CITY OF SYDNEY

City of Sydney
Town Hall House
456 Kent Street
Sydney NSW 2000

+61 2 9265 9333
council@cityofsydney.nsw.gov.au
GPO Box 1591 Sydney NSW 2001
cityofsydney.nsw.gov.au

13 August 2021

Our Ref: 2021/346104
File No: S066421.006

Ms Deborah Cope
Acting Chair
Independent Pricing and Regulatory Tribunal
PO Box K35 Haymarket Post Shop, Sydney NSW 1240

Dear Deborah,

Review of the rate peg to include population growth

I refer to IPART's draft report on the review of the rate peg to include population growth issued in June 2021.

The City of Sydney (the City) welcomes the opportunity to provide comments and feedback on key issues regarding the review of the local government rate peg and population growth.

We trust that this feedback will assist the Tribunal in assessing a fair, equitable and transparent rating mechanism for all NSW councils to enable them to continue to serve their communities sustainably.

The City agrees with IPART's proposals that:

1. Each council's general income on a per capita basis should be maintained as its population grows
2. The rate peg for each council should be increased by a population factor equal to the annual change in its residential population
3. IPART should use Australian Bureau of Statistics data and should be re-based.
4. Income derived through supplementary valuations should be part of the calculation.

The City strongly argues that the City should be treated in the same way as all other NSW councils in this proposed methodology.

A more detailed submission is attached which outlines the City's response to IPART's approach and methodology and responds to specific issues raised by officers of IPART on our community's specific needs and circumstances.

Should you wish to speak with a Council officer about this issue, please contact Bill Carter, Chief Financial Officer on 9265 9333 or at [redacted].
Yours sincerely

[redacted]

Monica Barone
Chief Executive Officer

Green, Global, Connected.

CITY OF SYDNEY

City of Sydney response to IPART's Review of the Rate Peg for Population Growth

August 2021

Green Global Connected

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Executive summary

The City of Sydney welcomes the opportunity to comment and provide feedback on key issues in the review of the local government rate peg and population growth.

We hope this feedback will assist the tribunal in assessing a fair, equitable and transparent rating mechanism for all NSW councils, enabling them to continue serving their communities in a financially sustainable manner. We have reviewed the draft report and met with IPART officers in response to IPART's request for further information.

The City of Sydney falls within the key parameters for all other NSW councils in this review and supports the introduction of an allowance for population growth as part of the rate peg.

Sydney is the gateway to the NSW and Australian economy. This adjustment, after so many years of rate capping, will help support the continued growth of a sustainable and liveable city that serves not only its residents, but millions of workers and visitors each year.

The City of Sydney agrees with IPART's proposals that:

1. Each council's general income on a per capita basis should be maintained as its population grows.
2. The rate peg for each council should be increased by a population factor equal to the annual change in its residential population.
3. IPART should use Australian Bureau of Statistics data and should be re-based.
4. Income derived through supplementary valuations should be part of the calculation.

The City of Sydney strongly argues that our rate peg should be adjusted and applied to our total rates base, using the same methodology as for all other NSW councils. This supports equity and transparency. We encourage IPART to finalise its report on this basis.

We recognise this IPART review is one element of a suite of reforms, following the Productivity Commission's Review of Infrastructure Contributions in NSW. The reforms are intended to create certainty about the funding and delivery of infrastructure to support new and existing communities. In March 2021, the NSW Government accepted all 29 recommendations. The Department of Planning, Industry and Environment acknowledges that one of the key outcomes of this reform package is to "enhance the capacity of councils to support growth".

IPART's public hearing on this particular review, quoted the Productivity Commission's modelling (not provided to IPART or councils) to argue that councils' financial situation would be vastly improved with this adjustment to the rate peg. This is despite the significant reductions to the infrastructure contributions that will result from impending legislative changes to the EP&A Act.

The City of Sydney supports any initiative that adjusts the rate peg and recognises the extra costs incurred by local government areas as their populations grow. However, we are concerned this modelling focusses on operational revenue and expenditure. It does not fully examine the capital cost of infrastructure that is also partially financed through council's own revenue. If these reforms lead to a reduction in our total revenue base, and not an increase, they will undermine the City of Sydney's capacity to support ongoing population growth.

We urge IPART to recognise these concerns in its final report. While some of these are outside the review's current terms of reference, it is important to consider the funding of infrastructure and services as a whole.

Submission

The City of Sydney welcomes the opportunity to comment and provide feedback on key issues in the review of the local government rate peg and population growth. This feedback will assist the tribunal in assessing a fair, equitable and transparent rating mechanism for all NSW councils.

We support IPART's preferred approach outlined on page 12 in the 'Draft Report – Review of the rate peg to include population growth' (draft report) that:

- maintains total per capita general income over time
- reflects a linear relationship between population growth and council costs
- is based on the change in residential population for each council
- applies to all councils, including those experiencing low growth.

The City of Sydney **agrees** with IPART's proposals that:

1. Each council's general income on a per capita basis should be maintained as its population grows.
2. The rate peg for each council should be increased by a population factor equal to the annual change in its residential population.
3. IPART should use Australian Bureau of Statistics data and should be re-based.
4. Income derived through supplementary valuations should be part of the calculation.

