Property Council of Australia
ABN 13 00847 4422

Level 1, 11 Barrack Street
Sydney NSW 2000

T. +61 2 9033 1900
E. nsw@propertycouncil.com.au

propertycouncil.com.au
@propertycouncil

Australia's property industry
Creating for Generations

Independent Pricing and Regulatory Tribunal
PO Box K35, Haymarket Post Shop
Sydney NSW 1240

To whom it may concern,

IPART Review of the rate peg to include population growth.

The Property Council welcomes the opportunity to provide comments to the Independent Pricing and Regulatory Tribunal of NSW (IPART) review of the rate peg to include population growth.

We welcome this review and note that it comes on the back of the public consultation on the Local Government Amendment (Rating) Bill 2020 and its associated discussion paper "Towards a fairer rating system", which had provided for inclusion of population growth in the rate peg as one of the key features of the Bill. The Property Council also made a submission on the draft Ratings Bill. It can be found attached to this correspondence.

As Australia's peak representative of the property and construction industry, the Property Council's members include investors, owners, managers, and developers of property across many asset classes. This includes commercial offices, residential development, industrial development, tourist accommodation and retirement living facilities.

Previous Property Council submissions on the issue of Local Government ratings

The Property Council has considerable interest in reform of the local government rating system. In addition to above submission, there were several made to IPART in response to the Issues Paper (April 2016), the Draft Report (October 2016) and most recently to the Office of Local Government (OLG) on the final reports of the IPART, *"Review of Local Government Rating System Report"* released in June 2019.

There are two key points that the Property Council has made consistently when it comes to Local Government ratings, namely:

1. That there should be no move to the use of Capital Improved Value (CIV) as the basis for setting council rates or any other property taxes, including the mooted future property tax.
2. That Government should move away from the rate peg.

Why it is important not to move to CIV

Any move towards using CIV as the basis for setting council rates or other property taxes would amount in simple terms to a tax on jobs. This would undermine much of the good work that has been undertaken by the NSW Government around the Productivity Agenda e.g. "Kickstarting the Productivity Conversation" and "Continuing the Productivity Conversation".

We maintain that the business community carries a disproportionate amount of the rates burden and we would caution strongly against allowing changes to the policy that will further exacerbate this issue. A tax that increases the burden on businesses will ultimately be reflected by reduced levels of employment and/or increased costs of goods and services.

We also note the substantial costs associated with transitioning away from the current NSW system that has been in place for many decades and the lack of a reliable and robust evidence base for a capital improved value shift.

Why Government should move away from the rate peg

As we have stated in many previous submissions to the Office of Local Government or the IPART on this issue, rate pegging was designed to encourage and indeed force councils to manage their capital and service expenditure in the context of a constrained and relatively inflexible revenue stream.

However since its introduction the role and operating environment for Councils has changed markedly, driven by strong population growth, community expectations about the provision of a wider range of services and infrastructure and cost shifting to local government.

Aligning rating income growth with population growth

We support the Government in moving to align rating income growth with population growth.

This is sensible and welcome. It also consistent with the recommendations of IPART, and further it is consistent with the NSW Productivity Commissioner's view in the Final Report of the Infrastructure Contributions Review[1] that Government amend the local government rate peg to reflect population growth.

We agree with this position and support the moves outlined above to recognise population growth in the rate peg methodology.

The IPART Rating Review Submission Summary and Analysis (February 2020)[2] showed that there is broad support for the Government's move to align ratings income growth with population growth.

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[1] http://productivity.nsw.gov.au/sites/default/files/2020-12/Final%20Infrastructure%20Contributions%20Review%20Report.pdf
[2] https://www.olg.nsw.gov.au/wp-content/uploads/2020/03/IPART-Rating-Review-Submission-Summary-and-Analysis.pdf

As stated in previous Property Council submissions, the rate peg has not been reflective of the rapid population growth experienced by many Councils and/or the consequent increased infrastructure requirements.

Review of the rate peg to include population growth Issues Paper

This review into the rate peg methodology is of critical importance to the future of industry, investment, and development in NSW.

The review is to *"consider the different types of income councils can source to cover the costs of growth (e.g. developer contributions and special variations) and the role of the rate peg"*[3] (Issues Paper, p1).

The rate peg is the maximum percentage amount by which a council may increase its revenue from general income for the year. The average rate peg set by IPART has been around 2.5%. The rate peg is determined by measuring changes in IPART's Local Government Cost Index (LGCI). The LGCI reflects the increase in costs experienced by the average council.

Similar to way the Australian Bureau of Statistics (ABS) calculates the Consumer Price Index (CPI) the LGCI is a good indicator of the cost of delivering services and the inflationary pressures being experienced by that Council.

At the current time, of the 26 components of LGCI basket of goods, 70% are operating and 30% are capital items.

The current rate peg calculation is:

Rate peg = change in LGCI – productivity factor + other add-ons

As the Issues Papers state the purpose of the review is to ascertain the best way to incorporate a population growth factor into the rate peg formula, i.e.:

Rate peg = change in LGCI – productivity factor + other add-ons + population growth factor

One of the most important observations in the Issues Paper is that "developer contributions must be used for the purpose for which they were collected, and within a reasonable time" (Issues Paper, p5). We strongly support this statement and believe this should be a priority consideration within this proposed calculation change.

