CANBERRA REGION
JOINT ORGANISATION

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Independent Pricing and Regulatory Tribunal

New South Wales

Rate Peg Review

Submitted via Have Your Say online portal

Dear Chair,

IPART Review of the rate peg to include population growth

We welcome the opportunity to make a submission to the IPART Review of the Rate Peg. This submission is made on behalf of the members of the Canberra Region Joint Organisation (CRJO). We appreciate the Minister's intention to develop a rate peg methodology that allows the general income of councils to be varied annually in a way that accounts for population growth. It is a critical update that will take into account changes to the infrastructure contribution system recommended by a recent review by the Productivity Commission.

The Canberra Region is a unique and diverse geographic region which stretches from the South-West slopes, through the Sydney-Canberra corridor across the Eurobodalla down to the Sapphire Coast and then to the Snowy Mountains. The CRJO[1] consists of ten (10) member councils, three (3) associate members and one (1) affiliate member. The total population of the CRJO region, including the ACT, is 750,000 (2017) with a total area of 48,000km2 and a gross regional product (GRP) of $9.82 billion.

The CRJO provides a forum for councils, state agencies and other stakeholders to work together at a regional level to identify shared priorities. This regional collaboration helps deliver important regional projects, delivering better outcomes for communities.

We understand the following to inform the intent of the review:

[1] Member Councils: Bega Valley Shire, Eurobodalla, Snowy Monaro, Snowy Valleys, Queanbeyan-Palerang, Goulburn-Mulwaree, Hilltops, Yass Valley, Wingecarribee, Upper Lachlan. Associate Members: Wagga Wagga City Council, East Gippsland, ACT Government. Affiliate Member: Canberra Airport.

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- The Minister for Local Government has asked IPART to recommend a rate peg methodology that allows the general income of councils to be varied annually on a total basis to take into account population growth.
- The review is focused on ensuring local councils can continue to provide quality services to their communities, including in those areas experiencing population growth.
- That IPART has been asked to recommend a rate peg methodology that allows the general income councils receive through rates to be varied annually in a way that accounts for population growth.
- The key issues IPART will explore include:
  - the different types of income councils can source to cover the costs of population growth and the role of the rate peg;
  - varying population growth between councils in NSW, including how to define population growth;
  - the impact of population growth on council costs.
- The review will make recommendations on the adequate levels of revenue required by councils to service growth, with a focus on changes to total rates revenue not individual rates.

Issues

Firstly, we note the current rate peg and infrastructure contribution systems do not provide for the operating and maintenance costs of infrastructure or increases in the volume of services demanded by a growing population. It is critical in both instances to account for the differential rates of growth and costs between metro, coastal, regional city, regional and rural councils in NSW.

The focus of concern for many CRJO members is the ongoing financial sustainability of local councils with rising costs of infrastructure and services continuing to impact annual budgets.

IPART has noted there are limitations of the system which result in most councils receiving less income from rates for each new resident compared to existing residents. IPART also acknowledges the patchy population and development growth between metro and regional areas.

CRJO member councils strongly advocate tat IPART incorporate a mechanism to recognise either population growth (or asset growth as a proxy) as factor for setting the rate peg for all councils, regardless of whether the individual LGA rate of population growth is at or above the NSW rate of growth.

This following section of the submission represents CRJO member views on the issues related to the rate peg review, and opportunities to reframe the structure of rating and financial sustainability of regional councils.

<u>Infrastructure Growth</u>

I. many councils have been the (grateful) recipients of grants for new or upgraded community assets, noting much has been introduced through infrastructure stimulus by Governments, and most of which were not contemplated in the respective asset management plans (AMP) or financial plans. As a result, the life-cycle maintenance and depreciation expense related to those assets have negatively impacted the operating result and balance sheet of the local councils

II. newly constructed and gifted assets subsequent to new developments, create a similar legacy in terms of AMPs and financial statements
III. some councils under-collect infrastructure contributions as they strive to generate economic activity; are subject to the contribution cap (< $20k in regional NSW); and must capital fund the balance of works contemplated in s7.11 plans
IV. regional cities tend to construct infrastructure to a higher scale and provide services for the broader regional population – with it bringing higher loads and costs to service. Indeed, regional city LGAs therefore support the populations and infrastructure expectations of nearby smaller settlements
V. the accumulation of s7.11 contributions to the point they are sufficient to undertake the works outlined in contributions plans, are often eroded by cost escalations greater than the indices (CPI) afforded by those plans
VI. with deteriorating operating results, some councils may then be unable to borrow to renew or replace other assets; or borrow to raise capital to match grants or co-fund developments
VII. as a consequence, the value and collection of infrastructure contributions lag growth, are subject to cost escalation, and prompt decisions by councils to defer works; then ultimately, population demand outstrips infrastructure capacity

