

Thank you for the email reminding me about the online public hearing today on IPART's draft report on the local government rate peg methodology review. Unfortunately, I am unable to participate in the hearing later today. However, I have the following comments and questions on the draft report which I hope IPART will consider when finalising its report to the NSW Government.

2. Going back to basics, I note that the draft report does not provide background on why local councils levy rates (a tax) and the principles underpinning the levying of such rates (e.g., the "benefits and "ability to pay" principles, the competitive neutrality principles and a local taxation system that is simple, fair, broadly uniform and promotes local accountability). Nor does it outline why those rates are subject to an annual peg established by IPART. It also does not highlight the overall role of IPART in helping NSW ratepayers get local government services at a fair price. Such background is important for setting the foundations of the report and IPART's role in local government rate making and should form part of the recommendations to the Minister and Government.

3. The NSW local government rating system and the rate pegging methodology is complex. This, I believe, contributes to a poor understanding by local ratepayers (and local government) of the rating system. This has diminished community confidence in the fairness of the land rating tax system. IPART has a critical role in maintaining the fairness of the rating system. The rate peg methodology review by IPART should not exacerbate community confidence in the fairness of the system.

Draft Report - Executive Summary

Recommendation 1: Replace the LGCI with 3 components: a) employee costs; b) asset costs; and c) other operating costs.

4. As noted in earlier comments in submissions and discussions with IPART, I remain uncertain about the merits of replacing the LGCI with the 3 components. A key problem with the current LGCI that has been raised by Councils is that it is backward-looking (past 2 years) and does not take into account current or future costs faced by Councils in the delivery of services. This results in a significant lag between costs and income. The "lag factor" can be addressed by adjusting the current LGCI and factoring in the CPI, WPI, etc. increases forecast and published throughout the year by the Australian Bureau of Statistics, the Reserve Bank of Australia (see further comments below), in the NSW Annual Budget and mid year budget forecasts and in the annual Commonwealth Budget and MYEFO.

5. I have been unable to access the XLS data sets included on IPART's webpage that IPART proposes to use for the 3 new components. Hence, I cannot assess whether what is proposed would adequately and fully assess the cost categories in the current LGCI. Suffice to say, the data sets for each of the proposed new components must be comprehensive, understandable, statistically valid

and backward and forward looking. Otherwise, community confidence in the fairness of the local government rating and rate pegging systems will be further diminished.

Recommendation 3 (a-c):

6. For employee costs, assets costs and other operating costs, use the Reserve Bank of Australia (RBA) forecast changes in annual wage price index (WPI) and CPI in RBA monetary policy statements.

7. There has been considerable negative public policy scrutiny and media commentary of monetary policy forecasts issued by the RBA over the past 12 months, in particular regarding interest rates and costs (in my view, much of it unfair and narrowly informed and focussed on domestic Australian economic conditions). In such a political climate, it is probably unwise to introduce a new rate peg methodology based largely on RBA economic forecasts alone. As noted above, a wiser approach would be to review Recommendation 3 and include forecast changes in costs estimated, not only by the RBA, but also by the ABS, and both the Commonwealth and NSW Treasurys.

8. In analysing annual wage growth in local government it would be useful to look at the federal Treasury's Average Weekly Ordinary Time Earnings (AWOTE) measure. While AWOTE has its detractors, it, nonetheless, provides a useful tool in analysing annual wage growth in Australia.

Recommendation 4: Publish Indicative Rate Peg in September each year, with the final rate peg published in May

9. There are pluses and minuses for local government and ratepayers in this recommendation. On balance, however, I would not support this recommendation. Reports issued by the NSW OLG and the NSW Auditor-General in the past 12 months indicate that many Councils in regional NSW struggle to remain and manage effectively within their annual financial budgets. By IPART forecasting a possible increase in overall operating budget for Councils 7-8 months ahead of the actual rate peg an early announcement may undermine efforts to ensure Councils exercise financial expenditure discipline under the NSW Local Government Act 1993 and NSW OLG's Codes of Accounting Practice.

10. The above comments provide some constructive input for IPART's finalisation of its rate peg methodology review to the Government.

Thank you to the members of IPART for the opportunity to participate in the review.