumer Price Index, Established House Price Index (now discontinued) and a customised Land Value Index. A minority of councils use a market-reflective index for land acquisition in CP.



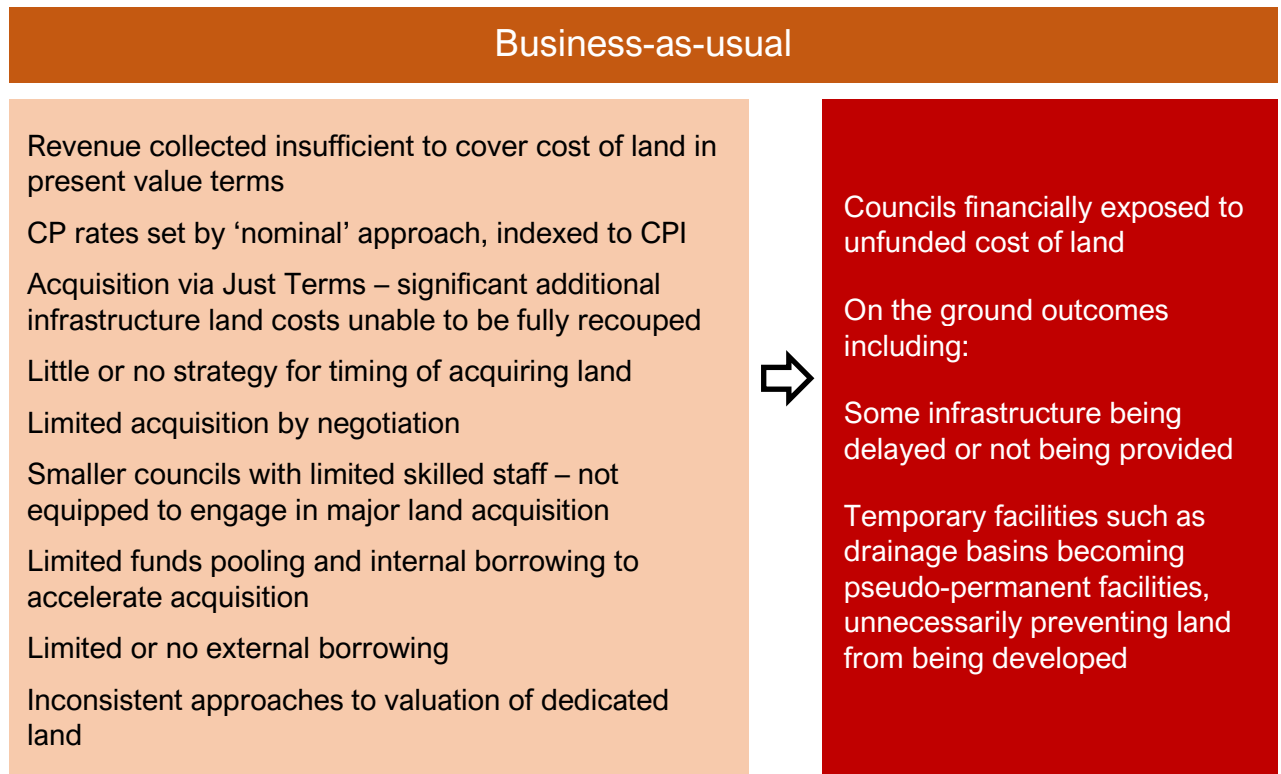
Key issue	Relevant matters
	No single agreed methodology for a market-reflective land value index, although DPE was working with the VG to develop such an index as part of the 'Land Value Contribution' reform. Land dedication from large landholdings occurs with most councils ascribing 'market value' to land that is dedicated. However, many of the CPs index contributions at a far lower rate (e.g. CPI), resulting in a perverse outcome. Dedication of land at market value is subject to two key risks: • Market movement that outstrips the indexation method used in the CP, and • where land is no longer in its englobed state but serviced and with higher order development potential.
Extra costs associated with the compulsory acquisition process	Infrastructure land is generally purchased when required, which could be over a 10-20 year period depending on the degree ownership fragmentation. However, not all acquisition will be negotiated purchases, some will be compulsorily acquired, particularly where there is ownership fragmentation and the parties cannot reach commercial agreement. Compulsory acquisition process usually results in the cost of land significantly greater than the value assumed in the CP. The compulsory process is viewed by some as being weighted too much in current owners' favour (in terms of having all their costs paid for by the acquiring authority). In some councils, compulsory acquisitions are funded from general revenue and other contribution funds particularly where compensation is for items additional to 'market value' of land (e.g. severance and disturbance loss, relocation, etc). 'Hardship' compensation claims typically occur early in the life of the CP – i.e. before any significant contributions funds are available.
Not all costs associated with acquisition are captured in the CP	CPs also fail to adequately account for all the costs required to enable land to be used for its public purpose (e.g. remediation), and costs associated with any compulsory land purchase that occurs in the future. Together, these risk cost escalation greater than that provided for in the CP.
Opportunity for early acquisition through borrowing is constrained and not without risk	Repayments (to internal and external funding sources) are dependent on development and monetary contributions received from developers. A decision to borrow needs to be considered against ability to repay debt. External borrowing needs to be consistent with requirement for local councils under the LG Act and in OLG circulars and guidelines – particularly 'debt service ratio' and 'debt service capacity ratio'. Land acquisition competes with other council requirements for borrowing.
Councils have traditionally not used debt to fund the acquisition of infrastructure land	Council concerns regarding financial sustainability in relation to incurring debt, as well as limited debt raising capacity, may mean that acquisition only occurs when income is available from the relevant CP from development. Concerns about risk also extend to limited use of internal borrowing from general funds (which may also be constrained due to asset/service costs for council operationally) or pooling from other CPs to bring forward land acquisition by some councils.
Cost-efficient land acquisition requires particular skills	Many councils do not have the sufficient staff with the professional skills required to successfully implement the land acquisition program.



2.5 Implications of 'business-as-usual' approach

Sub-optimal outcomes

A business-as-usual approach may see some or all of the following practices continue, perpetuating continuing shortfalls in contributions funds for land acquisition.



Financial implications

Business-as-usual could mean a potential funding shortfall of more than \$480 million as shown in **Figure 5**.

This high-level estimate is in \$2022 dollars based on the application of proxy rates per dwelling derived from various pieces of analysis - construction of a hypothetical greenfield development scenario and analysis of data provided by some councils. The estimate of the funding shortfall is only for greenfield precincts that are rezoned and that have a CP in place. Precincts not yet rezoned are not included in the estimate.

An accurate estimate of the prevailing funding shortfall (and consequential financial risk for respective councils) would require provision of detailed CP data by councils to enable a construction of a cashflow forecast for each CP. The included estimate is however a conservative estimate of the scale of the problem.

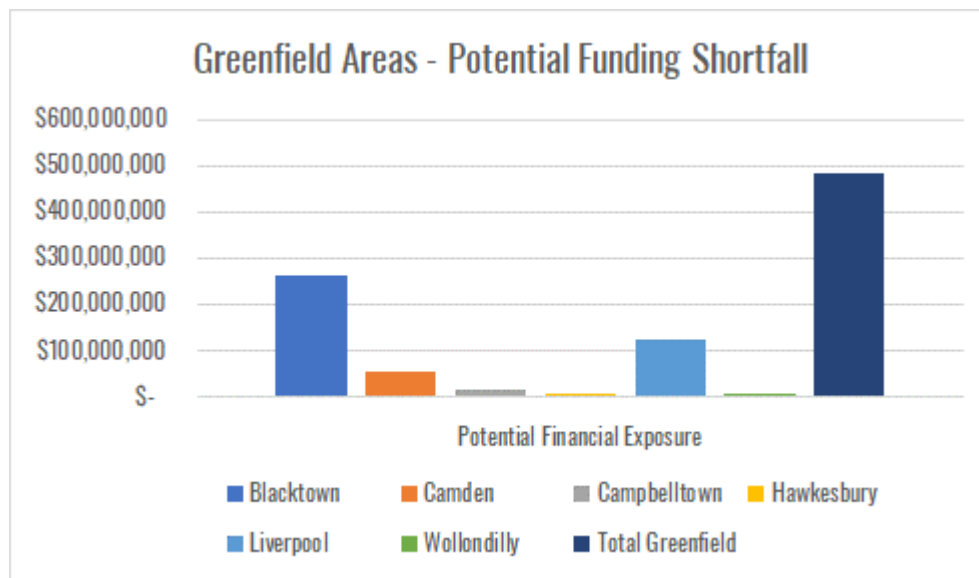


Figure 5 - Estimated (high-level) funding shortfall

The funding shortfall/s between CPs (and council areas) vary according to:

- The method of indexation in a CP (CPI indexation at more risk of funding shortfall than a market-based index such as LVI)
- Whether regular reviews are undertaken (which assist to mitigate funding shortfall), and
- How land for dedication is valued (at 'market value' or indexed CP value - the former resulting in more risk of funding shortfall).

Fragmentation of ownership patterns makes orderly acquisition of land challenging and more expensive.

The purchase of land at market value (from individuals, not developers) is inevitable. In fragmented precincts there is greater likelihood that land will need to be purchased through compulsory acquisition. This results in a higher cost of land to Councils and consequently greater financial risk.

The above does not consider the implications of the contributions foregone from residential development approved in areas where the relevant CP has not yet been reviewed by IPART. The maximum \$7.11 contribution that can be imposed until a plan has been assessed by IPART and the DPE is \$30,000 per dwelling, whereas the contribution rate needed to meet the full apportioned cost of essential infrastructure in WSPP council greenfield areas is about 2-3 times this amount. If the effects of the \$7.11 threshold were quantified in this analysis the funding shortfalls would be amplified.

3 POLICY OPTIONS, OPPORTUNITIES, AND CONSTRAINTS



3 Policy options, opportunities, and constraints

3.1 Key questions that policies need to address

Review of the issues discussed in **section 2** has identified key questions that the potential suite of policy options could address.

These questions and matters to be considered and addressed under each question are listed below.

How can contributions plans generate the funds needed to meet the actual cost of land acquisition?

Matters for consideration:

- Barriers to councils receiving sufficient revenue from contributions to recover the cost of land in present value terms
- The benefits of using a present value approach (and discounted cash flow) to contribution rate setting instead of the static approach currently used by the vast majority of councils
- Establishing and maintaining a suitable market-reflective index that effectively addresses land price growth in CPs without the need to regularly amend and re-exhibit the plan
- Ensuring that all costs relevant to enabling the land to be used for the public purpose is identified for and included in the CP, and
- Including an allowance for property acquisition processes and administration costs, particularly the other heads of compensation that are payable in a compulsory acquisition.

What changes would incentivise councils to make greater use of external debt funding of infrastructure?

Matters for consideration:

- What are the main reasons councils have traditionally avoided debt for funding CP infrastructure land?
- Is there currently access or take-up of TCorp low-cost loans?
- What is the capacity for councils to externally borrow and still meet current OLG requirements for financial sustainability and debt servicing ratios?
- Are councils' capacity to service debt limited due to other operational needs and priorities other than infrastructure land acquisition?
- Would the cost savings from early acquisition be enough to sway the traditional risk-averse approach to debt?

What would encourage councils to use internal borrowing or contributions funds pooling more?

Matters for consideration:

- Is internal borrowing from general funds and other funds limited due to community priorities for services and asset maintenance of existing assets?



- What are benchmarks and protocols each council should adopt in order to pool contribution funds in a financially sustainable way?

How can the land acquisition process be made more efficient and simpler?

Matters for consideration:

- What are the concerns with undertaking compulsory acquisition processes, and what improvements, if any, to framework applying to the compulsory acquisition of land would assist councils? For example, the compulsory process is slow and expensive, so how can the process be made more efficient and less costly?
- How to better reflect the costs of compulsory land acquisition in the CP rate setting?
- How to be proactive in achieving land acquisition and facilitating voluntary acquisition processes?
- How should adequate allowance for hardship acquisition costs when putting in place a plan?
- Can the rezoning or planning system better locks in adequate funding for infrastructure land acquisition early?
- How to improve property acquisition skills and capability in local councils – or would a scaled-up acquisition approach be a more effective solution? For example, would a combined councils regional property acquisition group provide scale for better access to expertise?

What are the pathways available that allow for and incentivise dedication of land by developers?

Matters for consideration:

- What options are available for councils to agree with landowners and developers on infrastructure land value / land transfer arrangements in the period immediately following the rezoning of land?
- What role can planning controls play in creating incentives for developers to dedicate infrastructure land, particularly in urban renewal precincts where the cost of outright purchase of land is prohibitive?
- In what ways can planning agreements be used to incentivise dedication of land?
- Are there current barriers that restrict or discourage developers from dedicating infrastructure land to councils?

The policy options, opportunities and constraints that have been developed in response to the issues are discussed in the following sections, grouped according to whether they are an intervention to the Revenue or Cost settings in a CP:

- Revenue (rate-setting):
 - Better alignment of contribution rates with actual land costs
- Cost:
 - Governance and resourcing of land acquisition activities
 - Early land acquisition programs, including financing acquisitions



- Locking-in future land price early
- State government actions and interventions

3.2 Better alignment of contribution rates with land costs

Contributions plan rates in place at or around the time when DAs are lodged

Under current land use planning and contributions planning practices for new greenfield urban release areas, there is often a significant delay between the rezoning of land and the adoption of a CP, which allows the council to impose a condition of consent which exceeds the \$30,000 per dwelling cap in a prescribed greenfield urban release area. However, following the rezoning of land, if the council has resolved to adopt a draft CP before IPART's review is complete, the council could impose a per dwelling contribution, which is limited to the capped \$30,000 rate.

Alternatively, if the CP has not been adopted prior to IPART's review, the council could seek to negotiate a planning agreement with the developer. The risk with either of these scenarios is that the contribution rate per dwelling is likely to be considerably lower than under an IPART-approved plan, resulting in contributions income shortfalls and a misalignment of revenue/cost in present value terms.

There is an opportunity to revise the CP preparation process to enable councils to prepare and adopt a "provisional" CP which includes only "essential works" yet exceeds the existing IPART capped rate as close as possible to the rezoning of the land, and levy contributions at the "provisional" rate with a subsequent revision of the rates following IPART's review.

A revised CP adoption and review process could have the following benefits:

- developments can be approved once a "provisional" or draft CP passing a minimum standard has been prepared by the Council
- the section 7.11 charges included in this "provisional" plan and imposed on an early consent would be provisional and subject to rise or fall (i.e. adjustment) pending the outcome of the IPART review, and
- even if the IPART review process takes up to two years, the early developments are unlikely to reach the stage where they are required to pay the "provisional" contribution amount as payment occurs prior to the issue of a subdivision certificate.

Once the IPART review and DPE determination is finalised, the contribution levied via any existing development consents could be update by an appropriate mechanism (whether automatically, or via a modification to each development consent - further consideration and legal advice would be required to determine a robust and legally defensible process).

Contribution rates using the net present value approach

The NPV approach to rate-setting involves the use of a discounted cash flow model. In a discounted cash flow model, contribution rates are calculated so that the present value of anticipated revenue is equal to the present value of anticipated costs. This approach recognises that today's dollars are of greater value than dollars received in the future. Accordingly, the net cashflows are 'discounted' to account for the reduced value each year.



There is potential for a NPV approach which factors the costs of early acquisition of land and the resulting impact on net cashflows within council (and the implicit internal borrowing of funds) into the contributions rates under a CP. Guidelines for councils using the NPV approach have been published by IPART, the most recent being in 2018.²

The impact of a net present value rates-setting approach on reducing funding shortfalls is discussed in the next chapter.

Use a market-reflective index

There is an opportunity to pursue the development of a methodology for market-reflective land value index for CPs in conjunction with IPART and the NSW Valuer General, which includes an annual review and re-calibration against the market price movements.

The case for adopting a market-based index should balance:

- accuracy (how closely the index tracks costs)
- transparency (how the index is calculated)
- ease of applying the index (to determine contribution amounts), and
- cost of maintaining the index.

