

12 August 2021

Our Ref: 21/224863
Contact: Matthew Walker - [REDACTED]

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

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

Bayside Council (Council) would like to thank IPART for the opportunity to respond to its review and draft report on the inclusion of population growth into the Rate Peg. While Council is supportive of the review of the rate peg currently being undertaken by IPART it does not believe that the current review will address the long-term financial issues relating to the restriction of rate revenue growth since 1977. The draft report also highlights that the inclusion of a growth factor adjustment is forward looking and will not include potential catchup of past growth.

The review also outlines other revenue options for councils however fails to recognise that several of our core services also have statutory set fees and charges which are well below the cost of providing these services, placing further pressures on the rate revenue base. While developer contributions provide a source for capital investment in new assets, they do not provide a source of funds for increased maintenance, operating, depreciation and ultimate renewal of these assets in the future. There are also limitations of how these funds can be expended and often require a co- contribution from existing revenue base to deliver the required works.

Council also considers that being a major employment hub relating to Sydney Airport and Port Botany, plus associated supporting service industries that significantly increases the number of people in the LGA, that by applying the growth factor to residential population only it will miss council will miss out on revenue growth on its business rates. As highlighted in Council's business case submission to IPART, Bayside also has a non-resident population of 72,770 and as a result during September 2020, Council's classification was upgraded to a "Metropolitan Large Council" based on the increased in its combined resident and non-resident working population. Due to the changing and emerging patterns of employment combined with improvements to existing public transportation and Bayside's proximity to the Sydney CBD and major ports of entry is expected to result in significant growth in the resident population as well as workers and visitors to the area.

Due to the nature of the rating structure adopted by Council as part of its Rates Harmonisation process, rate revenue collection has been realigned and council has in place a minimum rates structure. Council also has identified in its previous submission and

Postal address

PO Box 21, Rockdale NSW 2216
ABN 80 690 785 443

Bayside Customer Service Centres

Rockdale Library, 444-446 Princes Highway, Rockdale
Westfield Eastgardens, 152 Bunnerong Road, Eastgardens

E council@bayside.nsw.gov.au

W www.bayside.nsw.gov.au

T 1300 581 299 | 02 9562 1666

the case study submitted to IPART, issues with the current value of the statutory minimum rate. The existence of a lower minimum rate together with the distribution of rating burden being based on “unimproved land values” has resulted in the dilution of the average rates collected per capita over time. This is because new growth in dwellings through infill development (i.e. apartment units) almost always pay the minimum rates due to the pro-rata of the unimproved land values.

Apart from the dilution of the average rate per capita and loss of future growth in rates revenue, a lower minimum rate will shift the rate burden from those ratepayers on the minimum to those on the ad valorem (i.e. rate payers with higher land value will be paying more).

Another inherent problem of the “unimproved land value” methodology is that additional development to existing properties (e.g. granny flats) does not bring in any additional rate revenue.

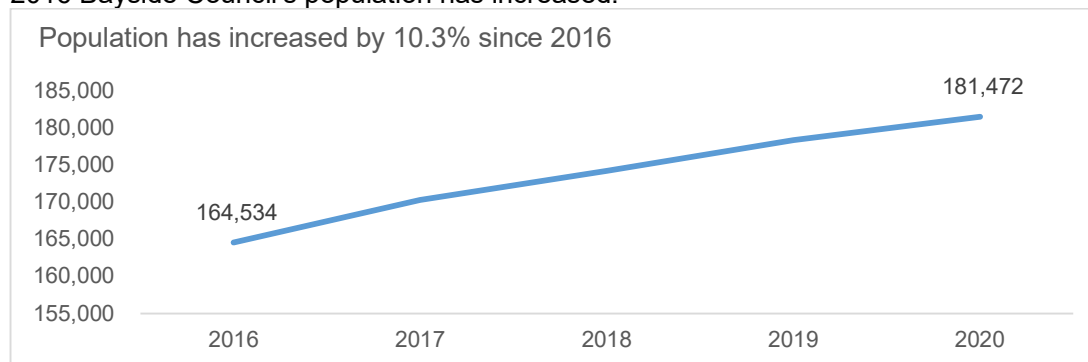
Should our methodology be re-based after the Census every five years to reflect the actual growth?

