

# Sydney Water submission to IPART's Review of the Local Government Rating System

October 2016

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# 1 Executive summary

Sydney Water welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal (IPART) Review of the Local Government Rating System (Draft Report).

We agree in principle with IPART's approach to this review, which is broadly a user pays approach.

However, we believe that, as they apply to Sydney Water, some of IPART's draft recommendations do not achieve their stated objectives and are analysed within a static rather than dynamic taxation incidence framework.

As a result we support in principle all of IPART's recommendations, with the exception of draft recommendations 1 and 13, in so far as they relate to Sydney Water. These recommendations have inefficient and/or inequitable impacts on our customers, many of whom are also local council rates payers. These draft recommendations will likely increase the average amount paid by each of our customers towards the cost of local council rates through their water bills, to an amount at least equal to \$16.50 a year, up from a current \$1.40 contribution, with no demonstrated additional benefit. Our concern is that these draft recommendations effectively penalise the groups they are intended to assist.

Further if draft recommendations 1 and 13 are adopted all costs will be unfunded via the regulatory process and borne by Sydney Water until the 2020 pricing determination. We see the financial risks to Sydney Water as being significant at approximately \$100 million ( $\$16.50 - \$1.40 \times 1.8\text{M}$  customer  $\times$  3.5 years) for the remainder of the 2016-20 regulatory period. We believe these two recommendations should not be adopted for Sydney Water; however if they are, implementation should be delayed until FY 2020-21 as we have no funding for this unforeseen cost increase before our next pricing determination. We also believe this amount should potentially be subjected to a 'phasing in' in the next regulatory period to avoid bill shock to our customers.

Draft recommendation 1 seeks to introduce a Capital Improved Value (CIV) method for estimating the rate base. Accepting draft recommendation 1 will increase the amount paid by each of our customers by a conservative estimate of approximately 6 times. As a result we recommend that Sydney Water be exempt from draft recommendation 1. To this end we note that in many cases Sydney Water adds to the stock of council services, often at little to no cost to council. For example, we make many parcels of Sydney Water land available at a peppercorn rent for community activities such as informal open space, parkland, Scout halls or recreation areas.

Draft recommendation 13 suggests the removal of certain exemptions for Sydney Water. We note that exemptions were originally granted on the basis that Sydney Water was a government owned entity providing essential social goods through revenues it raises and not earning any private returns. This remains the case today. Accordingly, we believe the exemptions should not be removed. If removed the current amount paid by each of Sydney Water's customers through their water bills will double from a current \$1.40 to \$2.80 per year.

## 2 Introduction

This submission provides Sydney Water's views on the Draft Report released in August 2016 by the Independent Pricing and Regulatory Tribunal (IPART) in its Review of the Local Government Rating System.

Sydney Water welcomes the opportunity to respond to this review in light of IPART's objective of designing a rating system that will collect revenue more equitably and efficiently from ratepayers.

We agree in principle with IPART's approach to this review, which is broadly a user pays approach. We understand this to mean that the users of council services, or those that derive the greatest private value from them, ought to bear the costs of these services proportionately.

However, we believe that, as they apply to Sydney Water, some of IPART's draft recommendations will not achieve their stated objectives. When analysing such recommended changes a dynamic taxation incidence framework rather than a static legislative requirement of tax liabilities approach is the most appropriate method. This is because a tax incidences approach provides the basic insight that the person who has the legal obligation to make a tax payment, say, Sydney Water, a local mechanic, a national electricity provider etc, may not actually be the group or person who ultimately bears the cost of the taxation. This means that the equity and efficiency that on the surface appears to be present in a static legislative tax liability assessment may be misleading relative to a dynamic tax incidence assessment. Our concern is that these draft recommendations outwardly appear to shift costs onto Sydney Water, but are really shifting more costs onto residential customers. In other words, they penalise the group they are meant to assist.

We support all but two of IPART's recommendations, and in particular, we explicitly note our support for draft recommendations 2, 10, 21-26 (inclusive). We believe that with our proposed very minor variations these draft recommendations will improve the efficiency and equity of the local council rate system.

