[redacted]

3rd May 2021

Review of Local Government Rating System
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Dear Sir/Madam,

RE: REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH – ISSUE PAPER MARCH 2011

Please see our responses below concerning the review of the rate peg to include population growth.

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

   The major issues for [redacted] residents are:

   - The rapid expansion and future expansion in the population of [redacted] Council and the requirement to provide income that matches that growth.
   - The increase in multi-unit properties and the level of services utilised by these properties needs to match the rates revenue.

   There are two aspects of costs, recurrent costs which are incurred each year and one-off capital costs that Section 7.11 Contribution Plans do not provide for.

   Recurring Operational Costs
   - Increased population, especially from high density dwellings, leads to higher usage of infrastructure. This does not only apply to new assets, but also places pressure on existing roads and infrastructure as population travels through the Shire. This in turn increases maintenance and replacement costs on both new and existing assets.
     E.g. Increased staff costs for maintenance of new and existing assets from higher usage, increased corporate services to handle more frequent customer requests, increased utility costs from street lighting, park lighting (more lights, higher lux lighting levels, longer hours), irrigation and buildings utilities etc.
   - Higher insurance costs for new infrastructure.
   - Growing plant and fleet size to service more infrastructure and associated maintenance and depreciation costs on additional plant and fleet.
   - Increased depreciation (renewal) of infrastructure.
   - Staff and equipment costs associated with additional services.
     E.g. Library services, community service, customer service, community events, corporate services, rates officers, postage, planning, subdivision and development application assessment, regulatory and compliance and economic development activities.

   Capital Costs
   - New population with higher expectations on service levels places pressure on Council providing infrastructure above and beyond base level embellishment allowed in contributions plans.

- New population also has higher expectation of quicker delivery timeframes that impacts on level of up-front costs.
- Capital funding for infrastructure that are considered 'non-essential' by IPART but are important to communities, especially for population living in high density dwellings. E.g. community facilities, libraries, aquatic centres, indoor recreational facilities.
- Higher replacement costs of assets in existing areas are expected as usage increases with population growth (e.g. high usage on existing roads as new population travels through the Shire). However, it is unlikely for Council to establish sufficient nexus between new population and existing assets in order for these capital replacement costs to be covered by contributions plans.
- Higher expectations on levels of service in existing areas to replace ageing infrastructure as new release areas are developed.

Councils can apply IPART to increase rates above the annual limit for these types of expenditure for existing areas, provided they have a strong case that the funds are needed and can demonstrate community awareness and support for the increase.

Approval from IPART will only be granted after Council had experienced some operating deficits. Although deficits are projected in the future, assuming upgrades of existing infrastructure, due to [redacted] Council's sound financial position, it will not be eligible for a special rates variation. It is therefore very difficult for [redacted] to maintain its long term financial sustainability while meeting growing demand and expectation that comes with rapid population growth.

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

- Some costs are incurred long before population arrives or prior to subdivision stage e.g. forward planning, sub-division and development application, infrastructure planning and delivery,
- The preparation of contribution plans and the IPART approval process commence long before developer contributions are received and the population arrives. At an additional cost to Council, IPART requires third party cost estimates as will not accept information based on Council historic data or IPART benchmarks.
- Population differs across the LGA depending on whether it's an area with more standalone dwellings or whether they are concentrations of multi-unit dwellings which increase Council costs as higher density results in higher usage.
- With population growth, there is increased activity in subdivision and development. Subdivision, development application regulatory fees have not been indexed for the last 12 years. When these fees were set 12 years ago, checking was less vigorous and therefore less costly for council than it is today. Increased regulatory requirements such as fire safety, bushfire, geo-tech, flooding, ecology, site contamination, waste water, to name a few, has resulted in increased staff costs. Income generated from these activities is not sufficient to cover the associated costs.
- The introduction of the Metro to [redacted] has increased and will continue to increase the population because it improves the areas liveability. Ironically this creates more demand for vehicle ownership, and although some public car parking has been provided within station precincts the quantity is insufficient to cater to the expected increase in population. More car parking facilities are needed or additional modes of public transport, e.g. busses, to allow people to commute between households and stations.