Council agrees with IPART that the proposed system should provide outcomes that:

- maintains total per capita general income over time;
- reflects a linear relationship between population growth and council costs;
- is based on the change in residential population for each council, and
- applies to all councils, including those experiencing low growth.

Council supports the requirement for a methodology to re-base after each census period, which also needs to include a real catch-up component that includes the cumulative difference over the 5 year period.

When looking at the ABS Estimated Residential Population published data for 2020 since 2016 Bayside Council's population has increased:



The ABS Estimated Residential Population Data also shows that some years reflect correction in the data contained in previous years published data and any methodology implemented would have to account for this. These variations could impact a council negatively in the future when the next year rate peg growth factor is updated for example the previous year rate peg growth was 0.75% and then due to a correction in the ABS Estimated Population is adjusted and supplementary rates recognised during previous year under the formula proposed this would result in a nil adjustment to the rate peg for growth despite cost of servicing population increase would be spread over existing rate base.

In the absence of a true-up, should we impose a materiality threshold to trigger whether an adjustment is needed on a case-by-case basis to reflect actual growth?

Council supports in principle the applying of a 'true-up' adjustment on a case by case basis to correct any material differences.

The complication with this is the use of a single source of the base data and the determination of the Materiality and what level this would be set at. The implementation of a materiality threshold may also have a long term cumulative impact on the rate revenue where adjustments not made due to being under the materiality threshold in a year would not be included in any adjustments and several years combined together in this scenario maybe material when reviewed on a cumulative basis.

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

Methodology

Council believes that growth and costs to council extend beyond 'residential population'. Costs are also linked to business and employment growth, especially considering state government designation of employment hub priorities across our local government area and visitors using Sydney Airport and our foreshore areas.

Council also notes that one of the aims of the IPART proposal in the draft report is for councils to *"maintain per capita general income over time as their populations grow"* however the failure to consider catch up for past growth in the current review limits council to the time consuming and costly current Special Rate Variation (SRV) process. Considering this council believes that IPART should review and implement a streamlined SRV process for the purpose of enabling Council to bring rates revenue up to the required level.

Rate Peg Regime

While not part of the IPART review and specifically not included in reference terms for any rate review in NSW, Council believes that the Rate Peg Regime should cease in NSW. Council should be able to set their rate revenue based on the requirements to deliver under the Integrated Planning Reporting (IPR), which require council to consult extensively with its community on the priorities and associated costs of delivering these.

Basis of valuation

Council recommends that to achieve fairness and equity in the rating base that there needs to be a detailed review and change to the base of calculation being Capital Improved Valuation (CIV) as an option for Council, that this be reviewed by IPART and the NSW State Government in the future.

Maximum Statutory Minimum / Base Rate

The current Statutory Minimum Rate under section 548(3) of the local government act is \$565 and this is currently set at too low a level. This needs to be reviewed and reset at a higher level and the current amount has only increased by the rate peg each year. As noted above the operation of a low minimum rate and the existence of a 50% cap to "Base Rate" will result in a continuation of the dilution of the average rate per capita and will result in the continuation in the future of funding gap between revenue capacity and cost of services.

Rating Exemptions (Residential Usage)

Any review of Rates needs to also consider the impact of the changes to the makeup of residential housing that may be exempt from rates, including in particular the shift in public housing from Housing NSW (Rateable) to Community Housing Providers (who often are non-rateable) and this also is seen in aged care facilities operated by Public Benevolent Institutions. This needs immediate review and that these types of properties should

become rateable to ensure that the organisation benefiting from council services contribute towards them.

Pensioner Rebate

The current pensioner rebate of a maximum of \$250 has been at the same level since the mid 1980's when it was last reviewed. This is jointly funded by State Government and Council's. The burden of funding council's component is funded by other rate payers.

Stormwater Management Charge

Since its implementation there has been no general uplift and minimal changes to the Stormwater Management Charge and this requires further review and analysis. While there is an annual movement in the Rate Peg there has been no such movement in the Stormwater Manager Charge.

Emergency Service Levy

Council also recommends that a review of the way of the Emergency Service Levy be completed with the aim of removing the requirements for Council to fund 11.7% of the cost of the emergency service levy, which is directly funded from its rates revenue. This levy was some \$2.9m in 2020/21 and is likely to increase in the future. These funds are therefore not available to fund services for its community. This change would provide a significant source of funds for Council that could minimise/reduce the level of any future SRV. The recovery of the Emergency Services should be by direct levy on relevant properties by the NSW State Government via Revenue NSW.