We do not support draft recommendation 1 and 13. These recommendations have inefficient and/or inequitable impacts on our customers. A conservative assessment is that these proposed changes would change the current contribution of an average Sydney Water customer from \$1.40 to around \$16.50 (~5.91 x \$2.80 as explained below) a year. This cost increase comes with no perceived additional benefit to our customer, many of whom are also primarily local council rate payers.

Further if draft recommendations 1 and 13 are adopted all costs will be unfunded via the regulatory process and borne by Sydney Water until the 2020 pricing determination unless allowed. We see the financial risks to Sydney Water as being significant at approximately \$100 million ( $\$16.50 - \$1.40 \times 1.8\text{M customer} \times 3.5 \text{ years}$ ) for the remainder of the 2016-20 regulatory period. We believe these two recommendations should not be adopted for Sydney Water; however if they are, implementation should be delayed until FY 2020-21 as we have no funding for this unforeseen cost increase before our next pricing determination. We also believe this amount should potentially be subjected to a 'phasing in' in the next regulatory period to avoid bill shock to our customers.

Draft recommendation 1 is based on the view that the introduction of a Capital Improved Value (CIV) method better matches demand placed on, and private value derived from, local council services — a user pays view — improving cost recovery and improving efficiency and equity.

Although we agree with the broad principle of a user pays approach we do not believe that a CIV matches Sydney Water's demand on council services. In many cases Sydney Water in fact adds to the stock of council services at little to no cost to council, via making Sydney Water land available for community use. Accepting draft recommendation 1 will increase the amount paid by each of our customers via water bills by a conservative estimate of approximately 6 times.

Draft recommendation 13 suggests the removal of certain exemptions for Sydney Water. The proposed removal is based on equity, efficiency and competitive neutrality grounds. We note that in the first instance exemptions were granted on the basis that Sydney Water was a government owned entity not earning private returns. Similarly, a range of local government and community properties are exempt from paying Sydney Water service charges<sup>1</sup>.

In this regard little has changed. Sydney Water continues to be wholly owned by the NSW Government and continues to deliver essential social services. As a result any taxation levied on Sydney Water is purely an internal transfer of funds between state government entities, making draft recommendation 13 inefficient. Accordingly, we believe the exemptions should not be removed. If removed the current amount paid by each of Sydney Water's customers will double from a current from \$1.40 to \$2.80 per year.

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<sup>1</sup> Sydney Water Act 1994, Schedule 2.

### 3 Economic perspective of the impact and incidence of local council rate reforms

Local council rates are a form of taxation levied on residents and businesses of a local council area for the provision of social goods and services such as roads, footpaths, parks, and so on. As such we agree in principle with IPART's approach to assessing the strength of their draft recommendations based on broad tax assessment criteria. These included assessments against: the benefits received principle, ability to pay principle, sustainability and simplicity.

We also agree with IPART's broad perspective that these criteria can be met via a general user pays approach. Overall, we support the goals of the draft recommendations to improve the efficiency and equity (simplicity and sustainability are inherent in achieving efficiency and equity) of how a local council's rates are levied on its members.

To this end we believe that any assessment against the goals of efficiency and equity would best be assessed via a dynamic incidences and burden of tax assessment, rather than a static legislative requirement of tax liabilities approach. This is because a dynamic tax incidences approach demonstrates how the person who has the legal obligation to make a tax payment, say, Sydney Water, a local mechanic, or a national electricity provider, may not actually be the group or person who ultimately bears the cost of the taxation. This means that the equity and efficiency that on the surface appears to be present in a static legislative tax liability assessment may be misleading relative to a dynamic tax incidence assessment.

That said, as a minimum we believe that for complex state owned corporations (SOCs), such as Sydney Water, a dynamic approach to assessing welfare, efficiency and equity impacts should be considered before IPART makes any final draft recommendations.

