

- We will be recording the public hearing and releasing the recording on YouTube
- Please mute your microphone
- Please turn on your camera (webcam)
- We will start at 2:02pm



IPART Independent
Pricing and Regulatory
Tribunal | NSW

Rate peg methodology review

Public hearing – 18 July 2023

2 – 5 pm



Welcome and Acknowledgement of Country

Carmel Donnelly PSM
Chair

Agenda

2.05 pm Summary of our process so far

2.30 pm Session 1
Measuring changes in councils' base costs

3.10 pm Session 2
Other adjustments (Emergency Services Levy,
external costs, population and productivity factors)

3.50 pm Short Break

4.10 pm Session 3
Transition arrangements and matters for further
consideration

4.50 pm Closing remarks



Summary of our process so far

The rate peg and our role



Maximum amount in percentage terms NSW councils can increase their general income (mostly rates income).



Regulates council rates income and funds the goods and services provided to local communities.

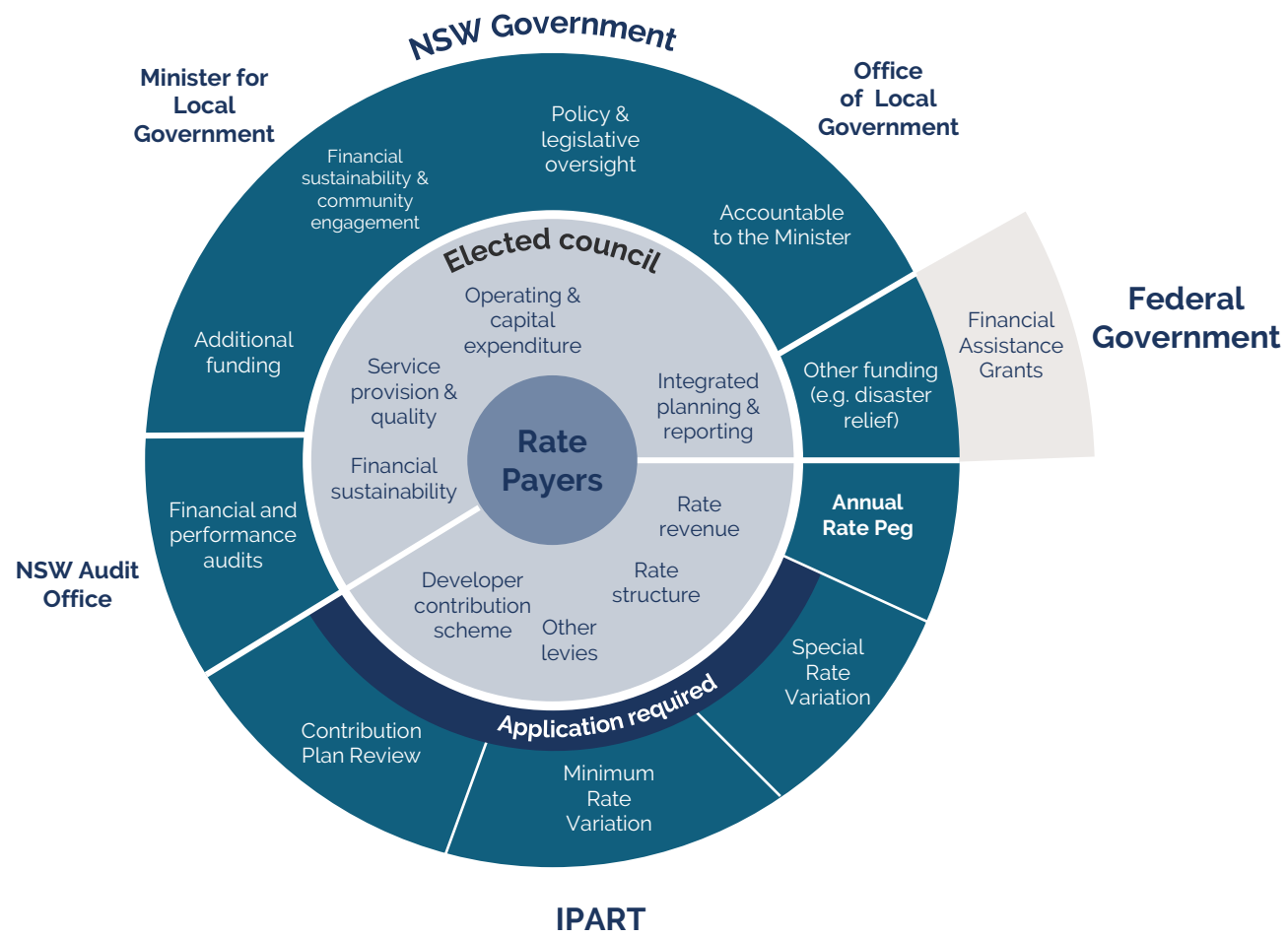


One of the main sources of funding for councils. Represents around one third of councils' total income.



IPART sets the rate peg each year as the Minister's delegate.