Infrastructure land in CPs is often comprised of land with different zones, constraints, lot sizes and development potential, all of which can have a significant impact on the base year price, and the movement in the underlying cost of land after the plan is adopted.

It would be complex and expensive to develop an index by land use. Given that residential uses are generally the predominant use in greenfield areas, a market-reflective index that reflects residential land price movement in greenfield areas would be suitable.

While an index should reflect the likely change in the price of infrastructure land in the plan in question, an index based on a small area (only a particular precinct) can be volatile and susceptible to risk of data non-availability year to year. An index based on a broader area has the advantage of being more reliable, being informed by a larger volume of sales data.

There is a range of approaches councils could employ to account for price changes in the broader property market. Approaches may include indexing contribution rates by:

- The ABS Established House Price Index for Greater Sydney (though this was discontinued in December 2021)
- An index of land or dwelling values developed by a property data provider on a local government area (LGA) or other geographic region
- An index constructed from precinct-specific land value appraisals undertaken on behalf of council, or
- An index of unimproved land values published by the NSW Valuer General or constructed using NSW Valuer General data.

² NSW Independent Pricing and Regulatory Tribunal (2018), *Modelling local infrastructure contributions in a present value framework* Final Technical Paper Local Government August 2018



The Western Parkland City is comprised of markets and sub-markets, with land value movements driven by market-specific patterns of supply and demand. We would suggest development of a greenfield index by LGA that is either developed by a property data provider or building on previous DPE's work with the VG on developing a land value index.

The impact of a market-reflective land price index on reducing funding shortfalls is discussed in the next chapter.

3.3 Governance and resourcing of land acquisition activities

Leadership of CP implementation phase

The process of implementing, reviewing, and adjusting CPs involves various professionals within (and often external to) a council, including financial analysts, town planners, engineers, recreation and social infrastructure planners, property and assets managers.

Once a CP commences, the emphasis shifts from specifying the infrastructure to providing the infrastructure, including acquiring the necessary land.

Providing the infrastructure, which unlike the preparation of the plan can take up to 20 years or more, requires assiduous, regular recording of development and receipts, the allocation of funds including cash, internal and external borrowings, an overall tracking of income and expenditure to ensure as far as possible that the infrastructure that is required by development is provided by development, with no funding shortfalls. In other words, successful CP implementation requires above all else, considerable financial management skills. As a result, it is important that professionals with advanced financial management skills are key leaders in the long-term implementation phase.

Councils with moderate to large infrastructure programs have some common governance features that provide the environment for implementing financially sustainable land acquisition for local infrastructure.

The timely delivery of infrastructure (including acquiring the land needed for the infrastructure) depends on establishing a robust governance framework. The framework would have many components. Those needed to support effective and efficient land acquisition include the following:

- Leadership for managing the implementation phase of infrastructure funding and CPs to the council's Chief Financial professionals, as a key part of the resource planning and delivery in the integrated planning and reporting framework. This should include responsibility for effective modelling of income to match infrastructure commitments, monitoring of progress and providing updates, and financing land acquisition programs.
- Establishing a cross-department 'executive-level' committee responsible for overseeing the implementation of plans, monitoring of the financial position of each plan, and making recommendations on land acquisitions and dedications.
- Accurately scoped and costed infrastructure lands included in CP works schedules, including adequate allowances for all the heads of compensation and additional administrative costs associated with acquisitions completed under Just Terms legislation.
- Appropriate resourcing, training and support to allow the council's Property section to implement the council's in some cases major land acquisition program.



- Regular review and update of all assumptions in all CPs (at least every 2 years for greenfield development areas), including the cost of infrastructure lands and updating facility needs assessments to determine whether the infrastructure lands included in these plans are still required and if additional lands should be acquired.
- Develop systems and procedures that support consistent land acquisition / dedication processes and reduce / eliminate key person risk. For example, a procedures manual that covers the processes for acquiring land by negotiation, by compulsory acquisition, for dedication of land, and sets out the staff roles and responsibilities for staff involved in each step of each process.

Develop a land acquisition policy

Decision-making in the allocation of significant funds needed for land acquisition, particularly if the council is committing to borrowings, needs to be consistent and must also comply with State Government benchmarks. Land acquisition activities should be carried out under a council policy that establishes targets, criteria (including funding options) and associated actions and programs for early land acquisition in growth areas. This will be particularly relevant in setting up an early land acquisition policy framework.

Land acquisition policies may address the following matters:

- (a) each council establishing a sufficient buffer of funds to meet any hardship claim under the Just Terms Act for plans that have been put in place. This may consider whether state underwriting of this can be achieved due to the potential scale.
- (b) acquisition to be targeted to the most critical lands that open-up large development opportunities – and that decision making principles for proceeding with an acquisition be made clear. A focus on enabling infrastructure and considering earlier stages of development should be prioritised.
- (c) Establish clear funding limits for early acquisition programs, and also set out clearly where the funding for these acquisitions will be sourced. Decision-making processes for these decisions should also be clear.
- (d) set out that, where possible, land that has been acquired early but is not yet required for infrastructure purposes should be leased-out to generate income for the maintenance of the asset.
- (e) approach to partial acquisitions with significant severance loss/ reduction in value of adjoining land. In these circumstances, whether to / when to purchase a whole parcel of land in addition to infrastructure land, how this will be funded, and if/how council will consider opportunities to generate income through the sale and/or development of the portion of the parcel that is not required for infrastructure purposes to generate income should be clear.
- (f) establish how decisions will be made for use of internal borrowing and pooling of CP income for acquisitions.
- (g) establish a policy framework for decisions on external debt funding, including managing financial risk related to CP income, and how debt will be serviced.



- (h) Where there is the opportunity for commercial property portfolio funding to be made available for part land acquisition (where complimentary to core infrastructure lands requirements), and then how this land will be managed for a commercial return.

Building capacity for effective land acquisition

Building capacity to support the land acquisition and dedication processes required for a council as an acquiring authority, particularly in a growth area, leads to specialist resources and a scale that may be in addition to the general commercial and community property management functions of a council.

There may be opportunities to develop the appropriate scale and scope of expertise by working at the regional level jointly, as well as leveraging off relevant state agency support where appropriate.

Opportunities include:

- There are councils that have a high land acquisition burden and may not currently have access to sufficient resources to effectively resource this specialised area. Consideration should be given to developing tools and support at the regional level through WSPP, that can reduce the administrative burden on councils, and also the best approach to strategic procurement or recruitment at the regional level to provide specialist skills and expertise.
- Build expertise through the NSW Centre for Property Acquisition being involved in training Western Sydney local government property and community liaison staff in best practice approaches. The establishment of training for local councils as well as development of material to support growth areas acquisitions should be agreed.
- The current Community Commissioner for the aerotropolis and associated areas land acquisition areas should be consulted in the development of the land acquisition policy, and a regional standard approach should be developed for use by local councils.
- A state government lead (i.e. the Office of Strategic Lands) be established for joint local-state property acquisitions where these occur, to be established through a regional MoU which will include how acquisition will be funded.
- State government to share information with councils on their forward infrastructure program (including any planned spending from SIC sources) so that local infrastructure land acquisition program can be aligned with and support the provision of state infrastructure in growth areas.

Rigorous costing for acquisition land that is included in draft contributions plans

The robust assessment of land cost in preparation of CPs is critical. The current practice of CPs is to estimate land values of englobed land which may be distinguished by land use/ imputed zone, whether the land is constrained or unconstrained development land, etc.

Involvement of a land valuation professional at the preparation of site master planning stage will be important for site selection of infrastructure land to minimise Just Term compensation costs. A review of ownership patterns and ensuring the functional configuration of infrastructure land could assist to minimise non-market value compensation items (which are discussed below).

At the CP stage it is not possible to anticipate every cost item (e.g. if and how much remediation would be required, which Just Terms heads of compensation would be required, how much



infrastructure land would be acquired under Just Terms, etc.). Inclusion of appropriate allowances in the land cost would ensure adequate provision is made for cost items.

A comprehensive review should be undertaken of the following:

- Historical Just Terms transactions (at the various stages of the process – Council-negotiated, Valuer General determined and Court determined) would reveal the various interests that were compensated (e.g. freehold interest, tenants, licence holders, etc.) and compensation amounts paid over and above 'market value'. Under the Just Terms Act, compensable amounts are for:
 - market value
 - special value
 - severance loss
 - injurious affection loss
 - cost of relocation, and
 - financial costs of disturbance (and could include business disruption, stamp duty, etc.)
 - reduction in the value of adjoining land
- The administrative costs associated with resourcing the Just Terms process (e.g. property acquisition and community liaison officers, valuation and legal fees), and
- Historical expense of remediation costs and other environmental costs on land acquired.

Depending on the configuration of land that is acquired (particularly if it is a partial acquisition), the compensable items other than Market Value (referred to as Non-market Value items) can be as high as an additional 50% over Market Value.

Table 3 provides an indication of the additional cost of Non-market value items (at 25% and 50%) if land were compulsorily acquired. In this hypothetical scenario, it is assumed that 20 hectares of infrastructure land is required at a Market value of \$400/sqm. Non-market value items are assumed at an additional 25% and 50%, resulting in a total land cost of \$500/sqm and \$600/sqm respectively. These dollar amounts are applied in the following acquisition scenarios:

- Negotiated purchase: compulsory purchase (100%: 0%)
- Negotiated purchase: compulsory purchase (80%: 20%)
- Negotiated purchase: compulsory purchase (70%: 30%)
- Negotiated purchase: compulsory purchase (60%: 40%)



Table 3 - Cost of land depending on % compulsory purchase

Negotiated		Cost of land	Compulsory		+25%	Total	+50%	Total
(a)	(b) = 20ha x (a)	(c) = \$400 x (b)	(d)	(e) = 20ha x (d)	(f) = \$500 x (e)	(g) = (c + f)	(h) = \$600 x (e)	(i) = (c + h)
100%	20ha	\$8,000	0%	0ha	-	\$8,000	-	\$8,000
80%	16ha	\$6,400	20%	4ha	\$2,000	\$8,400	\$2,400	\$8,800
70%	14ha	\$5,600	30%	6ha	\$3,000	\$8,600	\$3,600	\$9,200
60%	12ha	\$4,800	40%	8ha	\$4,000	\$8,800	\$4,800	\$9,600
Additional over Market Value (Negotiated: Compulsory)						\$8,000		\$8,000
80%: 20%						+5%		+10%
70%: 30%						+8%		+15%
60%: 40%						+10%		+20%

The example above shows that in the event that purchase prices of 50% over and above Market Value were paid for 30% of the land acquired, an additional allowance of 15% should be provided for in the CP.

The above analysis (based on actual acquisitions data from councils) would form the basis for the application of an allowance over the estimated market value in CPs and provide justification to IPART for the same.

3.4 Borrowing to fund early land acquisition

Council borrowing capacity and financial sustainability

There will inevitably be a need to fund land acquisition activity from outside the relevant CP in the early years of a plan. Some councils do this using internal borrowing of funds, but rarely do councils take on external borrowings.

Metropolitan and peri-urban councils have traditionally avoided external borrowings as a means of bringing forward the purchase of infrastructure land when it is cheaper. Some councils in fact have policies restricting external borrowing. This has been driven by the OLG fit for the future financial sustainability criteria, the limited capacity for borrowing being used to fund higher priority operational imperatives for council, or concerns from regarding risk associated with borrowing against uncertain development timing.

Appendix B includes an assessment of the borrowing capacity of the WSPP councils.

All of the WSPP councils have limited borrowing capacity under the OLG criteria. These need to be relaxed for high growth councils to allow room for an early acquisition program. Recommended adjustments to criteria are discussed in chapter 5.



Utilise external borrowings where practicable

Opportunities requiring State government response or leadership:

- Set-up T-Corp low cost loan facilities being available with requirements to allow infrastructure land acquisition with greater access/ easing of borrowing conditions or constraints, if required. This could fund CP land acquisitions and acquisitions that trigger Just Terms compensable losses (where councils would need to use general fund or other non-s7.11 income).

Low cost loans criteria should include consideration of CP income at state/local common development assumptions – or where more detailed local government development projections or UDP projections from the state government are valid.

- State guarantee of loans / or partial guarantee to share risk with councils (if development doesn't eventuate).

Agreements for repayment of loans to address development risk and be at agreed local/state development rates – and that loan repayments would be delayed if development was delayed. There is also the opportunity for state financing facility to agree to no-interest on loans, and that repayment to state as per CP income (to include interest in repayments inherent in agreed funding).

- Better UDP information short-medium term growth rates and staging of growth in Western Sydney available for use by local councils as standard assumptions for financial analysis.

Internal borrowing

Internal borrowing is where a council uses its own funding sources other than funds from the relevant CP to fund growth infrastructure. Borrowing between different CPs is known as 'funds pooling' and is dealt with separately in the next section.

Sources of funds for internal borrowing include the council's General Fund, as well as unrestricted reserves (for example, funds set aside for a particular purpose such as property acquisition).

Internal borrowing is used by some WSPP councils to fund infrastructure land acquisitions, although this is limited and often used to make up a shortfall of available funds in CP accounts.³

Internal borrowing is, however, rarely used to fund infrastructure land acquisition, presumably because there are other competing pressures on funds that council have to prioritise, including asset maintenance and renewal. Internal borrowing would need to be undertaken as part of a wider and long-term land acquisition program established consistent with the long term financial plan (10 years).

The following strategies are potentially available for councils to utilise non-contributions funding sources in a financially sustainable way:

- Councils can develop a policy on the circumstances and criteria that must be met if the General Fund or unrestricted reserves are used for servicing debt for early provision of local infrastructure. For example, the policy could set a limit on the maximum borrowings for

³ For example, Camden Council has on occasion used its General Fund as a co-funding source where only a portion of an existing allotment is required for local infrastructure, because infrastructure contributions cannot be used to acquire residual land.



purchase of infrastructure land to meet financial sustainability goals, e.g., not to exceed X% of the rolling 5-year average annual income from contributions.

- Update CPs to include interest costs for internal borrowing, to address opportunity cost of applying funds from non-contribution sources.

Pooling of contributions funds

Councils have an opportunity to borrow and repay funds accumulated in other plans or in other reserves. Internal procedures and accounting between plans must be well developed and set out.

This is already a practice of some WSPP councils. The pooling of funds for early expenditure on 'strategic' lands to unlock development fronts in the relevant precinct releases development opportunity which facilitates development activity and in turn quickens the payment of contributions.

DPE could prepare a practice note (or in conjunction with IPART) that explains prudent approaches to the pooling of funds - to guide borrowing across funds (through ratios/ criteria) that does not undermine infrastructure delivery in other CP areas. Relevant matters in the practice note include:

- Relevant CP area:
 - developed infrastructure/ staging plan showing strategic lands for purchase/ acquisition (e.g. for key roads and stormwater facilities) and an estimated/ budgeted cost
 - known development interest and activity that could commence upon carrying out of the strategic local infrastructure identified, and
 - forecast development activity (and timing of contribution receipts) assuming delivery of infrastructure/ staging plan.
- CP area borrowed from:
 - Infrastructure requirements and milestones for expenditure, and
 - Forecast development activity (and timing of contribution receipts) assuming delivery of infrastructure as planned.
- Cash reserve buffers required depending on:
 - Stage of development in the CP area borrowed from, and
 - Stage of infrastructure delivery in the CP area borrowed from.

Internal funds pooling is not limited to land acquisition; it is equally important for undertaking of works to unlock a precinct for development.



Acquire non-infrastructure land that can earn a commercial return as part of overall infrastructure funding package

There will invariably be instances where only partial acquisitions of land will be required for infrastructure land – to be funded by CP income. Where part of a landholding is acquired and a landowner is left with adjoining land, depending on the nature of the remaining lands, there could be losses to the landowner that are compensable under the Just Terms Act over and above market value of the land acquired.

A proactive approach by councils would be to avoid partial acquisitions that require compensation for losses (other than market value). Where a partial acquisition of lands is unavoidable (due to its strategic location within a precinct), it would be in councils' interest to plan for the acquisition of whole parcels of land and eventual use that would add value. Proceeds of resale of non-infrastructure land can be reinvested in the precinct or elsewhere depending on whence funds were sourced.

