



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 olq@olq.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



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,

A handwritten signature in blue ink, appearing to read "Dom - 12/1", written over a light blue circular stamp.

Dominic Perrottet MP
Premier

22/06/2022

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.

A handwritten signature in black ink, appearing to read 'Wendy Tuckerman', with a long horizontal flourish extending to the right.

The Hon. Wendy Tuckerman MP
Minister for Local Government