

- We will be recording the workshop for internal use only
- Please mute your microphone
- Please turn on your camera (webcam)
- We will start at 10:02am



IPART Independent
Pricing and Regulatory
Tribunal | NSW

Rate peg methodology review

Ratepayer workshop – 6 April 2023

10am – 1pm





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

Mentimeter icebreaker

We would like to invite participants to answer some short questions about themselves and the rate peg.

All responses are anonymous.



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 is the economic regulator for local government and sets the rate peg each year.

Our rate peg review is separate from our annual processes

Annual processes

Assessing
special
variation
applications

Setting the
annual local
government
rate peg

Section 9 review

Rate peg
methodology
review



Regulatory framework for councils

A range of NSW Government agencies play important roles in administering the regulatory framework for councils and monitoring councils' performance.



The Office of Local
Government



The Minister for Local
Government



The Auditor-General

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 councils and their advisors, and ratepayers



Conducting a survey of business ratepayers



Holding ratepayer focus groups

Review timeline





What stakeholders
have told us

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

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

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.

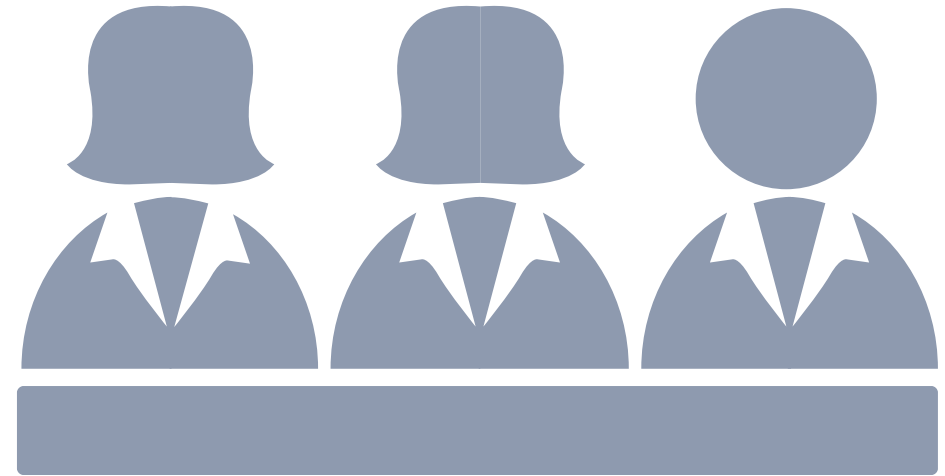
- Two thirds preferred for councils' rates to change by different amounts to suit their needs.

- Ratepayers and community should have a high level of influence in deciding council rate increases.

Ratepayer affordability

- Ratepayers have consistently told us that affordability is their main concern.
- We recognise the importance of ratepayer affordability, particularly given increasing cost-of-living pressures.
- We need to balance affordability considerations against ensuring that councils have sufficient income to provide ongoing services.
- We are seeking feedback on the options we are considering for our methodology to understand whether the balance is right from ratepayers' perspectives and if any changes could be made.

