PORT **STEPHENS**
COUNCIL

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

Dear Sheridan,

Re: Issues Paper – Review of the rate peg to include population growth

Port Stephens Council (PSC) would like to thank the Independent Pricing and Regulatory Tribunal (IPART) for the opportunity to provide feedback on the issues paper on the review of the rate peg to include population growth (released March 2021).

This submission responds to the questions as outlined in the issues paper. It also makes reference to the IPART 'Review of the Local Government Rating System' released in December 2016, as well as the PSC submissions made to this review. This submission should be read in conjunction with these documents.

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

There are a significant number of services that PSC provide to our residents, such as road and pathway management, environmental land management, beach monitoring and access control, development assessment and compliance, library services, childcare services, open space and recreation management, stormwater management amongst many others.

The services provided by councils apply to the existing community as well as new residents as the population grows. It could be argued that an incoming population may request a greater standard of public services, and therefore the costs of providing these services expands with population growth.

PSC collects and reports on expenditure each financial year, with expenditure increasing by roughly $7m each year since 2015/16. Whilst it is difficult to extrapolate how much of this expenditure is due to population growth – therefore making it impossible to provide a figure of how much costs increase due to population growth – it does illustrate that expenditure has been increasing in recent times.

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

Population growth can come from greenfield development (new housing on previously non-urban land, such as rural or environmental land) or infill development (new housing on previously urban land, such as commercial or industrial, or increasing density of existing low rise residential land). In Port Stephens, current housing supply is predominately supplied from Greenfield development, with 78.8% of stock being houses on separate lots. Greenfield development requires the construction of new assets (for example roads, drainage reserves, open space, environmental conservation land etc.), and whilst these transfers are either through conditions of consent or developer contributions, PSC provides the ongoing management of these assets.

In addition to the management of new assets, Greenfield development has an impact on existing assets. For example, the increase of traffic on existing local roads requiring greater maintenance or increased demand for community services such as childcare, libraries, seniors services and meeting facilities. These costs may not always be covered by developer contributions (see response to question 3), and hence general revenue would need to be used.

On the other hand, infill development generally utilises existing infrastructure, which results in less management costs associated with new assets. However the demand from new residents would still have an impact on existing infrastructure due to increase maintenance and management.

Taking into account the costs of managing both new and existing assets, it is considered that Greenfield development has a greater need for public services when compared to infill development.

Notwithstanding the above, the specific form of development can also have an impact. In the PSC submission to the 2016 review of the rating system, examples were provided comparing the rate revenue of torrens title and strata title subdivision. The submission highlighted that, whilst the population increase from both developments remains the same, and therefore the costs of the services to this population remain the same, the revenue received varies with strata title subdivisions paying significantly less than torrens title.

PSC is also experiencing significant population growth from seniors housing development and Manufactured Home Estates (MHEs). MHEs in particular have a severe impact on rate revenue as they are a land lease arrangement with a requirement to pay rates for one lot. The impact of population growth from these developments is shown in the table below.

Development type	Base Amount	Ad Valorem Rates	Typical rates growth in Port Stephens per head of population[1]
Subdivision – torrens title	$386/lot	Reflects Land Value growth	$524.45[2]
Subdivision-strata title	$386/lot	$nil	$183.81[3]
Subdivision – community title including seniors housing	$386/lot	Reflects Land Value growth	$524.45[2]
Manufactured home estate/caravan park	$0	Business rate instead of residential rate	$44.99[4]
Seniors housing – public charity	$0	$nil	$0[5]

[1] Average 2.1 persons per dwelling – source ABS 2016 Census QuickStats (69,556 (Population) / 33,082 (dwellings))
[2] $386 base amount plus average residential ad valorem rate $715.35 (average residential land value $260,506 x 0.002746) = $1,101.35 / 2.1 persons
[3] $386 / 2.1 persons
[4] Calculated as average rate increase arising from recategorisation from residential rate to business rate per head of population for four of the most recent Manufactured Home Estates in Port Stephens (total combined rate increase $80,923 / 1,199 dwellings / 1.5 (est) persons)
[5] Rate exempt

To further illustrate the impact of MHEs on local rate revenue, the below table shows recently developed MHEs in PSC and the rates collected per dwelling. MHEs are rated as businesses, which although at a higher rate means only one base amount for the entire MHE compared to one base amount per lot for residential development. MHEs are based on a land lease arrangement, meaning that there is only one lot of land to cater for a large number of dwellings. Therefore the rates per dwelling are significantly lower than other forms of development with a similar number of dwellings.

