

3 August 2021

Review of Rate Peg  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop  
SYDNEY NSW 1240

Dear Chair

### **Review of Rate Peg to include Population Growth**

Thank you for the opportunity to respond to draft report issued by IPART in June 2021. We anticipate the views expressed in this submission are likely to be shared by the Canberra Region Joint Organisation (CRJO) and Regional Cities NSW (RCNSW). We were grateful for the opportunity to engage with IPART at the Public Hearing on 20 July and meet further with Mr Cameron Shields and IPART staff on 2 August 2021. Our views summarised in the attached have been presented recently to LG Professionals and LGNSW [here](#).

QPRC is recognised by the NSW Government in several strategies as a 'global city' (with Canberra) and a regional hub. Recent reports by RAI indicate the LGA is in the top 10 growth areas in non-metro Australia.

IPART has asked for written feedback on the following three questions:

- Should our methodology be re-based after the census every five years to reflect actual growth?
  - Yes, only to adjust population peg upwards for the respective LGA
- 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?
  - There should be no reduction to previous year/s population peg, should the census true-up be less than the ERP previous forecast
- Do you have any other comments on our draft methodology or other aspects of this draft report?
  - a. See attached submission

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A summary of our comments on methodology and other aspects of the IPART report, together with our related requests is outlined below:

*1.1 We support the preliminary findings outlined in the IPART draft report June 2021*

*1.2 We urge the use of published financial data, sourced from LGA annual statements or returns to agencies*

*1.3 We note the terms of the review inherently include a smoothing and certainty in the raising of rates and taxes*

*2.1 The revenue generated by supplementary valuations should not be discounted from the population indexed rate peg*

*2.2 We urge a hybrid rate or valuation in the methodology to capture increased population density on redeveloped residential sites by*

- not discounting supplementary valuations, and*
- increasing the notional rate yield by the service cost per capita, or*
- a sub-category for multi occupancies allowing greater than 50% base charge*

*2.3 We ask IPART to recommend to Government to expand rate categories or subcategories to capture development associated with energy installations (solar, wind, CSG, WTE, hydro); and residential villages or community association developments – with revenues generated by those new categories in addition to the notional rate yield*

*2.4 We ask IPART to recommend to Government to expand the terms of the special infrastructure levy to enable councils to co-fund or service debt for capital projects supported by government grants and/or developer contributions*

*2.5 IPART is urged to assist the decoupling of the review of rate peg and developer contributions; and in so doing, assist the guidance of councils to assign s7.11 contributions to new or upgraded infrastructure; and s7.12 to the renewal of existing infrastructure, or servicing of debt for those purposes*

*2.6 Councils impacted by sustained population and infrastructure growth should be eligible for a one-off population rate peg 'catch-up' since the last census, where average annual growth is above say 1% - without the need for an application for SRV*

*2.7 IPART is requested to clarify the source of council expenditure data and the inclusion of operational, depreciation and/or capital elements*

*2.8 IPART consider utilisation of special schedules 1 and 7 as a source of local council service and infrastructure expenditure (and required expenditure) to illustrate expenditure growth compared to population and asset growth*

*2.9 IPART reassess council expenditure inclusive of depreciation to ascertain whether the 0.85% expenditure/population coefficient is consistent across LGA cohorts (metro, coastal, regional city, regional, rural, merged)*

*2.10 In line with the notion 'one size does not fit all', it is requested IPART tabulate and map the population and expenditure growth by LGA cohort (metro, coastal, regional city, regional, rural, merged)*

*3.1 The annual change in depreciation expense as a result of gifted, granted, new or upgraded infrastructure (to support population and development), should be included as a factor in the methodology to accommodate population growth*

*3.2 To accommodate the impact of infrastructure expenditure and backlog, we suggest the annual change in depreciation expense, as a proportion of the annual general rate income, be considered as an additional element to the rate peg*

*3.3 IPART note the emergence of guides to standardise asset condition assessment and depreciation, and recommend the opportunity to audit special schedules 1 and 7*

*3.4 IPART note delays in lodgement of applications to receipt of grant funding contributes to growth in nett expenditures for councils*

*3.5 IPART explore further the unique impacts of growth in greenfield developments and consequent higher costs of servicing per capita; including guidance to reframe differential rates by locality above the notional yield*

*3.6 IPART utilise change in growth in residential rate income with population growth, when checking per capita income is maintained over time*

*3.7 IPART consider review of the components informing the LGCI, including removal of the productivity deduction*

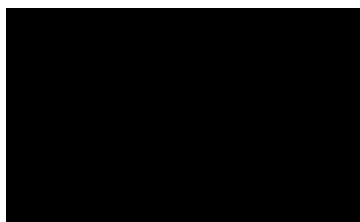
*3.8 IPART examine the Local Government Grants Commission (LGGC) approach to discern 'effort-neutral' differences across metro, coastal, regional city, regional and rural councils*

*3.9 IPART recommend to Government a new rating model that differentiates rates calculated on land value and base charges, to service and infrastructure expenditures*

*3.10 IPART recommend to Government to expand the terms of reference to include emergency service levy, non-rateable properties and review of rating categories*

We are happy to assist clarifying matters raised in the submission through discussion or providing more information.

Yours sincerely,



**Peter Tegar**  
CEO  
Queanbeyan-Palerang Regional Council

**Cc: CRJO, RCNSW, LGNSW, LG Pro, Member for Monaro**

## Submission: Queanbeyan-Palerang Regional Council

This submission is arranged to indicate where we *concur* with the findings of IPART; where we *challenge* some of the assumptions and elements of the methodology; and where we urge IPART to *consider* other factors to include in the methodology influencing local government costs as a consequence of population growth.

We understand RCNSW has provided some data gathered from like-minded councils to reinforce our broad position, being:

- a one-size-fits-all methodology is inappropriate. The revenue and cost differences across bands or cohorts of LGAs should be taken into account. To that end, we urge an examination of the Local Government Grants Commission (LGGC) approach to discern 'effort-neutral' differences across metro, coastal, regional city, regional and rural councils
- population change (residential growth and demographic) drives growth in service costs
  - baseline per capita costs are likely understated as councils have to maintain balanced budgets
  - transient and tourist population changes are excluded from ERP calculations
- property change drives growth in infrastructure maintenance, repair and renewal (MRR) costs
  - linear networks are extended to accommodate greenfield developments
  - capacity is added to existing networks and facilities to accommodate additional vehicles, users and accessibility requirements
  - regional councils tend to have longer linear networks and duplicated facilities, supporting a lower density population base

At the outset, we acknowledge the terms of reference framed by Government are narrow. Therefore our submission broadly focusses on:

- whether one methodology should apply
- protecting ratepayers from sudden or excessive rate rises
- the different needs and circumstances of councils

We suggest those terms inherently include a smoothing and certainty in rising taxes and a reduction in the bailouts by Government or subsidies of Government to councils to offset their own taxes (eg emergency service levy) or under-scoped infrastructure.

### 1 Concur

We support the preliminary findings and context gathered through the initial engagement and research by IPART, noting the preferred approach is to

- maintain total per capita income over time
- be based on residential population growth
- apply to all councils (not only those with growth at or above the NSW average)

*1.1 We support the preliminary findings outlined in the IPART draft report June 2021*

*1.2 We urge the use of published financial data, sourced from LGA annual statements or returns to agencies*

*1.3 We note the terms of the review inherently include a smoothing and certainty in the raising of rates and taxes*

## 2 Challenge

In accord with the terms of reference, it is important no council is worse off as a result of the review of the rate peg. We accept, on balance, the Estimated Resident Population (ERP) prepared by the ABS is regular and at arm's length, and a consistent approach to mapping population growth per LGA. It is important that councils with zero or negative growth will continue to receive the current rate peg as a minimum.

However, we oppose the notion that revenue generated by supplementary valuations through development already covers part of the cost of increased services and should be discounted from the population indexed rate peg. We form this view as revenues generated by property growth barely covers the depreciation expense (as a proxy of annualised infrastructure maintenance) of the new assets constructed by new development and dedicated to a council (refer 3.5 below).

*2.1 The revenue generated by supplementary valuations should not be discounted from the population indexed rate peg.*

Without another means to capture growth above general rate notional income for dual and multi-occupancy developments, and without an uplift to a different rate category, the addition of say ten strata lots on a residential rate category site accommodating say 20 residents - replacing a former single occupancy of say 4 residents with the same ULV - barely covers additional demand on services. Perhaps a sub-category allowing greater than 50% base charge collection, is worth examination. A similar issue relates to development of over 55 or aged care residential villages, where population density increases on a single rateable property.

Further, development and population servicing costs emerge through energy installations (solar, wind, CSG, WTE, hydro) - predominantly on farmland category properties. As such, it is suggested the footprint and buffer of the installation be subject to split valuations and application of the new rate 'energy' category or subcategory under 'business'. It is further suggested the revenues generated by that category be initially in addition to the notional general rate yield.

*2.2 We urge a hybrid rate or valuation in the methodology to capture increased population density on redeveloped residential sites by*

- *not discounting supplementary valuations, and*
- *increasing the notional rate yield by the service cost per capita, or*
- *a sub-category for multi occupancies allowing greater than 50% base charge*

*2.3 We ask IPART to recommend to Government to expand rate categories or subcategories to capture development associated with energy installations (solar, wind, CSG, WTE, hydro); and residential villages or community association developments – with revenues generated by those new categories in addition to the notional rate yield*

We are concerned the reference by the Productivity Commission and IPART to the CIE report on the '*costs and benefits of changing local council rate settings*' is based on a two-piece view of local government in NSW (ie metro and regional), and masks the real costs and revenues of regional councils (by inclusion of Newcastle and Wollongong in that cohort). Then by excluding community facilities from the 'essential works list' designed to reduce development contributions, disregards the relatively low provision and poor condition of those facilities to many regional LGAs to equitably support those communities; and the capacity of those ratepayers to pay for the new, expanded or renewed facilities and ongoing maintenance without significant grant intervention of Government.

The introduction of the proposed population growth factor will only deliver modest increases in rate revenue. This may help councils address funding deficiencies, but it does not provide capacity to reduce infrastructure contributions

Further, the value and rate of collection of infrastructure contributions by regional councils can vary significantly to metro councils. Many regional councils under-recover (due to cap) or discount contributions to stimulate economic activity in their LGA. As a consequence:

- the gap grows between the council estimates to construct facilities and the contributions held
- there is a gap between developer and government expectations that developer charges will reduce (in part by removal of land value)
- yet the costs of construction of infrastructure in regional areas remains equivalent to metro areas
- the assumed increase in rate revenues by including the population peg, will be eroded by funding the facilities excluded from the essential works list, through rates.

While we note advocacy within the sector to decouple the population peg from the review of infrastructure contributions, perhaps IPART may encourage the latter review to recognise the difference in contribution collections yet the similarities in costs of providing infrastructure between LGA cohorts. Further, guidance may be developed to encourage councils to revise contributions plans so that:

- s7.11 funds or co-funds new or upgraded infrastructure (development contingent), or servicing of debt for that purpose
- s7.12 funds or co-funds renewal of existing infrastructure, or servicing of debt for that purpose

In turn, the collection and allocation of s7.12 contributions (without nexus), may assist councils in narrowing part of the gap between service and asset expenditures, and rates revenues.

*2.4 We ask IPART to recommend to Government to expand the terms of the special infrastructure levy to enable councils to co-fund or service debt for capital projects supported by government grants and/or developer contributions.*

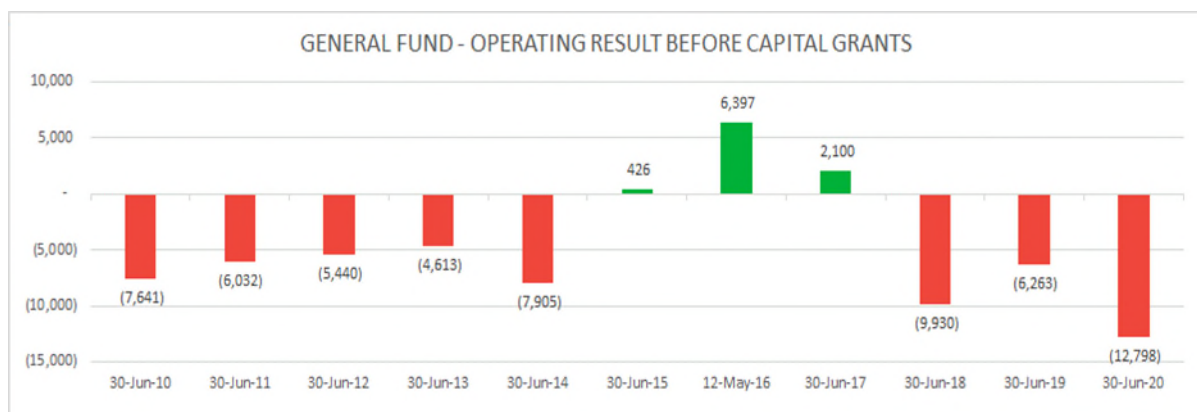
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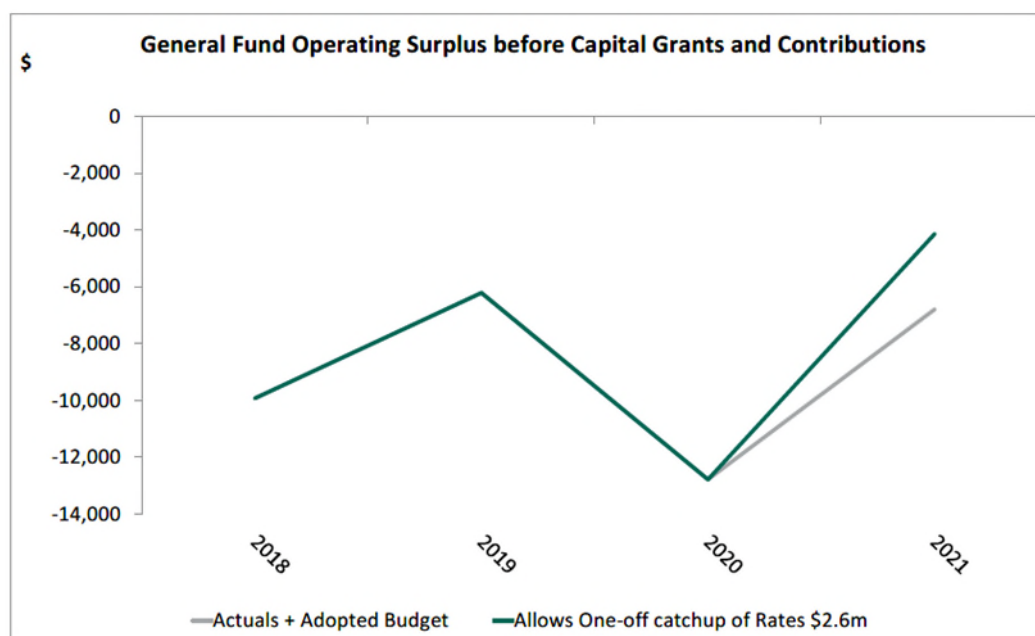
We suggest some of the observations and exclusions in the draft report be retested.