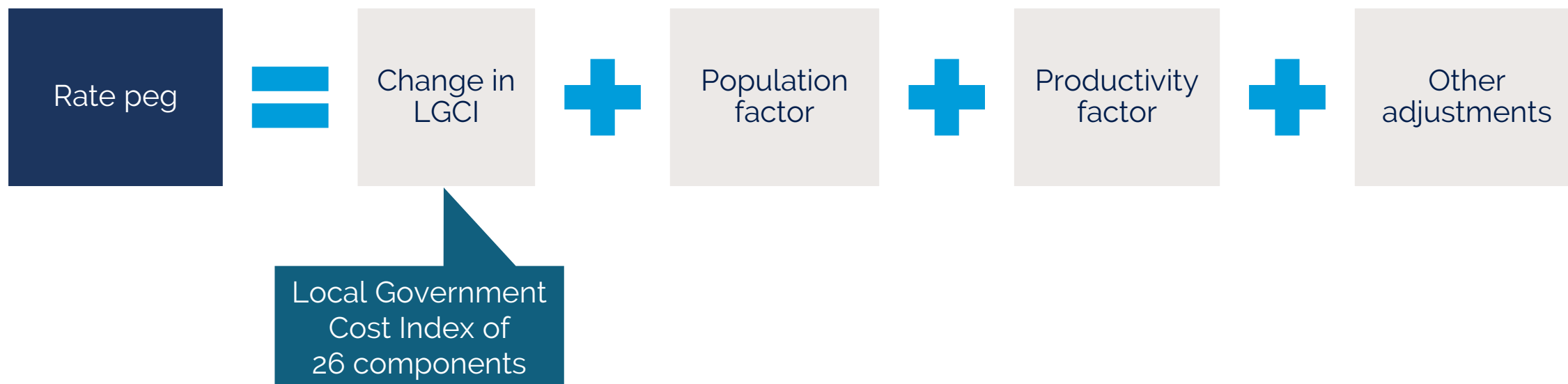
Feedback and questions



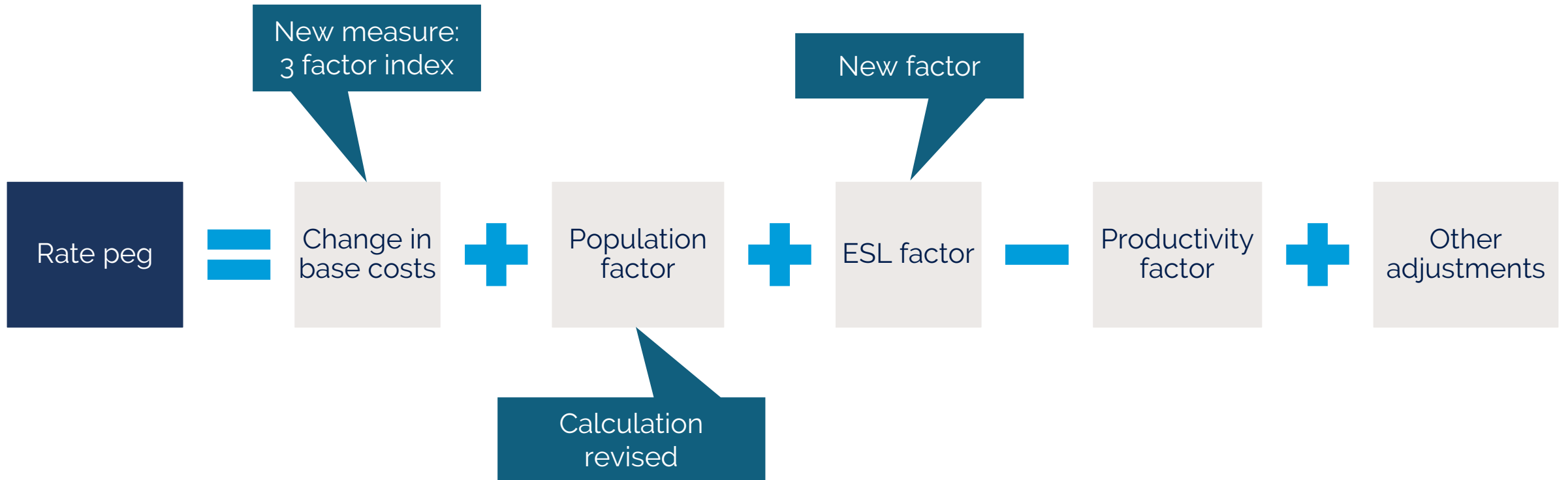


Feedback on options we are
considering

Current rate peg methodology



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 (e.g. roads, buildings, plant and equipment, other structures).
- We are considering using lagged actual changes in depreciation 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

For all other operating costs (electricity, water) we propose using **CPI**.

