Review of the rate peg to include population growth

Public Hearing Transcript

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Local Government

Tribunal Members

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Ms Deborah Cope
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IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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1.1 Zoom meeting housekeeping

Ms Livingstone: Good morning and thank you for your interest in IPART's Review of the rate peg and incorporating population growth into that. I'll just go through a few housekeeping rules before we get started. Firstly, can I ask you to keep your microphone off if you're not speaking, that just helps reduce the background noise that we all hear. If your internet connection allows and it seems to be working smoothly, it'd be great to have your camera on, especially when you're speaking it makes it a bit easier for us to connect. If the internet connection gets a little bit dodgy don't hesitate to turn it off so that you can still hear the hearing. We are going to be recording today's session to YouTube, so that we've got an accurate record of your feedback. We'll post a link to that YouTube recording on our website in a couple of days' time along with a transcript of today's hearing. This is a public hearing so anyone here is free to report on what is said, including the media. I just want to alert you to that, but also want to encourage you to participate fully and have good open dialogue today.

We are going to have 3 presentations this morning to kick off our session. The first will be from IPART about our Draft Report and where we've got to so far. DPIE (Department of Planning, Industry and Environment) is then going to give us a little bit of context around broader reforms that are occurring in the sector, though today's focus will be on the rate peg and our review and the Terms of Reference we've been given there. Then thirdly, we're going to hear from Linda Scott at Local Government NSW.

Before we get stuck into the presentations, I'd like to welcome IPART's Chair, Carmel Donnelly to the public hearing. Carmel started as IPART's Chair on 1 July and this is in fact her first public hearing with us, so welcome Carmel, and I invite you now to make your opening remarks.

1.2 Welcome and Acknowledgement of Country

Ms Donnelly: Thank you Liz and good morning everyone. So, my name's Carmel Donnelly and as Liz has said I'm the recently commenced Chair of IPART. We also have with us today my fellow Tribunal Members Deborah Cope and Sandra Gamble. Also of course, IPART CEO Liz who you've just heard from, who is our MC for today, and the Secretariat team from IPART, particularly Sheridan Rapmund and Cameron Shields.

I'd like to start by acknowledging the traditional custodians of the land on which we're meeting today. Obviously, we're on many different lands and I'm coming to you from Wangal Country. I want to pay our respects to Elders, past, present and emerging, and all our aboriginal stakeholders and customers and colleagues. So welcome to this IPART public hearing. We absolutely welcome and value your input today. Thank you very much to everyone who has made the time to participate today.

Just before we start, I'd like to speak briefly about the Terms of Reference for the review. The context of course is that councils are not adequately compensated for population growth under the current rate peg system. The Terms of Reference for this review do ask IPART to recommend a methodology that enables council's general income to increase in line with population growth. It asks us to do that without penalising councils with stable or declining populations. And the Terms of Reference also note that further changes to the calculation of the rate peg or maximum allowable income, will not be considered.

The methodology that we have proposed would ensure councils maintain their rate income on a per capita basis as their population grows. This would enable councils to provide services to their growing population. And the methodology would enable a fairer rate pegging system to ensure adequate compensation for councils, relative their general income level, as their population grows.

Now stakeholder feedback over this review has highlighted other issues for local government and for ratepayers, and we need to be clear that this review will not address all issues. We do anticipate that councils would still need to apply for a special variation in some cases, but this proposed change to rate pegs should ensure that councils have financial sustainability over the long run. More financial sustainability, particularly as population grows. So, your questions and views and suggestions relevant to the Terms of Reference would be most useful to us and I want to speak briefly about the time frame for the review.

This hearing is one important step in the review consultation. We'd be particularly pleased to hear questions and views reflecting on the Draft Report which was released on the 29th of June, and I'd like to remind you that submissions are due by the 6th of August. We'll consider the views provided today, and also in the written submissions in preparing our Final Report and recommendations to Government in September this year.

Thank you again for joining us today. I look forward to hearing your views and questions and I'm going to hand over to Cameron Shields from IPART to present, in preparation for hearing your questions.

Ms Livingstone: Just before Cameron starts, following the presentations that we have, and Cameron will give that the first one. We will have a question and answer session. We won't take questions during the presentations, we'll run the 3 consecutively. But if you do have a question for IPART or a comment that you want to make to the Tribunal please let us know via the chat box. Let us know the organisation you're from and that you'd like to speak, and we'll come to you in turn.

So, if you think of something during the presentations and you want to flag that you'd like to speak please do that via the chat box. The alternative is to put up your hand in Zoom if you'd like to do that as well. But we'll come to you in turn but yes please now Cameron can you share with us your presentation about IPART's Draft Report, thank you.

1.3 IPART Secretariat presentation

Mr Shields: Thank you Carmel and thank you Liz. IPART has published a Draft Report for our review of the rate peg to include population growth. The Draft Report includes a recommendation which outlines our proposed methodology to maintain each council's general income on a per capita basis, as their populations grow.

As part of our review we looked in detail at how council's costs and revenue changed over time due to population growth. We found that councils operating costs mostly grow in line with population growth, as shown in the chart on this slide, which uses data over the past 20 years.

We also found that council's capital costs increase with population growth and the increase in cost varies depending on factors such as the type of development. Our research found that the majority of councils' capital costs are funded through developer contributions and other funding sources, and that it varies from council to council and over time.

We found that councils already received some growth in revenue outside the rate peg through supplementary valuations. The Valuer General issues supplementary valuations when there are changes in land value outside the usual 3 to 4-year general valuation cycle, and most often occurs when land has been rezoned or subdivided.

Our analysis indicates that through this process councils are increasing their notional general revenue by about 60% of the amount required to maintain their rates on a per capita basis in any given year. Although we also found that this varies between councils and over time. Each blue dot on this chart represents a council. All councils below the dotted line are not increasing their notional general income enough to maintain their per capita rates as their populations grow.

In summary our research found council's costs increase with population growth. The relationship between cost increases and population growth is mostly linear. We also found some evidence of economies of scale in larger councils.

We found the costs of population growth vary depending on the type of development. Some capital costs are required to facilitate development, while other capital costs are incurred over time as populations grow.

We heard from a range of councils as part of this review. Some councils particularly regional and rural councils raise issues related to population growth that cannot be solved through this change to the rate peg. In particular, councils that service large tourist populations or have stable or declining population basis. Ultimately, we found that existing service levels are the best indicator of the likely per capita cost of population growth over time.

We have proposed a draft methodology that will enable councils to maintain their per capita general income over time as their populations grow. The draft methodology will apply to all councils and will effectively set a different rate peg for each council. The draft methodology includes a population factor based on the percentage change in residential population in each council area, using the Australian Bureau of Statistics estimated residential population (ERP) data. The population factor is adjusted for the impact of supplementary valuations.

If the council's supplementary valuations percentage exceeds its change in population, indicating the council has recovered more revenue through supplementary valuations than is necessary to maintain per capita general income, then the population factor will be zero. Councils with negative growth or negative population growth will have a population factor set to zero. These councils will receive a rate peg that is determined in the same manner as it is now.

We considered all stakeholder submissions when formulating our proposed approach. We considered each aspect of our approach against the principles outlined in our Draft Report. Our proposed methodology is based on a change in population, rather than a change in the number of dwellings or rateable dwellings. It reflects the change in residential population, it accounts for the impact of supplementary valuations and it maintains per capita general income over time. This approach will apply to all councils however we acknowledge that there may need to be an adjustment to the population factor for some councils over time.

This chart shows the impact of our draft methodology over the past 4-years using actual council financial data. Our draft methodology would have ensured all councils with growing populations are able to at least maintain their per capita income over time, which is represented by the dashed line in this graph. Some of the councils above the line are also better off because the rate peg is recalculated every year and ensures the relationship holds both year on year and over time.

We modelled the impact of our proposed methodology over the past 4 years using council financial information to make sure no council would be worse off, which was required as part of our Terms of Reference.

We found that if this proposed change was implemented 4 years ago, the draft methodology would have increased the level of council's total general income by $119 million after 4 years. This is an update to the $116 million figure quoted in our Draft Report.

We found that over the same time period, the methodology would have increased the total rates revenue councils collected by $262 million and made 93 of the 128 councils in NSW better off. These numbers do not isolate the impact of councils that had or applied for a special variation over this time period.

If we exclude the impact of existing special variations, the methodology would have increased the total rates revenue of NSW councils by $314 million and made 106 councils better off over 4 years.

IPART would like to thank all stakeholders who have participated in this review, and those who provided submissions and information to this review so far. Thank you. I will now hand back to Liz.