The rate peg is just one part of a broader regulatory framework



We have consulted with stakeholders



96

submissions to our Issues Paper



11

stakeholder workshops



72

submissions to our Draft Report



2,881

respondents to residential ratepayer survey



515

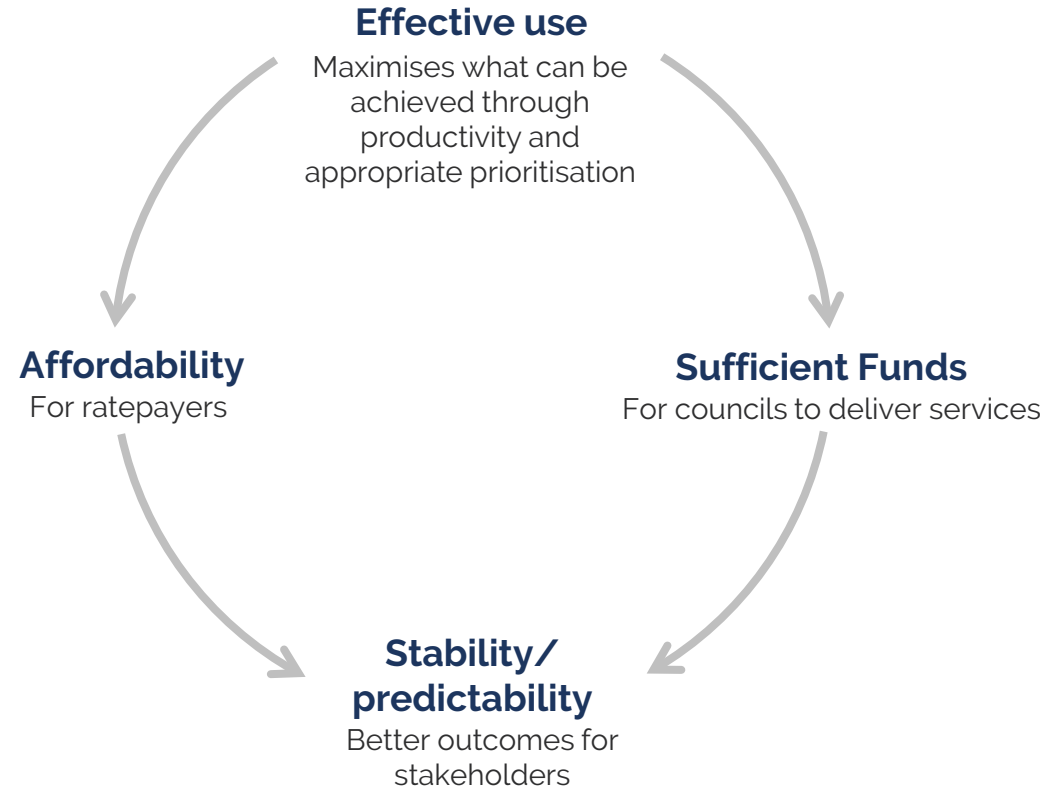
respondents to business ratepayer survey



44

participants at ratepayer focus groups

Stakeholder interests and objectives for the rate peg



What we heard

Most stakeholders supported an independent review of the financial model for councils.

Individuals raised concerns about affordability, transparency, and the need to use rates income effectively.

Stakeholders expressed varying views on implementation and most supported more regular reviews of our methodology.

Most councils supported the new Base Cost Change (BCC) model and preferred using Local Government (State) Award increases to measure changes in employee costs.

Most councils supported our proposed Emergency Services Levy (ESL) approach but were concerned about final rate pegs in May.

Some councils supported establishing a process to adjust for external costs.

Overview of our draft decisions

More timely measure of cost changes:

- New 3-factor BCC model
- BCC models for 3 council groups

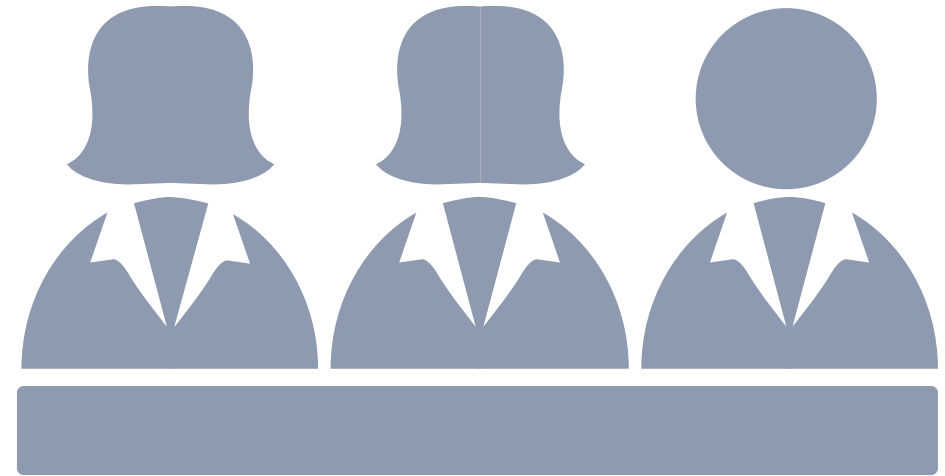
A separate ESL adjustment factor to reflect changes in each council's contributions

- Adjust for external costs on an as needs basis
- Adjust population factor to exclude prison populations
- Retain productivity factor at 0% as a default

- Stagger implementation over 2 years
- Establish a local government reference group
- Review methodology at least every 5 years

We have recommended that the NSW Government consider commissioning an independent investigation into the financial model for councils

Questions





Session 1:
Measuring changes in councils'
base costs

Summary of our draft decisions



New 3-factor Base Cost Change (BCC) model including:

- employee costs
- asset costs
- other operating costs.



Separate BCC models by council groups to better account for diversity:

- metropolitan
- regional
- rural.



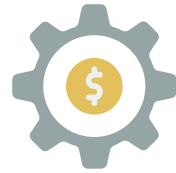
Using forward-looking measures such as:

- Local Government (State) Award
- RBA's forecast change in the CPI and the WPI.



We proposed releasing indicative rate pegs around September and final rate pegs around May.

