

14 June 2024

Carmel Donnelly PSM

Independent Pricing and Regulatory Tribunal (IPART)
Level 16, 2-24 Rawson Place
Sydney NSW 2000

Dear Ms Donnelly,

Draft Terms of Reference for the rate peg methodology Council reference group

Bega Valley Shire Council welcomes the opportunity to provide feedback on the draft Terms of Reference regarding the establishment and function of the Council Reference Group (CRG). We understand the role of the CRG is to identify any practical issues or unintended consequences that might arise from the implementation of the rate peg methodology. The CRG will also play a role in identifying specific adjustment factors that may need to be considered as part of determining the rate peg for each Council or group of Councils. Council sees the specific adjustment factor as a vital element of the rate peg in helping to recover increasing costs often as a result of decisions that are outside of Councils control. The specific adjustment factor in the 2024-25 rate peg for the discontinuation of the ESL subsidy is one of many examples where Councils are financially impacted by a State Government decision with no mechanism to increase revenue to cover those costs.

In summary our recommendations for your consideration are:

1. Introduce an annual rate peg adjustment factor for Councils who have approved multi-year special variations.
2. That the CRG be appointed for a period of five (5) years.
3. That the CRG membership represents the diversity of the sector and ensures representation from rural and regional councils.
4. Rate peg announcements are not delayed due to consultation with the CRG.

Council wrote to you last year regarding our concerns with the shortfall in our Special Variation (SV) due to the assumed rate peg for year 2 being less than the actual rate peg for 2024-25. You advised that the CRG would be the appropriate forum to work through some of the issues for councils with existing SVs. This shortfall phenomenon will continue to be an issue for Councils that apply for multi-year SVs and don't accurately assume the advised rate peg amount. Of the 9 Councils who have applied for SVs for the 2025-26 financial year, 7 of them have applied for a section 508 multi-year SV. It is a flaw in the SV process that needs to be rectified. Council believes this is a critical policy area that the CRG needs to prioritise and consider overcoming this by introducing a specific annual adjustment factor for Councils impacted by this issue.

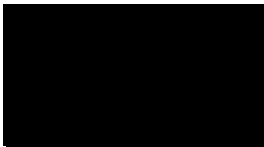
I note that the review of the rate peg methodology- Final Report August 2023 outlined that the CRG would need to be in place for the next 18-24 months to allow sufficient time for any potential unintended

consequences of the new rate peg methodology to emerge (Pg118). We are 10 months into that time frame and the CRG is yet to be established. The draft Terms of Reference indicate that the CRG is expected to be in place for at least 2 years. Council recommends the CRG once established should be in place until the rate peg methodology is reviewed again in 5 years as was the commitment outlined the above report (Pg14).

Council requests that draft Terms of Reference be amended to outline that the 8 local government representatives are themselves representative of the diversity of Councils and include representation from regional Councils who have unique challenges that need to be advocated through the CRG.

Lastly the timing of the announcement of the rate peg has varied over the years that impacts the planning and budget preparation process for many Councils, particularly those applying for an SV. Council trusts that this added layer of consultation with the CRG will not further delay the announcement of the rate peg each year.

We are supportive of IPART undertaking ongoing engagement with representatives of the local government sector when determining the rate peg for each year. I look forward to the expeditious establishment of the CRG so that it may inform aspects of the rate peg for the 2025-26 financial year. I welcome your call should you wish to discuss any matters raised in this submission.



Director Business and Governance

BACKGROUND

Terms of reference are outlined below

Council reference group: the rate peg methodology

6 May 2024

Background and purpose

In 2023, IPART reviewed the rate peg methodology and decided to make major changes to the methodology to apply from the rate peg for the 2024-25 financial year. IPART undertook to establish a council reference group (CRG) to advise it on the implementation of the methodology.

The purpose of the CRG is to identify any practical issues or unintended consequences that might arise from the implementation of the rate peg methodology and impact communities. The CRG will provide a forum for identifying opportunities for addressing current and emergent issues related to the rate peg methodology. This includes establishing a process for specific adjustment factors to be included in the rate peg for specific costs faced by councils or groups of councils where ratepayers benefit from activities generating the costs and where we have the necessary information to ascertain the quantum of these costs.

The CRG is a consultative body—it will play an important role in informing the Tribunal about issues related to the rate peg methodology but it is not a decision-making body. The Tribunal makes decisions about the rate peg, as the Minister for Local Government's delegate. The IPART Secretariat will facilitate the CRG and report to the Tribunal on matters discussed by the CRG.

Membership

The CRG will comprise representatives from IPART's Secretariat, the Office of Local Government (OLG), Local Government NSW (LGNSW) and up to 8 local government representatives. IPART will seek nominations for local government representatives from the OLG and LGNSW.

Members will have expertise, experience and knowledge about local government rates and the rating system, applying the rate peg methodology and impacts of the rate peg methodology.

IPART will publish a list of the members of the CRG on its website.

Meetings

The CRG is expected to be in place for at least 2 years. The Tribunal will consider towards the end of that period whether there would be benefit in keeping the group in place.

The CRG is expected to meet quarterly and will be chaired by IPART's Chief Executive Officer.

Each year the CRG will workshop the priorities it proposes to consider for the rate peg to be set that year, for consideration and approval by the Tribunal.

