

## Bayside Council Submission – IPART’s Review of the Rate Peg to Include Population Growth

Ref:	Submission
1.	<p>What council costs increase as a result of population growth? How much do these costs increase with additional population growth?</p>
	<p>Population growth creates a demand for improved service provisions from local councils as well the need for increased service capacity of local infrastructure. There is a need to match the scale of Council activities to the ever growing needs and demands of the growing local communities.</p> <p>Listed below are some examples of where council costs increase as a direct result of population growth include:</p> <ul style="list-style-type: none"> <li>• Improving the service capacity of local roads and footpaths to accommodate increased traffic.</li> <li>• Additional need for safety measures such as pedestrian crossings, traffic calming measures, CCTV monitoring, street lighting, etc.</li> <li>• More enforcement efforts – enforcement of road rules, parking compliance, etc.</li> <li>• Increased health / food shop inspections.</li> <li>• Increased cleaning – litter collection, street sweeping, beaches clean ups, etc</li> <li>• Increased capacity for customer service.</li> <li>• Increased investment in technology to drive customer self-service, online services, and smart forms.</li> <li>• Increased demand for community and recreational facilities such as parks, open spaces, libraries, sports fields, green space, etc - <i>increasing use not only requires provision of new or extended facilities but also place more wear and tear on existing assets thus requiring higher levels of maintenance and asset renewal.</i></li> </ul>
2.	<p>How do council costs change with different types of population growth?</p>
	<p>Council costs are mainly driven by the type of growth being experienced (i.e. Greenfield v Infill).</p> <p>For councils such as Bayside where the development is mainly infill, the demand for community assets such as parks, open spaces, libraries, sports fields, and public pools are significantly greater because of the size and green space limitations of unit and apartment dwellings.</p> <p>The increased demand for infrastructure and community assets not only requires provision of new or enhanced facilities but also subjects assets to more wear and tear due to population density and usage level in LGA’s experiencing growth through infill development thus requiring higher levels of asset maintenance and renewal.</p>

3. What costs of population growth are not currently funded through the rate peg or developer contributions? How are they currently recovered?

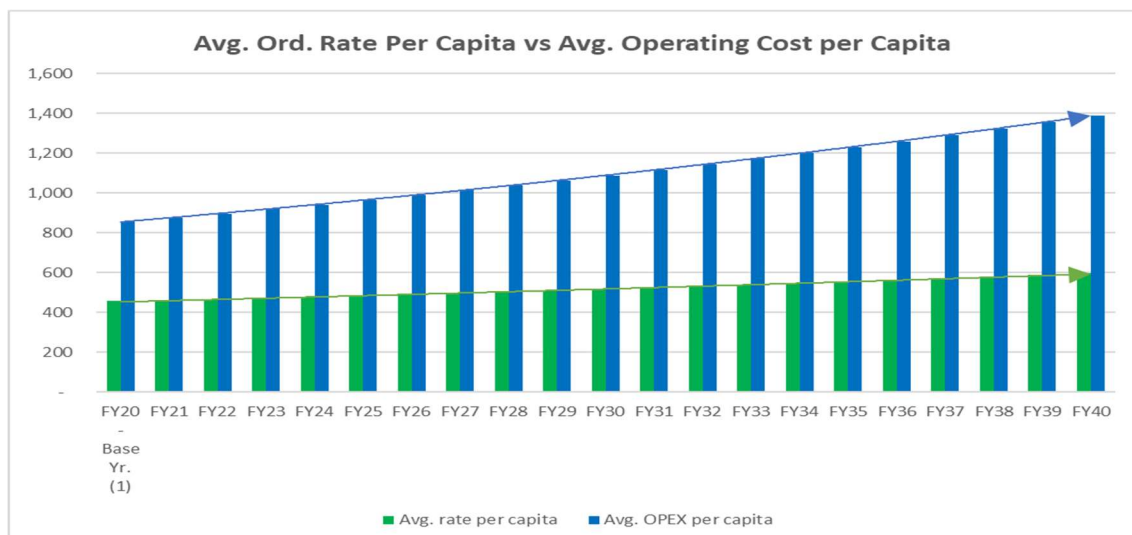
The table below shows a high-level analysis of average ordinary rate per capita vs average operating cost per capita for the 18/19 and 19/20 financial years.

	FY18/19	FY19/20	Increase
Population	178,396	181,472	3,067
Average ordinary rate per capita	\$408	\$418	\$11
Average operating expense per capita	\$947	\$966	\$18
Difference	<b>\$540</b>	<b>\$547</b>	<b>\$7</b>

Council's average rate per capita for the 2019/20 financial year amounted to \$418 compared to average operating cost per capita of \$966 resulting in a shortfall of approx. \$547 per capita. This shortfall is the portion that is subsidised by other revenue sources such as user fees and charges, grants, and other revenue.