BCC factor 1: Employee costs



Employee costs represent around 39% of councils' total costs

The NSW public sector WPI mainly captures changes in wages for State Government employees and does not reflect the cost changes incurred by councils



Options in our Draft Report:

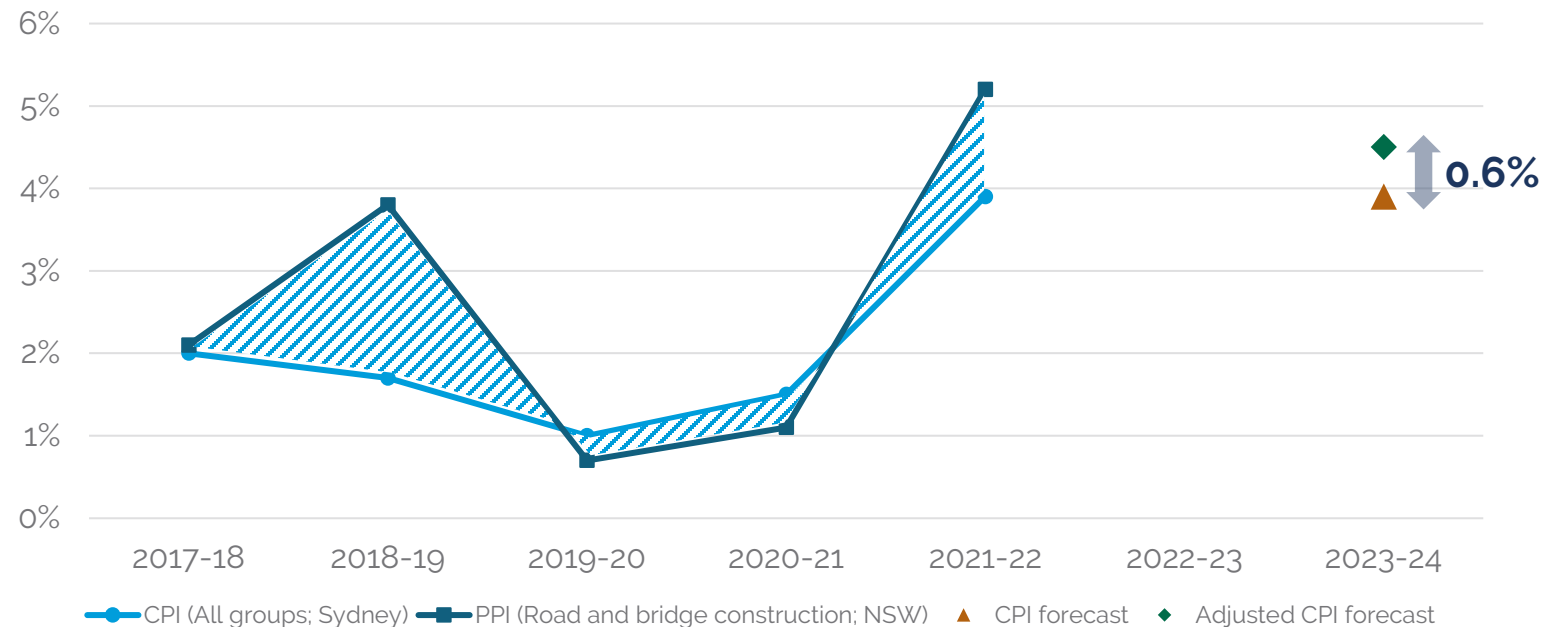
- Annual wage increases prescribed by the Local Government (State) Award
- The RBA's forecast change in the WPI



We are seeking feedback on stakeholder preferences and how the risks associated with each option can be managed

BCC factor 2: Asset costs

- Asset costs represent around 21% of councils' total costs
- Our draft decision is to use an adjusted CPI forecast



- We also considered using changes in depreciation costs to measure asset costs

BCC factor 3: Other operating costs



Our draft decision is to use the RBA's forecast change in the CPI for all other operating costs



Including additional costs with minor weightings is unlikely to have material impacts on rate peg outcomes



We also considered:




- changes in the CPI for different capital cities
 - changes in the PPI
 - alternative data sources.
-