Other IPART Reviews – Domestic Waste Service

There is also a review of Domestic Waste Service currently being completed by IPART which may also impact on a future rate peg adjustment and the current rate review does not consider this being focused on the growth adjustment, however this may impact council in the future and consideration of both reviews needs to be factored in by IPART.

Cost Shifting / Legislation Changes

Council continues to be impacted by decisions by State Government to shift costs, eliminate or redirect revenue with minimal engagement and consideration of impacts, A recent example being the Environmental Planning and Assessment Amendment (Compliance Fees) Regulation 2021 (EPA Act 1979) which will prohibit council from charging fees, yet will still have costs as it has engaged staff to deliver this service. While this will take effect from 1 January 2022 it has direct budget impact.

Previous Submission / Case Study

Council provided a detailed case study as part of its working with IPART in the development of the draft report and this provides an overview of the impact of the rate peg regime, low minimum rates and the cost increase per capita over time. This is provided as an attachment to this submission.

If you require any further information in relation to Council's submission please contact Council's Chief Financial Officer, Matthew Walker, on [REDACTED] or by email at [REDACTED].

Yours sincerely

[REDACTED]

[Meredith Wallace \(Aug 12, 2021 18:27 GMT+10\)](#)

Meredith Wallace
General Manager

IPART Case Study - Bayside Council

Bayside Council Local Government Area (LGA) is located in Sydney's Southern and South-Eastern suburbs, between 7 and 12 kilometers of the Sydney CBD.

Bayside boasts a cultural mix of communities from Australia and all over the world in a diverse landscape of urban sprawl, medium density, and high-rise development, along with the foreshores of Botany Bay, parklands, and natural wetlands. Central to the area are the state significant international transportation hubs of Kingsford Smith International Airport and Port Botany.

Increasing urbanization of the area has resulted in a growing number of medium and high-density housing. There are approximately 62,036 dwellings with an average household size of 3 (rounded). The future of housing growth in Bayside is expected to be mainly in the form of infill development (a process of developing vacant or under-used parcels within existing urban areas that are already largely developed).

Changing and emerging patterns of employment combined with improvements to existing public transportation and Bayside's proximity to the Sydney CBD and major ports of entry is expected result in significant population growth in the resident population as well as workers and visitors to the area.

Bayside's estimated resident population for the financial year ended 2019/20 was approximately 178,351 with a population density of 36.35 persons per hectare. Compared to the previous year, the population has grown by 2.4% and by 34% since 2006 with the year-on-year growth averaging 2.3%.

Bayside also has a non-resident working population of 72,770, resulting in a combined total of 251,166. As a result, during September 2020, Bayside Council was upgraded to a "Metropolitan Large Council" based on the increase in its combined resident and non-resident working population.

The 2019 Population Projections published by DPIE indicate that the population of Bayside is estimated to increase by 70,050 people between 2016 and 2041, from 164,550 to 234,600.

The NSW, Federal and local governments are delivering the following infrastructure and capital works that may change future population patterns and growth beyond what is shown in the projections.

- The upcoming upgrade to Bexley North Station to improve public transport options.
- Investing in major motorway infrastructure that connects people with jobs and cultural opportunities as well as linking the Central and Harbour Cities. For example, Westconnex
- \$3m to help revamp Arncliffe town centre as part of the Bayside West Precincts 2036 Plan.
- The new \$165m Qantas Flight Training Centre will ensure Mascot is the home to the best flight training facilities as well as a new 14-storey carpark.

Challenges of a growing population

a. Marginal cost of service

Bayside Councils key revenue is in the form of "rates and annual charges" which accounts for approximately 60% of total revenue, excluding capital grants.

The current average ordinary rate per head of population amounts to approximately \$450 per capita and the average expenditure head of population amounts to approximately \$840 per capita (before capital) and \$1,100 per capita (after capital). The averages show that there is a huge disconnect between the rates collected per capita compared to the per capita cost of services. This gap can be primarily attributed to the impact of historical rate peg on general revenue. It shows that while expenditure has grown exponentially overtime due to the increasing marginal costs driven through inflation and volume, rates revenue has been held back due to the inherent limitations of the rate peg system.

