Lane Cove Council
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Our Ref: 23522/21

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

RE: IPART REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH

Lane Cove Council welcomes the opportunity to provide a response to the 'Review of the Rate Peg to Include Population Growth' Issues Paper. Please find below our responses to each of the questions IPART has posed.

1. **What council costs increase as a result of population growth? How much do these costs increase with additional population growth?**
   With population growth comes a whole range of cost increases for Council. Some of the more significant costs include:

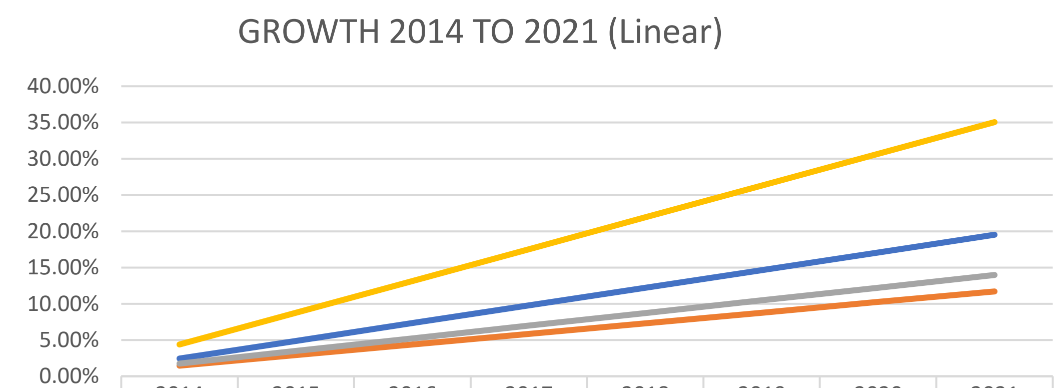
   a. In order to maintain existing services and service levels, employee costs, materials and contracts and other related expenses must ordinarily increase and often in proportion to population increases.
   b. The recurrent costs associated with providing new, expanded or augmented assets to support the growing community. Whilst capital grants and developer contributions go some way towards funding the upfront capital cost, rates alone (under the current rate pegging regime) cannot sustain those assets in perpetuity, let alone put aside sufficient funds (equivalent to depreciation) to ultimately replace those assets at the end of their useful life.
   c. Often the planning that goes into major planning/development proposals is not fully recoverable by planning proposal fees and charges. This means that existing rates income is subsidising development planning often years in advance of receiving rate revenue that will ultimately flow from the development, if approved.

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

   Council is confronted with population growth that will be largely housed in attached dwellings (apartments, villas, townhouses, dual occupancies etc) as opposed to detached dwellings. Whilst the council cost profile does not necessarily change as a result of this housing profile, the pressure to meet the demands of those new dwellings is intensified/accelerated because of the sudden influx of people to a new development (particularly large developments with several hundred apartments). Ideally, major development ought to be supported by infrastructure and services from the very outset. Councils are generally not financially geared to accommodate the recurrent costs associated with development and population growth.

It is important to note that rate income per capita actually declines with population growth. This is because the overwhelming majority of development in Inner Metropolitan Sydney is in the form of attached dwellings. The vast majority of these dwellings pay the minimum rate (typically less than one third of a detached dwelling) and therefore contribute far less rate revenue than their detached dwelling counterparts for essentially the same service.

The following graph highlights growth (in linear terms) as experienced by Lane Cove Council between 2014 and 2021 (using 2013 as the base year). The growth of rates (above the rate peg) has not kept pace with population growth and the required services required, nor has it kept pace with the depreciable cost associated with the provision of new assets to service a growing population. The crippling nature of the rate pegging regime is never more evident than during growth.



	2014	2015	2016	2017	2018	2019	2020	2021
Population	2.44%	4.88%	7.32%	9.76%	12.20%	14.64%	17.08%	19.52%
Rates	1.46%	2.92%	4.39%	5.85%	7.31%	8.77%	10.23%	11.70%
New Assets	1.75%	3.49%	5.24%	6.98%	8.73%	10.48%	12.22%	13.97%
Depreciation	4.38%	8.76%	13.14%	17.53%	21.91%	26.29%	30.67%	35.05%

Population Rates New Assets Depreciation

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

The purposes for which Developer Contributions can be levied and applied for asset expansion purposes have been eroded since contributions caps were introduced over 10 years ago and, today, are severely limiting. The definition of 'essential infrastructure' means that council must secure other funding sources to provide appropriate infrastructure to new communities. In any event, those developer contributions only (part) fund the capital/construction cost. The recurrent costs associated with operating and maintaining those assets must be sourced from Council's recurrent income sources (more often than not, rates). Over the life of the asset, the operating and maintenance costs associated with the asset are invariably higher than the upfront capital cost, placing considerable strain on Council's finances and its long term financial sustainability.

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?

Yes. As it currently stands, whilst supplementary rates generate additional income during the year in which they are issued, in subsequent years they are rolled into a notional yield which is used to determine ad valorem (rate in the dollar) rates. This ad valorem rate has a tendency to reduce as growth occurs, meaning the rates collected from those supplementary issues diminishes (in real terms) when compared to their original value.

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

   Council has no concerns with using ABS data for historical growth purposes as this data source has proven itself over time and is readily/publicly available. Clarification is sought as to exactly what DPIE projected growth data source will be used and to what extent that data source will be publicly available.

   It should be noted that DPIE has also established ‘housing targets’ for each Council and would like to know to what extent (if any) those targets (or the source data that underpins those targets) are being used to project population growth.

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)?**

   The number of rateable properties and/or population data are both arguably the best (most reliable) ways to measure population growth.

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?**

   Council is of the view there should be categories of population growth (low, medium and high) and these are then applied to each Council in NSW based on projected growth. See table below for a hypothetical example:

	Rate Cap/Peg	Low Growth (up to 0.50%)	Medium Growth (>0.5% & <1.0%)	High Growth (greater than 1.0%)	Total Rate Increase
Council A	2.0%	0.50%			2.50%
Council B	2.0%		1.00%		3.00%
Council C	2.0%			1.50%	3.50%

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

   No. The rate peg should only include the agreed ‘basket of goods and services’ that is used to establish the Local Government Cost Index (LGCI). Growth should be a factor that is then applied in addition to the rate peg. Refer to the response to Question 7 (above) as a hypothetical example of how growth might be applied on top of the rate peg.

   The costs associated with growth should not be borne by existing ratepayers.

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?**

   Refer to responses to questions 5, 6 and 7, noting Council believes that a LGA specific growth factor should be added to the rate peg.

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

   The population growth factor needs to account for the gap in capital funding required to provide infrastructure to new communities **and the recurrent costs associated with servicing the new population**.

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

   No other comments are provided.

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

   The proposed process and timeline is considered appropriate. Council is hopeful that, whatever the final determination is in terms of incorporating growth into the rate peg, it is legislated and operable from 1 July 2022.

If you would like to contact Council on the contents of this response, please call Mr Steve Kludass on [redacted] at your earliest convenience

Yours Sincerely

[redacted]

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