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

30 June 2023

Strathfield Council Submission – IPARTs Review of the Rate Peg Methodology

Dear Sir/Madam,

Please find enclosed, Strathfield Council's submission to IPART's Draft Report on the Review of the Rate Peg Methodology dated 6 June 2023.

In general, the Council expresses its support for the suggested changes to the rate peg methodology. However, this submission highlights specific aspects concerning the effects of extraordinary surges in statutory charges, like the Emergency Services Levy (ESL), on the rate peg. This issue is particularly relevant for Councils such as Strathfield, which have already obtained approval for a special variation (SV) spanning multiple years.

It is important to take into account the inclusion of the Emergency Services Levy (ESL) cost component for Councils with existing multi-year special variation (SV) approvals, like Strathfield.

Council's forecast in the application for the SV assumes ESL increases based on the Consumer Price Index (CPI), meaning that any extraordinary ESL increases would reduce the revenue derived from the SV for its approved purpose. If the ESL adjustment exceeds the CPI, it will be necessary to add it in addition to the approved SV increases for Councils that are in their SV collection period.

If you require further information, please contact Council's [REDACTED] at [REDACTED]

Yours sincerely

[REDACTED]

[REDACTED]

Draft Submission – IPART Review of the Rate Peg Methodology

Responses to IPART Draft Decisions (1-10)

IPART Draft Decision	Council Feedback
<p>1. To replace the LGCI with a Base Cost Change model with 3 components:</p> <ul style="list-style-type: none"> a. employee costs b. asset costs c. other operating costs. 	<p>Council agrees with this approach. Appropriate weighting should be given to these components to adequately capture the increases in the cost base.</p>
<p>2. To develop separate Base Cost Change models for 3 council groups:</p> <ul style="list-style-type: none"> 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). 	<p>Council strongly agrees with this approach and believes it will recognise the different cost pressures experienced by regional and rural councils. Due consideration needs to be given to Sydney Metro councils that are experiencing growth from “infill” development vs “greenfield” development as the cost pressures and funding for future infrastructure needs for “infill” growth councils are more challenging.</p>
<p>3. For each council group, calculate the Base Cost Change as follows:</p> <ul style="list-style-type: none"> 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 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 	<p>Council agrees with this approach.</p> <p>Council agrees with this approach; however, it is recommended that a more relevant (targeted) index for “construction costs” to be employed rather than basing it on CPI entirely. The growth in council’s depreciation expense (through the annual indexation process) could be a more relevant index as assets are required to be carried at fair value based on current replacement cost methodology.</p>

IPART Draft Decision	Council Feedback
<p>(All groups, Sydney) over the most recent 5-year period for which data is available.</p> <p>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).</p> <p>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.</p>	<p>Council agrees with this approach.</p> <p>Council agrees with this approach; however, the financial data return is an unaudited return and may contain errors which could make it somewhat unreliable. A more reliable measure would be to use the annual audited statements, albeit noting that the FDR is based on audited figures however can be subject to input errors at time of submission</p>
<p>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.</p>	<p>An indicative rate peg issued in September would provide useful guidance with Council's budget setting. However, while May would suit the timing of notification of ESL contributions, it is too late to ensure adequate time for Council's consideration of the draft budget and draft revenue policy, inclusion in Council's IP&R documents then have sufficient time for public exhibition and community consultation. February or early March would be a more realistic timeframe for the publication of final rate pegs.</p>
<p>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.</p> <p>This factor will reflect:</p>	<p>Council agrees with this approach as it is clear and transparent.</p>

IPART Draft Decision	Council Feedback
<p>a. An individual council's contribution for councils:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	
<p>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.</p>	<p>While beyond the scope of this review, Council strongly recommends ESL contributions are released considerably earlier than May for the reasons outlined in Point 4 above.</p>
<p>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 <i>Draft Decision 5</i>).</p>	<p>Council agrees.</p>
<p>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.</p>	<p>Council makes no submission.</p>
<p>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.</p>	<p>Council agrees.</p>

IPART Draft Decision	Council Feedback
10. To review our 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.	Council agrees that a review every 5 years is appropriate.

