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Review of the rate peg to include population growth
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
SYDNEY NSW 1240

Dear Tribunal

Review of the rate peg to include population growth

Thank you for the opportunity to make 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.

Executive Summary

We appreciate the effort that has been put into the Draft Report and can see that the Independent Pricing and Regulatory Tribunal (IPART) has made a genuine effort in recognising the previously unidentified shortfall in the rate peg due to the growth in population. The Draft Report meets the Premier's terms of reference and provides a path, in the right direction, of rates growth due to changes in population.

We support the IPARTs 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 strongly advocate for robust discussions with key stakeholders into a transition towards Capital Improved Values (CIV) as the basis for calculating land rates. Our vision is for the NSW Government to work with the sector and ratepayers to take a deep dive into formally and substantively identifying, through a cost benefit analysis, what transitioning to CIV would represent.

We note that the IPART is in consultation with the City of Sydney as an outlier in this reform. We believe this should not be the case and the City of Sydney should be subject to the proposed reforms in the same manner as other councils.

In this submission we have responded to each of the three items on which you are seeking feedback. The responses are provided below.

Response to questions posed by IPART:

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. Based on analysis provided to the NSWRP's from a number of councils, on average approximately 50% of councils' growth in rate income has been achieved through supplementary valuations, with the other 50% attributable to the rate peg.

We agree that the proposed system should provide outcomes that:

- maintains 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 have been made aware that the Estimated Residential Population (ERP) figures determined by the Australian Bureau of Statistics (ABS) are sometimes altered and changes made

[1] IPART – review of the rate peg to include population growth – page 4

retrospectively. This is an issue as the ERP determined at a point in time may alter after the IPART extracts its data each year. If the change is an upward change it could have a negative impact on the 'change in population' in future calculations. We appreciate that these data amendments for years in between Census years could be subject to change, albeit minimal, the effects on the council growth might not be.

As an example, if the ERP for a council was to show growth of 1% and their supplementary valuation percentage was also 1% that council would receive no additional population growth revenue. In the next year the ABS may make a retrospective adjustment for this council area that would result in a different change in population growth. This may result in some more significant cumulative effects if not addressed.

Does the methodology address equity issues?

Whilst we also agree with the IPART findings and methodology as they align with the Premiers terms of reference, we are concerned that it does not fully address the principle of equity.

We note that the proposed methodology is based on per capita population changes while land rates are payable on rateable land. 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. What has not been addressed is the number of properties occupied and used for residential accommodation that are **exempt** from land rates.

Exempt properties that house additional people will have a direct impact on the ERP and increase the 'population factor' but there will not be any corresponding increase to rateable properties. This results in the rateable land ratepayers paying even more to cover the costs of servicing the population on rate exempt land.

We have identified this issue previously, principally due to a noticeable shift in public housing from Housing NSW to community housing providers. Land owned by Housing NSW is rateable when occupied, however land transferred to community housing providers, used and occupied for the same purpose, may be exempt from rates. Similarly, aged care facilities owned and run by public benevolent institutions are also exempt from rates.

It is imperative that the NSW Government re-visit the IPART's initial *'Review of the Local Government Rating System'* and make changes to ensure land occupied and used for residential accommodation is rateable so that land contributing to the cost of council services also contributes toward paying for them.

The NSW Government continues to avoid addressing the costs burden of non-rateable property and pensioner rebates. The proposed methodology in this review enables a pathway for increases in rates revenue based on population growth within these non-rateable residential properties without addressing this issue the burden on the rate paying community. We note that the NSW Government has previously stated it *'will continue to examine exemptions over time to address clear anomalies'*[2]. We look forward seeing this in action.

[2] NSW Government response to the IPART Review of the Local Government Rating System June 2020 – page 18

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?

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

The proposed source will effectively be applied to a rating year that commences two years after the period of estimated growth. This lag may, at times, have impact on the 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 annually, 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 material difference an adjustment should be made on a case by case basis.

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

The formula

For the purposes of maintaining simplicity we suggest that the '*supplementary valuation percentage'* proposed definition include a reference to the '*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.

