



File no: F16/694

3 May 2021

Review of the rate peg to include population growth  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
HAYMARKET POST SHOP NSW 1240

Online submission <https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Reviews/Rate-peg-population-growth/Review-of-the-rate-peg-to-include-population-growth>

Dear Sir/Madam,

I am writing to you in relation to the Independent Pricing and Regulatory Tribunal's (IPART) review of the rate peg to include population growth. Council welcomes the review by IPART, and appreciates the efforts of IPART staff to consult with councils.

Please find attached Blacktown City Council's submission to the issues paper released by IPART on 25 March 2021.

In making our submission Council would like to highlight the following:

- Growth councils are confronted with a range of additional and capital costs which cannot be funded from either Section 7.11 developer contributions or rates revenue attributable to additional rateable properties created as a consequence of development activity.
- The projected population growth for Blacktown is around 256,000, larger than current existing populations of most urban councils.
- The value of community infrastructure which cannot be funded from Section 7.11 developer contributions required to support our City's projected future growth is in excess of \$500 million.
- Community expectations in new release areas are often higher than in established areas as a consequence of greater population density and the time taken to deliver essential infrastructure.

If you would like to discuss this matter further, please contact me on [REDACTED]

Yours faithfully

[REDACTED]

Wayne Rogers  
Acting Chief Executive Officer

**Connect - Create - Celebrate**

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## IPART issues paper

### 1. What council costs increase as a result of population growth? How much do these costs increase with additional population growth?

#### Response

Population growth results in a number of cost increases for a council. These additional costs comprise both capital and operating costs.

Blacktown City Council is finding that the increase in annual rates revenue attributable only to an increase in rateable properties (referred to in this submission as 'growth') is currently around \$ 4 million per annum. As can be seen from the information provided below, this amount of additional rates revenue attributable to growth is lower than the additional costs experienced by Council as a consequence of this growth.

In the case of Blacktown **additional capital costs** include the following:

#### **Community facilities which cannot be funded from developer contributions - \$525 million**

The NWGA within Blacktown City will ultimately have an additional 84,648 dwellings and additional population of 256,100. Using available population data obtained from the Office of Local Government comparative council information for 2019 this is higher than the current population of many large councils, as per the table below:

- Georges River Council – 158,411
- The Hills Shire Council – 172,473
- Penrith City Council – 209,210
- Fairfield City Council – 210,612
- Liverpool City Council – 223,304
- Sutherland Shire Council – 229,213
- Cumberland City Council – 236,893.

To support this significant increase in population, we estimate the value of required additional community infrastructure the cost in present day terms is around \$525 million. These costs cover a range of community facilities and cannot be funded from Section 7.11 developer contributions.

#### **New infrastructure to support City growth**

In order to support an increased population of 256,100 and the demands on our services grow, Council will incur additional capital expenditure to support this. This will include (but not be limited to) items such as a new depot to house additional plant and equipment, a future SES facility, and additional office accommodation for the required growth in Council's workforce. None of these items can be funded from developer contributions, and the cost of providing these facilities is not incorporated in the existing annual rate peg. Further information on these items is provided below:

- New depot - \$35 million to \$45 million

Blacktown City covers a large area of 247 square kilometres. By way of comparison, below shows the area of some neighbouring councils:

- Georges River Council – 38
- Cumberland City Council – 72
- City of Parramatta – 84
- Fairfield City Council – 102.

Council's major depot is located at Rooty Hill. Given the large area of Blacktown City, and its rapidly increasing population and related traffic challenges, it will become increasingly inefficient to continue to have a single major depot. This is because travel times from the current depot to various parts of the North West Growth Area will continue to increase. Presently, one-way travel times from the current depot to various parts of the North West Growth Area during core business hours averages around 25 - 45 minutes and can exceed 50 minutes when traffic conditions become very congested during peak times.

In addition, we have identified the existing depot will not have sufficient capacity to house and service the additional plant and equipment required to support our future growth. A future depot site of sufficient size to support projected additional population of 256,100 would have an estimated cost of \$ 35 million - \$45 million for both land acquisition and construction costs.