Conclusion

It should be made clear that any increase in developer contributions or levies and other charges, who already carry a large proportion of taxes, will only drive up the cost of housing and further exacerbate the existing housing affordability crisis the state faces.

Councils should be given the freedom to reflect population growth in their rates. This is fair and timely. IPART should avoid overly prescriptive and artificial constraints on councils. Empowering councils will put more on a path to financial self-sufficiency and sustainability.

[3] https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-9-review-of-rate-peg-to-include-population-growth/publications/issues-paper-review-of-the-rate-peg-to-include-population-growth-march-2021.pdf

Should you have any questions or seek further clarification on any item raised in our submission, please do not hesitate to contact Senior Policy Advisor, [redacted]

[redacted]

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Property Council Response to IPART Questions

Question Number	IPART Question	Property Council Response
1	What council costs increase as a result of population growth? How much do these costs increase with additional population growth?	All costs increase with population growth. In the short run pressure on capital expenditure is high, but in the medium to long run there is a shift to recurrent expenditures. In the cases where council assets are not immediately replaced to reflect the expanded population base, this can result in inadequate infrastructure experiencing either higher maintenance costs or a shorter asset lifespan, neither of which are easily anticipated in forward budget plans by local government. These capital costs can be exacerbated by historical underinvestment or an 'infrastructure

		deficit'. Different Councils will have different 'infrastructure deficits' etc.
2	How do council costs change with different types of population growth?	Demographics are important, as some cohorts place greater demand on council resources. For example a sudden large increase in Seniors requires a different investment profile to a 'baby boom'. Similarly, understanding the cultural background of communities is useful for council to meet future needs.
3	What costs of population growth are not currently funded through the rate peg or developer contributions? How are they currently recovered?	Increased asset maintenance costs are not (and should not be) covered by developer contributions. In the case where a rate peg does not account for these increased costs, the costs tend to be recovered through reductions to other expenditure items in a council budget, and where this occurs on an ongoing basis the council becomes less able to respond to community needs. Compared to councils with stable populations, councils in growth corridors also experience a higher administrative and planning burdens, which is not always recovered through fees and charges for the assessment of

		development and planning proposals. These operating deficit created by these services is usually absorbed at the opportunity cost of improving public amenity and council services.
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 valuation process is good and important. However, it does little to secure sustainable recurrent revenue. It should not be factored into the calculations when incorporating population growth in the rate peg.
5	Are there sources of population data we should consider, other than the ABS historical growth and DPIE projected growth data?	It would be worth reflecting data from the Department of Home Affairs to better understand international migration patterns.
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)?	Yes. Development approvals do not necessarily proceed to construction and the number of rateable properties will result in given variations in household sizes.
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?	The population growth factor should be set by grouping councils with similar attributes and the grouping of these councils should be reviewed on a regular basis and set by the Tribunal. While there is an overarching need for local government to plan for its future with confidence, the Tribunal should not be

		reluctant to adjust a council's categorisation to reflect current and anticipated growth patterns.
8	Should we set a minimum threshold for including population growth in the rate peg?	No, but there should be a review into the operation under the new methodology after an appropriate period of time has passed.
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?	The Tribunal should consider a blended option based on the previous five years and projected five years of growth for a local government area. This ensures projections are realistic, while accounting for unanticipated spurts of population growth over the short to medium term.
10	How should the population growth factor account for council costs?	No comment.
11	Do you have any other comments on how population growth could be accounted for?	No comment.
12	Do you have any comments on our proposed review process and timeline?	We welcome the opportunity to engage with IPART and look forward to working constructively together on this important issue.

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@propertycouncil

09 February 2021

Office of Local Government, NSW Department
of Planning, Industry, and the Environment
Towards a Fairer Rating System
Locked Bag 3015
Nowra NSW 2541

To whom it may concern,

Towards a fairer rating system and Exposure Draft of the Local Government Amendment (Rating) Bill 2020

The Property Council welcomes the opportunity to provide comments to the Office of Local Government (OLG) on the Exposure Draft of the Local Government Amendment (Rating) Bill 2020 and the consultation guide *"Towards a Fairer Rating System."*

As Australia's peak representative of the property and construction industry, the Property Council's members include investors, owners, managers, and developers of property across many asset classes. This includes commercial offices, residential development, industrial development, tourist accommodation and retirement living facilities.

We note that this Exposure Draft is first step in the implementation phase of the NSW Government's Final Response[1] to the Final Report of the Independent Pricing and Regulatory Tribunal (IPART) Review of the Local Government Rating System.

Previous Property Council submissions on the issue of Local Government ratings

The Property Council has considerable interest in reform of the local government rating system. Submissions were made to IPART in response to the Issues Paper (April 2016), the Draft Report (October 2016) and most recently to the OLG on the final reports of the IPART, *"Review of Local Government Rating System Report"* released in June 2019.

