

10.2. IPART Review of the Rate Peg Methodology

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ATTACHMENTS	1. Draft Submission July 2023 [10.2.1 - 8 pages]
CSP LINK	5. Our Civic Leadership 5.1 Lead North Sydney's strategic direction

PURPOSE:

The purpose of this report is to inform Council of the Independent Pricing and Regulatory Tribunal's (IPART) review of the Rate Peg Methodology released for stakeholder consultation, and the implications of the draft decisions on Council's future revenue. The report also seeks Council's endorsement for a submission to IPART.

EXECUTIVE SUMMARY:

- NSW councils are concerned about their ability to remain financially sustainable while simultaneously meeting the growing demand for new and improved services and infrastructure. The long-standing 'rate peg' constrains councils' ability to fully recover the costs of providing current services, and this negatively impacts their financial sustainability.
- Council staff have reviewed IPART's Draft Report on the review of the Rate Peg Methodology. The 185-page report, including detailed technical data and calculation methodologies, was issued on 6 June 2023 with submissions closing 4 July 2023. IPART's draft decisions aim to fulfill dual purposes: to address some of the concerns raised by councils regarding the limitations of rate pegging, and to ensure ratepayers are not required to pay more than they need to for services, acknowledging the current cost of living pressures.
- Council's long-held advocacy position is that the rate peg itself is an impediment to a council's long term financial sustainability. The rate peg also constrains North Sydney Council's capacity to act on community demands for additional services and infrastructure. This position was most recently put forward in Council's submission to IPART's Issues Paper (November 2022).
- While reiterating general non-support of the rate peg, Council supports the changes proposed to simplify the rate peg methodology. The changes will address lag issues in the current methodology and provide a more up-to-date rate peg that is reflective of the economic environment and costs of inputs that Council is facing. The inclusion of a specific factor for the Emergency Services Levy is supported as a measure to make cost-shifting visible to ratepayers.

- IPART also proposes to review the rate peg methodology every five years via a transparent and consultative review process, to ensure the methodology is up to date and fit for purpose, and to establish a Local Government Reference Group. Both intentions are supported.

RECOMMENDATION:

- 1. THAT** Council note the IPART Review of the Rate Peg Methodology report.
- 2. THAT** Council endorse the submission to IPART on the Rate Peg Methodology.

Background

IPART has been setting the rate peg for NSW councils since 2011-22 under delegation from the NSW Minister for Local Government when the NSW Government transferred the responsibility of setting the annual rate peg from the Office of Local Government. The rate peg was introduced to protect ratepayers from excessive increases in council rates by limiting the total amount by which councils can increase revenue from rates each year. Local Government NSW (LGNSW) has described the rate peg as an “instrument hangover from the 1970s, when government was dealing with wild inflation and a global oil crisis”. The local government sector has championed for many years that the rate peg constrains financial sustainability and that it is accountable to communities for rating decisions by NSW’s Integrated Planning & Reporting framework (IP&R) and democratic processes.

The rate peg is the maximum percentage amount by which a council may increase its general income for the year. For many councils, general income consists entirely of rates income. The rate peg does not apply to stormwater, waste collection, water, or wastewater charges.

On 30 August 2022, IPART announced that it had been asked by the NSW Government to recommend a rate peg methodology that allows councils to vary their general income annually to reflect (as far as possible) changes in the costs of providing local government goods and services due to inflation, other external factors, and population growth.

IPART released an Issues Paper on 29 September 2022 as part of the first stage of the review. On 14 November 2022, Council resolved to make a submission responding to the Issues Paper. Workshops on the rate peg methodology were held in November/December 2022.

Given the scope of issues raised by stakeholders during the preliminary engagement, IPART held four additional workshops in March/April 2023 to discuss and seek feedback on options for the rate peg methodology.

Report

IPART released its Draft Report, the next stage in the review, outlining the key draft decisions on the rate peg methodology and other matters for further consideration on 6 June 2023. Submissions closed on 4 July 2023. A public hearing will be held on 18 July 2023 and will be attended by Council staff.

In response to the Issues Paper (2022), IPART heard (in summary) that:

- councils are concerned about how accurately the current methodology measures the change in their base costs.
- some councils are experiencing financial sustainability problems, which they suggest are related to the current financial model for councils. This is requiring strong financial management and council action to either increase rates or cut services, at a time when many people are less able to afford higher rates or to do without essential council services.
- some councils have stronger financial sustainability than others. A range of reasons have been suggested for why this is the case including that capability, workforce shortages,

resources, and alternative sources of revenue available to councils are not the same across NSW. Populations, economies, distances, and geography are varied and diverse. A 'one size fits all' financial model does not make sense.

