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Your submission for this review:

We welcome the Draft Report which shows that IPART has listened to councils and the community and has made sensible recommendations to adjust the rate peg methodology. Importantly IPART has acknowledged all councils in NSW are not the same and proposes a methodology which groups councils into Metropolitan, Regional and Rural which we support. Our submission which responds to the specific matters the Draft Report seeks feedback on is attached.

# MidCoast Council Submission – IPART Review of Rate Peg Methodology – Draft Report

Date: 4<sup>th</sup> July 2023

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# 1 DRAFT DECISIONS

<b>Draft Decision</b>	<b>MidCoast Council Comment</b>
<p><b>1. To replace the LGCI with a Base Cost Change model with 3 components:</b></p> <ul style="list-style-type: none"><li><b>a) employee costs</b></li><li><b>b) asset costs</b></li><li><b>c) other operating costs</b></li></ul>	<p>Council supports this as it is in line with Council November 2022 submission to the Review of Rate Peg Methodology Issues Paper.</p>

**Draft Decision**

**MidCoast Council Comment**

**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)**

Council supports this as it is in line with Council November 2022 submission to the Review of Rate Peg Methodology Issues Paper.

### Draft Decision

### MidCoast Council Comment

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).

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

Support the use of the Local Government (State) Award

Supported – While there are other asset classes that will have relevant Producer Price Indexes (eg buildings) the proportion of expenditure on those asset classes is significantly less than on transport asset infrastructure (road and bridge construction). On that basis the draft decision is the preferable option.

**(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. Improving how we measure changes in councils' base costs Review of the rate peg methodology**

**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 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**

Supported

Supported

<b>Draft Decision</b>	<b>MidCoast Council Comment</b>
<p>4. <b>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.</b></p>	<p>Supported – The draft decision provides a degree of certainty for annual budget preparation. However, councils will need to consider how they publish their IP&amp;R documentation to account for a May issued final rate peg given that they will already have their IP&amp;R suite of documents on public exhibition</p>



<b>Draft Decision</b>	<b>MidCoast Council Comment</b>
<p><b>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. The factor will reflect</b></p> <p><b>a) An individual council’s contribution for councils</b></p> <ul style="list-style-type: none"> <li>– that are not part of a rural fire district, or</li> <li>– that are part of a rural fire district but do not engage in ESL contribution cost sharing arrangements, or</li> <li>– Are the only council in their rural fire district, or</li> <li>– 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.</li> </ul> <p><b>b) 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.</b></p>	<p>Supported – While MidCoast Council is part of a Rural Fire District it does not engage in an ESL contribution cost sharing arrangement. As such a separate rate peg (including ESL adjustment) could be set for Council.</p>

<b>Draft Decision</b>	<b>MidCoast Council Comment</b>
<p><b>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.</b></p>	<p>Supported - The draft decision provides a degree of certainty for annual budget preparation. However, councils will need to consider how they publish their IP&amp;R documentation to account for a May issued final rate peg that includes an ESL component given that they will already have their IP&amp;R suite of documents on public exhibition. This may require an adjustment to IP&amp;R documentation or clear communication within the documentation that a rate peg adjustment will occur once the ESL contributions are known.</p>

<b>Draft Decision</b>	<b>MidCoast Council Comment</b>
<p><b>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).</b></p>	<p>Supported</p>

<b>Draft Decision</b>	<b>MidCoast Council Comment</b>
<p><b>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.</b></p>	<p>Supported</p>

<b>Draft Decision</b>	<b>MidCoast Council Comment</b>
<p><b>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.</b></p>	<p>Not supported – Council’s November 2022 submission opposed the productivity factor. Council requires any productivity savings to be invested into infrastructure renewal which is already underfunded</p>

<b>Draft Decision</b>	<b>MidCoast Council Comment</b>
<p><b>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.</b></p>	<p>Supported</p>

## 2 IPART - DRAFT RECOMMENDATIONS

Draft Recommendation	MidCoast Council Comment
1. That a local government reference group is established to advise on the implementation of our new rate peg methodology	Supported

Draft Recommendation	MidCoast Council Comment
2. 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.	Council supports this as it is in line with Council November 2022 submission to the Review of Rate Peg Methodology Issues Paper where issues of Council financial sustainability were raised in the context of the impact of the rate peg

### 3 COMMENTS SOUGHT BY IPART

Seeking Comment	MidCoast Council Comment
<p>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?</p> <p>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.</p> <p>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</p>	<p>Support Option a) as it is more reflective of Councils change in employee costs</p>

<b>Seeking Comment</b>	<b>MidCoast Council Comment</b>
<b>2. Are there any alternative sources of data on employee costs we should further explore?</b>	No

<b>Seeking Comment</b>	<b>MidCoast Council Comment</b>
<b>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?</b>	Yes

