AlburyCity draft submission

IPART Review of rate peg methodology Draft Report

AlburyCity's view is that:

- A better approach would be to utilise the existing NSW Local Government Integrated Planning and Reporting Framework to better effect
- The current rate peg methodology is restrictive both on councils and the community, as the current rate peg approach does not support the achievement of the Council's draft four-year delivery program and the community strategic plan
- The rate peg adds to financial sustainability challenges by not reflecting local government costs when inflation is on the rise, as it is based on historic inflation
- The rate peg is currently a one size fits all approach, based on the 'average' council, and does not take into account the different challenges and relative needs of metropolitan, regional and rural councils
- The rate peg is limited in its purpose and does not address the financial sustainability challenges of local government
- The rate peg does not take into account demand for changes in service levels, covid operational impacts, depreciation of infrastructure assets, the impacts of natural disasters, and other sustainability challenges
- The rate peg relies on a special variation process to gain IPART approval to increase rates above the rate peg to fund changes in service provision and is resource intensive. Rather than establishing a sustainable rate peg methodology from the outset.

AlburyCity's draft submission as detailed below demonstrates our in-principle support for IPART's draft decisions, recommendations, and matters raised for further consideration, with the main exception of the final rate peg for each council being set in May after Emergency Services Levy contributions for the year the rate peg is to apply are known. AlburyCity's strong preference is that the final rate peg is set in February so that it can be integrated into the annual Local Government Integrated, Planning and Reporting community engagement process.

IPART Draft Decisions	AlburyCity Response
1. To replace the LGCI with a Base Cost Change model with 3 components: a. employee costs b. asset costs c. other operating costs.	Supported
2. To develop separate Base Cost Change models for 3 council groups: a. metropolitan councils (Office of Local Government groups 1,2,3, 6 and 7) b. regional councils (Office of Local Government groups 4 and 5) c. rural councils (Office of Local Government groups 8 to 11).	Supported
3. For each council group, calculate the Base Cost Change as follows:	Supported

a. For employee costs, we would use the annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies, or the Reserve Bank of Australia's forecast change in the Wage Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies). We would adjust for changes in the superannuation guarantee in both cases. We are currently consulting on the best approach to measure changes in employee costs (see Seek Comment 1). b. For asset costs, we would use the Reserve Bank of Australia's forecast change in the Consumer Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies), adjusted to reflect the average difference between changes in the Producer Price Index (Road and bridge construction, NSW) and changes in the Consumer Price Index (All groups, Sydney) over the most recent 5-year period for which data is available. c. For other operating costs, we would use the Reserve Bank of Australia's forecast change in the Consumer Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies). d. Weight the 3 components using the latest 3 years of data obtained from the Financial Data Returns of councils in that group, and update the weights annually.	
4. To publish indicative rate pegs for councils around September each year (unless input data is not available) and final rate pegs around May each year	The early indicative rate peg notification is supported; however, the final decision in May does not align with the Local Government Integrated Planning and Reporting (IP&R) community engagement process.
5. To include a separate adjustment factor in our rate peg methodology that reflects the annual change in each council's Emergency Services Levy (ESL) contribution. This factor will reflect: a. an individual council's contribution, for councils: – that are not part of a rural fire district, or – that are part of a rural fire district but do not engage in ESL contribution cost sharing arrangements, or – are the only council in their rural fire district, or – that are part of a rural fire district and engage in ESL contribution cost sharing where we have accurate information about what the council pays. b. the weighted average change for each rural fire district, for councils that are part of a rural fire district and engage in ESL contribution cost sharing arrangements where we do not have accurate information about what they pay.	AlburyCity supports the separate factor of ESL in the rate peg methodology, including a the catch up for the 2023/24 ESL increase imposed upon Council without warning.

6. To set Emergency Services Levy (ESL) factors and a final rate peg for each council in May after ESL contributions for the year the rate peg is to apply are known, so that councils can recover changes in ESL contributions in the year contributions are to be paid.	The early indicative rate peg notification is supported; however the final decision in May does not align with the Local Government Integrated Planning and Reporting (IP&R) community engagement process.
7. To maintain our current approach and make additional adjustments to the rate peg on an as needs basis for external costs (For the Emergency Services Levy, we have made a separate decision – see Draft Decision 5).	Supported
8. To change the 'change in population' component of the population factor to deduct prison populations from the residential population in a council area and then calculate the growth in the non-prisoner residential population of a council area for the relevant year. We would not make retrospective adjustments for previous population factors.	Not applicable to AlburyCity
9. To retain the productivity factor in the rate peg methodology and for it to remain as zero by default unless there is evidence to depart from that approach.	Supported in principle – AlburyCity would like clear parameters around any future movement from zero and that decisions be clear and transparent
10. To review our rate peg methodology every five years, unless there is a material change to the sector or the economy, to ensure its stays fit for purpose.	Supported. AlburyCity agrees with the ongoing review of the rate peg methodology with the option of even greater frequency of reviews in times of significant economic volatility

IPART Draft Recommendations	
1. That a local government reference group is established to advise on the implementation of our new rate peg methodology.	Supported. AlburyCity recommends that industry bodies representing Local Government be considered for this group e.g. LGNSW, LG Professionals NSW and the Local Government Rating Professionals.
2. That the NSW Government consider commissioning an independent review of the financial model for councils in NSW including the broader issues raised in this report.	Supported in line with the recommendation above.

