in Corporate organisational strategy

IPART

Review of rate peg to include population growth

Sector consultations key themes

Report

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Background

IPART is reviewing the rate peg to recommend a methodology to account for population growth.

IPART has been tasked with undertaking a review to recommend to NSW Government, a rate peg methodology that allows the general income Councils received through rates to be varied annually in a way that accounts for population growth.
The ultimate objective of this review is to ensure adequate infrastructure and services can be provided to residents of local government areas that are experiencing population growth.

The sector consultations

Representatives from the sector were invited to participate in workshops to provide insights and feedback to IPART.

Two workshops were held as part of the consultation process to hear the views on the key issues impacting and facing councils and to gather their feedback on preferred implementation options.

Workshop 1: Rural and Regional Councils (including regional organisations of Councils) held on Thursday 27th May in Sydney face to face. This workshop covered:

Session 1: Gathering key issues and questions for the review to consider regarding population growth and impacts on revenues and service provision for Councils

Session 2: Discussion and exploring of implementation options – impacts on regional councils

Workshop 2: Metropolitan Councils held on Friday 28th May as an online session. This workshop covered:

Session 1: Gathering key issues and questions for the review to consider regarding population growth and impacts on revenues and service provision for Councils

Session 2: Discussion and exploring of who will pay for increases?

Session 3: Discussion and exploring of implementation options – impacts on metro councils

The sessions were well attended. A full list of invitees and attendees is in Appendix A.

Key themes and issues relating to population growth: (Session 1)

People contributed ideas and suggestions to improve the current approach.

Broader reforms needed:
The group agreed the rate peg needed to be reviewed to reflect population growth. While understanding the terms of reference IPART had for this review, the group wanted IPART to understand that the NSW Government needs to take a much broader view and rethink its approach to rating to ultimately solve financial pressures and improve the sustainability of Councils.

Need accurate data to agree population:
The data sets to gauge growth need to be accurate. The group felt that DPIE's Population Projections were not always accurate and that DPIE often underestimates or dampens down growth projections to meet other agendas and does not reflect the reality in regional areas of the actual growth. Local knowledge and insights are not always factored into and considered in the build of that data. Development Application data, which is held by DPIE, does not match with projections and projections are not "ground truthed". One ROC felt that the ABS census data was also inaccurate and did not capture all the growth that actually happened in their area. Many councils use id.profiler which is well liked – as it uses a lead (not a lag) indicator.

Key data sets that contribute to cost pressures are not being captured:
This includes:

- Regional growth due to COVID and people relocating,
- Cost of tourism – seasonal and some areas where it is no longer seasonal but all year round,
- Intra and inter states moves of population eg Northern Rivers from South East Queensland,
- Major infrastructure projects like Snowy Mountains 2.0 and coal mines opening up etc create 2 - 5 year lift in population in an area or impact the neighboring Council.
- Seasonal workers (3 months or so),
- Most regional areas are facing critical housing shortages. This encourages granny flats (since blocks are large and is a quick fix solution) which adds density with no additional rates income,

- Regional communities often pay for aged care, childcare, accommodation for doctors etc to come to town – this is a cost to Council to build, maintain and renew but necessary to attract people and services,
- Cost of mergers is carried by the new entity with no top up,
- Pensioner rebates affect regions more with aging population and are costly,
- Regional communities are more dispersed, usually no public transport, cannot consolidate so they need to pay for outreach and duplicate for multiple delivery points e.g. Hume Shire, where people cannot travel to get to a service so to create access and equity you might need several libraries, Coolamon has 3 or 4 pools and 6 tips etc),
- The cost of road maintenance in regions is higher due to overall kilometers of roads,
- Depreciation expenses (maintenance, repair and renewal),
- Maintenance costs of infrastructure,
- National Parks and Wildlife Services and State Parks create population influxes but are rate free,
- Water and sewerage can be extremely costly and influenced by geography,
- Response to and legacy impact of natural disasters – floods, fire, plagues etc will be felt for a long time and need factoring in,
- Some Councils boost up operating results to meet the KPIs of the Office of Local Government (OLG) – depreciation expenses and backlog rations may be understated, which only serves to mask financial sustainability issues facing the sector (also hangover from Fit for the Future),
- Grants can cover the capital cost but not the ongoing maintenance and renewal.

In summary, Regional NSW has very disparate issues that do not fit a metro approach.

Need a lead indicator to account for population growth:
The group agreed a lead indicator was best and felt growth should be based on growth, not just above average growth and that growth should be better defined to include the variables above. Should be a mix of population growth and depreciation costs.

Councils are heavily grant reliant:
All Councils reported being heavily reliant on Federal and State grants to manage some of the aspects of growth pressures in their area. They acknowledge the shortcomings of overreliance on grants. They expressed frustrations at the methodologies and approaches used to determine how grants income is distributed. Some participants felt the population focus in the distribution of Federal Assistant Grants did not adequately address the issues facing regional councils. Large grants are one off and regular grants are not growing.