Council diversity and weightings

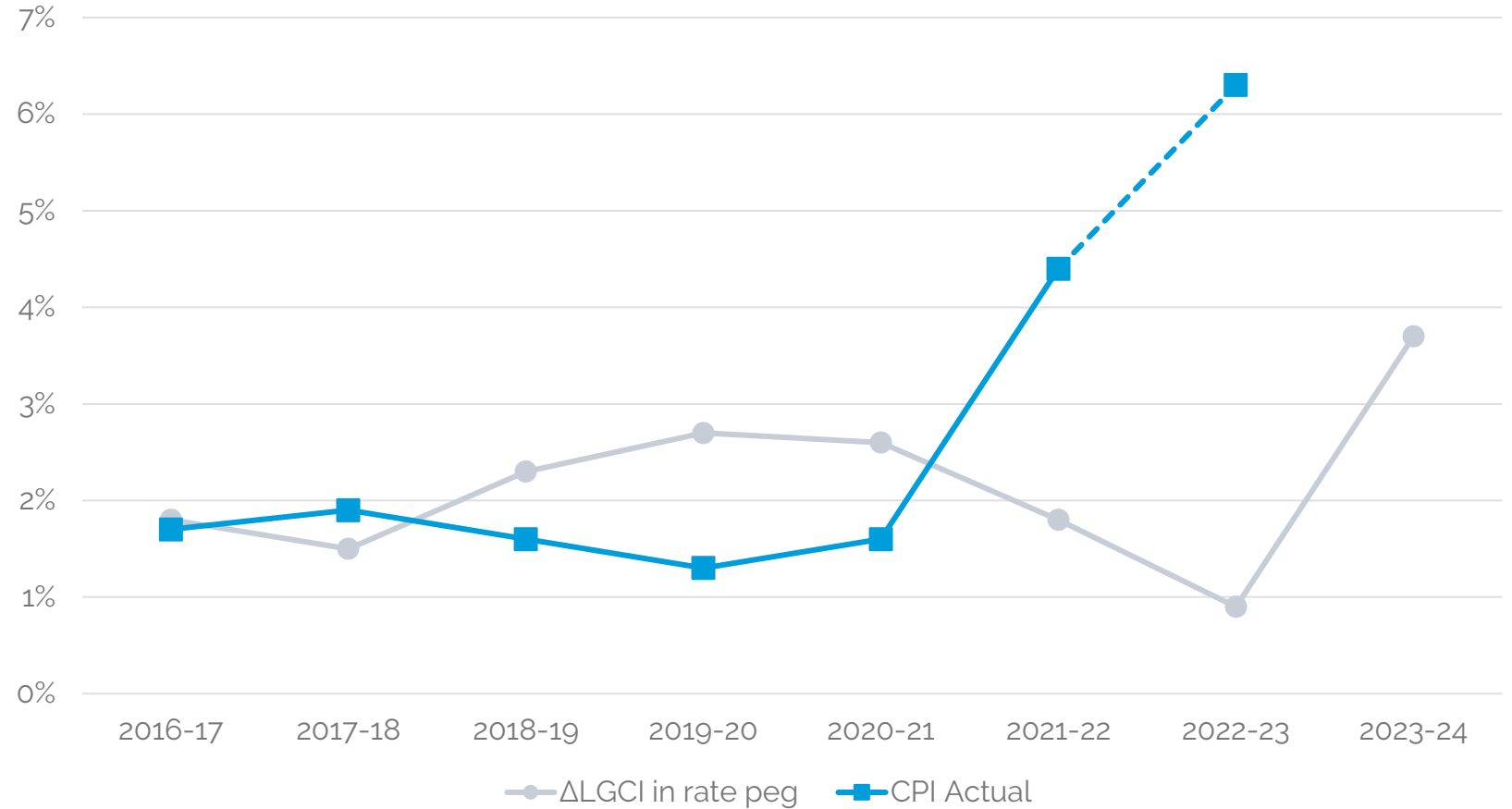


Our draft decisions are to:

- develop separate BCC models for 3 council groups
- calculate weights using the most recent 3 years of data from councils' Financial Data Returns, and update these annually.

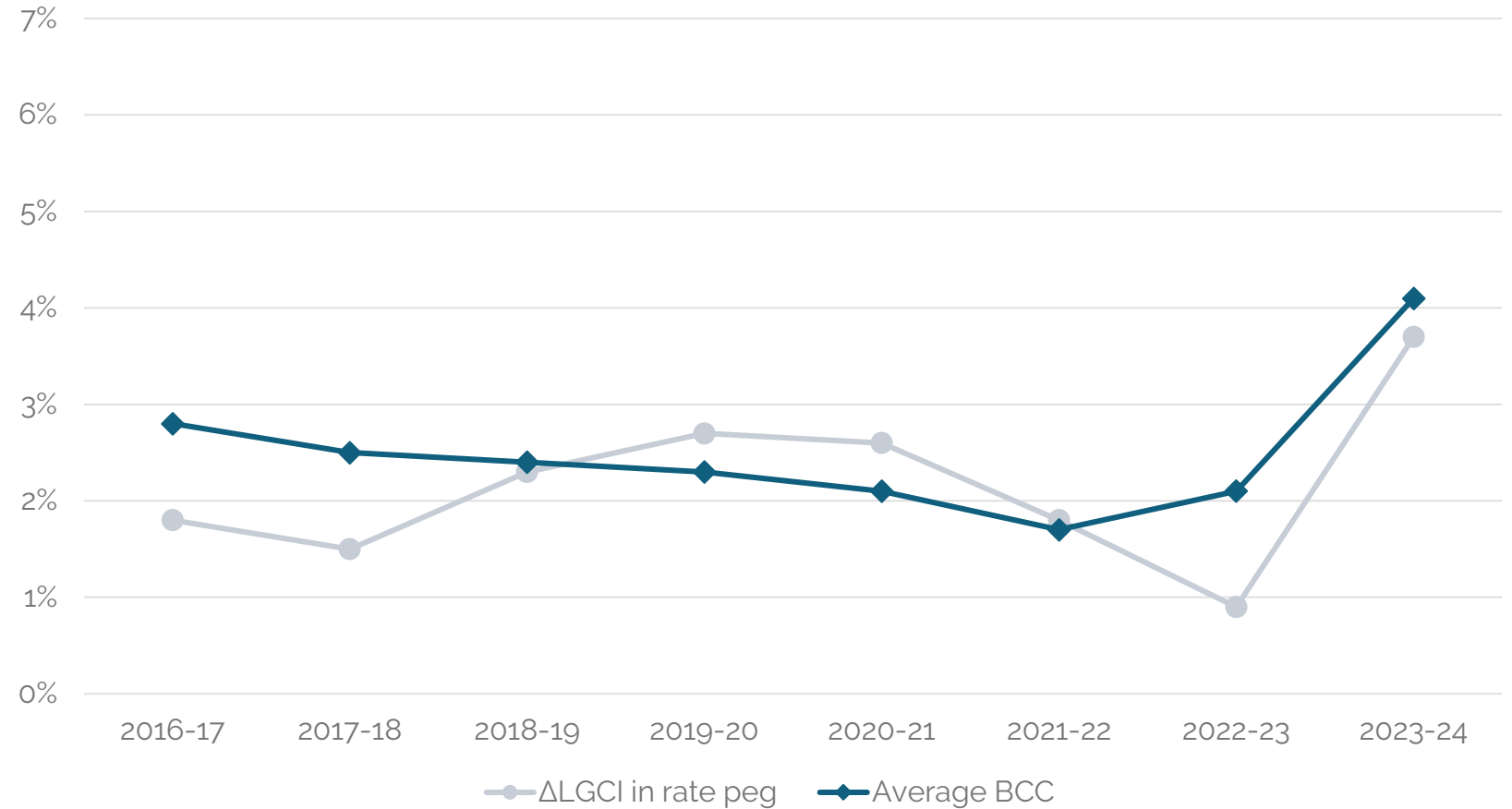
	 Employee costs	 Asset costs	 Other operating costs
Metropolitan	41%	18%	41%
Regional	37%	23%	40%
Rural	36%	26%	38%
All councils	39%	21%	40%

