

10.6 SUBMISSION TO IPART - REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH

FILE NO:	117/11
ATTACHMENTS:	1. Issues Paper - Review of the rate peg to include population growth March 2021
RESPONSIBLE OFFICER:	Leah Flint - Group Manager Strategy Performance and Business Systems
AUTHOR:	Annette Peel - Manager Finance & Risk Michael Burfitt - Chief Financial Officer Matthew Prendergast - Group Manager Planning & Environment
MAITLAND +10	Outcome 18. A Council for now and future generations
COUNCIL OBJECTIVE:	18.1.1 To ensure the principles of sustainability underpin Council's financial, economic, social, governance and environmental decision-making

EXECUTIVE SUMMARY

As a part of the NSW Government's commitment to allow councils to align their rates revenue with population growth, the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) has released an Issues Paper on the impact of population growth on council costs, and invited submissions by 3 May 2021.

This report recommends Council make a submission in response to the discussion paper, with the position that future population projections should be used for determining a rates growth factor above the standard rate peg, with a retrospective adjustment based on actual population as realised over time. This would ensure rates revenue is more closely aligned to residential growth as it occurs.

More detailed responses to specific questions on cost increases, population growth and rating processes are outlined in this report for Council consideration.

OFFICER'S RECOMMENDATION

THAT

- Council make a submission to IPART on the Issues Paper 'Review of the rate peg to include population growth', in line with responses as contained in this report;**
- Council note that a further submission to IPART will be made by Regional Cities NSW on behalf of its member Councils, including Maitland City Council.**

REPORT

Since 1977 council general rate income has been regulated in NSW under an arrangement known as 'rate pegging'. Rate pegging limits the amount by which councils can increase their general rate income. General rate income excludes storm water and waste charges.

SUBMISSION TO IPART - REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH (Cont.)

The rate peg is the maximum percentage amount that a council may increase its general income by for the financial year and is set by IPART under a delegation by the Minister for Local Government.

Currently the rate peg is based on the change in the Local Government Cost Index (LGCI) along with consideration of a productivity factor. The LGCI is a price index for councils in NSW, it measures price changes over the past year for goods, materials and labour used by an average council. The LGCI is designed to measure the average change in prices of a fixed 'basket' of goods and services that are purchased by councils, relative to the prices of the same basket in a base period. The index has 26 cost components, such as employee benefits and on-costs, and building materials for roads, bridges and footpaths. The cost components represent the purchases made by an average council to undertake its typical activities.

Whilst a well-structured methodology, it is recognised that the current rate peg approach does not expressly account for the increase in the volume of services that need to be provided to service population growth or to maintain new local infrastructure, presenting challenges for some Councils.

As Council is aware, there is a mechanism available to Council's to increase general rate revenue outside of the annual rate peg, being the Special Variation (SV) process. Council has undertaken two SV's over the past ten years, as it is currently the only option available to a Council experiencing continued growth or other significant challenge to its long term financial sustainability.

In recognising that population growth is having a significant impact on the financial sustainability of some Councils, IPART has been tasked with undertaking a review of the rate peg to include population growth by the NSW Government.

IPART is seeking comment on the following points to inform their review of the rate peg, with the following responses prepared for Council consideration.

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

All Council costs clearly increase with population growth. An increasing number of consumers of any Council service, whether it be program-based (such as aquatics, libraries, or MRAG programs) or asset-based (such as additional users on sports and recreation facilities or the road network) will require an increase in associated expenditure, or alternatively a resulting reduction in the level of service provided to an expanded number of consumers.

By way of illustration. In the past decade, Maitland City Council's expenses from continuing operations have grown from \$61 million (2011) to \$107 million (2020), while the population has grown from 69,000 to 85,000.

To ensure cost increases associated with growth could be accommodated, Council sought and had two Special Rate Variations approved by IPART in this period, which has seen rates and annual charges revenue increase from \$37 million (2011) to \$86 million (2020) over the period. The

SUBMISSION TO IPART - REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH (Cont.)

attainment of such variations is a significant and by no means simple process, and often a vexed issued with the community.

It should be noted that without these increases, on rate peg only basis, Council's rate yield today would be an estimated \$58 million.

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

The Maitland LGA continues to have one of the fastest growth rates in NSW, consistently above 2% and currently estimated at 2.3%, or over 1,900 residents each year. The predominate nature of this residential growth is in the form of greenfield development comprising mainly single dwelling houses. Population growth in isolation requires Council to fund additional amenity and service infrastructure to support the incoming residents. However urban expansion for growth Council's like Maitland, has additional costs to support the hard infrastructure required to accommodate additional capacity needs.

Whilst new assets required by these new residents are partly funded by developer contributions for the urban release area, the broader consumption of existing services and assets across the LGA is not, nor is the operational costs of the ongoing provision of the service from the asset funded by the contribution (eg park and playing field maintenance or library operations).

Further, the assets funded by developer contributions often establish a more contemporary or a higher level of service than in older, existing assets (compare, say The Hub at Gillieston Heights with Bruce Street Community Hall at East Maitland). Not only does this result in subsequent higher maintenance and renewal costs, but changes community expectations of existing assets which Council then needs to address through its asset program.

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

Neither the rate peg nor developer contributions provide funding for whole-of-life costs for assets or increasing operational costs associated with service delivery. For example, Council's current developer contributions plan for Lochinvar includes levying for a new community facility and library. Whilst these buildings will be constructed for the new population, the maintenance and depreciation of the building assets needs to be funded by Council moving forward, in addition to the delivery of the service from the facility with its ongoing resourcing costs.