Key themes and issues relating to implementation options (Session 2)

There are key differences between Rural/Regional councils and Metro councils:
Rural and Regional councils have a reduced capacity to pay whereas Metro councils often have 4 times the population to pay for the same services. The geographical size and population density is very different from Metro councils and therefore the cost to serve and maintain is greater per head in a Region/Rural setting.

Supplementary valuations are not enough:
There was consensus that the supplementary valuation process provides some additional revenue for regional and rural councils. Councils' rate structure influences how much additional revenue councils receive when developments, such as subdivisions, occurs.
Subdivisions also generate new assets and life cycle costs that need to be covered by councils. Rates from new population do not cover the ongoing costs to maintain new infrastructure. Supplementary Valuations help cover some of the capital costs but it is not enough to cover the ongoing costs.
"Special rate variations were meant to cover special things, not to cover things such as the Emergency Services Levy". Some participants highlighted that most of their increase in notional general income this year due to the rate peg would be taken up by the NSW Government's change to the Emergency Services Levy.

Population is the best way to calculate the rate peg variance with some considerations: The group felt per person was better than rateable property as the approach. The group discussed a hybrid version which covered additional population factors like tourism, seasonal workers, temporary residents etc; and an approach which measured the increase in annual depreciation expenditure. The methodology should have a City and Country mode and recognise that one size does not fit all.

Review of rate peg is just one thing to do to smooth the problem:
Other things should be considered like:

- Moving the Emergency Services Levy (ESL) outside the rate peg, or at least allowing councils to separate the item on rates bills.
- ESL should be adjusted to allow for depreciation of emergency assets owned by Council.
- Developers should pay towards the depreciation expense and maintenance of new assets for a period after they are delivered.
- Allowing a new rating category for income earning property, or for councils to charge business rates (e.g. secondary dwellings, Airbnb, tourism)
- measure depreciation in the local government cost index (LGCI)
- IPART build a better model for LGCI calculation

Key themes and issues relating to population growth and impacts on revenues and service provision: (Session 1)

People contributed ideas and suggestions to improve the current approach.

The cost of Infill development may not be lower cost than Greenfield development:
In response to IPART's presentation, some Councils mentioned that the cost of infill development was not necessarily lower than greenfield development. The group felt IPART should not make any assumptions that infill is always cheaper. The costs are masked by the increased cost of renewals which is hard to track. Infill development has a large cost as it involves replacement of assets but to a higher standard, higher depreciation expenses and they undergo higher wear and tear due to more users.

Councils are impacted by rising expectations in newer areas that better services will be offered as well as additional services that are needed will be provided:
In greenfield, capital costs cannot be funded by development consents and the subsequent development contributions alone. Economies of scale are lost when for example *'You are growing population, which adds jobs to the state and local economy but requires roadworks, additional social services, a new SES command and have 5 RFS brigades in your area and Council has obligation to provide facilities but 50% of RFS callouts are to motor vehicles'.* There is also the effects of the Emergency Services Levy and the ongoing disproportionate levy and its impact.

The impact of secondary dwellings places more strain on Council resources:
IPART needs to considered secondary dwellings in its approach as population on the parcel of land can double with no change to rateable income.

The actual cost of growth in growth areas is not funded:
Councils experiencing growth have:

- Increased cost of planning for growth – investigation studies, masterplans and back-of-house costs for consultants and broader planning etc),
- operating costs of infrastructure and social infrastructure like libraries and open spaces etc,
- organisation infrastructure costs like system upgrades, digitalization expectations,
- additional compliance activities that contribute to budget shortfalls,
- Employment hubs have associated costs,
- Tourism which creates and sustains businesses but adds additional costs to Council,
- Shared accommodation (like Airbnb, serviced apartments etc) bring costs to Council,
- Aging population and pensioner concessions (45% written off by Councils),
- Types of ratepayers – rateable vs non-rateable classification eg. Some aged care homes and community housing could be rated but are exempt,
- The higher the density of living the more demand on Council facilities,
- Covid, bushfire and floods – Council have to look at community resilience resourcing which will be an ongoing cost and with additional population,
- Mergers have placed additional cost burden on the new entity as have lost ratepayers due to boundary redraw but facilities and services still being accessed,

State entities not sharing the burden of costs that are in their remit:
Examples were given like the redevelopment of Merrylands new Town Centre – Sydney Water owns the open stormwater drain but is not upgrading it, so Council had to pay for $42m for stormwater upgrade which means ratepayers are funding it.
In City of Sydney at Green Square, Sydney Water trunk drainage – half cost Council funded which amounted to $90m. So, there is pressure to develop and infill from State Government, but its entities not enabling and carrying the cost they are meant to carry.

Standard charges need reviewing to align and keep pace with inflation:
Separate issue is that the stormwater management charge has not increased since its introduction in 2007. Stormwater charges levied by Sydney Water have continued to increase to approx. $78 per house. Council charges remained fixed at $25 over this period. Regulated fees have not increased for the last 12 years.

