HORNSBY
SHIRE COUNCIL

7 May 2021

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

Dear Ms Cope

HORNSBY SHIRE COUNCIL SUBMISSION TO IPART - REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH

Hornsby Shire Council (HSC) welcomes the opportunity to provide a response to the 'Review of the Rate Peg to Include Population Growth' Issues Paper. Responses to each of the questions raised by IPART are included within this submission.

HSC additionally notes that it has participated in the submission prepared by the Northern Sydney Regional Organisation of Councils (NSROC) and strongly supports the submission provided. Due to the unique position of HSC compared to other Council's within the NSROC group a separate submission has been made. A boundary adjustment with the City of Parramatta Council in 2016 that was intended to precede a merger with Ku Ring Gai Council that ultimately did not eventuate significantly reduced HSC's income levied from rates and other sources, yet which only reduced HSC's costs by a minor amount. The area transferred to the City of Parramatta had some of the highest land values within HSC's Local Government Area (LGA) and therefore a disproportionately high level of income from rates was levied from this area, all of which was transferred to the City of Parramatta. However, comparatively the population and cost base within the area transferred was small compared to the amount of income transferred. The impact to HSC was a net loss of $10 million per annum (independently verified by TCorp in 2017) that has significantly reduced HSC's long term financial capacity and made HSC sensitive to any future changes to income levels.

Prior to the boundary adjustment, HSC's 10 year long term financial plan required no external loan borrowing and/or special rate variations to fund major capital projects, maintain ageing infrastructure and continue providing services at current levels. HSC's Income Statement Results were also some of the highest in the State, $14.638 million (in 2015/16), $14.770 million (in 2014/15) and $6.668 million (in 2013/14). However, since the boundary adjustment, the average surplus forecast in HSC's revised Long Term Financial Plan has reduced to $1 million per annum. Whilst this is sufficient to meet applicable benchmarks, Councillors have been required to critically review the scope of major projects that were previously planned and services have been restricted to current levels to ensure HSC's budget is balanced each year.

The impact of this is highlighted in analysis prepared by GLN Planning Pty Ltd (GLN) that is also part of NSROC's submission. GLN have analysed rate revenue per capita for each council within the NSROC group. This analysis shows that HSC's real residential rate revenue per capita reduced by -15.2% between 2014 and 2019 (**Appendix 1**), which has significantly impacted HSC's operating capacity. Thus, HSC is now increasingly sensitive to any further change in income levels.

Further analysis by GLN also shows that, even without the boundary adjustment there would have been a real average decline in HSC's rate income growth over the same period of -1.1%. This is because HSC has not applied for a Special Rate Variation since 2011 and since then increases from the rate peg and income from supplementary rates have been less than cumulative increase in the Local Government Cost Index over the same period (**Appendix 2**).

As HSC is a low population growth council there is concern that the changes proposed by IPART coupled with the decline in HSC's operating capacity noted above could jeopardise HSC's long term financial sustainability if any reduction in income from development contributions is not at least offset by an equal or greater increase in additional rate revenue from population growth.

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Any further reduction to HSC's net income levels would require service level reductions and/or a need to explore other revenue raising initiatives such as a Special Rate Variation.

Responses to IPART questions

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

   With population growth comes a whole range of cost increases for Council. Some of the more significant costs include:

   - To maintain existing services and service levels, employee costs, materials and contracts and other related expenses must ordinarily increase and often in proportion to population increases.

   - The recurrent costs associated with providing new, expanded or improved assets to support the growing community. Whilst capital grants and developer contributions go some way towards funding the upfront capital cost, rates alone (under the current rate pegging regime) cannot maintain those assets in perpetuity, let alone put aside sufficient funds (equivalent to depreciation) to ultimately replace those assets at the end of their useful life. This has become increasingly challenging each year for HSC since the boundary adjustment in 2016 that has significantly reduced HSC's operating capacity.

   - Often the planning that goes into major planning/development proposals is not fully recoverable by planning proposal fees and charges. This means that existing rates income is subsidising development planning often years in advance of receiving rate revenue that will ultimately flow from the development, if approved.

