- We will be recording the workshop for internal use only

Rate peg methodology review

Industry workshop – 31 March 2023

11am – 2pm

Welcome and Acknowledgement of Country

Carmel Donnelly PSM

Chair

Agenda

01 Introduction

02 Summary of our process so far

03 Feedback on options we are considering

04 Next steps for the review

Summary of our process so far

We have consulted with stakeholders

95

submissions to our Issues Paper

- 22 individual
- 57 council
- 6 council organisation
- 5 organisation
- 5 industry

7

stakeholder workshops

- 4 online
- 3 in-person
- 250+ participants

2,881

respondents to our NSW ratepayer survey

- 30% metro
- 30% metro fringe
- 22% regional
- 11% large rural
- 7% rural

Further consultation

We are holding further consultation with stakeholders in response to the issues raised by stakeholders at our workshops and through submissions before releasing a draft report.

Holding workshops with technical experts and ratepayers

Conducting a survey of business ratepayers

Holding ratepayer focus groups

Review timeline

Terms of Reference
30 Aug 2022

Issues Paper
29 Sep 2022

Workshops
Nov / Dec 2022

Technical workshops and ratepayer focus groups
April 2023

Draft Report
May 2023

Public Hearing
June 2023

Final Report
August 2023

What stakeholders have told us

Feedback from councils

- Many advocated for abolishing the rate peg
- Labour cost changes should reflect the NSW LG (State) Award
- Rate peg does not accurately reflect changes in asset costs
- Suggested adjustments to the population factor
- Productivity factor should be removed or remain at zero
- Costs driven by external changes, outside of councils' control, should be captured
- Methodology needs to account for the diversity of councils
- Methodology should account for councils' financial sustainability

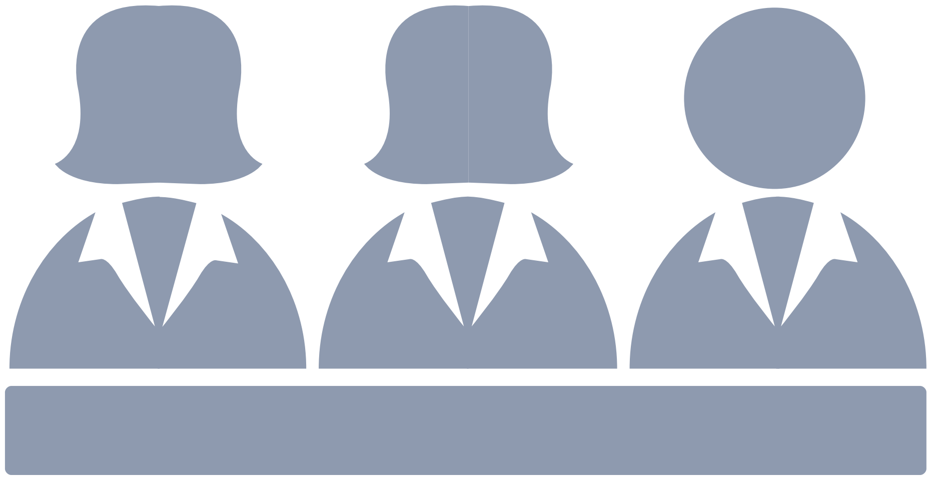
Feedback from ratepayers

- Affordability
- Councils' financial management
- Council spending does not always reflect community preferences
- Rate peg has not protected ratepayers from large special variation increases
- Population factor should be adjusted to exclude prison populations and account for population decline
- Councils need to be encouraged to improve their productivity
- Why the rate peg is not pegged at CPI

Early findings from our ratepayer survey

- ORIMA Research surveyed 2,881 residential ratepayers and renters across NSW.
- Affordability of rates is the most important consideration.
- Respondents generally have positive views about the services provided by their council.
- Two thirds preferred for councils' rates to change by different amounts to suit their needs.
- Ratepayers and community should have a high level of influence in deciding council rate increases.