Some councils already have a practice of acquiring non-infrastructure land to either avoid paying compensation for losses associated with partial acquisition or where council identifies a strategic opportunity for the land.

Opportunities include:

- Utilisation of a commercial property fund established by council separate from CP income and establish rules for the use of these funds for part-lot land acquisition where there is a later commercial return as precincts develop.
- Seek state government seed funding for a commercial property fund, particularly for smaller councils, that would allow the commencement of a commercial property acquisition for part allotments, potentially with a revolving fund approach where the initial investment needs to be returned over time to the state as per an agreement.
- Councils develop a commercial property development policy where the sale and/or redevelopment of lands are considered as part of business cases.

3.5 Locking-in land price early

Land arrangements agreed before urban development allowed

There would be benefit from an opportunity to consider a planning scenario where rezoning is 'switched-on' only after arrangements for infrastructure land (quantum and cost) have been agreed with the council. This is akin to development sites deferred from rezoning until technical investigations are completed and site complexities understood.

An example of a 'deferral' tool is in Green Square Town Centre where the Sydney LEP 2010 (Green Square Town Centre) is gazetted, however is a "deferred matter" under the EP&A Act. The Green Square Town Centre LEP provisions have no effect until the land becomes "un-deferred". This is used to ensure delivery of essential infrastructure to support development. The 'trigger' for un-deferring of land is a commitment by site owners/ developers to contribute to delivery of essential infrastructure and land, set out in a planning agreement offer negotiated with the City of Sydney.

The Green Square Town Centre DCP 2012 contains more detailed provisions to support the planning controls in the LEP. Similar to the Green Square Town Centre LEP, the DCP is not operative under



the land is un-deferred. The LEP and DCP are complemented by the Green Square Town Centre Infrastructure Strategy 2006 which identifies the essential infrastructure (and land) required to support development.

The 'switching on' of planning controls once infrastructure and land requirements have been committed to would provide an incentive for the market to act expediently.

Establish an early land acquisition program to actively negotiate land acquisition in the period immediately after rezoning

It is widely accepted that land values rise sharply in the period just prior to and after a rezoning. From thereon, growth in land values will be driven not only by property market cycles but by development of a precinct (i.e. as roads and services are provided and dwellings and shops are delivered).

Active negotiation to purchase land immediately after rezoning offers two key advantages:

- Avoided cost of land acquisition when land is no longer 'englobo' land but more valuable development land (potentially serviced and capable of high density development)
- Securing land early enables growth infrastructure to be delivered early, thereby enabling development to occur in a swift and orderly manner (and payment of contributions to occur)

A land acquisition program that is more reactive (i.e. reliant on contributions revenue) will result in piecemeal and delayed take-up of development, and ad-hoc delivery of infrastructure. A proactive land acquisition program is critical to unlock development in greenfield precincts that have fragmented ownership patterns.

The modelling in this Study assumed for the purposes of testing the merits of an early land acquisition program. The assumptions are described in Table 5. Design of an early land acquisition program will be underpinned by various considerations (some precinct-specific, some council-specific). These considerations include, *inter alia*:

- the amount of infrastructure land required for enabling infrastructure that would enable development to reasonably commence and establish momentum
- the monetary resources council has available to it (whether from internal or external funds)
- relative fragmentation of a precinct, ownership patterns and the number of owners involved

Internalising the cost of infrastructure through the planning system

The formal contributions mechanisms in the EP&A Act are not the only tools available in the planning system by which the infrastructure needs of development can be met.

Planning system strategies for obtaining infrastructure land do not require establishing explicit values for land early in the development phase. Rather, the land is dedicated as part of the provision of certain infrastructure by the developer. The requirement to directly provide the infrastructure is embedded in the environmental planning instrument (such as the LEP).

Opportunities for direct developer provision of infrastructure – as distinct from all the developers paying the council money to purchase land and provide works – are greatest in the 'upzoning' of infill urban areas. The mere act of rezoning land to create additional development often generates significant value uplift for the land owner.



The 'price' of the land given over to infrastructure is a consideration (to the developer) insofar as the extra value created by the upzoning is clearly greater than the cost of the land and infrastructure works required.

Opportunities include:

- Urban renewal area rezonings / up-zoning contingent upon minimum percentage of the site being embellished and dedicated as public open space, public domain, and
- New road, cycle and pedestrian links provided by developer in order to access additional development rights.

Examples of this approach can be seen in Lane Cove (St Leonards South) and Canada Bay (Paramatta Road corridor) local environmental plans.

Value of lands dedicated as part of development to reflect indexed plan value

When councils purchase infrastructure land outright, either through negotiation or compulsory acquisition, the transaction is almost always based on 'market value'. This can result in a perverse outcome where the cost of land in a CP is not indexed to the market, thereby resulting in an unfunded gap.

The Land Acquisition (Just Terms Compensation) Act 1991 defines market value as follows:

"market value of land at any time means the amount that would have been paid for the land if it had been sold at that time by a willing but not anxious seller to a willing but not anxious buyer, disregarding (for the purpose of determining the amount that would have been paid)—

(a) any increase or decrease in the value of the land caused by the carrying out of, or the proposal to carry out, the public purpose for which the land was acquired, and

(b) any increase in the value of the land caused by the carrying out by the authority of the State, before the land is acquired, of improvements for the public purpose for which the land is to be acquired, and

(c) any increase in the value of the land caused by its use in a manner or for a purpose contrary to law."

However, where the land is instead offered by a developer to the council in conjunction with other contributions of works and / or cash as part of a proposed planning agreement the contribution value ascribed to that land can be any amount negotiated between the parties to the agreement.



For instance, a practice used by several councils (e.g. Camden) is to accept CP infrastructure land from the developer at the value attributed to it in the plan. That is, the value shown in the plan inflated by the index adopted by the plan for acquisition of land. This is done so that the developer receives contributions value or credit that is no more than the cash contributions that are collected under the plan. See box at right.

It is an inescapable fact that when land is purchased as a transaction in and of itself, 'market value' would be the basis of payment. Some landowners would require a premium over 'market value' and refuse to sell otherwise. Some landowners may view the compulsory acquisition process as an avenue worth pursuing and being relatively low in risk to them. This underscores the importance of:

- Initial rate-setting that calculates contribution rates so that revenue collected covers the cost of land in present value terms
- Ensuring the contribution rates keep pace with land price movements, and
- Rigorous costing of land in CPs to account for purchase through negotiated and compulsory acquisition (this is an intervention to the cost side of the CP equation and is described below).

Where land is acquired as part of a development (dedicated in a VPA), the circumstances are different to those of a purchase (from a non-developer landowner). The dedication of land as part of a development enables the carrying out of the development, rather than being a foregone/ loss asset.

3.6 State government interventions and actions

The following policy opportunities would require State government involvement and leadership:

Funds to assist early acquisitions and hardship claims

A key element of early acquisitions is that it frees up development and growth by providing enabling infrastructure and lands, and also that it places downward pressure on contribution rates as the land component is purchased at an optimal time.

The ability to finance early land acquisition ahead of collection of contributions income will require a joint approach between local councils and the State government.

DEDICATION OF LAND IN CAMDEN GROWTH AREAS CONTRIBUTIONS PLAN

Example of a contributions plan provision that states a council's policy on the value it will ascribe to dedicated land (and works) provided by a developer to satisfy contributions obligations:

4.3.4 Valuation of works-in-kind and other MPBs

The value of works offered as works-in-kind is the Attributable Cost of the works (or a proportion of the Attributable Cost if the offer involves providing only part of a work) indexed in accordance with the provisions of this plan.

The Attributable Cost of works will be used in the calculation of the value of any offset of monetary contributions required under this plan.

The value of any other kind of MPB will be determined by a process agreed to between the Council and the person making the offer at the time the DA is being prepared.

The value of land will be the Attributable Cost of the land under this plan indexed in accordance with this plan to the time the agreement is entered into.



Councils cannot fund hardship claims where little or no income has been received under the contributions plan, the State Government needs to consider a funding source or payback solution.

Opportunities for action in this area include:

- The debt funding capacity for high growth councils to be reviewed and current OLG approaches to financial sustainability (i.e. debt service ratio benchmarks) should be adjusted to support councils greater use of borrowing to bring forward acquisitions.
- Councils should be encouraged to utilise low cost T-Corp loans, as well as the need to underwrite the funding necessary for State-significant growth areas early land acquisition through State funding assistance for both hardship acquisitions and also in matching funding style grant funding programs.
- Grants could be made available for infrastructure funding tied to when Council acquires land early for public infrastructure. Instead of a fund this could be a guarantee available to all councils that have land reserved for growth infrastructure.

Contributions system improvements and sharing knowledge of best practices

The State government is continuing with some of the reforms to the infrastructure contributions system including:

- The introduction of an Infrastructure Contributions Digital Platform is expected to streamline the preparation, implementation and review of CPs as well as streamline the process of reviewing plans by external parties such as IPART, and
- Preparing updated practice notes, and template CPs.

Consolidate land acquisition activities under leadership of State government

There is potential for the State government to play a role in the consolidation and streamlining of land acquisition activities. This could include:

- Councils being given access to the more streamlined State-coordinated land acquisition process with better clarity around the process and benefits of voluntary selling land etc, potential limits of compulsory acquisition value (with VG guidance) etc.
- Introduction of a State government coordinated acquisition program to acquire all priority State and local infrastructure land in CPs
- Introduce a coordinating body / function for the land acquisition related to both State and local infrastructure in growth areas. Coordinated and consolidated process will:
 - streamline the land acquisition process across councils and State agencies, and
 - addresses the resource challenges and uncertainty for Councils in compulsorily acquiring land.

Streamline compulsory acquisitions

When commercial negotiations do not result in an outcome, councils have the option of issuing a PAN (proposed acquisition notice) and proceeding to compulsorily acquire land or abandoning the purchase of the land and instead re-consider infrastructure design and land requirement (potentially negotiating to purchase an alternate parcel of land).

For land that is resolved to proceed to compulsory purchase, it would be helpful if a streamlined process of compulsory acquisitions be established to 'fast track' compulsory acquisitions through the



various stages of the process. This may involve MoU agreements on priority for growth areas acquisitions, scheduling acquisition activities to provide advance notice for VG etc.

4 EVALUATION OF OPTIONS



4 Evaluation of options

4.1 Modelling of a hypothetical development scenario

In this chapter, the implications of continuing a Business-as-usual (BAU) approach or impact of policy interventions are considered from the perspective of contributions revenue and cost to purchase land. If the cost to purchase land exceeds contributions received (in present value terms), there will be an unfunded cost to Council.

An unfunded cost to Council could be manifest in one or more of the following:

- Purchase of land needing to be subsidised from general council funds or other revenue or from external borrowings – this risks non-recovery of the additional borrowing cost but also of the principal cost itself and is in effect subsidised by existing ratepayers, or
- Land is not acquired, and corresponding infrastructure is not delivered, or
- Development does not occur and the delivery of housing is stalled.

The intention of suggested policy interventions is two-fold - to ensure that contribution rates are set at levels for sustainable cost-recovery and for land acquisition to occur in a cost-effective manner that would then place downward pressure on the cost of land and in turn the contributions required to offset that cost.

Hypothetical development scenario assumptions

A hypothetical base development scenario is developed for the purposes of policy options modelling against the BAU. By varying the assumptions on a constant set of development parameters observation of the direct impact of policy interventions can be made.

The hypothetical development scenario assumptions for the purposes of modelling are in **Table 4** for while the BAU assumptions are described in **Table 5**.

Table 4 - Hypothetical development scenario assumptions

Scenario attributes	Description
Net Developable Area (NDA)	130ha
Dwellings Potential	2,600 dwellings (avg. 20 dw/ ha)
Infrastructure land	21ha (approx. 16% NDA)
CP land cost	• \$400/sqm (unconstrained developable land) • \$90/sqm (constrained land)
Indexation	Consumer Price Index (CPI)



Revenue and cost assumptions

The BAU and different policy options considered in the analysis are categorised by revenue and cost. There are different practices observed across WSPP councils, as follows:

- CP rate set by simple division of land cost by dwellings or NDA (referred to as **Nominal Rate**)
- Indexation method to a mix of Consumer Price Index, Housing Price Index and/or council-developed land value index
- Some councils undertake regular reviews of CPs
- Most councils accept land dedication at 'market value' while some councils accept land at indexed CP value
- Some councils have a proactive land acquisition program commenced upon rezoning, and
- Some councils pool funds from other CPs, general funds or cash reserves to implement their land acquisition program.

All WSPP councils (without exception) approach rate-setting by simple division, adopting a Nominal Rate (rather than an NPV rate, which is a contributions rate set in a present value framework). However, through regular review some councils reduce their financial risk/exposure.

The BAU assumptions adopted for the purposes of modelling are intended to represent typical parameters of a CP and its delivery in an 'Unfragmented' and a 'Fragmented' precinct.

Table 5 describes the BAU revenue and cost assumptions adopted in the modelling. These assumptions form the basis for comparison of various policy interventions.

Table 5 - BAU revenue and cost parameters

Revenue	Cost (Land Acquisition Program)	
	Unfragmented Precinct	Fragmented Precinct
• Nominal rate • Indexed to CPI • No regular CP review • Pace of development faster in Unfragmented compared to Fragmented precinct	• Development horizon (20 years) • Land acquisition (20%) – 5-10yrs • Land dedication (80%) – 20yrs • Land dedicated at Market Value	• Development horizon (30 years) • Land acquisition (50%) – 5-10yrs • Land dedication (50%) – 30yrs • Land dedicated at Market Value

Through iterative testing, the following policy interventions are found to have the greatest impact.

- Revenue - interventions to align collection of funds with funds needed for land cost:
 - contribution rate set by NPV analysis (NPV Rate), indexed to CPI.
 - contribution rate set by simple division (Nominal Rate), indexed to market-based index.
- Cost - interventions to contain/ reduce the cost of land:
 - early acquisition and timeframes for acquisition reduced.
 - land is dedicated at indexed CP value (not Market Value).



The various interventions are combined and modelled individually and cumulatively (**Table 6**).

Table 6 - BAU and policy interventions revenue and cost parameters

Option	Revenue	Cost (Land Acquisition Program)	
		Unfragmented Precinct	Fragmented Precinct
BAU	Nominal rate Indexed to CPI	BAU Acquisition Program (refer to Table 5)	BAU Acquisition Program (refer to Table 5)
1	Nominal rate Market-based index	BAU Acquisition Program (refer to Table 5)	BAU Acquisition Program (refer to Table 5)
2	NPV rate Indexed to CPI	BAU Acquisition Program (refer to Table 5)	BAU Acquisition Program (refer to Table 5)
3	NPV rate Market-based index	Early Acquisition Program - Land acquisition (30%) – 5yrs - Land dedication (70%) – 20yrs - Land dedicated at Market Value	Early Acquisition Program - Land acquisition (60%) – 5yrs - Land dedication (40%) – 20yrs - Land dedicated at Market Value
4	NPV rate Market-based index	Early Acquisition Program (refer to Scenario 3 above) Land dedicated at indexed CP value	Early Acquisition Program (refer to Scenario 3 above) Land dedicated at indexed CP value

Discounting in a present value framework

In 2018 IPART issued a technical paper to assist with modelling local infrastructure contributions in a present value framework. The paper outlined the considerations in a new present value modelling approach and made recommendations for a discount rate to be set to an organisation's WACC (weighted average cost of capital). IPART issues guidance for discount rate setting twice annually. A description of the NPV approach and key considerations are contained at the end of the chapter.

The higher the discount rate, the greater the difference time has on the value of money. For example, at a discount rate of 4%, in Year 5 - land cost of \$100 (in today's dollars) would be cost \$122 and \$100 contribution received would be worth \$82 in present value terms. At a discount rate of 6%, in Year 5 - land would cost \$134 and the contributions received would be worth \$75 in present value terms.

