Independent Pricing and Regulatory Tribunal
New South Wales

REVIEW OF THE RATE PEG TO INCLUDE POPULATION GROWTH

Issues Paper
Local Government

March 2021

How should the rate peg be adjusted for population growth?

The Independent Pricing and Regulatory Tribunal of NSW (IPART) has been asked by the Minister for Local Government to recommend a rate peg methodology that allows the general income of councils to be varied annually in a way that accounts for population growth. We have launched this review to investigate the impact of population growth on the rate peg in the local government sector. Our objective is for councils to be able to continue to provide quality services to their communities, including in those local government areas experiencing population growth.

In reviewing the rate peg to include population growth, we will 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, as well as:

- The differences in population growth forecasts for councils across NSW
- The impact of population growth on council costs
- How to define population growth
  - Rateable properties
  - No. of people
  - Land sub-division

This Issues Paper sets out our proposed approach to the review.

We are seeking feedback by **3 May 2021** on our proposed approach and the issues we have identified.

HAVE YOUR SAY

March 2021	June 2021	Aug 2021	Sept 2021
Issues Paper	Draft Report	Public Hearing	Final Report

Servicing population growth

As the local community grows, councils are required to provide services to new residents. A sustainable and efficient rate peg system, which recognises the additional pressures of population growth, would allow councils to recoup the cost increases they face.

The rate peg allows for the general revenue of councils to increase with price increases each year. However, the rate peg does not expressly account for the increase in the volume of services that need to be provided to service population growth or to maintain new local infrastructure.

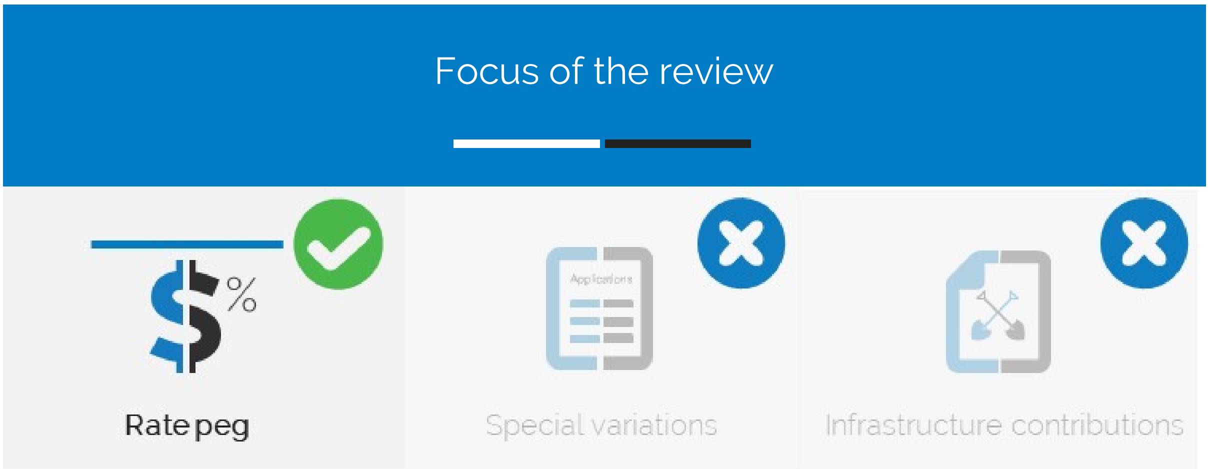
Impact of population growth on council costs and services

We are seeking to understand the impact an increase in the population has on councils' ability to provide services to their communities. This includes the associated costs and the avenues for council to raise the revenue required to cover these costs.

We are interested in understanding the impacts of population growth on regional and Sydney metro councils. We recognise that councils experience growth differently depending on location, population demographics and the types of new dwelling being built.

