Randwick City Council
a sense of community

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Tribunal members
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Sir/Madam

Review of the rate peg to include population growth

Having access to a dedicated and valid income stream associated with growth is warranted. Randwick City Council welcomes the opportunity to provide a submission to the IPART on the Review of the Rate Peg to Include Population Growth.

Randwick City is part of the Eastern City planning district of metropolitan Sydney and is the second largest LGA accounting for 17.14% of the District's total land area. Randwick City's population at 154,265 residents (2018) is the fourth largest in the Eastern City. Conversely, Randwick City's population density is one of the lowest in the Eastern City District at 42.46 persons per hectare.[1]

The current DPIE projection for Randwick's population growth in the next 25 years is an annual increase of 0.75%.[2] This represents approximately 33,900 new residents by 2036, and potential to add an assumed $29.6M to our annual operating costs by then.

As a large metropolitan with over 29km of coastline, the impact of growth has long been an element of decision making at Randwick City and projected population growth an integral factor of our long term strategic planning and outcome delivery looking forward.

All aspects of a council's expenditure are affected by growth, both operating and capital, despite any economies of scale that may come in servicing the needs of a metropolitan community. It is critical that any gain made in reforming the rate peg not be eroded by any concurrent reform made to Developer Contributions – an optimal and sustainable growth position must result.

While applauding this initiative it is also appropriate to reiterate that the financial burden to pay for population growth via the rate peg remains shouldered by local ratepayers. And this comes with equity issues for councils like Randwick who have a high reliance on rates (own source revenue ratio of 83.72% in 2019-20)[3], a broad range of land values (and range of rates paid), and a high net number of non-resident day visitors (related to work, study, or pleasure). Resident ratepayers compete significantly with non-residents in accessing the services and amenity their rates fund (e.g. roads, beaches, ovals, and parks).

It follows that capturing the impact of non-resident growth within a future population factor is an important element for some councils. As too is the basis of land valuation for determining rates and flexibility within the provisions of rating which would enhance a council's ability to design more equitable rating structures.

The following submission provides comment on the 12 questions posed in by the March 2021 Issues Paper.

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

Answers for this question would vary for each council depending on a raft of factors. And without going to the effort of forming assumptions and modelling extensively, a generic answer is provided at this preliminary stage.

In general, population growth means exacerbation. More people lead to an increased demand for council services and more competition for and intensive use of a council's assets and scarce resources. All things being equal, it means increases in road use and parking congestion, pollution and illegal dumping. It means more frequent maintenance and shorter asset life cycles. Growth also drives the need for additional new and/or upgraded community facilities and open spaces. Growth in density can come with isolation and loneliness, driving the need for increased targeted social programs. While an evolving demography coupled with a strong housing market has also driven the need for more affordable housing.

In simple terms, considering Council's forecasted 2021-22 operating expenses (which are variable in response to population) and excluding borrowing costs and depreciation we currently have:

- Employee costs	$73.9M	
- Materials & contracts	$43.7M	
- Other expenses	$18.4M	
TOTAL		**$136M**

And our current population of 154,265, our per capita operating expenses are now approximately $881.60, or $0.881M per 1,000 capita.

