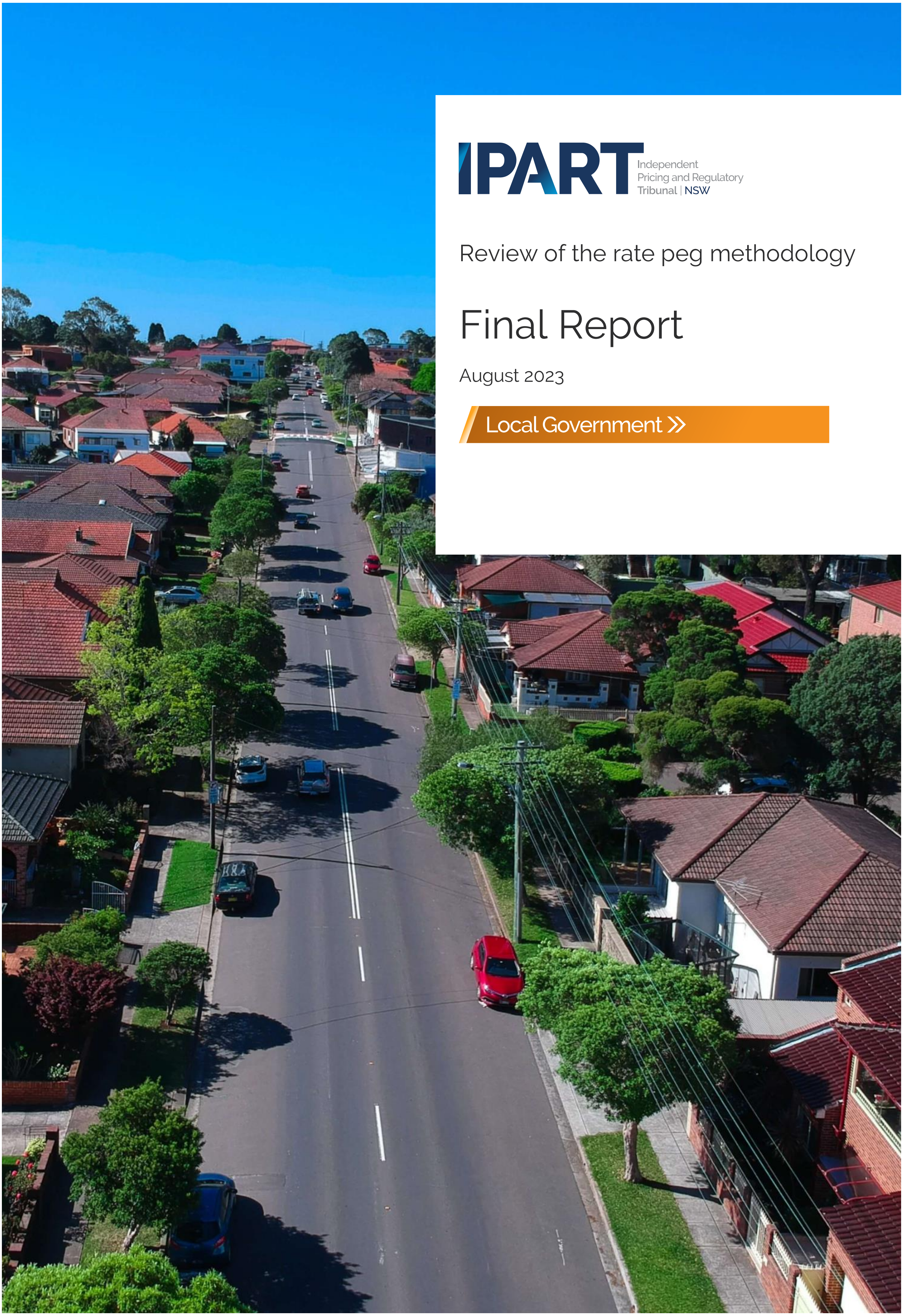
Review of the rate peg methodology

Final Report

August 2023

Local Government



Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Tribunal Members

The Tribunal members for this review are:
Carmel Donnelly PSM, Chair
Deborah Cope
Sandra Gamble

Enquiries regarding this document should be directed to a staff member:

Sheridan Rapmund	(02) 9290 8430
Carol Lin	(02) 9113 7786

The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

Contents

Foreword from the Chair

The 128 councils in NSW are an important part of our democracy and significant providers of essential services. On average they raise about a third of their revenue through rates and the Independent Pricing and Regulatory Tribunal of NSW (IPART) determines how much each council's total rates revenue can increase each year through the rate peg.

Over the last year, IPART has consulted widely with ratepayers, councillors, council staff and other stakeholders across NSW about council rates. Our consultation has been an important part of IPART's review of the rate peg methodology we have used to calculate the rate peg each year since the then Minister for Local Government delegated this responsibility to IPART in 2010.

The Tribunal resolved to undertake this review of the rate peg methodology when the very low rate peg for the 22-23 financial year coincided with rapidly increasing inflation. This situation demonstrated that aspects of the way IPART calculated the rate peg were not suited to a volatile economic climate. We acknowledged that this had a negative impact and welcomed the terms of reference from the then Minister.

Best practice among regulators is to transparently review regulatory methods from time to time, in consultation with all stakeholders. Regulators should not change their methods without reasonable notice, consultation and transparency. So we have ensured this review of the rate peg methodology has been a thorough and considered review with extensive consultation.

We want to thank every single person who has come forward and provided feedback during the review. We have considered every issue raised.

Our new rate peg methodology is designed to respond to many of the concerns raised, including being more forward looking and agile, and recognising the diversity of councils.

IPART will work to implement the new methodology in the rate peg for the 24-25 financial year, if at all possible.

However, the new rate peg methodology cannot fully address the broad range of the feedback and suggestions raised by ratepayers, councils and other stakeholders in our consultation about local government matters this year.

We heard that ratepayers depend on and value council services but are concerned about cost of living pressures and affordability of rates.

We have heard that some councils are experiencing financial sustainability problems. A range of reasons have been suggested for why this is the case. We have heard concerns about the council funding model and rising costs. We heard that the capability, workforce shortages, resources and alternative sources of revenue available to councils are not the same across NSW. Populations, economies, distances and geography are quite varied. Councils are very diverse and we have heard that a 'one size fits all' financial model does not make sense.

This has raised the question of whether the financial model for councils is as good as it needs to be, when the people of NSW and councils are facing cost of living pressures after years of drought, bushfires, floods, COVID-19, supply chain disruption, labour shortages, higher inflation and rising interest rates.

Feedback to IPART indicates communities want councils to demonstrate good financial management and provide services that are efficient and value for money, so they can be confident the rates they pay are well used. Councillors, as the representatives of the community, play a key role in holding council management to account, and need the tools and information to do so.

Ratepayers have told us they want to be better consulted about council priorities so councils deliver good quality services that are needed by their local community. We also heard ratepayers would like more consultation about the way rates are set - so rates are fair, reasonable and affordable.

The Tribunal believes it would be timely for NSW Government to initiate an independent investigation into the financial model for councils in NSW, including the broader issues highlighted in this report on the rate peg methodology.

IPART stands ready to work with the NSW Government, councillors, ratepayers and communities to address the issues we have heard through our consultation.

Carmel Donnelly PSM

IPART Chairperson

Chapter 1

Executive Summary

01

IPART has completed a review of our methodology for setting the rate peg – that is, the maximum amount in percentage terms by which a council may increase its general (or rates) income[a] in a year.

We conducted the review to develop a new methodology that:

- allows councils to vary their general income annually to reflect (as far as possible) changes in the costs of providing local government goods and services due to inflation and other external factors
- continues to include a population factor.

This Final Report outlines our decisions on the new methodology and explains how we will implement this methodology. We will work towards applying our new methodology for the rate peg for the 2024-25 financial year, if feasible. However, there may be issues that mean that an immediate implementation is not feasible. In this case, we would implement the new methodology for the rate peg for the 2025-26 financial year.

The report also outlines our recommendation for an independent review of the financial model of councils and other measures to improve financial sustainability, accountability, equity, efficiency, and community trust within the sector that could be considered as part of such review.

1.1 The role of councils in NSW and their challenges

Across NSW, 128 councils provide important goods, services, and facilities to their local communities. For example, they provide local roads, bridges and footpaths; libraries, parks and playgrounds; sporting fields and swimming pools; and public health, childcare, aged care and emergency management services.

Councils fund their operations from a mix of revenue sources. The rates they levy on property owners typically raise around a third of their total income. The rest comes from government grants, development contributions, and user fees and charges.

[a] For almost all councils, general income consists entirely of rates income. For a small number of councils, general income also includes some annual charges such as drainage levies. In this Final Report we use 'rates income' to describe general income.

Councils' main sources of operating income

Rates and annual charges

This includes residential, business, farming, and mining rates, plus any special rates charged by councils, as well as annual charges such as domestic waste management charges.

Grants and development contributions

Councils may receive or apply for State and Federal government grants. Councils may also charge developers development contributions to fund local infrastructure necessary to serve the needs of the development.

User fees and charges

Councils can charge for the sale of goods and services, such as parking, child and aged care services, building and regulatory services and private works.

However, local councils and their communities vary widely across the state. For example, councils differ in the size of the Local Government Area (LGA) they serve, and the level of development and local infrastructure in this area. Local communities differ in the size of their population, and their demographic and socio-economic characteristics, needs and preferences for local government services.

This diversity means councils can face significant and often different challenges in managing their revenues and costs to meet their community's needs and ensure their financial sustainability. The recent COVID-19 pandemic, economic volatility, bushfires, droughts and floods, and growing climate and cyber security threats, have increased these challenges. They also reinforce how important it is for councils to be financially sustainable so they can deliver reliable, safe services that their communities can afford.

1.2 The local government rate peg

Councils have the power to levy rates (and other charges) within the constraints of the *Local Government Act 1993* and the rating system it establishes. Within this system, councils set the rating structure and determine the rate levels for each rating category. But the total income they can raise through these rates is regulated in several ways – one of which is the local government rate peg (rate peg).

IPART sets the rate peg as the delegate of the Minister for Local Government and has done so since 2010. The rate peg represents the maximum amount in percentage terms by which councils may increase their rates income in a year. This means they can increase their rates income by an amount up to this percentage. Councils can choose to increase their rates income by this percentage, by a lower percentage, or reduce or maintain its rates income. If a council increases its rates income by less than the rate peg in a given year, it has up to 10 years to catch-up this shortfall.[b] Councils ultimately have discretion when setting rates as to how the impact of rate changes are distributed among ratepayers. This may mean that some rates increase by more than the rate peg or by less than the rate peg or be reduced, provided the increase in total rates income does not exceed the rate peg.

The purpose of the rate peg is twofold:

1. It allows all councils to automatically increase their rates income each year to keep pace with the estimated change in the costs of providing their current services and service levels to households, businesses, and the broader community – that is, their base costs. This helps ensure that they can maintain the scope, quantity and quality of these services over time without undermining their financial sustainability.
2. It also limits the impact of these automatic increases on ratepayers, by ensuring that councils cannot increase their rates income by more than the estimated change in their base costs, and that they engage with their communities if they propose a step change in their rates income to fund improvements in the scope, quantity or quality of their services.[c]

In recent years, the local government sector has raised concerns about the methodology we used to set the rate peg. These concerns primarily relate to how we measure the annual change in councils' base costs, including our Local Government Cost Index (LGCI). The previous Premier and the then Minister for Local Government asked IPART to review the rate peg methodology to address these concerns. Appendix F shows the Terms of Reference for this review.

1.3 Our decisions on the new rate peg methodology

Based on our analysis and consideration of stakeholder views, we have developed a new rate peg methodology that we will use to set the rate peg for the 2024-25 financial year, if it is feasible to do so, and onwards. The new methodology for setting the rate peg will use forward-looking measures of councils' base costs. This addresses the issue of using lagged data in a volatile economic climate. The new methodology will result in rate pegs that more accurately reflect changes in the costs NSW councils incur in providing their current services, and our changes also more accurately consider the diversity of councils across the State.

Under the new rate peg methodology, we will:

- Measure the annual change in NSW councils' base costs for 3 groups of councils (instead of one that includes all NSW councils) to better account for the diversity of their base cost patterns. These groups are metropolitan, regional, and rural councils.

[b] The catch-up provisions are specified in section 511 of the *Local Government Act 1993*.
[c] This consultation is one of the requirements councils must demonstrate they have met if they apply to IPART for a special variation to the rate peg. They must be granted a special variation to increase their rates income by more than the rate peg.

- Use a new, simpler model with forward-looking indicators to measure this change instead of the LGCI. This measure, the Base Cost Change (BCC), comprises 3 components that we consider better capture councils' costs:
  - Employee costs (primarily wages, including superannuation guarantee) measured by the Local Government (State) Award.
  - Asset costs measured by the Reserve Bank of Australia's (RBA's) forecast change in the Consumer Price Index (CPI), adjusted to reflect the average difference between changes in the Producer Price Index (Road and bridge construction, NSW) and changes in the CPI.
  - All other operating costs (including administration, utility costs, insurance but excluding the Emergency Services Levy (ESL)) measured by the RBA's forecast change in the CPI.
- Include a separate council-specific ESL factor, lagged by one year,[d] that reflects the annual change in each council's ESL contribution. This provides for councils to fund their required contributions to support the NSW State Emergency Service, NSW Fire and Rescue and NSW Rural Fire Service without needing to reduce other council services or erode their financial sustainability. In addition, when changes in this contribution impact the rate peg, the approach will ensure this impact is transparent to councils, ratepayers and all stakeholders.
- Maintain our existing approach and make additional adjustments for costs driven by external factors outside councils' control as needed, if ratepayers will benefit from these costs and we have the information we need to calculate the necessary adjustment. These costs may include managing climate change impacts and cyber security threats, for example.
- Continue to add a population factor but use a refined approach to more accurately measure the change in councils' residential populations by deducting prison populations from the residential population in a council area and then calculating the growth in the non-prisoner residential population of a council area for the relevant year.
- 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. This may include further analysis and consultation on the factor and considering outcomes of other local government reviews which could inform other ways of driving productivity and determining the appropriate role of the productivity factor.

We decided not to release an indicative rate peg in September and a final rate peg in May each year as proposed in the Draft Report. Our draft decision was to set ESL factors in May to incorporate actual ESL contribution costs for the year the rate peg is to apply, once this information is available in late April. This would allow councils to recover these costs in the year they are payable, therefore, removing the lag from this measure in our old methodology. May is the earliest possible release date for a final rate peg to include up to date ESL contributions. Most stakeholders told us that a May release is not practical as it would impact existing planning and budgeting processes and impact the time available to engage with the community. As a result, we have decided to maintain the lag in this measure of ESL contributions.

[d] For example, this means that the ESL factor in the rate peg for the 2024-25 financial year will capture the change in invoiced ESL contributions amounts between the 2022-23 and 2023-24 financial years (adjusted for cost sharing arrangements for specific councils).

1.4 How the new methodology will be implemented

We have decided to implement all decisions on the rate peg methodology set out in this Final Report from when we set the rate peg for the 2024-25 financial year. The new methodology will produce rate pegs that more accurately reflect changes in inflation and costs incurred by councils by using forward-looking indicators to measure changes in councils' base costs and introducing council-specific factors for changes in councils' ESL contributions. As a result, we prefer to implement our new methodology as soon as possible. Under this approach, we intend to release the rate peg for the 2024-25 financial year in October 2023. We can implement these decisions under the existing delegation from the Minister for Local Government to set the rate peg.

However, there may be issues that mean that an immediate implementation is not feasible. In this case we would implement the new methodology for the rate peg for the 2025-26 financial year.

We have also decided not to include any additional adjustments in the rate peg to capture recent inflationary impacts. This is because the divergences caused by the 2-year lag in the LGCI even out over time, and some councils have already received an additional increase for higher-than-expected inflation rates through the additional special variations in 2022. However, councils may apply through the special variations process, if required, for an adjustment due to past inflationary impacts.

The ESL factor will capture the year-on-year cost changes based on the invoiced amounts that councils receive from the NSW Government, adjusted for any cost-sharing arrangements for contributions to the NSW Rural Fire Service for specific councils. As such, the ESL factor will not capture the recent increases in ESL contribution costs due to the discontinuation of the ESL subsidy by the NSW Government (see Chapter 4). However, we recognise that this may place pressure on councils' budgets for 2023-24 and going forward. Therefore, we have decided to capture the impact of the discontinuation of the ESL subsidy in the rate peg through a specific adjustment factor. Including the impact of the subsidy will likely increase the rate peg by a significant amount for some councils. So, to limit the impact on ratepayer affordability we consider it is appropriate to phase in this increase over several years. We plan to consult with ratepayers and councils on the proposed timeframe to phase in this adjustment.

We will also closely monitor the performance of different measures of employee costs as part of future rate peg decisions. This is because the implementation of any new methodology introduces uncertainty, and monitoring is necessary to ensure there are no unintended consequences. This could involve comparing the Award increases against a benchmark measure such as the RBA's forecast change in the Wage Price Index, the Fair Work Commission's minimum wage decision, or other Award increases, and reviewing changes in employee costs reported in councils' financial statements over time.

If we identify significant divergences between the Award increases and measures of wage increases in the wider economy, we may consider whether to not allow for full cost-recovery of Award increases or to use the productivity factor in our rate peg methodology to assist with incentives.[e] Identifying significant divergences could also trigger an immediate review of how we measure changes in employee costs in the rate peg.

We will continue to consult with ratepayers, councils and other stakeholders. We will hold periodic ratepayer workshops, and this will be a mechanism for ratepayers and other stakeholders to provide their feedback and views on the implementation of the new rate peg methodology and for us to share any new developments on our rate peg methodology.

We have decided to establish a council implementation reference group to advise us on the implementation of our new rate peg methodology. The purpose of the reference group would be to identify any practical issues or unintended consequences that might arise from implementation. We will develop a Terms of Reference for the reference group and consult publicly on this. We will also make the minutes of meetings with the reference group publicly available to support transparency (see Chapter 8).

We will review our rate peg methodology at least every 5 years using a transparent and consultative review process. These periodic reviews will ensure that our methodology remains up to date and fit for purpose. However, should we identify material changes in the sector or economy, including any unintended consequences from the implementation of our new rate peg methodology, we may undertake a review earlier.

1.5 Our recommendation to review the financial model for councils

Throughout this review, stakeholders made it clear they have concerns about councils' performance and financial sustainability, and the affordability of rates in the current cost of living climate.

Our decisions on the rate peg methodology may address some of these concerns. But many of the issues raised cannot be fixed by the rate peg or the special variation process. Therefore, we recommend the NSW Government commission an independent review of the financial model for councils to identify improvements.

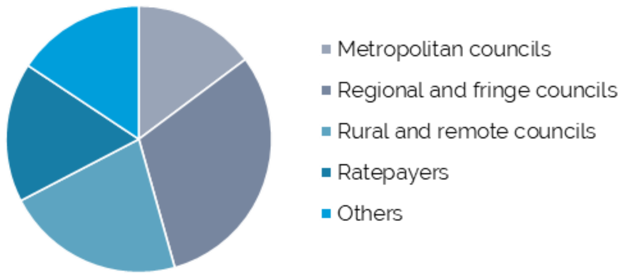
We consider this independent review could provide greater transparency of councils' financial sustainability. We have summarised the key issues stakeholders raised that could be investigated in this review. We have also outlined some key measures that could help improve equity of the rating system and affordability, better support councils to serve their communities, and better support councils' financial sustainability and performance in the long term. These measures could be considered as part of the recommended investigation (see Chapter 9).

[e] We have decided to retain the productivity factor in the rate peg methodology and set this at zero unless there is evidence to depart from this approach (see Chapter 7).

1.6 How we approached this review

Since our review started in August 2022, we have undertaken extensive consultation and heard views of residential and business ratepayers, as well as councils, from metropolitan, regional and rural areas across NSW. **Figure 1.1** indicates the range of stakeholders we engaged with.

Figure 1.1 We engaged with stakeholders throughout NSW



Note: 'Other' refers to government agencies, media, universities, peak bodies and other industry/professional groups. This excludes participants to the ratepayer survey and focus groups conducted by ORIMA.

Source: IPART analysis

We published an Issues Paper in September 2022 and invited submissions from all interested parties. We received 96 submissions, most of which were from councils and council organisations. We also held 7 public workshops – 3 in-person workshops in Wagga Wagga, Sydney, and Tamworth, and 4 online workshops – in late November and early December 2022.

We undertook our own analysis, sought expert advice, and considered the stakeholder views we heard through our consultation. Given the diversity of these views, we developed a range of options for improving the rate peg methodology and undertook further consultation to test and refine these options before making our draft decisions. The Office of Local Government granted an extension to the review to allow for this further work.

Then, in March and April 2023, we held 4 technical workshops (one with ratepayers and 3 with representatives from local government including councils, and academics). We limited the number of stakeholders we invited to participate in these workshops to allow for a more targeted and technical discussion of the options for each element of the rate peg methodology.

In addition, we engaged ORIMA, a specialist market and social research company, to undertake 2 NSW-wide surveys to better understand the views of residential and business ratepayers. ORIMA carried out these surveys in November 2022 and March-April 2023 respectively. ORIMA also held 5 focus groups – 3 with residential ratepayers and 2 with business ratepayers – to further explore the survey results.

In June 2023, we published our Draft Report. We considered all views we received as part of our draft decisions and recommendations. We received 73 submissions, most of which were from councils and council organisations.

Lastly, we held an online Public Hearing on 18 July 2023, which was attended by 115 stakeholders. This provided another opportunity for stakeholders to have their say on our draft decisions.

Ratepayer survey

3,396 residential and business ratepayer participants

5 ratepayer focus groups

3 residential focus groups and 2 business focus groups conducted

11 workshops

346 attendees at 7 public workshops and 4 technical workshops

Online Public Hearing

115 attendees at our hearing including ratepayers, councils and council organisations

Issues Paper and Draft Report

169 submissions provided by ratepayers, councils and council organisations

We thank all stakeholders for their engagement in our review and the time and effort spent to provide us with feedback through submissions and participation at our workshops and public hearing.

Throughout this report, we have acknowledged the different views from stakeholders and how we considered these views in our final decisions and recommendations. We provided our Final Report and recommendation to the Minister for Local Government in August 2023.

1.7 What we heard through our consultation

Our consultations highlighted that it is in the ratepayers' long-term interests for councils to be financially sustainable and deliver affordable services that their communities want and need.

Councils told us that their primary concern is to achieve and maintain financial sustainability, to use their rates income effectively and efficiently, and to maximise what can be achieved.

Figure 1.2 shows that the interests and objectives of councils and ratepayers are interrelated, and an appropriate rate peg methodology should support the delivery of better outcomes for all stakeholders.

Figure 1.2 Stakeholder interests and objectives for the rate peg

Source: ORIMA, Rate Peg Focus Groups Research Report, May 2023, p 2 and IPART.

1.7.1 What we heard from councils

Councils raised a range of specific concerns about the old rate peg methodology, which mostly relate to how accurately it measured the change in their base costs. For example, they said to improve the methodology we should:

- improve the LGCI so that it better reflects their actual costs
- address volatility in the rate peg associated with the lag between when the change in the LGCI is measured and when councils apply the resulting rate peg to their rates income
- better account for differences between individual councils and/or council types
- better reflect councils' actual labour costs, including by recognising their need to compete with private and public sector employers to attract and retain staff
- improve the population factor to better reflect changes in councils' base costs associated with population growth
- capture the change in costs due to external factors outside of councils' control – such as their ESL contribution, and managing the risks of climate change and natural disasters, and cyber security threats.

Councils also raised concerns about the broader regulatory framework for local government, and its impact on their financial sustainability. They identified a range of issues they consider undermine their financial position and limit the effectiveness of the rate peg in maintaining their financial sustainability.

In response to our Draft Report, councils were generally supportive of the new methodology. We heard that:

- Most support the BCC model and support introducing separate BCC models for metropolitan, regional, and rural councils.
- Most support a council-specific adjustment factor to reflect the costs of the ESL. However, many were concerned about our draft proposal to set ESL factors and a final rate peg in May, as discussed in section 1.4.
- Many also support maintaining our approach to make adjustments to the rate peg for external costs, as in the old methodology. Some also largely supported IPART creating a process to develop adjustment factors for groups of councils to recover specific external costs.
- There were mixed views on the population factor but most supported excluding prison populations.
- Most thought that a productivity factor would penalise councils for productivity improvements and would therefore be a disincentive to pursue them.
- Many prefer a staged implementation of changes to the rate peg methodology over 2 years and to include an adjustment for the impact of transitioning from the LGCI to the BCC model.
- Many support an independent review of the financial model for councils in NSW and improvements to the broader regulatory framework, including improving equity in the rating system.

1.7.2 What we heard from ratepayers

Ratepayers told us their prime concern was the affordability of their rates, and the impact a new rate peg methodology would have on their cost of living. They also questioned:

- How the rate peg compares to the change in the CPI. Some put the view that council incomes have grown by much greater than the CPI.
- The timing of changes to the methodology. They said changes may not be appropriate in the current economic climate.
- Whether there is an effective measurement of councils' productivity. Many indicated they are not confident councils use the money they collect through rates efficiently.
- Why our review is focusing on the lag in the LGCI. They noted that this lag cuts both ways and councils do not seem to have an issue when inflation is lower than the rate peg.

In the ratepayer survey, most ratepayers were generally satisfied with the quality and level of services that their council provides. However, they raised some broad concerns about the performance and regulation of councils. For example:

- More than half of all residential and business ratepayers surveyed were concerned about how fairly rates are split across types of ratepayers.
- More than 60% of business ratepayers said they were not comfortable trusting their council to keep rates reasonable.
- Around a third of residential ratepayers said councils' communication about how rates income is used was not good enough.

In the ratepayer focus groups to further investigate the survey findings it emerged that overall, ratepayers wanted the regulated rate setting framework to reflect the principles of transparency, accountability, efficiency, and fairness. Business ratepayers also wanted more business-like expectations of accountability and performance to be applied to councils.

In addition, the ratepayer focus groups revealed that:

- There is a widely held view that councils don't use rates income effectively, and therefore ratepayers generally pay more than they need to.
- Ratepayers have only a general sense of what councils use rates income for, and this is strongly influenced by the services and facilities they can see and personally use.
- The opportunity to discuss issues and hear other opinions in an open forum enabled residential ratepayers to better consider the value of paying rates to support council services.

In response to our Draft Report, ratepayers reinforced these key concerns. In addition, they told us that:

- Ratepayers support the rate peg to encourage financial restraint but consider that it could reduce the democratic accountability of councils to their communities on rates. Ratepayers expressed frustration that councils are not held accountable for large rates increases and that the rate peg provides limited protection due to special variation approvals.

- Improved productivity, efficiency and management rather than higher rates should address increased council spending and that other options for council income could be explored. Some ratepayers wanted more work done to review council financial performance.
- Some are concerned about the equity of the rating system, and consider that councils focus on residential ratepayers compared to other groups (e.g. farmland ratepayers) and that increases should be applied evenly across ratepayers.

1.8 Our decisions, recommendations, and findings

We can implement our decisions on the rate peg methodology under our delegation from the then Minister in 2010. Our preference is to implement our decisions for the rate peg for the 2024-25 financial year, to be released in October 2023. There may be issues that mean that it is not feasible to do so, in which case we would implement the new methodology for the rate peg for the 2025-26 financial year. For matters that are outside our delegation from the Minister, we have made a recommendation below. We have also set out key findings from our review.

Our decisions are:

1. To replace the LGCI with a Base Cost Change model with 3 components: 35
    a. employee costs 35
    b. asset costs 35
    c. other operating costs. 35
2. To develop separate Base Cost Change models for 3 council groups: 35
    a. metropolitan councils (Office of Local Government groups 1,2,3, 6 and 7) 35
    b. regional councils (Office of Local Government groups 4 and 5) 35
    c. rural councils (Office of Local Government groups 8 to 11). 35
3. For each council group, calculate the Base Cost Change as follows: 36
    a. For employee costs, we will use the annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies. When the Award increase is not available, we will use 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 will adjust for changes in the superannuation guarantee. 36
    b. For asset costs, we will 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. 36
    c. For other operating costs, we will 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). 36
    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. 36

4.	To release rate pegs for councils around September each year, for the upcoming financial year.	36
5.	To include a separate ESL factor, lagged by one-year, in our rate peg methodology that reflects the annual change in each council's Emergency Services Levy (ESL) contribution. This factor will reflect an individual council's contribution based on:	61
	a. ESL contribution assessment notices for councils that do not engage in ESL contribution cost sharing arrangements.	61
	b. ESL contribution assessment notices and cost sharing allocation information for councils that engage in ESL contribution cost sharing as part of a rural fire district agreement.	61
6.	To use the information we have collected on cost sharing to set ESL factors until notified of changes to the arrangement by relevant councils in the district.	61
7.	To publish the cost sharing information we have used to calculate ESL factors on our website when we set the rate peg each year – subject to receiving permission from the relevant councils and agencies.	61
8.	To include an additional specific adjustment factor to the rate peg to reflect the impact of discontinuing the ESL subsidy. We may choose to phase in the adjustment over one or more years and at different speeds for different councils.	61
9.	To maintain our existing approach and include specific adjustment factors in the rate peg methodology on an as needs basis for external costs.	76
10.	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 will not make retrospective adjustments for previous population factors.	85
11.	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.	108
12.	To implement decisions 1-11 under section 1.8 of our Final Report from the rate peg for the 2024-25 financial year, if it is feasible to do so.	114
13.	To establish a council implementation reference group to advise on the implementation of our new rate peg methodology.	114
14.	To review our rate peg methodology at least every five years, unless there is a material change to the sector or the economy, to ensure its stays fit for purpose.	114

Our recommendation is:

1.	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.	121

Our findings are:

1.	The 2-year lag under our old rate peg methodology does not allow for changes in council costs to be reflected in a timely manner in the rate peg. This can be problematic during periods of cost volatility.	36
2.	Some councils that are part of rural fire districts have entered arrangements with other councils to share the costs of the Rural Fire Service component of the Emergency Services Levy (ESL) contribution. They pay an amount that is different to the total ESL contribution set out in their assessment notice.	61

1.9 Structure of this Final Report

The rest of this report explains our decisions and recommendation in more detail, including the stakeholder views and other options we considered to address these issues:

Chapters	
02	discusses the role of the rate peg within the broader regulatory framework, and how we considered this role in reviewing the methodology
03	focuses on our improvements to how we measure the change in councils' base costs
04	discusses our decision to include in the methodology a factor to measure changes in councils' Emergency Services Levy contributions
05	explains our decision to include specific adjustments in the rate peg methodology for changes in councils' costs due to other external factors on an as needed basis
06	discusses our decision on the population factor
07	outlines our decision on the productivity factor
08	discusses how we will implement the new methodology
09	focuses on our recommendation for an independent review of councils' financial model and measures that could be reviewed as part of this review.
Appendices	
A	sets out our decision on the rate peg methodology formula
B	discusses alternative options we considered as part of this review
C	discusses ratepayer survey results and results of our ratepayer analysis
D	discusses councils' financial sustainability
E	discusses climate change cost considerations
F	sets out the Terms of Reference for this review
G	provides Emergency Services Levy factor worked examples
H	provides a Glossary

Chapter 2

The role of the rate peg

02

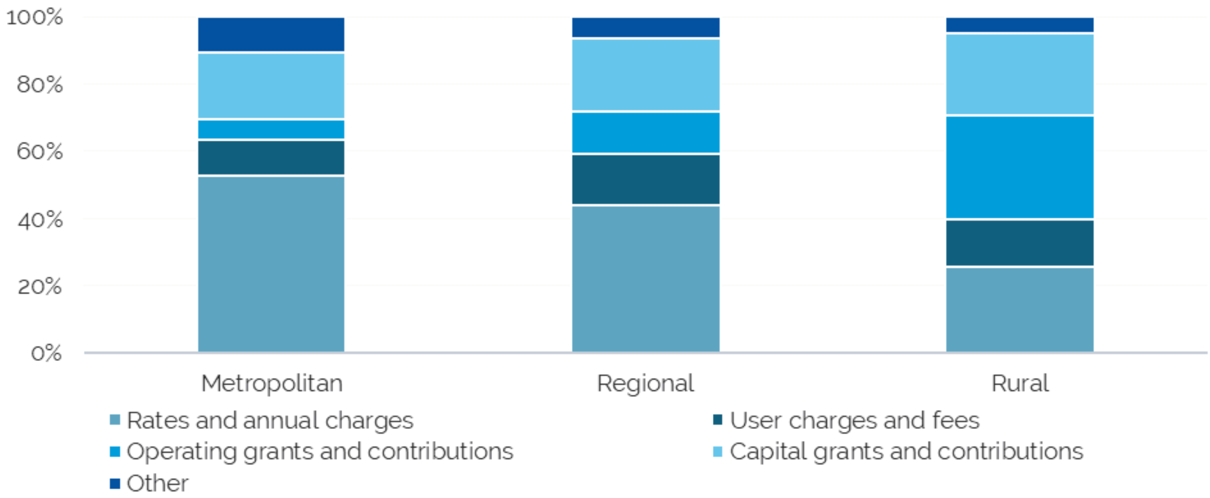
This review focuses on the methodology we use to set the rate peg. The rate peg plays an important role in regulating councils' rates income, which they use to fund the important goods and services they provide to local communities – for example, local roads, bridges and footpaths, and facilities such as parks, libraries, and swimming pools.

However, rates income is just one source of funding for these services. And the rate peg is just one part of the broader governance framework of councils to deliver outcomes for ratepayers. In reaching our decisions on changes to the methodology, we considered the needs of ratepayers and councils.

2.1 Rates income as a source of funding for council services

Income from rates represents one of the main sources of funding for the provision of ongoing council services. The importance of this funding source varies across councils (see **Figure 2.1**) but, on average, rates income represents around one third of NSW councils' combined total income. The other major sources of income include grants from State and Federal governments, infrastructure contributions, and user fees and charges for goods and services councils deliver.

Figure 2.1 Councils' sources of income by council type (2020-21)



Source: Email to IPART, Office of Local Government, 26 April 2023 and IPART analysis.

2.2 The rate peg constrains annual increases in rates income

The rate peg regulates the extent to which councils can increase their rates income in a given year.

It is the maximum percentage increase permitted, and applies to a council's total rates income, not individual rates. This means they can increase their average rates by an amount between zero and this percentage. That is, councils can choose to increase their rates income by the rate peg percentage, by a lower percentage, or not at all. Councils may decide to increase rates by less than the rate peg and consult with their communities on rates and service level trade-offs that may be needed. If a council increases rates below the rate peg in a given year, it has up to 10 years to catch-up this shortfall.[a] Councils ultimately have discretion when setting rates as to how the impact of rate changes are distributed among ratepayers. They can choose to increase rates for some rating categories[b] by more than the rate peg, and others by less than the rate peg, as long as the overall increase in their total rates income does not exceed the rate peg percentage.

In certain years, councils may need to raise their rates income by more than the rate peg. One example could be to introduce new services or improve service quality. If councils want to increase their rates income by more than the rate peg, they can apply to IPART for a 'special variation' (SV). This requires councils to consult with their communities and demonstrate a case for the SV. If approved, the SV allows the council to increase its rates income by a specified percentage higher than the rate peg in one or more years (up to a maximum of 7 years). This increase may be temporary – that is, the council's rates income must be reduced to what it would have been without the SV, after a specified timeframe. The increase may also be permanent.

Councils' rates income may also increase as a result of supplementary valuations when land may be rezoned or sub-divided to accommodate a growing population.[c] Supplementary valuations can result in land values increasing or decreasing, which impacts the rates income received from the affected properties, leading to a change in a council's rates income.

In addition, the rate peg does not affect councils' ability to increase their income from sources other than rates. For example, councils may raise income to fund the services their communities need or want by seeking government grants. They may also increase income from user fees and charges (with the exception of some fixed statutory charges).

Increasing income through SVs, supplementary valuations and applying for government funding are separate processes that we cannot influence directly as part of this review. However, we recognise these processes are other important means, in addition to the rate peg, through which councils may increase their income to fund the provision of local government services and achieve financial sustainability.

[a] The catch-up provisions are specified in section 511 of the *Local Government Act 1993*.
[b] There are 4 rating categories: residential, business, farmland and mining.
[c] Supplementary valuations are issued outside the usual 3-year cycle when changes to property are recorded on the Register of Land Values. This can be due to subdivision, zoning changes or an amendment to land value. Individual ratepayers' rates are impacted by land values set by the Valuer General NSW. Unlike supplementary valuations, changes in land value in the general valuation cycle do not impact a council's total permissible rates income.

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

The rate peg forms part of a broader legislative and policy framework under which councils operate. This framework is set out in the *Local Government Act 1993* (LG Act) and other associated regulations, guidelines and policies that aim to support councils to make good decisions that will create positive outcomes for local communities.

Within this complex framework, IPART's role is to set the rate peg, determine applications to increase minimum rates, and administer the SV process. IPART has a similar role in relation to annual changes for domestic waste management services. IPART undertakes these functions under delegation from the Minister for Local Government. IPART also reviews contributions plans above a certain threshold and reports to the Minister for Planning and Public Spaces on those reviews.[d,1]

Since 1977, the rate peg has been used to cap increases to council income from rates. IPART sets this percentage every year, on behalf of the Minister for Local Government, and has done so since first delegated the function by the then Minister in 2010. Previously, the rate peg was set by the Minister for Local Government.

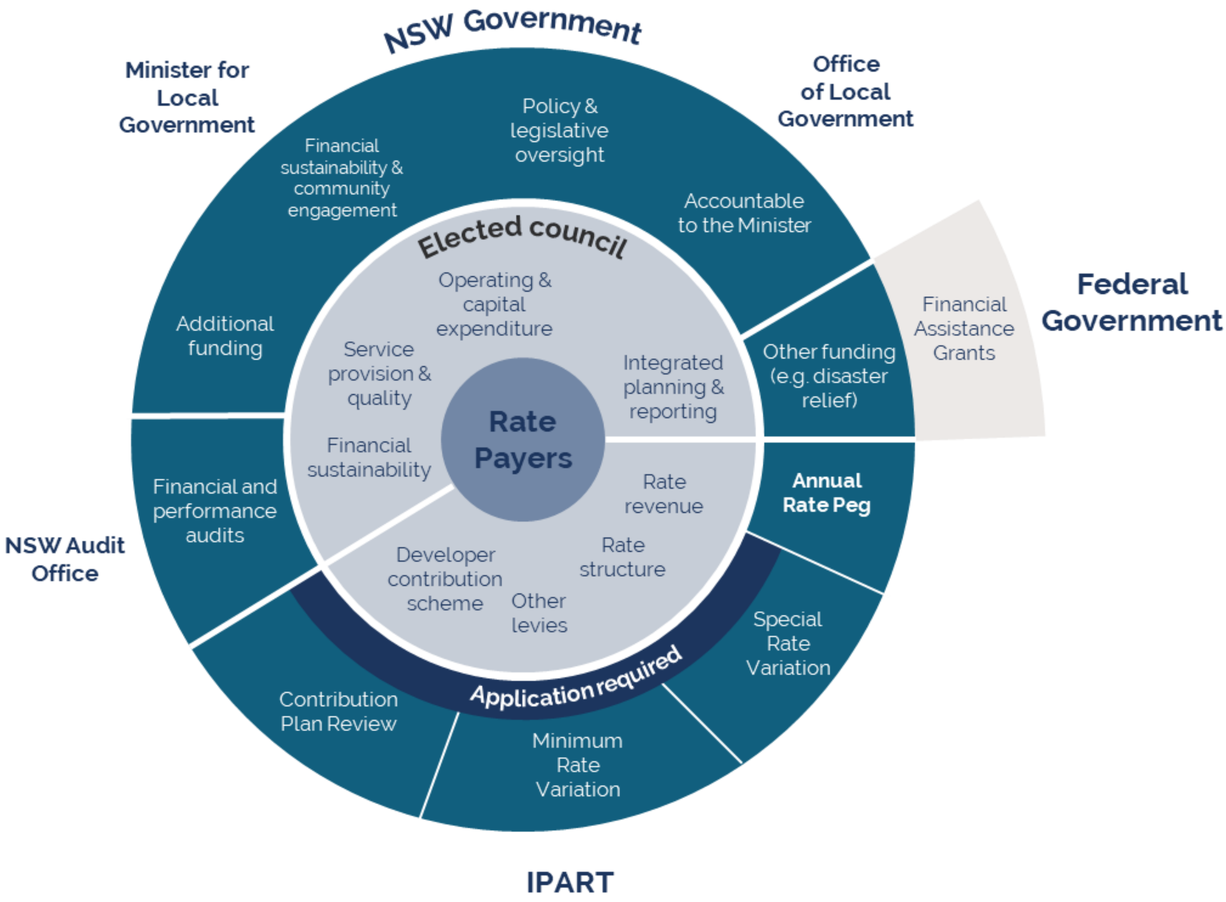
Figure 2.2 shows the regulatory functions that play a role in supporting councils and their communities. It shows that:

- Ratepayers are at the centre, being the focus for decision making.
- The next layer, the elected council, is the primary decision maker and is accountable to ratepayers for the councils' performance. It makes decisions on council services, expenditure, and funding (including rates in consultation with the community). In making decisions, a council considers the needs of its community, principles under the LG Act and the operating environment established by the NSW Government.
- The outer ring, the NSW Government, are the regulatory bodies and the Minister that make the elected council accountable. Regulatory bodies include: the Office of Local Government, the Audit Office and IPART.[e] The Federal Government also provides funding to councils through financial assistance and other grants.
- The annual rate peg (shown in the outer layer) is the maximum amount in percentage terms by which a council may increase its rates income in a year and is the mechanism that determines the total level of rates income for a given council. It is one element, but an important one, in this framework.

[d] Contributions plans are prepared by councils and set out the new infrastructure that is needed for a new development and the cost to council of delivering that infrastructure. Developers undertaking the development will pay the costs set out in the contributions plans. Councils need to submit their contributions plans to IPART for review if they propose contributions above $30,000 per residential lot or dwelling in identified greenfield areas and $20,000 per residential lot or dwelling in other areas. For more information see our website.

[e] There are also other regulatory bodies that work closely with local government, including the NSW Environmental Protection Authority and the NSW Department of Planning and Environment.

Figure 2.2 Key financial and governance framework for local government



Note: There are also other regulatory bodies that work closely with local government, including the NSW Environmental Protection Authority and the NSW Department of Planning and Environment.
Source: IPART.

Councils in NSW are democratically elected (shown in **the Figure 2.2**) and form a separate level of government from the Federal and State Government that is local government. Local government elections in NSW are held every 4 years. Councillors are elected for a 4-year term while mayors can be elected to serve a 2-year or 4 -year term. The number of councillors elected varies across councils.[2]

Local government in NSW is established by state legislation, which sets the framework under which councils operate. There are a range of important roles in administering this framework and monitoring councils' performance. These include:

- The Minister for Local Government
  - develops and implements budgets, policy and new legislation relating to local government, with the support of the Office of Local Government
  - has a range of oversight and enforcement powers to regulate councils.

- The NSW Auditor-General
  - auditor for councils
  - conducts financial and performance audits, with its last report published in May 2023[3]
  - reports to Parliament and supports reforms aimed at strengthening governance, improved financial management and public accountability.
- The Office of Local Government
  - accountable to the Minister for Local Government and responsible for strengthening the financial sustainability, performance, integrity, transparency and accountability of the local government sector
  - has a policy, legislative, investigative and program focus in regulating local councils, county councils and joint organisations
  - supports councils to implement Integrated Planning and Reporting (IP&R) processes (discussed below) with and for their communities.[4]

The IP&R framework was introduced in 2009. This framework has helped councils develop, document and report on plans for their communities. It sets out guidelines for councils in planning and reporting activities and consulting with their communities. The IP&R framework requires councils to develop and publish 5 key documents:

- Community Strategic Plan
- Resourcing Strategy
- Delivery Program
- Operational Plan
- Annual Report.

These documents provide useful information to the community about their council and strengthen councils' accountability. We found throughout this review that there is scope for improvements in how councils undertake and implement their IP&R framework. Despite councils raising that the framework satisfies a high level of community engagement,[5] we found through our ratepayer consultation that councils could improve their communication and trust with their communities.[6]

We consider that the rate peg, the focus of this review, can help to drive improvements in councils' performance by creating incentives for them to improve efficiency and productivity by constraining increases in councils' rates income to a measure of cost changes estimated using relevant macroeconomic indicators.

However, as the information above indicates, the degree to which a council meets the needs of its community and its obligations is driven by a wide range of factors and regulatory mechanisms and various factors. Some of these other mechanisms may be more effective at improving councils' financial sustainability and providing better outcomes for ratepayers than changes in the rate peg methodology. In Chapter 9, we discuss our recommendation to the NSW Government about a review of councils' financial model review.

The rate peg can help drive improvements in councils' performance. However, we found that other mechanisms may be more effective at improving councils' financial sustainability and providing better outcomes for ratepayers than changes in the rate peg methodology.

2.4 Councils told us they are concerned about the impact of the rate peg on their financial sustainability

We heard from many councils that they are concerned about their ability to remain financially sustainable and simultaneously meet the growing demand for new and improved services from their communities. They considered that the rate peg has constrained their ability to fully recover the costs of providing their current services, and this has negatively impacted their financial sustainability. This is discussed in further detail in Appendix D – Council financial sustainability.

It is in the community's interest that councils maintain their financial sustainability to provide ongoing goods, services, and facilities that their communities can afford. We found that the number of councils reporting operating deficits increased from 2016-17 to 2020-21, and more than half of all councils do not meet the infrastructure backlog ratio benchmark (see Appendix D – Council financial sustainability).

We are aware of significant variation in the average residential rates for different types of councils across NSW. This suggests that some councils may be struggling to fund the costs of ongoing activities as a result of an insufficient base level of rates income. This cannot be addressed through the rate peg.

While councils can apply for an SV to improve their financial sustainability and/or meet their communities' service expectations, some councils argued the existing SV process is resource-intensive and can become a contentious issue.[7] As a result, we consider that councils with longstanding financial sustainability issues driven by an insufficient base level of rates income could benefit from a mechanism to reset their base (see Chapter 9 for further discussion). Councils also need to work with their communities to build trust and show that rates income is being used in a way that provides good value for money for their communities.

Appendix D sets out our analysis in response to issues raised by stakeholders on council financial sustainability.

2.5 Ratepayers expressed concerns about affordability and considered that councils could improve how they communicate with their communities

We found that ratepayers were principally concerned with affordability of their rates, and the impact a new rate peg methodology would have on their cost of living.[8]

In submissions to our Draft Report and Issues Paper, ratepayers generally considered that councils' financial sustainability problems reflect unnecessary spending and potential mismanagement.[9] For example, results from our ratepayer survey showed that 34% of respondents thought that councils do not use rates income well enough.[10] Ratepayers generally supported having a rate peg in place.[11]

Ratepayers and local communities expect councils to engage and consult with them directly, and to listen and to respond to their views. Ratepayers also expect councils to improve their productivity and efficiency to deliver services that their communities value.[12] This is particularly important in the current economic conditions when communities are facing cost of living pressures. It is also important that each council actively involves and engages with its community when planning and developing its short and long-term service delivery plans. This is to ensure councils deliver services that meet their communities' preferences and willingness to pay.

Councils also need to respond to changes in population and evolving ratepayer and community expectations on protecting the environment, reducing greenhouse emissions and improving liveability. Sustained delivery of services that meet their communities' needs requires good long-term planning and prudent financial management. Ratepayers need to be provided with information so they can hold their councils accountable.

More detailed findings from our surveys and focus groups conducted with ratepayers can be found in Appendix C.

2.6 The rate peg should ensure ratepayers pay no more than necessary while enabling councils' rates income to keep pace with changes in their costs

According to our Terms of Reference for this review the "primary purpose of the rate peg is to protect ratepayers from excessive increases in their rate bills".[f] While some stakeholders supported this purpose,[13] others disagreed with this view. Councils challenged the idea that they impose excessive increases onto their communities, while ratepayers argued that they can still face high rates increases despite the rate peg.[14] A stakeholder noted that the rate peg may protect ratepayers collectively but not necessarily individual ratepayers.[15] We also received a submission that questioned IPART's role and how we ensure ratepayers pay no more than necessary.[16]

[f] See Appendix F: Terms of Reference which is also available here.

As Chapter 1 discussed, we consider the rate peg to have dual purposes. It allows councils to automatically increase their rates income each year to keep pace with the estimated change in the costs of providing their current services and service levels to households, businesses, and the broader community. At the same time, it limits the impact of these automatic increases on ratepayers, by ensuring that councils cannot increase their total rates income by more than the estimated change in these costs,

If the rate peg is effective in fulfilling these purposes, a council that starts with a sufficient base level of rates income and a reasonable level of efficiency should be able to continue providing its existing services over time or reprioritise existing services to accommodate new or improved services, without undermining its financial sustainability. And its ratepayers should not be required to pay more than they need to for those services.

But fulfilling both purposes is not easy. To do so, the methodology for setting the rate peg needs to balance a range of sometimes conflicting factors.

To meet the first purpose, the methodology needs to take into account the difference in individual councils across NSW and enable councils to receive sufficient rates income to support the delivery of services to meet ratepayer needs.

However, to meet the second purpose, the methodology should set the rate peg at a level whereby ratepayers do not pay more than what is needed for the delivery of services. This is important to protect ratepayers and provide a financial incentive for councils to maintain or improve their efficiency and productivity.

At the same time, in line with the principles of good regulation, the methodology needs to be simple and easy to administer. This is important to manage the burden the regulation imposes on councils, ratepayers and taxpayers, and to ensure its benefits outweigh its costs.

In reviewing the methodology, we were mindful of the dual purpose of the rate peg as well as the need for simplicity. We considered the views of both councils and ratepayers who are impacted by the rate peg.

Our decisions on the rate peg methodology aim to improve the accuracy and simplicity of the methodology, protect ratepayers and support councils' financial sustainability. However, we note that it will be difficult to achieve a rate peg methodology that is capable of addressing the concerns of all parties involved. This is both due to the diverse nature of councils across the State which increases the complexity of calculating an accurate level of council cost changes, as well as the diverging perspectives and preferences of stakeholders on issues such as cost-reflectivity, timeliness, stability and predictability, and which of these should be prioritised.

Through our consultation we also heard from stakeholders on issues that could be better dealt with through mechanisms other than the rate peg. This includes changes to how rates are shared between ratepayers, how councils communicate with their communities, and other funding mechanisms available to councils. As a result, we have also taken the opportunity through this review to report on areas we have identified that have the potential for improvement.

Our decisions on the rate peg methodology, along with commentary on other issues, are set out in the following chapters.

Our decisions aim to improve the accuracy of the rate peg methodology, protect ratepayers and support councils' financial sustainability. However, the new methodology will not address all issues raised by stakeholders. Therefore, we recommend that the NSW Government consider commissioning an independent review of the financial model for councils in NSW.

Chapter 3

Improving how measure changes in councils' base costs

03

Under our old methodology, we measured the change in councils' base costs using the Local Government Cost Index (LGCI) (see **Box 3.2** for more information). This provided an average annual cost change for all councils across NSW, which we included in the rate peg.

In reviewing this step of the methodology, we considered the comments we received from stakeholders on the LGCI and explored a range of alternative options for measuring changes in councils' base costs. We also considered when we should measure the change in base costs and publish the rate peg for the coming year.

In the following sections we outline and explain our decisions and findings, including how we have addressed stakeholders' concerns, and discuss the other options we considered.

3.1 Our decisions and findings on measuring changes in councils' base costs

Our decisions are:

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

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).

3. For each council group, calculate the Base Cost Change as follows:
   a. For employee costs, we will use the annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies. When the Award increase is not available, we will use 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 will adjust for changes in the superannuation guarantee.
   b. For asset costs, we will 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 will 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.

4. To release rate pegs for councils around September each year, for the upcoming financial year.

Our finding is:

1. The 2-year lag under our old rate peg methodology does not allow for changes in council costs to be reflected in a timely manner in the rate peg. This can be problematic during periods of cost volatility.

3.2 We will replace the Local Government Cost Index with a new Base Cost Change model

We will replace the LGCI with a new Base Cost Change (BCC) model. We will apply the BCC to measure the base cost change for 3 groupings of councils– metropolitan, regional and rural – each year.

The BCC will include 3 components – employee costs, asset costs and all other operating costs (excluding the Emergency Services Levy (ESL)). We will measure changes in councils' ESL contributions separately through an ESL factor (see Chapter 4). Appendix A sets out our methodology in detail.

We have modelled how the BCC[a] for each council group would have performed over the period from 2011-12 to 2023-24 compared to the percentage change in the LGCI included in the rate peg. Our analysis suggests that the BCC model produces a more timely measure of changes in councils' base costs, by referring to forward-looking measures of changes in councils' costs (see **Box 3.1**).

Similar to the LGCI, our adopted BCC measures only changes in unit costs and does not measure changes in the amounts, quality or types of services provided. The population factor in the rate peg aims to ensure that per capita income is maintained as population grows and 'other' adjustments can be used to account for some changes outside of councils' control (see Chapters 5 and 6). We will include a separate factor in the rate peg to account for changes in the ESL (see Chapter 4).[b]

Box 3.1 Our new BCC model

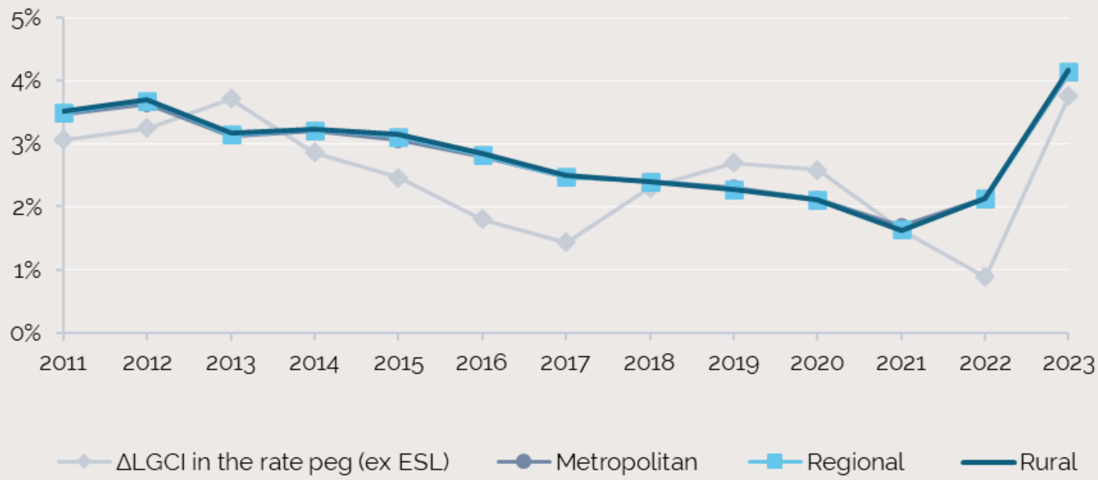
The following graph compares our BCC model for each council group and the change in the LGCI included in the rate peg over the period from 2011-12 to 2023-24.

