



The Office of the Chief Executive

26 June 2023

**Independent Pricing
and Regulatory Tribunal**
PO Box K35,
Haymarket Post Shop, NSW, 1240
Via ipart@ipart.nsw.gov.au

Dear Sir / Madam

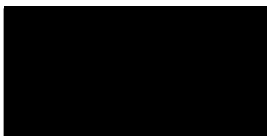
Re: Review of the rate peg methodology submission

Willoughby City Council appreciates the opportunity to provide comment on the Review of the Rate Peg Methodology.

Please find a copy of our submission. Council endorsed the submission on Review of the Rate Peg Methodology on 26 June 2023. We value that IPART have listened to our comments in previous submissions.

To discuss this submission further, please contact me by emailing [REDACTED] [@Willoughby.nsw.gov.au](mailto:[REDACTED]@Willoughby.nsw.gov.au) or by phoning 02 [REDACTED]

Yours sincerely



Debra Just
CHIEF EXECUTIVE OFFICER



Willoughby City Council Submission

IPART - Review of the Rate Peg Methodology Draft Report June 2023

26 June 2023

About Willoughby City

The City of Willoughby occupies 23 square kilometres on the lower north shore of Sydney, with its own CBD of Chatswood and a large part of St Leonards. Located 8.5 kilometres north of the Sydney CBD, Willoughby City incorporates the suburbs of Artarmon, Castle Cove, Castlecrag, Chatswood, Middle Cove, Naremburn, Northbridge and Willoughby, as well as parts of Gore Hill, Lane Cove North, St Leonards and Roseville.

The Lane Cove River and the foreshore of Middle Harbour feature treasured bushland, while our City's residential areas are home to more than 75,409 people in 2022. Industrial and commercial zones support approximately 76,681 jobs and a gross regional product of \$12.44 billion. The City of Willoughby's population is forecast to grow to 87,415 by 2036.

Council manages many assets and delivers numerous services to meet the needs of our community. As with many councils, we are facing increasing expectations and costs associated with delivering these services. We regularly review how we operate and our service costs to ensure we are operating as efficiently as possible and within our means. Even so, the rate peg is not keeping pace with cost escalations making it more difficult for Council to meet the expectations of our community.

At 42%, our rates are a key component of our revenue, and to have a rating methodology which is outdated and not reflective of the costs we face to deliver our services to our community is extremely challenging. Council supports the work IPART are doing on the review of the rating methodology, and in considering our previous and current feedback on the rating methodology review.

Feedback on items IPART are seeking comment on:

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.**

Labour comprises 38% of Willoughby City Council's (Council's) total Operating Expenditure.

Council has a preference for using option a) *"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"* wherever possible.

This is because forward looking labour increases are known with certainty through the Award increases negotiated at the time of each new Local Government Award. Future superannuation guarantee rates are also known with certainty.

It is acknowledged that in years where the new Award is still under negotiation while the rate peg is being formulated, IPART would need to use alternative sources to estimate future wage increases. In these cases, it is Council's view that IPART should revert to option b) *"Use the Reserve Bank of Australia's (RBA) 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”.

However, if IPART is required to use the RBA Wage Price Index in a year between confirmed Award increases, a “True Up” should occur in the year following, accounting for any difference between the final Award increase and the estimate provided by the RBA’s Wage Price Index.

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

Using the final negotiated forward looking Award removes the need for other data sources. Assuming the RBA’s Wage Price Index accounts for unemployment trends and tightness of the Labour market in the years where final Award rates are not available, Council has not identified any alternative sources of data.

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 draft report’s inclusion of a separate adjustment to the rate peg to reflect the annual change to the Emergency Services Levy (ESL).

Council is supportive of the release of indicative rate pegs for councils in September, as it provides a level of certainty for budgeting and long term financial planning purposes.

The update for councils’ ESL contributions in May is troubling, as councils will have their draft Operational Plan and Revenue Policies on exhibition at that time. Due to this timing, there will be a difference between the “rates in the dollar” calculations and “total rates revenue” exhibited to the public. From Council’s perspective the fact that the rate peg will ultimately reflect the ESL contribution means it will be no worse off. It is however, troubling and not a good engagement practice to not include accurate “rates in the dollar” calculations and “total rates revenue” figures in the exhibition draft of the Operational Plan and Revenue Policy.