- ratepayers are concerned about cost-of-living pressures and affordability of rates, while also depending on valued council services. This raises the question of whether the funding and financial model for councils is as good as it needs to be, at a time when NSW has faced drought, bushfires, floods, COVID, supply chain disruption, labour shortages, higher inflation, and rising interest rates.
- communities want councils to demonstrate good financial management and provide services that are efficient and value for money, so they can be confident the rates they pay are well used.
- ratepayers want to be better consulted about council priorities, so that councils deliver quality services that are needed by their local community. Ratepayers would like more consultation about the way rates are set - so rates are fair, reasonable, and affordable.

In response to the feedback received, IPART has made draft decisions on changes to the rate peg methodology proposing, in its view, a simpler method that would result in rate pegs that more accurately reflect changes in the costs NSW councils incur in providing services.

IPART is seeking feedback on nine questions/focus areas. The following summarises IPART's proposed changes to the rate peg methodology and Council's response:

1. *introduce a Base Cost Charge (BCC) model to replace the current Local Government Cost Index (LGCI) to be made up of only 3 components - a) employee cost, b) asset costs and c) other operating costs, excluding the Emergency Services Levy (ESL).*

- employee costs - to measure the change in employee costs, IPART's preferred option (Option A) is to use the annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies, adjusted to reflect changes in the superannuation guarantee rate. IPART notes that when the Award increase is not available i.e., if it has not been determined at the time of setting the draft rate peg per annum), the Reserve Bank of Australia's (RBA's) forecast change in Wage Price Index (WPI) would be used, adjusted to reflect changes in the Superannuation Guarantee Rate (Option B).

The use of the Local Government (State) Award, adjusted to reflect the Superannuation Guarantee Rate, as a cost index for employee costs, is supported. It is forward-looking and is more reflective of Council's cost inputs. The existing methodology uses a more generic and backward-looking (by up to 2 years) Australian Bureau of Statistics (ABS) NSW public sector WPI.

The Award is set every three years, and to avoid not being able to reflect the increase in the first year of each Award due to the timing of the rate peg decision, IPART suggests the WPI be used in that year. Council suggests that, with appropriate coordination, the timing of the new Award's finalisation could be brought forward to avoid the use of WPI, in Award negotiation years. However, Council reiterates its prior feedback that the Award does not reflect salary step

increases, productivity increases, nor the current reduced talent pool, which are additional costs to each council.

Use of WPI (Option B) to gauge labour cost increases in the local government context seems unnecessarily complex and bound to produce anomalies; and the rate peg should not be set at a rate lower than the known forward-looking Award increases.

Whilst there are a range of analyst and commercially provided estimates and forecasts available, Council is not aware that they any are more accurate or credible than official RBA or Treasury forecasts, in the absence of the Award.

- asset costs - to measure the change in asset costs, IPART will use the average use RBA CPI forecasts, adjusted by the difference between the year-on-year change in the Producer Price Index (PPI) for road and bridge construction and the year-on-year change in CPI for all groups in Sydney over the most recent five- year period, to derive a forecast change in PPI (road and bridge construction).

Council supports this methodology as it is forward-looking and therefore eliminates the lag.

It is noted that IPART is unsure to what extent the large differences in depreciation between councils are due to the differences in councils' asset management, accounting, and reporting practices.

- all other operating costs - IPART will use the RBA's forecast change in the CPI from the most recent statement (averaging the changes over the year June to December for the year the rate peg applies).
- the three BCC components will be weighted using the last three years of data obtained from the Financial Data Returns of councils in that group, and therefore update the weights annually.

Forward-looking factors based on RBA's Consumer Price Index (CPI) forecasts is supported as it will ensure the rate peg more accurately reflects current economic conditions. The existing methodology uses backward looking data that can be 2 years old.

Using Financial Data Returns to determine the weighting of the BCC makes each council dependent on the unaudited data of other councils within their group. Whilst the data input to the Financial Data Returns is sourced from audited Financial Statements, they are not audited documents and are prepared by individual councils which leaves room for difference in accuracy. The weightings also would not account for the differing suite of services each council offers nor differing priorities/service levels.