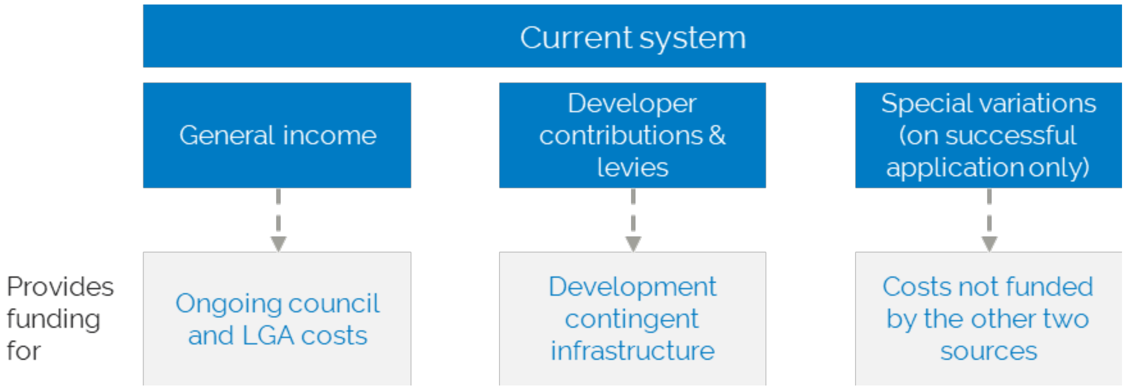
Funding mechanisms available to councils to service growth

The focus of this review is on accounting for population growth through the rate peg.



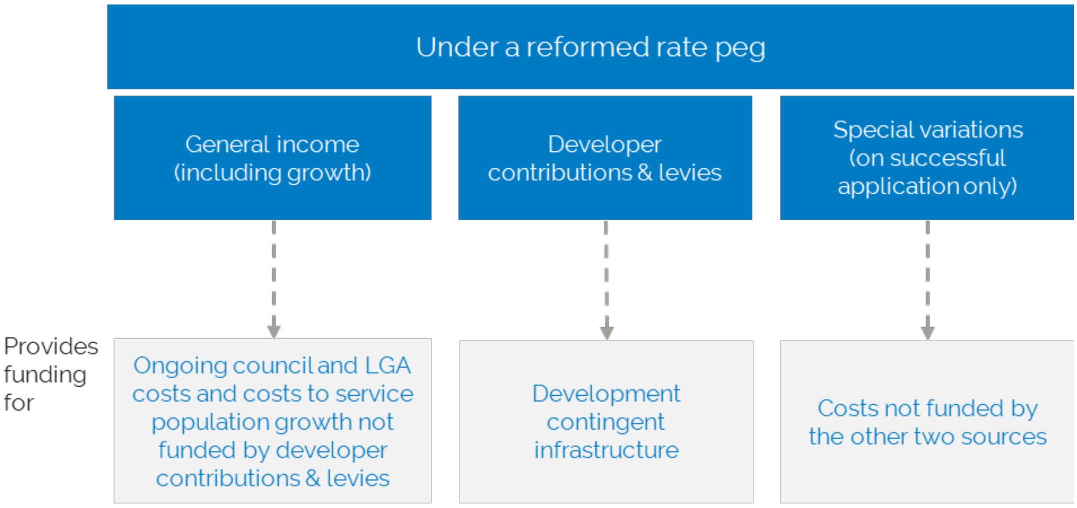
Under the current approach to the rate peg, councils can raise revenue to service the costs associated with population growth through developer contributions and special variations. Figure 1 provides a simplified overview of the current revenue sources for councils.

Figure 1 Council revenue sources under the current rating system



Councils need to collect sufficient revenue from new residents to fund the additional costs associated with population growth. Reform to the rate peg to account for population growth, in addition to developer contributions, will allow councils to provide services for new residents and ensure delivery standards are maintained. Councils can still apply for a special variation if additional funds are required. Figure 2 provides an overview of how councils could fund growth after reform to the rate peg.