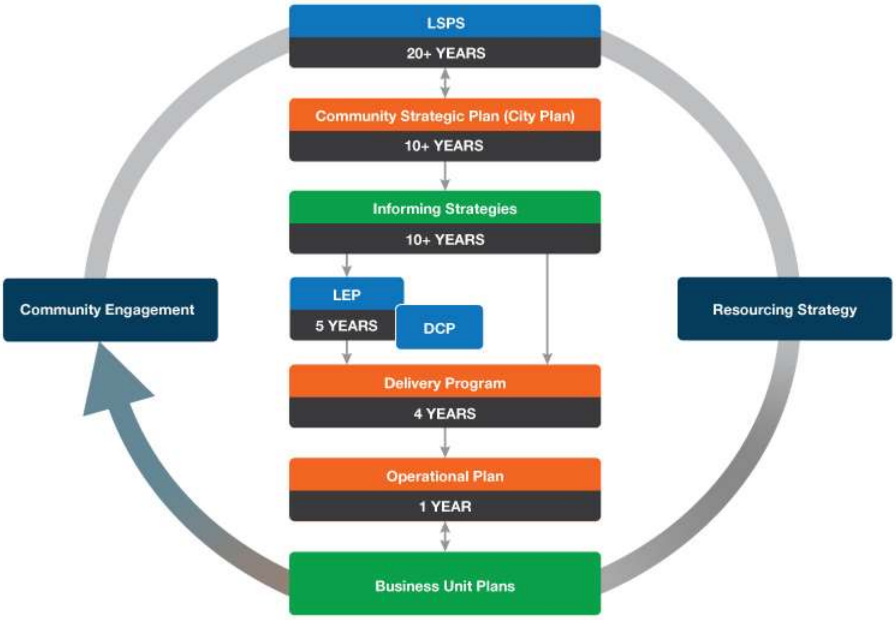
With projected population to grow by 33,900 residents by 2036, it is assumed that as much as $29.6M additional operating expenditure may potentially be incurred by then.

Population growth informs the timing of cost decisions. When existing facilities will be upgraded or expanded for example, or further when will new facilities be required as capacity of existing facilities are outgrown. Growth determines the tip off between existing and new (and the type and extent of new) and cost implications can be significant between existing and new.

Acquiring land and property to provide for the increasing need for affordable housing, open spaces and recreation, cycleways, and spaces for arts and culture, is an expensive exercise in metro Sydney.

How a council approaches these demands evolves within the Integrated Planning & Reporting cycle, including the Local Strategic Planning Statement (LSPS), the Community Strategic Plan (CSP) and the suite of medium term strategies that inform where scarce resources (finances and human capital) are allocated towards delivering services and projects for a growing community (via the Resourcing Strategy, Delivery Program and Operational Plans).

Figure 1: Integrating Planning and reporting framework at Randwick City Council



The Randwick City LSPS identifies 4 pillars (Liveability, Productivity, Sustainability, and Infrastructure & Collaboration) and 23 planning priorities with population growth an underpinning factor throughout.

Randwick is also in the process of establishing a consistent suite of informing strategies (10 year range as shown in Figure 1 above) to provide direction across major areas of community importance including the Environment, Arts and Culture, Economic Development, Transport, Open Space and Recreation and Housing. Based on research and focused on whole-of-the-City objectives, our rolling 10-year informing strategies act to simplify complex topics, while providing accountability for the sustainable achievement of outputs and outcomes over time.

Our Housing strategy highlights the need for Randwick Council to facilitate and/or acquire further affordable housing sites, aiming to increase affordable stock by 10% by 2036, to ensure future housing for key workers within our City. This has come about as population growth has led to the loss of appropriate housing stock which was once considered affordable.[5]

One of many approaches of our Environment Strategy responds to growth in aiming to increase by 60%, the number of native and indigenous plantings across Randwick City by 2030.[6]

Some growth led examples from our draft Arts & Culture, Open Space & Recreation, and Integrated Transport informing strategies include:

- increasing the number of places by 20% that are available for people to participate in art and culture by 2031,
- that every home in Randwick City will have open space of 1,000m^2 within 800m by 2031, and
- achieving an ownership rate of 5,000 electric or hybrid vehicles within Randwick city by 2031.

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

For councils in established city areas (without sewer and water responsibilities) costs associated with growth as it occurs (i.e. historical growth – measured by the ABS census) is largely reflected in operational costs aligned with increased service provision. i.e. increased maintenance costs for wear and tear, frequency of public cleansing of beaches and town centres, etc.

Whereas costs associated with projected growth tend to relate more to capital costs, i.e. costs associated with new and upgraded public assets, programs and initiatives, etc. all towards ensuring places and spaces are available and fit for the needs of a growing population over time.

The level and type of costs are of course influenced by a council's planning and policy decisions about revenue and agreed service levels, with demographic shifts over time varying expectations.