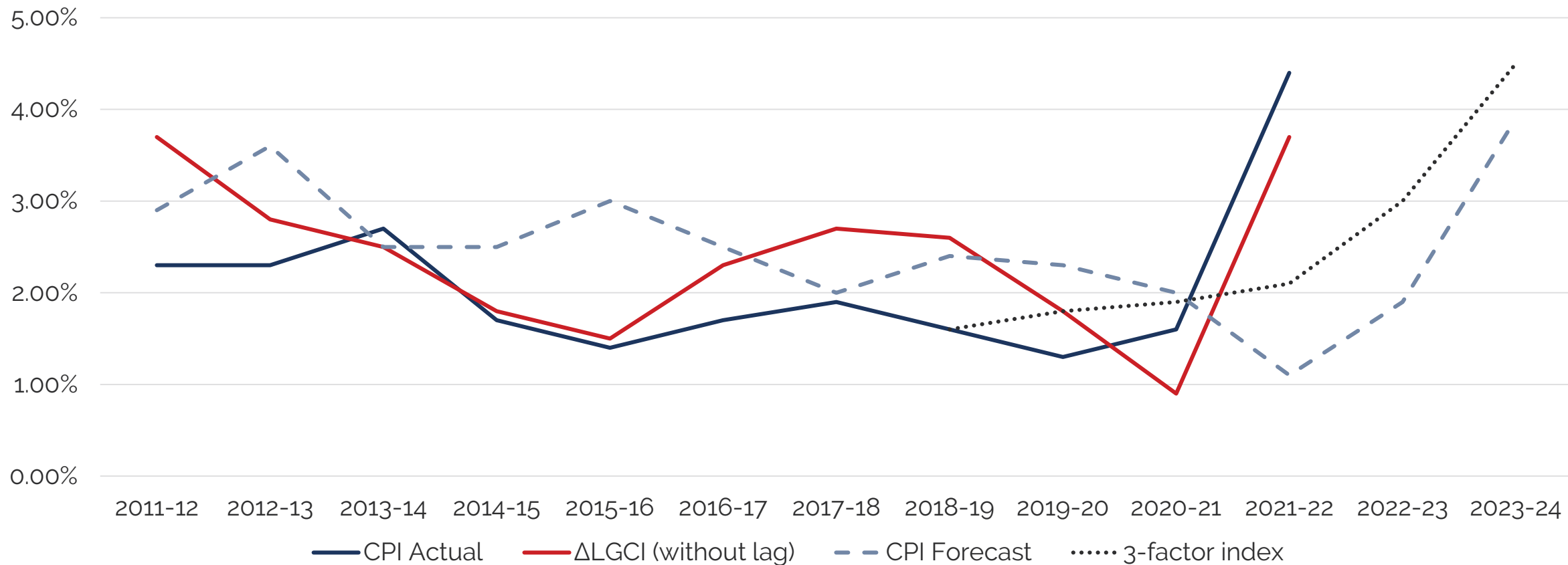
Many ratepayers questioned:



Why can't council income increases be pegged to the CPI?

- CPI measures price changes in a 'basket' of goods and services consumed by the typical metropolitan household. This includes goods that may not reflect council purchases (e.g. housing, household items and groceries)
- 3-factor measure of base cost changes would capture councils' main cost categories to better reflect what councils are required to spend for (e.g. roads, parks, community facilities)
- We consider a more cost-reflective index is appropriate.