Different modes of business organisation would cause the same service to appear in different components of the BCC. For example, North Sydney Council has a large number of outdoor staff whereas its neighbour Mosman Council contracts for most of these services. Maintenance of sporting fields, parks, and gardens in North Sydney would sit within the employee costs category, whereas for Mosman Council it would sit within the other cost or infrastructure components.

2. *develop separate BCC models 3 groups of councils: a) metropolitan, b) regional and c) rural.*

Council is part of OLG group 3. North Sydney Council will be part of the 'metropolitan councils' group, which includes the OLG Groups 1, 2, 3, 6, and 7 (this includes metropolitan 'developed' councils i.e., part of an urban centre and 'fringe' councils - a relatively small number of developing LGAs on the margin of a developed or regional urban centre) with populations between less than 30,000 and over 120,001. IPART considered splitting the metropolitan and rural groups into subgroups; however, it considered that three groups to be the best option as their analysis showed little difference in the share of expenditure on the three cost components between metropolitan and outer-metropolitan councils. Not using subgroups is said to reduce the volatility in the BCC.

IPART agrees with stakeholders that the rate peg should better account for the diversity of councils, and is open to exploring alternative groupings based on other statistical techniques. Council has previously suggested the groupings used by the Remuneration Tribunal may be relevant. The avenue for pursuing this recommendation will be via the proposed five-year review of the rate peg methodology.

Therefore, using the existing OLG groups is supported in the interim, as it enables points of comparison between councils where the grouping is standardised. It is also easy for community/ratepayer reference, allowing a connection to the NSW Government's Your Say comparison website, <https://www.yourcouncil.nsw.gov.au> website.

3. *publish the indicative rate peg for councils around September each year (unless input data is not available) and final rate pegs around May each year.*

Council reiterates its prior feedback that changing the release timing of the rate peg for the next financial year has both positive and negative impacts. The introduction of an indicative rate peg announcement in September (less the ESL factor) is welcome, to allow more time to inform the preparation of the next year's budget. However, the timing of the final rate peg announcement (including updated ESL contributions) in May will often be after many councils have exhibited their draft Operational Plans & Budgets, inclusive of the annual Revenue Policy, given that they must be adopted by 30 June each year.

There will be resourcing pressures on councils to amend budget systems and apply these changes through various documents, reports, and work papers. Some councils, especially smaller councils, might be placed under pressure, should there be substantial changes between the indicative and final rate pegs.

Changes to draft budgets and rates models late in the IP&R process might be at odds with the community desire for consultation on rate setting and application of rates to services noted in the Draft Report.

Further concerns are raised regarding the impact of the proposed timing on Special Variation applications. Whilst this is briefly noted on page 44 of the Draft Report, Council seeks assurance that IPART has considered this proposed timing in context of the Special Variation deadlines and consultation requirements.

4. *include a separate adjustment factor that reflects the annual change in each Council's ESL contribution to reflect a) an individual council's contribution not part of a rural fire district, part of a rural fire district but not engaged in ESL contribution cost sharing arrangements, the only council in their rural fire district or part of rural fire district and engage in ESL contribution cost sharing and IPART has accurate information about what each council pays; and b) the weighted average change for each rural fire district, for councils that are part of rural fire district and engage in ESL contribution cost sharing (where IPART does not have accurate information about what they pay).*

North Sydney Council is not part of a shared arrangement regarding ESL contributions, therefore has no comments/feedback on that matter.

5. *councils to provide IPART with timely information on the actual ESL contribution amounts they pay including contribution amounts paid to a) Rural Fire Service, b) Fire and Rescue NSW, and c) NSW State Emergency Service.*

Council believes that providing this information is within the capacities of councils' resources.

6. *set 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.*

Council supports this measure as it improves the precision of recovery of this cost and makes this form of cost-shifting more visible to the ratepayer. It notes, however, that this will put pressures on resources late in the budget process. Furthermore, it will complicate the community consultation process around rate-setting as late changes are made to rates structures and budgets.

7. *maintain the current approach and make additional adjustments to the rate peg on an as needs basis for external costs (for the ESL, IPART have made a separate decision - see Draft Decision 5).*

Council is supportive of establishing a process for developing additional adjustment factors. In addition to the identified external costs of cyber security, climate change costs, and community facilities not covered by developer contributions, recognition of the differences in costs, incurred by metropolitan councils compared to regional and rural councils and/or within Greater Sydney which arise from differing priorities and services provided, should be recognised.