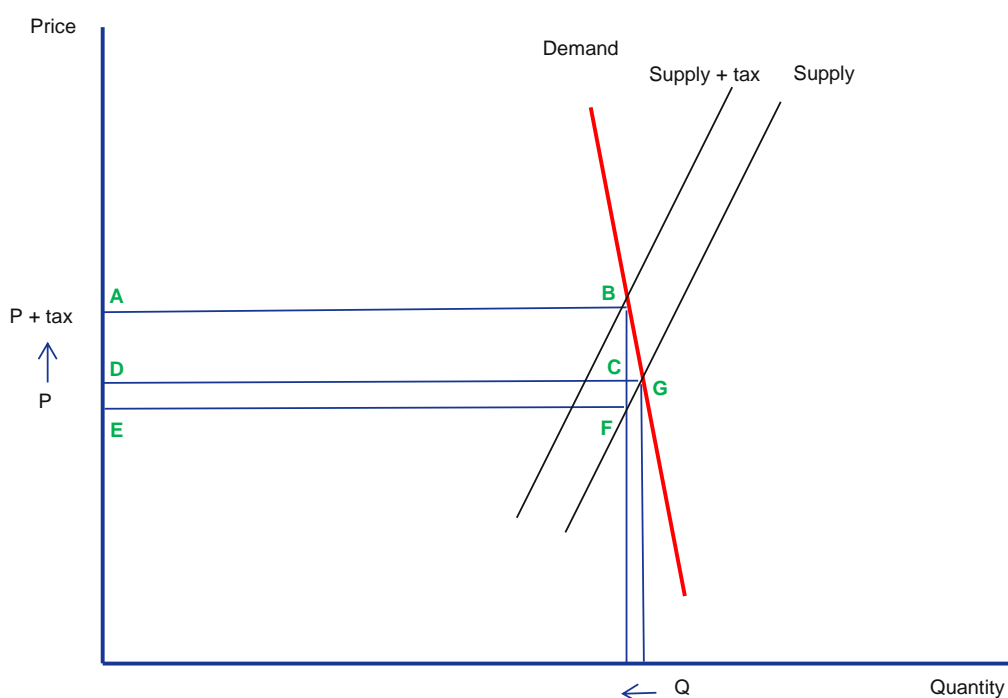
An incidence of taxation approach is illustrated in

Figure 1. The figure represents Sydney Water's supply of and demand for water and wastewater services along with a proposed general increase in the local council rates to be collected from Sydney Water.

The local council rates at the increased value proposed by IPART is shown as area ABCD brought about by the shift left of the Sydney Water supply curve. The figure shows that the incidence of the taxation falls entirely on water and wastewater customers, many of whom are also local rate payers, in the form of higher water and wastewater bills. This highlights the unintended inequity associated with any increase in Sydney Water's local council liability.



Figure 1: Incidence of local council rates change



The reason why the change in council rates falls entirely on local council rate payers is because the demand for Sydney Water’s services is largely over the long term not very sensitive to price changes (inelastic<sup>2</sup>), all else equal. That is to say, the slope of the demand curve for water and wastewater services is very steep, and that a change in the price (cost) should be able to be entirely passed through in the form of higher prices<sup>3</sup>. This means that the overall additional revenue earned (ABCD) is greater than any lost revenue from a reduction in the quantity of services consumed (DCFE).

The inefficiency from an increased taxation burden on Sydney Water can be seen as Sydney Water’s foregone revenues DCFE as a result of higher water and wastewater bills. As a SOC, Sydney Water shares part of its revenues with the NSW state government for the provision of social goods and services. With lower revenues available to share with the NSW Government, and fewer state government goods and services can now be provided.

An additional inefficiency is measured by triangle BGF. This area is known as a deadweight loss, and represents the value that nobody in society gets, neither consumers through higher consumption nor NSW residents through revenues shared with the state government.