Ms Livingstone: Thanks very much Cameron. And as I said previously, if you have questions or would like to make a comment on any of these presentations, just start letting us know via the chat box or by raising your hand in Zoom, and we'll come to you after we've heard from all of our 3 speakers.

We've now got Kate Speare joining us. Kate is a Director at the Department of Planning, Infrastructure and Environment (DPIE) and is going to give us a bit of an overview of the context in which this review sits. Thanks Kate.

1.4 DPIE presentation

Ms Speare: Thanks Liz. Thanks for having us here today. I'm joining you from Darug land, in kind of South-West Sydney. Fortunately, the LGA adjacent to the heart of lockdown. I also have on the line with me today, because Jonathon Schipp my exec director was going to be providing this presentation to you. Unfortunately, with the lockdown, Jonathan is on home-schooling duty, so he is lurking in the background in case we need to call on him. But just letting you know, you're stuck with me, for better or worse.

Infrastructure Contributions Reform is something that the Department is currently working on. We had, I don't know if I'm able to drive these slides, be able to go to the next one please and the next one.

I've worked in contribution space for some period of time. I've spent about 20 years working in local government. Now working at the Department on infrastructure funding policy. The contribution system as we currently know it is very complex. We hear that criticism across the board – it's complex, it's difficult to understand.

We have development contributions being levied by both the state government and by local government. State is using at the moment Special Infrastructure Contributions, satisfactory arrangements clauses and planning agreements.

In the local context, we've got section 7.11 plans, previously known as section 94.

7.12 plans which is more of a levy, rather than a bottom-up build, based on nexus and apportionment. 7.12 plans used to be 94A.

We also see planning agreements being used in the local government context. As well as there's affordable housing contributions. So, it's quite a layered system.

7.11 plans particularly take a long time to prepare a lot of technical studies to inform them. And we also have some thresholds at the moment where if you're above $20,000 per lot or dwelling or $30,000 for some release areas, then they're coming to IPART for review and an essential works list applies.

So those plans take a lot of time and preparation. One of the fundamental challenges of those plans is particularly in greenfield areas. We see that land acquisition costs makes up about 50% of the 7.11 plan, and land acquisition, we put in cost estimates for land, but the prices are escalating much faster than any of the indices that we're currently using to keep up with that. So, councils are experiencing being out of pocket particularly on land acquisition costs.

We're seeing a reliance on planning agreements and they're often criticised for their lack of transparency, being expensive, needing lawyers to get involved with it and the time taken to negotiate.

So frankly quite a complex system, inconsistent rules, and people finding it very hard to actually know what is the development contribution that they're going to be making.

In the context of all of this the Minister for Planning and Public Spaces asked the NSW Productivity Commissioner, Peter Achterstraat to undertake a review of the Infrastructure Contributions Framework. If I can go to the next slide, please.

The Commissioner has looked at the whole system, and I think being outside of planning was actually a really good thing for this review, because he's been able to look at it in a much more holistic sense and make some very broad recommendations for reform.

What we're trying to do here is to reform the contribution system so that its principles based. We're looking for certainty, efficiency, simplicity, transparency and consistency. There's a whole raft of outcomes that we're looking for here.

Overhauling the legislation, the regulation framework for it, but importantly looking to deliver digital tools so that information is accessible and creates you know simplicity for people and certainty around what they're going to be paying.

We've been through quite an extensive stakeholder engagement process with this in that the Productivity Commissioner released an Issues Paper and received submissions on that. He held roundtable discussions before framing his Final Report. The Department, once it received that Report, we also undertook targeted stakeholder engagement in helping to frame the Government response to the recommendations.

And now we've also established a series of regular forums. So, we have an external advisory group that includes LG NSW, LG professionals' representations on there, as well as Planning Institute and development industry peaks. If I can have the next slide, please.

Okay so it's a principles-based system and I'll be the first to tell you that there are some challenges in these principles, they don't always sit comfortably together. But they are the principles that we are using; they are the forefront of the work, and we keep them as our touch points, as we're thinking about the policy settings.

Fundamentally we're looking for a system that delivers certainty. Certainty is really important to investment confidence, and a key driver behind the reforms is looking at how we can boost investment confidence and attract investment to NSW. We're looking for jobs, we're looking for housing supply, so certainty is a is a key factor that we're looking for.

Transparency is also something that came through quite strongly from the Kaldas Review of the planning system, that is, the rules should be known, it should be clear, people should have an ability to understand what the system is trying to do. So that's fundamentally important. It should be efficient and consistent.

Unfortunately, we've not been able to design out all of the complexity of the system. To deliver simplicity we're relying heavily on digital tools. And the Government has invested $14.8 million over the next 4 years to develop those digital tools, that will see contributions plans come into an online platform. So that they're created online. Digital maps so that we can see where plans apply, what the infrastructure is for, that we get payments, that we can track those payments, and see that all the way through to the actual delivery of infrastructure on the ground.

There are 29 recommendations for reform, with multiple sub-parts. So, it's quite an extensive reform agenda. This slide does actually come from the Productivity Commission report and it does start to try and group some of those recommendations against the principles that it's looking to deliver on. Get the next slide please, okay.

So the Commissioner, he took a look at all of the infrastructure funding sources, both local and state, and there are some concepts that are articulated in the Productivity Commissioner's report that speak about infrastructure, whether it's development contingent i.e. but for this development, we wouldn't need this piece of infrastructure, so they're often like roads, local drainage, parks. So, development contingent infrastructure.

Development associated infrastructure is the infrastructure that's needed to support development, but it's not related to a particular development. It's usually development within an area.

And then he also talked about population costs which is or population infrastructure sorry which is infrastructure that's needed to support a growing population but isn't necessarily related to any particular development. It's about general population growth so when he looked at the local infrastructure, I'll start from the right-hand side actually.

Section 7.12 was a type of plan introduced in 2005. It was meant as a very simple, easy to administer kind of contributions plan. Currently for most councils, it's levied as 1% of construction costs on development. It has a schedule of works that sits with it, but essentially councils collect funds through that mechanism, and just progressively apply it to infrastructure based on their council priorities.

There's no need for demonstrating you know direct nexus and apportionment. There's no need also for council to find matching funds. You simply collect money into a bucket if you like, to be progressively applied for infrastructure purposes. A very simple kind of plan. But being set at 1% of construction costs, it doesn't actually seem to be collecting a lot of money. There's been a relatively low take-up of those types of plans.

One of the things he's recommended is that the rate be increased for residential development, to hopefully make that a more attractive tool, because he would like to see more councils looking at that type of plan. We think it's got some real benefits for inner and middle ring kind of councils that have been able to collect development contributions but been particularly struggling to find matching council contributions for their existing communities. Which has resulted in them sitting on some relatively large bank balances where they're not yet able to deliver the infrastructure. So, there's some changes there to try and incentivise the take-up of the section 7.12 plan.

The section 7.11 plan, most of the changes here are around consistency. He's found that the current thresholds that trigger both the essential works list applying and review by IPART, have really seemed to impact primarily greenfield councils. And for a greenfield area being above $30,000 per lot of dwelling automatically means the essential works list will apply, as will an IPART review.

What he's suggested there is that the thresholds that trigger an IPART review and the application of the essential works list as a monetary threshold that that should be removed. That all section 7.11 plans should be subject to the same rules. So, the essential works list and all plans could be potentially reviewed by IPART on a by exception basis.

One of the pieces of work that we need to do is to work with IPART to establish the Terms of Reference for that by exception review, and we've already commenced that work with IPART. We've got a sense of some of the criteria to apply there.

There is a new mechanism that we're looking to create through these recommendations which we've called the land value contribution. Importantly this is not an additional contribution. This is not value capture. This is simply saying for greenfield areas particularly although we think it might work in some brownfield scenarios. But where land is being rezoned, the land acquisition costs, instead of having that as an estimated land value at a point in time, which is then just indexed.

What that's saying is we want the landowners, who are benefiting from the rezoning to actually be the ones obligated to make the contribution that relates to the land acquisition costs. This is a sharing of infrastructure costs between developers and landowners. This is new, this is acknowledging that landowners benefit from rezoning. And what it's also trying to do is to tie the contribution not to a value at a point in time, but to the percentage of land that's needed for infrastructure purposes in that precinct.

So that it's paid when the land is either developed or sold, whichever comes first. But it's by reference to the percentage of land required so that way the contribution will actually adjust with the underlying land value. This is deliberately being designed to try and reduce the out-of-pocket costs that councils experience when land values escalate faster than what they had estimated. It's also to try and incentivise more direct dedication of the land that's needed. It is trying to put some downward pressure on land acquisition costs.