Evidenced by recent reports by LGS and the Audit Office, many regional councils are facing financial and asset sustainability challenges. Those publications signal a deficit to general rates income and an infrastructure underspend evidenced by backlog. Many of those councils have been subject to financial and asset losses subsequent to the flood and fire natural disasters, and the continuing financial drain of the pandemic. Reluctant to progress an SRV, those councils impacted by population and infrastructure growth should be eligible for a 'catch-up' since the last census, where average annual growth is above say 1%.

The chart below displays the pre and post-merger operating performance for General Fund, signalling services continue to cost more than the revenues reliably and regularly received.



Should a 5 year population peg catch-up for QPRC (estimated at \$2.661m) apply from the merger in FY16 and take effect at FY20, the inherited structural deficit would improve substantially from FY2021 as illustrated below:



There are limited equitable mechanisms to recover costs of additional servicing for transient and tourist populations in many regional LGAs. In addition, larger regional centres often size their facilities to accommodate a broader regional service population. Cross border contributions or royalties are generally unavailable. It is noted IPART acknowledge this matter.

Perhaps growth in business category rates may be a compensator to transient and tourism population servicing costs.

However, while percentage growth in population is a simple and convenient trigger to enable increases to the rate peg, perhaps some consideration may be given to an absolute value (of new residents) as a threshold, and the extent that value drives additional costs (per LGA cohort). For example, a metro LGA growth of 1% may equate to 1000 residents contained in multi-occupancies that may not add pressure to linear networks, while a regional council growth of 1% may equate to 300 new residents in single occupancies across a larger geographical spread – with consequent infrastructure demands.

*2.6 Councils impacted by sustained population and infrastructure growth should be eligible for a one-off population rate peg 'catch-up' since the last census, where average annual growth is above say 1% - without the need for an application for SRV.*

We acknowledge IPART's view of a linear relationship between population and expenditure growth at 1:0.85. It is unclear whether those figures are extracted from Note 27 of the Financial Statements, or from Net Cost of Service returns (special schedule 1). It is also unclear whether that calculation includes capital costs (infrastructure and debt principal).

*2.7 IPART is requested to clarify the source of council expenditure data and the inclusion of operational, depreciation and/or capital elements*

Similarly, it is unclear whether those estimates of council expenditures include depreciation. It would appear the data excludes expenditure growth from many merged councils, should IPART have drawn its data from the CIE analysis of rate peg options. It is noted most merged councils have sought SRVs since the rate path freeze concluded in 2020.

We've gathered data to illustrate the higher service cost for QPRC to that averaged by the linear model proposed by IPART (ie > 0.85). We've utilised special schedule 1 (ss1) as published financial information, excluding the service expenditure of utilities (water, sewer, waste). It is acknowledged some expenses (public order, environment, community, recreation and economic) increased as the span of services expanded to the higher order of the two former councils across the merged LGA.

*2.8 IPART consider utilisation of special schedules 1 and 7 as a source of local council service and infrastructure expenditure (and required expenditure) to illustrate expenditure growth compared to population and asset growth*

During the period 2016-2020 in QPRC:

- ERP grew over 1000 residents a year (~1.5% pa), with recent growth ~ 1.9% pa
- rateable properties grew around 2000 (~ 1.9% pa)
- general rate income grew around \$3m (rate peg) and \$2.4m (supp levies)



The table below illustrates (NB: QPRC is a merged council and 2016 expenditure was 47 weeks):

- the gross and nett operational general fund expenditures (service and asset)
- the nett cost is notionally the draw on general rates
- the policy shift of expenditure from service to infrastructure to manage backlog
- the growth in expenditure of \$19.3m was 41% (10% pa) - 2016\* adjusted
- the gap filled by drawdown of contributions and reserves

Across that period, nett costs increased by half with an annual average of 11% - contrasting to an annual average rate peg of 2.2% and supplementary levy annual growth of 0.4% (on the 2016 base).

*47/52 weeks	2016*			2020			
General Fund	Opex	Non-Capital income	Nett Cost	Opex	Non-Capital income	Nett Cost	ave % increase pa
Governance	3852	678	3174	1955	130	1825	-9%
Administration	19607	1029	18578	5106	5057	49	-20%
Public Order & Safety	2051	1291	760	3460	1875	1585	22%
Health	631	102	529	1546	226	1320	30%
Environment (excl waste)	3194	534	2660	12126	3425	8701	45%
Community Services & Education	1993	1254	739	3025	1646	1379	17%
Housing & Community	3112	2603	509	4722	1837	2885	93%
Recreation & Culture	9535	2431	7104	17278	3786	13492	18%
Building and Construction	1634	1214	420	227	13	214	-10%
Economic Affairs	10649	10106	543	2825	1326	1499	35%
<b>Service Expenditure</b>	<b>56258</b>	<b>21242</b>	<b>35016</b>	<b>52270</b>	<b>19321</b>	<b>32949</b>	<b>-1%</b>
Transport & Communication	12227	4251	7976	47058	13079	33979	65%
<b>Service and Asset Expenditure</b>	<b>68485</b>	<b>25493</b>	<b>42992</b>	<b>99328</b>	<b>32400</b>	<b>66928</b>	<b>11%</b>
<b>General depreciation</b>	<b>12152</b>			<b>19151</b>			<b>11%</b>

With reference to the attached data sheet, the following conclusions may be drawn for our council for the last 5 years:

- the average annual population growth exceeds 1.5%
- general rates growth, inclusive of rate peg (ave 2.4%) and supplementaries is 3.9%
- the value of that supplementary levy growth (\$3.17m) falls well short of increased annualised nett cost of general services (\$23.9m)
- the relative reduction in pension rebates signals much of the growth in regional cities is a younger cohort, in turn driving infrastructure and service costs to support that cohort
- the notion a 1% increase in population drives a 0.85% increase in expenditure, is not valid for QPRC, while the annual average nett service cost grew 11%
- the proposition to deduct the value of supplementary levies from the population rate peg, widens the gap in that population: expenditure coefficient

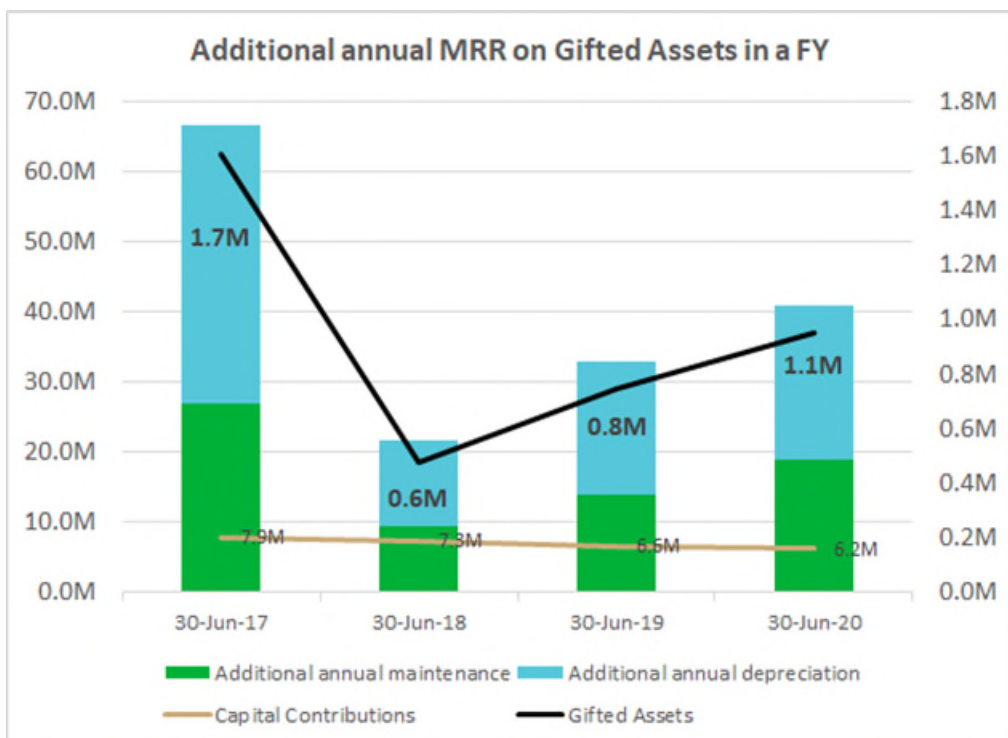
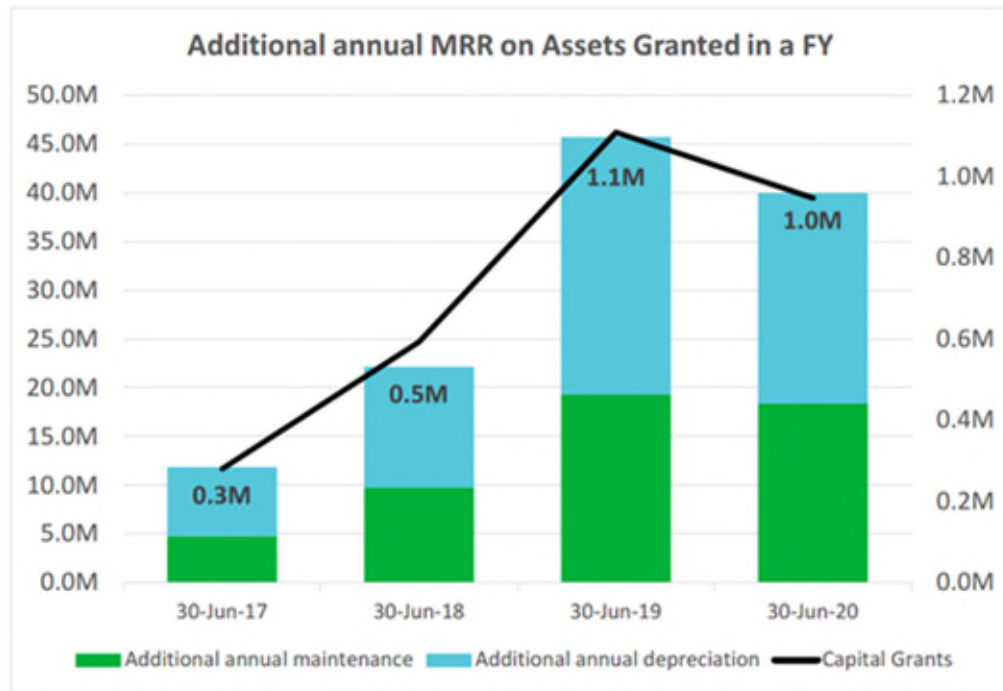
- the average annual per capita growth in income, also falls short of the equivalent growth in expenditure, indicating per capita income cannot be maintained over time (ie per capita rates increased by \$54, compared to per capita increase in nett services of \$323)
- the growth in infrastructure depreciation itself, engulfs much of the value of supplementary levies

*2.9 IPART reassess council expenditure inclusive of depreciation in the methodology to ascertain whether the 0.85% expenditure/population coefficient is consistent across LGA cohorts (metro, coastal, regional city, regional, rural, merged)*

*2.10 In line with the notion 'one size does not fit all', it is requested IPART tabulate and map the population and expenditure growth by LGA cohort (metro, coastal, regional city, regional, rural, merged)*

### 3 Consider

Across the period 2016-2020, QPRC expanded its infrastructure base through granted and gifted assets as a consequence of merger, natural disaster and pandemic stimulus grants, and subdivision growth, respectively. The charts below illustrate the growth in maintenance and depreciation on those assets (*NB: left Y axis + line = value assets \$m*).



QPRC may be an outlier to the linear expenditure-growth relationship put forward by IPART, and perhaps reinforces the view that one size does not fit all. In this case as a merged/regional council, further attention should be given to the growing unsustainable gap between revenue growth and service/asset expenditure growth.

*3.1 The annual change in depreciation expense as a result of gifted, granted, new or upgraded infrastructure (to support population and development), should be included as a factor in the methodology to accommodate population growth.*

In the absence of mandated depreciation and condition assessment ratings for infrastructure, some councils may have modified depreciation to maintain financial and asset ratios, in turn understating required asset maintenance and backlog.

Councils tend to switch funding between services and assets to complement grants, in turn indicating annual expenditures are cut to the cloth of available budget – and therefore their realistic expenditures tend to be dampened. Further, the bundling of maintenance and servicing of assets in council accounts may mask the different costs of servicing population (eg cleaning amenities, utility charges) from maintenance of infrastructure assets.

*3.2 To accommodate the impact of infrastructure expenditure and backlog, we suggest the annual change in depreciation expense, as a proportion of the annual general rate income, be considered as an additional element to the rate peg.*

It is noted IPWEA NSW has drafted a Fair Valuation Guide 2021, which may assist standardising the condition assessment, valuation and impairment methodologies deployed by councils, and normalising data recorded on special schedule 7.

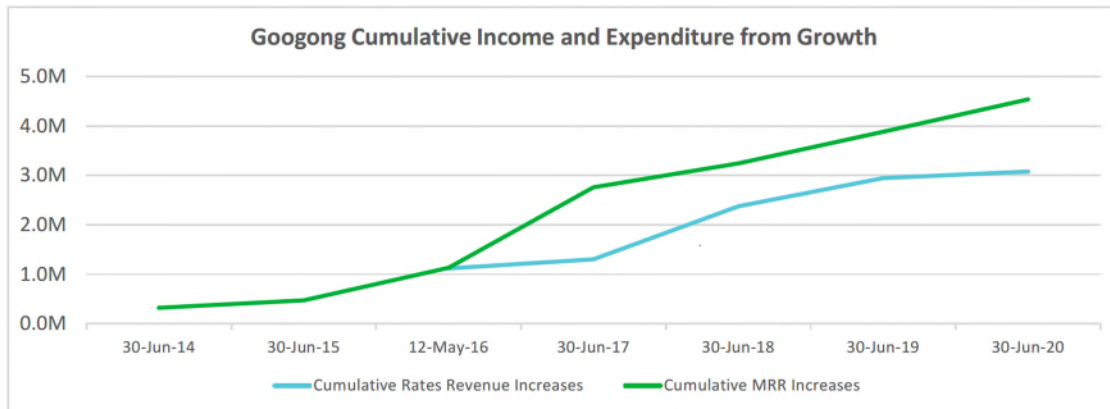
*3.3 IPART note the emergence of guides to standardise asset condition assessment and depreciation, and recommend the opportunity to audit special schedules 1 and 7*

As noted by IPART, some regional councils have been successful in obtaining grants for infrastructure, in turn increasing the maintenance of the assets and operating costs of facilities. Should depreciation be excluded from council expenditure estimates, the enduring costs of servicing population and the expanded infrastructure may be hidden.

Unfortunately, the delays between the application for grants, the announcement, the execution of the grant deed, and receipt of those funds over several months often leads to the erosion of the value of the initial grant and requires further co-funding from councils.

*3.4 IPART note delays in lodgement of applications to receipt of grant funding contributes to growth in nett expenditures for councils.*

The chart below perhaps reinforces IPART's view the ratio of new growth to residential income is inadequate. This example illustrates the revenues received through supplementary levies from a development in QPRC (mix of single, dual and multi occupancies) that will house nearly 19000 residents in 10 years, barely covers the growing maintenance expense of those higher-order infrastructure assets gifted to Council through the development planning agreement (LPA).