A further inequity can be highlighted through a simple extension of the fact that Sydney Water raises all customer prices agnostically of their location and socio-economic status. For example, consider two equivalent plots of land used to provide water services in two different socio-economic local council areas of Sydney which both have one resident each. One parcel of land

<sup>2</sup> See IPART, Review of prices for Sydney Water Corporation, From 1 July 2016 to 30 June 2020, Water – Final Report where residential and non-residential elasticities are measured as -0.26 and -0.13 respectively.

<sup>3</sup> This is a mechanism of Sydney Water’s regulatory environment.

has water views and is valued on average at \$100 and the other does not and is valued at \$20. Both parcels of land were previously exempt from council rates but now both attract an equal yearly rate of 2% per annum. The annual local council rates due to be paid by Sydney Water is equal to \$2 ( $\$100 \times 2\%$ ) and \$0.40 ( $\$20 \times 2\%$ ) for each parcel of land. This is equal to a total additional cost that Sydney Water will recover from its customers of \$2.40. If we assume that Sydney Water only services these two regions and with an average or postage stamp price in place, Sydney Water will recover \$1.20 from each customer. This recovery is not in proportion to the original value of local council rates charged to Sydney Water.

In the absence of a more comprehensive welfare analysis, including consideration of efficiency and equity impacts, some of IPART's draft recommendations as they relate to Sydney Water may not result in their intended consequences.

## 4 Sydney Water's position on IPART's draft recommendations

Overall, Sydney Water supports IPART's review of local council rates on broad grounds of improvements in efficiency and equity.

However, we believe there are several draft recommendations for which the net welfare impacts are unclear. Positive welfare impacts are least clear for draft recommendations 1 and 13 and these draft recommendations are most likely, in their current form as they relate to Sydney Water, to have a negative impact on water and wastewater consumers and residential local council rate payers. These members of society currently each contribute \$1.40 towards council rates as part of their Sydney Water bill. Residential rate payers, which are substantially comprised of Sydney water and wastewater customers, are the group which appears to be the main target for efficiency and equity benefits via IPART's draft recommendations. In other words, the draft recommendations effectively penalise the very group(s) they are intended to assist.

We believe that several of IPART's draft recommendations will very likely increase Sydney Water's customer bills for little to no benefit. While we agree with the intended consequences of IPART's review, the unintended consequences of an average yearly bill increase and the conservatively estimated increased average customer contribution to around \$16.50 a year may not have been accounted for. This bill increase is not only in our view inefficient, but also, as it must be applied as a uniform increase to all customer bills, may be inequitable. These draft recommendations as they relate to Sydney Water broadly cover:

- removal of rate exemptions for Sydney Water properties
- the use of the CIV for calculating council rates
- the use of land use rather than ownership as the basis for determining rating exemptions.

Our views on relevant draft recommendations, beginning with draft recommendations 1 and 13 as the recommendations most relevant financially to our customers, are outlined below, with alternatives presented.

### 4.1 Draft recommendation 1

The *Local Government Act 1993* requires NSW councils to use the unimproved value (UV) method as the basis for setting both the variable charge and base amount applicable when charging local council rates. This Act also allows councils the discretion to set the variable recovery to a minimum amount, presumably for risk minimisation and sustainability justifications.

IPART's draft recommendation 1 introduces additional council discretion by allowing councils to choose between the UV and Capital Improved Value (CIV) method, while retaining the minimum variable recovery choice. IPART states:

*‘Councils should be able to choose between the Capital Improved Value (CIV) and Unimproved Value (UV) method as the basis for setting rates at the rating category level. A council’s general income should not change as a result of the valuation method they choose’.*<sup>4</sup>

The draft recommendation is based on the view that a CIV method better matches demand placed on and value derived from local council services — a user pays view — improving cost recovery and improving efficiency and equity.

Although we agree with the broad principle of a user pays approach, the allowed CIV method in the draft recommendation does not, in regard to Sydney Water, appropriately match the demand Sydney Water’s assets place on local council services. It also shifts a degree of financial uncertainty from councils ultimately to our customers and rate payers.

