Date: 5 July 2023

IPART Review of the Rate Peg Methodology

Lane Cove Council Submission on the Draft Report

Council is grateful for the opportunity to submit their thoughts on IPART's Review of the Rate Peg Methodology - Draft Report. This submission was prepared by staff and was not able to be considered by the elected Council due to time constraints.

Council acknowledges that the proposed changes to the rate peg methodology are an improvement. We generally agree with the implementation of the Base Cost Change (BCC) methodology outlined in the report.

Here are Council's responses to specific items on which IPART has sought comment:

1. Regarding measuring changes in employee costs, Council supports using annual wage increases prescribed by the Local Government State Award (Award) for the applicable rate peg year. One-off adjustments under the Award should also be considered, such as the lump sum payment of $1,000 or 0.5% of the employee's annual salary system rate of pay in the 2023 Award.

2. Council is not aware of any alternative sources of data on employee costs.

3. Council supports releasing indicative rate pegs for Councils in September. However, we are concerned that the final rate peg announcement, including adjustments for the Emergency Services Levy (ESL), in May occurs after many Councils have exhibited their draft Operation Plans and Budgets. Ideally, the final rate peg (including ESL adjustment) should be published in February to allow sufficient time for Councils to incorporate it into their draft budgets and documents, enabling public exhibition and consultation.

4. Council does not have further information on arrangements between Councils to share ESL contribution bills.

5. Council suggests that IPART obtain timely information on the actual ESL contribution amounts directly from Revenue NSW.

6. Council supports the establishment of adjustment factors for groups of Councils to increase the rate peg and cover specific external costs, such as cyber security and disaster waste management. Council is open to collaborating with stakeholders to develop a process for capturing these external costs.

7. Council is not affected by IPART's proposal to remove prison populations from the residential population. Council asserts that growth in rates from supplementary valuations should not be used to reduce the population factor in the current rate peg methodology as it incentivises councils to support consecutive governments' strategies to increase housing supply.

www.lanecove.nsw.gov.au
service@lanecove.nsw.gov.au

8. No comment on data sources for residential supplementary valuations.

9. Council supports the staged transition to the new rate peg methodology, with the BCC implementation delayed until the release of the 2025-26 rate peg. However, if the inflationary environment continues into 2023/24, the new methodology should be delayed for another year (e.g., until 2026/27) to avoid income loss during the prolonged inflationary period. The ESL adjustment factor should commence immediately from 2024/25, and ESL cost increases for both years (2023/24 and 2024/25) should be considered in the 2024/25 rate peg and SRV approvals.

Other Comments:

- Council supports IPART's proposal to review the rate peg methodology every 5 years, unless there are significant changes to the sector or the economy, to ensure its suitability.
- Council does not support retaining the productivity factor in the rate peg methodology, as it favors non-price-driven metrics while ignoring cost-increasing factors. Councils are accountable for the redeployment of any gains made.
- Council supports the formation of a local government reference group, but seeks further information on its role, objectives, membership terms, recruitment process, and potential remuneration.
- Council supports, in principle, commissioning an independent review of the financial model for NSW Councils, including broader issues beyond rate pegging. This support is contingent upon understanding the review's scope and close engagement with the local government sector, aiming for a better model that promotes and protects Council financial sustainability.

Finally, one issue not addressed in this review is the impact of the growing popularity in the provision of build-to-rent projects. The current rating legislation as it relates to ‘Build-to-Rent’ developments in NSW does not allow councils to maintain average rates per capita funding in order to service the new population. Build-to-rent housing is large-scale, purpose-built rental housing that is held in single ownership, rather than being sold individually via strata subdivision. As the land is not subdivided, the rating system continues to utilise the unimproved capital value (the land value). Residential multi-unit developments typically are strata titled and the strata plan is used by councils for rating purposes. Each individual unit within the strata plan is rated separately, resulting in the council receiving ‘minimum rates’ for each strata unit. As an example, an existing Build-to-Rent development in the Lane Cove LGA consisting of 327 apartments pays $47,000 in Council Rates. The equivalent 327 strata titled residential apartments would attract approximately $370,000 p.a. if minimum rates were levied. This presents an inequity for existing ratepayers, who will effectively be cross-subsidising these developments and will almost certainly present an unsustainable financial position for councils to service the greater population.