The results are contained in each councils annual Financial Reports as a Special Schedule.

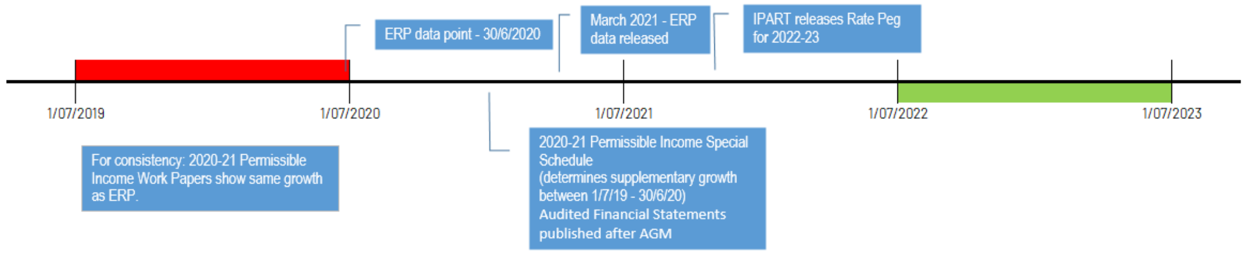
We have noted that the dates proposed for the calculation of the population percentage and the supplementary percentage do not align and that the proposed supplementary percentage calculation is based on data not available when the rate peg is set. An example is provided in the draft report based on commencement for the year 2022-23, in the example the ERP is for changes between 30 June 2019 and 30 June 2020. However, the supplementary growth is referenced against the *'councils general income the previous year (2021-22)'*[3] which appears to be a reference to the year after the ERP data and would not be known until after 30 June 2022.

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 (as proposed),
- Using the data contained within the 2020-21 Permissible Income for General Rates schedule that is included in the audited Financial Statements for the period ending 30 June 2020 the *"Last year general income yield' and the supplementary growth shown as 'adjustments'*.

[3] IPART – review of the rate peg to include population growth – page 6

The figure below depicts the timing and steps for a 2022-23 rate peg, including population growth.



The area in red is represented by the 'growth period' for both supplementary valuations and population. The area in green is the first year that growth factor would be included in the rate peg.

Growth factor limited to residential growth

Growth and costs to councils 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. Councils that experience growth in their non-residential population at a greater rate than their residential population will not be adequately financed to cover the costs of the increased population. We are disappointed that these areas have not been included in the methodology.

Equity across councils

Revenue uplift identified by population growth should apply equally to all councils despite the method of distribution of rates across the rating categories. The component costs measured by the Local Government Cost Index (LGCI) are not aligned this way so we are unsure why the allocation of population growth would not apply the same way. For the avoidance of doubt on this issue we think the population growth factor should be applied in the same way that the LGCI is applied.

Further we note that a separate consultation process[4] is being undertaken with the City of Sydney which has raised some concerns regarding the community consultation and stakeholder engagement process. Anything other than applying the same approach proposed for all councils would require a new and separate review to allow for stakeholders to be consulted.

Efficient system to reset base general rate income

One of the aims of the IPART proposal in this draft report is for councils to *"maintain per capita general income over time as their populations grow"*[5].

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.

[4] IPART – review of the rate peg to include population growth – page 18
[5] IPART – review of the rate peg to include population growth – page 4

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

Capital Improved Values

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 simpler process. It is also the most equitable way of distributing the rate burden across ratepayers.

The NSWRP is committed to working with key stakeholders such as the Valuer-General, Office of Local Government, councils, the IPART and LGNSW to further understand the '*unclear distributional impacts along with the high cost of implementation and prolonged transition timeframes*'[6] identified by the government can be overcome.

Arguments for CIV:

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'. The IPART delivered on this in the 2016 Review.
- High values contribute more, low land values 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.

Thank you for the opportunity to comment on the draft report, if you have any questions in regards to our submission please do not hesitate to be in touch.

Yours faithfully

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Andrew Butcher
President NSW Revenue Professionals

[6] NSW Government response to the IPART Review of the Local Government Rating System June 2020 – page 6