Randwick City Council
a sense of community

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4 August 2021

Tribunal members
Independent Pricing and Regulatory Tribunal
PO Box K35
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Dear Sir/Madam

Review of the rate peg to include population growth
Response to Draft Report – August 2021

Thank you for the opportunity to respond at this Draft Report stage of review.

While NSW continues to be subject to an annual rate peg, Randwick City Council supports reform of the rate-peg system where the population growth of each council is incorporated in the annual rate base. Access to an enhanced rate-based income stream associated with growth across NSW is long overdue.

Council acknowledges IPART's proposal to maintain each Council's general income on a per capita basis as its population grows, and in principle agrees with IPART's singular recommendation (and underlying methodology) as follows:

> *"Each council's general income on a per capita basis should be maintained as its population grows. The rate peg for each council should be increased by a population factor equal to the annual change in its residential population, using Australian Bureau of Statistics data, with an adjustment for income derived through supplementary valuations."*

Council's modelling of the methodology shows that general rates income per capita can be maintained year on year as proposed. This method will contribute to IPART's aim to reduce industry reliance on special variations to patch up gaps in financial sustainability. It follows that Council's support in this case acknowledges the merits and intent of the proposed methodology in its ability to be readily understood, its simplicity, and its capacity to benefit all councils in NSW going forward.

Randwick Council is closely following reform as it unfolds in the Developer Contribution space and takes this opportunity to strongly advocate for the two reforms, while concurrent to remain decoupled and separated. The outcomes from these reforms should join-up to provide revenue certainty alongside growth that underpins financial sustainability, while not shifting the cost burden associated with development out to the established rating base. Any windfall aligning the rate-peg with growth should not be then eroded by a loss of developer contributions revenue.

Randwick's overarching support comes with the following notes and observations.

1. **Measure of growth**
   It is noted that Residential population (ERP) will be used as opposed to the DPIE population projections, because ERP is backward-looking, and projections are forward-looking and prone to fluctuation. Councils of course use projections in their strategic planning including Long Term Financial Plan

modelling and modelling that underpins our informing strategies, e.g. Housing Strategy. Hence, on face value the proposed methodology appears misaligned with our strategic planning, however Council acknowledges IPART's pursuit of simplicity with minimal adjustments going forward.

Council agrees that any option needs to be low cost to administer and simple to understand and a standardised method based on percentage changes presents a consistent approach across all councils.

2. **Should the methodology be re-based after the census every five years to reflect actual growth?**
   Yes – providing the re-based outcome is a positive (and not negative), which is consistent with the 'no negative growth' principle. Census data is point in time data which is widely thought to be an undercount.

   It may be important for those councils who experience significant re-basing in future to have the discretion to spread any spike over more than one rating year. This discretion would assist councils from having to levy any sudden rate rises.

3. **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?**
   Yes. A materiality threshold should apply to avoid any unnecessary administration and accompanying confusion associated with any future negligible adjustments. This is in keeping with the simplicity principle.

4. **A note on costs**
   Council accepts IPART's finding that the relationship between costs and residential population growth is primarily linear. Especially in metro areas where rate bases are majority residential and there is some evidence of economies of scale.

   However, if this analysis only looked at actual costs over time it has not captured the situation in which councils find themselves in tailoring their budgets and spending over time in relation to the funding available. While population growth is a significant factor in increasing variable costs it is not the only driver of rising costs per capita across the industry. Cost shifting from other levels of government for example also has a major impact.

5. **Deduction for Supplementary valuations**
   Council agrees with the need to reduce the change in population percentage by the amount of income achieved through the supplementary value process in the previous year in order to complete the Population Factor calculation. This is to prevent a double-dip on growth.

   It is our conclusion that the 'measure' of this previous year supplementary income is derived from the 'adjustments' shown on Council's Special Schedule "Permissible income for general rates" as published in a council's annual financial statements. This figure represents the change in notional general income during the year and is validated for each council by an annual external audit.

   Although a consistent and accessible measure that all councils have at their ready, this 'adjustments' figure only reveals the net effect of supplementary valuations taken up during the year. What is not shown in this figure for example is the losses that a council may have incurred where a highly rated business property is developed and subdivided for residential development.

6. **Rating structures determines who pays for growth**
   IPART aimed to ensure that new residents paid for the cost of growth. Of course this is not possible.

   The cost of that growth is 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 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 2021-22 attracts annual rates (rates only, no annual charges) of $922.69 and $15,242.50 respectively.

The minimum rate of $915.02 in 2021-22, applied to 56% of all residential properties while contributing only 37% of all Residential rates. 80-85% of all new dwellings over the next 10-years are forecasted to be strata apartments which will attract the minimum rate.

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 valuation.

It is noted that changing the basis of land value in NSW is outside the scope of this review.

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, Council is pleased to note that IPART acknowledges the arguments of other councils in this space who are advocating for much higher minimum rates.

In pursuit of incrementally raising the residential minimum rate, it would be useful if councils could distribute the full yield gained from a future population factor by applying it solely to the minimum rate without having to seek special variation approval to do so.

To demonstrate, if a population factor of 0.8% for example, was to yield an extra $758k, for Randwick next year, while an estimated rate peg of 2.0% was to yield an additional $1.89M. The yield for the rate peg could be applied consistently across the whole rate base as usual, increasing the $915.02 current Residential minimum rate by 2% to $933.32 while also increasing the ad valorem rates. And then the yield from the population factor $758k could also be applied to the minimum rate only, increasing the minimum once more for each of the 28,000 properties, lifting the minimum amount by a further $27, to $960.32. Allowing the minimum rate to increase like this (or some variant of this) without the burden of special variation intervention would go some way in balancing the distribution of equity within metropolitan rating structures, especially where the majority of new development is subject to the minimum rate.

7. **Residential population, not service population**
As a coastal council home to a significant health and education precinct Randwick Council has long known about the impact of the non-resident service population. Council notes IPART's position in focusing this reform and methodology on residential population only.

We agree that service populations are difficult to measure, have potential to be taxed in other ways, and also derive economic benefit for business ratepayers.

Council would like to flag that the assumption of economic gain for business ratepayers only benefits the Randwick community if those business ratepayers are also residents of the Randwick area. Should business owners reside in other LGA's (which anecdotally is often the case) arguably a large portion of the economic benefit derived from our service population does not remain in our community.

8. **Concurrent developer contribution reform**
It is imperative that any gain made by this rating reform not be eroded by any loss of Developer Contributions. Although both reforms relate to revenue it is critical that the two reforms remain separate and decoupled while leading to a overall strengthened revenue position for growing councils.

9. **Alignment of ERP and Supplementary Valuations 'Year'**
Of final and minor mention. The supplementary valuations adjustment calculation should align with the appropriate ERP year – this is the alignment of growth. For example, 2021 ERP will not be available until March 2022. The change in 2020 and 2021 ERP should be aligned with the supplementary adjustments for the same period e.g. 2020-21, and not 2021-22 as suggested in the Draft Report.

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]

Fong Wee
A/Chief Financial Officer