Based on the approach set out above, the BCCs would have been very similar for all 3 council groups over this period.

[a] This is based on historical Local Government (State) Award increases and does not account for any potential impacts of our decision to use Local Government (State) Award increases to set the rate peg.

[b] We excluded the ESL from the LGCI to allow a like-with-like comparison with the BCC which excludes the ESL. Excluding the ESL from the LGCI led to a difference of between -0.2% and 0.1%.

Box 3.1 Our new BCC model



Compared to the change in the LGCI, the BCCs would have been:

- less volatile and a more timely reflection of changes in councils' costs, most noticeably in 2022-23
- lower for all councils in 2020-21, when CPI inflation was around 1.5%[a]
- higher for all councils in 2022-23 and 2023-24, reflecting higher expected inflation.

a. The average inflation rate for the year, measured as the average of four quarters divided by the average of four quarters in the previous year.

3.2.1 Our BCC model includes 3 components

In this review we have considered opportunities to simplify our methodology and improve the predictability of the rate peg.

Our LGCI includes 26 cost components to capture the range of goods and services used by the average council in NSW. However, the materiality of many of the components is negligible and it would be preferable to reduce some of the complexity of our measure of councils' base costs for a simpler method, without diminishing accuracy.

Box 3.2 Our old LGCI methodology

Under our old methodology, we measured the average annual change in councils' base costs using the LGCI. This index measured the change in prices of a fixed 'basket' of goods and services purchased by the average council relative to the prices of the same basket in a base period. It is similar in principle to the CPI used to measure changes in prices for a typical household.

We developed the LGCI for use in setting the rate peg in 2010, following a review of the revenue framework for the local government sector. We made the decision to set the rate peg with reference to a local government-specific cost index rather than a broad economic index (such as CPI or the WPI) to better reflect the composition of councils' costs and the relative importance of individual costs. We considered that this would produce more cost-reflective estimates.

The LGCI was designed to reflect the changes in unit costs that councils face when providing goods and services to their communities, including labour, construction, and administration costs. It included 26 cost components, each of which was weighted to reflect its relative contribution to councils' total costs. Two of the components accounted for around 60% of total costs (labour and roads and bridges construction). We maintained the accuracy of the index by collecting data on councils' cost every 4 to 5 years and used this data to update the weights of the cost components.

To measure the annual change in each cost component, we used an appropriate inflator. In most cases, this was a price index published by the ABS. This was intended to provide transparency and independence in estimating cost changes. However, as we relied on historical data to set the rate peg, there was a 2-year lag associated with this method.

Source: IPART, Local Government Cost Index – Information Paper, December 2010, p 1; IPART, Revenue Framework for Local Government - Final Report, December 2009, pp 135-136; and IPART, Rate peg for NSW councils for 2023-24, September 2022, p 9.

In our Issues Paper we sought feedback on how we can simplify the rate peg calculation without diminishing accuracy and received differing views on this from stakeholder submissions.

Some councils indicated a preference for reducing the complexity of our measure of councils' base costs. This is exemplified by the submission from Mid-Western Regional Council which noted that 14 of the 26 components of the LGCI have a weighting of less than 1%. The council added that it is likely there would be no material impact and would likely improve understanding of the calculation by removing these items or combining into other costs and using an All-Groups CPI.[17] Albury City Council and North Sydney Council also expressed support for reducing the number of cost components in the LGCI and simplifying the rate peg methodology.[18]

We also received a number of submissions, mainly from councils and council organisations, expressing the view that cost-reflectivity is the key priority, and simplicity should not be at the expense of accuracy.[19] The United Services Union submission said that simplicity should not be the primary purpose of the rate peg, and cautioned the multiplier effect on the costs of inaccurate rate caps.[20]

At the Draft Report stage, we reviewed data on councils' operating costs recorded in their Financial Data Returns (FDRs) and identified there are 2 key costs that all councils incur in providing services to their communities – employee costs and asset costs. Our analysis shows that these 2 cost components account for around 60% of councils' costs (see **Table 3.2**). We combined all other council costs into an 'other operating costs' component, because there is a range of different costs incurred by councils across the State, each of which represent a small share of council costs.

Local government sector submissions to our Draft Report supported replacing the LGCI with the simpler 3-component BCC model and considered that this will be better understood by councils and ratepayers.[21] One council organisation raised that energy price forecasts should be included in the rate peg.[22] However, we decided not to introduce any additional specific cost components in our BCC model because there is limited value in including components with minor weightings as they are unlikely to have a material impact on the rate peg outcome.

While our BCC model only includes 3 components and measures only the change in costs (not amounts, quality or types of services), each council incurs a range of costs, influenced by its needs and circumstances. Chapter 5 discusses how we would account for additional costs impacting all councils, or subsets of councils, through the rate peg methodology.

Some ratepayer submissions to our Draft Report expressed a preference for using the CPI to set the rate peg.[23] Our view is that the measure of cost changes incurred by councils should not be purely based on the CPI. The CPI published by the Australian Bureau of Statistics (ABS) measures price changes in a 'basket' of goods and services consumed by the typical metropolitan household. This includes goods and services that may not reflect council purchases (e.g. purchases of new dwellings, household items and groceries).

3.3 We will use separate BCC models for different council groups to account for diversity

Throughout this review many councils have expressed concerns about a rate peg methodology that is based on the average change in base costs for all NSW councils. They told us that this would not accurately reflect how their costs are changing, as different councils across the State have different priorities and services they provide to their communities, and incur different costs in doing so.[24] Findings from our residential and business ratepayer surveys suggest that around two-thirds of respondents would also support a rate peg methodology that is better tailored to the needs and circumstances of each individual council.[25]

Our analysis shows that councils do spend their money differently. As an example, we observed that asset costs generally represent a larger proportion of total costs for regional and rural councils than metropolitan councils (see **Table 3.2**).

We support better reflecting the diversity of councils across the State through the rate peg methodology. This can be achieved by developing separate measures of base cost change for groups of 'similar' councils. Any additional differences between councils could to be captured through other elements of the rate peg (see Chapters 4, 5 and 6).

To establish groups of councils with similar characteristics we referred to the council types used by the Office of Local Government (OLG). Under this classification, councils are categorised in 5 council types – metropolitan, metropolitan fringe, regional, rural, and large rural – based on broad demographic variables.[26]

Our Draft Report proposed to combine these 5 council types into 3 broader groups – metropolitan, regional and rural. We also considered separating councils into 4 or 5 groups, as some stakeholders suggested, by splitting the metropolitan group and/or rural group into subgroups.[27] However, we found 3 groups to be the best option because there is very little difference in the share of expenditure on the 3 cost components captured by the BCC model when the groups are further separated, and any data inaccuracies would be amplified due to there being fewer councils in each group.

Most local government sector submissions to our Draft Report supported developing separate BCC models for different council groups. Some stakeholders considered that additional groups should be established for growth councils, regional cities, and coastal councils.[28] However, as one council identified in its submission to the Draft Report, there is very little difference between the BCCs for the 3 council groups shown in the Draft Report,[29] and the introduction of additional groups is unlikely to have a material impact on rate peg outcomes. For this reason, we have decided to maintain 3 council groups – metropolitan, regional and rural.

We recognise there is scope for further improvements to enable us to better account for the diversity of councils. We are open to exploring alternative groupings based on other characteristics and will continue to investigate the issue of council groupings using statistical techniques. We note that the 'other adjustments' component in our rate peg methodology could also be used to recognise diversity and account for costs impacting specific groups of councils.

3.4 Our decisions will improve the cost-reflectivity and timeliness of the rate peg

Our old rate peg methodology mainly used independent measures of price changes published by the ABS to produce an objective measure of changes in inflation and costs incurred by councils. Although we used the most up-to-date ABS data available, there was a 2-year lag between the time period that price changes were observed over and when councils could recover these price changes by applying the rate peg to their rates income.

Most councils and their representative bodies submitted that the 2-year lag is a problem.[30] This is because, when inflation is volatile, as it has been in recent years, the lag means the rate peg can be substantially above or below actual increases in costs due to inflation. For example, in the 2022-23 rate peg the change in the LGCI was 0.9%[c], while the change in the All groups CPI (Australia) over the 12 months to the June quarter 2022 was 6.1%.[d] Councils' preferred solution to address the lag was to use forward-looking indicators, such as forecasts.

We also considered the option of using rolling averages, which would assist with stabilising volatility. However, this was not a preferred solution for local government sector stakeholders because it would lead to a less forward-looking and less cost-reflective measure.

3.4.1 We will use wage increases set by the Local Government (State) Award to measure changes in employee costs

Employee costs are the largest single component of council costs, representing around 39% of councils' total costs on average (see **Table 3.2**). Our old rate peg methodology used the ABS Wage Price Index (WPI) for the NSW public sector to measure how councils' employee costs are changing.[31]

A key issue for councils is that the ABS WPI for the NSW public sector mainly captures changes in wages for State Government employees and does not always reflect the increases councils are required to pay under the Local Government (State) Award (the Award), which sets out the pay and conditions of employment for most councils in NSW.[32] Councils also noted that the ABS WPI for the NSW public sector does not account for the premiums that councils have to pay to attract and retain staff, particularly for specialised roles, and in regional and remote areas of the State.[33]

c The 2022-23 rate peg included the change in the LGCI over the year to June 2021. The rate peg was 0.7%, because 0.2% was deducted from the change in the LGCI to remove the 2021-22 election cost allowance.

d Percentage change from the corresponding quarter of the previous year for Australia (i.e. all capital cities). The average inflation rate in 2021-22 (measured as the average of four quarters divided by the average of four quarters) was 4.4%

Our Draft Report presented options for how we could measure employee costs in the BCC

Our Draft Report described 2 main options for how we could measure employee costs in the BCC model:

1. Annual wage increases prescribed by the Award for the year the rate peg applies. This would improve the cost-reflectivity of the rate peg and address the 2-year lag under our old rate peg methodology, to an extent, as the changes are generally known in advance. However, the Award increases would not account for any attraction or retention premiums that councils may have to pay, nor changes in conditions, resulting from increased competition in the labour market.
2. The RBA's forecast change in the WPI from the most recent Statement on Monetary Policy. This forecast represents changes in public and private sector wages for all of Australia. Using the RBA's forecast change in the WPI would also address the 2-year lag and the RBA's forecasts are updated every 3 months to reflect changing economic conditions. However, the main risk associated with using the RBA's forecast change in the WPI is that forecasts are prone to error and may lead to a divergence between rate peg and actual employees cost changes, in the absence of any true-ups. Further, this is a relatively new measure, so it is not possible for us to assess the accuracy of the RBA's forecasts by comparing them to actuals over a longer period (see **Table 3.1**).

We also considered other measures of changes in employee costs, but our investigations showed that they are not suitable for our purposes. These include:

- The Fair Work Commission's minimum wage decision. This is an independent data source that is determined by an Expert Panel of the Commission through an annual review process. One potential issue with using this data is that changes in the national minimum wage may not reflect changes in councils' employee costs. Additionally, using the Fair Work Commission's minimum wage decision would reduce the lag in the rate peg methodology, but not eliminate it.[e] We consulted on this option as part of our technical workshops, but did not receive much feedback on or support for it.
- Broader ABS WPI options such as the NSW WPI for all sectors. This is an independent measure of employee costs that would reflect the competition councils face in the labour market from both the public and private sectors. However, the main disadvantage of using this measure for our BCC is that it does not address the lag, and therefore is inconsistent with stakeholder preferences for a forward-looking measure of cost changes.
- The Average Weekly Ordinary Time Earnings (AWOTE) measure. We received a submission to our Draft Report from an individual requesting that we consider AWOTE.[34] We found that this measure may not accurately reflect changes in councils' employee costs because changes in average earnings are affected not only by changes in the level of earnings of employees, but also by changes in hours worked and the overall composition of the workforce over time.[f]

e There would still be a 1-year lag.

f As an example, in early 2020 COVID-19 restrictions led to a large decrease in the number of jobs, people employed and hours worked, with lower paid jobs and industries particularly impacted. The large-scale loss of lower paid jobs in these industries had the effect of increasing the value of average weekly earnings at the total economy level and full-time adult average weekly earnings increased by 3.3% from November 2019 to May 2020.

We engaged The CIE to provide advice on options for labour cost indexation

We engaged an independent economic consultant – The Centre for International Economics (The CIE) to provide advice on options for the labour cost indexation in the rate peg.

Table 3.1 shows the historical outcomes under different labour cost indexation options.

Table 3.1 Indexation options and historical outcomes

Indexation option	Cumulative 5-year increase (%)	Cumulative 10-year increase (%)
ABS NSW WPI public sector **(Old approach)**	11.4%	27.1%
ABS NSW WPI all sectors	10.5%	26.3%
ABS NSW WPI private sector	10.3%	26.1%
Award increases	12.2%	29.3%
Fair Work Commission minimum wage increase	12.2%	29.9%
RBA's forecast change in the WPI[a]	na	na

a. 5-year and 10-year increases are unavailable for the RBA's forecast change in the WPI as at May 2023 because the RBA only started forecasting WPI in November 2018.

Source: The CIE, Local government labour cost indexation, May 2023, pp 1-2.

The CIE found that:

- The Award performed well against other indexation options based on The CIE's assessment, however its main weakness is how it interacts with the wage negotiation process, which could lead to very significant unintended consequences. The CIE considered that if the rate peg is directly linked to the Award increases, then negotiations for award increases could alter significantly — councils would have much less incentive to keep wage increases constrained and would also much prefer wage increases to changes in conditions. The CIE also noted that this measure would be aligned to when councils will face cost increases with the exception of when negotiations are occurring, where this may not necessarily be the case and there may be a gap in timing.[35]
- Forecasts perform best on timeliness. However, these indicators are more likely to have persistent bias relative to actual wage pressures and a lower level of accuracy.[36]
- The Fair Work Commission's minimum wage decisions do not have to relate to the actual labour market pressures faced by councils. Additionally, the National Minimum Wage award is typically made in mid-June to start 1 July that year. This suggests that there would likely be a one-year lag if this measure is used to set the rate peg.[37]
- Broader ABS WPI options (i.e. NSW WPI all sectors and NSW WPI private sector) perform better than the existing WPI public sector option. The CIE identified similarities between the local government and the broader private sector, in terms of workforce compositions and education levels. The main drawback of using these ABS indexes is that they do not address the issue of timeliness.[38]

Further information is available in The CIE's report on local government labour cost indexation, which can be found on IPART's website.

The CIE was unable to assess the performance of the RBA's forecast change in the WPI due to insufficient data because the RBA only started forecasting WPI in November 2018. However, we were able to compare the RBA's forecasts over the 5-year period from 2020-21 to 2024-25 with the Award over the same period. We found that the 5-year cumulative increases were similar, being 14.4% for the RBA's forecast change in the WPI and 14.8% for the Award.

Stakeholders expressed different views on the preferred option for measuring changes in employee costs

Most local government sector submissions to our Draft Report supported using the Award increases to measure changes in employee costs because this option aligns directly with the wage cost impacts faced by councils.[39] Local government sector stakeholders also supported including adjustments to reflect changes in the superannuation guarantee rate.[40] Councils generally supported using the RBA's forecast change in the WPI when the Award is not available,[41] and some councils suggested that an adjustment could be made to the rate peg in the subsequent year to account for the difference between the Award increase and the forecast that was used.[42]

Some submissions received from the local government sector raised limitations with using only the Award increases. In addition to the year-on-year increases prescribed by the Award, local government stakeholders requested that we also consider:

- Additional one-off payments included in the Award 2023-26. The new Award came into effect on the first full pay period after 1 July 2023, and set increases of:
  - 4.5% from 1 July 2023
  - 3.5% from 1 July 2024
  - 3% from 1 July 2025
  - With one off bonuses in 2024 and 2025 of 0.5% or $1,000 (whichever is greater) for all permanent or permanent part time employees (the bonus will be pro rata for these employees) with 12 months service.[43]
- Salary step-increases.[44]
- Allowance paid for attraction or retention of staff, which particularly affects regional and rural councils.[45]

One council submission expressed support for using the RBA's forecast change in the WPI as this would be more reflective of the wage increases needed by councils to compete in the labour market against alternative employers.[46]

Some stakeholders expressed concerns about including the Award increases in the rate peg. One ratepayer argued that using the Award is deeply flawed because councils have no incentives to negotiate lower Award increases if they know these will be passed straight onto ratepayers.[47] At our Public Hearing, one council acknowledged while it has its own award, it considered that using the Local Government (State) Award increases could reduce councils' incentives to negotiate, knowing that it will be passed onto the community. The council considered that it would be better if the measure of employee costs is not directly linked to the Award increases.[48]

Stakeholders also provided feedback on the effectiveness of mitigating factors outlined in the Draft Report

Our Draft Report also discussed whether the risk identified with using the Award increases can be adequately managed through mitigating factors including:

- community consultation as part of Integrated Planning and Reporting (IP&R) processes
- council elections
- final approval by the NSW Industrial Relations Commission.

Local government sector stakeholders considered that council representatives and unions would continue to negotiate in good faith even if the BCC is directly linked to the Award increases.[49] One council noted that there are additional costs incurred by councils that are not captured by the Award increases such as increases related to progression through the salary system and attraction and retention premiums, so this is not a cost pass-through.[50] Some councils suggested monitoring the Award increases over time to reduce the risk of unreasonable wage increases.[51]

Individuals and ratepayer associations did not agree that this risk with using the Award increases could be appropriately managed by the mitigating factors described in the Draft Report. One ratepayer considered that councils' IP&R consultations are often poorly organised, and participation rates are low.[52] Further, as the Award increases are negotiated at the sector level, it is difficult for voters to see a direct link between their own council leadership and the Award increases negotiated and hold the elected council accountable through elections.[53] One ratepayer association noted that issues regarding setting salary or wage levels for councils' staff do not enter the community's awareness and are complicated by the extensive use of outsourcing.[54]

We have also contacted the NSW Industrial Relations Commission (the Commission) to understand the role of the Commission in making the Award. The Commission indicated that the *Industrial Relations Act 1996* provides the Commissioner with power to make awards providing for terms and conditions of employment which are fair and reasonable, and consent from the parties to the Award is evidence that the terms and conditions, including wage increases are fair and reasonable. The Commission noted that the Act and the Commission's Wage Fixing Principles require it to take into consideration the state of the economy of NSW and the effect of the award on the economy of NSW in arbitrating or making awards. However, the Commission does not have the capacity to review the economic impacts of award increases, particularly in consent applications, and would be unlikely to require the parties to provide additional evidence, such as expert economic evidence, in a consent application such as once Local Government representatives and unions come to an agreement, unless the Commission was concerned that the Award does not meet other legislative requirements, such as equal remuneration principles.

We consider that the Award increases are the most cost-reflective measure of changes in employee costs

We have considered feedback received from all stakeholders in making our decision on the measure of changes in employee costs in the BCC model. We recognise this is an important issue for stakeholders and that different stakeholder groups have expressed different views on this. On balance, we have decided to use the annual wage increases prescribed by the Award because this is the most accurate measure of the changes in employee costs incurred by councils.

We consider that the role of the rate peg is not to constrain the management decisions that local government are authorised to make, including wage negotiations, and setting council budgets. Councillors in NSW are democratically elected and accountable to their local communities. They also possess a unique understanding of local concerns and affordability issues and are legally obligated to carry out functions in a way that provides the best possible value for residents and ratepayers.[55]

Councils have a better understanding of the preferences of their local communities and are best placed to make human resourcing decisions and determine the wage increases needed to deliver optimal outcomes for their council area. The rate peg is not the optimal tool to drive efficiencies in labour costs or to constrain the functions of elected councillors and councils as employers.

We recognise that ratepayers are seeking value for money from their rates and improved financial management. Around four in five respondents to our ratepayer survey considered that ratepayers and the community should have influence in deciding council rate increases, along with IPART as the independent regulator.[56] We support further investigating how councils can service their communities more effectively and build trust and consider that this could be explored as part of the independent review of the financial model for councils (see Chapter 9). We consider that improvements to accountability and transparency are better suited to addressing the risk of unreasonable wage increases than the rate peg.

Further, we consider that there are also risks associated with using an alternative measure of employee costs such as the RBA's forecast change in the WPI which may not accurately reflect the changes in employee costs incurred by councils. If the alternative measure is lower than the actual cost changes incurred by councils, this could impact councils' financial sustainability or lead to councils making decisions that are not in the interests of their local communities such as service cuts. If the alternative measure is higher, this could lead to ratepayers paying more than what is needed.

As the Award negotiations are held between Local Government NSW (on behalf of councils) and unions, individual councils have limited ability to influence the outcomes of the Award, including the salary increases. There are also a number of councils across the State that set their wages and conditions with either an enterprise agreement or their own award, with the main rationale for this being to enable these councils to better respond to circumstances specific to their local government areas.

In setting the rate peg for the 2024-25 financial year, we will consider accounting for one-off bonuses included in the 2023 Award. We will also adjust for changes in the (employer funded) superannuation guarantee which are not captured by the Award increases.[g, 57]

[g] For the 2024-25 rate peg we will include the full catch-up to (the expected) 11.5% from the 10% included in the 2023-24 rate peg

We will not adjust for any additional increases from step-increases or attraction and retention premiums. While we recognise that rural and remote councils may find it more difficult to recruit and retain staff in a tight labour market, we do not consider this should be addressed through the employee costs component of the BCC model. Councils that can provide evidence to demonstrate the need for higher increases could consider making an application for a special variation. We note that other options such as opt-in arrangements to encourage sharing of specialist services between councils may also assist with addressing recruitment challenges in a tight labour market.

We will monitor the Award increases as part of future rate peg decisions

While we strongly believe that it is the responsibility of elected councils, in consultation with their communities, to make decisions on council budgets (including the appropriate level of wages paid), we will closely monitor the performance of different measures of employee costs as part of future rate peg decisions. This is because the implementation of any new methodology introduces uncertainty, and monitoring is necessary to ensure there are no unintended consequences. This could involve comparing the Award increases against a benchmark measure such as the RBA's forecast change in the WPI, the Fair Work Commission's minimum wage decision, or other Award increases and reviewing changes in employee costs reported in councils' financial statements over time.

If we identify significant divergences between the Award increases and measures of wage increases in the wider economy, we may consider not allowing for full cost-recovery of Award increases or using the productivity factor in our rate peg methodology to assist with incentives. We have decided to retain the productivity factor in the rate peg methodology and set this at zero unless there is evidence to depart from this approach (see Chapter 7). Identifying significant divergences could also trigger an immediate review of how we measure changes in employee costs in the rate peg.

3.4.2 We will use the RBA's forecast CPI with a Producer Price Index adjustment to measure changes in asset costs

Asset costs, measured using depreciation, represent around 21% of councils' total costs on average (see **Table 3.2**). Our old rate peg methodology used Producer Price Indexes (PPIs), published by the ABS to measure how councils' asset costs are changing (mainly the PPI for Road and bridge construction).

An adjusted CPI forecast would address the lag

As previously discussed, a key problem with our old measure was that it was lagged by 2 years. The only way to address the lag is to use a forecast, but PPI forecasts are not available. Instead, to address the lag we would use the RBA's CPI forecast adjusted for the difference between the year-on-year change in the CPI and the year-on-year change in the PPI (Road and bridge construction) over the most recent 5 years for which data are available.

For example, over the 5 years to 30 June 2022 the NSW PPI (Road and bridge construction) was on average 0.6% higher than the CPI (All groups, Sydney). The asset cost component of the BCC for 2023-24 would therefore have been 0.6% higher than the RBA's CPI forecast:

$$BCC\ asset\ cost\ = 3.9\% + 0.6\% = 4.5\%$$

We would not include a true-up for actual inflation, because doing so would offset the benefits of moving to a forward-looking measure of cost changes. When inflation is volatile, true-ups can be quite large and could overwhelm the forecast. For example, the true-up for the 2021-22 rate peg would have been -1.2%, reflecting unexpectedly low inflation in 2019-20. The asset cost component of the BCC would have been -0.1% instead of 1.2%. Similarly, the true-up for the 2023-24 rate peg would have been 4.5%, reflecting unexpectedly high inflation in 2021-22. The asset cost component of the BCC would have been 8.6% instead of 4.5%.

We considered using depreciation costs to account for changes in the volume of assets

We explored the option of using depreciation costs in the BCC as a proxy of changes in asset costs. The purpose of this component of the BCC would be to capture increases in costs caused by both inflation and the higher volumes that result from the grant-funded assets, accelerated depreciation, and additional or improved assets not associated with population growth.

We consulted on this approach and, while some industry stakeholders expressed support for using depreciation to measure asset costs,[58] a number of other stakeholders raised concerns about this approach.[59] After considering these concerns, on balance we decided to not use depreciation to measure asset costs at this time,

Appendix B provides more information on using depreciation to measure asset costs.

We consider that an adjusted CPI forecast is the most appropriate measure of changes in asset costs at this time

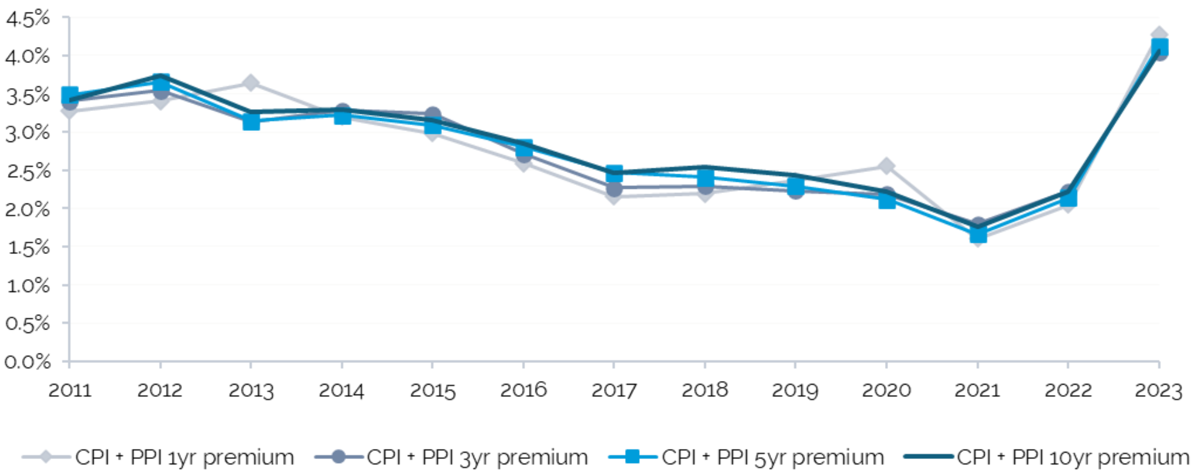
Local government sector submissions to the Draft Report generally supported using an adjusted CPI to measure changes in asset costs in the BCC model.[60] Some concerns were raised about the approach not accounting for changes in the volume of assets. These submissions expressed a preference for using councils' depreciation costs to measure changes in asset costs.[61] However, we have decided not to use depreciation costs at this time for the reasons discussed in Appendix B.

One council organisation questioned if an adjustment based on the average difference between the change in the PPI and the change in the CPI over the most recent 5-year period might not be sufficiently responsive in periods of volatility.[62] In response to this feedback, we have considered the average difference between the PPI and CPI over different time periods – over 1 year, 3 years, 5 years, and 10 years.

We found that an adjustment based on the 1-year difference would not be preferable because it would be quite volatile. Similarly, an adjustment based on the average difference over a 10-year period would also not be preferable, even though it would be more stable, because the responsiveness of this to price changes would be reduced.

Figure 3.1 shows the average BCC calculated using different time periods for the average difference between the PPI and CPI.

Figure 3.1 Average BCC based on different PPI adjustment periods



It shows that the 3-year, 5-year and 10-year options produce similar BCC outcomes.

Based on this, we will maintain our decision to set the adjustment for asset costs using the average difference between changes in the PPI and changes in the CPI over the most recent 5-year period. Our modelling suggests that moving from the average difference over a 5-year period to the average difference over a 3-year period would not lead to material differences in BCC outcomes, to justify a departure from the decision made in our Draft Report.

3.4.3 We will use the RBA's CPI forecast to measure changes in other operating costs

To measure changes in all other operating costs (such as materials and services costs and borrowing costs), we will use the CPI forecast from the RBA's most recent Statement (averaging the changes over the year to June and December for the year the rate peg applies). We will not include a true-up for observed inflation, because doing so would offset the benefits of moving to a forward-looking measure of cost changes.

Some councils also suggested that the rate at which costs are changing can also vary across the State.[63] One attendee at our technical workshops proposed using different CPI measures for different councils across the State – for example, cost changes experienced by councils located close to the Queensland border could be more consistent with the CPI for Brisbane, and councils located around Canberra could refer to the CPI for Canberra.[64]

We consider that changes in the CPI for different capital cities are predominately driven by factors specific to these capital cities, such as the performance of the housing market, and are unlikely to reflect changes in costs incurred by councils in NSW. While we do not support directly using the CPI for other capital cities, we note that the RBA's CPI forecast includes all capital cities, which we consider could be a better measure of the expected cost changes for councils across the State.

One attendee at our technical workshops expressed the view that the CPI is only relevant to capacity to pay arguments for households, and that the PPI is the relevant index for the cost of providing services for local government.[65] In our Draft Report we noted that while we are not aware of any available PPI forecasts, we could explore developing a forecast (using a similar approach to what we have adopted for asset costs) if this is preferred by stakeholders.

Some local government sector submissions to our Draft Report supported using the RBA's forecast change in the CPI to measure other operating costs in the BCC.[66] Others expressed concerns about the accuracy of using CPI alone and argued for the need to account for specific costs that are growing at a faster rate than the overall index such as utilities and insurance costs.[67] We have decided not to adjust for increases in select costs as it is also possible for the forecast change in the CPI to be driven by higher than average increases in costs that are less applicable to councils such as housing, food and non-alcoholic beverages and furnishings, household equipment and services.

We have also decided not to adjust the CPI forecast for historical differences between CPI and council-specific cost indices (including select PPIs) to measure changes in other operating costs. The first reason is because many of the council-specific costs are already included in the CPI, such as utilities and insurance costs. The second reason is that historically, some of the council-specific indices have been higher than CPI while others have been lower than CPI, and we have no reason to expect this will change in the future. This means that the net effect of any adjustment is likely to be very small in most years. We also did not receive substantial support for adjusting the CPI forecast for council-specific cost indices through submissions to our Draft Report.

Some local government sector stakeholders considered that a true-up mechanism should be included.[68] Our view remains that introducing true-ups would reintroduce a 2-year lag into the methodology, thereby negating any benefit of moving to forward looking indicators. It would also lead to greater complexity and reduce understandability for stakeholders. While we propose not to include a true-up in the BCC model, we consider that the variations between forecasts used in the BCC and actuals could be assessed as part of future reviews of the rate peg methodology, and an adjustment could be considered if we identify material differences between these – noting that any such adjustments should be applied symmetrically.

We also considered CPI and WPI forecasts from alternative sources

We could obtain forecasts from the following sources instead of using RBA forecasts:

- NSW Treasury, which provides CPI and WPI forecast in its Budget Statement (published in June) and half-yearly budget reviews (published in December or February).
- Commonwealth Treasury, which provides CPI and WPI forecasts in its budget documents, which it publishes at various times of the year.

Like the RBA's forecasts, these are highly reputable and publicly available. However, we consider the RBA's forecasts are the best available for our purposes, as they updated more frequently than either NSW Treasury of Commonwealth Treasury forecasts.

A number of private financial institutions also provide CPI and WPI forecasts, but we consider these are not appropriate for our purposes. They are not easily available from public sources and can vary fairly widely. Consolidated forecasts are available from private companies such as Bloomberg Professional Services and Refintiv Financial Solutions, but for a fee. In addition, private institutions tend to focus on short-term forecasts, and many do not provide them for 2 years ahead.

3.4.4 We will use councils' Financial Data Returns to weight the BCC's components

We have decided to use councils' Financial Data Returns (FDR) to weight the 3 components of the BCC and update these weights each year. To avoid volatility and for consistency we will use data from the most recently reported 3-year period.

Table 3.2 shows the weights for each council group, using data for the 3 years to 2021-22. It shows that asset costs constitute a larger proportion of costs for regional and rural councils than metropolitan councils. Employee costs and other operating costs each account for between 36% and 41% of the total costs, depending on the council type. Consistent with financial reporting practice, we propose to use depreciation to weight the asset cost component of the BCC. We consider using deprecation as a weight is less problematic than using annual changes in depreciation to measure the asset component of the BCC, as discussed in Appendix B. We consider that, for each group, a 3-year rolling average of depreciation is the best available proxy for the share of asset costs in total costs.

Table 3.2 Indicative weights using data for 2019-20 to 2021-22

Council type	Employee costs	Asset costs	Other operating costs (incl. materials and contracts)
Metropolitan	41%	18%	41%
Regional	37%	23%	40%
Rural	36%	26%	38%
All councils	**39%**	**21%**	**40%**

Source: Financial data return information from OLG, IPART analysis

Most local government sector submission to our Draft Report generally supported using councils' FDRs to weight the BCC model.[69] A few stakeholders expressed concerns about using lagged data,[70] and one stakeholder argued that forward-looking assessments of costs should also be considered.[71]

We consider the FDRs are the best available measure of council expenses, and due to the timing of when FDRs are submitted to OLG, and when the rate peg is released, this data has a lag of at least 2 years. We do not support including forward looking assessments of councils' expected expenses as councils are likely to develop their forward-looking estimates differently, leading to inconsistencies in the forecasts produced.

Some stakeholders suggested we use councils' Financial Data Returns to measure changes in costs

Some councils argued for the rate peg methodology to include a measure of base cost change that is unique to each council, based on their reported costs.[72] We have also heard from councils through our consultation processes on how their circumstances impact the services they must provide and the costs they incur.[73] These stakeholders suggested we use data from the FDRs councils submit to OLG each year to measure changes in costs for the BCC.

While we recognise that each council's circumstances may be unique, our major concern with this approach is that it would allow councils to pass their actual cost changes through to ratepayers, with a lag. Some stakeholders suggested that this could reduce their incentive to improve their efficiency and keep their costs under control, particularly if we set a BCC for each council based on its FDR.[74]

Our other concerns with this approach are:

- Using FDR data could have unintended consequences, for example if some councils in a regional group received special variations (SVs), the (measured) increase in expenditure for all councils in that group would exceed increases in expenditure due to inflation.
- FDR data would be lagged by 2 to 3 years, depending on when we publish the final rate peg. A September publication would mean a 3-year lag, which is even greater than the 2-year lag under our old methodology. As noted above, most councils and their representative bodies submitted that the 2-year lag in our old methodology was problematic.

3.5 A few stakeholders considered that the rate peg should be based on the CPI

Some ratepayers did not support the decisions in our Draft Report and proposed that the rate peg be based on the CPI.[75]

The CPI published by the ABS measures price changes in a 'basket' of goods and services consumed by the typical metropolitan household. This includes goods and services that may not reflect council purchases (e.g. purchases of new dwellings, household items and groceries).

We consider that our measure of councils' cost changes should reflect a 'basket' of goods and services that typical councils are known to spend on. This includes employee costs (such as salaries and wages, leave entitlements and superannuation) and asset costs (such as expenditure on roads, parks, and other community facilities). A measure that captures changes in these cost categories is likely to be more cost-reflective for councils than the CPI, which measures changes in costs for metropolitan households.[76]

In Victoria, the Essential Services Commission (ESC) is responsible for providing advice to the Minister for Local Government on setting the average rate cap for councils. The ESC's recommended rate cap is typically determined with reference to 2 indicators – the forecast change in the CPI and forecast change in the WPI from the Victorian Department of Treasury and Finance. More recently, the ESC has set its average rate cap with reference to just the forecast change in CPI.[77]

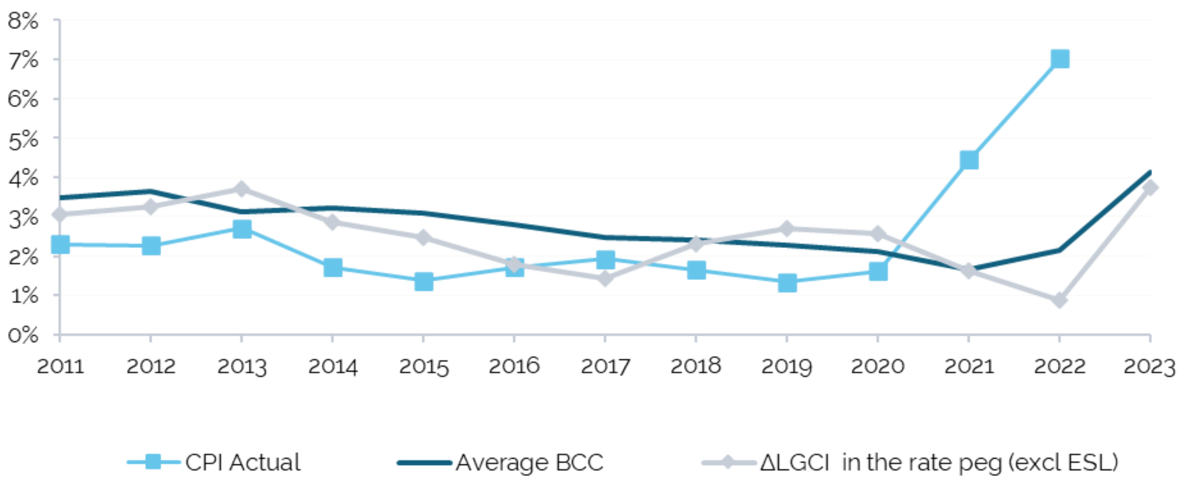
The Victorian methodology is flexible, and advice to the Minister can include a recommendation for adjustments to be applied in setting the cap for all councils, a grouping of councils or any individual council.[78] The ESC recommended that the 2023-24 rate cap should be 3.5% which is equal to the 2022–23 Budget Update forecast of CPI for 2023–24 from the Victorian Department of Treasury and Finance.[79]

The Victorian approach has the advantage of simplicity; however we believe our BCC approach effectively captures changes in councils' costs because it uses targeted indices for the three main cost categories. Our intention is not to produce a rate peg that is either higher or lower than the change in CPI, but to more accurately reflect changes in councils' costs.

Although we consider CPI is not a good measure councils' cost changes, it is a relevant measure when considering the impact of the rate peg on households. CPI is widely used as a comparator to identify 'real' changes in costs or prices, meaning changes above or below the CPI inflation rate. For example, a 'real' increase in wages is typically measured as the nominal increase (i.e. the increase that you see, which includes inflation) minus the CPI inflation rate. Similarly, for a household the 'real' increase in rates would be measured as the nominal increase minus the CPI inflation rate.

Figure 3.2 shows the variations between the annual percentage changes in the LGCI, our adopted BCC, and the historical All groups CPI (Australia) published by the ABS over the period 2011-12 to 2023-24. We note that the change in the LGCI (in the year it was included in the rate peg) was higher than the change in CPI in all but one of the years until 2020-21, and in the subsequent years. Similarly, our adopted BCC would have been higher than the change in CPI between 2011-12 and 2020-21 and lower in the subsequent years. **Box 3.3** explains the reasons for the differences between these measures over the period 2011-12 to 2022-23.

Figure 3.2 Comparison of changes in the LGCI, draft BCC and measures of CPI



Note: The average BCC is the BCC for all councils combined. The BCC is calculated based on the historical Award and does not take into account any potential impact on the Award of using it to set the rate peg. The change in CPI is measured as the average of four quarters divided by the average of four quarters in the previous year.

Source: IPART analysis

Box 3.3 Reasons for the differences between CPI, LGCI and BCC over the period 2011-12 to 2023-24.

For context, it is important to note that inflation was generally low and falling over the period to 2020-21, before it increased sharply in 2021-22, This is important firstly because of the way it affects the lag in the LGCI. Secondly, it is important when comparing changes in CPI with the BCC, because forecasts beyond the next few months tend towards longer-term averages and can seldom anticipate volatility.

Changes in the LGCI were higher than changes in CPI in all but one of the years between 2011-12 and 2020-21, then lower in 2021-22 and 2022-23, The main reasons for the differences in the two measures are as follows:

- Employee costs, which make up around 38% of the LGCI, rose faster than CPI until 2019-20 (where changes over the year to June 2020 were used to set the rate peg for 2021-22) but more slowly in the subsequent years. Changes in employee costs (measured using the WPI) tend to be less volatile than changes in CPI.
- Changes in the NSW PPI (Road and bridge construction), the main measure used for asset costs in the LGCI, was on average slightly higher than the change in CPI over the period. The change was also more volatile than the change in CPI, for example varying between 0.7% and 6.1% compared to between 1.0% and 3.9% for the CPI.
- The LGCI is a lagged measure and will reflect price changes 2 years before they are reflected in the rate peg. This means that the LGCI is more likely to be higher than CPI when inflation is falling — as it was until 2020-21 — and *vice versa*.

The BCC would have been higher than the change in CPI until 2020-21 and lower from 2022-22 because:

- Until 2020-21, the Award and the RBA's CPI and WPI forecasts, used to measure employee costs, exceeded the change in actual CPI.
- Until 2020-21, the RBA's CPI forecasts, used to measure non-employee costs, exceeded actual CPI. The RBA's forecasts did not fully anticipate the falling inflation rate over this period.
- Since 2021-22, actual changes in CPI have exceeded the BCC measure of both employee costs and the RBA's forecast changes in CPI, so a BCC would have been lower than the change in CPI.[b]

The BCC would have been higher than the change in the LGCI for 9 of the 12 years under review, mainly because inflation forecasts were generally higher than changes in the (lagged) ABS price indices used to set the LGCI. Employee costs had less of an impact on the difference between the BCC and the change in the LGCI than non-employee costs, except for the last two years (2022-23 and 2023-24).

Box 3.3 Reasons for the differences between CPI, LGCI and BCC over the period 2011-12 to 2023-24.

a All groups CPI (Australia), measured as the average of four quarters divided by the average of four quarters.

b The PPI adjustment to the forecast CPI for asset cost was small. On average, it led to an increase in the BCC of around 0.2% over the period 2011-12 to 2017-18 and between -0.1 and 0.1% since then.

One ratepayer's submission to our Draft Report expressed a view that the BCC, and more broadly the rate peg, is likely to be higher under our new methodology compared to the old one. Their overall concern is that the BCC (and rates) would increase even faster in 'real' terms (i.e. by more than the change in CPI) than under our old methodology.

It is impossible to predict with certainty whether the BCC is likely to be higher or lower than changes in CPI in the future. For example, the BCC may be higher than the change in CPI when economic conditions are stable (so that CPI can be predicted with a fair degree of accuracy), and wages are increasing in real terms (i.e. faster than inflation).

3.6 We will release the rate peg around September each year

We currently set and publish the rate peg to apply from 1 July to 30 June typically in September of the previous year. This timing is intended to allow councils to start their IP&R process for the coming financial year in October.

However, publishing the rate peg 9 months in advance may affect how accurately the BCC reflects councils' base cost changes. The main reason for this is the RBA's CPI forecasts can change from one quarterly Statement to the next, especially when economic conditions are volatile. For example:

- The CPI forecast to June 2023 increased from 2.0% in the August 2021 Statement to 2.75% in the February 2022 Statement and again to 4.3% in the May 2022 Statement.[80]
- The CPI forecast to June 2024 increased from 3.5% in the August 2022 Statement to 4.2% in the November 2022 Statement.[81]

Some stakeholders suggested we publish an indicative rate peg around September and a final one closer to the implementation date.[82] Other stakeholders expressed a preference to maintain the current release date due to budgeting and IP&R requirements, and to allow them time to make decisions on SV applications.[83]

In our Draft Report we sought stakeholder feedback on whether they would support releasing an indicative rate peg around September, and a final rate peg around May that is updated for councils' ESL contributions. Some local government sector stakeholders supported this approach,[84] while others expressed concerns that the timing of a final rate peg release in May would impact council budgeting and planning and reduce the opportunity to consult with the community about council financial decisions.[85]

Based on stakeholder feedback, we have decided to continue to release the rate peg around September each year. This means that we will maintain a one-year lag for the ESL factor (see section 4.3.2).

Chapter 4

Accounting for the Emergency Services Levy

04

The NSW Government requires all councils to make an annual contribution to the cost of providing emergency services to their communities. This contribution helps fund the NSW State Emergency Service (SES), Fire and Rescue NSW (FRNSW), and the NSW Rural Fire Service (RFS). It is known as the Emergency Services Levy (ESL). In this report, we also refer to council ESL contributions.

Councils generally fund their ESL contributions from their general income and aim to recover this cost through rates. We have heard from councils that the extent to which they can do this is an important and long-standing issue.

Our old rate peg methodology contributes to this issue, in that it influences the extent to which councils can increase their rates income to recover increases in their ESL contribution.

Under the old rate peg methodology we calculated the **average** annual change in the ESL contribution across all NSW councils, and included it in the rate peg. However, as the annual change varies across councils, this approach meant that the old rate peg methodology allowed some councils to **over-recover** the change in their ESL contribution, while other councils **under-recovered** this change. When a council faces a much larger than average increase in its ESL contribution, this under-recovery may mean it may need to reduce its services or risk its financial sustainability to fund the increase.

To address this, we consider the rate peg methodology needs to accurately capture the annual change in the ESL contribution of individual councils. This would ensure all councils can fully recover the change in this cost, and so meet their ESL obligations without diverting funds required to maintain service levels and infrastructure for their communities.

Accordingly, we have decided to include in the methodology a separate, council-specific ESL factor that reflects the annual change in the council's ESL contribution. We will calculate this factor using the following approach:

- Where we have identified that the council **does not** engage in ESL contribution cost sharing arrangements with other councils, we will use information on its total contribution set out in its annual ESL contribution assessment notices issued by the NSW Government.
- Where we have identified that the council **does** engage in ESL contribution cost sharing arrangements with other councils – that is, it is part of a rural fire district where multiple councils have entered into an agreement to share the district's contribution for the RFS – we will use:
  - the information on the district's contribution for the RFS set out in ESL contribution assessment notices, as well as the information on the council's share of this contribution that we collected from councils during consultation on our Draft Report, and
  - the information on the council's contribution for the SES and FRNSW set out in its ESL contribution assessment notices.
- For all councils, we will set the ESL factor based on the year-on-year change in the ESL contribution with a one-year lag – for example, for the rate peg for the financial year 2024-25 we will calculate the change in their ESL contribution between 2022-23 and 2023-24.

Although setting ESL factors **without** a lag would help reduce volatility in the rate peg, we decided not to do this. It would require delaying our final decision on the rate peg until after 30 April of each year (when annual ESL contribution notice assessments are issued). In submissions to our Draft Report, councils indicated this timing would adversely affect their budgeting and planning processes and limit their engagement opportunities with their local communities.

By accurately reflecting the actual change in individual councils' ESL contributions, our new approach will help ensure ratepayers do not contribute more or less than is appropriate towards emergency services in their local government area. In addition, when changes in this contribution impact the rate peg, the approach will ensure this impact is transparent to councils, ratepayers and all stakeholders.

We consider that the ESL contribution is a specific external cost that affects all councils, and an obligation all councils must meet, and we have sufficient information about what the cost is to calculate an adjustment to the rate peg. We are treating the ESL in a way that reflects our approach to treating other external costs in the rate peg methodology, that is, to make specific adjustments to reflect the change in the external cost where we have information to do so (see Chapter 5 for more information).

Over the last several years, the NSW Government has subsidised increases in council ESL contributions. These subsidies have not been factored into the rate peg. For the 2023-24 ESL contributions, the NSW Government discontinued this subsidy, and this has resulted in substantial increases in councils' ESL contribution costs. We have decided to capture the impact of removing the ESL subsidy in the rate peg through a separate specific adjustment factor. Including the impact of the subsidy will likely increase the rate peg by a significant amount for some councils. So, to limit the impact on ratepayer affordability we consider it is appropriate to phase in this increase over several years. We plan to consult with ratepayers and councils on the proposed timeframe for phasing in this adjustment. We discuss this further in Section 4.7.

The sections below set out our decisions, recommendations and findings to include an ESL factor in the new rate peg methodology for changes in ESL contributions, then discusses them in more detail.

4.1 Our decisions and findings on capturing the costs of the ESL

Our decisions are:

5. To include a separate ESL factor, lagged by one-year, in our rate peg methodology that reflects the annual change in each council's Emergency Services Levy (ESL) contribution. This factor will reflect an individual council's contribution based on:
    a. ESL contribution assessment notices for councils that do not engage in ESL contribution cost sharing arrangements.
    b. ESL contribution assessment notices and cost sharing allocation information for councils that engage in ESL contribution cost sharing as part of a rural fire district agreement.

6. To use the information we have collected on cost sharing to set ESL factors until notified of changes to the arrangement by relevant councils in the district.

7. To publish the cost sharing information we have used to calculate ESL factors on our website when we set the rate peg each year – subject to receiving permission from the relevant councils and agencies.

8. To include an additional specific adjustment factor to the rate peg to reflect the impact of discontinuing the ESL subsidy. We may choose to phase in the adjustment over one or more years and at different speeds for different councils.

Our finding is:

2. Some councils that are part of rural fire districts have entered arrangements with other councils to share the costs of the Rural Fire Service component of the Emergency Services Levy (ESL) contribution. They pay an amount that is different to the total ESL contribution set out in their assessment notice.

4.2 ESL is an important issue for councils

Councils pay contributions to the NSW Government through the ESL to support emergency services in NSW. These contributions contribute to the funding of the SES, FRNSW and RFS. These payments cover 11.7% of the costs of the 3 services. 73.7% is funded through insurance companies through insurance premiums and foreign insured policy holders and the balance is met by the NSW Government (14.6%).[86] Ratepayers may be contributing towards the ESL through both their rates and through insurance premiums in NSW. Within the ESL funding system, it has long been the case that those with home and vehicle insurance contribute to the ESL through their insurance.

Different methodologies are used to determine the contribution by individual councils for each emergency service under the relevant emergency services legislation. The Minister for Emergency Services determines each councils' SES contribution[87], FRNSW contribution[88] and RFS contribution.[89] Councils receive an annual notice of assessment at the end of April each year detailing the amounts they must contribute.

We recognise that the ESL is an important and long-standing issue for councils and for this review. Local Government NSW (LGNSW) identified the ESL as one of the largest areas of cost changes for councils and an example of higher levels of government increasing obligations on councils.[90] Several submissions from councils to the Issues Paper supported consideration of ESL, including raising concerns about the impacts on different councils particularly on rural councils.

Several councils noted that there was a need to account for the varying impacts of external costs such as the ESL.[91] A few submissions supported measuring the ESL by council groupings.[92] One council organisation argued that the rural fire service contributions should be separated and only applied to the calculation of the local government cost index for councils that pay for it.[93]

LGNSW submitted to our Issues Paper that under the old methodology the cost of the ESL is averaged and diluted and therefore it does not adequately compensate those most affected. It argued that individual councils should be allowed to adjust rates to recover the full cost of the ESL and has supported decoupling of the ESL from the rate peg.[94] North Sydney Council and Kyogle Council, in their submissions to the Issues Paper supported the removal of the ESL from general income.[95] Canberra Region Joint Organisation and one individual, in their submissions to the Issues Paper supported a separate charge for the ESL.[96] These concerns were also expressed at our technical workshops.[97]

In submissions to our Draft Report, most stakeholders supported the draft decision to calculate a separate ESL factor for each council.[98]

Stakeholders raised some concerns with our draft decision to release a final rate peg in May. May is the earliest possible release date for a final rate peg to include up to date ESL contributions (which are released in late April). Most stakeholders told us that a May release is not practical as it would impact existing planning and budgeting processes[99] and impact the time available to engage with the community.[100]

We also heard in submissions to the Draft Report, that some stakeholders support a catch-up for the discontinuation of the ESL subsidy that reflects the difference in ESL funding that was lost when the NSW Government recently discontinued subsidising increases in the ESL.[101] Some stakeholders commented in their submissions that the discontinuation of the ESL subsidy has had significant financial impacts on councils.[102]

Table 4.1 summarises issues concerning the ESL for this review. We discuss these issues throughout this chapter.

Table 4.1 Summary of issues

Issue	Proposed solution	Limitations
1. The old methodology captures an average increase in ESL contributions across all councils and not councils' individual ESL contributions. Therefore, some councils under-recover and some over-recover. See Section 4.3.1.	Setting a separate adjustment for the ESL that allows councils to collect an amount that reflects what their ESL contributions are and how they change.	We need accurate and timely data on the amounts councils actually pay. It would be more straightforward to use information set out in council ESL contribution assessment notices. However, we have found that what councils pay can be different to the amounts set out in councils' assessment notices. We found this applies to councils in rural fire districts. We have obtained information about what these councils actually pay, but councils will need to update us if their cost sharing arrangements change.
2. Councils that have historically under-recovered.	Councils can apply for a special variation (SV) to address any under-recovery on their ESL contributions due to the old methodology, if this under-recovery has had a material impact on financial viability.	SV applications must satisfy the criteria in the Office of Local Government special variation guidelines.
3. The old methodology uses data lagged by one year, so councils do not recover the ESL contribution amount they need to pay in the year it is payable. This is because ESL contributions for the year the rate peg is set are not known until after we set the rate peg. We set the rate peg based on ESL contributions for the previous year the rate peg is to apply. See Section 4.3.2	We will not remove the lag in the methodology.	Removing the lag would have meant that our final rate peg would be released much later (May) than we have previously released (September). We heard in submissions to our Draft Report that this would significantly impact timeframes for council budgeting and consulting with the community.
4. We understand that the NSW Government has discontinued subsidising the increases in ESL contributions for 2023-24. The rate peg has not captured increases in the ESL contributions since the NSW Government started subsidising these increases in 2019-20. See Section 4.7	We will capture the additional cost to councils through a specific adjustment factor to the rate peg. We may phase this in over several years for some councils.	Increases in the rate peg due to this additional cost may be significant. This may require us to phase in the increase over several years for some councils due to concerns around ratepayer affordability. Councils will need to cover these costs until they receive the full impact of the specific adjustment factor.