While this gap between general revenue and expenditure is currently being balanced by other revenue sources, financial modelling has shown that without significant reform to general revenue, the problem will continue to worsen over time, eventually resulting in the need for severely scaling back service provisions.

b. Need for new infrastructure including the maintenance and renewal of existing assets.

The historical data and future projections have shown that Bayside will experience growth mainly through infill development.

The characteristics of infill growth brings with it, increased demand for community assets such as parks, open spaces, libraries, sports fields, public pools, and other communal space. Due to the smaller size of apartment units and green space limitations, there is a need for new infrastructure and community assets as well as increasing the service capacity of existing assets.

This increased demand not only requires provision of new or enhanced facilities but also subjects assets to substantially higher wear and tear due to the increased utilization levels of a highly dense population.

A good example of this is Bayside Council's planned \$31m upgrade to Barton Park, which is being funded through a mix of developer contributions, general revenue, and external borrowings. The upgrade to Barton Park will provide enhanced and accessible recreational facilities for the growing populations of Arncliffe, Banksia and Wolli Creek, all of which have experienced population growth through medium and high-density housing.

In the last 3 financial years, Bayside Council has delivered on average \$45m worth of capital works per annum across the LGA in the form of new and renewed assets and has budgeted to deliver approx. \$50m worth of capital works for the 2021/22 financial year.

The general infrastructure assets across the LGA are aging, and replacements associated with more modern and sustainable design elements are more costly.

It is projected that over the next 10 years Bayside needs to spend around \$302 million on asset renewal. In total, asset renewal funding over the next 10 years is projected to be around \$218 million, which leaves a net funding gap of \$84 million over that same time frame (i.e. \$8.4m annually).

Additionally, Council's current asset maintenance ratio equals 69% for FY2021/22 and long-term asset maintenance funding shortfall of \$40m is projected over the next 10 years (i.e. \$4m annually).

If these long-term asset renewal and maintenance funding gap is not addressed, it will progressively impact the quality of Council's assets and the community's ability to properly utilise and access those assets into the future.

In addition to the above-mentioned long-term asset renewal and maintenance funding gap, there is approx. \$250m in the unfunded component of section 7.11 plans (i.e. the portion of new infrastructure spend that is to be funded from general revenue). Planned infrastructure works may also be required to be brought forward as result of increasing Federal and State Government pressure to utilize s7.11 developer contributions. Without sufficient general revenue to fund the unfunded component of planned s7.11 works, external loans will be required to fund these projects which will then add a further burden of servicing the debt on Council's finances.

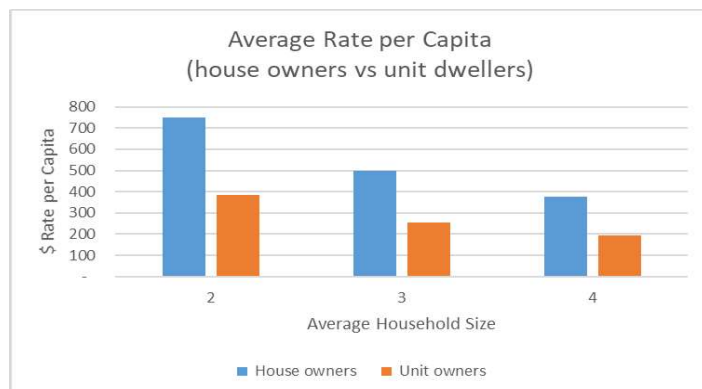
Minimum Rates, Unimproved Land Value, and Infill Development

The existence of a lower minimum rate together with the distribution of rating burden being based on "unimproved land values" has resulted in the dilution of the average rates collected per capita over time. This is because new growth in dwellings through infill development (i.e. apartment units) almost always pay the minimum rates due to the pro-rata of the unimproved land values.

Apart from the dilution of the average rate per capita and loss of future growth in rates revenue, a lower minimum rate will shift the rate burden from those ratepayers on the minimum to those on the ad valorem (i.e. rate payers with higher land value will be paying more).

Another inherent problem of the "unimproved land value" methodology is that additional development to existing properties (e.g. granny flats) does not bring in any additional rate revenue.

To illustrate this, the bar graph on the right shows a comparison of the average rate per capita for a house vs a unit block on a similar parcel of land (i.e. the same unimproved land value) across various household sizes (ranging from 2 -4).



The residents of medium and high-rise developments, while paying a significantly lower ordinary rate per capita, probably consume community services and facilities to a greater extent compared to singular house dwellers.

