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Carmel Donnelly, PSM, Chair
Independent Pricing and Regulatory Tribunal
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Haymarket Post Shop NSW 1240

lodged online: www.ipart.nsw.gov.au

Dear Carmel,

QPRC Submission to the IPART Review of the Rate Peg Methodology

QPRC has considered the IPART draft report, and the questions raised and submits the following responses for inclusion in this review.

In response to the draft decisions:

1. *To replace the LGCI with a Base Cost Change model with 3 components:* a. *employee costs* b. *asset costs* c. *other operating costs.*	Agree
2. *To develop separate Base Cost Change models for 3 council groups:* a. *metropolitan councils (Office of Local Government groups 1,2,3, 6 and 7)* b. *regional councils (Office of Local Government groups 4 and 5)* c. *rural councils (Office of Local Government groups 8 to 11).*	Agree
3. *For each council group, calculate the Base Cost Change as follows:*	
a. *For employee costs, we would use the annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies, or the Reserve Bank of Australia's forecast change in the Wage Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies). We would adjust for changes in the superannuation guarantee in both cases. We are currently consulting*	Agree with the approach and recommend consideration of salary/performance increase costs that is required within the Local Government (State) Award. There are also changes to allowances and the draft industrial agreement includes additional one off payments after 12 months retention that need to included to capture the full increase when the 3-year award is approved.

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on the best approach to measure changes in employee costs (see Seek Comment 1).	
b. *For asset costs, we would use the Reserve Bank of Australia's forecast change in the Consumer Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies), adjusted to reflect the average difference between changes in the Producer Price Index (Road and bridge construction, NSW) and changes in the Consumer Price Index (All groups, Sydney) over the most recent 5-year period for which data is available.*	Agree
c. *For other operating costs, we would use the Reserve Bank of Australia's forecast change in the Consumer Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies).*	Agree
d. *Weight the 3 components using the latest 3 years of data obtained from the Financial Data Returns of councils in that group, and update the weights annually.*	Agree
4. *To publish indicative rate pegs for councils around September each year (unless input data is not available) and final rate pegs around May each year.*	The final rate peg should be published in time for council to prepare its budget and revenue policy including public exhibition and community feedback. The Emergency Services Levy should be released in time to be incorporated into the final rate peg for public exhibition. Any late release of the Emergency Services Levy after the release of the revenue policy for public comment will have a direct material impact on all ratepayers and is contrary to the principles of community consultation. We complete our budget in line with integrated planning and reporting legislation. The budget is completed in March for public exhibition in April/May. The final rate peg should be published no later than February.

	Council advocates for earlier ESL advice from the Minister for Emergency Services so that ratepayers have the opportunity to provide feedback. If the emergency services levy is released by the government later than the rate peg in February, then the factor would need to be calculated separately as a final amendment that could be published separately. Councils could then decide to apply the amount as a catchup in a later year.
5. *To include a separate adjustment factor in our rate peg methodology that reflects the annual change in each council's Emergency Services Levy (ESL) contribution. This factor will reflect:*	Council's response to the proposed ESL solution relates to the rate peg and the current ESL legislation. More broadly, we advocate for a review of emergency management in NSW, transparent financial reporting, and an emergency services revenue policy that is fair and equitable. The review should recognise that the financial impacts of disasters exacerbated by climate change could bankrupt individual communities. Emergency services should be fully funded by the NSW Government and a tax on the industries driving the increasing disasters.
a. *an individual council's contribution, for councils:* - *that are not part of a rural fire district, or* - *that are part of a rural fire district but do not engage in ESL contribution cost* - *sharing arrangements, or* - *are the only council in their rural fire district, or* - *that are part of a rural fire district and engage in ESL contribution cost sharing where we have accurate information about what the council pays.*	We agree with the approach as it is a material and uncontrollable cost for councils. It is not in the interests of ratepayers for councils to have to trade-off other council services in order to fund ESL contributions. Therefore: i) The proposal to calculate the ESL as a full cost recovery factor on an individual Council basis is supported. ii) We recommend clear and transparent process that recognise the total cost to the council. iii) Given the ESL is an external charge a historical catch-up should be applied, with the full cost of the ESL being included in year one. iv) The ESL factor should be added to SRV Councils in each year – as it is distinct from the rate peg measure – being the change of Council costs.