For the purposes of the modelling, a discount rate of 4% is assumed.

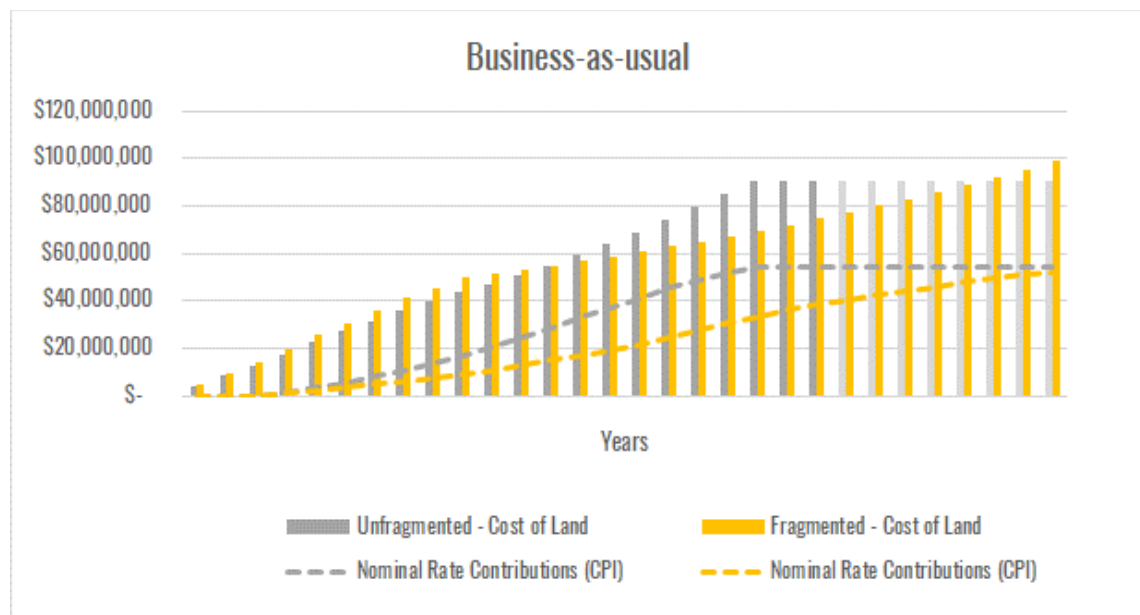
4.2 Nature of the BAU problem

In section 2.2 it was highlighted that all contribution plans face a funding deficit in the early years regardless of construction (i.e. even if the rates are set to deliver a cost-neutral CP).

Figure 6 illustrates the BAU funding shortfall results, with the contributions collected not able to cover the cost of land required for infrastructure. The following observations are made:

- Unfragmented precinct – contributions shortfall of \$36.3 million, and
- Fragmented precinct – contributions shortfall of \$46.9 million.⁴

Figure 6 - Misalignment of cost and revenue resulting in funding shortfall



In the BAU, the revenue deficit in the early years is not ultimately recouped even after development is complete (20 years and 30 years in Unfragmented and Fragmented precincts respectively).

Inherent in this outcome is the assumption that development is still able to occur, i.e. that land acquisition and delivery of infrastructure is funded from other sources but not recovered. There would naturally be an opportunity cost to funds sourced from outside the relevant CP. For the purposes of modelling this opportunity cost is assumed at 3% per annum.

4.3 Effectiveness of options in reducing funding gap

The policy interventions aim to address both revenue and cost-side deficiencies in the BAU.

In all scenarios (BAU or with policy interventions) sourcing of other funds to pay for early infrastructure works is inevitable. The policy interventions assist with repayment of those funds to achieve cost neutrality and / or reduce the cost required for land acquisition. Pooling of contributions funds from other CPs can be used for this purpose.

⁴ Funding shortfalls before including the costs of borrowings



In a series of graphs and tables, the impact of each policy option is shown (separately and cumulatively) on reducing the funding shortfall under the BAU and achieving a cost-neutral outcome.

Intervening on rate-setting (revenue-side)

The cost of land is shown to be higher in a Fragmented precinct. This is due to a higher proportion of land acquired via purchase upfront (less dedication) as well as slower development take-up.

Figure 7 - BAU and rate-setting (revenue-side) interventions (BAU land acquisition program)



By setting an NPV contributions rate (yellow line) or indexing a nominal contributions rate to a market-based index (dark blue line), contributions collected over the duration of the plan can be recovered.

Rate-setting by NPV results in slightly higher initial rates compared to where a Nominal Rate is indexed to a market-based index. This has implications for the funding shortfall in the early years of a plan.



Even though contribution rates are set to recover the cost of land over the duration of the plan, there is still a funding gap in the early years of the plan (indicated by the red circles in **Figure 7**). While interventions to rate-setting ensures a cost-neutral CP outcome by the end of the life of the plan, the interventions **do not remove the need for sourcing funds (from outside the relevant CP) in the early years of the plan**. As stated previously, pooling of other CP funds can be used to meet this funding gap in the early years.

The next section examines how interventions to the cost of land (including securing alternate funding sources) reduce the cost of infrastructure land.

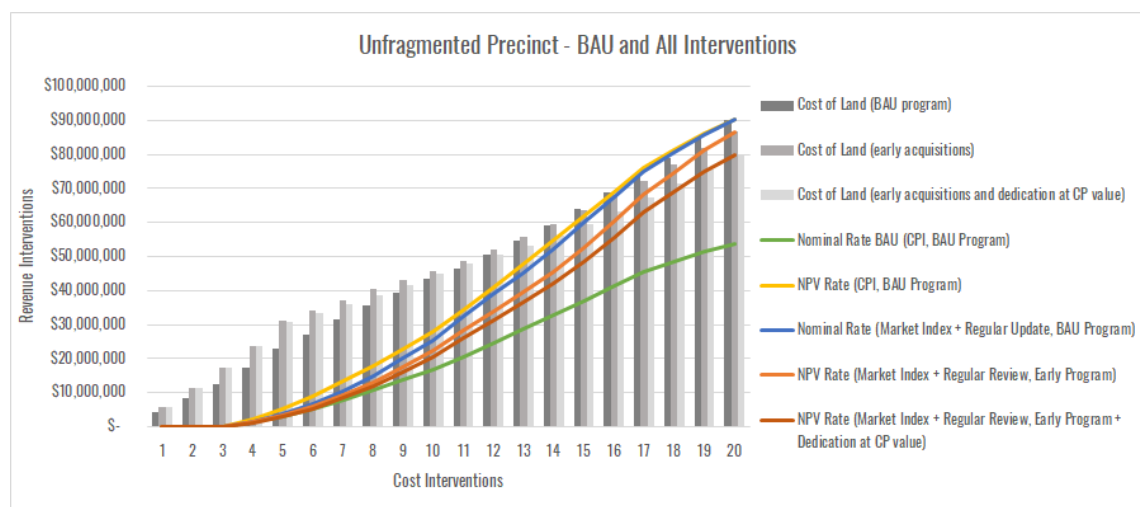
Intervening on the cost of land (cost-side)

Two cost-side interventions are examined in this section (which were earlier described in Table 6):

- Early acquisition program, and
- Early acquisition program and land dedication at indexed CP value.

Figure 8 illustrates the impact of the above interventions when implemented separately and together. The cost of land reduces (compare the dark grey bars with lighter grey bars) and therefore less contributions are required for a cost-neutral outcome.

Figure 8 - BAU and cost-side interventions (Early land acquisition program)



As a result of cost-side policy interventions, less contributions are required – compare contributions when both the interventions are simultaneously implemented (brown line) against contributions when only an early acquisition program is implemented (orange line).

Both these contribution amounts are less than when only rate-setting (revenue-side) interventions are implemented (yellow line and dark blue line) against a BAU acquisition program (dark grey bars).

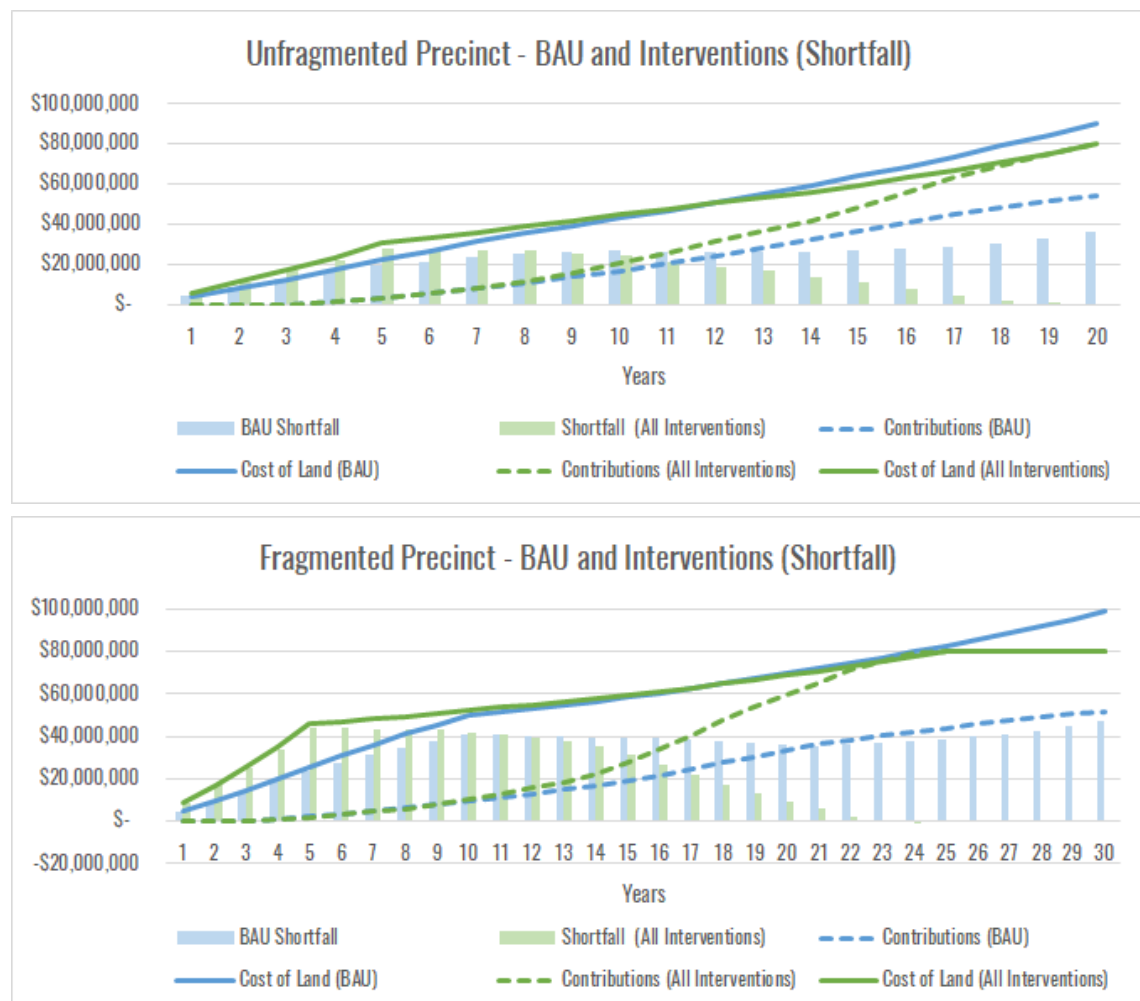
The analysis shows that interventions on both revenue and cost settings can achieve a cost-neutral outcome but **additionally** reduce the overall amount of contributions required by development.

Allowing for the cost of borrowings

By intervening to bring forward the land acquisition program, there will be an even larger funding gap than under the BAU if the borrowing costs are not collected. The modelling assumes that borrowing (at 3% interest) will be necessary to fund the additional shortfall that results due to the bringing forward of land acquisition before contributions revenue is received at scale. The 3% interest could apply to external borrowings or to internal borrowings.

Figure 9 illustrates that even after inclusion of the cost of borrowing, an early land acquisition program still results in an overall lower cost of land (and naturally lower contributions required).

Figure 9 - BAU, early land acquisition program and funding shortfall



The following observations can be made:

- the shortfall under the BAU remains even after development is complete (blue bars) - leaving a deficit with no prospect of cost-recovery or infrastructure that is not delivered, or both.
- with the policy interventions (and allowing for the cost of borrowing), the cost of land is lower (green bars compared to blue bars).

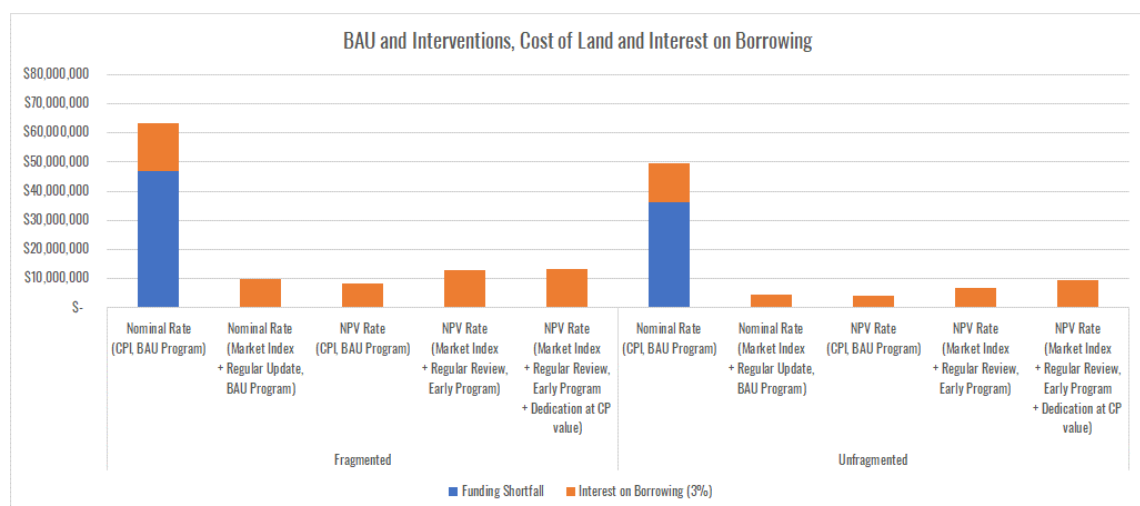
- an early land acquisition program has the potential to accelerate the pace of development take-up in a Fragmented precinct with development completion (and cost-recovery) occurring sooner, by year 22 rather than year 30.

Figure 10 shows the comparative cost of borrowings to fund shortfalls for the different scenarios:

- BAU – funding gap in the early years **and** for the duration of the plan (cost is not recovered)
- Rate-setting interventions (using the BAU acquisition program) – there is a larger funding gap in the initial years if a Nominal rate rather than an NPV rate is set. While both rates recoup the cost of land over the duration of the plan, the Nominal rate attracts a higher cost of borrowing.
- Early land acquisition program and land dedication at CP value – a larger funding gap in early years of the plan (compared to BAU) which is recouped over the duration of the plan.

There is a greater cost of borrowing when the acquisition program is brought forward. Though, as **Figure 9** shows, the overall cost of land is lower (green bars compared to blue bars).

Figure 10 - BAU, early land acquisition program and cost of borrowings



Policy options - summary of impact

The policy options achieve the following:

- Shifting the financial risk away from Council
- Aligning contribution rates for better cost-recovery, and
- Reduction in overall cost of land (and contributions required).

Table 7 and Table 8 show the combination of policy options against BAU in revenue and cost terms (with the cost of borrowing included).