Council acknowledges that this would not be a simple task and may take considerable time. Council welcomes the opportunity to work further with stakeholders to develop a separate process to capture external costs.

8. *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. Retrospective adjustments for previous population factors would not be made.*

Council reiterates its prior feedback that the current population factor does not take North Sydney's unique circumstances into account. North Sydney Council services a large daily transitory worker and student (non-resident service) population with its CBD, multiple public and private primary and high schools, and a university campus. Therefore, Council's services and infrastructure obligations expand due to 'population factors' not captured in its local ABS residential population data.

Similarly, population density is another issue that Council previously advocated needs to be investigated. Population increases are financially rewarded, however of equal concern is maintaining and enhancing services and facilities in high-density LGAs. While the North Sydney LGA may have a lesser population growth than other areas, it has a very high population density of 6,600 persons per square kilometre in 2022, compared to 428.1 persons per square kilometre in Greater Sydney, and 990.7 persons per square kilometre in the NSROC region.

It is noted that IPART is proposing only to change the population factor regarding the removal of prison populations from the residential population in a council area. North Sydney Council is not affected by this circumstance. It is, however, noted that councils provide services to prisons within their areas, most notably transport infrastructure such as roads, and this change is viewed as cost-shifting.

As noted in the NSW Revenue Professionals' prior submission to the Issues Paper (November 2022):

Growth from supplementary valuation changes is deducted from the population factor, but cannot be a negative value. The attempt by IPART to prevent councils from 'double-dipping' by subtracting supplementary rates growth from the population increase is flawed because it doesn't account for negative supplementary growth. This means that councils with negative supplementary growth are not afforded their full population increase. This can occur when a business property is converted to a residential development, leading to a higher

number of residents and lower rates. This impacted a Sydney council rate peg for 2022-23. The council's annual rate income was reduced by 0.3% through supplementary changes during 2020-21. Every other council was able to grow by its full population increase, however this council did not achieve an increase equivalent to its population growth because the formula did not allow its loss during 2020-21 to be regained.

Council supports the NSW Revenue Professionals' view in their submission to the Draft Report:

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.

North Sydney Council is prone to this and would support any adjustments necessary to correct it. Council reiterates its concern that it has a large non-resident service population, and that the population factor does not address this. Council's infrastructure is utilised by many non-rateable institutions including schools and a university campus.

There is a flow-on impact in an increase in minimum rates as the new residential properties are medium to high density, and therefore there is an increase in the utilisation of residential amenities such as parks and open spaces.

- 9. 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.*

Whilst IPART is not seeking feedback on this decision, it is Council's position that the productivity factor penalises councils for innovation and efficiency. Councils are accountable to their communities through IP&R for the redeployment of any gains made.

- 10. review the rate peg methodology every 5 years, unless there is a material change to the sector or the economy, to ensure it stays fit for purpose.*

Council supports IPART's draft decision to review the rate peg methodology every five years, unless there is a material change to the sector or the economy, to ensure it stays fit for purpose.

We note that whilst the proposed 3-group BCC methodology is considered suitable by IPART, it is open to exploring alternative groupings based on other characteristics and is currently investigating the issue of council groupings using statistical techniques. IPART is requested to advise if the new local government reference group will be involved in such exploration - all alternatives considered during the five-year reviews should involve exploration with the reference group.

Council supports the formation of the local government reference group and making the minutes of meetings publicly available to support transparency. Council does however request more information be provided to stakeholders on the role and objectives of the reference group to be foreshadowed in the Terms of Reference, and its make-up; whether it will include a mix of local government professionals, and elected members as well as community members/ratepayers, the membership terms, proposed recruitment process, and whether the group will be remunerated.

IPART is also seeking preferences for the implementation timing of the changes to the rate peg methodology. The next Local Government elections are to be held in September 2024.

Council supports the delayed implementation of the BCC until the release of the 2025-26 rate peg, to allow for the changes to come into effect with the commencement of councils' new Long Term Financial Plans (LTFP) which need to be adopted by 30 June 2025. This would reduce the need for any potentially significant adjustments to a council's LTFP during the current term.

The alternate option of introduction from 2024-25 is not supported on the basis that it is better to delay allowing full implementation from 2025-26 rather than commence the new methodology with temporary 'work arounds' as suggested under section 8.4 of the Draft Report.