We urge IPART to recognise the serious implications of this review on the financial sustainability of councils in NSW. This review is taking place separately to the review of infrastructure funding provided by development contributions, and while the reviews are being conducted almost concurrently, they are in different forums and fail to reference the financial outcomes of each other. This is a significant risk to the communities of NSW.

If there is a total loss of revenue to councils from these reforms – revenue that is required for essential services and infrastructure – our NSW communities will suffer.

On 10 August 2021 the Portfolio Committee No. 7 - Planning and Environment issued its report which recognised the importance of all these reforms being considered as a comprehensive and coherent package and recommending the Bill not proceed without the finalisation of this work. The City **strongly agrees with this recommendation** and further considers that IPART's current three enquiries related to this topic must all consider and speak to each other, with one final comprehensive overall report being provided.

The Productivity Commission argues that councils' loss from diverting local government area infrastructure contributions to a regional fund, will be 'more' than offset by increased general revenue due to population growth. There are significant questions over the Productivity Commission's modelling, which has not been made available to either IPART or councils. However, the modelling has been used to justify the suite of reforms underway and presumes that all councils, including the City of Sydney, will financially benefit from population growth.

IPART's reluctance to include the City of Sydney within their proposed methodology for adjusting the rates peg, places the City's capacity to meet the cost of future population growth at even greater risk, particularly given the uncertainty of future infrastructure contributions income.

Further, without properly recognising the capital costs needed to provide new facilities and infrastructure for local populations that are funded by general council revenue, including rates, there is a real risk that the current funding issues faced by many councils will be exacerbated. The City of Sydney believes that the draft report does not appropriately address this element.

Response to IPART consultation with the City of Sydney

The IPART draft report, page 18 states:

> "Our analysis shows that City of Sydney's rates income is largely from business rates rather than residential rates. Varying its total general income to account for population growth may **overstate** the additional revenue it needs to service any increase in population.
>
> We are considering whether a different approach may be needed for City of Sydney. We are consulting with City of Sydney to better understand their cost drivers."

The City of Sydney notes IPART's comments in the draft report on consultation, and thanks IPART for the subsequent consultation sessions.

We strongly believe any rate peg adjustment for population for the City of Sydney should be exactly the same as f

or all other councils in NSW.

IPART's changes to the rate peg calculation should be made **without discrimination** to any local government area (LGA), whether they represent rural and regional farming or mining, low growth areas, high growth areas, or one of the state's many business districts.

As most City of Sydney ratepayers are residential, and the growing population is largely apartment owners who pay minimum rates – around 75% of our total annual rates revenue comes from the business rates category. However other councils who fall beneath a 50% threshold, for example, have not been asked to justify the proportion of revenue required to service additional residents.

We submit it is not IPART's role to influence the City of Sydney's future per capita rates revenue by creating a methodology different to that of every other NSW council. Many expenses of a council cannot be fully funded by user pays fees, and many equally benefit businesses and residents.

Rates are a council's primary source of income. Every council makes its own determination of how to apportion its rates burden across its ratepayers to achieve positive outcomes. A local government's rates levy on residential properties is not designed to equal the cost of servicing residents only. It should instead reflect both **the benefit to the land** and **the capacity to pay**.

The NSW Office of Local Government's Council Rating and Revenue Raising Manual states: "the "fairness" or "appropriateness" of rates may be considered in light of:

- The extent to which those who receive the benefits of council's services also pay for those services – the "**benefit principle**".
- The extent to which those who pay for council's services have the ability to pay for those services – the "**ability to pay principle**".

It also recognises that there is a "cost and value of common services and facilities from which all properties benefit". As such, the portion of each council's expenditure that cannot be recovered by other direct means, is funded through general rates. This includes the cost of many services and facilities shared across the community.

The City of Sydney agrees with IPART's proposed methodology for maintaining the per capita rate revenue. We outline below how our per capita rates revenue is appropriate for the City of Sydney, as a capital city area.

In any local government area, many property owners are not residents or occupiers, but investors who benefit from property appreciation due to all services (and infrastructure) that improve the attractiveness of the area to all population streams.

Failure to apply a percentage increase based on population growth across a council's entire rating base would result in an unfair distribution of the burden of shared expenses.

We believe that, like every other NSW council that has rates distributed across multiple rating categories, IPART's proposed methodology is equally appropriate for the City of Sydney.

There are many issues with local government legislation, regulatory controls, and statutory charges that apply equally to all NSW councils, regardless of their unique size, location and composition. However, we accept the pitfalls that would arise from trying to customise 'fit for purpose' controls for each local government area.

IPARTs general aim is to provide an equitable outcome for all councils with a methodology that applies equally to every NSW council. This doesn't always work out perfectly for all councils, for example, the annual rate peg increase doesn't always reflect our own cost experience.

In this case, however IPART has suggested one methodology is appropriate for all NSW councils, regardless of their rating base, except the City of Sydney. Nor has IPART presented an alternative model in the draft report, or during consultation.

If IPART intends to recommend an alternative methodology for the City of Sydney, we should be given sufficient time to analyse the proposal and its long term financial implications, and we should be given an appropriate opportunity to review and lodge a submission, as were all other councils.