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

   HSC's infrastructure facilities tend to be long lived assets that are fixed in place, costly and time-consuming to plan and build, and require routine maintenance and periodic upgrading to prolong their lives. Therefore, HSC need to constantly spend on infrastructure at least in line with the rate of consumption of the assets, which can accelerate with increased use and demand pressure arising from population growth.

   The majority of HSC's population growth is in the form of attached dwellings (such as apartments and town houses) as opposed to detached dwellings. This intensifies pressure as demand for services is accelerated because of the sudden influx of people to a new development, particularly for large developments with several hundred apartments.

   Furthermore, as noted in the introduction to this submission HSC's real average rate income, even without the boundary adjustment has declined by -1.1% between 2014 and 2019. Whilst this is predominantly because of the boundary adjustment, part of the decline is also due to the majority of development in the form of attached dwellings, such as apartments. Under the current legislation these dwellings pay the minimum rate and therefore contribute far less rate revenue than their detached dwelling counterparts.

   These factors have caused a real reduction in HSC's income compared to cost increases over the long term (**attachment 2**) that would further reduce HSC's surplus levels if not offset. To manage this, Council has applied a nil increase to divisional expenditure (net of direct labour) for material and contract expenditure each year in the annual budget for many consecutive years despite substantial price increases, particularly for construction materials. Any increase has been required to be offset by productivity improvements or reviewing service provision.

   Therefore HSC supports the notion of an additional rate revenue linked to population growth, but notes that the historic effect of rate income not keeping pace with cost increases must also be addressed and sensible pathways for Council revenues to keep pace with the true cost of delivering against our Community Strategic Plans should be considered. We note that despite a number of reviews being undertaken over the years no real progress is provided in this context. This is to the detriment of our communities.

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

Rate peg funds are unrestricted and can be spent on either capital or recurrent spending needs for councils. However, because the rate peg is set to reflect the cost increases for the same basket of expenditure items, from one year to the next, in general, it will not be sufficient to fund any increase in service requirements associated with population growth.

The purposes for which Developer Contributions can be levied and applied for asset expansion purposes have been eroded since contributions caps were introduced over 10 years ago and, today, are severely limiting. The definition of 'essential infrastructure' means that HSC must secure other funding sources to provide appropriate infrastructure to new communities. In any event, those developer contributions only (part) fund the capital/construction cost. The recurrent costs associated with operating and maintaining those assets must be sourced from HSC's recurrent income sources (more often than not, rates). Over the life of the asset, the operating and maintenance costs associated with the asset are invariably higher than the upfront capital cost, placing considerable strain on HSC's finances and its long term financial sustainability.

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 supplementary valuation process does not sufficiently cater for population growth because of the high proportion of apartment development and the fact that HSC can only charge owners minimum rates under the current regime.

   Given the small impact of supplementary valuations, HSC recommend excluding it from population growth calculations, which would be additional to the levying of supplementary rates. This would go some way in addressing the real decline in HSC's rate income noted in the introduction to this submission that has resulted in budget cost freezes and restrictions in service levels over many consecutive years.

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

   The only population data besides the ABS and DPIE data that potentially meets this criteria is profile.id population forecasts maintained by HSC. This data is prepared by Council Officers and can provide more up-to-date forecasts (compared to DPIE forecasts that are updated every three years).

   Council has no concerns with using ABS data for historical growth purposes. Clarification is sought as to exactly what DPIE projected growth data source will be used and to what extent that data source will be publicly 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)?**

   The number of rateable properties and/or population data are the best (most reliable) ways to measure population growth. Rateable property growth provides a simpler option but does not account for changes in average household size that influence population-based demand for infrastructure and services. Nonetheless, the growth of rateable properties would be a more current data source than the ABS historical population data

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?**

   A single population growth factor across all NSW councils would not cater enough for the variation of population growth that occurs between different councils.

