

Your reference: F23/1176

29 June 2023

Review of the rate peg methodology  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
HAYMARKET POST SHOP NSW 1240  
Online submission

Dear Sir or Madam

### **Review of the rate peg methodology**

Blacktown City Council welcomes the opportunity to make a submission on the Review of the rate peg methodology, and we appreciate the various engagement opportunities that councils have been given throughout this review.

Please find attached Blacktown City Council's endorsed submission on the draft decisions, recommendations and findings within your Draft report on the review of the rate peg methodology.

Whilst the proposed rate peg methodology is an improvement, we submit that:

- a separate Base Cost Change model should be established for Metropolitan growth councils that incur additional operating costs to support service expansion
- a one-off catch up should be included to cover the Emergency Services Levy (ESL) for the 2023/24 financial year. In the case of Blacktown City our increase for 2023/24 will be \$3,160,924, which amounts to 43% of our increase in rating income attributable to the 3.7% rate peg
- where the method to calculate the ESL could result in a negative ESL factor, councils should be afforded an opportunity to submit why this has occurred, as councils may have incurred other costs that support emergency services. For example, we are required to fund the capital costs of a new SES facility which we estimate will cost between \$2 million to \$4 million with no source of funding
- where the other operating costs of the Base Cost Change exceed the Reserve Bank of Australia's forecast change in the Consumer Price Index from the most recent Statement on Monetary Policy, a catch up should be included in the following years rate peg to account for operating costs that exceed this index
- the 'population factor' has again failed to address the additional operational and capital costs of a growth council and is not achieving its intended purposes to enable councils to maintain per capita general income over time. Our per capita general income will decrease as our population grows and we will be unable to maintain existing service levels

- whilst we don't support the methodology for the 'population factor', if residential supplementary valuations are to be used, this data could be sourced from the note on 'Permissible income for general rates' in a council's annual General-Purpose Financial Reports. However, consideration will be needed in the year of a General Revaluation which occurs every 3 years
- whilst the review acknowledged the lack of funding for community facility buildings, this cost should be captured in the population factor or other adjustments that account for external changes outside of councils control.

We welcome the opportunity to comment on the matters raised in the Draft report on the review of the rate peg. If you would like to discuss this matter further please contact me on [REDACTED]

Yours faithfully,

[REDACTED]

[REDACTED]

Attachments:

Submission on the Review of the rate peg methodology

## Submission on the Review of the rate peg methodology

IPART Draft Report	Blacktown City Council position
<b>Draft decisions</b>	
<p>1. To replace the LGCI with a Base Cost Change model with 3 components:</p> <ul style="list-style-type: none"> <li>a. employee costs</li> <li>b. asset costs</li> <li>c. other operating costs</li> </ul>	Supported.
<p>2. To develop separate Base Cost Change models for 3 council groups:</p> <ul style="list-style-type: none"> <li>a. metropolitan councils (Office of Local Government groups 1,2,3, 6 and 7)</li> <li>b. regional councils (Office of Local Government groups 4 and 5)</li> <li>c. rural councils (Office of Local Government groups 8 to 11).</li> </ul>	We support separate Base Cost Change models, however we seek that a separate Base Cost Change model be established for growth councils, to reflect the differing costs incurred by a green field council in comparison to other metropolitan councils. Alternatively, we seek that the population factor is amended to reflect the additional costs per capita incurred by growth councils.
<p>3. For each council group, calculate the Base Cost Change as follows:</p> <ul style="list-style-type: none"> <li>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).</li> <li>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</li> </ul>	<p>Refer to our comments on employee costs in the 'Seeking comment on' section, and our reply to Q1.</p> <p>Supported, provided it captures all costs spent on assets. As an example, we incur increasing costs for traffic management when delivering new construction and/or repair work to our assets.</p>