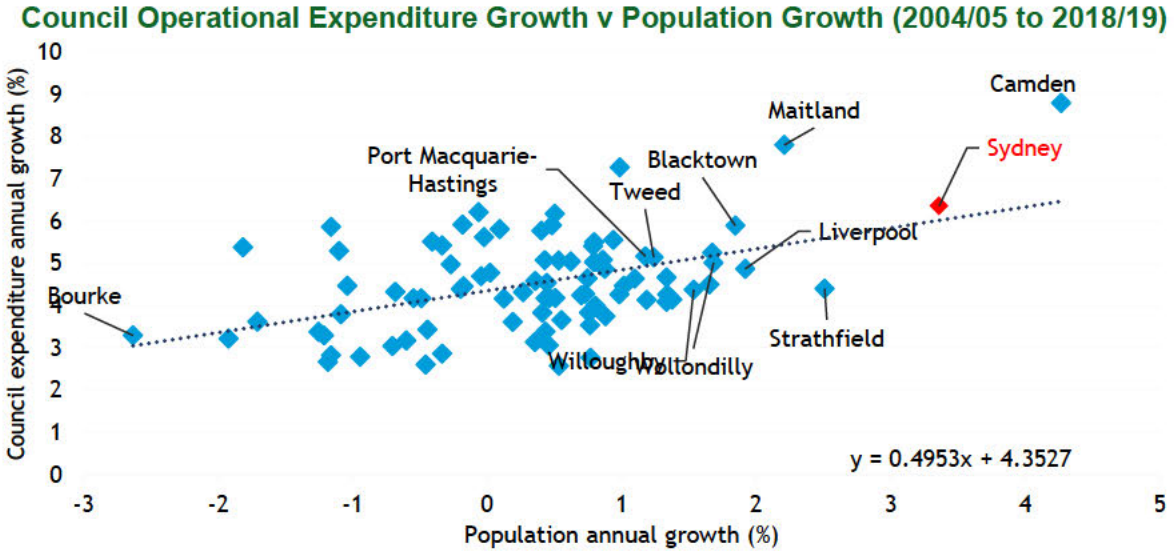
In the interests of equity and transparency, the City objects to any decision from this review that produces an isolated methodology to single out how the City of Sydney's rate cap should be adjusted for population growth.

The City of Sydney's annual expenditure growth in proportion to annual population growth, is in line with the NSW local government sector

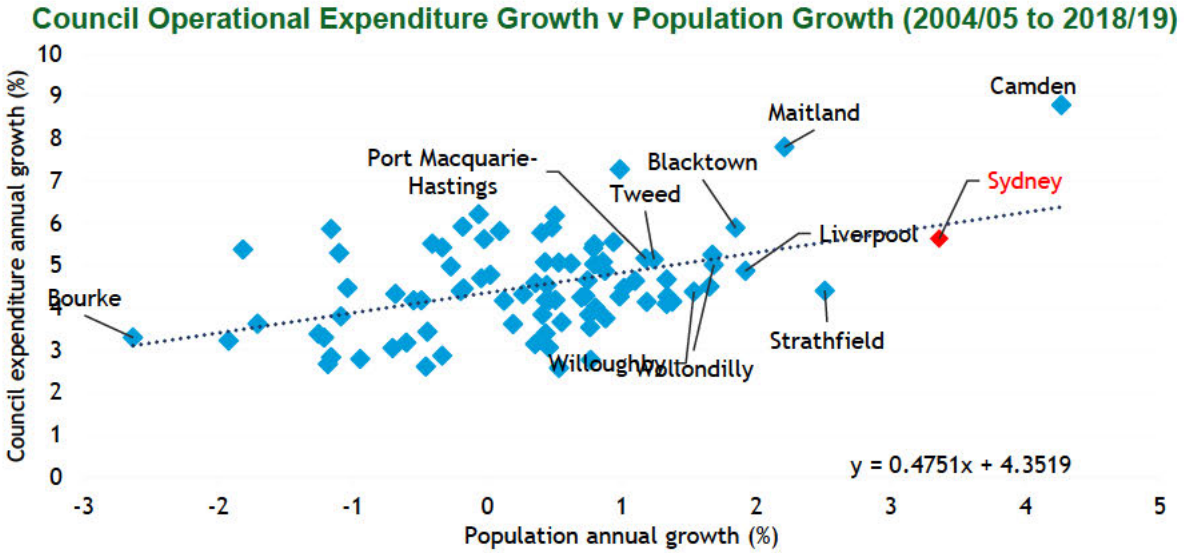
In IPART's draft report, figure 1 plotted council expenditure growth over 20 years compared to population growth over the same period, with a line of best fit trendline also plotted.

IPART did not plot the City of Sydney on this chart, presumably because IPART did not have comparative data for the current City of Sydney, for the first five years before its 2004 council amalgamations.

The chart below includes the City of Sydney based upon the same IPART modelling data, but amends the starting period as 2004–05 (post amalgamation) while still ending in 2018–19, with all of the other included councils replotted accordingly.