   Conversely, setting the growth factor specific to each council would ensure that a council's growth in revenue is in line with its population growth. However, consideration should be given to population growth in neighbouring LGA's as facilities within an LGA are often used by residents from neighbouring areas. Therefore, demand can increase because of population growth outside the boundary of a council area. As an example a comprehensive Sports Ground Strategy prepared and adopted by Council in 2017/18 found that Hornsby was supplying amenities that were servicing population growth across neighbouring Local Government Areas but had limited capacity or opportunities to fund this out of area demand on its facilities.

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

   The minimum threshold should be zero and there should never be negative growth incorporated into the rate peg.

   HSC would be unable to adjust expenditure for any sporadic negative growth as most HSC's costs are funded through rates revenue (such as community facilities or recurrent asset (road) maintenance) and cannot be reduced in short timeframes. Further, employee costs are subject to awards and contracts and cannot be increased and decreased from one year to the next at short notice.

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?**

   The choice of historical data versus projections, or a combination of the two, is relevant to the resident population data. In this case, historical ABS data is not current enough with the 2-year lag and the DPIE projections, without any adjustment for actual population growth, risk being too inaccurate. An option which incorporates both history and projections, although more complex, would provide more immediate funding for projected growth. A 'projected with true-up' approach would also adjust for the actual rate of growth that occurred so that there are not significant surpluses or deficits of funding over time.

   If the growth in the number of rateable properties were used as an alternative, then projections would not be required since the preceding financial year's results should be available at reg peg determination time.

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

    The population growth factor needs to account for a gap in capital funding required to provide infrastructure to new communities and, crucially for HSC the recurrent costs such as operational, asset maintenance and renewal costs associated with servicing the new population that is not met through the current method of levying supplementary rates.

    Additionally, the total base amount of rate income levied each year should at least keep pace with the Local Government Cost Index, administered either via the rate peg or through additional rates linked to population growth.

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

    No other comments are provided.

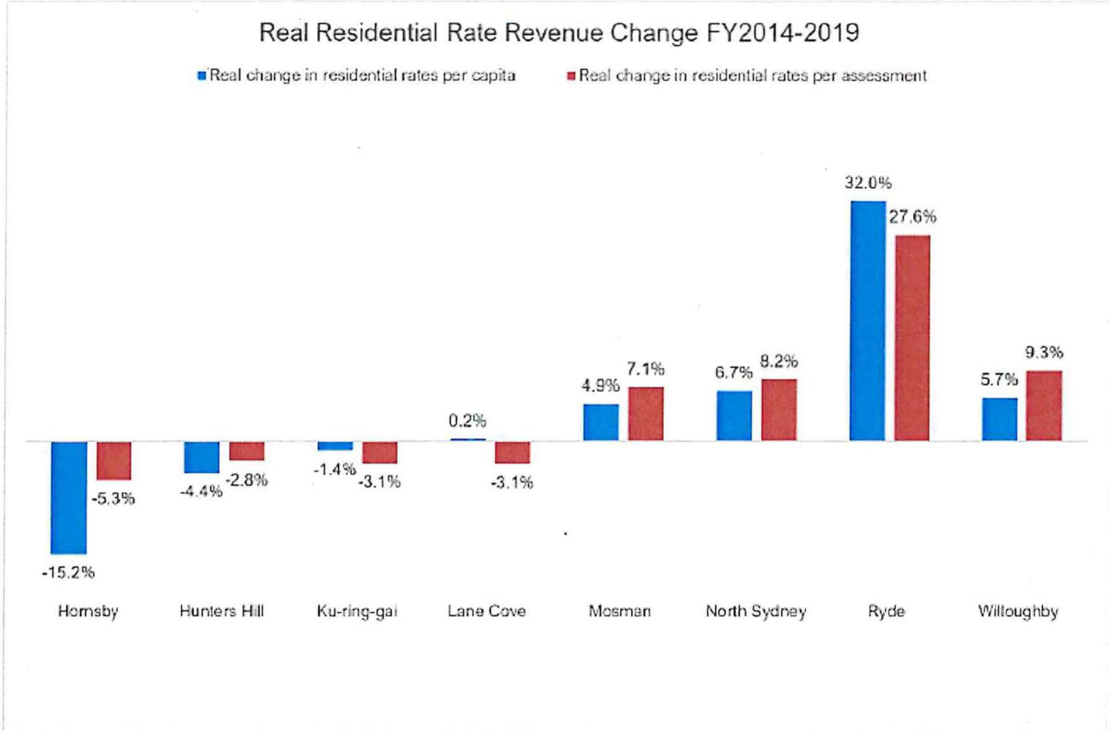
Yours Sincerely

[redacted]