*3.5 IPART explore further the unique impacts of growth in greenfield developments and consequent higher costs of servicing per capita; including guidance to reframe differential rates by locality above the notional yield*

Then to the notion of per capita income and expenditure as a common denominator. From the revenue's perspective:

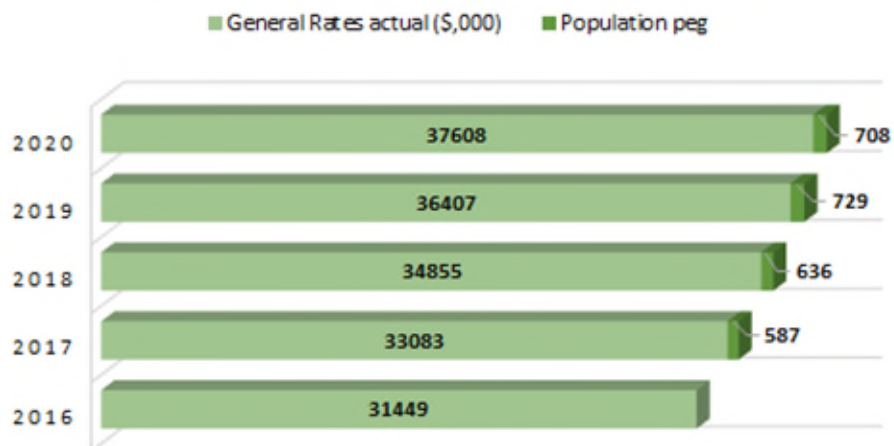
- Rates per capita falls with population growth (when discounted by rate peg) and could be worse if only residential rate growth is accounted for.
- Population growth from dual/multi occupancies (strata) contributes to lower rates per capita.

Year	Population	Increase	annual %	Properties	Increase	annual %	Rates \$,000	Increase	annual %	Ave Res Rate
2016	57790			24981			31449			1046
2017	58816	1026	1.8%	25474	493	2.0%	33083	1634	5.2%	1084
2018	59889	1073	1.8%	26198	724	2.8%	34855	1772	5.4%	1119
2019	61089	1200	2.0%	26753	555	2.1%	36407	1552	4.5%	1146
2020	62239	1150	1.9%	27011	258	1.0%	37608	1201	3.3%	1171
Total		4449			2030			6159		
Average		1112	1.5%		508	1.6%		1540	3.9%	

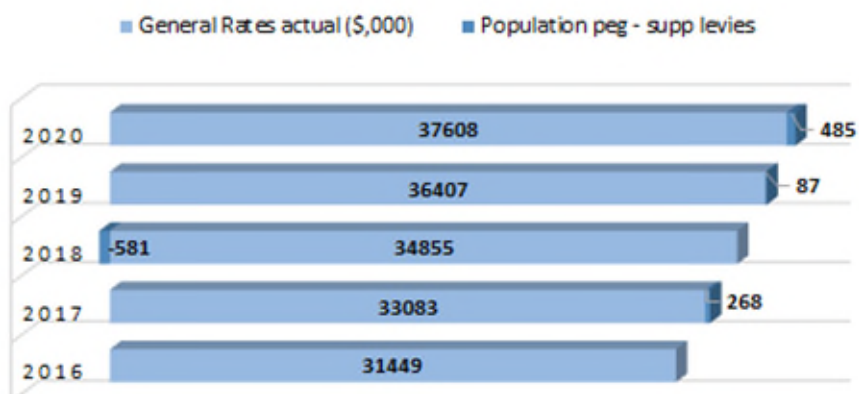
While noting the data in the table above, the charts below indicate across 2016-2020:

- improvements to general rate income should the population peg have applied
- the impact of discounting supplementary levies from that growth
- the further improvement to revenues by adding depreciation change as a proportion of general rate revenue, in the methodology
- the gap between rates growth and service/asset expenditure with rate peg
- improvements to general rate 2020 position with a 5 year initial catch up (of \$2.661m, being population growth % over that period).

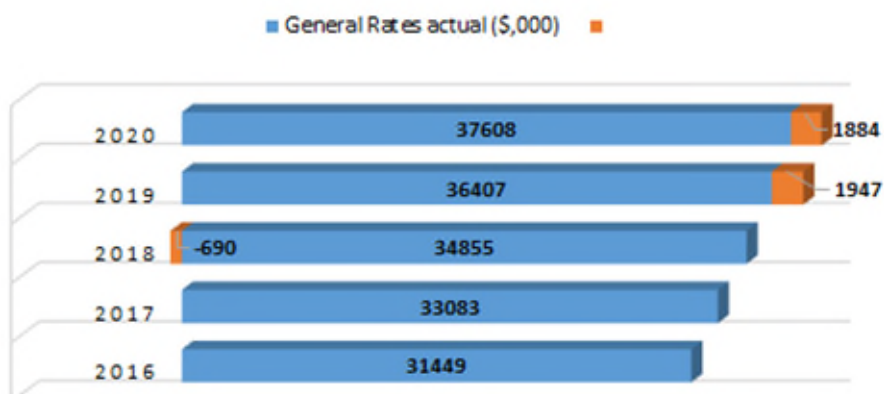
## RATES WITH POPULATION PEG



## RATES WITH POPULATION PEG LESS SUPPS

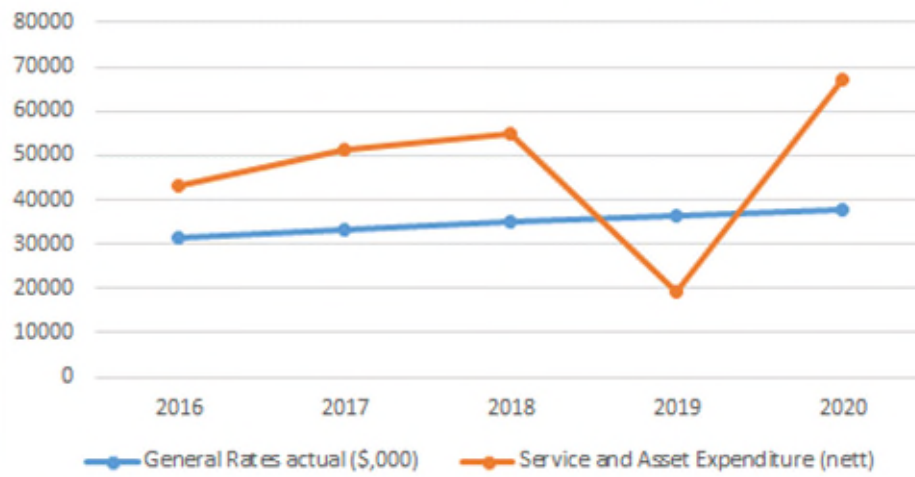


## RATES WITH POPULATION + DEPRECIATION PEG

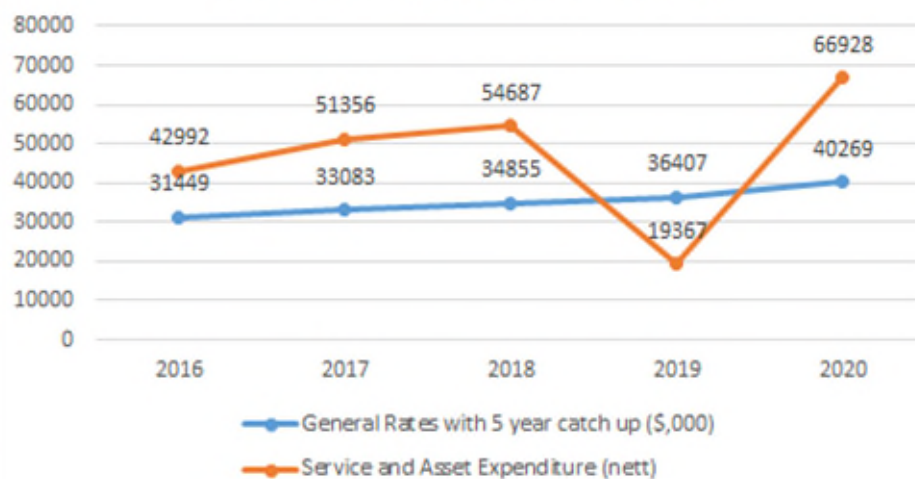




### Rates v Nett Expenditure 2016-20



### Rates with 5yr Population Catchup



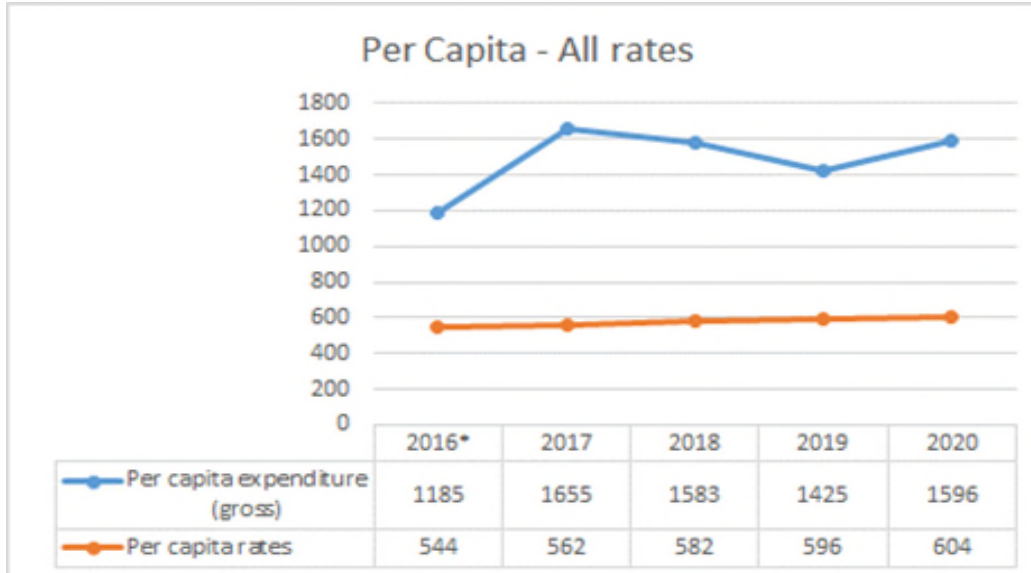
From a per capita perspective:

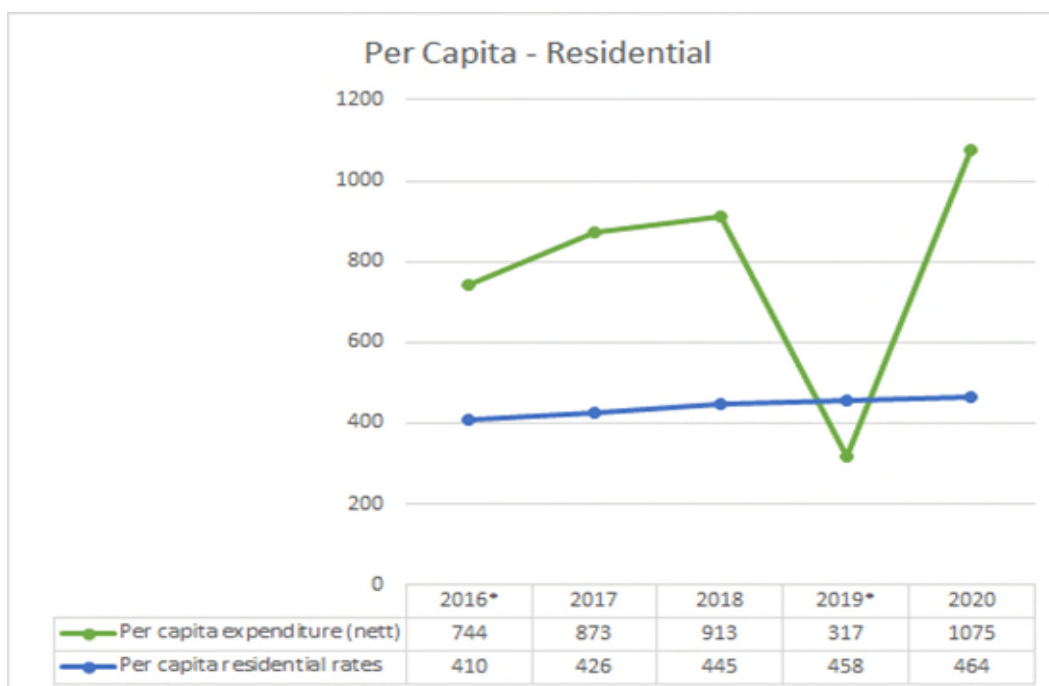
- General rates income has grown due to rate peg (ave 2.2% pa) and supplementary levies (ave 0.4% pa) - noting no SRV during the rate path freeze
- Nett expenditure grows per capita (8.9%), greater than rate revenues (2.2%)
- Per capita residential rates growth is modest
- Per capita expenses would no doubt vary by LGA cohort and population cohort

*47/52 weeks exp	2016*	2020	% pa
General Rates total (\$,000)	31449	37608	3.9%
Per Capita rates	544	604	2.2%
Per Capita Expenditure (nett)	744	1075	8.9%
Population Growth	57790	62239	1.5%
Property Growth	24981	27011	2.0%

Perhaps growth in business category rates may be a compensator to transient and tourism population servicing costs. If that were accepted, it points to a greater disparity between growth in population and residential rates per capita. That gap would be exacerbated by discounting the population rate peg by supplementary levies growth.

Assuming the LGCI which guides the rate peg is meant to maintain revenues per capita in real terms, it appears not to capture the change in nett expenditures. This perhaps signals elements of the LGCI may also need revision.





*3.6 IPART utilise change in growth in residential rate income with population growth, when checking per capita income is maintained over time*

*3.7 IPART consider review of the components informing the LGCI, incl removal of the productivity deduction*

The Local Government Grants Commission (LGGC) also compiles and reviews standard unit costs for councils. IPART may consider utilisation of those effort-neutral per capita rates as a useful comparator per LGA cohort. <https://www.olg.nsw.gov.au/wp-content/uploads/2020/12/Grants-Commission-2019-20-Annual-Report.pdf>

LGGC advises an effort or policy neutral approach will be used in assessing the expenditure requirements and revenue-raising capacity of each local governing body. While generally utilising the same functional classifications as published with ss1, the LGGC advises council policy decisions concerning the level of service provided, or if there is a service provided at all, are not considered (effort neutral principle). Expenditure allowances are part of the general purpose component of the grant. They are calculated for each council for a selected range of council functions. Expenditure allowances attempt to compensate councils for the extent of their relative disadvantage resulting from issues that are beyond their control.

The state standard cost is calculated using the five year average, gross expenditure for each function. Divided by the state's population, this gives a state average cost per capita for providing each function. This removes the impact of any individual policy decisions by councils. The state standard costs per capita for each function calculated for 2019-20 is shown in the following table:

Expenditure Function	State Standard \$/capita
Recreational & cultural	209.17
Admin & governance	244.46
Education & community	63.89
Roads, bridges, footpaths & aerodromes	206.82
Public order, health, safety & other	162.08
Housing amenity	68.46

If those per capita unit rates applied to QPRC for FY2020, the service expenditure variances are illustrated below. (NB: QPRC administration expenses distributed across other functions in accord with attribution policy from 2019). Nonetheless, the comparison to LGGC indicates QPRC per capita nett expenditures are not out of step with other LGAs.

