19 June 2023

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

Review of the rate peg methodology

Thank you for the opportunity to respond to the Review of the rate peg methodology.

In developing our response, we have consulted with our Finance Professionals Member Network as well as the broader membership and considered our previous submission (dated 4 November) around the topic.

We would welcome the opportunity to discuss any aspect of our submission with you in further detail and our members are available for future consultation on the matter.

Yours sincerely

[redacted]

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Our feedback on your draft decisions:

1. To replace the LGCI with a Base Cost Change model with 3 components: a. employee costs b. asset costs c. other operating costs.	Agree with this approach and monitoring the accuracy will be critical after introduction.
2. To develop separate Base Cost Change models for 3 council groups: a. metropolitan councils (Office of Local Government groups 1,2,3, 6 and 7) b. regional councils (Office of Local Government groups 4 and 5) c. rural councils (Office of Local Government groups 8 to 11).	Agree with this approach and it will also be interesting to see the differences between the three groups.
3. For each council group, calculate the Base Cost Change as follows:	
a. For employee costs, we would use the annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies, or 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). We would adjust for changes in the superannuation guarantee in both cases. We are currently consulting on the best approach to measure changes in employee costs (see Seek Comment 1).	Agree with the approach and would recommend consideration of salary/performance increase costs that is required within the Local Government (State) Award. There are also changes to allowances that need to considered when the 3-year award is approved.
b. For asset costs, we would use the Reserve Bank of Australia's forecast change in the Consumer 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 the average difference between changes in the Producer Price Index (Road and bridge construction, NSW) and changes in the Consumer Price Index (All groups, Sydney) over the most recent 5-year period for which data is available.	Agree with this approach Would consideration be given for high inflation periods for revaluation or increases in the quantity of costs if the impact exceeds CPI change by more than 20%?
c. For other operating costs, we would use the Reserve Bank of Australia's forecast change in the Consumer Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to	Agree with this approach

June and December for the year the rate peg applies).	
d. Weight the 3 components using the latest 3 years of data obtained from the Financial Data Returns of councils in that group, and update the weights annually.	Agree with this approach
4. To publish indicative rate pegs for councils around September each year (unless input data is not available) and final rate pegs around May each year.	We would recommend linking to the Integrated Planning and Reporting cycle. We recommend February for final rate pegs to ensure adequate time for public exhibition/council consideration of the IP&R documents (budget, revenue policy particularly that are impacted by the rate peg). Final release in May could pose issues with the timeframe to remediate any unfavorable operating results as a result of a late release of the rate peg and also the timely calculation and exhibition of ad-valorem/base rate.
5. To include a separate adjustment factor in our rate peg methodology that reflects the annual change in each council's Emergency Services Levy (ESL) contribution. This factor will reflect: • an individual council's contribution, for councils: ○ that are not part of a rural fire district, or ○ that are part of a rural fire district but do not engage in ESL contribution cost sharing arrangements, or ○ are the only council in their rural fire district, or ○ that are part of a rural fire district and engage in ESL contribution cost sharing where we have accurate information about what the council pays. ○ the weighted average change for each rural fire district, for councils that are part of a rural fire district and engage in ESL contribution cost sharing arrangements where we do not have accurate information about what they pay.	Agree with this approach as it is a material/uncontrollable cost for councils. Would recommend consideration of permitted the ESL to be collected as a charge, to improve transparency for the community. Recommend it would operate similar to the domestic waste charge, I.e. cost recovery. It would be beneficial to have IPART review cost shifting to support Council Operational plan. We recommend a mechanism to bridge the gap for FY23/24 instead of requiring a full SRV process. Based on all councils being different, an approach that enables the cost to be recovered via a charge is agreed. We recommend clear and transparent process that recognise the total cost to the council.
6. To set Emergency Services Levy (ESL) factors and a final rate peg for each council in May after ESL contributions for the year the rate peg is to apply are known, so that councils can recover changes in ESL contributions in the year contributions are to be paid.	GRC: Advocate for the ESL to be released earlier as it is a material unknown cost that is a critical factor in annual and long-term financial planning. May does not provide sufficient time to be included in public exhibited documents. Based on all councils being different, an approach that enables the cost to be recovered via a charge is approved. This improves transparency with the community.

	We recommend aligning with the IPR cycle.
7. To maintain our current approach and make additional adjustments to the rate peg on an as needs basis for external costs (For the Emergency Services Levy, we have made a separate decision - see Draft Decision 5).	AGREE
8. To change the 'change in population' component of the population factor to deduct prison populations from the residential population in a council area and then calculate the growth in the non-prisoner residential population of a council area for the relevant year. We would not make retrospective adjustments for previous population factors.	AGREE
9. To retain the productivity factor in the rate peg methodology and for it to remain as zero by default unless there is evidence to depart from that approach.	We believe this should be allowed to be negative in period that Council are impacted by significant whether impact or other natural disasters
10. To review our rate peg methodology every five years, unless there is a material change to the sector or the economy, to ensure its stays fit for purpose.	We would like to see an adopted measurement of success that the methodology is meeting the needs of councils. This could be 2 or 3 KPIs that if not met at an early check in period – say 2 – 3 years there is a review. We would also like to see a review within 3 years to revisit resilience/climate change factors.

