NSW Revenue Professionals

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Independent Pricing and Regulatory Tribunal
PO Box K35
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Dear Tribunal members

Submission to the Issues Paper – Review of the rate peg to include population growth

Thank you for the opportunity to present this submission on behalf of the NSW Revenue Professionals Inc. (NSWRP).

The NSWRP is the peak body of NSW Local Government revenue employees and was formed in order to:

- unite in a common organisation, those Local Government employees who are engaged in rating and revenue functions
- improve and elevate the technical and general knowledge of Local Government employees who are engaged in rating and revenue functions
- distribute amongst its members, and the regional NSWRP groups, information on all matters affecting or pertaining to the profession of rating and revenue management within Local Government by way of meetings, newsletters, conferences, or any other method available to the Committee
- promote a professional image of Rating and Revenue practitioners in Local Government New South Wales
- promote quality services to Local Government in New South Wales through the dissemination of best practice
- encourage members to keep up to date with finance related activities and legislative changes through continuing professional development
- identify the skills and knowledge needed by employees and facilitate training and education
- make the expertise of members available to professional bodies and government departments as required.

In this submission, we have addressed all of the twelve issues, being the items that NSWRP are well placed to offer valuable input to the discussion. NSWRP would welcome any future opportunities to comment and participate in this reform. Our organisation continues to work closely with the NSW Government at every opportunity to help achieve the principle goals in creating a fair and equitable rating system that reflects the needs of our individual communities.

It is without any doubt that we firmly believe the NSW Government should pursue the original IPART recommendation[1] (number 3.2) to mandate Capital Improved Values (CIV) for metropolitan councils and allow a choice for non-metropolitan councils. It is noted that the NSW Government in its response has not completely dismissed the notion, stating they *'will not implement CIV as a basis for setting ad valorem rates at this time'*[2], indicating the option remains open.

The NSW Government identified a possible pathway to achieve what CIV could deliver and commented that they *'will focus on providing greater flexibility in the current rating system through the creation of additional rating categories and sub-categories'*[3]. These changes are currently before Parliament as part of a Local Government Act amendment Bill, however we are perplexed by any methodologies in regards to how this reform will work through sub-categorisation of land.

The IPART noted in its review that *'CIV is also consistent with best practice in other jurisdictions'*[4]and we believe consistent with the approaches in other Australian states. The use of CIV will also align rating methodology with the growth in population. As we understand it the IPART's initial recommendation would include the following steps;

1. Parent land/lot – subject to land rates until date of subdivision.
2. Growth in land rates due to transition from one 'parent' property into numerous 'child' properties.
3. Growth in land rates due to completion of building and occupied.

Steps 1 and 2 currently occur (as supplementary rates) and represents the only juxtaposition between local council rate revenue and changes in population.

We note that the Productivity Commissioner identified that *'local government rates per capita of $591 (in 2019) are below the average for all other states of $835.'*[5]*,* which appears to support a shift from the upfront cost of infrastructure as part of the capital cost in buying land (for which there is no evidence provided) to an ongoing cost for the land purchaser in their annual rates. This in itself seems to oppose the government's policy position of creating affordable housing, a shift that puts pressure on household budgets post purchase.

We are opposed to a shift of Infrastructure Contributions onto local ratepayers. We have some serious concerns about the Governments apparent intention to embody rate peg reform with reductions in developer contributions and fill the gap identified by the Productivity Commissioner in the average rates per capita of other states with levies on our communities. This is not directly raised in the issues paper, however there are strong ties with the Governments full acceptance of the Productivity Commissioners list of recommendations

[1] IPART - Review of the Local Government Rating System December 2016 page 25
[2] IPART - Review of the Local Government Rating System – Government Response June 2020 page 13
[3] IPART - Review of the Local Government Rating System – Government Response June 2020 page 6
[4] IPART - Review of the Local Government Rating System December 2016 page 24
[5] Productivity Commission Review of Infrastructure Contributions in New South Wales November 2020 page 6

We have noted in a press release by the Ministers Handcock and Stokes the comment *"This is not about increasing rates, this is about providing opportunities for councils to grow their income by linking population growth to rating income,"* and *"Importantly, it's the new residents moving into these areas who will primarily cover the extra rating income, with rates for existing residents to remain stable on average"*.[6] The IPART issues paper lends itself towards allocating a variation to the current peg, that is say 2% based on the Local Government Cost Index plus say 1% due to population growth which amounts to a council wide 3% variation.