#### **New SES facility – \$2 million - \$4 million**

The obligations of local governments are set out in the *State Emergency Service Act 1989* (NSW). Section 17 (5) states "*The council of a local government area must, within 3 months of the appointment of a local commander for the area, provide (free of charge) suitable training facilities and storage and office accommodation to enable the local commander to exercise his or her functions.*"

The future projected population for Blacktown is sufficient to require an additional SES facility, of which we estimate could cost in the order of \$2 million - \$4 million. This cost cannot be funded from Section 7.11 developer contributions, nor is it provided for in the existing rate peg calculation.

#### **Additional office accommodation — \$80 million - \$100 million**

We project our future staffing levels will continue to increase across a broad range of service areas as our population continues to grow. While much of this growth will be for staff who work at remote sites or in our outdoor crews, there will also be an increase in the number of staff who work predominantly in our administration centre. This increase is estimated to be around an additional 150 – 200 staff in a variety of roles. Council has already had relocate a number of sections to remote sites as our existing administration centre can no longer accommodate all of our staff. Approximately 100 staff currently work from remote sites in sections which previously were located in our central administration centre. As such we project we will have, over the next 10 years, a future office accommodation shortfall of around 250 - 300 staff.

### **Additional plant and equipment – additional \$760,000 per annum**

Despite making continued increases over the past decade in our budget for plant replacement and operating costs, we have not been able to adequately fund our plant replacement budget. This has resulted in an increasing proportion of our heavy vehicle fleet becoming aged, and retained beyond an optimal useful life. This is based on recommendations made by IPWEA for optimal plant useful life.

As a consequence of delayed replacement of our existing plant up to 70% of the maintenance is for non-scheduled work. This results in unplanned unavailability of plant and equipment and disruption to service levels. In order to better maintain and replace our plant, while also investing in additional plant required to service our future population growth, we need to increase our plant replacement budget.

In addition, we project that over the next 10 years Council will be responsible for an additional 890 hectares of open space. To maintain this additional open space at expected service levels we will require an additional \$460,000 annual expenditure on additional plant and equipment. In addition, there will be further costs for other plant to maintain new roads, footpaths and drainage infrastructure, which will necessitate an additional average capital cost of around \$300,000 per annum.

### **Unfunded future cost of renewal of growth area infrastructure**

On average, Blacktown will provide additional transport and water management infrastructure worth around \$230 million annually for the next 20 years. Assuming an average useful life of around 60 – 80 years for these infrastructure assets, this will result in annual increases in depreciation cost. We project this to be in the order of average annual increase of around \$3.2 million.

The magnitude of the annual increase in depreciation is a relevant guide to Council's future asset renewal funding requirements when these assets ultimately require replacement. Whilst Section 7.11 developer contributions fund the initial capital cost of this infrastructure, the cost of the future renewal of this infrastructure is well above the additional rates revenue attributable to population growth.

In the case of Blacktown **additional operational costs** attributable to future population growth include (but are not limited to) the following:

#### **Increased open space maintenance costs - \$1.6 million per annum**

We project that over the next 10 years Council will be responsible for an additional 890 hectares of open space. Based on our current service levels, we estimate the annual additional cost to maintain this additional open space will be around \$1.6 million. This amount consists of additional staff costs along with various materials and contract costs. It does not include additional plant and equipment of \$460,000 per annum.

#### **Increased transport and water management infrastructure space maintenance costs - \$1.1 million per annum**

On average, Blacktown will provide additional transport and water management infrastructure worth around \$200 million annually for the next 20 years. Assuming an average useful life of around 60 – 80 years for these infrastructure assets. This will require additional maintenance costs which based on around 0.5% of construction cost would result in an average annual increase in maintenance costs of around \$1.1 million. If the amount expended on

maintenance was increased to around 1% annually of construction cost, then average annual increase in maintenance costs of around \$2 million annually.