Δ LGCI and CPI



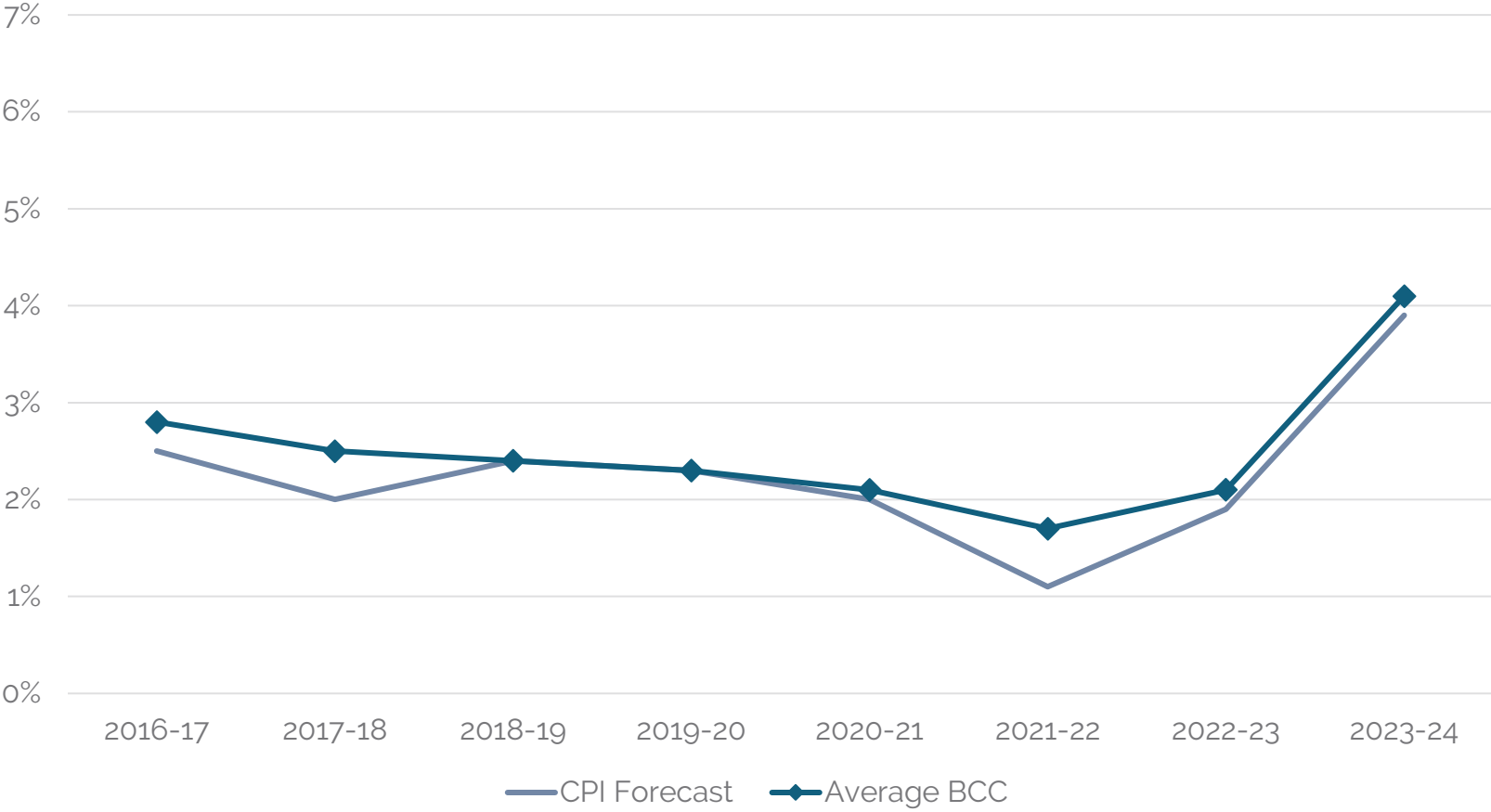
Councils noted that the 2-year lag is a problem in periods of volatility and supported moving to forward-looking indicators

Δ LGCI and Draft BCC



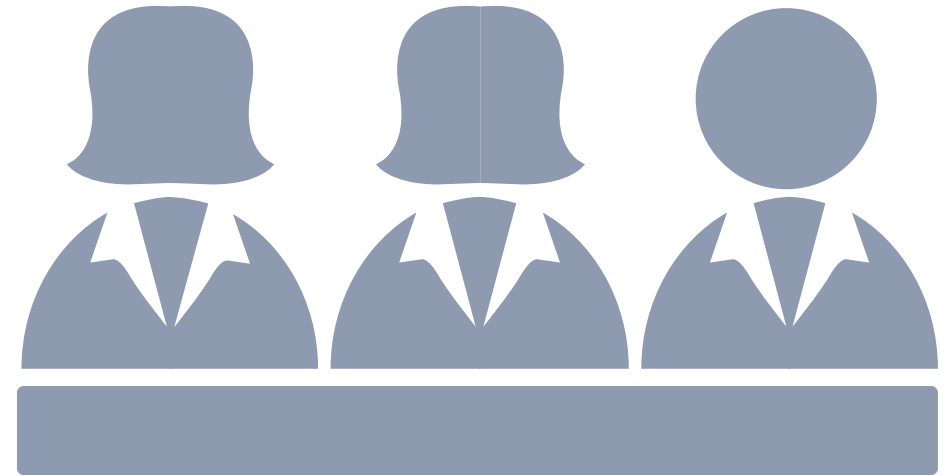
The BCC model should produce a less volatile and more timely reflection of changes in councils' costs

Forecast CPI and Draft BCC



The BCC model is more cost-reflective for councils than the CPI, which measures changes in costs for metropolitan households

Questions





Session 2:
Other adjustments
(Emergency Services Levy,
external costs, population and
productivity factors)

Emergency Services Levy (ESL)

Councils must make an annual contribution to fund the State's emergency services through the Emergency Services Levy

State
Emergency
Services

NSW Fire
and Rescue

Rural Fire
Service

Our current methodology:

- captures the average annual change in councils' ESL contributions across NSW in the LGCI which is applied to all councils uniformly
- does not capture changes in individual council's ESL contributions which vary
- uses data lagged by one year

Emergency Services Levy (ESL)

Our draft decisions are to:

Include a **separate adjustment factor** that reflects the annual change in each council's ESL contribution.

