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Your submission for this review:

Thank your for the opportunity to contribute to the Review or the Rate Peg Methodology. Yass Valley Council condiseder the review at its meeting on 29 June 2023 and determined to make a submission based on the report to Council. Council is generally supportive of the proposed changes to the rate peg methodology. Comments on the specific matters you are seeking feedback on are included in the COuncil Report

6.9 INDEPENDENT PRICING & REGULATORY TRIBUNAL RATE PEGGING REVIEW

SUMMARY

The Independent Pricing & Regulatory Tribunal (IPART) has released a draft report proposing changes to the way the Council rate peg is set and are inviting submissions to be made.

RECOMMENDATION

That a submission to the IPART draft report proposing changes to the way the Council rate peg is set be made in the terms outlined in this report.

FINANCIAL IMPLICATIONS

Changes to the methodology of setting the rate peg for Councils will influence the setting to the annual rate peg for increases to Council's rate revenue.

POLICY & LEGISLATION

- *Local Government Act 1993*

REPORT

1. Introduction

In September 2022 the Independent Pricing & Regulatory Tribunal (IPART) published an Issues Paper in relation to a review of the rate peg methodology. A total of 96 submissions were lodged. In addition, IPART conducted 7 public workshops and 4 technical workshops along with a survey with around 3,400 responses.

IPART has now release its draft report proposing changes to the way the Council rate peg is set. IPART is seeking feedback on the report and submissions are due on the 4 July 2023. There is also the option to participate in a public hearing on 18 July2023.

The draft report can be found at <https://www.ipart.nsw.gov.au/documents/draft-report/draft-report-review-rate-peg-methodology-june-2023>

2. The Local Government Rate Peg

Councils have the power to levy rates (and other charges) within the constraints of the *Local Government Act 1993*, and the rating system it establishes. Within this system, Councils set the rating structure and calculate the rate levels for each rating category. But the total income they can raise through these rates is regulated in several ways – one of which is the Local Government Rate Peg.

The rate peg is the maximum amount in percentage terms by which a Council may increase its rates income in a year. IPART sets this percentage every year, on behalf of the Minister for Local Government, and has done so since first delegated by the then Minister in 2010.

The purpose of the rate peg is twofold:

1. It allows all Councils to automatically increase their rates each year to keep pace with the estimated change in the costs of providing their current services and service levels to households, businesses, and the broader community - that is, their base costs. This helps ensure that they can maintain the scope, quantity and quality of these services over time without undermining their financial sustainability.
2. It also limits the impact of these automatic increases on ratepayers, by ensuring that Councils cannot increase their rates by more than the estimated change in their base costs, and that they engage with their communities if they propose a step change in their rates revenue to fund improvements in the scope, quantity or quality of their services.

In recent years, concerns about our methodology for setting the rate peg have emerged. These concerns primarily relate to how we measure the annual change in Councils' base costs, including our Local Government Cost Index (LGCI). The previous Premier and the then Minister for Local Government asked IPART to review the rate peg methodology, and recommend a methodology that:

- Allows Councils to vary their general income annually to reflect (as far as possible) changes in the costs of providing local government goods and services due to inflation and other external factors
- Continues to include a population factor

3. Review Approach

IPART undertook extensive consultation for this review and have sought to hear the views of both ratepayers and Councils across NSW.

IPART published an Issues Paper in September 2022 and invited submissions from all interested parties. A total of 96 submissions were received, most of which were from Councils and Council organisations. Seven 7 public workshops were held (i.e. 3 in-person workshops in Wagga Wagga, Sydney, and Tamworth, and 4 online workshops) in late November and early December 2022.

IPART undertook its own analysis, sought expert advice, and considered the stakeholder views heard through the consultation. Given the diversity of these views, it was decided to develop a range of options for improving the rate peg methodology and undertake further consultation to test and refine these options before making our draft decisions.

