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3 July 2023

Review of the rate peg methodology
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Online submission to:
https://www.ipart.nsw.gov.au/Home/Reviews/Lodge-a-submission

Dear Sir/Madam

Submission – Draft Report – Review of the rate peg methodology – June 2023

Tweed Shire Council (Council) welcomes the opportunity to make a submission to the Review of the rate peg methodology.

Council would like to make the following comments in relation to each of IPART's draft recommendations as contained within the Draft Report.

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.

Aligning the employee costs with the Local Government (State) Award would provide the most appropriate and accurate measurement of employee cost movements, coupled with any changes in the superannuation guarantee rate.

Note: Allowance will also need to be made for the additional lump sum payments of $1,000 (or 0.5% of the employee's salary) required to be made in July 2024 and July 2025 provided for in clause 17(xviii) of the Local Government (State) Award 2023.

The RBA WPI forecast could be used in periods where the Award has not been determined, however encouragement should be given to LGNSW and the Unions to negotiate the award outcomes earlier than is the current practice.

As a hybrid solution, the RBA WPI could be used for the proposed September rate peg notification, with the Award amount used for the proposed May notification, if ratified in time.

The risk of the relevant stakeholders having a lack of incentive to negotiate in the Award process as a result of this option is acknowledged. Whilst the NSW Industrial Relations Commission has an important role to play in regulating Award increases under wage fixing principles, IPART could also undertake regular reviews to ensure the weighting of employee costs per capita of employee (by the proposed Council type) does not significantly vary over time.

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

In terms of employee cost as a forecast, IPART has been thorough in identifying and considering alternative data sources.

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?

Council supports this initiative for the Emergency Services Levy (ESL) being a separate component in the rate peg methodology and it being included in a May release. This is a practical solution to eliminate the time lag in increased ESL costs.

The May timing will result in the need for clear communications to the community during the Integrated Planning & Reporting schedule as most councils' planning documentation will be on exhibition during May.

Council would also support some oversight on the State Government in setting the ESL amounts, so it does not merely become a quasi taxation arrangement. In the recently announced increases in the ESL the impact on councils was reported to be $70m. If this represents 11.7% of total costs, the 2023/24 ESL budget increased by approximately $600m, which is astounding.

The current issue also presents an excellent opportunity to revisit how the levy is funded from local government. Council supported the solution previously considered, but not enacted, by the former state government to allow local councils to have a discrete line item on the rate notice for the ESL levy. It is transparent and importantly does not impact other local government services or jobs.

Presently on a rate notice discrete line items include the Ordinary Rate, Waste Management Services for red, yellow and green bins services and for many councils a storm water levy. Those councils like Tweed who are water authorities also include discreet line items for water and wastewater access charges.

Council proposes a discrete levy also be shown on the rate notice for the ESL that sits outside of the Ordinary Rate, much like how your insurance policy transparently lists the ESL on your policy statement as a separate charge.

By way of example, the ESL for 23/24 for Tweed as advised by Revenue NSW is $1,476,236.21. As a separate levy on the Rate Notice, for our 39,000 rate payers this would equate to a flat levy of $37.85 for each rateable property. Revenue neutral to the State Government and revenue neutral to councils. We simply levy the funds and remit them to Revenue NSW.

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?

Council is not party to any shared funding arrangements for ESL contributions.

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.

Council is able to provide any relevant information to IPART on ESL payment. As indicated earlier Council is not party to any cost sharing arrangement.

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?

Tentatively yes without any detail. As a general philosophy the policy positions of the State Government that are placed on Local Government should not be funded by reduced services to the public - for example the economic policies of the State Government to cap developer contributions.

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

The increase in the residential population is a proxy for growth in service demand, whilst an overall increase in supplementary valuations would capture all the growth including potentially major industrial estates.

As the population increase from the ABS is only based on residential population, it would be appropriate for the supplementary valuations to also be based on residential category. To include the total supplementary valuations reducing the impact of the population increase.

Council would support changes to the Annual Financial Statements to support the data requirement of IPART.

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

The changes in the residential supplementary valuations could be included on either Note B2-1 (per rating category) or the Permissible income for general rates in the Special Schedules. As there is a time lag in the ABS data, the Annual Financial Statements would be produced in time for the two components to be matched.

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

Ordinarily the implementation of the new model, without doubling up on a rate increase, will require a financial year of LGCI being abandoned. For this reason, Council supports the implementation in 2024/25 with a true up.

The large increase in the ESL for 2023/24 needs to be considered in any of the alternatives as it is difficult to comprehend such a significant change in future years. If this is not achieved Councils will be left to fund the 2023/24 ESL increase through service cuts – thereby being in direct conflict with what the rate peg is trying to achieve in maintaining revenue per capita.

Matters for further consideration:

1. The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and councils.

This would be a timely review.

2. The use of the Capital Improved Valuation method to levy local council rates could improve the efficiency and equity of rates.

Without knowing the impact of this change, Council's should have the option to use either method to suit their particular area/circumstance. The cost of Capital Improved valuation maybe more expensive than the current unimproved land valuations supplied by the Valuer General.

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.

Councils' role in setting rates is to determine a balance between the 'benefit principle' (represented by the minimum or base rate) and the 'ability to pay' principle (represented by the ad valorem component based on land value).

The current rating methodology provides that the assessments that are produced will be primarily and predominately determined via the ad valorem method whereby the incidence of any rate burden is split differentially according to the value of rateable property.

Any attempt to provide constraints on the current methodology would be in conflict with this principle.

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.

Agreed there are rural areas (across Australia) that do not have a sufficient rate base who a currently surviving on ad hoc government grants. This may continue, however, there needs to be a permanent national/state framework to address their financial sustainability.

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.

Tweed Shire Council has been advocating this position for many years.

It is Council's position that an audit of the actual average cost of assessing and determining a development assessment should be undertaken and that the statutory fees be increased to reflect the true cost of the assessments and index the fees annually. This would take considerable pressure off rates for councils like Tweed experiencing significant number of DA's. Presently development assessment functions at Tweed are subsidised some $3M annually. This is a perverse outcome where existing residents are subsiding the development assessment of new development.

There are also a host of regulatory fees that could be under the auspices of IPART, which could also improve the ad hoc timing of fee announcements – ie Companion Animals Act.

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 currently undertakes significant communications and engagement with the community. Any further support would be considered.

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.

This concept is supported. There could be a range of rate increases that require different levels of administration in the application process, based on the financial performance, asset stock conditions and community satisfaction surveys for example.

For 2023/24 Tweed Shire Council applied for a Special Rate Variation of 2.35% - requiring the same effort as Councils applying for considerably higher amounts.

Council appreciates the opportunity provided by IPART to make a submission on the Draft Report - Review of the rate peg methodology - June 2023 and is confident that the issues raised by the industry through the submission process will be given appropriate consideration.

Yours faithfully

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