#### **Increased information technology costs - \$100,000 per annum**

Licence and support costs for our core software systems increase with increases in either the number of rateable properties or number of staff. On average these costs increase annually by around \$100,000.

#### **Increased postage and bank fees - \$80,000 per annum**

Our experience has been that these costs continue to increase as a consequence of increased population by around \$80,000 per annum.

#### **Increased Valuer General fees - \$30,000 per annum**

The Valuer General fees increase annually as an increase in the number of rateable properties.

#### **Increased cost of local government elections fees - \$77,000 per annum**

Local government elections are held every 4 years. Over the next 11 years there will be elections held, in 2024, 2028 and 2032. Based on a cost of \$12.72 per elector, and a projected increase of 66,455 voters, which over the next 3 elections equates to an additional cost of \$0.845 million, or annual increase of \$77,000 per annum.

#### **Increased street light cost - \$67,000 per annum**

With the additional roads being constructed to support future growth there is the need to provide new street lights. The additional costs are around \$67,000 per annum.

#### **Increased cost of pensioner rebate - \$35,000 per annum**

NSW councils are required to provide a rebate of \$250 per annum to all eligible pensioners. The NSW government funds 55% of the cost of the mandatory rebate, and councils fund the remaining 45%. On average the number of eligible pensioners in Blacktown is increasing by around 300 per year, meaning an average annual increase in the cost of the mandatory pensioner rebate of \$35,000.

#### **Declining Financial Assistance Grant per capita - \$941,000 per annum**

Blacktown is experiencing in real terms a continued reduction in the amount of the Financial Assistance Grant (FAG) revenue received per capita. This is a consequence as the overall amount of FAG paid to council has not increased since 2012/13, while our population continues to increase. In 2012/13 the amount of FAG received equated to an amount of \$59.29 per capita. In 2020/21 this has reduced to \$35.96 per capita.

If the amount of FAG paid to Council for 2020/21 was to be increased so that it remained at the 2012/13 amount of \$59.29 per capita and then was indexed in line with CPI, the additional amount of FAG to be paid would be an additional \$7.53 million. This would have averaged at annual increases from 2013/14 to 2020/21 of \$941,000. If Council's annual total FAG allocation continues not to increase then the future annual impact will remain largely the same.



## **2. How do council costs change with different types of population growth?**

In the case of greenfield development, there is a rapid sustained increase in operating costs associated with the maintenance of new infrastructure provided to support the increased population. While in the case of some infrastructure being transport infrastructure, these costs are not as significant in the early years of the construction of the new asset, in the case of Blacktown we are finding that local roads are already showing premature signs of failure. We believe this has been caused in part by a number of buses using local roads instead of major arterial roads to avoid traffic congestion on major roads. We are also finding that traffic volumes on local roads are also often higher than originally projected.

In the case of open space and recreational infrastructure, maintenance costs occur immediately and as outlined in question 1 above are considerable. Higher population density than originally anticipated and the resultant smaller lot sizes mean there is a greater demand for quality open space provision than is often the case in the more established areas of Blacktown City.

Another trend which occurs with rapid population growth is increased customer service provision. New residents would typically call council about matters such as requesting a new garbage service, advice with development enquiries and general questions about council service provisions. Many of these requests involve a telephone call to council which will typically take around 3 minutes. In order to deal with all calls on a timely basis we have needed to increase our staff resources for our call centre.

A further issue for a large council like Blacktown in coping with population growth is the need to ensure core council service areas remain sufficiently resourced to cope with day-to-day operations. As an example, increases in infrastructure maintenance crews put increased pressures on internal sections such as people and culture, safety and information technology. As such it becomes necessary to periodically increase resourcing for other unrelated service areas of council to ensure front line services can be continued to be provided at optimal levels.

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

In regard to capital costs, as outlined in question 1 above, the cost of community infrastructure has an estimated value of \$525 million cannot be funded from Section 7.11 developer contributions. As also noted in question 1 capital investment in supporting infrastructure such as additional depot capacity and office space cannot be recovered from Section 7.11 developer contributions.