IPART will publish meeting agendas and minutes on its website.

21 December 2023

Carmel Donnelly PSM
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket NSW 2000

Via email: ipart@ipart.nsw.gov.au

Dear Ms Donnelly

Rate peg assumption shortfall

As you would be aware Bega Valley Shire Council applied for and had approved a 2-year Special Rate Variation (SRV) in early 2023 with 24.0% in 2023-24 (known rate peg of 4.1%) and 19.6% (assumed rate peg of 2.5%) in 2024-25. At the time of applying IPART had advised Council to assume a rate peg of 2.5% for the second year of the SRV and remainder of the Long Term Financial Plan (LTFP). IPART had also advised Council to model 2.5% for our materials and contracts expenses for the LTFP model.

With the recent announcement of the rate peg for 2024-25 of 4.9% for Bega Valley, we will see a shortfall of 2.4% based on the assumptions that IPART had instructed Council to use. This equates to \$799,163 for 2024-25 and over the life of the LTFP equates to \$7.9m in lost revenue. Whilst Council acknowledges that under our current SRV approval instrument we can apply an increase of 19.6% for next financial year, this in effect should become a 22% increase with the inclusion of our actual rate peg amount. In effect our approved second year SRV increase is reduced to 17.2% well below the amount needed to meet the objectives outlined in our SRV application.

It takes significant effort for Council to apply for an SRV and this shortfall in funding is placing even further financial pressure on our Council and community in both the immediate and longer-term, particularly as the assumptions do not reflect the reality of the real costs that we are absorbing.

As IPART Chair I am seeking your support to immediately review and rectify the implications of the assumptions IPART has asked Bega Valley Shire Council to make in the SRV application process and provide provisions for increase corrections should the rate peg fall above the assumed amount. I note that the 2.5% assumption is embedded in the SRV OLG Guidelines that have not been updated since 2021-22 which only serve to further embed this conservative modelling.

I have provided a copy of this correspondence to the Minister for Local Government and the OLG to also raise this issue with them as I appreciate IPART is working with the guidelines provided by the OLG. The 2.5% assumption was relevant at the time based on the reasonably conservative fluctuations in the rate peg from year to year, however it is no longer in keeping with the much higher recent rate peg amounts that we have seen because of significant inflationary pressures.

Of the 17 Councils that applied for SRV's for 2023-24, 13 of those were multi-year SRV's and I imagine to varying degrees they will also be similarly impacted. Our Council elected to introduce the SRV over multiple years to lessen the financial burden on ratepayers. However in the longer-term with this assumption shortfall and no current provisions for corrections, it will only serve to further impact ratepayers as the cumulative

impact is significant and will likely see the need for another SRV or reduction in service levels sooner than expected.

Compounding our concern is that parallel to this process has been the review of the rate peg methodology. Council was unclear what the outcome of the rate-peg methodology review would be and thus was guided solely by IPART's directive to apply the 2.5% assumption. Council may have been able to provide greater justification on why the assumption of 2.5% should not be used if the rate peg methodology review was not occurring concurrently.

I note the following IPART website content advises Councils applying for an SRV to commence in 2024-25 to use their advised 2024-25 rate peg for their application and then 2.5% to be assumed in the LTFP thereafter. I also note that in both the website content and the Part B application form for this next round of SRV applications that Councils can provide a rationale for why their rate peg assumption should be different to the recommended 2.5%. This opportunity was not afforded or encouraged to Bega Valley throughout our SRV process which places us at significant disadvantage and as outlined will have a \$7.9m impact on our community over 10 years.

Assumed rate peg for 2025-26 and future years

Special variation applications

Councils applying for a special variation in 2024-25 should use the 2024-25 rate peg set by IPART in their applications. This will be released around November 2023. An assumed rate peg of 2.5% should be used for 2025-26 and future years as advised by the OLG Guidelines. If a council elects to use a different assumed rate peg percentage, the rationale for doing so must be explained in its Part B application form.

Long term financial plan reviews and updates

We encourage councils that are updating or reviewing their Long Term Financial Plans to refer to the Office of Local Government's *Integrated Planning & Reporting Handbook for Local Councils in NSW* and seek advice from the Office of Local Government where necessary to determine their revenue forecasts for rates and charges for future years.

Source: [Apply for a special variation or minimum rate increase | IPART \(nsw.gov.au\)](#)

Table 3 Further questions

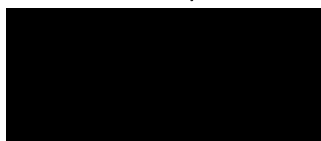
Question	The council's response
Does the council wish its potential SV instrument to be issued with a different number of decimal places?	Click here to enter text.
If the council used an assumed rate peg that is not 2.50%, please briefly justify why it did so.	Click here to enter text.

Source: Application-Form-Part-B-Special-Variation-2024-25- additional question on justification if the assumed rate peg is not 2.5%

Given the above adjustments for the current SRV round I appreciate that IPART is likely aware of this issue, however this does not help our situation and those of other Councils who have current multi-year approvals in place with assumed rate pegs that are well below the assumptions we were instructed to use.

I welcome the opportunity to discuss this with you further. I am confident that a solution can be found before the commencement of the 2024-25 financial year and I look forward to a timely response on our request.

Yours sincerely



Chief Executive Officer