And then finally and importantly is the local government rates. The Productivity Commissioner acknowledged that NSW rating system, the rates are much lower than for other states. The councils have been constrained by the rate peg, and that has in his view created an over-reliance on development contributions to fund infrastructure.

What he has said is that population infrastructure should be funded through, not necessarily directly through rates, but that the rates increase for population growth would allow debt servicing, so that those facilities for that growing population can be repaid over time and again this is a sharing of the infrastructure cost. So instead of loading up the capital cost up front on that first purchaser, that it's actually trying to share some of those costs over time, over the population, that benefits from that particular infrastructure.

I know I'm running out of time Liz and I do apologise, I'm on a roll, I'll try and speed up. State infrastructure, I won't dwell on this too much because I don't think that's the focus for today, but essentially shifting from site-specific, bespoke special infrastructure contributions to a low and broad regional levy, very similar in the way it would operate to a section 7.12 really just on a bigger scale.

It has some additional components where there's major transport investments that benefit, that creates additional development capacity, and also a move toward a more full cost recovery for strategic biodiversity certification. So instead of having those kind of costs passed on to the state general revenue, actually acknowledging those as costs that benefit those land owners, who are now able to develop those lands. So, having a more cost reflective model there. And obviously the state budget picking up the state equivalent of population costs. If I can have the next slide.

Okay so I'm not the modelling expert these are just some of the modelling numbers coming out of the Productivity Paper. But the Centre for International Economics (CIE) did modelling to look at the overall benefits of the reform package and I will stress that this is a package of reforms, it's not about one particular reform. They looked at some things go up, some things come down but overall, the net impact is expected to be quite positive for the NSW economy.

They've estimated anywhere between $2.5 to $11.8 billion in net benefit to NSW over a 20-year period, which they've said that every dollar raised and spent on infrastructure, increases gross state product consumption spending and creates jobs. So those numbers are there. If I can have the next slide.

This was a more specific look at how councils are expected to be as a result of the reforms and so I would also stress with this that the modelling done by CIE was done prior to the work that IPART is now doing on the rate peg reform. Assumptions were made about both the impact of the contribution reforms, as well as the net impact of the rate peg adjustments. They are aggregated into high-growth, low-growth, metro, regional areas. It is in aggregate, so individual council may vary from these results, but overall, it's expected that there would be net benefit to councils as a result of the package.

You can see that there is an expected reduction in some of the development contributions which is mostly due to the essential works list being applied to all 7.11 plans. But there are also some assumptions that sit behind there as well around their recommendations for maximising the efficient use of land, giving regard to efficient design of infrastructure, and some further work that IPART will be doing on benchmark infrastructure costs. It's not all just about the essential works list. There's a series of assumptions that go into these numbers which obviously could be better refined now that we know where the rate peg work is taking us. If I can have the next slide.

Things that we've heard so far. If I can have the next slide as well. We've introduced into Parliament some legislation, as an enabling piece of legislation to support reforms being implemented. We had Bill Hearing for that on Friday, and certainly in the lead up to that Bill Hearing and to the hearing itself, we've heard quite a lot from stakeholders but as I say we've also had an external advisory group operating for some time, so we have grouped some of these things that we've been hearing to local government and industry concerns.

From the local government we're certainly hearing loud and clear the need for viable revenue sources, real concerns around how community facility buildings are funded, concerns around changing the timing of payment from construction certificate to occupation certificate, changes to the way the section 7.12's might be applied and we're also targeting having more detail out on exhibition in October and we're certainly hearing from councils around the timing issues associated with local government elections in September and their capacity to review and respond and get council signed off submissions.

From industry we're certainly hearing about they want to understand the cumulative impact of the contributions for them, they'd like more on how the land value contribution is intended to work, particular concerns around how we transition from Special Infrastructure Contributions to regional levies and obviously overall impact on housing supply.

I think that's the end of my presentation I apologise that I have taken more time than I should have but thank you Liz.

Ms Livingstone: Thanks very much Kate for sharing that with us and as I mentioned Kate's providing broader context about a whole range of reforms that the government is progressing around contribution plans and other sources of local government revenue. Today our focus is of course on the rate peg and incorporating population growth into that, which is one element of the whole package. So, thanks for giving us that context Kate.

We're now going to hear from our third speaker Linda Scott from the Local Government NSW. Thanks very much Linda.

1.5 Local Government NSW presentation

Ms Scott: Thanks very much Liz and I too would like to begin by acknowledging that we meet on many different first nations lands. I'm here today in Sydney, so I'm on the Gadigal land of the Eora nation and pay my respects to their Elders, past and present.

I'd also like to thank everybody for being here today and particularly to the members of IPART. Congratulations Carmel on your appointment as Chair we look forward to working with you and thank you also to your other members Deborah Cope and Sandra Gamble for allowing us to make this submission today.

So it's obviously the case that rate pegging is a critical issue for local governments since introduction in 1977, and so we're very grateful for the recognition after 40 years, that has consistently seen sort of denials that rate pegging is not having the impact that we have said it is. There is now really finally this acknowledgement and a serious conversation about the consequences of rate pegging on councils and our communities.

The proposal to allow rates to grow beyond the rate peg on population growth is a significant reform to the rate pegging system, and it offers the potential to provide tangible benefits for councils, communities and of course the State of NSW and we welcome this proposed reform to the rate peg.

It of course falls short of what we continue to advocate for, which is the removal altogether of rate pegging, but it's one reform among the many necessary to strengthen the financial sustainability of local government generally.

To put this in context financial sustainability is of course the major challenge facing local government, evidenced by the critical infrastructure maintenance and renewal backlog of approximately $3.8 billion according to the Office of Local Government figures.

And of course, when one looks each year at the Auditor General's reports the current problems continuing to plague councils in their operating results. Local Government in NSW is under sustained financial stress. It's as a result of the compounding impacts of rate pegging, growing populations, increased responsibilities, significant cost shifting from State and Federal Governments and in real terms the declining Commonwealth Financial Assistance Grants.

Cost shifting by the NSW government onto councils is currently estimated to be about $800 million per annum or approximately 6% of total local government revenue and of course rate pegging is first among them.

We welcome and are really pleased that the Government in accepting and supporting the findings and recommendations of the Productivity Commission has acknowledged that rate pegging has been damaging to NSW since its introduction in 1977.

The NSW Productivity Commission reinforced by IPART, who have of course reached similar conclusions, have confirmed the long-held views of local government and the findings of numerous inquiries over many years and the findings are also accepted by key industry groups and other stakeholders.

Both the Productivity Commission and IPART have concluded and of course I slightly paraphrase here, that the rate pegging does not provide councils with adequate revenue to fund infrastructure and services and is resulting in declining per capita revenue creating a growing gap.

NSW per capita rates are significantly lower than any other state and the Productivity Commission estimates that NSW councils have foregone $15 billion in rate revenue in the past 20 years compared to Victorian councils as a result of rate pegging.

That the Government has finally accepted this after 40 years is a major achievement in itself and we hope it will open the door to further reforms in the future. While falling short again of the removal of rate pegging, we welcome the Government's commitment to align rates with population growth as a positive step forward, clearly and has been a further given support this morning, population growth is a major driver of infrastructure and service costs for local governments.

On the proposed model we recognise that developing a model to include population growth is a challenging brief and we commend IPART for listening to councils in the design of the solution thank you.

Local Government NSW and numerous councils made submissions in response to the IPART Issues Paper and it's evident that IPART has taken these into account in the Draft Report. We broadly support IPART's preferred model and largely agree with the findings and the reasoning behind it.

The preferred model represents a significant improvement to the rate pegging system noting it will of course only cover modest increases to councils and IPART's modelling indicates that the preferred model would only have delivered an increase of a total general income of around $119 million or 0.7% in the fourth year and a cumulative increase of $262 million. It's a welcome improvement that will assist councils particularly those with higher growth, but it's not a game changer when it comes to financial sustainability. Further reform to the rating system and rate pegging, ideally of course the removal of rate pegging are required if there is to be genuine transformational improvement. I'll comment briefly on this later in the presentation.

We're pleased that the preferred model maintains per capita rate revenue over time, ending long run decline, recognises the direct relationship between population growth and costs applies to all growth and all councils, not just those whose growth rates exceed an arbitrary threshold, ensures that no councils are worse off. With IPART modelling indicating that 93 of the state's 128 councils would have received some benefit over the past 4 years, with the balance experiencing no change. This is an essential requirement.

