

IPART Review of Rate Peg to include Population Growth Northern Beaches Council Submission

2021/250003 – April 2021

Discussion Paper Question	Northern Beaches Council Response
<p>1. What council costs increase as a result of population growth?</p> <p>How much do these costs increase with additional population growth?</p>	<p>There are several factors that influence the impact of population growth on Council's costs including:</p> <ul style="list-style-type: none"> • pressure on existing gaps in infrastructure, resulting in higher maintenance costs due to over-use and faster renewal needs (e.g. Northern Beaches has a current and growing shortfall of sportsfields) • population growth influences our strategies and drives the need for new assets (e.g. the Northern Beaches Walking Plan which identifies new footpath needs) • changes in demographics, resulting in changing service needs (Northern Beaches has a higher proportion of elderly people (70 and over) and households with children than Greater Sydney – which underlines the importance of social infrastructure in our planning) • costs related to delivering services such a lifeguard patrols on beaches to ensure the safety of a larger population • new assets required for developing areas – development contributions do not fully cover the cost of providing new assets to growing communities (e.g. only 56% of the cost of constructing a new community centre in the growing Warriewood Valley area is funded by development contributions – rates and other funding sources need to fund the gap) • the cost to operate, maintain and provide for the future renewal of new assets delivered for growing areas: <ul style="list-style-type: none"> ○ The cost to operate and maintain new assets is generally 1% of the cost of the asset ○ An average 1.3% per year is also required to provide for an asset's future renewal <p>Over the next four years, Northern Beaches Council is planning for \$119 million in new assets, which represents 40% of planned capital expenditure. This would increase operating costs by \$2.7m (\$0.7m per year), which is equivalent to a 1.5% increase in rates income over the same period (0.4% per year).</p>
<p>2. How do council costs change with different types of population growth?</p>	<p>The demographic characteristics of a development area are important in understanding the future social infrastructure needs of that area. The characteristics of the residents in the new dwellings will inform the design of the public domain and open spaces that are created to meet their needs. Different types of population growth, dwellings mix, and jobs growth will determine where the changes in our asset portfolio occur and how services may need to change. Local environmental impacts are also an important consideration.</p> <p>Planning for identified growth areas identifies the need for new / additional infrastructure improvements required by the increased population, for example the Warriewood Valley Urban Release Area and Dee Why Town Centre.</p> <p>In Warriewood Valley growth in households with children is anticipated – resulting in the need for more public recreation and</p>

open space areas and community facilities along with creekline works and bushfire protection facilities due to the nature of the area.

Whereas planning Dee Why Town Centre, where growth is anticipated in apartments with a lower occupancy rate of 2.1 people per dwelling and non-residential development, key infrastructure needs include addressing connectivity and accessibility needs, creating thriving precinct areas and addressing demands on local roads and stormwater infrastructure.

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

The rate peg and development contributions do not provide for the cost to renew new assets provided for developing areas nor the additional cost to upgrade assets to modern equivalent standards and to address their faster deterioration due to growing populations within the region. In addition, developer contributions only provide for base-level infrastructure, with other funding sources required to meet the gap.

Councils need to seek to address this gap through periodic Special Rate Variations (SRV) to ensure infrastructure backlogs do not grow and financial sustainability is maintained. The SRV application process requires extensive resources and has a long lead time and can result in lumpy increases in rates as councils seek to 'catch up' on growing funding gaps.

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 process has resulted in an average growth in rates income of \$280k per year (0.16%) over the past 5 years for Northern Beaches Council. However, the population of the Northern Beaches is growing by 1% per year on average.

While we need to take account of increases associated with supplementary valuations, we also need to take into account the other factors resulting in population growth and/or impacting on demands for services and facilities.

Population growth drives demand for new infrastructure (such as roads, parks, stormwater and street lighting) and services (such as the use of libraries, child care and community facilities) over the whole LGA not just the area subject to development. As the rate peg system and supplementary valuation system do not adequately compensate councils for having to service a larger pool of ratepayers, this leaves local governments with insufficient revenue to meet demand.