The second chart below is essentially the same data, over the same time period, but excludes the City's extraordinary contributions to the NSW Government for the Sydney light rail from 2014–15 to 2018–19 totalling $179M. This treatment is consistent with that shown in the City of Sydney's long-term financial plan and the performance measures in the notes to our annual financial statements.



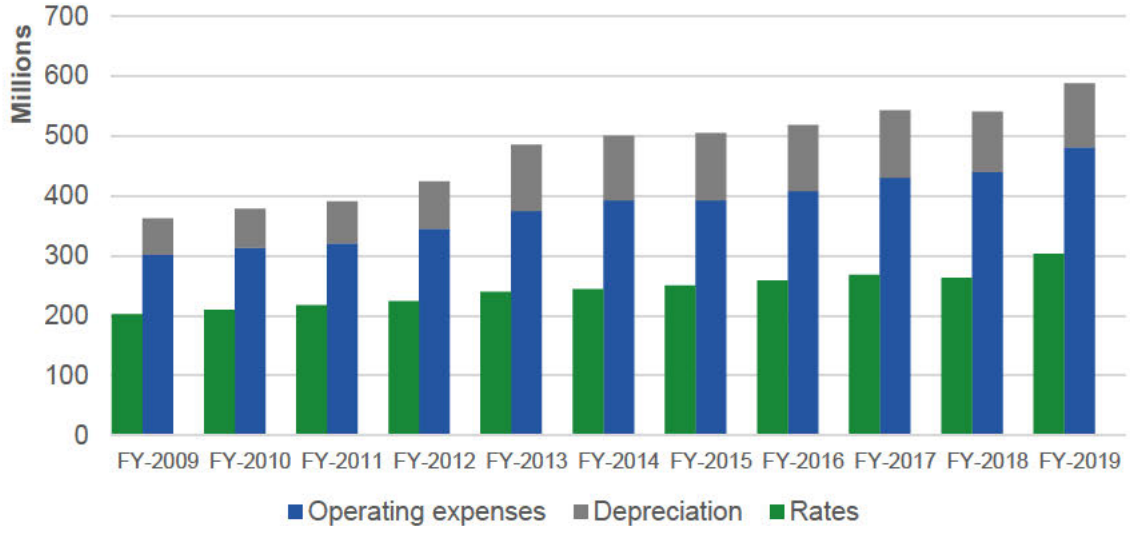
Note that the City of Sydney falls close to (even slightly below) the trendline for the sector. This shows that the City of Sydney has a strong correlation with other local government areas in the context of operational expenditure growth with population growth.

This demonstrates that the City of Sydney:

- aligns to IPART's research into the link between population growth and expenditure growth
- should be included in the same methodology as other NSW councils, not treated differently.

City of Sydney expenditure is growing faster than rates

Our operating expenditure has grown 25% faster than rates revenue from 2009 to 2019, as seen in the chart below. Note that operating expenditure figures presented in this chart also exclude $179M in contributions to the NSW Government for the Sydney light rail from 2014–15 to 2018–19.



The rates peg presents a significant risk to the City of Sydney's (indeed all councils') ability to maintain financial sustainability over the long term. This is because local government faces revenue constraints and increasing costs from expanding roles and responsibilities and rising community expectations.

The City has worked hard to develop diversified income sources across revenue streams such as commercial property rent, venue / facility hire and parking services, specifically to alleviate the cost burden of all new services and facilities falling on our ratepayers.

There is an urgent need for reforms within the rating system, as supported by the City of Sydney in previous IPART revenue reviews. We support the application of the proposed population growth factor to all councils as a progressive step.

The review only addresses one aspect of the state's integrated planning and financial reform package

In parallel there is a bill before parliament that proposes to amend the *Environmental Planning and Assessment Act 1979* (EP&A Act) and other instruments. This will establish a legislative platform to enable a significant package of infrastructure contributions reforms to be implemented through future subordinate legislation and Ministerial Direction.

The bill proposes legislation enabling the NSW Government to make **significant reforms** to the infrastructure contributions system **without** councils, ratepayers and industry having **all the details to understand the full impacts on the delivery of local communities' infrastructure and the financial viability of councils.**

"Currently, local contributions form only a part of the income councils require to deliver infrastructure. Over the past 5 years, local infrastructure contributions have funded around 31% of capital works and property acquisition in our local government area. Based on our understanding of the Government's proposed reforms, local contributions income will be significantly decreased to the point of impacting on the capacity of local government to build and maintain essential infrastructure into the future." (page 6, City of Sydney submission for Infrastructure Contributions Bill, 2021)

That bill is being considered in **isolation to this rate peg review**. This approach is impossible to comprehend when the outcomes of both aspects of reform are argued by the Productivity Commission to be financially advantageous to councils.

One of the guiding principles for councils outlined in the Local Government Act is ensuring long term financial sustainability. As both reform proposals will have huge financial impacts for all councils, complete transparency and urgent consideration of the overall financial implications of both aspects of this reform agenda to work together, is absolutely essential.

On 10 August 2021 the Portfolio Committee No. 7 - Planning and Environment issued its report which recognised the importance of all these reforms being considered as a comprehensive and coherent package and recommending the Bill not proceed without the finalisation of this work. The City **strongly agrees with this recommendation** and further considers that IPART's current three enquiries related to this topic must all consider and speak to each other, with one final comprehensive overall report being provided.

