

Review of Local Government Rating System
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

3 May 2021

Dear Sir/Madam,

Review of the Rate Peg to Include Population Growth – March 2021

Thank you for your invitation to make a submission in response to the Review of the Rate Peg to Include Population Growth Issues Paper – March 2021. The opportunity to submit comment on the items detailed below is welcomed.

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

Council's Operational and Capital costs increase as a result of population growth. Population growth leads to an increased demand on Council's services and infrastructure and increased community expectation for Council to deliver these services and quality infrastructure.

Infrastructure supplied by developers requires ongoing maintenance which leads to increased costs to maintain this new infrastructure to the community's standards.

Increased costs will also arise from population growth outside of residential population growth. For example growth in business or employment hubs and tourist properties creates an increase to the demand on Council infrastructure and services such as roads, parking and facilities and should also be considered in IPART's modelling for population growth.

I note that Wollondilly Shire Council is part of the National Growth Areas Alliance, which is the peak body representing growth area councils around the Australia. The policy pillars include investing in places for people and unlocking economic growth. As a growth Council we have the challenges faced by urban fringe councils where there is an expectation to provide more, with less. This in its essence is a policy challenge IPART should be cognisant of when setting State wide policy.

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

All population growth places demands on Council services and infrastructure and increases the costs of providing and maintaining infrastructure.

Historically Wollondilly Shire Council is a rural low-density population. Expected future development and growth in Wollondilly will result in new population centres and new infrastructure to maintain.

As time and population change, the type of infrastructure and expectations change, and so do the costs. For instance, digital infrastructure will become 'normal' in future. We are only now starting to understand the construction, ownership and costs involved. As this rolls out in new areas, there is then an equity and fairness issue that a commensurate level of service and infrastructure is provided to existing population.

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

As outlined in page 5 of the issues paper development contributions do not provide for the operating and maintenance costs of new infrastructure from development or increases in the volume of services demanded by the additional population. Some increase in rates resulting from growth is allowed outside of the rate peg however this is not commensurate with population growth or the costs of maintaining new infrastructure and servicing the new demand for Council's services and further additional infrastructure. Not only this, but the productivity commissioner has announced changes that mean contributions will only fund 'essential' local infrastructure and that the provision of assets such as community buildings for new communities will now be borne by Councils. This is placing extra demand and pressures on local government.

In May, 2015 IPART approved a Special Rate Variation (SRV) for Wollondilly Shire Council to address an infrastructure maintenance back log for existing Council infrastructure. Reduction of the infrastructure back log is ongoing and without adequate funding to maintain new infrastructure this would result in a future need for Council to make application for an additional SRV or to reduce current services.

The process of making application for an SRV results in significant costs and the diversion of staff and resources away from providing services. Without the ability to recover additional costs Council would become financially unsustainable if the demanded level of service continued to be provided.

Due to the current rate exemption provisions in the Local Government Act 1993 (LGA) population growth from community housing provided by Public Benevolent Institutions results in a cost to Council. Community housing providers place the same demand on Council services and infrastructure as other residential properties but are not required to make a contribution to these services. Current LGA exemption provisions are inequitable and place an unfair increased burden of rates on other ratepayers.

Due to the use of unimproved land value as the basis of rating, growth in secondary dwellings or granny flats results in an increased demand and therefore cost to Council services yet no increase to Council's rate base. This issue could be resolved with the use of Capital Improved Valuations (CIV) as the basis of rating.

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 Council's current supplementary rate process does allow for some growth outside of the rate peg it is not commensurate with population growth or the rising costs related to additional service provision and maintenance of existing and new infrastructure.

The growth in rates from supplementary rates only occurs when there is an increase in the rateable land value but there is a poor correlation between the change in the rateable land value and the increase in population and additional costs to Council. If the rateable land value does not increase as may be the case with some low-density development no additional rate income is received from supplementary rates yet Council has an additional population to service.

It is noted that the NSW Government dismissed IPART's recommendation to allow Council's to use CIV as the basis of rating, however, it should be noted that use of CIV is consistent with best practice in other Australian states, would allow Council's to maintain a simple and transparent rate structure without the need for use of the additional sub-categories that form part of the Local Government Act amendment Bill that is currently before parliament and would align the process of calculating supplementary rates with the growth in population without the need for a complicated growth factor which may not be commensurate with Council's actual growth.