In terms of other infrastructure, it is not always possible to fund entirely from Section 7.11 developer contributions, open space infrastructure at a level preferred by incoming residents, or optimal stormwater management facilities which minimise the adverse impacts of stormwater runoff in our waterways.

As noted in question 1 above, the additional rates revenue from population growth in Blacktown is around \$4 million per annum. The aggregate of additional operating costs to properly support our population growth is well above this amount, meaning that council needs to compromise on maintenance and service levels to remain within budget.

These are all of the costs listed in question 1. What can be funded will be either from rates revenue, but at the expense of other priorities.

**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?**

We believe the current system for supplementary valuations is adequate and does not need to be changed.

Supplementary valuations allow councils to add to notional general income to their existing rate base as new properties are created throughout the year.

Following the sub-division of a parcel of land, rates are levied on the new lots created, using valuations provided to the council by the Valuer General. Supplementary valuations are issued to Council every 2 weeks and provide an up to date valuation of each current property in the local government area.

Supplementary valuations provided to the council during the year are included when the notional general income for each council and generally increase the total rateable valuation as the local government area is developed.

Generally, the combined rateable value of a newly subdivided parcel of land will be much higher than the previous rateable value for the land before it was subdivided. For example, 30 new residential lots created by the subdivision of a 2-hectare parcel of land will have a valuation many times greater than the original lot, which results in increased rating revenue generated as the new lots are levied.

However, the increase in rating income achieved by the supplementary process generally does not fully cover the increases in operational cost in servicing a growing population. This is because the actual rate income per capita reduces as development occurs. Furthermore, the additional rates revenue is not sufficient to provide additional funding for the capital expenditure needed to provide infrastructure for the growing population.

In summary, the supplementary valuation process does provide additional rating income to growing council's but that population growth should be further recognised in the rate peg calculation to truly acknowledge the additional burden on growth Councils.

**5. Are there sources of population data we should consider, other than the ABS historical growth and DPIE projected growth data?**

Our view is the most reliable sources of population information remain the ABS historical growth, through the Census and annual Estimated Resident Population, and DPIE projected growth data. However, the problems with these indicators is that they do not always keep pace with the rapidly increasing population growth which is occurring in Blacktown City. Consequently, if only this data was used to inform an annual rate peg limit, and as the ABS historical data is only confirmed every 5 years, it is probable there will be an above average increase in the rate peg every fifth year in the year after the census is completed. This would mean in the case of Blacktown the additional growth in rates income would be somewhat below the actual rate of population growth.

To alleviate this problem a potential solution would be to include additional reference to other available data in the calculation of individual years rate peg calculation, subject to these factors then being subsequently adjusted if required once updated ABS census data is available. To do this there are the following readily available sources of data which Council could provide to IPART:

- a. % increase in the number of rateable properties categorised as 'residential' – while this data would not necessarily give a full representation of increased population numbers, if the percentage increase over a 12-month period was higher than the percentage used to project population growth then this would indicate population is indeed increasing by a higher rate than as projected by just the use of ABS historical growth and DPIE projected growth data.
- b. % increase in the number of new domestic waste services – similar to the comments above this data would not necessarily give a full representation of increased population numbers, but could also help indicate whether population is increasing by a higher rate than as projected by just the use of ABS historical growth and DPIE projected growth data.
- c. Number of new Development Applications (DA) approved – on its own this data over a 12-month period would have limited value in informing the rate of population growth as DAs can vary greatly in terms of development size and value. But used as trend data over a longer time period (say 5 or more years) sustained increases in the number of DAs approved could help support the identification that population is indeed increasing % increase in the number of rateable properties categorised as 'residential' – while this data would not necessarily give a full representation of increased population numbers, if the percentage increase over a 12 month period was higher than the percentage used to project population growth then this would indicate population is indeed increasing by a higher rate than as projected by just the use of ABS historical growth and DPIE projected growth data.