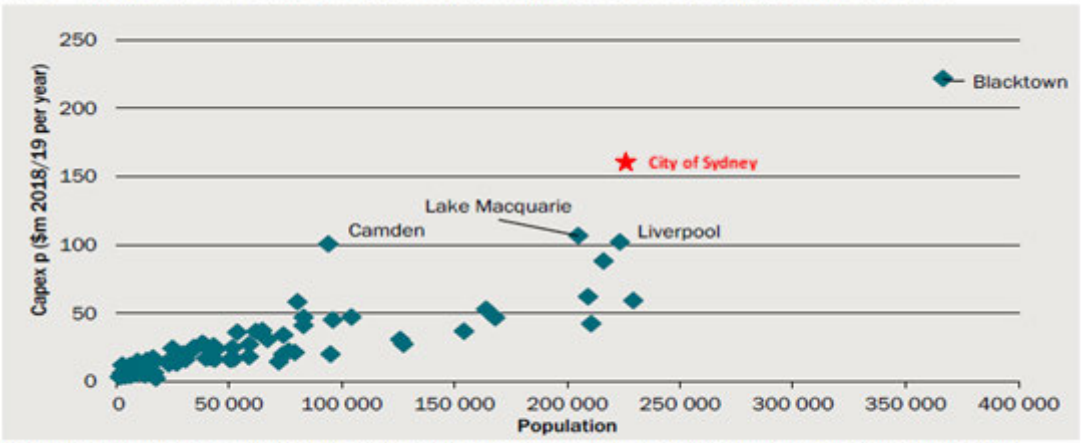
The review ignores capital expenditure

IPART's methodology focuses on expenditure from continuing operations and ignores capital expenditure. This is an incomplete view of local government finances and potentially misrepresents the relationship between rates income and capital expenditure.

The Centre for International Economics (CIE) report found that larger NSW councils tend to have higher levels of capital expenditure. The City of Sydney had the sixth largest population in 2018–19 out of 128 local government areas, clearly indicating that the City of Sydney is a large council.

The CIE's report on figure 2.19 did not plot the City of Sydney's capital expenditure for 2018–19. The City has plotted its capital expenditure in relation to population in red in the below chart for the 2018–19 financial year (excluding its $63M light rail contribution to the NSW Government).

2.19 Larger NSW councils tend to have higher levels of capital expenditure



Note: Capital expenditure is an average for the years available for each council as set out in the text; Population is for 2018/19.
Data source: The CIE, based on data provided by IPART and OLF Your Councils website.

IPART notes in section 4.3.1 of the draft report that IPART expects that: "councils will continue to use the special variation process to address some population growth-related issues including to fund capital costs of infrastructure to service population growth that cannot be met while maintaining per capita general income to fund capital costs of infrastructure to service population growth that cannot be met while maintaining per capita general income or through other revenue sources (such as infrastructure contributions)".

Local government bodies not only rely on developer contributions, but also on revenue derived from rates and other sources of revenue as significant source of funding for vital infrastructure and other capital works.

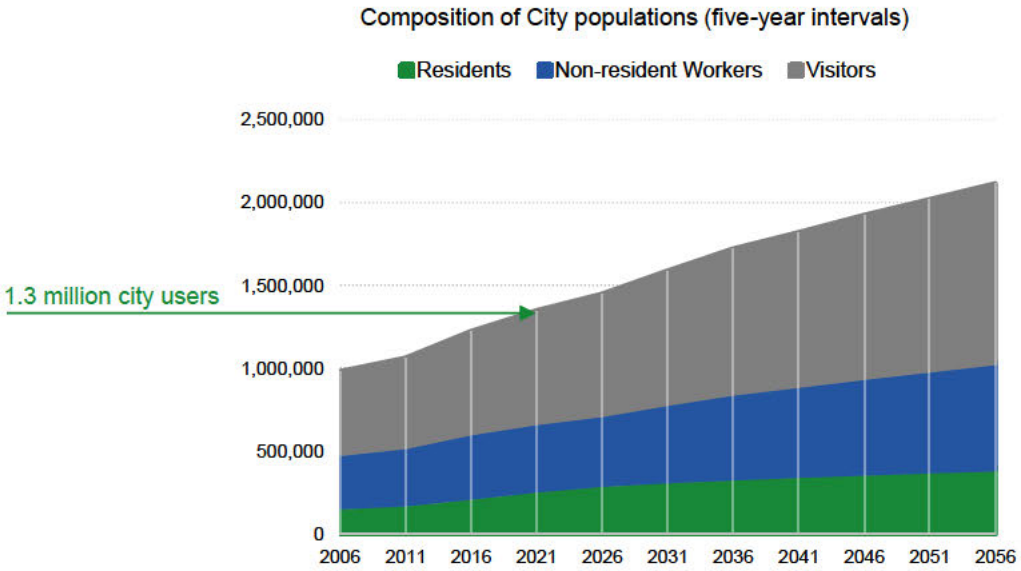
The significance of general income as a source of funding for infrastructure spending and other capital works cannot be understated.