Figure 2 Council revenue sources under a reformed rate peg



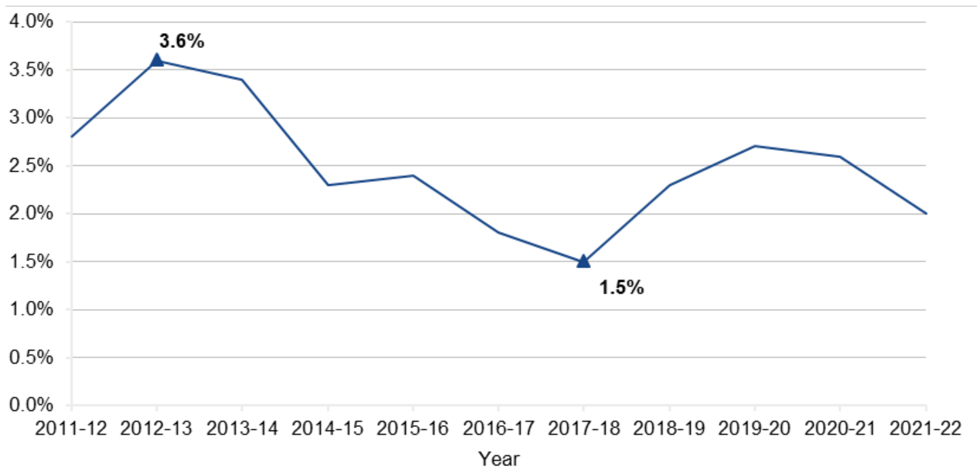
The current rate peg

The rate peg is the maximum percentage amount by which a council may increase its revenue from general income for the year. General income mainly comprises rates revenue, but also includes certain annual user charges. It excludes stormwater and waste charges, and water and sewerage charges. The rate peg applies to total revenue collected from these sources rather than to individual rates.

If a council seeks to increase its general income by more than the rate peg percentage, it must obtain approval for a ‘special variation’ of the rate peg from IPART.

The average rate peg set by IPART has been around 2.5%. Figure 3 charts the rate peg over the period 2011-12 to 2021-22, where the highest rate peg was 3.6% due to the introduction of the carbon price, and the lowest rate peg was 1.5%, attributed to a low inflationary environment.

Figure 3 The rate peg over time



Source: IPART website: Rate peg for NSW councils for 2021–22.

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. In calculating the annual rate peg, IPART can also take into account a productivity factor in addition to the LGCI.

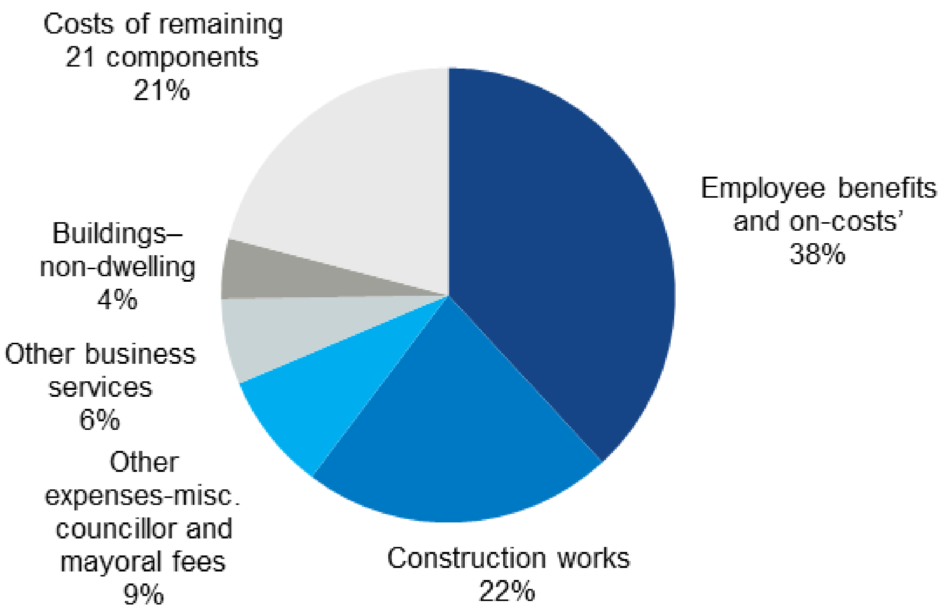
The LGCI includes operating and capital cost items. While the proportionate breakdown of these components varies from year to year, the approximate composition is as follows:

- Operating cost components are around 70% of the total costs
- Capital cost components are around 30% of the total costs.

