

Submission to IPART Draft Report - Review of the rate peg methodology

July 2023



**CENTRAL NSW
JOINT ORGANISATION**

Bathurst
Blayney
Cabonne
Cowra
Forbes
Lachlan
Lithgow
Oberon
Orange
Parkes
Weddin

4 July 2023

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Re: Draft Report - Review of the rate peg methodology

As you are aware Local Government Regional Joint Organisations (JOs) were proclaimed in May 2018 under the NSW Local Government Act 1993. The Central NSW Joint Organisation CNSWJO) represents over 180,000 people covering an area of more than 53,000sq kms comprising of Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Lithgow, Oberon, Orange, Parkes, and Weddin. Associate Members are Central Tablelands Water and Upper Macquarie County Council.

Tasked with intergovernmental cooperation, leadership and prioritisation, JOs have consulted with their stakeholders to identify key strategic regional priorities. The CNSWJO Strategic Plan can be found here: [Strategic Plan & Regional Priorities - Central Joint Organisation \(nsw.gov.au\)](#)

We welcome the opportunity to provide feedback on the Draft Report - Review of the rate peg methodology including the draft decisions, recommendations and findings on the rate peg methodology and the broader regulatory framework.

Our response is set out below:

Draft decisions

1. To replace the LGCI with a Base Cost Change model with 3 components:
 - a. employee costs
 - b. asset costs
 - c. other operating costs.

Response: The simplification of the model is supported.

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).

Response: The proposed council groupings based on OLG groups is supported.

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). We would adjust for changes in the superannuation guarantee in both cases. We are currently consulting on the best approach to measure changes in employee costs (see Seek Comment 1).
 - 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.
 - 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).
 - 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.

Response: This approach is supported, however in relation to employee costs, the preference is the Award plus superannuation. Regarding asset costs, CPI may not be sufficient where it moves differently to the roads and bridges index. There are concerns that the average change and the 5 year period will mean that during times of high inflation, the increase will be less than the movement in prices that councils actually pay and the rate peg will be too low.

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.

Response: The staged approach is supported, noting however that May could be too late where councils may already have their budgets on public exhibition.

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.

Response: We strongly support IPART's proposal to capture individual councils' change in the ESL contribution in the rate peg methodology as a separate, council-specific adjustment factor, so that councils can fully recover the changes in this cost.

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.

Response: This approach is supported.

7. To maintain our current approach and make additional adjustments to the rate peg on an as needs basis for external costs.

Response: We support IPART establishing a process to develop adjustment factors for groups of councils to increase the rate peg to cover specific external costs.

We support a review of the special variation process to include streamlining the process, reducing administrative burden on councils and enabling councils to make joint applications.

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.

Response: This is noted.

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.

Response: We do not support the retention of a productivity factor as a tool to reduce the rate peg. The factor should be removed permanently. Any productivity gains made by councils should be retained to invest in maintaining services or infrastructure maintenance and renewal. Penalising councils for productivity improvements introduces a perverse disincentive.

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.

Response: A cyclic review of the methodology is supported.

Draft recommendations

1. That a local government reference group is established to advise on the implementation of our new rate peg methodology.

Response: CNSWJO supports the establishment of a reference group comprising sector representatives (incl councils, LG Professionals, LGNSW, LG Solutions, Joint Organisations and ROCs).

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.

Response: Support for such a review is predicated on the review being independent, undertaken in good faith and that Local Government has a genuine opportunity to inform the development of the Terms of Reference.

Any inquiry should include consideration of cost shifting from other levels of government and restoring Financial Assistance Grants to 1% of Commonwealth Tax Revenue.

Seeking comment

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?

Response: The CNSWJO is supportive of using the Local Government State Award, as well as movements in superannuation guarantees. We suggest the employee cost factor in the BCC may be differentiated by the proposed council groupings (metro, regional, rural), with a weighting to reflect the difficulty in attracting/retaining skills in regional and rural areas, and the wage premiums often required.

2. Are there any alternative sources of data on employee costs we should further explore?

Response: No alternate sources of data are suggested at this time.

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?

Response: The staged release of the rate peg to accommodate the ESL is supported.

4. Do you have further information on arrangements between councils to share Emergency Services Levy (ESL) contribution bills.

Response: CNSWJO councils would be classified as 'regional' or 'rural' under IPART's proposed groupings. Accordingly, they all support Fire and Rescue NSW, Rural Fire Service and State Emergency Service – through the ESL, their 'additional' contribution through insurance premiums, and provision of plant and facilities.

IPART is referred to the current dispute with the NSW Audit Office and local councils, regarding accounting for emergency assets that remain under control of the Government but accounted for (and depreciated) by our councils.

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:
 - a. Rural Fire Service
 - b. Fire and Rescue NSW
 - c. NSW State Emergency Service?

Response: It is suggested that IPART seek a summarised version of each local council's agreement per agency, each year, for reference with the particular rate peg factor.

It is also suggested that IPART seek a foundation-setting summary table from each council outlining the capital value of emergency assets held on their respective Statement of Financial Position (Balance Sheet), and the annual value of depreciation of those assets and any net costs of maintenance borne by councils, impacting operating results on their Income Statement.

To assist council-specific adjustments to the rate peg by IPART to account for the impact of the ESL, our member councils would provide relevant information to IPART from the cost sharing agreements with the emergency agencies.

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?

Response: This approach is supported.

7. Would you support measuring only residential supplementary valuations for the population factor?

Response: Continued use of the Estimated Resident Population to guide the population factor is preferred.

The use of the population factor to compensate councils for the costs associated with population decline, should be considered in a future review into the financial model for councils.

The deduction of supplementary levies from the population peg should be discontinued, or as a minimum, that deduction be discontinued through a special adjustment where individual councils demonstrate the general income gained by supplementary levies are offset by new or increased costs to operate, maintain and depreciate infrastructure established with those developments.

8. If you supported using residential supplementary valuations, what data sources would you suggest using?

Response: No specific sources of data are suggested at this time.

9. What implementation option would you prefer for the changes to the rate peg methodology?

Response: Establishment of a local government reference group to advise on the implementation of our new rate peg methodology is supported.

Matters for Further Consideration

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.
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.

Response: The CNSWJO supports establishment of reference groups enabling future opportunity for engagement with our member councils to work through the above.

The CNSWJO Board welcomes the opportunity to provide feedback on this critical issue and encourages IPART to continue to work closely with the sector on decisions such as the rate peg methodology that are likely to have far reaching ramifications for the sustainability of councils.

If you require further information or clarification on comments in this submission, please do not hesitate to contact the Executive Officer Jenny Bennett on 0428 690 935.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kevin Beatty', with a stylized flourish at the end.

Cr Kevin Beatty

Chair

Central NSW Joint Organisation (CNSWJO)