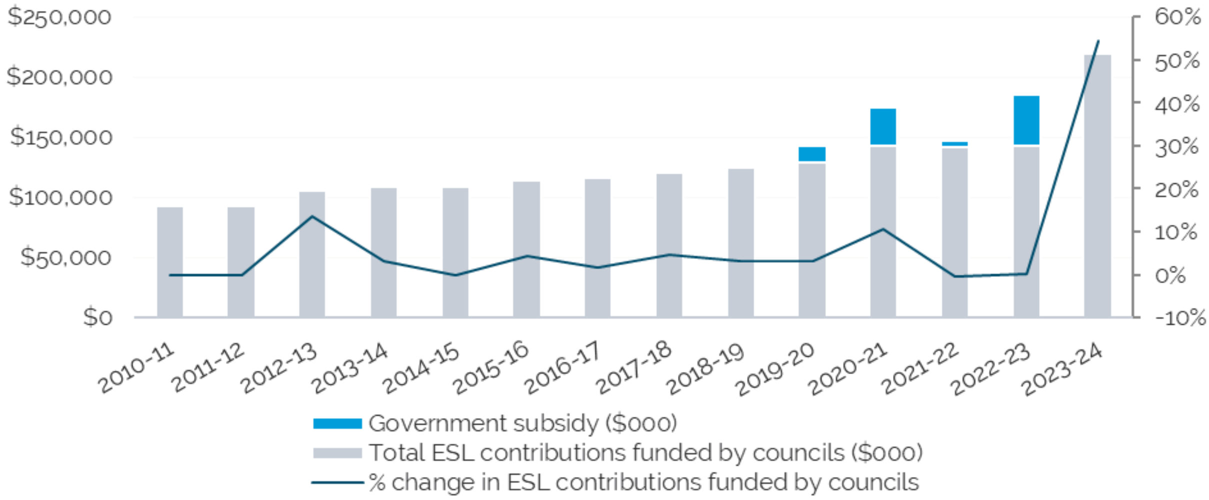
4.2.1 Councils are concerned about ESL increases for 2023-24

There have been some substantial increases in the ESL contributions invoiced to councils over the years. However, over the last 4 years, the NSW Government has subsidised these increases in council's ESL contributions to mitigate the impacts:

- In 2019-20, the NSW Government fully subsidised the increase in council ESL contributions to fund increases in the cost of providing emergency services due to changes made to workers' compensation for volunteer and career firefighters.[103]
- In 2020-21, the NSW Government fully subsidised the increase in council ESL contributions as part of its COVID-19 Local Government Economic Stimulus Package. The NSW Government continued to subsidise increases in 2021-22.[104]
- In 2022-23, NSW Government subsidised the increase in council ESL contributions due to recent natural disasters at the time that led to an increase in the levy rate.[105]

Figure 4.1 shows that since 2010, ESL contributions funded by councils have risen.

Figure 4.1 Council ESL contributions have increased since 2010



Source: Data provided by OLG and Secretariat analysis.

The NSW Government has not continued to subsidise the 2023-24 ESL contributions. This has led to an increase of 54% on average from the level of contributions funded by councils in 2022-23. Councils have raised concerns about this decision and the implications of this on council budgets and service provision.

This has placed pressure on councils' budgets for the 2023-24 financial year, especially as increases in ESL contributions have not been factored into the rate peg since the NSW Government began subsidising the increases. At the time of setting the rate peg, this meant ratepayers did not have to pay for increases in ESL through their rates. However, as the subsidy is now discontinued there is now an increase in ESL costs that was not included in the calculation of the rate peg for 2023-24.

This means that councils will experience substantial cost increases in 2023-24 that they will not be able to recover from rates and this will impact council budgets and services. This could lead to cash flow problems for some councils.

When setting the rate peg for the financial year 2023-24, we captured the difference in what councils were actually expected to pay in 2021-22 and 2022-23 (as shown in **Figure 4.1** in the light grey columns). This excluded the impact of the subsidy that was provided to councils by the NSW Government, at that time, and meant that councils received no increase in the ESL adjustment as part of the LGCI used to calculate the 2023-24 rate peg.[a]

We excluded the impact of the subsidy so that ratepayers did not have to pay for increases in the ESL contributions that councils did not have to fund. Since the NSW Government began subsidising increases in 2019-20, increases in ESL contributions (shown as the top of the columns between 2019 and 2022 in **Figure 4.1**) have not been factored into the rate peg.

As a result, the total increase in the 2023-24 ESL contributions by councils is substantial (54%). However, the increase in the amounts set out in councils' assessment notices between 2022-23 and 2023-24 before government subsidies, is 19%.

4.3 Our new methodology aims to better reflect increases faced by individual councils

For this review, we have focussed on how we could improve the rate peg methodology to better reflect the change in costs associated with emergency services under the current legislative framework.

We note that some stakeholders mentioned establishing a separate ESL charge, such as a property tax, that could be levied on ratepayers and that would not form part of general income. However, this would require legislative change.

4.3.1 Our old methodology captures average changes to ESL contributions

Our old rate peg methodology captures average changes in ESL contributions funded by councils through a component in the Local Government Cost Index (LGCI). When we first developed the LGCI in 2010, we included an ESL component in the cost index.[b] We calculate changes in ESL contribution amounts (across all FRNSW, SES and RFS services) expected to be funded by councils (i.e. excluding government subsidies). This is based on information provided to us by the NSW Government on each council's ESL contribution.

We apply a single percentage change based on the weighted average increase in ESL contributions for all councils.[c] We use the average weight of the ESL as a share of total costs, based on information collected in our last local government cost survey.

[a] For the 2023-24 rate peg, there was no increase to the ESL adjustment as the NSW Government had undertaken to fully fund the increase in ESL contributions in 2021-22 and 2022-23. Councils paid the same ESL contribution amount they paid in 2022-23 as they did in 2021-22.

[b] We found that growth for budget allocations for emergency services had exceeded CPI and expected further growth.

[c] The weighting for the ESL was 1.5% as at June 2021.

While we previously used the most up to date ESL information available when setting the rate peg, it is lagged by one year. ESL contribution amounts are not known until after 30 April of each year, which is months after we set the rate peg in September.

Our previous approach does not capture changes in individual council's ESL contributions. Changes in ESL contributions vary for different councils and represent varying shares of their rates income. This means that some councils would over-recover, and others under-recover, under our previous approach.

Having regard to stakeholder feedback, we considered there was a need to include a separate adjustment for the ESL. We explored options for an adjustment to the rate peg methodology which included:

- rolling over the single factor ESL cost component from the old LGCI as a stand-alone ESL factor in the rate peg methodology
- setting an ESL factor based on a weighted average change in ESL contribution for each of the council groups in line with our proposed Base Cost Change (BCC) model
- setting an adjustment specific to each council that reflects each council's change in ESL contribution.

At our technical workshops, we consulted on whether there should be a separate ESL factor to more accurately capture changes in ESL costs in the rate peg methodology, including whether there should be an individual factor for each council. Feedback at these workshops emphasised the need to reflect how these costs vary greatly amongst councils.[106]

We do not consider it appropriate to continue applying a single factor to all councils, as in the old methodology. This is because averaging councils' ESL costs across all councils or groups of councils would result in some councils over-recovering and some councils under-recovering costs that are not in their control. For example, ratepayers would pay more than they need where their councils' contributions have risen by less than the average. Councils whose contributions have risen by more than the average would need to make savings or trade-offs with other services to fund their ESL, resulting in negative impacts on ratepayers. The previous average approach means that some councils have historically under-recovered, and others over-recovered.

4.3.2 Our new methodology will capture changes in individual council ESL contributions

Our decision is to make an explicit adjustment for the ESL in the rate peg methodology by:

- using a separate stand-alone factor for the ESL
- setting ESL factors that allow councils to collect an amount that reflects what their individual ESL contributions are and how they change, so that the rate peg is more cost reflective.

Setting a cost pass-through in percentage terms reflects actual ESL contributions

Introducing a separate ESL factor into our rate peg methodology to allow councils to collect an amount that reflects what their individual ESL contributions are and how they change improves councils' ability to fund their contributions. Our approach reflects a cost pass-through expressed in percentage terms. We consider that allowing a cost-pass through is justified because councils do not have control to change these costs and they are required to fund these contributions through their general income.

This approach would be more reflective of each council's actual ESL costs. However, it would still include a one–year lag, which means that councils would not recover the amount payable in ESL contributions until the following year.

A separate stand-alone factor for the ESL would also allow us to respond to any changes in mechanisms or policy on funding the ESL.

Moving away from an averaged approach better reflects costs

An adjustment that more accurately reflects individual ESL contributions for each council provides greater transparency of these costs and the variability of the impact of these costs on councils. It addresses council concerns about the disadvantages to the councils with higher ESL contributions associated with using an average across all councils or council groups (such as metropolitan, regional, and rural groupings). Going forward, it addresses the issue of under-recovery so that some councils would not have to use funds needed to cover labour, asset, and other operating costs to meet ESL obligations. It will also prevent over-recovery by councils that experience smaller than average increases.

Allowing councils to better recover what is needed to meet the ESL contributions will have impacts on ratepayers through higher rates increases for councils that would have under-recovered under the local government cost index. However, for councils that would have over-recovered, our approach will mean lower rates increases.

Our approach, however, would not address historical over- or under-recovery that some councils experience under our averaged approach. We will not adjust ESL factors to allow councils that have previously under-recovered due to our methodology to 'catch up' on that under-recovery. Instead, councils that have under-recovered could apply for a special variation (SV) to catch up on years of under-recovery on their ESL contributions, where it has had a material impact on their financial viability.

Our new methodology will maintain a one-year lag

Councils have raised concerns regarding the one-year lag between when councils need to pay their ESL contributions and when they can recover income from rates, and the resulting impacts on cash flow. In our Draft Report we considered addressing this by setting ESL factors and a final rate peg in May once ESL contributions for the year the rate peg is to apply, are known. May is the earliest possible release date for a final rate peg to include up to date ESL contributions.

However, many stakeholders told us that the timing of a final rate peg release in May would not be practical due to the impact it would have on the existing council budgeting and planning process. We have decided to maintain the one-year lag for the individual ESL factors and release the final rate peg in September.

Removing the lag would have allowed councils to better deal with the volatility in changes in ESL contributions. The amount ESL contributions change can vary significantly from year to year. In 2020 the increase in total ESL contributions for councils across NSW was 1.4%, in 2021 it was 10.5% and in 2023 it was 54.5%. A lag may result in a mismatch of cashflow which, in years where the ESL increases substantially, may require councils to re–prioritise their budgets or obtain liquidity to fund these costs. However, councils have certainty that in the following year they will recover their actual cost. Councils are already managing this cost and the associated risk and they are in a better position to manages these costs than ratepayers.

Without a lag, the impact of this volatility would be placed on ratepayers. Ratepayers would only have 2 months' notice (the final rate peg is set in May to apply from the start of July) to plan and manage their household budgets around a potentially significant increases in their rates. We think it is better for councils to manage this volatility as they have more capability to re–prioritise their budgets to meet these costs.

4.4 We will include a separate council-specific ESL factor to reflect the change in the ESL contribution

Our decision is to set ESL factors, with a one-year lag, that reflect the increase in each council's individual ESL contribution. While it would be more straightforward to capture each council's individual ESL contribution as set out in their assessment notices, we found that these amounts do not reflect the amounts that some councils actually pay. This is because some councils engage in ESL contribution cost-sharing arrangements.

Some councils in rural fire districts are billed a Rural Fire Service (RFS) component of the ESL contribution that they share with some or all of the councils in the rural fire districts they belong to. These councils are 'lead councils' and their assessment notices include large RFS contribution amounts. These councils have entered into arrangements called 'zone agreements' with other councils to share these costs, to collectively meet all or part of the rural fire district's total ESL contribution.

We understand that these councils and their ratepayers pay an amount to contribute to the ESL that is different to the contribution set out in their assessment notice.

We sought further information on these arrangements including what these arrangements cover (i.e. whether they cover matters other than ESL contributions) and whether similar cost sharing arrangements exist in respect of NSW State Emergency Services (SES) and Fire and Rescue NSW (FRNSW) components of the ESL contribution. The information we have collected from councils indicates that cost sharing arrangements related to ESL contributions exist only for the rural fire service (RFS) component of the ESL. We have not found cost-sharing arrangements to exist for the other ESL components: State Emergency Services (SES) or Fire and Rescue NSW (FRNSW).

Of the 128 councils, we found that there are 10 rural fire districts (out of 45 rural fire districts) where the constituent councils share RFS costs. This affects 29 councils.

Table 2 23% of councils share RFS contribution costs

Council	Count
Councils that share ESL costs (RFS component)	29
Councils that do not share ESL costs and pay the amount on their ESL assessment notice	99

Given this information, we are able to set an ESL factor that better reflects what councils that share costs actually pay. If we were to set an ESL factor for these councils based on their individual ESL invoice amounts alone, it would mean that the ratepayers of a lead council would be expected to fund the entire or a large share of their rural fire district's contribution, and that councils that are not lead councils would not be able to recover from their ratepayers what they need to meet their rural fire district's obligation, as set out by zone agreements.

To set individual ESL factors, for the rate peg for the 2024-25 financial year, that reflects councils' individual ESL contributions', we will use:

- the difference between 2022-23 and 2023-24 contribution amounts from each council's assessment notice that is issued by Revenue NSW, including separate contribution amounts to the SES, FRNSW and RFS for all councils
- the amount of a 'lead council's' bill that is recovered from other councils and the amount each council pays to the lead council for councils that have entered cost sharing arrangements, particularly in rural fire districts.

For councils that do not engage in ESL contribution cost sharing arrangements, their ESL factor will reflect their individual ESL contribution as per their assessment notices. For councils that do engage in ESL contributions cost sharing arrangements, their ESL factor will reflect their individual ESL contribution to the SES and FRNSW as per their assessment notices, and their individual contributions to the RFS as per their agreed upon cost allocations.

We will set ESL factors for councils that have cost sharing arrangements using the cost allocation information provided to us as part of this review's consultation. If there are any changes to these cost-allocations, councils will need to provide us with updated information to ensure the calculation of an accurate ESL factor as part of the rate peg.

4.5 Our decision to include council-specific ESL factors may impact ratepayers

We consider our decision to move away from our previous approach of including the annual average change in ESL contributions across NSW in the rate peg and instead set separate, council-specific ESL factors has several important benefits. For example:

- Setting council-specific ESL factors will enable councils to collect an amount that reflects their actual ESL contributions, including changes in these contributions. This will ensure they can fund these contributions – which they are obliged to pay and have no control over – so will not potentially need to trade off council services to cover this cost.
- Setting these factors separately will make changes in the councils' ESL contributions more visible to councils, ratepayers, and all stakeholders. This will enable better scrutiny of the costs of the ESL and levels of emergency services resourcing, and whether the charges represent good value for money.
- Setting these factors separately will also allow us to respond to any changes in mechanisms or policy on funding Emergency Services, for example, as a result of government reform.

However, given the variability in ESL contributions across councils, this change in our approach may also impact ratepayers in different ways. For example, it may lead to lower rates increase for those whose council over-recovered the change in its ESL contribution under the old averaged approach. On the other hand, it may lead to higher rates increases for ratepayers whose council under-recovered the change in its ESL contribution under that approach.

We consider that it is not in the interests of ratepayers for councils to have to potentially need to trade-off other council services in order to fund ESL contributions, as may be the case under our old methodology. We consider that councils are not able to reduce these contributions. We consider that improving the cost reflectivity of how we capture ESL contributions will reduce these negative outcomes.

We recognise that setting a specific adjustment for each council could mean substantial impacts for some ratepayers, such as larger increases in rates, for councils with significant changes in the ESL and where changes to the ESL fluctuate greatly.

However, councils ultimately have discretion when setting rates as to how the impact of rate changes are distributed among ratepayers. Councils may decide to increase rates by less than the rate peg and consult with their communities on rates and service level trade-offs that would be needed to fund the council's ESL contributions. Councils may also phase in a large increase over a period of up to 10 years.[107]

We consider that transparency for ratepayers could be improved if we publish ESL factors and the information used to set ESL factors for each council when we set the rate peg. This includes information on ESL contribution amounts as per assessment notices and cost sharing allocations for councils that share costs. This would be helpful for ratepayers to see exactly how much their councils' ESL contributions have increased each year in dollar terms and the impact this has on total rates revenue. Publishing this information will be subject to receiving permission from the relevant councils and agencies.

4.6 We will calculate ESL factors by isolating the impact of the change in ESL contributions on total permissible income

Our new rate peg methodology includes an ESL factor that allows councils to collect an amount that reflects what their individual ESL contributions are and how they change. We will set ESL factors in the rate peg, for the 2024-25 financial year, for each council using the difference in the amounts councils are invoiced in their 2022-23 and 2023-24 assessment notices by Revenue NSW, this will be adjusted to reflect cost sharing arrangements. The ESL factor would be calculated in such a way as to ensure that the council's Total Permissible Income (TPI) includes the full ESL amount invoiced to councils, after adjusting for cost sharing arrangements, in the previous financial year.

The method to determine ESL factors requires us to calculate the impact of the change in ESL contributions on a council's income, expressed in percentage terms. ESL factors are not the simple increase in a council's ESL contribution.[d] Instead they reflect the additional change to total permissible income that is needed for a council to meet its ESL obligations **after** this income has been adjusted by the BCC, the population factor and any specific adjustment factors.

We will calculate the ESL factor by isolating the impact of the change in ESL contributions on the total permissible income (TPI). Our steps for setting ESL factors for the rate peg for the 2024-25 financial year, will be as follows:

1. Calculate the rate peg before ESL factor (i.e. BCC plus population factor plus other adjustments).
2. Apply this rate peg before ESL factor to council's estimated TPI at 2023-24 minus the ESL contribution from 2022-23. We do this to calculate the effect of the rate peg before ESL factor on the non-ESL portion of TPI (in dollar terms).
3. Add the ESL contribution for 2023-24 to the TPI calculated in step 2 (in dollar terms).
4. Calculate the change in the TPIs, comparing TPI for 2023-24 (including the ESL) to the TPI calculated in step 3 (including the ESL). This TPI in step 3 is the non-ESL portion of TPI that is increased by the rate peg before ESL factor, and plus the new ESL contribution. The percentage change is the final rate peg (including the ESL factor).
5. Calculate the ESL factor by subtracting the rate peg before ESL factor calculated in step 1 from the final rate peg (including the ESL factor) calculated in step 4. The ESL factor shows by how much more (or less) the rate peg needs to increase over and above the increase in the rate peg *before ESL factor*.

[d] This approach would double count the allowed increase as it would allow total TPI including the portion of ESL contribution, to be raised by the BCC or LGCI and then again by the increase in ESL contributions. Our calculation prevents this over-recovery.

The general formula is:

$$ESL\ factor = \frac{ESL_{(t-1)} - (1 + Rx_t)ESL_{(t-2)}}{(1 + I_{(t-1)})TPI_{(t-2)}}$$

Where:
TPI = Total Permissible income
ESL = ESL Levy Contribution
Rx = Rate peg excluding the ESL factor
I = The rate peg or special variation as applicable
t = The current year

For the full formula, including an explanation of how we will estimate TPI please see Appendix A - Rate peg methodology formula. For a worked example of how we will calculate the ESL factor see Appendix G – ESL factor worked examples.

The ESL factor captures the change in TPI caused by the change in ESL contributions. It is calculated such that it is:

- **positive** when the change in ESL contributions is greater than the change in the BCC, population factor and any specific adjustment factors
- **negative** when the change in ESL contributions is less that that change
- **equal to 0%** when the change in ESL contributions is equal to that change.

4.7 We will include the impact of the discontinuation of the ESL subsidy as a separate specific adjustment in the rate peg methodology

Our new methodology will capture the year-on-year cost increases in ESL contributions based on invoiced amounts from Revenue NSW, adjusted for cost-sharing where necessary. This means that the new ESL factor will not compensate councils for the impact of discontinuing the ESL subsidy. Instead, we intend to address this with a specific adjustment factor. However, we also plan to phase in this specific adjustment factor over one or more years and potentially at different speeds for different councils. This is because:

- ESL subsidies differed between councils. For some councils the ESL subsidy represented a significant part of general income. Recovering the entire ESL subsidy over a short period of time would lead to significantly larger rate pegs for these councils. Due to current cost of living pressures, we think it is appropriate that the increases be phased in over several years to ease affordability impacts on ratepayers.
- Separating the increase in income required to replace the subsidy from the income required to fund year-on-year increases in ESL contributions will make the rate peg methodology more transparent to ratepayers and councils. This will show how our new methodology calculates the year-on-year increases, without any catch-ups or specific adjustments included.

We consider that it is important that councils receive some income to capture the impact of discontinuing the subsidy in their future rate peg/s. Otherwise, councils will have to cover this cost entirely without any additional income or apply for a special variation. Also, because the subsidies were not evenly spread across councils, this decision would impact some councils more than others.

We plan to consult with ratepayers and councils on how quickly this specific adjustment factor should be implemented to understand their preferences.

Consulting on the specific adjustment factor amount and timeframe is important to ensure councils recover the true cost of the ESL subsidy being discontinued. Some of the issues we plan to discuss with stakeholders include:

- Changes in ESL costs have not been included in the rate peg since 2019, during this time changes in ESL contributions have been volatile from year to year and between the three different emergency services. It is important to ensure that these changes are calculated correctly, and council's accurately recover the impact.
- Some councils previously received significant subsidies for the ESL. It is important to hear from stakeholders about an appropriate transition period to allow councils to recover these costs in a sustainable way that does not adversely impact ratepayers.

We note that due to time constraints this consultation will not be completed between the release of this report and setting the rate peg for the 2024-25 financial year. If we delayed including any of the impact of the subsidy until the rate peg for the 2025-26 financial year, there is a risk that some councils financial positions could worsen due to funding the additional costs of the ESL. When we set the rate peg for the 2024-25 financial year, we will investigate if there is a need for a reasonable adjustment to account for volatility between changes in ESL contributions when the ESL subsidy was in place and the year it was discontinued. This will give us the time to consult with ratepayers and councils on how the remainder of the impact will be recovered.

Any specific adjustment provided to councils in the rate peg for the 2024-25 financial year will be included as part of the total increase they will be provided to recover the impact of the ESL subsidy discontinuing, (i.e. council's will not over–recover the cost of the ESL subsidy being discontinued.)

At the time of setting future rate pegs we will decide how much this specific adjustment factor will be, and it may be different for each council depending on other factors. For example, if a council has a significantly higher rate peg than other councils due to its population factor and/or ESL factor we may consider delaying more of the ESL subsidy discontinuing adjustment than for another council that has had a much smaller population factor and/or ESL factor. This will form part of our consultation with stakeholders.

Chapter 5

Capturing external changes outside councils' control

05

Our Terms of Reference requires us to investigate and make recommendations on "options for capturing external changes, outside council's control, which are reflected in council's costs".[a] In this Final Report, we refer to costs as a result of external changes that are outside councils' control as 'external costs'. External costs could include those driven by weather or natural disasters, NSW Government actions, such as regulatory changes, or changes to required services or service standards and/or NSW or Commonwealth legislative changes.[108] External costs could also arise from legislated restrictions on funding options. External costs can vary widely across councils.

We considered including adjustments in the rate peg methodology to capture costs from external changes and consulted with stakeholders on what these external changes could be, what types of costs are outside of councils' control and whether such costs should be reflected in the methodology. We asked ratepayers about their preferences for funding these costs through rates in our survey and sought advice from our consultant, The Centre for International Economics (The CIE), on how we could potentially account for these costs in the rate peg methodology. As part of this investigation, we also looked specifically at how climate change may be impacting council costs.

Climate change is one of the most significant issues that will impact the lives of people in NSW now and into the future. Councils play a vital role in responding and adapting to climate change including natural disasters with the costs of mitigating and adapting likely to be substantial and with a high degree of variation. Government grants to councils meet some of these climate change costs such as emissions reduction projects, and natural disaster recovery. As ratepayers and the community benefit from councils being able to provide resilient and safe services, it is reasonable for rates to also meet some of these costs.

Our decision is to maintain our existing approach and include additional adjustments in the rate peg methodology on an as needs basis for external costs (our approach to the Emergency Services Levy is discussed in Chapter 4). Under the approach, we will be able to include additional adjustments in the rate peg methodology for external costs (such as costs associated with climate change or with new statutory functions, or costs where restrictions in funding pose challenges to cost recovery) where ratepayers benefit from these activities and when we have the necessary information to accurately ascertain the quantum of those costs.

We sought feedback in our Draft Report on a process to strengthen our approach for determining whether adjustment factors need to be included in the rate peg methodology to capture external costs. The feedback on establishing adjustment factors for groups of councils was largely positive. We consider that adjustment factors could be developed and implemented for certain external costs on an as needs basis, when we set the rate peg.

We also considered other potential processes for addressing external costs. We heard some ideas on other potential processes, including a simplified special variation application process that could include councils making joint applications. However, more work is required as we will need to work with stakeholders to understand what this process should include, for example, requiring that councils consult with their communities or meet specific criteria to be eligible for an adjustment.

[a] See Appendix F: Terms of Reference which is also available here.

We are recommending the NSW Government commission an independent investigation of the financial model for councils to identify improvements. This independent investigation could consider alternative processes or improvements to the special variations process, such as a simplified special variation application process. This could support councils to fund external costs. We discuss this further in Chapter 9.

In the meantime, it remains an option for councils to use the special variation (SV) process for external costs that have not been included in the rate peg. This process already requires consultation with communities to ensure community awareness of these additional costs.

5.1 Our decision on treating external costs

We decided to maintain our existing approach for treating external costs.

Our decision is:

9. To maintain our existing approach and include specific adjustment factors in the rate peg methodology on an as needs basis for external costs.

5.2 Stakeholders had differing views on funding external costs

Throughout our consultation, councils raised concerns about funding additional requirements and responsibilities outside the control of councils. Submissions to our Issues Paper and Draft Report identified a range of costs that are not reflected in the old rate peg methodology. Many councils supported including adjustment factors in the rate peg methodology to reflect these costs.

Some commonly cited costs included:

- operational costs and depreciation[b] that emerge from infrastructure that may be gifted or transferred to councils
- audit, and audit risk and improvement committee costs[c,109]
- costs driven by climate change, natural disaster emergencies and responses (see Section 5.5 below)
- providing community facilities as these are not funded by developer contributions
- cyber security

[b] Many councils mentioned the costs of rural fire service assets. In its 2021 report on local government, the NSW Audit Office found that 68 councils had not recorded rural firefighting equipment in their financial statements worth $145 million, and made clear the view that these assets are the responsibility of councils under the section 119(2) of the *Rural Fires Act 1997*. It made a similar finding in the previous report. The NSW Government has confirmed these assets are not controlled by the NSW Rural Fire Service and are not recognised in the financial records of the NSW Government.

[c] Submissions to our Issues Paper suggested these costs could range from $50,000 as estimated by Riverina Joint Organisation to $150,000 estimated by Kyogle Council.

- costs associated with new functions that councils take responsibility for due to legislative change.

In submissions and feedback at both public and technical stakeholder workshops, some councils wanted increases in their rates revenue for the range of services councils provide including health, welfare, and housing services. Councils, particularly in regional and rural areas, told us that they are having to step in to provide services as a last resort because they were previously provided by other levels of government or due to a lack of private providers.[110]

Councils at our public workshops suggested that state or federal government decisions that increase the cost base for councils should be reflected in the rate peg methodology.[111] One council considered that council specific adjustments would be too difficult to achieve, may become subjective, can be difficult to get agreement and support for, can be inequitable and may not be easily understood by ratepayers. It also submitted that one-off external costs for specific councils should be addressed through funding from other levels of government (such as grants and disaster relief funding), or through a more simplified special variation process.[112]

Some ratepayer submissions opposed capturing external costs in the rate peg methodology, proposing that councils should manage these costs.[113] An individual submission to our Issues Paper and Draft Report and feedback at our technical workshop for ratepayers considered that external costs should be funded through improvements in efficiency and regular prioritisation of all services to ensure resources are matched with strategic priorities and community expectations.[114] At our technical workshop for ratepayers, some ratepayers said that if costs are directly transferred to councils from the NSW Government, that government funding should be provided rather than ratepayers funding these costs.[115]

In response to the Draft Report, one council opposed the inclusion of external factors like climate change in the rate peg methodology. The council considers that this would remove the incentive for national and state governments to use their regulatory powers to mitigate and adapt to climate change.[116] A submission from an organisation suggested that there may be a more effective mechanism for addressing external costs than through the rate peg.[117]

Results from our survey of ratepayers showed limited support for rates being used to fund climate change measures. At most, 34% of community ratepayer respondents and 34% of business ratepayer respondents to our survey indicated that rates should fund climate change costs.[118]

5.3 We considered several options for funding external costs

We considered several options for how and if external costs should be included in the rate peg methodology, including proposals from stakeholders and expert advice. For example, Campbelltown City Council and others considered that if there were costs that IPART and the Office of Local Government could identify that would affect councils uniformly, these costs should be factored into the rate peg methodology. Such costs could then be removed through a negative adjustment if needed.[119,d]

[d] This has been done for local election costs. See IPART, Rate peg for NSW councils for 2022-23 – Information Paper, December 2021, p 2.

Feedback at our technical workshops indicated interest in an alternative process that would be similar to a special variation (SV) process for external costs. Feedback suggested that although external costs would be incorporated in the Integrated Planning and Reporting (IP&R) process, an alternative process for external costs would require councils to increase transparency of these costs. Another stakeholder at our workshops suggested that there was a need to consider a regional view of external costs, including a regional view of cost where councils are taking responsibility for additional services due to legislative change.[120]

Bathurst Regional Council also suggested a council submissions process to enable IPART visibility and approval.[121] Canberra Region Joint Organisation and Snowy Valleys Council suggested councils provide the net costs as a result of underfunding costs of programs devolved by government and incorporating the changes of these net costs in the methodology.[122]

We sought advice from a consultant, The CIE, on options for considering external costs in the rate peg methodology.[e] The CIE provided and analysed 4 options based on a criterion of feasibility; unbiasedness; accuracy and timeliness; simplicity and cost; methodology stability; and potential for unintended consequences or perverse incentives. The options include:

- Option 1: Do not factor in external costs
- Option 2: Develop a process whereby councils submit external cost claims
- Option 3: Examine actual cost data
- Option 4: Request that NSW Government provide estimates of costs for councils related to regulatory changes.

The CIE's analysis found that Option 2 and, to some degree, Option 4 are feasible. However, the CIE identified that there is little evidence about the overall cumulative materiality of positive and negative changes on councils' costs and how much are already included in the Local Government Cost Index (LGCI). Its assessment on historical cost data showed that cost data is too variable, and it is not possible to separate out costs from external factors.[123]

5.4 We can improve how we capture external costs

Our decision is to maintain our existing approach of making additional adjustments for external costs that affect all councils or a group of councils and where it is appropriate that ratepayers fund these costs. For example, we have made adjustments to account for changes in the superannuation guarantee in 2021-22, which we included in the 2023-24 rate peg and for local government election costs. The adjustment for local government election costs was followed by a negative adjustment the following year so that ratepayers do not pay for costs councils do not incur.[124] This approach was supported by some stakeholders.[125]

We sought feedback in our Draft Report on improved processes for the development of adjustment factors to capture specific external costs. Most stakeholders were supportive of our decisions on external costs.[126] Some stakeholders raised concerns about how these processes could be implemented[127], while other stakeholders did not support including processes that would allow external costs to be passed through to ratepayers.[128]

e The CIE's report on treating external costs can be found here.

Our findings suggest that external costs can be variable and that although there may be similar types of costs, councils can be impacted differently. Given the variability in external costs, the difficulty identifying these costs and the external factors driving costs, we consider that additional processes are needed to better identify these costs and their impacts on councils and ratepayers. This approach is also consistent with findings from The CIE.[129] Further work and consultation are required to develop these additional processes.

For the development of improved processes around adjustment factors for external costs we consider that this could be progressed through the council implementation reference group (see Chapter 8).

For potential changes to the existing special variations process, which could also support councils to fund external costs, further work and consultation are required. In Chapter 9 we have recommended that the NSW Government commission an independent investigation of the financial model for councils in NSW. This investigation could consider whether improvements could be made to the existing special variations process.

5.4.1 We could develop adjustment factors to capture specific external costs

We explored options for a separate process that could strengthen our approach for including adjustments in the rate peg methodology. We explored options based on whether there was enough information or evidence of specific external costs that affect all councils or groups of councils and where an increase to general income is needed to fund these costs.

We considered developing adjustment factors that could cover specific external costs such as cyber security costs, or climate change costs. We also considered developing adjustment factors for specific groups of councils whose similar circumstances drive similar cost increases, for example, councils that experience drought.

For some adjustments, a process could require councils to meet certain criteria to be eligible for an adjustment. These criteria could be tailored to the particular adjustment.

A separate process for capturing external costs could also encourage councils, as suggested by stakeholders, to better identify external costs which could lead to new council processes for recording and reporting these costs and improving the transparency of these costs.

We propose to work with stakeholders to discuss how the process could be developed including how it could fit into the annual rate peg determination. This process would require us to collect additional data and further investigate differences between councils.

Most stakeholders were supportive of our proposal to develop adjustment factors for certain external costs and indicated support for further work and consultation in developing any new processes. We received some suggestions for identifying external costs[130], potential council groupings[131], and processes for applying and establishing external cost adjustment factors.[132]

A new process will require time to develop

We recognise that implementing a separate process for capturing external costs potentially through adjustment factors can take time and we will want to consult with stakeholders on that process. When we identify a relevant external cost that affects all councils or groups of councils similarly, we will consider an adjustment.

We consider that a review of the special variations process could support alternative options to better capturing external costs. A review of the special variation process could consider options, for example, for streamlining the process, reducing administrative burden on councils, and enabling councils to make joint applications.

In Chapter 9 we have recommended that the NSW Government commission an independent investigation of the financial model for councils in NSW. This investigation could consider whether improvements could be made to the existing special variations process. It could also consider alternative processes or mechanisms to support councils to fund external costs. Some stakeholders were supportive of further investigation and consultation in developing new processes specifically for addressing external costs.[133]

In the meantime, councils can continue to use the special variation process where they consider an increase to general income is needed to fund other external costs. We consider that the special variation process is still an appropriate channel for councils to seek to recover these costs, after consulting with their communities.

5.5 Climate change, cyber security and providing community facilities are all examples of external costs

We examined 3 potential areas of external costs (climate change, cyber security and community facilities) that could be included as an adjustment factor in the rate peg methodology, or that could be addressed as part of a separate process such as a simplified special variation process.

In deciding whether to include an external cost, we apply the 'impactor, beneficiary, or taxpayer-pays hierarchy' (see **Box 5.1** below) to determine whether ratepayers should pay these costs. We found that for each of the potential areas identified above there was a case for ratepayers to pay some of these costs. Our assessment of the potential areas of external costs is described below.

Further work is required to determine how we could include external costs. For certain external costs, we will consider how the adjustment factor process could work and intend to consult with stakeholders on this.

Box 5.1 Impactor-pays, beneficiary-pays and taxpayer-pays funding hierarchy

Across a range of industries, we typically apply the following funding hierarchy when allocating costs between different entities.

1. Preferably, the **impactor** should pay – the entity that creates the costs, or the need to incur the costs, should pay the costs.
2. If that is not possible, the **beneficiary** should pay – the entity that benefits from the service should pay the costs of the service. In some cases, the impactor and the beneficiary are the same entity.
3. As a last resort, **taxpayers** should pay – taxpayers may be considered as a funder of last resort where impactors or beneficiaries have not been clearly identified, or where it is not administratively efficient or practical to charge them (i.e. it is too difficult or costly).

We use this framework to understand who should pay for external costs, including climate change costs.

Source: IPART analysis and IPART, Review of local government election costs – Final Report, August 2019, p 64. See also IPART, Review of funding framework for Local Land Services NSW – Draft Report, September 2013.

Climate change

Ratepayers and the community benefit from councils being able to provide resilient and safe services and councils play an important role in addressing climate change. When making decisions, councils should consider the long term and cumulative effects of actions on future generations and principles of ecologically sustainable development.[134]

We identified 3 types of climate change related costs: mitigation, adaptation and natural disaster-related costs.[f]

Mitigation costs

- direct mitigation e.g. reducing emissions projects.
- indirect mitigation such as purchasing offsets.

Adaptation costs

- increased costs to existing services e.g. increased maintenance due to increased frequency and severity of storms.
- new/additional costs e.g. need to build new infrastructure to adapt to climate change.

Natural disaster-related costs

- planning, recovery and response costs including clean-up, repair and replacement of assets and community support programs.

f These costs are consistent with those identified by the Queensland Competition Authority's current Climate change expenditure review 2022–23.

We also considered who should fund these costs. For example, we considered whether those that cause climate change should pay for mitigating and adapting services. We also considered whether those that benefit from receiving more resilient services should pay.

Climate change is one of the most significant issues that will impact the lives of people in NSW now and into the future. We all play a role in addressing climate change and contributing towards the costs of mitigating and adapting.

Communities that may face higher costs and climate risks, such as those affected by recent disasters, are likely to be increasingly vulnerable with a diminishing capacity to pay. Federal, State and Local Governments all play a role in addressing climate change and sharing the costs with the community and ratepayers.

There are a wide range of views on the extent to which climate change costs should be reflected in rates. Some stakeholders consider that councils' costs associated with climate change should be reflected in the rate peg methodology. Other stakeholders were less supportive of councils funding climate change costs through rates. One council opposed the inclusion of climate change costs in the rate peg. The council considers that this would remove the incentive for national and state governments to use their regulatory powers to mitigate and adapt to climate change.[135] One stakeholder suggested that councils be required to demonstrate progress on reducing climate impacts to qualify for the rate peg.[136]

Further detail on our climate change considerations for the rate peg methodology and stakeholder views are set out in Appendix E.

Cyber security

The growing importance of cyber security is an issue that affects all councils. In its submission to our Issues Paper, The Hills Shire Council identified cyber security as an external cost that could be included in the rate peg methodology because it has an industry wide impact.[137] Councils at our technical workshops raised concerns about the additional costs of cyber security.[138] The Office of Local Government released new Cyber Security Guidelines for NSW Local Government in December 2022.[139] Councils can adopt these guidelines or use them to form their own cyber security policy.

We consider that it is appropriate for ratepayers to fund some of the costs of enhancing cyber security. The increase in cyber security spending is necessary to protect the personal information of ratepayers and ensure councils are mitigating the operational risk of cyber-attacks. Some stakeholders agreed with the inclusion of cyber security as an external cost.[140]

Community facilities

Councils have also told us that there is increasing demand to provide community facilities for new developments that in the past were provided by the property developers. In its submission to our Issues Paper, Blacktown City Council told us that in its North West Growth Area there is "$525 million [of] unfunded capital costs for community facilities." The council further stated that the "State government policy decision to exclude community facility buildings from funding by developers has meant councils now need to fund these capital expenses from rates revenue.[141]

Concern around the increasing costs of community facilities such as libraries, halls and recreational spaces was also raised by councils in inner-metropolitan areas. North Sydney Council told us in its submission to our Issues Paper that "increasing urban density puts increasing reliance on community facilities while concomitantly increasing land prices. The result is councils having to expend significant sums in providing multi-level and multi-purpose community/recreational facilities and maximising usage of existing spaces such as using artificial surfaces (with their higher capital and maintenance cost) rather than grass. In essence, increasing population in dense urban areas has an exponential impact on the cost of provision of community facilities and their ongoing maintenance."[142]

As a result, councils, like Blacktown and North Sydney, face increased costs to provide community facilities, above the costs already captured in the rate peg and population factor. We consider that in the absence of developer funding for this infrastructure, it would be reasonable for ratepayers to fund some of these costs. Spending on community facilities contributes to providing essential infrastructure and services to new communities in high growth councils. Ratepayers in these new areas directly benefit from access to these services. Ratepayers in existing areas may indirectly benefit through greater provision of community facilities which can lessen the demand on existing community facility assets and delay the need for maintenance and renewal costs. Several submissions to the Draft Report indicated support for the inclusion of community facilities as an external cost.[143]

The costs for additional community facilities will be specific to individual councils. Since the rate peg does not capture step changes in councils' service levels such as the capital costs for new community facilities, we consider that the special variation process is still an appropriate channel for councils to seek to recover these costs, after consulting with their communities.

Chapter 6

Refining the population factor

06

Our current rate peg methodology includes a population factor. The intended purpose of the population factor is to give councils the additional revenue required to keep revenue per capita before inflation consistent, as populations grow. This is designed to allow councils to continue delivering services as their communities grow.

Our Terms of Reference ask us to investigate and make recommendations on, 'whether the population factor is achieving its intended purpose.' The Terms of Reference also ask us to make recommendations on alternate data sources to measure changes in councils' costs. We have also considered alternative data sources to measure changes in population (see Section 6.4).

6.1 Our decisions on the population factor

We carefully considered the issues raised by stakeholders about the calculation of the population factor. This includes issues with how supplementary valuations are treated in our methodology and the treatment of prison populations. We investigated these issues to determine if the changes suggested by stakeholders would support the purpose of the population factor. We also considered how changes to the population factor interact with the other matters we have been asked to investigate and consider under our Terms of Reference.

Our decision is:

10. 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 will not make retrospective adjustments for previous population factors.

Box 6.1 outlines the change we will make to the population factor. We will exclude the number of prisoners from the overall residential population for a council area to calculate the 'change in population' component. We consider this decision will improve the accuracy of the population factor in calculating the residential population of a local government area, we discuss this issue further in **Section 6.3.1**.

Box 6.1 Our changes to the population factor

We will change how the 'change in population' component of the population factor formula is calculated. We will calculate the 'change in population' by deducting the prison population from the residential population of a council area and then calculating the change in the non-prisoner residential population of a council area for the relevant year.

The 'change in population' formula for 2024-25 rate peg:

$$Change\ in\ population = max\left(0, \frac{(ERP\ 2022\ -\ PP\ 2022)}{(ERP\ 2021\ -\ PP\ 2021)} - 1\right)$$

where:

ERP = estimated residential population published by the Australian Bureau of Statistics

PP = prison population published by the Australian Bureau of Statistics

6.2 We will maintain the population factor but make a minor adjustment to improve accuracy

While the population factor has not been in place long, our analysis of its operation so far suggests that our overall approach to the population factor is still appropriate. We consider that the current formulation of the population factor and its objective of maintaining per capita revenue as populations grow is still the best way to account for the additional costs of population growth. Our current population factor is explained in further detail in **Box 6.2**.

Where we received feedback from stakeholders on potential improvements to the factor, we listened to these views and considered the suggestions. One suggestion proposed by ratepayers was to remove the impact of new prisons and population growth in prison populations from our methodology. The ratepayers submitted that the population factor was providing the council with additional revenue that it did not require, as the prison should not affect council costs.[144] We agree with this suggestion, and we will make a minor adjustment to our methodology to exclude any change in prison population from our calculation of the change in population in a council area.

We received feedback on several other issues that concerned stakeholders. Stakeholders asked us to consider:

- Removing the adjustment for supplementary valuations from our calculation of the population factor.[145]
- Calculating a catch-up adjustment for historical changes in population growth.[146]
- Adjusting the rate peg to give councils additional revenue for decreases in population.[147]
- Measuring the service population of councils as well as residential population.[148]
- Adjusting the population factor to account for economies of scale.[149]
- Using rateable properties as a measurement of population instead of total population.[150]
- Basing our measurement of population changes on forecasts instead of lagged historical figures.[151]

We will not make changes to the population factor to reflect these suggestions. Our analysis of these issues is in **Section 6.3** and **Section 6.4**.

Box 6.2 The current population factor

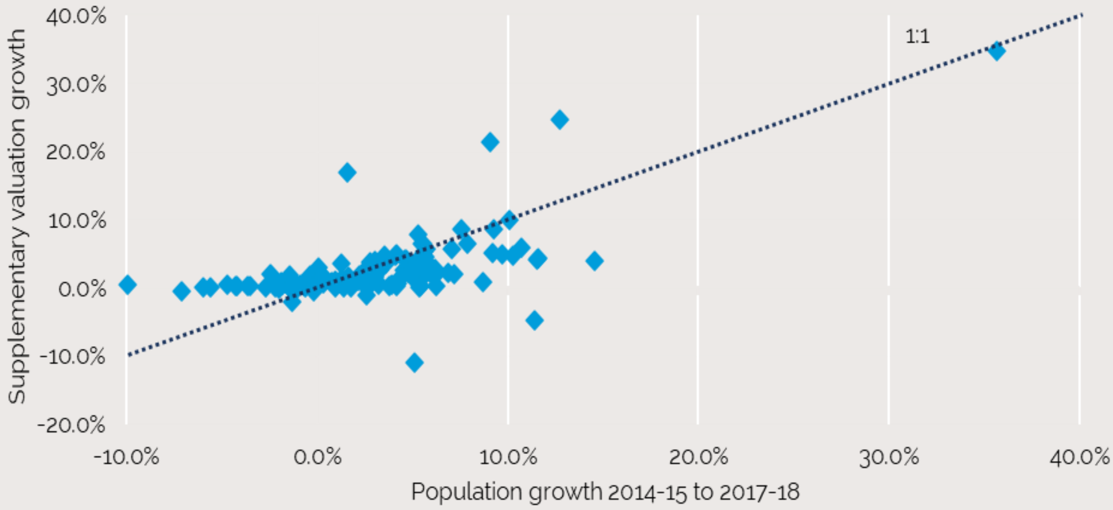
The population factor aims to ensure that councils maintain per capita general rates over time as their populations grow. Maintaining per capita income will help councils maintain existing service levels and provide the services their growing communities expect.

As populations grow, councils may receive additional income from supplementary valuations, Supplementary valuations are revaluations of property when there are changes in land value outside the usual 3 to 4-year general valuation cycle. They can occur for a number of reasons such as subdivisions or changes in zoning as communities develop and grow. For example, councils may receive additional income when farmland is re-zoned as residential or when single dwelling sites are re-zoned for blocks of flats.

We introduced a population factor in 2022-23 because we found that, for many councils, additional income from supplementary valuations did not keep pace with population growth as shown in the figure below.

Box 6.2 The current population factor

Figure 6.1 Percentage increase in councils' revenue per person from supplementary valuations versus population growth



Source: Office of Local Government Time Series Data and IPART analysis.

We currently calculate the population factor as follows:

$$Population\ factor = \\ max\ (0,\ change\ in\ population - supplementary\ valuations\ percentage)$$

The population factor has a minimum value of 0%, i.e. it cannot be negative. This means that a council's rate peg will not be reduced due to a declining population. We recognise that when a council's population declines there are still significant maintenance and operating costs required to continue providing services.

The current population factor accounts for changes in supplementary valuations. To calculate the population factor we deduct any increase in general revenue from supplementary valuations from the change in population.

As previously indicated, when councils' supplementary valuations increase the value of land, there is an increase in council rates revenue (which is based on the value of the land owned by the ratepayer). This increase already partly compensates councils for the cost of servicing a growing population. As such, we deduct it from the population factor, to recognise that some of the costs of growing populations are already being recovered elsewhere. Without the deduction of supplementary valuations, some councils would be overcompensated for population growth at the expense of ratepayers.

Source: IPART, Review of the rate peg to include population growth – Final Report, September 2021, pp 2, 3, 8, 11.

6.3 Stakeholders raised a range of concerns with the current population factor

We analysed the impact of the changes suggested by stakeholders while considering the purpose of the population factor which is to maintain per capita general income as populations grow. Our analysis suggested that it is appropriate to adjust the population factor to exclude prison populations. There are a number of other issues raised by stakeholders that we do not consider appropriate to address by changing the population factor. The issues we considered and our analysis is outlined below.

6.3.1 The population factor should be adjusted to exclude prison populations

In submissions to our Issues Paper and at our public workshops, ratepayers raised concerns that the population of a new prison was being included in their council's population factor.[152] One submission stated "All extra monies paid in FY 2023/24 because of the SERCO[a] prison numbers should be deducted from the rate peg set for 2024/25."[153] The ratepayers submitted that the population factor was providing the council with additional revenue that it did not require, as the prison should not affect council costs.[154]

In our second round of workshops, some stakeholders raised concerns that prisons may increase the cost of road maintenance within local government areas, but most stakeholders did not consider that prisons were a significant cost to councils.[155] Some ratepayers commented that they would like to see more information about the impact of prisons on council expenditure.[156]

In submissions to our Draft Report, stakeholders had mixed views about excluding prison populations from the calculation of the population factor. Most stakeholders who commented on the issue were supportive of the decision, with some agreeing that it was a logical improvement on the calculation of a council's residential population.[157] However, some stakeholders did consider that there are significant costs to councils that are caused by prisons, such as increased impact on roads and increased demand for council services from visitors to the prison. One stakeholder suggested that the issue should be investigated further before changes are made to the methodology.[158] Several stakeholders considered that prisoner populations should not be excluded from the calculation of the population factor.[159] Some stakeholders who were not in favour of removing prison populations from the calculation of the population factor, were concerned about the loss of rateable land leading to a decline in rates revenue for the council.[160]

[a] SERCO is a private correctional services operator.

The population factor uses estimated residential population (ERP) data from the Australian Bureau of Statistics (ABS) to track the population growth in local government areas. The ABS confirmed this data includes prison populations. The ABS also releases an annual Prisoners in Australia publication that measures the change in the number of prisoners at each prison, gaol, or other type of facility.[b, 161] This prisoner data for each prison or other facility in a council area can be deducted from the council's estimated residential population figures to obtain a non-prisoner population figure. We will need to monitor the Prisoners in Australia publication to ensure we have up to date data about the opening and closing of prisons and other facilities across each council area in the state.

Our decision to exclude prisoners from the residential population used to calculate the population factor, will allow us to be more reflective of changes in the resident population that use council services. We have not found that prisoners cause significant and identifiable costs to councils but have found that their inclusion can create increases in the rate peg, which can lead to higher costs for ratepayers. We discuss these findings below.

We found the inclusion of prison populations could have a significant impact on the population factor of a council. We investigated the opening of 3 new prisons in different council areas and estimated the impact these had on the change in population for the council. The three councils we examined were Cessnock Council, Dubbo Regional Council and Clarence Valley Council. Cessnock Council and Dubbo Regional Council both had prisons open in 2018.[162] We estimated that the impact on the population factor would have been about 0.67% and 0.71%, respectively.[c] Clarence Valley Council had a prison open in 2020-2021[163] and we estimated the impact to be about 1.85%. These calculations do not include an adjustment for the impact of any supplementary valuations.

We then examined whether a council incurs measurable costs due to the opening of a prison within its area. We were unable to determine what significant costs councils would consistently face due to the opening of a prison, except for potentially the impact on road maintenance which was raised during our workshops.[164] We considered that any costs incurred would be difficult to quantify and be individualised to a council. If there are any associated costs that a council is not able to fund through the rate peg or other means, the council could apply for a special variation to recover those costs.

This change to the population factor will be forward looking. We will not make adjustments for previous population factors. It is worth nothing that councils are able to set a rate peg less than the maximum and if an individual council has been over-compensated due to changes in its prison population it can set a lower rate peg to reflect this. Conversely, if a council has been under-compensated it can apply for a special variation.

---

b Other facilities include, among others, cells in court complexes, transitional centres and mental health facilities administered under Corrective Services departments. A full list of the types of facilities is available at Prisoners in Australia methodology.

c This is the population change for the 2017-18 financial year, which was prior to the introduction of the population factor in the rate peg and therefore did not impact Cessnock Council's or Dubbo Regional Council's rate pegs. Instead, this highlights the impact that would have occurred if the population factor was used at the time.

6.3.2 The population factor should continue to adjust for supplementary valuations

Adjusting for supplementary valuations

The current formula for calculating the population factor deducts growth in general income from supplementary valuations from the population growth experienced by a council. We adopted this approach because the increase in council general income from supplementary valuations accounts for approximately 60% of the cost of population growth.[165] Without the adjustment, some councils would be overcompensated for population growth.

Stakeholders made submissions to our Issues Paper which called for the removal of the adjustment for supplementary valuations from the population factor. Northern Beaches Council stated, "It is councils view that the growth in rates from supplementary valuations should not be used to reduce the population factor in the current rate peg methodology."[166] This was echoed by a number of councils.[167] In submissions to the Draft Report, several stakeholders reiterated their preference for supplementary valuations to not be included in the population factor.[168]We considered the feedback from councils that the adjustment for supplementary valuations should be removed entirely from the population factor. In its submission to the Issues Paper Blacktown City Council stated:[169]

> The population factor has not provided any additional revenue for Blacktown City and will not avoid a continued decrease in our general income on a per capita basis. It is also erroneous to assume that current income per capita for established areas of a LGA are sufficient for newly developed areas of a LGA in which services and required infrastructure still need to be provided.

Stakeholders at our second round of workshops also discussed the issue of adjusting for supplementary valuations. Most councils were in favour of removing the adjustment for supplementary valuations from the population factor.[170] Alternatively, some ratepayers expressed their support for maintaining the adjustment for supplementary valuations in the population factor.[171]

Box 6.3 Deducting supplementary valuations does not reduce the rating base

We heard concerns from some stakeholders that deducting the percentage increase in supplementary valuations as part of our population factor formula meant that the rate base would be permanently lower.

This is not the case, as increases in revenue from supplementary valuations are added to the notional general income that is indexed each year by the rate peg. This means that the income from supplementary valuations is added to the rate base and compounded over time like increases in revenue from the rate peg.

Source: IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 3.

We considered the impact of completely removing supplementary valuations from our formula. This would have the effect of increasing revenue per capita of many councils, rather than just maintaining it. It would also mean that some councils could be overcompensated for population growth. The purpose of the population factor is to maintain per capita income (before inflation) as populations grow, not to increase income per capita (before inflation). Any overcompensation for population growth would be compounded over time by further increases in the rate peg. Some councils, including Blacktown, have suggested there are additional costs of servicing new populations for example community infrastructure such as swimming pools that are not funded through developer contributions.[172] When additional revenue is needed, for example, to provide infrastructure for new communities, this could form the basis of a special variation application. If a council's expenses per capita before inflation are increasing, for example due to rising community expectations for service levels, this can be discussed with communities through the IP&R process as part of the development of funding options such as special variations.

We consider it appropriate that the population factor methodology continue to deduct increases in general revenue from supplementary valuations from changes in population growth. This is a necessary component to achieve our aim of maintaining per capita revenue as populations grow, while making sure ratepayers pay no more than is necessary for the services they need.

Adjusting for negative supplementary valuations

Some councils made submissions to the Issues Paper which suggested that the population factor should be adjusted to account for negative supplementary valuations.[173] Some councils reiterated their preference to account for negative supplementary valuations in their submissions to the Draft Report.[174]

The current supplementary valuation formula has a minimum of 0%, meaning that a council would not be compensated for negative changes in supplementary valuations. A negative supplementary valuation decreases the general income of a council. This is set out in the *Local Government Act 1993* (LG Act).[d] This is a concern for councils because a decline in property value does not necessarily equate to a decline in the cost of services that need to be provided to the property, particularly fixed costs. This means that councils must absorb any decrease in their notional general income caused by a reduction in the rateable value of land but any increases in rateable value are used to offset their increases in income from the population factor.

We investigated the impact that negative supplementary valuations have on council income. We found that:

- In 2019-20 and 2020-21 there were 14 and 15 councils respectively that experienced a net negative supplementary valuation.
- The average impact on income was -0.29% and -0.20% respectively.

[d] Section 509.

