



Australia's property industry

Creating for Generations

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To whom it may concern,

IPART Review of the rate peg to include population growth.

The Property Council welcomes the opportunity to provide comments to the Independent Pricing and Regulatory Tribunal of NSW (IPART) review of the rate peg to include population growth.

We welcome this review and note that it comes on the back of the public consultation on the Local Government Amendment (Rating) Bill 2020 and its associated discussion paper "Towards a fairer rating system", which had provided for inclusion of population growth in the rate peg as one of the key features of the Bill. The Property Council also made a submission on the draft Ratings Bill. It can be found attached to this correspondence.

As Australia's peak representative of the property and construction industry, the Property Council's members include investors, owners, managers, and developers of property across many asset classes. This includes commercial offices, residential development, industrial development, tourist accommodation and retirement living facilities.

Previous Property Council submissions on the issue of Local Government ratings

The Property Council has considerable interest in reform of the local government rating system. In addition to above submission, there were several made to IPART in response to the Issues Paper (April 2016), the Draft Report (October 2016) and most recently to the Office of Local Government (OLG) on the final reports of the IPART, "Review of Local Government Rating System Report" released in June 2019.

There are two key points that the Property Council has made consistently when it comes to Local Government ratings, namely:

PROSPERITY | JOBS | STRONG COMMUNITIES

1. That there should be no move to the use of Capital Improved Value (CIV) as the basis for setting council rates or any other property taxes, including the mooted future property tax.
2. That Government should move away from the rate peg.

Why it is important not to move to CIV

Any move towards using CIV as the basis for setting council rates or other property taxes would amount in simple terms to a tax on jobs. This would undermine much of the good work that has been undertaken by the NSW Government around the Productivity Agenda e.g. "Kickstarting the Productivity Conversation" and "Continuing the Productivity Conversation".

We maintain that the business community carries a disproportionate amount of the rates burden and we would caution strongly against allowing changes to the policy that will further exacerbate this issue. A tax that increases the burden on businesses will ultimately be reflected by reduced levels of employment and/or increased costs of goods and services.

We also note the substantial costs associated with transitioning away from the current NSW system that has been in place for many decades and the lack of a reliable and robust evidence base for a capital improved value shift.

Why Government should move away from the rate peg

As we have stated in many previous submissions to the Office of Local Government or the IPART on this issue, rate pegging was designed to encourage and indeed force councils to manage their capital and service expenditure in the context of a constrained and relatively inflexible revenue stream.

However since its introduction the role and operating environment for Councils has changed markedly, driven by strong population growth, community expectations about the provision of a wider range of services and infrastructure and cost shifting to local government.

Aligning rating income growth with population growth

We support the Government in moving to align rating income growth with population growth.

This is sensible and welcome. It also consistent with the recommendations of IPART, and further it is consistent with the NSW Productivity Commissioner's view in the Final Report of the Infrastructure Contributions Review¹ that Government amend the local government rate peg to reflect population growth.

We agree with this position and support the moves outlined above to recognise population growth in the rate peg methodology.

The IPART Rating Review Submission Summary and Analysis (February 2020)² showed that there is broad support for the Government's move to align ratings income growth with population growth.

¹ <http://productivity.nsw.gov.au/sites/default/files/2020-12/Final%20Infrastructure%20Contributions%20Review%20Report.pdf>

² <https://www.olg.nsw.gov.au/wp-content/uploads/2020/03/IPART-Rating-Review-Submission-Summary-and-Analysis.pdf>

As stated in previous Property Council submissions, the rate peg has not been reflective of the rapid population growth experienced by many Councils and/or the consequent increased infrastructure requirements.

Review of the rate peg to include population growth Issues Paper

This review into the rate peg methodology is of critical importance to the future of industry, investment, and development in NSW.

The review is to “consider the different types of income councils can source to cover the costs of growth (e.g. developer contributions and special variations) and the role of the rate peg”³ (Issues Paper, p1).

The rate peg is the maximum percentage amount by which a council may increase its revenue from general income for the year. The average rate peg set by IPART has been around 2.5%. The rate peg is determined by measuring changes in IPART’s Local Government Cost Index (LGCI). The LGCI reflects the increase in costs experienced by the average council.

Similar to way the Australian Bureau of Statistics (ABS) calculates the Consumer Price Index (CPI) the LGCI is a good indicator of the cost of delivering services and the inflationary pressures being experienced by that Council.