Implementation of the new rate peg methodology is proposed to be staged, with it being this Council's preference that some changes take place for IPART's 2024-25 rate peg determination (Year 3 of the current Delivery Program/LTFP) and the rest for the 2025-26 rate peg (the first full financial year of the next council term). Introducing the major changes from 2025-26 aligns with the preparation of NSW councils' next iteration of IP&R plans, including the LTFP. The Council of the incoming term will need to adopt this plan by 30 June 2025.

IPART also proposes to review the rate peg methodology every five years via a transparent and consultative review process, to ensure the methodology is up to date and fit for purpose, and to establish a Local Government Reference Group. Both recommendations are supported.

Consultation requirements

Community engagement is not required. Community stakeholders including ratepayers can also make submissions directly to IPART by 4 July 2023.

Council's draft submission was circulated via the Councillor Bulletin issued 29 June 2023. As submissions close prior to the next scheduled Council meeting, a preliminary submission was lodged by the closing date (as has occurred with previous submissions). It is recommended that Council formally adopt the final submission to be sent to IPART following the meeting, together with the resolution.

The submission draws on Council's past submissions responding to prior stages of the NSW rating system review, providing the opportunity to reiterate long-held advocacy positions.

Council staff also sought input from NSROC, neighbouring councils, and the Local Government Rating Professionals submissions where available.

Financial/Resource Implications

This review is in its engagement stage, and currently the full direct financial implications for North Sydney Council are not known. Assumptions based on the recommendations within IPART's Draft Report have been considered based on available information.

Legislation

Rates are raised and regulated according to Chapter 15 of the Local Government Act NSW 1993. Part 2 of Chapter 15 establishes and regulates an annual limit by which councils can increase their annual rates income, known as the rate peg. Section 506 states that the Minister for Local Government may specify a percentage limit on increased rates income each year. In practice, the Minister delegates this responsibility to IPART.



**Submission by North Sydney Council
to IPART regarding the
Review of Rate Peg Methodology (Draft Report)**

Prepared June 2023

North Sydney Council has long championed improvements to the NSW rating system. In our previous submission to the Issues Paper (2022), North Sydney Council expressed support for reducing the number of cost components in the LGCI and simplifying the rate peg methodology.

We welcome the opportunity to provide feedback on the second stage of the long-awaited review of the rate peg methodology. Our feedback below is formatted to be consistent with the online submission form.

Improving how we measure changes in councils' base costs (Chapter 3)

OVERVIEW¹: Under the current methodology, IPART measures the change in councils' base costs using the Local Government Cost Index (LGCI) to provide an average annual cost change for all councils across NSW, which is included in the rate peg. IPART has considered stakeholder feedback received on the LGCI and explored a range of alternate options for measuring changes in councils' base costs. In summary, IPART is proposing to replace the LGCI with a Base Cost Change (BCC) model with 3-components: a) employee costs, b) asset costs and c) other operating costs excluding the Emergency Services Levy (ESL) - and 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.

IPART would like to better reflect the diversity of councils through the rate peg. IPART have made a draft decision to move from the current 26-component LGCI to a 3-component measure of councils' base cost changes (BCC model). IPART notes different councils have different priorities and services they provide to their communities and incur different costs in doing so. Employee and asset costs are key costs to all councils, equating to around 60% of councils' total costs. The BCC measures only the change in costs (not amounts, quality or types of services). IPART recognises that each council's circumstances may be unique, but questions whether a methodology that allows for the pass through of councils' actual costs would remove incentives for productivity and efficiency.

Employee costs change - IPART's preferred option is to use annual wage increases prescribed by the Local Government (State) Award (the Award)² for the year the rate peg applies, adjusted to reflect changes in the superannuation guarantee rate. IPART would use the RBA's forecast change in the

¹ An overview/extract from IPART's Draft Report has been included for councillors - the shaded boxes will be removed from the final submission.

² Negotiated every 3 years. New Award commences 1 July 2023.

Wage Price Index (WPI) from the most recent Statement on Monetary Policy when the Award increase is not available (averaging the changes over the year to Jun and Dec for the year the rate peg applies), adjusted to reflect changes in the superannuation guarantee rate.

Asset costs change - IPART will use the average difference between the year-on-year change in the Producer Price Index (PPI) for Road and bridge construction and the year-on-year change in the Consumer Price Index (CPI) for All groups, Sydney over the most recent 5-year period for which data is available to adjust the RBA's forecast change in the CPI from the most recent Statement (averaging the changes over the year to Jun and Dec for the year the rate peg applies). This enables us to derive a forecast change in the PPI (Road and bridge construction).