Property Growth

I. the general rates yield from new developments (i.e. through supplementary valuations) may not cover scheduled maintenance, repair and renewal (MRR) costs of new assets, nor adequately contribute to the maintenance of existing infrastructure assets.

   Case Study – Queanbeyan-Palerang Regional Council (QPRC)

   - a new master-planned suburb in Queanbeyan expects over 18,000 new residents by 2031, in 6,500 new subdivided lots
   - it constructs and dedicates to QPRC around $20m new assets each year
   - averaging 400 lots per year, and yielding around $500k in supplementary rates, that growth covers annual depreciation expense (ie the annualised renewal costs/year) of those new assets, but falls short of higher operational/servicing costs (eg cleaning amenities, mowing parks and grounds etc), and makes little contribution to existing assets or services

II. it is problematic to increase the general rates of new development areas only to compensate for the above, without substantially increasing the notional yield and redistributing the rate burden though the subcategories

Population Growth:

I. government (DPIE) forecasting uses lag indicators, primarily used to flatten planning horizons for new or expanded public infrastructure and services such as health, education, police and the like
II. population forecasting captures capital city and nett interstate migration, but seems unable to capture intrastate or metro to region movements

III. current forecasting is not nimble enough to capture out-of-sequence population surges such as intrastate relocation from metro to regional areas, due to COVID for example – particularly into regional cities

IV. councils staffing FTE should rise proportionately with increase in assets to be maintained, and services delivered through those assets to provide for population growth.

V. government harbours ambitions to increase density in metro and regional cities, often through secondary dwellings and granny flats. Similarly, government aims to increase social housing in regional areas. The result of this type of development results in population increases with no associated increase in rates yield

Suggested Outcomes

IPART seeks a rate peg methodology that allows the general income of councils to be varied annually in a way that accounts for population growth, so that councils to be able to continue to provide quality infrastructure and services to their communities, including in those local government areas experiencing population growth. We appreciate IPART has identified impacts on council costs.

Again, we urge IPART to incorporate a mechanism to recognise either population growth (or asset growth as a proxy) as margin above the rate peg for all councils, regardless of whether the individual LGA rate of population growth is at or above the NSW rate of growth.

<u>A consideration of ideal growth would include</u>:

I. infrastructure planned and delivered in line with population growth
   a. shaped by (refreshed) DPIE regional strategies
   b. led by local residential and economic strategies, with land released in orderly stages, supported by infrastructure expansion plans
   c. values for land to be acquired or dedicated should be staked at pre-zone or development uplift levels
   d. infrastructure estimates and contribution rates refreshed at contemporary construction costs by region, per each council term – and not rely on CPI

II. population mapped to infrastructure expansion, and monitored using lead indicators

III. subcategory rates yield for growth localities designed to cover MRR costs identified in AMP and in turn, meet the asset ratio benchmarks

IV. flexible rates structures to differentiate infrastructure MRR and servicing yields

We note population forecasts are proposed to pre-empt rate peg and infrastructure levy determinations, with IPART suggesting the following options:

Table 2 Population growth factor – options

Method	Historic growth	Projected growth	Projected growth, with adjustment for actual growth	Blend historic and projected growth
Source	ABS historic (2 year lag)	DPIE projected	DPIE projected, with retrospective adjustment for historic growth based on actual growth reported by the ABS	Blending of ABS historic and DPIE projected, using x[a]% historic and (1-x%) projected for LGAs
Pros	Simple to administer; consistent with LGCI	Simple to administer; revenue can rise in line with future growth	Removes risk of under or over recovery of income; councils can increase revenue in expectation of future growth	Relatively simple to administer; mitigates the risk of significant over and/or under recovery of revenue by allowing for a mix of both
Cons	Time lag - councils can increase revenue only 2 years after growth has occurred	Projections may result in under or over recovery of income (e.g. impacts of COVID-19)	Administrative burden; if growth is lower than projected, future revenue may be lower; if growth is higher, rates may increase in future	Some risk of under or over recovery of income remains

However we dispute the notion that coastal and regional cities and many regional councils are either not experiencing steady growth, and in the context of post-COVID intrastate migration, certainly dispute the growth of those areas would not be equivalent or greater than the NSW growth.