It's relatively simple and easy to understand and implement and it applies to each council individually, so it's not a one-size-fits-all model and finally will provide for a permanent and cumulative expansion of the rate base over time. These outcomes are consistent with what we asked for in our submission to the Issues Paper.

The model however is limited in that it doesn't provide a catch-up mechanism for past growth and this is an issue that still of course will need to be dealt with by special rate variations. A system riddled with problems. It doesn't take into account other cross drivers beyond population growth, such as increasing responsibilities, rising community expectations, other revenue constraints, depreciation costs, and of course the big one, cost shifting.

It doesn't provide assistance to councils with stable or declining populations and of course these are councils most at risk of liquidity and other significant financial pressures and doesn't fully insulate existing rate payers from growth-related rate increases, which will depend on the ability to use categorisation options. This is contrary to the objective of reducing existing rate payer resistance to growth.

We would like to also take the opportunity to commend IPART's Draft Report for explicitly recognising other areas of rate reform that need to be dealt with that are of course outside the scope of review. The emergency services levy, the cost burden of non-rateable properties including community housing, pensioner rebates, depreciation costs and the capital improved value issue.

These are all areas of reform that we continue to advocate about including most recently the reform of the emergency services which is now extremely urgent.

We would like to take the opportunity to strongly object of course to the Government's decision to tie the reform of the rate peg to cater for population growth to potential reductions in infrastructure and development contributions.

Councils overwhelmingly as we've made very clear, see this decision to link the 2 as yet another example of a cost shift from developers onto ratepayers, councils and communities.

Both the Productivity Commissioner and IPART have found there's an underlying need to reform rate pegging, independently of reforms to the infrastructure contributions framework, and we again call for the review of rate pegging to be decoupled from the reform of infrastructure contributions.

We commend IPART for committing to review the SRV process to simplify and streamline this, it's desperately required, it's long been advocated for by Local Government NSW. Councils consistently advise us that the current process is costly, it's complicated, and it's a deterrent to making applications, even when there is a need.

While the adoption of the population growth model should result in the reduction in the number of SRVs, it will not of course eliminate the need and as has been noted this morning, there's many cost drivers other than population growth and many other areas of the rating system that will still require reform.

There is a significant need for catch-ups and adjustments, and this is an important issue in and of itself that Local Government NSW is keen to participate in. If I might just add briefly on SRVs, this year alone, for example we've heard numerous examples of councils who have been able to successfully put in a significant amount of work and staff time to develop the model for the SRV to submit, they've done the community consultation with the view to giving their communities a tangible outcome based on the SRV for infrastructure or other mechanisms.

So they've gone to their community, they've asked for support for an SRV, they've told their communities what they might like to see as public benefit in return, they then get a bill from the State Government with an unexpectedly large increase in the emergency services levy and so breaking a promise to their communities about the public benefit they're able to deliver, even when the SRV is possible.

And so you can see here numerous examples of councils fundamentally breaking trust with their communities because of the dual requirements of the SRV process, but also cost shifting from the State Government, this is why we absolutely need to separate the process of how we rate, from how we reform developer contributions.

They are 2 separate things; they should not go together. We need to stop getting councils to be in a position where they're forced to break promises to their community through no fault of their own. Which decreases trust overall in Government and does none of us any favours with respect to the way that we need to think more coherently about a better system for the future of ensuring that councils can continue to do the public good and continue to invest in the infrastructure and jobs that their communities need.

So, in conclusion Local Government NSW supports of course the proposal to include population growth in the rate peg. We support the adoption of IPART's proposed model it does and will provide significant benefits to communities without any apparent downside.

We also think additional reforms are needed to address other cost drivers and other areas of the rating system. We're very pleased that IPART has put SRVs on the table as one of those levers. Thank you to IPART and all participants for listening to me today.

I'm happy to take questions. I apologise because I also am home-schooling and so that's sort of singing and shouting you can hear in the background are my children, thanks.

Ms Livingstone: Thank you very much Linda and I'm not sure if it's the microphone you use but your children sound like angels, we can't hear them at all.

1.6 Question and answer session

Ms Livingstone: We'll now move into a question and answer session and this is really about you being able to ask questions of the Tribunal or make comment on its proposal as well as Tribunal members able to dig a bit further with you around some of the comments and examples you give and ask questions of you as well.

Deb Cope is our lead Tribunal Member for this review, and we'll field lots of your questions and may also throw some at you as well as our other Tribunal members Sandra and Carmel. We do have one question already from Kerry at Blacktown Council. Kerry, can I throw to you now, if you turn your microphone on and your camera if you're able, it'd be great to hear from you direct and you can answer your question in person ask your question in person thanks.

Mr Robinson: Thank you very much Kerry Robinson CEO Blacktown City Council. IPART's limited its consideration of growth to residential population, but of course the impact on demand for services in part is derived from growth in the gross regional product (GRP) of business and industry within the various council areas. In our case, we have over the last 5 years had a 4.6% increase in our GRP due to very substantial growth in business activity. That business activity generates demand for service, but you are ignoring that. Why is that the case?

Ms Cope: Thanks very much Kerry. And thank you for your question. So, I'll have a quick go at some of the high-level stuff and then maybe throw to someone in the team for some of the detail on the methodology. But it's not that we have ignored business growth, we have looked at the growth in all costs across councils as population grows. And some of those costs will be things that are relevant to business growth in the area, because you expect the whole of the system to grow as your population grows.

But we have been asked to look at one bit of the puzzle around council costs and that is the population growth and how that affects the rate peg. So, we had to look at the issue that we've been given in this particular context, as was note earlier, more broadly at our roles and what that means for councils. So I think what I'm saying is that we have had a job that we needed to do but it's not true to say we ignored business growth because costs across the board are the issues that we've been looking at, when we are looking at what is the relationship between population growth and costs. Cameron, was there anything else you wanted to add?

Ms Livingstone: Just before we go to Cameron, Deb just to help with the sound for everyone else, we think you might have 2 connections on that's causing a bit of an echo. So, if you want to have a look at that but then Cameron do you want to add anything to what Deb's just shared then?

Mr Shields: Thanks Liz, just one point to add and that's that the change that we have proposed would change council's total general income on a per capita basis as population grows, so not just the residential component of the rates income so that does I guess indirectly acknowledge that businesses or the amount of businesses in a council area also grows as population grows.

Ms Livingstone: Thank you, Cam, Peter also has a question. And I'm sorry, I can't interpret that the acronym I've got in front of me, RC NSW. You'll let us know where you're from Peter, I hope.

Mr Tegart: I will and good morning and thank you to both IPART and DPIE for the presentations today, and along with Linda. So RC NSW is Regional Cities NSW and CRJO is the Canberra Region Joint Organisation. So, I'm from Queanbeyan-Palerang Regional Council and speaking on behalf of those 2 organisations.

Again similar if I may to the comments made by Linda Scott, while we would have preferred a lead indicator for forecasting, we accept the ERP is an appropriate and sound means of estimating population and provided it is adjusted annually and it's all growth, not only the growth above the NSW population which was proposed by CIE then that's fine. We're happy with the with the parachutes in terms of if there's zero or negative growth and the rate peg will continue to apply.

There are some other commentaries that we'd like to make one was in line with the principles set by IPART, the brief if you like, particularly around smoothing. We do acknowledge that you are attempting to integrate the rate peg review with the development contribution review, but we also take into account the points put forward by Linda Scott about whether they should or should not be dealt with together.

And part of the reason is collectively there could be a dampening overall of the total revenues for councils, we just need to have further information about how that might look by your further modelling.

But at the end of the day we would suggest that a regular population rate peg helps the smoothing and certainty for ratepayers, but we ask for that to be not with a discount or deduction through supplementary levies. I'll speak to that in a moment.

In relation to the principles as well, we also note that you're acknowledging one methodology should not apply or should check that should not apply to all and which we would say so. It should not be one size fits all and we would urge IPART to consider cohorts for local governments, particularly around metro, coast, regional cities, regions and rural, so that you can start to understand how the different service cost and growth interactions can play there, because in regional areas of course, we have regulations of service, we have long geographical areas and quite often in regional cities we are servicing a larger population being that social and economic hub.

We will also attest that notwithstanding the views of IPART that supplementary levies accord generally for 60% of population growth. We would contend that property, growth in properties drive asset growth or demand for infrastructure, whereas population growth drives services.

