

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

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SUBMISSION TO THE DRAFT REPORT JUNE 2021 – REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH

Wollongong City 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 your direct questions relate primarily to the method of calculation of population growth, Council would like to reiterate that its preferred approach to effectively and equitably managing growth in a local government area would be through the application of Capital Improved Valuation (CIV) as an option for rating. Council would urge the continued pursuit of this outcome through IPART and the State Government in the future.

Council does acknowledge that the proposed methodology for the inclusion of growth in the Rate Peg calculation would provide a reasonable representation of the residential growth of the City and would provide better alignment between Council's increased costs incurred through residential growth and the revenue received to support services for that community. Like IPART, Council is aware that the current calculation does not fully represent the increased population growth or costs incurred and has supported reform that would support such a change.

Council also agrees that the methodology needs to include a net growth result that is inclusive of the portion of growth that is already achieved through the supplementary valuations process. Council's analysis of recent years indicates that on average about 50% of the growth has been achieved through supplementary valuations.

Council also 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.

While Wollongong City Council agrees that the methodology proposed reflects relationship between population growth and Council costs, it still believes that growth and costs to Council extend beyond 'population'. Cost is also linked to the business and employment growth, especially when considering a regional council such as ours that supports areas and populations outside our Local Government Area. Council is disappointed that the current proposal will not provide for growth in business properties.

While the IPART proposed approach will lead to higher growth in rates revenue that better represents the increase in population and will allow Council to better meet the costs of increased service, the allocation of rates will remain an important consideration. We understand IPART has suggested that 'while the impact on individual ratepayers may vary, on average new ratepayers will pay most of the additional rates revenue' and 'given this...additional protections for existing ratepayers are not necessary at this stage'. We would argue that due to the nature of Council's rates structure that applies a 50% Base charge (fixed amount) and an ad valorem amount (percentage of valuation), the percentage increases will be higher for higher valued properties and lower for lower valued properties, while all properties will pay more.

Wollongong City Council also remains concerned particularly with previous decisions not to address the cost burden of non-rateable property and pensioner rebates. Council has made submission seeking variation on a number of these issues including the current exemptions legislation (non-rateable properties) that was broadly argued on a principle that residential properties should incur rates. This is consistent with a population based approach that increases revenue requirements in line with population growth. The proposed IPART methodology would, for example, increase rates revenue based on population growth in non-rateable residential property. While the rate income would increase, that increased amount must be applied to existing ratepayers who would bear the burden of increased population living in non-rateable property. While this is not preferable, it is consistent with what happens with existing properties when they convert from rateable to non-rateable and would be best addressed through further consideration of exemptions.

In terms of the specific questions ask by IPART the following is provided.

- 1 **Should our methodology be re-based after the census every five years to reflect actual growth?**
- 2 **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?**

There are undoubtedly numerous methods for calculating population growth and presumably each will have specific issues. The use of local government area (ERP) specified by the Australian Bureau of Statistics (ABS) appears to be a valid source, although there is potentially some concern with the lag between actual growth and its application. The proposed source will effectively be applied to a rating year that commences two years after the period of estimated growth. This lag may, at times, have impact on the rates and their distribution of rates that will be reflected in changes to the average rate that theoretically should be maintained in real terms.

In reviewing the estimated residential population (ERP) for Wollongong over recent publications, it has been identified that there have been retrospective changes to estimates from year to year. These changes may have implications on the applied formula. Three data sets for the preceding year show this.

	2020	2019	2018	2017	2016	2015	2014
2001-2018 ABS			216,071	213,281	210,394	208,313	206,415
2001-2019 ABS		218,114	215,856	213,281	210,394	208,313	206,415
2001-2020 ABS	219,798	218,856	215,856	213,281	210,394	208,313	206,415

It can be seen in these numbers that the 2001-2018 estimated population for 2018 of 216,071 was revised downwards in the 2001-2019 statistics to 215,856 and the 2001-2019 figure for 2019 was revised upwards from 218,114 in the 2001-2020 estimates to 218,856. The impact of applying the calculation for the change in population from a single data set, therefore, would produce inconsistencies and potentially higher or lower rate variation percentages. The cumulative effect of such changes could be significant.

It is contended that the formula should be based on the estimates provided and applied in the first instance for each year. By applying the numbers reported each year, the system would true itself up each year based on the latest estimate of population against the previously applied estimate. The table below shows the varying population indexes and cumulative effect for Wollongong City Council, where the first line is derived by applying the numbers published in a single year and the second variation (2) based on the numbers as first published in each year.

	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Change in Population	0.430%	1.046%	1.308%	1.372%	0.999%	0.920%	0.834%
Change in Population 2	0.772%	0.946%	1.308%	1.372%	0.999%	0.920%	0.834%
Cumulative PopN Index	106.228	105.773	104.678	103.326	101.928	100.920	100.000
Cumulative PopN Index 2	106.484	105.668	104.678	103.326	101.928	100.920	100.000

The variations in the prior years based on using a single year's numbers would have reduced income indexation from 6.484% to 6.228% (0.256% variation).

Presuming that the ABS consider census data as it becomes available in its estimates, it is considered that the linear application of the estimated growth based on information applied in the first instance will provide a reasonably sound progression without the need for 'true-up' of information external to the ABS process.

Please contact me should you require further information.

This letter is authorised by

Brian Jenkins
Chief Financial Officer
Wollongong City Council
Telephone (02) 4227 7111