Responses to IPART Draft Recommendations (1-2)

IPART Decisions / Recommendations etc.	Council Feedback
1. That a local government reference group is established to advise on the implementation of our new rate peg methodology.	Council agrees with this approach.
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.	Council strongly agrees.

Responses to IPART Seeking Comment On (1-9)

IPART Decisions / Recommendations etc.	Council Feedback
<p>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?</p> <p>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.</p> <p>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.</p>	Council agrees with the approach in a) in the years the percentage increase is known and b) in the years the Award is under negotiation and the percentage is not known.
2. Are there any alternative sources of data on employee costs we should further explore?	Council is not aware of any alternative sources.

IPART Decisions / Recommendations etc.	Council Feedback
<p>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?</p>	<p>An indicative rate peg issued in September would provide useful guidance with Council's budget setting. However, while May would suit the timing of notification of ESL contributions, it is too late to ensure adequate time for Council's consideration of the draft budget and draft revenue policy, inclusion in Council's IP&R documents then have sufficient time for public exhibition and community consultation. March would be a more realistic timeframe for the publication of final rate pegs.</p>
<p>4. Do you have further information on arrangements between councils to share Emergency Services Levy (ESL) contribution bills including:</p> <ul style="list-style-type: none"> 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 c. Emergency Service ESL contributions, or contributions for only some of those services? 	<p>No.</p>
<p>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:</p> <ul style="list-style-type: none"> a. Rural Fire Service b. Fire and Rescue NSW c. NSW State Emergency Service? <p>For example, by providing us with a copy of any cost sharing agreement that sets out the proportion that each council pays.</p>	<p>Council makes no submission.</p>
<p>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?</p>	<p>Council supports this proposal.</p>
<p>7. Would you support measuring only residential supplementary valuations for the population factor?</p>	<p>Council has no position on this as its population factor has been zero.</p>

IPART Decisions / Recommendations etc.	Council Feedback
8. If you supported using residential supplementary valuations, what data sources would you suggest using?	Council makes no submission.
9. What implementation option would you prefer for the changes to the rate peg methodology?	Council is comfortable with IPART's preferred option. Additionally, consideration needs to be given to the implementation of the ESL cost component for those Councils that have multi-year SV approvals in place, such as Strathfield. Our modelling assumes CPI based increases in the ESL and consequently the revenue path derived from the approved SV would be diminished in the event of extraordinary increases in the ESL. The ESL adjustment (should this be greater than CPI) will have to be added over and above the approved SV increases.

Response to IPART Draft Finding (1):

IPART Decisions / Recommendations etc.	Council Feedback
1. Some councils that are part of rural fire districts have entered arrangements with other councils to share the costs of the Rural Fire Service component of the Emergency Services Levy (ESL). They may therefore pay an amount that is different to the ESL contribution set out in their assessment notice.	Council makes no submission.

Response to IPART Matters for Further Consideration (1-7):

IPART Decisions / Recommendations etc.	Council Feedback
1. The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and councils.	Council strongly agrees.
2. The use of the Capital Improved Valuation method to levy local council rates could improve the efficiency and equity of rates.	While the use of CIV could improve the efficiency and equity of rates Council would need to see modelling before making further

IPART Decisions / Recommendations etc.	Council Feedback
	comment. It is also important to weigh the cost of the transition to and maintenance of CIV in determining whether to proceed down this path.
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.	If the process for setting the rate peg is robust and transparent Council sees no merit in the introduction of any additional constraints on the rate peg.
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.	Council agrees.
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.	Council strongly agrees. This should be reviewed, and statutory fees should be sufficient to breakeven at the least and should not be subsidised by general ratepayers.
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.	Council agrees, noting that it is comfortable with the current IP&R framework and its implementation of it.
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.	Council is supportive of an appropriate performance measurement framework for local government in NSW and would also support a model that would exempt councils that demonstrate an agreed level of performance and consultation with ratepayers from the rate peg.