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

Dear Tribunal members

Submission - Review of the rate peg methodology draft report

Thank you for the opportunity to make this submission on behalf of the NSW Revenue Professionals Inc. (NSWRP).

The NSWRP is the peak body of NSW Local Government revenue employees and was formed in order to:

- unite in a common organisation, those Local Government employees who are engaged in rating and revenue functions
- improve and elevate the technical and general knowledge of Local Government employees who are engaged in rating and revenue functions
- distribute amongst its members, and the regional NSWRP groups, information on all matters affecting or pertaining to the profession of rating and revenue management within Local Government by way of meetings, newsletters, conferences, or any other method available to the Committee
- promote a professional image of Rating and Revenue practitioners in Local Government New South Wales
- promote quality services to Local Government in New South Wales through the dissemination of best practice
- encourage members to keep up to date with finance related activities and legislative changes through continuing professional development
- identify the skills and knowledge needed by employees and facilitate training and education
- make the expertise of members available to professional bodies and government departments as required.

Overall we are pleased with the draft report, it has been well considered and framed with exceptional research and worked examples for both the professional and novice. The engagement with both industry professionals and affected ratepayers is well balanced in the report with key outcomes from the process clearly identified and considered. On balance we believe the IPART has met the terms of reference although the ESL factor calculation may not be considered by all to be easy to understand.

We note that IPART has recognised the issue of councils that are on a low rate base will continue to struggle even under the new model, we remain concerned about how this matter can be resolved and what levers IPART or the NSW Government can pull to assist councils facing sustainability issues and how adjustments in the peg may benefit these isolated cases.

The Base Cost Change (BCC) is simplified and forward facing which aligns with our previous submission, as the peg applies to future facing land rates it makes sense that the peg looks ahead rather than the past for direction. Importantly the proposed methodology will eliminate the two year lag experienced with parts of the current methodology. Reducing the number of cost measures from 26 to 4 (if including the additional ESL measure) is easier to understand and will be simpler to administer. We support the draft decision to use councils' Financial Data Returns (FDR) to weight the three components of the BCC and update these weights each year for the same reason.

Further, the proposed three 'groups of council's' will certainly help to align movements in costs for each council with their costs. There will no doubt be differences and the occasional outlier, this draft decision helps to address the diversity between councils.

In our submission to the IPART's Issues Paper we acknowledged the Integrated Report and Planning (IP&R) framework and looked towards the suit of documents as the basis that the government's rate pegging policy should be aligned. It is important to note that rate pegging as we know it today has been in place since 1988 following changes since initially commencing in 1977. The most significant change since 1988 has been the delegation for the peg to beset by IPART in 2011-12.

The IP&R framework is a powerful tool for the community to be have greater access to decision making and visibility of the outcomes they identify their main priorities and aspirations for the future and for councils to plan strategies for achieving these goals. We would like to see stronger ties to the objectives of the IP&R framework so that sufficient resources, time, money, assets and people are available to actually meet on balance ratepayer expectations.

Emergency Services Levy (ESL)

The inclusion of a separate component to the rate peg is considered to be important as this cost shifting continues to be hidden from ratepayers whilst having significant impacts on the way in which ratepayer funds are being spent. We note that the IPART has acknowledged that the contributions mandated on local councils vary significantly these costs cannot simply be added as an amount to the rate peg due to legislative constraints. It is worth noting this point and reiterating that the Local Government Act allows for the variation of the amount collected in land rates from one year to another is limited to a percentage change.

The calculation proposed by IPART in their draft report is complex but it needs to be to accommodate the suggested change. We have navigated through the calculation and agree with the proposed calculation, however we would like to raise the timing of the final peg in May and how this will impact the exhibition of the councils Statement of Revenue Policy.

Our concern relates to the timing of the final peg and what represents a significant change to the estimated rates yield exhibited by councils as part of its Operational Plan. If the final peg released in May increases significantly above the indicative peg released in September the estimated yield and advertised rates may need to be amended.