Table 7 - Unfragmented precinct, impact of policy options in reducing funding gap

Option	Scenario	Revenue	Cost of Land	Cost of Borrowing	Total Cost	Funding Shortfall
		(a)	(b)	(c)	(d) = (b + c)	(e) = (a - d)
BAU	- Nominal rate (CPI) - BAU program	\$53,940,266	\$90,235,692	\$13,120,713	\$103,356,406	(\$49,416,139)
1	- Nominal rate (market index) - BAU program	\$90,235,692	\$85,675,960	\$4,559,732	\$90,235,692	-
2	- NPV rate (CPI) - BAU program	\$90,235,692	\$86,278,859	\$3,956,833	\$90,235,692	-
3	- NPV rate (market index) - Early acquisition	\$86,724,183	\$79,919,619	\$6,804,563	\$86,724,183	-
4	- NPV rate (market index) - Early acquisition - Dedication at CP value	\$79,973,007	\$72,949,781	\$7,023,227	\$79,973,007	-

Table 8 - Fragmented precinct, impact of policy options in reducing funding gap

Option	Scenario	Revenue	Cost of Land	Cost of Borrowing	Total Cost	Funding Shortfall
		(a)	(b)	(c)	(d) = (b + c)	(e) = (a - d)
BAU	- Nominal rate (CPI) - BAU program	\$51,885,671	\$98,780,514	\$16,369,823	\$115,150,337	(\$63,264,666)
1	- Nominal rate (market index) - BAU program	\$98,780,514	\$89,049,229	\$9,731,285	\$98,780,514	-
2	- NPV rate (CPI) - BAU program	\$98,780,514	\$90,383,993	\$8,396,521	\$98,780,514	-
3	- NPV rate (market index) - Early acquisition	\$83,846,040	\$71,022,644	\$12,823,396	\$83,846,040	-



Option	Scenario	Revenue	Cost of Land	Cost of Borrowing	Total Cost	Funding Shortfall
4	- NPV rate (market index) - Early acquisition - Dedication at CP value	\$80,449,581	\$67,337,441	\$13,112,140	\$80,449,581	-

The following observations are made from **Table 7** and **Table 8**.

- Under the BAU, funding deficits of \$49.4m and \$63.3m result in the Unfragmented and Fragmented precincts respectively (including the cost of borrowing to fund infrastructure land in the early years of the plan). For development to have been able to occur, these funding shortfalls would have had to be funded from sources outside the CP. They however remain unrecovered even after development is complete.
- Rate-setting by NPV results in a lower land cost (and lower borrowing cost) - as the higher CP rates result in a lower funding gap in the early years.
- Selection of the rate-setting mechanism (Nominal rate or NPV rate) results in lower land cost - difference between Options 1 and 2.
- An early acquisition program has a higher borrowing cost yet results in a lower cost overall (and lower contributions) - difference between Option 3 and Options 1-2 (BAU program).
- A requirement that land is dedicated at indexed CP value (not market value) results in lower cost of land (due to a lag in a market-based index) - difference between Options 3 and 4.

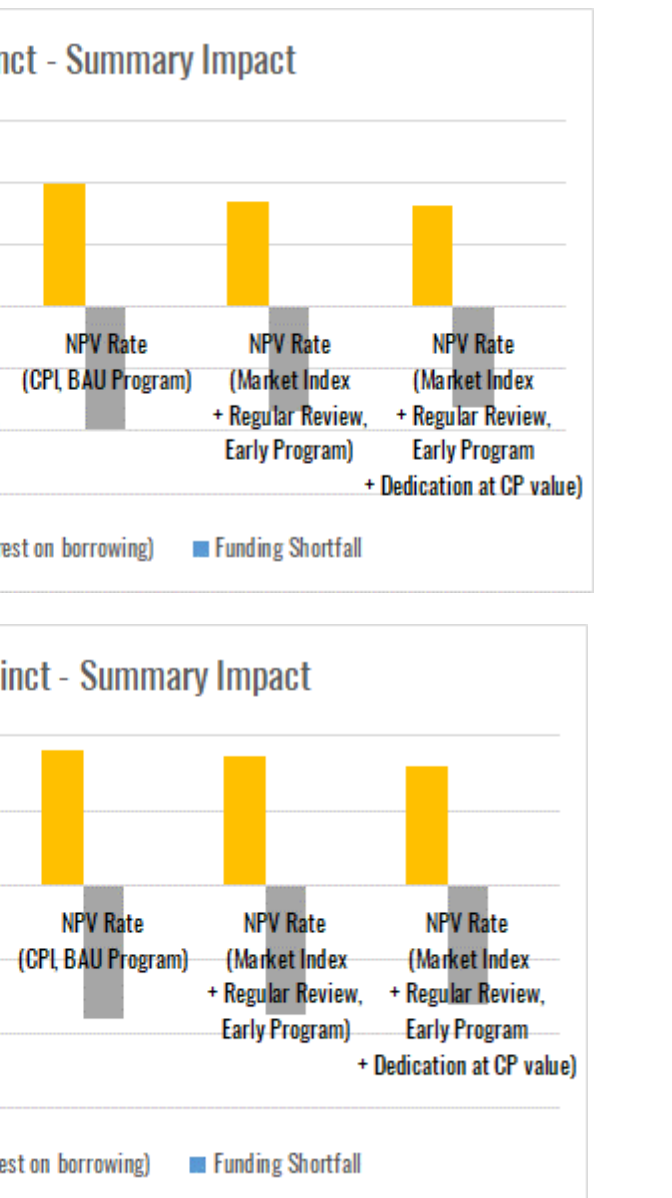
Figure 11 shows revenue (inflow) and cost including cost of borrowing (outflow) in the BAU and combination of policy options.

The policy options reverse the funding deficits of \$49.4m and \$63.3m in the Unfragmented and Fragmented precincts respectively. Implementation of the cost-side interventions **additionally** serve to reduce the cost of land.

Policy interventions (to revenue-side) that assist to enable contributions achieve cost-recovery are:

- Rate-setting through NPV approach. This recognises that costs are incurred upfront and revenue is only received later. Setting a contributions rate through NPV analysis will result in a higher initial CP rate and a lower funding gap in the initial years of the plan.
- Rate-setting by adopting a Nominal rate (simple division of land cost by number of dwellings) implemented with a market-based index and subject to regular update. The initial CP rate (albeit lower) will be subject to increase at much greater pace than when indexed to CPI. Even though a cost-neutral outcome can also be achieved, a larger funding gap in the initial years of the plan has a greater cost of borrowing. The cost of the plan will be overall higher.

Shortfall



Distribution

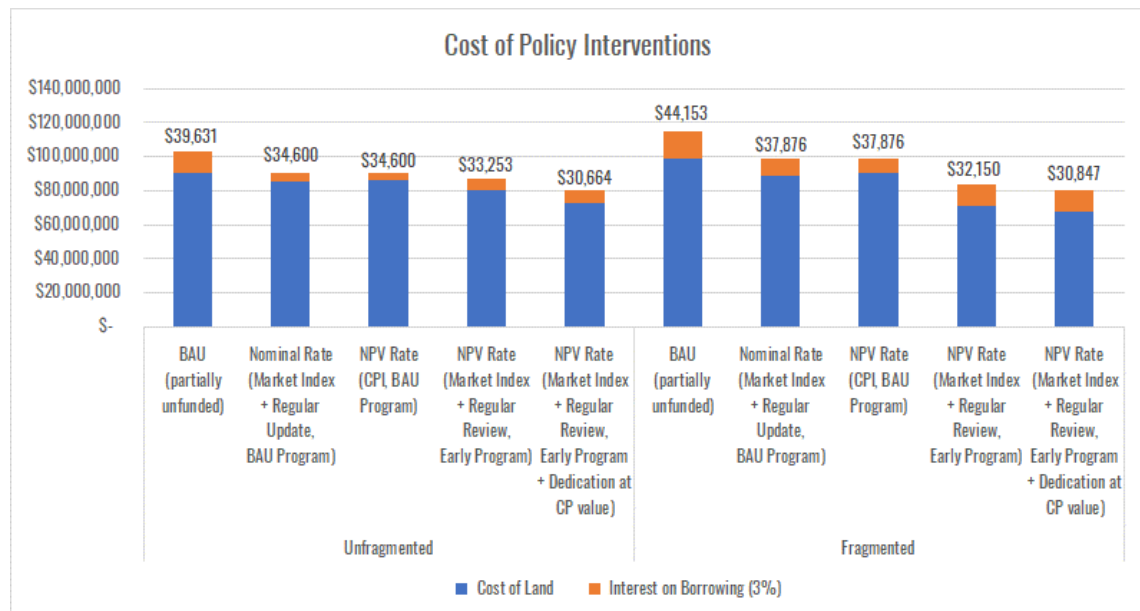
settings (rate-setting) effectively transfer the financial
do not reduce the cost of land.

acquisition program will result in an even greater cost saving. Though even with the cost of borrowing, the

on the revenue-side of the equation ensure that
cost that result from cost-side interventions.

Figure 12 illustrates the overall cost to Council, part of which is unfunded (under BAU). In all policy interventions, payment for the cost of land is shifted to development. The relative cost of the policy options (in overall cost and in per dwelling terms) are shown.

Figure 12 - Impact of Policy Interventions on Cost



Note: the hypothetical development scenario has 2608 dwellings

Each of the cost-side policy interventions has the potential to result in cost reduction (from lower cost of land and consequently lower contributions).

Table 9 shows the shifting of financial risk from Council (i.e. the unfunded shortfall) to development and the relative cost of the various policy interventions to the market.

Table 9 - Unfragmented precinct, summary of policy cost (funded and unfunded)

Cost borne by	Scenario	Total Cost (\$/dw)	Funded (\$/dw)	Unfunded (\$/dw)
Council	BAU	\$103,356,406 (\$39,631)	\$53,940,266 (\$20,683)	\$49,416,139 (\$18,948)
Market	- Nominal rate - Market-based index - BAU program	\$90,235,692 (\$34,600) 13% cost reduction from BAU	\$90,235,692 (\$34,600)	-
Market	- NPV rate - Indexed to CPI - BAU program	\$90,235,692 (\$34,600) 13% cost reduction from BAU	\$90,235,692 (\$34,600)	-
Market	- NPV rate - Market-based index	\$86,724,183 (\$33,253)	\$86,724,183 (\$33,253)	-



Cost borne by	Scenario	Total Cost (\$/dw)	Funded (\$/dw)	Unfunded (\$/dw)
	Early acquisition program	16% cost reduction from BAU		
Market	- NPV rate - Market-based index - Early acquisition program - Land dedication at CP value	\$79,973,007 (\$30,664) 23% cost reduction from BAU	\$79,973,007 (\$30,664)	-

Table 10 - Fragmented precinct, summary of policy cost policy cost (funded and unfunded)

Cost borne by	Scenario	Total Cost (\$/dw)	Funded (\$/dw)	Unfunded (\$/dw)
Council	BAU	\$115,150,337 (\$44,153)	\$51,885,671 (\$19,895)	\$63,264,666 (\$24,258)
Market	- Nominal rate - Market-based index - BAU program	\$98,780,514 (\$37,876) 16% cost reduction from BAU	\$98,780,514 (\$37,876)	-
Market	- NPV rate - Indexed to CPI - BAU program	\$98,780,514 (\$37,876) 16% cost reduction from BAU	\$98,780,514 (\$37,876)	-
Market	- NPV rate - Market-based index - Early acquisition program	\$83,846,040 (\$32,150) 30% cost reduction from BAU	\$83,846,040 (\$32,150)	-
Market	- NPV rate - Market-based index - Early acquisition program - Land dedication at CP value	\$80,449,581 (\$30,847) 34% cost reduction from BAU	\$80,449,581 (\$30,847)	-

Note: the hypothetical development scenario has 2608 dwellings

The policy interventions result in two outcomes:

- Rate-setting interventions that shift the financial risk from Council to the development market (by ensuring contributions are sufficient for cost-recovery). They also reduce the shortfall in contributions as the misalignment of inflow/ outflow is addressed.

- Cost-side interventions (acquiring land early and accepting land dedication at indexed CP value) that reduce the cost of land and therefore the contributions required from the development market.

In the hypothetical example, rate-setting interventions ensure contributions achieve cost-recovery but also have the potential to reduce the contributions (by reducing the funds shortfall in the early years of the plan) by 13%-16%. Cost-side interventions have the potential to reduce the contributions by a further 10%-20% (to an overall cost reduction of 23%-34% from BAU). The potential for cost reduction is more notable in Fragmented precincts where the cost of land acquisition is of higher financial risk.

The analysis shows that through the policy interventions, the financial risk in the BAU is both reduced and shifted from Council to development. The cost of land is reduced through early acquisitions and dedication of land at indexed CP value and better calibration of rate-setting with the cost of land.

Notwithstanding a calibration in contribution rates to align with the cost of land (and timing of receipts and expenditure), the policy interventions additionally act to reduce the cost of land and thereby result in a lower cost base. This naturally results in lower contributions and represents an reduced cost for development.

Rate-setting through a present value framework is tested to be preferable over a nominal rate that is indexed to a market-based index. While indexation of an NPV rate to a market-reflective index would be ideal, when rate-setting in an NPV framework the selection of indexation method becomes less critical (unlike in a nominal rate-setting framework).

The NPV Approach Explained

What is the 'NPV approach' to contributions?

Councils have the option of using a net present value (NPV) approach when determining contribution rates in a contributions plan. The NPV approach involves the use of a discounted cash flow model. In a discounted cash flow model, contribution rates are calculated so that the present value of anticipated revenue is equal to the present value of anticipated costs. This approach recognises that today's dollars are of greater value than dollars received in the future. Accordingly, the net cashflows are 'discounted' to account for the reduced value each year. The NPV approach is distinct from the nominal budgeting approach that most councils use, whereby contributions are calculated based on the sum of the costs and development, irrespective of the timing of the expenditure and revenue.

Formula for calculating the NPV of contribution rates

$$PV(Costs) = PV(Revenue)$$

Where:

PV = present value

N_i = number of hectares of NDA in year (i)

DC = development contribution per hectare (\$)

R = discount rate (%)

t = time in years



What is the discount rate?

The discount rate refers to the rate of interest or return used to discount future cash flows to calculate their present value. IPART publishes a discount rate for councils to use if they apply an NPV approach to contribution plans (in February and August each year).

IPART's method for calculating the discount rate uses a market-based estimate of the cost of debt for the local government sector. It takes the risk-free rate (10-year Commonwealth bond yield), adds half of a debt margin spread (for 10-year non-financial corporate A-rated debt) to account for some risk and then adds debt-raising costs of 12.5 basis points. In August 2022, IPART's nominal discount rate was 3.1% and the real rate was 0.2%.

Councils have the flexibility to model contributions rates using either nominal or real values. If councils use real values, they should use a real discount rate. This is the simpler option. If councils instead choose to forecast inflation in their revenue and expenditure estimates, they should use the nominal discount rate.

Benefits of the NPV approach for plans with high land costs

The NPV approach takes into account the opportunity cost of funds being held or foregone over the period of the plan. It is most beneficial when councils are acquiring land ahead of the development curve. In this case, the approach allows the council to discount the negative net cashflows in the earlier years of the plan and incorporate this 'opportunity cost' of borrowing funds from elsewhere into the contributions.

Why don't more councils currently use the NPV approach?

Currently in NSW, only the Hills Shire Council uses the NPV approach. Councils are usually deterred from the perceived complexity of implementing an NPV approach. Under this approach, they must forecast the development and expenditure timing for the relevant site and set up a model or equation for the discounting of net cashflows.

However, the Hills Shire Council has demonstrated that the NPV model, once established, can be effectively streamlined to facilitate bringing forward land acquisitions in greenfield contributions plans. It has applied the approach successfully to a number of its plans (including Balmoral Road, Box Hill and others). However, should the majority of the development instead precede land acquisition, then the contributions rates will be lower. This outcome is shown in the second scenario below.

What will assist more councils to use the NPV approach?

Providing information to councils with significant land acquisition costs in contributions plans about the benefits of the NPV approach for early land acquisition will help to encourage them to implement this approach. The focus on combining this with the early acquisition program will also be a significant incentive.

Guidance tools, including an NPV model template, would further help to break down the barrier of complexity. Councils should also consider using the simpler 'real' NPV approach, as opposed to a nominal approach, so that they don't need to forecast inflation parameters in the model. Instead, they should apply an appropriate land value index to the land-based contributions from year to year.

