

IPART modelling for the review of the rate peg to include population growth

5 October 2021

What modelling did IPART undertake?

IPART undertook modelling to illustrate the impact of the population growth adjustment. We modelled the impact our recommended approach to reflecting population growth in the rate peg would have had on council general income over the period from 2017-18 to 2020-21.

We chose this 4-year period as there are no reliable forward estimates of population growth at a council level (including the impact of the Covid-19 pandemic on population growth) and there are no reliable forecasts of supplementary valuations.

What does the modelling show?

The modelling shows what the change in councils' general income would have been if our population growth adjustment to the rate peg had been applied. The table at Appendix D of our Final Report shows the impact of the population growth adjustment on each council in NSW. The table shows what would have been the cumulative increase to each council's general income from 2017-18 to 2020-21. The increases are shown in nominal terms, meaning it accounts for the impact of inflation based on the local government cost index over this time period.

What do the columns in Appendix D represent?

Columns 3 and 4 of Table D.1 in Appendix D illustrate the cumulative increase to councils' general income over 4 years that would have occurred with the application of the recommended population growth factor to the rate peg. The only difference between the two cumulative increase columns is the impact of special variations.

To illustrate the impact of the population growth adjustment for those councils who received a special variation over the period, we modelled whether the population growth adjustment would have resulted in additional income above the special variation income. Where the increase in general income from the special variation was greater than the modelled increase in general income from the population growth adjustment, no increase is shown in column 4. We have used an excerpt from Table D.1 to illustrate this.

Table D.1 Forecast increase in notional income by council (NSW)

Column 1	Column 2	Column 3	Column 4	Column 5
		Cumulative increase of notional income over 4 years - excluding SVs (\$)	Cumulative increase of notional income over 4 years (\$)	4-year population growth (%)
Council	Type			
Parramatta	Metropolitan	24,474,371	24,474,371	12.8%
Ku-ring-gai	Metropolitan	4,264,676	2,878,572	5.6%
Byron	Regional Town/City	2,805,489	0	7.2%
Murrumbidgee	Rural	129,808	129,808	1.4%
Cobar	Large Rural	25,429	25,429	-0.7%
Orange	Regional Town/City	0	0	4.2%

The **cumulative increase in column 3** shows the increase in council notional general income that would have resulted from the population growth adjustment in the rate peg. It ignores the impact of any special variation that applied to a council over the past four years. This column can be characterised as the likely impact going forward.

The **cumulative increase in column 4** shows the increase in council notional general income that exceeds any special variations that applied over the 4-year period. So there is an amount in column 4 only where the population growth adjustment would have resulted in additional income above any special variation income. We have modelled no increase arising from the population growth factor in the rate peg in those years where the additional income from the special variation would have been greater. Going forward, councils may be less likely to apply for a special variation for future costs associated with population growth.

Where a council did not have a special variation during the 4 years, columns 3 and 4 will show the same increase as both will measure the impact of the population growth adjustment only. The excerpt from Table D.1 shows this is the case for Parramatta.

Where councils have had a special variation during the 4 years, columns 3 and 4 may show different increases. The excerpt from Table D.1 shows a lower amount in column 4 than column 3 for Ku-ring-gai as it had a special variation in one of the years modelled. Byron had a special variation increase in each of the years modelled. We have modelled no increase arising from the population growth factor in the rate peg in those years where the additional income from the special variation would have been greater.

Why does the modelling show no increase for some councils?

The table shows what happens to councils with low or no population growth. If a council has no population growth, then its general income increases by the base rate peg only. If a council has positive population growth in some years and negative population growth in others it will get the increased income from the population growth factor in the years with positive population growth.

For example, in the excerpt from Table D.1 above, Murrumbidgee had population growth in 3 of the 4 years, with modest growth overall. Cobar had population growth in 2 of the 4 years but contracted overall. Cobar would have received additional income from the population growth factor in the 2 years with positive population growth, even though the population declined overall across the 4-year period.

Some councils that are experiencing population growth are already collecting revenue to maintain rates income on a per capita basis through supplementary valuations while some other councils are not. In the excerpt from Table D.1 above, Orange received revenue from supplementary valuations over the 4-year period to maintain rates income on a per capita basis.

The impact on individual councils from year to year going forward will depend on their population growth and their supplementary valuations in a given year. We expect the impact of any increase to a council's notional general income to grow over time, given the cumulative nature of the rate peg.