When compared to the prior year, the average rate per capita increased by \$11 and the average operating cost per capita increased by \$18 thus adding to the gap by \$7 per capita. The purpose of this is to show that in addition to the pre-existing shortfall, the year-on-year growth in rates (being limited by rate peg) is not enough to cover the increased costs of providing services thus further exacerbating and compounding the funding shortfall.

The graph shows the difference between the growth trajectory of general revenue per capita (excluding, domestic waste levy, grants, and other revenue) and operational expenditure per capita (excluding domestic waste and capital expenditure).



Fundamentally, the increase to Council's operating expenditure is driven by cost and volume (i.e. CPI + population) whereas council rates only increase by a cost factor (LGCI) through the rate peg as illustrated in the graph above.

The Projections are based upon the following assumptions:

- Rate peg for FY21 known @ 2% + assumed at 2.5% per IPART methodology.
- The assumption that population grows on a straight-line basis at the rate of 3,000 per annum to achieve DPIE projection of 235,000 (rounded) by 2041.
- CPI assumed at an average rate of 2% based on historical trends and LGCI.
- Volume driven cost increase is based on the prior year's average cost per capita multiplied by the increase in population during the current year.
- Supplementary rates are calculated on the assumption that:
  - Additional 3,000 residents per annum will result in 1,000 additional rateable assessments (based on an average family size of 3); and
  - That new assessments will mainly be from infill development (i.e. apartment units), therefore the new assessments will pay the minimum rates and that new assessments will come online mid-way through the year thus be charged a pro-rata rate (i.e. part year rate).

It should be noted that the projections are only an illustration to show the difference between the average ordinary rate per capita and the average operating cost per capita over time assuming no other source of income other than rates.

It should also be noted that the projections do not account for the additional operational costs of new assets to be delivered through the 7.11 plans, which when incorporated will further add to the funding shortfall.

In addition to the operating shortfall, there is also the issue of the "unfunded" component of the s7.11 plans (i.e. future capital). The plans not only require a portion of initial capital investment to be sourced from other revenue (i.e. general revenue) but also adds further burden on Council budgets in terms of maintenance, renewal and operating costs.

Another factor that impacts councils are the future operating costs, maintenance and renewal obligations of dedicated or contributed assets.

Council's current asset renewal ratio equals 91% for FY2021/22 and long-term asset renewal funding shortfall of \$84m is projected over the next 10 years (i.e. \$8.4m annually). Additionally, Council's current asset maintenance ratio equals 69% for FY2021/22 and long-term asset maintenance funding shortfall of \$40m is projected over the next 10 years (i.e. \$4m annually).

Overall, Bayside Council is supportive of the review of the rate peg to include population growth, however the proposed reform may only partially address the shortfall in general revenue. Even with the proposed reforms, Council may still be required to apply for a special rate variation (SRV) to "correct" for the pre-existing shortfall created by the impact of historical rate peg so that the revenue catches up to the required level of expenditure over a much quicker period to which the current or future rate pegs may allow.

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4.	Do you have any views on the use of the supplementary valuation process to increase income for growth, and whether this needs to be accounted for when incorporating population growth in the rate peg?
	<p>Currently, the supplementary valuation process is the mechanism for councils to grow their general revenue to account for the population growth. This system also has drawbacks. Given the fact that a new assessment is brought online part way through the rating year, a smaller proportion gets factored into the rate base for the purposes of determining the future years notional income cap. Consequently, for every new assessment added part way through the year, the average rates collected per capita in future years decreases as the rate peg limit does not allow for average rate per capita to be maintained at the same level, let alone grow in line with population.</p> <p>Council is therefore of the view that the supplementary valuation process should remain in place and operate as is, along with the rate peg reform to include population growth.</p>
5.	Are there sources of population data we should consider, other than the ABS historical growth and DPIE projected growth data?
	<p>While the two sources noted above remain reliable sources of information, IPART should also consider that there will be estimation uncertainty in the forecast and estimation years until the next census (i.e. every 5 years).</p> <p>It is proposed that subject to question 7, if the population factor is set at an individual council level, then IPART could consider reviewing internally available information from councils such as the number of approved DA applications or number of occupancy certificates issued (factoring in average household size) in order to corroborate with the estimated population figures from DIPE and ABS.</p> <p>In instances where the internal council information and external ABS and DPIE data do not materially correlate, a review could be undertaken to understand the disconnect and determine whether other factors (outside of DPIE and ABS data) need to be taken into account when determining the population factor to be incorporated into the rate peg.</p>
6.	Is population data the best way to measure the population growth councils are experiencing, or are there better alternatives (number of rateable properties or development applications, or other)?
	<p>Population as the primary data is a reasonable indicator of growth, however the average household size and density of dwellings also needs to be considered.</p> <p>Correlating the number of rateable properties in an LGA to the resident population and combining with land area will give an indication of the population density and type of growth (i.e. greenfield vs brownfield).</p>

As previously noted, the needs of different types of population driven by various development types are different. An area where there is high rise growth (apartments / units) in a smaller geographical footprint will create a greater infrastructure burden for councils and therefore require a higher rate per capita to be collected from residents.