- ESL factors would reflect individual council's actual ESL contributions to the extent possible
- We would need accurate information about what councils pay to set a factor to match individual contributions

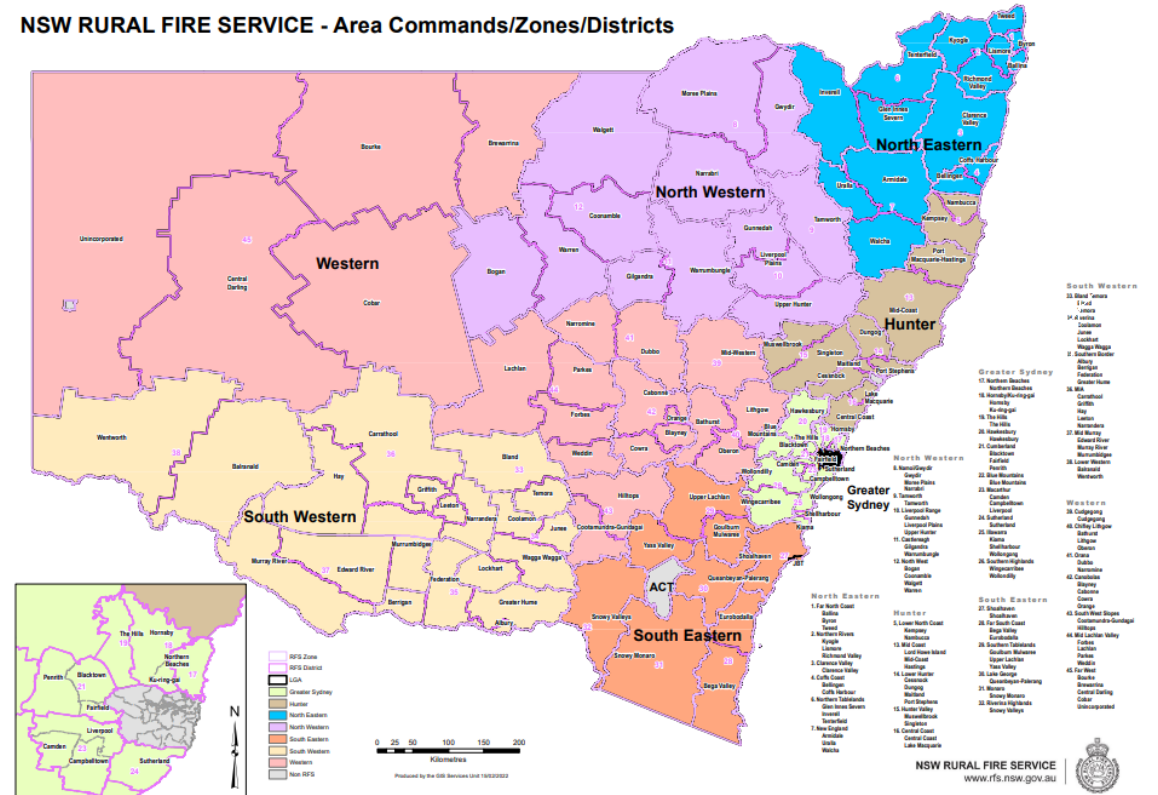
Set ESL factors and a final rate peg for each council in May after ESL contributions for the year the rate peg is to apply are known.

- To ensure councils can recover changes in ESL contributions in the year contributions are to be paid
- We want to know how this would affect councils and ratepayers

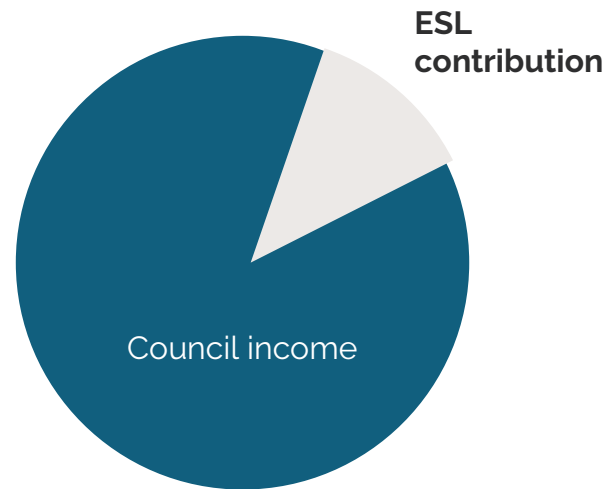
Reflecting individual council contributions

- Some councils in rural fire districts have cost sharing arrangements
- We are seeking information on cost sharing allocations
- Without this information, we propose setting ESL factors to reflect the weighted average change in the districts' RFS contribution.