> The LGCI measures the average change in prices of a fixed 'basket' of goods and services that are purchased by councils, relative to the prices of the same basket in a base period.

The LGCI has 26 components, of which the 5 largest components comprise 79% of the total costs, as illustrated in Figure 4.

Figure 4 LGCI components



Source: IPART website: Rate peg for NSW councils for 2021–22.

Developer contributions

New development may create the need for additional local infrastructure, such as parks, community facilities, roads, and stormwater drainage. Where the infrastructure will directly serve the needs of new development, it can be funded through developer contributions.

Councils can collect developer contributions via a section 7.11 contributions plan, which specifies the link between the new development and the increased demand for infrastructure.[i] Alternatively, councils may levy up to 1% (in most areas) of the estimated cost of new development under a section 7.12 contributions plan to fund new infrastructure.[ii] [iii]

Developer contributions must be used for the purpose for which they were collected, and within a reasonable time. While these contributions provide for base-level infrastructure to support development and to meet the infrastructure needs of the growing population, they do not provide for the operating and maintenance costs of this infrastructure or increases in the volume of services demanded by the additional population.

In December 2020 the NSW Productivity Commissioner completed his review of the infrastructure contributions system in New South Wales. The NSW Government accepted all 29 recommendations from this review and has developed a roadmap to implement reform to the system.[iv] Our review of incorporating population growth into the rate peg will consider reforms to the local infrastructure contributions system.

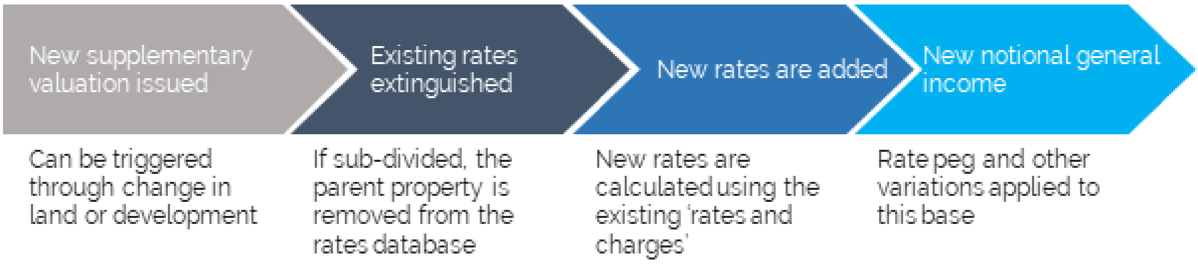
Developer contributions are charged by councils when new development occurs to cover the cost of providing infrastructure such as parks, roads and stormwater drainage.

Special variations

Councils can also fund the costs of population growth by applying to IPART for a special variation to increase their general income by more than the rate peg. IPART assesses these applications against criteria established by the NSW Office of Local Government. Councils are required to demonstrate the need for the additional revenue, evidence of community consultation and an assessment of the impact on affected ratepayers.

Supplementary valuations

Councils can receive additional income from growth through the 'supplementary valuation' process. Councils can use these funds to provide services to additional residents and ensure that infrastructure is serviced and maintained.



However, there are limitations of this system which result in most councils receiving less income from rates for each new resident compared to existing residents. There are also some types of development such as granny flats which result in increases to a council's population but do not trigger supplementary valuations, and therefore councils do not receive additional income to service the additional residents.

IPART seeks comment:

1. What council costs increase as a result of population growth? How much do these costs increase with additional population growth?
2. How do council costs change with different types of population growth?
3. What costs of population growth are not currently funded through the rate peg or developer contributions? How are they currently recovered?
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?

NSW population growth varies by LGA

Historical and projected population growth rates indicate that population growth is occurring and will continue to occur across NSW but that the growth is uneven across the state.

Population growth varies by LGA and is concentrated in metropolitan areas. In rural and regional areas, some LGAs are experiencing growth but others are declining. LGAs experiencing declining populations will not see less rates revenue under a reformed rate peg methodology relative to the current rate peg.