On balance we consider that the population factor should not be adjusted for net negative supplementary valuations. We acknowledge the impact that negative supplementary valuations have in depressing the notional general income of councils. However, it is unclear if negative supplementary valuations are caused by population change. Because of this we do not think it is appropriate to include them in our population factor. The purpose of the population factor is to maintain per capita revenue as populations grow, not in all circumstances.

Additionally, the LG Act provides a framework under which councils' total permissible general income fluctuates from year to year where land values change due to supplementary valuations. Adjusting for negative supplementary valuations in the rate peg methodology would be inconsistent with this framework as it would operate to add back into general income the reduction in income required under the LG Act. It would also result in councils with declining or stable populations receiving a positive population factor in years where they experience negative net supplementary valuations.

Measuring supplementary valuations using residential land

In addition to our investigation of issues raised by stakeholders, we also proactively investigated improvements to the methodology that were not suggested by stakeholders. As part of this we considered whether there is a more appropriate way to adjust for supplementary valuations in our population factor. In the current formula, supplementary valuations are based on total rateable property within the council area. We considered whether it is appropriate to include an adjustment for supplementary valuations of all rateable property or only residential rateable property.

The population factor is designed to maintain per capita general income as populations grow. As the formula deducts the increase in general income from supplementary valuations, it implicitly assumes that all supplementary valuations are caused by population growth. We consider that this assumption may not be entirely accurate as supplementary valuations can occur absent of population growth. We sought feedback from stakeholders about whether it would be more appropriate to assume that residential supplementary valuations are driven by population growth.

We considered options to obtain data on the number of residential supplementary valuations that occur within each council area each year. Currently the information on total supplementary valuations is publicly available in councils' Annual Financial Statements. However, these statements do not break down supplementary valuations by rating category.

We sought feedback from stakeholders on sources for this data. We examined data from the Office of Local Government (OLG) and the Valuer General. Their publicly available data does not appear to be suitable for calculating the number of residential supplementary valuations.

We considered whether sourcing the information directly from councils is a feasible alternative. This would increase the administrative burden, as we would need to source the data from 128 councils instead of only a single source such as OLG or the Valuer–General. There is also the issue of transparency as the data being sourced from councils is not currently available to the public. We would need to take measures to ensure that stakeholders have access to this data.

In submissions to our Draft Report, stakeholders had mixed views on using only residential supplementary valuations. Several stakeholders did not support it, some argued that population growth can be driven by non–residential development.[175] Some stakeholders felt that rezoning and development applications were important factors to consider in deciding to make the change.[176]

Several stakeholders did support using residential supplementary valuations, arguing that supplementary valuations relating to business land are not related to population growth.[177] They suggested that data could be sourced from either Councils' Annual Permissible Incoming Working Papers, which are issued by OLG, the Valuer–General or that data could be included in the Annual Financial Statements.[178]

We have not been able to obtain accurate information on residential supplementary valuations that would make it possible to differentiate supplementary valuations based on rating category. We consider that it is not practical at this stage to pursue altering supplementary valuations due to the lack of data availability.

6.3.3 The population factor should not include historical population growth

In our 2021 review of the rate peg to include population growth, we recommended that the population factor be a forward–looking adjustment and there would be no 'catch–up' for historical population growth.[179] In submissions to our Issues Paper stakeholders asked us to revisit this issue and requested a historical catch up for population growth they experienced prior to the introduction of the population factor.[180]

The City of Newcastle stated that:[181]

> …it is disappointing that there has been no retrospective adjustment to reimburse Council for past growth.

Bayside Council stated that:[182]

> there is already an existing gap between per capita rate and per capita costs as a result of the historical rate peg regime… A one-off catch-up adjustment should be considered through this review to address this historical restriction to Council's general revenue.

To investigate this issue, we examined the historical population growth experienced by councils from 2002-2019[e] and how this could have increased rates revenue. This analysis differed to the application of our actual population factor in two ways; for simplicity we have not deducted supplementary valuations, and we have included population change as it occurred, i.e. without a lag. We have also not included changes in the rate peg over the period. The below findings are based on increases in population to illustrate the impacts of population increases on councils. Our findings were:

- From 2002-2019, the average population growth across councils was 13.9%. The population increased in 92 councils, and the average growth of these councils was 19.3%.

e 2018-19 being the last financial year not counted in the population factor.

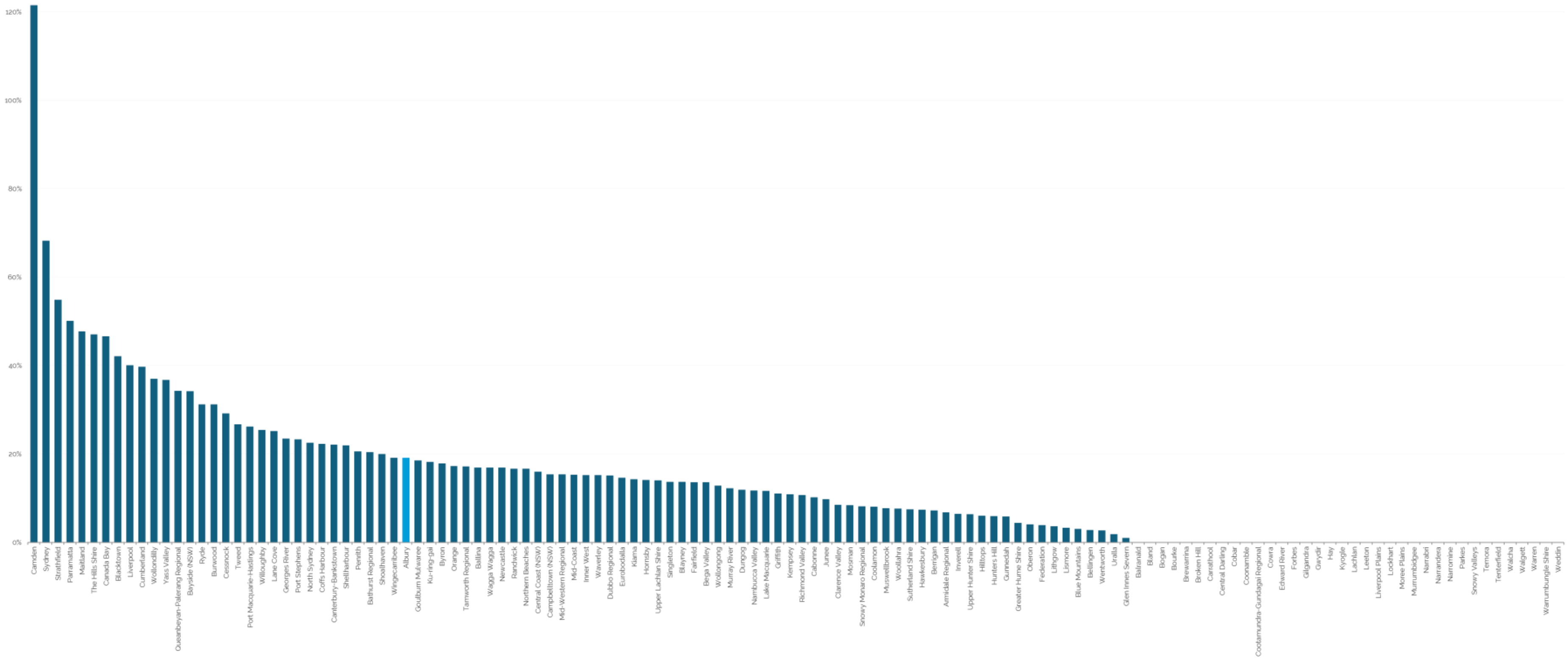
- **Figure 6.2** shows the historical population growth of NSW councils, those with population decline are marked as 0% as our population factor does not reduce income for decreases in population.
- For example, Albury Council's population increased by 19.1%. If this council's rates income only increased by its population growth during this time (i.e. zero rate peg and zero supplementary valuations), general income in 2019 would have been 20.6% higher than in 2002 solely due to population growth.
- The increased rates revenue for Albury Council over the period due to this growth would have had a net present value (NPV) equivalent to a one-off 148.1% increase in general income.[f] This increase is what would have been required to keep rates revenue per capita consistent (assuming there were no other increases in rates).
- If we sought to compensate councils for historical population growth since 2002 by starting each council at the same level of income and increasing their income by only changes in population and calculating the NPV of these increases, the average council would receive a one-off catch-up of 112.3%. 54 councils would receive a catch-up over 100%. The highest one-off catch-ups would be received by the City of Sydney and Camden council which would receive catch-ups of 687.6% and 641.7% respectively.

This does not represent how much councils have 'missed out on' because councils have applied for special variations, applied for grants, and had supplementary valuations in this time. All of these sources of income could have compensated councils for some of the costs of a growing population. We consider that adjusting the population factor to include historical growth would likely overcompensate councils for that past growth. We also consider that calculating an accurate historical catch-up would be a difficult and complex calculation that is unlikely to be precise. It would need to be conducted on a council-by-council basis and involve consideration of several factors such as special variations, grants, and supplementary valuations. A historical catch up would also significantly impact ratepayer affordability.

A catch-up for historical population growth would be difficult to calculate. There is a high risk that it could overcompensate councils for the costs of historical population growth. It would also have significant impacts on ratepayer affordability.

[f] Based on a 1.3% real discount rate which was IPART's local government discount rate in July 2019, available here.

Figure 6.2 Historical population growth of NSW councils (2002-2019)



Note: Albury is highlighted in light blue.

Source: ABS Regional population. IPART analysis.

6.3.4 The population factor should not give councils more revenue for declining populations

In its submission to our Issues Paper, Lachlan Shire Council submitted that the population factor methodology "is not structured to support Councils' who are experiencing stable or declining populations."[183] Stakeholders echoed this theme and suggested that the population factor could offer support for councils to recover the costs of declining populations.[184]

We also heard from councils and other local government sector stakeholders at our second round of workshops about the difficulties of servicing a declining population. Some stakeholders said that the population factor was widening the gap between councils with greater financial sustainability and those with less.[185] We also heard alternative views from councils with large population growth, who argued that they do not receive the necessary developer contributions to pay for the infrastructure to support growth.[186] Some stakeholders told us that as populations decline council expenditure can increase and that the population factor should help councils recover these costs.[187]

In submissions to the Draft Report, some stakeholders reiterated their concerns about the financial impact of declining or low growth populations.[188]

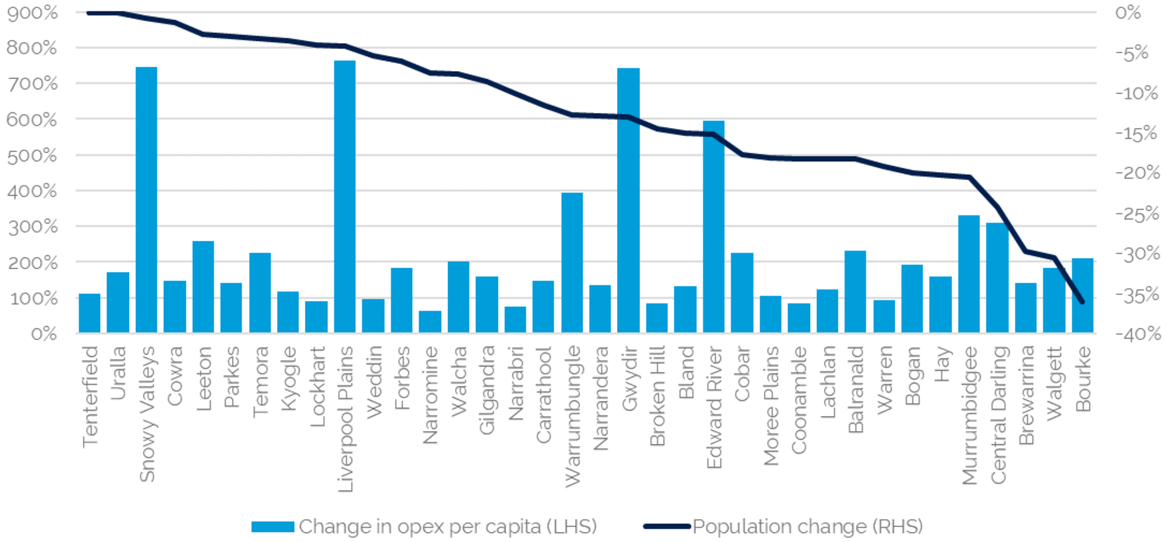
Using data from the OLG on council operating costs, we investigated the changes in operating costs that have occurred for councils and compared this to changes in population. By tracking changes in operating costs per capita we can compare it to changes in population. The information given below is in nominal values.

Measuring operating costs captures the cost pressures of a declining population as it includes the costs of continuing to provide services and maintain assets over time. It also indicates the labour costs over time required to attract and retain staff in areas of declining population. Capital costs were not included because a lot of capital costs for smaller councils are funded through grants. Analysing capital costs could have skewed results because there may be less constraints on capital spending.

Figure 6.3 and **Figure 6.4** show the change in nominal operating costs per capita along with population change for councils between 2002-2021. **Figure 6.3** shows those councils which had population decline, **Figure 6.4** shows all councils. Both figures show that operating cost per capita is increasing for almost all councils, regardless of population growth.

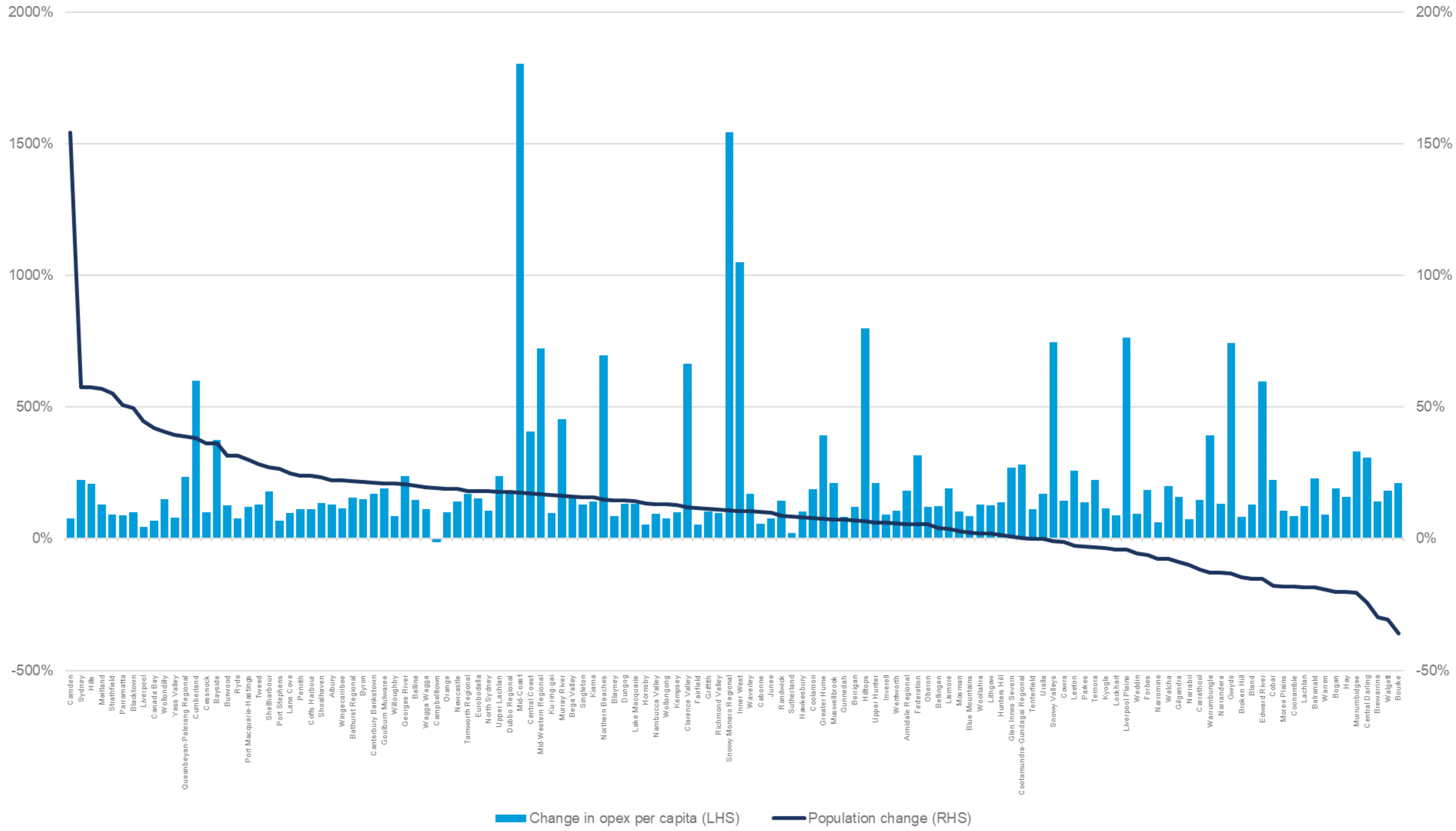
Of the 36 councils with population decline, the average increase in operating cost per capita was 226.3%. The median was 159%. The 92 councils with positive population growth had an average 217% increase in operating cost per capita, and a median of 130.5%. Based on this analysis, population decline does appear to put a small upward pressure on operating cost per capita. Although there may be other factors that have created the difference in changes in operating cost per capita, such as changing demand and community preferences for services. Further investigation would be required to be definitive about a relationship between population decline and increases in operating cost per capita.

Figure 6.3 Change in operating costs per capita with population change – Councils with population decline (2002-2021)



Source: Office of Local Government Time Series Data. ABS Regional population. IPART analysis.

Figure 6.4 Change in operating costs per capita with population change – All councils (2002-2021)



Source: Office of Local Government Time Series Data. ABS Regional population. IPART analysis.

There may be an additional cost that is associated with population decline. However, we do not consider it appropriate for this to be recovered through a population factor. The population factor does not reduce the amount of rates revenue a council receives if its population declines. As a council's population declines, its operating cost per capita (before inflation) would increase. An increasing real operating expenditure per capita over time helps councils maintain service levels. The costs of population decline are already recovered because a council's rates revenue is not reduced when its population declines. This occurs because the population factor cannot be negative. If councils were to receive additional revenue through a population factor that compensated councils for population decreases, this would increase the burden on ratepayers that already exists. As populations decline the council's total rates revenue would be concentrated over a decreasing number of ratepayers.

While we do not consider it appropriate for the population factor to compensate councils for the costs associated with population decline, it may be appropriate for this issue to be considered in a future review into the financial model for councils. That will present an opportunity to investigate whether some councils would require greater support over time to continue providing the same quality and quantity of services expected by their communities.

6.3.5 The population factor should not measure service populations

Stakeholders submitted that councils should be compensated for the costs of providing services to non-residents, i.e. that their population should be based on their service population as well as their residential population.[189] Some examples of service populations for councils include:

- Tourist populations, including day visitors and short-term holiday makers.
- Regional business or cultural hubs. Some areas of NSW, such as Paramatta CBD and Sydney CBD see large increases during parts of the day.
- Councils providing services to workers who work in one council area, but live and pay rates in different council areas.

In its submission to our Issues Paper, Hawkesbury Council stated that the population factor "does not capture the increased cost of demand for commercial, employment and tourism sectors."[190] Stakeholders argued that the cost of service populations should be recovered through rates.[191] Some stakeholders in submissions to the Draft Report also supported using service populations.[192]

This issue was considered in our 2021 Review of the rate peg to include population growth. Submissions to the Issues Paper and Draft Report of that review highlighted the costs incurred by councils where their serviceable population is higher than their residential population. Councils may have larger service populations due to tourism or because they are employment, business, or cultural hubs.[193]

At the time we considered whether we should include service populations within a population factor, and concluded that:

- It is challenging to accurately measure service populations.
- There is some benefit to business ratepayers from a larger serviceable population. However, ultimately ratepayers across all rating categories, including residential ratepayers, could pay higher rates if our methodology accounted for changes in service populations.
- Collecting revenue from service populations is better achieved through user pays approaches, although councils can only use user charge approaches for some services such as car parking.
- Councils can apply to IPART for a special variation if they require additional revenue to accommodate their service populations.[194]

We consider the findings of our 2021 Review of the rate peg to include population growth to still be appropriate. Therefore, we will not change the population factor to measure service populations.

6.3.6 The population factor should not be adjusted to include economies of scale

We received submissions to our Issues Paper and feedback in our workshops that the population factor should be adjusted to take into account economies of scale. A submission from a ratepayer stated:[195]

> More customers should mean economies of scale in service delivery. Fixed costs are spread over a larger number of customers meaning unit costs of service provision (cost per capita) should fall. Managed well, population growth should provide opportunities for Councils to reduce the per capita costs of their services and improve efficiency.

This was reiterated by a stakeholder in a submission to the Draft Report.[196]

Economies of scale occur where the average cost per output (goods or services) decreases as the total number of outputs increases.

Economies of scale is an important concept that explains how firms can utilise their capital (e.g. equipment, buildings, etc.) and their labour to decrease the average cost of producing their goods or services. However, economies of scale are finite; eventually if another unit of output is produced the average cost will no longer decrease. If a firm continues to produce more outputs, beyond this level, the average cost of the outputs will begin to increase. This is called diseconomies of scale.

In our 2021 review of the rate peg to include population growth we considered whether economies of scale existed in the local government sector. We found that some services and functions of councils have economies of scale, but not all. Our findings showed that a doubling of a council's population implies a "range of cost increasing by 72% to 95%."[197]

There does not appear to be universal economies of scale in the local government sector. At this time, we consider that introducing an economies of scale adjustment to the population factor would not accurately capture the varying economies of scale experienced by individual councils. Such an adjustment could favour councils that are well positioned to achieve economies of scale either due to their demographics, socio–economic factors or mix of services provided. It could also disincentivise councils to provide services if they do not scale well, despite community preferences. This may disincentivise councils to be the provider of last resort for important community services in areas such as health and aged care. At this time there does not appear to be sufficient evidence to introduce an adjustment for economies of scale, however this may change in the future.

6.4 We considered alternative sources of data

The current population factor methodology measures historical changes in the total population of council areas. This is calculated using the estimated residential population data published by the ABS. We received submissions to our Issues Paper that asked us to consider alternative methods for measuring changes in population. Stakeholders submitted that changes in the number of rateable properties is a better indicator of councils' costs compared to changes in the total population, because the majority of council services are property based.[198] Stakeholders also submitted that using rateable properties or population forecasting would be more timely than historical data.[199] These issues and our analysis are discussed below.

6.4.1 Using rateable properties would reflect costs but may not be independent

In our 2021 review of the rate peg to include population growth we considered two different methods to measure how councils' costs increase as populations grow: changes in total population and changes in rateable properties.[200] This issue was considered because councils provide services to both property and to people and it is important to capture whether properties or people are more responsible for increasing councils' costs. Our decision for that review was to use total residential population instead of rateable properties.[201]

In the submissions we received to the Issues Paper of this review, stakeholders asked us to revisit the issue of using rateable properties as a measure of population change.[202] Stakeholders submitted that we should revisit this issue because of the importance of council services to property. The submission of the United Services Union, which included a commissioned research paper, stated "the number of rateable assessments in a given local government area is a much more accurate proxy variable for municipal size than absolute population size."[203] We also heard from stakeholders in our second round of workshops that rateable properties could be a more accurate measurement of population growth.[204]

This concern was raised in the 2021 Review of the rate peg to include population growth. At the time, we engaged the Centre for International Economics (CIE) to consider the impacts of using rateable properties or total population to measure the costs of population growth.

The CIE indicated a slight preference for using total population over rateable properties. This was because total population figures are derived independently via the ABS and are used by the NSW Grants Commission.[205]

Some of the differences between using rateable properties or population growth were highlighted by the CIE:

- Rateable properties include non-residential activity — councils with a large business focus, such as the Sydney CBD, are outliers in the cost per capita chart because they service non–residential activity.
- Considering only residential activity, properties and population will not necessarily move together, and they may be more or less directly related to costs. For example:
  - Occupancy rates of property could change, meaning a larger population, but no change in rateable properties.
  - Rateable properties could change as development occurs but prior to the dwellings being occupied — i.e. a difference in timing.
  - Rateable properties may be a driver of costs related to infrastructure such as roads and stormwater.
  - Population may be a better driver for costs related to services such as health, education, community services.[206]

The CIE found that a 1% increase in the base of rateable properties leads to a 1.02% increase in council expenditure. While a 1% growth in population caused a 0.85% increase in council expenditure.[207] Both of these measurements have a close relationship with changes in council expenditure. On balance, we consider that it is still appropriate to measure councils' total residential population as an indicator for increasing council costs.

Using rateable properties as a measure of population growth is problematic because councils are directly involved in the decisions that increase the number of rateable properties. This is a measurement that councils have much greater direct influence over than their total population.

In submissions to our Issues Paper some stakeholders were also concerned about errors in estimated population between census years that can occur when using changes in total population.[208] This was reiterated in our public workshops[209] and our second round of workshops, where stakeholders also discussed errors between census years.[210]

In submissions to our Draft Report, some stakeholders reiterated their concern about errors between census years.[211]

This issue was considered in our 2021 Review of the rate peg to include population growth. IPART proposed to include a true–up for all councils when the next census data is released. This will impact the rate peg in 2024-25. This true–up would be for all councils, but not adjust the population factor below zero.[212]

For subsequent censuses, the recommendations of the report were to include a true–up where councils had a difference in estimated residential population and actual census data greater than 5%. This approach will maintain certainty and not disadvantage councils with small populations that are likely to experience large deviations between estimated and actual population data.[213]

The concerns of stakeholders are prudent and have been considered in depth. We also received a proposal for a new formula from Lane Cove Council.[214] Its proposed formula would still use residents as a measure of population, but it would calculate the change in residents as the number of new assessments multiplied by the average persons per dwelling. We have outlined the proposed formula below:

$$Stakeholder\ proposed : Population\ factor$$
$$= \frac{Average\ residential\ rate\ per\ capita\ x\ Total\ new\ residents}{Total\ rates\ yield}$$

Where the total new residents is calculated by multiplying the increase in residential rating assessments by the average number of persons per dwelling.

We considered this proposed formula when investigating the effectiveness of our population factor. We consider that this proposed formula does not address the issue of supplementary valuations already providing revenue to councils to recover the cost of population growth. Further, using averages in terms of the residential rate per capita and the average persons per dwelling may be less accurate than using absolute population figures.

Overall, we still consider the findings from The CIE to be appropriate. We also consider that the concerns raised about errors between census years will be appropriately addressed through the 5-year true–up in the methodology. We will not adjust the population factor to measure rateable properties instead of total population.

6.4.2 Using population forecasts would be less accurate than historical population data

In the submissions we received to our Issues Paper, stakeholders were concerned about the lag in the current population factor.[215] Gunnedah Shire Council stated that:[216]

> it is vital that the difference in timing should be reduced to enable a closer alignment of the population growth to the associated increase in demand for council services."

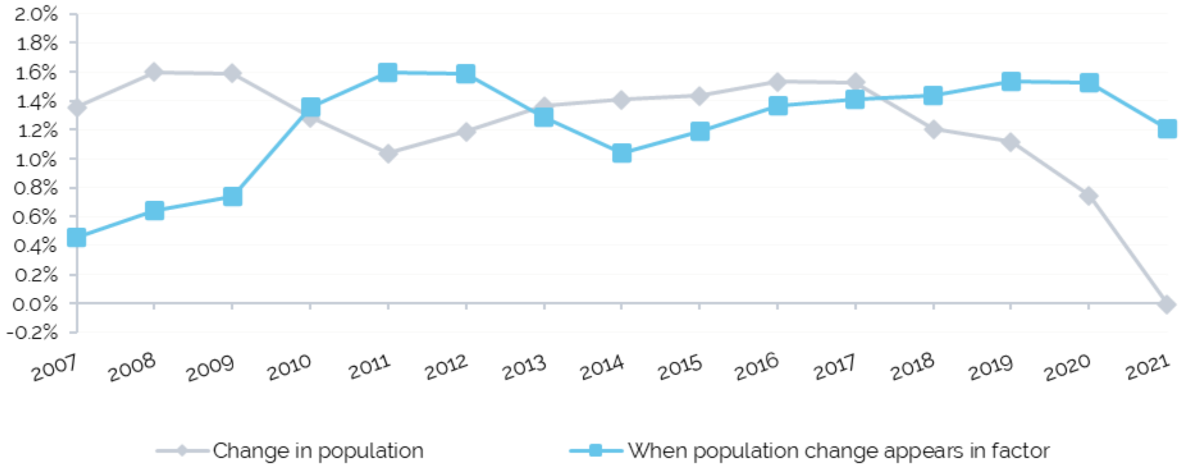
In submissions to the Draft Report, the lag was also considered an issue by some stakeholders.[217]

The population factor in the 2023-24 rate peg was calculated using population changes from 2019-20 to 2020-21.[218] Some stakeholders argued that this lag was too long and that it was not responsive enough to changes in council population growth.[219]

It was suggested by some stakeholders that using rateable properties instead of ABS population figures would resolve the lag issue.[220] Several submissions that were concerned with this lag also suggested using population forecasts.[221]

Figure 6.5 shows the lag in the population factor; it shows the year in which the population change occurs and the year it is captured in the factor. During the lagged period the council would have to fund the cost of services provided to additional residents without receiving compensation. This is similar to the issue that has been raised with the LGCI. It should be noted that changes in population were atypical during 2020 and 2021 due to the COVID-19 pandemic, these were some of the first years captured by the population factor. The reduction in immigration over that period appears to have contributed to the lack of population growth on a state–wide basis. This may not have been consistent across the state and certain areas could have seen population growth caused by intrastate migration.

Figure 6.5 When population change occurs versus when it applies to the population factor



Note: This is yearly population change across all of NSW and therefore includes population decline for individual councils.
Source: ABS Regional population.

The options of using rateable properties or population forecasting were considered in our 2021 Review of the rate peg to include population growth. Neither of these options were considered optimal. There are limited data sources for alternative measures of population growth.

The concerns with using rateable properties were discussed above. In our 2021 Review of the rate peg to include population growth we outlined some of the issues with using population forecasts. The key findings on that issue are outlined below:

- We found that Department of Planning and Environment population projections were a good estimate of future population growth. Over the past 5 years, at the state level, the projections have been a good predictor of actual population growth. Our analysis also found that the projections were relatively accurate for most councils in NSW. However, most submissions to our 2021 Draft Report supported the use of ABS data.[222]
- We found that using both historical estimates and forward-looking projections maintain the relationship between council revenue and the costs of population growth over time.[223]
- We tested our methodology using both ABS and Department of Planning and Environment data over 5 years and found that using ABS data produced better results and reduced the need to use a 'true-up' in the methodology to maintain accuracy over time.[224]

- We also considered using third party population projections, particularly those used by councils. Individual councils' forecast series are based on assumptions agreed by each individual council and the third-party provider. The relationship is not independent, and we prefer an estimate that is derived at 'arm's length' from councils' processes.[225]

While the lag in the population factor is an issue, it is not concerning to the same degree as the lag present within the LGCI because councils already recover about 60% of the costs of population growth through supplementary valuations.[226] Because of this councils are not as impacted by the long lag in the population factor as they are by the lag in the LGCI.

We consider that our conclusions in the 2021 review of the rate peg to include population growth regarding the suitability of forecasting compared to historical ABS data are still valid. We have not received compelling evidence from stakeholders that these conclusions were incorrect. We will maintain our approach for the population factor of using historical population data rather population forecasts.

Chapter 7

Retaining the productivity factor

07

Our current methodology includes an explicit factor to account for productivity gains in the local government sector. The productivity factor was incorporated to reflect the year-on-year productivity gains that could be expected of councils as service delivery becomes more efficient over time.

From 2011-12 to 2017-18, we calculated the productivity factor using information published by the ABS on market sector value-added multifactor productivity.[227] The productivity factors we applied ranged from 0.0% to 0.2%.[228]

Since 2018-19, the productivity factor has been set at zero as a default to recognise that improvements in productivity are already reflected, to an extent, in the ABS price indexes we use to measure price changes in LGCI cost categories.[a,229] However, we retain discretion to deduct a productivity factor if there is evidence of productivity improvements in the local government sector that have not been fully incorporated in the LGCI.

Our decision is to retain the productivity factor with a default value of zero. While we received considerable feedback from stakeholders about the productivity factor and whether it should remain in the rate peg methodology, we consider the productivity factor to be a beneficial tool to help limit council expenditure and encourage councils to be more efficient in the costs they can control.

However, we also recognise the importance of a comprehensive evidence-based review being conducted prior to any potential change in the productivity factor from its default value of zero. We consider this future review should ensure a data-driven approach to setting the productivity factor, ensuring transparency for ratepayers, councils, and other stakeholders. Moreover, further analysis is necessary to ensure that a non-zero productivity factor aligns with the updated rate peg methodology, particularly considering the way labour costs contribute to the BCC value (see Chapter 3).

In addition to a data-driven approach, we may consider factors such as the outcomes of other reviews when setting the productivity factor. This could include the outcomes of the Office of Local Government's review of councils' performance benchmarking[230] as well as the recommended independent review of the financial model of councils in Chapter 9. In particular, a review of the productivity factor could consider the best ways to improve councils' performance and how the factor could support any future performance framework that may be in place.

The views that we heard from stakeholders and the reasoning for our decision are outlined below.

7.1 Our decision on the productivity factor

Our decision is:

11. 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.

[a] Under our current methodology, we use price indexes published by the ABS to measure price changes for 25 of the 26 LGCI cost items. The ABS price indexes we use are pure price indexes – i.e. the ABS makes quality adjustments to ensure the inflationary movement is unaffected by any change(s) in quantity and/or quality.

7.2 Stakeholders had mixed views about the productivity factor

The productivity factor was a contentious issue raised in a large proportion of submissions received throughout this review and throughout the July Public Hearing.[231] Some stakeholders, particularly councils, advocated for the productivity factor to be removed or remain at zero.[232] Some councils considered that a productivity factor would penalise councils or could create unintended consequences and disincentivise pursuing efficiencies if it would reduce income.[233] Other councils said that they already actively pursue efficiency in order to remain financially sustainable, and that productivity improvements are encouraged by the IP&R process.[234]

Another key issue raised in submissions was how to measure productivity, the use of appropriate indicators and evidence for productivity improvements. Several stakeholders considered that productivity cannot be accurately measured across councils.[235] Some stakeholders instead suggested the use of customer satisfaction surveys as evidence for productivity improvements for individual councils and monitoring performance indicators rather than reducing income.[236]

Submissions from ratepayers tended to support the idea of improving council efficiency and driving productivity gains.[237] One ratepayer considered that IPART should have a better method for measuring productivity (output per employee). They suggested IPART could incentivise efficiency gains through developing a credible way to measure councils' productivity and publishing results, or releasing a rate peg lower than the LGCI.[238]

Ratepayers and councils in our second round of workshops both expressed concerns that there is not a robust measurement for productivity in the local government sector.[239] Some industry stakeholders argued that councils should not be compared to the private sector for productivity as they are not operated for profit. They stated that productivity improvements in local government often lead to improved quality of services and longer–term value for money rather than cost savings.[240]

7.3 Efficiency and productivity in the local government sector

We acknowledge the feedback we have received from stakeholders about the importance of the IP&R process and other council initiatives in promoting efficiency and productivity. We consider that there is merit in further investigating how productivity gains in the local government sector can be incentivised and note that this may include avenues broader than the rate peg methodology alone.

In submissions to our Draft Report, some ratepayers highlighted concerns about the effectiveness of councils in utilising rates income and one submission called for investigations into factors such as management quality, inefficiency, low productivity, lack of innovation, insufficient prioritisation, and cultural issues within the sector.[241] It was suggested that the current rate peg system may inadvertently incentivise lower efficiency and productivity.[242] Others questioned the realisation of claimed productivity gains and suggested alternatives to the rate peg system to encourage efficiency improvements in local government operations.[243]

In submissions to our Issues Paper and at our workshops, councils told us that they create efficiencies through a range of plans and programs. Blacktown City Council told us in its submission that the council has a “comprehensive business improvement program”.[244] Blacktown City Council also mentioned that the “…program is progressively reviewing each of our core service areas to identify whether the service is meeting current (and projected future) expectations and requirements, how the service can be improved and at what cost, and what opportunities exist to improve the efficiency of service delivery and thereby lower its net cost.”[245]

Councils also told us that it is difficult for efficiency and productivity gains to be transformed into financial savings, as the improvements are instead generally used to increase the quality and quantity of service delivery.[246] Hawkesbury Council told us in its submission that “productivity enhancements are generally linked to being able to achieve more, using the same resources and very rarely results in financial savings. For example, reducing the time to produce planning certificates will result in staff being able to reduce backlogs and respond more quickly to customer requests.”[247] Similarly, the Central NSW Joint Organisation suggested that “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”[248] and this sentiment was supported by other stakeholders.[249]

We also heard from Wollongong City Council in its submission to our Issues Paper that organisational wide efficiency gains can be difficult to achieve because of the different industries and sectors that the council operates in and the shortfall in service delivery compared to demand.[250] The council’s submission stated “With most councils having asset management shortfalls, service gaps and increases in natural environmental issues, any improvements in individual process are immediately redirected to improving these shortfalls. This does not then reflect in the consolidated annual accounts or through reductions in average rates.”[251]

The productivity factor is not the only method for encouraging efficiency improvements. We have heard from councils that they independently undertake a wide range of programs to improve efficiency. We have also heard from councils that it is difficult for these gains to decrease average rates bills.

In essence, the productivity factor encourages a focus on achieving higher levels of output without proportionally increasing costs. This focus contributes to enhanced resource management and fiscal responsibility. However, if the productivity factor remains at 0% without adjusting for future productivity gains, it could result in councils receiving a greater increase in rates income than necessary to efficiently maintain their current service levels. The rate peg is designed to provide councils with additional income to offset rising costs while keeping service outputs consistent. If this situation arises, we may need to review setting the productivity factor at zero. However, we acknowledge the other methods councils have for improving efficiency and we will consider these within the review.

7.4 We will retain the option of including a productivity factor

We have considered the feedback from stakeholders. We acknowledge that, as we have set the productivity factor to zero as a default since 2018-19, we could remove the explicit productivity factor from the rate peg methodology. We note that this would:

- simplify the methodology
- still leave us the option to make specific productivity adjustments in the future if needed through the "Other adjustments" factor.

After careful consideration, we have chosen to retain the productivity factor in the rate peg methodology, with at a default value of zero. We continue to consider that the productivity factor serves as a valuable tool to help limit council expenditure and enhance overall productivity. However, we note that it may not be the most optimal mechanism to incentivise council efficiency. As such, the productivity factor should consider the outcomes of investigations into councils' performance framework. For example, the Office of Local Government (OLG) is reviewing the performance benchmarking for councils which may provide a basis for determining the productivity factor.[252] Another example is the recommended review of financial model of councils, which is discussed in Chapter 9.

As we have transitioned from using the LGCI to the BCC for measuring changes in councils' costs (see Chapter 3), we will consult on and develop a new method to determine an appropriate value for the productivity factor before considering any adjustments from its default of zero.

Stakeholders commented that if in the future the productivity factor were to be greater than zero there would need to be a methodology to calculate productivity in the local government sector and that these decisions should be transparent.[253] We acknowledge the necessity of a transparent and comprehensive evidence-based review to determine the appropriate formula for calculating any proposed productivity factor. The rate peg for 2017-18 was the last to include a productivity factor greater than zero.[b,254] In our fact sheet for that year we explained that we "calculated the productivity factor using the ABS market sector value-added multifactor productivity (MFP) based on quality adjusted hours worked."[255]

We consider that future reviews of the productivity factor should be transparent and take a similarly data-driven approach. As such, we are considering the integration of these reviews within the annual rate peg process, ensuring timely monitoring of data and proactive investigation when necessary. This approach allows us to maintain vigilance over changing local government and ratepayer dynamics. This will also provide us the ability to engage in a thoroughly and timely manner with stakeholders before any decision is reached.

In addition, productivity improvements are something we consider when councils apply for a special variation. In addition to other requirements established by the OLG's special variation (SV) guidelines, such as community consultation, councils are required to demonstrate cost savings and productivity improvements.

[b] The average productivity increased by only 0.001% so while the factor was greater than zero it had no material impact on the LGCI that year.

7.5 We think there are opportunities to improve productivity across the local government sector

During our public workshops and our second round of workshops with councils, council organisations, ratepayers and other organisations, there was discussion about opportunities to improve productivity in the local government sector.

Some stakeholders questioned whether there are opportunities for councils to use common services to reduce costs, such as using a common cyber security provider.[256] It was suggested that efforts can be duplicated across councils when they are each developing an individual solution to an issue that affects them all.[257] There may be opportunities for the costs and risk management challenges to be spread across councils.

Some councils acknowledged the apparent benefits to this approach and stated that they had approached the NSW Government to discuss programs to facilitate such an approach. They stated that if the NSW Government took a lead in negotiating with key service providers, there could be opportunities to increase efficiency and productivity across the sector.[258]

We also heard from some councils that overhauling core systems such as financial software or cyber security to meet a common standard would require significant investment that may not be available in existing budgets.[259] Councils have told us throughout this review that they struggle to afford investments in systems for efficiency gains.[260] Some councils noted that significant special variations would be required for some councils to move to a common system.[261]

Some councils noted that an opt-in would be the most balanced approach to provide the councils the opportunity to bargain together for services, without mandating changes on councils that cannot afford it.[262] An opt-in approach would also best support the democratic accountability of councils compared to enforced adoptions of common service providers and systems.

We consider that such efforts would be in the best interests of the local government sector and ratepayers. Increasing productivity and efficiency provides councils with more funds within their existing budgets to improve service quality and increase service provision. Ratepayers will benefit through improved and/or new services. We recommend that the NSW Government explores opportunities across the sector to improve productivity, particularly through service provision of solutions to address key issues facing the local government sector.

Chapter 8

Implementation of the rate peg methodology

08

This chapter discusses how we will implement the decisions we have made on our approach to setting the annual rate peg.

In our Draft Report, we outlined several different implementation options and sought feedback from stakeholders on which of these they would prefer. We noted that timing differences between these options would lead to different rate peg outcomes.

We have considered the feedback received on our Draft Report and at our Public Hearing in making our final decision on the implementation of our new rate peg methodology. We have also considered if transitional arrangements are needed to support the change from the Local Government Cost Index (LGCI), which is a lagged measure of cost changes, to the Base Cost Change (BCC) model, which uses forward-looking indicators of cost changes.

IPART sets the rate peg under delegation from the Minister for Local Government and, in exercising that function, we can implement the decisions we have made on the rate peg methodology under that delegation.

In undertaking this review of the rate peg methodology, we have also identified issues that fall outside of our Terms of Reference and delegation. We have made a recommendation to the Minister for Local Government that these issues be investigated as part of an independent review of the financial model for councils in NSW (see Chapter 9).

8.1 Our decisions on implementing our new rate peg methodology

Our decisions are:

12. To implement decisions 1-11 under section 1.8 of our Final Report from the rate peg for the 2024-25 financial year, if it is feasible to do so.

13. To establish a council implementation reference group to advise on the implementation of our new rate peg methodology.

14. To review our rate peg methodology at least every five years, unless there is a material change to the sector or the economy, to ensure its stays fit for purpose.

8.2 We considered stakeholder feedback on implementation options

When we implement our methodology, the first year under our new methodology would not follow consecutively from the last year under our old methodology. This is because the LGCI is lagged, and the BCC is forward-looking. This means that the cost changes observed in some years would not be captured.

Our Draft Report described several options for how we could implement our new methodology. Most local government sector stakeholders that provided feedback to our Draft Report and at our Public Hearing supported a staged implementation approach spread over 2 years,[263] or to implement all changes from the rate peg for the 2024-25 financial year with a one-off adjustment to capture recent inflationary impacts.[264] The Northern Sydney Regional Organisation of Councils and its member councils also supported a staged approach, and considered that should the high inflation environment continue into 2023-24, the implementation of the BCC model should be delayed for another year (i.e. until the rate peg for the 2026-27 financial year) so that councils do not lose income from the prolonged inflationary period.[265]

One ratepayer submission to our Draft Report considered that it seems sensible to remove uncertainty and proceed with a full implementation in the rate peg for the 2024-25 financial year.[266]

8.3 We intend to implement all changes from the 2024-25 rate peg

We have decided to implement all the decisions we have made on the rate peg methodology in this Final Report from the rate peg for the 2024-25 financial year. IPART can implement these decisions under its delegation from the Minister for Local Government to set the rate peg. However, there may be issues that mean that an immediate implementation is not feasible. In this case we would implement the new methodology from the rate peg for the 2025-26 financial year.

Our new rate peg methodology will produce rate pegs that more accurately reflect changes in inflation and costs incurred by councils by using forward-looking indicators to measure changes in councils' base costs and introducing a council-specific factor for changes in councils' Emergency Services Levy (ESL) contributions. As a result, we intend to implement our decisions as soon as possible.

This means that in setting the rate peg for the 2024-25 financial year, our preferred approach is to:

- Replace the LGCI with a 3-component BCC model and use separate BCC models for different council groups (see Chapter 3).
- Introduce a separate ESL factor in the rate peg methodology that reflects the annual change in each individual council's contribution (see Chapter 4).
- Maintain our existing approach and include additional specific adjustments on an as needs basis for external costs (see Chapter 5).

- Amend the calculation of the population factor to be based on the growth in the non-prisoner residential population of a council area (see Chapter 6).[a]
- Retain the productivity factor in the rate peg methodology and set this at zero unless there is evidence to depart from that approach (see Chapter 7).

Under the preferred approach, we intend to release the rate peg for the 2024-25 financial year in October 2023.

There may be issues that mean that it is not feasible to implement the new rate peg methodology for the 2024-25 financial year, to be released in October 2023. In this case we would implement the new methodology for the rate peg for the 2025-26 financial year. This would likely be released around September 2024.

8.4 We will not adjust for recent inflationary impacts in the 2024-25 rate peg

Our decision to replace the lagged LGCI with the forward-looking BCC means that cost changes observed in some years would not be captured in the setting of the rate peg.

Our last rate peg decision for NSW councils for the 2023-24 financial year (released in September 2022) was based on the change in the LGCI between the 2020-21 and 2021-22 financial years.[b, 267] If we had decided to maintain the LGCI for the rate peg for the 2024-25 financial year, this would capture changes between the 2021-22 and 2022-23 financial years and reflect inflationary impacts over that period. In making a decision to change to the BCC model for the rate peg for the 2024-25 financial year, we will now capture changes between the 2023-24 and 2024-25 financial years.

Table 8.1 compares the indicative change in the LGCI between 2021-22 and 2022-23 to changes in the BCCs by council group between 2023-24 and 2024-25.

Table 8.1 Difference between the change in the LGCI and the BCC

	Metropolitan	Regional	Rural
Change in the LGCI	5.9%	5.9%	5.9%
BCC[a]	4.3%	4.3%	4.3%
Difference	**1.6%**	**1.6%**	**1.6%**

a. The BCC includes a one-off adjustment of 0.4% for the increases in compulsory superannuation in 2022-23 and 2023-24.

Note: We have used separate models for different council groups to calculate the BCC, however, these produce the same outcome when rounded to 1 decimal place.

Source: IPART analysis.

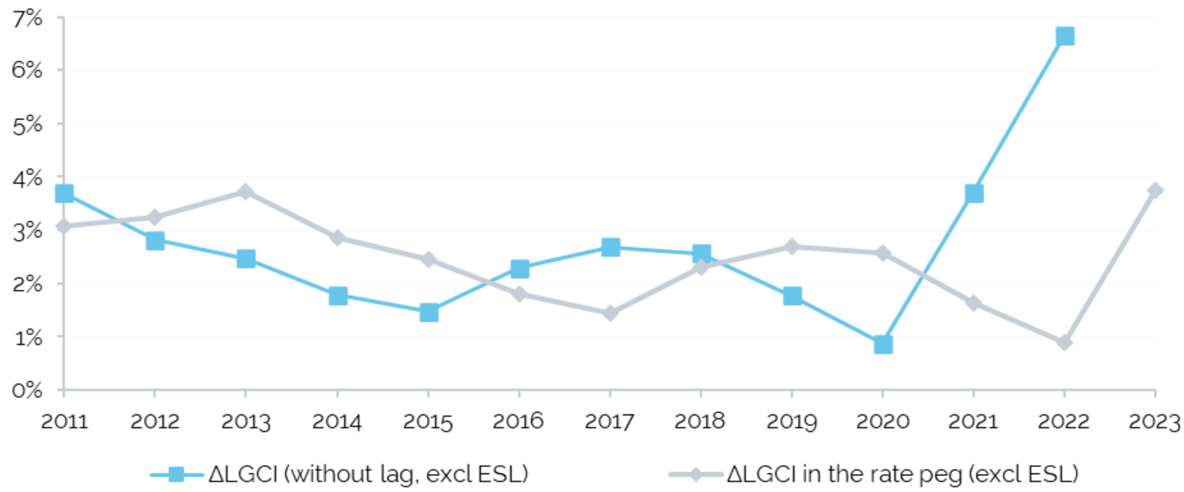
[a] The 2024-25 rate peg will also include a Census true-up for the population factor. This was a decision from our 2021 Review of the rate peg to include population growth.

[b] The rate peg for 2023-24 also included an adjustment for changes in the superannuation guarantee and a population factor that is specific to each council.

Table 8.1 shows that there is an indicative 1.6% difference between the change in the LGCI and the BCC, which reflects the high inflation rates in 2022-23. Some local government sector stakeholders have argued for the need to capture these inflationary impacts as we transition from the LGCI to the BCC.[268] This was also raised as a matter for consideration when we discussed implementation options in our Draft Report.

We know that historically, the 2-year lag in the LGCI has led to divergences between the cost changes incurred by councils, and the amounts reflected in rate peg, in a given financial year. **Figure 8.1** shows that in some years councils have received more through the rate peg than the actual cost changes incurred (measured by the LGCI), and other years they have received less.

Figure 8.1 Difference between changes in costs incurred and amounts reflected in the rate peg



Source: IPART analysis.

In December 2021 we set the rate peg for the 2022-23 financial year at 0.7% (excluding the population factor) based on cost changes observed between the 2019-20 and 2020-21 financial years.[269] In early 2022, it became apparent that the increase in the rate peg would be lower than inflation. In response to this, councils were allowed to apply for additional special variations (ASVs) to make up the shortfall. Eighty-six councils applied for and received ASVs for 2022-23, with increases ranging from 1.6% to 2.5%.[270]

We have decided not to include any additional adjustments in the rate peg to capture recent inflationary impacts. This is because the divergences caused by the 2-year lag in the LGCI even out over time, and some councils have already received an additional increase for higher-than-expected inflation rates through the ASVs. However, councils may apply through the special variations process, if required, for an adjustment due to past inflationary impacts.

Separately, we recognise that the discontinuation of the ESL subsidy for council contributions to the ESL will place pressure on councils' budgets for 2023-24 and going forward (see section 4.7). This will not be captured under our approach for calculating the ESL factor.

We will include a separate specific adjustment in the rate peg to capture the impact of the discontinuation of the ESL subsidy. As part of future rate peg decisions, we will determine the appropriate adjustment amounts for each council and consider how to phase it in to allow ratepayers time to manage rate increases.

8.5 We will continue to consult with ratepayers and councils

We will hold periodic ratepayer workshops, and this will be a mechanism for ratepayers and other stakeholders to provide their feedback and views on the implementation of the new rate peg methodology and for us to share any new developments on our rate peg methodology.

Additionally, we have decided to establish a council implementation reference group to advise us on the implementation of our new rate peg methodology. The purpose of the reference group would be to identify any practical issues or unintended consequences that might arise from implementation. The reference group could also provide feedback on the process for considering external costs (see section 5.4).

Most local government sector stakeholder submissions to our Draft Report supported establishing a reference group to advise on implementation.[271] Several stakeholders sought further information on this reference group including the roles and objectives, members, membership terms, recruitment process and remuneration.[272]

We intend to seek nominations from the Office of Local Government and Local Government NSW for members of the council implementation reference group. We will develop a Terms of Reference for the reference group and consult publicly on this. We will also make the minutes of meetings with the reference group publicly available for all stakeholders to support transparency. We consider that the reference group would need to be in place for the next 18-24 months to allow sufficient time for any potential unintended consequences of the new rate peg methodology to emerge. We expect the reference group would include up to 8 local government representatives and meet on a quarterly basis.

One ratepayer submission to our Draft Report questioned if ratepayers would be represented in this reference group.[273] Given that the purpose of the reference group is to identify practical issues or unintended consequences related to implementation, we consider that local government sector representatives are best placed to provide feedback on this.

8.6 We will undertake regular reviews of our rate peg methodology

We have found through this review that the local government regulatory framework is changing over time.

Our Draft Report proposed to review our rate peg methodology at least every 5 years through a transparent and consultative review process. Periodic reviews would ensure that our methodology remains up to date and fit for purpose.

Local government sector stakeholders generally supported reviewing the methodology every 5 years, with the option of more frequent reviews when needed.[274] Some stakeholders suggested an initial review after 3 years, then moving to a 5-year review cycle.[275]

We have decided to maintain our decision to review the rate peg methodology at least every 5 years. Should we identify material changes in the sector or economy, including any unintended consequences from the implementation of our new rate peg methodology, this could prompt us to undertake a review earlier.

8.7 Councils have discretion to increase their rates income by an amount up to the rate peg

The rate peg represents the maximum amount in percentage terms by which councils may increase their rates income in a year. This means they can increase their rates income by an amount up to this percentage. Councils can choose to increase their rates income by this percentage, by a lower percentage, or reduce or maintain its rates income. If a council increases its rates income by less than the rate peg in a given year, it has up to 10 years to catch-up this shortfall.[c] Councils ultimately have discretion when setting rates as to how the impact of rate changes are distributed among ratepayers. This may mean that some rates increase by more than the rate peg or by less than the rate peg or be reduced, provided the increase in total rates income does not exceed the rate peg.

c The catch-up provisions are specified in section 511 of the *Local Government Act 1993*.

Chapter 9

Review of councils' financial model

09

It is in the long-term interests of ratepayers that councils be financially sustainable and deliver affordable services that their communities want and need. It is also in the interest of councils to use their rates income effectively and efficiently.

Throughout this review, stakeholders have made it clear they have concerns about how local government services are funded and rates are regulated in NSW. Councils told us their primary concern is achieving and maintaining financial sustainability, so that they consistently have enough income to fund the services and facilities their communities want and need – whether they live in dense, highly developed urban areas or remote, sparsely populated rural areas.[276] Ratepayers also shared concerns about the efficient and effective use of rates income. However, ratepayers' primary concerns were about the affordability of rates and the impact on their cost of living.

Our decisions on the rate peg methodology can help drive improvements in councils' performance. However, they cannot address all issues raised by stakeholders. In this chapter, we identify and recommend other mechanisms that can be more effective at improving councils' financial sustainability and providing better outcomes for ratepayers. We consider our recommendation will complement other reviews and recommendations being considered by the NSW Government.