Other operating cost changes - IPART proposes to use the RBA's forecast change in the CPI from the most recent Statement (averaging the changes over the year to Jun and Dec for the year the rate peg applies).

IPART's analysis suggests the BCC model should produce a timelier measure of changes in councils' base costs, by referring to forward-looking measures of changes in councils' costs. However, like the LGCI, the draft BCC measures only changes in unit costs and does not measure changes in the amounts, quality or types of services provided.

IPART says, the population factor in the rate peg ensures per capita income can be maintained as population grows and proposed 'other adjustments' could be used to account for some changes outside of councils' control.

IPART proposes to include a separate factor in the rate peg to account for changes in the ESL. Changes in councils' ESL contributions would be measured separately.

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 IPART 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.

Using the existing OLG groups is supported, as it enables points of comparison between councils where the grouping is standardised. It is also easy for community/ratepayer reference, allowing a connection to the <https://www.yourcouncil.nsw.gov.au> website.

Regarding employee cost changes, Council's preference is Option A - the use of prescribed Award increases, adjusted to reflect the increase in the superannuation guarantee rate; this seems the most appropriate of the two options. However, Council reiterates its prior feedback that the:

- Award does not reflect salary step increases, productivity increases nor the current reduced talent pool, which are additional costs to each council.

- use of WPI (Option B) to gauge labour cost increases in the local government context seems unnecessarily complex and bound to produce anomalies.
- rate peg should not be set at a rate lower than the known forward-looking Award increases.

More generally using Financial Data Returns to determine the weighting of the Base Cost Charge basket makes each council dependent on unaudited data of other councils. The weightings also would not account for the differing suite of services each council offers and their differing priorities/levels of service.

Different modes of business organisation would cause the same service to appear in different components of the basket. For example, North Sydney Council has a large number of outdoor staff whereas its neighbour Mosman Council contracts most of these services. Maintenance of sporting fields, parks and gardens in North Sydney would sit within the employee costs category, whereas for Mosman Council it would sit within the other cost or infrastructure components.

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

There are a range of analyst and commercially provided estimates and forecasts. Council is not aware that any are more accurate or credible than official RBA or Treasury forecasts.

As noted in our response to Q1, the Award does not reflect salary step increases, productivity increases or the current reduced talent pool which are additional costs to each council e.g. increase recruitment costs. The Award does not cover senior staff who are subject to SOORT determinations. Senior Staff, however, represent a lower portion of labour budgets and Award increases might therefore serve as a suitable proxy.

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?

Council reiterates its prior feedback that changing the release timing of the rate peg for the next financial year has both positives and negatives. The introduction of indicative rate peg announcement in September is welcome to allow more time to inform the preparation of the next year's budget. However, the timing of the final rate peg announcement (including updated ESL contributions) in May will often be after councils have exhibited their draft Operational Plans & Budgets, given that they must be adopted by 30 June each year.

There will be some resourcing pressures on councils to amend budget systems and walk these changes through various documents, reports and workpapers. North Sydney has the capacity to make these late changes, but smaller councils might be placed under pressure.

Changes to draft budgets and rates models late in the IP&R process might be at odds with the community desire for consultation on rate setting and application of rates to services noted in the Draft Report.

Further concerns are raised regarding the impact of the proposed timing on Special Variation applications. Council seeks assurance that IPART has considered this proposed timing in context of the Special Variation deadlines.

Adjusting for the Emergency Services Levy (Chapter 4)

OVERVIEW: The NSW Government requires councils to make an annual contribution to the cost of providing emergency services to their communities - which contributes to funding the NSW State Emergency Service (SES), Fire and Rescue NSW (FRNSW), and the NSW Rural Fire Service (RFS). This is known as the Emergency Service Levy Council Contribution (ESL contribution).

The current rate peg methodology captures the average annual change in councils' ESL contribution across NSW. This means it does not accurately reflect the change in individual councils' contributions. Therefore, the rate peg allows some councils to over-recover the change in their ESL contribution, while other councils under-recover this change. When a council faces a much larger than average increase in their ESL contributions, this under-recovery may mean they must reduce services or impact their financial sustainability to fund the increase.