Table 1 illustrates the number of LGAs experiencing historical and projected population growth and decline, split into two groups: greater Sydney and Central Coast; and other areas. The LGAs in Greater Sydney and the Central Coast are generally experiencing growth, whereas other regions have LGAs both increasing and decreasing populations.

Table 1 Number of LGAs with population growth and decline

Number of LGAs	Greater Sydney and Central Coast LGAs [a]	Other LGAs
Historical population growth 2014-19	34	58
Historical population decline 2014-19	0	37
Projected population growth 2021-26	33	55
Projected population decline 2021-26	1	40

a Greater Sydney LGAs as defined by DPIE district plans, along with Central Coast LGA .

NSW's population grew at 1.5% per annum over the past 5 years

Between 2014 and 2019 the population of NSW grew by 1.5% on average, per year.[v] Some Local Government Areas (LGAs) experienced higher growth during that period, including Camden at 8.1%, Sydney at 3.8%, and Strathfield and Parramatta at 3.1% per annum.

Population growth can be calculated as actual growth (retrospectively) or projected growth (prospectively):

- Historical growth rates are sourced from the ABS
- Projected growth rates can be sourced from the NSW Department of Planning, Industry and Environment (DPIE), who produce NSW population projections on behalf of the NSW Government.

DPIE is projecting NSW's population to grow by 1.4% each year over the next 5 years and reach a total population of 9 million people by 2026.[vi] Some LGAs are forecast to experience higher population growth over that period, including Burwood at 3.8%, Camden at 3.7%, the Hills Shire at 3.6% and Strathfield at 3.3% per annum.

Box 1 What is population growth and how is it measured?

Population growth at the state level consists of three key elements: natural increase (births and deaths), net overseas migration and net internal migration from other states and territories.

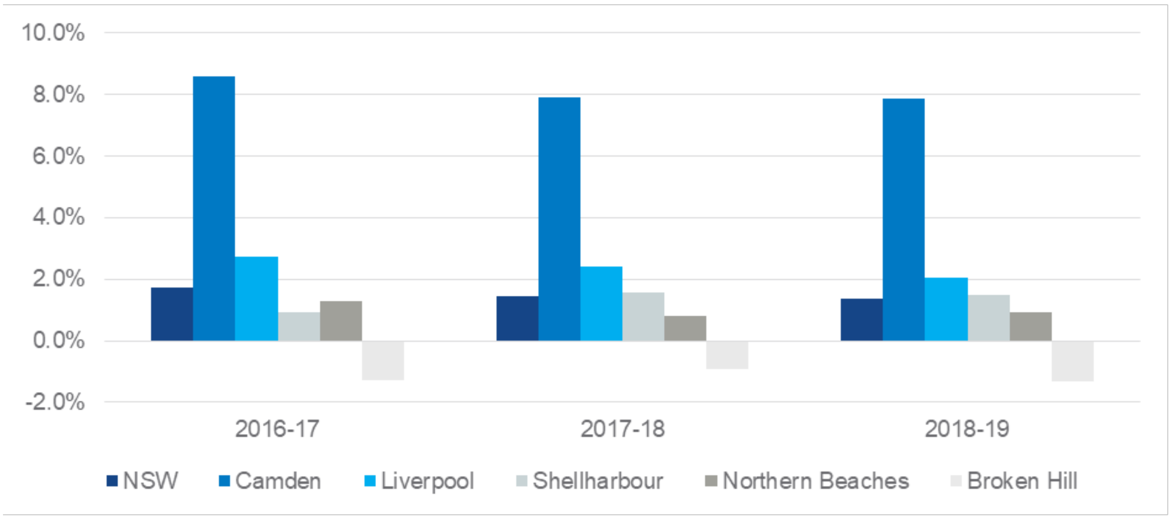
The ABS publishes historical observed growth which is calculated as the yearly change in estimated resident population (ERP), the official estimate of the Australian population which links people to a place of usual residence within Australia.

