

**IPART – Review of Rate Peg Methodology
Draft Report
June 2023**

Wagga Wagga City Council (WWCC) Submission

3. Improving how IPART measure changes in councils' base costs

		WWCC – Supported / Not Supported; Comment
IPART draft decisions:		
1.	To replace the Local Government Cost Index (LGCI) with a Base Cost Change model with 3 components: <ul style="list-style-type: none"> a. employee costs b. asset costs c. other operating costs. 	Supported.
2.	To develop separate Base Cost Change models for 3 council groups: <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). 	Supported.
3.	For each council group, calculate the Base Cost Change as follows: <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 (All groups, Sydney) over the most recent 5-year period for which data is available. 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 	Supported.

	<p>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>	
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>Whilst WWCC supports the early indicative rate pegs to be published in September, leaving the final rate peg announcements until May of each year is not in line with the Integrated Planning & Reporting (IP&R) Framework timeframes. Final rate peg announcements no later than February will allow an amendment to councils' draft long term financial plan (if there was a change to the indicative rate peg), prior to placing the documents on public exhibition during April and May, with final adoption by no later than 30 June.</p>
IPART draft recommendation:		
1.	That a local government reference group is established to advise on the implementation of our new rate peg methodology.	Support. Reference Group to include members from industry bodies – Local Government Finance Professionals NSW, and the Local Government Rating Professionals.
IPART seeking comment on:		
1.	<p>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 of 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>	WWCC supports using the annual wage increases prescribed by the Local Government (State) Award (option a.) as the most appropriate measure of change in employee costs for councils.
2.	Are there any alternative sources of data on employee costs we should further explore?	WWCC suggest the Local Government (State) Award percentage is the most appropriate in this instance.
3.	Do you support releasing indicative rate pegs for councils in September, and final rate pegs that are updated for council's Emergency Services Levy contributions in May?	<p>Whilst WWCC supports the early indicative rate pegs to be published in September, leaving the final rate peg announcements until May of each year is outside of the Integrated Planning & Reporting (IP&R) Framework timeframes. Final rate peg announcements no later than February will allow an amendment to their councils' draft long term financial plan if there was</p>

		a change to the indicative rate peg, prior to placing the documents on public exhibition during April and May, with final adoption by 30 June.
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4. Adjusting for the Emergency Services Levy

		WWCC – Supported / Not Supported; Comment
IPART draft decisions:		
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: <ul style="list-style-type: none"> 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. 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. 	Supported, inclusive of a one off catch up of the advised increase imposed on all councils' for the 2023/24 financial year.
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.	Whilst WWCC supports the early indicative rate pegs to be published in September, leaving the final rate peg announcements until May of each year is outside of the Integrated Planning & Reporting (IP&R) Framework timeframes. Final rate peg announcements no later than February will allow an amendment to their councils' draft long term financial plan if there was a change to the indicative rate peg, prior to placing the documents on public exhibition during April and May, with final adoption by 30 June.
IPART draft finding:		
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.	
IPART seeking comment on:		
4.	Do you have further information on arrangements between councils to share Emergency Services Levy (ESL) contribution bills including: <ul style="list-style-type: none"> a. what these arrangements cover (including whether they cover matters other ESL contributions), and b. whether they apply to Rural Fire Service, Fire and Rescue NSW and NSW State Emergency Service 	WWCC is a part of the Riverina Zone and shares costs in relation to the Rural Fire Services Levy portion of the ESL with the following councils: Coolamon Shire Council Junee Shire Council

	ESL contributions, or contributions for only some of those services?	Lockhart Shire Council
5.	<p>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> <p>a. Rural Fire Service b. Fire and Rescue NSW c. NSW State Emergency Service?</p> <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>Sourcing information directly from the State Government would be WWCC preference, as the State Government issue the invoices to the councils.</p> <p>WWCC is a part of the Riverina Zone and shares costs in relation to the Rural Fire Services Levy portion of the ESL with the following councils: Coolamon Shire Council Junee Shire Council Lockhart Shire Council</p>

5. Capturing external changes outside councils' control

		WWCC – Supported / Not Supported; Comment
IPART draft decision:		
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).	Supported.
IPART seeking comment on:		
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, supported. If a number of councils are experiencing a similar increase in specific external costs that is not factored into the rate peg methodology, a more efficient process would allow this to be accounted for in the rate peg process, as opposed to requiring each individual council to apply for a special rate variation, which places a significant amount of burden on councils to undertake, along with IPART in reviewing applications. Allowing for a separate process within the rate peg calculation would avoid this and create efficiencies for both councils and IPART.

6. Refining the population factor

		WWCC – Supported / Not Supported; Comment
IPART draft decision:		
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	Not applicable to WWCC.

	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>WWCC note the following however:</p> <ul style="list-style-type: none"> • Maintenance of roads etc. used by employees, suppliers and visitors leading to the prison facility are the responsibility of the council to maintain • There may be instances whereby some prison populations are able to access, for example – online council library services. <p>WWCC suggest this needs to be investigated further.</p>
IPART seeking comment on:		
7.	Would you support measuring only residential supplementary valuations for the population factor?	<p>No, WWCC believes that there are other factors that should be considered in addition to the residential supplementary valuations.</p> <p>WWCC suggest this needs to be investigated further.</p>
8.	If you supported using residential supplementary valuations, what data sources would you suggest using?	Other factors could include business supplementary valuations and rezoning and development applications.

7. Retaining the productivity factor

		WWCC – Supported / Not Supported Comment
IPART draft decision:		
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.	Support in principle, however WWCC request further information on what constitutes reasons to depart from this approach.

8. Transition arrangements

		WWCC – Supported / Not Supported Comment
IPART draft decision:		
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.	Supported. WWCC suggests an ongoing five year review, however an option to review every two-three years would be preferred, given the potential volatility in investment markets, cost escalations etc.

IPART seeking comment on:		
9.	What implementation option would you prefer for the changes to the rate peg methodology?	Wagga Wagga City Council prefers implementation options that include the catch up of recent inflationary impacts on councils expenditure. This would ensure that councils are no worse off under the new methodology compared to the existing methodology.

9. Improving the broader regulatory framework

		WWCC – Supported / Not Supported Comment
IPART draft recommendation:		
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.	Support, inclusive of consultation with all stakeholders, including councils, and representatives from Local Government Finance Professionals and Local Government Rating Professionals.
IPART matters for further consideration:		
1.	The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and councils.	Supported.
2.	The use of the Capital Improved Valuation method to levy local council rates could improve the efficiency and equality of rates.	<p>Not Supported. The cost of requiring accurate and reliable data on property improvements far out ways any benefit obtained.</p> <p>The NSW Valuer General 2016 submission to IPART on the <i>Review of the Local Government Rating System</i> references the Henry Tax Review (Commonwealth Attorney General's Department, Australia's Future Tax System: Report to the Treasurer (December 2009) "<i>the efficiency of council rates is likely to be reduced in councils that use improved values to assess the tax, as it discourages capital improvements</i>".</p> <p>The Valuer General submission also suggests that a system wide implementation of capital improved values would cost in excess of \$100 million. This cost would ultimately be borne by ratepayers.</p> <p>The current land valuation system in NSW is appropriate to continue.</p>
3.	There could be merit in considering whether to introduce an additional constraint (i.e. conditions) on the rate peg to	Not Supported. The rate peg is the constraint.

	provide confidence to ratepayers that increases are reasonable.	
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	Supported.
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.	Supported.
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.	Supported.
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.	WWCC request further information on this matter before providing a response.