

5 July 2023

Review of the Rate Peg Methodology

Independent Pricing and Regulatory Tribunal
PO Box K3
Haymarket Post Shop, Sydney, NSW 1240

Dear Tribunal Members,

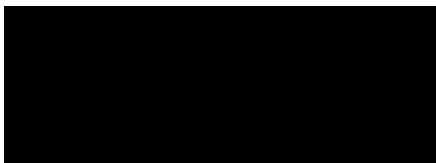
Release of Draft Report on the Review of the Rate Peg Methodology

In reference to the exhibition of the draft report - Review of the Rate Peg Methodology, please find attached Council's submission in response to the draft recommendations and responses to the specific questions where IPART is seeking stakeholder feedback.

In reviewing the draft report, Camden Council is supportive of most recommendations, and is of the view that the implementation of the draft recommendations would result in significant improvements to the rate peg methodology and address a number of long-standing issues which have been raised by the broader Local Government industry.

Should you require any additional information please contact Paul Rofe, Chief Financial Officer on (02) 4654 7777.

Yours sincerely



Andrew Carfield
General Manager

Council Submission Review of the Rate Peg Methodology

Rate Peg Methodology Review - General Comments

Council welcomes the release of the draft report into the review of the rate peg methodology and acknowledges the work undertaken by IPART to understand and respond to the issues identified by local government and other key stakeholders.

Council supports the proposed changes to the rate peg methodology which are aimed at addressing the broader cost challenges faced by NSW councils in delivering quality services and infrastructure to their communities.

Council supports the recommendations contained within the report, with the following specific comments provided:

- The replacement of the Local Government Cost Index with a simpler Base Cost Change model is supported on the basis that it will now rely on forward looking indicators to estimate the change in each component. This will address a long-standing concern that the rate peg has been constrained by historical data which has meant the rate peg could not keep pace with broader inflationary and economic conditions.
- The introduction of a council-specific Emergency Services Levy (ESL) adjustment factor is strongly supported. This will ensure that proposed programs and projects included in a Council's draft IP&R documents are not placed at risk through significant changes to the ESL contribution, which are historically announced after councils have finalised their annual budget processes.
- Council agrees with IPART's approach to measure the change in the Asset Cost component of the Base Cost Change model using the RBAs CPI forecast, adjusted for movements in the PPI. Other alternatives such as using the change in depreciation costs are not supported, as there is a need to ensure depreciation costs are calculated across the industry in a consistent manner, and to also ensure there is consistency in the quality of asset management practices in place across all NSW councils.
- As one of the fastest growing councils in NSW, Council supports IPART's view that the overall approach to the population growth factor is still appropriate. Further comments in relation to refining the population growth factor is provided under the specific feedback questions in Council's submission.

Rate Peg Methodology Review - General Comments (Continued)

- Council acknowledges IPARTs view that it will take time to develop methods to adjust the rate peg for external costs and, supports IPARTs view that external factors such as climate change, cyber security and cost shifting continue to place further financial constraints on local government. Council's view is that the special rate variation process should be simplified for circumstances where a Council applies for an increase above the rate peg, for external costs which have been identified and acknowledged by IPART.
- While Council understands IPARTs position with respect to the productivity factor, there is a need to develop a formal framework as to how any future productivity factor is calculated. There should also be further consultation with all stakeholders on this framework.
- Council actively supports efficiency initiatives within local government; however, councils should also have the ability to determine whether these efficiencies are to be used for improving services provided to its communities or applied to a reduction in rates through the Integrated Planning and Reporting framework.
- Council supports IPARTs intention to review the rate peg methodology every five years.

What are Council's views on using one of the following options to measure changes in the employee costs in the Base Cost Change Model.

- a) The annual wage increase prescribed the Local Government Award
- b) The RBAs forecast change in the wage price index

Are there any alternative sources of data on employee costs which should be used?

Council supports the recommendation by IPART to use the Base Cost Change model as part of a revised rate peg methodology.

With respect to the proposed method to measure changes in employee costs in the Base Cost Change model, Council believes that the Local Government State Award should be used to determine future movements in this base cost.

As the Award is renegotiated every three years, there would be a need to use an alternative forecast source when the award increase is unknown. The RBAs forecast change would be appropriate in these circumstances. The rate peg for the subsequent year could then be used to address any adjustment which may be required for the first year increase in the Award.

Does Council support releasing indicative rate pegs for councils in September, and final rate pegs that are updated for councils Emergency Services Levy contributions in May?

Council supports the change in the timing of the release of the rate peg.

This is on the basis that the rate peg and the population growth adjustment factor is released at the same time annually.

Council is also of the view that the NSW Government should provide councils with earlier advice on its annual contribution to Emergency Services so that the final rate peg (inclusive of ESL adjustment factor) is placed on public exhibition as part of Draft Operational Plan and Budget. This typically occurs for most councils in early May.

**Does Council have any further information on arrangements between councils to share Emergency Services Levy contribution invoices?
Would Council be able to provide IPART with timely information on the actual ESL Contribution it pays split by each emergency service?**

Council has recently provided information to IPART on its most recent Emergency Services Levy (ESL) contribution amounts, including the subsidy provided by the NSW Government.