Feedback and questions



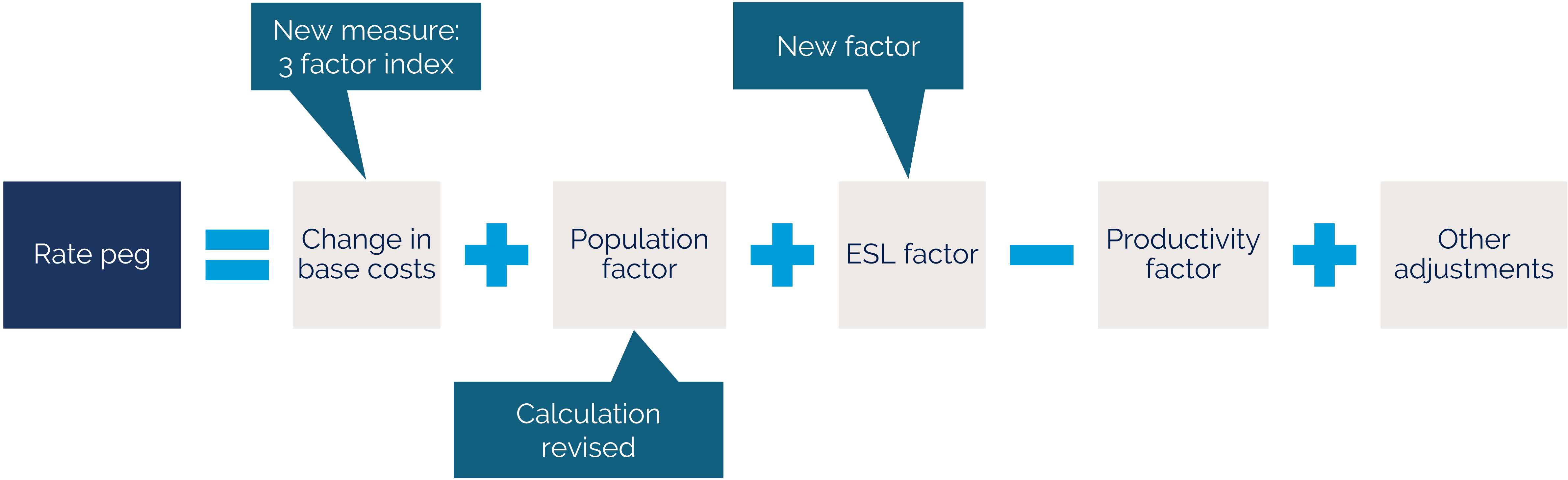
Feedback on options we are considering

Current rate peg methodology

Rate peg = Change in LGCI + Population factor + Productivity factor + Other adjustments

Local Government Cost Index of 26 components

Options we are considering



Balancing ratepayer concerns and council sustainability

Ratepayers

Suggested that the rate peg had not sufficiently protected them

Councils

Suggested that they are struggling to maintain their current level of service

Measuring base cost changes

Selecting 3 components that reflect councils' major costs

- labour costs
- asset costs
- other operating costs

Changing how we calculate the components

- forecasts
- actuals
- rolling average

Changing the 'one size fits all' approach and grouping councils based on common characteristics

Efficient labour costs

- Councils have told us that it can be difficult to attract and retain staff.
- Options include:

Local Government (State) Award

- Sets out the pay and conditions of employment for most councils
- Supported by councils
- May reduce incentives to negotiate

RBA's forecast Wage Price Index

- National measure of both public and private sector
- Above award when private sector wages increase faster than Award

Fair Work Commission minimum wage increase

- Independent, well regarded and based on thorough analysis
- May not be appropriate for councils

