

4 July 2023

Independent Pricing and Regulatory Tribunal  
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Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop  
SYDNEY NSW 1240

Our Ref: 2023/358890

Dear Sir / Madam

### **Draft Report – Review of Rate Peg Methodology – June 2023**

Northern Beaches Council welcomes the opportunity to provide feedback on IPART's 'Draft Report Review of Rate Peg Methodology June 2023' (Draft Report).

Northern Beaches Council's responses to the specific items on which IPART has sought comment are provided below. Due to the deadline for the provision of feedback, this letter has been prepared by Council staff under delegation.

- 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.***

Northern Beaches Council supports the use of annual wage increases prescribed by the *Local Government (State) Award* (Award) for the year the rate peg applies, adjusted to reflect any change in the superannuation guarantee rate to measure changes in employee costs in the Base Cost Change (BCC) model. One off adjustments under the Award should also be taken into account, such as the lump sum payment of \$1,000 or 0.5% of the employee's annual salary system rate of pay in the *Local Government (State) Award 2023*, which is equivalent to an additional 0.6% in the rate peg for Northern Beaches Council.

When the Award increase is not available, we support IPART using the Reserve Bank of Australia's (RBA's) forecast change in the Wage Price Index (WPI) from the most recent Statement on Monetary Policy (Statement) (averaging the changes

over the year to June and December for the year the rate peg applies), adjusted to reflect changes in the superannuation guarantee rate.

The Award provides councils with a clear future facing pathway for wages growth and as noted by IPART in the Draft Report, it would improve the cost-reflectivity of the rate peg by removing the problems associated with the current 2-year lag in the rate peg in periods of economic volatility.

In terms of managing the risks associated with using the Award increases (referred to on page 26 of the *Assessment of Options in the Consultant report - The CIE - Local government labour cost indexation - May 2023* (CIE Report)), it is noted that the main possible consequence identified in the CIE Report is that negotiations for award increases could alter significantly given that councils would have much less incentive to keep wage increases constrained and would also much prefer wage increases to changes in conditions. We do not support this contention as the Industry Award parties (being the United Services Union, the Development and Environmental Professionals' Association (DEPA), Local Government Engineers' Association (LGEA) and the Employer Association, LGNSW) negotiate in good faith to achieve a balanced outcome for both councils and their employees. In any event, this potential risk must also be balanced against the following other risks which will not be taken into account if the annual wage increases prescribed by the Award are used to measure changes in employee costs:

- Not accounting for the provisions of the Award that relate to increases including those related to progression through the salary system commonly known as Step increases.
- Not accounting for any attraction or retention premiums that councils may have to pay.
- Not accounting for changes in conditions, resulting from increased competition in the labour market.

Based on the CIE Report's findings that the RBA's forecast WPI could be an appropriate measure of changes in councils' employee costs (as it covers both public and private sector wage increases, addresses the lag under the current approach, and is updated every 3 months to reflect changing economic conditions and its opinion that the RBA's forecasts are the best independent, publicly available forecasts), the RBA's forecast WPI could be used as a measure to assess the reasonableness of Award increases.

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

Consideration should be given to surveying councils on an annual basis to assist in identifying changes in actual employee costs based on their published financial statements relating to the following elements:

- Increases directly due to the annual Award increase.
- Increases due to progression through the salary system commonly known as Step increases.
- Increases due to any attraction or retention premiums that councils may have to pay.
- Increases or decreases due to changes in service levels.

- Other changes and the nature of those changes.

This information could then be used to quantify risks in the use of the Award and provide the basis for a simplified Special Rate Variation process to account for these differences.

Alternative sources of data could include individual council submissions of additional employee costs outside of the Award increase. Salary Surveys within the local government sector and Annual Financial Statements of councils could also be used to examine employee costs.

**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?**

Northern Beaches Council supports releasing indicative rate pegs for councils in September, and final rate pegs that are updated for councils' Emergency Services Levy (ESL) contributions in May, once the ESL change is known.

This approach will ensure the actual changes in the ESL contribution for each council can be fairly reflected in the rate peg. This proposal effectively avoids any lag and will take into consideration the variances in individual council contributions and how they change.

**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?**

Northern Beaches does not have any arrangements in place to share Emergency Services Levy (ESL) contribution bills with other Councils and therefore, subject to the comments below, cannot provide additional information in relation to this question.

Prior to the amalgamation of the former Manly, Pittwater and Warringah Councils in May 2016 to form Northern Beaches Council, the former Pittwater and Warringah Councils had a joint venture in place for the Warringah Pittwater District Rural Fire Service and shared the costs of this service on a 50:50 basis. Under this arrangement, the former Warringah Council was billed the full RFS component of the ESL and invoiced the former Pittwater Council for its share.

For those councils that share the service, the proportional share could be provided to IPART.

**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.**

An Emergency Services Council Contribution Assessment Notice is issued by Revenue NSW towards the end of April for the upcoming financial year and this breaks down the contribution for the NSW Rural Fire Service, NSW State Emergency Service and Fire and Rescue NSW.

