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3 May 2021

SUBMISSION: RESPONSE TO ISSUES PAPER (MARCH 2021) - REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH

North Sydney Council has long championed for improvements to the NSW rating system. We welcome the opportunity to provide feedback to inform the next stage of the *Review of the Rate Peg to include Population Growth*.

Rates traditionally link to the ongoing provision of recurrent services, facilities, and asset maintenance, and do not enable significant surplus for the provision of new capital works or the more substantial renewal of existing assets. Whilst general rates can be supplemented with infrastructure contributions and special rate variations, the later options come with restrictions. Infrastructure contributions are restricted to the capital works or associated land purchases for which they were collected. Special rate variations are a costly exercise in applying for permission to increase rates above the rate peg and require demonstration of a community's willingness to pay for the proposed increase.

While the proposal to incorporate population growth within the rate peg is welcomed, recent announcements on the proposal to offset this from reduced infrastructure charges is not. Furthermore, in the absence of details on infrastructure charging restrictions, councils are unable to assess the net impact or provide informed submissions on both proposals.

It is noted that while infrastructure contributions are not the subject of this Issues Paper, there are strong connections with the NSW Government's full acceptance of the Productivity Commissioner's recommendations (December 2020). Council eagerly awaits more details on the roll out of the Productivity Commissioner's recommendations , which are claimed by Ministers Handcock and Stokes in their press release of 24 March 2021 to " deliver greater certainty and transparency of costs and will help supercharge infrastructure delivery" by "providing opportunities for councils to grow their income by linking population growth to rating income" and that "importantly, it's the new residents moving into these areas who will primarily cover the extra rating incomes, with rates for exiting residents to remain stable on average".

Council recently objected to the proposed ongoing deferral of infrastructure contributions until the issuing of an Occupation Certificate, as this will significantly impact cash flow and delay the provision of much needed infrastructure to support development. The delivery of infrastructure will be delayed for many years without contributions paid upfront, which will be further impacted by an increase in the cost of works over time. This goes against the NSW Government's desire for councils to improve their long-term financial sustainability and reduce their infrastructure backlog.

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In an environment where existing residents are sensitive to growth impacts, particularly from high density development and increasing heights, removing the capital revenue contribution from the development creating the demand, and transferring the burden to rates from both current and future residents amplifies the impact and creates further disincentive.

The initial proposal to incorporate population growth into the rate peg recognised the difficulty of councils obtaining diminishing marginal rate revenues with increased population growth, particularly with growing density and the disincentive this created for councils to accept greater density. This will largely be negated by reducing the capacity of councils to collect infrastructure charges for the capital cost of the additional demand for the facilities emanating from the development.

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IPART seeks feedback on the best way to define/apply the "population factor". This Review's premise is that reform to the rate peg to account for population growth (in addition to infrastructure contributions and special rate variations) will allow councils to provide services for new residents and ensure existing service delivery standards are maintained. We have responded to the call for comment on the key issues of concern to our local government area (LGA). In summary, Council's main concern with this proposal is that the definition of population growth should not be exclusively restricted to new residential growth. The non-residential population, inclusive of workers (including employment hubs), schools and tourism, should also be taken into consideration as they also use council facilities and services, whether directly or indirectly.

1. What council costs increase as a result of population growth? How much do these costs increase with additional population growth?

Council echoes NSROC's submission that *there are a range of costs incurred by councils as a result of population growth. These can include:*

- *Employees, materials and contract costs and other recurrent expenses to maintain existing service levels (and the asset base) over time.* Including waste collection and disposal, infrastructure renewal and maintenance, child care, and contributions to Government agencies where assessment numbers are a determining factor;
- *Capital works costs (and associated land take costs) for new community infrastructure requirements. Existing facilities eventually reach capacity with increased population growth. New or augmented infrastructure is required, and existing assets have to be renewed more frequently. For new demographic growth cohorts, such as more younger people or more aged people, increased demand for specialist community facilities and services for their needs are also required.*
- *The planning that goes into major planning/development proposals which is not fully recoverable by planning proposal fees and charges. This means that existing rates income*

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is subsidizing development planning often years in advance of receiving rate revenue that will ultimately flow from the development, if approved.

In respect to cost impacts of population, it should be pointed out that service costs increase directly in relation to population growth due to the need to respond, communicate and service increasing numbers together with increased maintenance associated with increasing use of existing assets. Costs also increase in a stepped fashion as existing community spaces, recreational facilities, libraries, halls etc are overwhelmed and must be supplemented with additional or larger facilities. This is particularly problematic in inner metropolitan councils were increasing urban density puts increasing reliance on community facilities while concomitantly increasing land prices. The result is councils having to expend significant sums in providing multi-level community/recreational facilities and maximising usage of existing spaces such as using artificial surfaces (with their higher capital and maintenance cost) rather than grass. In essence, increasing population in dense urban areas has an exponential impact on the cost of provision of community facilities and its ongoing maintenance.