In March and April 2023, IPART held 4 technical workshops (1 with ratepayers and 3 with representatives from Local Government including Councils and academics). The number of stakeholders invited to participate in these workshops was limited to allow for a more targeted and technical discussion of the options for each element of the rate peg methodology.

In addition, IPART undertook NSW-wide surveys to better understand the views of residential and business ratepayers. As part of this process 5 focus groups were held – 3 with residential ratepayers and 2 with business ratepayers.

IPART considered all the feedback received through this second round of consultation, and made the draft decisions, recommendations and findings set out in this Draft Report.



4. Consultation Outcomes

The outcomes of the consultation highlighted that it is in the long-term interests of ratepayers for Councils to be financial sustainable and deliver affordable services that their communities want and need.

Councils indicated that their primary concern is to achieve and maintain financial sustainability, to use their rates income effectively and efficiently, and to maximise what can be achieved.

The following figure shows that the interests and objectives of Councils and ratepayers are interrelated, and an appropriate rate peg methodology should support the delivery of better outcomes for all stakeholders.



Source: ORIMA, Rate Peg Focus Groups Research Report, May 2023, p 2 and IPART.

5. Local Government Concerns

Councils raised a range of specific concerns about the rate peg methodology, which mostly relate to how accurately the methodology measures the change in their base costs. Councils indicated IPART should improve the methodology to:

- Improve the LGCI so that it better reflects their actual costs
- Address volatility in the rate peg associated with the lag between when the change in the LGCI is measured and when Councils apply the resulting rate peg to their rates income
- Better account for differences between individual Councils and/or Council types
- Better reflect Councils' actual labour costs, including by recognising their need to compete with private and public sector employers to attract and retain staff
- Improve the population factor to better reflect changes in Councils' base costs associated with population growth
- Capture the change in costs due to external factors outside of Councils' control – such as the Emergency Services Levy (ESL), climate change and natural disasters, and cyber security.

Councils also raised concerns about the broader regulatory framework, and its impact on their financial sustainability. They identified a range of issues they consider undermine their financial position and limit the effectiveness of the rate peg in maintaining their financial sustainability e.g.

- Some Councils have been historically underfunded and increasing their rates income by the rate peg each year is not enough to close the gap between their current income and the true cost of delivering their current services.
- Although Councils in this position could apply for a special variation to close this gap, some are reluctant to do so as they think the process is resource-intensive and can become a contentious issue.
- Some of the user fees and charges that Councils levy but the NSW Government sets (known as statutory charges) have not been adequately indexed over time. As a result, Councils have not been able to increase these fees and charges in line with the costs of providing the services, and so ratepayers are effectively subsidising these costs.
- The proportion of land that is exempt from rates within some LGAs is significant. In these areas, the council's rate base may be too narrow to raise enough income to cover the costs of its services, undermining its financial sustainability. In addition, existing ratepayers are effectively subsidising the cost of providing services to exempt properties.
- Some Councils would prefer to set rates based on the capital improved value of a property, rather than the unimproved value as currently required. This would more accurately capture the impact of growth within a Council's area. It would also share the costs of local government services more equitably across ratepayers.
- In LGAs with high rates of development and population growth, Councils must provide additional community facilities that are not being provided by developers or funded through development contributions.

- The rates concession of up to \$250 Councils provide pensioners is not indexed, reducing its impact on the affordability of rates for these vulnerable customers. In addition, the NSW Government's requirement that Councils fund around half the concession amount increases their costs, particularly in LGAs with a high proportion of pensioners.