In terms of other readily available data sources which could be used to inform population growth data, Council considers that there are no others sources of data that a council could supply which are sufficient for the purposes sought in this question. Accordingly, we would propose use of both items a and b above, supplied annually by a council to IPART, and used by IPART to make if considered warranted an additional percentage increase in an individual year, which would then be appropriately adjusted in a later year once revised ABS data informed by the latest census has become available.

**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)?**

As noted in our response to question 5 above, we believe population data based on the ABS historical growth and DPIE projected growth data, supplemented by annual data provided by a council to IPART on increases (both in terms of number and as a percentage) in the number of both new residential rateable properties and new domestic waste services is the best approach. It would be important that each council could easily identify how IPART has calculated the annual growth factor, and there be an opportunity for the council to object to the calculation if it believes there has been an error in how it has been calculated. Similarly, IPART should have the right to question the data a council has provided to it if it considers the data is not reliable or accurate.



**7. 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?**

Given the differences in annual growth each council experiences it would be best if there was a unique population growth factor should be set for each council. While this would necessitate some additional work for IPART, on the basis of our proposal noted in questions 5 and 6 we regard this could be done relatively efficiently by IPART.

**8. Should we set a minimum threshold for including population growth in the rate peg?**

Experience has shown that urban councils experience continued increases in their total level population, except in rare circumstances where there has been a boundary adjustment with an adjoining council. When this does occur, it would be corrected separately and should not need to be reflected by way of having a minimum threshold for including population growth in the rate peg. As such, for urban councils we do not consider a minimum threshold for including population growth in the rate peg is necessary.

Whether rural councils should be subject to a minimum threshold for including population growth in the rate peg is matter we will not comment on.

**9. 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?**

Ideally the revision to the rate peg to include a growth factor will allow recovery of lost revenue which has already occurred as a consequence of limitations on what section 7.11 contributions can be used to fund. This can only properly be achieved if both historical and projected future population growth is included in the calculation.

In the case of Blacktown, significant development will occur in the North West Growth Area, which has 12 of the 16 growth precincts in Western Sydney. We adopted our first Section 7.11 contributions plan for this area in 2010, and since this time Blacktown has not been able to levy any Section 7.11 developer contributions for community facilities. We estimate the forgone revenue for community facilities so far is in excess of \$100 million, and assuming the prohibition continues there will be a further \$425 million meaning a total of \$525 million of unfunded community facilities. Over the period 2010–2021 the population of Blacktown has increased by 76,230

Given this significant increase we believe it is appropriate to include historical population growth in the population growth factor used in the rate peg. We remain open to this historical growth being staged over multiple years.

We have reviewed available information of the relativities of the amount of rates levied by local government in the different states of Australia. In summary, it is overwhelming apparent that the application of rate pegging in New South Wales since 1977 has resulted in much lower council rates in that state than others. This is highlighted in the table below which compares average council rates per capita for each state of Australia:

State	Average rates per capita	Percentage difference to NSW
ACT	\$1,309	121% higher
Western Australia	\$924	56% higher
Victoria	\$814	38% higher
Queensland	\$786	33% higher
NSW	\$591	
<b>All states</b>	<b>\$835</b>	<b>41% higher</b>

Clearly, if the inclusion of population growth factor in the rate peg is included as at a point in time only, while welcomed it would only partly address the shortfall in revenue.

#### 10. How should the population growth factor account for council costs?

Ideally the growth factor would be shown as an additional percentage increase above the current rate peg so that growth councils can allocate the additional rates revenue to specifically addressing the additional costs of growth. There should be a process whereby in advance of the notification of the rate peg limit growth councils complete a return to IPART of the additional capital and operating costs attributable to population growth.

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

In summary, IPART would need to strike an appropriate balance between a calculation that is simple to understand and transparent, and one that over time provides adequate additional revenue to fund the additional costs of growth. This balance should ensure that on a per capita basis a council's rates revenue in real terms should not diminish adversely over time.