The most recent LGA growth statistics available are as at 30 June 2019, with an update to 30 June 2020 expected in late March 2021.

DPIE publishes projected growth in 5-year intervals covering a period out to 2041. The most recent projection is from 2019, and the next update is due in 2022.

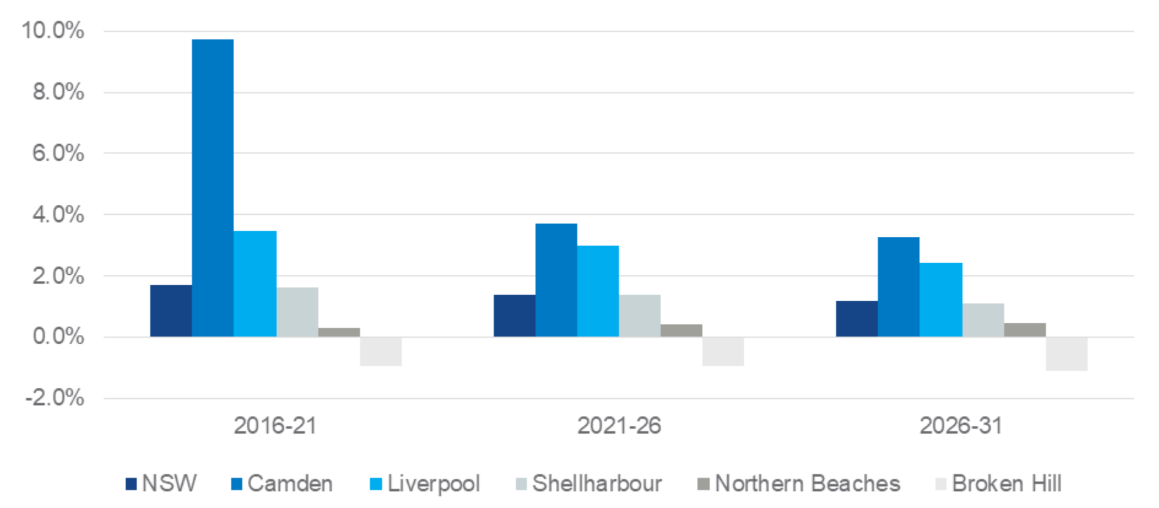
Figures 5 and 6 provide illustrations of the historic and projected population growth across selected LGAs.

Figure 5 Historical growth for NSW and selected LGAs



Data source: ABS (19 December 2019) Australian Demographic Statistics, Jun 2019 and IPART analysis.

Figure 6 Projected growth for NSW and selected LGAs



Data source: NSW DPIE (December 2019) NSW population projections and IPART analysis.

COVID-19 has impacted growth in 2020

The ABS reported that the NSW population grew by 0.9% over 2019-20 to 30 June 2020, a decrease from 1.4% in the prior financial year [vii], and lower than the projected rate of 1.7% by DPIE. The Centre for Population also projected in the recent Australian Government Budget in October 2020 that there will be almost no population growth for the financial years 2020-21 and 2021-22 in NSW, with population growth increasing to 1.0% by 2023-24.[viii]

DPIE cited in their 2020 population insights that events in NSW, other parts of Australia and globally are affecting population change in 2020.[ix] Key factors include the continued drought, bushfires, the COVID-19 pandemic and the resulting economic recession.

Net overseas migration has been the largest contributor to population change in NSW in the last decade.[x] The Australian Government's closure of international borders in March 2020 in response to the COVID-19 pandemic caused net overseas migration to dramatically decrease, impacting population growth until borders reopen.[xi] Future population projections are expected to be impacted by other factors, including the rollout of the COVID-19 vaccine, the vaccine's effectiveness and the speed of reopening of international borders.

Measuring population growth

A key consideration of our review will be the basis on which a population growth factor is derived. We outline in the following table a number of options for consideration, including the pros and cons of each.