	2020				
	Opex	Non-Capital income	Nett Cost	2020 per capita	LGGC per capita
<b>General Fund</b>					
Governance	1955	130	1825	29.32	
Administration	5106	5057	49	0.79	244.46
Public Order & Safety	3460	1875	1585	25.47	
Health	1546	226	1320	21.21	162.08
Environment (excl waste)	12126	3425	8701	139.80	
Community Services & Education	3025	1646	1379	22.16	63.89
Housing & Community	4722	1837	2885	46.35	68.46
Recreation & Culture	17278	3786	13492	216.78	209.17
Building and Construction	227	13	214	3.44	
Economic Affairs	2825	1326	1499	24.08	
<b>Service Expenditure</b>	<b>52270</b>	<b>19321</b>	<b>32949</b>	<b>529.39</b>	<b>748.06</b>
Transport & Communication	47058	13079	33979	545.94	206.82
<b>Service and Asset Expenditure</b>	<b>99328</b>	<b>32400</b>	<b>66928</b>	<b>1075.34</b>	<b>954.88</b>

3.8 IPART examine the Local Government Grants Commission (LGGC) approach to discern 'effort-neutral' differences across metro, coastal, regional city, regional and rural councils

We commend IPART for committing to review the SRV process to simplify and streamline the process. This is desperately required and has long been advocated by LGNSW. The current process is costly, complicated and politically difficult, acting as a deterrent to making applications, even when there are clearly identified needs.

We suggest in this time of property tax (stamp duty) reform and rating review, the models for general purpose rating also be considered. QPRC has established a rating model through its financial strategy and rates harmonisation process. It aims to differentiate rating revenues to infrastructure and servicing expenditures, in turn improving transparency and comprehension of the purpose and application of rates and charges.

The model assigns revenues and expenditures in accord with the 'narrow the gap' principle, which aims to progressively map and match asset and service expenses to related revenue sources, and to inform and influence opinion about council funding options, on the premise that:

- all property taxes (rates, annual charges, development contributions, and asset specific grants) cover the cost of maintenance, renewal, upgrade and debt costs of assets, and the share of corporate attributed costs
- all usage charges cover the costs of operating and administration costs for water, sewer, waste, and the share of corporate attributed costs
- other fees and charges, specific grants and specific SRVs cover the cost of non-infrastructure services (eg planning, environment, community etc), and the share of corporate attributed costs
- governance and corporate overhead costs are attributed across those asset and service areas, with balance of cost met by FAG and direct fees

In that way, for future revenue planning:

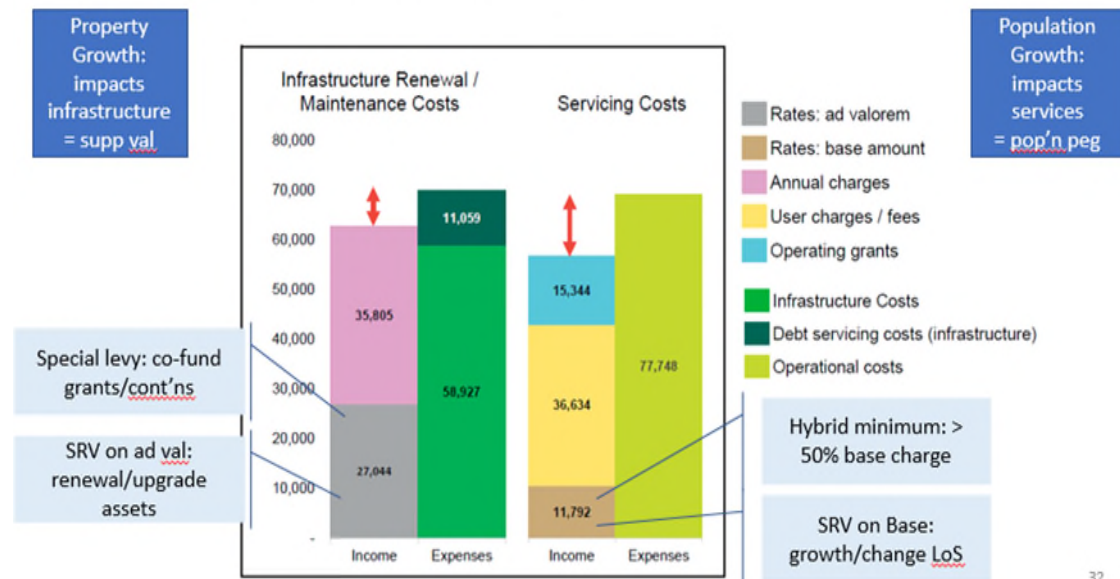
- the ad valorem rates are differentiated by ULV (assessed three-yearly by NSW Valuer General) per rate category and locality
  - that differential can be indicative of the standard of infrastructure provided and broadly indicative of frequency of maintenance (subject to AMPs)
  - SRVs can be targeted to renewal and upgrade of infrastructure
- the base rate is differentiated in value by rate category and locality
  - that differential is indicative of the type and levels of service provided (subject to service plans)
  - SRVs can be targeted to changes to type and levels of service by locality

The schematic below illustrates those relationships.

*3.9 IPART recommend to Government the consideration of a new rating model that differentiates rates calculated on land value and base charges, to service and infrastructure expenditures*



# Reframe the Rates Model



32

Finally, while we note these matters are considered outside the scope of the rate peg review, we urge IPART to recommend to Government the following:

- Emergency services levy - we consider this a *must*:
  - levied by either a NSW tax notice (with property tax reform), and no contribution from LGAs; or
  - s501A annual charge outside general income, disclosed on LGA rate notices, then disbursed to Government; and
  - transfer of emergency services assets from LGAs to Government
  - for QPRC, this provides a one-off effective uplift around \$1.5m (~4% rates)
- Infrastructure - by utilising 5 year cyclic asset revaluations:
  - provides estimates to bring asset to satisfactory standard (ss7)
  - sets aim to bring Condition 4-5 (backlog) assets to Condition 2-3 < 10 years (this assists resilience of assets to impacts such as growth and climate change)
  - establish a range for charges by LGA cohort
  - change in asset values between cyclic revaluations = new/upgraded assets
  - allows calculation of annual depreciation growth \$ as % of general income; in turn forming part of the proposed rate peg
  - at the cyclic revaluations, utilise the unit rates to recalibrate LGCI by cohort
- Cost burden of non-rateable properties:
  - refer recommendations 2.2
- Rating categories are not sufficiently flexible to account for different uses
  - refer recommendations 2.3
- Using special variations for population–growth related issues
  - remove the productivity factor from the rate peg determination model
  - expanding the elements of LGCI together with introduction of a population peg, should assist smoothing of rate increases
  - together with removal of the ESL, the rate peg review should reduce the need for SRV's for the 'financial sustainability' of LGAs



		<b><u>Dataset: ERP by LGA (ASGS 2020), 2001 to 2020</u></b>	Queanbeyan-Palerang (A)
		<b>Census</b>	
		2015	57130
		2020	62239
		<b>Population Impact</b>	
		growth (2015-20)	8.9%
		annual ave growth %	1.5%
	source	<b>Rates Impact</b>	
1	N3a	ordinary rates (\$,000) 2016	31449
2	N3a	ordinary rates (\$,000) 2020	37608
3	N3a	residential rates (\$,000) 2016	23669
4	N3a	residential rates (\$,000) 2020	28872
5		ordinary rates annual ave growth %	3.9%
6	SoC	total assessments 2016	24,981
7	SoC	total assessments 2020	27,011
		<b>Property Impact</b>	
13	SoC	supp growth (residential) 2016-20	1908
14	SoC	supp growth (\$,000) 2016-20	3170
15		annual ave growth % GPR 2016	2.0%
		<b>Rate Peg</b>	
21		peg growth (\$,000) 2016-20	3844
22		peg ave annual growth %	2.4%
		<b>Service Impact (\$,000)</b>	
31	ss1	expenses continuing operations (excl utilities) 2016	68485
32	ss1	expenses continuing operations (excl utilities) 2020	99328
		annual ave growth %	9%
		Nett service cost (\$,000) opex less non-cap income	
33	ss1	nett service cost (\$,000) excl utilities 2016	42992
34	ss1	nett service cost (\$,000) excl utilities 2020	66928
35		annual ave growth %	11%
		<b>Asset Impact</b>	
41	N11	depreciation growth (excl utilities) (\$,000) 2016-20	6999
42		depreciation ave growth %	11.1%
43		supp levy/depreciation growth % 2016-20	45.3%
		<b>Development Contribution</b>	
51	N26	DC % expend new capex 2016	17.0%
52	N26	DC % expend new capex 2020	53.6%
		<b>Pension Rebate</b>	
61		annual ave growth %	-1.7%
		<b>Per Capita</b>	
71		ordinary rates \$ per capita 2016	550
72		ordinary rates \$ per capita 2020	604
73		annual ave growth %	2.0%
74		ave supp rate \$ per new capita	620
81		per capita service cost \$ 2016	1198.8
82		per capita service cost \$ 2020	1595.9
83		per capita nett service cost \$ 2016	752.5
84		per capita nett service cost \$ 2020	1075.3
85		annual ave nett cost growth %	8.6%
		<b>Per Property</b>	
91		per property depreciation cost \$ 2016	486
92		per property depreciation cost \$ 2020	709



•

# IPART Draft Report

June 2021 – Public Hearing



**CANBERRA REGION**  
JOINT ORGANISATION



**REGIONAL**  
CITIES NSW



# Limited scope - *acknowledged*

## Review context

Our terms of references asked us to:

- ensure no council would receive a lower increase in general income
- consider no other changes to the rate peg
- consider whether one methodology should apply to all councils
- have regard to the Government's commitment to protect ratepayers from sudden or excessive rate rises
- have regard to the different needs and circumstances of councils across the state

# Concur

Preliminary Findings



# Findings

- 1 The population in NSW is growing and is expected to continue to grow, but the amount of growth varies across the state.<sup>2</sup> Growth is concentrated in metropolitan areas, although some regional areas are also growing.<sup>3</sup> Information Paper 3: The context for our review provides more information about NSW's population growth, including the impact of COVID-19.
- 2 As local communities grow, councils need to provide infrastructure and services to new residents and businesses.
- 3 Increased costs are driven by extra people, extra rateable and non-rateable properties, and the increase in community expectations of the functions and services councils provide.  
  
The impact on council costs from population growth varies depending on:
  - whether the council is a metropolitan, regional or rural council
  - the demographics of the population in the council area
  - the type of development that occurs with population growth; that is, greenfield or infill development or an increase in secondary dwellings (such as granny flats)
  - the cost mix; that is, whether there is an increase in capital or operating costs.
- 4



# Findings

5 Our analysis shows the costs of growth are not being fully met for NSW councils in general, with faster growing councils tending to be unable to recover additional revenue through general income in proportion to their growth.<sup>5</sup> The outcome is an expenditure gap between the cost of growth and what councils spend.

6 Councils with fast growing populations have had slower growth in total revenue per capita. We expect councils experiencing high population growth will consequently observe a reduction in rates per capita as their population grows.

7 We expect under-recovery of the costs of growth will mean growing councils will be unable to maintain their service levels. This may result in councils relying on special variations to fund growth or exploring other forms of revenue raising.

8 ABS population data, although backward looking, is an estimate. The data is updated to reflect actual growth after the census every 5 years. We are considering whether it would be appropriate to re-base the population factor in the rate peg every 5 years following the census to reflect actual growth.

9 The statutory minimum rate amount is updated annually. In the past, the statutory minimum rate amount has been increased annually in line with the rate peg. We are considering whether a different approach may be needed in the future for minimum rates given our draft methodology would result in each council having a different rate peg. Stakeholders will be consulted on this

# Findings

- 10 A growing gap exists between population growth and the additional revenue councils receive from population growth.
- 11 Councils have highlighted that per capita rates are decreasing while costs are increasing.
- 12 While expenditure has grown over time, rates revenue has not kept pace with population growth.
- 13 The rise in secondary dwellings like granny flats and other non-rateable properties increases the population without any change to rateable income.
- 14 The historical evidence and analysis of methods for increasing rates suggest the costs of growth are not being fully met for NSW councils in general. Faster growing councils tend to be unable to recover additional revenue in proportion to their growth.
- 15 Regional councils cover larger areas but service less population. They also provide a more diverse range of services to their communities, which often have less capacity to pay.
- 16 Seasonality of population influxes adds pressure to services, with limited scope for councils to pursue user-pays approaches to recover the costs. Influxes may be from daily employment and business, tourists, short-term seasonal farm workers, mine staff or those working on multi-year major infrastructure projects like Snowy Hydro 2.0 or highway

# Findings

- 17 Some regional and rural councils have been more successful than others in obtaining grants for infrastructure projects. Where councils are successful, the ongoing maintenance and operating costs of that infrastructure must be paid for by ratepayers.
- 18 Depreciation of ageing asset bases and asset renewals are significant issues for regional and rural councils. Many have substantial backlogs. Increases to the rate peg are insufficient to cover these costs.
- 19 Regional and rural councils told us COVID-19 has significantly increased intra-state migration from metropolitan areas to the regions. Young professionals are also choosing to remain in regional areas rather than move to metropolitan areas. Councils expect this increase in population to be permanent.

# Context



1

Our preferred approach is to implement a methodology that:

- maintains total per capita general income over time
- reflects a linear relationship between population growth and council costs
- is based on the change in residential population for each council
- applies to all councils, including those experiencing low growth.

2

Although there was support in submissions and at council workshops for using population projections to measure population growth, our view is that the ABS estimated residential population data is the best data source for measuring changes in population.

### Explanatory notes

3

Important features of the draft methodology include:

- The population factor reflects a linear relationship between population growth and council costs.
- The change in population for each council is calculated using ABS estimated residential population data.
- Councils with negative growth will have a population factor of zero. Such councils will receive a rate peg that is determined in same manner as it is now.
- If a council's supplementary valuations percentage exceeds its change in population, indicating the council has recovered more revenue through supplementary valuations than is necessary to maintain per capita general income, the population factor will be zero.

# Challenge

We challenge the following, with our issues or suggestions alongside...





# Methodology

## Draft rate peg methodology

- 4 In November each year, we will publish a rate peg methodology that will apply to NSW local governments based on the following formula:

$$\text{Rate peg} = \text{change in LGCI} - \text{productivity factor} + \text{other adjustments} + \text{population factor}$$

Remove productivity factor, as rate peg already below growth in costs

## Change in population for 2022–23:

- 5 We will publish the change in population for each council on our website. The change in population will be calculated using the estimated residential population (ERP) for 2020 and 2019 specified in the Australian Bureau of Statistics (ABS) 'ERP by LGA (ASGS 2020), 2001 to 2020', released March 2021.<sup>1</sup>

The calculation is shown in the following formula:

$$\text{change in population} = \max\left(0, \frac{\text{ERP 2020}}{\text{ERP 2019}} - 1\right)$$

## Supplementary valuations percentage for 2022–23:

- 6 The supplementary valuations percentage will be calculated by councils. The calculation is shown in the following formula:

$$\text{supplementary valuations percentage} = \max\left(0, \frac{\text{supplementary valuations}}{\text{notional general income yield}}\right)$$

Remove discount for supplementary valuations

# Challenge

1 Our proposed adjustment to the rate peg for population growth does not include an adjustment for past growth. We have taken this approach because the need for and quantum of any catch up would need to be determined on a case-by-case basis to consider each council's:

2 Our analysis indicates councils are recovering about 60% of the costs of population growth from increases in general income due to supplementary valuations, although the amount recovered does vary between councils.<sup>5</sup>

3 Our preferred option includes an adjustment to the population factor to account for the increase in rates revenue already obtained by councils from supplementary valuations.

