WILLOUGHBY
CITY COUNCIL
City of Diversity

10 May 2021

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

Dear Tribunal members,

**SUBMISSION TO THE ISSUES PAPER – REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH**

Thank you for the opportunity to provide this submission on behalf of Willoughby City Council (WCC).

**Introduction**

WCC welcomes reform to the rating system that allows councils to grow revenue beyond the restrictive rate cap. However, aligning rates revenue with population growth must be equitable and not further burden existing ratepayers.

Information provided to date suggests existing ratepayers would not be burdened by increasing rates as a result of population growth. However, no clear explanation has been provided as to how new developments and new units would pay more, while existing units and houses remain protected by the rate cap. The current system provides for the rate peg to apply only to a council's Permissible Income. The Permissible Income is the total value of land rates that council is permitted to raise and it is not applicable at an individual property level. Hence, it is difficult to hypothecate rates directly to new residents. This also appears inequitable, particularly in infill and areas increasing in density compared to greenfield sites which the proposal seems to be targeting.

Conversely, if development and population growth lead to higher rates for existing residents under this proposal, existing residents would, in effect, take on the burden of providing infrastructure that was previously the responsibility of developers.

Following its review of the Local Government Rating System in December 2016, IPART recommended (recommendation number 3.2) to mandate the use by metropolitan councils of Capital Improved Values (CIV) in setting rates, and to allow a choice for non-metropolitan councils regarding the use of CIV. Compared to the current method of allocating rates using unimproved land values (ULV), the use of CIV would result in more equitable rating for dwellings in multi-unit properties. For example, using CIV, a 3-bedroom unit would typically pay higher rates than a one-bedroom unit. Rates levied on a CIV basis would be better understood by ratepayers and would more accurately align individual rate burden with the cost of providing services and infrastructure. IPART noted in its review that *'CIV is also consistent with best practice in other jurisdictions'*. The use of CIV could also align rating methodology with the growth in population.

IPART's March 2021 *Issues paper – review of the rate peg to include population growth* indicated developer contributions are not the focus of IPART's review. However, it is important to acknowledge IPART is reviewing the rate peg at a time when the NSW Government is proposing significant reforms affecting developer contributions. It makes little sense to consider changes to one major source of funding for local infrastructure (rates) without addressing proposed changes to another major funding source (developer contributions).

WCC opposes any narrowing of the definition of essential works used in Section 7.11 (s7.11) contribution plans. For example, excluding community facilities and open space embellishments from the definition of essential works could lead to shortfalls in such infrastructure, in locations where densification of housing and population occurs. The adverse effects of inadequate public open space and community facilities would be exacerbated by demographic changes typical of locations undergoing urban renewal.

Population growth in Willoughby in recent years has been concentrated in apartment blocks, which attract young families, or in redevelopments or granny flats which house growing families. These families desire and need open space and community infrastructure. It would not be equitable to shift more of the costs of this infrastructure away from developers and onto local ratepayers.

Proposed changes to councils' ability to collect funds for local infrastructure through s7.11 contributions could cost WCC more than $19 million across the ten years from 2023 to 2032 (an average revenue reduction of $1.9 million per year) compared to WCC's current IPART-approved Infrastructure Contributions Plan.

WCC also opposes reducing Section 7.12 (s7.12) contributions from alterations and additions to zero. This would fail to address pressures on infrastructure caused by urban renewal. For example, knocking down a cottage from the 1950s or 1960s and replacing it with a five or six-bedroom house (or multi-dwelling units) leads directly to demographic change, increased population and increased demand for infrastructure. Proposed changes to s7.12 contributions arrangements could cost WCC $26 million across the ten years from 2023 to 2032 (an average revenue reduction of $2.6 million per year) compared to WCC's current IPART-approved Infrastructure Contributions Plan.

Acknowledging councils have been offered only limited information about proposed changes to developer contributions, WCC is concerned additional revenue available from linking rates to population growth would be outstripped by revenue unable to be collected due to changes in legislation governing developer contributions. As a result, WCC could experience a net reduction of $45 million in funds available for provision of local infrastructure from 2023 to 2032. This is equivalent to an average net revenue reduction of $4.5 million per year compared to WCC's current IPART approved Infrastructure Contributions Plan and the existing rate cap.