Our response to your draft recommendations:

1. That a local government reference group is established to advise on the implementation of our new rate peg methodology. a. That the NSW Government consider commissioning an independent review of the financial model for councils in NSW including the broader issues raised in this report.	Agree and support this approach. We recommend the reference group includes LG Professionals, NSW Finance Professionals Network & The Local Government Rating Professionals

Our response to areas where you are seeking comment:

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.	Agree with the approach and would recommend consideration of salary/performance increase costs that is required within the Local Government (State) Award.
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.	Agree that consideration is given to Local Government (State) Award and Reserve Bank of Australia's forecast change in the Wage Price Index to ensure relativity in the sector.
2. Are there any alternative sources of data on employee costs we should further explore?	Consider the generous leave allowances in the award that impact costs and changes in the award provisions over time.
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?	Would recommend February for final rate pegs to ensure adequate time for public exhibition/council consideration of the IP&R documents (budget, revenue policy particularly that are impacted by the rate peg). Final release in May could pose issues with the timeframe to remediate any unfavorable operating results as a result of a late release of the rate peg and also the timely calculation and exhibition of ad-valorem/base rate. Advocate for the ESL to be released earlier as it is a material unknown cost that is a critical factor in annual and long-term financial planning. May does not provide sufficient time to be included in public exhibited documents. Based on all councils being different, an approach that enables the cost to be recovered via a charge is approved. This improves transparency with the community.
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?	No information to share

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.	No information to share on cost sharing
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 support exploring this eg election costs
7. Would you support measuring only residential supplementary valuations for the population factor?	GRC: It wouldn’t be recommended as the sole data source as supplementary valuations represent the change in the building and don’t take into account change in people per household and population growth. Further it is recommended not to only limit to residential. Business supplementary valuations. There are bumpy changes in these when Industrial converts to Residential and the cost factor will increase when there is increase in density. We feel there are more factors to consider and needs more review
8. If you supported using residential supplementary valuations, what data sources would you suggest using?	NSW Valuer General, zoning information. It is recommended Business supplementary valuations are also included. Further hospitals, schools' expansion requires infrastructure that should be considered.
9. What implementation option would you prefer for the changes to the rate peg methodology?	Agree with proposal to implement the draft methodology in a staged approach, with some changes taking place in the 2024-25 rate peg and the rest taking place in the 2025-26 rate peg. Agree with this proposal based on the significant volatility/cost changes in the last 12 months. Further it would assist if IPART provide support for ‘catch-up/gap’ SRVs that may be required whilst the transition to a new approach occurs. Commentary on what would be a reasonable ‘catch-up’ SRV would assist community understanding for the need. We would support the LGCI for one more year to capture the increase in inflation. Then transition to the new model which should ensure the catch up.

Our response to matters for further consideration:

1. The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and councils.	Agree this is a critical area for review.
2. The use of the Capital Improved Valuation method to levy local council rates could improve the efficiency and equity of rates.	Yes, supportive as we are increasing minimums to achieve this but it is not aligned with Revenue Policy around fairness and ability to pay. Example is Pensioner in a land-based dwelling compared to top floor apartment.
3. 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.	Communication of the current constraints of the rate peg in funding services would improve community understanding. Further, releasing comparisons with other States or LGA per person rate may improve accountability/transparency/relativity. We support further discussion and assessment of risk and benefit.
4. Some councils may not have an adequate rates base and a mechanism should be developed to enable councils found to have insufficient base rates income to achieve financial sustainability.	Support with further discussion
5. Statutory charges for services provided by councils may not be recovering the full cost of service provision, such as for development approval fees and stormwater management service charges.	Agree this is a critical area for review and the charges/fees/caps mentioned in the report are supported. Stormwater infrastructure costs and volume have increased with no adequate change in the mandatory charge for over 15 years. This then results in rates subsidising other services and confusion/cross over of what rates and charges fund. The likely frequency of major rain events reinforces the need for an increase.

6. Councils could be better supported to serve their communities more effectively to build community trust in councils. This could include improvements in how councils undertake and implement their integrated planning and reporting.	Agree and particular focus on financial sustainability. Also differentiating legislated services to those that are discretionary but driven by community demand. GB (COS): IPR has been in play for over a decade for all councils now. Councils provide opportunities for the broader community to respond to the budget, level of services and strategic objectives every year. When councils apply for an SRV, there is a specific requirement to demonstrate engagement and communication to the community regarding the SRV. It is noted the feedback from the community workshops that there is capacity to improve the general community's understanding about local government, its services and rates as well. The sector would be open to work with OLG to improve engagement and education with the broader community about the role of local government. We also advocate for capacity building for smaller councils to develop their IPR plans and documents.
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