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

- Some of these costs are funded using Grant funds or Councils generating additional income by undertaking Property Development activities.
- The rates peg currently limits Council's ability to deliver the Community expected level of service as Council is disciplined to live within its mean and these costs are not incurred now and not funded.
- Costs incurred prior to arrival of the increase in population and their rateable properties are not covered by the rate peg as this population is not yet paying rates E.g. Forward Planning, Strategic Planning, Subdivision and Development Application, Infrastructure Planning and Delivery. These costs are covered by Councils internally restricted funds or in some cases via Grants.
- Secondary dwellings (granny flats) and other forms of 'affordable housing' permitted through the Affordable Rental Housing SEPP, such as boarding houses and group homes, results in increased population growth/ densities within Council's established urban areas. This growth and the corresponding increase in the use of local infrastructure places an additional burden on Council as it is required to maintain these essential community assets. These developments frequently occur within lower density areas where low density detached housing is anticipated. Whilst these sites result in a higher demand on public infrastructure than a site which only contains a single detached dwelling. The UV land value remains unchanged and there is no additional rates income to contribute towards the additional demand services.
- Additional population resulting from dispersed development, such as those mentioned above, would ultimately be accounted for in the Shire-wide ABS population data. If the rate peg is reviewed in the manner suggested in the issues paper, Council rates would be able to be indexed in-line with actual population growth. Although this would be an acceptable outcome to Council it must be acknowledged that existing ratepayers will be charged for growth in other high density areas.
- Swales maintenance costs associated with [redacted] Release Area is not currently covered by rates income at all. The Storm Water charge that Councils can apply to these areas have not been indexed since its introduction since 2006/2007, it's still $25 per dwelling. Swales were incorporated into [redacted] area in order to meet the Department's water quality management and target requirements. It was intended that these swales fronting dwellings be maintained by residents. However despite efforts of Council promoting this requirement, swales are not being adequately maintained. Complaints have been received from residents regarding the burden of swales maintenance as well as the problem with swales not being managed on vacant blocks or construction sites during and post constructions. The cost of maintaining these swales within the precinct is estimated to be $541k per annum. This cost alone is $143 per dwelling if charged only to those residents applicable compared with the current $25 Stormwater Levy charge. As this cost is not currently covered by rates income, Council has no resources even to perform routine level maintenance. It would be ideal if other levels of Governments that introduce various statutory requirements such as Water Quality targets or above average infrastructure that attention is paid as to how these items will be maintained and replaced. Alternatively, IPART should allow special rate variations for such Government introduced schemes without having to gain approval following the current protracted and arduous process.

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?**

When land is rezoned there is an initial increase in land values; however it will be some time before development is completed, eventually when a multi-unit dwelling is approved and built there is no uplift in the valuation as its still based on the unimproved land value. One suggestion would be for the Valuer General (VG) to account for the increased number of dwellings or allow Councils to increase the unimproved land values based on a multiplier or ratio which accounts for the increased number of dwellings.

[redacted] Council is experiencing a period of high population growth, by 2036. It is expected to accommodate at least another 100,000 residents and provide a minimum of 25,000 jobs. The forecast change in the demographics for [redacted] Shire will see the current ratio of dwellings to apartments change from 80:20 to almost 70:30 by 2036.

Current methodology background

The average residential dwelling at [redacted] rate is $1,165 compared to the average unit (apartment) rate of $652. The average unit rate is very close to the base rate of $521 due to the fact that the UV land value of multiunit properties does not account for the number of units and effectively remains unchanged when the supplementary process allocates the strata lots.

The supplementary valuation process in terms of unit dwellings does not provide a fair and equitable distribution of rates across the LGA. Due to an increase in unit numbers and the level of services utilised by unit residents a different methodology for rating is required.

Table 1 below details the current and future rate assessment estimates of dwellings and units. These calculations have been derived from information available from the current Council adopted contribution plans and estimates from station precincts.

Table 1: Estimated No. of Rate Assessments by Dwelling Type

	As at Dec 2020	**Estimate 2036**	**Estimate 2047**
Residential Dwellings	54,601	64,194	65,309
Residential Apartments	9,934	37,753	67,698
	64,535	**101,947**	**133,007**

As detailed above, current forecasts are predicting that [redacted] Council's dwellings and unit mix will change significantly in the future. The increase in unit developments and multi-dwelling within [redacted] will become an issue in time to come as it will increase demand on infrastructure and services.

Council's total permissible rates income for the following year is basically limited to its "Notional Rates Income" for the current year multiplied by the % rate peg for the year for which the Rates are levied. In years where the VG performs a General Valuation of land and if all the properties within the LGA increase in land value, the permissible income will remain the same.

Table 2: Permissible Rates Income

Hypothetical Supporting Data (Ad Valorem only)	Land Value $	Income $
Year1		
Land Value (Base Date July 2016)	250,000,000	
Permissible Rates Generated based on Rate in the $0.1 – 1 July		25,000,000
Increase in LV during the year due to subdivision activity	50,000,000	
Land Value as at 30 June	300,000,000	
Notional Income as at 30 June LV 300,000,000 multiply by Rate in the $0.1		30,000,000
Add Rate Peg of 2.5% (set by IPART)		750,000
Permissible Income for Year 2		**30,750,000**
Year 2		
Land Value after General Valuation (Base Date July 2019)	500,000,000	
Total Rates Income Council can generate (Notional Income)		30,750,000
Ad Valorem rate reduces to $0.0615 (Notional Income $30,750,000 divided by LV 500,000,000)		
Permissible Rates Generated 1 July Year 2		30,750,000

As detailed above, even though the land values had increased after revaluations, Council cannot generate additional income as the legislation requires Council to adjust the rate in the dollar. The rate in the dollar reduces from $0.1 to $0.0615. However, the increase in land values due to subdivision activity is allowed to generate additional income up to the Permissible Income.