NSW RURAL FIRE SERVICE - Area Commands/Zones/Districts



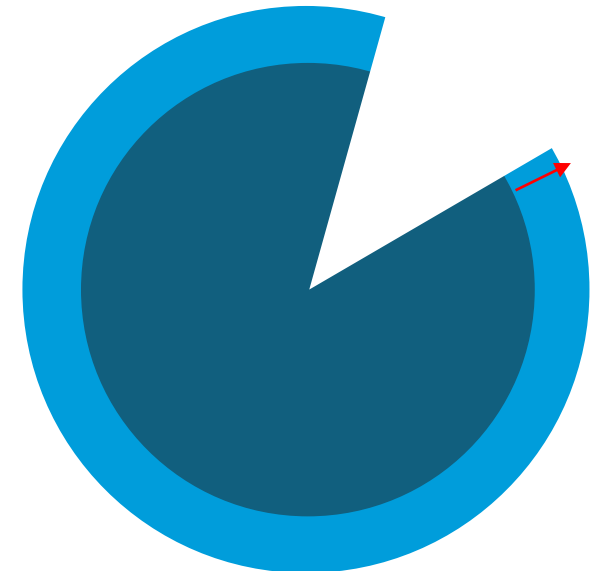
Calculating ESL factors



1. Remove ESL contribution paid out of the income



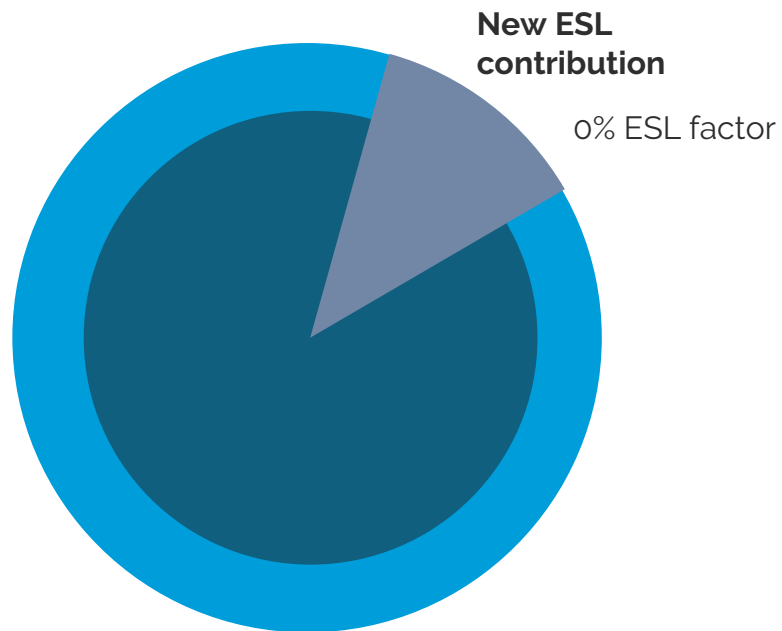
2. Apply the BCC, population factor and other adjustments (new blue ring)



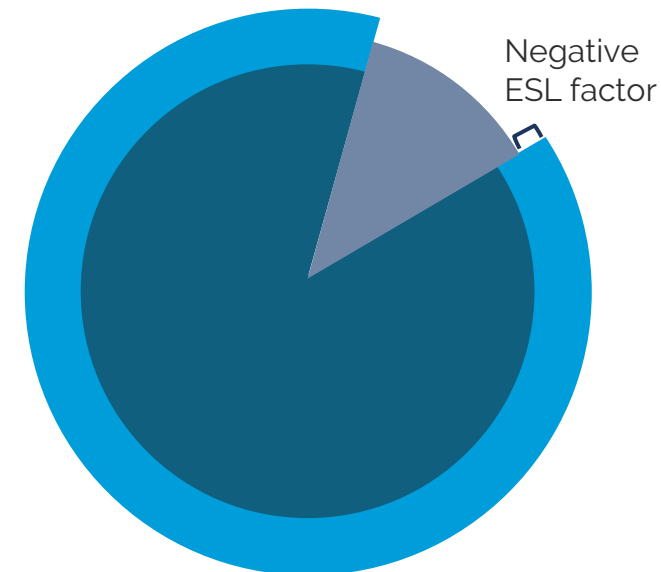
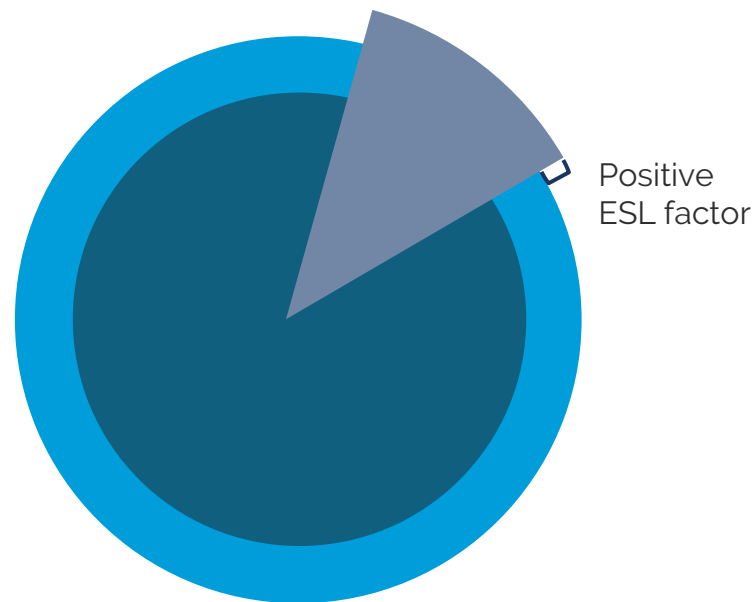
NOT TO SCALE

Calculating ESL factors

3. Add in ESL contribution to be captured



4. Find additional change needed in income to allow council to recover ESL contribution (ESL Factor)



NOT TO SCALE

External costs



External costs are costs from external changes that are outside councils' control



We heard concerns about funding additional requirements and responsibilities, and that a range of costs are not reflected in the current rate peg



Our draft decision is to maintain our current approach and make additional adjustments to the rate peg on an as needs basis for external costs