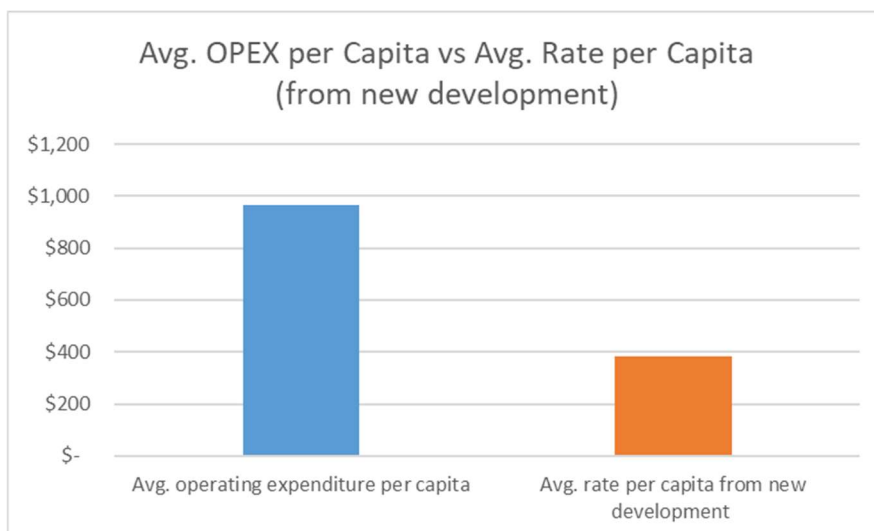
Currently, given the rating system is based on “unimproved land values”, most strata units owners pay a minimum rate which is significantly lower when compared to owners of freestanding property. While the disparity in rates paid between these two groups of residents may be wide-ranging, the cost of providing the demanded level of service and infrastructure (per capita) remains the same.

To illustrate this, consider the below example:

*Council's current average operating expenditure per capita is approx. \$966.*

*If there is a development of an apartment block that supplies 10 new units, each unit owner will pay the minimum rate of \$768 due to the pro rata of the unimproved land value to the number of units.*

*Assuming an average household size of 2 individuals, the average rate per capita collected from the new population will be \$384 (i.e. Min. rate of \$768 divided by 2 individuals). The comparison of average operating expense per capita vs average rate from growth (through minimum rates) is shown in the bar graph below.*



The graph demonstrates that the current minimum rates are not high enough per head of new population and is a major drawback for councils such as Bayside that are mainly experiencing growth through infill development.

The response to question 11 further expands on the issue of minimum rates linked to unimproved land values.

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7.	<p>Do you think the population growth factor should be set for each council, or for groups of councils with similar characteristics? How should these groups be defined?</p> <p>Setting a factor based on population of a group of councils may result in a skewed average rate which could distort the distribution of the rate burden across ratepayers of various LGA's and increase the problem of cross subsidization.</p> <p>Council is therefore of the view that the population growth factor should be set for each council given that the primary purpose of levying rates is for providing services and infrastructure to the resident population,</p>
8.	<p>Should we set a minimum threshold for including population growth in the rate peg?</p> <p>As historical data shows, most Sydney metropolitan councils (when compared to regional and rural councils) will always experience population will growth as a result of:</p> <ul style="list-style-type: none"> <li>• Increased life expectancy.</li> <li>• Increased urban migration.</li> <li>• Immigration.</li> <li>• Natural births.</li> </ul> <p>It may therefore be appropriate to set a minimum threshold for metropolitan councils.</p>
9.	<p>What is your view on the calculation of the growth factor – should we consider historical, projected, projected with true-up, a blended factor or another option?</p> <p>The population factor needs to be based on historical growth but also include forward looking projections. Therefore, Council is of the view that utilizing a three-year rolling average that includes the projection of next year plus a true up from the previous year will yield the most accurate growth indicator to be factored into the rate peg.</p> <p>With respect to the response in question 8, the factor calculated above could be made up of a minimum threshold plus margin (being the difference between the calculated average growth and min. threshold).</p>
10.	<p>How should the population growth factor account for council costs?</p> <p>As noted in the response to question 3, Council's average ordinary rate per capita for the 2019/20 financial year amounted to \$418 compared to average operating cost per capita of \$966, resulting in a shortfall of approx. \$547 per capita. This shortfall is currently subsidised by other revenue sources such as user fees and charges, grants, and other revenue.</p> <p>Fundamentally, the increase to Council's operating expenditure is driven by cost and volume (i.e. CPI + population) whereas council rates only increase by a cost factor (LGCI) through the rate peg.</p>