**IPART Draft Report**

**Blacktown City Council position**

	<p>Consumer Price Index (All groups, Sydney) over the most recent 5-year period for which data is available.</p> <p>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).</p> <p>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.</p>	<p>Supported, provided that a catch up is included for those operating costs that exceed this index.</p> <p>Supported, however this only reflects cost movements limited by a council’s budget and does not reflect the actual expenses councils are required to spend to maintain service levels and support new essential infrastructure.</p>
<p>4.</p>	<p>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.</p>	<p>Supported.</p>
<p>5.</p>	<p>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:</p> <p>a. an individual council's contribution, for councils:</p> <ul style="list-style-type: none"> <li>• that are not part of a rural fire district, or</li> <li>• that are part of a rural fire district but do not engage in ESL contribution cost sharing arrangements, or</li> <li>• are the only council in their rural fire district, or</li> <li>• 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.</li> </ul> <p>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.</p>	<p>Supported. However, there should be a one-off catch up to cover the ESL contribution for the 2023/24 financial year.</p> <p>In the case of Blacktown our increase for 2023/24 will be \$3,160,924, which amounts to 43% of our increase in rating income attributable to the 3.7% rate peg.</p> <p>Refer to our covering letter for further information on this adjustment factor.</p>

<b>IPART Draft Report</b>		<b>Blacktown City Council position</b>
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.	Supported.
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, provided they reflect the actual costs council will incur. For example, it will cost Blacktown City over \$1 million upfront and a recurring \$300,000 per year to meet baseline cybersecurity compliance recommended by both the Federal and State Governments and the NSW Office of Local Government's LG cyber security guidelines.
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.	We do not support the current or proposed methodology for the population factor, as it does not provide any additional revenue for Blacktown City or account for the additional operational and capital costs attributable to growth.
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.	We support the productivity factor remaining as zero, however any departure from this must consider whether achieved productivity improvements can be accurately measured.
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, although there would be merit in an initial review within 3 years' time.
<b>Draft recommendations</b>		
1.	That a local government reference group is established to advise on the implementation of our new rate peg methodology.	Supported. We recommend that this group also consider attraction and retention challenges that local government across the sector is experiencing for particular positions for example in information technology, planning, finance, engineers, arborists and mechanics, and the impact this is having on council's operations.

IPART Draft Report	Blacktown City Council position
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.
<b>Seeking comment on</b>	
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 manage the risks associated with each option when setting the rate peg? <ul style="list-style-type: none"> <li>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.</li> <li>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</li> </ul>	We support the use of the Local Government (State) Award and the Reserve Bank of Australia's forecast change in the Wage Price Index for the year the increase under the Award is not available. The risks associated with this option can be managed as we, along with many councils, will have additional employee costs above the Award increases that we need to fund and will be considering in award negotiations, including: <ul style="list-style-type: none"> <li>• further increases under an Enterprise Agreement</li> <li>• wage incentives payable to attract and retain skilled staff</li> <li>• training costs</li> <li>• workers compensation costs.</li> </ul>
2. Are there any alternative sources of data on employee costs we should further explore?	We support the sources referred to in the Draft report.
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?	Supported
4. Do you have further information on arrangements between councils to share Emergency Services Levy (ESL) contribution bills including: <ul style="list-style-type: none"> <li>a. what these arrangements cover (including whether they cover matters other than ESL contributions), and</li> <li>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?</li> </ul>	We are not subject to an arrangement with any other council.