5 FINDINGS AND RECOMMENDATIONS

5 Findings and recommendations

5.1 What is the problem?

Local councils are often unable to meet the full cost of acquiring the land needed for the local infrastructure that is required to support new development.

The inability of councils to meet the full cost of land is due largely to:

- (e) **Insufficient revenue collected through CPs** driven by the rate-setting approach of simple division of cost by development. This does not account for the mismatch between when funds are collected and when they are spent. If \$100 spent today is also collected today, the present Nominal rate-setting approach is appropriate. However in reality, a proportion of the cost of land will need to be spent well ahead of contributions receipts. A second issue for insufficient revenue collected is the adjustment factor (or indexing method) applied to the contribution rates.
- (f) **High (often unanticipated) cost of acquiring privately owned land** driven by three key issues. Firstly, the acceleration in costs that occurs during the development period due to the area transforming from unserviced to serviced land and the additional and often significant costs incurred when land is acquired by compulsory means (such as severance, disturbance and other compensable losses). A third driver of unanticipated cost escalation is property market movements that are not aligned with the selected method of indexation.

Figure 13 illustrates the implications of a Nominal rate-setting approach. In Year 0, \$100 spent is recovered from \$100 received. In present value terms, in Year 5, the same \$100 spent has a value of \$122 whereas \$100 received has a value of \$82. This results in a shortfall of \$40. The gap widens further over time.

Figure 13 - Mismatch of timing of costs and revenues

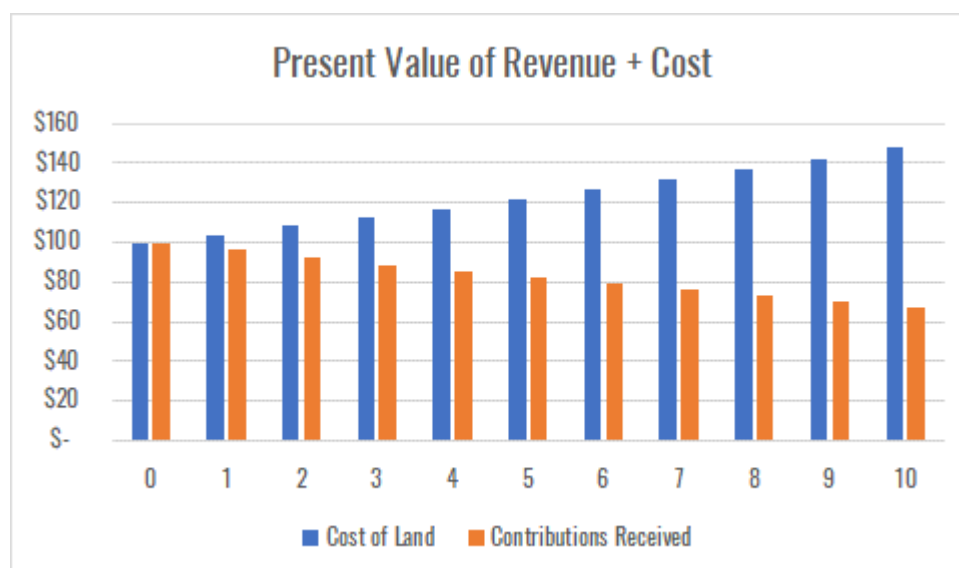
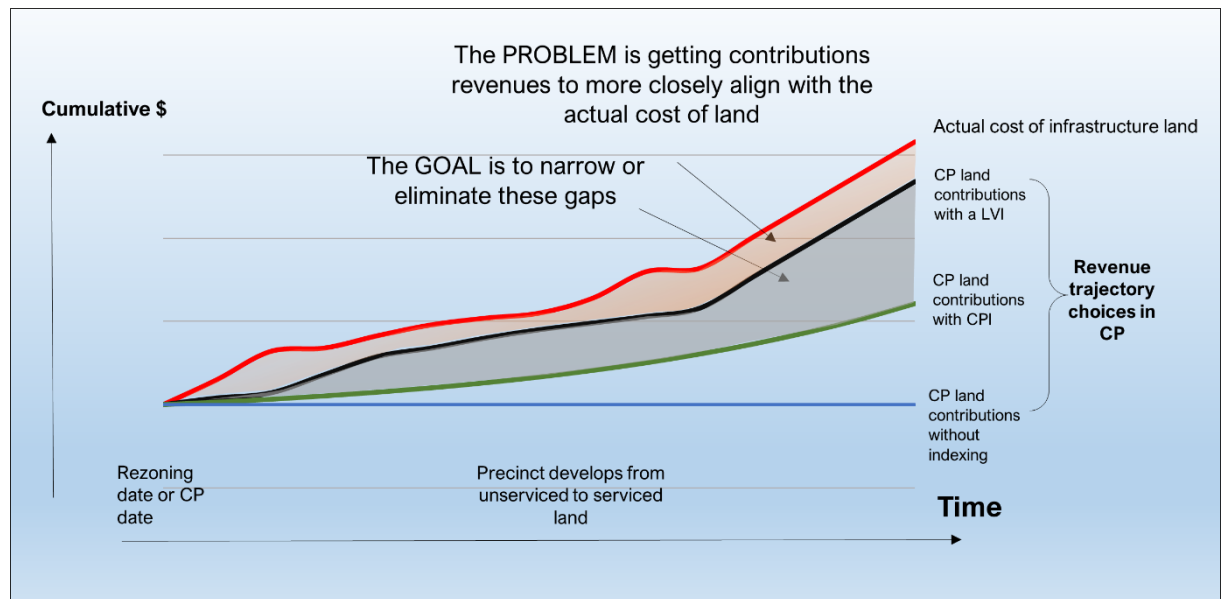


Figure 14 illustrates the problem of misalignment of costs and revenues for infrastructure land.



Figure 14 - Misalignment of costs and revenues for infrastructure land acquisition



A business as usual approach to the acquisition of infrastructure land in CPs will not close the gap between costs and revenues. We conservatively estimate the potential funding shortfall to be over \$480 million.

In response we have made recommendations grouped in the following general themes:

- More robust CPs that provide much greater opportunity for land acquisition costs to be fully met by developer contributions, with particular focus on the way contribution rates are set and indexed.
- Building capacity and best practice in land acquisition programs in WPPO councils.
- State government financial assistance to and guidance for councils to establish an early and proactive voluntary acquisition program for lands required for key enabling infrastructure for growth.

The consequences of doing nothing are significant funding shortfalls for councils and threats to housing supply. Ad hoc or delayed delivery of enabling infrastructure results in delayed development and delivery of dwellings. This leads to a shortage of developable land, leading to higher priced, less affordable homes. It is a self-perpetuating cycle as delayed delivery of dwellings also results in delayed payment of contributions which then affects the rate of cost-recovery for infrastructure from development contributions.

5.2 Improving contributions plans

NPV approach should be used more widely

The hypothetical model in chapter 4 showed that the land acquisition funding gap can be effectively nullified by the use of a net present value (NPV) approach to the setting of contribution rates in CPs. This result is achieved whether or not a market-reflective land value index is used to calculate rates over time.



This finding is inconsistent with the reality that the NPV approach to setting s7.11 contribution rates has been standard practice in only one NSW council – The Hills Shire. The main reasons cited in consultations with WSPP councils and DPE staff as to why there has not been greater take-up of NPV formula in rates-setting were that NPV was an economic modelling concept difficult for staff without financial training to understand and apply.

This knowledge deficit should not deter councils from implementing an NPV approach, and it can be met by making the concept plainer for those involved in implementation (for example, through practice notes and template models).

Market-reflective land value index

Setting rates using the Nominal method will always result in a shortfall of funds for local infrastructure land acquisition while ever contribution rates are indexed by a convenient, readily available index such as Consumer Price Indexes or Producer Price Indexes produced by the Australian Bureau of Statistics.

Indexing of rates should instead better reflect changes in land prices in the area where land acquisition is to take place – i.e. a ‘market-reflective’ land value index.

Some WSPP councils (e.g. Camden, Campbelltown) do use a customised index, while other councils use CPI and rely on regular plan reviews to update land costs.

There are multiple ways to develop a market-reflective index. A market-reflective index (unless developed by an agency like the ABS or the Valuer-General) can be challenging to develop. Issues including whether the index is developed for residential, commercial or other land uses, the geography it is developed for (by small area or LGA or wider region) and how the data is analysed and adjusted to arrive at the adopted land values in the index. IPART have in the past made observations on issues of transparency and uncertainty for the development industry associated with a market-based index for land values.

The modelling in this Study shows that while a market-reflective index would further assist contributions keep pace with the cost of land, rate-setting of the base contribution in an NPV framework is the primary intervention that closes the funding gap. Adoption of a regularly published rate like CPI against an NPV rate could be an acceptable compromise.

Land dedication at indexed plan value

The ultimate/ eventual cost of land is often poorly anticipated in a CP, exacerbating the funding shortfall that results due to a misalignment of contribution rates.

Where land is acquired as part of a development (dedicated in a VPA or as part satisfaction of development conditions), the circumstances are different to those of a purchase (from a non-developer landowner). The dedication of land as part of a development enables the carrying out of the development, rather than being a foregone/ lost asset.

CPs that specify that land dedicated is ascribed indexed CP value (not market value) for developers dedicating land at the time of development avoids a perverse outcome where developers dedicating land in satisfaction of infrastructure requirements receive a different amount to what the CP provides for. Camden Council have a policy position of only accepting land dedication at indexed CP value.



Contributions plans preparation processes can be improved

The current approach to preparing and adopting CPs that have contribution rates for residential development exceeding \$30,000 per dwelling is lengthy. The result is that initial developments in a greenfield area cannot be consented to until the CP is finally adopted (which may be 2 years or more after rezoning was completed). Planning agreements provide an alternative avenue for early approvals, but the agreement process itself is legalistic and can be lengthy. The use of interim contribution rates in 'provisional' CPs should be seriously considered to prevent unnecessary delays.

The robust assessment of land cost in preparation of CPs is critical. At the CP stage it is not possible to anticipate every cost item (e.g. if remediation is required, which Just Terms heads of compensation would be required, how much infrastructure land would be acquired under Just Terms, etc.). Inclusion of appropriate allowances in the CP would ensure adequate provision is made for cost items.

Another matter for compensation in compulsory acquisitions under Just Terms is severance, which is the assessed loss to a land owner when only part of the landholding is required for a public purpose. An acquisition authority has a choice of paying the land owner the severance loss or acquiring the whole parcel (both infrastructure land and residual land) with a view to later selling the residual land for a profit. The cost of purchasing residual land cannot however be met from infrastructure contributions. A few WSPP councils have used other reserves as well as General Fund for funding these acquisitions, however not all councils have access to this seed funding.

Earlier alignment of infrastructure land layout with the land ownership pattern in an area at the master plan development stage has the potential to help councils avoid some of the extra costs attributable to Just Terms acquisitions.

Recommendation 1: Improve the content of, and the process for preparing and making of, local infrastructure contributions plans through implementing the following:

- (a) Utilising a Net Present Value calculation methodology to calculate the land acquisition contribution rates in plans that contain significant land acquisition costs.
- (b) Design and implement a market-reflective index that more accurately reflects land acquisition price movements than indexes currently used in contributions plans.
- (g) Including provisions in plans that clearly state that owner of infrastructure land to be dedicated as part of development projects will be credited or compensated an amount that mirrors the indexed value of the land included in the contributions plan's works schedule.
- (h) Ensuring the plan includes avoiding or minimising potential 'severance and other non-market value' costs that may arise in any future acquisition of land through the compulsory process under the Just Terms Act (see Recommendation 2)
- (i) Avoiding unnecessary delays in issuing development consents through the use provisional contribution rates (see Recommendation 3).
- (j) Adopt a Council policy position that requires land dedication as part of development to be ascribed indexed CP value.

Recommendation 2: A land valuation professional (such as a registered valuer) be involved in the preparation of draft master plans, structure plans and rezoning layout plans for new development areas. The purpose of their involvement would be to recommend adjustments to infrastructure land requirements so as to avoid or minimise potential severance and non-market value costs arising from any future compulsory acquisition.

Recommendation 3: Reduce delays in the issuing of development consents after land has been rezoned caused by the separate contributions plan preparation process. This can be done by conditions of consent containing infrastructure contributions amounts that reflect the rates included in an interim or 'provisional' contributions plan. This change will allow early works associated with the subdivision of land that have no relationship to the quantum of infrastructure contributions to proceed earlier. An outline of the 'provisional' contributions plan approaches is included in Appendix C

Recommendation 4: Pilot Recommendations 1-3 immediately for the Aerotropolis Precincts in Liverpool and Penrith LGAs and develop with council-specific advice on how their individual contributions plans can be updated.

Recommendation 5: To assist councils in the preparation of more robust, fit-for-purpose contributions plans, DPE should:

- (a) Negotiate with IPART a streamlined plan review process so that uncapped contribution plans for essential works can be approved at or around the timing for rezoning of land, or to assist in the transition from a 'provisional' contributions plan to a 'final' contributions plan as outlined in Recommendation 3.
- (b) Participate with councils in developing an agreed methodology for constructing and maintaining a market-reflective land value index to insert in contributions plans, and seek adoption of this market index in CPs
- (c) Review historical Just Terms Act acquisition transactions to justify to IPART the inclusion of a greater allowance of Just Terms compensation items in the cost of land that is included in CPs.
- (d) Prepare infrastructure contributions practice notes that provide guidance to councils on:
 - i. how they can implement an NPV approach to s7.11 rates-setting as well as prepare a simple model that can be used for NPV calculation by councils in CP preparation, and
 - ii. on how to use pool contribution funds for financing early infrastructure land acquisition without compromising financial sustainability.

Recommendation 6: DPE to investigate opportunities for processes for rezoning to be 'switched-on' only after suitable arrangements for meeting the cost of infrastructure land have been agreed between the proponent and with the council.

5.3 Merits of an early land acquisition program

It is widely accepted that land values rise sharply in the period just prior to and after a rezoning. This project was initiated on the notion that if a council could purchase required infrastructure land early in the development phase – through borrowings of one type or another – then the council might avoid, or at least significantly reduce, funding shortfalls.

Active negotiation and purchase of land immediately after rezoning offers the following key advantages (compared to the BAU approach):

- Avoided cost of land acquisition when land is no longer 'englobo' land but more valuable development land (potentially serviced and capable of high-density development).



- Securing land early enables priority growth infrastructure, particularly in areas with highly fragmented land ownership, to be delivered early, thereby enabling development to occur in a swift and orderly manner (and payment of contributions to occur).
- The hypothetical model results also show that implementing a planned early land acquisition program will lead to modest reductions in overall quantum of developer contributions over time.

An early land acquisition program developed by the council, with funding assistance from the State government, therefore has merit.

A Council Land Acquisition & Dedication Policy with early land acquisition targets and criteria (including selection of sites) would assist with a streamlined and proactive acquisition program.

Greater use of funds pooling across a council's CPs and internal borrowing will enable the bringing forward of land acquisition and lower the overall cost of land. Borrowing outside of CP funds has traditionally been very limited or not undertaken at all.

The extent and mode of State government involvement in an early acquisition program is likely to achieve productive results if it was to include at least the following:

- Funding assistance for hardship claims and voluntary acquisitions in the early years of a CP when receipts are low.
- Making it easier for high growth councils to borrow funds for acquisition through adjusting financial sustainability benchmarks and updating guidelines for councils to access low-cost TCorp finance.
- Alignment of State and local infrastructure priority land acquisitions.

Recommendation 7: State government to adopt a package of measures that harmonise and improve land acquisition processes and that actively support councils in implementing an early acquisition program. The package should be developed in partnership with the WSPP and include the following elements:

- (a) State government coordination of acquisition program that aligns opportunities for priority State-led acquisition to also where possible deliver acquisition of land for local infrastructure set out in CPs (i.e., for areas including the Aerotropolis precincts, state-led precinct planning areas etc)
- (b) Establish a Memorandum of Understanding between local and State government for how financing and transfer of State-led acquisition processes that acquire local infrastructure land would occur (for example MoU set up with Office of Strategic Lands)
- (c) Establish a fast-track program for compulsory acquisitions under Just Terms Act with the Valuer-General and Office of Local Government that identifies with local councils in priority growth areas the pipeline of expected acquisitions to deliver local contributions plans and ensures that all agencies have allocation of resourcing to fast track these processes.
- (d) Investigate the establishment of a panel at a regional level for Western Sydney to provide consistent expert advice to local councils on land valuations to inform acquisition processes.

