

17 May 2021

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Shellharbour City Council Submission IPART Review of Rate Peg to Include Population Growth

The following submission has been prepared by Council staff and is not necessarily a policy position of Shellharbour City Council. However, it does highlight from a practitioner's perspective the issues facing Councils like Shellharbour and other rapidly growing regional council areas.

Response to questions in issues paper

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

As the central role of Council is to provide facilities and services for the local community, most costs will increase with population growth.

As population grows so does the asset base for which council is responsible. As the asset base grows so do costs such as:

- The provision of new infrastructure and services
- Maintenance
- Renewal of existing services to cater for additional demand.

Population growth, particularly where it is occurring in greenfield areas with new and modern facilities, also raises expectations of the broader community about the standard of provision that is expected.

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

There are three different types of population growth that will have an impact on council's costs:

- Greenfield development
 - Adds significant new assets to council's asset base in a short period of time
 - Assets are added prior to population eg roads, drainage, parks are usually provided before the houses are constructed and creates a funding backlog

- This adds significantly to depreciation costs and adds a financial and resource burden on council.
 - Infill development
 - Puts additional pressure on existing resources
 - Increases maintenance costs
 - Renewal and upgrade of existing facilities is required on a more regular basis.
 - Changes to demographic profile of an area
 - Whilst not strictly population growth, the impact of redevelopment of areas may result in a significant change in the demographic profile of an area
 - Changes to the demographic profile of an area will impact on the scope of infrastructure and services that council needs to provide to create a liveable and vibrant community which will add to a council's costs.
- 3. What costs of population growth are not currently funded through the rate peg or developer contributions?**

There are a variety of costs that are not fully funded through either the current rate peg or developer contributions including:

- The additional staff required to maintain a consistent level of service to the community
 - Assets provided through conditions of consent
 - Additional costs imposed through State Government policy changes such as
 - Additional environmental standards/monitoring
 - Development assessment requirements
 - Monitoring and reporting changes
- 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?**

Whilst this process does adjust rates income to account for changes in property values as new allotments are created, it does not fully account for the additional cost burden imposed on council from the incoming population. Although it should be accounted for when determining any population growth adjustment to the rate peg to avoid double-counting, it does not negate the need for an additional adjustment for population growth.

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

The use of ABS historical data and DPIE projected growth data as a basis for population growth analysis is problematic as neither is truly reflective of what is happening:

- ABS historical growth data does not represent current growth rates accurately and results in a considerable lag in accounting for growth and
- DPIE projections are not sufficiently fine grained to accommodate changes in market conditions that impact on growth rates. This may result in a under or over stating of population growth.

When using population growth as a metric for determining rates income it is important to ensure that population data is accurate and responsive to current development patterns. The ABS and DPIE data do not, on their own, provide sufficient accuracy and responsiveness and should be supplemented in some form with data that is more current. This may include:

- Occupation certificate data which will provide information on the number of new dwellings that have been created
- Electoral roll data that provides a good proxy for the adult population in each area

Although often used as a means of estimating dwelling provision, the use of data such as water connections or garbage services is not recommended as it will fail to account for developments such as secondary dwellings that do not have separate services.

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)?

Population data is the most appropriate means of estimating growth when supplemented with growth data as outlined above.

Rateable properties are not an adequate proxy for growth as not all dwellings are rateable properties in their own right. This is particularly relevant with the increase in the popularity of secondary dwellings as a housing form. This approach would result in a significant and increasing understatement of the population.

The use of development applications as a proxy for growth is not appropriate as not all development applications proceed to construction and it is difficult to predict the ones that will not. It is an unreliable source of data for population. As outlined above, occupation certificates are a better indicator as they represent a dwelling that is completed and available for occupation.

It should also be noted that the use of population growth as a means of measuring the impact of development on council costs will understate the costs as it does not take into account the impact of non-residential development on council costs including

- assets such as roads and drainage that are constructed as part of industrial or commercial development,
- additional environmental monitoring for industrial development
- road and intersection upgrades required due to additional traffic generation
- Enforcement requirements.

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?

Even within given categories of councils there is not consistency between councils. Each council is different, with different growth rates, financial constraints etc and this should be accounted for when setting a population growth factor.

It is not appropriate to set a single figure for groups of council as this will result in windfalls for some and shortfalls for others.

Every council is a separate entity and each council should be separately addressed.

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

The creation of a minimum threshold would create an artificial barrier as there is no documented point at which population growth will not add to a council's costs. There should not be a minimum threshold for including population

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 other option?

As discussed in response to questions 5 and 6 above, the use of ABS historical data or DPIE projections a basis for population growth analysis is problematic as neither is truly reflective of what is happening. As suggested in our response to questions 5 and 6 there are alternate sources of information that could be used in a blended approach to calculation that would be more reflective of the situation.

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

To an extent, increases in council costs are proportional to the growth in population and the temptation may to use this as the basis for calculation of the rate of adjustment. The increase in costs experience by council, however, is not linear in nature. Different size populations require different levels of service and as populations exceed certain thresholds a higher level of service is required adding significantly to the costs to council. For example, the costs to council for a rural town on the fringe of a major city are considerably lower than those that are required for a regional city and population growth will contribute to the former developing into the latter. This will need to be addressed in the approach taken.

The system proposed should be based on an analysis of the experiences of councils that have undergone such growth. Significant consultation and data analysis is required before determining a method of calculation.

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

As outlined above, whatever approach is adopted it must reflect population growth in a timely manner to ensure that income matches growth with minimal lag.

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

The information provided and the process proposed lack certain critical information to determine an informed response. In this regard the following shortfalls should be addressed:

- The review process fails to identify whether the additional factor is location specific (ie only applies to the areas generating growth within an LGA) or will apply to the LGA as a whole.
- No information or commentary has been provided regarding the financial impacts of the proposed changes to the development contributions system on council's sources of income, funding structures or expenditure patterns (ie what is this additional money expected to pay for?).
- There needs to be further consultation with local government once a method has been developed to allow for analysis on council income and long term impacts.

General comments

Whilst Council supports the concept of increased rates funding as this is untied funding and provides greater flexibility for expenditure, it remains concerned about the scope of costs that will be expected to be funded from any additional funds raised.

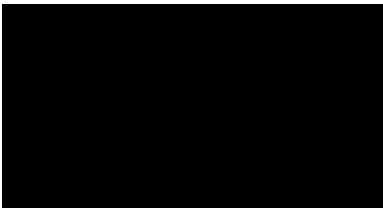
In this regard it is noted that this review forms an integral part of the package of reforms to the development contributions system proposed by the NSW Productivity Commissioner and these reforms also include changes to the scope of works that can be funded through development contributions and the increased use of borrowings to forward fund infrastructure works.

It is difficult to provide well-informed input into this review without a full analysis of the financial impacts of the proposed changes to both income and expenditure. In this regard it is recommended that IPART undertake extensive consultation with local government to determine:

- the extent of additional costs imposed on councils as a result of the developer contributions reforms,
- the additional costs to council that arise directly from population change and
- the scope of income that is expected to be raised through the proposed changes

This analysis should be made available to councils and should demonstrate that, as a minimum, councils will not be worse off as result of the changes.

Yours sincerely



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