Governance. MCherry MC
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Independent Pricing and Regulatory Tribunal
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Dear Tribunal members

Submission to the Issues Paper – Review of the rate peg to include population growth

City of Newcastle's feedback is below. Thank you for the opportunity to present this submission.

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

There are many costs borne by Councils resulting from population growth. Typically costs associated with infrastructure increase as population numbers grow. These costs are represented by capital costs as well as maintenance and operational costs in the daily running of the asset.
Capital costs increase due to the expense of acquiring of land and constructing infrastructure such as libraries, community halls or leisure or sporting venues. This infrastructure must then be maintained leading to increased operational expenses in employee salaries and on-costs, electricity, fuel, materials, plant and machinery. On-going maintenance associated with roads, footpaths, kerb and guttering, stormwater management and open-space management also lead to cost increases in the same expense types. Currently costs are absorbed into existing budgets. Over time they will likely lead to a reduction in current levels of service. There is also a diversion of capital funds to new works instead of renewal. New works and subsequent running costs need to be funded in alignment with population growth.

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

Councils costs change through:
- Adjusting or maintaining current levels of service to meet increasing community requirements/demands e.g. increasing migrant population may require changes to library programs, community services offered for aging population, youth services etc
- Requirement for capital growth to upgrade or create new assets to serve population growth, useful life of assets may decrease as a result of increased utilisation or become no longer fit for purpose
- Population growth leading to increased contributed assets as a result of developments. Results in increased maintenance and renewal costs plus eventual replacement of asset

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

The operational expenses to maintain items that are dedicated or originally constructed due to developer contributions such as dedicated roads, stormwater management systems, footpaths and community infrastructure such as parks, playgrounds. These assets are often provided to Council in an inferior condition and then Council must fund the depreciation, renewal and maintenance of these items.

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?

The introduction of the use of Capital Improved Values (CIV) as the basis for rates calculation as proposed by IPART in its December 2016 "NSW - Review of the Local Government Rating System", would have removed the need for a population growth factor to be calculated.

IPART recommended the growth in rates revenue outside the rate peg should be calculated by multiplying a council's general income by the proportional increase in Capital Improved Value from supplementary valuations on an annual basis. Furthermore, IPART noted in its review that "use of CIV is also consistent with best practice in other jurisdictions" and is consistent with the approaches in other Australian states. However, given the Government's refusal to accept IPART's recommendation it is necessary to develop a new means of accounting for the growth in rates revenue required to service population growth within the rate peg.

The use of the supplementary valuation process using the current Unimproved Valuation methodology is deficient in that it results in an increase in general rate income from new development that is typically much lower than the increase in costs of servicing new residents and businesses. This is because in large high density regional and metropolitan Councils such as City of Newcastle (CN), strata (vertical) subdivisions are significant in volume when compared to horizontal Torrens titled subdivision activity. This is noteworthy because the total land value of new strata subdivision developments does not increase as new apartments are built. Therefore, CN only receives additional rate income by levying fixed charges (base or minimum amounts). For example, a 100 lot strata development has rates assessed using the maximum 50% base amount of $800/lot. This will result in CN receiving only $79,200 (99 X $800) in additional annual rate revenue. This extra income is however completely inadequate in funding works and services for an estimated additional 200-300 residents within an extra 99 households. Consequently, this results in CN rates per capita from this development of approximately $394 which is significantly below the average rate per capita for all states of $835 as stated within the NSW Productivity Commissioner's report – "Review of Infrastructure Contributions in New South Wales". There are many examples of this under-generation of rate income through strata subdivision within Newcastle LGA. This provides further reinforcement that the Supplementary Valuation process when used with Unimproved Values is inadequate in providing additional rate income to service population growth.

Additionally, as IPART acknowledges, developments such as “granny flats” or flats (not separately titled dwellings) do not trigger supplementary valuations and accordingly do not generate additional rate revenue which can be used to service

additional residents. This does not align with the key taxation principles of Efficiency or Equity.

Any growth in rate income achieved through the supplementary valuation process should be ignored when factoring in population growth costs within the rate peg. The population growth factor within the peg should be in addition to the normal supplementary valuation process which only increases the rate base on a limited basis as referenced above.

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

The City of Newcastle is supportive of standardised population data derived from ABS historical growth and DPIE data. Newcastle currently has an occupancy rate of >99% across all dwellings in the city. Therefore, similar to Metropolitan Sydney, our population growth is dependent on new housing stock being released, combined with natural increase and migration. Several Council services are actually required before the population growth arrives. Therefore, Development Applications for new builds/subdivisions, local strategies/plans e.g. Local Environment Plan, Local Strategic Planning Statement and associated housing strategy, Hazard identification study e.g. Coastal Management Program, could all provide additional data points.

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)?

Whilst ABS historical growth and DPIE projected growth data is supported, alternatives are available as a reliable source. These include changes in the number of properties as this information is easily accessible by each Council. The variation in the number of properties should include both rateable and exempt properties as a high proportion of exempt properties are domestically occupied and place further demands on Council funded works and services. Many councils such as CN are experiencing a growth in non-rateability claims for land used for residential accommodation (such as Community housing and seniors living). Given the NSW Government’s decision to ignore this issue by choosing not to amend the exemption provisions of the Act – changes to the number of exempt properties should be factored in when assessing population growth.

Alternately the number of Occupation Certificates issued could be used to measure population growth.

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?

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The population growth factor should be set for each individual Local Government Area (LGA). This would provide for individual population factors which are specific with each LGA and would account for differing population demographics, considerations and circumstances existing within each different LGA.

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

No – Councils should receive the financial benefit of any population growth no matter how small it may be. As the Issues Paper states use of a threshold would artificially limit those LGA's which qualify for the factor.

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?

Preference would be for annually updated DPIE population projections, which include a housing forecast. This model exists for Metropolitan Sydney but has not been applied in Newcastle. The current housing challenges demonstrate that the same model is required in Newcastle

10. How should the population growth factor account for council costs?
The population growth factor should capture that additional Council costs are experienced before the population growth actually arrives. Therefore, the population growth factor should be seen as a lead indicator of future Council costs.

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

Projected population growth should be considered in state and federal government funding processes too, including infrastructure projects and Financial Assistance Grants.
Additionally, CN has raised within this submission the use of CIV as a basis for rating and would suggest that the transition to CIV represents the most efficient and accurate solution to this issue. CN are aware that the NSW Government has at this time deferred the use of CIV for rating purposes, however CN recommends that this decision be reviewed and its impacts more rigorously assessed.

12. Do you have any comments on our proposed review process and timeline?

The timeline and review process are satisfactory. CN has no additional comments or suggestions.

Yours faithfully

Michael Cherry
Debt Management and Rates Manager