Some questions then, we presume it's out of scope for IPART to have any regard to the views of the Auditor General and the financial sustainability of councils generally, particularly as a consequence of the sequence of natural disasters and pandemic that's taking place. And equally as a consequence ironically of the increased stimulus that's emerged in councils, the increased level of infrastructure investment is adding a strong and deadly tail of maintenance and depreciation down the track.

We acknowledge from your paper that asset depreciation and costs are outside the scope, but as Linda Scott indicated we would urge that be part of some of the recommendations of IPART for the Government to reconsider.

Again we would like to see evidence that the notion of supplementary levies are delivering 60% of the same returns, as population growth by those LGA cohorts I spoke about, because in our estimations, supplementary rate growth barely covers the cost of maintenance and renewal and depreciation of the new infrastructure being generated by those developments. So again, horses for courses, we'd urge you to have a look at.

We would suggest as well, again in the idea of simplicity and transparency and smoothing, to have the 100% of the relevant value of population peg increase, no longer reduce it by the productivity discount.

Do not proceed with the notion of reducing the population pegged by the supplementary increases and start to look at how we might accommodate increases as a consequence of infill or multiple dual occupancies which currently can't be dealt with, because the same valuation will come into play.

In relation to comments earlier made through our colleague at DPIE, some councils have utilised section 7.12, the fixed charge as a means of helping assist the payment for renewal of infrastructure, or servicing of debt, and relied on section 7.11 for new or expanded infrastructure, noting of course you can't apply both those charges to a single development.

And so, we need to probably also consider, while the Productivity Commissioner looked at using debt from rate revenues as a contribution towards the capital costs, we would contend that there might be a different profile or application of section 7.11 or 7.12, applied by particularly the regional councils.

So as an offer on behalf of my colleagues at Regional Cities and Canberra Region Joint Organisation, we'd be happy to provide you with a table of our particular circumstances, just to test against the numbers you may have generically quantified and that's around of course the ERP population changes, the property numbers in terms of property changes, but start to differentiate what is the service cost changes for non-asset services, as well as the asset based service costs generally indicated by changes in depreciation. And then we'll be able to articulate to you what in fact is the development contribution revenues as a proportion of that ongoing asset maintenance renewal, which we call depreciation.

We'll also provide you with the particular circumstance of what we calculate as being per capita income, per capita service costs, and the property asset costs, to just to check out those numbers that you're provided further.

So, we would then ask that you also consider, we acknowledge as out of scope the broader rate structure reform that Linda Scott had touched on to suggest to Government that should be looked at alongside the property tax reform.

We would offer to you that the reframing of the rate model can include the *ad valorem* component being the means by which assets are maintained and serviced for debt, the base charge covers our community service costs, we need to have some uplift generally as a consequence of dual and multi occupancies, and we start to need to perhaps different differentiate between owner and investor occupiers, particularly in residential farm land and business, they being tax deductible and perhaps can be the means by which council could recover some of the costs from transient and tourism population movements, particularly while we have some of the big activation precincts and snowy and aerotropolis investments going on, but equally we're very keen to ensure there is no bill shock, no cost of going to irregular SRVs and a smoothing of costs for the rate payers going forward, thank you.

Ms Cope: Thank you Peter. Can I just check to see whether that's improved my sound?

Ms Livingstone: That is very much better thank you for taking that Deb, that's great.

Ms Cope: Sorry about that. And thank you very much Peter. Yes we would love to talk to you further about all of those issues and have a look at the detail that you could provide, that would be a useful part of our next part of our process, so if I can sort of, I suspect you're probably already in contact with the team, so please do have that discussion we would be very interested.

I actually have a question for you though, at the beginning of your presentation you mentioned the difference between population projection and historic population, and one of the things that we have asked in the review, and you may not want to respond to this, there will be somebody else who's interested in it, but one of the things that we raised in this review is the risk of that is, that you've got a council that's growing more rapidly than they'd have in the past, and we don't know about that until we get the next census update coming through. And we'd like to get a bit of a feel of how significant a problem that is, and whether there is something that we need to do about it, or whether it's something that we can deal with on a case-by-case basis?

Mr Tegart: Well if I may, many councils use ID Profiler, we accept that's a third-party forecaster, it does rely heavily on the ERP, but it also includes housing monitor, or development approvals as bit of a means to strengthen their forecasting.

There is often a difference between ID Profiler and ERP, but of course that's ultimately recalibrated at the census and we accept that. We also acknowledge that DPIE for many years and their forebears, have also suggested a housing monitor, particularly for high growth areas.

That hasn't seemed to have come about, but that could be a good little means of tracking indeed how many developments have come to fruition, have the household structures altered, and have we therefore undercooked, or overcooked, some of those estimations going forward. There might be some additional means to true-up the actual estimates going forward and no doubt the census is the ultimate test.

Ms Livingstone: Thanks very much Peter. Jerome from the City of Ryde, you've had your hand up for a while, would you like to make a comment or ask a question?

Mr Laxale: Thank you Liz, and thanks for the opportunity to just address this panel. I've just got 3 comments just based on some of the presentations we've had today. Just for what it's worth, I'd first like to start by echoing Linda Scott's comments and really stressing that this IPART reform needs to be decoupled from the contribution rates. There's little benefit in introducing this reform, if it's simply there just to plug a gap made by lost developer contributions. If they were to proceed as planned, the potential increase in rates would simply just shift the cost from developers to ratepayers. Developers would win, and the public would lose. I can't stress that enough. I think it's essential that it be decoupled.

I'd just like to address also comments from DPIE that there was an over-reliance by councils using 7.11 to fund infrastructure. I guess it's my belief and I guess the belief here in the City of Ryde is that, I believe it's entirely appropriate for developers to fund the lion's share of new local infrastructure. Primarily because that new infrastructure usually needs to be built to service the new development that's being built by the developers.

To shift that cost to ratepayers would be grossly unfair and this method of levying developers for this critical new local infrastructure has, you know by its definition, it has community support. These 7 11 plans are exhibited, they go out to public exhibition. Our community have a look at them, they're transparent and in the City of Ryde examples at the very least, they meet community expectations and, in some instances, exceed them. Our latest contributions plan was only endorsed by our community last year.

And just addressing other comments and I guess a bit of discussion out there that from the Minister that some councils have just these large sums of money and that there's an implication that they're not being used effectively. In the City of Ryde infrastructure backlog is not due to the hoarding of contributions, or an unwillingness to fund local upgrades. We fund these local upgrades from multiple sources including rates, loans, grants and these contributions. And we've at least demonstrated a real willingness and need to spend them for the benefit of our community because we need them to deal with the growth that that we're being targeted with. Obviously, we use it to build parks, libraries, halls etc to the tune of about $15 million per annum.

That issue of these large sums of money being hoarded is a very specific problem that can be resolved quite easily. The entire system doesn't need to be smashed up to fix a very specific problem.

In regards to the rate reform, it's long needed, long overdue and we welcome the proposed methodology, which will allow councils to grow rate revenue in line with inflation and population growth.

Additional flexibility will assist with maintaining assets and avoid SRVs which are you know a bit hit and miss sometimes, however you can't I mean there's no real point in doing them if it's just going to plug that gap left by developer contributions, and yeah that's the point I'd like to stress here this morning, Thanks the opportunity for allowing me to do so.

Ms Cope: Thanks very much Jerome. Liz I won't make any comments because we've got quite a lot of people that want to present some views, so I think rather than me talking, we'll let everybody else have their say.

Ms Livingstone: Yeah thanks Deb and we will get to everyone, we've got a fair bit of time available for these Q and A's, so we will get to you if you want to share something with us. Andrew Butcher from the NSW Revenue Professionals. Andrew do you want to ask your question now?

Mr Butcher: Yeah thank you. Thank you very much to IPART for the opportunity to put forward our submissions into this reform. I think the reform and the report that IPART has produced has been very well considered and has a great depth of information for councils. May not deliver on everybody's expectations, but it's certainly a step the right direction, and it meets the Terms of Reference of the Minister particularly in not creating huge costs onto ratepayers or burdens onto ratepayers. It is fairly simple and easy to understand, and it delivers on aligning population growth with land rates.

So, couldn't agree more with Linda Scott and Jerome just now about you know, not identifying or parking infrastructure contribution savings for developers into some sort of gap created, in or some sort of yeah gap created by levying extra rates onto ratepayers.

The simple approach for developer contributions, as Jerome said, is to build the infrastructure and then rates form the basis of maintaining them in the future. I'm glad that that has really been identified by IPART in their report as well.