Additionally we plan to seek better particulars as part of our future engagement with IPART and the Office of Local Government (OLG) to gain an understanding on how the recovery of the ESL contributions will be treated in a Special Variation. We are aware that this may be considered out of scope for the General Variation process, however we think it prudent to raise in order for councils to access the full cost recovery of the ESL in accordance with the 'cost pass through' as proposed by the IPART.

We ask for further consideration to be given to our previous requests for an adjustment to the population factor formula to ensure equity in the formula when applied across all councils. Currently councils that experience negative rates growth from supplementary valuations but that do not have a similar decline in population, are prevented from maintaining their per capita general income, while all other councils are able to maintain their per capita general income. This currently impacts more than 10% of councils across NSW and can be easily fixed.

In addition we support a number of matters identified in the IPART's recommendations for improving the broader regulatory framework. Particular focus should be targeted to improving the following items and considered in any further reforms or reviews.

- Removal of certain rate exemptions or at minimum exemptions be better targeted to improve outcomes for ratepayers and councils. We have particular concerns around community housing exemptions and aged care facilities, in essence we would support no exemptions for property used as residential accommodation or for a commercial purpose.
- The use of the Capital Improved Valuations as the basis for calculating land rates. This outcome would improve the efficiency and equity, and would also enable the phasing out of the population factor.
- A mechanism to enable councils found to have insufficient base rates income to achieve financial sustainability. This should include a mechanism to mitigate the political interference in the setting of land rates, in particular where this can lead to excessive rate raises on future generations.
- Enabling the recovery of the full cost of service provision. By way of example stormwater management service charges have remained unchanged since they were introduced in 2005.
- Improvements in how councils undertake and implement their integrated planning and reporting, particularly with a view to encouraging community participation and understanding.
- Improvements to information flow from other levels of government with a view to improving communication with ratepayers about their rates and charges.
- Review of charges to local government by local courts that are costly for ratepayers.

In this submission we have responded to each of the nine items for feedback, the responses are provided on the following pages.

Submission

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.
 - 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.

Overall, we agree with the implementation of the Base Cost Change (BCC) methodology as outlined in the report.

Measuring changes in employee costs should be based on the Local Government (State) Award (LGSA) as outlined in option (a) above. This measure aligns directly with the cost impacts faced by councils and as councils primary function is to provide services to their community's wages represent a significant individual cost. We support the IPART's preferred option to use of the Wage Price Index (WPI) in the absence of the LGSA¹.

The Resourcing Strategy for each council provides public visibility of the council spend, the document must include three components;

- Long term financial plan (10years)
- Workforce management plan, and
- Asset management plan.

The Resourcing Strategy is the point where the council explains to its community how it intends to perform all of its functions, including implementing the strategies set out in the Community Strategic Plan.²

2. Are there any alternative sources of data on employee costs we should further explore?

Not that we are aware of.

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?

Yes. The calculation proposed by IPART in their draft report is complex but it needs to be to accommodate the suggested change. We have navigated through the calculation and agree with the proposed calculation, however we would like to raise the timing of the final peg in May and how this will impact the exhibition of the councils Statement of Revenue Policy.

¹ IPART Review of the rate peg methodology June 2023 page 26

² Office of Local Government Integrated Reporting and Planning guidelines September 2021 page 16

Our concern relates to the timing of the final peg and what represents a significant change to the estimated rates yield exhibited by councils as part of its Operational Plan. If the final peg released in May increases significantly above the indicative peg released in September the estimated yield and advertised rates may need to be amended.

We would like to discuss this matter with the IPART and the OLG to resolve any potential complications that the timing may cause.

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?

We are unaware of any specific arrangements between councils regarding sharing the costs of Emergency Services. However, in the event of these arrangements it is expected that detailed agreements would be in place if not separate to a resolution of each council cohort.

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.

We are unaware of any specific arrangements between councils regarding sharing the costs of Emergency Services. The specific contribution amount (if applicable) for each component (listed above) is provided on the invoice issued by Revenue NSW. We would expect that IPART would be able to access this information directly from Revenue NSW.

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?

Yes. The scope of this work will need to be at a council level as each council will be at different stages in addressing external costs. There will be councils more adversely affected than others by natural disasters such as drought, bushfires and flooding.

