

Hawkesbury City Council Submission to the Review of the Rate Peg to Include Population Growth - Issues Paper dated 25 March 2021

Submission to IPART – Review of Rate Peg to Include Population Growth

Council agrees in principle that an amended methodology to incorporate population growth in the rate peg calculation is a positive premise. It is to be noted however, that Council's preferred stance in relation to the Rate Peg is that rate-pegging should be discontinued, in line with submissions made in relation to the Review of the Local Government Rating System.

It is Council's view that the determination of the appropriate annual rates increase should be made by each Council with the objective of ensuring that the community's expectations are met in a financially sustainable manner, over the long term. Increases would be in line with the required amount as identified in Council's Integrated Planning and Reporting (IP&R) documentation, developed through community consultation.

Council also believes that there is an inherent shortfall in adequate funding for current populations (residential, commercial and tourist), as a result of the rate-pegging system that will not be addressed by an amendment to the rates peg to incorporate population growth. There are several inputs to this shortfall, including:

- Increases in rate pegging based on a state-wide average of a predetermined set of council costs, is not reflective of each council's individual circumstances;
- Increases in the rating base resulting from supplementary rates has a poor reflection of the additional costs associated with the additional demand generated;
- The expectations of the constituents of each council differ and are always increasing in relation both to the quantity of service, the range of services and the speed at which services are provided; and
- The costs of compliance, changes in legislation and reporting requirements (e.g. swimming pool regulations, enhanced asset accounting requirements, external audits conducted by the NSW Audit Office) have increased substantially over the previous 5-10 years and continues to increase, without any increase in the income base.

The application of a state-wide rate peg, based on the average costs of predetermined set of council costs, does not reflect the costs and expectations of each individual council's community. Because of this, it does not enable councils to provide appropriate service levels in a financially sustainable manner.

Additionally, the current use of Unimproved Land Value does not apportion the rates burden to reflect the likely consumption of council services. This valuation basis provides a poor linkage between use of services, affordability to pay and the rates paid. Council supports the recommendation to transition to a Capital Improved Value mechanism to apportion rates, as outlined within the Review of the Local Government Rating System.

As submitted to the Review of the Local Government Rating System, it is Council's stance that a property should be rated regardless of ownership. Irrespective of ownership, the users of these properties create a demand on council services that are currently not covered by rates income.

The responses to the specific questions posed within the Issues Paper are provided in the following section.

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

Comment: *The costs that increase as a result of population growth depends upon what segment of the population has grown, both in terms of demography; and in terms of what development type has occurred (residential, commercial or tourism).*

The increase in the demand on Council services and infrastructure (and therefore additional costs incurred) can arise outside increases in residential population growth and development. For example, a business that restructures its operations may not be accompanied by a development approval, but can increase the burden on Council services, with increased employees and increased customers.

As each cause of an increase in population is unique, the services and infrastructure used by that population is unique, therefore the actual increase in council costs vary for each circumstance.

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

Comment: *With all changes in population growth, whether it be relating to residents, businesses and their associated employees, customers or tourists, there are additional costs incurred by Council. The increase of these costs depends on what category of population is increased and what the applicable changes in land use are.*

Most services provided by Council have a portion of costs that are variable, meaning an increase in demand, increases the cost. Some costs may be fixed, but only up to a point, after which generally a substantial increase in costs is incurred.

Hawkesbury City Council has low-density population, therefore the increase in the variable component of costs is generally higher than councils where development is more in-fill or where their population is of a higher density. Hawkesbury City Council does not benefit from the economies of scale that larger growth, high population density councils experience.

Council has used the categories included within the Special Schedule 1 – Net Cost of Services, that was previously reported annually within the Financial Statements to consider what costs change with population growth.

The category of cost that is most significantly impacted through all types of population growth is the Transport and Communication category. As per Council's Demographics Study, Hawkesbury has a high car dependency due to limited public transport services and the large area covered within the Local Government Area (LGA).

Categories that are also impacted by all types of population growth are Public Order and Safety, Health, some components of Environment, and Economic Affairs.

While both Solid Waste management and Sewerage services are also strongly impacted by all types of population growth, these increased costs are covered by the levying of additional annual charges.

Categories that experience increased costs predominantly as a result of increased residential population include Recreation and Culture and Community Services and Education.

The rise of secondary dwellings creates the greatest net increase in costs, as this development does not result in an increase in general income to cover the additional costs.

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

Comment: *As outlined in the Issues Paper on pages 5 and 6, it was noted that increases in population arising from development are not fully covered by Developer Contributions and Supplementary Valuations, meaning that there is a general shortfall in the costs associated with population growth in previous years. Some of these costs can be recovered by a Special Rates Variation (SRV), however the process involved in the completion of an SRV, particularly for smaller councils results in significant costs and the diversion of staff away from core activities. The result of the current SRV process is that councils look for other methods to recover these costs.*

The recovery of the additional costs of this past population growth, outside of the SRV process, are funded through limiting the scope of services provided, resulting in a service gap between what the community expects and what councils can afford to deliver. Additionally, councils also discontinue or reduce service levels, to bring expenditure in line with income. This is not an ideal solution and leads to the development of both service and infrastructure backlogs.