At the current time, of the 26 components of LGCI basket of goods, 70% are operating and 30% are capital items.

The current rate peg calculation is:

Rate peg = change in LGCI – productivity factor + other add-ons

As the Issues Papers state the purpose of the review is to ascertain the best way to incorporate a population growth factor into the rate peg formula, i.e.:

Rate peg = change in LGCI – productivity factor + other add-ons + population growth factor
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One of the most important observations in the Issues Paper is that “developer contributions must be used for the purpose for which they were collected, and within a reasonable time” (Issues Paper, p5). We strongly support this statement and believe this should be a priority consideration within this proposed calculation change.

Conclusion

It should be made clear that any increase in developer contributions or levies and other charges, who already carry a large proportion of taxes, will only drive up the cost of housing and further exacerbate the existing housing affordability crisis the state faces.

Councils should be given the freedom to reflect population growth in their rates. This is fair and timely. IPART should avoid overly prescriptive and artificial constraints on councils. Empowering councils will put more on a path to financial self-sufficiency and sustainability.

³ <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-9-review-of-rate-peg-to-include-population-growth/publications/issues-paper-review-of-the-rate-peg-to-include-population-growth-march-2021.pdf>

Should you have any questions or seek further clarification on any item raised in our submission, please do not hesitate to contact Senior Policy Advisor, Sean Conway on 0438 065 924 or sconway@propertycouncil.com.au

Yours sincerely



Jane Fitzgerald

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Property Council Response to IPART Questions

Question Number	IPART Question	Property Council Response
1	What council costs increase as a result of population growth? How much do these costs increase with additional population growth?	<p>All costs increase with population growth. In the short run pressure on capital expenditure is high, but in the medium to long run there is a shift to recurrent expenditures.</p> <p>In the cases where council assets are not immediately replaced to reflect the expanded population base, this can result in inadequate infrastructure experiencing either higher maintenance costs or a shorter asset lifespan, neither of which are easily anticipated in forward budget plans by local government.</p> <p>These capital costs can be exacerbated by historical underinvestment or an 'infrastructure</p>

		deficit'. Different Councils will have different 'infrastructure deficits' etc.
2	How do council costs change with different types of population growth?	<p>Demographics are important, as some cohorts place greater demand on council resources. For example a sudden large increase in Seniors requires a different investment profile to a 'baby boom'.</p> <p>Similarly, understanding the cultural background of communities is useful for council to meet future needs.</p>
3	What costs of population growth are not currently funded through the rate peg or developer contributions? How are they currently recovered?	<p>Increased asset maintenance costs are not (and should not be) covered by developer contributions. In the case where a rate peg does not account for these increased costs, the costs tend to be recovered through reductions to other expenditure items in a council budget, and where this occurs on an ongoing basis the council becomes less able to respond to community needs.</p> <p>Compared to councils with stable populations, councils in growth corridors also experience a higher administrative and planning burdens, which is not always recovered through fees and charges for the assessment of</p>

		development and planning proposals. These operating deficit created by these services is usually absorbed at the opportunity cost of improving public amenity and council services.
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?	<p>The supplementary valuation process is good and important. However, it does little to secure sustainable recurrent revenue.</p> <p>It should not be factored into the calculations when incorporating population growth in the rate peg.</p>
5	Are there sources of population data we should consider, other than the ABS historical growth and DPIE projected growth data?	It would be worth reflecting data from the Department of Home Affairs to better understand international migration patterns.
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)?	Yes. Development approvals do not necessarily proceed to construction and the number of rateable properties will result in given variations in household sizes.
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 population growth factor should be set by grouping councils with similar attributes and the grouping of these councils should be reviewed on a regular basis and set by the Tribunal. While there is an overarching need for local government to plan for its future with confidence, the Tribunal should not be

		reluctant to adjust a council's categorisation to reflect current and anticipated growth patterns.
8	Should we set a minimum threshold for including population growth in the rate peg?	No, but there should be a review into the operation under the new methodology after an appropriate period of time has passed.
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?	The Tribunal should consider a blended option based on the previous five years and projected five years of growth for a local government area. This ensures projections are realistic, while accounting for unanticipated spurts of population growth over the short to medium term.
10	How should the population growth factor account for council costs?	No comment.
11	Do you have any other comments on how population growth could be accounted for?	No comment.
12	Do you have any comments on our proposed review process and timeline?	We welcome the opportunity to engage with IPART and look forward to working constructively together on this important issue.