As an example, North Sydney Council is spending $19.3 million in the high density precinct of Crows Nest/St Leonards to establish Stage 1 of a public plaza space of just 1,200 square metres (i.e. $16,000 per square metre). The vast majority of cost involved (>80%) has been the compulsory acquiring and demolition buildings necessary to establish the plaza.

2. How do council costs change with different types of population growth?

Council echoes NSROC's submission regarding important factors under the current rating system that negatively impact North Sydney LGA and similar type LGAs:

- *Councils need to constantly spend on infrastructure at least in line with the rate of consumption of the assets, which can accelerate with increased use and demand pressure arising from population growth*;
- *Under the present rating regime, rate income per capita for a council usually declines with population growth unless it coincides with a significant special variation, and even then, the redistribution of rates towards new ratepayers is limited; and*
- *Most development in NSROC LGAs (and inner metropolitan Sydney) is in the form of attached dwellings and many of these residences are charged the minimum rate (typically less than one third of a detached dwelling). Therefore, they contribute less rate revenue than their detached dwelling counterparts for essentially the same service.*

Council also echoes the NSW Rating Professionals submission that *changes in demographic, socio-economic status and ages of a community has an impact on the types of council costs… Similarly there is a different between the needs of new residents in greenfield subdivisions as opposed to residents in brownfield development.* Particularly within the North Sydney LGA, young families have different expectations and service demands to the older populations, while high density areas have different needs to low density dwellings e.g. properties without backyards more often utilise public open spaces, similarly properties without car parking spaces depend on on-street parking etc.

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Further, as stated by the NSW Rating Professionals, *community housing and aged care are increasing being run by not-for profit Public Benevolent Institutions which are exempt from land rates. Local councils with this type of residential accommodation continue to provide services to the occupiers of these premises such as libraries, footpaths, open space and leisure facilities, however there is no contribution made towards supporting the network of services, the cost are therefore distributed amongst the rate paying community increasing their vulnerability… Moreover service apartments and time share accommodation is mandated by the Local Government (General) Regulation 2005 (Clause 122) to be categorised as Residential despite the obvious commercial purpose and character.* These issues are particularly prevalent in the North Sydney LGA which has a considerably high number of non-rateable properties due to the high volume of government owned, school/education, religious institutions, charity and utility owner assets.

As at 3 May 2021 the total land value of not-rateable priorities in the North Sydney LGA was $1.082 billion across 516 properties. This is an increase of $171 million compared to July 2019, at which time there were 561 non-rateable properties. The increase is in part due to several major NSW Government infrastructure projects including the Sydney Metro which have acquired land and subsequently changed its rating i.e. resulting in the decrease to the total non-rateable properties. To put the 2021 figures into perceptive, this is 3.9% of the total land value of $27.8 billion and 1.3% of 40,717 total properties.

3. What costs of population growth are not currently funded through the rate peg or developer contributions? How are they currently recovered?

Council echoes NSROC's submission that *because the rate peg is set to reflect the cost increases* for *the same basket of expenditure items, from one year to the next, in general, it will not be sufficient to fund any increase in service requires associated with population growth.*

Council also echoes the NSW Rating Professionals submission that *some local councils have become the epicentre for regional commercial and industrial hubs. Providing adequate road and transport (bus routes) infrastructure is often applied unfairly on the local council. For example employees may travel from outside the local council area and in some cases through a neighbouring council to again access to employment. There is no mechanism to provide funding in these cases.* This supports North Sydney Council's argument that population growth is not just limited to residential growth.

4. Do you have any views on the use of the supplementary valuation process to increase income for growth, and whether this needs to be accounted for when incorporating population growth in the rate peg?

Supplementary valuations cover all development in the LGA, not just residential development. Council echoes NSROC's submission that the supplementary valuation process does not sufficiently cater for population growth, as CIE found in its revenue projected assessment (March 2021). *It identifies a ¼ percentage increase in council revenue for 1 percentage of growth. This is largely because of the high proportion of apartment development among Sydney councils, in*

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particular, and the fact that councils often can only charge owners minimum rates… Given how small the impact of supplementary valuations, we recommend excluding it from the population growth calculation and allowing councils the means to generate enough revenue to meet their growth needs.

5. Are there sources of population data we could consider, other than ABS historical growth and DPI projected growth data?

Council echoes NSROC's submission that *should IPART choose population data to inform the population growth factors, it should maintain some flexibility about the data sources it relies on, noting that there might be economic or other shocks (such as the COVID epidemic) which render the DPIE projections unreliable,* as demonstrated in IPART's Issues Paper (Table 2, p10), that a negative to the projected growth method is that "projections may result in under or over recovery of income (e.g. impacts of COVID-19)".