	It would be beneficial for IPART to consider all forms of cost shifting and incorporate a similar approach.
b. *the weighted average change for each rural fire district, for councils that are part of a rural fire district and engage in ESL contribution cost sharing arrangements where we do not have accurate information about what they pay.*	As above
6. *To set Emergency Services Levy (ESL) factors and a final rate peg for each council in May after ESL contributions for the year the rate peg is to apply are known, so that councils can recover changes in ESL contributions in the year contributions are to be paid.*	We agree with this approach. The ESL should be released as soon as the actual costs to Councils are known and the factor can be calculated accurately. The ESL can be released separately to the rate peg as it is a distinct factor and it can be factored into the budget separately as both an expense and revenue measure. Noting that it would be preferable for the Government to issue the levy as early as possible so that ratepayers have sufficient time to comment on the amount that will be passed on to them through the Council's Revenue Policy, which would already be on public exhibition by May. However, it is important that Councils are able to budget for the full cost and factor the cost into their revenue policies, and it is more important that the ESL is accurate and not estimated.
7. *To maintain our current approach and make additional adjustments to the rate peg on an as needs basis for external costs (For the Emergency Services Levy, we have made a separate decision - see Draft Decision 5).*	By including the costs of external factors like climate change in the rate peg, there is no incentive for national and state governments to use their regulatory powers to mitigate and adapt to climate change i.e. a faster transition to net zero emissions. These are powers LG doesn't hold. By and large, it is not local councils that are making the decisions that are failing to halt and rapidly reduce greenhouse gas emissions growth. Those who are responsible for those decisions should fund the cost of disaster recovery – as noted in the draft IPART report that says the agents causing the problem should pay for the damage.

	Requiring LG to fund an ever increasing cost of disaster recovery could send communities broke, especially on top of other government policies that are contributing to the financial challenges for local government. It is not tenable for local government and local communities to fully fund the costs of the bushfire damage and La Nina floods, and accepting the “cost-shift” by including a mechanism to add it to the rate peg is not a realistic solution.
8. *To change the ‘change in population’ component of the population factor to deduct prison populations from the residential population in a council area and then calculate the growth in the non-prisoner residential population of a council area for the relevant year. We would not make retrospective adjustments for previous population factors.*	We agree with this approach.
9. *To retain the productivity factor in the rate peg methodology and for it to remain as zero by default unless there is evidence to depart from that approach.*	Agree with zero by default and there will be some periods when a negative productivity factor is applied to account for decreases in productivity for example when Councils respond to natural disasters and other unforeseen events.
10. *To review our rate peg methodology every five years, unless there is a material change to the sector or the economy, to ensure its stays fit for purpose.*	The rate peg methodology should be reviewed annually (desktop) to ensure it is meeting its objective, and a comprehensive review every 5 years. Immediate action should be taken if the rate peg is not meeting its objective in any year. 5 years of underperforming revenue will impact financial sustainability and is too long to wait to correct a problem. *If the rate peg is effective, a council that starts with a sufficient base level of rates income and a reasonable level of efficiency should be able to continue providing its existing services over time, without undermining its financial sustainability. And its ratepayers should not be required to pay more for those services.* We advocate for annual performance measures on: - Council’s effective use of rates (kpis including whether councils have resourcing strategies (LTFP, AMP, Workforce Plan) linked to

	delivery plans (and OPs and CSPs.) - Council's financially sustainable (annual operating results and infrastructure backlogs) - Council's seeking SRVs to maintain existing services. We would like to see an additional review in 3 years to look at resilience and climate change factors that affect the services required and the costs of providing existing services.