9.1 Our recommendation to review councils' financial model and key findings to improve equity, efficiency, and trust in the sector

This review required us to have regard to the differing needs and circumstances of councils across NSW and the NSW Government's commitment to ensure that councils cannot increase their rates by more than the estimated change in their base costs. However, throughout our review stakeholders identified many issues with the broader financial model for councils which are outside the scope of the Terms of Reference.

Although our decisions on the rate peg methodology will address some of the concerns stakeholders have, the rate peg methodology is a part of the broader regulatory framework which may require legislative change to address all stakeholder concerns. We recommend the NSW Government commission an independent review of the financial model of councils (see section 9.2 for further details). We consider this independent review could provide greater transparency of councils' financial sustainability. In addition, the review could identify options to improve councils' financial sustainability, accountability and performance as well as options to improve ratepayer equity and affordability, and community trust in the sector.

Our recommendation is:

1. 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.

Throughout this review, stakeholders have highlighted issues that have informed our recommendation for a review of the financial model for councils (see 9.2 for more details). We have identified several different measures which we consider may have merit to be further investigated in a future review (see section 9.3 for more details). These measures may offer avenues to address current issues in the financial model for councils in NSW and improve stakeholder outcomes.

9.2 The need to review the financial model for councils

In May 2023, the NSW Auditor-General reported to Parliament on a performance audit for the regulation and monitoring of local government. The report makes findings and recommendations for the NSW Government to consider which may help improve overall transparency on council performance and compliance in the local government sector.[277]

We consider the rate peg can help drive improvements in councils' performance. That is, the rate peg creates incentives for councils to improve efficiency and productivity by constraining increases in councils' rates income. However, throughout this review, we heard from stakeholders that councils' performance to meet the needs of its ratepayers and community, and meet its obligations are driven by a wide range of factors. In Chapter 2, we discussed how rate peg forms part of a broader legislative and policy framework under which councils operate. Improving councils' performance cannot be achieved solely by changing the rate peg methodology.

In the Draft Report, we provided our draft recommendation for an independent review of councils' financial model, including matters for further consideration.[278] We considered the benefits of this review would help improve outcomes for the citizens of NSW and enhance the local government rating system, the local government revenue framework, and the relationships between councils and ratepayers.

Overall, most stakeholders supported the draft recommendation.[279] Themes from submissions to our Draft Report included:

- **Transparent governance and better accountability:** Many submissions supported the independent review of the financial model of councils.[280] Some stakeholder submissions noted that the current framework is inconsistent with democratic accountability and principles.[281] A stakeholder suggested the review should be undertaken in good faith, with the sector having the opportunity to inform the scope of the review.[282] Another stakeholder suggested the review could include assessment of risk management by councils.[283]

  Some councils opposed introducing additional constraints outside the rate peg, and advocated for greater autonomy in determining revenue models and pricing structures.[284]

- **Streamline frameworks and processes:** Some submissions identified the need to assess the existing regulatory framework for councils, including removal of the rate peg and the roles of state agencies and regulators such as IPART.[285] A stakeholder suggested considering the frameworks in other jurisdictions (e.g. rate cap approach in Victoria), with a view of achieving coherent frameworks in Australia.[286] In addition, other stakeholders suggested a review of the current special variation process to streamline the process for external costs (see Chapter 5).

- **Better financial sustainability for councils**: Stakeholders emphasised the importance of councils achieving long-term financial sustainability.[287] A council suggested that the financial model review should analyse the different services provided by councils and review the most appropriate funding model for these services.[288]

  Several councils agreed in one of the findings of the Draft Report that a mechanism should be developed to establish an appropriate revenue base for those councils who have insufficient rates base.[289] In addition, other councils agreed that a review of statutory fees and charges to ensure they reflect full costs of these services and avoid using rates income to cover the gap.[290] These matters are further discussed in sections 9.3.4 and 9.3.3 of this chapter.

- **Ensure rates affordability and equity of the rating system**: Many ratepayers want to ensure rates are affordable and distributed fairly.[291] A council suggested the need for a robust assessment of ratepayers and community's capacity to pay.[292] A ratepayer was concerned about the effect of rate increases on financially vulnerable ratepayers and identified the need to properly consider their capacity to pay. [293] These matters are further discussed in sections 9.3.1 and 9.3.7.

  In addition, some stakeholders supported a review of rate rebates and exemptions to ensure fairness.[294] Some stakeholders also supported the use of Capital Improved Value when setting variable component of rates as well as considering other factors that may affect land values (e.g. development projects like 'Build to Rent'). [295] These are further discussed in section 9.3.

- **Better engagement with the community to build trust and understanding:** Councils and ratepayers indicated that community confidence is important and needs to be strengthened.[296] Some councils noted the value of working together with the Office of Local Government (OLG) and other agencies to improve community engagement.[297] A council suggested that clear communication of current constraints that councils face could improve trust with the community.[298] This is further discussed in section 9.3.

  In addition, some stakeholders were supportive of developing an appropriate performance measurement framework for the sector to improve transparency and understanding of council performance.[299]

Taking into account the stakeholder support and views, we maintain our recommendation for the NSW Government to commission an independent review of the financial model for councils in NSW. We continue to see the merits of this independent review to provide transparency of councils' financial sustainability. In addition, the review could identify options to improve councils' financial sustainability, accountability and performance as well as options to improve ratepayer equity and affordability, and community trust in the sector.

Section 9.3 provides further details about stakeholder views and the different measures we identified that could form part of this financial model review of councils.

9.3 Measures which may be of benefit to the local government framework

We identified a range of matters that the NSW Government, Office of Local Government, and councils could consider. These measures may improve the equity of the rating system and local government revenue framework, better support councils to serve their communities, and better support councils' financial sustainability in the longer term. These measures are:

- Better targeting eligibility criteria for rates exemptions. This would help to ensure ratepayers do not subsidise the costs of providing council services to properties where it is not justified on efficiency and equity grounds.
- Allowing councils to use the Capital Improved Value method to set the variable component of rates to ensure they can set equitable and efficient rates for all residential and business ratepayers, regardless of their property type.
- Ensuring that statutory charges reflect the efficient costs incurred by councils in providing statutory services, so councils do not need to use rates income to cover the costs of providing these services.
- Developing a mechanism to enable councils found to have insufficient base rates income to achieve financial sustainability.
- Supporting councils 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.
- Alternative funding mechanisms, such as targeted grants, should be considered to support councils to provide essential social services to disadvantaged or vulnerable communities, with special attention to the unique challenges faced by rural and regional areas.
- A comprehensive state-wide evaluation of existing pensioner concessions should be conducted, along with the exploration of additional initiatives to enhance support for vulnerable ratepayers. Clear communication and proactive promotion of available assistance options offered by councils are essential.
- Methods to increase the confidence ratepayers have in the rating system should be explored, which could involve introducing additional constraints (i.e. conditions) on the rate peg.

There are opportunities to strengthen incentives for councils to improve their performance. The merit of a rate peg exemption model for councils that demonstrate an agreed level of performance and consultation with ratepayers should be considered.

We note that some of these measures will require legislative change.

9.3.1 Better targeting eligibility criteria for rates exemptions

Many stakeholders support a review of rates exemptions with specific concerns raised about the proportion of land that is exempt from rates within some Local Government Areas (LGAs).[300] For example, Bellingen Shire Council submitted that more than 50% of land within its area is exempt.[301]

When a significant proportion of land is rating-exempt, the council's rate base may be too narrow to raise enough income to cover the costs of the services its community needs. This undermines its financial sustainability. In addition, existing ratepayers may have to pay higher rates to cover the cost of services to exempt properties or accept lower service levels. This reduces the affordability of their rates and may undermine their trust in the council.

Some councils also commented that the inequities associated with rating-exempt land are increased when development of this land causes population growth – for example, it is used to build retirement villages, social and community housing, or aged care facilities. This puts an increased burden on existing ratepayers to bear the cost of providing services to a growing population.[302]

Some stakeholders also pointed to examples of inequities in the way rates exemptions are currently applied. For instance, one council cited an aged care facility had been constructed in their LGA. The council indicated that even though a majority of the residents were self-funded, just one resident accommodated through social housing would make the entire facility rating exempt.[303]

Some stakeholders raised similar concerns in our 2021 review of whether the rate peg should account for population growth,[304] and our 2016 review of the local government rating system.[305]

Previous reviews found current exemptions result in inefficient and inequitable outcomes

In the 2016 review, we examined the exemptions provided in the *Local Government Act 1993* (LG Act).[306] These exemptions are broad ranging. They include general exemptions based largely on who owns the land – for example, land owned by the Crown, religious bodies, schools, and public benevolent institutions or public charities is exempt.[307]

We consider that the current exemptions result in inefficient and inequitable outcomes, for example, properties with comparable land uses being rated differently – for example, retirement villages owned by Public Benevolent Institutions (PBI) being exempt while privately owned villages pay rates.

We consider that better targeting exemptions will improve outcomes for councils and ratepayers

In light of the above, our 2016 review found rates exemptions should be carefully targeted to ensure ratepayers do not subsidise the costs of providing services to properties where this is not justified on efficiency and equity grounds, and properties with comparable uses of land should attract the same rating treatment.[308] In particular, we found:

- General exemptions should be based on land use, rather than land ownership, and land used for commercial or residential purposes should not be exempt, regardless of who owns it.
- Some explicit exemptions should be retained or amended, as they are consistent with the general exemptions. For example, these include those for land owned by a religious body used for religious purposes, land vested in the NSW Aboriginal Land Council, and land owned by a hospital and used for that purpose.
- Some explicit exemptions should be removed on the basis that the land is used for a commercial or residential purpose. For example, these include those for land owned or vested in a water authority, and land used for commercial logging.
- Exemptions for land used for both exempt and non-exempt purposes should cover the portion used for exempt purposes only.

We consider that the NSW Government review the recommendations of our 2016 review of the rating system on reforming the provisions for rates exemptions in the LG Act. However, we note that recent economic volatility and the dynamic nature of the local government sector will require this matter to be reinvestigated.

9.3.2 Allowing councils to use the Capital Improved Value method

In submissions to our Issues Paper, councils asked us to revisit one of the key issues we examined in our 2016 review of the local government rating system – namely whether councils should continue to be required to use the Unimproved Value (UV) method to set the variable component of rates or should use the Capital Improved Value (CIV) method.[309]

In submissions to our Draft Report, there was significant differences in stakeholders' sentiments regarding CIV. Some stakeholders support CIV, considering it a more equitable approach,[310] while others seek further analysis or oppose its use entirely.[311] Stakeholders raised concerns regarding increased costs, administrative burdens, data challenges, reduced efficiency from discouraging capital improvement, and that using the CIV method for framing land would penalise those that manage land well.[312]

Stakeholders who attended our consultation workshops expressed similar views. Some industry stakeholders said that CIV would be a more appropriate calculation of property values and would more accurately capture growth within a council's area.[313] Some considered the population factor in the rate peg methodology would be more effective if property values were based on CIV rather than UV.[314] Some ratepayers said that CIV would be a more equitable method of calculating rates. They argued that rates are a regressive form of taxation that can unfairly impact low-income households.[315]

Previous reviews found metropolitan councils should use CIV to set rates

In our 2016 review of the local government rating system, we found that the CIV method is a better basis for setting rates in metropolitan areas because it:

- Performs better against the tax principles of efficiency, equity, and simplicity. Rates calculated using CIV better reflect the benefits the ratepayer receives from council services, and the costs of supplying council services, and is more equitable and better understood by ratepayers.
- Addresses limitations of the current system. Mandatory use of the UV method means councils cannot set equitable, efficient rates for those who own apartments and units. This makes it difficult for them to raise an appropriate level of rates income from these residential and business ratepayers. This is an increasing problem as areas become more built up over time.[316]

We also found that CIV is consistent with best practice in other jurisdictions. There is a trend away from UV towards CIV to set rates, both in Australia and internationally.[317]

In non-metropolitan areas, we found that the benefits of CIV are lower, particularly in rural and remote areas with a low level of capital development.[318]

We consider that enabling the use of CIV could improve outcomes for councils and ratepayers

Given these findings, our 2016 review concluded that the CIV method should be mandated as the basis for setting rates in metropolitan local government areas. However, non-metropolitan councils should have a choice between CIV and UV, as this would allow them to choose the valuation method that best suits the needs of their local communities.[319]

We maintain this view and consider that these changes to the rating system would improve the financial sustainability of metropolitan councils' rates bases. They would also help to share the distribution of rates more equitably across ratepayers, supporting the affordability of rates.

We consider that the NSW Government review the recommendations from our 2016 review of the local government rating system on the use of the CIV method to levy local council rates. However, we note that recent economic volatility and the dynamic nature of the local government sector will require this matter to be reinvestigated.

9.3.3 Ensuring statutory charges reflect the full costs of service provision

The NSW Government regulates charges for certain statutory services provided by councils. During our review, councils told us that some of these charges have not been adequately indexed over time. This means councils are unable to recover the full cost of providing the services.[320] When this occurs, councils may need to use rates income to cover the gap. As a result, ratepayers may be cross-subsidising statutory service users, placing undue upward pressure on rates levels.

For example:

- **Stormwater Management Service Charge.** Councils can levy this charge to cover the costs of providing new/additional stormwater management services.[321] It is currently capped at $25 per rateable property.[322] One stakeholder said that the charge has not been reviewed for over 20 years and does not cover the cost of the services.[323] Tamworth Council also said the charge has not changed over time, and that the resulting unrecovered costs should be included as an adjustment to the rate peg.[324]
- **Development Approval fees**. Councils can levy fees to cover the cost of assessing Development Applications (DAs). Some councils stated that the current level of these fees does not cover their costs of assessment.[325] Tweed Shire Council submitted it is not fair for existing residents to subsidise the costs of DA assessments because the charge has not been indexed over time.[326]
- **Development contributions caps**. Councils can levy developers' contributions towards the cost of providing local infrastructure such as new roads, stormwater management and open space. However, councils cannot levy developers for the cost of providing community facilities such as swimming pools. Tweed Shire Council submitted that these caps mean development contributions provide insufficient income and place resourcing constraints and forward strategic planning of asset constraints on councils. It also said it is not equitable for existing ratepayers to fund infrastructure provision (through an increase in their rates) for new developments.[327]

In submissions to our Draft Report, some stakeholders proposed conducting audits to accurately determine the true cost of services and suggested increasing fees accordingly.[328] The need to avoid subsidising by general ratepayers was emphasised.[329] Criticisms were raised against the rate peg, stating that it shifts costs from existing ratepayers to new ones and forces councils to seek alternative revenue sources, often leading to fees on new developments.

We consider that statutory charges for services provided by councils should be at fully cost reflective and efficient levels to enhance financial sustainability and improve equity and affordability for ratepayers. They should be appropriately indexed and periodically reviewed to ensure they remain at cost reflective levels.

We consider that the NSW Government review the amounts councils can charge for statutory services to ensure these amounts reflect the full cost of providing these services.

9.3.4 Enable councils to address significant financial sustainability issues

Over the course of our review, many councils told us they are struggling to maintain their current level of service while remaining financially sustainable.[330] They mainly attributed this to:

- the rate peg not fully reflecting the changes in inflation and costs of providing council services
- changes in the amount of income they receive through other funding sources such as grants, and user fees and charges
- historically unsustainable levels of rates income that they feel unable to address through the current special variation process.

There was general support amongst stakeholders in submissions to the Draft Report for an independent review of the financial model for councils, acknowledging that the current model may not adequately address the financial challenges they face.[331] There was also support from some stakeholders that the review should aim to identify councils with insufficient rate bases and find a means to establish an appropriate revenue base to achieve financial sustainability.[332]

Sustainability is more than councils' financial position; it is about how councils operate, the environment they operate in and the needs of their community. A review could evaluate various aspects of sustainability such as:

- the performance of councils in managing their finances
- the performance of councils in managing assets and service delivery program
- the impact of the external environment on councils and their capacity to respond effectively
- councils' understanding and management of risks and embedding of effective governance practices.

Our analysis confirms that some councils are facing financial sustainability challenges. Appendix D shows that the number of councils reporting operating deficits increased from 2016-17 to 2020-21 and more than half of all councils have infrastructure backlog ratios that do not meet the OLG's benchmark of less than 2%. Councils also need to consult with their communities and demonstrate that they have implemented productivity improvements.

In addition, the per capita value of Financial Assistance Grants to NSW councils has declined in real terms (although the experience of individual councils is likely to be more varied) (see Appendix D). This may mean that councils historically reliant on grant funding to cover their day-to-day expenses face increased financial sustainability issues.

Currently a lack of appropriate means to address financial sustainability issues

It is in the interest of ratepayers for councils to be financially sustainable. This ensures councils can continue to provide the service levels their communities need and want. However, we consider there is currently a lack of effective or appropriate means for councils to resolve significant or longstanding financial sustainability issues.

As Chapter 2 discussed, the rate peg is designed to allow councils to increase their rates income annually to keep pace with estimated changes in the costs of providing their current services and service levels. If their rates income is already below the level required to provide these services and service levels, or their income from other sources substantially declines, the rate peg will not help them to achieve financial sustainability.

The special variation process allows councils to apply to IPART for a step change in their rates revenue – that is, an increase higher than the rate peg – to improve their financial sustainability. Some councils have used this process for this reason. However, we heard through our consultations for this review that other councils can be reluctant to apply for a special variation, even when it is necessary. Councils said the existing special variation process is resource-intensive, can be contentious, and perceived by ratepayers as a sign of financial mismanagement and inefficiency.[333] We acknowledge these concerns held by some councils.

We consider that an effective mechanism for addressing significant or longstanding financial sustainability issues needs to be developed. During our consultations, several potential approaches were raised. For example:

- Some councils suggested that financial sustainability could be directly accounted for in the rate peg methodology. An adjustment factor could be calculated based on each council's financial need and included in the rate peg as a one-off. This would enable all councils across the state to reset their rates income at a sustainable level.[334] However, some financial sustainability issues might be best addressed through other revenue sources, rather than rates.
- IPART could establish a process to enable councils to reset their rates base through a one-off increase in rates income, to support councils' financial sustainability and enable delivery of ongoing services. This could be a simplified version of the existing special variation process, or separate, tailored process.

Whatever approach is used, councils would need to be able to demonstrate they are currently collecting insufficient rates per capita to fund services and service levels their communities need and find acceptable. This would not be straightforward, as these services and services levels are likely to vary between types of councils. For example, regional and rural councils are generally responsible for managing greater kilometres of roads and need to spend more on the maintenance of this asset category compared to metropolitan councils. Some councils are required to provide specific services, such as aged care facilities, in the absence of alternative providers in their LGAs.[335]

9.3.5 Improve how councils communicate with ratepayers about rates

Stakeholder submissions highlighted the importance of robust communication between local government and the community, advocating for enhanced community engagement and direct interaction with ratepayers to improve trust and drive progress.[336] We consider that fostering improved support for councils to better serve their communities could be a focal point for future reviews. This could include how councils undertake and implement their Integrated Planning and Reporting (IP&R).

As part of the IP&R framework, introduced in 2009, councils are required to develop a series of plans for the future, centred around the aspirations of their community. The plans should set out the goals and strategic actions required to fulfill them. It involves a reporting structure to communicate progress to council and the community.[337] While councils raised that the framework satisfies a high level of community engagement, we found through our ratepayer consultation that councils could improve their communication and trust with their communities.[338]

We heard from both councils and ratepayers in relation to council communication and the IP&R process. Councils indicated that:

- The IP&R process facilitates robust conversations with their communities around financial planning and uses for rates revenue.[339]

- Councils were disappointed at our Issues Paper question about whether the rate peg has protected ratepayers from "unnecessary" rate rises.[340] The Central NSW Joint Organisation cited that the question underplays the role of the IP&R process.[341] Councils believe that they are accountable to their communities through the IP&R process which ensures decisions are made with the community in its best interests.[342] These councils suggested that the community holds councils accountable and that aspects of the IP&R framework such as the Community Strategic Plan (CSP), Delivery Program and Financial Data Return's (FDR's) allow community visibility.[343] Therefore, such processes were already in place to protect ratepayers.
- The Community Strategic Plan and the IP&R process are major cost items for councils.
- Some councils use multiple communication channels to inform the community about local government services and the rate peg.[344]

Results from the ratepayer survey suggested that councils could improve their engagement with their communities. We asked ratepayers how they rated the communication of their council around both how rates revenue is used, and how rates change. About 36% of community ratepayers in NSW thought that council communication around how rates revenue is used was *not good enough*, as opposed to 27% that said it was *good* or *very good*.[345] The results were marginally better for business ratepayers.[346]

When considering the communication of their respective council around changes in rates, 29% of community ratepayers[347] and 26% of business ratepayers said that communication was *not good enough*.[348] 31% of community respondents[349] and 35% of business respondents said that it was *good* or *very good*.[350]

The survey results suggested that some ratepayers lacked trust in their council to keep rate increases reasonable. 61% of community ratepayers[351] and 63% of business ratepayers[352] indicated that they were *not very comfortable* or *not at all comfortable* with trusting councils to keep rate increases reasonable. Ratepayers in large rural and metropolitan fringe council areas showed the least trust in their councils.

The ratepayer survey results suggested that there is an insufficient level of communication from councils and that trust from ratepayers is lacking, particularly in large rural councils. We consider that improving communication around rates is integral to understanding ratepayers' affordability and what kinds of services they are willing to pay for.

9.3.6 Enable councils to provide better services to disadvantaged or vulnerable groups in their community

We heard from some councils, particularly in rural and regional areas, about the need to provide a range of services beyond base level services, for example, medical services, youth services and other services essential to social outcomes in their area. It was acknowledged that in other communities, typically more populated communities, these services could also be provided by the private sector but in their communities, councils were often providers of last resort.[353]

Some of these councils argued that the rate peg should consider the unique challenges to help fund these services. While the rate peg hasn't been designed to cover these specifically, it is important that councils are supported to provide services that the community needs.

For councils with limited rate bases, capturing these additional services through the rate peg may not be appropriate if it adds greater burden to ratepayers particularly, where there are disadvantaged or vulnerable communities that have limited capacity to pay.

We consider that there may be other ways these community services could be funded sustainably through the overall revenue framework. For example, the government can better support councils to provide social services they are required to provide through targeted grants. Alternatively, if the community expresses a willingness to support these services through their rates then a special variation may be an appropriate mechanism, or adjustments to the rate peg (discussed above in Chapter 5).

9.3.7 Provide better assistance to vulnerable ratepayers

We recognise the importance of affordable rates, especially in the current high inflation environment and considered the role that other mechanisms can play to alleviate cost pressures for ratepayers.

Several submissions we received on our Draft Report raised concerns around affordability and the capacity to pay council rates. These submissions emphasised the need for IPART to focus on the cost-of-living crisis and address ratepayer concerns about affordability. They advocated for a rate peg as a constraint to encourage prudent financial restraint in Councils and argued that large rate increases should be avoided, especially during the current economic volatility.[354] Additionally, concerns were raised about the need to protect specific groups of vulnerable ratepayers, such as pensioners and farmers.[355]

Under the *Local Government Act 1993*, eligible pensioners can be provided with concessions on their rates. The entitlement is up to $250 on ordinary rates and charges for domestic waste management services.[356] However this amount is not subject to indexation. Councils made the following comments on pensioner rebates:

- Nambucca Valley Council considered that the rate peg should take into account the proportion of pensioner concessions that are not funded by the government, so councils with older demographics are not being penalised or handicapped financially for having pensioners reside in the area.[357] The United Services Union, Dubbo Regional Council, Bellingen Shire Council, Tamworth Regional Council, City of Ryde Council, Lane Cove Council, Gunnedah Shire Council, LGNSW and Sydney of City Council held similar views regarding the rate peg to capture these costs.[358]
- Campbelltown City Council stated that councils lost $61 million in 2015-16 through the NSW Government's failure to fully reimburse councils for mandatory pensioner rate rebates, unlike all other state and territory governments in Australia.[359]

Capturing increases in pensioner rebates in the rate peg would lead to higher rates for other ratepayers.

We consider that the NSW Government undertake a state-wide review on the current pensioner concessions and other programs that could be introduced or be better utilised and targeted to assist ratepayers experiencing vulnerability.

Councils may provide other ways to help ratepayers. These should be promoted and clearly communicated to ratepayers.

9.3.8 Provide individual ratepayers confidence in the rating system

In NSW, councils are responsible for setting individual rates for residential, business, farmland, and mining rating categories. As the rate peg applies to total rates income rather than to individual rates, individual rates may increase by more or less than the rate peg.

A stakeholder submission suggested that the rate peg, while designed to protect ratepayers collectively, may not safeguard individual ratepayers from unreasonable or unfair increases, leading to a weakening of their confidence in the system.[360] Some submissions advocated that additional constraints or conditions could be investigated to provide more assurance and reduce the likelihood of significant rate changes.[361] Another raised concerns about IPART's role and potential overreach, questioning its focus on rate-setting and its impact on local democracy.[362]

Some ratepayers raised the issue about the impacts of valuations on their rates and how these could lead to volatile changes. We heard from 3 submissions and in feedback at our technical workshops that IPART should consider the current calculation of property valuations that affect the total rates paid by individuals.[363] Property valuations are undertaken by the Valuer General of New South Wales. We heard that such valuations can be volatile and, in some cases, result in large rate increases (over 20%) for some households and reductions in others.[364] Changes in land valuations (other than supplementary valuations) do not increase income for councils. Rather, they redistribute rates between ratepayers. **Box 9.1** provides additional information on the effect of land valuations on rates.

Box 9.1 Effect of land valuation on rates

Routine changes to land valuations will result in some individual ratepayers paying either higher or lower rates. These changes do not increase the total amount of general income the council can recover from ratepayers (also known as the 'permissible general income' or PGI). A council's PGI for each year is limited by the rate peg or a percentage determined by IPART in a special variation.[a]

Individual rates depend on the combination of:

- the council's rating structure
- the relevant rating category
- the property's unimproved land value.

[a] Councils' PGI may be affected by supplementary valuations of rateable land under the *Valuation of Land Act 1916* and estimates provided under section 513 of the *Local Government Act 1993*. Such supplementary valuations and estimates are made when land value within a council area changes outside the general valuation cycle (such as where land has been subdivided or rezoned). This is distinct from the routine changes in land value by the Valuer-General.

Box 9.1 Effect of land valuation on rates

The variable component of rates, ad valorem, is determined by:

$$\textit{ad valorem component} = \textit{amount in the dollar} \times \textit{land value}$$

Generally, the council recalculates the 'amount in the dollar' rate every year to ensure the council does not collect rates above its PGI.

A routine increase in a ratepayer's land value by the Valuer-General does not mean that ratepayer's rates will automatically increase. The impact on rates depends on whether the land value has increased or decreased compared to others in the ratepayer's local government area.

Another issue raised was that different rating category groups may be cross-subsidising other groups. Ratepayer stakeholders raised concerns about the disproportionate sharing of rate peg increases. The Shopping Centre Australia submitted that the rate peg does not prevent discriminatory and disproportionate rate burden being applied to a small number of ratepayers. For example, it showed that for some shopping centre business ratepayers, premiums in rates could be up to 10 times the base business ad valorem rate. It suggested that councils' application of a discriminatory differential rating policy can adversely affect ratepayers individually.[365] Similar concerns were raised at our technical workshop for ratepayers.[366] Additionally, in the past, IPART has received complaints from a substantial number of ratepayers across various LGAs expressing dissatisfaction with rate increases that were attributed to the process of rebalancing or harmonizing rates.

Councils are responsible for distributing rate increases across various rating categories. Councillors, as elected representatives are accountable to the community, and are responsible for understanding and addressing local concerns and affordability issues. We have considered whether additional constraints (i.e. conditions) on the rate peg would help provide individual ratepayers more confidence in the rating system and reduce the likelihood of ratepayers experiencing significant changes in their rates. However, the LG Act does not currently permit additional constraints on the application of the rate peg. While there could be merit in exploring additional constraints to bolster ratepayer confidence in a future review, ultimately the democratic voting process holds councils accountable.

9.3.9 Strengthening incentives to improve performance

Some stakeholders advocated for increased autonomy to determine appropriate rate increases according to the needs and priorities of their communities,[367] such as by abolishing the rate peg.[368] It was suggested that a robust IP&R Framework makes councils accountable and that the democratic process would encourage councils to maintain rates in line with community expectations.[369] Some stakeholders also gave alternative ideas such as streamlining the special variation process and lowering the burden on councils or changing IPART's role to monitoring rates rather than setting a rate peg.[370]

Conversely, others expressed concerns about the potential risks of granting autonomy to councils, fearing it may lead to financial mismanagement and less accountability.[371] One submission suggested IPART strike a careful balance as a regulator, ensuring protection against excessive rate increases while fostering democratic accountability.[372]

Ratepayers were generally supportive of the rate peg as a measure to protect ratepayers from unreasonable rate increases. However, some considered that the rate peg is currently failing to adequately protect rate payers.[373] Specifically, it was suggested that large special variations may be circumventing the role of the rate peg and contributing to affordability challenges,[374] as well as helping councils avoid democratic accountability for excessive rate increases.[375]

We consider that incentives in the regulatory environment for well performing councils could be developed. There may be merit in considering whether to develop a mechanism where councils could be provided with the autonomy to set their own rate increases, subject to certain conditions such as a medium-term plan, a record of strong financial management, a clear plan for ongoing productivity improvements and community support.

We consider that the recommendations from the 2009 review of the revenue framework for local government provide a starting point for councils and the NSW Government to discuss increased autonomy with their local communities and other stakeholders.[376]

Appendix A

Rate peg methodology formula

A

Box A.1 The rate peg formula

The **previous** rate peg formula was:

$$Rate\ peg = \Delta LGCI - \ productivity\ factor + population\ factor + other\ adjustments$$

The **revised** rate peg formula is:

$$Rate\ peg = Base\ Cost\ Change\ (BCC) - productivity\ factor + population\ factor + Emergency\ Services\ Levy\ (ESL)\ factor + other\ adjustments$$

Calculating the BCC for 2024-25

We will publish a BCC for each of the metropolitan, regional and rural council groups.

The calculation is shown in the following formula:

$$BCC = w_E E + \ w_A A + \ w_o O$$

Where:

E represents the change in employee costs

A represents the change in asset costs

O represents the change in other operating costs

w_E represents the weighting of employee costs

w_A represents the weighting of asset costs

w_O represents the weighting of other operating costs

and

$$w_E + w_A + w_O = 1$$

Our chosen approach is to calculate the change in employee costs using wage increases prescribed by the Local Government (State) Award for the year the rate peg applies, adjusted to reflect any change in the superannuation guarantee rate. When the Award increase is not available, we will use the forecast Wage Price Index (WPI) published by the Reserve Bank of Australia (RBA) in its most recent Statement on Monetary Policy (averaging the year–on–year change for the June and December quarters for the year the rate peg applies), adjusted to reflect any change in the superannuation guarantee rate.

The calculation for 2024-25 is shown in the following formula:

$$Change\ in\ employee\ costs = Award_{2024-25} + change\ in\ superannuation\ guarantee$$

Box A.1 The rate peg formula

The change in asset costs for each of the metropolitan, regional and rural council groups will be calculated:

- using the Consumer Price Index (CPI) forecasts from the RBA's most recent Statement on Monetary Policy (averaging the year–on–year change for the June and December quarters for the year the rate peg applies), then
- adjusted to reflect the average difference between change in actual PPI (road and bridge construction) and the change in the CPI (Australia) over the most recent 5-year period for which data are available, as published by the Australian Bureau of Statistics (ABS).

The calculation for 2024-25 is shown in the following formula:

$$Change\ in\ asset\ costs = \left(\frac{\Delta CPI_{Dec\ 2024} + \Delta CPI_{Jun\ 2025}}{2}\right) + \left(\frac{\sum_{i=0}^{5}(\Delta PPI_{t-i} - \Delta CPI_{t-i})}{5}\right)$$

Where:

Δ = the change in

The change in other operating costs will be calculated using the CPI forecasts from the most recent Statement on Monetary Policy (averaging the year–on–year change for the June and December quarters for the year the rate peg applies) published by the RBA.

The calculation for 2024-25 is shown in the following formula:

$$Change\ in\ other\ operating\ costs = \frac{\Delta CPI_{Dec\ 2024} + \Delta CPI_{Jun\ 2025}}{2}$$

The weightings of employee, asset, and other operating costs for each of the metropolitan, regional, and rural council groups will be calculated using information reported in councils' Financial Data Returns from the most recently reported 3-year period.

As an example, the weighting of employee costs would be calculated using the following formula:

$$w_E = \frac{\sum_{2019-20}^{2021-22}(\ employee\ costs\ )}{\sum_{2019-20}^{2021-22}(\ total\ operating\ costs\ )}$$

We will use a similar formula to calculate the weightings of asset and other operating costs. For asset costs, we use depreciation to calculate the weights.

Calculating the population factor for 2024-25

We will maintain the existing formula for the population factor but change how the change in residential population is calculated in the formula. The population factor is equal to the maximum of the change in residential population less the supplementary valuations percentage or zero.

The calculation is shown in the following formula:

$$Population\ factor =$$

$$\max(0, change\ in\ population - supplementary\ valuations\ percentage)$$

The change in population for each council will be calculated using Estimated Residential Population (ERP) data and prison populations (PP) data for 2021 and 2022 published by the Australian Bureau of Statistics (ABS). This is the most up to date ABS population data for the 2024-25 rate peg.

The calculation for 2024-25 is shown in the following formula:

$$Change\ in\ population = max\left(0, \frac{(ERP_{2022} - PP_{2022})}{(ERP_{2021} - PP_{2021})} - 1\right)$$

Where:

ERP represents estimated residential populations published by the ABS

PP represents prison population published by the ABS

Calculating the ESL factor for 2024-25

We will remove the ESL component measured in our previous LGCI and include a separate ESL factor for each council. We will calculate this using the ESL contributions paid by each council for 2022-23 and 2023-24, based on data provided by the NSW Government on each council's individual ESL contribution and information provided by councils.

We will calculate the ESL factor that reflects each individual council's ESL contribution. For councils that are part of a rural fire district and engage in ESL contribution cost sharing arrangements, we will calculate each council's ESL contribution based on the cost sharing information provided to us by councils.

The ESL adjustment is calculated in such a way as to ensure that the Total Permissible Income (TPI) includes councils' full ESL contributions (after cost sharing).

The ESL factor measures the impact on the rate peg from the change in the ESL contribution. We calculate the ESL factor by isolating the impact of the change in ESL

Box A.1 The rate peg formula

contributions on the TPI in a given year, for example the 2024-25 rate peg will use contributions from 2022-23 and 2023-24.

We do this by removing the 2022-23 ESL contributions from the TPI for 2023-24. We then increase this amount by the 2024-25 'rate peg' *excluding* the ESL factor. In this step, we have calculated what the TPI would be in 2024-25 without the ESL contribution. We then add the 2023-24 ESL contribution for the 2024-25 rate peg to give the TPI in 2024-25.

We determine the final 2024-25 rate peg *including* the ESL factor by dividing the total 2024-25 TPI by the total 2023-24 TPI (including the ESL contribution). The ESL factor is the difference between the final rate peg for 2024-25 and the rate peg excluding the ESL factor.

For each council, we will estimate the TPI for 2023-24 by obtaining its 2022-23 TPI from the council's Financial Data Returns submitted to OLG, then increasing that amount by the council's 2023-34 rate peg or special variation, as applicable. The estimated TPI will exclude supplementary valuations for the year, because these will be unknown at the time we set the rate peg. However, based on historical information our modelling suggests that excluding supplementary valuations is likely to have negligible impact on the ESL factor for the vast majority of councils each year, and between -0.1% and 0.1% for a small minority of councils.

Below we set out the steps in the formula to find the ESL factor in 2024-25:

$$Rx_{24-25} = BCC + population\ factor + productivity\ factor + \ other\ adjustments$$

$$ESL\ factor = \ R_{24-25} - Rx_{24-25}$$

The formula is:

$$ESL\ factor\ = \frac{ESL_{(t-1)} - (1 + Rx_t)ESL_{(t-2)}}{(1 + I_{(t-1)})TPI_{(t-2)}}$$

Where:
TPI = Total Permissible Income
ESL = ESL Levy Contribution
Rx = Rate peg excluding the ESL factor
I = The rate peg or special variations as applicable
t = The year for which the rate peg is set

If the change in the ESL contributions is the same as the Rate peg (excluding the ESL factor), then the ESL factor will be 0%.

Appendix B

Alternative options considered

B

This appendix presents more information on the alternative options we considered for measuring annual changes in councils' base costs as identified in Chapter3. We modelled a different way to measure the employee and asset cost components of the base cost change (BCC). We also modelled an option with a true-up for each of our adopted BCC components. One of the alternative methods we considered to calculate asset costs was per capita depreciation, which we discuss in section B.1 before discussing alternative models to our adopted BCC model.

In addition, we modelled alternatives to our BCC model, namely:

- Rolling average using both historical and forecast data (Option A)
- Single year historical data and forecast data combination (Option B)
- A 2-component BCC using forecast CPI for both asset and other costs (Option C)
- BCCs for 5 regional groups (Option D).

B.1 We considered using depreciation to measure asset costs

As indicated in Chapter3, the Local Government Cost Index (LGCI) and our adopted BCC measure the change in the prices councils face for a given 'basket' of goods and services and do not factor in changes in volumes. In submissions to our Issues Paper, a number of councils pointed out that the LGCI does not adequately account for the ongoing maintenance, renewal, and replacement of capital assets. They identified 2 issues:

- Many councils receive capital grants to construct assets. However, they are required to fund the maintenance, renewal, and replacement of these assets themselves.[377]
- Natural disasters and severe weather events are expected to increase in frequency and intensity due to climate change. These events accelerate wear-and-tear and lead to increasing asset renewal and replacement costs.[378]

Councils depreciate assets over their expected lives which in effect allows them to make provision for future capital expenditure to renew and replace the assets. We acknowledge that the LGCI and our adopted BCC do not account for higher rates of depreciation and asset maintenance costs due to grant-funded assets, accelerated depreciation or indeed any additional or improved assets not associated with population growth. Instead, they account for capital costs by assuming stable amounts of capital expenditure each year that increases in line with the relevant price index.

After considering councils' concerns, we explored the option of using depreciation costs in the BCC as a proxy of changes in asset costs. The purpose of this component would be to capture increases in costs caused by both inflation and the higher volumes that result from the grant-funded assets, accelerated depreciation, and additional or improved assets not associated with population growth. Unlike our adjusted Consumer Price Index (CPI) forecast (see Chapter 3) using deprecation to measure changes in asset costs would increase the volume of services that would be included in the base costs.

There are no independent, reliable forecasts of efficient council deprecation costs. Therefore, for this component of the BCC we would use lagged actual depreciation. We consider the best available objective measure would be the depreciation reported in councils' financial statements, which are signed off by the Audit Office, then provided to the Office of Local Government (OLG) in October each year in their financial data returns (FDRs).[a]

Changes in depreciation can be volatile from year to year. For example, using data from the FDRs we found that the average annual rate of change over the period 2016-17 to 2021-22 ranged from 1.4% to 8.5% for metropolitan councils and 4.0% to 8.0% for rural councils. To reduce volatility in the rate peg, we would use a 3-year rolling average of the annual change in depreciation.

We would also adjust depreciation costs for population growth by measuring the change in depreciation on a per capita basis because the population factor in the rate peg and supplementary valuations already provide income for additional infrastructure due to population growth. Further, for consistency with the population factor (which is limited to a minimum of 0%), we would impose a floor of 0% on population growth to avoid increases in depreciation per capita due to a declining population.

For each council grouping we would use the unweighted average change in depreciation, to avoid individual large councils dominating the measure.

Stakeholders raised concerns about using depreciation to measure asset costs

Some industry stakeholders expressed support for using depreciation to measure asset costs.[379] However, a number of other stakeholders raised concerns about this approach.[380] Some of the main concerns raised by industry stakeholders included:

- Depreciation is a "backward looking" measure.
- The quality of councils' asset management processes and documentation varies across the State.
- Depreciation is an accounting measure and the method for measuring depreciation could change over time (hence reflecting accounting practice rather than changes in costs).
- Some councils were concerned that a grouping for depreciation might not accurately reflect the differences between the councils within the group, in particular for councils with growing populations.
- Rural Fire Service and State Emergency Services assets are included in council's depreciation as assets, but councils are unable to conduct full audits of the equipment. Further, we understand they have limited control over the purchase, maintenance, or use of the assets.

Ratepayers also raised several concerns, including the possibility that using depreciation would create an incentive for councils to make capital expenditure decisions that are not the best value for money.[381] They were also concerned that councils may artificially change their depreciation rates.[382]

[a] We would use only the depreciation expense and exclude asset impairment costs, which are currently captured in the Depreciation & Amortisation cost item reported to OLG.

We carefully considered stakeholders' concerns and agree that measured changes in depreciation may reflect changes in asset management, accounting and reporting practices in addition to changes in actual costs. For example, based on data from the FDRs we found that around 46% of councils reported reductions in total depreciation in 2014-15 compared to 13% in 2019-20 and 24% in 2021-22. We also found a bigger increase in depreciation, on average, over the period 2017-18 to 2021-22 compared to the period between 2010-11 and 2017-18. We consider it unlikely that these changes capture only actual changes in asset costs. We believe they also reflect changes in asset management and accounting practices, following the Auditor General's 2017 and 2018 reports on local government, which raised a number of concerns and made recommendations around asset management and accounting practices.[383, 384]

We do not agree with the concern expressed by some ratepayers that using depreciation would create an incentive for councils to make poor capital expenditure decisions. We consider that using a 3-year rolling average for all councils in a regional group, combined with a 2-year or 3-year lag, would reduce the incentive for individual councils to make poor capital expenditure decisions or manipulate depreciation rates beyond efficient levels. In addition, depreciation and asset lives are to an extent governed by accounting principles and codes of practice which reduce the ability of councils to artificially increase depreciation costs.

As indicated in Chapter 3, on balance, we decided to not use depreciation to measure asset costs at this time. We may revisit our decision in the future if we are confident that changes in depreciation reflect changes in actual costs.

B.2 We modelled alternative options for measuring the components of the BCC

We considered alternative ways to measure the employee and asset cost components of our 3-component BCC for the 3 council groups. This section shows what the alternative BCCs would have been under each of these options for the period 2016-17 to 2023-24 (see **Table B.1**). For comparison, the table also shows the change in the LGCI excluding the Emergency Services Levy (LGCI (excl ESL)), our adopted BCC and the change in the CPI over the period. **Table B.2** shows what 4 of the BCCs would have been for NSW from 2011-12 to 2023-24. We did not have the data to model the remaining 2 options over the longer historical period.

For employee costs, we modelled a BCC using:

1. the Award increases for the year the rate peg applies, and the RBA's WPI forecasts for the other years (**Table B.1** and **Table B.2**, our adopted BCC)[b]
2. the RBA's forecast wage price index (WPI) for the year the rate peg applies (**Table B.1** and **Table B.2,** Option 1)[c]
3. the Fair Work Commission's minimum wage increases (**Table B.1**, Option 2).

[b] The BCC is based on annual wage increases prescribed by the Award for the year the rate peg applies for employee costs; the RBA's forecast change in the CPI, adjusted to reflect the average difference between changes in the PPI (Road and bridge construction, NSW) and changes in CPI (All groups, Sydney) over the most recent 5-year period for which data is available, for asset costs; and the RBA's forecast change in the CPI for other operating costs.

[c] The RBA has provided WPI forecasts since its 2019 Statement on Monetary policy, which provided the forecast for 2020-21. For the earlier years we used forecasts from NSW Treasury's Budget Statements.

We adjusted all 3 measures to include the expected 0.5% per year increase in the superannuation guarantee since 1 July 2021.[385] We found that the BCC using the RBA's forecast WPI instead of the Award increases would be very similar to our adopted BCC. The BCC using the Fair Work Commission's minimum wage increases would have been slightly higher, on average, than our adopted BCC.

For asset costs, in addition to our decision we considered using:

4. Changes in depreciation per capita as a proxy for changes in asset costs (lagged rolling average). This measure would reflect regional differences to a far greater extent than our draft BCC, but as previously indicated we are unsure to what extent this reflects data problems rather than real changes in asset costs (**Table B.1**, Option 3).
5. A lagged Producer Price Index (PPI) – specifically the PPI (Road and bridge construction) – but we note that this would introduce a considerable price lag in the BCC (**Table B.1** and **Table B.2,** Option 4).

We also modelled an option (Option 5) with a true-up for each of our adopted BCC components:

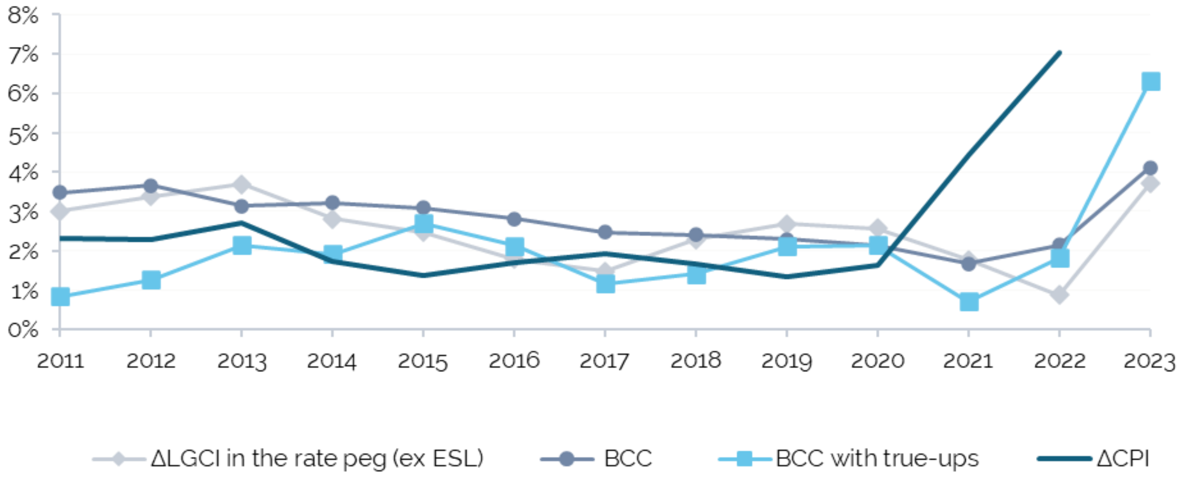
6. for employee costs, in the 2nd year of each Award period we applied a true-up from the RBA WPI forecast to the Award rate that applied in the 1st year
7. for asset costs, we applied a true-up to actual PPI (Road and bridge construction)
8. for other costs, we applied a true-up to actual CPI (Australia).

As shown in **Table B.1**, **Table B.2** and **Figure B.1** true-ups could introduce considerable volatility into the BCC. For example, in 2021-22 Option 5 would have been 0.7% compared to a change in the LGCI (ex ESL) of 1.6% and our adopted BCC of 1.7%. Over the period, outcomes under Option 5 for rural councils would have ranged between 0.7% and 6.5% (compared to 0.9% to 3.8% for the change in the LGCI (ex ESL) and 1.6% to 4.2% for our adopted BCC).

For reference, the table also shows the change in CPI. However as discussed in Chapter 3, we consider our adopted BCC is more reflective of changes in councils' costs than the change in CPI. From March 2022 to March 2023, the groups experiencing the highest inflation were housing, food, and recreation and culture,[386] which are not reflective of councils' cost. In addition, we expect that councils' costs would generally be less volatile than changes in CPI because employee costs, which account for around 40% of councils' total costs, tend to be less volatile than CPI. For example, between 2016-17 and 2021-22, the change in the actual (not forecast) NSW WPI (Private and Public, all industries) varied between 1.5% and 2.4% compared to changes in NSW CPI over the same period of between 1.0% to 3.9%.[d]

[d] Both measured as the average change over the year (i.e. average of four quarters divided by the average of four quarters in the previous year).

Figure B.1 Option 5 (BCC with true-ups) compared to our adopted BCC, change in the LGCI and change in the CPI



Source: IPART analysis.

Table B.1 BCCs using alternative measures compared to our adopted BCC, by council group, 2016-17 to 2023-24

	ΔLGCI (excl ESL)	ΔCPI[a]	BCC Award PPI CPI	Option 1 RBA WPI PPI CPI	Option 2 FWC[b] PPI CPI	Option 3 RBA WPI Depre-ciation CPI	Option 4 Award Lagged PPI CPI	Option 5 BCC with true-ups[c]
Metropolitan								
2016-17	1.8%	1.7%	2.8%	2.8%	2.7%	1.9%	2.5%	2.1%
2017-18	1.4%	1.9%	2.5%	2.5%	2.3%	1.5%	2.1%	1.2%
2018-19	2.3%	1.6%	2.4%	2.4%	2.7%	1.9%	2.2%	1.5%
2019-20	2.7%	1.3%	2.3%	2.4%	2.7%	2.1%	2.3%	2.1%
2020-21	2.6%	1.6%	2.1%	2.1%	2.4%	2.1%	2.4%	2.1%
2021-22	1.6%	4.4%	1.7%	1.4%	1.6%	1.9%	1.6%	0.7%
2022-23	0.9%	7.0%	2.1%	2.4%	2.4%	3.0%	2.0%	1.9%
2023-24	3.8%	na	4.1%	4.1%	4.5%	4.6%	4.3%	6.2%
Regional								
2016-17	1.8%	1.7%	2.8%	2.8%	2.7%	2.6%	2.5%	2.1%
2017-18	1.4%	1.9%	2.5%	2.5%	2.3%	1.6%	2.0%	1.1%
2018-19	2.3%	1.6%	2.4%	2.4%	2.7%	1.5%	2.1%	1.4%
2019-20	2.7%	1.3%	2.3%	2.4%	2.7%	1.8%	2.3%	2.1%
2020-21	2.6%	1.6%	2.1%	2.1%	2.4%	1.7%	2.5%	2.2%
2021-22	1.6%	4.4%	1.6%	1.4%	1.5%	1.7%	1.5%	0.7%
2022-23	0.9%	7.0%	2.1%	2.3%	2.3%	2.7%	1.9%	1.8%
2023-24	3.8%	na	4.1%	4.1%	4.5%	4.5%	4.3%	6.4%
Rural								
2016-17	1.8%	1.7%	2.8%	2.8%	2.7%	2.0%	2.4%	2.1%
2017-18	1.4%	1.9%	2.5%	2.5%	2.4%	1.4%	2.0%	1.1%
2018-19	2.3%	1.6%	2.4%	2.4%	2.7%	1.3%	2.0%	1.3%
2019-20	2.7%	1.3%	2.3%	2.4%	2.6%	1.4%	2.3%	2.1%
2020-21	2.6%	1.6%	2.1%	2.1%	2.3%	1.9%	2.6%	2.2%
2021-22	1.6%	4.4%	1.6%	1.4%	1.5%	2.5%	1.5%	0.7%
2022-23	0.9%	7.0%	2.1%	2.3%	2.3%	3.4%	1.9%	1.8%
2023-24	3.8%	na	4.2%	4.2%	4.5%	4.4%	4.4%	6.5%

a. Australian CPI, measured as the average of four quarters divided by the average of four quarters in the previous year.
b. Fair Work Commission minimum wage increases.
c. BCC with true-ups: for employee costs, true-up to the Award in the 2nd year of each Award period. For asset costs, true-up to actual PPI (Road and bridge construction). For other costs, true-up to actual CPI (Australia).
Source: IPART analysis.

Table B.2 BCCs using alternative measures compared to our adopted BCC for NSW, 2011-12 to 2023-24

	ΔLGCI (excl ESL)	ΔCPI	BCC Award PPI CPI	Option 1 RBA WPI PPI CPI	Option 4 Award Lagged PPI CPI	Option 5 BCC with true-ups
2011-12	3.1%	2.3%	3.5%	3.5%	3.2%	0.8%
2012-13	3.2%	2.3%	3.7%	3.9%	3.3%	1.3%
2013-14	3.7%	2.7%	3.1%	3.2%	3.6%	2.1%
2014-15	2.9%	1.7%	3.2%	3.2%	3.2%	1.9%
2015-16	2.5%	1.4%	3.1%	3.4%	2.9%	2.7%
2016-17	1.8%	1.7%	2.8%	2.8%	2.5%	2.1%
2017-18	1.4%	1.9%	2.5%	2.5%	2.1%	1.2%
2018-19	2.3%	1.6%	2.4%	2.4%	2.1%	1.4%
2019-20	2.7%	1.3%	2.3%	2.4%	2.3%	2.1%
2020-21	2.6%	1.6%	2.1%	2.1%	2.5%	2.1%
2021-22	1.6%	4.4%	1.7%	1.4%	1.6%	0.7%
2022-23	0.9%	7.0%	2.1%	2.3%	2.0%	1.8%
2023-24	3.8%	na	4.1%	4.1%	4.3%	6.3%

Source: IPART analysis.

B.3 We considered alternatives to our adopted BCC for the 3 regional groups

We also considered a number of alternative options to a BCC model. The alternative options are discussed below.

B.3.1 Rolling average using both historical and forecast data (Option A)

As indicated in Chapter 3, our BCC prioritises reducing the lag over volatility – in other words, it prioritises maintaining 'real time' cost reflectivity at the expense of stability and predictability. As an alternative to our new approach, we considered a compromise option that would reduce volatility and improve predictability – but at the risk of reducing 'real-time' cost reflectivity.

A commonly suggested mechanism for reducing volatility is to use a rolling average. A compromise solution suggested by some stakeholders[387] was to use a 3-year rolling average of a measure of changes in costs using historical data combined with a measure of changes in costs using forecast data, each with a 50% weighting.

The main benefit of using a measure of changes in costs using historical data rather than a measure of changes in costs using forecast data is that, over time, it would more accurately capture actual changes in costs due to inflation, albeit with a lag. In comparison, forecasts may not be accurate, especially in volatile economic conditions. The benefit of using a combination of historical and forecast data is that it would reduce both the lag and the risks associated with forecasts.