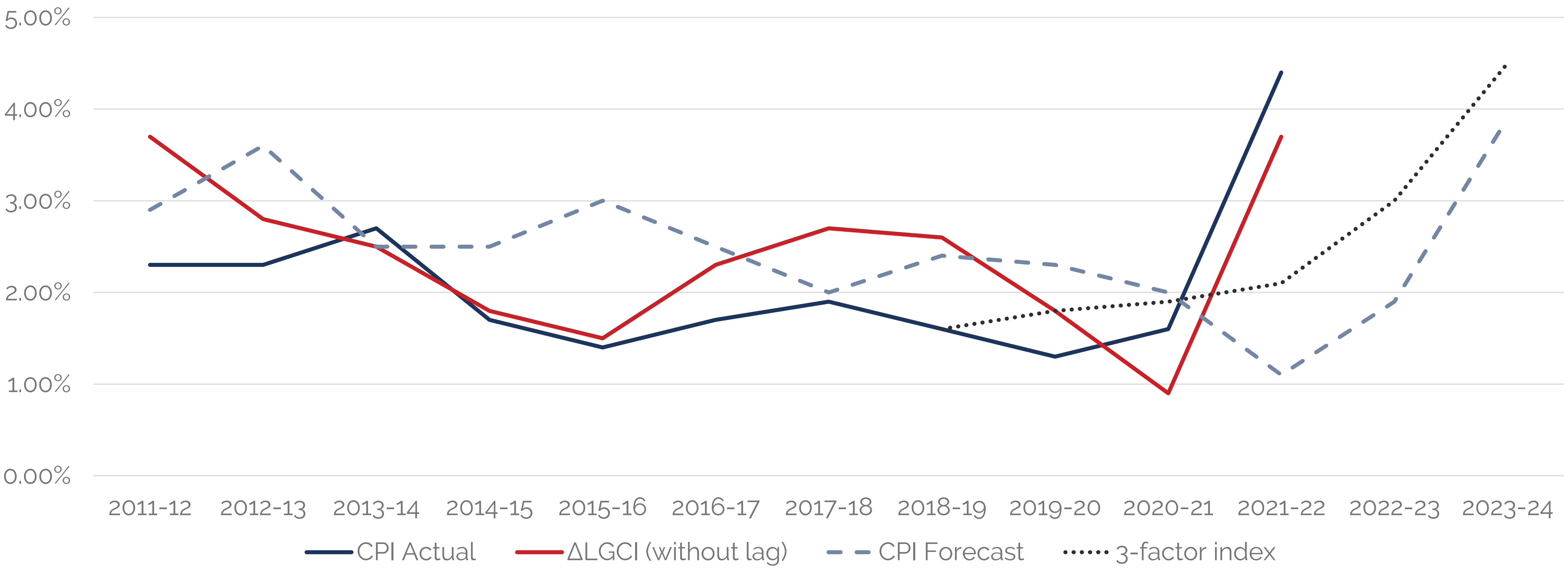
Reflecting asset costs

- We are considering capturing council's asset costs using **changes in councils' depreciation expenses per capita**.
- Depreciation reflects changes in asset costs (buildings, IT systems, other structures).
- We are considering using lagged actual changes in deprecation per capita and a 3-year rolling average to reduce volatility.
- Unlike ABS price indexes, changes in depreciation per capita would reflect increases with the volume of services per capita.
- Depreciation data reported in councils' financial statements appears to be the most objective measure available.

Capturing other operating costs

- We propose using the **CPI** for all other operating costs.
- Stakeholders previously questioned why the rate peg does not always align with changes in the CPI.
- CPI measures price changes in a 'basket' of goods and services consumed by the typical metropolitan household, including goods that may not reflect council purchases (e.g. housing, household items and groceries).
- A 3-factor measure of base cost changes would capture councils' main cost categories to better reflect what councils are required to spend on.