For these reasons we do not believe that draft recommendation 1 in its current form as it applies to Sydney Water achieves the goals of efficiency and equity.

#### **4.1.1 Impact of draft recommendation 1**

##### **The CIV method is not appropriate for application to Sydney Water**

We support in principle IPART’s view that a CIV method relative to a UV method better recovers the costs of council’s services from those that derive private value from them and, in the case of local businesses, those that can most afford to pay. In particular we recognise this principle is relatively uncontentious in its applicability to residential rate payers and local businesses such as shopping centres, local mechanics etc. Specifically local residents use local roads and footpaths daily, local businesses directly derive value from the existence of roads, footpaths, bus lanes and garbage collection services. However, any derived value and demand for council services is much less clear for relatively self-reliant and standalone infrastructure occupied properties like those owned by Sydney Water. In this regard, the social value of the services that Sydney Water provides is not directly related to the existence of council services nor is its demand on these services high or in any way proportional to its property values. As such we do not believe a CIV method accurately represents the notion of ‘user pays’ as it relates to Sydney Water. We therefore believe that Sydney Water should be exempt from the application of a CIV method as proposed under draft recommendation 1. Further, being a SOC the value that Sydney Water derives from its use of council funded services is arguably a social and not private value.

The Independent Local Government Review Panel Final Report (Panel Report)<sup>5</sup> is closely aligned with Sydney Water’s position in regard to the application of a CIV method, recommending that a CIV method only apply to residential rates calculations. Whilst the Panel Report sought to introduce CIV to residential rate payers only, we believe it is valid that a CIV method should also apply to local businesses, but that Sydney Water ought to be exempt for the reasons outlined above. This differentiation between Sydney Water and local business is already reflected in legislation including the Environmental Planning Act 1979 and the Land Zoning SP2 - Special Use applied to Sydney Water operational sites. This special land use enables differentiation of the

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<sup>4</sup> IPART Review of the Local Government Rating System- Draft Report, August 2016, p26.

<sup>5</sup> IPART Review of the Local Government Rating System- Draft Report, August 2016, p145

essential community services and associated level of activity provided by Sydney Water from other industrial or commercial land uses.

In addition it is not uncommon for Sydney Water to in fact reduce the overall demand on local council services by adding to the stock of local council provided goods and services. This is achieved by Sydney Water routinely entering into long-term leases with local councils and community groups to use the land on which our assets (in many cases underground assets) exist for community activities like parks, community halls and Scout halls. These leases are typically for notional values via peppercorn leases if the land is maintained (eg grass cutting, weeding etc) by councils or community groups themselves, or equal to the cost of maintaining the land to Sydney Water. We believe that draft recommendation 1 (or 13 as discussed below) will likely decrease the existing stock of community use land by increasing holding costs to Sydney Water and/or local councils or communities beyond reasonable and affordable levels.

These not-for-profit style arrangements are discussed further in our response to draft recommendation 10.

#### Allowing council too much discretion shifts financial risk to consumers and is not consistent with IPART's regulatory precedent

Allowing councils to have unfettered discretion over the choice of applying either a UV or CIV method for determining the council rate base to apply introduces additional financial risk and instability to our customers and Sydney Water. This may lead councils to adopt a method that is seen to maximise revenue collection from a large utility, rather than direct rate payers, or provide inefficient cross-subsidies to other rate payers.

For example, many of our properties, such as our wastewater treatment plants and sewerage pumping stations, have been located in areas that have the lowest possible land values, where alternative uses and community value are low. With many years of capital investment sunk into these assets to provide essential community services the CIV is likely to be many multiple times higher. One such site is our Bondi wastewater treatment plant, which may attract a high CIV.

By way of an estimate of the likely multiple of the CIV values of our assets relative to their UV, it is possible to take the ratio of our capital improved current value asset base, or Modern Equivalent Engineering Asset (MEERA) value to our unimproved regulatory asset base (RAB) in the year 2000. The MEERA value is an estimate of an efficiency adjusted version of our assets at current (2016) market capital improved values, which are estimated by the auditor general – making it a reasonable proxy for the current CIV of our assets. Our unimproved RAB is our RAB value in 2000 (equivalent to a MEERA value in 2000), indexed for inflation with no capital improvements, giving a current value in 2016 dollars.