6. Ratepayers Issues

Ratepayers indicated their prime concern was the affordability of their rates, and the impact a new rate peg methodology would have on their cost of living. They also questioned:

- How the rate peg compares to the change in the Consumer Price Index (CPI). Some put the view that Council incomes have grown by much greater than the CPI
- The timing of changes to the methodology. They said changes may not be appropriate in the current economic climate
- Whether there is an effective measurement of Councils' productivity. Many indicated they are not confident Councils use the money they collect through rates efficiently
- Why the IPART review is focusing on the lag in the LGCI. They noted that this lag cuts both ways and Councils do not seem to have an issue when inflation is lower than the rate peg

In the survey, most ratepayers were generally satisfied with the quality and level of services that their council provides. However, they raised some broad concerns about the performance and regulation of Councils e.g.

- More than half of all residential and business ratepayers surveyed were concerned about how fairly rates are split across types of ratepayers
- More than 60% of business ratepayers said they were not comfortable trusting their Council to keep rates reasonable
- Around a third of residential ratepayers said Councils' communication about how rates income is used was not good enough

In the focus groups to further investigate the survey findings it emerged that overall, ratepayers wanted the regulated rate setting framework to reflect the principles of transparency, accountability, efficiency, and fairness. Business ratepayers also wanted more business-like expectations of accountability and performance to be applied to Councils.

In addition, the focus groups revealed that:

- There is a widely held view that Councils don't use rates income effectively, and therefore ratepayers generally pay more than they need to
- Ratepayers have only a general sense of what Councils use rates income for, and this is strongly influenced by the services and facilities they can see and personally use
- The opportunity to discuss issues and hear other opinions in an open forum enabled residential ratepayers to better consider the value of paying rates to support Council services.

7. Proposed Improvements to the Rate Peg Methodology

Based on the IPART analysis and consideration of stakeholder views, a draft decision has been made on changes to the rate peg methodology. The proposed method is simpler than the current method and would result in rate pegs that more accurately reflect changes in the costs NSW Councils incur in providing their current services. Under this method, IPART would:

- Measure the annual change in Councils' base costs for 3 groups of Councils instead of 1 that includes all NSW Councils, to better account for the diversity of Councils' base cost patterns. These groups are metropolitan, regional, and rural Councils.
- Use a new, simpler model to measure this change instead of the LGCI. This measure, the Base Cost Change (BCC), comprises 3 components that we consider better capture Councils' costs: — employee costs (primarily wages, including superannuation guarantee) — asset costs — all other operating costs (including administration, utility costs, insurance)
- Use forward-looking indicators to estimate the change in each BCC component.
- Make an explicit, Council-specific adjustment for changes in Councils' Emergency Services Levy (ESL) contributions so Councils can fund their required contributions to support NSW Fire &

Rescue, NSW State Emergency Service, and Rural Fire Service without needing to reduce other Council services. Using this method, when changes in the costs of the ESL impact the rate peg, it will be visible to Councils, ratepayers, and all stakeholders.

- Make additional adjustments to capture costs driven by external factors that affect Councils, where Councils have engaged with their community e.g. impacts of climate change, and cyber security. IPART are also considering implementing a process through which adjustments for specific external costs could be made for groups of Councils that meet certain criteria.
- Continue to add a population factor but use a refined approach to more accurately measure the change in Councils' residential populations.
- Continue to consider subtracting a productivity factor if there is evidence of productivity improvements in the Local Government sector that have not been fully incorporated in the Base Cost Change, noting that the productivity factor has been set to zero in recent years.

IPART propose to implement the improved methodology in a staged process, with some changes taking place for our decision on the 2024/25 rate peg and the rest for the 2025/26 rate peg. IPART are interested in stakeholder views on the best and fairest way to implement these changes. IPART also propose to review our rate peg methodology every 5 years with a transparent and consultative review process. The review would ensure that the methodology is up to date and fit for purpose.

8. Draft Recommendation on the Investigation of Financial Model for Councils

Throughout the IPART consultations for this review stakeholders have made it clear they have serious concerns about Council financial sustainability and affordability of rates in the current cost of living climate.

The draft decisions on the rate peg methodology may reduce some of these concerns. But many of the issues raised will not be fixed by the rate peg or the special variation process. IPART consider the financial model for Councils needs to be investigated to identify improvements.