The NSW Government issues each council with an ESL contribution assessment notice, which sets out its total contribution, as well as the contribution to each service. While it would be preferable to capture what each council is invoiced, IPART understands that the assessment notices do not always reflect what a council pays. This is because, in rural fire districts, some councils' assessment notices include their whole district's contribution to the RFS, while other councils' assessment notices include no contribution to the RFS. Where this is the case, some councils have entered arrangements to share these costs. IPART does not have access to information on these councils' true ESL contributions, or the annual changes in these contributions. Furthermore, IPART currently only has access to the total invoiced amounts.

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?*

North Sydney Council is not part of a shared arrangement regarding ESL contributions, therefore has no comments/feedback on this question.

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.*

Yes, providing this information is within the capacities of councils' resources.

Capturing external changes outside councils' control (Chapter 5)

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?

OVERVIEW: The Terms of Reference requires IPART to investigate and make recommendations on “options for capturing external changes, outside council’s control, which are reflected in council’s costs”. IPART refer to costs as a result of external changes that are outside councils’ control as ‘external costs’. External costs could include those driven by weather or natural disaster, NSW Government actions, such as regulatory changes, or changes to required services or service standards and/or legislative changes. External costs could also arise from legislated restrictions on funding options. External costs can vary widely across councils.

IPART has specifically looked at how climate change may be impacting council costs. Climate change is one of the most significant issues that will impact the lives of people in NSW now and in the future. Councils play a vital role in responding and adapting to climate change including natural disasters with the costs of mitigating and adapting likely to be substantial and with a high degree of variation. Government grants to councils meet some of these climate change costs such as emissions reduction projects, and natural disaster recovery. As ratepayers and the community benefit from councils being able to provide resilient and safe services, it is reasonable for rates to also meet some of these costs.

IPART’s draft decision is to maintain its current approach and make additional adjustments to the rate peg on a needs basis for external costs. Under the approach, IPART would be able to make additional adjustments to the rate peg for external costs (such as costs associated with climate change or with new statutory functions, or costs where restrictions in funding pose challenges to cost recovery) where ratepayers benefit from these activities and when we have the necessary information to accurately ascertain the quantum of those costs.

IPART’s draft decision is to maintain our current approach of making additional adjustments for external costs that affect all councils or a group of councils and where it is appropriate that ratepayers fund these costs. IPART recognises that implementing a separate process for capturing external costs could take time and would want to consult with stakeholders on that process.

IPART is seeking feedback on a process to strengthen its approach to making adjustments to the rate peg to capture external costs. One option could be a separate process for developing adjustment factors for groups of councils to increase the rate peg to cover specific external costs (e.g. cyber security costs, or climate change costs). IPART would work with stakeholders to understand what this process should include, for example, requiring that councils demonstrate they meet specific criteria to be eligible for an adjustment to their rate peg.

Yes, North Sydney Council is supportive of establishing a process for developing adjustment factors. In addition to the identified external costs of cyber security, climate change costs and community facilities not covered by developer contributions, recognition of the differences in costs incurred by metropolitan councils compared to regional and rural councils, and/or within Greater Sydney, which arise from differing priorities and services provided should be recognised.

Council acknowledges that such is not a simple task and may take considerable time. Council welcomes the opportunity to work further with stakeholders to develop a separate process to capture external costs.

Refining the population factor (Chapter 6)

OVERVIEW: The current rate peg methodology includes a population factor. Its intended purpose is to give councils the additional revenue required to keep revenue per capita before inflation consistent, as populations grow. This is designed to allow councils to continue delivering services as their communities grow.

The Terms of Reference required IPART to investigate and make recommendations on, 'whether the population factor is achieving its intended purpose', and to make recommendations on alternate data sources to measure changes in councils' costs.

IPART's draft decision is 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. IPART would not make retrospective adjustments for previous population factors. IPART proposes to exclude the number of prisoners from the overall residential population for a council area to calculate the 'change in population' component, to improve the accuracy of the population factor in calculating the residential population of a local government area.

IPART received feedback on several other issues that concerned stakeholders, however does not propose to make changes to the population factor to reflect these suggestions, including removing the adjustment for supplementary valuations from the calculation of the population factor; calculating a catch-up adjustment for historical changes in population growth; adjusting the rate peg to give councils additional revenue for decreases in population; measuring the service population of councils as well as residential population; adjusting the population factor to account for economies of scale; using rateable properties as a population measurement instead of total population; basing the population changes measurement on forecasts instead of lagged historical figures.