Development type	Title type	Approved dwellings	Land value	Total ordinary rates (approx.)	Rates per dwelling (approx.)
Over 55's community Fern Bay	community title	219	$61.9m	$249,000	$1,137
Over 55's community Fern Bay	Manufactured home estate	471	$5.2m	$43,000	$91
Over 55's community Anna Bay	Manufactured home estate	270	$6.3m	$53,000	$196
Over 55's community Bobs Farm	Manufactured home estate	196	$0.4m	$5,000	$26

The high rate of Greenfield development, coupled with the expansion of development such as MHEs, means that the cost of providing services is not being met by the income from these developments.

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

Developer contributions fund new or augmented infrastructure required to support or facilitate new development. Importantly, developer contributions generally cannot be used to fund the maintenance of infrastructure (the main exception is haulage contributions under section 7.11, which is applied to heavy vehicle generating development such as quarries or mines). This is a vital source of funds and ensures that the future population pays for the infrastructure they will likely use, as opposed to relying on the rates from the existing community. Therefore it is important that any amendments to rate pegging do not interfere with developer contributions.

Amongst other things, local rates pay for new infrastructure which is attributable to the demands of the existing community and ongoing maintenance and management. However, as noted above, income from rates may be insufficient to cover these costs. As such, revenue sources such as grants, investment returns, user fees and loans can be used. These options can be difficult as they can be risky, uncertain or sporadic and/or otherwise result in unfavourable financial results (e.g. grants, investments or loans) or may otherwise be insufficient to cover maintenance beyond what they are collected for (e.g. user fees).

A further option is making an application for a Special Rate Variation (SRV), however this can be costly in terms of money and resources without any certainty of having an application supported. To illustrate this, the NSW Productivity Commission 'Review of

Infrastructure Contributions in New South Wales' (released in November 2020) found that 51% of applications for SRV were approved as requested.

PSC supports changes which will provide an efficient, equitable and sustainable source of income through rates to ensure a suitable standard of infrastructure and services for the community can be provided, as well as provide greater autonomy from uncertain or risky sources of funds.

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?

PSC agrees that there are limitations in the supplementary valuation process, as noted above with strata subdivision and MHEs. Notwithstanding this, any population growth factor should complement rather than replace rate income growth from supplementary valuations.

5. Are there sources of population data we should consider, other than the ABS historical growth and DPIE projected growth data?

PSC has no other recommendations for sources of population data, however provides some commentary on the sources listed in the issues paper.

In relation to the DPIE projected data, using projections with the large, 5 year intervals is not considered to be sufficiently flexible to the dynamics of population growth, particularly with changes experienced over COVID-19. Specific to Port Stephens, the predications are generally far below the estimations provided by Australian Bureau of Statistics (ABS). Furthermore, it is at odds with the annual application of the rate peg.

Therefore, if population data was to be used in determining the growth factor, it is considered that ABS historical growth would be the most appropriate source.

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

PSC would not recommend the use of rateable properties as a way to measure population growth as this would not include development that adds to the population (such as MHEs or granny flats).

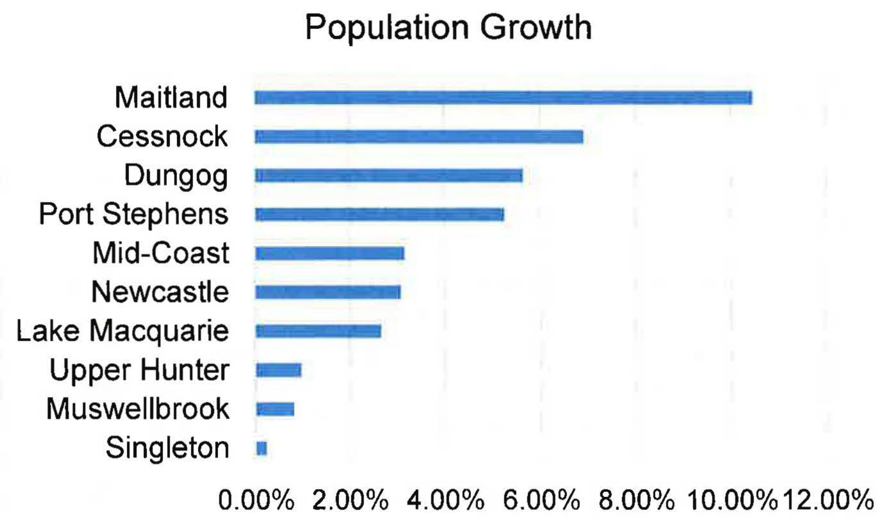
It should also be noted that new dwellings can also be approved without consent from a development application, through a process called complying development. Subsequently, if data from new dwelling approvals are to be considered it should also include complying development. Whilst councils can provide data on approvals from development applications, complying development is reliant upon private certifiers notifying councils once a certificate is issued. This is sometimes not completed and hence there is the risk of data gaps should complying development certificates not be appropriately notified.