IPART is making a draft recommendation that the NSW Government consider commissioning an independent investigation into the financial model for NSW Councils. The investigation could examine the broader issues highlighted by IPART's recent consultation, including financial sustainability, funding, costs and expenditure, financial management and the impact on rates and ratepayers.

9. Draft Decisions, Recommendations and Findings

The IPART draft decisions are:

1. To replace the LGCI with a Base Cost Change model with 3 components:
 - a. Employee costs
 - b. Asset costs
 - c. Other operating costs
2. 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).
3. 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). IPART would adjust for changes in the superannuation guarantee in both cases. IPART are currently consulting on the best approach to measure changes in employee costs.
 - b. For asset costs, IPART 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, IPART 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.
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.
 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:
 - 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 there is 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 there is no accurate information about what they pay.
 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.
 7. To maintain our current approach and make additional adjustments to the rate peg on an as needs basis for external costs (e.g. Emergency Services Levy).
 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. IPART would not make retrospective adjustments for previous population factors.
 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.
 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.

The IPART draft recommendations are:

1. That a Local Government Reference Group is established to advise on the implementation of our new rate peg methodology.
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.

IPART are seeking comment on the following matters:

Issue	Comments
1. What are Council 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	Use the annual wage increases as per the <i>Local Government (State) Award</i> for the year the rate peg applies, adjusted to reflect any change in the superannuation guarantee rate.

<p>associated with each option when setting the rate peg?</p> <p>a. Use annual wage increases prescribed by the <i>Local Government (State) Award</i> 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>	
<p>2. Are there any alternative sources of data on employee costs IPART should further explore?</p>	<p>No</p>
<p>3. Does Council 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>Yes</p>
<p>4. Does Council have further information on arrangements between Councils to share Emergency Services Levy (ESL) contribution bills including:</p> <p>a. What these arrangements cover (including whether they cover matters other than ESL contributions), and</p> <p>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?</p>	<p>No</p>
<p>5. Would Councils be able to provide IPART with timely information on the actual ESL contribution amounts they pay including contribution amounts paid to the:</p> <p>a. Rural Fire Service</p> <p>b. Fire and Rescue NSW</p> <p>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>Yes if Council had a cost sharing agreement</p>
<p>6. Would you support IPART establishing a process to develop adjustment factors for</p>	<p>Yes</p>

<p>groups of Councils to increase the rate peg to cover specific external costs?</p>	
<p>7. Would you support measuring only residential supplementary valuations for the population factor?</p>	<p>No</p>
<p>8. If you supported using residential supplementary valuations, what data sources would you suggest using?</p>	
<p>9. What implementation option would you prefer for the changes to the rate peg methodology?</p>	<p>Undecided</p>
<p>The IPART draft finding is:</p> <ol style="list-style-type: none"> 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>Matters for further consideration:</p> <ol style="list-style-type: none"> 1. The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and Councils. 2. The use of the Capital Improved Valuation method to levy Local Council rates could improve the efficiency and equity of rates. 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. 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. 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. 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>Agree</p> <p>CIV on farmland penalises those framers who manage the land well and rewards those who don't.</p> <p>???</p> <p>Agree</p> <p>Agree. These charges should reflect Councils actual costs.</p> <p>Agree</p>

<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>Agree</p>
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10. Conclusion

It is recommended that a submission be lodged with IPART on the proposing changes to the way the Council rate peg is set as outlined in this report.

STRATEGIC DIRECTION

CSP Theme	Our Civic Leadership
CSP Strategy Objective	CL1: Council is an effective, responsible and innovate organisation
Strategies	CL1.6 - Council actively participates in regional bodies such as CRJO to identify innovations and opportunities for our region
Delivery Program Action	Ongoing participation in CRJO and regional interest groups to identify and action (where possible) opportunities for our region

ATTACHMENTS: Nil