In response to the draft recommendations:

1. *That a local government reference group is established to advise on the implementation of our new rate peg methodology.* a. *That the NSW Government consider commissioning an independent review of the financial model for councils in NSW including the broader issues raised in this report.*	We agree and support this approach. We recommend the reference group includes LG Professionals, NSW Finance Professionals Network & The Local Government Rating Professionals
2. *That the NSW Government consider commissioning an independent review of the financial model for councils in NSW including the broader issues raised in this report.*	We support continued advocacy to fix the broader revenue structure for local government. We support a review of the implementation status of previous government commitments to implement revenue reform and local government financial sustainability including: • Government response to the IPART Review of the Local Government Rating System June 2020 https://www.olg.nsw.gov.au/wp-content/uploads/2020/06/IPART-Rating-Review-Government-Response.pdf • NSW Government response to the Independent Local Government Review Panel recommendations Sept 2014 And, we support a review of the status of previous IPART recommendations where government commitments have not yet been made including:

	• IPART Review of the Revenue Framework for Local Government, December 2009 • IPART Review of the Local Government Rating System December 2016

Additional feedback requested by IPART:

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.*	We agree with the approach and would recommend consideration of: (1) Salary and performance increase costs that is required within the Local Government (State) Award. (2) Market pressures on the public sector wages.
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.	We agree. In this approach, consideration is given to Local Government (State) Award and Reserve Bank of Australia's forecast change in the Wage Price Index to ensure relativity in the sector.
2. *Are there any alternative sources of data on employee costs we should* further *explore?*	The changes in the award provision over time should be considered, including annual award increase and other allowances. The current draft awards includes additional bonus payments for employees with 12 months service.
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?*	The rate peg could be released in February to include December forecasts. Agree with the approach to publish the rate peg by February at the latest and the ESL separately once the actual levy is known. Councils would advocate for the ESL to be released by the Government earlier than May as it is a material unknown cost that is a critical factor in annual and long-term financial planning.
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?*	QPRC is not part of a district that splits an ESL levy.
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 hope the Minister for Emergency Services could share the figures for all Councils. We expect District arrangements would likely have set percentage shares that don't change from year to year and could be confirmed by the councils in those arrangements.
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. For example election costs.
General comment on the population peg	If the rate peg methodology were improved and the full suite of necessary changes were made to support financial sustainability for LG, we wouldn't need a population rate peg. It demonstrates that the financial model for funding growth is inequitable. This includes the way developer contributions are raised, managed and expended.
7. *Would you support measuring only residential supplementary valuations for the population factor?*	The suggested approach needs further review. The supplementary valuations are not a good measure of revenue from population growth as the timing and cause of the supplementary valuation adjustments is impacted by several factors relating to the change in use of a property, and timing of subdivision certificates. By design, these changes should be captured in the permissible income. Reducing the population factor by supplementary valuations reduces or negates the population factor and negatively affects

	revenue in local government areas that are experiencing growth and change. The draft IPART report accurately identifies that supplementary valuations can occur absent of population growth, and IPART has proposed to consider a supplementary adjustment to residential land only. This calculation would then rely on data that is more complicated and not audited, and dependant on the categorisation of rateable property by Councils. It would remain an over simplified solution to a more complex problem.
8. *If you supported using residential supplementary valuations, what data sources would you suggest using?*	QPRC's preferred approach is not to discount by the supplementary valuation. If this is not supported, a better approach would be to discount by a fixed percentage of the supplementary valuation only.
9. *What implementation option would you prefer for the changes to the rate peg methodology?*	Agree with 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. Agree with this proposal based on the significant volatility/cost changes in the last 12 months. Additionally, we propose that Councils be allowed to increase their assumed 2.5% rate peg within the rate variation by the adopted rate peg in each year an SRV is used. This will ensure that multiple year SRVs are not negatively impacted during periods of inflation. It means that SRV councils should make an annual revenue policy and decision via the normal community consultation process – rather than have it imposed via an automatic 2.5% rate peg. Revenue policy should be reviewed annually by Council to support communities where a decision has been made to phase an SRV decision for up to 7 years.