4 **Who pays for population growth will vary from council to council:** The structure of a council's rates and the type of development that occurs with population growth will ultimately determine how much new ratepayers pay.

should provide 'catch-up' rules per cohort (metro, coast, RC, region, rural): eg >1% growth since census 2016

by not discounting value of supp's permits some recognition/support for

- wider population serviced in region
- transient and tourist populations

contemplate 'narrow the gap' rating model

refer LGS and AO reports on regional LGA financial health, consequent to

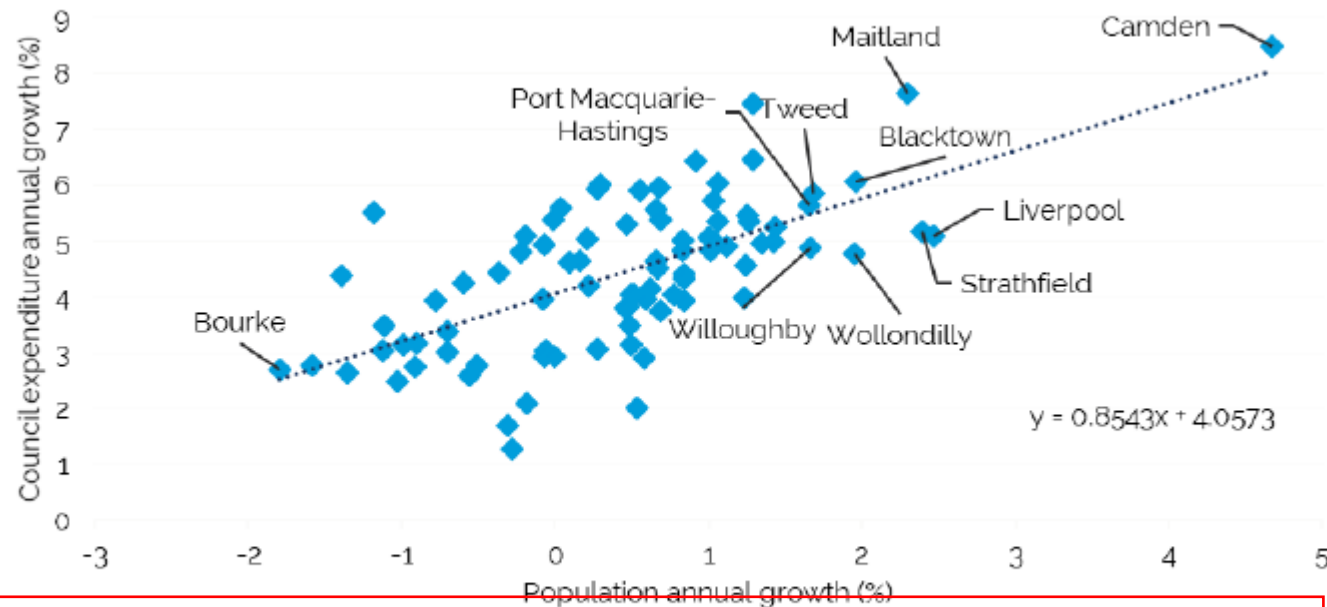
- asset depreciation
- population shift (growth, cohort)
- natural disaster
- pandemic
- merger

# Challenge

5

Historically, council costs have increased with population growth. For every 1% increase in population, we estimate NSW councils' expenditure increases by 0.85%. Figure 1 shows the relationship between councils' expenditure and population growth.

Figure 1 Population and council expenditure growth in NSW (1999-2019)



6

- likely excludes impact of growth in asset depreciation
- assess per cohort against current asset backlog (signalling underspend on asset MRR, thus presumption only 85% increase)

- may exclude all merged councils 2016
- assess growth in service and asset costs for the merged councils, and update
- note most mergers applied for SRV since

a. Excludes LGAs that did not exist for the entire sample period. Excludes Albury, Lithgow and Oberon, whose borders changed in 2004. Excludes The Hills Shire and Hornsby, whose borders changed in 2016.

Source: The CIE, Analysis of rate peg options to account for population growth, 19 May 2021, p.15.

# Challenge

7 Depreciation expenses vary between councils and backlog ratios may not be a good indicator of falling service levels.

due to artificial 'manipulation' of asset condition and age profile to manage operating results and asset ratios

8 We expect under-recovery of the costs of growth means growing councils will be unable to maintain their service levels. However, there is insufficient data on service levels to adequately test this proposition.

poor data due to inconsistent articulation of asset MRR from service costs

- eg cleaning/mowing included in MRR

9 Some regional and rural councils have been more successful than others in obtaining grants for infrastructure projects. Where councils are successful, the ongoing maintenance and operating costs of that infrastructure must be paid for by ratepayers.

as consequence of delays in lead time from grant application-announcement-deed-commencement, value of grant eroded, and together with ongoing MRR, mean higher costs to LGA

- The NSW Productivity Commissioner recognised that council revenue has been constrained by the rate peg, suggesting it creates an over-reliance on development contributions
- The package of reforms means some revenue could go up and some may go down
- Overall, the modelling for the NSW Productivity Commissioner said there would be net benefits to council
- IPART has been asked to review the 'essential works list' and consider how needs may differ in greenfield, infill and regional contexts
- The 'essential works list' has disproportionately impacted greenfield councils

	Baseline	Proposal	Change	Change
	\$m/year	\$m/year	\$m/year	Per cent
Low growth metro councils				
Rates	2 884	3 069	184	6.4
Contributions	242	221	- 21	-8.8
<b>Total</b>	<b>3 126</b>	<b>3 289</b>	<b>163</b>	<b>5.2</b>
High growth metro councils				
Rates	2 985	3 564	579	19.4
Contributions	870	780	- 90	-10.3
<b>Total</b>	<b>3 855</b>	<b>4 344</b>	<b>489</b>	<b>12.7</b>
Low growth regional councils				
Rates	4 429	4 579	150	3.4
Contributions	213	208	- 5	-2.4
<b>Total</b>	<b>4 642</b>	<b>4 787</b>	<b>145</b>	<b>3.1</b>
High growth regional councils				
Rates	85	97	11	13.3
Contributions	3	2	- 1	-18.5
<b>Total</b>	<b>88</b>	<b>99</b>	<b>11</b>	<b>12.2</b>

Source: CIE estimates.

# Take different perspectives

We've gathered some data to illustrate our views...





# LG Sustainability

- A sea of red....
- Discounting population growth by property growth, defeats the purpose
  - Population growth drives service costs
  - Property growth drives infrastructure costs
- Regional growth (line and cohort) differs to metro
  - Geographic spread
  - Duplication services/facilities
- Management of asset ratios differ
  - Impacting depreciation and operating results
  - Impacts access to debt

Merger	Reg City	Coast	Rank	Council	19/20	18/19	17/18	16/17	15/16	backlog 1-2 %
	RC	C	21	Tweed Shire Council	3%	14%	16%	8%	12%	4.3
	RC	C	65	Coffs Harbour City Council	-27%	8%	6%	68%	6%	5.3
	RC	C	86	Port Macquarie-Hastings Council	-14%	-15%	-6%	19%	13%	18.4
	RC		14	Orange City Council	10%	20%	25%	14%	3%	12.8
	RC		19	Griffith City Council	4%	5%	14%	33%	18%	4.9
	RC		45	Maitland City Council	6%	-8%	5%	0%	-6%	X
	RC		52	Goulburn Mulwaree Council	16%	-24%	-9%	-18%	-2%	5.5
Merger	RC		53	Armidale Regional Council	9%	-5%	-76%			6.5
	RC		63	Albury City Council	-18%	7%	11%	16%	8%	4.8
	RC		90	Bathurst Regional Council	-24%	-35%	-3%	23%	21%	15.2
	RC		98	Cessnock City Council	0%	-5%	-11%	0%	-11%	8.4
	RC		104	Tamworth Regional Council	-10%	-12%	-16%	23%	-5%	9.3
Merger	RC		109	Dubbo Regional Council	-31%	-28%	44%			3.7
Merger	RC		113	Queanbeyan-Palerang Regional Council	-9%	-13%	-22%			3.0
	RC		119	Wagga Wagga City Council	-23%	-19%	-21%	-17%	-39%	10.4

CRJO	Metro	Rank	Council	19/20	18/19	17/18	16/17	15/16	backlog 1-2 %
JO		43	Eurobodalla Shire Council	10%	-9%	-2%	14%	19%	3.7
JO		102	Bega Valley Shire Council	-8%	-44%	-10%	-5%	5%	9.3
JO		52	Goulburn Mulwaree Council	16%	-24%	-9%	-18%	-2%	5.5
JO		113	Queanbeyan-Palerang Regional Council	-9%	-13%	-22%			3.0
JO		119	Wagga Wagga City Council	-23%	-19%	-21%	-17%	-39%	10.4
JO		22	Upper Lachlan Shire Council	3%	2%	15%	60%	46%	X
JO		48	Yass Valley Council	25%	-5%	-5%	11%	-25%	1.8
JO		112	Wingecarribee Shire Council	-2%	-3%	-6%	0%	-10%	2.9
JO		120	Snowy Monaro Regional Council	-31%	-32%	-25%			14.2
JO		124	Snowy Valleys Council	-55%	-18%	-33%			1.4



# Evidence

## **RCNSW/CRJO Table**

- Population change
- Property change
- Non-asset service cost change
- Asset cost (depreciation) change
- DC as % of asset MRR
- Per capita income
- Per capita service cost
- Per property asset cost
- Supp levy % of new asset dep'n
  - v 60% recovery population growth
  - v residential property income



## Housing data

< DASHBOARD

### Population: Australian population change - Local Government Area

#### Regional population change, estimated residential population, by LGA, Queanbeyan-Palerang Regional (A), 2019 to 2020

##### Australia

Click on map area for more information.



© 2021 Mapbox © OpenStreetMap

**Note:** National and state/territory data presented in this visualisation are the sum of the sub-state components which differ to the published figures in the data source. See flip panel text for further information.

#### Population change, 2019 to 2020 (%)

■ 1.5 to less than 2.5

#### Queanbeyan-Palerang Regional (A)

Australia

61,089 persons (2019)

62,239 persons (2020)

1.9% (1,150 people) change in population  
(2019 to 2020)

Measure	Estimated Resident Population					
Geography Level	Local Government Areas (2020)					
Frequency	Annual					
Time	2015	2016	2017	2018	2019	2020
Region						
Port Macquarie-Hastings (A)	78997	80073	81441	83062	84515	85952
Port Stephens (A)	70257	71115	71772	72630	73472	74506
Queanbeyan-Palerang Regional (A)	57130	57790	58816	59889	61089	62239
Randwick (C)	146908	148922	152149	154145	155521	156619
Richmond Valley (A)	23148	23256	23331	23374	23462	23490

The estimated residential population (ERP) by Local Government Area (LGA), the ERP and ERP change from the previous year, and population density are published in the Australian Bureau of Statistics (ABS) publication Regional Population Growth, Australia.

The ERP is the official estimate of the Australian population, based on Census counts by place of usual residence (excluding short-term overseas visitors in Australia), as of 30 June of the corresponding year. Usual residence within Australia refers to that address at which a person has lived or intends to live for six months or more, with an allowance for Census net undercount, to which are added the estimated number of Australian residents temporarily overseas at the time of the Census. Estimates are revised 12 months from release and are finalised following each Census. In Census years, LGA ERP is prepared by aggregating whole SA2 or SA1 level estimates where possible. In intercensal years, LGA population estimates are updated by accounting for the components of population change compared to the most recent Census. Historical data are updated when boundaries change. LGA areas are categorised as: Area (A), City (C), District Council (DC), Municipality/Municipal Council (M), Regional Council (R), Rural City (RC), Shire (S), and Town (T).

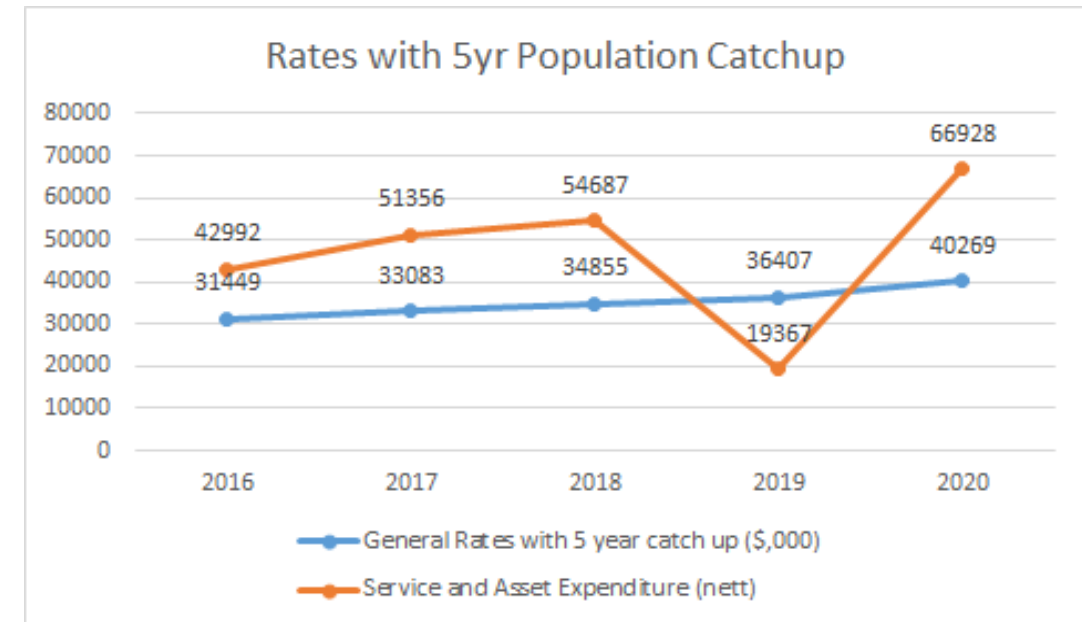
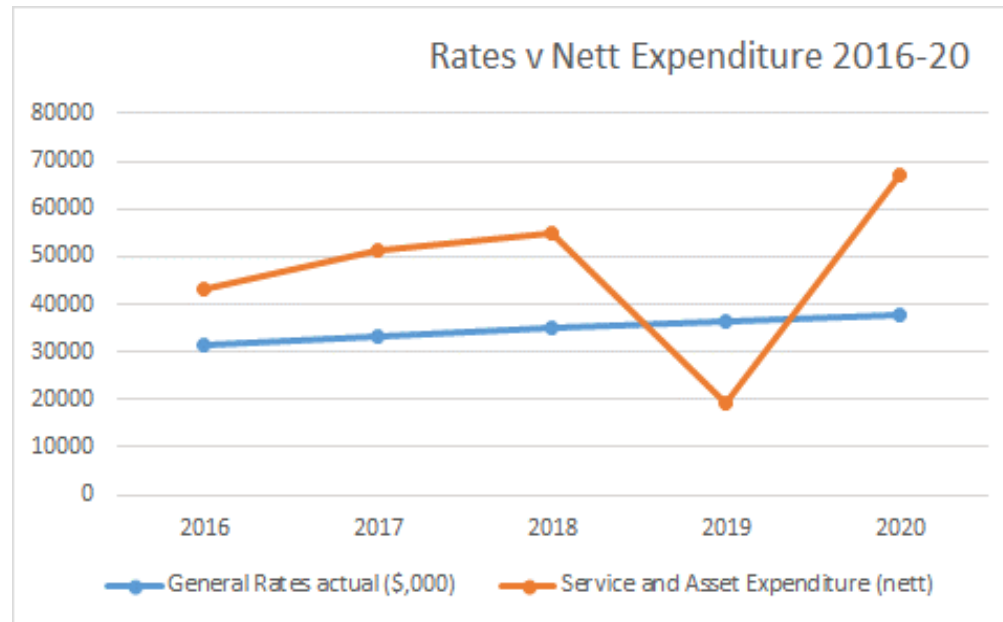
Regional Population Growth data are also used in the following dashboard menu options: *Australian population change - Statistical Area 2* and *Australian population change - Remoteness Areas*.