When the proposed reforms are considered together, WCC could be significantly disadvantaged financially. WCC does not expect it to be tenable for rates to increase by $4.5 million annually (8.3% higher than the existing rate base) to make up for the combined shortfall in S7.11 and s7.12 revenues. If rates did increase by that amount it would be fundamentally unfair on new and/or existing residents and unaffordable.

Assuming rate revenues would not increase sufficiently to cover lost LIC revenue, this would lead to an inability to complete essential projects and provide essential infrastructure to Willoughby's growing and changing community. The alternative would be that Council would not be financially sustainable.

**Submission:**

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

Willoughby's population growth has been concentrated in medium and high density apartment blocks which grew by over 2,100 between 2011 and 2016. Residents in these medium to high density developments (mainly young families), have a need for open space infrastructure for passive and active recreation, along with youth and community facilities. The demand for this infrastructure leads to a need to increase the carrying capacity of existing open space and community infrastructure (as there is very little space for new facilities and land values are high).

Council's ovals and open space infrastructure are often relied upon by growing school populations, with many losing their campus open spaces as part of building expansions to accommodate increasing demand for school places. In the past, Council has co-funded the development or redevelopment of significant sporting facilities, including ovals, where they have been provided in school grounds. This funding would no longer be available if the definition of essential works is narrowed significantly for the purposes of section 7.11 contributions plans.

As an urban renewal area, Willoughby City's population growth means Council faces increasing costs associated with expanding the capacity of existing open space assets for recreation, followed by the provision of social infrastructure such as libraries, youth facilities and aquatic facilities. Council's libraries are very popular, safe study venues for students outside of class hours.

Council's costs associated with operating and maintaining infrastructure also increase with population growth. Within 5 to 10 years, these ongoing costs typically outstrip capital outlays for infrastructure improvements required by population growth.

Infrastructure contributions should be made by developers to help deliver the infrastructure needed as communities grow. This reflects a long-standing user-pays (beneficiary pays) principle. WCC strongly opposes any proposals that reduce the contributions made by developers (the major beneficiaries) to fund the upfront cost of this infrastructure that meets the demand generated from their developments.

**Issue 2: How do council costs change with different types of population growth?**
Changes in the demographic, socio-economic status and age of a community impact on the types of council costs and the infrastructure required by the community. Urban renewal in Willoughby is catalysing a shift away from an ageing population preferring single or double dwellings to a higher density, younger population. Young residents living in medium to high density dwellings with little private open space desire more public open space and venues for social interaction or study.

Couples with children comprise 37% of Willoughby LGA's household types. Sixty-three per cent of the population are aged under 44 years. This drives demand and leads to pressure on existing open space and community facilities. Every weekend, demand outstrips supply for sporting fields, and they are heavily utilised for recreation and training throughout the week. A 2017 "Sportsground Strategy Review" by OTIUM Planning Group quantified and reaffirmed a gap between supply and demand for open space for sports uses in the northern Sydney region. This review found "existing sportsgrounds (already over capacity) will not be able to cater for additional population growth. Forecasts show councils will need to increase the capacity of sportsgrounds by 26% (62 hectares of playing space) by 2026 and 40% (96 hectares) by 2036". It is therefore vital that the carrying capacity of existing open space assets be enhanced.

Similarly, the growing proportion of young families in Willoughby means demand for social infrastructure is strong. Our libraries service an average of 2,212 people per day (807,433 visits per year).

Commercial development and resulting employment growth also contribute to the need to increase capacity in safe public spaces and community facilities (before and after work and at lunch times). In 2016, there were 64,000 people employed in the Willoughby LGA, many of these travelling from other LGAs. This is forecast to grow by a further 10,600 by 2036 to 74,600. Developers of commercial facilities should share in the upfront cost of increasing the capacity of open and public spaces and community facilities that employees and visitors use.

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

Developer contributions only contribute to upfront costs of infrastructure and not ongoing operations or maintenance costs.