There does not appear to be any mechanism in the issues paper regarding how the rate peg would apply to new residents only. The current system provides for the rate peg to apply either as a General Variation or Special Variation to a councils Permissible Income. The Permissible Income is the total value of land rates that a council is permitted to raise it is not applicable at the individual property level.

It is noted that 'population' has not been defined and we submit that consideration should be given to tourism and employment hub population growth. In some regional areas tourist populations can have a substantive effect on the local economies which is not always fed back through tourist spending. Employment hubs can also have a significant impact on the local economy with the inflow and outflow of employee and manufacturing goods into a regional centre.

If population growth is aimed at the number of people as suggested in issue 5 and 6 the matter of exemptions then also needs to be addressed. Increasingly councils are seeing significant growth in non-rateability claims for land used for residential accommodation (Community housing and seniors living). A rate peg that includes a population growth factor will apply unfairly to the rate paying community and be unfairly distorted unless this issue is addressed. We propose the NSW Government remove the exemption for all land used for residential accommodation.

[6] March 24 2021 Media release $400 million Infrastructure boost for NSW councils

Submission:

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

Costs in maintaining infrastructure, be it supplied by developer contributions or at the request of the community. These costs are represented by ongoing maintenance or capital costs and operational costs in the daily running of the asset.

The most significant cost to councils is in the acquisition of open space for active recreation, followed by the provision of social infrastructure such as a library or aquatic facility.

The introduction of the $20,000 cap by the NSW Government, including the subsequent determination of Essential versus Non-essential infrastructure has had a detrimental effect on service provision and the ability of councils to support growth. The gap continues to widen over the last past 10 years since its implementation.

The purchase of land at least is deemed essential, councils could theoretically seek to exceed the cap and gain an IPART approved plan to cover the cost of land acquisition. However all building works associated with social infrastructure, such as a new or improved community facility (library, aquatic centre or community hall) are non-essential and the capital cost then becomes the responsibility of the council to deliver. The alternative is to maintain a contributions plan below the cap and deliver a lesser quantum of services and facilities to the community. Councils are being increasingly forced down this path due to the current planning regime.

Councils have noted that there has been a change in the type of infrastructure being delivered. Infrastructure such as water quality and quantity retention basins have significantly increased to meet improved standards. While these facilities should be a cost of development as they are pre-requisite facilities, because they serve a larger catchment than just a single development, they have been lumped in as essential infrastructure for contributions when they should not have been. Accordingly councils have been required to accept the cost of these facilities within the limited amount allowed for contributions and subsequent displacement of traditional infrastructure funded by contributions, such as social infrastructure with the ongoing maintenance costs of these facilities can be substantial.

Fundamental changes in standards are also leading to councils inheriting environmentally sensitive land and the intrinsic cost associated with their maintenance. Land considered by developers as without value, such as bushland or subject to flooding had in the past been dedicated to local councils outside of the contribution planning regime.

Secondary dwellings are emerging as a growth sector in a lot of council areas. Secondary dwellings occupy most of the area designated on a property and mostly offer no off-street parking. The foot print of the dwelling generally occupies all available open space of the property leaving little to no room for recreation. Councils have noted increasing numbers of secondary dwellings being listed on the rental market, however there is no change to the land rates payable. We are of the view that this does not align with the key taxation principles of Efficiency or Equity.

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

Changes in the demographic, socio-economic status and age of a community has an impact on the types of council costs. For example young families have different expectations to older populations, high density metropolitan areas have different needs to regional and rural communities. Similarly there is a difference between the needs of new residents in greenfield subdivisions as opposed to residents in brownfields development.