# Population, Property, Revenue, Expenditure

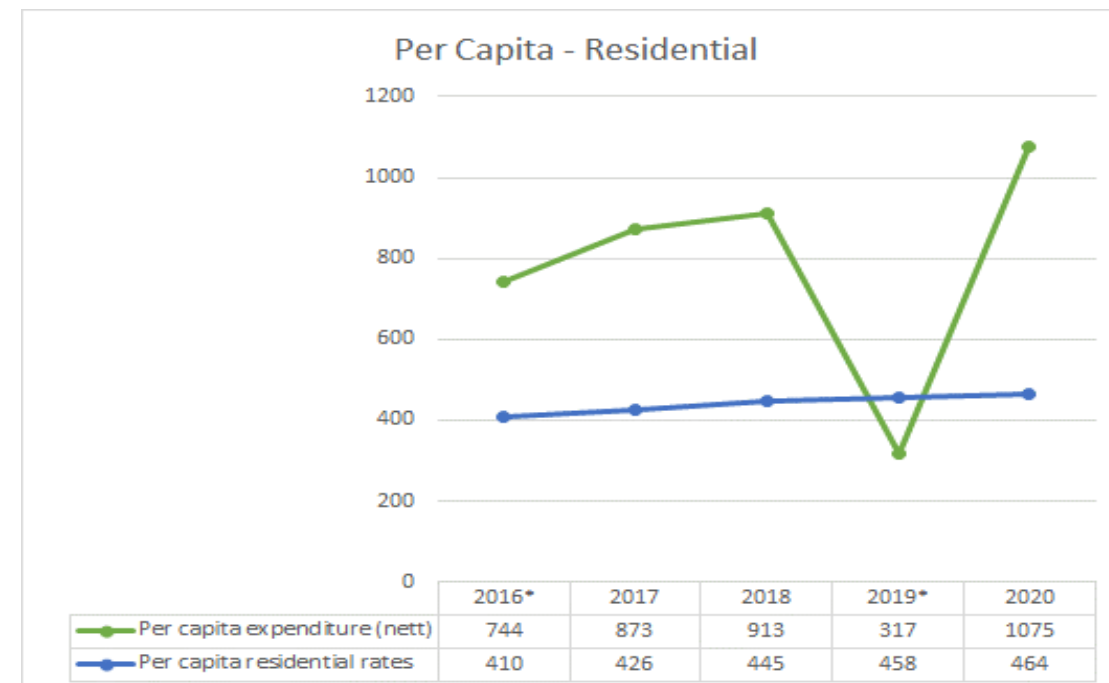
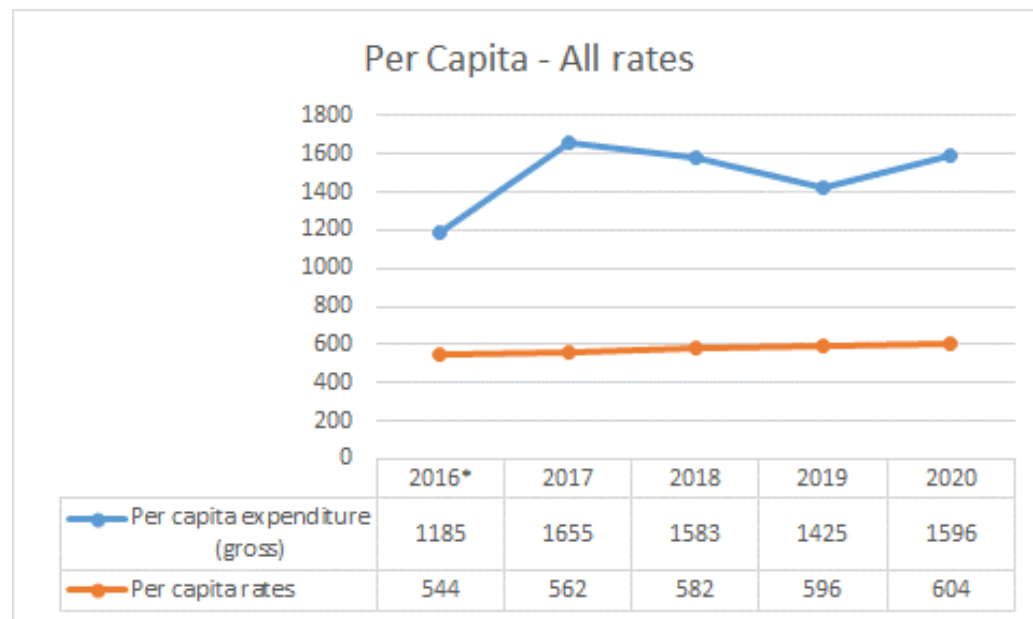
Year	Population	Increase	annual %	Properties	Increase	annual %	Rates \$,000	Increase	annual %	Ave Res Rate
2016	57790			24981			31449			1046
2017	58816	1026	1.8%	25474	493	2.0%	33083	1634	5.2%	1084
2018	59889	1073	1.8%	26198	724	2.8%	34855	1772	5.4%	1119
2019	61089	1200	2.0%	26753	555	2.1%	36407	1552	4.5%	1146
2020	62239	1150	1.9%	27011	258	1.0%	37608	1201	3.3%	1171
Total		4449			2030			6159		
Average		1112	1.5%		508	1.6%		1540	3.9%	

*47/52 weeks	2016*			2020			
	Opex	Non-Capital income	Nett Cost	Opex	Non-Capital income	Nett Cost	ave % increase pa
<b>General Fund</b>							
Governance	3852	678	3174	1955	130	1825	-9%
Administration	19607	1029	18578	5106	5057	49	-20%
Public Order & Safety	2051	1291	760	3460	1875	1585	22%
Health	631	102	529	1546	226	1320	30%
Environment (excl waste)	3194	534	2660	12126	3425	8701	45%
Community Services & Education	1993	1254	739	3025	1646	1379	17%
Housing & Community	3112	2603	509	4722	1837	2885	93%
Recreation & Culture	9535	2431	7104	17278	3786	13492	18%
Building and Construction	1634	1214	420	227	13	214	-10%
Economic Affairs	10649	10106	543	2825	1326	1499	35%
<b>Service Expenditure</b>	56258	21242	35016	52270	19321	32949	-1%
Transport & Communication	12227	4251	7976	47058	13079	33979	65%
<b>Service and Asset Expenditure</b>	68485	25493	42992	99328	32400	66928	11%
<b>General depreciation</b>	12152			19151			11%

# Revenue v Expenditure Gap



# Per Capita



<i>*47/52 weeks exp</i>	2016*	2020	% pa
<b>General Rates total (\$,000)</b>	31449	37608	3.9%
<b>Per Capita rates</b>	544	604	2.2%
<b>Per Capita Expenditure (nett)</b>	744	1075	8.9%
<b>Population Growth</b>	57790	62239	1.5%
<b>Property Growth</b>	24981	27011	2.0%

# Preliminary evidence indicates

## **Revenues**

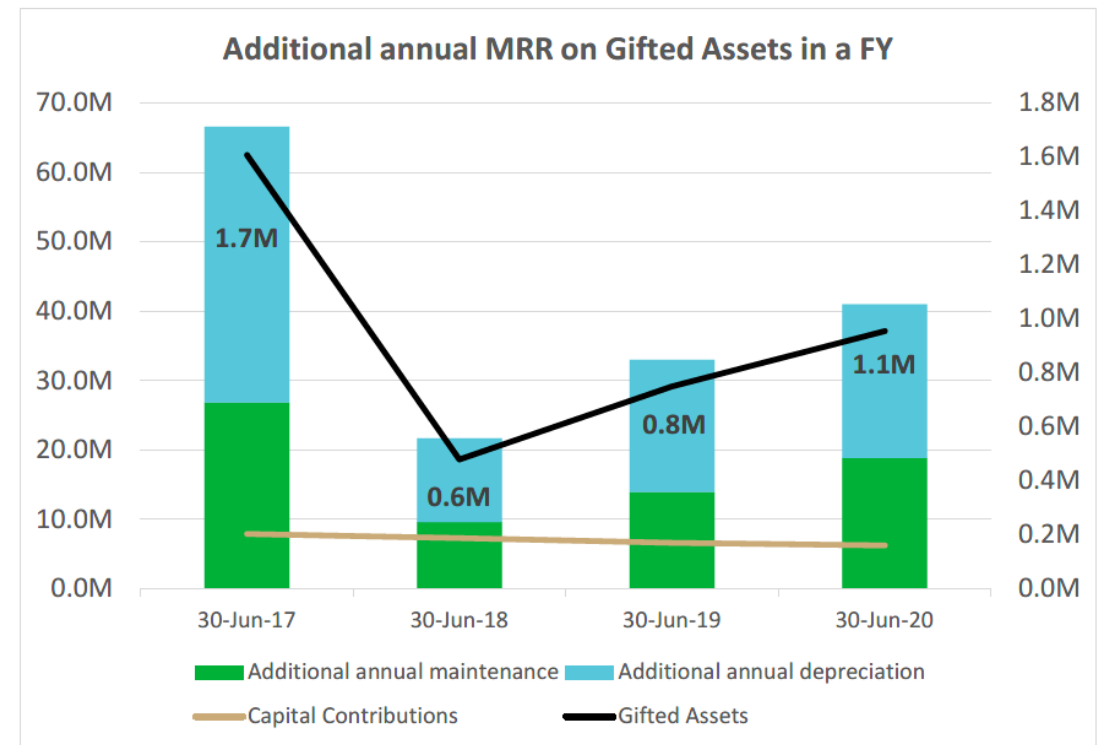
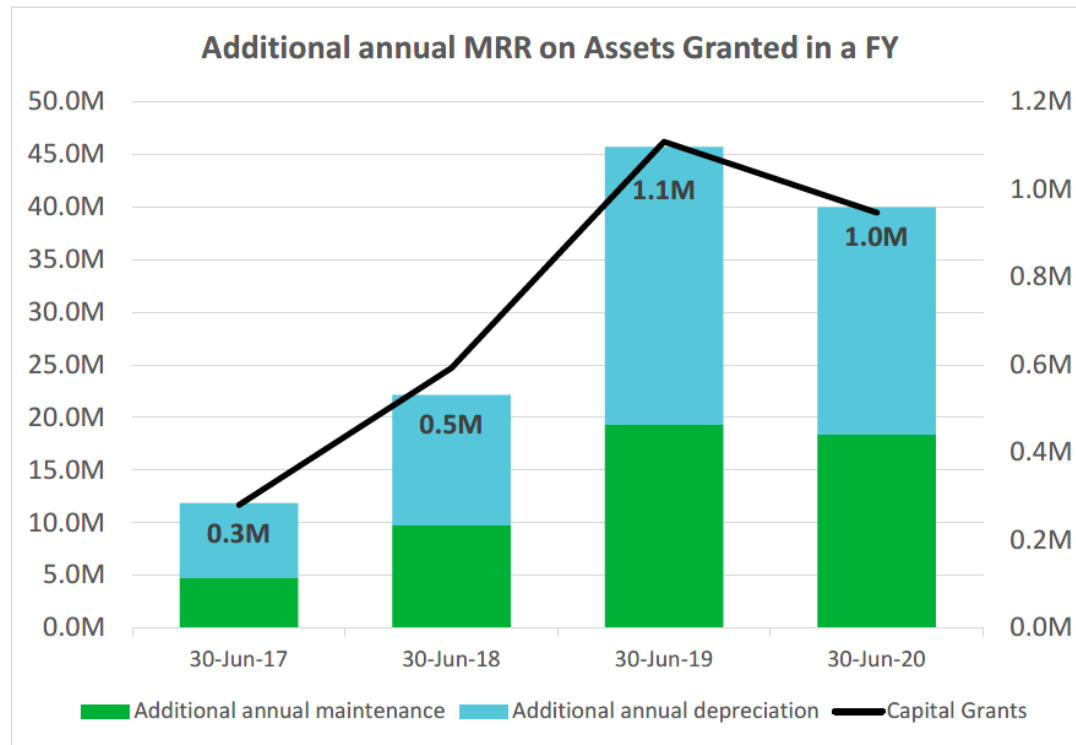
- General rates growth < population growth
- Rates per capita falls with growth (when discounted by rate peg)
- Rates per capita worse if only residential growth accounted for
- Population growth from dual/multi occs (strata) contributes to lower rates per capita