For example, compared to singular house dwellings, most medium and high-rise developments only come with a single off-street parking spot and where families residing in these units have more than one vehicle, the second vehicle is normally parked on-street thus preventing other residents from utilising those facilities.

Similarly, due to the lack of communal space in medium and high-rise development, there is increased utilisation and demand for Councils parks, sporting facilities and open spaces.

A higher minimum rate which is closer to the Council average combined with a revised methodology for distributing the rating burden based on "capital improved value" may aid in resolving this disparity and inequity in the rating system and assist councils like Bayside in collecting rates fairly from its residents.

Summary

The issues that have contributed to the general revenue shortfall can be attributed to three key factors below:

1. Historical rate peg not accounting for population growth;
2. Existence of a lower-than-average minimum rate; and
3. Distribution of the rating burden based on "unimproved land value".

A proposed way forward needs to account for the correction of the existing shortfall created by the factors noted above as well as ensuring that Council can raise adequate general revenue from future residents.

The series of graphs on the following pages shows the extent of Bayside's general revenue shortfall as well as the impact of the new population.

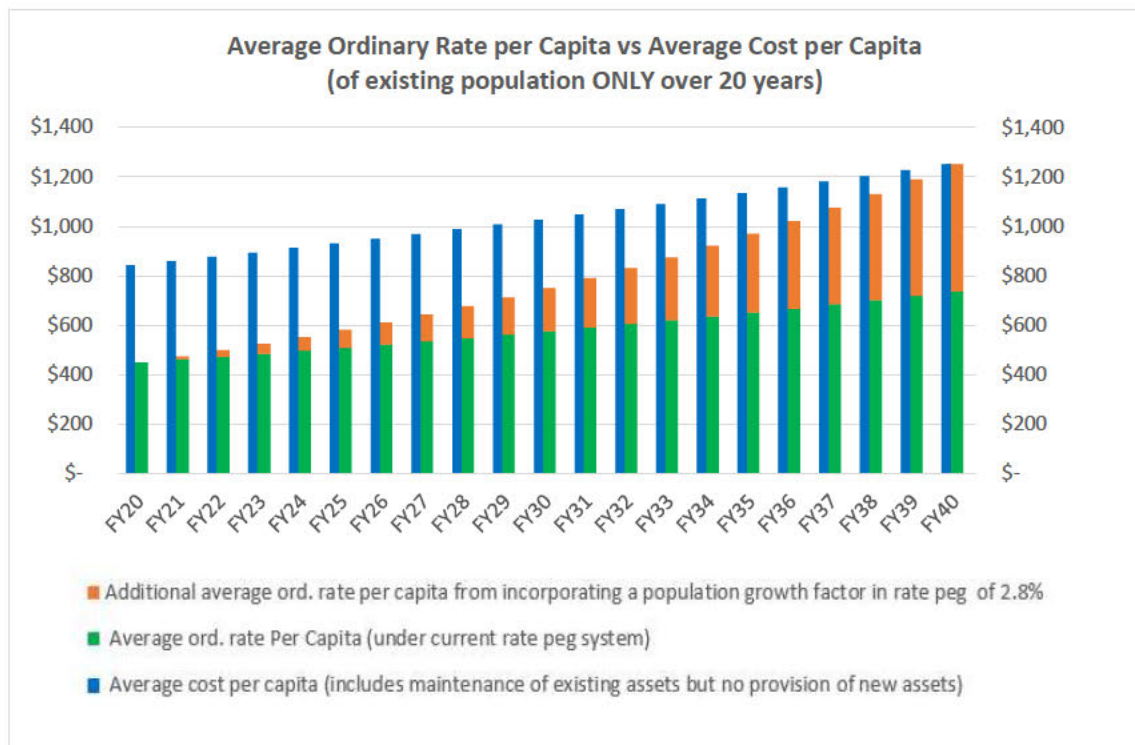
Graph 1 – The bar graph below shows the current gap between the average ordinary rate per capita (green bar) compared to the current average expenditure per capita (blue bar) over a 20-year period assuming no population movement.

It is important to note that this diagram does not include new population or the associated costs and additional rate income of the new population.

The purpose of this diagram is to show how long it will take for general revenue per capita to catch up to operating expense per capita of the current population only over the next 20 Years.