Council notes its ongoing attainment of capital grants for significant infrastructure from the NSW Government. Whilst this community and roads infrastructure is welcome and significantly contributes to the livability of the city, the life-cycle maintenance and depreciation of these assets further impacts on the operating result of Council, and its future financial sustainability. This is further compounded for greenfield Councils with the dedication of new assets funded by the development industry.

By way of illustration, Council's depreciation expenses (being a measure of asset use and renewal) have jumped from \$9.6 million to \$23.7 million in 10 years from a combination of renewals and

SUBMISSION TO IPART - REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH (Cont.)

dedicated assets from developers - putting additional pressure on funding for asset replacement and updates.

It should also be noted that whilst capital grants from the NSW Government are actively pursued, the criteria established for each grant program, timing of programs and uncertainty of dollar values means that these are each considered opportunistically by Council. As such, Councils cannot strategically and holistically plan for asset renewal or construction considering these grants as regular, stable form of income in their Delivery Programs, unlike the Financial Assistance Grant provided by the Commonwealth and administered by the State.

- 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?*

A growth Council like Maitland faces the community perception that Council is 'raking it in' from every new residential block released. Due to the complexity of rating, there is limited recognition that all land developed was already rated on its unimproved land value, and that this valuation was based on its highest and best use – that being, for residential purposes, once zoned as such.

As each area is subdivided, the supplementary valuation process allows for additional income to be realised through base charge applied to the increased number of rate assessments across the same land area, however this income is not significant enough to offset the additional services required by Council for the resulting increased population.

Whilst it could be argued that the modest increase in revenue obtained as a result of supplementary valuations in any one year are a windfall, these new properties become part of Council's overall rate revenue in the following year. As such, whilst only modestly increasing the size of the overall rates pie, they increase the number of properties within the pie, which is then constrained by growth in its total by the rate peg.

For example, in calculating the 2021/22 rates yield the number of rateable assessments increased through supplementary valuations by 2.40% over the 12 months, yet the total land value only increased by 1.55%. Whilst this may result in a modest gain through additional base charges from the additional rateable assessments in the first year, in subsequent years each rateable assessment bears a smaller portion of the rates pie.

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

Council supports the use of aggregated data from both ABS and DPIE, supplemented by Council's own data.

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

Population data is the most appropriate and accurate way to measure population growth.

SUBMISSION TO IPART - REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH (Cont.)

The number of rateable properties is not an accurate measure of an increase in population, as the number of residential dwellings on each rateable property can vary significantly.

Using development applications would require review of the type of development applications, however supplemented by occupancy certificates and household occupancy rates, could provide more accurate and current figures.

For the Maitland LGA, however, it should be noted that it is not simply the increasing number of residents that contributes to cost increases. Rather, the significant increases come as a result of the need for increased infrastructure to support geographic spread and greenfield nature of the development to support the population growth. Thus, growth in Council assets may be a further consideration in the establishment of a growth factor.

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?*

Maitland City Council's position is that each LGA should have its own unique growth factor identified, once a certain growth threshold is reached (eg, population growth of above 500 residents per annum).

Further, lead indicators should be used, rather than historic (lag) data, in determining this factor. It is suggested that in addition to DPIE forecasts, each Council can provide a population forecast supported by identified data sources to inform growth factor determination by IPART. This can then be tested through analysis of lag data (ABS) every two years, with an adjustment made at the future point, should it be required.

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

As signalled above, a minimum threshold should be determined for including population growth in the rate peg as up to a certain point it could be argued that increases through the supplementary valuation process would be sufficient for councils experiencing minimal population growth. As such, 500 residents is suggested.

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?*

It is Council's view that projected growth with a true-up, used to ensure revenue increases in line with projected growth. However, as 2020 has shown, unpredictable events can impact on population growth and can lead to uncertainty – a true-up should mitigate against under or over recovery, with adjustments to be made based on census data / cycle.

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

As part of setting the population growth factor for each council consideration needs to be given to the costs of the individual council in maintaining service levels. Costs may vary between

SUBMISSION TO IPART - REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH (Cont.)

metropolitan and regional councils, between councils of varying geographical conditions and councils of varying economic environments.

Council annual financial statements can be utilised for consideration of the costs of providing existing services for individual councils, as well as consideration of the growth in their underlying infrastructure assets.

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

The unique characteristics of a Council's growth population are also a factor contributing to costs. For example, Maitland's new development fronts attract a young family demographic in greenfield sites. This results in different infrastructure and services requirements.

Consideration should be given to infrastructure capacity mapping across growth Council's, like Maitland to understand the costs of supplying infrastructure to meet the needs of the increased population but also to understand the recurrent expenses associated with whole of life costs of physical assets as well as the costs to operate social infrastructure such as child care, libraries and recreation facilities.

CONCLUSION

Council welcomes the opportunity to provide a submission to IPART in response to the review of the rate peg and a potential growth factor. As a fast growth LGA, Council's position is that future population projections should be used for determining a rates growth factor above the standard rate peg, with a true-up based on actual population as realised over time. This would ensure rates revenue is more closely aligned to residential growth as it occurs.

This, combined with other proposed rates reform and maintenance of the existing SRV mechanism, would contribute to ensuring Councils are best placed to deliver essential infrastructure and services to the community.

FINANCIAL IMPLICATIONS

Completion of a submission has no direct financial impact upon Council's adopted budget or forward estimates.

POLICY IMPLICATIONS

This matter has no specific policy implications for Council.

STATUTORY IMPLICATIONS

There are no statutory implications under the Local Government Act 1993 with this matter.