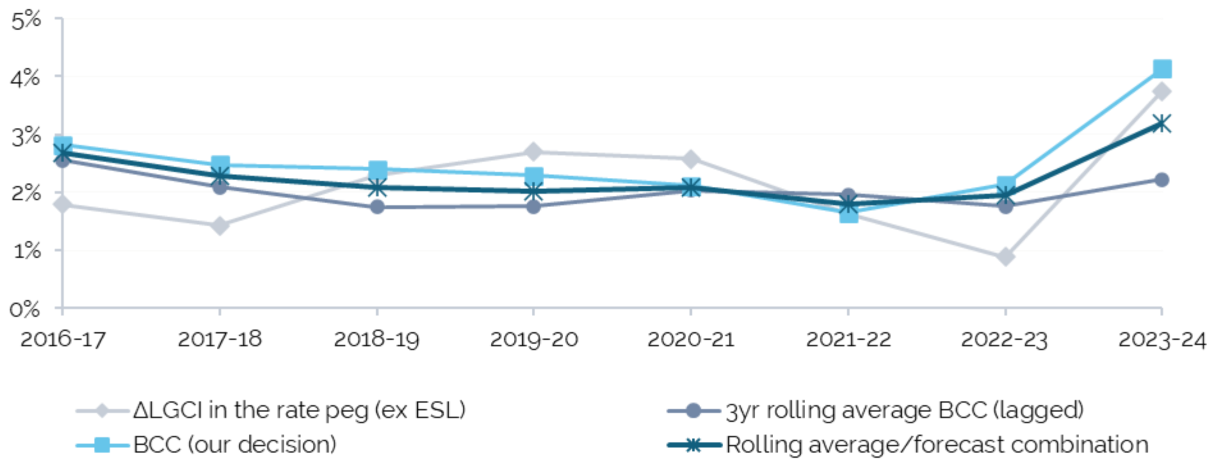
Based on the compromise solution described above, we considered the following approach: for each regional group we would calculate a 3-year rolling average of a BCC using historical data and a BCC using our new methodology as described in Chapter 3 (that uses forecast data). Under Option A, we would include the average of these 2 measures in the rate peg.

To calculate the BCC using historical data for each group we would:

- For employee costs, use the change in the NSW All industries WPI (Private and Public), obtained from the ABS. Unlike for the LGCI, we would use the NSW Public and Private sector WPI in recognition of the fact the councils compete for labour with all sectors of the economy, as discussed in Chapter 3.
- For asset costs, use the change in the NSW PPI (Road and bridge construction).
- For all other costs, for metropolitan councils use the change in the Sydney CPI (All groups). For regional and rural councils, we would use the change in the Australia CPI (All groups) to recognise that, in some respects, these councils may have more in common with some of the smaller capital cities (such as Darwin, Hobart and Perth) than with Sydney.

As shown below, over the period 2016-17 to 2023-24 the combined forecast and rolling average BCCs (Option A) would have been more stable than our adopted BCC but less reflective of annual costs (**Figure B.2**).

Figure B.2 Performance of the combined forecast and rolling average BCCs, 2016-17 to 2023-24 (NSW average)



Note: We excluded the ESL from the LGCI to allow a like-with-like comparison with the BCC (which excludes the ESL). The BCC is calculated based on the historical Award and does not take into account any potential impact on the Award of using it to set the rate peg.

Source: IPART analysis.

B.3.2 Single year historical and forecast data combination (Option B)

Another option we considered is a variation of Option A. To reduce the lag compared to that under Option A while still addressing the forecast risk, for each regional group we would use a measure of changes in costs using the most recent single year of historical data and our adopted BCC. The BCC–Option B included in the rate peg would be the average of these 2 measures.

Using historical data, modelling suggests that BCC–Option B would be more volatile than BCC–Option A, but less volatile than the change in the current LGCI (see **Figure B.2** and **Table B.3).**

B.3.3 A 2-component BCC using forecast CPI for both asset and other costs (Option C)

The third option we considered is a 2-component BCC that uses forecast CPI for both asset and other costs. The benefit of this approach compared to our adopted 3-component BCC is that it is simpler. The disadvantages compared to our adopted BCC are that a 2-component BCC:

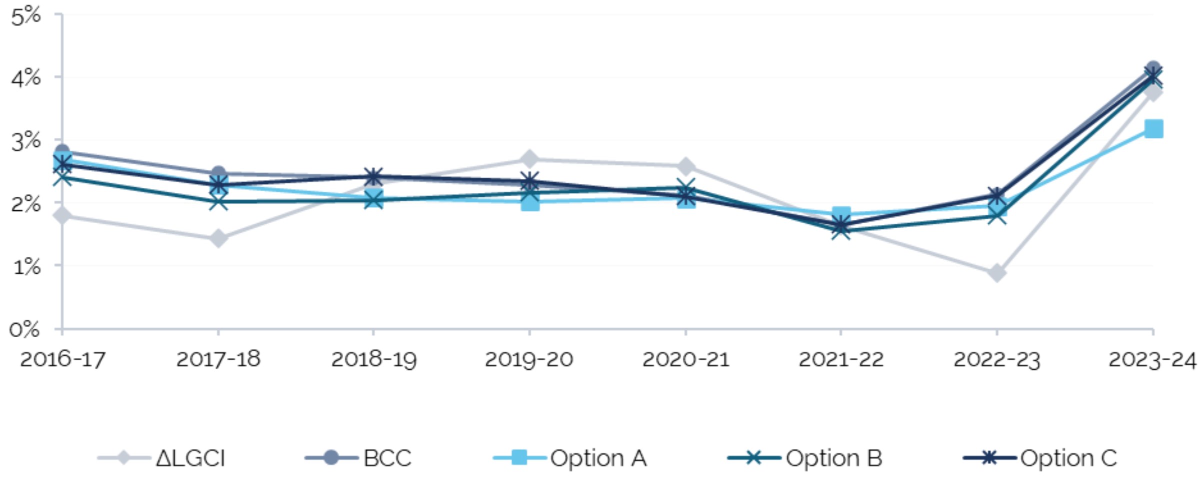
- would not capture any differences between asset costs and all other non-employee costs
- would be less able than our adopted BCC to reflect regional differences (see **Figure B.3** and **Table B.3**).

BCC–Option C would be lower than our adopted 3-component BCC when the PPI adjustment factor is greater than 0%, and *vice versa*. The PPI adjustment factor is the difference between NSW CPI and NSW PPI (Road and bridge construction) over the most recent 5 years for which data are available. Historical analysis suggests, that over the period 2016-17 to 2023-24, in general a 2-component BCC would have been the same as, or slightly lower than our 3-component BCC[e] (see **Figure B.3** and **Table B.3**). Over the period 2004-05 to 2021-22, the change in the NSW PPI (Road and bridge construction) was higher than the change in the NSW CPI for 13 of the 19 years (68% of the time).

Historical analysis also suggests that a 2-component BCC would likely be very similar, if not the same across all regional groups in most years (**Table B.3,** Option C). This outcome is similar to our adopted 3-component BCC that measures the change in asset costs as the forecast CPI plus the PPI adjustment factor.

[e] Our preferred BCC refers to our draft BCC model as described in Chapter 3, using the Award to calculate the change in employee costs.

Figure B.3 Indicative historical performance of the BCC and Options A to C (NSW average)



Note: We excluded the ESL from the LGCI to allow a like-with-like comparison with the BCC (which excludes the ESL). The BCC is calculated based on the historical Award and does not take into account any potential impact on the Award of using it to set the rate peg.

Source: IPART analysis.

Table B.3 Indicative historical performance of preferred BCC and Options A to C

	ΔLGCI (ex ESL)	BCC	Option A Combined forecast and historical rolling average BCC	Option B Combined forecast and single year historical BCC	Option C 2-component BCC using CPI and WPI forecasts
Metropolitan					
2016-17	1.8%	2.8%	2.7%	2.4%	2.6%
2017-18	1.4%	2.5%	2.3%	2.1%	2.3%
2018-19	2.3%	2.4%	2.1%	2.1%	2.4%
2019-20	2.7%	2.3%	2.1%	2.2%	2.4%
2020-21	2.6%	2.1%	2.1%	2.2%	2.1%
2021-22	1.6%	1.7%	1.8%	1.6%	1.7%
2022-23	0.9%	2.1%	1.9%	1.8%	2.1%
2023-24	3.8%	4.1%	3.1%	3.8%	4.0%
Regional					
2016-17	1.8%	2.8%	2.7%	2.4%	2.6%
2017-18	1.4%	2.5%	2.3%	2.0%	2.3%
2018-19	2.3%	2.4%	2.1%	2.0%	2.4%
2019-20	2.7%	2.3%	2.0%	2.2%	2.3%
2020-21	2.6%	2.1%	2.1%	2.2%	2.1%
2021-22	1.6%	1.6%	1.8%	1.6%	1.6%
2022-23	0.9%	2.1%	2.0%	1.8%	2.1%
2023-24	3.8%	4.1%	3.2%	4.0%	4.0%
Rural					
2016-17	1.8%	2.8%	2.7%	2.4%	2.6%
2017-18	1.4%	2.5%	2.3%	2.0%	2.3%
2018-19	2.3%	2.4%	2.0%	2.0%	2.4%
2019-20	2.7%	2.3%	2.0%	2.1%	2.3%
2020-21	2.6%	2.1%	2.1%	2.3%	2.1%
2021-22	1.6%	1.6%	1.8%	1.5%	1.6%
2022-23	0.9%	2.1%	2.0%	1.8%	2.1%
2023-24	3.8%	4.2%	3.2%	4.0%	4.0%

Note: We have excluded the ESL from the LGCI for comparability with the BCC. The BCC is calculated based on the historical Award and does not take into account any potential impact on the Award of using it to measure the change in employee costs in the BCC.

Source: IPART analysis.

B.3.4 BCCs for 5 regional groups (Option D)

A further option we considered was a separate 3-component BCC for each of the 5 regional groups (see **Table B.5).**

As explained in Chapter 3, our decision is to use only 3 groups mainly because there is very little difference in the share of expenditure on the 3 cost components captured by the BCC model between metropolitan and outer-metropolitan councils, and between rural and large rural councils (**Table B.4**). Consequently, there would be very little, if any difference in the base cost change under our adopted methodology. The indicative historical BCCs for the 5 regional groups are shown in **Table B.5**.

Table B.4 Example weights for 5 regional groups using data for 2019-20 to 2021-22

Council type	Number of councils	Employee costs	Asset costs	Other operating costs (incl. materials and contracts)
Metropolitan (OLG groups 1 to 3),	25	41%	18%	41%
Outer metropolitan (OLG groups 6 and 7),	9	41%	19%	40%
Regional (OLG groups 4 and 5)	37	37%	23%	40%
Large rural (OLG groups 10 and 11)	42	36%	26%	38%
Rural (OLG groups 8 and 9)	15	38%	25%	37%
All councils	128	39%	21%	40%

Source: IPART analysis.

Table B.5 Indicative historical 3-component BCC for 5 regional groups using PPI adjusted CPI forecasts to calculate the change in asset costs

	Metropolitan	**Metropolitan** fringe	**Regional** Town/City	Large rural	Rural
2016-17	2.8%	2.8%	2.8%	2.8%	2.8%
2017-18	2.5%	2.5%	2.5%	2.5%	2.5%
2018-19	2.4%	2.4%	2.4%	2.4%	2.4%
2019-20	2.3%	2.3%	2.3%	2.3%	2.3%
2020-21	2.1%	2.1%	2.1%	2.1%	2.1%
2021-22	1.7%	1.7%	1.6%	1.6%	1.7%
2022-23	2.1%	2.1%	2.1%	2.1%	2.1%
2023-24	4.1%	4.1%	4.1%	4.2%	4.2%
Cumulative index (2015-16 = 100)	121.8	121.8	121.7	121.8	121.9

Source: IPART analysis.

In addition, as discussed in Chapter 3 we considered using changes in per capita depreciation to calculate asset costs. If we were to use this approach, another reason we would calculate a BCC for only 3 regional groups is due to the relatively small numbers of councils in the outer metropolitan (9) and rural (15) subgroups. The small number in each subgroup means a large change in a single council could have substantial impact on the BCC for all councils in that subgroup. This could make the BCC for those subgroups more volatile and cumulatively less reflective of changes in their actual costs over time. The indicative historical BCCs for the 5 regional groups using per capita depreciation to calculate the change in asset costs are shown in **Table B.6.**

Table B.6 Indicative historical 3-component BCC for 5 regional groups using per capita depreciation to calculate the change in asset costs

	Metropolitan	Metropolitan fringe	Regional Town/City	Large rural	Rural
2016-17	2.1%	1.4%	2.7%	2.2%	1.8%
2017-18	1.7%	0.7%	1.6%	1.8%	0.8%
2018-19	1.8%	1.9%	1.5%	1.5%	1.0%
2019-20	2.1%	1.8%	1.7%	1.4%	1.4%
2020-21	2.1%	2.2%	1.7%	2.0%	1.8%
2021-22	2.2%	2.3%	1.9%	2.8%	2.7%
2022-23	2.7%	3.0%	2.5%	3.3%	3.0%
2023-24	4.6%	4.7%	4.5%	4.4%	4.4%
Cumulative index (2015-16 = 100)	121.1	119.5	119.6	121.1	117.9

Source: IPART analysis.

Appendix C

Ratepayer views and comparative rates analysis

C

The rate peg is part of the broader framework for regulating local government in NSW.

We heard throughout this review that ratepayers are concerned about the affordability of rates. We analysed several aspects of this affordability to help inform ratepayers about how their council's rates compare to those of other councils across NSW and in other states. This analysis will also help inform us about whether the rate peg is achieving its goal of protecting ratepayers from excessive increase in their rate bills.

We do not expect rates in each council or region to be the same, because there can be differences in the services and activities that each council provides and the cost of providing these services can vary for a number of different reasons.

There is no set requirement of the amount and quality of services that councils are required to provide. Some councils provide additional services to their community such as housing and healthcare. Other councils provide the same services but to a much larger extent, i.e. rural councils maintain more kilometres of roads per capita than metropolitan councils. Also, rural councils may be the provider of last resort for some important services. This analysis is only looking at one aspect of local government, the income received by councils from rates, it is not investigating the quality or scope of the services provided with this income.

This analysis is provided to help encourage discussions between councils and ratepayers about the services the community wants and the impact that service scope and quality has on rates. We consider that further analysis is required to better understand the impact of rates and the benefits that ratepayers receive from council services. This could be investigated further as part of an independent review into the financial model for councils.

C.1 What we heard from ratepayers

We commissioned ratepayer surveys to help understand the perspectives of community (residential) and business ratepayers on the rate peg methodology and other rates-related issues. We engaged an independent market research company – ORIMA Research (ORIMA) – to run the surveys. We worked with ORIMA to develop survey questions to help us to inform key aspects of the review.

We also engaged ORIMA to conduct a series of 90-minute focus groups to explore the ratepayer views gathered through the surveys in more depth. ORIMA conducted the focus groups online with participants from metropolitan, regional, and rural areas of the state. It held 5 focus groups, including:

- 3 with community (residential) ratepayers, who were grouped with other like-minded community ratepayers, according to their preferences around rates.[388]
- 2 with business ratepayers, including one with micro businesses (sole traders with up to a maximum of 4 other employees) and one with small and medium businesses (with 5-100 employees).[389]

The sections below outline the points ratepayers raised through the survey and focus groups. For more information on the survey and the focus groups, please see ORIMA's Rate Peg Survey Integrated Report and Rate Peg Focus Groups Research Report.

C.1.1 The affordability of rates is ratepayers' key concern

The findings of our surveys of community and business ratepayers show that:

- The affordability of rates is very important to ratepayers:
  - Over half of survey respondents ranked affordability as their first or second most important consideration with respect to rates.[390]
  - When asked about how rate changes are reviewed, almost two-thirds of the community and business ratepayer respondents preferred that IPART prioritise protecting ratepayers from unreasonable increases over ensuring councils have enough money to continue to deliver services.[391]
- Council services are also important to some ratepayers:
  - Our surveys and focus groups told us that some ratepayers value council services and would not necessarily like to pay less in rates if that meant services would be reduced.[392]
- Councils could improve their communication and trust with their ratepayers:
  - More than 6 in 10 community and business ratepayer respondents indicated that they were not very comfortable or not at all comfortable with trusting councils to keep rates reasonable.[393]
  - 4 in 5 ratepayer respondents believe that they should have some or a lot of influence in how rates are decided.[394]
- Ratepayers preferred that IPART maintain the status quo when setting rates:
  - 4 in 5 ratepayer respondents said their preference was for IPART to approve a small change in rates each year, with councils being required to actively consult about larger changes.[395]
- Ratepayers were concerned with the fairness of how rates are split across the different categories of ratepayer:
  - More than half of all ratepayer respondents said that they were not very or not at all comfortable with how fairly rates are split across ratepayer categories (i.e. residential, business, farmland, etc).[396]

C.1.2 Ratepayers want rates to be set in a way that is transparent, accountable, efficient and fair

ORIMA's focus groups discussed a number of ratepayer preferences for the way rates are set and rates income is used. The key concerns discussed in the focus groups included:

- Ratepayers want the framework for regulating rates and rate increases to be transparent, accountable, efficient and fair:[397]
  - **Transparent:** Ratepayers felt a lack of control over how councils use the income raised through rates. They asked for more information on how and why rate changes have been approved, and how rates income is used.
  - **Accountable:** Ratepayers lacked trust in the integrity and competence of councils to use rates revenue as intended.

  - **Effective and efficient:** Ratepayers felt that councils could make much better use of the rates that they collect and therefore reduce the need for further rate increases.
  - **Fair and equitable:** Ratepayers sensed that there is some inequity in what different ratepayers pay in rates and receive in services and showed concerns for vulnerable members of the community. They asked for equity between different councils and within councils, and for an effective way to protect people who cannot afford their full rates.
- Ratepayers widely held the view that councils do not use rates income effectively, and therefore ratepayers generally pay more than they need to.[398]

C.2 What our analysis found on rates levels

In response to what we heard from ratepayers, the impact on the affordability of rates was an important issue throughout our review of the rate peg methodology. To consider this issue we analysed a range of indicators of how rates compare, how they are changing and what kind of impacts this may be having on ratepayers.

In particular, we looked at how average residential rates vary across NSW, as well as how they compare to average rates in other states and territories, and how they have grown over the past several years. We also examined how average rates as a proportion of household spending vary, and how residential ratepayers' capacity to pay rates varies across NSW and other states and territories.

There are some important qualifications that should accompany the findings of this analysis. Firstly, the metric used for NSW and South Australia was average residential rates per property. This is the same metric used in Victoria for 2017-18 and 2018-19. However, the Victoria measurement changed to the average rate for all property types (i.e. residential, business, mining and farming) for 2019-20 and 2020-21.

It is also worth noting that what is included in general income can vary from state to state and even from council to council. Service programs can also vary between states, which impacts the scope and quality of services residents receive and the level of rates required to provide these services. Councils in other states may not separate general rates from other charges such as stormwater and domestic waste. South Australia provides data that excludes Community Wastewater Management Systems, so we can assume that sewerage is not included.[399] Also in March 2023, Yarra City Council announced in a media release that in 2023-24 it would remove waste services from general rates and that it was the last council in Victoria to introduce this change.[400]

We acknowledge that these issues may impact the accuracy of this analysis, however we still consider it useful to present these results for ratepayers and councils to highlight general changes over time. We consider that this analysis could be investigated further as part of a future review into the financial model of councils.

We found that:

- Residential rates in regional areas are higher than the NSW average while those in metropolitan and rural areas are lower.

- The rate peg has grown faster than the Consumer Price Index (CPI) since 2011[a], however wages i.e. the Wage Price Index (WPI) has grown faster than both. WPI increasing faster than the rate peg means that average household income has also grown faster than the rate peg.
- Average residential rates in regional areas have grown faster from 2011 to 2021 than in metropolitan and rural areas.
- In NSW rates as a proportion of household income has gone up since 2011.
- Average residential rates in NSW are lower than in South Australia and lower than the average rate per property in Victoria.[b]
- Average residential rates in NSW have grown faster than those in South Australia and average rates per property in Victoria, over the past several years.
- Average rates represent a smaller proportion of the median household income in NSW than they do in Victoria and South Australia.
- In NSW rates have grown more slowly than other key household expenses in the past year.
- Residential ratepayers' capacity to pay rates varies significantly across NSW and other states and territories.

The sections below discuss each of these findings. We recognise that it is not possible to definitively assess whether or not rates are affordable for all ratepayers in an area. We acknowledge that for some ratepayers their current rates are unaffordable and that this is compounded when cost of living pressures are high (such as currently). For these ratepayers the affordability of rates is an immediate and significant concern. The rate peg is not an appropriate mechanism to provide ratepayers support in such circumstances, they may consider seeking support from hardship programs that councils have in place to assist ratepayers.

The revised rate peg methodology we are developing through this review is part of a framework that is designed to give ratepayers confidence that increases in rates are reasonable. We have also recommended that the affordability of rates is further investigated as part of a wider review into the financial model of councils. Affordability will also remain a key area of focus when we review the rate peg methodology again in 5 years.

C.2.1 Residential rates in regional areas are higher than the NSW average

We compared the average residential rates in NSW as a whole to the average in different areas of the state (i.e. metropolitan, regional and rural[c]).[d] We used data for the year 2020-21, as this was the most recent data available. We found that the average residential rate in NSW was approximately $1,199 per year. In comparison, in:

- metropolitan areas it was slightly less the NSW average at $1,170 per year
- regional areas it was higher than the average at $1,331 per year

[a] IPART first set the rate peg in 2011-12 and therefore this makes 2011 an appropriate starting point for this analysis.
[b] Councils in other states may not separate general rates from other charges such as stormwater and domestic waste. The data we have used is 'rates per property' but this may include other charges.
[c] These three groupings are the same discussed in Chapter 3 – Improving how we measure changes in councils' base costs.
[d] We calculated the average by taking a weighted average of the total residential rates revenue raised by the councils and the total number of residential rateable properties.

- rural areas it was significantly lower than the average at $831 per year.

As mentioned above, councils provide different services to their communities, and this can impact the amount of rates charged to residents.

We also compared average residential rates in individual local government areas (LGAs) across NSW. We found these vary widely. For example, in 2020-21, ratepayers in:

- Hunter's Hill paid the highest average residential rate ($1,953), which was $754 higher than the NSW average, and $783 higher than the average for metropolitan LGAs.
- Brewarrina paid the lowest average residential rate ($158), which is $1,041 lower than the NSW average (or approximately 87%) and is $673 lower than the average for rural LGAs.

Highest

1. Hunter's Hill - $1,953
2. Wollondilly - $1,933
3. Blue Mountains - $1,869

VS

Lowest

128. Brewarrina - $158
127. Bogan - $303
126. Murrumbidgee - $318

Rates can vary across similar LGAs for a variety of reasons. One is that councils can source their funding through several avenues, and this can impact the average residential rate. For example, some councils may:

- have proportionally higher business rates (if they form part of an urban centre)
- also recover rates from farming and mining land
- keep their residential rates relatively lower because they raise higher proportions of their rating income from these other rating categories
- receive a significant amount of their income from grant funding which can also help keep the average residential rate proportionally lower.

We also acknowledge that there can be significant differences between the highest and lowest rates within the same LGA.

C.2.2 Average rates in NSW are lower than in Victoria and South Australia

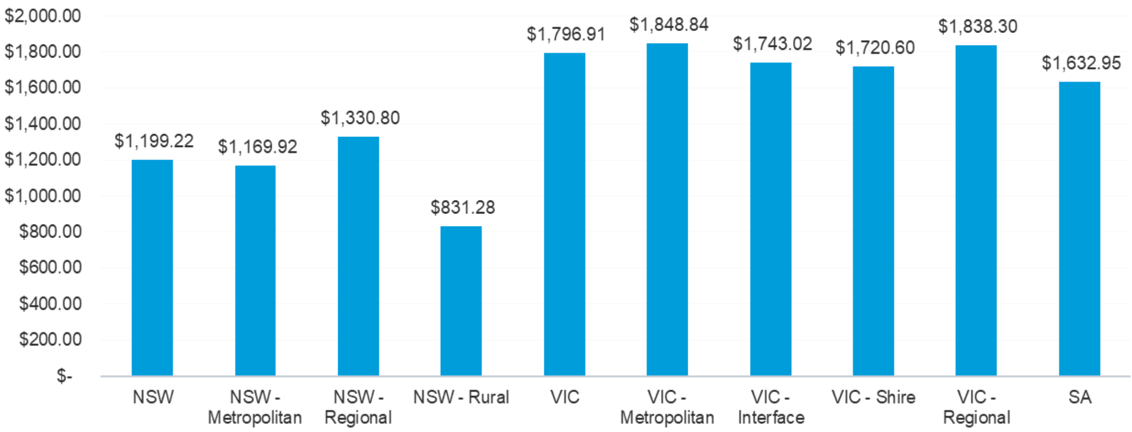
We compared average residential rates in NSW to the average rates in Victoria and South Australia.[e] We found that the NSW average residential rate is lower than both the Victorian and South Australian average rate.

Figure C.1 shows, in 2020-21, in:

- Victoria the average rate per property was $1797, which is approximately 50% higher than NSW.
- South Australia the average rate per residential property was $1633, which is approximately 36% higher than NSW.

Like NSW, Victorian councils are grouped into several council groupings – metropolitan, interface (which is a group of 10 councils that form a ring outside metropolitan Melbourne), regional and shire (which includes both large and small shires). We found that average rates for councils in each of these groups was also significantly higher than average residential rates in the equivalent NSW group (**Figure C.1**).

Figure C.1 Average rates in NSW, Victoria and South Australia (2020-21)



a. For NSW and South Australia this figure shows the average residential rate. For Victoria this show the average rate per property. The data for Victorian ratepayers is collected by Local Government Victoria that previously did report on average residential rates but changed their indicators in 2019 to report the average rate per property, as such this will include rates for other rating categories.

Source: Office of Local Government Time Series Data 2020-21, Local Government Victoria Performance Reporting, Local Government Grants Commission Database reports 2020-21.

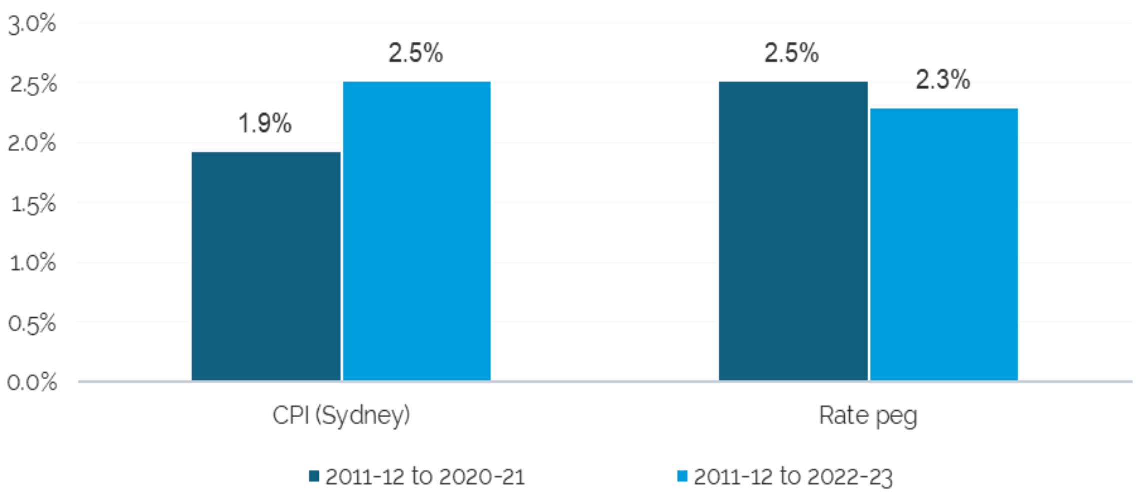
[e] The data for Victoria only provides for the average rate per property. While the data for South Australia does provide for the average residential rate per property. This difference should be noted as the average rate per property for Victoria will include rates for business, farming and mining rated properties while the data for NSW and South Australia is only residentially rated properties.

In Victoria, rate pegging was introduced in the 2016-17 financial year.[401] Before then, councils were able to set rates independently. The rate peg is set by the Victorian Minister for Local Government, but the Victorian regulator (the Essential Services Commission) plays a similar role to IPART in recommending a 'rate cap' and assessing applications for higher rate caps.[402] In South Australia, there is no rate pegging and councils can set their rates independently of the state government or a pricing regulator.[403]

C.2.3 Average rates have grown faster in NSW

The rate peg has been higher than the change in the CPI in Sydney in most of the years in since IPART began setting the rate peg (2010-11). However, during the period of high inflation since 2021-22 the rate peg has risen more slowly than CPI (see Box 3.1). Cumulatively, the rate peg rose faster than CPI until 2021-22, but by 2022-23 inflation had risen more rapidly than the rate peg (**Figure C.2**).

Figure C.2 Average annual change in CPI and the rate peg since 2011-12



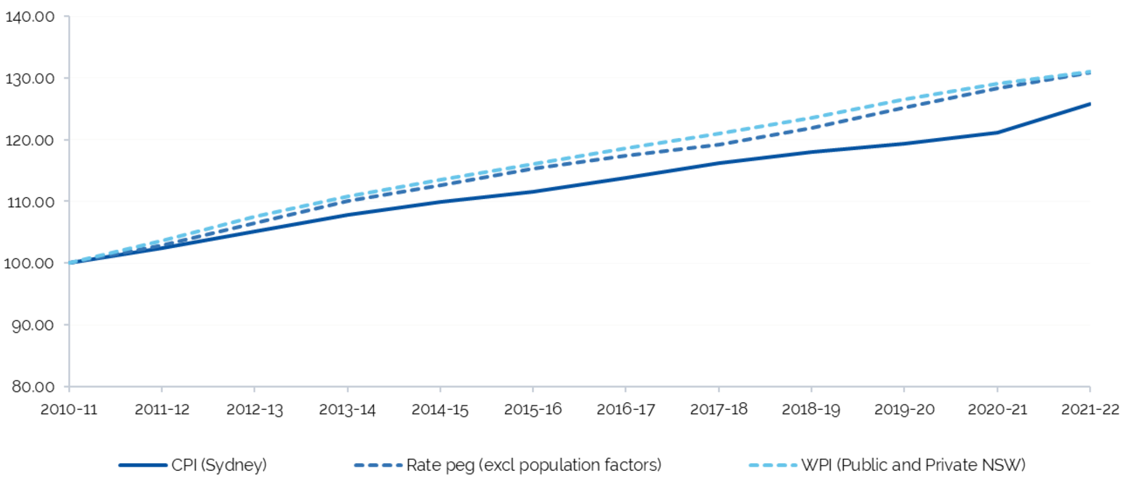
Source: ABS Consumer Price Index All groups Sydney.

Figure C.3 also shows that the WPI for public and private sectors in NSW grew more rapidly than both the rate peg and CPI until recently. This tells us that, while rates were increasing faster than the 'basket' of other cost of living items, wages were growing faster still until the recent spike in inflation. This means that, during this period, ratepayers received the benefit from wage increases that outpaced increases in rates and increases in the cost of living overall.

It is also worth noting that the single most significant driver of the rate peg is councils' labour costs. Indeed, one of the main reasons why the rate peg rose faster than CPI until recently is because the WPI rose faster than CPI. We discuss employee costs in more detail in Chapter 3.

It should be noted that CPI represents a weighted change in a basket of common household expenses. Rates are included in this basket. At any time, it is expected that some of these items are increasing faster than CPI and some are increasing slower than CPI. The rate peg is not designed to provide a cap on council income that matches the increase in the cost of living, but rather a cap that matches the change in council's costs.

Figure C.3 The rate peg, CPI (Sydney) and WPI (NSW) – (2010-11 to 2021-22)



a. We have excluded the population factor from the rate peg because the population factor is designed to compensate councils for increases in the volume of services they provide as populations grow. The rate peg excluding population factor is a cost index that measures the councils cost of providing services per capita, which provides a better comparison to CPI and WPI.

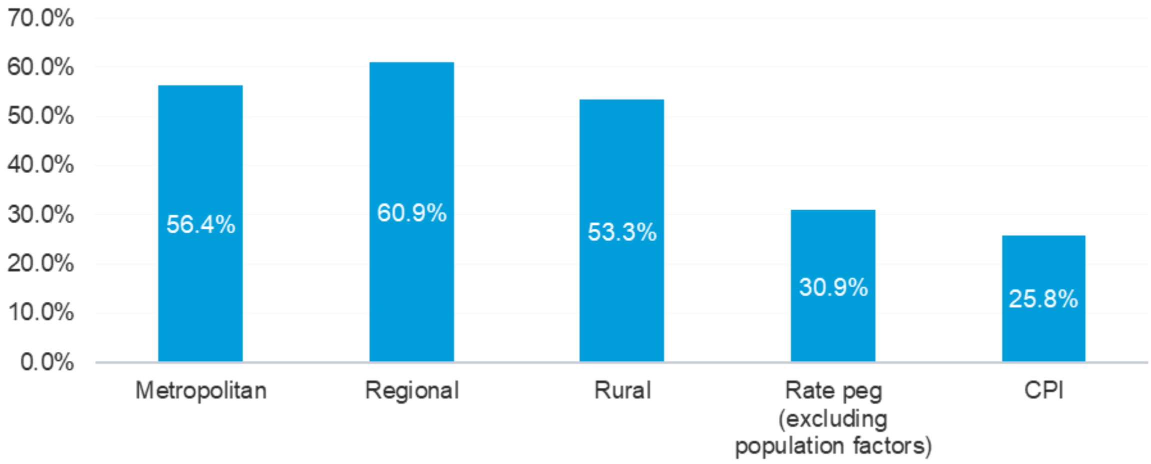
Source: IPART analysis, ABS Consumer Price Index All groups Sydney, ABS Wage Price Index NSW Public and Private All Industries.

Average residential rates in metropolitan, regional, and rural councils have risen faster than both CPI and the rate peg since 2010-2011 (**Figure C.4**). Average residential rates can increase by more than the rate peg mainly because rates can be increased by special variations.

A council can lodge an application to IPART for an increase in rates above the rate peg to fund a specific purpose or provide more or better services to their communities. Councils may also seek a special variation if they consider that rates need to increase by more than the rate peg to ensure financial sustainability, which is at risk for example because the initial rates base was inadequate or due to population growth prior to 2021-22 when we introduced a population factor into the rate peg. **Figure C.1** shows that rates are lower in NSW than in other jurisdictions, particularly in rural councils and this may be evidence of historically low rate bases.

Applying for a special variation requires consultation with the community.

Figure C.4 Increase in average residential rate compared to the rate peg and CPI (2011-2022)



Source: Office of Local Government Time Series Data 2021-22, ABS Consumer Price Index All groups Sydney, IPART analysis.

The median average residential rate in regional areas have grown faster than in metropolitan and rural areas both over a 10-year span (**Figure C.4**). The average residential rate in regional areas has grown 60.9% from 2011 to 2021, while metropolitan and rural areas have only grown 56.4% and 53.3% respectively.

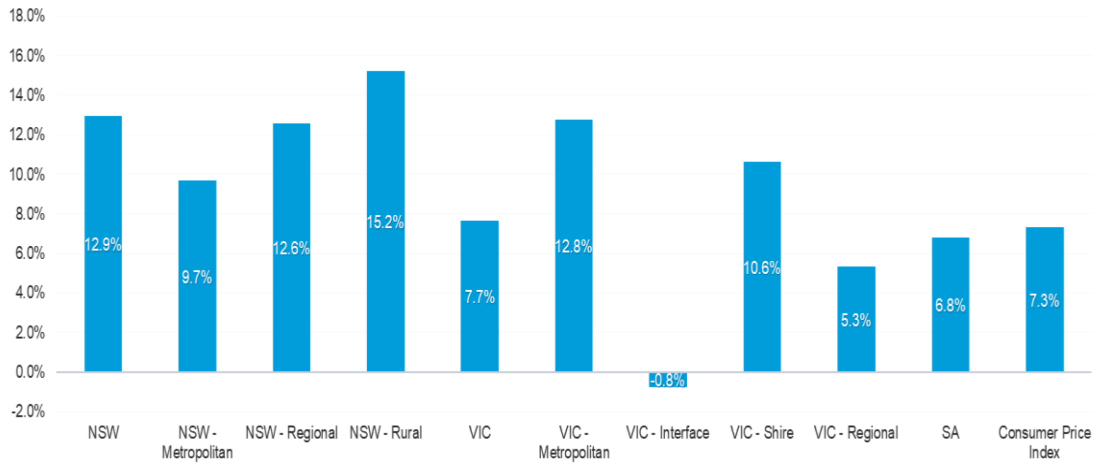
However, over a four-year span rural average rates in rural areas grew the fastest (**Figure C.5**). Over this shorter period, average residential rates in rural areas increased by 15%, compared to 12.6% in regional and 9.7%. in metropolitan areas. Across NSW, the median average residential rate increased by 12.9%.

To compare the changes in average residential rates in NSW, and South Australia, to the average rates in Victoria, we looked at the 4-year period 2017-18 to 2020-21.[f] As **Figure C.5** shows, over this period rates in NSW grew faster than in the other states. The median change in average rates in NSW was 12.9% compared to 7.7% and 6.8% in Victoria and South Australia respectively.

However, in dollar terms this difference was smaller because Victorian and South Australian councils increased from a higher starting average rate. From 2017-18 to 2020-21 the median average rate in NSW increased by $157, while in Victoria it was $123 and South Australia it was $120.

[f] The consolidated Victorian data is available from 2017-18 onwards. South Australian data is available over a longer time period. This analysis could potentially be conducted over a longer time period if needed.

Figure C.5 Median change in average rate from 2017-18 to 2020-21



a. The Victorian data measured the average residential rate until 2019 when Local Government Victoria changed the metric to measure the average residential rate. We have used these figures to measure the differences in Victorian rates. Also, for the analysis in Figure C.1 we used weighted averages to find the average residential rate for each jurisdiction and council groupings. This data for Victoria on rates revenue and rateable properties was only available for 2019-20 onwards. From 2017-18 they produced an average residential rate figure but not the numerator and denominator. To calculate these figures, we used an unweighted average by taking an average of the average residential rate in each council. This is less accurate but due to data constraints it was the only available method to demonstrate the trends in rates over time.

Source: Office of Local Government Time Series Data 2020-21, Local Government Victoria Performance Reporting, Local Government Grants Commission Database reports 2020-21.

C.2.4 Average rates are a smaller proportion of household spending in NSW

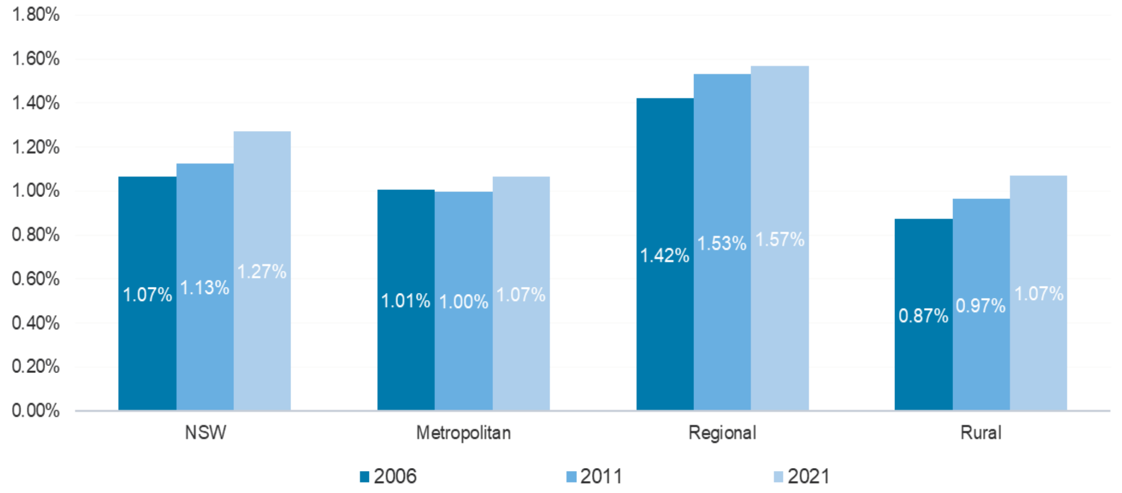
When considering the impact of rates on ratepayers, it is important to consider rates as a proportion of their income. To analyse this, we calculated the average residential rate as a proportion of median household income across NSW.

The proportion of household income spent on rates for NSW as a whole was slightly higher in 2020-21 than it had been over the previous 10 to 15 years. For example, in 2011 it was 1.13%, in 2006 it was 1.07% and in 2021 it was 1.27% (**Figure C.6**). However, these comparisons are less reliable the further we look back in time, due to council amalgamations.

This trend is true across all NSW council types with rates as a proportion of household income increasing slightly from 2011 to 2021.[g]

[g] 2016 data was unavailable for median household income per local government area.

Figure C.6 Average of median household income paid towards average residential rate (2001-2021)

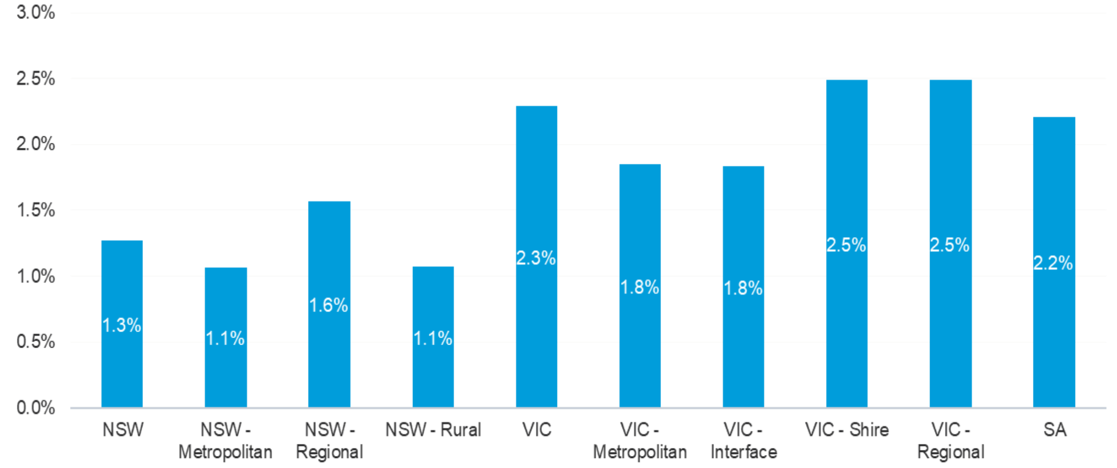


Source: Office of Local Government Time Series Data 2020-21, ABS Median total household income ($/weekly) 2006-2011, ABS Median total household income ($/weekly) 2021.

We found that in 2021, the average residential rate represented 1.27% of the median household income in NSW (**Figure C.6**). In regional areas, this proportion is higher (1.57%) and in metropolitan and rural areas it is lower (1.07%).

We also compared average rates as a proportion median household income across NSW to those in Victoria and South Australia. We found that in Victoria and South Australia, rates represented a higher proportion of median household incomes, at 2.3% and 2.2% respectively (**Figure C.7**).

Figure C.7 Average of median household income paid towards average rate ($2020-21)



Source: Office of Local Government Time Series Data 2020-21, Local Government Victoria Performance Reporting, Local Government Grants Commission Database reports 2020-21, ABS Median total household income ($/weekly) 2021.

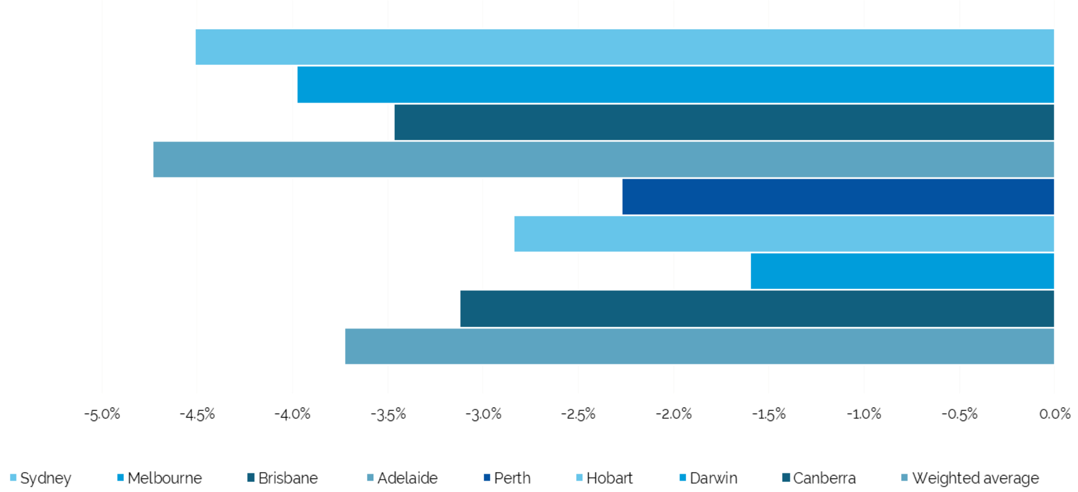
C.2.5 Rates are increasing slower than other key household expenses

The Australian Bureau of Statistics (ABS) weights the goods and services included in the CPI based on how much households spend on them as a proportion of their total expenditure.[404] We examined its weightings to identify how property rates and charges have changed as percentage of total household expenditure between 2020 and 2021.

As **Figure C.8** shows, we found that property rates and charges fell as a proportion of household spending in each Australian capital city over this period. In Sydney, they fell by 4.5%. This means households spent relatively more on other items than property rates and charges.

We also examined the weightings for other essential household items. We found that food increased by 2.9% as a proportion of household expenditure, while utilities (electricity, gas and water) increased by 2.9%. This indicates that rates increased at a slower rate than other key household expenses.

Figure C.8 Change in CPI weightings for property rates and charges between 2021 and 2022



Source: ABS Consumer Price Index Weighting Pattern 2022, ABS Consumer Price Index Weighting Pattern 2021.

C.2.6 Residential ratepayers' capacity to pay rates varies significantly across NSW

Another way to consider the impact of rates changes on ratepayers in general, and whether they are affordable, is to consider the socio-economic characteristics of their LGA. These characteristics provide a broad indication of the overall capacity of ratepayers to pay rates, though not necessarily the capacity for ratepayers to pay more than they already are.

We examined a range of characteristics that may be relevant when considering the affordability of rates in a particular LGA. These include the relative economic advantage and disadvantage, the median unemployment rate, and the proportion of the population on a pension.

Relative economic advantage and disadvantage

To analyse the relative economic advantage and disadvantage across NSW and other states and territories, we used SEIFA (the Socio-Economic Indexes for Areas), which is published by the ABS.[h] SEIFA summarises information about the economic and social conditions of people and households within an area, including measures of relative advantage and disadvantage.[405]

A low SEIFA score indicates an area has relatively greater disadvantage and lack of advantage in general. A high score indicates an area has a relative lack of disadvantage and greater advantage in general. The list of variables used to measure advantage and disadvantage is available here.

A lower SEIFA score indicates an LGA has greater disadvantage compared to other LGAs, so this is likely to indicate that ratepayers in this area will be more sensitive to changes in rates and have less capacity to afford them. Alternatively, an LGA with a higher SEIFA score has greater levels of advantage than other LGAs, which likely indicates ratepayers will be less sensitive to changes in rates. However, SEIFA scores need to be considered in the context of other information, including the current level of rates compared to other areas. For example, if an LGA with a higher SEIFA score has higher rates compared to other similar LGAs, its ratepayers' likely have less capacity to pay more in rates than ratepayers in a similar LGA with lower rates.

When we compared the SEIFA scores of LGAs across NSW with those in other states and territories, we found that NSW metropolitan LGAs have some of the highest SEIFA scores across Australia. 11 of the 20 highest scoring LGAs in Australia are in NSW metropolitan areas.[i] However, LGAS in regional and rural NSW are much more likely to have lower or middle ranking SEIFA scores.

Figure C.9 shows the proportions of LGAs across NSW and in other states and territories that fall into 10 scoring bands when all LGAs' SEIFA scores are ranked from lowest to highest.[j] It shows that in:

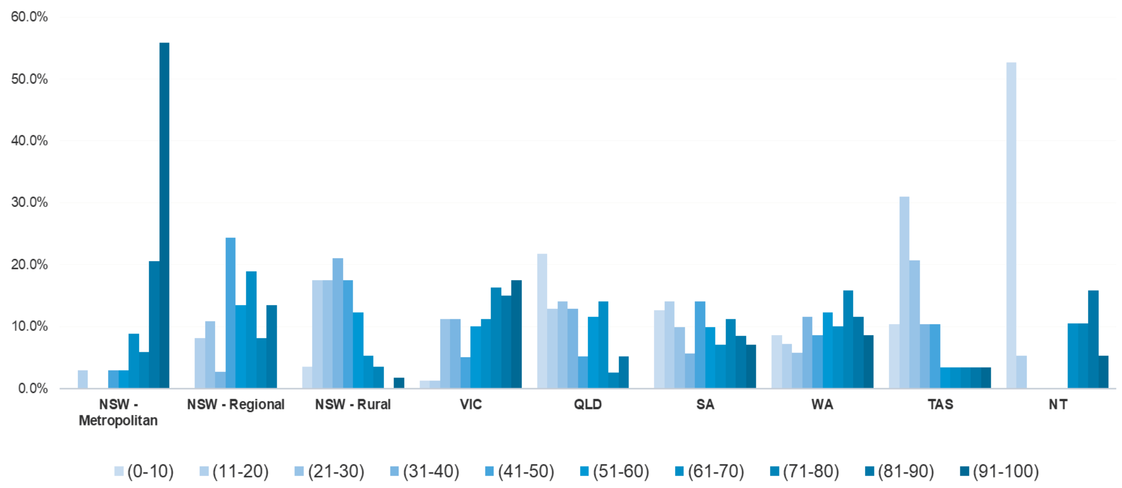
- NSW metropolitan areas, 77% (26 out of 34) of all LGAs are in the two highest scoring bands, and only 5.9% (2 out of 34) are in the lowest five scoring bands.
- NSW regional areas, 14% (5 out of 37) of all LGAs are in the two highest scoring bands, and 46% (17 out of 37) are in the five lowest scoring bands.
- NSW rural areas, just 1.8% (1 out of 57 - Yass Valley) is in the two highest scoring bands, while 77% (44 out of 57) are in the five lowest scoring bands.

h The SEIFA measurement we have used measures advantage and disadvantage, not purely disadvantage. The ABS suggests that looking at disadvantage would be a useful measurement in setting grant funding, because the measurement provides evidence of the communities with the most disadvantage. However, we consider it more appropriate to measure advantage and disadvantage when measuring rates income because councils have the flexibility to set different rates for different properties and property types within an LGA. A council with a high variability in socio-economic conditions can still leverage the higher capacity to pay of those ratepayers who can afford it. These ratepayers may not always be residential ratepayers and can include businesses, mining and farmland ratepayers.

i Of the remaining 9, 5 are in Western Australia, 3 are in Victoria and 1 is in the Northern Territory.

j Each council is given a SEIFA score and a percentile of where this score ranks in comparison to other councils. We have based each scoring band on a range of 10%. We have used percentile rather than scores because some states and territories have more councils than others. Using percentile for the scoring bands allows the proportion of councils from a certain state or territory to be more accurately reflected in the scoring bands.

Figure C.9 Proportion of LGAs in each scoring band when ranked by SEIFA scores



Source: ABS Socio-Economic Indexes for Areas (SEIFA) 2021, IPART analysis.

However, there is a wide range of SEIFA rankings within the metropolitan, regional and rural council groups. For example, the lowest scoring NSW metropolitan council, Fairfield, is ranked 485th out of a total of 547 LGAs in the country. Campbelltown and Cumberland councils are also ranked relatively low among metropolitan councils (278th and 239th respectively).

Figure 10 Proportion of councils ranking above the 80th percentile

Median rates of unemployment

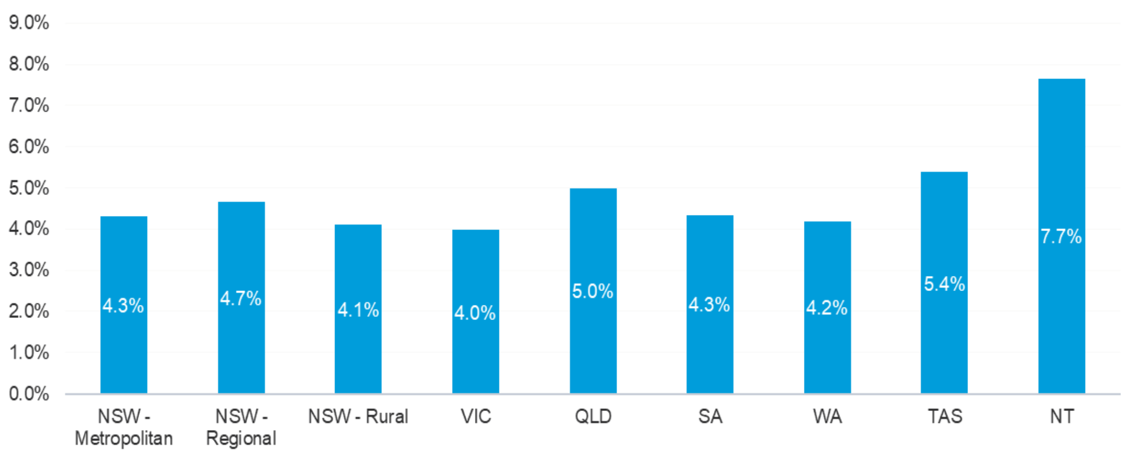
Rates of unemployment can be seen as a measure of strain on household income in a particular LGA, state or territory relative to its population. Less residential household income increases the difficulty in paying rates. It also leads to less income for other rating categories such as businesses. If there are less businesses operating in an area, then more of the rating burden may fall on residential ratepayers.

We investigated how the level of unemployment varies across NSW metropolitan, regional and rural areas, and other states and territories. As **Figure C.11** shows, the median unemployment rate is lowest in NSW metropolitan areas, at 3.6%. However, in regional and rural areas, median unemployment is 4.7% and 4.3% respectively, which is broadly in line the rates in Victoria, South Australia, and Western Australia and lower than Queensland and the Northern Territory.

In LGAs with lower rates of unemployment ratepayers will more likely be able to support themselves and afford the cost of rates. The average level of outstanding rates and charges across NSW councils supports this view. For metropolitan councils, this level is 4.9%. For regional and rural councils, it is 7.1% and 7.7% respectively.

High rates of unemployment may also be associated with higher rates of social housing. Social housing may be exempt from rates, which can place the onus of funding rates onto a smaller pool of rateable properties.

Figure C.11 Median unemployment rate in local government areas



Source: ABS Labour force status by age by sex, Local Government Area 2021.