IPART Seeking Comment	
1. What are your views on using one of the following options to measure changes in employee costs in our Base Cost Change model? How can we	AlburyCity considers the Award increase option (a.) more reflective of changes in

manage the risks associated with each option when setting the rate peg? a.Use annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies, adjusted to reflect any change in the superannuation guarantee rate. b. Use the Reserve Bank of Australia's forecast change in the Wage Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies), adjusted to reflect any change in the superannuation guarantee rate.	inflation and costs incurred by the local government sector.
2. Are there any alternative sources of data on employee costs we should further explore?	AlburyCity believes while there may be other indicators that could be considered it is better to keep the complexity of calculations to a minimum.
3. Do you support releasing indicative rate pegs for councils in September, and final rate pegs that are updated for councils' Emergency Services Levy contributions in May?	AlburyCity does not support the release of the final rate pegs in May. A May release does not align with the Local Government Integrated Planning and Reporting community engagement process.
4. Do you have further information on arrangements between councils to share Emergency Services Levy (ESL) contribution bills including: a. what these arrangements cover (including whether they cover matters other than ESL contributions), and b. whether they apply to Rural Fire Service, Fire and Rescue NSW and NSW State Emergency Service ESL contributions, or contributions for only some of those services?	AlburyCity has a cost sharing arrangement with Greater Hume Council in relation to sharing the Rural Fire Services Levy portion of the ESL.
5. Would councils be able to provide us with timely information on the actual ESL contribution amounts they pay including contribution amounts paid to the: a. Rural Fire Service b. Fire and Service NSW c. NSW State Emergency Service? For example, by providing us with a copy of any cost sharing agreement that sets out the proportion that each council pays.	The State Government is best source of this information, as they set the contribution amounts and issue the invoices to councils for payment. As above, note that AlburyCity has a cost sharing arrangement with Greater Hume Council in relation to sharing the Rural Fire Services Levy portion of the ESL, where AlburyCity pays 32% of the combined invoiced amount.
6. Would you support IPART establishing a process to develop adjustment factors for groups of	Yes

councils to increase the rate peg to cover specific external costs?	
7. Would you support measuring only residential supplementary valuations for the population factor?	AlburyCity believes there are potentially other factors that could be considered rather than just residential supplementary valuations. Further investigation / research may need to be considered.
8. If you supported using residential supplementary valuations, what data sources would you suggest using?	Other factors could include business supplementary valuations and also rezoning and development applications.
9. What implementation option would you prefer for the changes to the rate peg methodology?	AlburyCity prefers options that allow for the catch up of recent inflationary impacts on council costs, so that councils would be no worse off under the new methodology compared to what they would have received under the existing methodology.

IPART Matters for further consideration	
1. The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and councils.	Supported
2. The use of the Capital Improved Valuation method to levy local council rates could improve the efficiency and equity of rates.	Supported
3. There could be merit in considering whether to introduce an additional constraint (i.e. conditions) on the rate peg to provide confidence to ratepayers that increases are reasonable.	AlburyCity appreciates that legislation enabling an additional constraint or cap for individual property increases could better smooth impacts resulting from valuation changes for example. However, the additional complexity and implications would need to be further considered. We note that a condition did exist in the past where any rating increase greater that 20% for farmland properties was written off at council's expense.
4. Some councils may not have an adequate rates base and a mechanism should be developed to enable councils found to have insufficient base rates income to achieve financial sustainability.	Supported
5. Statutory charges for services provided by councils may not be recovering the full cost of service provision, such as for development approval fees and stormwater management service charges.	AlburyCity agrees this is a critical area for review

6. Councils could be better supported to serve their communities more effectively to build community trust in councils. This could include improvements in how councils undertake and implement their integrated planning and reporting.	Initiatives that support the further development of the integrated planning and reporting process are welcome.
7. There are opportunities to strengthen council incentives to improve their performance, including considering whether there is merit in a model that would exempt councils that demonstrate an agreed level of performance and consultation with ratepayers from the rate peg.	AlburyCity would support a model that incentivises better practice integrated planning and reporting and engagement with communities, including for councils that have inherent financial sustainability challenges.