Council will have increased income from subdivision activity as a result of valuation changes, but this is minimal, and from the increase in the number of dwellings (lots) created. (E.g. if one lot was subdivided into 50 lots, Income generated from base amount will be 50 lots multiplied $ 521 compared to 1 lot multiplied $521)

Although there is some amount of increased income, the substantial increase in population due to subdivision activity, has placed Council's rating base under significant pressure with high demand for new or upgraded local infrastructure and services. This is one of the main reasons why IPART was asked to review the current Rating System.

As mentioned before, Councils can apply to IPART to increase rates above the annual limit, provided they have a strong case that the funds are needed and can demonstrate community awareness, as well as support, for the increase sought. This makes the process so much more arduous.

[redacted] Council current rating structure (base & ad valorem) does not generate much income from residential units compared to a residential dwellings. An alternative solution within the current rating legislation is to use a minimum rate where the ad valorem rate is less than the minimum amount to more accurately reflect the use of council services.

Although Council have the option of changing the rating structure to use minimum rates as a way to increase the rates paid by units, this will only change the split of rates between dwellings and units and will not address the additional income needed from areas of high population growth unless [redacted] Council succeeds in securing a special rate variation as was done by [redacted] Council. [redacted] applied to IPART in FY 19/20 to increase their minimum rate from $602 to $900 per apartment and this increase was approved by IPART and will remain permanently, thus increasing their total rates income. [redacted] Council had 25% of rate payers in this category, whereas currently [redacted] Council has only 15% moving towards 51% by 2047 as detailed in Table 1 above.

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

   For residential population growth, ABS and DPIE should suffice. It is proposed that growth factor be based on DPIE projections and true-ups to be based on ABS.

   As business growth creates demand for additional infrastructure and increase the usage on existing infrastructure, business growth data should also be considered. The Government has defined job targets for all strategic centres within Greater Sydney which could be used as a basis for projecting growth for the purpose of the revised rate peg. ABS data could also be used to measure historic growth.

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 is considered the best way to measure population growth councils are experiencing as it is the key driver for infrastructure demand and usage.

   However business growth data should also be considered as it also creates additional demand for infrastructure and services. It is important that the revised rate peg also considers employment growth which will vary considerably between local government areas. Councils are responsible for providing and maintaining local infrastructure such as roads, pedestrian paths, cycle ways and open space to support workers within strategic and local centres. [redacted] Shire is expected to accommodate around 32,200 additional jobs within its strategic centres [redacted] up to 2036, subject to detailed precinct planning.

   Council is currently undertaking precinct planning and infrastructure analysis to support employment growth within its strategic centres. Council recently resolved to exhibit a draft Section 7.12 Contributions Plan for [redacted] As acknowledged within the Issues Paper, contributions plans will provide a funding source to deliver local infrastructure. However, it is essential that an appropriate mechanism is in place to ensure the ongoing management and maintenance of this infrastructure through non-residential rates revenue.

7. **Do you think the population growth factor should be set for each council, or for groups of councils with similar characteristic? How should these groups be defined?**

   Council believes population growth factor should be set for each council as the nature and timing of growth experienced by each council is unique. It would be extremely difficult to group councils by similarities without the risk of under/over funding some of them due to a generalised grouping process.

   Also, the characteristics and rate of growth experienced by a council vary over time. For the population growth factor to remain relevant, council grouping will need to be constantly reviewed and adjusted. This requires a higher administrative burden than allowing councils to apply a growth factor based on specific data relevant to each council.

   The rate peg applies a single percentage for all councils but each has individual circumstances and different types of population growth. Even within a single LGA there can be different types of population growth each with different associated costs.

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

   A minimum threshold for including population growth in the rate peg should not be set. It is important for councils to plan for growth and to have timely funding support to do so. Delayed funding can have compounding impact on a council's long term financial sustainability.

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?**

   Projected with true-up would be a preferred method. As there are costs that would be incurred before population arrives (e.g. Forward Planning, Development Application, infrastructure planning and construction etc.), historical data would not be timely enough to assist a growing Council.

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

    Councils should be allowed to increase the total Rates income including the Rate Peg and by the percentage of Population increase over the previous year. This can be a fixed amount charge to each Rate assessment adjusted when the actual population is validated after census is carried out.

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

    See answer to Question 4

12. **Do you have any comments on our proposed review process and timeline?**

    There appear to be various media releases containing contradictory information out there without clear guidance to councils about how each piece of information relates to another.

    The media release *“$400 Million Infrastructure Boost For NSW Councils - 24 March 21”* issued jointly by the Department of Local Government and Department of Planning and Infrastructure and Environment (“joint media release”) states that *“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”*. However this current Issue paper issued by IPART seems to imply that the proposed growth factor will be applied to the whole LGA.

    The “joint media release” also mentioned modelling detail of which was not made public making it difficult for councils to understand how this proposed additional revenue will affect them. It is also unclear as to whether the revenue increase will only be for a limited timeframe and whether the revenue increase is intended to cover capital or recurrent costs relating to population growth.

    It is important to Council that any changes made to the Rate Peg will not replace capital funding that is currently under S7.11 and S7.12.

    It would be helpful for councils to be provided with a clear road map of the current review process and how it relates to the joint media release and the Productivity Commissioner’s recommendations.