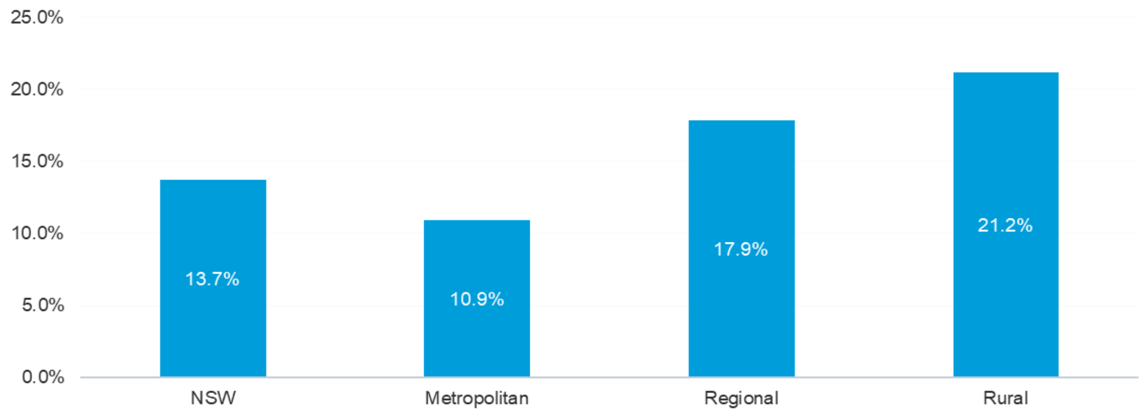
Proportion of population on a pension

The proportion of an LGA's population on a pension provides additional insight into ratepayers' general capacity to afford rates and rate increases. This is because pensioner households on average have lower incomes than non-pensioner households and are likely to spend a higher proportion of their income on rates. At a national level, in 2022 aged pensioner households spent 3.7% of household income on property rates and charges, while households earning employee income spent 1.5% of household income. In addition, pensioner rebates have an impact on council income (and therefore ratepayers) because councils are required to fund about half of the rebate.

Figure C.12 shows the proportion of rateable properties across NSW that received a pensioner rebate in 2020-21. It shows that this proportion is higher in rural and regional areas than it is in metropolitan areas.

We found that the rural LGAs of Kyogle (37.0%), Gwydir (35.5%) and Nambucca Valley (34.4%) had the highest proportions of properties receiving pensioner rebates across NSW. The metropolitan LGAs of City of Sydney (2.6%), Woollahra (3.5%) and North Sydney (4.2%) had the lowest proportions.

Figure C.12 Proportion of rateable properties receiving pensioner rebates, NSW



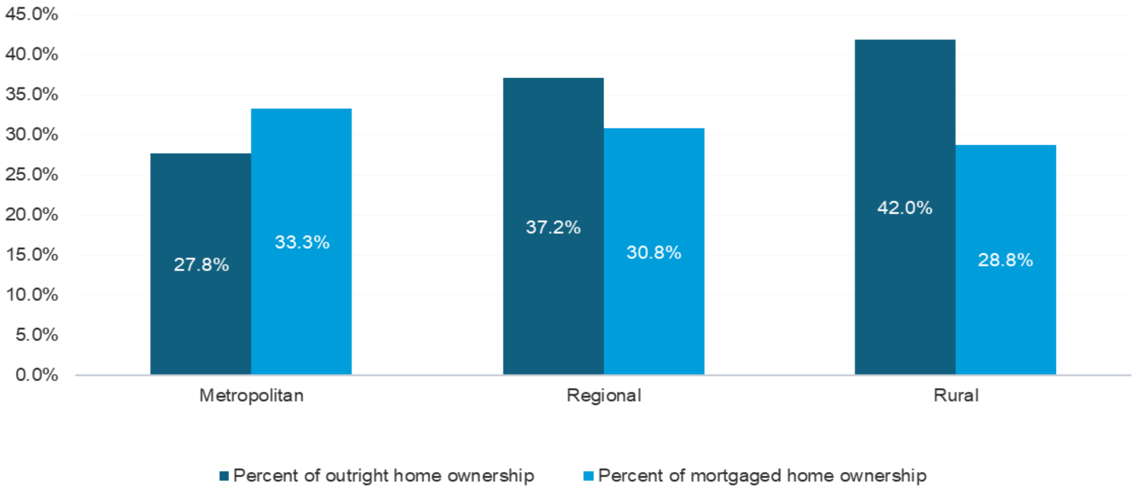
a. There were 12 councils for which no data was available, and they have been excluded from this analysis.

Source: Office of Local Government Time Series Data 2020-21.

Proportion of population that own their own home

The proportion of the population that own their own home provides some insight into ratepayers' capacity to afford rates and rate increases. Households without a mortgage are less impacted by changes in interest rates, which is driving the current cost of living crisis for many ratepayers. However, those that own their own home also tend to be older and may overlap with those households that receive a pension. **Figure C.13** shows that rural councils have the highest percentage of outright home ownership and the lowest percentage of mortgaged home ownership, this likely corresponds to the higher proportion of pensioners in rural LGAs as shown in **Figure C.12**.

Figure C.13 Proportion of homes owned outright and with a mortgage, NSW



Source: ABS Tenure and landlord type by dwelling structure, Local Government Area 2021.

C.3 Where can ratepayers find more information?

If you want more information about the issues discussed in this Appendix, or to raise concerns about your rates, there are several avenues you can explore.

If ratepayers have concerns about their individual rates, they can use the information provided in this section to discuss this with their council. Councils are responsible for setting individual rates, while IPART sets the maximum percentage change in total rates revenue.

Information and concerns regarding your council

Ratepayers with direct concerns regarding the rates set by their council or wider issues can contact their council directly.

The Office of Local Government (OLG) – which is the NSW agency that regulates councils – has a directory of councils that provides ratepayers with the contact information for their council.

The Find your Local Council website is available here.

Information and concerns regarding the Local Government sector

Ratepayers with concerns regarding the local government sector as a whole can contact OLG. OLG's contact information and a list of common enquiries can be found here.

However, if the concern or request for information relates directly to this review of the rate peg methodology, the rate peg itself, Special Variations or Contribution Plans, you can contact IPART. Our contact information can be found here.

If you would like to know more about IPART's role in regulating councils you can find information for ratepayers on our website here.

Information on the regulatory framework for local government, the role of IPART and the NSW Government

The rate peg is just one part of a broader regulatory framework for local government. This framework includes ratepayers, elected councils, several aspects of the NSW Government, IPART and the Federal Government.

Our Final Report for this review contains additional information on this broader framework that ratepayers may find useful. For example, in Chapter 2, you can find out more about:

- the role of the NSW Minister for Local Government, the NSW Auditor-General and the Office of Local Government
- the Integrated Planning and Reporting (IP&R) process, which councils use to consult with their communities.

In Chapter 9, you can find information on the issues we have identified to improve the broader regulatory framework.

Appendix D

Council financial sustainability

D

Councils are responsible for providing essential goods, services, and facilities for their communities. As a result, it is important for the new rate peg methodology to provide councils with sufficient income to enable them to provide ongoing goods, services, and facilities, while ensuring that ratepayers do not pay more than what is needed.

Through this review, councils and council organisations expressed concerns about their ability to remain financially sustainable and simultaneously meet the growing demand for new and improved services from their communities. They told us that the rate peg has constrained their ability to fully recover the costs of providing services, and this has negatively impacted their financial sustainability.[406]

This appendix presents our analysis in response to issues raised relating to councils' financial sustainability.

D.1 Our analysis suggests that councils' financial positions deteriorated from 2016-17 to 2020-21

Councils told us that the current rate peg methodology compromises councils' financial sustainability. In this section, we investigated the concerns raised by councils by analysing how well NSW councils are able to contain their day-to-day expenses within their income.

D.1.1 We observed increases in the number of councils reporting operating deficits

Submissions to our Issues Paper stated that the rate peg has not historically provided councils with sufficient income as operating deficits are increasing and operating ratios are worsening.[407]

To investigate this, we analysed councils' operating positions using financial data from 2016-17 to 2021-22.

Table D.1 Summary of net operating position ($million, $nominal)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total operating income (**including** capital grants and contributions)	12,401	12,204	13,003	13,384	14,395	15,292
Total capital grants and contributions	2,145	2,483	2,442	2,596	3,039	3,351
Total operating income (**excluding** capital grants and contributions) *(a)*	10,256	9,722	10,561	10,787	11,355	11,941
Total operating expenses *(b)*	9,613	9,621	10,504	11,048	11,844	11,752
Net operating position for the sector *(a-b)*	643	100	57	-260	-489	189
Number of councils that reported an operating deficit	24	55	67	74	77	55
Number of councils that reported an operating surplus	101	69	59	52	49	67

Note: Figures based on councils' general funds.

The totals of councils which recorded a surplus and deficit does not equal the total number of councils in NSW because some councils did not report financial data in some years.

We excluded capital grants and contributions from the net operating position calculation because capital grants and contributions are generally used for specific infrastructure purposes rather than day-to-day expenses.

Source: Email to IPART, Office of Local Government, 26 April 2023 and IPART analysis.

Table D.1 shows that the number of councils reporting operating deficits increased over the 5 years from 2016-17 to 2020-21, which seems to be consistent with what councils told us. The number of councils that reported operating deficits decreased from 2020-21 to 2021-22, mainly due to increases in grants and contributions for operating purposes received. It is unclear whether this increase is a one-off, or if it is expected to continue into the future.

We also calculated Operating Performance Ratios (OPRs) to determine whether the average operating deficit is increasing over time, and whether this is affecting all council groups.

Table D.2 Operating Performance Ratio by council group

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Metropolitan	5.2%	-0.6%	0.7%	-6.1%	-5.3%	1.8%
Regional	1.8%	-3.4%	-5.4%	-6.6%	-7.6%	-3.2%
Rural	12.4%	-1.6%	-4.4%	-5.1%	-5.5%	0.1%
State average	**7.5%**	**-1.8%**	**-3.4%**	**-5.8%**	**-6.0%**	**-0.4%**

Note: Figures based on councils' general funds.

Averages for each council types and for the state are unweighted. An unweighted average gives equal weight to each council rather than a higher weight to larger councils.

Source: Email to IPART, Office of Local Government, 26 April 2023 and IPART analysis.

Table D.2 shows that the unweighted state average deteriorated from 2016-17 to 2020-21, then improved in 2021-22. This trend can also be observed in the unweighted averages by council group.

One stakeholder submission to our Draft Report noted that while the financial positions of councils deteriorated between 2016-17 and 2020-21, there is no evidence to suggest that this has been caused by insufficient rates income.[408]

We acknowledge that we do not have sufficient information to determine the causes of this deterioration in financial performance as part of this review, which has focused on how we can improve the rate peg methodology to ensure that it is reflective of changes in costs of providing local government goods and services. We note that rates income represents only a part of councils' total operating income (see section D.2), and a council's financial performance is also impacted by its expenditure decisions. In our Final Report, we have recommended that the NSW Government commission a separate, independent review of the financial model for councils. This review could investigate council funding sources and expenditure, as well as examine performance measures and benchmarks that would support stronger accountability for council financial management. This is discussed in further detail in Chapter 9 of our Final Report.

D.1.2 More than half of NSW councils do not meet the infrastructure backlog ratio

Councils also argued that rate pegging constrains the capacity of councils to provide local services and contributes to higher infrastructure backlogs.[409] Campbelltown City Council stated in its submission to our Issues Paper that the large majority of NSW councils are balancing their operational budgets by underfunding their capital obligations.[410]

We analysed councils' infrastructure backlog ratios from 2016-17 to 2020-21 and the results are as follows.[a]

Table D.3 Infrastructure backlog ratio benchmark

	2016-17	2017-18	2018-19	2019-20	2020-21
Number of councils that did not meet the benchmark	63	65	69	69	68

Source: Office of Local Government, Time Series Data 2016-17 to 2020-21 and IPART analysis.

Table D.3 shows that over half of NSW councils do not meet OLG's benchmark of less than 2%.[411]

Table D.4 Infrastructure backlog ratio (%)

	2016-17	2017-18	2018-19	2019-20	2020-21
Metropolitan	2.5	2.6	2.7	2.6	2.3
Regional	5.7	5.2	5.1	4.4	4.2
Rural	3.8	3.6	3.7	3.9	4.3
State average	**4.0**	**3.8**	**3.8**	**3.7**	**3.7**

Note: Averages for each council types and for the state are unweighted.
Councils' infrastructure backlog ratios for 2021-22 have not been released yet.

Source: Office of Local Government, Time Series Data 2016-17 to 2020-21 and IPART analysis.

We also examined councils' infrastructure backlog ratios by council group (**Table D.4**), and found that the average infrastructure backlog ratio for:

- metropolitan councils fluctuated between 2.3% and 2.7%
- regional councils recorded small but consistent improvements over the 5-year period[b]
- rural councils deteriorated in 2019-20 and 2020-21.

Our findings show that infrastructure backlogs are a problem for councils, as over half do not currently meet OLG's benchmark. On average, regional and rural councils tend to have higher infrastructure backlog ratios than metropolitan councils. This suggests that some councils across the State do not currently spend enough on infrastructure renewal works. However, as the State average appears to be relatively consistent over the 5-year period we considered, councils' infrastructure backlog concerns may also reflect longstanding financial sustainability issues for select councils.

One stakeholder submission to our Draft Report noted that councils' infrastructure backlogs do not distinguish between high-risk issues like reseals and 'nice to have' issues like roads that are bumpy. Further, the special schedule where these infrastructure asset performance measures are reported is not subject to audit, so there is no assurance in the accuracy of the figures.[412]

As previously discussed, we agree that there is a need to examine the existing suite of performance measures and benchmarks to enable stronger accountability for council financial management. We have recommended that this could be considered as part of a separate, independent review of the financial model for councils.

[a] Councils' infrastructure backlog ratios for 2021-22 have not been released yet.
[b] A decline in the ratio reflects improvement.

D.1.3 We consider that it may be appropriate for councils to hold some level of debt

The United Services Union's submission to our Issues Paper, supported by a commissioned research paper from Professor Brian Dollery, considered that the rate peg negatively impacts on councils' financial sustainability. The submission referenced results from several past studies to support its view, including:

1. Drew and Dollery (2015). The study considered the effects of rate capping on financial sustainability by considering local government liabilities per household for NSW and Victorian councils over the period 2009 to 2013 inclusive, and found that NSW had much greater levels of council debt per household.[c, 413]
2. Dollery and McQuestin (2017). The study found that over the 4-year period from 2013 to 2016 inclusive, NSW local authorities held – on average – 23% more debt than their South Australian counterparts.[414]

We acknowledge that rate pegging is likely to be a contributing factor to the relatively higher debt held by NSW councils, compared to councils in states not subject to rate pegging. This is consistent with anecdotal evidence that councils would prefer not to take on debt when alternative sources of funding such as rates income are available.

However, a higher level of debt does not necessarily indicate financial stress. Rather, it may be appropriate for councils to hold some level of debt, and councils with low or no debt may be placing the funding burden on current ratepayers when in fact it would be more appropriately spread across generations.

To better understand NSW councils' debt positions, we reviewed councils' debt service ratios from 2016-17 to 2020-21,[d] and found only 5 instances where councils exceed the OLG benchmark for this ratio, which is greater than 0% and less than 20%. This suggests that while debt levels for NSW councils may be higher compared to councils in other jurisdictions, the risks associated with council debt appear to be relatively low.

D.2 Councils rely on own source revenue as well as income from external fundings sources

As discussed in our Executive Summary, NSW councils receive most of their income from 3 main sources:

- rates and annual charges
- grants and contributions
- user fees and charges.

---

[c] In 2015 the Victorian Government introduced a cap on rates to limit annual increases in rate revenue. The Minister for Local Government sets the rate cap each year based on the forecast Consumer Price Index and advice from the Essential Services Commission.

[d] The debt service ratio is calculated by the cost of debt service (interest expense and principal repayments) divided by total continuing operating revenue (excludes fair value adjustments, net gain/loss on sale of assets, net share/loss on joint ventures) excluding capital grants and contributions.

We found in our Issues Paper that income from rates represents around one third of NSW councils' total operating income.[415] Other sources of income include grants and contributions, user fees and charges, rental income, and other income.

Table D.5 shows how sources of operating income vary for different council groups.

Table D.5 Councils' operating income per capita by source (2020-21)

	Metropolitan		Regional		Rural		All councils	
	$2020-21	%	$2020-21	%	$2020-21	%	$2020-21	%
Rates and annual charges	737	53%	930	44%	1,052	26%	810	46%
Operating grants and contributions	87	6%	269	13%	1,265	31%	208	12%
Capital grants and contributions	280	20%	455	22%	1,001	24%	372	21%
User fees and charges	152	11%	319	15%	586	14%	225	13%
Rental income	58	4%	31	1%	43	1%	50	3%
Other income	88	6%	108	5%	154	4%	98	6%
Total	**1,402**	**100%**	**2,112**	**100%**	**4,100**	**100%**	**1,763**	**100%**

Source: Email to IPART, Office of Local Government, 26 April 2023 and IPART analysis.

We found that metropolitan councils receive less income per capita compared to regional and rural councils, though over half of their total income (53%) is collected from rates and annual charges. In contrast, rural councils collect only 26% of their total income from rates and annual charges and receive over half of their total income (55%) from grants and contributions.

We heard through submissions to our Issues Paper that as the rate peg has not kept pace with the increases in costs, councils are becoming increasingly reliant on external funding sources such as grants for the delivery of essential services for their communities.[416]

To understand the level of reliance on external funding sources we looked at councils' own source revenue ratios, and how these have changed over the past 5 years.

OLG's own source revenue ratio measures councils' financial flexibility. Own source revenue includes rates, annual charges and user fees and charges. A council has improved financial flexibility with a higher level of own source revenue. OLG sets the benchmark for this ratio at 60% or greater.[417]

Table D.6 Own source revenue by council group (%)

	2016-17	2017-18	2018-19	2019-20	2020-21
Metropolitan	75%	75%	76%	75%	76%
Regional	68%	69%	71%	69%	67%
Rural	53%	56%	53%	52%	48%
State average	**63%**	**65%**	**64%**	**63%**	**61%**

Note: Figures based on councils' general fund.
Averages for each council types and for the state are unweighted.

Source: Office of Local Government, Time Series Data 2016-17 to 2020-21 and IPART analysis.

Table D.6 shows that from 2016-17 to 2020-21, rural councils consistently recorded own source revenue ratios below the OLG benchmark. This suggests that these council types find it more difficult to raise revenue from rates, annual charges and user fees and charges, and could face increased financial pressure if income from external funding sources decreases.

D.2.1 Some councils may currently collect an insufficient base level of rates income

In our Issues Paper we found that from 2010-11 to 2020-21, the average annual increase in councils' rates income per capita was around 3.8% per year.[418] However, the experiences of individual councils are varied, depending on whether they received any additional rates income through special variations and supplementary valuations.

We consider that improvements to the rate peg methodology cannot address all issues, particularly for those councils with longstanding financial sustainability concerns. It is possible that some councils currently have an insufficient base level of rates income. We consider this could be better addressed through a mechanism that enables councils to reset their rates base through a one-off process to increase rates income. Any increases in rates income could be phased-in to manage bill shock for ratepayers.

Box D.1 sets out this issue in further detail by comparing the experiences of two councils with different circumstances across the State.

Box D.1 Variation in the average residential rates across the State

From 2011-12 to 2021-22 IPART set the same rate peg for all councils in NSW, mainly based on the average costs faced by councils.

However, we know there is significant variation in the amount of rates income received by different councils across the State. Applying the same rate peg percentage increase leads to greater disparity in rates income over time, as councils with a higher rates base receive a greater amount in dollar terms, compared to councils with a lower rates base.

Under the current regulatory framework, councils with an insufficient rates base can apply to IPART for a special variation to increase their rates income by more than the rate peg.

While some councils have used the SV process to support their financial sustainability, we received feedback through consultation that other councils can be reluctant to apply for SVs, even when it is needed because the process is resource-intensive and it can be difficult to get agreement and support from the elected council.[419]

Box D.1 Variation in the average residential rates across the State

The following table presents information on two councils with different circumstances across the State.

	Council A	Council B
Council group	Regional	Rural
Average OPR from 2017-18 to 2021-22 (%)	3.6%	-2.3%
Average residential rate per year ($2021-22)	$1,505	$1,043
Median household income per year ($2021-22)	$67,577	$73,886
Average residential rate as a percentage of median household income (%)	2.2%	1.4%
Percentage of council's total operating income received from rates income (%)	39%	25%
SVs applied for/received from 2011-12	3	0

Source: Email to IPART, Office of Local Government, 26 April 2023; Office of Local Government, Time Series Data 2020-21; Australian Bureau of Statistics; 2021 Census data and IPART analysis.

We recognise that some councils could be struggling to fund the costs of ongoing activities due to an insufficient base level of rates income. These councils' financial sustainability issues cannot be addressed through changes to the rate peg methodology alone.

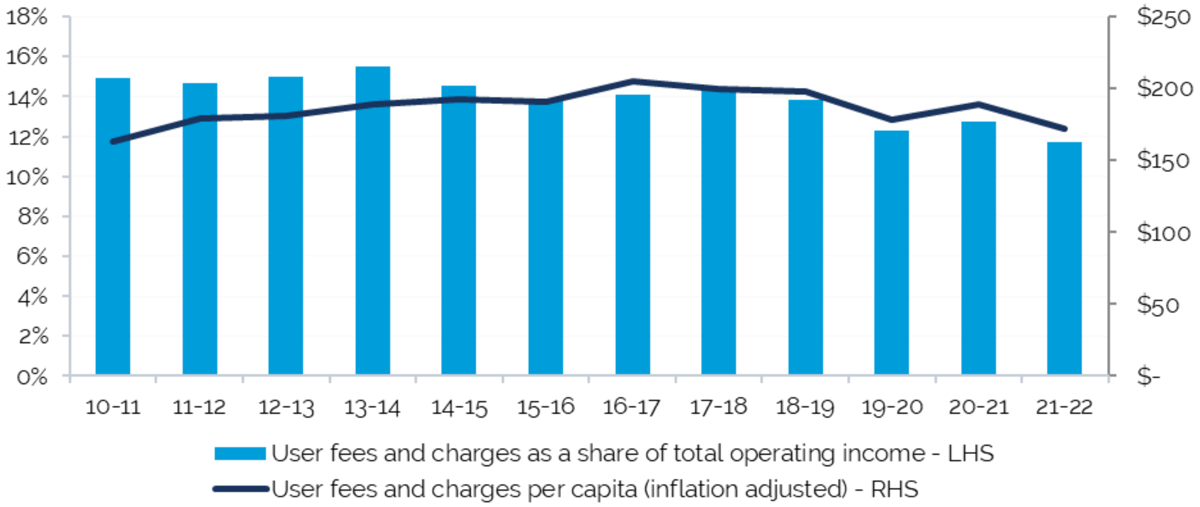
In our Final Report we have made a recommendation for the NSW Government to commission an independent review of the financial model for councils in NSW. This review could consider changes to the current approach for special variations, or the introduction of a separate mechanism that would enable councils that are determined to have insufficient base rates income to achieve financial sustainability. This would need to be balanced against ratepayer affordability concerns, so we have also recommended that the review consider the cost impact on ratepayers and mechanisms available support disadvantaged or vulnerable communities.

D.2.2 Councils told us that some user fees and charges have not been adequately indexed over time

Councils have varying abilities to raise revenue from user fees and charges. They have raised concerns that some user fees and charges have not been adequately indexed over time.[420]

Figure D.1 shows that user fees and charges per capita increased by around 6% in real terms from 2010-11 to 2021-22. Growth in this income source has not kept pace with growth in other sources of income, resulting in a decline in user fees and charges as a share of NSW councils' total operating income.

Figure D.1 User fees and charges have declined as share of total income



Source: Email to IPART, Office of Local Government, 26 April 2023 and IPART analysis.

Our Final Report discusses examples provided by councils of statutory charges that have not been adequately indexed over time (see section 9.3.3). This could lead to councils being unable to recover the full cost of providing the services from the users of the service and expose councils to financial pressure if they are required to use rates income to cover the funding shortfall.

D.2.3 Financial Assistance Grants per capita declined (in real terms) over the past 3 decades

While the amount and allocation of grant funding falls outside the scope of our review, grants and contributions are one of the main sources of income for councils, and changes in the amount received can impact councils' financial sustainability.

One of the main forms of grant funding councils receive for operating purposes are Financial Assistance Grants provided by the Commonwealth Government. The Financial Assistance Grant program consists of two components:

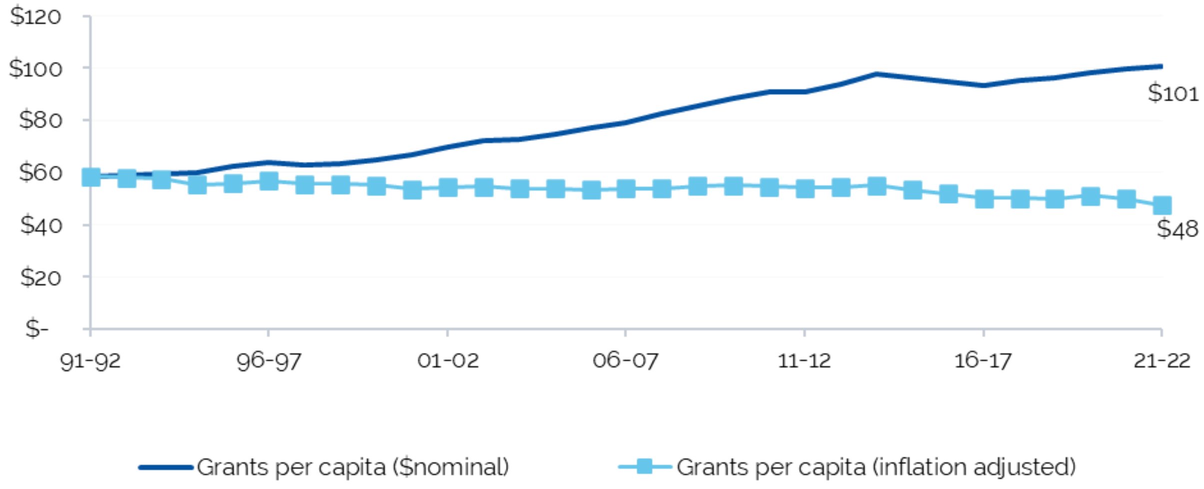
- a general purpose component distributed between the states and territories according to population (i.e. on a per capita basis)
- an identified local road component distributed between the states and territories according to fixed historical shares.

Both components of the grant are untied, allowing councils to spend the grants according to local priorities.[421]

Murrumbidgee Council's submission to our Issues Paper stated that the value of Financial Assistance Grants provided to local government has declined over the past 3 decades from around 1% of Commonwealth taxation revenue to around 0.55%, which means that the council needs to seek funding from other sources to replace some of the lost income.[422]

We examined the amount of funding received by NSW under the Financial Assistance Grants program from 1991-12 to 2021-22 and found that entitlements per capita on a state basis have decreased in real terms over this period, from around $59 per person in 1991-92 to around $48 per person in 2021-22 (see **Figure D.2**).

Figure D.2 Financial Assistance Grants per capita



Source: NSW Local Government Grants Commission, Tables of Financial Assistance Grant Allocations for NSW Councils 1992-2022 and IPART analysis.

Once Financial Assistance Grant funds are allocated to NSW, the NSW Local Government Grants Commission is responsible for making recommendations to the Minister for Local Government on how they should be allocated between NSW councils.[423] The NSW Local Government Grants Commission uses 5 measures of councils' relative disadvantage/advantage to apportion the total allowance between councils.[424]

This means that while the amount per capita received via Financial Assistance Grants decreased at the state level over the past 3 decades, individual councils may have had varied experiences.

Capital grants can lead to higher expenses for councils

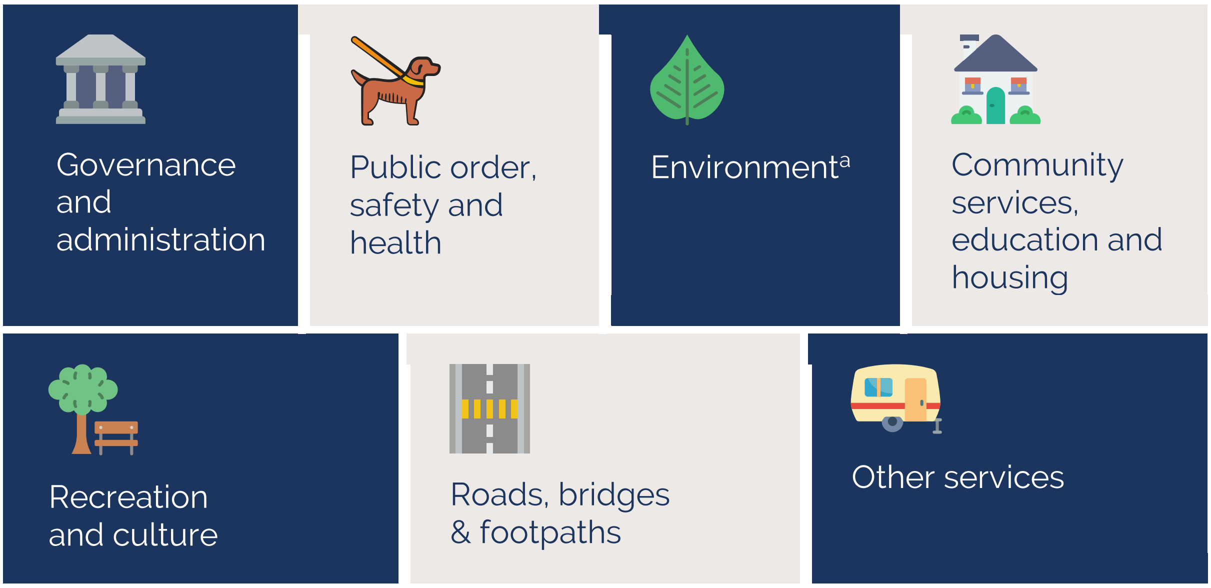
Around two-thirds of all grants and contributions received are capital grants and contributions.

We heard from councils that income from capital grants and contributions is typically tied to specific infrastructure projects. This means that it cannot be used to cover councils' day-to-day expenses and could lead to additional maintenance costs for councils once the capital projects are constructed.

Capital grants and contributions received can create a misleading impression of a council's operating position, making this appear to be more favourable than it is.

D.3 Councils have discretion to decide what services to provide, and the appropriate service level

NSW councils provide a range of services for their communities, including:



a. Environment services include noxious plants and insect/vermin control, environmental protection, solid waste management, street cleaning, drainage and stormwater management.

Source: Office of Local Government, Your Council – NSW Overview – Services.

Each council has discretion to determine what services to provide, and the appropriate service levels, in consultation with its community.

Table D.7 shows that expenditure by service type varies by council group, affected by the circumstances of different councils and the preferences of their communities.

Table D.7 Operating expenses per capita by service type and council group (2020-21)

Service type	Metropolitan	Regional	Rural	All councils
Governance and administration	21%	18%	16%	19%
Public order, safety and health	5%	5%	5%	5%
Environment	21%	20%	10%	19%
Community services, education, housing and community amenities	13%	8%	10%	11%
Recreational and cultural	20%	16%	12%	18%
Roads, bridges and footpaths	12%	18%	29%	16%
Other Expenses	8%	14%	18%	11%
Total	**100%**	**100%**	**100%**	**100%**

Source: Office of Local Government, Time Series Data 2020-21.

We observed that around 29% of operating expenses per capita for rural councils are spent on the provision of roads, bridges, and footpaths. This is likely because rural councils are generally responsible for managing greater kilometres of roads and need to spend more on the maintenance of this asset category compared to metropolitan and regional councils. In contrast, metropolitan and regional councils are required to spend less on roads, bridges, and footpaths. This enables these councils to allocate a greater share of operating expenses per capita to the environment, and recreational and cultural services.

D.4 Our Final Report discusses options to address financial sustainability concerns through the rate peg methodology and the broader regulatory framework

Our findings on council financial sustainability show that some councils do not currently meet OLG's financial performance benchmarks and are reliant on external funding sources to maintain the delivery of essential services for their communities.

In our Final Report, we have made decisions on changes to the rate peg methodology, to improve the way we measure how councils' costs are changing year-on-year. This involved assessing the merits of a range of options and available data sources to develop a methodology that:

- reflects inflation and the costs of providing council services
- is more timely
- better recognises the differing needs and circumstances of councils across the State
- includes a separate adjustment factor to account for changes in each council's contribution to the Emergency Services Levy.

Through our analysis we have also identified some councils with longstanding financial sustainability issues, which cannot be addressed through changes to the rate peg methodology alone. We consider that these councils have consistently collected less rates income than what is needed to provide ongoing services and could benefit from a mechanism to reset their rates base to achieve financial sustainability (see Final Report, section 9.3). We consider this process should also take into consideration the different circumstances of councils and the preferences of their communities.

Additionally, rates income represents around one third of NSW councils' total operating income. This means that changes in the amount of income received from other funding sources such as grants and contributions, and user fees and charges, would also impact councils' financial sustainability. While these funding sources are outside the scope of this review, we recognise that stakeholders have also expressed concerns about these sources of income, and we have recommended that the NSW Government commission an independent review of the financial model for councils in NSW, including the broader issues raised in our Final Report, to deliver better outcomes for stakeholders (see Chapter 9).

Appendix E

Climate change cost considerations

E

Climate change is a significant global challenge created over decades since the industrial revolution and the adverse effects are now evident. To deal with these effects and to keep the global temperature rise well below 2˚C, urgent and collective action is needed. Climate change will impact the lives of people of NSW (taxpayers and ratepayers) now and into the future. This is seen in weather across the state becoming more variable, and extreme events such as bushfires, storms and floods becoming more frequent and severe, with impacts on health, safety, and productivity of local economies. Immediate action with innovative management and collaboration can turn things around.

Local government plays an important role in addressing climate change through reducing emissions, adapting to climate change, building resilience, and managing development sustainability. This is recognised by Local Government NSW (LGNSW) who supports an integrated approach to climate change mitigation and adaptation strategies, including shared responsibility and collaboration across all levels of government, industry, and the community.[425]

In undertaking our review of the rate peg methodology, we reviewed councils' cost drivers and how to best reflect these in the rate peg. While climate change means that councils are faced with external costs (discussed in Chapter 5), we consider that climate change is a broader, complex, and unique issue that will affect how councils operate. For example, how they transition towards a low-carbon economy, and contribute to climate change resilience in their communities. Costs related to climate change are large and pervasive, involving human, natural and financial capital and involving a larger policy framework.

In this Appendix, we present further analysis for considering external costs associated with climate change in the rate peg methodology. This includes what we heard from stakeholders regarding climate change costs and analysis on capturing climate change-related costs in the rate peg methodology. We have identified indicative climate change impacts on councils, indicative types of climate change costs for councils and explored who should fund climate change costs.

More work is needed to assess the most appropriate model for funding climate change and other sustainability related costs.

E.1 An integrated approach to climate change across all levels of government is required

We acknowledge the work that is currently being done by councils to respond to and recover from recent natural disasters and councils that are working towards addressing climate change and improving resilience, such as City of Sydney's Environmental Strategy and the Resilient Sydney program.

The Office of Local Government and the NSW Government provide a range of resources to assist councils in addressing climate change and improving their climate risk preparedness and resilience. Hunter Joint Organisation has recently released a Climate Change Integrated Planning and Reporting (IP&R) Package which may support councils in incorporating climate change in strategic planning and consulting with their communities.

We consider an integrated approach to addressing the impacts of climate change is required with shared responsibility and collaboration across all levels of government, industry, and the community. We also need more information to understand the role of the local government within state, federal, and private sector to gain agreement on the appropriate funding model. However, our analysis suggests that some costs should be captured by the rate peg, others through the special variation process.

We considered how councils could fund climate change costs through rates and found that, where adaptation costs related to the delivery of existing services are increasing and communities support and expect continued delivery of these services, there is a case for addressing changes in these costs through the rate peg.

Where councils propose to introduce new services or provide new infrastructure to adapt to climate change, councils should consult with their communities and where this leads to councils needing greater income, the special variation (SV) process is an appropriate mechanism for seeking greater income to cover these costs.

Government grants and funding are available for councils to meet some climate change costs particularly funding to support emissions reduction projects, large capital projects and natural disaster recovery. There have been a number of funding programs and grants available to support councils to meet climate change costs across all mitigation, adaptation, and natural disaster-related costs. Some examples include road repair funding, electric vehicle charging station infrastructure funding and the Federal Government's Disaster Ready Fund.

We recognise that some ratepayers would support their councils to address climate change and would be willing to fund these costs. Councils should consult with their communities on funding these costs. Councils may also seek government funding to cover increased costs due to climate change.

We are considering options for developing a process for making adjustments to the rate peg for external costs. We consider that such an adjustment could go towards covering climate change related costs where all councils or a group of councils are impacted, provided we have sufficient information from councils about these costs.

Due to a lack of specific climate change-related cost information, uncertainty of costs, and the variability of costs across councils, at this stage it is not feasible for us to include a generic adjustment to the rate peg methodology that would accurately reflect changes in climate change costs for all councils. We would require further work on this, including seeking information and evidence of the impact of climate change on council costs and on ratepayers.

Further information is needed to understand these costs. Climate change costs vary across NSW councils depending on how climate change affects each council, the types of services and assets they provide and their current state, how resilient councils and their communities are and to what extent are they seeking to improve their resilience. There would be differences between coastal councils that may need to respond to changes in sea levels and inland councils that may need to respond increasingly to drought. There would also be differences in costs for those councils with well-maintained infrastructure. Depending on resources and level of skills and expertise, the capacity to deal with climate change would also vary across councils, leading to varying costs.

Access to data on specific climate change costs faced by councils is the main challenge for developing an adjustment and is not readily available or accessible across all councils. We also recognise that climate change costs may not be easily separated from overall council costs.

We considered potential data sources for climate change costs including insurance data to potentially quantify costs as requested by council stakeholders. Some data sources include quantified climate risks for local government areas and value of insurance claims. While useful, it is not clear how to translate insurance data which reflects risk profiles to an appropriate increase in funding for climate change costs for councils.

Councils should consider processes to identify, and record changes to their costs due to climate change. This could support potential future adjustments to the rate peg or councils to apply for an SV. This could include defining specific council outcomes in relation to addressing climate change (such as part of a climate risk assessment and adaptation planning process) and the costs of achieving these outcomes. It could also include information about how costs have deviated from planned budgets due to climate change.

Such information would help councils understand the impact of climate change and assist with planning and implementing climate change actions and incorporating climate change actions into their business-as-usual. This could especially assist councils in improving their engagement with their communities on addressing climate change including communicating the costs and benefits of climate change actions to understand their communities' preferences.

This information would help us better understand impacts of climate change on the local government sector. This could in turn enable us to define climate change-related costs faced by councils and to assess the potential to calculate an adjustment to the rate peg for these costs.

E.2 We heard from stakeholders on climate change costs

There are mixed views about funding climate change through the rate peg. Feedback to our Issues Paper, Draft Report and workshops showed several council stakeholders supported the consideration of cost changes related to climate change in the rate peg methodology and mentioned the challenges of funding these increased costs. Many councils considered these external factors are currently not included in the rate peg methodology. Feedback from some ratepayers also indicated the need for councils to consider ecologically sustainable development when setting rates. Results from our survey of ratepayers showed limited support for rates being used to fund climate change measures.

E.2.1 Councils described a range of cost increases due to climate change

Several council stakeholders described examples in submissions to our Issues Paper of increased costs due to climate change often out of their control. Many of these costs were associated with adapting to climate change and natural-related disasters. The Hills Shire Council described how its exposure to floods and fires have added costs through unplanned additional workload and damage to assets requiring earlier repair.[426] Woollahra Municipal Council and Blacktown City Council explained the impact of climate change and wet weather leading to increased maintenance of parks and open spaces and increasing the amount of pothole repairs for roads.[427] Similarly, Mid-Coast Council described failing infrastructure due to climate change impacts.[428] The Hills Shire Council and Woollahra Municipal Council mentioned the impacts of natural disasters and severe weather events, leading to accelerated depreciation and deterioration of assets.[429] Wollondilly Shire Council described additional capital works expenditure and staff costs following weather events and increases in other major expenses including, building materials, utilities and insurances.[430]

At our public workshops, councils raised the issue of the impacts of climate change and the costs of contractors, for example, some councils in disaster affected areas in need of labour were facing contractor shortages. Councils also mentioned that state coordination is needed to manage these costs.[431]

Some councils also raised costs associated with mitigating climate change. Newcastle City Council and Coffs Harbour City Council noted significant costs due to the transition to electric vehicles such as capital costs and the need for particular skills sets and infrastructure.[432] At our public workshops, stakeholders similarly told us about the need to provide infrastructure such as electric vehicle charging stations to meet net zero emissions targets and supporting renewable energy zones.[433] Some stakeholders also described the costs associated with resilience for councils as well as supporting resilience in communities.[434] At our technical workshops, councils expressed concerns about increasing responsibilities from the State government's climate change policies.[435]

E.2.2 Councils raised funding climate change costs

At our public workshops, councils mentioned that they are mostly acting to respond to climate change and must seek a balance when dealing with climate change and other council activities. Councils considered climate change initiatives are often above and beyond planned works and day to day requirements. However, stakeholders also supported these initiatives, that such activities should be encouraged to reduce disaster recovery and further financial impacts. One rural council stakeholder at our workshop mentioned that due to large emissions from council waste management facilities, it was very difficult to consider being carbon neutral.[436]

Council described challenges of funding these costs including that rate pegging is making it harder to meet the challenges of climate change. Campbelltown City Council described the financial and resource barriers to meeting community expectations for councils to address climate change.[437] Albury City Council argued that in the context of climate change the rate peg does not take into account depreciation of infrastructure assets, the impacts of natural disasters, and other sustainability challenges.[438]

At our public workshops, councils expressed that they have different capacities to invest, for example, in long lasting materials for roads. Instead, councils continue to repair older roads with less efficient materials. For councils with low rate bases, it was considered that no rate peg increase would cover the costs of maintaining rural roads and assets affected by increased wet weather.[439]

While funding exists through grants, council stakeholders described the limitations including that funding is often competitive, contentious, often for capital projects and often not reflective of the user needs as well as being subject to unrealistic timing constraints. Nambucca Valley Council submitted that funding "is not always sufficient to meet the costs required to adequately repair the damage experienced."[440] Mid-Western Regional Council, argued that similarly, "whilst we acknowledge that funding is available to restore essential public assets [due to natural disasters], this workload will impact and delay Council's usual planned asset management." The council stated that "some allowance could be made to support the community, improve resilience or catch-up on delayed works."[441]

Northern Beaches Council described how funding to cover natural disaster costs is limited to declared events, despite the council also experiencing undeclared events.[442] Gunnedah Shire Council also submitted that such funding does not cover other costs such as increasing insurance premiums and while funding is often allocated to capital projects, it does not cover maintenance and upgrades of infrastructure.[443] Hawkesbury Council suggested including in the rate peg the costs associated with responding and recovering from natural disasters that are not funded by grants.[444] Local Government Professionals Australia and Canberra Region Joint Organisation supported this, acknowledging that "while both [state and local] governments bear the broader cost of response and recovery associated with natural disasters, the net cost (to councils) of those, and other undeclared events that occur (storms, floods) that redirect resources and impede normal asset and service regimes, should also be considered in peg methodology or as a streamlined process for SRV [Special Rate Variations]."[445]

City of Sydney submitted that "it is imperative that the level of rate income generated by local government is sufficient to ensure it can provide the planning and action required" for providing adequate and timely response during natural disasters.[446] At our public workshops, one council stated however that there are reasonably good Natural Disaster Restoration and Recovery Arrangements in place to cover the costs of restoring assets and further that rates have never been expected to cover these costs.[447]

E.2.3 Stakeholders made suggestions on how to include climate change costs in the rate peg

Several councils submitted that the revised methodology needs to be agile enough to rapidly adapt to changes driven by forces outside councils' control particularly climate change.

- City of Sydney recommended that the rate peg include a resilience factor to respond to the growing need for local governments to plan for and respond to natural disasters and pandemics while continuing and significantly advancing the long overdue efforts to address the impacts of climate change. It also acknowledged the difficulty in quantifying these costs.[448]

- The Hills Shire Council recommended that for resilience, councils be given the freedom to add a percentage (within an upper limit) to the rate peg without the need to apply for a special variation.[449]
- Blacktown City Council suggested a local government-based insurance cost index, that tracks the movement (and forecast future movement) in the cost of insurance for infrastructure assets having regard for impacts such as natural disaster, war and global economic conditions.[450]
- Southern Sydney Regional Organisation of Council's suggested that the additional costs imposed on councils be reflected in forward costs (such as the need for flood mitigation and other climate change adaptation measures).[451]

Other stakeholders supported a component of the rate peg to address climate change resilience, adaptation, including maintenance and natural disasters.[452] Stakeholders, however recognised that costs may differ between councils.

We considered the options suggested by stakeholders and we sought feedback on developing a process for making adjustments to the rate peg to capture specific external costs, such as climate change related costs. In submissions to the Draft Report most council stakeholders supported capturing climate change costs through an adjustment to the rate peg.[453] One council did not support making adjustments for climate change costs in the rate peg, because it would remove the incentive for national and state governments to use their regulatory powers to mitigate and adapt to climate change.[454] One submission considered making adjustments to the rate peg through a separate adjustment was just adding another avenue for increasing rates, when there is already an existing special variation process for this purpose.[455]

One stakeholder raised concerns about councils contributing to climate change and proposed a 2-step process by which councils would need to qualify for an increase to rates through the rate peg. The first step would require councils to demonstrate their costs are efficient both financially and from a resource management perspective and consult the public on these costs. The process would involve councils quantifying their contribution to global warming caused by different council activities and measuring a range of indicators on resource impacts (related to, for example, land clearing or local food growing capacities). These would be reflected in a revised Local Government Cost Index (LGCI) and made publicly available. The second step would require councils to make a submission to IPART to apply for a rate peg increase.[456]

While it would be important for councils to measure the impacts on climate change from their activities, the rate peg cannot be used to enforce climate change action. This is better suited to other mechanisms and agencies.

E.2.4 There was limited support from ratepayers to fund climate change through rates

We did not receive feedback from ratepayers on issues of climate change costs through submissions to our Issues Paper. At our technical workshops, some ratepayers placed a high value on ecologically sustainable development and that environmental considerations should be reflected in the rate peg methodology.[457] In response to the Draft Report, we received 3 submissions that did not support funding climate change through rates. This includes one individual[458], one organisation[459] and one council[460].

We consulted on preferences to fund climate change costs through rates in our ratepayer survey. Our survey revealed a lack of support for rates to fund climate change costs, with less support from ratepayers in rural areas. At most, 34% of residential ratepayer respondents and 34% of business ratepayer respondents to our survey indicated that rates should fund climate change costs. Of the types of climate measures to fund, there was a preference towards funding adaptation measures rather than mitigation measures.[461]

E.3 Climate change can impact councils' costs

Councils play an important role in addressing climate change.[a] Their communities are being affected by higher temperatures, changing rainfall patterns and rising sea levels. Natural disasters and extreme weather events such as droughts, bushfires, floods, and storms are becoming more intense and frequent. Councils, and the infrastructure and services they manage, are at the forefront of some of these impacts. They may be facing higher costs in both adapting to these changes and mitigating climate change impacts by reducing carbon emissions.

Some of these costs include for instance:

- Mitigation activities including switching to renewable energy sources such as through installing solar panel systems or setting up windfarms[b], adopting electric vehicles and providing electric vehicle infrastructure, or managing emissions from landfill and waste treatment sites.
- Adaptation activities including increased maintenance, repair, and replacement of assets due to increased storms, increased investments in infrastructure, planning and management of stormwater, floods, coastal erosion, and extreme heat. This may also include natural disaster planning, response and recovery, and community support programs.

Increased costs may also result from changes to council processes to improve climate change readiness and resilience (e.g. undertaking climate risk assessments, and climate scenario modelling), education programs and higher insurance premiums to reflect increased climate change risks. There may also be implicit costs from the impacts of climate change, for example, on land use and the economic value of land and the potential for the decline in industry and population.

[a] When making decisions, councils should consider the long-term and cumulative effects of actions on future generations and the principles of ecological sustainable development: *Local Government Act 1993*, section 8A(2)(c) and (d).

[b] Reducing emissions through energy efficiency and installing own energy sources (solar panels) however may generate savings.

Table E.1 below presents some indicative climate change impacts on council services and activities which may drive increased council costs.

Table E.1 Climate change impacts on council services and asset activities

Climate change variable	Impact on council services/asset activities
Rising mean temperature	• increased demand for online work and remote working systems • increased demand for remote voting services to avoid heat and discomfort • increased demand for air conditioning, cooling and higher frequency of HVAC replacement in council buildings • increased demand for reducing urban heat island effect (e.g. planting more vegetation) • increased stormwater pipe breakages (e.g. tree roots seeking water due to low soil moisture causing pipe breakages) • increased need to retrofit buildings, facilities, playgrounds • increased costs to maintain public spaces, gardens and increased water use
Greater number of extreme heat days and heatwaves	• increased energy use for cooling systems and water use • increased demand for air conditioning, cooling and higher frequency of HVAC replacement in council buildings • increased costs to provide more shade • increased demand for health services • increased risks of power failure increasing the need for alternative power sources • increased health risks for employees that work outside
Increasing frequency and intensity of bushfires	• increased demand for safe places, refuges, and evacuation centres • increased demand for fire and emergency response services and protocol and emergency planning • increased demand for support services including health services • increased need to protect buildings from fire and reduce fire hazards (maintenance of vegetation) • closure of council assets (e.g. parks) and potential loss of revenue (e.g. parking fees) • increased restoration and repair of assets affected by fire, replacing damaged signs • increased clean-ups and waste removal • delays or increased difficulty for ratepayers to pay their rates and increased demand for programs to address vulnerability due to household disruptions
Changes in mean rainfall (including drought and floods)	• increased demand for services to deal with increased water-borne diseases and pests including health services and education programs • increased damage to roads, increased potholes and need for increased maintenance for kerb and gutter, table drain clearing, increased pipe blockages • decreased rainfall leading to agriculture productivity, loss of farming and economic decline • delays to maintenance and service schedules (increased wet weather means delays to servicing parks) • increased demand for remote voting services during floods • increased demand for flood planning controls • delays or increased difficulty for ratepayers to pay their rates and increased demand for programs to address vulnerability due to household disruptions
Sea level rise, coastal erosion and inundation	• increased demand for coastal protection such as building a sea wall, increased maintenance of existing sea walls, increased costs to protect against erosion • increased demand for levees and maintenance
Frequency and intensity of extreme storms (winds & hail)	• delays or increased difficulty for ratepayers to pay their rates and increased demand for programs to address vulnerability due to household disruptions • increased repair or replacement of assets affected by storms/hail damage • increased drainage capacity issues and need for new stormwater infrastructure • increased demand for flood and emergency services and protocol and emergency planning • increased need for landscaping • increased clean-ups and waste removal • delays to maintenance and service schedules (increased wet weather means delays to servicing open spaces) • increased costs to maintain parks, cemeteries and other open and public spaces, and to maintain assets (e.g. repairing footpaths) • increased incidences of ratepayer property issues (removal of heavy fallen branches)

Note: Many of the impacts on council services and assets listed could arise from a range of different climate change impacts.

E.3.1 We identified indicative types of climate change-related costs

Table E.2 below lists some indicative climate change-related costs that may be borne by councils but may also be funded through other means such as government funding. We identified 3 main categories and 5 types of these costs based on these categories.[c]

Table E.2 Climate change costs

Climate change costs	Description
Mitigation	Costs of activities to reduce greenhouse gases in the atmosphere both directly and indirectly.
Direct mitigation	Costs associated with efforts to reduce greenhouse gases going into the atmosphere by reducing the sources of gases or by increasing the absorption of gases. Activities may include: • renewable energy projects to reduce operational emissions (e.g. installing solar panels, replacement of vehicle fleet with electric vehicles, reducing emissions from waste treatment) • renewable energy projects to reduce enabled emissions (community emissions) such as building electric vehicle charging stations to support uptake of electric vehicles in the community • energy efficiency measures to avoid emissions (e.g. installing LED lights) • projects to increase absorption of greenhouse emissions (e.g. increasing tree canopy).
Indirect mitigation	Purchasing of carbon offsets where emissions may not be reduced at a point in time.
Adaptation	Costs of activities to respond, manage and reduce the consequences of climate change.
Increased costs of core or existing services	Increased costs as a result of climate change impacting the provision and delivery of existing core services. These reflect costs that are required to ensure existing services and assets continue to meet existing regulatory obligations as well as community needs. Some examples include: • road and maintenance costs as a result of frequency of potholes from increased wet weather • watering of community gardens • maintenance, repair and replacement of infrastructure and assets and increased depreciation costs due to early replacement of assets (e.g. replacement of HVAC systems) • retrofitting buildings and assets (e.g. playgrounds). Costs can also include those associated with meeting increased safety standards and increased insurance to reflect changes in climate risks.
New/additional costs	New costs because of climate change, due to the need to respond to and prepare for climate change impacts including new investments. These reflect costs that are in addition to those related to the delivery of existing services and emerging because of climate change. These may depend on a council's choices about adaptation which may include changes to how services are provided. These costs may include: • building new infrastructure to manage impacts of climate change such as a sea wall or flood levees • raising a dam wall • increasing tree canopy • new buildings e.g. safety refuge during an emergency • costs associated with floods, coastal or bushfire management under climate change scenarios • costs to remove/retire infrastructure (emissions producing infrastructure). New costs can be associated with building council and community capacity and preparedness projects to collect climate change data for informed decision making: • community education programs to drive behavioural change • research and development • costs to improve planning processes to include climate change (result in higher wages for climate skilled staff) • installing heat sensors.
Natural disaster planning, recovery, response	Costs associated with preparing and responding to natural disaster emergencies • clean-up costs • repair and replacement of assets including essential/critical infrastructure • increase response and support services, and community support programs.

c These costs are consistent with those identified by the Queensland Competition Authority's current Climate change expenditure review 2022–23.

The key difference between the types of adaptation costs is the degree to which a council has control over these costs. For example, due to climate change, councils may need to spend more to deliver the same services - these are increased costs to existing services. But they may also need to provide more services or deliver new infrastructure that may not have been needed under a scenario with no climate change - these are new costs.

E.4 We considered who should pay for climate change costs

Climate change is one of the most significant issues that will impact the lives of people in NSW now and into the future. We all play a role in addressing climate change and contributing towards the costs of mitigating and adapting. In considering whether external costs associated with climate change should be captured in the rate peg methodology, we considered who should pay for the costs of climate change. The broader community has contributed to climate change including councils, their ratepayers, and their community. Apportioning the costs of climate change accurately is a complex task.

Communities that may face higher costs and climate risks, such as those affected by recent disasters, are likely to be increasingly vulnerable with a diminishing capacity to pay. Federal, State and Local Governments all play a role in addressing climate change and sharing the costs with the community and ratepayers.

We analysed whether it is appropriate for ratepayers to pay for climate change costs and how. For example, we considered whether those that cause climate change should pay for mitigating and adapting services. We also considered whether those that benefit from receiving more resilient services should pay. We consider that the 'impactor, beneficiary, or taxpayer-pays hierarchy' is appropriate to use to determining who should pay for climate change.