Table 2 Population growth factor – options

Method	Historic growth	Projected growth	Projected growth, with adjustment for actual growth	Blend historic and projected growth
Source	ABS historic (2 year lag)	DPIE projected	DPIE projected, with retrospective adjustment for historic growth based on actual growth reported by the ABS	Blending of ABS historic and DPIE projected, using x[a]% historic and (1-x%) projected for LGAs
Pros	Simple to administer; consistent with LGCI	Simple to administer; revenue can rise in line with future growth	Removes risk of under or over recovery of income; councils can increase revenue in expectation of future growth	Relatively simple to administer; mitigates the risk of significant over and/or under recovery of revenue by allowing for a mix of both
Cons	Time lag - councils can increase revenue only 2 years after growth has occurred	Projections may result in under or over recovery of income (e.g. impacts of COVID-19)	Administrative burden; if growth is lower than projected, future revenue may be lower; if growth is higher, rates may increase in future	Some risk of under or over recovery of income remains

a x is a value between 0 and 100.

IPART seeks comment:

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

Including a population growth factor in the rate peg

The current rate peg calculation sets the annual maximum allowable increase in general income for each council. The current calculation of the rate peg does not expressly allow for population growth, and is the same for all councils in NSW. It is calculated as follows:

$$\text{Rate peg} = \text{change in LGCI} - \text{productivity factor} + \text{other add-ons}$$ [xii]

This review is looking at how to determine and then incorporate a population growth factor into the rate peg formula:

$$\text{Rate peg} = \text{change in LGCI} - \text{productivity factor} + \text{other add-ons} + \textbf{population growth factor}$$

To what extent should a population growth factor consider council-specific factors?

There are a number of options we could consider in determining a population growth factor:

- **LGA-specific growth factors**. This option would account for growth per LGA.
- **Set factors by geographic cohorts of LGAs**. A disadvantage of this option is the grouping of LGAs experiencing different growth rates in a geographic region.
- **Set factors by grouping LGAs into similar level of growth bands**. This option may prove more complex as groupings may change year on year as population growth changes and could increase administrative burden.
- **Set factors for LGAs that meet a threshold level of growth.** This option may artificially limit the number of LGAs that qualify for this factor.

The population growth factor would be subject to a minimum of zero to ensure that councils not experiencing growth are not negatively impacted by the introduction of the factor, consistent with our terms of reference for this review.

Adjustment to account for council-specific relationship between cost and growth

We will consider whether 100% of the population growth factor should be applied to the rate peg calculation or whether it should be adjusted to account for the relationship between population growth, revenue growth outside of the rate peg and council costs.

Councils can currently raise revenue for growth outside of the rate peg using supplementary valuations, special variations and developer contributions (as previously outlined). Thus, the LGA-specific population growth factor may need to be adjusted to avoid double-counting. We will consider whether this adjustment is necessary, and if so, whether it should be the same value for all councils, groups of councils or LGA-specific.

IPART seeks comment:

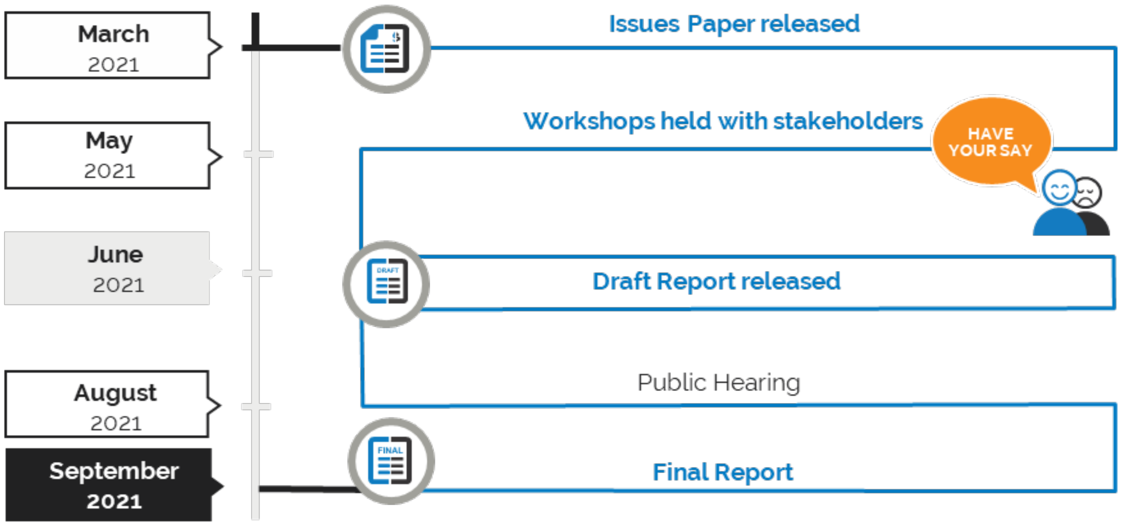
7. Do you think the population growth factor should be set for each council, or for groups of councils with similar characteristics? How should these groups be defined?
8. Should we set a minimum threshold for including population growth in the rate peg?
9. What is your view on the calculation of the growth factor – should we consider historical, projected, projected with true-up, a blended factor or another option?
10. How should the population growth factor account for council costs?
11. Do you have any other comments on how population growth could be accounted for?

