

ITEM 07.23.086 RATE PEG METHODOLOGY REVIEW DRAFT REPORT SUBMISSION TO IPART

Meeting	Council	27 June 2023
Directorate	[REDACTED]	
Prepared by		
Reviewed by		
Attachments	Nil	

SUMMARY

This reports seeks Council's support to lodge a submission to IPART's Review of the Rate Peg Methodology draft report, which results from IPART's Rate Peg Methodology review to which Council made a submission following its October 2022 Ordinary Meeting (Item 07.22.229). The submission is due by 4 July 2023 and the draft report can be found here <https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Review-of-rate-peg-methodology>.

OFFICER RECOMMENDATION

That Council makes a submission to IPART's review of the rate peg methodology draft report including the matters detailed in the report.

COUNCIL RESOLUTION - 07.23.086

Smith/Novak

That Council makes a submission to IPART's review of the rate peg methodology draft report including the matters detailed in the report.

Voting recorded as follows

For: Clancy, Day, Johnstone, Novak, Pickering, Smith, Tiley, Toms, Whaites

Against: Nil

CARRIED

LINKAGE TO OUR COMMUNITY PLAN

Theme Leadership

Objective We will have a strong, accountable and representative Government

KEY ISSUES

In response to submissions made by the sector to IPART's Review of the Rate Peg Methodology, IPART has drafted the following decisions on which it is seeking feedback. The draft decisions are provided in Table 1. with the recommended Council response.

Table 1. IPART draft decision summary (for more information the draft report should be read in full) and CVC recommended response.

IPART Draft Decision/Recommendation summary		CVC Recommended Response
Chapter 3. Improving how changes in councils' base costs are measured	Replace the LGPI with a base cost change model with 3 components: a. Employee costs – considering Award increase b. Asset cost – considering RBA CPI forecasts	Use of the prescribed LGNSW Award adjusted for change in the superannuation guarantee rate is more closely aligned to actual costs incurred by councils and is available at three year intervals by July at the latest each year and is therefore Council's preferred option for considering wage component of cost increases,

	<p>c. Other operating costs – considering RBA CPI forecasts</p> <p>And weighting all against prior year actuals for 3 council groups:</p> <p>a. Metropolitan councils – groups 1,2,3,6 & 7</p> <p>b. Regional councils – groups 4 & 5</p> <p>c. Rural councils – groups 8 -11.</p> <p>NB CVC is an OLG Group 4 council.</p> <p>Release of indicative rate pegs in September and release of final rate pegs in May.</p>	<p>Release of indicative rate pegs in September is supported as this forms the basis of draft budgets placed on public exhibition prior to adoption the following June and release of the rate peg in May allows for final adjustments in budgets prior to adoption in June, but does not allow time for public exhibition of impact.</p>
<p>Chapter 4.</p> <p>Adjusting for the Emergency Services Levy</p>	<p>Inclusion of a separate adjustment factor in the rate peg methodology based on individual councils' contributions.</p> <p>Set the final rate peg in May once the ESL is known.</p>	<p>The draft decision is supported noting that CVC does not cost share its contribution with another council.</p>
<p>Chapter 5.</p> <p>Improving how external costs beyond councils' control are treated</p>	<p>Maintain current approach to treatment of external costs and make adjustments on a needs basis to cover specific costs.</p>	<p>The draft decision is noted, CVC is supportive of establishing a process that is applicable to groups of council to increase rate peg to cover specific external costs such as operational and depreciation costs associated with gifted infrastructure, provision of community facilities not covered by developer contributions, delivery of new functions due to legislative changes.</p>
<p>Chapter 6.</p> <p>Refining the population factor</p>	<p>Deduction of prison populations from the population factor.</p>	<p>The draft decision to remove the prison population from the population factor while retaining supplementary valuations is supported. As a council with developable land, supplementary valuations are a critical component in the population factor.</p> <p>Continued use of Special Schedule 2 is proposed.</p>
<p>Chapter 8.</p> <p>Transitional arrangements to implement decisions</p>	<p>Rate peg methodology review every 5 years and timing of implementation.</p>	<p>As the change from LGCI to a BCC model is the most immediately impactful for councils it is recommended that implementation in 2024/2025 with a true catch up applied. Market volatility alongside a newly negotiated Local Government State Award, which proposes cost of living impact catch up for award paid staff and the impact the ESL increases risk of reduced services across the sector, without rate peg reform.</p>
<p>Chapter 9.</p> <p>Improving the broader</p>	<p>Broader reform of the regulatory framework.</p>	<p>The draft recommendation is noted and supported.</p>

regulatory framework		
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While the rate peg does provide protection to rate payers from excessive rate increases, it also continues the practice of delivery of services that fall short of the expectations of ratepayers. Comparison of any non-metropolitan council customer satisfaction survey will typically show low satisfaction levels with road infrastructure, aged community facilities and those services such as planning and building services where professional staff shortages exist.

BACKGROUND

The role of the rate peg is to protect ratepayers from excessive rate increases, and to create a financial incentive for councils to improve their productivity and efficiency. However, it also needs to allow councils' rates income to vary annually to reflect, as far as possible, changes in the cost of providing services due to factors such as inflation and population growth. Otherwise, they may have to reduce the quality or scope of their services to their communities or seek other sources of income.

At its Ordinary Meeting held 21 April 2021, Council resolved to make a submission to IPART's review of the rate peg to include population growth. While in support of the inclusion, Council maintained that ABS population growth data, which is lagged by three years, is not an appropriate measure of population growth in the current year. And is therefore not an appropriate measure for considering rate peg to fund increased services and infrastructure to meet the demands of population growth.

At its Ordinary Meeting held 25 October 2022, Council resolved to make a submission based on the lag in application of population growth data, possible inclusion of real time data such as building approvals as an indicator of real time growth; over development approvals as these only indicate that a development is approved but are not indicative of construction commenced and occupied; population growth factor grouping of "like councils" together to weight the specific needs of types of communities such as coastal communities versus those west of the divide; and a review of IPART's expectation of productivity gains, which is unrealistic for non-metropolitan councils with comparatively smaller rate bases. Examples of key issues include:

- significant skills shortages across the sector result in costly competition to attract skilled labour to non-metropolitan councils;
- the greatest operational efficiencies require significant investment in IT systems, cloud migration and upskilling of staff and communities;
- skills shortages rely on outsourcing activity and functions for commercial rates.

Also raised in the submission was a required review of the Local Government Cost Index (LGCI) as it is calculated on an historical cost basis, and a review of the weighting of the cost components of the LGCI is required as an example the proportion of Council's budget spent on roads and bridges (predominantly contractual arrangements) currently sits at approximately 40%, while the LGCI assumes 26.9% and the allocation to business services (consultants and professional services) was over 11.68%, while the LGCI assumes 6.2%. These allocations are subject to significant market variability that is well beyond the control of local government, as they are in high demand.

COUNCIL IMPLICATIONS

Budget/Financial

Nil in relation to adopting the recommendation of this report.

Asset Management

Nil in relation to adopting the recommendation of this report.

Policy and Regulation

Nil in relation to adopting the recommendation of this report.

Consultation

Nil in relation to adopting the recommendation of this report.

Legal and Risk Management

Nil in relation to adopting the recommendation of this report.

Climate Change

Nil in relation to adopting the recommendation of this report.