



Woollahra Council

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> <ol style="list-style-type: none"> a. employee costs b. asset costs c. other operating costs. 	<p>Council agrees with this approach.</p> <p>Council would recommend that IPART also review the methodology for the assumed Rate Peg for future years. Currently set at 2.5% is not realistic given current economic conditions.</p>
<p>2. To develop separate Base Cost Change models for 3 council groups:</p> <ol 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 agrees with this approach of three council groups.</p>
<p>3. For each council group, calculate the Base Cost Change as follows:</p> <ol 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 	<p>Council agrees with this approach.</p> <p>Council also recommends that IPART also give consideration to:</p> <ul style="list-style-type: none"> • salary/performance increase costs that are required within the Local Government (State) Award, • award changes to allowances or bonuses that happen form time to time.

IPART Draft Decision	Council Feedback
<p>cases. We are currently consulting on the best approach to measure changes in employee costs (see Seek Comment 1).</p> <p>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.</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</p> <p>Council agrees with this approach</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>Council recommends February of each year for final rate pegs 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.</p> <p>Council is unclear of the value of the September 'indicative' numbers.</p>

IPART Draft Decision	Council Feedback
<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>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>Council agrees with this approach as it is clear and transparent.</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>Council recommends the ESL is released considerably earlier than May, ideally at the same time as the final Rate Peg 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 agrees.</p>

IPART Draft Decision	Council Feedback
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.	Council agrees.
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, but it needs to be determined up front what such a review would be looking at i.e. methodology alone or would it be looking at a set of measures / factors. Perhaps this can be supported and then detail worked out in consultation with industry and the NSW government down the track.

Responses to IPART Draft Recommendations (1-2)

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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 incorporating bodies such as LG Professionals, LGNSW and NSW Rating Professionals.
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. This is long overdue and could have far-reaching beneficial consequences for Councils in NSW – assuming the terms of reference is comprehensive enough.

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> <ol style="list-style-type: none"> 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. 	<p>Council agrees with the approach in a) using the LG Award, as it is the most logical forecast to be using, noting the super guarantee is in addition to the Award.</p>
<p>2. Are there any alternative sources of data on employee costs we should further explore?</p>	<p>Council is not aware of any alternative sources.</p>
<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>Council recommends February of each year for final rate pegs 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.</p> <p>Council is unclear of the value of the September 'indicative' numbers.</p>
<p>4. Do you have further information on arrangements between councils to share Emergency Services Levy (ESL) contribution bills including:</p> <ol 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>Council has nothing further to add here, noting that each Council could provide the information.</p>

IPART Decisions / Recommendations etc.	Council Feedback
<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 has nothing further to add here.</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 agrees that this is certainly worth exploring, noting that we are unsure what specific external costs this might relate to however that can be determined.</p>
<p>7. Would you support measuring only residential supplementary valuations for the population factor?</p>	<p>Council has no position on this as the population factor for Woollahra has been zero.</p>
<p>8. If you supported using residential supplementary valuations, what data sources would you suggest using?</p>	<p>Council has no position on this as the population factor for Woollahra has been zero.</p>
<p>9. What implementation option would you prefer for the changes to the rate peg methodology?</p>	<p>Council agrees with the staged approach i.e. some in 2024-25 to capture the current increase in inflation, then the rest in 2025-26.</p>

Response to IPART Draft Finding (1):

IPART Decisions / Recommendations etc.	Council Feedback
<p>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.</p>	<p>Not Applicable</p>

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 agrees that this could form part of the broader review of financial models for local government that are part of the IPART Recommendation No. 2 below.
2. The use of the Capital Improved Valuation method to levy local council rates could improve the efficiency and equity of rates.	Council currently does not have a strong position on this and would need to consider fairness and equity across different residential types.
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.	Council is unsure of what is proposed and seeks further information from IPART.
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 strongly agrees. This has been a long held view of many Councils and perhaps the proposed work on financial models can take this into account i.e. a different pathway for such Councils.
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 agrees this is a critical area for review.
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.	<p>Council currently undertakes very comprehensive community engagement each year across a range of areas and does not see the need to change the IP&R process.</p> <p>It is noted the feedback from the community workshops that there is capacity to improve the general community's understanding about local government, its services and rates. Council sees value in the sector working with the OLG to improve engagement and education with the broader community about the role of local government.</p>

IPART Decisions / Recommendations etc.	Council Feedback
<p>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.</p>	<p>Council is not sure “incentives” is the appropriate word here, but many of us have long advocated for a range of performance measures to be adopted across local government so that there is an apples-for-apples comparison available that is publicly available. This needs to be broader than just financial benchmarks.</p> <p>Council does support possibly two versions of an SRV – i.e. a simpler path for those who meet certain levels of performance and perhaps the current process (or a revised version of) for those who are not meeting agreed levels of performance.</p>