IPART Draft Report	Blacktown City Council position
<p>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:</p> <ul style="list-style-type: none"> <li>a. Rural Fire Service</li> <li>b. Fire and Rescue NSW</li> <li>c. NSW State Emergency Service?</li> </ul> <p>For example, by providing us with a copy of any cost sharing agreement that sets out the proportion that each council pays.</p>	<p>Yes, we can provide a copy of our Council Contribution Assessment Notice, however we note our 23/24 notice was not issued until 28 April 2023.</p>
<p>6. Would you support IPART establishing a process to develop adjustment factors for groups of councils to increase the rate peg to cover specific external costs?</p>	<p>Supported. The process should consider the following external costs:</p> <ul style="list-style-type: none"> <li>• Community facilities that are not funded by developer contributions</li> <li>• Reduction in real terms in the Financial Assistance Grant</li> <li>• Additional maintenance and renewal costs for growth council that are required to improve longevity of assets that exceed the reported costs in a budget that is restrained by the rate peg</li> <li>• Increased insurance costs</li> <li>• Costs of responding to cyber-security threats</li> <li>• Election costs, including increased leasing costs for pre-poll and returning office costs.</li> </ul>
<p>7. Would you support measuring only residential supplementary valuations for the population factor?</p>	<p>Consistent with our previous submission, we do not support the methodology for the population factor, as there will be a continued decrease in our general income on a per capita basis and it does not account for the additional operating and capital costs incurred by growth. However, we do not oppose using residential supplementary valuations in place of all valuations. Our covering letter provides further information on our position.</p>
<p>8. If you supported using residential supplementary valuations, what data sources would you suggest using?</p>	<p>We support the inclusion of residential supplementary valuations in the Annual Financial Statements. This information can be easily obtained and included in the note on 'Permissible income for general rates' in a council's annual General-Purpose Financial Reports. However,</p>

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	consideration will be needed in the year of a General Revaluation which occurs every 3 years.
9. What implementation option would you prefer for the changes to the rate peg methodology?	Our preference is for all changes to be implemented for the 24/25 rate peg with a true up included.
<b>Draft finding</b>	
1. Some councils that are part of rural fire districts have entered arrangements with other councils to share the costs of the Rural Fire Service component of the Emergency Services Levy (ESL). They may therefore pay an amount that is different to the ESL contribution set out in their assessment notice.	Not applicable to Blacktown City.
<b>Matters for further consideration</b>	
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.	We support the use of the Capital Improved Valuation method, provided we maintain the option to retain the use of Unimproved Values.
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.	Each council has unique characteristics relating to the number, type and size of non-residential rating properties, and already determines a rating structure that best apportions rates levied across those different categories, and in some cases, sub categories. It would not be practical to expect IPART to be able to have sufficient knowledge of the unique characteristics for each council.
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.	Supported. Statutory charges should be reviewed and indexed accordingly.



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<p>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</p>	<p>Supported. We fully comply with all elements of the IP&amp;R guidelines, and are committed to continuous improvement in our practice of planning, reporting and community engagement.</p> <p>We adopted an update of our Community Engagement Policy and Strategy in September 2022, reflecting the contemporary regulations as well as best practice. In broad terms, the application and understanding of IP&amp;R by councils has matured and improved considerably over the past 14 years.</p> <p>Councils could be better supported in this area by government agencies, particularly the Office of Local Government. It is notable that a recent performance audit of OLG conducted by the Audit Office of NSW found significant deficiencies in the regulation and support provided to councils. While councils have primary responsibility for IP&amp;R and building community trust, a more effective role for the supporting government agency would be of significant benefit.</p>
<p>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.</p>	<p>Supported. The Draft report outlines some of the challenges of measuring productivity and comparing performance in local government. This is exacerbated in NSW by the lack of an effective local government performance measurement framework, noting that OLG has not completed a long-delayed project to develop such a tool in collaboration with councils.</p> <p>Our previous submission to the IPART review noted that Blacktown City has a comprehensive business improvement program (Better Practice Reviews) which is progressively reviewing each of our core service areas to identify whether the service is meeting current (and projected future) expectations and requirements, how the service can be improved and at what cost, and what opportunities exist to improve the efficiency of service delivery and thereby lower its net cost.</p> <p>We would welcome the opportunity to participate in developing a sector-wide performance model, with the possible objective of exempting demonstrated high performing councils from the rate peg regime.</p>