3-factor index



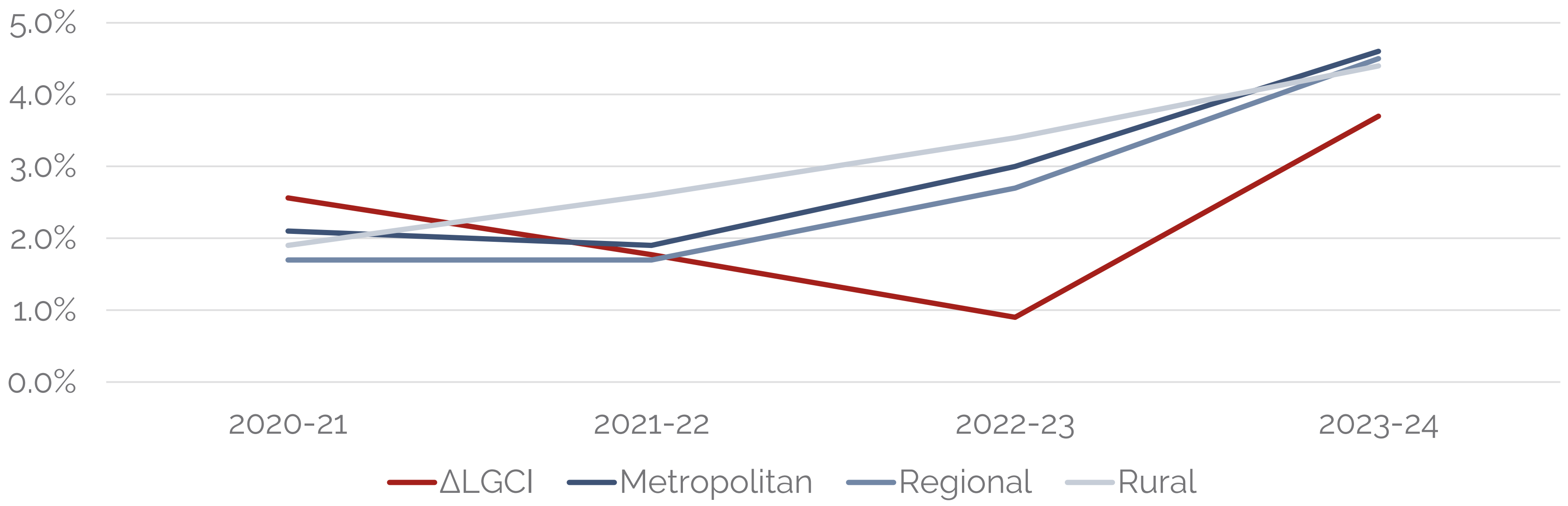
Accounting for diversity

- Our current methodology captures some diversity through the population factor.
- To better tailor the rate peg to how councils' costs are changing, we could calculate base cost changes for different groupings of councils.

Possible groupings

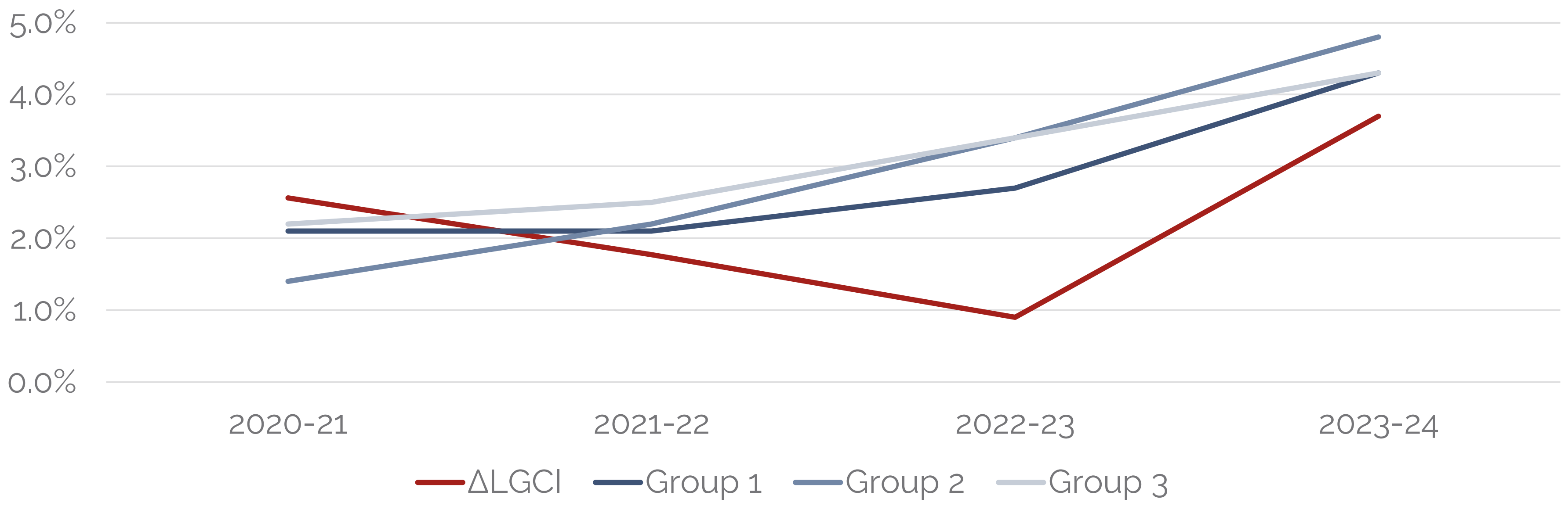
OLG classifications	Population size or population growth	Population or property density	Socio-economic advantage and disadvantage	Other measures such as road length per capita

3-factor index – metropolitan, regional and rural



	2020-21	2021-22	2022-23	2023-24
ΔLGCI	**2.6%**	**1.8%**	**0.9%**	**3.7%**
Metropolitan	2.1%	1.9%	3.0%	4.6%
Regional	1.7%	1.7%	2.7%	4.5%
Rural	1.9%	2.6%	3.4%	4.4%

3-factor index – groups based on road length per capita



	2020-21	2021-22	2022-23	2023-24
ΔLGCI	**2.6%**	**1.8%**	**0.9%**	**3.7%**
Group 1 (less than 10m)	2.1%	2.1%	2.7%	4.3%
Group 2 (between 10m and 100m)	1.4%	2.2%	3.4%	4.8%
Group 3 (100m or more)	2.2%	2.5%	3.4%	4.3%