Population factor



Population factor is designed to keep the revenue per capita constant with population growth, before inflation



Some of the issues stakeholders raised included:

- Prison populations
 - Historical growth and service populations
 - Supplementary valuations
 - Economies of scale
-



Our draft decision is to deduct prison populations from the residential population of a council area and then calculate the growth of the non-prisoner residential population

Productivity factor



The productivity factor was incorporated to reflect the year-on-year productivity gains over time



Stakeholder comments on the productivity factor included:

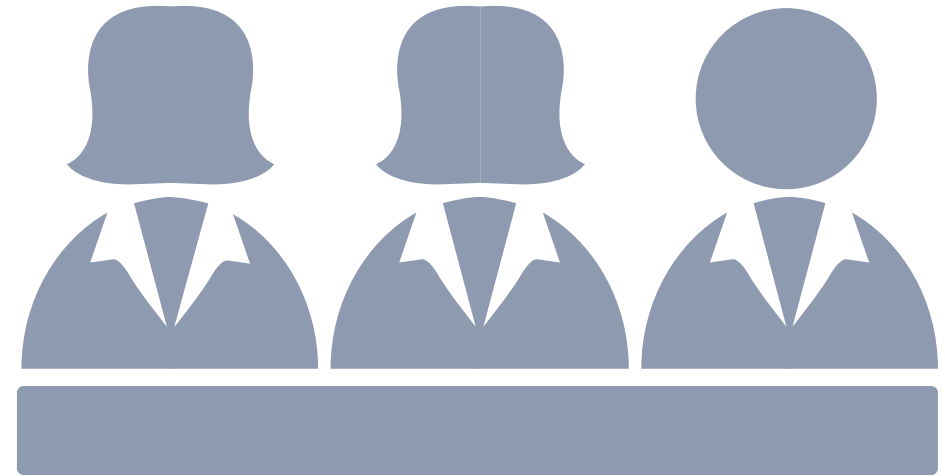
- Productivity could be created through council plans and programs
- It is difficult for productivity gains to be transformed into financial savings



Our draft decision is to retain the productivity factor in the rate peg methodology and set this at zero as the default

An average productivity factor does not reflect the ability of individual councils to achieve productivity gains

Questions





Session 3:
Transition arrangements
and matters for further
consideration

Draft rate peg methodology

Current methodology

LGCI

- backward-looking model
- 26 cost components
- Captures average annual increases in the ESL through a component in the LGCI

Population factor

Productivity factor

Other adjustments

Draft methodology

BCC

- forward-looking model
- 3 cost components
- separate BCC models by council types

Separate ESL factor

Population factor (revised)

Productivity factor

Other adjustments

Implementation

Option	2024-25	2025-26
Option 1	<ul style="list-style-type: none">• Use the LGCI (excluding ESL)• Use separate ESL factors• Remove prison populations from population factor	<ul style="list-style-type: none">• Use the BCC model
Option 2	<ul style="list-style-type: none">• No changes	<ul style="list-style-type: none">• Implement all changes
Option 3	<ul style="list-style-type: none">• Implement all changes	<ul style="list-style-type: none">• No further changes
Option 4	<ul style="list-style-type: none">• Implement all changes• One-off adjustment for difference between the LGCI and the BCC	<ul style="list-style-type: none">• No further changes

We propose to review our rate peg methodology at least every 5 years with a transparent and consultative review process.

Review of the financial model for councils



Stakeholders have serious concerns about how local government services are funded and rates are regulated in NSW



Some of the issues stakeholders raised cannot be fixed through changes to the rate peg methodology alone



Our draft recommendation is that the NSW Government consider commissioning an independent review of the financial model for councils in NSW

Measures to improve the equity of the rating system

Eligibility criteria for rates exemptions

- 1 To ensure ratepayers do not subsidise the costs of providing services to properties where this is not justified
-

Capital Improved Value method

- 2 To set the variable component of rates on a more equitable basis
-

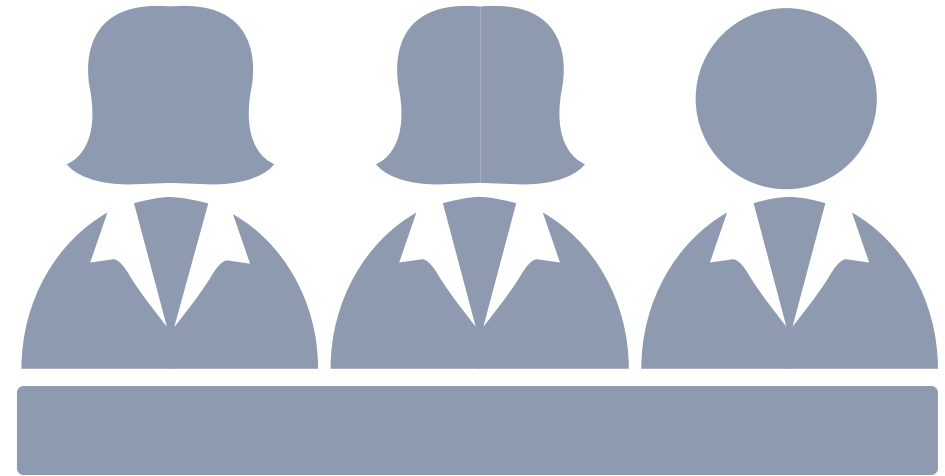
Statutory charges

- 3 To ensure that statutory charges reflect the full costs councils incur in providing statutory services
-

Measures that require further investigation

- 1 Strengthening incentives for councils to deliver outcomes for ratepayers
- 2 Addressing financial sustainability challenges
- 3 Improving communication with ratepayers
- 4 Exploring alternative funding sources
- 5 Reviewing pensioner concessions
- 6 Considering additional constraints to provide stability and confidence for individual ratepayers

Questions





Next steps

Next steps