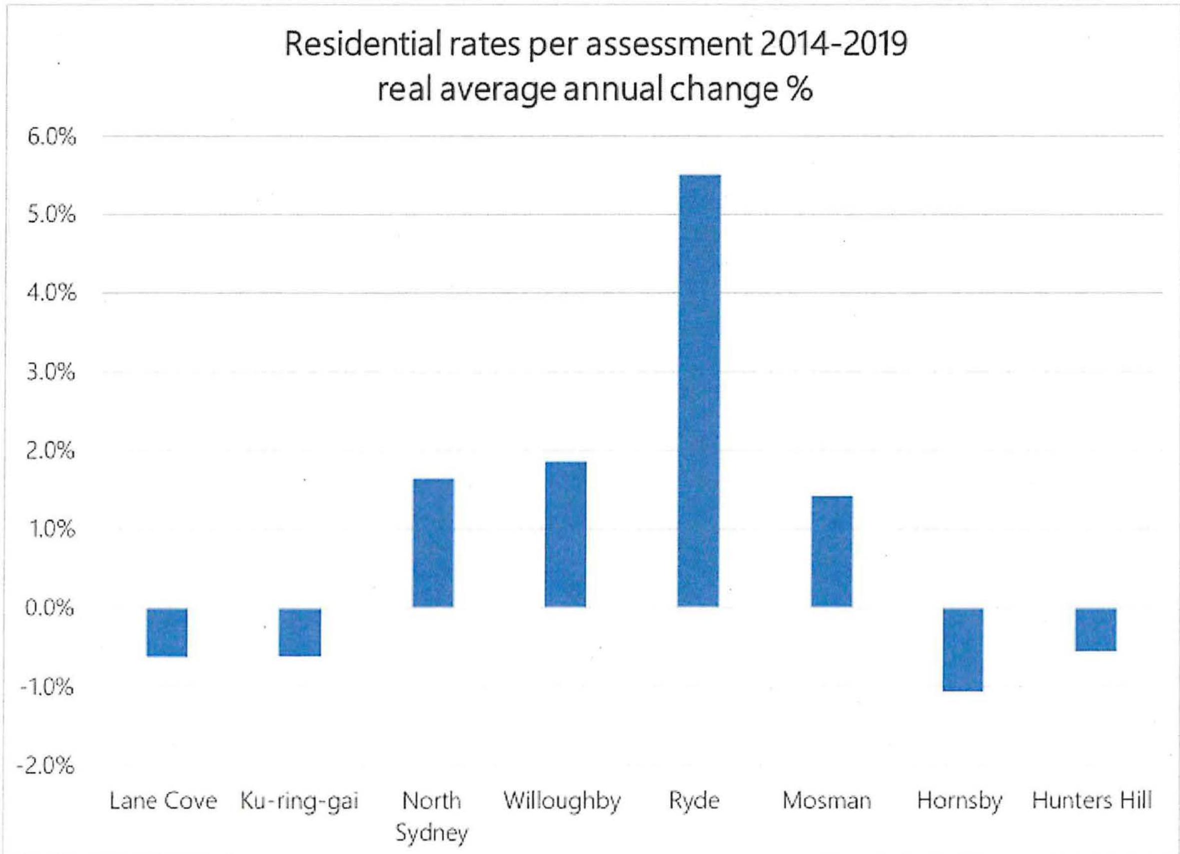
Steven Head
General Manager

Ref F2013/00751

Appendix 1: GLN Analysis within NSROC Submission – Real Residential Rate Revenue Change for the NSROC Council Group



Appendix 2: GLN Analysis within NSROC Submission – Residential Rates per Assessment Real Average Annual Change compared to Local Government Cost Index



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