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

It is noted that IPART is proposing only to change the population factor regarding the removal of prison populations from the residential population in a council area. North Sydney Council is not affected by this circumstance. It is, however, noted that councils provide services to prisons within their areas, most notably transport infrastructure such as roads.

As noted in the NSW Revenue Professionals' prior submission to the Issues Paper:

"Growth from supplementary valuation changes is deducted from the population factor, but cannot be a negative value. The attempt by IPART to prevent councils from 'double-dipping' by subtracting supplementary rates growth from the population increase is flawed because it doesn't account for negative supplementary growth. This means that councils with negative supplementary growth are not afforded their full population increase. This can occur when a business property is converted to a residential development, leading to a higher number of residents and lower rates. This impacted a Sydney council rate peg for 2022-23. The council's annual rate income was reduced by 0.3% through supplementary changes during 2020-21. Every other council was able to grow by its full population increase, however this council did not achieve an increase equivalent to its population growth because the formula did not allow its loss during 2020-21 to be regained."

North Sydney Council is prone to this and would support any adjustments necessary to correct it. Council reiterates its concern that it has a large non-resident service population, and that the population factor does not address this. Council's infrastructure is utilised by many non-rateable institutions including schools and a university campus.

There is a flow-on impact in an increase in minimum rates as the new residential properties are medium to high density, and therefore an increase in the utilisation of residential amenities such as parks and open spaces.

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

Council reiterates its prior feedback that the current population factor does not take North Sydney's unique circumstances into account. North Sydney Council services a large daily transitory worker and student (non-resident service) population with its CBD, multiple public and private primary and high schools, and university campus. Therefore, Council's services and infrastructure obligations expand due to 'population factors' not captured in its local ABS residential population data.

Similarly, population density is another issue that Council previously advocated needs to be investigated. Population increases are financially rewarded, however of equal concern is maintaining and enhancing services and facilities in high-density LGAs. While the North Sydney LGA may have a lesser population growth than other areas, it has a very high population density, of 65.7 persons per hectare (PPH) in 2016 compared to 4.2 PPH Greater Sydney and 9.9 PPH NSROC region. In 2021, this increased to 66.2 PPH in North Sydney STILL TO DO, REPLACE WITH 2021 STATS.

Transition arrangements (Chapter 8)

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

OVERVIEW: IPART's proposed changes to the rate peg methodology would impact the timing of when changes in the data are reflected in the rate peg. The first year under the new methodology would not follow consecutively from the last year under our current methodology, because the LGCI is lagged, and the BCC is forward looking. This means that the cost changes in some years would not be captured in the rate peg, and therefore not be reflected in increases in rates income. Because of the significant economic volatility that has occurred over the past 12 months IPART considers it may be appropriate to allow cost changes over 2022-23 to be reflected in the rate peg for 2024-25, to be released around September 2023. This would mean delaying the implementation of the BCC until the release of the rate peg for 2025-26, likely around September 2024. There would be no change in timing for the population factor component.

The next Local Government elections are to be held in September 2024. IPART's proposed delayed implementation of the BCC until the release of the 2025-26 rate peg would allow for the changes to come into effect with the commencement of councils' new Long Term

Financial Plans (LTFP) which will need to be adopted by 30 June 2025. This would reduce the need for any potentially significant adjustments to a council's LTFP during the current term.

The alternate option of introduction from 2024-25 is not supported on the basis that it is better to delay allowing full implementation from 2025-26 than commence the new methodology with temporary 'work arounds' as suggested under section 8.4 of the Draft Report.

Lastly, Council supports IPART's draft decision to review the rate peg methodology every 5 years, unless there is a material change to the sector or the economy, to ensure it stays fit for purpose.

We note that whilst the proposed 3-group BCC methodology is considered suitable by IPART, it is open to exploring alternative groupings based on other characteristics and is currently investigating the issue of council groupings using statistical techniques. IPART is requested to confirm if the new local government reference group will be involved in such exploration, we think they should be - all alternatives considered during the 5-year reviews should involve exploration with the reference group.

Council supports the formation of the local government reference group. We unreservedly support making the minutes of meetings publicly available to support transparency. Council does however request more information be provided to stakeholders on the role and objectives of the reference group to be foreshadowed in the Terms of Reference, and its make-up; whether it will include a mix of local government professionals, elected members as well as community members/ratepayers, membership terms, proposed recruitment process and whether the group will be remunerated.

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