As noted in the Issues Paper there are limitations with amount of additional income from growth through the 'supplementary valuation' which result in council receiving less income from rates for each new resident compared to existing residents. The increase in number of rateable properties via the supplementary valuation process is a delayed indicator but is not a definitive measure as it fails to take into account other types of residential developments to cater for expanding population such as granny flats and general property extensions, [growth in boarding house and seniors living developments](#), portable housing in residential caravan type developments, conversions of garages, relatives living with their children, etc. [Supplementary valuations do not adequately compensate Council for the additional infrastructure and services demanded from these types of developments.](#)

Non-residential developments such as regional shopping centres may not lead to an increase in income – but leads to a significant increase in the demand for council services and facilities.



The use of regional facilities and services such as beaches, sporting, community, leisure and accommodation facilities by residents from other local government areas with growing populations results in additional demands for services and facilities with little to no opportunity to increase revenue.

Likewise, the increase in number of properties needs to be considered in total as increases in rateable properties will include changes in both residential and business categories, both of which can be direct and indirect population growth indicators. There may be occasions when one category offsets the other category, thus distorting the outcomes and conclusions of the measure.

As noted in IPART's Review of the Local Government Rating System the cost of providing council services is directly related to growth in capital, people and businesses within a council area. Under the existing land valuation methodology rates do not change if additional capital is invested into a property. Any increases in the cost of providing council services, and the demand for these services, are not factored into the decision to develop land. The supplementary valuation process does not reflect these changes and as a result the cost of servicing new development is funded by existing ratepayers. As noted by IPART this is inefficient because rates only capture a portion of the total demand for the council services, which can lead to an under provision of council services.

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

As a general rule, the ABS's Estimated Resident Population in the most commonly used population count. Should this be the source for population growth data, a rate peg adjustment may be required each 5 years following the census as the ERP is re-issued for the previous five years.

DPIE projected growth data is what is typically used by Council in developing its strategic planning documents eg the Local Strategic Planning Statement and Local Housing Strategy. For the purposes of preparing development contributions plans, Northern Beaches Council uses .id Forecast and .id Economy profile as well as ABS Building Approvals.

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)?

Population data typically is not a sole indicator to forecast for all growth in a council area. Building approvals as well as water/sewer connections via Section 73 Certificate or Licences to Operate an OSSM provide a better indication of development growth. For instance, Council uses .id Forecast and .id Economy profile as well as ABS Building Approvals to inform the preparation of development contributions plans to ascertain infrastructure commensurate with an area's growth - resident population, dwellings and jobs are key drivers.

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?

Growth in population should be considered for each council to provide a more meaningful factor for each council and their community.

Grouping councils would be challenging to establish and would need to be dynamic to respond to changes in circumstances eg. for some, there may be a lag in infrastructure delivery in an area or changing demographics.

However, we do recognise that nearby growth outside of our LGA does place pressure on our council in managing the impact of



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	visitation to areas such as our beaches and trails while preserving our natural environment and upholding our community's way of life.
8. Should we set a minimum threshold for including population growth in the rate peg?	No, as any growth will mean a Council has incurred additional costs due to increased demand for services and facilities and this would have a compound impact over a period time if it was not factored into the rate peg adjustment.
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?	A blended factor considering both historical and projected growth to ensure it reflects the best information available.
10. How should the population growth factor account for council costs?	<p>The growth factor should not be reduced by funds raised through development contributions. These contributions only meet base level infrastructure needs and do not fund ongoing operating costs and future renewal of assets nor additional services for a growing population.</p> <p>The supplementary process results in minimal increase in rates income. In our experience it provides about 1/3rd of the additional income needed to operate new assets that result from a growing population and does not provide for the gap in funding needed for additional assets and other services.</p>
11. Do you have any other comments on how population growth could be accounted for?	<p>Consideration of a rolling average of population growth over say 5 years may provide for a smoother growth factor and enable a 'catch up' allocation to address growth that has occurred in recent years prior to the introduction of the growth factor within the rate peg.</p> <p>If a regional population growth factor range was determined – Councils could consider this in setting rates based on local circumstances outlined in their Operational Plan and subject to the usual consultation requirements as part of the annual budget process.</p> <p>Currently the rate peg applies to set a maximum increase in a council's general income which is then factored in to determine rates that do not exceed that cap in total. Consideration could be given to allowing a council to apply the cap to either general income (as currently is the case) or to the average rate per category depending on which provides the most appropriate outcome for a council given the type of growth experienced.</p>
12. Do you have any comments on our proposed review process and timeline?	The timeline and process is appropriate and we appreciate the opportunity to provide feedback on both the issues paper and draft report.