The City of Sydney population, including residents and businesses, seek and demand infrastructure to support and improve the quality of their lives, their health and wellbeing. The vital infrastructure is not limited to roads, paths and stormwater drainage, it extends to community facilities, public domain, quality open spaces and sporting fields, amenities enjoyed by all.

We **strongly argue** that the population growth factor proposed by IPART, is appropriate for the City of Sydney, across all rating categories as it is for all other councils.

The City of Sydney area is a global metropolitan city

The City of Sydney is recognised as operating on different scale and intensity than other greater Sydney councils. We provide services and facilities that are used by our residential population and a significant number of daily visitors, workers and tourists. Sydney hosts over 1.3 million people each day, prior to the impacts of Covid-19.



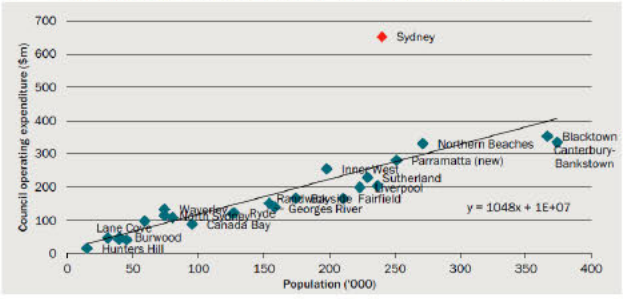
The City of Sydney provides infrastructure and services a growing population of 1.3 million residents, workers, visitors, and tourists every day. Ratepayers expect that services and infrastructure are maintained at a standard and quality expected of a global, capital city. Visitors and non-resident workers travelling to the CBD represent three quarters of the city's daily users.

Between 2015 and 2021, the City of Sydney contributed $220 million to the NSW Government for the Sydney light rail project, and continues to provide or contribute to services that reinforce a competitive and sustainable global city. Examples include New Year's Eve, Lunar New Year, Sydney Festival, Closed Circuit TV security network and management, contributions towards homelessness, affordable housing and 24-hour street cleaning. We have also contributed additional funds to the provision of public domain infrastructure surrounding the light rail, and 55% or $75M towards the Green Square trunk drainage project (partnering with Sydney Water), to enable the development and urban renewal of the Green Square precinct.

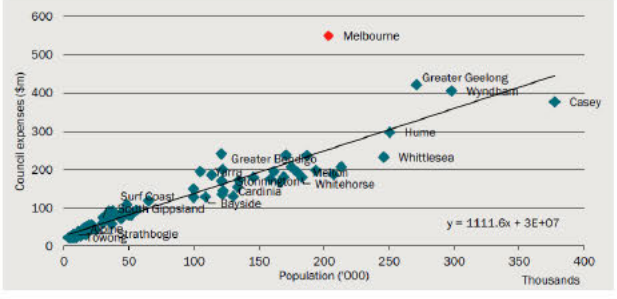
These are just some examples of expenses incurred by cities like Sydney (or Melbourne), and why Sydney *appears* as an outlier in figure 3 in IPART's presentation, or figure 2.8 in the draft report.

The below charts are excerpts from the CIE Final report on 'Analysis of rate peg options to account for population growth, 4 June 2021', showing the parallels between the City of Sydney with the City of Melbourne as Australia's largest global metropolitan cities.

2.8 Council expenditure versus population — Metropolitan councils 2018-19



2.17 Council expenditure and population in Victoria 2020



The City of Sydney would also highlight these points on our specific expenditure and demand drivers:

1. Sydney is NSW's capital city. The City of Sydney provides facilities and services that serve not only our local government area but outcomes for the wider metropolitan region, NSW and to an extent Australia. The City of Sydney caters for other users apart from its own resident population. In 2018/19, our local government area is estimated to have generated economic activity (GDP) was around $138 billion. This represents over 7% of the total national economy, over 30% of the Greater Sydney economy and almost a quarter of the entire GDP for NSW. There are over 23,500 separate business establishments in our local area. A large number of the top 500 companies in Australia are located in the city from the 41% that are located in NSW alone.

   Overall, the local working population is just under 4% of the total workforce in Australia. The city is the workplace for 21% of the entire finance sector, 15% of the total information, media and technology industry and 11% of creative and performing arts activity across Australia. The proportion is even greater in more specific industries such as internet publishing and broadcasting (56%). Approximately 60% of hotel rooms in metropolitan Sydney are based in the City of Sydney reinforcing the servicing of a large international and domestic visitor cohort. (Hotel room data is based on the latest available ABS Tourism Accommodation 2015-16 Cat. No. 863501O001, and City of Sydney Visitor Accommodation Monitor June 2020.)

2. The City of Sydney's own research and analysis supports that the city will continue to grow in line with the NSW Government's Greater Sydney Commission District Plan targets for both residents and workers.

   The district plan **requires** the City of Sydney to:
   - demonstrate how it will deliver the 0–5 year private dwelling target of 18,300 (2016–2021) for the local government area
   - develop, agree and demonstrate delivery of a 6–10 year dwelling target for the local government area
   - identify the capacity to contribute to an 11–20 year dwelling target of 157,500 for the Eastern City District
   - plan for and deliver at least 169,260 new jobs by 2036 in the Harbour CBD Metropolitan Centre and Green Square–Mascot strategic centres, with a higher aspirational target of 244,260 by 2036.