It would be preferable if State Government could formulate and issue their ESL contributions earlier each year so that the adjustment for ESL can be captured before the public exhibition of the Operational Plan.

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 does not have any ESL sharing arrangement with other councils and so have no further information or comment on these arrangements.

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 of the view that the ESL contribution amounts should be provided to IPART at the same time they are issued to individual councils. This removes another compliance task for councils and ensures accuracy from the source. Council advocates for the calculation and issue of the ESL by State Government, to be much earlier in the year than it presently is.

Council does not have any ESL sharing arrangement with other councils and so the cost sharing agreements are not applicable.

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?

Council supports IPART establishing a process to develop adjustment factors for groups of councils to increase the rate peg to cover specific external costs largely beyond councils' control such as depreciation costs on gifted or transferred assets, audit risk and improvement committee costs, climate change costs, cyber security and other costs not yet known.

It would be cumbersome and open to inconsistency if councils were to submit their own external cost claims. This may result in better resourced councils being compensated for costs that are also borne by other councils who do not have the resource to collate and support the claims. It is important that the process is objective and consistent, acknowledging it will take time to develop a new process.

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

Council continue to support the inclusion of a population growth factor in the calculation of rate pegs for individual councils. This ensures councils are appropriately compensated for the cost of growing populations.

Currently the rate peg includes a population growth factor (increase in rate peg due to population growth). This population growth factor (and the rate peg) is currently reduced by all "supplementary valuations" (valuations that happen outside of the usual 3 year cycle when changes are recorded on the land register due to sub-division, zoning changes or amended land value). IPART are proposing to change this so that the population growth factor is only reduced by residential supplementary valuations (those interim valuations that that lead to population growth) instead of all interim valuations. Council is supportive reducing the population growth factor only by residential supplementary valuations.

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

Council is strongly of the view that Office of Local Government (OLG) or Valuer General (VG) data should be improved so that residential supplementary valuations can be objectively, efficiently and accurately sourced.

Council does not support sourcing information directly from councils as this would cause increased administrative burden for both councils and IPART. This would also result in issues of accuracy and consistency. Taking extra measures to ensure this consistency (such as amending Financial Statements and increasing the cost and time for audit) are also not supported.

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

Council supports the option to implement all changes in the 2024-25 rate peg and include a True Up, which provides a reimbursement for any shortfall. This option would facilitate the transition to the forward looking Base Cost Change (BCC) model while ensuring that through a True Up, councils would be no worse off.

Council is not averse to IPART's preferred option to implement some changes but maintain the Local Government Cost Index (LGCI) for the 2024-25 rate peg. It is not appropriate to delay the implementation of the new BCC methodology beyond the 2025-26 rate peg.

General Feedback on IPART draft decisions:

10. To replace the LGCI with a Base Cost Change model with 3 components:

- a) employee costs
- b) asset costs
- c) other operating costs.

Council supports the replacement of the Local Government Cost Index (LGCI) with a Base Cost Change Model (BCCM) as it is simpler, more transparent and forward looking. This is a welcome change compared to the LGCI which is backward looking and not timely.

11. 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).

Council supports the development of separate BCCM for 3 council groups. This facilitates a rate peg that recognises the individual cost pressures experienced by these different types of councils.

12. 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 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 changes over the year to June and December for the year the rate peg applies).**
- 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.**

Council supports the use of these measures as they are objective and forward looking. The use of the Producer Price Index to supplement CPI for asset costs is appropriate.

- 13. 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.**

See Question 3 above.

- 14. 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.**

Council is in full support of being reimbursed for the annual change in Council's Emergency Services Levy in the rate peg.

- 15. 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.**

Council is in full support of being reimbursed for the annual change in Council's Emergency Services Levy in the rate peg.

- 16. To maintain our current approach and make additional adjustments to the rate peg on an as needs basis for external costs**

Council supports the continuation of the current approach by IPART to identify and make adjustments to the rate peg on an as needs basis for material external costs.

17. 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.

This is not applicable to Council but is generally supported on the basis of logic.

18. 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.

Council would prefer the removal of the productivity factor as it assumes all councils are operating inefficiently and is not reflective of actual cost growth. In addition,

Council is supportive of the productivity factor remaining as zero by default and requiring evidence to move from that position. This recognises that Council productivity gains are reinvested into improved service levels.

19. 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.

Council agrees with the review of the rate peg methodology every 5 years to ensure it remains optimal.