## **Expenses**

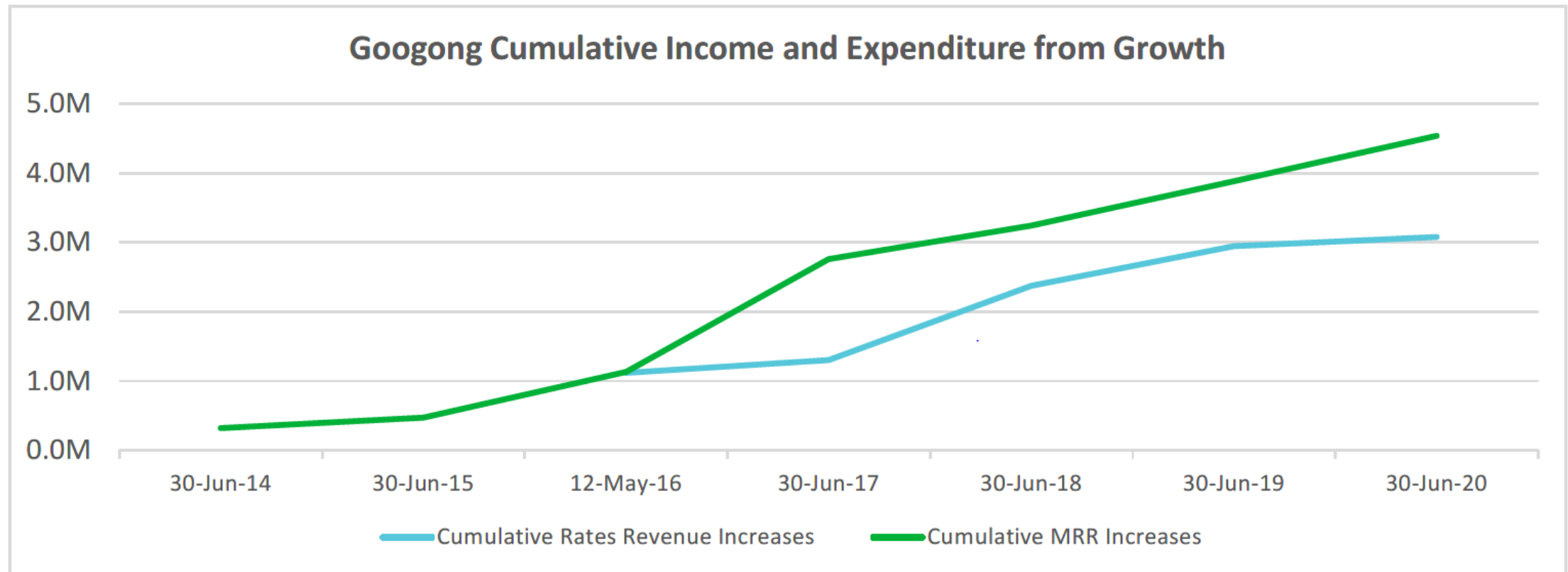
- Rates growth insufficient to meet depreciation growth
- Nett service cost (non-asset) grows per capita
- Per capita expenses vary by LGA cohort and population cohort
- New regional-scale assets (sponsored by grants) increase MRR tail and depreciation



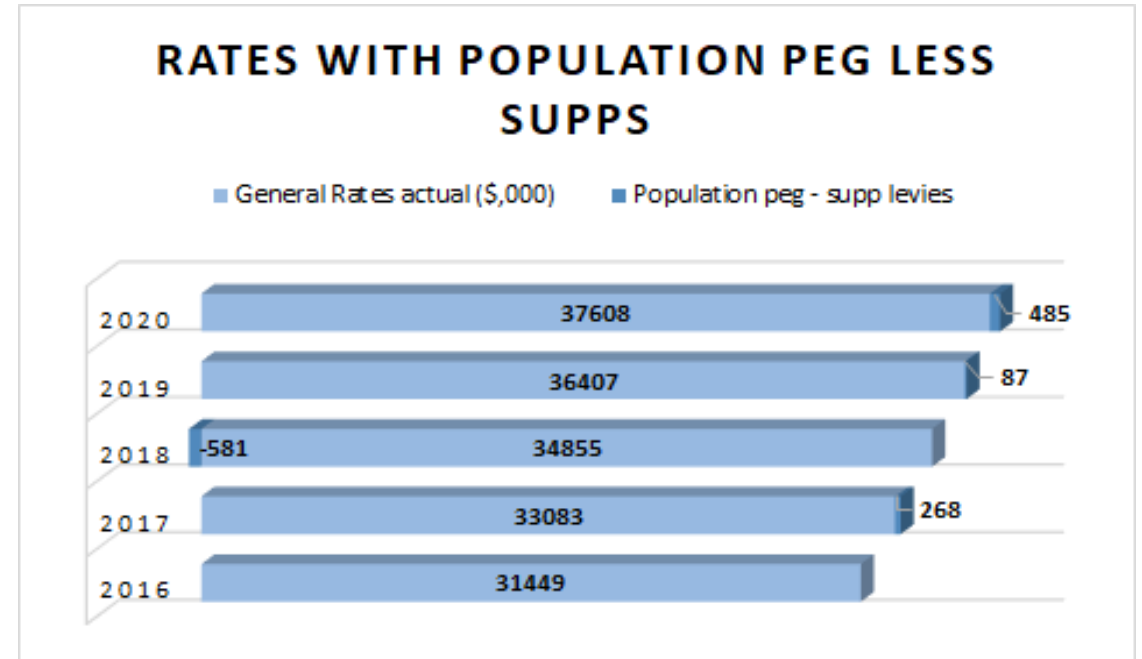
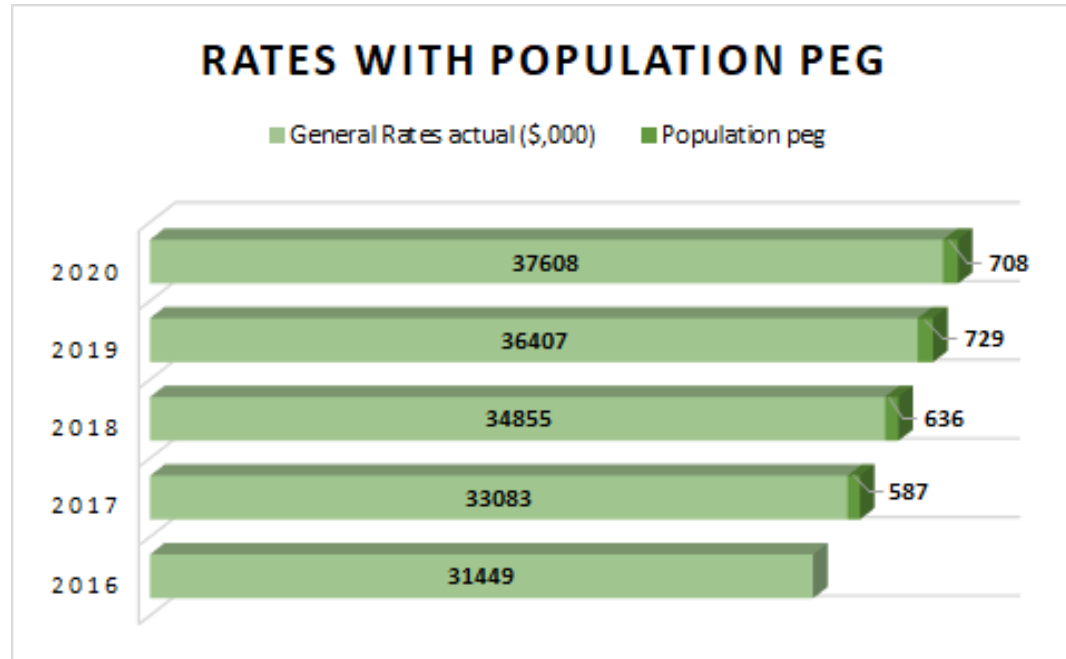
# MRR tail of gifted and granted assets



# Greenfield rates don't cover asset MRR



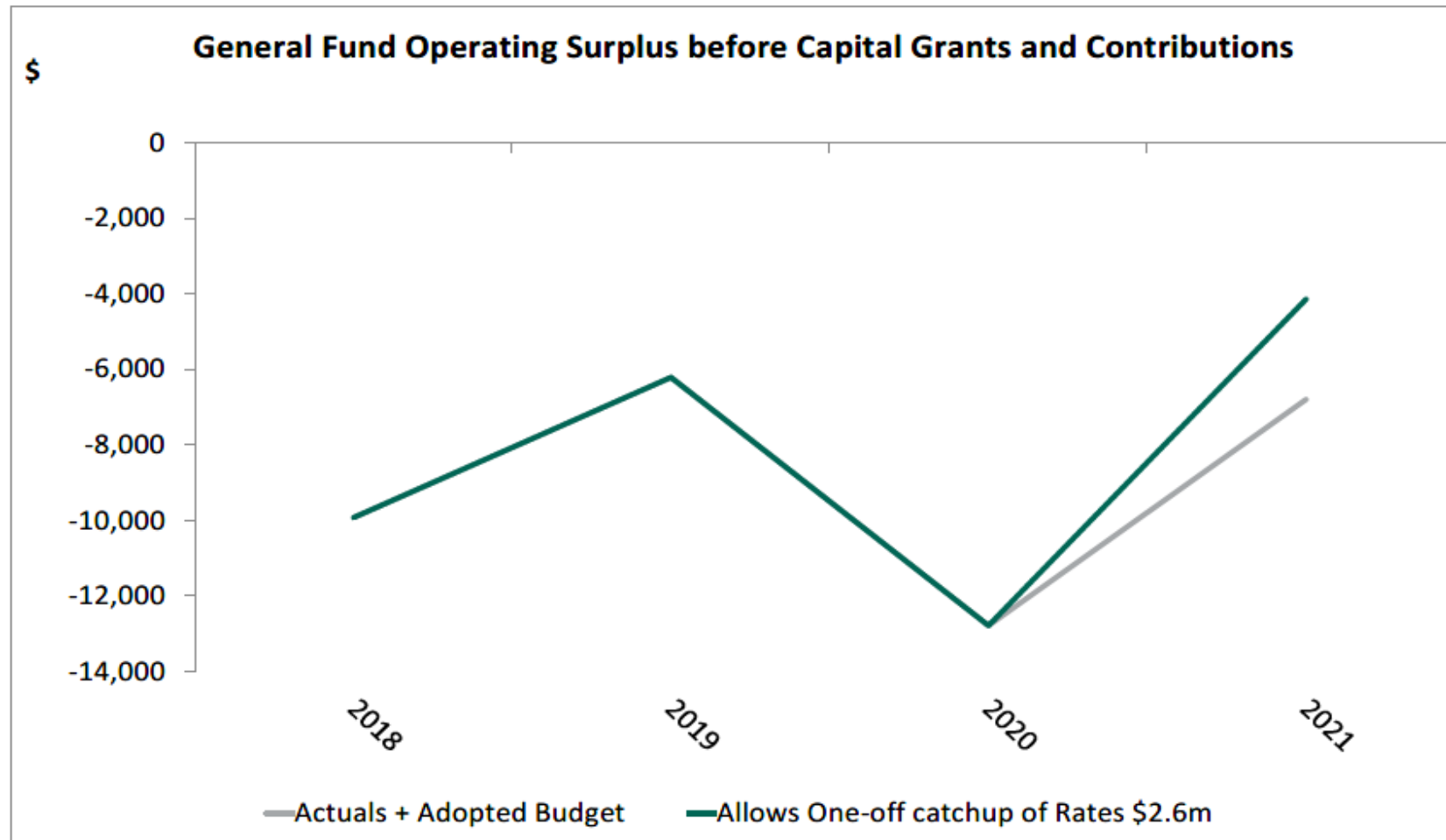
# Effect of Population Peg



We urge IPART consider...

- |   |   |   |
|---|---|---|
| 1 | to 'catch up' on past population growth, where this is significant and has reduced per capita general income over time  | catch up: growth > 1% pa < 5 yrs = one-off uplift (non SRV)   |
| 2 | where per capita general income does not accurately reflect the costs of servicing the population and a one-off adjustment to the rate base is required   | see table: supp rate growth < nett service + depreciation growth  |
| 3 | to fund capital costs of infrastructure to service population growth that cannot be met while maintaining per capita general income or through other revenue sources (such as infrastructure contributions) | special infrastructure levy to support grants <u>and/or</u> contributions   |
| 4 | where increases in general income are needed to accommodate a large service population.   | survey DNSW, SNSW : tourism, sporting grants, events allocations and patronage<br>survey RCNSW: FIFO, DIDO, tourist servicing |

# Catch up





# Contributions

5

Councils should use infrastructure contributions to fund infrastructure needed to service development. To ensure contributions plans are used most effectively, councils should regularly review and update their contributions plans.

PC-IPART examination of integrated impact of

- population rate peg and revised infrastructure contributions on capital revenues
- by cohort (metro, coastal, regional city, region, rural)
- reduction in Government grant effort
- s7.11 to co-fund new capex
- s7.12 to co-fund renewal/debt service
- include community facilities in essential works

Cost pressure summary: development v rates

# LGGC – comparative per capita benchmarks

	2020				
	Opex	Non-Capital income	Nett Cost	2020 per capita	LGGC per capita
<b>General Fund</b>					
Governance	1955	130	1825	29.32	
Administration	5106	5057	49	0.79	244.46
Public Order & Safety	3460	1875	1585	25.47	
Health	1546	226	1320	21.21	162.08
Environment (excl waste)	12126	3425	8701	139.80	
Community Services & Education	3025	1646	1379	22.16	63.89
Housing & Community	4722	1837	2885	46.35	68.46
Recreation & Culture	17278	3786	13492	216.78	209.17
Building and Construction	227	13	214	3.44	
Economic Affairs	2825	1326	1499	24.08	
<b>Service Expenditure</b>	<b>52270</b>	<b>19321</b>	<b>32949</b>	529.39	748.06
Transport & Communication	47058	13079	33979	545.94	206.82
<b>Service and Asset Expenditure</b>	<b>99328</b>	<b>32400</b>	<b>66928</b>	1075.34	954.88

# And urge the government

Insert the 'out of scope' matters into the review....

1 **Emergency services levy:** At both workshops councils raised the issue of whether the emergency services levy should be funded from general income. This levy is a significant cost for some councils, particularly regional councils.

a must do:

- either a NSW tax notice (with property tax reform), and no contribution from LGAs; or
- s501A annual charge outside general income, then disbursed to Government; and
- transfer of ES assets from LGAs to Government

2 **Stormwater management charges:** Councils commented that stormwater management charges have not changed since 2007 and do not reflect the costs to councils of providing those services.

utilise 5 yr cyclic asset revaluations

- estimates to bring asset to satisfactory standard
- aim to bring Condition 4-5 (backlog) to Condition 2-3 < 10 years (NB climate change)
- establish range for charges by cohort

3 **Depreciation costs:** Councils have significant depreciation costs associated with ageing assets, such as buildings, roads, footpaths and parks. Some councils suggested linking a population factor with depreciation costs.

utilise change in asset depreciation values

- between cyclic revaluations = new assets
- calculate annual depreciation growth \$ as % of general income \$ = additional rate peg
- at cyclic revaluations utilise unit rates to recalibrate LGCI by cohort

**Cost burden of non-rateable properties:** Many stakeholders were concerned about the cost burden on ratepayers from non-rateable properties. These can take many forms:

- secondary dwellings, such as granny flats or short-term holiday lets being built on farmland
- community housing
- retirement properties, which may fall under a single title.