   City of Sydney Local Strategic Planning Statement, page 47 states:

   > "The population growth to 2036 will be accommodated in 56,000 dwellings. This is made up of 50,000 new private dwellings including 37,169 new market dwellings, 10,856 new affordable rental housing dwellings and 1,975 new social housing dwellings. It is also made up of 6,000 non-private dwellings. It is envisaged that jobs growth will continue to 2036 resulting in an estimated 200,000 additional workers. The City's targets are based on its capacity study and technical studies that have informed the preparation of this Planning Statement. The targets balance the need for more homes with the need for more jobs, space for infrastructure, sustainable economic growth and the creation of great places."

   The volumes and scale of these increases are significant. The City of Sydney will need to provide equally significant levels of services and infrastructure that ensure quality and attractive amenity. We are planning for the growth of workers in line with the Sydney District Plan, as endorsed by the NSW Government. We recognise the importance of a thriving and sustainable economy supported by strong central business district that yields benefits to the wider state and national outcomes. If the City was not granted a sufficient allowance that also acknowledges the growth of workers and businesses in the city, then it is being adversely impacted by IPART's population growth model and may jeopardise the delivery of the state's planning targets.

3. The City of Sydney notes IPART's desire for a reliable methodology and not to include a service population metric for this purpose. We agree with the statement from the draft report that there is a benefit from a larger service population and therefore all ratepayers should also contribute in terms of growth:

   "There is some benefit to business ratepayers from a larger serviceable population. However, ultimately ratepayers across all rating categories, including residential ratepayers, would pay for the additional costs to councils." (page 13, draft report)

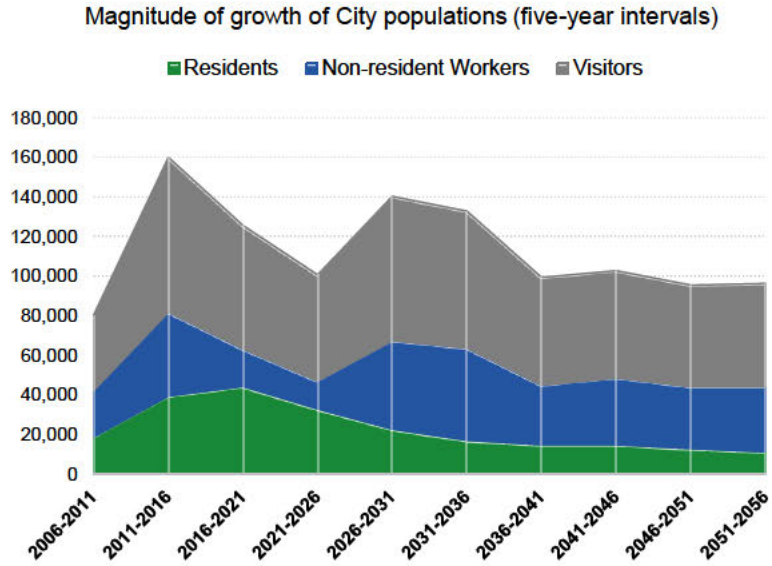
   The City of Sydney agrees with IPART's general proposition that the population growth factor should be applied across all ratepayers. We provide services to a wider community, and not just residents. We have deliberately identified and sought to grow income from other non-rate based sources to lessen the burden on ratepayers alone.

   Businesses operating in a global metropolitan city draw visitors who utilise our local assets and services. Businesses benefit from increased local residential population. Residential population is increasing as more and more people aspire to live close to the employment opportunities and lifestyle that a global metropolitan city has to offer.

   We contend that a population growth component of the rate peg applies across our entire rating base is reasonable. This is based on the costs incurred and the benefits returned to business and residents from increased population growth.

4. The City of Sydney is forecasting ongoing residential, workers and visitor percentage growth over the coming years and decades in line with the district plan and our own local strategic planning statement. While residential population growth percentages may be lower in future years (Department of Planning, Industry and Environment projections of 1% to 2%), when applied to a large existing population base this can equate to tens of thousands more residents that are added to the combined service population over several years.

   The provision of new services and infrastructure are often not linear, but often present as a step change. For example, the need to create a new library, community centre or open spaces does not generally gradually arise in line with population movements.



Green Square urban renewal centre – case study

Green Square is one of Australia's largest urban renewal areas, spread over 278 hectares with more than 30,000 residents now and plans up to 70,000 residents and 21,000 workers by 2030.

The City of Sydney has committed $540M to create world-class community facilities including an innovative new library and plaza, an aquatic centre, many parks and playgrounds, a childcare centre and a creative hub. Both rates and infrastructure contributions are crucial funding sources for capital expenditure of this scale and class.

Below is an excerpt from our submission on the Environmental Planning and Assessment Amendment (Infrastructure Contributions) Bill 2021.