Costs that are not able to be funded are generally related to the maintenance of infrastructure and the provision of services, as outlined in the response to question 2. The exception of this is services that are recovered through annual charges and user fees.

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?

Comment: *The use of the supplementary valuation process is a useful mechanism to provide some alleviation to the additional costs of population growth. However, as outlined in the Issues Paper on page 6, does result in less general rates from new residents compared to existing residents. There is a poor correlation between the change in unimproved land value and the additional costs incurred by councils, due to subdivisions.*

There is no adjustment mechanism to account for the increased number of residents / employees / customers that may use the subdivided land. There is also no adjustment for secondary dwellings, even though this may lead to a doubling of the residents within that parcel of land.

Council therefore believes that the use of Capital Improved Value, or an adjustment to account for the change in the number of users of that land (whether they be residents, tourists, employees or business owners) to overcome the inherent shortfall that exists between the current supplementary valuation process and the costs incurred from changes in land use.

As outlined earlier in this submission, Council believes that the rate peg should be removed and the increase in rates should be determined via the IP&R process, as it is directly informed by community consultation.

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

Comment: *These population data sources are used by Council in its planning documents and therefore are considered appropriate sources for population data. It is important to ensure that population growth outside of resident population is considered.*

6. Is population data the best way to measure population growth councils are experiencing, or are better alternatives (number of rateable properties or development applications, or other)?

Comment: *There are alternative ways to measure population growth that will provide an enhanced level of accuracy specific to each LGA, including:*

- *Primary and High School Education registrations*
- *Occupation Certificates issued*
- *Additional domestic and commercial waste services*
- *Tourism visitation numbers*
- *Business registrations, including number of employees*

7. Do you think the population growth factor should be set for each council, or for a group of councils with similar characteristics? How should these groups be defined?

Comment: *In order to most appropriately account for population growth specific to each LGA, the population growth factor should be set for each council, taking into consideration the alternative ways outlined in the questions above.*

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

Comment: *Council supports the proposal included on page 11 of the Issues Paper of the minimum of zero so that councils with declining population growth are not negatively impacted. There should be no other threshold applied in relation to population growth.*

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 options?

Comment: *Council supports a blended growth factor, taking into considerations the pros and cons as outlined in Table 2 of the Issues Paper on page 10.*

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

Comment: **Economies of Scale:** *As outlined earlier in this submission, councils have differing economies of scale and experience different rates of increased costs driven by population growth. Councils with higher population density can access economies of scale that are not available to councils with lower population densities.*

Geographic Area: *Additionally, the geographic area of the LGA is also important. This is due to the higher costs per resident to provide most council services than it does for councils with a smaller geographic area to service. The smaller the rating base compared to the serviceable geographic area is an important consideration when determining how the population growth factor should be applied to cover costs of population growth.*

Demographics: *The demography of each LGA should also be considered when determining the growth factor applied to account for costs. As outlined in Hawkesbury City Council's Demographics Study, Hawkesbury has an ageing population, which results in a higher proportion of rebates offered to ratepayers than those councils that are not experiencing an ageing population.*

Other: *Finally, there are other mechanisms outside the rating system and developer contributions system that provide higher growth councils with more funding accessibility than lower growth councils. For instance, many grant allocations are based on population and population growth changes, including the Financial Assistance Grant (which is generally the greatest source of recurring grant funding) for councils.*

Several high growth Metropolitan councils were also provided with funding under the Accelerated Growth Scheme, which was not extended to Hawkesbury City Council (which is a low growth area) despite the Vineyard Precinct being included in the North-West Growth Area.

Therefore, the weighting applied to increase income based on growth factors should be higher for low growth councils, than those for high growth councils. For instance, if \$1 of income per head of population is added to the rate peg for high growth councils, an amount greater than \$1 of income should be added for low growth councils.

This would not only cover the increased cost incurred to service the additional population experienced by councils with a low rate base and large service area, it would also address the disproportionate allocation of grant funding to high growth, metropolitan councils.

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

Comment: *As outlined earlier in the submission, changing the basis of the apportionment of the notional yield from Unimproved Land Value to Capital Improved Value will result in a fairer distribution. Generally, a higher the Capital Improved Value represents a greater number of population or increased use in relation to employees, customers and tourists (which in turn reflects a closer correlation to the cost of servicing that parcel of land), but also provides a nexus to the capacity to pay.*

An increase in the Capital Improved Value due to subdivisions, changes in land use and other development would provide a mechanism to increase the rates base to recover the costs associated with these changes.

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

Comment: *The timeline for the submission for the Issues Paper, while in line with submission periods for previous reviews, does not permit flexibility considering the recent flood impacts across the State. Much of Council's resources have been diverted to supporting the community both in response to the natural disaster and to be the community's recovery. The result of this timeline is that in-depth research has not been able to be conducted prior to meeting the associated timeframe to ensure inclusion of the submission to a Council Meeting, thereby ensuring appropriate consultation of both Councillors and the community.*

Additionally, the release of the Final Report in September coincides with the Local Government Elections, which is concerning in that the consideration of the Report may not receive the appropriate attention that would be merited.

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