Many metropolitan councils are experiencing significant growth in secondary dwellings predominately approved under the SEPP (Affordable Rental Housing). This type of development has an unexpected form of population growth enabling families to live reasonably within the secondary dwelling and thereby matching the number of residents in the principal dwelling. It is essentially a scaled down version of a dual occupancy, but without being either strata titled or Torrens titled and therefore not reflected in any growth for rating purposes. The aforementioned CIV land valuation model would address this issue and create a rates contribution pathway for these developments.

Further, community housing and aged care are increasingly being run by not-for-profit Public Benevolent Institutions which are exempt from land rates. Local councils with this type of residential accommodation continue to provide services to the occupiers of these premises such as libraries, footpaths, open space and leisure facilities however there is no contribution made towards supporting the network of services. The costs are therefore distributed amongst the rate paying community increasing their vulnerability.

Coastal councils face the burden in meeting the costs of abandoning land rates and water and sewerage charges in accordance with the mandatory Pension Rebate Scheme. Although the NSW Government continues to fund 55% of such abandonments the remaining 45% is a cost to local communities. Our coastal regions continue to be a popular destination for retirees representing an imbalance with other areas leading to a distortion of costs.

Naturally with the transition of retirees comes development more suited to their needs resulting in an increase in the rates and charges abandonment costs for this type of population growth.

Tourism is a recognised source of revenue and delivers significant financial contribution to the national economy. The inflow of tourist population into regional areas can create a false economy and although represents a source of revenue to local businesses does come at cost to the local council.

Hotel accommodation is categorised for rating purposes as Business and attracts a higher annual rate than Residential. This aligns with meeting some of the local council costs for car parking and open space and transport infrastructure. However short stay leasing such as AirBnB along with more traditional ‘bed and breakfast’ offerings do not provide any avenues for local councils to align the additional population with their impacts on local infrastructure.

Moreover serviced apartment’s and time-share accommodation is mandated by the Local *Government (General) Regulation 2005* (Clause 122) to be categorised as Residential despite the obvious commercial purpose and character.

A factor representing the inflow of population due to tourism is recommended, we note that data is compiled by the Australian Government – Austrade that may assist in setting an index for areas within NSW that are subject to tourist population inflows. Areas of concern that are measurable and often fully funded by local communities are listed below;

- Effects of pollution – impacts on local sewer and water supply services
- Impacts on local nature and habitats
- Pressure on local infrastructure – roads, car parking, parks and gardens
- Congested human and vehicular traffic
- Effects on local commodity prices
- Loss of cultural identity
- Demand for Council Grants and donations to tourist based local events
- Funding for tourism organisations and services

Some local councils have become the epicentre for regional commercial and industrial hubs. Providing adequate road and transport (bus routes) infrastructure is often applied unfairly on the local council. For example employees may travel from outside the local council area and in some cases through a neighbouring council to gain access to employment. There is no mechanism to provide funding in these cases.

Information on the movements of people to obtain employment has been collected by Transport for NSW[7].

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

The current cap on development contributions will contribute to a substantial reduction in the delivery of social infrastructure. Community infrastructure (such as leisure or aquatic facilities, libraries or community halls) are highly utilised and desired facilities, yet these are deemed non-essential.

Accordingly councils have one two choices;

1. Develop a contributions plan which exceeds the cap and remove social infrastructure in order to gain IPART approved status; or
2. Accept a contributions plan capped at $20,000 per dwelling/lot to incorporate social infrastructure.

The first option maximises contributions gained, however at the cost of the building of social infrastructure. Land costs for the social infrastructure are permitted. The latter option allows councils to collect and spend contributions on social infrastructure but requires no justification for the infrastructure that will not be provided as a consequence, particularly land acquisition. This option simply kicks the can down the road for future generations to potential deal with the lack of infrastructure being provided.

