

CITY OF RYDE IPART SUBMISSION - 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?

Council collects Developer Contributions through s7.11 and s7.12 Plans and Voluntary Planning Agreement (VPA) to meet a demonstrated need (as provided in the s7.11 and s7.12 Plans) for services required by the growing population. Whilst Developer Contributions are expended on new community assets or the embellishment/upgrade of existing community assets, they usually do not fund the renewal or maintenance of these facilities. It is to be noted that Council's such as City of Ryde, only charge to the developer contributions cap of \$20,000 per dwelling. This is due to the fact that many of the services required that have resulted from population growth are not catered for in the 'Essential Works List' (such as construction of new and upgrading of current Community Facilities). Due to the cap, over time, the contributions collected fall short on a per dwelling basis, of what the Council should be collecting as outlined in the s7.11 Contributions Plan, due to the actual difference between the calculated contributions and the capped amount; and inflation. Council must therefore fund this gap from other sources of revenue, which are also limited.

Furthermore, as the population grows, the demand for the use of such community assets increases, resulting in a higher utilisation of existing and new community assets. The effect is that Council is required to fund additional maintenance of the new and embellished assets and the future renewal (depreciation) without an additional revenue source in most instances. In addition to these asset related costs, there is a general increase of demand for services that arise from having more people within a local government area. The cost of these types of services would generally increase where Council is expected to provide a service and cannot cost recover the full costs to operate these services. This is usually evident where a fee or charge is prescribed by an external statutory body and has no correlation to the actual cost of the service provided. Both the asset and services related costs will require overhead support including such functions as Finance, ICT and HR.

Simply, the increase in asset related costs can be correlated to the value of the new/embellished asset. The required maintenance and future renewal costs (depreciation) can be determined as a percentage of the total cost of the new and embellished asset. The service-based costs will eventually increase due to the nature of the increased volume in patronage as a result of the population growth. The increased costs of these services will be dependent on the type of service, the demand and the ability to cost recover for this service.

Through a recent Planning Agreement, the City of Ryde has received a number of different assets as a result of a development which included a community space (building), open space (passive park), roads and public domain assets (including footpaths) to service the growing population. The value of this agreement is in excess of \$10M and no recurring revenue sources have been allocated from the developer or additional rates to fund the operations, maintenance or renewal of these assets as a part of the agreement. There are also limited opportunities for Council to generate revenue from these assets, hence eliminating a cost recovery approach to funding these ongoing costs. This is one of many examples where Council must reduce its service levels to fund population growth.



2. How do Council costs change with different population growth?

A key factor in determining the increased costs and how costs can change is dependent on the type of population growth, the demographics of the Local Government Area (LGA), the size of the LGA and the type of assets already in place within the LGA. These can be substantially different from one LGA to another. An inner-city type of Council like Ryde has the pressures of a growing population and limited land. Hence finding additional open space for a denser population that is growing becomes increasingly difficult and land costs become increasingly higher due to scarcity. Therefore, Councils like Ryde need to find new ways to provide space for activities such as (but not limited to) indoor facilities with multiple purposes and replacing natural grass fields with synthetic surfaces. Greenfield sites towards Sydney's west may not have land scarcity but are creating entirely new communities that have no existing facilities to build upon.

Further, growth can be categorised into residential and employment population growth and will be determined based on the demographic composition of the LGA. The current and future demands (and costs) for infrastructure and services can be gauged by such studies as recreational and community facilities needs studies and traffic studies, which will inform planning instruments such as future s7.11 plans. These types of plans need to be reviewed periodically and will guide how Council's service offerings and infrastructure expenditure profiles will evolve over time. With limited revenue streams, it will be difficult to provide the infrastructure required to build, maintain and replace these assets.



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

There are several costs to community caused by population growth currently not funded through rates and developer contributions. These include increase demands on educational facilities, transport facilities, the health system, waste disposal, demands on the environment, water and sewerage provision, telecommunications provision and energy sources. Some of these may not be services that Local Government are directly responsible for, but nevertheless population growth will create increased costs on these services and have a secondary financial impacts on Council's. As IPART is aware, these services are funded via taxes, or have been privatised, and in the later there is still some form of regulation.

Focusing on the direct impact to Council's, the existing arrangement with the rate peg puts pressure on Councils to either reduce existing service levels of other assets or other front-line services to ensure financial sustainability when adopting an Operational Plan. The longer-term impact of this approach generally results in Council's having to apply for Special Rate Variations to ensure their asset related service levels are not reduced. Further details can be found in question 1 on the type of costs not currently funded through the rate peg or developer contributions and how this causes Council's to underfund maintenance and renewal of their assets.



4. Do you have any views on the use of the supplementary 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 base 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.



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

A source of information that could be used to assist in determining population growth could be Council's annual rating returns. This could assist in determining the number of additional rateable properties by category (Business or Residential in the case of the City of Ryde) over a 12-month period. The rating return is audited by the Audit Office and a transparent method of capturing the growth aspect from a rating perspective.

Another suggestion is information collected with the submission of Occupation Certificates (interim and/or final) to determine the types of dwellings that have been occupied. This information could help guide the future demographics of the LGA.

Both suggestions would need to be used in conjunction with existing population growth tools to determine past growth and better guide future growth modelling.



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?)

Refer to question 5.



7. Do you think the population growth factor should be set for each Council, or groups of councils with similar characteristics? How should group be defined?

The outcome of this question is dependent on the information available for reporting and the preferred methodology that is required to be determined in question 5 and 6.

Ideally, City of Ryde would like to see this defined by Local Government Area and the percentage determined by IPART as a part of the rate peg process.



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

The minimum threshold for the rates growth peg should be zero percent. If a Council experiences negative population growth in a 12-month period, this should be offset by future growth in a future year.



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?

In addressing the rates growth factor, all the above-mentioned approaches have their benefits and flaws. The conservative approach would be to work on a historical basis where this lag indicator is used to determine future revenue growth. Although this approach is conservative, the historical approach may not allow Council's to plan for future growth adequately.

Conversely, using the projected growth approach will allow Council's to plan for future growth but may expose Council's where the future growth may not eventuate within the nominated timeframes. This may expose Council to setting future service levels with the community and aligning them with future revenue projections that may not eventuate.



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

The population growth factor should be attributed to general revenue when levied. The growth component will be allocated differently by each Council depending on the demographic of their respective LGA and the demand for infrastructure and services by the community. This will enable a Council to allocate additional rates revenue to services determined by Council as they see fit in accordance with adopted strategies or plans.



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

If the population growth approach were incorporated into the rates peg and embellishment works were restricted to 'Essential Works' as outlined by the NSW Productivity Commission, the Capital Improvement Value (CIV) methodology should be considered in transitioning to the population growth approach. The cost shift from developers to ratepayers (in funding some embellishment works through the population growth model) would be an opportunity for the CIV approach to redistribute rates and share the rates growth equitably.

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.



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

City of Ryde would like to thank IPART for the opportunity to comment. The City of Ryde would be interested in any future conversations that IPART may have on the topic and would like to engage directly with IPART if the opportunity is arises.