Exploration of our population forecast, and demographic profile has revealed that our population will grow by almost a quarter (23%) by 2036 with 33,900 new residents housed in 13,500 new dwellings over that time. The increased population in various age cohorts continues to present an ageing population while also a significant increase in lone-person households in that time.[4]

A significant type of population growth which is not represented in the figures above is growth associated with non-resident visitors, who add to the cost base of councils. Randwick City's population is impacted significantly by visitors as would the City of Sydney and other metro councils. Fortunately for our local economy, daily visitor movement into Randwick City is far greater than the daily movement out of Randwick City. This 'visitor growth' made up of workers, day students, and tourists, represents 1,000's of trips per day has proved difficult to measure in the past but its impact on our services, assets and infrastructure is assured.

The two largest employers in Randwick City are exempt from council rates. The University of NSW and the Prince of Wales Hospital complex form an expanding Health/Education collaboration area. This area is an important precinct within Randwick City and key to ongoing economic growth, attracting workers, students, patients, and day-trippers from all over the state.

Day-visitors utilise our amenities but do not contribute to the cost of providing this amenity. The burden to pay any future rates associated with population growth will be borne by ratepayers who already compete with non-ratepayers to utilise the same amenities.

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

It is accepted that the rate peg (as linked to the LGCI) does not capture the financial burden on councils to fund the increased service demand created by growth. This is because the rate peg adjusts for prices only. It follows in a simple sense that the costs not covered by the rate peg are often costs associated with the services and projects that a council decides not to deliver (or provides at a lower service level), and/or the worthy programs and events that do not run due to a lack of funding.

Whereas developer contributions, being more aligned to the delivery of new infrastructure, fail to contribute to the ongoing operating and maintenance costs of that new infrastructure.

Where a council is still able to produce a balanced budget, the gap here is more about opportunity cost (i.e. of opportunities foregone) rather than cost recovery. Historically, the decisions about the application of scarce resourcing and affordability have manifested in infrastructure backlogs and impeded financial sustainability across the industry.

The special variation process remains a valuable mechanism for councils to seek funding to meet costs associated with growth and build financial sustainability. This process is transparent in engaging communities in critical decision making about long term outcomes. It is noted that the special variation process will remain an option for councils regardless of reforms to the rate peg and developer contributions.

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 uplift in land value derived from the creation of newly subdivided properties can be rated part way through the year, for the remaining part of the year. Although the supplementary rating process does not capture optimum income from growth or all types of population growth, e.g. the addition of a secondary dwelling (granny flat) which will never be subdivided.

The supplementary rating process that can follow certain supplementary valuations is discretionary. It is currently Randwick City Council's practice, but not all councils avail of this opportunity as it comes with an administrative burden which may outweigh any additional rates yield.

In the case of strata subdivision, a council with a minimum rate structure might supplementary rate for a part year as multiple new lots will equate to multiple new residential minimums (on a pro rata basis). It is this scenario that proves cost effective in metro Sydney, but its ability to capture growth is limited to how many strata units are created. Comparatively, very little income is captured from supplementary rating of torrens title subdivisions as the uplift in 'unimproved' land value is negligible.

It is important to note that while the cost of growth within the context of supplementary rating may be confined to a new resident in the initial 'part' rated year, the cost of that growth in the years following is then determined by the distribution of rates via land value as determined by the whole rate base. And while minimum rates and base rates in some parts of metro Sydney, like Randwick, already fail to capture a reasonable share of the overall rates distribution, it is the ad valorem ratepayers who continue to carry a growing number of ratepayers who qualify for the minimum rate (n.b. it is generally ratepayers in residential strata apartments who are charged a minimum rate due to the artificially low land values that come as a result of strata subdivision and unimproved land values).

The current range of land values for residential properties containing a single dwelling is broad across Randwick City, with a residential strata unit at $65,880 on the low end – to a premium home situated on a prime coastal block at $10M at the top. This range in 2020-21 attracts annual rates (rates only, no annual charges) of $904.59 and $14,938.90 respectively.