Council does not share its ESL annual costs with any other councils so is unable to provide any further comment in relation to this matter.

Would Council support IPART establishing a process to develop adjustment factors for groups of councils to increase the rate peg to cover specific external costs?

Council supports this recommendation.

This process would be a positive step in ensuring that the rate peg methodology remains fit for purpose. As outlined in the draft report, the costs associated with responding to issues such as climate change, cyber security and continued cost shifting should not result in a reduction in the breadth and quality of services currently provided to our communities.

As outlined earlier in Council's submission, while a process is being developed, Council's view is that the special rate variation process should be simplified for circumstances where a Council applies for an increase above the rate peg, for external costs which have been identified and acknowledged by IPART.

Would Council support measuring only residential supplementary valuations for the population factor? If you supported this approach, what data sources would you suggest using?

Council supports the recommendation.

This approach would ensure that the population growth factor is not diluted by rating increases associated with non-residential supplementary valuations. It is also consistent with IPART's principle of ensuring that rate income per capita does not decrease as a result of population growth.

The challenge would be in obtaining accurate and reliable data on the split of supplementary valuations. This would require changes to the current disclosures reported in the Special Schedule - Permissible Income for General Rates. This would also require the support of the Office of Local Government and the Audit Office of NSW.

What implementation option would Council prefer for the changes to the rate peg methodology?

Council supports the proposed implementation option which is recommended by IPART.

Council Submission

Comments on Matters for Further Consideration

The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and councils.

Council supported this recommendation when IPART undertook its review into the Local Government Rating System in 2016.

Council's position has not changed, and it continues to support changes to rating legislation which would ensure that rating income is distributed in a fair and equitable manner and that all property owners who benefit from the provision of community infrastructure are required to make an appropriate contribution.

The use of the Capital Improved Valuation method to levy local council rates could improve the efficiency and equity of rates.

Council supported this recommendation when IPART undertook its review into the Local Government Rating System in 2016.

Council's position has not changed, and it continues to support changes to rating legislation which would ensure that rating income is distributed in a fair and equitable manner, particularly with the expected change in housing mix and supply in the Camden Local Government Area over the next 15-20 years.

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.

Council does not support this position.

With respect to updated land valuations, this has no impact on the total rate income councils can generate from general rate income. Updated land valuations are prepared by the Office of the Valuer General and this is not a process councils can influence. While Council appreciates this process can result in large movements in rates applied to a property, if this method of valuation is not considered appropriate, then councils should be able to consider a more appropriate method such as the Capital Improved Valuation method.

Councils should also retain the ability to set rating sub-categories which reflect a fair and equitable rating structure. Stakeholders have the opportunity to comment and object to a Council's rating structure as part of the public exhibition of the Draft Operational Plan and Revenue Policy.

Some councils may not have an adequate rate base and a mechanism should be developed to enable councils which are found to have an insufficient base rate to achieve financial sustainability.

Council supports this position.

An independent review of the financial model for councils in NSW would be an important first step in identifying councils who have an insufficient rate base.

Council supports the broader industry focus on financial sustainability and the importance of establishing an appropriate revenue base in achieving financial sustainability.

Statutory charges for services provided by councils may not be recovering the full cost of service provision, for example development approval fees and stormwater management service charge.

Council supports this position.

The maximum amount which can be levied under the stormwater management service charge has not increased since the guidelines were released in 2006. While recent changes to legislation now allow for annual indexation of development approval fees, this only ensures that fees reflect the movement in CPI.

There are many examples where services have been transferred to local government, without the ability to determine appropriate revenue models.

Councils should have autonomy to establish a pricing structure for services to reflect actual costs. These services are often subsidised by general rate income, which is not a fair and equitable use of rating income.

Councils could be better supported to serve their communities more effectively to be build community trust in councils. This could include improvements in how councils undertake and implement their integrated planning and reporting.

Council uses a multitude of communication channels to inform its community on its integrated planning and reporting documents (including its Revenue Policy).

Community engagement is a key focus for Camden, and the recent introduction of a dedicated community engagement platform has seen significant improvement in how Council informs and engages with its community on a range of important matters.

Council would welcome any support from the NSW Government, the Office of Local Government, or other agencies in strengthening community trust in councils.

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.

Council supports this recommendation in principle.

While Council supports a proposed framework which would provide councils with greater autonomy to inform and consult with its community on the level of rate income required to continue to provide the breadth and quality of services and infrastructure, further detail is required with respect to the performance indicators a Council would need to achieve for this autonomy to be granted.

The use of arbitrary benchmarks, such as those used in the Fit for the Future reform program do not reflect the unique challenges certain councils face. For example, Camden is one of the fastest growing councils in NSW and is currently receiving infrastructure for a community which will grow to 250,000 residents. During this period of rapid growth, a number of industry financial benchmarks will not be achieved until Council achieves economies of scale, and its rating base is relative to the size and value of infrastructure it maintains.

In 2014, the NSW State Government announced a range of benefits for councils which were determined to be fit for the future. This included a streamlined IPART process for increases above the rate peg limit. Except for the 2022/23 financial year, the Special Rate Variation process has remained unchanged since 2011.