

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

6 August 2021

Dear Sir/Madam,

Review of the Rate Peg to Include Population Growth – Draft Report June 2021

Thank you for your invitation to make a submission in response to the Review of the Rate Peg to Include Population Growth Draft Report – June 2021. The opportunity to submit comment is welcomed and we appreciate the consideration that IPART has given to our previous submission made on the Issues Paper.

We have included a response to each of the three items that IPART is seeking feedback on below and have made further comments which we note are outside of the terms of reference for this report but we feel are of significant concern to Council's and should be considered further by the NSW Government.

1. Should our methodology be re-based after the census every five years to reflect actual growth?

It is agreed that NSW Councils are not currently adequately compensated for population growth under the current rating system. This has prevented Council's from maintaining a per capita general income as population grows and from raising adequate rates to maintain infrastructure and to service a growing population.

Since 2019 Wollondilly Shire Council has continued to receive a higher number of development applications compared to preceding years. In 2021 the increase will amount to approximately 40% compared to 2019. Increased development activity is also apparent in the number of pre-DA applications, complying development certificates, duty planning enquiries, subdivision certificates and construction certificate applications.

The Wilton Growth Area is expected to provide and meet our housing targets with capacity for 9,200 homes (already zoned land). Capacity for an additional 1,600 homes in the Wilton Town Centre is likely to be rezoned in the very near future. Significant housing stock is still being released in the Bingara Gorge development as well as the substantial existing capacity that exists in already zoned but yet to be realised R2 and R3 zoned residential land in the Shire. In the medium term, up to 30,000 additional dwellings are also expected to be released in the Greater MacArthur Growth Area.

These indicators as well as acute ongoing labour shortages in the construction and related industries also point to a sustained growth trajectory for the LGA.

The proposed methodology will improve Council's ability to maintain its general income on a per capita basis as population grows, however the use of historical growth data may not allow Council's to keep pace with population growth and the rising costs resulting from the increased population. As highlighted in Council's submission to the Issues Paper, there are concerns that current data used by ABS are misrepresentations of forecasting and Councils should have carriage of growth and population projection inputs for calculations.

The use of Council data would also 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.

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.

We note IPART's comments that inaccurate and under reporting of population growth in ABS data would for most Councils have minimal impact but have concerns that the cumulative effect of this over years may be material and would therefore request that any material discrepancies following availability of census data be adjusted to reflect Council's actual growth.

2. 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?

As noted above we have concerns that use of historical ABS data may under report Council's actual growth and may over time lead to a cumulative material discrepancy between Council's estimated and actual growth.

As answered in the submission to the Issues Paper we maintain support for a blended growth factor and have concerns that calculation for population growth from a single data source may produce inaccuracies which may become material over time. We would therefore agree with the principle of applying a true up on a case by case basis to reflect actual growth.

3. Do you have any other comments on our draft methodology or other aspects of this draft report?

It is agreed that as outlined in IPART's Draft Report that Council's are partly compensated for population growth through the supplementary valuation process. We therefore agree with the methodology on page 6 of the Draft Report to adjust the growth factor by the supplementary valuations percentage.

We would however request that reporting for this be kept simple and consistent with reporting already made through Schedule 1 of Council's Permissible Income Workpapers. These work papers are already completed by every NSW Council to ensure that the rate peg is correctly applied and that supplementary adjustments are taken into account and the results are further reported in each council's annual Financial Reports as a Special Schedule.

As highlighted in our submission to the Issues Paper we maintain concerns that the

proposed system will lead to inequities with ratepayers located some distance from development and major growth centres. Unless residential sub-categories are widely used this will result in ratepayers outside of growth centres incurring increased rates as a result of the growth factor.

IPART's comments on page 16 of the Draft Report that existing ratepayers will also likely benefit from improvements to services and infrastructure to service population growth may not be accurate in rural or semi-rural Local Government Areas (LGA's). As an example, Wollondilly Shire Council is currently experiencing significant growth in Wilton. Under the proposed methodology residents in towns located up to 60 kilometres away or geographically isolated from the growth centre would be required to make additional rate contributions as a direct result of the growth despite not being within reasonable proximity to the new growth centre and its services and infrastructure.

The use of residential subcategories to apply the growth increase only to particular areas would lead to an overly complicated rate structure, difficulties justifying the rate structure to ratepayers and possible future inequities.

It is noted that on page 14 of the Draft Report that the proposed adjustment will not include any adjustment for past growth and that Council's could apply for a Special Rate Variation (SRV) for any catch-up from past growth. The process of making application for an SRV results in significant costs and the diversion of staff and resources away from providing services. Council would therefore welcome a simplified SRV application process for the purposes of this one off adjustment for catch-up from past growth.

Although outside of the terms of reference for this report we feel the below issues are of significant concern to Council's and should be considered further by the NSW Government.

Further consideration should be given to the types of properties that can be granted exemption from rates. Current provisions allow for properties used for residential purposes by Community Housing Providers and Religious and Charitable Organisations to be exempt from rates. Such exemptions create a misalignment between the number of ratepayers and the population benefiting from Council's infrastructure and services and creates an inequitable burden of rates being redistributed amongst ratepayers not eligible for such exemption.

The NSW Government should give further consideration to IPART's previous recommendation and provide Council's with the option to use Capital Improved Valuations (CIV) as the basis for rating.

Due to the use of Unimproved Land Value (UIV) as the basis of rating, growth in secondary dwellings or granny flats results in an increased population and demand and therefore cost to Council services yet no increase to Council's rate base. This issue could be resolved with the use of CIV as the basis of rating. Use of CIV would 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 UIV as the basis of rating is not equitable and does not adhere to the ability to pay principle of rating.

If increases to population growth resulting from growth from secondary dwellings is

captured in the growth factor this would also cause other ratepayers an increased burden of rates which is not equitable. The option to use CIV as the basis for rating would cause an increase to the rateable land value when a secondary dwelling is built/occupied and allow Council to apply rates to the individual property creating the increased demand for Council services.

As raised in point 4 of Council's submission to the Issues Paper, 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.

It is noted that changes to development contributions are beyond the scope of this review. We agree with this position and strongly advocate against any alignment that leads to reduction in Developer Contributions due to increased rates.

The reduction of Development Contributions and cost shifting to existing and future ratepayers will place extra demand and pressures in Local Government and will lead to inequities within the NSW rating system.

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

Yours faithfully,

[REDACTED]

Rob Seidel
Chief Financial Officer