[7] https://www.transport.nsw.gov.au/data-and-research/passenger-travel/surveys/journey-to-work

Additionally the impacts on local communities due to the inflow and outflow of population due to tourism and business hub activity are costs that are not taken into account within the current rate peg.

Issue 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?

For the purposes of clarification we understand this question to relate wholly to the current system where an existing parcel (or parcels) of land are redefined due to the registration of a new plan (mainly Deposited Plan or Strata Plan). This process results in an increase to the council's property database based and triggers new valuations that are (except for Strata Plans) determined by the Valuer-General and consequently supplied via a supplementary valuation list.

It does not take into account new valuations made due to re-ascertainment or objection etc. that are also provided via supplementary valuation process.

We do not believe there needs to be any changes in the current practice.

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

We are unsure how tangible this data is and how efficiently it can be obtained, we would recommend that IPART consider the following data points in addition to the blended hybrid model of averaging past ABS data with future DPIE projected growth.

- Department of Education – Primary and High School registrations
- New Domestic Waste Collection services – Environmental Protection Authority
- Department of Planning – Occupation Certificates issued
- Tourism Research Australia – population effects due to tourism[8]
- Transport for NSW – population effects due to business hubs[9]

Issue 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)?

Given annual population figures released by the ABS, outside the Census which occurs only every five years, are estimates and not necessarily a reflection of the actual population the use of occupation certificates and supplementary valuations is considered the most appropriate way to account for growth. Alternatively population figures benchmarked against cost of service per resident as determined by calculating average service costs across council groups based on a per capita cost.

[8] https://www.tra.gov.au/Regional/local-government-area-profiles
[9] https://www.transport.nsw.gov.au/data-and-research/passenger-travel/surveys/journey-to-work

Issue 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?

This will depend upon the model that is developed based on the consultation process. We believe that it will be necessary to set growth rates at a minimum on cohorts of councils at a minimum, to be fair each council is different and therefore the growth factor would need to reflect the individuality.

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

Yes, if the rate peg is consistent across all NSW's councils the minimum population threshold should be the NSW population growth rate, or more accurately the average or median population growth rate. This will also depend heavily on how the population growth factor is determined, if an average cost of service per capita by council groupings is used as a proxy the minimum threshold could be determined by calculating the growth in rate revenue due to supplementary valuations compared with the assumed increase in cost of services.

Alternatively the minimum threshold could simply be zero.

Issue 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?

This will depend on the amount of data points that are considered. If additional data points such as those suggested in issue 5 it may be possible to blend past growth, current growth and projected growth to determine the factor.

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

Notwithstanding the items identified in regards to reductions in infrastructure contributions, benchmarking the average costs of services across the 26 cost components used in the LGCI on a per capita basis across all NSW councils. This will then provide an indication of the extra funds needed on a service level to cater for any growth in population. However this assumes that the current rate revenue generated by councils is appropriate to deliver a high level of services.

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

We have raised the use of CIV and would highlight that the transition to CIV represents the most efficient and accurate solution to this issue. We are aware that the NSW Government has sidelined the matter, however we strongly recommend that this decision be properly investigated and be more accurately assessed.

In our view each of the following issues will be addressed;

- Aligns with changes in population – new value made once occupiable building granted an Occupation Certificate
- Removes the need for IPART assessments and multiple rate pegs
- High growth councils will receive rates consistent with changes in population

- Low growth councils will not be adversely affected, any developments in their area will result in rates growth
- It is simple and easily explained to ratepayers.

The Valuer-General's pricing for valuations provided to all NSW councils expires on 30 June 2025 this provides ample time (unless brought forward) with just over four years to make the appropriate legislative and valuation data base changes to migrate from Unimproved Capital Values to CIV.

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

The timeline and review process appears to be adequate and have no additional comments or suggestions to make in this regard.

Thank you for providing this opportunity, I trust this submission is of some assistance to the IPART, if you have any enquiries or require clarification please do not hesitate to contact me directly.

Yours sincerely

[redacted]

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NSW Revenue Professionals