Recommendation 8: State government to pursue the following improvements for councils to utilise external borrowing and funding for land acquisition in partnership with the WSPP:



- (a) Establish T-Corp low-cost lending facility to support land acquisition for local infrastructure, including updating guidelines to allow councils to use low-cost loans to permit purchase of whole parcels of land that contain CP infrastructure land and allows future CP income as security for loans, if required.
- (b) Office of Local Government to adjust the minimum debt service ratio (DSR) for high growth councils to a positive percentage (i.e. 5%) rather than zero to facilitate greater borrowing capacity to allow for early land acquisition.
- (c) Establish a grant funding scheme that would support local councils to fund hardship acquisitions in the first 2-3 years following rezoning and also to assist in joint funding of high priority early land acquisition where council's capacity for pooling of CP income and use of low cost loans is not sufficient. In these cases, grant funding could be provided for the acquisition with future repayment based on CP income being received over the life of the plan (i.e. a revolving fund).

Recommendation 9: There is the opportunity to strengthen the governance and delivery phase (after the contributions plan has been approved and is collecting money) by council Chief Financial Officers leading the responsibility for implementation of infrastructure funding plans as part of the integrated planning and reporting framework.

Recommendation 10: Councils with moderate to high contributions plan land acquisition obligations to prepare a Land Acquisition and Dedication Policy addressing matters including:

- (a) the council's planned early acquisition program
- (b) the criteria for prioritising acquisition lands (which could include ownership patterns and extent of lot fragmentation)
- (c) funding sources to be used for acquiring land, including the council's strategy for pooling of contributions funds, and utilising internal or external borrowings to finance early land acquisitions
- (d) a framework for decisions on external debt funding, including managing financial risk related to CP income, and how debt will be serviced
- (e) interim uses and income-generation options for acquired land until it is needed for infrastructure purposes
- (f) where there is the opportunity for commercial property portfolio funding to be made available for part land acquisition (where complementary to core infrastructure lands requirements), and then how this land will be managed for a commercial return.

Recommendation 11: WSPP councils review their borrowing policies (or introduce new policies) with a view to:

- (a) Allowing loans which facilitate early land acquisition for growth site where other funds are insufficient, so long as debt service benchmarks are not breached.
- (b) ensuring that debt service indicators are adhered to and reported on (both the Debt Service Ratio and Debt Service Cover Ratio).



5.4 Limited skills and capacity in councils

Capacity to carry out efficient and effective processes for the acquisition of infrastructure land vary across the different WSPP councils. The level of appropriate skills needed for land acquisition in a council does not usually match the scale of acquisition task. Blacktown City Council is probably the exemplar in dedicating resources to and communicating the council's processes and policies on land acquisition.

A regional approach to building capacity and skills throughout the WSPP councils. The resourcing of a regional approach or assistance with transition to allow early land acquisitions may assist to achieve scale and access specialist expertise for Just Terms negotiations.

Recommendation 12: Develop a best practice acquisition policy and delivery model for local councils to deliver land acquisition programs, including training and capacity development for liaison and compulsory acquisition. This should involve consultation with the Community Commissioner in development, and include MoU for State led acquisition of land which also includes part local government infrastructure lands.

Recommendation 13: Develop a regional approach to improving land acquisition capacity that will assist councils during their transition to new approaches, while also providing a regional approach for councils to utilise at-scale instead of developing individual local approaches. WSPP should seek funding assistance from DPE for a transformation change management plan and to develop a number of joint projects to assist councils adopt the recommendations of this report.

Appendix A: Financial risk to select WSPP councils under BAU approach

Appendix A: Financial risk to select WSPP councils under BAU approach

This section attempts to define the magnitude of the financial risk to WSPP councils of continuing current approaches to acquisition of land – i.e. ‘business as usual’ or BAU - based on:

- select data provided from select councils
- extract of remaining dwellings data from DPE’s greenfield monitor
- high-level review of respective council approaches to CPs
- the project team’s categorisation of rezoned precincts as ‘fragmented’ or ‘unfragmented’ based on market knowledge and professional judgment
- the project team’s estimate of the financial risk by applying proxy rates per dwelling (obtained from constructing a hypothetical greenfield development scenario)

The BAU process differs between councils:

- some councils have CPs indexed to CPI, though undertake regular reviews and plan updates
- some councils incorporate a method of indexation more closely reflects market movement of land values (some HPI, some LVI)
- some councils accept land dedication by indexed CP value, whereas most accept land dedication at market value

All WSPP councils (without exception) approach rate-setting by simple division, adopting a Nominal Rate (rather than an NPV rate, which is a contributions rate set in a present value framework). However, through regular review some councils reduce their financial risk/exposure.

The BAU funds shortfall varies according to the following factors between the councils:

- method of indexation adopted in a CP
- whether regular reviews are undertaken
- whether a precinct is fragmented or unfragmented which has implications for the financial risk associated with cost increasing beyond the adopted indexation as land is progressively improved upon from its englobo state

Table A-1 summarises the current policy practice of the WSPP councils. Blue Mountains, Penrith and Fairfield councils are not included in the table as the estimate only considers greenfield precincts with remaining dwellings.

Table A-1 Greenfield residential precincts by Council and policy practice

Council	Indexation, Land Dedication Policy	Precincts
Blacktown	CPI, market value	Alex Avenue, Marsden Park, Marsden Park Industrial, Riverstone, Schofields, Tallawong Station
Camden	LVI, indexed CP value	Catherine Fields (part), Leppington North, Leppington Stage 1, Oran Park, Turner Road,

Council	Indexation, Land Dedication Policy	Precincts
Campbelltown	CPI, market value	Menangle Park
Hawkesbury	LVI, market value	Vineyard Stage 1
Liverpool	CPI, market value	Austral, East Leppington, Edmondson Park
Wollondilly	HPI, market value	North Wilton, South East Wilton, Wilton Town Centre,

Table A-2 summarises a high-level estimate of the unfunded shortfall in council areas with remaining dwellings in greenfield precincts.

Table A-2 - Greenfield residential precincts estimate of funding shortfall*

Council	Potential Funding Shortfall	Remaining Dwellings	Avg. Shortfall per dwelling
Blacktown	\$265,297,600	23,954	\$11,075
Camden	\$56,583,000	6,431	\$8,798
Campbelltown	\$18,020,900	1,482	\$12,160
Hawkesbury	\$9,139,200	952	\$9,600
Liverpool	\$123,764,500	4,291	\$28,843
Wollondilly	\$10,338,500	899	\$11,500
Total	\$483,143,700	38,009	\$12,711

The shortfall estimate is only carried out for residential in greenfield precincts where there is an adopted CP. The estimate does not account for any funding shortfall in infill areas.

Based on the combination of above data sources and application of proxy rates per dwelling, there could be a potential funding shortfall of more than \$480 million*.

*The estimate of the shortfall represents the unfunded gap between the cost of land and contributions collected. It **does not** represent the total cost of land (which would be partially offset by contributions collected).

Council debt-related benchmarks

Debt Service Ratio:

$$\frac{\text{Cost of debt service (interest expense and debt repayments)}}{\text{Total continuing operating revenue (exc. capital grants \& contributions)}}$$

The Debt Service Ratio (DSR) measures the proportion of general income that is used to repay debt and interest charges. The DSR is best measured over an average of at least three years, must be greater than 0% and less than or equal to 20%.

Debt Service Cover Ratio:

$$\frac{\text{Operating result before capital (exc. interest, depreciation, impairment and amortization)}}{\text{Principal repayments \& borrowing costs}}$$

The Debt Service Cover Ratio (DSCR) measures the availability of operating cash to service debt including interest, principal and lease payments. The benchmark for the DSCR is greater than 2 (when councils would have approximately twice as many financial assets as they do outstanding borrowings). A high ratio indicates the council has significant capacity to repay debt.

Borrowing capacity calculations

Table 1 over page shows each council's capacity for further borrowing based on meeting DSR and DSCR benchmarks.

Table 2 shows detailed information from each council that was used to inform the assessment

Summary of borrowing capacity

WSPP Council	Potential additional borrowing capacity within ratio limits (\$m)
Blue Mountains City	55
Camden	36
Campbelltown City	151
Fairfield City	155
Hawkesbury City	92
Liverpool City	142
Penrith City	129
Wollondilly Shire	35
Blacktown City	172

Table 1

WSPP Council	Projected average annual cash reserves (end of year) \$m	Avg annual operating revenue (exc. capital grants / c'butions) next 5-10 years (\$m)	Avg annual capital grants/ contributions next 5-10 years (\$m)	Avg annual operating result before capital, depreciation, interest next 5-10 years (\$m)	Estimated annual avg borrowings p.a. over next 5-10 years (\$m)	Max repayments @ Debt Service Cover Ratio = 2	Equivalent to DSR =	Max repayments @ Debt Service Ratio = 10%	Provides for approx. max debt (\$m) (@ 3% int rate; 10 yr loan) =	Potential additional borrowing capacity within ratio limits (\$m)
Blue Mountains City	12.3	133.7	0.1	15.7	12.7	7.9	6%		68	55
Camden	73.8	155.1	154.8	25.6	74.2	12.8	8%		110	36
Campbelltown City	251.9	201.6	30.0	35.2	n/a	17.6	9%		151	151
Fairfield City	129	199.0	24.6	37.1	5.2	18.6	9%		160	155
Hawkesbury City	74.5	107.2	13.1	23.6	32.8	11.8	11%	10.7	92*	92
Liverpool City	124	217.3	60.5	44.8	50.2	22.4	10%		192	142
Penrith City	173	284.0	34.1	50.7	89.2	25.4	9%		218	129
Wollondilly Shire	63	91.5	33.9	11.9	16.8	6.0	7%		52	35
Blacktown City	438	199.6	233.1	60.0	n/a	30.0	15%	20.0	172*	172

Note: Campbelltown City Council has forecast to cease all borrowings by 2024/25 and Blacktown City Council has very limited borrowings forecast.

* Based on DSR = 10%, not DSCR = 2 (since DSR>10% at that level)

Table 2

WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
Blue Mountains City Council	As a result of Council's borrowings exceeding the Debt Service Cover Ratio (more than 2) up to 2015/16 and it considering that it reached its financial capacity for debt, its current primary policy objective it to: a. cease future loan borrowings subject to a business case b. reduce existing loan debt through refinancing c. direct surplus cash funds to reduce borrowings where appropriate d. review borrowing capacity annually e. implement the council's investment policy and strategy. Council projects that it will bring its borrowing balance down from \$38.7m in 2016/17 to less than \$8.0m in 2025/26. After a period of consolidation over 10 years, Council's LTFP states that it will be in a position again to borrow for: infrastructure and service needs. Loans will be undertaken for one-off major projects where there is no other funding option and the period of debt repayment will not exceed the period over which the projects benefits are realised or the life of the asset, whichever is the lessor. Internal borrowing will be used if required where	<u>Debt service ratio between 0 and 20%:</u> Cost of debt service (interest expense and debt repayments) / Total continuing operating revenue (exc. capital grants & contributions) <u>Debt service cover ratio above 2:</u> Operating result before capital exc. interest, depreciation, impairment and amortisation / Principal repayments & borrowing costs	In 2014/15, the Debt Service Ratio was 8.8%; in 2019/20 it was 6.2% and in 2020/21 it was , 1.9%. In the 4 years to 2015/16, the average annual Debt Service Cover Ratio was 1.7, less than the benchmark of at least 2. With its debt reduction strategies, it is still not expected to meet this benchmark in the forward years due to persistent operating deficits.	The following potential borrowing capacity would only be consistent with also meeting the Debt Service Cover Ratio (>2) if Council did not run persist operating deficits in the forward years (as it currently does). To meet a ratio of 10%, we estimate that its borrowing costs (inc. principal and interest) could increase by \$10.7m to \$13.4m per annum, on average (from 2025/26). This would increase total projected borrowings to around \$115m at an assumed interest rate of 3%. To instead meet a ratio of 5% (which would also meet the DSCR >2), we estimate that its borrowing costs (inc. principal and interest) could increase by to \$6.7m per annum, on average (from 2025/26). This would increase total projected borrowings to around \$58m at an assumed interest rate of 3%.

WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
	additional income producing elements can be integrated into these developments.			
Camden Council	Council's approach to borrowing is as follows: 1. Funds will only be borrowed for specific capital projects, which are clearly linked to community expectations as outlined within Camden 2040, 2. Council will consider the use of loans to ensure existing residents are not burdened with the cost of infrastructure which will be enjoyed by future generations, 3. Loan borrowings will only be considered after all potential funding strategies have been investigated, including the use of any existing cash reserves and external funding opportunities, 4. The use of loan borrowings to fund operational shortfalls or service expansion is not permitted, 5. Council will review its Long Term Financial Plan to ensure there is capacity to service the debt from recurrent revenues, 6. Council's debt service ratio should not exceed 20% of its total Operating Revenue. Council's level of debt is reviewed annually as it is expected that a growing Council will have a greater capacity to service debt as our economies of scale increase. Council has total borrowings of \$80m from 2020/21 to 2028/29 for a works depot (for which it has accessed low	<u>Debt service ratio between 0 and 20%:</u> Cost of debt service (interest expense and debt repayments) / Total continuing operating revenue (exc. capital grants & contributions) <u>Debt service cover ratio above 2:</u> Operating result before capital exc. interest, depreciation, impairment and amortisation / Principal repayments & borrowing costs <u>Interest cover ratio above 4:1:</u> Operating result before capital exc. interest, depreciation, impairment	3.27% average Debt Service Ratio projected over 10 years (2021-2030) & 2.2% average over 3 years to 2023, well within 20% maximum benchmark 4.9 average projected Debt Service Cover Ratio is projected over 10 years (2021-2030) & 6.5 average over 3 years to 2023, well above 2, the minimum benchmark. 13.7:1 average Interest Cover Ratio projected over 10 years (2021-2030) & 15.8:1 average over 3 years to 2023, well above	Council noted in its LTFP that it has specifically retained a strong borrowing capacity to meet future borrowing requirements for growth infrastructure needs. We estimate that its borrowing costs (inc. principal and interest) could increase from \$5.2m (the projected average annual average) to \$31.0m per annum, on average, to reach the 20% debt service ratio benchmark. This represents an increase of \$25.8m per annum and would increase total projected borrowings from \$80m to around \$267m. To meet a ratio of 10%, we estimate that its borrowing costs (inc. principal and interest) could still increase to \$15.5m per annum, on average (an increase of \$10.3m per annum). This would increase total projected borrowings from \$80m to around \$134m.

WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
	cost finance from TCorp) , a renewal program, a new works program, and the community/administration building stage 2.	and amortisation / Borrowing costs (as stated in its 2020/21 – 2029/30 Long Term Financial Plan)	4, the minimum benchmark	
Campbelltown City Council	Council restricts new borrowings to ensure the Debt Service Ratio remains less than 10 percent. Council has not projected any future external borrowings into its LTFP, rather an internal borrowing strategy for \$2.75m in the first two years of the plan and \$1m in the third year to fund recurrent capital expenditure. External loans will be paid off by 2025 (down from \$4.7m in 2022). It states that this strategy will increase Council's capacity to borrow externally through the State Borrowing Facility for major stand-alone capital projects and support intergenerational equity principals.	<u>Debt service ratio between 0 and 20%:</u> Cost of debt service (interest expense and debt repayments) / Total continuing operating revenue (exc. capital grants & contributions) Debt service ratio between 0-10% good, 10-20% fair and over 20% undesirable (Long Term Financial Plan – 2021 to 2031)	Debt Service Ratio projected to be 1.54% in 2022, down to zero in 2025 and thereafter; averaging 0.42% over 10 years to 2021 Debt Service Cover Ratio of 11.34 in 2020/21 (well above (benchmark minimum of 2)	The following potential borrowing capacity would not be consistent with also meeting the Debt Service Cover Ratio (>2) because Council runs relatively small operating surpluses in forward years. To meet a ratio of 10%, we estimate that its borrowing costs (inc. principal and interest) could still increase to \$20.2m per annum, on average. This would increase total projected borrowings to around \$173m at an assumed interest rate of 3% To instead meet a ratio of 5% (which would also meet the DSCR >2), we estimate that its borrowing costs (inc. principal and interest) could increase by to \$10.1m per annum, on average (from 2025/26).

WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
Fairfield City Council	Councillors have indicated that debt can be used where commercial opportunities are available to deliver an acceptable rate of return including funding costs. An additional Property Development Fund investment is expected to be commenced during the LTFP. This will be financed through new borrowings, with projected returns of approximately 7% p.a.	<u>Debt service ratio:</u> Cost of debt service (interest expense and debt repayments) / Total continuing operating revenue (exc. capital grants & contributions) There is no target level for this indicator identified in the LTFP (e.g. between 0 and 20%) but any borrowing is for investment purposes only.	Council's debt service ratio is forecast to average 0.75% annually in the three years to 2023/24 and 0.62% in the ten years to 2029/30.	This would increase total projected borrowings to around \$87m at an assumed interest rate of 3%. The following potential borrowing capacities would only be consistent with also meeting the Debt Service Cover Ratio (DSCR) (>2) at a Debt Service Ratio of 10% (at 20%, the DSCR is around 1.5): We estimate that its borrowing costs (inc. principal and interest) could increase to \$39.8m per annum (from around \$1.2m per annum), on average, to reach the 20% debt service ratio benchmark. This would increase total projected borrowings to around \$342m at an assumed interest rate of 3%. To meet a ratio of 10%, we estimate that its borrowing costs (inc. principal and interest) could still increase to \$19.9m per annum, on average. This would increase total projected borrowings to around \$171m at an assumed interest rate of 3%.

WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
Hawkesbury City Council	Council's Borrowing Policy (2018) establishes some of the following principles: - All borrowings must be considered within the context of the strategic objectives of Council and its long term financial forecasts. - Borrowings will only be considered after all alternative financing options have been investigated (including cash reserves) and proven less advantageous to Council. - All borrowings are subject to Council approval. Any proposed borrowings must be included in Council's Operational Plan and Revenue Policy. - Borrowing levels must be within the parameters of a debt service ratio of less than 20% and subject to meeting repayment obligations. - The term of the applicable loan will not exceed the expected economic life of the asset being funded. - Council will not borrow money to fund operating expenditure or recurrent capital works. - Council may borrow funds to increase service levels, to fund the acquisition of a new asset or a replacement asset or for a significant one time asset renewal. - Council may borrow money to fund the acquisition of assets for strategic land or property holding.	<u>Debt service ratio between 0 and 20%:</u> Cost of debt service (interest expense and debt repayments) / Total continuing operating revenue (exc. capital grants & contributions) <u>Debt service cover ratio above 2:</u> Operating result before capital exc. interest, depreciation, impairment and amortisation / Principal repayments & borrowing costs	In the 10 years to 2031/32, the annual average Debt Service Ratio is projected to be 4.8% In 2020/21, the Debt Service Cover Ratio was around 16, well above the minimum benchmark.	The following potential borrowing capacity would not be consistent with also meeting the Debt Service Cover Ratio (>2) because Council runs relatively small operating surpluses in forward years. To meet a ratio of 10%, we estimate that its borrowing costs (inc. principal and interest) could still increase to \$10.7m per annum, on average. This would increase total projected borrowings to around \$92m at an assumed interest rate of 3% To instead meet a ratio of 5% (which would also meet the DSCR >2), we estimate that its borrowing costs (inc. principal and interest) could increase to \$5.3m per annum, on average (from 2025/26). This would increase total projected borrowings to around \$46m at an assumed interest rate of 3%.

WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
	The LTFP notes that Council's borrowing program is implemented under the Local Infrastructure Renewal Program, the Low Cost Loans Initiative, and Council's Infrastructure Renewal Borrowing Program.) In March 2013 Council borrowed \$5.26m from the Commonwealth Bank for renewal works, participating in the Local Infrastructure Renewal Scheme (LIRS) with subsidized interest for a timber bridge replacement program. Council will borrow \$7m in 2021/22 for further renewal works.			
Liverpool City Council	Council actively borrows for its infrastructure purposes (evident in its LTFP which assumes all new borrowing will be from TCorp), although it is unclear if it has a specific Borrowing Policy. The forward budget assumes Council will make additional \$181.3m borrowings over the next 4 years, mainly to build the new Liverpool Civic Place and infrastructure renewal works required to achieve 'Fit for the Future' (not-debt related) indices, plus \$19.5m in 2020/21 . Therefore, it will have at least \$200m in debts in its forward projections. Council collects special rates from all commercial properties in the Town Improvement District to repay borrowing for major city revitalisation projects (as part of the City Development Fund).	<u>Debt service ratio between 0 and 20%:</u> Cost of debt service (interest expense and debt repayments) / Total continuing operating revenue (exc. capital grants & contributions)	In the 5 years to 2026/27, the annual average Debt Service Ratio is projected to be 6.0%, among the highest level of all WSPP councils in the forward projections. New annual borrowings for Council peaked at \$76.9m in 2019/20 but is projected to average \$50.2m annually in the 5 years to 2026/27.	The following potential borrowing capacity is not consistent with also meeting the Debt Service Cover Ratio (>2) because Council runs relatively small net operating surpluses in forward years. To meet a ratio of 10%, we estimate that its borrowing costs (inc. principal and interest) could still increase by \$8.7m to \$21.7m per annum, on average. This would equate to total projected borrowings of around \$186m at an assumed interest rate of 3% (noting it has projected \$200m in borrowing for a lower Debt Service Ratio owing to lower interest rates with TCorp loans). To instead meet a ratio of 5% (which would also meet the DSCR >2), we estimate that its borrowing costs (inc.

WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
				principal and interest) would be \$10.8m per annum, on average (from 2025/26). This would make total projected borrowings around \$93m at an assumed interest rate of 3% (again lower than it currently borrows).
Penrith City Council	Council's Borrowing Policy (2018) establishes some of the following principles: - debt is appropriate to fund the cost of major new community assets or to smooth the cost of major asset renewals. - any minor asset acquisitions and asset renewals should be funded out of operating revenues. - new borrowings for major infrastructure projects must be supported by a comprehensive business case. - any additional projects, above the borrowing targeted by the Debt Reduction Policy, will be included in accordance with a practice of utilising additional loan funds only where there will be a positive net cash flow achieved. Since June 2018, Council has only borrowed from TCorp. Its LTFP projects \$105m in new loans in the 3 years to 2024/25 plus \$24m in 2021/22 for a total of \$129m in loans.	<u>Debt service cover ratio > 2x</u> Operating result before capital exc. interest, depreciation, impairment and amortisation / Principal repayments & borrowing costs	The Debt Service Cover Ratio is projected to average 4.4 in 10 years to 2031/32, above the minimum benchmark.	The following potential borrowing capacity would only be consistent with also meeting the Debt Service Cover Ratio (>2) if Council did not run persist operating deficits in the forward years To meet a ratio of 10%, we estimate that its borrowing costs (inc. principal and interest) could still increase by \$10.9m to \$29.7m per annum, on average. This would increase total projected borrowings to around \$255m at an assumed interest rate of 3%. To instead meet a ratio of 5% (which would also meet the DSCR >2), we estimate that its borrowing costs (inc. principal and interest) could increase to \$14.8m per annum, on average (from 2025/26). This would increase total projected borrowings to around \$128m at an assumed interest rate of 3%, which is

WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
Wollondilly Shire Council	Council's Borrowing Policy (2016) establishes that: - all borrowing must be approved by Council Resolution. and only for capital projects which cannot be funded internally and which are identified as priorities within the Delivery Program/Operational Plan. - prior to undertaking any borrowing, Council shall assess its capacity to pay to ensure that the community is not burdened with unnecessary risk. It will review this capacity annually as part of its budgeting process. - total unrestricted debt servicing costs must not exceed 1:25:1 - net external debt per capita must not exceed \$500 per capita - the term for all new borrowings shall be matched, where appropriate, to the life of the asset to which it relates, however no loan term shall exceed a period of 20 years. - sinking funds for new borrowings are not permitted.	Council does not quote the standard debt-related benchmarks	Loan borrowings are projected to peak at \$10.04m or \$183 per capita in 2024/25 but will be zero by 2026/27.	very consistent with its current projected borrowings. The following potential borrowing capacity would only be consistent with also meeting the Debt Service Cover Ratio (>2) if Council did not run persist operating deficits in the forward years To meet a ratio of 10%, we estimate that its borrowing costs (inc. principal and interest) could still increase to \$9.1m per annum, on average. This would increase total projected borrowings to around \$79m at an assumed interest rate of 3% To instead meet a ratio of 5% (which would also meet the DSCR >2), we estimate that its borrowing costs (inc. principal and interest) could increase to \$4.5m per annum, on average (from 2025/26). This would increase total projected borrowings to around \$40m at an assumed interest rate of 3%.

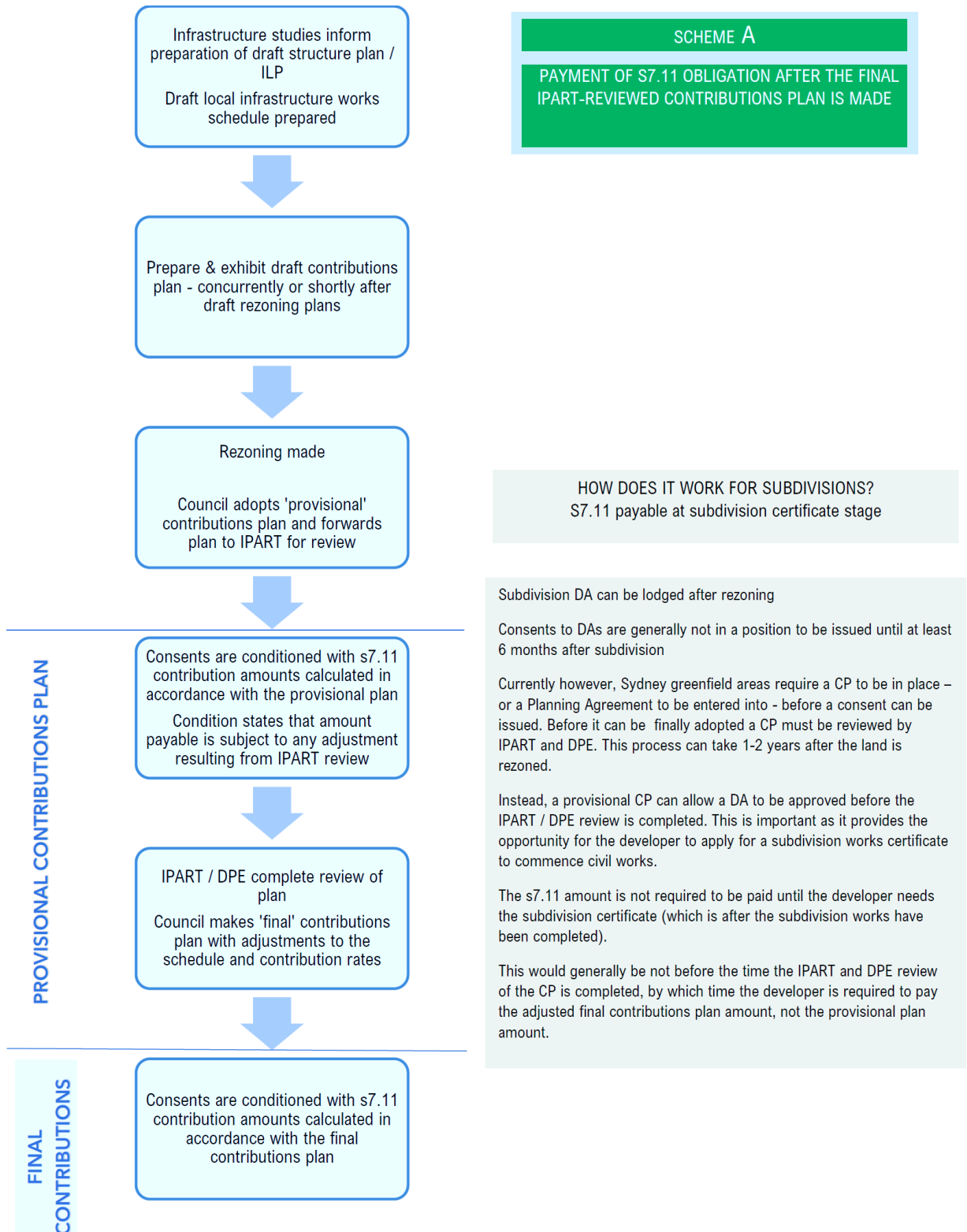
WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
Blacktown City Council	Council's Borrowing Policy (2017) establishes that: - because of interest costs, borrowing should generally be the last source of funding - borrowings should only be made for projects that have had a detailed business case - debt discharge should preferably be primarily sourced from net positive cash flows specifically generated by the project but can also be sourced from reliable cash flows from other internal sources. - the cost of debt servicing in any financial year must be less than 10% of Council operating revenue (Council noted that at a debt service ratio of 10% its borrowing capacity would be around \$283m, with a required annual debt servicing cost of \$32m per annum. We have estimated even greater future capacity based on higher forward year operating revenue estimates – see last column) - all debt must be repaid within the assessed economic life of the asset that it was used to fund. - the CEO has authority to obtain borrowings for a specific maximum amount for a specific purpose. - details of all borrowings must be reported in the Quarterly Review of the Operational Plan. Traditionally, Council has been debt free but it is projecting a relatively small amount of borrowing for ICTE, Warwick Lane	<u>Debt service ratio between 0 and 20%:</u> (avg over 3 years): Cost of debt service (interest expense and debt repayments) / Total continuing operating revenue (exc. capital grants & contributions)	3.2% in 2021/22 otherwise zero The level of external debt required is dependent on the availability of the Land Project proceeds. Council projects an average annual operating deficit of \$24m in the 10 years to 2029/30, therefore it would never meet the Debt Service Cover ratio (or Interest Cover ratio benchmarks, being a negative.	The following potential borrowing capacity would only be consistent with also meeting the Debt Service Cover Ratio (>2) if Council did not run persist operating deficits in the forward years. To meet a ratio of 10%, we estimate that its borrowing costs (inc. principal and interest) could still increase to \$40m per annum, on average. This would increase total projected borrowings to around \$345m at an assumed interest rate of 3%. To instead meet a ratio of 5% (which would also meet the DSCR >2), we estimate that its borrowing costs (inc. principal and interest) could increase to \$20m per annum, on average (from 2025/26). This would increase total projected borrowings to around \$173m at an assumed interest rate of 3%.

WSPP council	Council Borrowing Objectives (in LTFP) or Borrowing Policy (if applicable)	Quoted borrowing benchmark indicator in LTFP (if any)	Comparison with OLG benchmarks	Potential additional borrowing capacity within Debt Service Ratio (0-20%) benchmark
	and the Western Sydney Animal Rehoming Centre transformational projects. Council's LTFP factors in the possibility of higher loans: \$8.5m base case scenario for debt; \$23.8m pessimistic scenario (without Land Project proceeds).			

There are 2 methods or schemes. In **Scheme A** the contribution amount is imposed under the provisional contributions plan, but is not paid (and therefore subdivision certificate is not issued) until the final IPART-reviewed contributions plan is made. In **Scheme B** the amount is paid prior to the IPART-reviewed plan being made meaning that either a top-up payment or a partial refund of the amount will be incurred.

Provisional contributions plans

Allowing development to be approved while IPART reviews draft CPs



Provisional contributions plans
Allowing development to be approved while IPART reviews draft CPs