Ratepayers, their councils, and the broader community have contributed to climate change and would benefit from actions to address climate change, both to mitigate and adapt to climate change. It is reasonable for ratepayers to share the costs to address climate change. In submissions to the Draft Report most council stakeholders supported capturing climate change costs through an adjustment to the rate peg.[462]

Appendix F

Terms of reference

F

The Hon. Wendy Tuckerman MP
Minister for Local Government

Our Ref: A830508
18 August 2022

Ms Carmel Donnelly PSM
Chair
IPART
PO Box K35
HAYMARKET POST SHOP NSW 1240

Email: ipart@ipart.nsw.gov.au

Dear Ms Donnelly

The Premier of NSW, the Hon. Dominic Perrottet MP, has approved, pursuant to section 9(2) of the *Independent Pricing and Regulatory Tribunal Act 1992*, for the Independent Pricing and Regulatory Tribunal (IPART) to review the local government rate peg methodology, including the Local Government Cost Index.

I have attached a copy of the Premier's approval and the Terms of Reference (ToR).

The ToR require IPART to provide a final report on the outcomes of the review to myself, as Minister for Local Government, within 9 months of receiving the ToR. It is also requested that IPART provide Terms of Engagement, including a proposed program and timetable of works and an estimate of fees and/or disbursements for completing the work set out in the approved ToR.

Should you require further advice or assistance in relation to this matter, please do not hesitate to contact Melissa Gibbs, the Office of Local Government's Director Policy and Sector Development on [redacted] or by email at olg@olg.nsw.gov.au.

Yours sincerely

The Hon. Wendy Tuckerman MP
Minister for Local Government

Encl: 1. IPART review of the rate peg methodology - Premier approval - Tab 1
2. IPART review of the rate peg methodology - Signed Terms of Reference (ToR) – Tab

GPO Box 5341 Sydney NSW 2001 ▪ P: (02) 8574 5280 ▪ W: nsw.gov.au/ministertuckerman

New South Wales

Dominic Perrottet MP
Premier of New South Wales

Ref: A5440532

The Hon Wendy Tuckerman
Minister for Local Government
52 Martin Place
SYDNEY NSW 2000

Dear Minister,

Thank you for your correspondence of 18 May 2022 regarding a proposed arrangement for the Independent Pricing and Regulatory Tribunal (IPART) to review the local government rate peg methodology, including the Local Government Cost Index.

I approve the arrangement as set out in your letter and proposed terms of reference, pursuant to section 9(2) of the *Independent Pricing and Regulatory Tribunal Act 1992.*

Thank you for taking the time to bring this matter to my attention.

Yours sincerely,

Dominic Perrottet MP
Premier

22/06/2022

GPO Box 5341 Sydney NSW 2001 ▪ P: (02) 8574 5000 ▪ F: (02) 9339 5500 ▪ W: nsw.gov.au

OFFICIAL

TERMS OF REFERENCE - Review of rate peg methodology

I, Wendy Tuckerman, Minister for Local Government, with the approval of the Premier, have entered into an arrangement for the provision of services by the Independent Pricing and Regulatory Tribunal (IPART) under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* to investigate and report on the rate peg methodology in accordance with this Terms of Reference.

Context

IPART has set the rate peg under section 506 of the *Local Government Act 1993* (the Act) under delegation from the Minister for Local Government since 2010. The rate peg is the maximum percentage amount by which a council may increase its general income for the year. The primary purpose of the rate peg is to protect ratepayers from excessive increases in their rate bills. Section 506 of the Act enables different rate pegs to be set for different councils.

IPART calculates the rate peg by applying a methodology that comprises the Local Government Cost Index (LGCI), a productivity factor and a population factor (the methodology). Currently, the LGCI and productivity factor are the same for all councils, and IPART's approach to determining these components of the rate peg has been broadly consistent since 2010. The population factor was introduced in 2022-23 and varies depending on population growth in each council area.

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

The local government sector has raised concerns that when inflation is more volatile, such as during the COVID-19 pandemic, councils have difficulty forecasting and planning for a low inflation rate peg outcome.

The task

I am requesting IPART 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, I am requesting IPART to investigate and 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 goods and 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 LGCI approach;
6. Whether the population growth factor is achieving its intended purpose.

In undertaking the review, IPART should 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.

Process and timeframe

IPART should consult with relevant stakeholders including councils, the Office of Local Government, relevant NSW Government agencies, Local Government NSW and the public in carrying out this review, including by publishing a draft report.

The Tribunal will provide a final report to the Minister for Local Government within 9 months of receiving the terms of reference.

The Hon. Wendy Tuckerman MP
Minister for Local Government

Appendix G

Emergency Services Levy Factor – Worked examples

G

This appendix contains two worked examples of the new methodology see **Box G.1**. This demonstrates how the ESL factor will be calculated.

Box G.1 Simplified working example using the new methodology

IPART is setting the rate peg for the 2024-25 financial year using the new methodology and needs to determine an ESL factor for Council A and Council B.

- Council A and Council B both have an TPI at 2023-24 of $10 million.
- Council A's 2022-23 ESL contribution was $1 million. Council B 's 2022-23 ESL contribution was $50,000.
- The rate peg before the ESL factor based on the BCC, population factor and other adjustments is 3%.
- Council A's 2023-24 contribution is $1.1 million. Council B's 2023-24 contribution is $50,500.

Table 9.3 Worked example data for Council A

Council A	2023-24	2024-25
Rate peg before ESL factor (i.e. BCC, population factor and other adjustments)		3.0%
Total Permissible Income	$10 million	
ESL contributions from previous year (i.e. ESL included in TPI)	$1 million	$1.1 million

Steps to calculate the ESL factor for Council A:

1. Subtract the council's 2022-23 ESL contribution from its TPI at 2023-24. Increase this amount by the rate peg before the ESL factor (defined as X).

$$X = (\$10.0m - \$1.0m) \times (1 + 3.0\%) = \$9.27m$$

2. Add the council's 2023-24 ESL contribution to be recovered by the 2024-25 rate peg (defined as Y).

$$Y = X + \$1.1m$$

$$Y = \$9.27m + \$1.1m = \$10.37m$$

3. Find the percentage change between the initial TPI ($10 million) and new TPI ($10.37m, from step 2). This is the final rate peg.

$$R_{24-25} = \frac{Y}{\$10.0m} - 1$$

$$R_{24-25} = \frac{\$10.37m}{\$10.0m} - 1 = 3.7\%$$

4. Subtract from the final rate peg the rate peg before the ESL factor to find the ESL factor.

$$ESL\ factor = \ R_{24-25} - 3.0\%$$

$$ESL\ factor = 3.7\% - 3.0\% = 0.7\%$$

5. Applying the full formula that we proposed in the Draft Report.

$$ESL\ factor = \frac{[(\$10.0m - \$1.0m) \times (1 + 3\%)] + \$1.1m}{\$10.0m} - (1 + 3\%)$$

$$ESL\ factor = 0.7\%$$

$$Rate\ peg\ for\ Council\ A = 3.7\%$$

6. We have prepared a simplified version of this formula for the Final Report

$$ESL\ factor = \frac{ESL_{(t-1)} - (1 + Rx_{t-1})ESL_{(t-2)}}{TPI_{(t-1)}}$$

where: $TPI_{(t-1)} = \ (1 + I_{(t-1)})TPI_{(t-2)}$

$$ESL\ factor = \frac{\$1.1m - (1 + 3\%)\$1.0m}{\$10.0m}$$

7. This produces the same result as the formula proposed in the Draft Report

$$ESL\ factor = 0.7\%$$

$$Rate\ peg\ for\ Council\ A = 3.7\%$$

Table 9.4 Worked example data for Council B

Council B	2023-24	2024-25
Rate peg before ESL factor (i.e. BCC, population factor and other adjustments)		3.0%
Total Permissible Income	$10 million	
ESL contributions from previous year (i.e. ESL included in TPI)	$50,000	$50,500

Steps to calculate the ESL factor for Council B:

1. Subtract the council's 2022-23 ESL contribution from its TPI at 2023-24. Increase this amount by the rate peg before the ESL factor (defined as X).

Box G.1 Simplified working example using the new methodology

$$X = (\$10.0m - \$50{,}000) \times (1 + 3.0\%) = \$10.249m$$

2. Add the council's 2023-24 ESL contribution to be recovered by the 2024-25 rate peg (defined as Y).

$$Y = X + \$50{,}500$$

$$Y = \$10.249m + \$50{,}500 = \$10.299m$$

3. Find the percentage change between the initial TPI ($10 million) and new TPI ($10.299m, from step 2). This is the final rate peg.

$$R_{24-25} = \frac{Y}{\$10.0m} - 1$$

$$R_{24-25} = \frac{\$10.299m}{\$10.0m} - 1 = 2.99\%$$

4. Subtract from the final rate peg the rate peg before the ESL factor to find the ESL factor.

$$ESL\ factor = R_{24-25} - 3.0\%$$

$$ESL\ factor = 2.99\% - 3.0\% = -0.01\%$$

5. Applying the full formula that we proposed in the Draft Report,

$$ESL\ factor = \frac{[(\$10.0m - \$50{,}000) \times (1 + 3\%)] + \$51{,}000}{\$10.0m} - (1 + 3\%)$$

$$ESL\ factor = -0.01\%$$

$$Rate\ peg\ for\ Council\ B = 2.99\%$$

6. We have prepared a simplified version of this formula for the Final Report

$$ESL\ factor = \frac{ESL_{(t-1)} - (1 + Rx_{t-1})ESL_{(t-2)}}{TPI_{(t-1)}}$$

where: $TPI_{(t-1)} = (1 + I_{(t-1)})TPI_{(t-2)}$

$$ESL\ factor = \frac{\$50{,}500 - (1 + 3\%)\$50{,}000}{\$10.0m}$$

7. This produces the same result as the formula proposed in the Draft Report

$$ESL\ factor = -0.01\%$$

$$Rate\ peg\ for\ Council\ B = 2.99\%$$

In 2022-23, because increases in ESL contributions were subsidised, councils did not need to recover an increase on this amount. Therefore, the increase captured in the rate peg was zero. Had our new approach been applied in 2022-23, the ESL factor would have been negative as it was lower than the change in the rate peg (as shown in the working example for Council B above). The ESL factor would therefore negatively adjust the rate peg so the ESL portion of TPI would not increase by the rate peg. Therefore, total TPI would need to be increased by a smaller percentage so ESL factors would be negative in this case.

As calculated above in the working example for Council B, it is possible for ESL factors to be negative if the change in ESL contributions is less than the changes in the other costs measured through the BCC. This is to ensure that increases to the ESL are not applied twice to income so that ratepayers do not pay more than they should.

We note that due to the discontinuation of the NSW Government subsidy for the 2023-24 ESL contributions and the subsequent increase in ESL contributions, future ESL factors may be large positive factors (as shown in the working example for Council A). However, it is also possible in the future that ESL factors could be negative for some councils that experience smaller increases in ESL contributions on average.

Appendix H

Glossary

Body text for the explanatory text

H

Terms	Descriptions
ABS	Australian Bureau of Statistics
Ad valorem rate	A Latin term meaning “according to value.” In this context it refers to the component of rates based on the unimproved value of land.
Base Cost Change (BCC) Model	IPART’s new model to measure the base cost change for 3 groupings of councils – metropolitan, regional and rural. It includes 3 components – employee costs, asset costs and other operating costs.
Capital improved value (CIV)	The total market value of the land plus buildings and other improvements.
Consumer Price Index (CPI)	Measures the overall change in consumer prices based on a representative basket of goods and services over time.
The CIE	The Centre for International Economics. IPART’s consultant who provided advice on local government labour costs and the treatment of external costs in IPART’s rate peg methodology.
Current method/or methodology	Refers to the latest rate peg methodology used to set the rate peg prior to the final decisions for this review. The new methodology will be used to set the rate peg from 2024-25.
Developer contributions	Developer contributions are monetary payments or works-in-kind agreements that supply or contribute towards the cost of local infrastructure. They are charged by councils when new development occurs and provide land and infrastructure including open space, parks, local roads, footpaths, and stormwater drainage.
Emergency Services Levy (ESL)	Councils pay contributions to the NSW Government through the ESL to support emergency services in NSW. These contributions contribute to the funding of Fire and Rescue NSW (FRNSW), the NSW State Emergency Service (SES) and the NSW Rural Fire Service (RFS).
Essential Services Commission (ESC)	The Essential Services Commission, the independent regulator for essential services in Victoria.
Estimated residential population (ERP)	An estimate of residential population based on the concept of usual residence published annually by the Australian Bureau of Statistics.
External costs	External changes, outside of a council’s control or that councils are constrained in recovering the cost of, that are reflected in a council’s costs.
Fair Work Commission	Australia's workplace tribunal.
Financial Assistance Grants (FAG)	The Financial Assistant Grant program provides funding support from the Australian Government to local governments across Australia. Local government grants commissions in each state and the Northern Territory recommend the distributions of the funding under the program in accordance with the Local Government (Financial Assistance) Act 1995 (Cth) and the National Principles for allocating grants formulated under that Act.
Financial sustainability	A council is financial sustainable if it is able to appropriately manage its general revenue and expenses to ensure its long-term ability to continue providing services and infrastructure for the local community. See section 8B of the Local Government Act – Principles of sound financial management.
FRNSW	Fire and Rescue NSW
General income	Income from ordinary rates, special rates, and annual charges, other than special rates and charges for water supply services and sewerage services, annual charges for waste management services, annual charges for stormwater management services, and annual charges for coastal protection services and certain other charges. See section 505(a) of the Local Government Act.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
IP&R	Integrated Planning and Reporting
Local Government Act	Local Government Act 1993 (NSW)

Terms	Descriptions
Local government area (LGA)	A local government area is an administrative division that a local government council is responsible for.
Local Government Cost Index (LGCI)	An index used by IPART in setting the rate peg which measures price changes over time for cost items relevant to NSW councils.
Local Government (State) Award	The Local Government Award covers employers in the local government industry and their employees who fit in a classification in the award.
LGNSW	Local Government New South Wales
Metropolitan councils	Councils in OLG groups 1, 2, 3, 6 and 7
Minimum rate	A minimum amount of a rate specified under section 548 of the Local Government Act.
OLG	Office of Local Government
ORIMA Research	IPART's consultant who conducted a survey of residential and business ratepayers and conducted 5 focus groups with ratepayers across the State.
Population Factor	A factor included in the current rate peg methodology that accounts for each council's population change over time. It is designed to give councils the additional revenue required to keep revenue per capita (before inflation) consistent, as populations grow.
Producer Price Index (PPI)	Measures the overall change in prices for domestic producers based on a representative basket of goods and services over time.
Productivity Factor	An explicit factor included in the current rate peg methodology to account for productivity gains in the local government sector.
Rate exemption	There are some parcels of land that are exempt from paying rates and charges as outlined in the Local Government Act 1993. These include parcels of land within a national park and land that belongs to, for example, a religious body or school.
Rate peg	The term 'rate peg' refers to percentage or methodology specified for each council in the annual order published by IPART (under delegation from the Minister) in the Gazette under s 506 of the Local Government Act 1993.
Rating category groups	There are 4 categories of an ordinary rate and 4 categories of rateable land—farmland, residential, mining and business under section 492 of the Local Government Act (The Act). These categories may, at a council's discretion, be divided into sub-categories in accordance with section 529 of the Act.
RBA	The Reserve Bank of Australia
Regional councils	Councils in OLG groups 4 and 5
Revenue NSW	It is an administrative division of the Government of New South Wales that has responsibility for collecting New South Wales taxes.
RFS	NSW Rural Fire Service
Rural councils	Councils in OLG groups 8 to 11
Socio-Economic Indexes for Areas (SEIFA)	Socio-Economic Indexes for Areas (SEIFA) is an index developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census. It consists of four indexes, the Index of Relative Socio-economic Disadvantage (IRSD), the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), the Index of Economic Resources (IER), and the Index of Education and Occupation (IEO).
SES	NSW State Emergency Service
Special Variation (SV and SRV)	The percentage by which a council's general income for a specified year or years may be varied as determined by IPART under delegation from the Minister for Local Government. Councils apply to IPART for special variations in accordance with guidelines published by OLG.

Terms	Descriptions
Statutory charges	Charges for certain statutory services provided by councils.
Supplementary valuation	Supplementary valuations are issued by the NSW Valuer General between general valuations when changes to property are recorded on the Register of Land Values. This can happen when properties or parcels of land are physically changed, subdivided or rezoned; or to correct a previous error.
Total Permissible Income (TPI)	Total Permissible Income is the notional general income of a council for the previous year as varied by the percentage (if any) applicable to the council under the rate peg or a special variation, as adjusted for supplementary valuations and estimates of increases in land value from the Valuer-General. A council must set rates and charges for a year so as to produce general income of an amount that is equal to or lower that the PGI. See section 509 of the Local Government Act.
Wage Price Index (WPI)	Measures the change in wages and salaries for a representative sample of private and public sector organisations over time.

1 Minister for Planning, *Environmental Planning and Assessment (Local Infrastructure Contributions) Direction 2012*, 21 August 2012, as amended.

2 NSW Electoral Commission, How does a local government election work?, October 2022, accessed 26 May 2023.

3 Audit Office of NSW, Our stakeholders - Local government, accessed 30 May 2023.
Audit Office of New South Wales, Regulation and monitoring of local government: New South Wales Auditor-General's Report, 23 May 2023.

4 Office of Local Government, Integrated Planning and Reporting Handbook for Local Councils in NSW, September 2021, p 3.

5 Woollahra Municipal Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7.
Narrandera Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.

6 ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 3 & 10.

7 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 2.

8 S Cromie, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
R. Cable, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022; Anonymous (W22/1725), Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022; ORIMA, Rate Peg Survey Integrated Report, April 2023, p 4; and ORIMA, Rate Peg Focus Groups Research Report, May 2023.

9 K Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 12.
Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
B. Mascorella, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022; C. Coppock, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 2; and K. Brooks, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, pp 7-8.

10 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 21.

11 R. Cable, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022; K. Brooks, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 1; and Our Shire Our Council Initiative, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022. See also submissions from I. Garnham; and C. Garnham.

12 ORIMA, Rate Peg Survey Integrated Report, April 2023; and ORIMA, Rate Peg Focus Groups Research Report, May 2023, pp 2, 10-11.

13 Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
Shopping Centre Council of Australia, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.

14 Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
Urban Taskforce Australia, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
G Sansom, UTS Institute for Public Policy and Governance, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5.
R. Cable, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022; K. Brooks, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, pp 2-3; Anonymous (W22/1800), Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022; and United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 24-25; See also submissions from C. Coppock, pp 1-2; Woollahra Municipal Council, pp 6-7; Campbelltown City Council, pp 5-6, Port Stephens Council, pp 2-3; Willoughby City Council, p 4; Newcastle City Council, p 3; Blacktown City Council, pp 9-10.

15 Shopping Centre Council of Australia, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.

16 K Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 19-20.

17 Mid-Western Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6.

18 Albury City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5 and North Sydney Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 8.

19 Bellingen Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7; MidCoast Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 3 & 7; and Murray River Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6. See also submissions from Nambucca Valley Council, Northern Beaches Council, Port Stephens Council, Local Government NSW and Riverina Joint Organisation.

20 United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 31-32.

[21] Local Government New South Wales, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 4-5; NSW Revenue Professionals Inc, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Riverina Eastern Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4. See also submissions from Albury City Council, Blacktown City Council, Byron Shire Council, Camden Council, Central NSW Joint Organisation, Edward River Council, Hornsby Shire Council, Inverell Shire Council, Lake Macquarie City Council, Local Government Professionals Australia, NSW, MidCoast Council, Northern Sydney Regional Organisation of Councils, Queanbeyan-Palerang Regional Council, Shoalhaven City Council, Southern Sydney Regional Organisation of Councils, Strathfield Council, Wagga Wagga City Council and Woollahra Municipal Council.

[22] Canberra Region Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8.

[23] C. Jaques, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1 and K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 10.

[24] Northern Beaches Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 9-10; Northern Sydney Regional Organisation of Councils, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 4; and Uralla Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, pp 3-4.

[25] ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 5 & 12.

[26] The Office of Local Government, Australian Classification of Local Governments and OLG group numbers, accessed 23 May 2023.

[27] Northern Beaches Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 9-10 and Uralla Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 3.

[28] Blacktown City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 3; Canberra Region Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7 and Strathfield Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.

[29] Murray River Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, pp 1 & 3.

[30] IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 2.

[31] IPART, Reweighting of Local Government Cost Index - Fact Sheet, May 2020, p 6.

[32] IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 2.

[33] IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 2 and IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 1.

[34] Name suppressed (W23/2909), Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.

[35] The CIE, Local government labour cost indexation, May 2023, pp 2, 24 & 26.

[36] The CIE, Local government labour cost indexation, May 2023, p 2.

[37] The CIE, Local government labour cost indexation, May 2023, pp 23-24.

[38] The CIE, Local government labour cost indexation, May 2023, pp 2, 7-12.

[39] Albury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 3-4; Central NSW Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3 and Clarence Valley Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 1. See also submissions from MidCoast Council, Murray River Council, Wollongong City Council and Yass Valley Council.

[40] Central NSW Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Clarence Valley Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 1 and Hornsby Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4. See also submissions from Local Government New South Wales, Maitland City Council, Murray River Council, Sutherland Shire Council and Yass Valley Council.

[41] Blacktown City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 4; Byron Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Campbelltown City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1. See also submissions from Inverell Shire Council and Maitland City Council.

[42] Hawkesbury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 2; Lake Macquarie City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Mosman Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2. See also submissions from Bathurst Regional Council, Camden Council, Hornsby Shire Council, Moree Plains Shire Council, The Hills Shire Council, Willoughby City Council and Wingecarribee Shire Council.

[43] Inverell Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Lane Cove Council; Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1 and Northern Sydney Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1. See also submissions from Queanbeyan-Palerang Regional Council, and Woollahra Municipal Council.

[44] Hawkesbury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 2; Mosman Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2. See also submissions from Southern Sydney Regional Organisation of Councils and Woollahra Municipal Council.

45 Bellingen Shire Council; Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Lake Macquarie City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Shoalhaven City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1. See also submission from Riverina Eastern Regional Organisation of Councils.
46 Upper Hunter Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
47 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 7.
48 IPART, Public hearing transcript, July 2023, p 15.
49 Byron Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
50 Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
51 Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Tweed Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
52 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 8.
53 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 8.
54 Kogarah Bay Progress Association, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
55 *Local Government Act 1993*, s 8A(1)(b) and Byron Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
56 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 51.
57 The Office of Local Government, Circulars 22-04 Payment of councillor superannuation, accessed 23 May 2023 and Australian Bureau of Statistics, Wage Price Index: Concepts Sources and Methods, Chapter 9 – Quality Change, 2012.
58 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 2.
59 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 2.
60 Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Local Government New South Wales, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6 and MidCoast Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6. See also submissions from Moree Plains Shire Council, Riverina Eastern Regional Organisation of Councils and Willoughby City Council.
61 Cessnock City Council, Confidential submission to IPART's Draft Report for the 2022-23 Rate peg Methodology, July 2023, pp 2- 3; City of Sydney, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Strathfield Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
62 Central NSW Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3.
63 Leeton Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2 and Wollongong City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
64 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 2.
65 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 2.
66 Canberra Region Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 9; Local Government New South Wales, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6 and MidCoast Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7.
67 Cessnock City Council, Confidential submission to IPART's Draft Report for the 2022-23 Rate peg Methodology, July 2023, p 3 and Riverina Eastern Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 2-3.
68 Lake Macquarie City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 2-3 and The Hills Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
69 Canberra Region Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 9; Local Government New South Wales, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7 and MidCoast Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7. See also submissions from Murray River Council and NSW Revenue Professionals Inc.
70 Cessnock City Council, Confidential submission to IPART's Draft Report for the 2022-23 Rate peg Methodology, July 2023, p 3 and Name suppressed, Confidential submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
71 Name suppressed, Confidential submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
72 Inverell Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2 and Riverina Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4.
73 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 2.
74 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 12 and S. Cromie, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2021, p 1.

75 C. Jaques, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1 and K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 10.
76 Australian Bureau of Statistics. Consumer Price Index, Australia methodology – March Quarter 2023, accessed 23 May 2023.
77 Essential Services Commission, Our advice on setting council rate caps, accessed 23 May 2023.
78 Essential Services Commission, Our advice on setting council rate caps, accessed 18 August 2023.
79 Essential Services Commission, Letter to the Minister for Local Government - Advice on the average rate cap for 2023-24, accessed 18 August 2023 and Essential Services Commission, Victorian local council rate cap set at 3.5 per cent for 2023-24, accessed 18 August 2023.
80 Reserve Bank of Australia, Statements on Monetary Policy, accessed 23 May 2023.
81 Reserve Bank of Australia, Statements on Monetary Policy, accessed 23 May 2023.
82 Bellingen Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6; The Hills Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 7-8; and Weddin Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 11. See also submissions from Local Government NSW and United Services Union.
83 Berrigan Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Campbelltown City Council; Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 8; and Northern Beaches Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 11-12. See also submissions from Leeton Shire Council, Mid-Western Regional Council, Hawkesbury City Council, Tamworth Regional Council and NSW Revenue Professionals.
84 Blacktown City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 2; Hornsby Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3 and Richmond Valley Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
85 Albury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Bathurst Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Local Government Professionals Australia, NSW, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 2.
86 NSW Government Revenue, Emergency Services Levy, accessed May 3; and NSW Government Revenue, Commissioner's practice note: Emergency Services Levy - Emergency Services Levy Act 2017.
87 *State Emergency Service Act 1989*, s 24I.
88 *Fire and Rescue Act 1989*, s 51.
89 *Rural Fires Act 1997*, s 110.
90 LGNSW, Impact of cost shifting on local government in NSW, October 2018, accessed 18 May 2023.
91 Central NSW Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7; Lachlan Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 8; and Blayney Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3. See also submission from Narrandera Shire Council, p 3.
92 Canberra Region Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 15; Central NSW Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; and Bega Valley Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1.
93 Riverina Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 2-3.
94 LGNSW, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 10.
95 North Sydney Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; and Kyogle Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
96 Canberra Region Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 15; and Anonymous (W22/1819), Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
97 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 4.
98 Tweed Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Edward River Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Moree Plains Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; See also submissions from [Woollahra Council, Strathfield Council, City of Ryde, Wollongong City Council, Mid–Coast Council, Hornsby Shire Council, Clarence Valley Council, City of Sydney, Camden Council, Blacktown City Council, Hawkesbury City Council, Albury City Council, Wagga Wagga City Council, Northern Beaches Council.
99 Albury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Bellingen Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Hills Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; See also submissions from [Strathfield Council, Local Government Professionals Australia, NSW Revenue Professionals, Edward River Council, Central Coast Council, Bathurst Regional Council, Wingecarribee Shire Council, North Sydney Council, Willoughby City Council, Maitland City Council, City of Ryde].

[100] Willoughby City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Maitland City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; City of Ryde, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; See also submissions from [Strathfield Council, Local Government Professionals Australia, NSW Revenue Professionals, Edward River Council, Albury City Council, Bellingen Shire Council, Hills Shire Council, Central Coast Council, Bathurst Regional Council, Wingecarribee Shire Council, North Sydney Council].

[101] Wagga Wagga City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Lane Cove Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Hornsby Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 11; See also submissions from [Local Government Professionals Australia, Blacktown City Council, Murray River Council, Edward River Council, City of Sydney, Albury City Council, Bellingen Shire Council, Hills Shire Council, Central Coast Council, Northern Beaches Council].

[102] Bellingen Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Hills Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3. Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6; See also submissions from [Blacktown City Council, Central Coast Council].

[103] Office of Local Government, Changes to the emergency services funding arrangements, 8 May 2019 & NSW Treasury, One year reprieve for council emergency services levy, 13 August 2019.

[104] Office of Local Government, COVID-19 Local Government Economic Stimulus Package, May 2020. Information provided to IPART from the Office of Local Government for purposes of setting the rate peg, June 2021.

[105] Office of Local Government, $43 million emergency services boost to support councils, 14 April 2022.

[106] IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.

[107] *Local Government Act 1993,* s 511.

[108] The CIE, Treatment of external costs in the local government rate peg, May 2023, p 3.

[109] Riverina Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.

[110] IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023; and IPART, Summary of discussion at rate peg methodology workshops, December 2022.

[111] IPART, Summary of discussion at rate peg methodology workshops, December 2022.

[112] Willoughby City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 6-7. See also submissions to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022 from Berrigan Shire Council, p 4; North Sydney Council, p 3; and Ku-ring-gai Council, p 6.

[113] C. Garnham, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022; Our Shire Our Council Association, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 8, and C. Jacques, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review. November 2022, p 7.

[114] K. Brooks, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7; IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 2; K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 16.

[115] IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 2.

[116] Queanbeyan-Palerang Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, pp 4-5. D23/14319

[117] UTS Institute for Public Policy and Governance, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 3. D23/15107

[118] ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 48-50.

[119] Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 8-9; Willoughby City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; and NSW Revenue Professionals, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7. See also submissions from Weddin Shire Council, p 8; Tamworth Regional Council, p 3; Bathurst Regional Council, p 5; Local Government NSW (LGNSW), pp 9-10; and Inverell Shire Council, p 3.

[120] IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 4.

[121] Bathurst Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 10.

[122] Canberra Region Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; and Snowy Valleys Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 10.

[123] The CIE, Treatment of external costs in the local government rate peg, May 2023, p 8

[124] IPART, Review of the rate peg methodology – Issues Paper, September 2022, p 9.

[125] Ku-ring-gai Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; Shoalhaven City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022; and Randwick City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.

[126] Wagga Wagga City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 4; MidCoast Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 11; Local Government NSW, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8.

[127] The Hills Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; NSW Revenue Professionals, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 5; Bathurst Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3.
[128] K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 16; Queanbeyan-Palerang Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, pp 4-5.
[129] The CIE, Treatment of external costs in the local government rate peg, May 2023, p 9.
[130] Moree Plains Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Byron Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4.
[131] North Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 7-8; North Sydney Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3.
[132] South Sydney Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Riverina Eastern Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 3-4; Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4.
[133] Riverina Eastern Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 3-4; Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4, Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; North Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June2023, p 16, City of Sydney, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 5-6.
[134] *Local Government Act 1993*, s 8A(2)(c) and (d).
[135] Queanbeyan-Palerang Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, pp 4-5. D23/14319.
[136] Stakeholder feedback provided to IPART outside our technical workshops, May 2023.
[137] The Hills Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5.
[138] IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
[139] Office of Local Government, Circular No 22-39 – Release of Cyber Security Guidelines for NSW Local Government, December 2022.
[140] City of Newcastle, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 2; Sutherland Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 3; Willoughby City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 5; South Sydney Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Shoalhaven City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
[141] Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 1-2.
[142] North Sydney Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
[143] Clarence Valley Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 2; North Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8; Richmond Valley Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4.
[144] Anonymous, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022, p 1; J Hagger, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1.
[145] Queanbeyan-Palerang Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Snowy Valleys Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Dubbo Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; See also submissions from [Local Government NSW, Canberra Region Joint Organisation, Bayside Council and Bellingen Shire Council].
[146] City of Newcastle, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Bayside Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; City of Coffs Harbour, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
[147] Bellingen Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Lachlan Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1; Blayney Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [Bland Shire Council]
[148] North Sydney Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; Ku-ring-gai Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Leeton Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [North Sydney Regional Organisation of Councils, Hawkesbury Council, Northern Beaches Council, Willoughby City Council, Wollondilly Shire Council, Bega Valley Shire Council, Riverina Joint Organisation and Canberra Region Joint Organisation].
[149] K. Brooks, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 5.

150 United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 17; Woollahra Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; City of Coffs Harbour, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [Lane Cove Council and Clarence Valley Council].
151 Bathurst Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; Murrumbidgee Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Gunnedah Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [Ku-ring-gai Council, Tamworth Regional Council, Lane Cove Council, North Sydney Council, Riverina Joint Organisation, North Sydney Regional Organisation of Councils, Bellingen Shire Council, Tweed Shire Council, Northern Beaches Council, NSW Revenue Professionals, Willoughby City Council, Campbelltown City Council and United Services Union].
152 Anonymous, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022, p 1; J Hagger, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1.
153 J Hagger, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1.
154 Anonymous, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022, p 1; J Hagger, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1.
155 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
156 IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 2.
157 Murray River Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Wollongong City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Clarence Valley Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; See also submissions from [Woollahra Council, South Sydney Regional Organisation of Councils, Maitland City Council, and Willoughby City Council].
158 Wagga Wagga City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5; North Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8; Riverina Eastern Regional Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6.
159 NSW Revenue Professionals, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6; Campbelltown City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; Local Government NSW, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 8-9; See also submissions from [Blacktown City Council].
160 NSW Revenue Professionals, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6; Local Government NSW, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 8-9.
161 Australian Bureau of Statistics, Prisoners in Australia, December 2021.
162 RP Infrastructure, Hunter & Macquarie Correctional Centres Rapid Build Maximum Security Prisons.
163 SERCO, Clarence Correctional Centre.
164 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
165 IPART, Review of the rate peg to include population growth – Final Report, October 2021, p 22.
166 Northern Beaches Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
167 Queanbeyan-Palerang Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Snowy Valleys Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Dubbo Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; See also submissions from [Local Government NSW, Canberra Region Joint Organisation, Bayside Council and Bellingen Shire Council].
168 Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5.; Lane Cove Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; Canberra Region Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5.
169 Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5.
170 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
171 IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 2.
172 Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5.
173 Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; NSW Revenue Professionals, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6; Tamworth Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [Bathurst Regional Council, Randwick City Council and North Sydney Council].
174 City of Sydney, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; North Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8.
175 Hawkesbury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Edward River Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5; Hills Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 4-5; See also submissions from [Bellingen Shire Council, Shoalhaven City Council, Hornsby Shire Council, Bathurst Shire Council, Byron Shire Council, NSW Revenue Professionals].

[176] Wagga Wagga City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5.
[177] City of Newcastle, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Sutherland Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Willoughby City Council Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; See also submissions from [Maitland City Council, Mosman Council, Richmond Valley Council, Camden Council].
[178] City of Newcastle, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Maitland City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Mosman Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 3-4; See also submissions from [Blacktown City Council and Camden Council].
[179] IPART, Review of the rate peg to include population growth – Final Report, September 2021, p 12.
[180] City of Newcastle, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Bayside Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; City of Coffs Harbour, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
[181] City of Newcastle, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
[182] Bayside Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4.
[183] Lachlan Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1.
[184] Bellingen Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Lachlan Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1; Blayney Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [Bland Shire Council]
[185] IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
[186] IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
[187] IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
[188] Canberra Region Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5; Upper Hunter Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
[189] North Sydney Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; Ku-ring-gai Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Leeton Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [North Sydney Regional Organisation of Councils, Hawkesbury Council, Northern Beaches Council, Willoughby City Council, Wollondilly Shire Council, Bega Valley Shire Council, Riverina Joint Organisation and Canberra Region Joint Organisation].
[190] Hawkesbury Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
[191] North Sydney Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; Ku-ring-gai Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Leeton Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [North Sydney Regional Organisation of Councils, Hawkesbury Council, Northern Beaches Council, Willoughby City Council, Wollondilly Shire Council, Bega Valley Shire Council, Riverina Joint Organisation and Canberra Region Joint Organisation].
[192] Riverina Eastern Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6; North Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8.
[193] IPART, Review of the rate peg to include population growth – Final Report, September 2021, p 10.
[194] IPART, Review of the rate peg to include population growth – Final Report, September 2021, p 49.
[195] K. Brooks, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 5.
[196] K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 17.
[197] IPART, Review of the rate peg to include population growth – Final Report, October 2021, p 27.
[198] United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 17; Woollahra Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; City of Coffs Harbour, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from Lane Cove Council and Clarence Valley Council.
[199] Clarence Valley Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 26; City of Coffs Harbour, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
[200] IPART, Review of the rate peg to include population growth – Final Report, September 2021, p 9.
[201] IPART, Review of the rate peg to include population growth – Final Report, September 2021, p 3.
[202] United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 17; Woollahra Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; City of Coffs Harbour, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [Lane Cove Council and Clarence Valley Council].

203 United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 17.
204 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
205 The CIE, Analysis of rate peg options to account for population growth, June 2021, p 2.
206 The CIE, Analysis of rate peg options to account for population growth, June 2021, p 43.
207 The CIE, Analysis of rate peg options to account for population growth, June 2021, p 18.
208 United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 17.
209 IPART, Summary of discussion at Rate Peg Methodology workshops, December 2022, p 3.
210 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
211 Walcha Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
212 IPART, Final Report: Review of the rate peg to include population growth, September 2021, p 15.
213 IPART, Final Report: Review of the rate peg to include population growth, September 2021, p 51.
214 Email to IPART, Councillor Meg Montgomery, Lane Cove Council, 1 December 2022.
215 Bathurst Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; Murrumbidgee Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Gunnedah Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [Ku-ring-gai Council, Tamworth Regional Council, Lane Cove Council, North Sydney Council, Riverina Joint Organisation, North Sydney Regional Organisation of Councils, Bellingen Shire Council, Tweed Shire Council, Northern Beaches Council, NSW Revenue Professionals, Willoughby City Council, Campbelltown City Council and United Services Union].
216 Gunnedah Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
217 Wingecaribee Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5.
218 IPART, Rate peg for NSW councils for 2023-24 – Information Paper, September 2022, p 7.
219 Tamworth Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Murrumbidgee Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Gunnedah Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
220 Clarence Valley Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 26; City of Coffs Harbour, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
221 The Hills Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; Mid-Western Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Northern Beaches Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
222 IPART, Review of the rate peg to include population growth – Final Report, October 2021, p 11.
223 IPART, Review of the rate peg to include population growth – Final Report, October 2021, p 50.
224 IPART, Review of the rate peg to include population growth – Final Report, October 2021, p 50.
225 IPART, Review of the rate peg to include population growth – Final Report, October 2021, p 50.
226 IPART, Review of the rate peg to include population growth – Final Report, October 2021, p 22.
227 ABS, Estimates of Industry Multifactor Productivity.
228 IPART, The rate peg.
229 IPART, Rate peg for NSW councils for 2018-19 – Fact Sheet, November 2019, p 1.
230 Audit Office of New South Wales, Regulation and monitoring of local government: New South Wales Auditor-General's Report, 23 May 2023, p 27.
231 IPART, Public Hearing (Transcript), July 2023, p 17-32.
232 Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Willoughby City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; Mid-Western Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; See also submissions from [Northern Beaches Council, Berrigan Shire Council, Mid Coast Council, Tweed Shire Council, Wollondilly Shire Council and Weddin Shire Council; Central NSW Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Southern Sydney Regional Organisation of Councils (SSROC), Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; City of Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8.
233 Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7; Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Willoughby City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; See also submissions from [North Sydney Council, Randwick City Council, Bega Valley Shire Council and Nambucca Valley Council]; Central NSW Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4.
234 Inverell Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Mid-Western Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Gunnedah Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [Bega Valley Shire Council, Queanbeyan-Palerang Regional Council and Bathurst Regional Council].

235 The Hills Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Weddin Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022 p 8; Northern Beaches Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022 pp 3-4; See also submissions from [Woollahra Council and Bathurst Regional Council]; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3.
236 Port Stephens Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022 p 2 and United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 27.
237 K. Brooks, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 3; B Mascorella, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022, p 1; T Ciccia, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review. November 2022, p 1; Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3.
238 K. Brooks, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 3; K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3.
239 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3; IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 2; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Canberra Region Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 11; IPART, Public Hearing (Transcript), July 2023, p 28-29.
240 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3; IPART, Public Hearing (Transcript), July 2023, p 17.
241 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 12; Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
242 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 12.
243 Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
244 Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7.
245 Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 7-8
246 IPART, Public Hearing (Transcript), July 2023, p 28-29.
247 Hawkesbury Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
248 Central NSW Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 11.
249 Southern Sydney Regional Organisation of Councils (SSROC), Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; MidCoast Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 12.
250 Wollongong City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4.
251 Wollongong City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4.
252 Audit Office of New South Wales, Regulation and monitoring of local government: New South Wales Auditor-General's Report, 23 May 2023, p 27.
253 IPART, Public Hearing (Transcript), July 2023, p 17-29; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Edward River Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Albury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3.
254 IPART, Rate peg for NSW councils for 2017-18, November 2016, p 1.
255 IPART, Rate peg for NSW councils for 2017-18, November 2016, pp 2-3.
256 IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 2; IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
257 IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 2.
258 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
259 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
260 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 3.
261 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
262 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
263 Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review. July 2023, p 5; City of Newcastle, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 3 and Hawkesbury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 3. See also submissions from Lake Macquarie City Council; Local Government Professionals Australia, NSW; Mosman Council; North Sydney Council; Queanbeyan-Palerang Regional Council; Richmond Valley Council; Shoalhaven City Council; Southern Sydney Regional Organisation of Councils; Sutherland Shire Council and Woollahra Municipal Council.

[264] Bathurst Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Blacktown City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 6 and Byron Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 4-5. See also submissions from City of Sydney; Clarence Valley Council; Inverell Shire Council; Local Government New South Wales; Maitland City Council; MidCoast Council; Moree Plains Shire Council; Murray River Council; NSW Revenue Professionals Inc; The Hills Shire Council and Tweed Shire Council.

[265] Hornsby Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 11; Lane Cove Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2 and Northern Sydney Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 3-4.

[266] K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 18.

[267] IPART, Rate peg for NSW councils for 2023-24, September 2022, p 2.

[268] Albury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5; City of Newcastle, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3 and City of Sydney, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 8-9. See also submissions from Edward River Council; Lake Macquarie City Council; Mosman Council; Northern Beaches Council; Queanbeyan-Palerang Regional Council; Shoalhaven City Council; Southern Sydney Regional Organisation of Councils and Wagga Wagga City Council.

[269] IPART, Rate peg for NSW councils for 2022-23, December 2021, pp 1-4.

[270] IPART, Additional Special Variation (ASV) for 2022-23, accessed 11 August 2023.

[271] Albury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Central NSW Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4 and Hornsby Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4. See also submissions from Local Government New South Wales, Local Government Professionals Australia, NSW and MidCoast Council.

[272] Lane Cove Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Northern Sydney Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4 and North Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 10.

[273] K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 18.

[274] Albury City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Byron Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4 and Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3. See also submissions from Hornsby Shire Council; Lane Cove Council; MidCoast Council; Moree Plains Shire Council; North Sydney Council; Northern Sydney Regional Organisation of Councils; Strathfield Council; Sutherland Shire Council and Willoughby City Council.

[275] City of Ryde, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Local Government New South Wales, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 9 and Shoalhaven City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.

[276] IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 1.

[277] Audit Office of New South Wales, Regulation and monitoring of local government: New South Wales Auditor-General's Report, 23 May 2023.

[278] IPART, Review of the rate peg methodology – Draft Report, June 2023, pp 110-111.

[279] IPART, Public Hearing (Transcript), July 2023, pp 29-40.

[280] NSW Revenue Professionals Inc, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 3; Cootamundra-Gundagai Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 1; See also submissions from Queanbeyan-Palerang Regional Council; Clarence Valley Council; Murray River Council; K. Brooks; C. Jaques; Southern Sydney Regional Organisation of Councils; Riverina Eastern Regional Organisation of Councils; UTS Institute for Public Policy and Governance; Camden Council; Lane Cove Council; Local Government New South Wales.

[281] K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 9. Murray River Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 5.

[282] Riverina Eastern Regional Organisation of Councils, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.

[283] Common Thread Consulting, Submission to IPART's Draft Report for the 2022-23 Rate peg Methodology Review, June 2023, pp 5-14.

[284] Wagga Wagga City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 6; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7; Hornsby Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 12; Tweed Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5.

[285] K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, pp 19-25; Urban Taskforce Australia, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 1-3; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7-8; Bellingen Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.

[286] UTS Institute for Public Policy and Governance, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 4-6.

287 Wollongong City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 1-6; UTS Institute for Public Policy and Governance, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 3-6; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7; Narrandera Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Woollahra Municipal Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p.7; City of Sydney, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p. 1.

288 Cootamundra-Gundagai Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.

289 City of Sydney, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 9-10; Local Government Professionals Australia, NSW, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 7-8.

290 Tweed Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5; Strathfield Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 9; Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1;

291 S Cromie, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 19. Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 1.

292 Walcha Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, pp 1-2.

293 Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1;

294 Southern Sydney Regional Organisation of Councils Inc, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Lake Macquarie City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6.

295 Lake Macquarie City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6; Local Government New South Wales (LGNSW), Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 14; Northern Sydney Regional Organisation of Councils (NSROC), Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4.

296 MidCoast Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 22 and 24; Shopping Centre Council of Australia, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8.

297 Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8; Woollahra Municipal Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7.

298 Queanbeyan-Palerang Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 11.

299 Strathfield Municipal Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 9. Woollahra Municipal Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8.

300 Tamworth Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Cabonne Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Local Government NSW, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7; See also submissions from [Wollondilly Shire Council and Bellingen Shire Council]; IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, pp 4-5; Lake Macquarie City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6.

301 Bellingen Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.

302 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, pp 3-4.

303 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 4.

304 IPART, Review of the rate peg to include population growth – Final Report, October 2021, p 18.

305 IPART, Review of the Local Government Rating System – Final Report, December 2016, p 97.

306 IPART, Review of the Local Government Rating System – Final Report, December 2016, p 97.

307 IPART, Review of the Local Government Rating System – Final Report, December 2016, p 104.

308 IPART, Review of the Local Government Rating System – Final Report, December 2016, p 97.

309 Randwick City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 2-3; NSW Revenue Professionals, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 2, 6-7; Wollondilly Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; See also submissions from [Shellharbour City Council, Anonymous W22/1865 and Tamworth Regional Council].

310 Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6; Queanbeyan-Palerang Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 9.

311 Strathfield Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8; Wagga Wagga City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6; Queanbeyan-Palerang Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 9; Lake Macquarie City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 6.
312 Yass Valley Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 9.
313 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 5.
314 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 3.
315 IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 3.
316 IPART, Review of the Local Government Rating System – Final Report, December 2016, p 24.
317 IPART, Review of the Local Government Rating System – Final Report, December 2016, p 24.
318 IPART, Review of the Local Government Rating System – Final Report, December 2016, p 24.
319 IPART, Review of the Local Government Rating System – Final Report, December 2016, p 24.
320 IPART, Summary of discussion at rate peg methodology workshops for industry, May 2023, p 5; Anonymous, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2. Tweed Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, pp 3-4.
321 Office of the Local Government, Stormwater Management Service Charge Guidelines.
322 *Local Government (General) Regulation 2021*, s 125AA(a).
323 Anonymous, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
324 Tamworth Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7.
325 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 5.
326 Tweed Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, pp 3-4.
327 Tweed Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, pp 3-4.
328 Tweed Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5; Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
329 Tweed Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5; Strathfield Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 9; Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
330 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 5.
331 Cootamundra-Gundagai Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; See also submissions from [Edward River Council, City of Sydney, Central NSW Joint Organisation, MidCoast Council].
332 City of Sydney, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 9-10; Local Government Professionals Australia, NSW, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 7-8.
333 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 2.
334 Bayside Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; and Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6.
335 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 5.
336 Queanbeyan-Palerang Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 10; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8; Woollahra Municipal Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7.
337 Office of Local Government, Integrated planning and reporting, accessed 15 January 2023.
338 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 3.
339 Willoughby City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; NSW Revenue Professionals, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, p 8; Berrigan Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Bathurst Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1.
340 Woollahra Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6; Weddin Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 9; Murray River Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
341 Central NSW Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p7.
342 Woollahra Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6; Murray River Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
343 Inverell Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; Bathurst Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6.
344 Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8; Woollahra Municipal Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7; Narrandera Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.

345 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 3.
346 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 10.
347 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 3.
348 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 10.
349 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 3.
350 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 10.
351 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 3.
352 ORIMA, Rate Peg Survey Integrated Report, April 2023, p 11.
353 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 5.
354 Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; S. Cromie, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3; Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
355 Local Government Professionals Australia, NSW, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 7; Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
356 *Local Government Act 1993,* 575(3)(a).
357 Nambucca Valley Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 4.
358 United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 34; Dubbo Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 8; ; Bellingen Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7; See also submissions from [Tamworth Council, Ryde Council, Lane Cove Council, Gunnedah Shire Council, LGNSW and the City of Sydney].
359 Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 9.

361 Shopping Centre Council of Australia, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1.
362 UTS Institute for Public Policy and Governance, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 5.
363 Anonymous, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 1; B. Mascorella, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022 p 1. R. Cable, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022, p 1.
364 R. Cable, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022, p 1.
365 The Shopping Centre Council of Australia (SCCA), Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1.
366 IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 2.
367 City of Coffs Harbour, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Inverell Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Riverina Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; See also submissions from [Weddin Shire Council, MidCoast Council, Central NSW Joint Organisation, City of Newcastle, United Services Union and Local Government NSW] Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 7-8; Urban Taskforce Australia, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 2-3; Bellingen Shire Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4.
368 Midcoast Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; Berrigan Shire Council, , Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Riverina and Murray Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; See also submissions from [Woollahra Council, Upper Hunter Shire Council, Narrandera Shire council, Local Government NSW, Bathurst Regional Council, Randwick City Council, Shellharbour City Council, Anonymous W22/1865, Leeton Shire Council, Murrumbidgee Council]; Urban Taskforce Australia, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 2-3.
369 Bathurst Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1; NSW Revenue Professionals, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Berrigan Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; See also submissions from [Hawkesbury Council, Leeton Shire Council and Wollondilly Shire Council; United Services Union; Local Government NSW].
370 Narrandera Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Berrigan Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
371 Anonymous, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 1; K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 9.
372 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 9.

373 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 20; Common Thread Consulting, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2; Shopping Centre Council of Australia, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 1-2.
374 B. Mascorella, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, September 2022, p 1; C. Uhrig, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 1; Anonymous, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 1; See also submissions from [C. Coppock, Anonymous (W22/1800), J. Lambeth and Anonymous (W22/1812)].
375 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 19.
376 IPART, Revenue Framework for Local Government - Final Report, December 2009, pp 11-20.
377 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 3.
378 Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7 and Woollahra Municipal Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 3-8.
379 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 2, Canberra Region Joint Organisation, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 8, Strathfield Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
380 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 2, Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 2.
381 IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, pp 1-2.
382 IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, pp 1-2.
383 The Audit Office of NSW, Report on Local Government 2017, April 2018, pp 41-48.
384 The Audit Office of NSW, Report on Local Government 2018, February 2019, pp 41-47.
385 Australian Tax Office, Superannuation guarantee percentage (ato.gov.au).
386 Australian Bureau of Statistics, Consumer Price Index, Australia, March Quarter 2023, accessed 23 May 2023.
387 NSW Revenue Professions, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p4; Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p3; Bathurst Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022 p3.
388 ORIMA, Rate Peg Focus Groups Research Report, May 2023, p 5.
389 ORIMA, Rate Peg Focus Groups Research Report, May 2023, p 5.
390 ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 26-27.
391 ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 5 & 12.
392 ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 5 & 12.
393 ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 3 & 11.
394 ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 51-52.
395 ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 5 & 12.
396 ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 22 & 25.
397 ORIMA, Rate Peg Focus Groups Research Report, May 2023, p 3.
398 ORIMA, Rate Peg Focus Groups Research Report, May 2023, p 2.
399 Local Government Grants Commission Database reports 2020-21, p 19.
400 Yarra City Council, Separating Waste Service Charges From General Rates, 28 March 2023.
401 Essential Services Commission, Annual council rate caps, accessed 22 August 2023.
402 Essential Services Commission, Our advice on setting council rate caps, accessed 22 August 2023.
403 Local Councils, Council rates, accessed 22 August 2023.
404 Australian Bureau of Statistics, Consumer Price Index, Australia methodology, 26 July 2023.
405 Australian Bureau of Statistics, Socio-Economic Indexes for Areas (SEIFA), Australia methodology, 27 April 2023.
406 Albury City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1; Uralla Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 3; and Woollahra Municipal Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6. See also submissions from Central NSW Joint Organisation, Local Government NSW and Local Government Professionals Australia, NSW.
407 Narrandera Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, October 2022, p 2; Northern Beaches Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 8; and Weddin Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 10.
408 K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate peg Methodology Review, June 2023, p 12.
409 Bellingen Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 4-5; Newcastle City Council; Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; and The Hills Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 6. See also submissions from Ku-ring-gai Council and Northern Beaches Council.
410 Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 6-7.
411 Office of Local Government, Your Council – NSW Overview – Assets, accessed 29 May 2023
412 Common Thread Consulting, Submission to IPART's Draft Report for the 2022-23 Rate peg Methodology Review, June 2023, p 8.
413 United Services Union, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 10.

414 Dollery, B. and McQuestin, D, *'No panacea: Rate-capping in South Australian local government'*, Economic Analysis and Policy, Volume 56, December 2017, p 83.
415 IPART, Review of rate peg methodology – Issues Paper, September 2022, p 1.
416 Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 8-9 and Mid-Western Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4.
417 Office of Local Government, Your Council – NSW Overview – Finances, accessed 29 May 2023.
418 IPART, Review of rate peg methodology – Issues Paper, September 2022, p 13.
419 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 2.
420 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 5.
421 The Department of Infrastructure, Transport, Regional Development, Communications and the Arts, Financial Assistance Grant to Local Government, accessed 29 May 2023.
422 Murrumbidgee Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, pp 3-4.
423 NSW Local Government Grants Commission, Annual Report 2020-21, p 9.
424 NSW Local Government Grants Commission, Financial Assistance Grants 2022-23 – Fact Sheet, p 3.
425 LGNSW, Policy Platform May 2023, accessed 1 June 2023.
426 The Hills Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 8.
427 Woollahra Municipal Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; and Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 7.
428 Mid-Coast Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
429 The Hills Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; and Woollahra Municipal Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 8.
430 Wollondilly Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5.
431 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 4.
432 Newcastle City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; and Coffs Harbour City, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
433 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 4.
434 Inverell Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4; NSW Revenue Professionals, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5; and Lane Cove Council, Submissions to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4.
435 IPART, Summary of discussion at rate peg methodology workshops for the local government sector, June 2023, p 4.
436 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 3.
437 Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4.
438 Albury City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 1.
439 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 4.
440 Nambucca Valley Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
441 Mid-Western Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
442 Northern Beaches Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 14.
443 Gunnedah Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
444 Hawkesbury City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3.
445 Local Government Professionals Australia, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 11; and Canberra Region Joint Organisation, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 22.
446 City of Sydney Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4.
447 IPART, Summary of discussion at rate peg methodology workshops, December 2022, p 3.
448 City of Sydney Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4.
449 The Hills Shire Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 5.
450 Blacktown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.
451 Southern Sydney Regional Organisation of Councils (SSROC), Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2.

[452] Albury City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 3; Bathurst Regional Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 2; Campbelltown City Council, Submission to IPART's Issues Paper for the 2022-23 Rate Peg Methodology Review, November 2022, p 4. See also submission from NSW Revenue Professionals, p 3.
[453] North Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 7-8; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Willoughby City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 5; City of Newcastle, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 2.
[454] Queanbeyan-Palerang Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, pp 4-5.
[455] Kogarah Bay Progress Association, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 1-2.
[456] Stakeholder feedback provided to IPART outside our technical workshops, May 2023.
[457] IPART, Summary of discussion at rate peg methodology workshops for ratepayers, June 2023, p 2.
[458] K. Brooks, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 16.
[459] UTS Institute for Public Policy and Governance, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 3.
[460] Queanbeyan-Palerang Regional Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, pp 4-5.
[461] ORIMA, Rate Peg Survey Integrated Report, April 2023, pp 48-50.
[462] North Sydney Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, pp 7-8; Camden Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Northern Beaches Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, July 2023, p 4; Willoughby City Council, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 5; City of Newcastle, Submission to IPART's Draft Report for the 2022-23 Rate Peg Methodology Review, June 2023, p 2.

ISBN 978-1-76049-678-4