Submission on the Environmental Planning and Assessment Amendment (Infrastructure Contributions) Bill 2021

Green Square stormwater drain

New infrastructure to protect against flooding

At 278-hectares, Green Square is the largest urban renewal area in Australia. It represents $13B of development with 65,000 to 70,000 residents and over 25,000 jobs by 2036. $1.3B in infrastructure has been required to transform Green Square into what it is today, including new streets, Green Square library and Gunyama Park Aquatic and Recreation Centre. All of this transformation required the City to draw from general revenue.

To facilitate the urban renewal of Green Square and support the development of new communities, there was urgent need for the delivery of a 2.4 kilometre stormwater drain to address the serious flood risk in the area. This trunk drain was a critical piece of enabling infrastructure. Retrofitting it into the area was immensely complex and expensive but without it, further development and urban renewal could not occur.

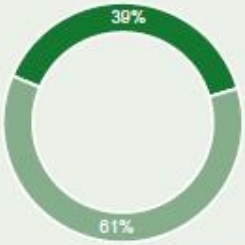
The City instigated action to secure delivery of the stormwater drain. A $140M joint funding agreement was reached with Sydney Water, where the City funded 53% of the cost of the works and Sydney Water funded 47%. Overall, the City contributed almost $75M to this project, which was sourced from both development contributions and general revenue funding.

As part of the project, the City also widened the Shea's Creek open channel and built a shared path alongside it to make it an attractive and usable open space public space.

Anecdotally, property developers have told us that by the City committing to and commencing of significant infrastructure like this, it has given them the confidence they need to proceed with major development projects.

Green Square stormwater drain funding

Local infrastructure contributions	$29.2M (39%)
City of Sydney general revenue	$45.4M (61%)
TOTAL	**$74.6M**



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Alignment of the growth years in the formula

In its draft report, IPART shows what the proposed formula would be for the 2022/23 rating year. The formula uses the population percentage increase during the 2019/20 year, but then deducts the supplementary growth of a subsequent rating year. (Note: It is unclear from the draft report whether IPART proposed to use the 2020/21 or the 2021/22 (as stated) notional general income and supplementary growth, however neither would be appropriate.)

The City of Sydney sees this misalignment as a flaw in the methodology for two reasons:

- The population growth year and the supplementary growth year should align. The philosophy of providing councils additional income based on the population growth nett of any growth already achieved for the period only works if the two periods align.

- The supplementary growth experienced in the 2019/20 year is calculated after the conclusion of that rating year and would have been published by councils in their 2019/20 financial statements around October 2020. The 2020/21 supplementary growth will not be available until approximately October 2021, after the date IPART would publish the rate peg for 2022/23 (expected September 2021), and is not a practical option.

We suggest IPART corrects the formula to align the growth years and make the data publicly available before setting the rate peg each year.

Other comments

The City of Sydney appreciates that the NSW Government has finally acknowledged councils have achieved significant efficiencies over the years, and cannot continue to absorb the cost to provide additional services and infrastructure to meet the needs of ever growing populations. The request for IPART to develop a reasonable methodology to increase the rates to at least maintain per capita revenue is a positive progressive step.

Like many councils, we have experienced significant above average growth for many years, without any additional rate increase above the adjustments for the local government cost index. IPART's terms of reference are focussed on addressing future population growth and adequate rate increases to support these needs. However the Productivity Commission and IPART have used past growth as an indicator of how councils would be better off in their financial modelling.

Streamlined special variation process for re-setting the base

IPART acknowledges in its draft report that "councils will continue to use the special variation process to address some population growth-related issues" even after their proposed methodology to include a population growth factor in the rate peg begins. IPART also found that this is because, for many councils, their current per capita income is not sufficient and "a one-off adjustment to the rate base is required".

While the City of Sydney welcomes IPART's intention to address this issue in its review on special variations, it is critical that a streamlined process for councils to re-set their rates base be made available for at least the first two years after the introduction of the population growth factor in the rate peg. This should be similar to that currently in place for Crown land, where adjustments are obtained outside the full special variation process.

Use of Capital Improved Values for rating purposes

In its final report on the review of the local government rating system published in December 2016, IPART recommended "mandating Capital Improved Value (CIV) as the basis for setting rates in metropolitan council areas". IPART found that in metropolitan areas:

- "CIV better reflects the benefits the ratepayer receives from council services, the costs of supplying council services, is more equitable and better understood by ratepayers.
- UV [unimproved land value] cannot equitably and efficiently increase revenue from residential and business ratepayers as areas become more built up over time. UV does not capture ratepayers' willingness to pay for council services in these areas."

An increase of general rate revenue in line with residential population growth will go some way to bridging the financial gap for councils. But it does not address the issue of equity and an appropriate spread of the rates burden for metropolitan councils like CIV would.

The City of Sydney again submits that the introduction of CIV as the basis for setting rates remains the best and fairest improvement NSW government could introduce for local government.

Minimum rates

We agree with IPART's acknowledgement that the draft methodology does not address councils' requirement for greater flexibility in setting minimum rates.

The minimum rate for many councils is too low, which is inequitable for other ratepayers. Currently the only way to increase the minimum rate above the rate peg is through a special variation, which is a time consuming and costly exercise.

The City of Sydney welcomes IPART's intention to address this issue in its review on special variations, but notes how many councils have raise this issue in the hearings. We submit that this flexibility is needed now and should not be delayed.