



4 July 2023

Carmel Donnelly, PSM  
Chair  
Independent Pricing and Regulatory Tribunal NSW

Online submission at: <https://www.ipart.nsw.gov.au/>

Dear Ms Donnelly

### **Review of the Rate Peg Methodology: Draft Report**

The Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of twelve local councils in the area south of Sydney Harbour, covering central, inner west, eastern and southern Sydney. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. Together, our member councils cover a population of about 1.8 million, one third of the population of Sydney, including NSW's most densely populated suburbs. SSROC seeks to advocate for the needs of our member councils and bring a regional perspective to the issues raised.

Thank you for the opportunity to comment on the draft report of IPART's recent Review of the Rate Peg Methodology. SSROC remains of the view that the system of rate pegging is not a suitable mechanism for achieving the aims of controlling unreasonable rate increases while maintaining the financial sustainability of councils in NSW. The Integrated Planning and Reporting (IP&R) framework includes extensive consultation and engagement with the community. This provides an opportunity to challenge the rates charges and to understand the financial drivers, which addresses the problem that the rate peg system was established to solve.

However, the recommended changes to the methodology would be an improvement on the previous version. It is important that it recognises the differences between urban, regional and rural councils, recognises the cost of managing assets, and includes some reasonable financial modelling.

#### **1. Base Cost Change (BCC) Model**

SSROC agrees with the recommended approach to replace the LGCI with the BCC model. For employee costs, we would use the annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applied,. This should take into account the full scope of the Award including, for example:

- any changes to allowances or bonuses that sometimes occur as well as salary/performance increase costs;
- funding required to restore the retirement scheme with LGSuper, which councils have been required to top up since 2010, to ensure sufficient funds to meet the liability;
- adjustment to reflect any change in the superannuation guarantee rate.

SSROC agrees with the proposed approaches to asset costs, operating costs and weightings.

While we understand that the focus is on costs, IPART could also consider adjusting for non-discretionary

and government-related impacts on income, such as councils' rebates for pensioners and exemptions. SSROC supports the inclusion of these elements in the broader review of financial models that is included in IPART's recommendation.

IPART's review methodology should also acknowledge the impact that changes to the method of calculating domestic waste management charges will have on general funds.

## **2. Indicative Rate Peg**

SSROC supports the release and timing of indicative rate pegs followed by adjustment for the Emergency Services Levy, although this information would be of little use if any other adjustments might also be applied to the indicative peg.

We recommend that the final rate pegs be published in February of each year, to allow enough time for councils to:

- consider draft budgets and revenue policies;
- include in IP&R documents;
- allocate sufficient time for public exhibition and community consultation.

## **3. Emergency Services Levy**

SSROC does not agree that councils should be responsible for paying an Emergency Services Levy (ESL). However, if this must continue, then we welcome the recommendation that councils will be able to recover the actual cost imposed. We recommend that IPART work with councils to establish a mechanism for timely notification of actual total cost.

We recommend that the ESL be released considerably earlier than May (see point 2 above). We welcome the aspect of the recommendations that enables councils to recover the cost in the year they are paid.

IPART should also consider establishing a basket of all Government levies/taxes and making allowance for increases such as in planning and waste levies. Assessment of LGNSW's Cost-Shifting Survey would inform IPART's understanding of broader movement in Government-related costs absorbed by councils.

## **4. Other Specific External Costs**

SSROC agrees with the approach recommended, and recommends further work with councils to determine the specific external costs. We would anticipate that these would include, for example: cyber security measures, environmental impacts, coastal works, and disaster waste management.

IPART could include a simple up-front consultation process across councils as part of preparing for their annual review. The consultation could seek information from councils on any particular abnormal and extraordinary costs. Potentially, Joint Organisations and Regional Organisations of Councils such as SSROC could consolidate and provide input.

## **5. Prison Populations**

SSROC agrees with the approach recommended.

## **6. Productivity Factor Default to Zero**

SSROC recommends that the productivity factor be removed from the rate peg calculation. With the expectations of service delivery by councils continually rising, ratepayers would expect any productivity improvements be reinvested into new community needs.

## **7. Methodology Review Every 5 Years**

SSROC agrees that a review every 5 years is appropriate. However further information is needed on the scope the review: the methodology alone, or a broader range of factors such as those noted in preceding sections.

## **8. Local Government Reference Group**

SSROC strongly recommends that the details of the review process be developed in consultation with councils and NSW government.

## **9. Independent Review**

SSROC fully supports the recommendation to commissioning an independent review of the financial model for councils in NSW, including broader issues than just the system of rate pegging. With sufficiently holistic scope, such a review could result in a much better model.

Scope should include, for example, the matters raised by IPART for consideration: rate rebates and exemptions, use of the capital improved valuation method, exceptional costs, rates base adjustment and government taxes and levies.

## **10. Additional Constraints**

It is not possible to comment on this matter, since SSROC is not clear what is meant by item 3 in matters for further consideration (p111):

*“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.”*

Further information is needed on this point.

## **11. Rates Base Adjustment Mechanism**

SSROC strongly agrees that a mechanism is needed to accommodate adjustment to a rates base, should it be insufficient.

## **12. Full Cost Recovery**

SSROC strongly agrees that this is an important element of any review. As noted above, there are many factors that cumulatively have a major effect on the income of councils. It is important that recoverable costs are fully recovered, and do not become an inequitable drain on councils' funding.

## **13. Integrated Planning and Reporting (IP&R)**

There is scope for broad engagement to increase community understanding of the role of councils, through OLG. SSROC doubts the need for much change to the IP&R process, which includes comprehensive community engagement. However, the framework could be amended for councils to develop and provide annual output and service reporting, which would show the community what proportion of rates is spent on each, the net subsidy for services, and net subsidy per patron (e.g. net subsidy of \$6 per patron for the pools). It would also inform councils' determination of what services are provided, service levels, and opportunity costs.

## **14. Performance Improvement Incentives**

There could be scope for a broad range of performance measures not limited to financial benchmarks, to enable valid comparison, which could be made publicly available.

There is also potential for two versions of special variations, with a simpler path for councils meeting specific performance levels.

## **15. Implementation**

SSROC agrees with a staged approach with the ESL factor and capturing the current inflation rate in 2024-25, then the rest in 2025/26.



## General Recommendations

1. Work with local government to agree principles for financial modelling
2. Fundamentally review the basis for calculation of rates, since this has not changed in the 40 years of rate-pegging, and council needs have changed substantially in that time.
3. Although not within the scope of the Rate Peg Methodology Review, SSROC supports the comment by IPART that councils should be able to reset their rates base through a one-off process.

This submission has been drafted in consultation with SSROC member council officers. However, it has not been possible for it to be reviewed or endorsed at a formal meeting of SSROC. I will be in touch should any issues arise as a result.

Should you have any further enquiries in relation to this letter, please contact me by email

[Redacted email address]

Yours sincerely

[Redacted signature]

Helen Sloan  
Chief Executive Officer  
**Southern Sydney Regional Organisation of Councils**