Our response to matters for further consideration:

1. *The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and councils.*	Agree this is a critical area for review.
2. *The use of the Capital Improved Valuation method to levy local council rates could improve the efficiency and equity of rates.*	Yes, this approach would be more equitable and was supported by Council in its 2021

	response to the IPART Review of the Local Government Rating System. This is a substantial change and additional consultation is required. More needs to be known about interaction with other taxation measures and their impact on different socio-economic groups; and also, the implication for land tax payable by owners of rental housing.
3. *There could be merit in considering whether to introduce an additional constraint (i.e. Conditions) on the rate peg to provide confidence to ratepayers that increases are reasonable.*	Communication of the current constraints of the rate peg in funding services would improve community understanding. Further, releasing comparisons with other States or LGA per person rate may improve accountability/transparency/relativity. We support further discussion and assessment of risk and benefit.
4. *Some councils may not have an adequate rates base and a mechanism should be developed to enable councils found to have insufficient base rates income to achieve financial sustainability.*	Support with further discussion
5. *Statutory charges for services provided by councils may not be recovering the full cost of service provision, such as for development approval fees and stormwater management service charges.*	Agree. This is a critical area for review and the charges/fees/caps mentioned in the report are supported. Stormwater infrastructure costs and volume have increased with no adequate change in the mandatory charge for over 15 years. This then results in rates subsidising other services and confusion/cross subsidisation of services by rates. The likely frequency of major rain events reinforces the need for an increase.
6. *Councils could be better supported to serve their communities more effectively to build community trust in councils. This could include improvements in how councils undertake and implement their integrated planning and reporting.*	Agree and particular focus on financial sustainability. Also differentiating legislated services to those that are discretionary but driven by community demand. IPR has been legislated for over a decade for all councils. Councils provide opportunities for the broader community to respond to the budget, level of services and strategic objectives every year. When councils apply for an SRV, there is a specific requirement to demonstrate

	engagement and communication to the community regarding the SRV. It is noted the feedback from the community workshops that there is capacity to improve the general community's understanding about local government, its services, funding and rates. The sector would be open to work with IPART and the OLG to improve engagement and education with the broader community about the role of local government. We also advocate for capacity building for smaller councils to develop their IPR plans and documents.
7. *There are opportunities to strengthen council incentives to improve their performance, including considering whether there is merit in a model that would exempt councils that demonstrate an agreed level of performance and consultation with ratepayers from the rate peg.*	While the rate peg methodology needs to change, it is only part of a package of reforms needed to support councils to achieve financial sustainability The rate peg methodology cannot be adjusted in isolation from other measures and addressing the full range of factors that are contributing to the financial challenges for local government Otherwise, ratepayers will be expected to solve all of the problems and that is inequitable and unsustainable. We note the community feedback to IPART on both the SRV and the rates methodology review that ratepayers want to know that that rates are being used effectively by Council. Our draft submission to the issues paper included a proposal to measure the performance of councils as an alternative to the LGCI. We support the proposed simplified BCI methodology and would also like to see an annual performance measure report that considers whether the rate peg is meeting its objectives. This should include a comparison of council performance: - Councils' effective use of rates (kpis including whether councils have resourcing strategies (LTFP, AMP, Workforce Plan) linked to delivery plans (and OPs and CSPs.) - Councils' financially sustainability (annual operating results and infrastructure backlogs)

	- Councils' seeking SRVs to maintain existing services. Where councils can demonstrate good financial management the rate peg should incorporate additional flexibility by applying a range of +/- 2% so that community's can engage with their councils to resource the draft four year delivery program and the community strategic plan that they want. We also advocate for capacity building for smaller councils to develop their performance capability.

Thank you for the opportunity to contribute to this important discussion.

Yours sincerely,

[redacted]

Kate Monaghan
Acting Chief Financial Officer
Queanbeyan-Palerang Regional Council