The projections and graphical analysis in Q3 show that without significant reform to general revenue, the shortfall will continue to widen over time eventually resulting in declining service levels or council operations becoming unsustainable.

11. Do you have any other comments on how population growth could be accounted for?

Currently, given the rating system is based on “unimproved land values”, most strata unit owners pay a minimum rate which is significantly lower when compared to owners of freestanding property. While the disparity in rates paid between these two groups of residents may be wide-ranging, the cost of providing the demanded level of service and infrastructure (per capita) remains the same.

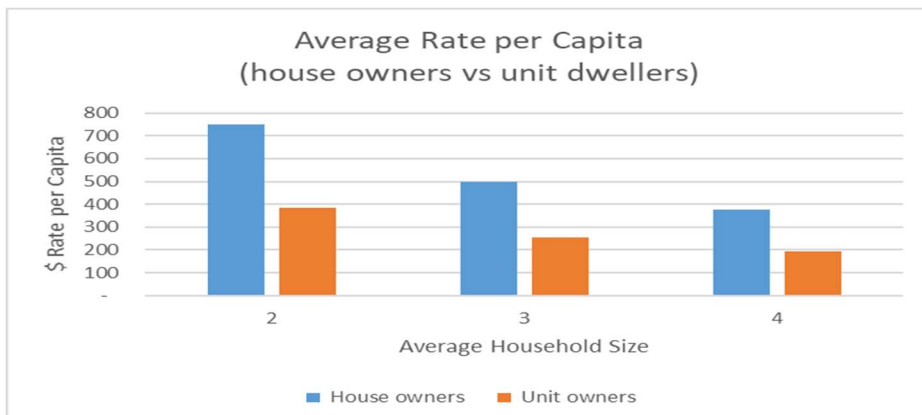
Consider the below example:

*There are 2 identical parcels of land with an unimproved value of \$1m each. One of the parcels has a free-standing property and a household of 4 individuals (i.e. house) and the other has an apartment block of 10 strata units with an average household size of 3 people (i.e. 30 individuals).*

*The rates paid by the owner of the free-standing property will amount to \$1,500 (rounded) resulting in average rate of \$350 per property resident. Comparatively, the total rates collected from the owners of the strata units will be \$7,680 (i.e. min. rate of \$768 x 10 units) resulting in an average rate of \$256 per property resident. The residents of the freestanding property, on average, pay 41% (\$106/per resident) more than the residents of the strata units.*

For councils such as Bayside where the development is mainly infill, the consumption of community assets (such as parks, open spaces, libraries, sports fields and pools) are utilized to a greater extent by unit dwellers purely because of the size and green space limitations of their dwellings. However due to rates being based on unimproved land value plus the existence of lower minimum rates, unit dwellers continue to pay significantly lower rates to those ratepayers on the ad-valorem.

The bar graph below illustrates the above example. It compares the average rate per capita for a house and a unit block on a similar parcel of land (i.e. the same unimproved land value) across various household sizes (ranging from 2 -4).



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	<p>A proposed solution to this issue could be allowing councils to levy rates based on Capital Improved Value (CIV) instead of unimproved land value or increasing the minimum rates so that the gap is reduced between ratepayers paying minimum rates and those paying ad-valorem rates. The latter option (i.e. having a higher minimum rate) will allow councils experiencing growth primarily through infill development to then increase its general revenue from “growth” in future years from new development. Conversely, the CIV methodology may only assist councils that are primarily experiencing growth through greenfield development.</p> <p>Consideration also needs to be given to factoring the infrastructure needs of not only the resident population but also inflows through tourism and workforce.</p>
<b>12.</b>	Do you have any comments on our proposed review process and timeline?
	<p>The issues paper was released on 24 March with deadline for submissions being 3 May. The deadline did not give councils enough time to gather the desired level of information or brief councillors prior to making the submission.</p> <p>The overall timeline for engaging with stakeholders (2 months) prior to the release of the draft report in June 2021 also appears to be too short to fully understand the impact of population growth on the cost-of-service delivery in order to make a fully informed decision on a rate peg methodology that adequately address the issue of the general revenue shortfall.</p>