The orange bars show that an additional 2.8% needs to be added onto the current assumed rate peg of 2.5% so that over 20 years, the average ord. rate per capita (of the current population) catches up to the average cost per capita.

The average cost per capita is assumed to grow at a steady rate of 2% (CPI) and does not account for new population or the associated costs of the new population.



Graph 2 – This Graph shows the cumulative ordinary rates and associated cumulative expenditure associated with the new population in isolation (i.e. it does not include the existing expenditure or existing general revenue of the current population shown in Graph 1).

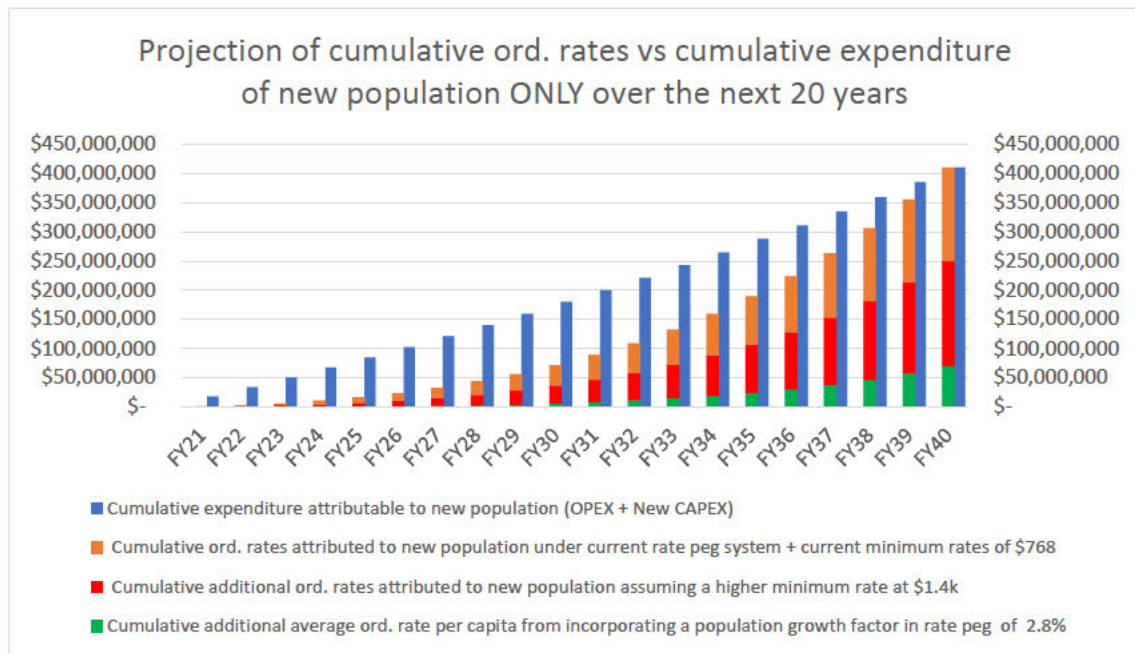
The blue bar depicts the cumulative expenditure attributable to the new population which comprises operational expenses, cost of new and enhanced infrastructure assets and the related maintenance costs of the new infrastructure assets.

The green bar shows the cumulative ordinary rates that will be collected from the new population under the current rate peg system and current minimum rates. It is assumed that for Bayside, approx. 90% of growth in dwellings will be in the form of infill development thus new residents will be paying the minimum rates only.

The red bar shows the additional cumulative ordinary rates that would be collected from the new population if there was a higher minimum rate of approx. \$1,400 (i.e. closer to the current Bayside average).

The orange bar shows the additional cumulative ordinary rate that would be collected from the new population if an additional 2.8% was added onto the current assumed rate peg of 2.5%.

Overall, it shows that over a 20-year period, the min. rates need to be approx. \$1,400 and rate peg needs to be at least 5.3% so that the ordinary rates from the new population fully covers the additional expenditure attributable to the population growth.



Graph 3 – This graph shows the overall council picture when bringing together the 2 scenarios in graph 1 and graph 2.

It shows that even with a higher rate peg of 5.3% per annum and higher minimum rates of \$1,400 in year 1 (plus rate peg), general revenue will still not match expenditure.

The red bars show the annual shortfall in general revenue that will need to be subsidised by other revenue streams, grants, borrowings and or Special Rate Variations (SRVs).

