City of Ryde

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Reference: D23/95252
3 July 2023

Review of the rate peg methodology
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

Dear Tribunal members

Submission - Review of the rate peg methodology

We thank IPART for the opportunity to make a further submission regarding the proposed reform to the Rate Peg methodology. The engagement with both industry professionals and affected ratepayers is well balanced in the report with key outcomes from the process clearly identified and considered. IPART has responded to the concern of Councils that the current methodology is "backward looking" and is not reflective of current and future market and economic conditions such as increases in inflation and construction costs to maintain critical community infrastructure. These lags have had a compounding effect on Councils financial sustainability.

The proposed Base Cost Change Model (BCC) has a more simplified approach and is "forward looking" and based on a more appropriate reflection of each Councils actual costs. This new methodology will eliminate the two-year lag that is currently being experienced. The reduction in the number indicators, from 26 to 3 and use of Councils Financial Data Return (FDR) will provide more transparency for Council's to understand the basis of their Rate Peg calculation. Furthermore, the proposed grouping of Councils by metropolitan, regional and rural will allow for a more refined weighting of costs which will address the diversity between Councils.

The inclusion of a separate factor for the Emergency Services Levy (ESL) in addition to the indicative Rate Peg will provide much needed relief to Councils due to the continuing increase in the cost of the Levy. However, the timing of this factor must be reconsidered to allow Council to integrate this change inline with the adoption of its Rating Structure and Operational Plan.

In this submission we have responded to each of the nine questions for feedback, responses are provided below:

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Submission

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?**

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.

The LGCI is often viewed as "backward' looking as it is determined on historic data and does not factor in current and future market and economic conditions such as inflation and the increasing cost of providing services to the community. Applying an outdated index has had a compounding impact on Councils financial sustainability.

We agree with the implementation of the variation to the Base Cost Change (BCC) methodology from currently using LGCI to using a more reflective indicator such as the Local Government (State) Award.

Considering that Councils most significant expenditure is employment costs, this measure aligns directly with the cost impacts faced by Councils. We believe that in cases where the LGSA has not yet been determined due to timing lags, that the Wage Price Index (WPI) or the previous LGSA whichever is greater should apply.

Whist the BCC Preferred + True Up will provide the best outcome financially in FY23/24 it seems more volatile compared to the BCC preferred only. In the data provided by IPART, calculations from FY16/17 to FY22/23 using the BCC Preferred + True Up provide a much lower Rate Peg every year compared to the BCC Preferred.

2. **Are there any alternative sources of data on employee costs we should further explore?**

No, we believe that using Councils Financial Data Return (FDR) sufficiently captures employment costs.

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?**

We agree with IPART applying an increase factor due to continuing increase in cost of the Emergency Services Levy (ESL) on Councils. However, an issue arises when Council receives the indicative Rate Peg in September and formulates its Rating Structure and completes its Operational Plan for adoption in July. If the ESL factor is then later released in May, the Operational Plan will most likely be on Public Exhibition. This may encourage Councils to over rate in anticipation of the ESL factor and may lead to Council exceeding its permissible Rates income.

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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?

   Council currently does not have a MOU or a shared arrangement with any other Council or organisation for the ESL contributions.

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 Rescue 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.

   Council receives notification of the next Financial Years Emergency Services Levy payable usually around May issued by Revenue NSW. We would anticipate that IPART may have the ability to access this information directly from Revenue NSW for all Councils in a timely manner.

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?**

   We agree that IPART should consider groups of Councils, as each LGA varies significantly in regard to external costs that are required by each Council to provide services for their respective communities.

   We suggest the peg include a component for Councils to address, increased depreciation for assets that may be transferred to Council, natural disasters, climate change, net zero initiatives and cyber security, as these are emerging issues that will need to be addressed by every Council. Our communities expect their Council to be undertaking this work, however they are not adequately resourced or financed to achieve these requirements.

   We believe that a process where groups of Councils can demonstrate they meet certain selection criteria they would be eligible for an adjustment to their Rate Peg which would be less onerous than Councils having to apply for a Special Variation.

7. **Would you support measuring only residential supplementary valuations for the population factor?**

   We do not agree that the population factor should be measured by using residential supplementary valuations only for the following reasons:

   - Other categories used in the rating process have impacts on population growth – e.g., commercial/industrial land

- It is not technically possible to separate residential supplementary valuations because many supplementary valuations contain parcels of land across multiple rating categories eg Mixed used developments

8. If you supported using residential supplementary valuations, what data sources would you suggest using?

We do not agree as detailed above.

9. What implementation option would you prefer for the changes to the rate peg methodology?

Our preference is that the proposed changes commence in full for the 2024-25 Financial Year. Accordingly IPART would:

- Replace the LGCI with the 3-component BCC model and use 3 Council groups
- Retain the current population factor
- Implement the proposed additional and separate ESL factor, but in a more timely manner

We support the need for regular reviews and would recommend IPART considering their first review after three years then move to every five years. The review should be transparent and include key stakeholder consultation. We also support the IPART's recognition of any 'material changes in the sector or the economy' that would 'prompt a review earlier than 5 years'

If you have any queries, please contact me at [redacted]

Yours sincerely,

[redacted]