There are two key points that the Property Council has made consistently when it comes to Local Government ratings, namely:

1. That there should be no move to the use of Capital Improved Value (CIV) as the basis for setting council rates or any other property taxes, including the mooted future property tax.
2. That Government should move away from the rate peg.

[1] https://www.olg.nsw.gov.au/wp-content/uploads/2020/06/IPART-Rating-Review-Government-Response.pdf

Why it is important not to move to CIV.

We said in those earlier submissions, and still maintain that any such move to the enforce or enable the widespread use of CIV, would amount in simple terms to a tax on jobs. This would undermine much of the good work that has been undertaken by the NSW Government around the Productivity Agenda e.g. "Kickstarting the Productivity Conversation" and "Continuing the Productivity Conversation".

We maintain that the business community carries a disproportionate amount of the rates burden and we would caution strongly against allowing changes to the policy that will further exacerbate this issue. A tax that increases the burden on businesses will ultimately be reflected by reduced levels of employment and/or increased costs of goods and services.

We also note the considerable, if not insurmountable, costs associated with transitioning away from the current NSW system that has been in place for many decades and the lack of a reliable and robust evidence base for a capital improved value shift.

Why Government should move away from the rate peg.

As we have stated in many previous submissions to the OLG or the IPART on this issue, rate pegging was designed to encourage and indeed force councils to manage their capital and service expenditure in the context of a constrained and relatively inflexible revenue stream.

However since its introduction the role and operating environment for Councils has changed markedly, driven by strong population growth, community expectations about the provision of a wider range of services and infrastructure and cost shifting to local government.

Key features of the Draft Bill

Aligning rating income growth with population growth

This feature seeks to link rates growth with population growth. We support the Government in moving to align rating income growth with population growth. This is sensible and welcome. It also consistent with the recommendations of IPART, and further it is consistent with the NSW Productivity Commissioner's view in the Final Report of the Infrastructure Contributions Review[2] that Government amend the local government rate peg to reflect population growth.

Minister Hancock in her media release of 21 December 2020, rightly says that,

"Some councils, particularly in Sydney's growth corridors, have faced a substantial increase in population while their rating bases have come under significant pressure with higher demand for new or upgraded local infrastructure and services."

We agree with this position and support the moves outlined above to recognise population growth in the rate peg methodology.

The IPART Rating Review Submission Summary and Analysis (February 2020)[3] showed that there is broad support for the Government's move to align ratings income growth with population growth.

As stated in previous Property Council submissions, the rate peg has not been reflective of the rapid population growth experienced by many Councils and/or the consequent increased infrastructure requirements.

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[2] http://productivity.nsw.gov.au/sites/default/files/2020-12/Final%20Infrastructure%20Contributions%20Review%20Report.pdf

[3] https://www.olg.nsw.gov.au/wp-content/uploads/2020/03/IPART-Rating-Review-Submission-Summary-and-Analysis.pdf

Property Council Position

According to the circular to Councils issued by the Office of Local Government to explain the changes in the Exposure Draft Bill[4], the key points of the Bill are laid out below. The Property Council position is also set out under each measure:

1.	allow those new councils created in 2016 that have not already harmonised their rating structures to do so gradually over four years: **support in principle.**
2.	allow councils to levy special rates for infrastructure jointly funded with other levels of government outside the rate peg without IPART approval, **The Property Council supports this proposal in-principle subject to further detail of its implementation and inter-relationship with the NSW Government response to the recommendations of the Productivity Commission's review of infrastructure contributions.**
3.	create a new rating category for environmental land, **support in principle.**
4.	create more flexibility for councils to create rating subcategories for residential land, business land and farmland, including vacant land, - **support in principle.**
5.	amend exemptions that apply to water and sewerage special rates and to land subject to conservation agreements, **support in principle.**
6.	require councils to report the value of exemptions they grant each year, **support in principle.**
7.	narrow scope to postpone rates and let councils choose whether to write them off, **further consideration required.**
8.	allow councils to sell properties for unpaid rates after 3 years rather than 5 years. **further consideration required.**

Key points arising from the 'Towards a Fairer Rating System Consultation Guide.'

Intent of Government reforms

Coming off the back of a freeze on rates for 4 years following mergers, it is timely that Government considers how best to ensure equity for ratepayers and tools for Councils to distribute the burden appropriately. We support the need for Councils to be agile and reflective of local needs and demands.

Overview of Property Council position

In reiterating the broad position of the property industry it is important to stress that careful consideration must be given to how any reform measure will impact on the future development of new and emerging property asset classes such as 'Build to Rent'.

[4] https://www.olg.nsw.gov.au/wp-content/uploads/2020/12/20-42.pdf

Build to Rent

The State Government is currently finalising a policy and tax framework to support the development of a purpose-built build-to-rent sector in NSW. It is important that any change to the approach to rates does not negatively affect measures designed to support the growth of this sector. We encourage you to ensure this is the case.

Should you have any questions or seek further clarification on any item raised in our submission, please do not hesitate to contact Senior Policy Advisor, Sean Conway on [redacted]

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