The question that I raised is in regards to the ERP retrospectively changing. So, the ERP changes that IPART is going to rely on to determine what the population growth factor will be, can change after the initial release of that data. Now that can have an impact therefore on future ERP calculations because, if it raises above what it initially was, then in the following year there's a smaller margin, so just a question to possibly to Cameron I guess is more of a technical question. If he can explain what IPART has done in identifying if they have identified this issue and what impacts IPART sees it will have in the metro or regional council space.

Mr Shields: Thanks for the question Andrew, and yes, we have considered both the issue of the ERP figures changing between census years, and when it is updated for the census. So in between census years it can change, but we found that the changes are usually very small.

There can be bigger changes because of the census and the position we've put forward in our Draft Report is to not do a true-up or to correct for this issue because for almost all councils it's not a very big issue, but we've asked for feedback on that specific problem from stakeholders and we welcome anyone's view on that.

In our Draft Report we put forward the principles that we use to consider all changes or all things that informed our methodology, and we know that there was a trade-off in a lot of those things between simplicity, and then on the other side, having more complexity, but getting it more accurate and we've definitely considered that trade-off in everything that we've put forward in this methodology. And we found on both issues that the additional complexity probably wasn't warranted to fix the small changes in ERP, but we do welcome feedback on that in response to our Draft Report.

Mr Butcher: Okay thank you. The only other thing I have for now, I'll let you move on to other people and their questions, is that we were particularly impressed with the original IPART recommendation that came from the Rating Review to migrate to CIV values. That is still our position and we'll look forward to pushing forward on that with the State Government, to try and model and get a better understanding as to the reasons why they believe that CIV is not going to be the way to go forward calculating land rates. So, thank you very much.

Ms Livingstone: Thank you Andrew, and we will move now to Laurence Mosley from Waverley Council. Laurence would you like to make a comment or ask a question now, thank you?

Mr Mosley: Hi thank you. Thanks again to IPART and Linda Scott for all the kind of coverage of all the major issues I think covered it off quite well. I think it makes absolute sense and I think the piece of work that IPART's done it is excellent. It covers, you know it makes absolute sense for councils to be able to reflect cost increases as a result of population growth, so that firstly that makes absolute sense.

The more bigger question really is around cost generally and I think as everyone knows councils offer a fairly broad range of services, to a very diverse stakeholder base. So, the cost drivers within a council are many, and they're complicated, and we're living in a world that's increasingly compliance driven, legislative driven, there's a high degree of complexity. We have a stakeholder base now and a community that's well educated and makes demands on Council. So, there's lots of things that affect the cost structure of a council.

The other major aspect of the other sort of services on one side, and then you've got the capital program on the other. Replacement costs of capital items, with again higher over environmental issues, legislative issues etc you know. We're finding that replacement cost is costing a lot more than the initial depreciation.

The one big issue that we have is that our, being in Waverley/Bondi mainly, the population growth is modest here have we have had population growth, but we are we have seen over the last 10 years a doubling of visitors to the area, which in itself kind of drives costs. We don't seem to have considered that in the mechanism that we're proposing, so we know if IPART has any comments or position on that, thank you.

Ms Cope: Thanks Laurence. So I'll pick up on the question at the end, we did think quite a lot about tourist populations and you've got issues there, you know, you look at a council like Byron Council for example, where the permanent residents, are dwarfed by the number of tourists that come through the coast, and the costs this imposes on a council.

The difficulty, so first of all we have been given a role about population growth and I think transient population is a different issue. And this mechanism probably isn't the best way to deal with it because it's much more difficult, it's much more variable, difficult to get a good handle on, which doesn't mean that it's not a real problem that councils are facing. But it's just something that we thought on balance that this wasn't the right mechanism for dealing with it.

Ms Livingstone: Thank you Laurence. And Wayne from Blacktown City Council. Wayne, you've made a comment in the comments, do you want to speak to that?

Mr Rogers: Yes, thanks Liz and hello everyone. Wayne from Blacktown City Council. I just want to make a few comments. The first one is just to acknowledge the challenge of what IPART's trying to do within its reasonably specific scope. We've got multiple councils with different issues here, and it's pretty evident that we've all got our own unique circumstances, that perhaps this scope doesn't fully address.

I'm going to talk about issues that confront Blacktown but start with an example the existing part of Blacktown's population is close to 600,000 people, and in the greenfield development area, will take on an extra 250,000 people. If for some reason we were de-amalgamated with one council being the new area, and the remaining area being the existing council, you wouldn't expect those 2 different councils to have the same rating structure. The new area needs to provide considerable infrastructure, most of which, or much of which cannot be funded from developer contributions.

So our concern is by basing it on existing revenue per capita, which has been accrued over many years over established areas, where developer contributions paid for all essential infrastructure, and presuming the preservation of just that existing revenue per capita, is adequate for the new area, when there's caps on what we can levy isn't appropriate.

In the case of Blacktown, we have unfunded community infrastructure of about $525 million, and probably another $100 to $150 million of direct capital costs to expand our depots, to expand our office space, provide an SES facility, increase the amount of plant equipment we have.

So, what we're saying is for a new area, you wouldn't expect the preservation of purely the existing revenue per capita would provide sufficient funding to go forward. So I guess what I'm curious about is, if that's as far as this rating review goes, what's next for Blacktown and is a special variation the only remedy we've got left, as a consequence of State Government policy which has significantly restricted our ability to fund growth in our new release areas?

Ms Cope: Thanks Wayne. I just sort of make the first comment was that we did quite a bit of work to look at the relationship between costs and population growth and based a lot of that on the actual numbers that were coming out of councils. And we did find that there was a relatively linear relationship between increasing costs and population growth, but that doesn't mean that the circumstances in individual councils aren't different. And one of the things that we do know very clearly is that the circumstances in individual councils are different.

Therefore, it is very difficult as you started with a single methodology, even though this one is tailored to different councils, to deliver for everybody. Your question of whether special variations is all that you've got left, it's one means that you've got at the moment to dealing with the problem.

And there are other councils that also have backlog problems, where they've got costs that a population growth in the past that they do not have sufficient income to maintain and yes an SV is one way that they can they can manage that, I have sort of not passed this review and I haven't done all the analysis to work out whether it's the only option but it is definitely an option.

Mr Rogers: We would say we would like IPART to keep the door open perhaps, for other reviews to look at other options, but that not just being SVs.

Ms Cope: If the Government sends us a Terms of Reference and asked us to look at any of those sorts of issues, we would be very, very happy to do that.

Mr Rogers: We'd be happy to write a letter of support.

Ms Scott: [inaudible] … can ask the Government to do that, rest assured.

Ms Cope: We can't self-initiate a review.

Mr Rogers: Thank you.

Ms Livingstone: And thank you for everyone's patience, we are getting to people in turn, and David Rawlings from Snowy Monaro Regional Council, you have a question would you like to speak now thank you.

Mr Rawlings: I suppose my question does follow on from that a bit because it's this issue about costs versus actual expenditure. We're not sitting in a free system, a free economic system. From my view a lot of the councils you'll find their costs, well their actual expenditure, is changing in relation to their available income.

The relationship that you're seeing is more relating to as we've got fixed revenue sources, those councils that have got population growth, are the councils that will be getting supplementary revenue, and so they will be seeing an increase in revenue.

Whereas councils that don't have access to growth will be capped, so the relationship that you're mapping, as a relationship between costs and growth, is really just a relationship between available revenue and growth.

So, I don't think what you're relying on there is actually the true cost of local government. You haven't gone and looked at what is the cost of servicing various populations and seeing how those costs change as population levels do vary and increase.

I think we're using a causal relationship and trying to show that as a proper relationship. That worries me because it indicates that we haven't truly found what is driving the cost of growth in local government, or what the cost of growth is, and that's what we need to know and understand before we can put a factor in that will actually compensate for that.

Ms Cope: Yeah so thank you very much David. The population growth bit is the bit that we've been given to do, so the general increase in costs is kind of beyond the scope of this particular project. But I might throw to Cameron, if I may, talk a bit about how we looked at the various ways that population growth can drive costs, in order to make sure that we had a good understanding of that.

Mr Shields: Thanks Deborah and thanks David for the question. It's a really good question and you are right, the cost that councils in NSW incur, do reflect the current rate pegging system, which does suppress how much councils have to spend.

We didn't just look at councils in NSW, we looked at councils all over Australia, and the relationship between population growth and their council costs, to show what was happening in other council areas. And we found that it mostly has that linear relationship again.