The minimum rate of $897.08 in 2020-21, applied to 56% of all residential properties while contributing only 37% of all Residential rates.

IPART previously identified CIV as a superior basis for the valuation of land for rating when compared to unimproved land values in its 2016 Review of Rating. The use of CIV in Randwick City would narrow the range of value and allow a more equitable distribution of rates. It follows that Randwick Council remains an advocate for a shift to CIV for many reasons, not least its ability to also better capture population growth on supplementary levy.

Throughout the rating reform process Randwick also highlighted to IPART (and later the OLG) that the current 50% maximum income that can be derived from the total yield of an ordinary rate is too restrictive for growing metropolitan communities. Modelling done by Randwick at the beginning of reform revealed that a base rate of 70% or 80% would provide more flexibility for metropolitan councils to pursue equity in rating structures. In lieu of reform in this regard, it is noted that councils have access to the special variation process to increase the minimum rate beyond the rate peg and Randwick has availed of this opportunity through various SRV applications in the past decade.

The supplementary rating process has the ability to catch some rates income from new development appropriately as that development occurs and the new service demand commences (i.e. as the property comes on to the books and new owners move in). There is no correlation however, between the part income received from supplementary rating and the volume of new service demand. And since supplementary rating comes with an administrative burden which may not be cost effective, there is no evidence of a double-dip here, and no need to change this discretionary process with the introduction of a population factor.

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

For reasons mentioned above more work needs to be done to discover a reliable measure for non-resident visitors for LGAs, like Randwick, where visitor migration is prevalent (i.e. related to tourism, education and employment).

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)?

The number of rateable properties does not represent the number of dwellings and is therefore an unreliable measure (at least in metro Sydney). The differences in actual count being secondary dwellings and residential flat buildings which have never been subdivided.

Similar for development applications – not all DA consents are acted upon. A DA consent is conceptual approval for a probable intent. It is not until a development actually commences and later gets to occupation stage (Occupation Certificate) that development data could become meaningful.

Population data is probably the most holistic, though it would be more robust if reliable measures for movement across local government boundaries for tourism, education and employment (day and short term stay visitors) could be factored in.

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?

Not knowing at this stage (even indicatively) what a factor for population growth might look like for Randwick City it is difficult to answer this question at a council level, let alone consider it for a group of councils.

On face value however, setting at an individual council level might make the most sense. It is true that some neighbouring councils share some similar characteristics and pressures, and may face similar population projections, yet with their community make very different policy decisions in response.

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

The answer to this question depends on what a final model might look like.

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?

At this early stage the ‘adjusted’ or ‘blended’ option may appeal on face value. More work needs to be done in this space by IPART in an attempt to indicate potential yield and demonstrate the practicalities of administration to the industry. It is agreed that any option needs to be low cost to administer and simple to understand.

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

Income derived from a population factor should form part of general revenue, unrestricted and available to cover both operating and capital expenses.

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

As an advocate for CIV, Randwick notes that a shift to CIV would provide an efficient solution to the population growth issue (although it is noted that the NSW Government appears to have parked the CIV recommendation however). Possibly momentum from this review will lead to a reassessment of the current position.

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

IPART may wish to undertake a further analysis and/or data collection in relation to costs if it hasn't already done so. Especially if actual and/or projected costs end up informing how a population factor is derived.

Likewise, exploration of a reliable measure of non-resident population growth would be appreciated.

Thank you for this opportunity to provide feedback. Should you require further information or wish to discuss our comments in greater detail, please do not hesitate to contact Cherie Muir, our Coordinator Revenue, on [redacted]

Yours faithfully

[redacted]

Greg Byrne
Chief Financial Officer

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1. Randwick City Council Local Strategic Planning Statement (LSPS), pg 12
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2. DPIE Projection Explorer Tool for Randwick City Council, accessed 30 April 2021
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4. Randwick City Council Housing Strategy, pg 13
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6. Randwick City Council Environment Strategy, pg 5
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