6 August 2021

INDEPENDENT PRICING AND REGULATORY TRIBUNAL (IPART)
REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH

Submission by Lake Macquarie City Council

Executive Summary

Lake Macquarie City Council (Council) welcomes the opportunity to provide feedback on the IPART's Draft Report on the Review of the Rate Peg. Council supports the methodology being re-based after the Census and we also support the true-up of any material differences, should they arise.

It is also noted and appreciated that the IPART has acknowledged any reforms to developer contributions were considered out of scope[1] and therefore not considered. We agree with this position and will continue to advocate against any alignment that leads to reductions in developer contributions and increased land rates for the rate-paying communities of NSW.

We would like to see further examination into the use of capital improved value (CIV) for the purpose of calculating land rates in NSW. We recommend the NSW Government allocate resources to carry out an in-depth examination of this opportunity. Our understanding of the original IPART recommendation is that CIV is better understood by the community and will result in a simpler process.

In this submission we have responded to each of the three items upon which IPART has sought feedback.

Submission

1. Should our methodology be re-based after the Census every five years to reflect actual growth?

We agree that the methodology needs to include a net growth result that is inclusive of the portion of growth that is already achieved through the supplementary valuations process.

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We agree that the proposed system should provide outcomes that:

- maintain total per capita general income over time;
- reflect a linear relationship between population growth and council costs;
- are based on the change in residential population for each council; and
- apply to all councils, including those experiencing low growth.

We note that the proposed methodology is based on per capita population changes and land rates are payable on rateable land. Accordingly, the number of residents in a council may not align with the number of ratepayers nor will changes for each be linear in future years. We would like IPART to address the number of properties occupied and used for residential accommodation that are exempt from land rates. These properties will have a direct impact on the Estimated Residential Population (ERP) resulting in an increase in the 'population factor' but they will not impact the 'supplementary valuations percentage'. Accordingly, rateable land ratepayers are paying more and subsidising non-rateable land.

In a previous submission to IPART (Local Government Amendment Bill 2020), we have highlighted critical areas in the review which have not been addressed, one of them being the removal of exemptions on land used for residential purposes. There has been a noticeable shift in public housing from Housing NSW (rateable) to Community Housing Providers (non-rateable) and similarly with aged care facilities being run by Public Benevolent Institutions. It is imperative that the NSW Government re-visit IPART's initial *'Review of the Local Government Rating System'* and acknowledge land occupied and used for residential accommodation as rateable requiring those organisations benefiting from council services to contribute towards them.

We ask that the NSW Government addresses the cost burden of non-rateable properties. The proposed methodology in this review enables a pathway for increases in rates revenue based on population growth, without addressing the issue of the burden that non-rateable residential properties have on the rate-paying community.

A similar cost burden is borne by ratepayers in local government areas where there is a higher than average pensioner population with Council's funding 45 per cent of the cost of pensioner concession rebates. Pension rebates are not taken into account when calculating the productivity factor for rate pegging.

2. In the absence of a true-up, should we impose a materiality threshold to trigger whether an adjustment is needed on a case–by–case basis to reflect actual growth?

Council agrees with the principle of applying a 'true-up' adjustment on a case-by-case basis to correct any material differences.

The proposed source, being the ERP for 2019/2020 and the valuation increases for 2020/2021, will effectively be applied to a rating year that commences two years after the period of estimated growth. This lag may, at times, impact on rates and their distribution that will be reflected in changes to the average rate that theoretically should be maintained in real terms.

The impact of applying the calculation for the change in population from a single data set, therefore, would produce inconsistencies and potentially higher or lower rate variation percentages. The cumulative effect of such changes could be significant. By applying the numbers reported each year, the system should true itself up each year based on the latest estimate of population against the previously applied estimate. However, if these numbers exceed a materiality difference an adjustment should be made on a case by case basis.

We have noted that the dates proposed do not align. Our recommendation is for the ERP data to align with the supplementary valuation growth by:

- Using the ERP data as at 30 June 2020 as supplied by the ABS in March 2021,
- Using the 2020-21 Permissible Work-paper calculations that are included in the audited Financial Reports for the period ending 30 June 2020

3. Do you have any other comments on our draft methodology or other aspects of this draft report?

We recommend that the IPART consider using '*plus/minus adjustments'* note contained within the '*Special Schedule – permissible income for general rates'* as identified in the Office of Local Governments *'Local Government Code of Accounting Practice and Financial Reporting'* document for the calculation of the population growth factor. Data produced in the '*Permissible Income Work papers'* is completed by each council to ensure that the rate peg is correctly applied and any adjustments are considered and applied. The results are contained in each councils annual Financial Reports as a Special Schedule.

We also believe that growth and costs to council's extend beyond 'residential population'. Costs are also linked to business and employment growth, especially considering regional councils that support populations outside their designated Local Government Area and these areas should be included in the calculation of growth.

A common thread from the hearing was that many councils don't currently have an adequate per capita general income as it is, so maintaining a less-than-adequate situation and will result in further decline. IPART have provided a solution to this problem by saying councils can use the Special Variation (SV) approach to remedy the situation.

We agree with 4.3.1 of the draft report and recommend:

- IPART formally recognises that many councils will need to reset their base general rate income for the methodology to work;
- IPART creates a simplified SV process for the first two years following the inclusion of the population growth factor in the rate peg to allow councils to reset their base general rate income without the expense or delay of the current SV process; and

- IPART increases the maximum minimum rate to an appropriate amount.

We would like to see further examination into the use of CIV for the purpose of calculating land rates in NSW. We recommend the NSW Government allocate resources to carry out an in-depth examination of this opportunity. Our understanding of the original IPART recommendation is that CIV is better understood by the community and will result in a simpler process.

CIV is efficient:

- Easily understood, landowners are more likely to know the value of their 'property' than the value of the land that their house sits on.
- The Premier requested IPART review the rating system to be 'easily understood'. IPART delivered on this in the 2016 Review.
- High-valued properties contribute more, low-valued properties contribute less.

CIV enables immediate effect due to population growth:

- Councils receive supplementary rate income and grow as they do now due to subdivisions;
    - Growth in vacant land (same as now) = uplift in rates
    - Growth in value once building complete = uplift in rates
- Minimal lag between subdivision (new plan) and rate income;
- Rates are paid as growth occurs;
- Minor growth due to increased capacity (e.g. secondary dwellings) is identified.

Contact

Thank you for the opportunity to comment on the Draft Report. For further engagement on the matters discussed in this submission, please contact:

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Yours sincerely

[redacted]

Tony Farrell
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