Councils can provide this information at this time, but a more efficient approach would be for IPART to receive 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?***

Northern Beaches Council supports the establishment of adjustment factors for groups of councils to increase the rate peg to cover specific external costs. It would be necessary to ensure the groups adequately reflect the likely nature and size of external costs.

Certain external costs such as cyber security and costs associated with new functions for which councils are responsible due to legislative change are likely to have a similar cost impact for all councils.

Costs driven by climate change, natural disaster emergencies and responses are likely to be more specific to certain groups of councils and we support IPART developing adjustment factors for specific groups of councils whose similar circumstances drive similar cost increases.

Northern Beaches Council has a large area of bushland which is subject to bushfire risk, as well as more than half of all the beaches in Sydney. It has been subject to a large number of storm events in recent years which have significantly impacted infrastructure assets, including through coastal erosion.

Collaroy-Narrabeen Beach is the beach most vulnerable to erosion from coastal storms on the Northern Beaches. It's ranked Australia's third most at risk area from coastal processes. The Collaroy area suffered extensive erosion damage in the June 2016 east coast low swells and is threatened by further erosion events.

Other costs are more likely to be specific to individual councils including operational costs and depreciation that emerge from infrastructure that may be gifted or transferred to councils and providing community facilities where these are not funded by developer contributions. In these cases, we would support a process requiring councils to meet certain criteria to be eligible for an adjustment to apply to their rate peg. Northern Beaches Council already maintains transparent processes for capturing external costs to cover a range of circumstances such as enabling appropriate grant acquittal management and capturing costs associated with declared natural disasters.

We support working with IPART to enable an appropriate understanding to be developed and what should be included in such a process, such as requiring councils to demonstrate they meet specific criteria to be eligible for an adjustment to their rate peg.

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

It is Northern Beaches Council's view that the growth in rates from supplementary valuations should not be used to reduce the population factor in the current rate peg methodology.

We do not agree with IPART's contention that supplementary valuations already provide income for additional infrastructure due to population growth. At best, the income provided from supplementary valuations would cover a small proportion of the additional operational costs incurred but in no way provide income for additional infrastructure.

We provide the following additional comments in this regard:

- As noted by IPART in the Issues Paper, there are limitations with the supplementary valuations system which result in most councils receiving less income from rates for each new resident compared to existing residents. There are also some types of development such as granny flats which result in increases to a council's population but do not trigger supplementary valuations, and therefore councils do not receive additional income to service the additional residents.
- IPART uses residential population rather than service population to calculate the population factor. However, some councils may have larger service populations due to tourism or because they are employment, business or cultural hubs.
- IPART has acknowledged that councils must be able to scale up and provide additional services as local communities grow. While councils receive supplementary valuations as new rateable properties come online, it often results in councils receiving less income from rates on a per capita basis when compared to the growth in per capita expenditure.
- Further to the above point, supplementary rates do not fully address the issue of additional costs of providing services to a growing population on a per capita basis. Often new dwellings only attract a minimum rate due to the rating burden being distributed based on unimproved land values. Therefore, while a new apartment dwelling may accommodate from 2 to 4 individuals, it still pays a minimum rate which then dilutes the average rates per capita. This is because population (on a per head basis) grows at a faster rate than the rates collected per new dwelling. This demonstrates that the percentage growth in population does not have a direct correlation to the percentage growth in rates from supplementary valuations.

Accordingly, if IPART's intention in introducing the population growth factor was to allow councils to maintain or increase its rate on a per capita basis, the current methodology (which reduces this factor by utilising the growth in rates from supplementary valuations) fails to achieve that outcome.

It is Council's view that the growth in rates from supplementary valuations should not be used to reduce the population growth factor in the current rate peg methodology.

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

For the reasons set out above, Northern Beaches Council does not support using residential supplementary valuations.

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

Given the high inflation environment currently being experienced, Northern Beaches Council supports IPART allowing cost changes over 2022-23 to be reflected in the rate peg for 2024-25, which IPART has indicated will be released around September 2023. We appreciate that this means delaying the

implementation of the BCC until the release of the rate peg for 2025-26, likely around September 2024.

We support IPART's 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. We agree with IPART's view that this is a balanced approach that allows some changes to take effect sooner and for the recent economic volatility to be reflected in the cost index. We also agree that it would be appropriate to delay the implementation of the BCC beyond the 2025-26 rate peg. The proposed ESL adjustment factor is a significant improvement, and we would like to see a retrospective adjustment in the 2024/25 rate peg for the large increase experienced by individual councils. For Northern Beaches Council, the increase was the equivalent of 1.7% of the rate peg and has created a significant ongoing gap in funding our infrastructure renewal program.

We do not see any merit in not implementing changes in the 2024-25 rate peg and delaying all the changes to the methodology until the 2025-26 rate peg. It is noted that one option foreshadowed is to consider implementing all changes in the 2024-25 rate peg and replacing the Local Government Cost Index (LGCI) with the 3-component BCC model and using 3 council groups and developing a separate ESL factor. We do not consider that this approach would be appropriate unless it includes 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 2024-25.

Should you require any further information or assistance in this matter, please contact my office on [REDACTED].

Yours faithfully

[REDACTED]  
[REDACTED]