<b>Seeking Comment</b>	<b>MidCoast Council Comment</b>
<p data-bbox="174 320 719 453"><b>4. Do you have further information on arrangements between councils to share Emergency Services Levy (ESL) contribution bills including:</b></p> <p data-bbox="174 523 719 655"><b>a) what these arrangements cover (including whether they cover matters other than ESL contributions), and</b></p> <p data-bbox="174 692 719 858"><b>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?</b></p>	<p data-bbox="768 320 2063 427">MidCoast Council is part of a Rural Fire District (with Port Macquarie-Hastings Council) but we have not entered into an arrangement to share the costs of the Rural Fire Service component of the Emergency Service Levy.</p> <p data-bbox="768 464 2063 533">As such it is unable to provide information that would the IPART with its deliberations on the matters outlined in questions 4 and 5.</p>



<b>Seeking Comment</b>	<b>MidCoast Council Comment</b>
<p data-bbox="174 344 701 523"><b>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:</b></p> <ul data-bbox="174 584 672 691" style="list-style-type: none"><li data-bbox="174 584 472 616"><b>a) Rural Fire Service</b></li><li data-bbox="174 619 524 651"><b>b) Fire and Rescue NSW</b></li><li data-bbox="174 654 667 691"><b>c) NSW State Emergency Service?</b></li></ul> <p data-bbox="125 748 741 855"><b>For example, by providing us with a copy of any cost sharing agreement that sets out the proportion that each council pays.</b></p>	<p data-bbox="768 389 1043 421">See above response.</p>

<b>Seeking Comment</b>	<b>MidCoast Council Comment</b>
<b>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?</b>	Yes

<b>Seeking Comment</b>	<b>MidCoast Council Comment</b>
<b>7. Would you support measuring only residential supplementary valuations for the population factor?</b>	MidCoast Council would prefer to see further modelling on what this would look like but the option is worth considering. The points made in respect of obtaining independent public information to support this is understood. The definition of residential also needs consideration ie is it the Council categorisation of the land that determines whether it is 'residential'.

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Seeking Comment	MidCoast Council Comment
<p><b>8. If you supported using residential supplementary valuations, what data sources would you suggest using?</b></p>	<p>See above comment</p>

Seeking Comment	MidCoast Council Comment
<p><b>9. What implementation option would you prefer for the changes to the rate peg methodology?</b></p>	<p>We understand IPARTs reasons for recommending that the LGCI remain for 2024/25 given the current economic conditions and inflationary impacts which complicate transitions arrangements to a new methodology. We acknowledge moving the new BCC could disadvantage councils in 2024/25 based on the IPART modelling.</p> <p>Given this we would also support 8.4 Alternative Option Dot point 3 page107 as quoted below.</p> <p>“Implement all changes in the 2024-25 rate peg and include a true-up. We would:</p> <ul style="list-style-type: none"> <li>— replace the LGCI with the 3-component BCC model and use 3 council groups</li> <li>— amend the population factor to remove prison populations.</li> <li>— develop a separate ESL factor, and</li> <li>— include a one-off true-up adjustment for the differences between the LGCI and the BCC (excluding the ESL) so that councils would be no worse off under the new methodology compared to what they would have received under the existing methodology for</li> </ul> <p>2024-25.”</p>

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## 4 DRAFT FINDING

Draft Finding	MidCoast Council Comment
<p>1. <b>Some councils that are part of rural fire districts have entered arrangements with other councils to share the costs of the Rural Fire Service component of the Emergency Services Levy (ESL). They may therefore pay an amount that is different to the ESL contribution set out in their assessment notice.</b></p>	<p>MidCoast Council is part of a rural fire district (with Port Macquarie-Hastings Council) but we have not entered into an arrangement to share the costs of the Rural Fire Service component of the Emergency Service Levy.</p>

## 5 MATTERS FOR FURTHER CONSIDERATION

<b>Matter</b>	<b>MidCoast Council Comment</b>
<b>1. The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and councils.</b>	Investigation of this is supported.

<b>Matter</b>	<b>MidCoast Council Comment</b>
<b>2. The use of the Capital Improved Valuation method to levy local council rates could improve the efficiency and equity of rates.</b>	Council has previously made submissions on this matter and investigation is supported.

<b>Matter</b>	<b>MidCoast Council Comment</b>
<b>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.</b>	Community confidence is important, and an investigation is supported.

<b>Matter</b>	<b>MidCoast Council Comment</b>
<b>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.</b>	Council supports this as it is in line with Council November 2022 submission to the Review of Rate Peg Methodology Issues Paper.

<b>Matter</b>	<b>MidCoast Council Comment</b>
<b>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.</b>	Investigation of this is supported.

<b>Matter</b>	<b>MidCoast Council Comment</b>
<b>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.</b>	Investigation of this is supported.

<b>Matter</b>	<b>MidCoast Council Comment</b>
<p><b>7. There are opportunities to strengthen council incentives to improve their performance, including considering whether there is merit in a model that would exempt councils that demonstrate an agreed level of performance and consultation with ratepayers from the rate peg.</b></p>	<p>Investigation of this is supported.</p>