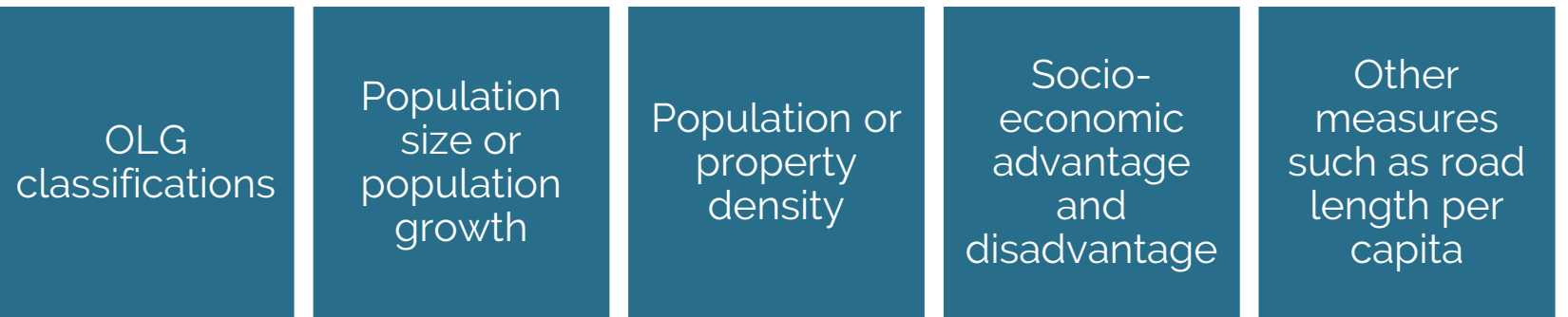
3-factor index



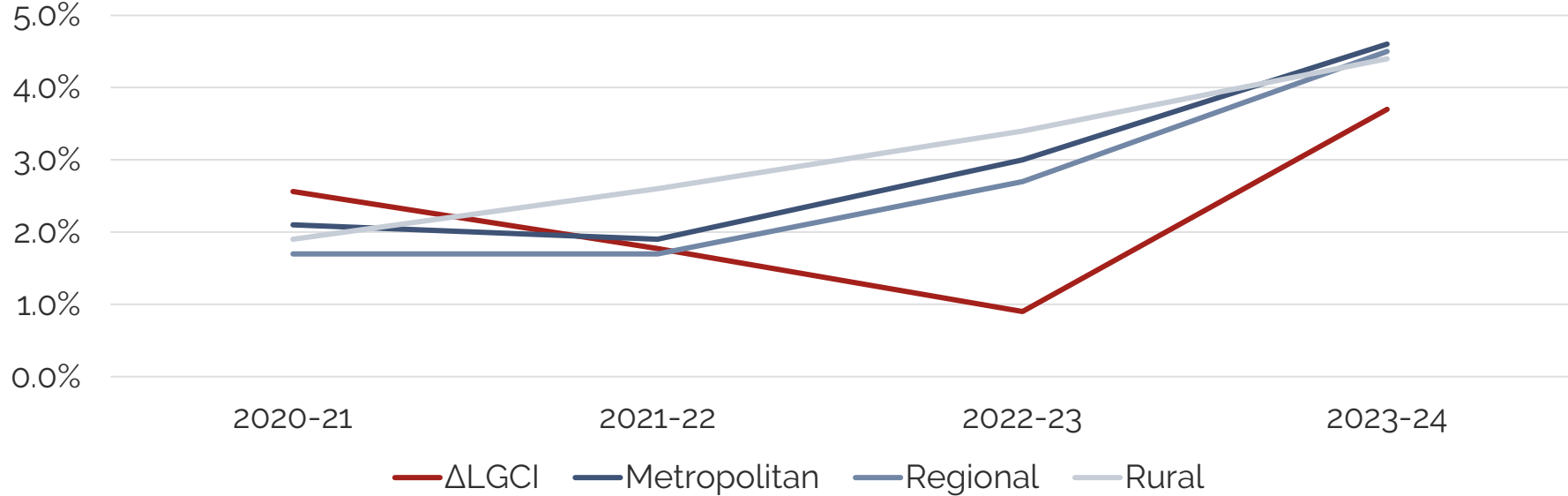
Accounting for diversity

- 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

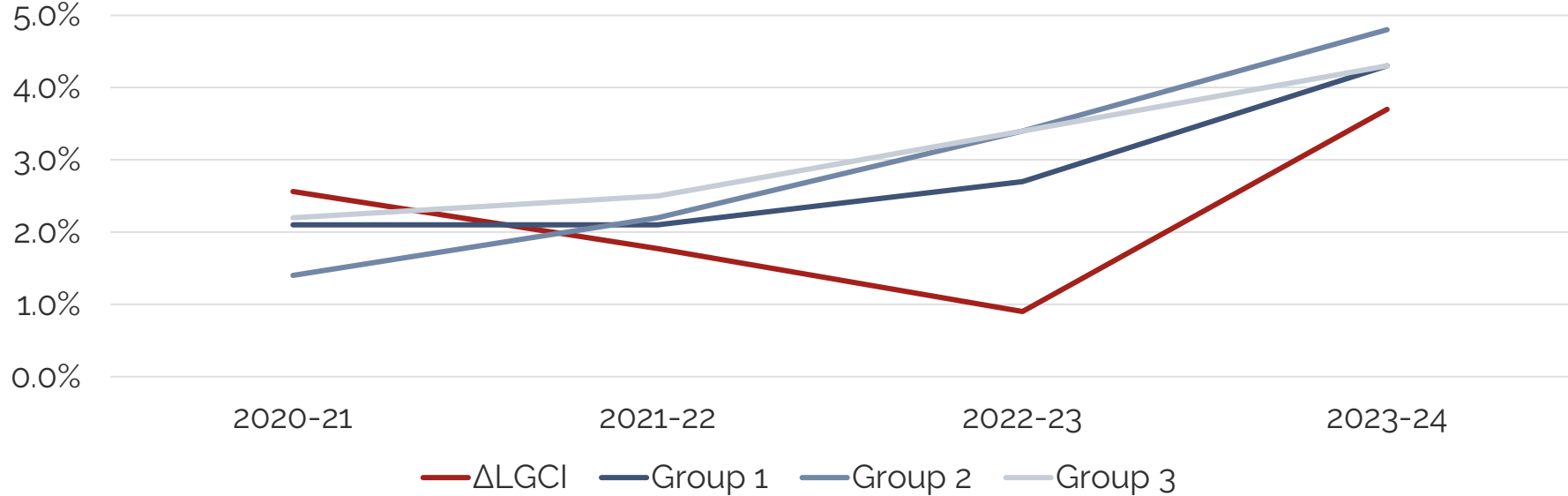


3-factor index – metropolitan, regional and rural



	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

- 01 Exclude prison populations from the population factor
- 02 Continue to deduct supplementary valuations
- 03 Only capture residential supplementary valuations