Key themes and issues relating to who will pay for increases in rates (Session 2)

One size fits all will not work, Councils need flexibility and autonomy to set their rates: Needs to be able to reflect the reality and subtlety of the LGA. Councils should have more autonomy and flexibility to set their own rates. ("*Why can't councils set their own minimum rates? We currently loose around $6m per year on planning costs".)*

Any new approach needs to be simple, unified and easy to administer: Do not over complicate it. The technology behind the scenes will not be able to do it. *"avoid a ratings monster"*

The developer contributions reforms will increase council costs: The base amount needs to be increased. A small change across the base is less likely to create inconsistency. There seems to be a thought process in NSW State Government that the gap that is going to exist between section 7.11 contributions and growth costs will be covered by rates, this is not true. SRV are not flexible – high cost – difficult politically.

New residents could pay and then taper off over time: User pay models suits/ newer residents should pay for the new development. For new residents' higher rates for a few years when they move in and then drop off to normal rates. It means new populations paying for the equitable share of their rates. (Need to remember though new properties do not always mean new ratepayers, they could be existing residents moving around in the LGA.) Councils should be allowed some flexibility going forward.

Protections are needed for existing ratepayers: The group felt, in principle, they are needed but did not elaborate on how to do this.

Current rating structure limits ability to increase revenues: Rating structure needs a higher minimum rate. Current system does not allow for new residents to pay. The recommendation from IPART's 2016 review to base rates on capital improved values should have been implemented. In Council areas with a high percentage of units, as time passes and this percentage increases, it puts higher demand on Council for services but with reduced rates contribution e.g. Randwick Council currently 50% units, will be 70% eventually - that will not lead to an equivalent lift in rates.

Key themes and issues relating to implementation options (Session 3)

One size fits all will not work:
Growth in economy and business properties is not population growth – so there needs to be a component that addresses economic growth. The same calculation basis for all Councils won't work – comparison of capital costs – one size fits all won't work – needs to be per capita basis. Population vs No. properties – need both. There should be an individual population component for each Council.

Consider several rate pegs:
Perhaps several rate pegs – no growth/ 1 %/ 2% 5% etc. Or each council should have its own population factor. Do not apply the rate peg to cohorts of councils (as mentioned in the issues paper).

The intent of supplementary valuations "fail" when it comes to non rateable land:
When Councils have non-rateable lands, this reduces ability to raise revenue and increase demand on services and infrastructure etc. e.g., Where benevolent organisations build 'nursing homes' etc they are not rated. Secondary dwellings create the same issue.

Rates are now subsidising what contributions once did and this is a serious issue for Councils:
The group understood this might be outside the TOR of this work but IPART should not underestimate how big a problem this is for Councils. A council raised that we should consider this issue within our TOR and provide advice back to the NSW Government.

Use rateable and population data sources but need to work out the non-rateable properties issue:
The consensus was to have a blended approach that sets on rateable properties and then adjusts for population growth. May need adjustment factor around population growth projections for when the actuals come through and have an adjustment. Should be a weighting mix for forward projections and historical to avoid swings.
The group still felt it would be difficult to get a reliable data source given the issues with DPI data.

Some other aspects beyond these terms of reference of this review:

While the group understood the TOR of this review, they did want IPART to hear and understand other issues that need to be addressed that impacting the sustainability and ability of the local government sector. These include unfunded community infrastructure and the classification of ‘essential works’ for the purposes of levying local infrastructure contributions.

Summary and next steps:

Participants at both sessions thanked IPART for asking their views and opinions. They were reminded and that IPART had already received written submissions and from many of them and that the ideas and thinking from these sessions was valuable to help IPART in its deliberations and approach. People were reminded there would be further opportunity for comment.

Appendix A:

Workshop 1: 16 External attendees from the following organisations were registered as at 25 May 2021

No.	Organisation
1	Illawarra/Shaolhaven Joint Organisation
2	Central NSW Joint Organisation
3	Riverina Joint Organisation
4	Kempsey Shire Council's
5	Namoi Unlimited Councils
6	Bland Shire Council
7	Northern Rivers Joint Organisation
8	Central NSW Joint Organisation
9	LGNSW
10	Walcha Council

Workshop 2: 51 External attendees from the following organisations were registered as at 25 May 2021

No.	Organisation
1.	KMC
2.	Hornsby Shire Council
3.	OLG
4.	Hawkesbury
5.	Revenue Professionals
6.	Randwick City Council
7.	City of Sydney
8.	Parramatta
9.	Central Coast Council
10.	Wollondilly Shire Council
11.	Northern Beaches
12.	Liverpool
13.	Campbelltown
14.	Mosman Council
15.	Willoughby Council
16.	Lane Cove Council
17.	NSROC
18.	Georges River Council
19.	LG NSW
20.	Blacktown
21.	North Sydney Council
22.	The Hills Shire
23.	Cumberland City Council