We estimate this ratio as of 1 July 2016 to be approximately  $6 \approx (\$43 \text{ bn MEERA} / \$5.3\text{bn (RAB)} * (1.025)^{16})$ . This suggests that conservatively a shift to a CIV method will mean that our current local council rates bill will increase by around 6 times, all else being equal. <sup>6</sup>

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<sup>6</sup> We note that the multiple of approximately 6 times is consistent with Blacktown City Council's upper range estimated for a sample of residential properties as expressed at IPART's Public Forum held in Sydney and

In terms of financial impact (including the removal of exemptions under draft recommendation 13 discussed below), our average customer's yearly bill is estimated to potentially increase by as much as \$16.50 a year<sup>7</sup>. These impacts are summarised in Appendix 1.

#### 4.1.2 Managing the impact of draft recommendation 1

Our strong preference is for Sydney Water to be exempt from recommendation 1. Absent this change we believe that IPART should adopt a final recommendation that is prescriptive in the exact CIV method to be adopted along with any relevant rate parameters which ought to apply. This would harmonise IPART's approach to its cost pass through regulation for Sydney Water which requires a greater degree of cost certainty, allowing this issue to possibly be captured as part of a future cost pass through mechanism. If the recommendation is adopted, we believe that:

- the charges should not apply to Sydney Water until FY 2020-21 as we have no funding for this unforeseen cost increase during the current determination, and
- a 'phasing in' approach of the costs associated with draft recommendation 1 ought to be considered in our 2020 regulatory period, minimising the potential bill shock to our customers.

## 4.2 Draft recommendation 13

The Draft Report recommends (*draft recommendation 13*) the removal of the following explicit exemption:

*'...land that is vested in, owned by, or with a special or controlled area for, the Hunter Water Corporation, Water NSW or the Sydney Water Corporation (Local Government Act 1993 (NSW) section 555 (c) and section 555(d)'*<sup>8</sup>

The recommended removal is rationalised by IPART on equity, efficiency and competitive neutrality grounds. That is, the rate exemption is being granted to a commercial entity that is generating private returns and not providing a public good.<sup>9</sup> Additionally, it is argued that this exemption as it relates directly to Sydney Water is not competitively neutral given the advent of alternative water and wastewater suppliers.

We understand that exemptions were originally granted on the basis that Sydney Water was a government owned entity not earning private returns. In this regard little has changed in that Sydney Water is a SOC, continuing to deliver essential social services. Similarly, a range of local

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noted in the IPART provided transcript. We believe that structurally non-residential properties due to active capital investments will have an average closer to the upper residential range measured by Blacktown City Council.

<sup>7</sup> Current yearly per customer council rate cost is \$1.40. Draft recommendation 13 is expected to add a further \$1.40 per customer, giving an estimated total yearly customer impact of  $(\$1.40 + \$1.40) \times 5.91 = \$16.54$ .

<sup>8</sup> IPART Review of the Local Government Rating System- Draft Report, August 2016, p82.

<sup>9</sup> IPART Review of the Local Government Rating System- Draft Report, August 2016, p82.

government and community properties are exempt from paying Sydney Water service charges<sup>10</sup>. As a result any taxation levied on Sydney Water is purely an internal transfer of funds between state government entities, making draft recommendation 13 inefficient. As with draft recommendation 1, we support in principle IPART's broad user pays perspective, but do not believe that draft recommendation 13 as it applies to Sydney Water will achieve the objectives of equity and efficiency. Further, any issues can be better dealt with in a simple manner that does not raise Sydney Water's customers' bills with no clear benefits. Therefore the current exemption for Sydney Water should not be removed.