Use of CIV would allow Council's to receive growth from supplementary rates at three stages, firstly, when a property is developed and vacant land is registered, secondly, when a dwelling is built on the new property and it becomes occupied and thirdly, when large capital improvements, such as a secondary dwelling or granny flat are added to a property.

Use of CIV would also ensure that properties with a secondary dwelling/granny flat are equitably rated as the secondary dwelling/granny flat would be captured as part of the assessments CIV. In these circumstances use of the unimproved valuation as the basis of rating is not equitable and does not adhere to the ability to pay principle of rating.

Further consideration should be given to mandating part year rating following registration of a new Deposited or Strata Plan in the LGA. Inconsistencies currently exist in the LGA which have created inconsistencies with how supplementary rates are applied between NSW Council's.

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

Suggested population data sources are currently used by Council in planning projections and documents and are therefore an appropriate source for population data. Use of historical growth data may not allow Council's to keep pace with rising costs. Consideration should also be given to non-residential population growth, including growth to commercial properties and employment hubs.

Part of the challenge experienced in local government is the inaccuracy of DPIE population growth. Council recently wrote to the Department to highlight that the 'current' review was out and that our growth was already accelerating by more than 3 times.

That letter highlighted the concern that this data was being used to plan for infrastructure, and therefore, creating significant shortfalls in planning, funding and delivery. Councils should have carriage of growth and population projection inputs for calculations; current data used by ABS/DPIE are misrepresentations of forecasting

I also note using Council data would create a level of consistency between our contributions planning (based on our data) and the basis of funding growth. Otherwise there is a mismatch of data, sources and incomes.

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)?

To measure 'growth' Councils, Sydney Water and other agencies often base their counting on either occupation certificates as dwelling completions or the like. Population data (unless it is the census) is not as factual. There is also a measurement based on lot yield, however this does not account for the number of dwellings or units on one property.

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?

Each Council has unique circumstances with regard to population growth and varying costs to provide expected levels of service and infrastructure. To enable population growth to be appropriately accounted for based on each Council's individual circumstance the growth factor should be set specific to each Council.

Although outside of the terms of reference further consideration should be given to the removal of rate pegging. Council's should be responsible for determining its own level of rate income in consultation with its community and be accountable to its community as is the case in other states in Australia.

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

No minimum threshold should be set for including population growth in the rate peg and it is agreed that as detailed on page 11 of the issues paper that Council's not experiencing growth should not be negatively impacted by the introduction of a growth factor.

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?

Taking into account the pros and cons outlined on page 10 of the issues paper a blended growth factor is most supported. Of particular importance is that the time lag between the growth factor and actual growth be minimised to ensure that Council is able to keep pace with rising costs resulting from increased population.

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

This is a critical question, not easily answered. This question for the IPART review must be holistically considered with the changes to the development contributions review.

Whilst rates income would increase, the stresses of what it needs to pay for will also increase. Population and growth factors for rates should include inputs that consider what the contributions system will be losing as part of the encompassing IPART Review. This relation must be made clear in the document, such as in the 'Reformed Rate Peg Table' (Figure 2)

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

As raised in point 4 the use of CIV as the basis of rating would allow for increased supplementary rates without the need for a growth factor, would increase equity of the NSW rating system and more align rates levied with the rates ability to pay principle.

As it is proposed, if the rate peg is increased by the growth factor it would be applied to Councils rate structure as a whole, which may cause an unintended inequity. An alternative that could be considered is to allow the growth factor to be applied to new residents only, across the existing rate base as a whole or some combination of both. This would provide Councils with the flexibility to implement what best fits with the drivers of growth that they are experiencing.

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

Release of the Issues Paper and Draft Report during the period where Council resources are diverted to preparing 2021-22 Operational Plans, budgets and preparing for an upcoming election may reduce the capability of smaller resource poor Council's to give the consequences of the Issues Paper and Draft Report due to be released in June 2021 the due consideration and make submission.

It also is noted that the Final Report is scheduled for release in September, 2021. As Council elections are scheduled at this time the timeline may not allow for sufficient time for newly elected Council's to consider the report and provide appropriate response.

If any further information is required please do not hesitate to contact Council's Revenue Team Leader, Simone Fisher on [REDACTED]

Yours faithfully,

Rob Seidel
Chief Financial Officer