Our initial feedback is that the projected growth with adjustment for actual growth method may be suitable. Whilst the administrative burden is cited as a negative, the stated positive of the proposed hybrid model is that it removes risk of under or over recovery of income.

Relevant available data sources that should also be explored/taken into consideration are:

- Primary and high school registrations (Department of Education)
- Occupation Certificates issued (DPIE)
- Journey to work (TfNSW)
- Vacancy rates/office market reports (Property Council of Australia)
- Population effects due to tourism (Tourism Research Australia)

6. Is population data the best way to measure the population growth councils are experiencing, or are there better alternatives (number of ratable properties or development applications, or other)?

The suggested alternative of the number of ratable properties does not provide an indication of the number of residents living in those properties.

In response to this issue, Council echoes its feedback as given in prior stages of the Rating System Review, and the Local Government Renumeration Tribunal annual determination of categories of councils, that population growth is not exclusive to residential growth. The non-residential population is now taken in account by the Renumeration Tribunal.

Additionally, the Greater Sydney Commission's (GSC) role in the future of NSW planning should not be overlooked in this Review. The GSC has set both new dwelling (residential) and employment (worker) targets for each LGA. Ability to meet these targets is directly linked to the income available to fund maintenance of existing services as well as provision of new capital works etc.

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Both the residential and non-residential working population need to be considered as does available data regarding the number of current and future students. Workers and students also use council services and facilities and therefore should be factored into the definition of population growth; this particularly impacts North Sydney LGA where new residential growth is relatively limited unlike the way it is for greenfield areas such as Camden, but the worker and student population is growing at a considerable rate.

Of concern, particularly to well-established LGAs, is that as schools and education facilities expand their campuses to cater for more students, they buy up residential properties which then become rate exempt properties, which negatively impacts the residential rate base. Also, as student attendance continues to grow, open space on school grounds is being increasingly utilised for buildings and demand for recreational space is transferred to council managed parks and sporting facilities. In North Sydney LGA schools are increasingly relying on Council's parks and sporting facilities for their morning tea and lunch breaks, which in turn puts added pressure on Council's maintenance of these facilities.

Council advocated for three years to the Renumeration Tribunal to change its classification following a reclassification in 2016 from Metropolitan Centre to Metropolitan Small, arguing that high non-resident working populations also use Council services and facilities. In June 2020, Council was successful in this appeal. Last year, both North Sydney and Willoughby Councils put forward cases for non-resident workers to be included in the population definition for Metropolitan Medium. As stated in the Renumeration Tribunal's 2020 determination, "*to examine this claim more broadly the Tribunal reviewed non-resident working populations across all metropolitan councils. After careful consideration the Tribunal concluded that there was a strong case to recognise the impact on councils of serving significant numbers of non-residential workers. The criteria now provides for councils with a non-residential population of 50,000 or above to move to another category if their combined resident and non-resident working population exceeds the minimum population threshold*".

It is noted that annual population figures released by the ABS (outside of the five yearly Census) are estimates only. As suggested by the NSW Rating Professionals, *the use of occupation certificates and supplementary valuations is the most appropriate way to account for [residential] growth*. This should be complemented with a factor that represents the non-residential population.

7. Do you think the population growth factor should be set for each council or for groups of councils with similar characteristics? How should these groups be defined?

Councils need to know which of the options (p11 of Issues Paper or other) will be used before we are in the position of advising whether the population growth factor should be set for each council or for groups of councils with similar characteristics.

The definition or criteria for "similar characteristics" requires careful examination. There are many factors to be taken into consideration, including density. While the North Sydney LGA is relatively small in land size (10sqm), the Estimated Resident Population for 2020 is 75,094, a high-

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density residential population of 71.6 persons per hectare, which is in addition to the large daily influx of workers. The number of local jobs increased by 12.1% between 2018 and 2019. Of the 106,927 jobs located in North Sydney LGA in the year ending June 2020, 62,122 people who reside outside the LGA come into the North Sydney LGA daily for work, plus over 19,000 students from 21 schools plus tertiary institutions, thus driving the day-time population to approximately 130,000.

There are many existing categorisation systems that may be suitable to use, including the Australian Classification of Local Government (ACLG) determined by the ABS, Office of Local Government (OLG) Groups, Local Government Renumeration Tribunal categories, GSC regions and the suggested CIE growth cohorts. As demonstrated in response to issue 6, there is different criteria per the existing groupings and this can positively or negatively affect individual councils. Ideally the preferred categorisation system chosen by IPART must not disadvantage some councils, whilst advantaging others.