#### 4.2.1 Impact of draft recommendation 13

##### Higher customer bills for Sydney's residents for no clear efficiency or equity benefit

The controlled areas referred to in draft recommendation 13 are classed as 'water transfer structures' under the *Local Government Act's* Regulation. These are assets needed for the supply and operation of essential public goods and services (water, wastewater and stormwater) to the public. These include land used for drainage, stormwater management and aqueducts etc. Special areas relate to catchment areas, such as Prospect Reservoir.

Sydney Water's regulatory environment establishes that 'controlled and special areas' are assets that are specifically required for the provision of essential social water, wastewater and stormwater regulated services. As a consequence these assets are included as part of Sydney Water's Regulatory Asset Base (RAB). Prudent and efficient operating costs associated with maintaining and providing services such as local council rates have to be recovered equally from all of our customers. To this end, an increase in these costs due to the removal of the current exemption, as proposed by draft recommendation 13, will result in a direct increase of the contribution to local council rates via our customers' bills. We estimate conservatively (using the current approach based on unimproved value) that each of our customers' bills will increase by approximately \$1.40<sup>11</sup> (\$2.5M / 1.8 million customers) a year – a doubling of the current existing average \$1.40 contribution.<sup>12</sup> These impacts are summarised in Appendix 1

Reflecting on the analysis in section 3 and the above discussion, we do not believe that it is clear that draft recommendation 13 will necessarily achieve an efficient and/or equitable outcome. However, what is clear is that each of our customers will likely face higher water bills (and lower welfare). On this basis we believe that it would not be appropriate for IPART to continue to propose draft recommendation 13 as it relates to Sydney Water until a broader welfare analysis of the incidence of the suggested change is conducted.

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<sup>10</sup> Sydney Water Act 1994, Schedule 2.

<sup>11</sup> This is a doubling of the current yearly customer costs based on a UV method.

<sup>12</sup> When coupled with the expected multiple increase with a change to the CIV method proposed in draft recommendation 1 we expect the exemption alone to increase customer bills by an estimated minimum of \$8.40 (\$1.40 x 6) per customer per year.

## Competitive neutrality issues are better dealt with by changing the wording of the exemption

We support competitively neutral policies and agree with IPART that the wording of the current exemptions is not competitively neutral.

If the exemption is retained unaltered, any new water or wastewater entrant that builds infrastructure in Sydney would not experience the same benefits as Sydney Water. However, an alternative to removing the rate exemption for Sydney Water and Hunter Water is to reword the exemption to include privately owned utilities that provide essential services. For example:

*'...land that is vested in, owned by, or with a special or controlled area for, **any privately owned utility which provides essential water, wastewater or stormwater services, the Hunter Water Corporation, Water NSW or the Sydney Water Corporation (Local Government Act 1993 (NSW) section 555 (c) and section 555(d).**'*<sup>13</sup> [**Suggested additions in bold**].

Such an alternative would address IPART's concerns about creating a competitively neutral policy environment.

### 4.2.2 Managing the impact of draft recommendation 13

As with draft recommendation 1, our strong preference is for Sydney Water to be exempt from draft recommendation 13. Absent this, we believe that a 'phasing in' approach should be applied in a consistent manner as described in section 4.1.2

## 4.3 Other draft recommendations impacting on Sydney Water's properties

### 4.3.1 Draft recommendation 2

Draft recommendation 2 proposes the removal of minimum amounts from the rate structure and retention of the current base amount.<sup>14</sup>

Under the current rate structure, rates comprise of:

- a variable amount which may be subject to a fixed minimum amount, or
- a fixed base amount, which cannot exceed 50% of total revenue from a specific rating category, to which an ad valorem amount is added.

At present many of Sydney Water's properties are charged minimum amount charges, which exceed the land value based estimates. We do not believe that this current approach is efficient, as it does not reflect the value generated from the asset or demand that the asset places on local councils services. Therefore, we support the removal of minimum amount charge and retaining a fixed base amount with an ad valorem amount as it would be more transparent and equitable.

On this basis, we support draft recommendation 2.