Councils currently rely on rates and other sources of continuing revenue to maintain roads, stormwater, drainage, open space and buildings. In addition, residents, employees and visitors strongly value community events and services that contribute to social cohesion, community pride and vibrancy that further attracts economic investment in the area. The costs of providing these assets and services exceeds revenue from rates and developer contributions. This 'gap' is further exacerbated by cost pressures driven by population growth.

With an own source operating revenue of close to 80%, WCC does not rely on grant funding to address the financial shortfall between rates and contributions revenue and the cost of infrastructure and service provision. WCC proactively manage this funding gap through revenue sources such as parking fees, investments, and user funded services such as planning advisory services. However, these revenue streams have been significantly impacted by COVID-19, with a direct revenue loss of more than $14 million over the past 15 months. Many of these revenue streams continue to be impacted by Covid-19 and are unlikely to grow significantly into the future. They will not be able to cater for the large financial impact that would arise if proposed changes to developer contributions are implemented.

**Issue 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?**

Analysis by the Centre for International Economics for the NSW Government concluded supplementary valuations generally have only a small impact on rating revenue in response to population growth. With this in mind, it may not be worthwhile to try to account for supplementary valuations when incorporating population growth into the rate peg.

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

Willoughby City Council will review recommendations in IPART's forthcoming draft report on changes to the rate peg to include population growth, and may provide feedback on this topic during IPART's planned public hearings in August 2021.

**Issue 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 figures released by the ABS, outside the Census, which occurs only every five years, are estimates and not necessarily a reflection of the actual population. Population figures also ignore cost pressures arising from employment and tourist visitation.

It may be appropriate for a method of linking the rate peg to population growth to incorporate a blend of population data and data on the number of rateable properties.

**Issue 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?**

A population growth factor should be set for each council as each LGA has different growth and characteristics which will change over time. If this is viewed as undesirably resource intensive, we suggest the cost and effort involved in developing and maintaining council-specific population growth factors should be weighed carefully against equity considerations for different local communities, which will inevitably arise from applying common growth factors to different local government areas.

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

The minimum population growth rate threshold should be zero for linking rates to population growth.

**Issue 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?**

Population projections for areas like Willoughby assume Australia and Sydney will continue to receive significant numbers of international immigrants. These projections are likely to be impacted by the global COVID-19 pandemic, and other sources of global economic and social volatility. A "true-up" would involve measuring actual population growth rates (when known) against the previous forecast and adjusting rates up or down based on the difference between forecast and actuals. This would cause significant uncertainty, with true-ups leading to significant revenue volatility for Council and potentially, highly inconsistent and variable rates levied to ratepayers from year to year.

**Issue 10: How should the population growth factor account for council costs?**
WCC would like to engage further with this question after reviewing IPART's forthcoming draft report in June 2021.

**Issue 11: Do you have any other comments on how population growth could be accounted for?**
Willoughby City Council welcomes the opportunity to participate in a dialogue about linking the rate peg to population growth. Council emphasises its view that benefits for local infrastructure arising from reforms to the rate peg should not be undermined by reforms to developer contributions. The Government has not yet released sufficient information for councils to evaluate with confidence the impacts of both proposed reforms together. However, the available information – primarily a briefing note by the Centre for International Economics – does not provide confidence that the proposed reforms, taken together, will have a net positive impact on local infrastructure for communities.

**Issue 12: Do you have any comments on our proposed review process and timeline?**
To date, the review process has been hard for councils to engage with in a meaningful way. The proposed mechanisms for calculating rates are unclear, making it difficult to provide feedback.
These challenges are compounded by the concurrent, but procedurally separate, review of developer contributions frameworks by the NSW Government.

The timing and number of opportunities for councils to provide input into IPART's review of the rate peg should be revised to allow councils visibility of clear, detailed proposals on both rate peg reforms and developer contributions reforms, before final recommendations are developed for either reform.

Thank you for the opportunity to provide this submission on behalf of Willoughby City Council (WCC). If you have any enquiries or require clarification, please do not hesitate to contact me directly.

Yours sincerely

[redacted]

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