And I will just point out that this methodology is forward-looking it is a self-executing methodology that will compensate councils over time as population grows. There may be some councils where the current amount of revenue they have on a per capita basis is not the best reflection of how much it costs going forward, and there may be a need for some councils to rebase their rates revenue on a per capita basis going forward.

Ms Livingstone: Thanks Cameron. Kerry Robinson, I understand you've, you have another question. Kerry's from Blacktown City Council. You're on mute Kerry.

Mr Robinson: Apologies, just make the observation that using this existing level of service, not taking into account the increments of investment that are required, doesn't actually show what the cost of growth is. We've been, since our depot was built in the 1980s, screwing additional use out of that depot. We're now at a point because of growth where we need to build a new depot, at a cost of more than $100 million.

The cost of the existing depot built in 1980 is what's shown in your existing level of service. The incremental cost to add to that, whether it's a depot or indeed the new office accommodation that we need to cater for growth, isn't shown in your historical analysis of existing level of service.

Ms Cope: Rather than trying to sort of respond on that on the spot, that they're really important issues, and I'd like to kind of take that away and have a think about that. I presume we'll be receiving a submission from you Kerry.

Mr Robinson: A very detailed and voluminous one.

Ms Cope: Lovely, like to hear it so, yes please articulate that, and we can then have a good look at that, as we're looking at what we do in the Final Report.

Ms Livingstone: Thanks, Chandi from The Hills Shire Council, and please correct me if I've mispronounced your name, but would you like to speak now thank you.

Ms Saba: Hi, it's Chandi Saba from The Hills Shire Council. I also like to thank IPART for all the work done, and also support like what Linda Scott said about decoupling the rates income from the contribution rates.

With our council with in the past when the amalgamations, we had a boundary adjustment and we lost net rates income, so we did not feel that kind of loss at the time, but now going forward when we project our expenditures with all the infrastructure that's coming up to with the new release areas, we will end up in a financial unsustainable manner, unless we go for special rate variations or some do some other kind of property development activity to find income on a regular basis.

So we do, I just want to say that we do support the formula in the population getting a rate increase using the population growth but attaching that to fund new capital is something we strongly don't agree with, because usually the rates income has been used to support the existing services on an ongoing recurrent basis, that happens and when new infrastructure is built like you get the depreciation cost as well we need to fund. But if you try to use this rates income, take a percentage out of that, and put it to build new capital, it's not going to end up, it's actually not going to do anything, you will in couple of years' time end up in the same situation we are here today, thank you.

Ms Livingstone: Thank you for that Chandi, that's helpful feedback. Bill Carter from City of Sydney, did you have some comments?

Mr Carter: Yes, I'd just like to make some comments on top of what everybody else has said. First of all, thanks IPART for the work done to date, and we do appreciate it. We also understand that the limited Terms of Reference you've been given, but of course you have to understand that we're responding on behalf of the community and what we need to do, so that doesn't always get us there and that's fine.

We support Local Government NSW submission and to decouple it obviously. The decision to look at increasing rates for population growth is well overdue, well overdue, and of course everybody's been eating into their reserves in the meantime, to actually provide the services they need to do.

We'd also like to see an adjustment if there was a possibility of that for post population growth, because obviously we've had massive growth in the city as many other local government areas, and we understand the argument for that will be special rate variation, but as many people have already pointed out special rate variations is a nice notional lever, that you can just pull and away it goes, because it doesn't work like that in real life. So that's a bit of an issue.

A big one for us is population growth. Population growth just being measured on residential or using residential as a metric for the whole of the population growth, does not cover CBD global cities, it does not cover tourist areas, and everything as has been mentioned by many other people.

And as other people have mentioned as well, every council obviously cuts its cloth on what services and it provides to its community and its business community, based on what amount of money it actually does have, realising that you also get measured against how your operating result ratios and that are traveling every year as well. You're very constrained about what you can do. I think it's an it's not the greatest measure in the world, but we are where we are.

I'd like to see the modelling that demonstrates the developer contributions will be more than offset by the increase in rates. We're still looking for that because we don't our own modelling does not suggest that would be the case in any way shape or form.

And it's also difficult to discuss. I understand that it's a package of reforms we're looking at, but when you when you when you're talking to a package of reforms, but then you're introducing them piece by piece, with different cut off dates about when people can comment on them, it's very, very hard to do that in a holistic view.

I was interested in DPIE's discussion about the land dedications and of course if you can get a land dedication from a new development at the time and you can take that off the table about the cost of land, of course that's a fantastic outcome.

But of course in many brown infill sites it can't be the cost of land, you have to go and find the open space land somewhere else, and of course when that happens you're paying market value for the land, so it doesn't matter what you might have got it off of a developer for, if you have to pay for market value, its market value and its development potential actually dictates that market value.

And so, the other part that comes out is open space, sporting fields, community facilities and all that, that are not necessarily going to be in the new legislation for the developer contributions. These are all important things for the health and well-being of our communities, and they have to be funded, and if they're not funded from one of those 2 sources, then they're going to come from the ratepayers.

Yep so look I might leave it there, but I just want to do support most of the comments have been made by the other LGA's. I think they've made some really good points, and I think we would just be good to see the whole package together, so that we could actually respond appropriately thank you for your time.

Ms Cope: Thank you Bill. Did you say you were from City of Sydney?

Mr Carter: Yes.

Ms Cope: Yeah okay thank you. And you mentioned first up sort of the issue around CBD growth and the differences between the way growth affects the City of Sydney and that was something that we did identify in the report, and I understand the team is talking quite closely to the City of Sydney, to work through what the methodology means, and whether it needs to change for those circumstances, because it was one that when we looked at what was driving growth costs there does they did seem to be very different circumstances there.

Mr Carter: Yeah there is, it's not only just the nexus between the two the developer contributions and the rating at the moment, but there's also in the new rating legislation, there's also the opportunity for State Government to put extra contributions on top of rates again for special infrastructure, so you know there's about a 3-way bite coming out of this ,and at the end of the day somebody's going to have to pay for these facilities.

Ms Livingstone: Thank you. There are no more questions I think or comments that are waiting in the list, correct me if I'm wrong, and put up your hand if I've missed you, but I might ask Tribunal Members whether they've got particular questions they'd like to ask of our audience here while we have it.

Ms Donnelly: Liz, I found this very beneficial certainly hearing everybody's views, and I just want to pick up on some of the points that have been made about the differences between different local government areas and different councils.

And just ask more broadly, we foreshadowed in the Draft Report that IPART will monitor the impact over time of these changes, there were some suggestions about how we might be looking at peer councils who have similar characteristics in groups or, and certainly following on from Bill's points about City of Sydney with large CBDs.

I'll just be interested if there are views about appropriate factors for us to be considering in looking at groups of councils, so that we understand you know, if the impacts are varying for different types of councils.

Ms Livingstone: And I'll open the floor to anyone who might have thoughts on that and volunteer.

Mr Robinson: Kerry Robinson, Blacktown City I'm very happy to have a lash. Carmel thank you for the question. The banding of councils is very problematic. A council beside another, one might have a whole heap of in-house services, childcare, garbage collection; another might outsource all of those. The cost pressures and drivers are different in those different models.

One council might have large capital works, another might have a stable population. There's a difference between the impacts on growth councils, versus stable councils. I'd urge a great deal of caution before banding and suggest that it's important to look at the circumstances of each council.

Ms Livingstone: Thanks Kerry, did anyone else have thoughts or comments on that question?

Mr Mosley: I didn't quite understand this. Laurence from Waverley. Sorry I didn't quite understand the suggestion in respect to banding. Can you just elaborate a bit on that please?

Ms Donnelly: Certainly, and I look, I was really reflecting some comments earlier in the discussion from Peter from Queanbeyan, talking about needing to understand cohorts of local government you know with regional or coastal or you know different. I was really picking up from that saying asking whether or not other participants today had similar ideas or ideas on moving on a way of usefully considering that, as we monitor the impact going forward. And that said, I do understand Kerry the points that you've made about the complexity of doing that and certainly we do understand the extraordinary diversity between councils.

Mr Tegart: I'm happy to expand on that Carmel. I support Kerry's point of view, as we all do, that, we're all special and we are we are all different. But I'm equally mindful of the extraordinary amount of work that IPART would face to try and differentiate the costs and so forth for each council each year without quadrupling its staff to do so.

Hence the suggestion of these bands or cohorts, at least to understand that there are some similarities in our difference, particularly around geography, particularly around growth profiles particularly around a range of factors, you know a metro is very different to a coastal pressure, compared to a regional city, compared to regional as I put forward.