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<sup>13</sup> IPART Review of the Local Government Rating System - Draft Report, August 2016, p82.

<sup>14</sup> IPART, Review of the Local Government Rating System- Draft Report, August 2016, p38.



### 4.3.2 Draft recommendation 10

Draft recommendation 10 proposes that land use rather than ownership be the basis for determining rating exemptions under both sections 555 and 556 of the *Local Government Act 1993*.<sup>15</sup> By removing ownership and making land use the primary driver for possible further exemptions, councils would be able to establish a more transparent and equitable charging base for local government rates.

As we noted in section 3.2, Sydney Water properties that are being used by organisations such as councils for community activities (ie parks and recreation) and other not-for-profit, community service bodies (ie Rural Fire Service), should be exempt from rates because:

- they are not generating private benefits and revenue, but providing a public good
- under draft recommendation 10, they remain eligible for exemption under section 556 based on their land use.

Accordingly, we support draft recommendation 10.

### 4.3.3 Draft recommendations 21 to 26 and a new category

Sydney Water broadly supports draft recommendations 21 to 26 that propose the introduction of new rating categories. We believe these recommendations can be strengthened by introducing a new dedicated category for public infrastructure in general. Within this public infrastructure category IPART could retain the discretion to determine the rate(s) applicable to this category. This can help address a number of the issues raised by Sydney Water in discussion of draft recommendations 1 and 13 above, namely:

- exemption or a greater degree of prescription of the CIV method
- fettering excess discretion of councils and avoiding the possible targeting of utility infrastructure and/or properties by councils as a possible 'can afford to pay' revenue raising path.

#### Draft recommendation 21

Draft recommendation 21 proposes adding a new environmental land category and a definition as to what can be included in the new category.<sup>16</sup>

Sydney Water has a number of land assets that cannot be developed or disposed of due to environmental sensitivity, state and national heritage restrictions or geographic limitations. We suggest that a broad approach be applied to ensure that these properties are captured in the definition of this new category.

Historically these properties have imposed little to no cost to council in terms of creating demand for council services. Accordingly, our view is that these properties should be levied at the lower ad valorem rates for environmental land, regardless of their value.

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<sup>15</sup> IPART, Review of the Local Government Rating System- Draft Report, August 2016, p76.

<sup>16</sup> IPART Review of the Local Government Rating System- Draft Report, August 2016, p99.

Subject to our comments above, we support draft recommendation 21.

#### Draft recommendation 22

Draft recommendation 22 proposes adding a new vacant land category, with sub-categories of residential, business, mining and farmland.<sup>17</sup>

Vacant land in general creates little to no demand for council goods and services. Sydney Water currently holds a number of such vacant properties. The rates levied on these properties should reflect their demand for council services

Accordingly, we support draft recommendation 22.

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<sup>17</sup> IPART Review of the Local Government Rating System- Draft Report, August 2016, p100.

## Appendix 1 – Summary of financial impacts

Table 1: Summary of financial impacts from recommendations 1 and 13 (nominal '16-17)

Contributions from:	Per customer per year	Total (assuming 1.8M customers)	Comments/calculations
Current	\$1.40	\$2,520,000	Status quo currently included in regulatory prices
Recommendation 13	\$1.40	\$2,520,000	Potential impact of the proposed removal of Local Government Act exemptions
<b>Subtotal</b>	<b>\$2.80</b>	<b>\$5,040,000</b>	
Recommendation 1 (5.91 multiplier)	N/A	N/A	Shift from UV to CIV, assuming all properties revalued on CIV basis
<b>Total</b>	<b>\$16.54</b>	<b>\$29,786,400</b>	$\$16.54 = \$2.80 \times 5.91$ $5.91 = 43\text{bn} / 5.3 \text{ bn} \times (1.02)^{16}$ , where: <ul style="list-style-type: none"> <li>- 43bn is MEERA asset values in 2016</li> <li>- 5.3 bn is RAB in 2000</li> <li>- 2% is inflation</li> <li>- 16 year timeframe</li> </ul>