We urge IPART consider a reframe of the structure of rating and financial sustainability of regional councils, with suggestions outlined below.

Recommendations

Population Growth:

I. utilise *lead* rather than *lag* indicators for annual population growth forecasts including;
   a. better utilise digital and spatial data such as ID Profiler, which includes population forecasting and economic modelling
   b. consider local data available to councils including
      i. lag time between issue of 10.7 planning certificate and s603 financial certificate indicating property turnover (and capture former postcode of purchaser)
      ii. occupation certificates (OC)
      iii. change in sewage effluent
      iv. change in kerbside waste collections
      v. change in AADT at key arterials

II. consider new residential Occupation Certificates multiplied by respective household structure (eg 2.75) as an early indicator of population growth

III. differentiate regional city growth from the broader region, as often one offsets the other in state population growth estimates

IV. consider an annual population numerical floor (ie > 500), rather than % increase as an impactor on infrastructure and services
V. establish intrastate migration metrics, including metro to regions, not rely just on nett interstate migration
VI. consider *zones/bands of growth* based on like cohorts (metro, coastal, regional city, region, rural, far west); or geography (perhaps DPIE planning regions, FER or joint organisations)
VII. recalibrate the annual LGA population forecasts with 5 yearly ABS census statistics

Financial Growth:

I. retain rate peg as minimum for councils with zero or negative growth
II. add population growth or asset growth indices as margin above rate peg to all LGAs
III. utilise annual population growth indices per *zone* as margin above rate peg, or
    a. consider growth in depreciation (as % general rates yield) as consequence of *new* infrastructure as a proxy for growth, and
    b. consider 5-yearly % change in asset values due to revaluations (which reflect uplift in unit costs of replacement of *existing* assets), as a recalibration of costs growth for local government, rather than CPI
IV. adjust rate peg at Year 6, should ABS census result not reflect annual forecasts
V. pool s7.11 and s7.12 contributions held in plans for greater than 5 years or the subject of complete/inactive developments, and allow their expenditure in similar catchments on renewal of *existing* infrastructure, drawn from existing AMPs and Delivery Program
VI. enable a (non-SRV) infrastructure levy to be established by councils to
    a. co-fund capex and debt with grants *and*/*or* contributions
    b. service debt by the infrastructure levy
    c. facilitate intergenerational equity and smoothing of capex
VII. encourage councils to establish an environment and infrastructure SRV, published and ring-fenced to support planned catchment, climate and infrastructure programs and projects impacted by population growth
VIII. consider option for regional levy/ies for seed or co-funding
    a. may be Joint Organisation based
    b. planning, collaboration and joint funding with NSW Local Land Services, Transport for NSW, or Water NSW
IX. establish ULV-based emergency service tax as part of NSW property tax reform
    a. issue annual tax notice by Revenue NSW, including land tax, duty tax
    b. discontinue annual contribution from local councils (currently a hidden tax)
        i. provides around 4% one-off uplift to many council's general rate yield, and removes risk of contribution exceeding rate peg
    c. transfer emergency service assets from councils to Government
        i. removes MRR and depreciation expense from operating results

It is also suggested an alternative policy setting for rate pegging may include:

- annualised asset growth % to guide the rate peg
- annualised new asset growth or population growth % to guide the above-rate peg margin

In Summary

In establishing a fairer rating system that effectively incorporates population impacts, it is suggested IPART utilise lead rather than lag indicators for annual population growth forecasts, which includes population forecasting and economic modelling, as well as local data available to councils.

Further, we suggest Government establish intrastate migration metrics, including metro to regions, not rely just on nett interstate migration; and consider zones/bands of growth based on like cohorts (metro, coastal, regional city, region, rural, far west); or geography (perhaps DPIE planning regions, FERS or joint organisations). The annual estimates may then be recalibrated to the annual LGA population statistics with 5 yearly ABS census.

I would be pleased to discuss elements of this submission further with the IPART team.

Yours sincerely

[redacted]

Cr Rowena Abbey
Chair | Canberra Region Joint Organisation