Our proposed approach

How to engage with our process

We will involve and engage with stakeholders as part of this review. As shown in the review timeline below, there will be a number of opportunities for you to engage with IPART and to have your say during our public review process.

Figure 7 Indicative timeline for our review



You can engage with us through:

- Meetings and workshops – both planned by IPART or initiated by stakeholders throughout the review.
- Submissions to our Issues Paper and Draft Report – we will present our preliminary position and seek your comment and feedback.
- The Public Hearing – this is an opportunity for all interested stakeholders to express their views on our draft recommendations and for the Tribunal to receive feedback from you directly.
- We will also update you on the progress of our review through our website and media releases.

IPART seeks comment:

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

Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by 3 May 2021.

We would prefer to receive them electronically via our online submission form.

You can also send comments by mail.

Postal address:

Review of the rate peg to include population growth

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

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed below.

We may choose not to publish a submission – for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. However, it could be disclosed under the Government Information (Public Access) Act 2009 (NSW) or the Independent Pricing and Regulatory Tribunal Act 1992 (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.

Disclaimer

This report is published for the purpose of IPART seeking stakeholder engagement with its review of the rate peg to include population growth. Use of the information in this report for any other purpose is at the user's own risk, and is not endorsed by IPART.

Nothing in this publication should be taken to indicate IPART's or the NSW Government's commitment to a particular course of action.

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The Tribunal members for this review are:

Ms Deborah Cope, Acting Chair
Ms Sandra Gamble
Mr Mike Smart, Acting Tribunal member

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IPART
Independent Pricing and Regulatory Tribunal
New South Wales

The Independent Pricing and Regulatory Tribunal (IPART)

We make the people of NSW better off through independent decisions and advice. IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

[i] This is known as 'development-contingent infrastructure'.
[ii] This is lower than what would be collected under a section 7.11 plan. The Productivity Commissioner's review recommended an increase to the maximum rate for section 7.12 levies, equivalent to 3% of residential development, which would enable more councils to benefit from the simpler requirements of the section 7.12 levy.
[iii] NSW DPIE, Local infrastructure contributions policy.
[iv] NSW DPIE, NSW Government Response to NSW Productivity Commission's Review of Infrastructure Contributions in NSW.
[v] Australian Bureau of Statistics (17 December 2020) National, state and territory population. This is the most recent estimated resident population. The next update will be available on 18 March 2021
[vi] NSW DPIE (December 2019) NSW population projections
[vii] Australian Bureau of Statistics (19 December 2019) Australian Demographic Statistics, Jun 2019
[viii] Australian Government Treasury (6 October 2020) Budget Paper No. 3, Appendix A: Parameters and Further Information, Table A.2.
[ix] NSW DPIE (December 2020) 2020 population insights. Annual population insights supplement to the NSW population projections
[x] Commonwealth of Australia, Australia's changing population.
[xi] The University of Queensland (6 August 2020), How coronavirus could hit Australia's population in the next 20 years.
[xii] An example of an add-on is the inclusion of an adjustment of 0.2% for election costs in the 2021-22 rate peg.