5 July 2023

Ms Carmel Donnelly PSM
Chair
IPART
PO Box K35
Haymarket Post Shop NSW 1240

By email to: ipart@ipart.nsw.gov.au

Dear Ms Donnelly

Northern Sydney Regional Organisation of Councils (NSROC) appreciates the opportunity to make a submission on IPART's Review of the Rate Peg Methodology – Draft Report. This submission has been prepared with the input and support of our member councils but should be considered draft until it is formally endorsed by the NSROC Board.

NSROC is a voluntary association of eight local councils who have come together to collaborate and promote a united voice on key issues in our region. Our member councils are Hornsby, Hunter's Hill, Ku-ring-gai, Lane Cove, Mosman, North Sydney, Ryde and Willoughby. Collectively, the NSROC member councils service an area of 639km2 with a population of 652,089. We work together on policy and operational matters to drive efficiency and to enhance our region.

NSROC is pleased to acknowledge that the proposed changes to the rate peg methodology are an improvement on the current version. Overall, we agree with the implementation of the Base Cost Change (BCC) methodology as outlined in the report.

NSROC's responses to specific items on which IPART has sought comment are provided below.

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?*

   NSROC 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 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 2023 award.

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?*

   NSROC does not agree that councils should be responsible for paying an Emergency Services Levy (ESL). However, in light of current government policy, councils should be able to recover the actual costs associated with the ESL.

   NSROC supports the release of indicative rate pegs in September. NSROC is concerned that the timing of the final rate peg announcement including adjustment for the ESL in May will be after many councils have exhibited their draft Operation Plans and Budgets which must be adopted by 30 June each year.

   Ideally the final rate peg (including ESL adjustment) should be published in February to allow enough time for councils to incorporate it into their draft budgets, IP&R documents and allocate sufficient time for public exhibition and consultation.

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?*

   NSROC does not have any further information on this matter.

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.*

   IPART should obtain 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?*

   NSROC 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. Likely costs would include but are not limited to cyber security and disaster waste management.

   NSROC would welcome the opportunity to work with stakeholders to develop a process to capture external costs.

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

   NSROC councils are not affected by IPART's proposal to remove prison populations from the residential population.

   NSROC asserts that growth in rates from supplementary valuations should not be used to reduce the population factor in the current rate peg methodology.

   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.

   Therefore, if IPART's intention for introducing the population growth factor was to allow councils to maintain its rate on a per capita basis, then the current methodology of reducing this factor by the growth in rates from supplementary valuations, fails to achieve that outcome.

   It should also be noted that IPART uses residential population rather than service population to calculate the population factor. Councils with a large transitory worker and student (non-resident service) population have service and infrastructure obligations that expand due to factors not captured in local ABS residential population data. Ignoring growth in this area, which for some councils has been significant as high-density CBD's have been built over recent years erodes the alignment between the rate peg and the cost base of the sector.

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

   No comment.

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

   NSROC supports the staged transition to the new methodology including delayed implementation of the BCC until the release of the 2025-26 rate peg. This will 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.

However, NSROC notes that should the inflationary environment continue into 2023/24, which now appears likely, the new methodology should be delayed for another year (e.g. until 2026/27 instead of until 2025/26) so that councils do not lose essential additional income that is required from the prolonged inflationary period.

Only when inflation is back within the RBA's target range should the change to the new methodology occur as only then will it be fair for two years of cost growth data to be omitted by changing to a forward-looking measure.

The adjustment factor for the ESL should commence immediately from 2024/25. Given the significant increases incurred by councils in 2023/24, it is also suggested that ESL cost increases for both years (2023/24 and 2024/25) should be taken account of in the 2024/25 rate peg and SRV approvals covering that period.

*Other Comments*

NSROC 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 remains fit for purpose

NSROC does not support the retention of the productivity factor in the rate peg methodology as it is biased towards non-price driven metrics that may result in an efficiency saving yet it ignores non price-based metrics that will likely cause cost increases. Councils are accountable to their community through the IP&R for the redeployment of any gains made.

NSROC supports the formation of the local government reference group. However, further information on the role and objectives of the group would be welcomed. NSROC also seeks to understand whether the group 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 renumerated.

NSROC supports in principle the recommendation to commission an independent review of the financial model for councils in NSW, including broader issues than just the system of rate pegging. This support is subject to better understanding the scope of the review and a requirement for close engagement with the local government sector. NSROC acknowledges that with a sufficiently holistic scope, such a review could result in a better model that promotes and protects council financial sustainability.

The treatment of 'Build to Rent' projects is not addressed in this review. The current rating legislation as it relates to 'Build-to-Rent' developments in NSW does not allow councils to maintain average rates per capita funding to service the new population. Build-to-rent housing is large-scale, purpose-built rental housing that is held in single ownership, rather than being sold individually via strata subdivision. As the land is not subdivided, the rating system continues to utilise the unimproved capital value (the land value). Residential multi-unit developments typically are strata titled and the strata plan is used by councils for rating purposes. Each individual unit within the strata plan is rated separately, resulting in the council receiving 'minimum rates' for each strata unit. As an example, an existing Build-to-Rent development in the Lane Cove LGA consisting of 327 apartments pays $47,000 in Council Rates. The equivalent 327 strata titled residential apartments would attract approximately $370,000 p.a. if minimum rates were levied. This presents an inequity for existing ratepayers, who will effectively be cross-subsidising these developments. This anomaly creates an unsustainable financial position for councils to service the greater population. The problem will only increase as more 'Build-to-Rent' developments are built.

If you require further information, please don't hesitate to contact me on [redacted] or at [redacted]

Yours sincerely

[redacted]

Dr Meg Montgomery
Executive Director
Northern Sydney Regional Organisation of Councils