Ratepayers questioned:



Why aren't rates reduced to account for population decline?

Productivity factor



Remove the factor

The factor is currently set to zero as a default.

Removing this would simplify the methodology.



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.

vs

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.

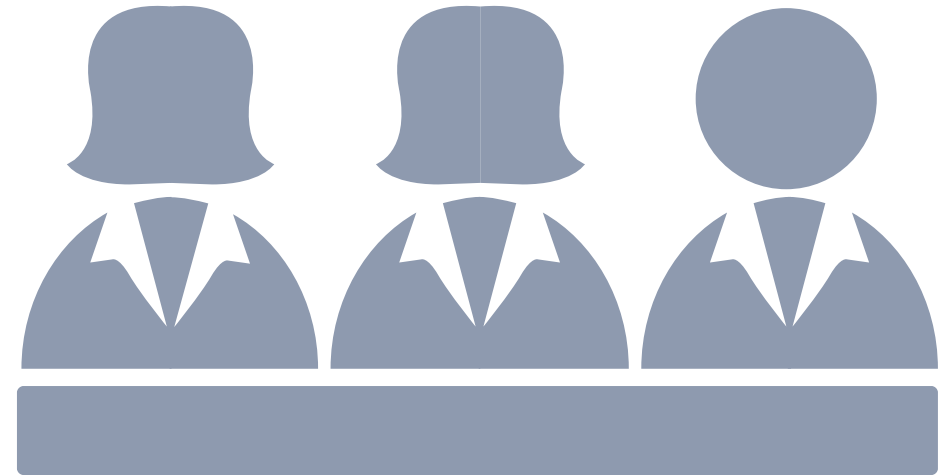
Ask the NSW Government to estimate the cost of regulatory changes

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