Comparison of 3-factor approach and other options

	Captures regional differences	Addresses lag	Addresses volatility	Captures increases in asset costs	Uses reliable, independent data	Simple to understand and administer
LGCI (current)	Very low	Very low	Very low	Very low	Very high	Low
3-factor approach (3 groups)	High	Medium[a]	Low	High	Medium[a]	High
3-factor approach (5 groups)	High	Medium[a]	Low to very low	High	Medium[a]	Medium
Rolling average actual/ forecast combination	High	Low	Medium	High	Medium[a]	Medium
Single year actual/ forecast combination	High	Medium	Low	High	Medium[a]	Medium
2-factor, CPI & WPI forecasts	Low	Very high	Low	Low	High	High

a. "Medium' score is due to the use of lagged actual depreciation data

Population factor

Stakeholders asked us to review how we measure changes in population

- Service populations instead of residents
- Rateable properties instead of residents
- Prisoners could be excluded from a council's residential population
- Forecasts instead of lagged estimated changes in population

Stakeholders asked us to change our treatment of supplementary valuations

- Remove adjustment for supplementary valuations
- Allow negative supplementary valuations potentially increasing council population factors
- Adjust for supplementary valuations for residential land

Population factor

Exclude prison populations from the population factor.

Continue to deduct supplementary valuations.

Only capture residential supplementary valuations.

Productivity factor

Remove the factor

The factor is currently set to zero as a default.

Removing this would simplify the methodology.

vs

Retain the factor

If we change our cost categories, and the way we measure them, we may need to consider an explicit adjustment for expected productivity gains.

Cost changes due to external factors

Ad-hoc adjustments

Councils may need to recover costs through Special Variations (SVs)

Develop a process for councils to submit an external costs claim

Alternative to the existing special variation process

Use actual cost data to identify external costs and make adjustments

May be unfeasible due to data limitations and resources. May result in a 'one size fits all' adjustment.

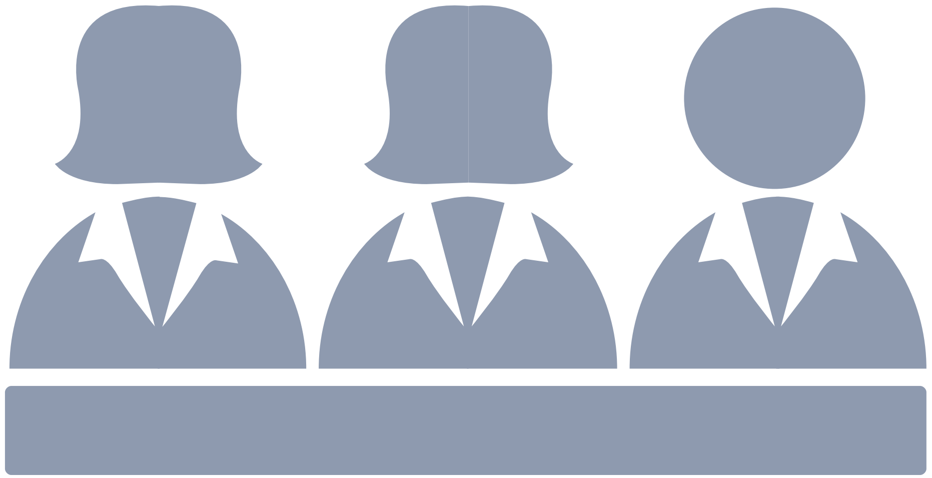
Ask the NSW Government to estimate the cost of regulatory changes

Would only capture some external costs

Cost changes due to external factors

- It may not be appropriate to recover all external costs through the rate peg, some are better suited to special variations
- Ratepayer submissions and our survey told us there was limited support to capture external costs in the rate peg
- We are considering changes to how we measure councils' contributions to the **Emergency Services Levy (ESL)**
  - We currently capture the change in the ESL for the average council
  - We are exploring options to better reflect each council's contribution, subject to data availability

Feedback and questions



Next steps

Next steps

Terms of Reference
30 Aug 2022

Issues Paper
29 Sep 2022

Workshops
Nov / Dec 2022

Technical workshops and ratepayer focus groups
April 2023

Draft Report
May 2023

Public Hearing
June 2023

Final Report
August 2023