

### CM13.6. IPART Rate Peg Methodology Review - Draft Submission

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#### Purpose of Report

The report presents AlburyCity's draft submission for endorsement in response to the Review of the Rate Peg Methodology Issues Paper released by the Independent Pricing and Regulatory Tribunal (IPART).

#### Background

IPART has set the rate peg under delegation from the Minister of Local Government since 2010. The rate peg is the maximum percentage that Council may increase its rate income for the year. *"The primary purpose of the rate peg is to protect ratepayers from excessive increases in their rate bills."*

IPART calculates the rate peg by applying a methodology that comprises a Local Government Cost Index. In addition, a population growth factor was introduced in 2022-23 to recognise when population growth is greater than rate revenue growth from supplementary valuations.

If councils want or need to increase their rates income by more than the rate peg in some years – for example, so they can introduce new services or improve service quality, to do this, they must consult with their communities, and then apply to IPART for a 'special variation'. If approved, the special variation to the rate peg allows the council to increase their rates income by a specified percentage above the rate peg. AlburyCity previously applied to IPART for additional Special Variation to rates income of 8.1% over the three years 2011-2014. This is a separate process and is not a matter for this review.

While IPART uses the latest available cost indicators from the Australian Bureau of Statistics, there is up to a two-year lag between the period these changes are measured over and when councils apply the rate peg to their rate income. This means that the 2022-23 rate peg was based on the changes in costs during 2019-20 and 2020-21.

The local government sector has raised concerns regarding the rate peg methodology, including that when inflation is on the rise, councils have difficulty with a low rate peg outcome, i.e. a rate peg of 0.7% was set by IPART for 2022/23 when inflation was on the rise.

IPART have been requested by the Minister of Local Government to deliver a report recommending a rate peg methodology that allows the general income of councils to be varied annually that is

reflective, as far as possible, of changes in inflation and costs incurred by the local government sector and that continues to include a population growth factor.

Specifically, IPART has been requested to make recommendations to the Minister on:

1. Possible approaches to set the rate peg methodology to ensure it is reflective of inflation and costs of providing local government services
2. Possible approaches to stabilising volatility in the rate peg and options for better capturing more timely changes in both councils' costs and inflation movements
3. Alternate data sources to measure changes in councils' costs
4. Options for capturing external changes, outside of councils' control, which are reflected in councils' costs
5. The effectiveness of the current Local Government Cost Index approach
6. Whether the population growth factor is achieving its intended purpose.

In undertaking the review, IPART has been requested to have regard to:

- The Government's commitment to protect ratepayers from excessive rate increases and to independently set a rate peg that is reflective of inflation and cost and enabling financial sustainability for councils.
- The differing needs and circumstances of councils and communities in metropolitan, regional and rural areas of the State.
- Ensuring the rate peg is simple to understand and administer.

IPART is to provide a final report to the Minister for Local Government by May 2023.

The IPART rate peg methodology review will not impact the rate peg for 2023/24 which has been set at 3.7%.

## **Issues**

IPART released its Review of the Rate Peg Methodology Issues Paper (refer Attachment 1) on 29 September 2022 and has invited submissions by Friday 4 November 2022.

AlburyCity has prepared a draft submission in response to the IPART issues paper for consideration by Council prior to submission to IPART (refer Attachment 2).

AlburyCity's draft submission highlights that:

- A better approach would be to utilise the existing NSW Local Government Integrated Planning and Reporting Framework to better effect
- The current rate peg methodology is restrictive both on councils and the community, as the current rate peg approach does not support the achievement of the Council's draft four-year delivery program and the community strategic plan
- The rate peg adds to financial sustainability challenges by not reflecting local government costs when inflation is on the rise, as it is based on historic inflation
- The rate peg is currently a one size fits all approach, based on the 'average' council, and does not take into account the different challenges and relative needs of metropolitan, regional and rural councils.

- The rate peg is limited in its purpose and does not address the financial sustainability challenges of local government.
- The rate peg does not take into account demand for changes in service levels, covid operational impacts, depreciation of infrastructure assets, the impacts of natural disasters, and other sustainability challenges.
- The rate peg relies on a special variation process to gain IPART approval to increase rates above the rate peg to fund changes in service provision and is resource intensive. Rather than establishing a sustainable rate peg methodology from the outset.

## Risk

- **Business Risk** – If rate revenue growth does not keep pace with costs, councils may need to reduce the quality or scope of their services to their communities or seek additional sources of income.
- **Corporate Risk** – The current rate peg methodology does not support the financial sustainability of councils and relies on a special variation to the rates process to raise rates above the rate peg to support changes in service levels.
- **WHS and Public Risk** – No risks identified.
- **Environmental Risk** – The rate peg does not take into account environmental risks.
- **Delivery Program Risk** – The rate peg does not have regard to service level and infrastructure demand as its focus is primarily on allowing for inflation.

## Community Engagement

In addition to seeking feedback on the issues paper, IPART plans to hold workshops on the rate peg methodology in November with a draft report to be released in February 2023. A public hearing will be held in 2023 after the draft report is released. Further information can be found on the IPART website.

## Options

That Council:

1. Receive and note the IPART rate peg methodology review issues paper. **Recommended.**
2. Endorse AlburyCity's draft submission in response to the IPART issues paper. **Recommended.**
3. Resolve not to make a submission to IPART in response to the issues paper. **Not recommended.**

## Conclusion

The report presents AlburyCity's draft submission for endorsement in response to the Review of the Rate Peg Methodology Issues Paper released by IPART.

The rate peg is the maximum percentage that Council may increase its rate income for the year. *"The primary purpose of the rate peg is to protect ratepayers from excessive increases in their rate bills."*

IPART have been requested by the Minister of Local Government to deliver a report recommending a rate peg methodology that allows the general income of councils to be varied annually that is

reflective, as far as possible, of changes in inflation and costs incurred by the local government sector and that continues to include a population growth factor.

In addition to seeking feedback on the issues paper, IPART plans to hold workshops on the rate peg methodology in November with a draft report to be released in February 2023. IPART are to provide a final report to the Minister for Local Government by May 2023.

### **Recommendation**

That Council:

- a. Receive and note the IPART rate peg methodology review issues paper; and
- b. Endorse AlburyCity's draft submission in response to the IPART issues paper.

### **Attachments**

1. IPART rate peg methodology review issues paper (DOC22/217283)
2. Draft AlburyCity IPART submission (DOC22/218077).