As an alternative, IPART may want to consider new water connections, which has sometimes been used in research to determine the growth of new dwellings. Bearing in mind that councils may not always provide water services, this may need to be considered against the ease in obtaining this data from providers.

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?

The issues paper indicates grouping LGAs in geographic cohorts or similar growth bands, however it does not indicate how these cohorts would be formed.

It should be noted that PSC sits within the wider Hunter region and the below information indicates the population growth of the relevant LGAs between 2011 and 2016.



Source: ABS Census data

As shown in the table above, there is a wide variation in population growth between the LGAs and therefore it is suggested that using a region on this scale would be inequitable. However, PSC sits within the Lower Hunter subregion, which also includes Cessnock, Lake Macquarie, Maitland and Newcastle. It is seen that the growth of these LGAs are more aligned and therefore, if a simplistic population factor were to be implemented, grouping these LGAs together may suitably balance equality and simplicity.

Notwithstanding this, it should be noted that there is a wide variation in the types of development that leads to population growth within the Lower Hunter. For example, it is expected that population increases in Maitland and Cessnock is more driven by torrens title Greenfield development owing to the large number of urban release areas. On the other hand, PSC experiences a significant portion of growth from both Greenfield but also through development such as MHEs. As noted above, this form of development provides for a less efficient and sustainable form of rate revenue when compared with traditional torrens title subdivisions.

If IPART were minded to recommend an alternative methodology which took into consideration constraint amounts (see response to question 9), this would likely result in significant variations between LGAs even at a subregional level. Therefore PSC would suggest that this form of methodology be applied to individual LGAs, or at the least the grouping of LGAs be more considerate of this variation.

Overall, how the factor is set depends on the final methodology and therefore further consideration is needed as the matter progresses.

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

Population growth, no matter how large or small, has a financial impact and as such it should be considered in any amended methodology to rate pegging. Furthermore, there is no clear indication on how a threshold would be applied, and therefore any threshold could be arbitrary and hence unfair for smaller regional councils.

Consequently PSC does not support the application of a minimum threshold.

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?

In is considered that the growth factor should meet the principles of taxation as set out in the 2016 review of the rating system , being efficiency, equity, simplicity, sustainability and competitive neutrality. These principles might not always be met (for example, the simplest method may not be the most equal), and therefore a balance might be required.

It is considered that the options outlined would meet the test of simplicity; however, as discussed previously, the various forms of development that drive population growth do not create the same level of income through rates, even though they generate the same level of demand. The options proposed would not overcome this issue and would perpetuate the existing inequitable and unsustainable form of taxation.

As an alternative method, councils could quantify their constraints in an annual return similar to the NSW Grants Commission Return or the OLG Crown Land Adjustment Return. These constraint amounts would be converted from a calculated dollar figure to a percentage to be added to the LGCI and population growth percentage.

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

PSC reiterates the above comments. There are no further comments on this matter.

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

PSC reiterates the above comments. There are no further comments on this matter.

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

PSC supports a wide and inclusive consultation process and therefore supports ongoing consultation through workshops and public hearings. However, given the complexities of the issues and the short period between the public hearing and publication of the final report, there are concerns that there is insufficient time for IPART to consider the findings and make changes if necessary.

If possible, additional time for consideration of the final report would be appreciated.

Summary

PSC supports amendments to the rate pegging methodology to permit a more equitable and sustainable means of funding services in Port Stephens, particularly as the population grows.

It should be acknowledged that, depending on the type of development, there are significant financial impacts to PSC which restricts the ability to fund public services. Furthermore, there are concerns that utilising a population factor as proposed may not be the most sustainable or equitable means of funding the increased costs. Therefore there are a number of recommendations and comments which should be considered.

Once again, thank you for the opportunity to provide feedback and comments on proposed changes to the rate peg and we look forward to further consultation on the matter in the future.

Yours sincerely,

[redacted]

Wayne Wallis
General Manager

3 May 2021

Telephone enquiries
[redacted]
Please quote file no: PSC2012-03930