We suggest the peg include a component for councils to address resilience and climate change and cyber security. These are known needs across every council. However we appreciate that the type of work to be costed may differ between councils. A resilience factor should incorporate pro-active work and maintenance, as well as immediate costs to deal with catastrophic events such as cyber security breaches, bushfires and flooding. Our communities expect their local government to be undertaking this work, however councils are not adequately resourced or financed to achieve what is required of them.

The proposal to review the special variations process³ to better support the capturing of external costs in the rate peg is fully supported. The review should consider options that, include streamlining the process, reduces administrative burden on councils and enabling councils to make joint applications.

We would welcome the opportunity to work with the IPART in conjunction with key industry stakeholders specifically LGNSW and the OLG.

7. Would you support measuring only residential supplementary valuations for the population factor?

We do not support the IPART proposal to adjust the current rate peg by discounting prison populations.

Prisons are owned by the NSW Government and are statutory bodies representing the crown, accordingly exempt from paying land rates. Exemptions contribute towards inefficiencies and reduce council's ability to forecast their position in regards to land rates. As an example, if the NSW Government purchased land for a prison to be extended that land would be exempt from land rates and any rate revenue expected in the year of the exemption lost. This could be in tens of thousands of dollars or as much as a hundred thousand dollars. In future years the initial amount lost is recovered from the remaining ratepayer base.

We submit that the population factor formula should be amended in two ways to ensure equity across all NSW councils by enabling all councils to maintain their per capita general income. This can be achieved by:

- Not applying a population factor to councils with negative population growth; and
- Allowing for supplementary valuation figures to be negative.

Practically this means removing the "max(0" from the *supplementary valuations percentage* formula, and adding an *if statement* to the start of the Population factor formula, so the two new formula would then be:

Population factor = *if(change in population < 0, 0, max(0, change in population – supplementary valuations percentage))*

and

supplementary valuations percentage = supplementary valuations / notional general income yield

IPART can make these changes without risk of deviating from the purpose of the population factor to maintain per capita income, as these changes will not give councils more revenue for declining populations, but will enable all other councils to maintain their per capita income.

We do not support the proposal to measure only residential supplementary valuations for a number of reasons outlined below.

³ IPART Review of the rate peg methodology June 2023 page 72

- The calculation process will not align with the terms of reference – to ‘ensure the rate peg is simple to understand and administer’⁴
- Other categories used in the rating process have impacts on population growth – e.g., commercial/industrial land.
- It is not technically possible to separate residential supplementary valuations because many supplementary valuations contain parcels of land across multiple rating categories.

We maintain our position in regards to population growth aligning with the original IPART recommendation in the Review of the Local Government Rating System⁵ for a transition to Capital Improved Values (CIV). The originally proposed mechanism allows council revenue to grow as the communities they serve grow through the uplift in land value from vacant to built land.

8. If you supported using residential supplementary valuations, what data sources would you suggest using?

We do not support.

9. What implementation option would you prefer for the changes to the rate peg methodology?

Our preference is that the recommended changes commence in full for the 2024-25 financial year and include a true-up. Accordingly IPART would:

- replace the LGCI with the 3-component BCC model and use 3 council groups,
- retain the population factor (altered to allow negative supplementary valuations) and not remove prison populations,
- implement the proposed additional and separate ESL factor, and
- include a one-off true-up adjustment for the differences between the LGCI and the BCC so that councils would be no worse off under the new methodology for 2024-25.

We support the need for regular reviews and would recommend IPART consider their first review after three years then move to five year cycles. The review should be transparent and include key stakeholder consultation. We also support the IPART’s recognition of any ‘material changes in the sector or the economy’ that would ‘prompt a review earlier than 5 years’⁶.

Thank you for the opportunity to comment on the draft report, if you have any questions in regards to our submission please do not hesitate to be in touch.

Yours faithfully


Andrew Butcher
President NSW Revenue Professionals

⁴ Minister for Local Government the Honourable Wendy Tuckerman correspondence 18 August 2022 page 2

⁵ Review of the Local Government Rating System IPART – December 2016 page 50

⁶ IPART Review of the rate peg methodology June 2023 page 108