The burden of funding service provision for these properties falls on other ratepayers.

many LGAs recover same yield only due to

- same ULV from former single residential (redeveloped) property redistributed into multi-unit ULV, or
- minimum rate with notional yield

consider hybrid minimum ULV or minimum rate above notional yield

**Rating categories are not sufficiently flexible to account for different uses:** Several councils told us they have significant numbers of residential properties in their area used for Airbnb and other holiday lettings. Although these properties are operated as a business, they are charged residential rates. Councils indicated they need flexibility to charge business rates for these properties.

expand categories/sub categories to include

- energy installations (above rate yield)
- tourist residential sub-category (extracted from NSW investor property data in tax reform)

**Pensioner rebates:** Many councils have older populations and consequently have higher cost burdens associated with funding councils' portion of the pensioner rebate. The burden of paying for the rebate falls on other ratepayers.

expand categories/sub categories to include

- energy installations (above rate yield)
- tourist residential sub-category (extracted from NSW investor property data in tax reform)

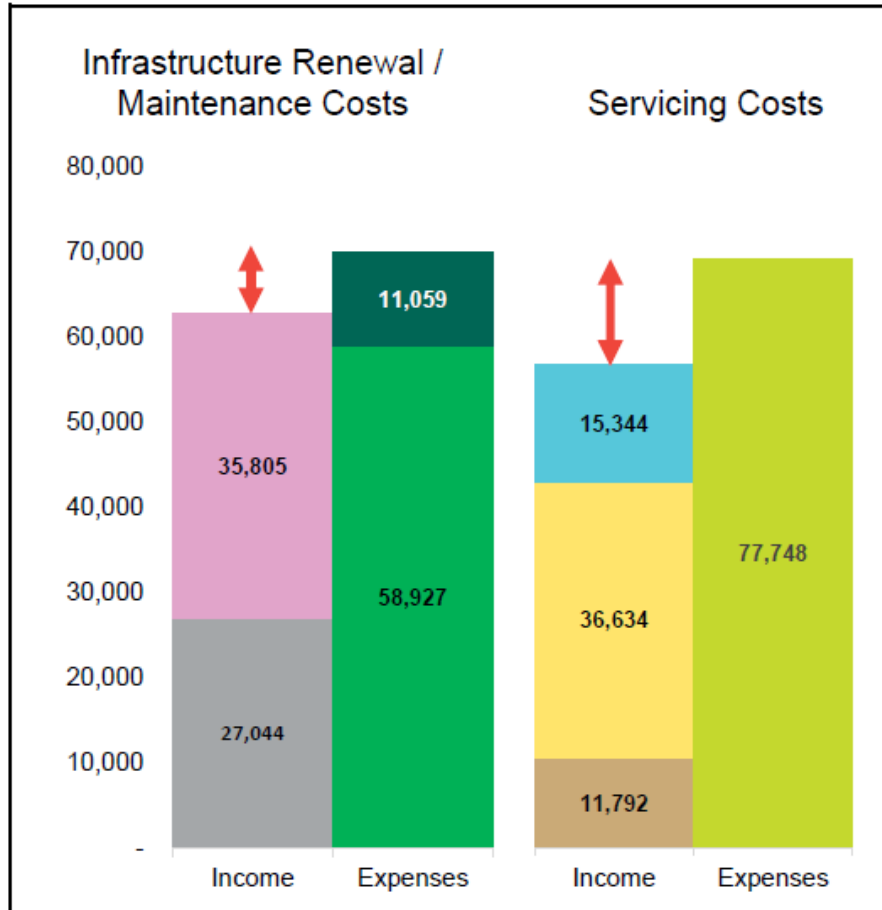
# Then maybe









Reframe the approach to rating...





# Convert



-  Rates: ad valorem
-  Rates: base amount
-  Annual charges
-  User charges / fees
-  Operating grants
-  Infrastructure Costs
-  Debt servicing costs (infrastructure)
-  Operational costs

## *‘narrow the gap’*

- maintenance, renewal, upgrade and debt servicing costs of infrastructure
  - property taxes (ULV), including ad valorem rates, utility annual charges, development contributions and asset specific grants
- community service obligations (CSO)
  - fixed component of the general rate (base amount) and general purpose grants (FAG)
- additional services (above the CSO)
  - fees, charges and specific purpose grants
- water, sewer and waste services
  - user charges and fees
- governance and corporate overhead costs
  - attributed across the asset and service areas

# Here's the summary...

Issues and options...



# Regional Population is growing and different to metro

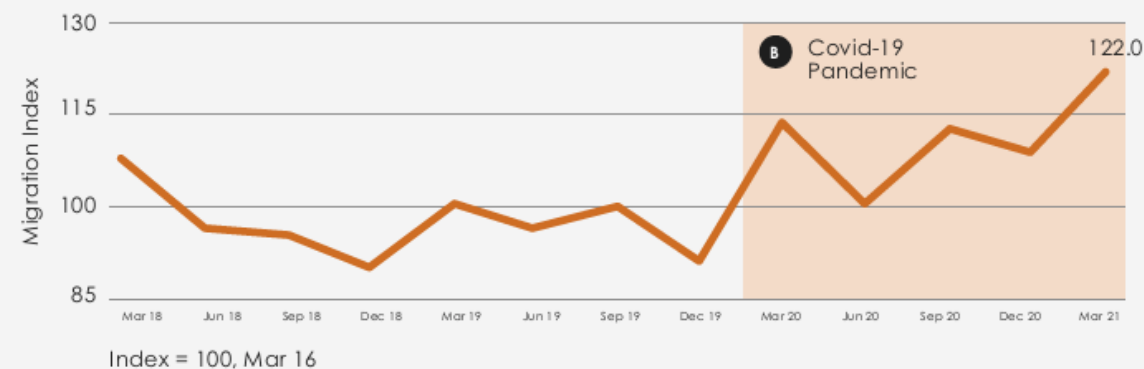
## Regional Movers Index

28th June 2021

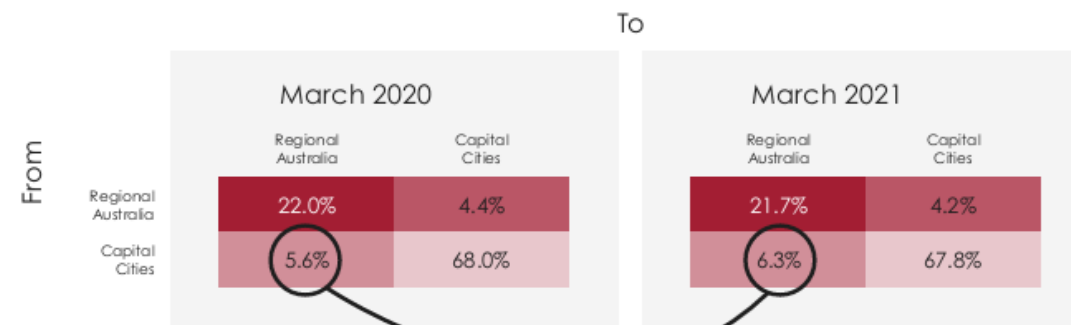
Powered by:



**A** Population flows from capital cities to Regional Australia



**C** Breakdown of total internal migration



# A2: LGAs with movement of more than 100

## Share of Migration, YoY Change, QoQ Cha

LGA	Share of Migration %	QoQ Change %	YoY Change %
Gold Coast (C)	11%	17%	5%
Sunshine Coast (R)	6%	24%	14%
Greater Geelong (C)	4%	9%	10%
Wollongong (C)	3%	0%	8%
Newcastle (C)	2%	13%	7%
Lake Macquarie (C)	2%	10%	7%
Queanbeyan-Palerang Regional (A)	2%	17%	20%
Cairns (R)	2%	10%	0%
Launceston (C)	2%	88%	34%
Townsville (C)	2%	27%	-6%
Toowoomba (R)	2%	27%	8%
Ballarat (C)	2%	20%	23%
Shoalhaven (C)	1%	-3%	2%
Fraser Coast (R)	1%	48%	26%
Wingecarribee (A)	1%	27%	14%
Greater Bendigo (C)	1%	12%	2%
Byron (A)	1%	-12%	12%
Noosa (S)	1%	23%	49%
Baw Baw (S)	1%	10%	23%
Tweed (A)	1%	3%	4%
Port Macquarie-Hastings (A)	1%	31%	38%
Mid-Coast (A)	1%	-5%	18%
Greater Shepparton (C)	1%	20%	26%

LGA	Share of Migration %	QoQ Change %	YoY Change %
Bass Coast (S)	1%	10%	6%
Hindmarsh (S)	1%	33%	-5%
Coffs Harbour (C)	1%	-10%	6%
Mackay (R)	1%	15%	-11%
Bundaberg (R)	1%	-3%	2%
Mildura (RC)	1%	-2%	11%
Port Stephens (A)	1%	0%	-9%
Alice Springs (T)	1%	39%	2%
Wagga Wagga (C)	1%	22%	-1%
Maitland (C)	1%	26%	15%
Latrobe (C) (Vic.)	1%	-3%	-13%
East Gippsland (S)	1%	11%	1%
Albury (C)	1%	20%	0%
Dubbo Regional (A)	1%	-6%	17%
Eurobodalla (A)	1%	-6%	14%
Rockhampton (R)	1%	17%	-4%
Orange (C)	1%	10%	23%
Surf Coast (S)	1%	-41%	-16%
Kalgoorlie/Boulder (C)	1%	58%	-5%
Busselton (C)	1%	19%	17%
Southern Downs (R)	1%	50%	44%
Ballina (A)	0%	13%	9%
Gladstone (R)	0%	7%	-2%
Mitchell (S)	0%	-18%	-34%

# Issues

## Drivers

- Population growth drives service costs
- Property growth drives infrastructure costs
- Changing cohorts drives different services/facilities
- Visitor growth, while sought, drives higher servicing
- Higher asset or service standards/loads due to
  - Mergers
  - Cross border
  - Regional hubs
  - Tourism hubs
  - Greenfield v infill
- Transient populations (mining, Snowy) generate
  - Housing demand
  - Service demands

## Revenues

- Audit Office concerns
  - Poor operating results/trends
  - Consistent (emergency) asset recording
- Smoothing above rate peg should cover
  - Population growth
  - Asset (depreciation) growth
  - Service (non asset) growth
  - Dual/multi occ rating
  - Energy/tourism category rating
- Supp levies
  - Just cover new asset MRR
  - Don't contribute to existing MRR/services
  - Don't capture dual/multi occs adequately

# Impact

## Misalignment

- NSW property tax reform v LG rates reform
- NSW infrastructure contribution reform v LG rates reform
- Special levies co-fund infrastructure grants only v doesn't allow catch-up for under recovered s7.11's
- Smoothed regular increases above Peg v irregular high profile SRV or grant bailouts

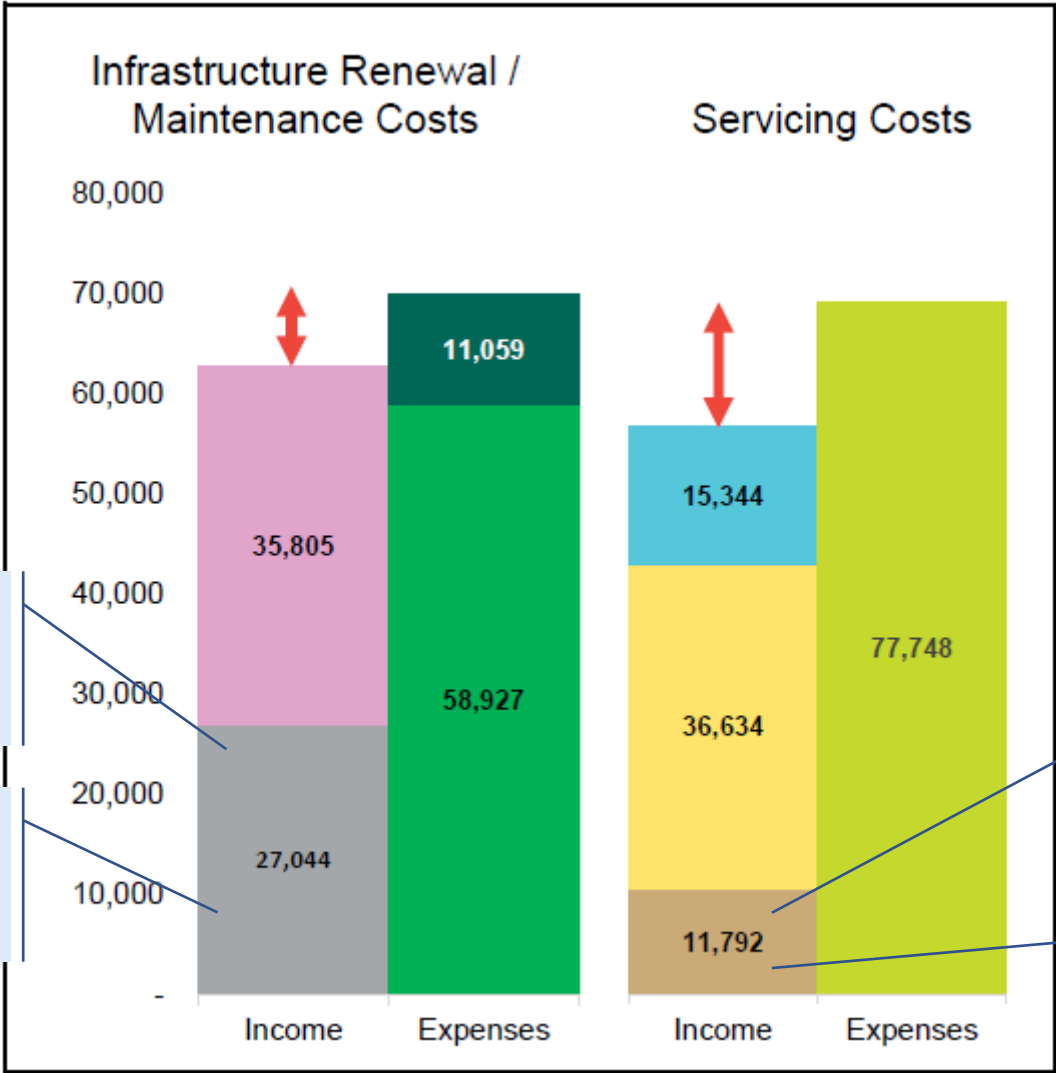
## Accounting

- Councils constrained by asset ratio benchmarks
- Councils don't meet OLG ratios - can't borrow to match grant or contribution co-funding
- Should differentiate MRR (asset) from population (servicing) costs - eg cleaning, utilities
- Perhaps standardise
  - Attributions to identify real costs
  - Depreciation charging
- Suggest audit
  - ss7
  - ss1

# Reframe the Rates Model

Property Growth:  
impacts infrastructure  
= supp val

Population Growth:  
impacts services  
= pop'n peg



- Rates: ad valorem
- Rates: base amount
- Annual charges
- User charges / fees
- Operating grants
- Infrastructure Costs
- Debt servicing costs (infrastructure)
- Operational costs

Special levy: co-fund grants/cont'ns

SRV on ad val: renewal/upgrade assets

Hybrid minimum: > 50% base charge

SRV on Base: growth/change LoS



# Proposed Outcome

- ERP v census (*with parachute*)
- No discount for supp levies or productivity
- Smoothing by expanded Peg
  - service growth increases above LGCI
  - asset growth (dep'n) increases above LGCI
- Migrate to reframed rating model
  - Narrow the gap
- New sub category above notional rate yield (energy) and non-rateables (retirement village)
- Permit population + property growth to offset transient and cohort nuance
- Expand IPART scope to include 'out of scope' items
- Set LGCI and Peg by Cohorts
  - one size not fit all (audit ss1 and ss7)
  - metro, coast, regional city, regional, rural
- Narrow need (and cost) for SRV
  - change to service; level of service
  - new/renewed asset
  - catch up (growth)
  - special infrastructure levy (grant &/or cont'n)
- Utilise S7.11 (charge per new property/population)
  - new asset/facility (per contribution plan)
- Utilise S7.12 (charge % development value)
  - renewed asset/debt servicing
- Tcorp enables capital grants and contributions as collateral in debt servicing calculation