North Sydney is currently categorised as follows, demonstrating the diversity of the various population groups in use:

- ACLG category - Urban Development Large (UDL) based on its residential population being between 70,000 and 120,000;
- OLG group - Group 3 based on Metropolitan location with population between 70,000 and 120,000;
- Renumeration Tribunal - Metropolitan Medium based on its residential population combined with non-resident population exceeding 100,000. To satisfy this criteria the non-resident working population must exceed 50,000;
- GFC - North Sydney is one of nine councils within the North District. It and is part of the ‘Harbour CBD’, St Leonards as a ‘Strategic Centre’ and ‘Health and Education Precinct’ and Neutral Bay and Cremorne as ‘Local Centres.’ It also identifies the corridor between Sydney CBD and Macquarie Park via North Sydney CBD, St Leonards and Chatswood as an ‘Economic Corridor; and
- CIE growth cohort - Below state-average-growth metropolitan councils.

8. Should we set a minimum threshold for including population growth in the rate peg?

This will depend heavily on how the population growth factor is determined. Council echoes NSROC’s submission that *councils are unlikely to be able to adjust their expenditure for this type of sporadic negative growth since most of the costs funded through rates revenue (such as community facilities or recurrent asset (road) maintenance) cannot be reduced in short timeframes. Further, council employee costs are subject to awards and contracts and cannot be increased and decreased from one year to the next at short notice. Should there instead be sustained and material negative growth over a longer period of time for a council or group of councils, IPART could adjust its approach accordingly.*

9. What is your view on the calculation of the growth factor - should we consider historical, projected, projected with true-up, a blended factor or another option?

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Council supports the calculation of the growth factor being based on projected growth with a "catch up" provided where actual growth exceeds projected growth. Councils must plan, design and develop infrastructure and community facilities in advance based on projected growth, and therefore it is the most relevant growth factor on which to calculate changes to rates.

10. How should population growth factor account for council costs?

Council echoes NSROC's submission that *the population growth factor need not directly account for costs in its derivation with the continued implementation of the LGCI to account for cost-price inflation in the rate peg. However, it will, all else being equal, increase the funds available to councils to meet the increased costs of delivering services and infrastructure to growing communities, including fixed capital and recurrent operating costs. This additional ratepayer funding will be critical with the reduced funding available for growth infrastructure from local contributions as a result of the NSW Government's reforms.*

11. Do you have any other comments on how population growth could be accounted for?

Council echoes NSROC's submission that *accounting for population growth in the rate peg is a welcome development, but only if councils are not worse off by the overall local contribution reforms. At present, the CIE estimates do not convincingly demonstrate this for many councils,* and that *there also needs to be broader reforms to the rating system to ensure that councils are adequately funded and are not constrained from levying apartment owners their fair share of rates.*

North Sydney Council fully supports the allowance for population growth being added to the rate peg. This should not be negated by reduced capacity to raise capital funds towards community infrastructure from infrastructure charges.

The lack of a move to a capital improved value (CIV) rating system (as originally recommended by IPART in 2016) means that reliance on minimum rates in metropolitan areas will remain. This will impact the population growth factor, in that the majority of new residential properties in the North Sydney LGA will be apartments which are subject to the minimum rate. As Council has argued previously and to echo NSROC's current submission, *accordingly detached home-owners will bear much of the burden of any increases in rate levels for population growth. This is unfair and unreasonable.*

Council is in support of further reforms to the rating system as promised. This should be prioritised as part of the local contribution reform package, including the creation of new rating categories and a new special rates category; of which the latter was supposed to include both Council and State Government co-funded infrastructure and services, and not increase the permissible rates base of the council. To echo the NSROC submission, *this would give councils more leverage to charge higher rates for services in a confined growth area. Where funding for community infrastructure is restricted by developer contributions, this could also help councils to*

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forward fund recreation and community centres for new growth populations with a loan paid back from special rate levies imposed on those demanding the services over time.

12. Do you have any comments on our proposed review process and timeline?

Council raises concern with the review's proposed timeline. Whilst it is amicable that the NSW Government wants to Whilst it is amicable that the NSW Government wants to enact changes to the rating system quickly, the proposed timeframe of 1 July 2022 may be premature. Factors to consider are:

- The 2021 Local Government Election will be held on 4 September 2021, and the mandatory four week "caretaker" period applies prior, commencing from 6 August 2021. It is questioned whether the Public Hearing scheduled for August 2021 should be held during the caretaker period, as this may limit who can express their views on IPART's draft recommendations;
- The Final Report will be released in time to be considered by the new term of Council, which will include many first-time councillors who likely will have little understanding of the rating system. The NSW Government is asked to keep this in mind when determining the deadline for feedback on IPART's Final Report; and
- With respect to the next steps in changes to infrastructure charges, councils should be given the opportunity to model both proposals together to determine how the changes will impact them individually.

Yours Sincerely

[redacted]

Ken Gouldthorp
General Manager