And even if we had offered through Regional Cities in the Canberra Region Joint Organisation put some examples together to demonstrate how it isn't a straight 60%, how it isn't a straight 0.85%, all the numbers you put forward are naturally generic. We accept that, but we want to assist the articulation of our points of difference, and therefore suggesting or reinforcing that one size doesn't fit all.

Ms Livingstone: Thanks very much Peter. Were there any other questions either from Tribunal Members or other participants today?

Ms Cope: I did have another question Liz, which sort of flows on from Carmel's question and that is that in the report we did say that we would be looking at monitoring things to see that we were having the outcomes intended. My question to the group is what should we be monitoring? What's important to keep an eye on, to make sure that this is delivering as expected?

Ms Scott: Deborah I might start by responding as many Revenue Professionals on the call here, they'll absolutely be able to provide on behalf of local government that great expertise. But can I just add that monitoring assumes a level of predictability in all the other variables and I know this is outside your scope, but I just want to make the point that it is extremely difficult for councils to understand, given the other factors that play here, what this is going to look like, or what to monitor.

For example, whilst of course from this current Planning Minister we've had a range of commitments and he would like to stick to the scope of the Productivity Commissioner recent report recommendations in the Infrastructure Contributions Bill.

The points that we made to the Upper House on Friday are that the scope of the Bill and the terms of the freedom in the possible regulations that are made, make it impossible for us to understand what a future Minister or a future Government might commit to. It is important to monitor.

We absolutely are very grateful that IPART will do that, but the freedom of regulation that gives future governments powers, mean that it is absolutely not safe to assume that all the other variables that people have mentioned, that have an enormous impact on this are going to be in any way consistent, or in any way predictable.

And so even though it's outside your Terms of Reference to investigate, it would help councils to point that out and it would help councils if you're able to make recommendations that highlight the possible variability in the future scenarios of developer contributions and a range of other factors that have an impact on us, and that these go to the heart of whether or not you will be able to do anything that makes a material difference to the financial sustainability of councils or not.

Ms Livingstone: Thanks very much Linda, and please if others would like to comment let me know. Wayne, you've got your hand up and I think Peter also had some thoughts about what ideal outcomes would look like, which might help us know what to monitor. But Wayne, would you like to go first?

Mr Rogers: Just in terms of what you would monitor. If you looked at the other states of Australia, the average rates per capita is significantly higher than NSW. This is data from 2 years ago but in NSW now it was around $600 per capita, Queensland $800, Victoria $815, Western Australia $924, ACT $1,309.

Now each state has different ways of funding community infrastructure and other capital costs but if the average rate per capita in NSW consistently remains well below the other states. I think that underlines the methodology of purely looking at current service levels being indexed by population growth will be inadequate to fund all the capital costs we've got. So, compare how our state's average rates per capital is comparing to other states and if the gap isn't shrinking then we've still got a problem.

Ms Livingstone: Thanks Wayne. Peter did you want to speak to the ideal outcome scenario.

Mr Tegart: If I may, so what I think we've been hearing is a broad acceptance of using the ERP and I think I also heard that while there might be some notion of truing up with the census, they should probably still be with the parachutes. In other words, if as a consequence of the census, the estimated populations gone backwards, then there shouldn't be a deduction. I think I was hearing that as one of the ideal outcomes.

We had suggested that another measure that IPART may want to have a look at, is how the Local Government Grants Commission the LGGC assess their service costs, and how they differentiate them using disadvantage factors, based on bands or ranges of councils.

We would still urge consideration, I know they're on your outer list but, the change in asset costs as well as service cost is, they can't be separated they are an important feature of the cost burdens to councils and of dealing with growth. And maybe perhaps that will lead to some revisions of the basket of goodies that's included in the LGCI. That might become a later measure as well.

I'd like an opportunity at some point to, and we will in our submissions, to migrate or consider a new rating model, that will take time. We had also spoken about some new rating categories perhaps to capture all these new energy installations, solar farms, wind farms, CSGs certainly some new categories to capture the non-rateables or the growth non-rateables like the rest retirement villages.

There should be, again to reinforce, no deduction from supplementary levies. At least the supplementary levy growth goes some way to dealing with the changes or growth in tourism and transient populations we need to service. This is all about smoothing, it is all about transparency and no bill shock, so the more that we can build into regular, reasonable rate rises that would be appropriate.

We should narrow the need perhaps to SRVs, where it is generally around a change to service or a level of service, it's generally around a new or an upgraded or expanded asset, but we should allow for those high growth councils, metro, regional, coastal to allow for a, let's say a 5-year catch-up. So, it's a bit like the proposed infrastructure levy. It doesn't require the full gamut of an SRV, but it does require community engagement.

And it's on that basis we would also urge that the special infrastructure levy should be able to be raised to co-fund infrastructure grants and contributions. Many regional, rural councils have under-captured or under-collected infrastructure contributions, and they are way behind the 8 ball now in having any means to get to bring up to speed the infrastructure that was forecast in those contribution plans.

As I said earlier, in my experience many councils have used section 7.11, all based on new properties to be the signal of new growth, and that would be to contribute towards new assets or expanded assets or facilities. We are very concerned about the removal of community facilities from the essential works list. But equally many councils have used the broad section 7.12 charge as a means of assisting the funding of renewing infrastructure or servicing of debt for that infrastructure.

So those would be a mix of some of the key outcomes that would be useful to be at least achieved through this part of the IPART review, but we would urge the items that were out of brief that we've raised earlier to be included.

Ms Livingstone: Thanks Peter. Kate Monaghan you also had some comments on this, on what might be useful to be monitored.

Ms Monaghan: Yeah hi, I have made similar comments to Peter that I appreciate the simplicity of the model that's been proposed by IPART but, I think that potentially there are some adverse effects of the simplicity.

And one of the comments I wanted to make was the hopefully, I think we should consider the uncoupling of the reduction of the supplementary valuation for any growth factor. I think that might be depending on how it's done, it might end up being too complicated to just calculate the supplementary valuation that is relevant to population growth, as opposed to supplementary that might be for all sorts of different reasons, including growth in business and change in rates categories. And I think that that needs to be looked at fairly closely, or any change might end up being counterproductive.

And I think in terms of monitoring, what we're really trying to achieve is a reduction in SRVs for financial sustainability, which is what we're trying to get away from, to go back towards the smoothing and to reduce any bill shock impacts, possibly that's where our industry could get better.

And relevant to the work that IPART does in setting the rate peg and looking at the cost index each year. If the cost index is in fact actually doing a good job at understanding the cost increasing cost of services, then we should be seeing a reduction in SRVs for financial sustainability catch-up, and that's probably where we should be looking at monitoring as an industry.

Ms Livingstone: Thanks very much. I'll do another call just to test if there are any questions that people haven't had a chance to ask or comments they wanted to make to the Tribunal or from the Tribunal. No, it doesn't look like it.

Ms Cope: Nothing from me. I found that extremely useful, but I've got nothing further that I wanted to ask.

Ms Livingstone: Thanks very much Deb and thank you everybody for participating. We're all battling different circumstances during this lockdown and I'm sure there have been things going on in the background of your households that that may have been distracting but thank you for participating and contributing to the discussion today. It's very useful for us. We do have a bit of an early mark to give you some time back, but I will invite Carmel to close the session for us thanks.

Ms Speare: Would I be able to make a short little comment?

Ms Livingstone: Sure Kate, sorry.

Ms Speare: I wanted to thank you for inviting DPIE to come along and be part of their hearing today. I've certainly appreciated being able to hear the comments from councils. I appreciate the focus of this has been on the rate peg reform, but certainly have been listening to what's being said about the contribution reforms, so we'll definitely take those things away and include that into our work that we're doing on the reform. So, I just wanted to say thank you for having us here

Ms Livingstone: Thank you Kate and thank you for speaking as well as Linda and Cameron kicking us off earlier today. Carmel, I'll hand over to you.

1.7 Closing remarks

Ms Donnelly: Yes, thank you Liz, so just in closing on behalf of IPART, I'd just like to thank everybody for joining us today and making the time. Thank you for sharing your views, we very much value your input, and it's been very beneficial to the review.

We will be considering everything that's been said today, and also in the submissions and I just want to remind you the submissions close the 6th of August so please keep that in mind. Just further to that, there have been some offers of information or some indications that people would like to have further discussions, if you would like to talk to the IPART team you're most welcome to get in touch with the team, the contact details are on the website and also on the front cover of the Draft Report and then thank you again for today and I think we'll be able to close the discussion, thank you.