



**Gladys Berejiklian MP**  
Premier of New South Wales

Ref: A4194427

14 DEC 2020

Dr Paul Paterson  
Chair  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
HAYMARKET POST SHOP NSW 1240

Dear Dr Paterson,

I am writing on recommendation of the Minister for Local Government, The Hon Shelley Hancock MP, to request that IPART reviews the current local government rate pegging system to consider population growth, pursuant to section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*.

The terms of reference for this review are enclosed.

Yours faithfully,

**Gladys Berejiklian MP**  
Premier

CC: The Hon Shelley Hancock MP, Minister for Local Government



## TERMS OF REFERENCE

I, Shelley Hancock MP, 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* in accordance with these Terms of Reference.

### Background

The Minister, under Section 506 of the *Local Government Act 1993*, may specify the percentage by which councils' general income may be varied for a specific year – the 'Rate Peg'. IPART performs this function under delegation.

IPART has traditionally calculated the Rate Peg by reference to the Local Government Cost Index (LGCI) and improvements in productivity (a productivity factor). The LGCI measures price changes for operational inputs—including labour—used by an average council over the previous year.

The NSW Government has committed to allowing councils to align their income with population growth. It is considered that this is best achieved by adjusting how the rate peg is calculated to incorporate consideration of population growth.

### Matters for consideration

I am requesting IPART deliver a report recommending a Rate Peg methodology that allows the general income of councils to be varied annually in a way that accounts for population growth. The objective is to ensure adequate infrastructure and services are provided to residents of local government areas experiencing population growth.

It is essential that the methodology recommended enables councils' general income to increase in line with population growth without negatively impacting the income growth that councils with stable or declining populations would have achieved under a rate peg calculated using the LGCI and productivity factor. The Government will not consider further changes to the calculation of the rate peg or maximum allowable income.

Specifically, I am requesting IPART's recommendations should:

- ensure no council would receive a lower increase in general income relative to a Rate Peg using the LGCI and productivity factor
- not consider other changes to the Rate Peg or maximum allowable income
- advise how to measure population growth within a reformed Rate Peg, with attention to:
  - how different components of the rate peg (ie, LGCI, productivity factor and population growth factor) should be structured and applied
  - whether a 'growth factor' should apply to each individual council or whether cohorts of councils should be established for this purpose
  - whether the methodology should account specifically for councils experiencing high population growth, including those in areas of new development, and, if so, how that may be best achieved.

In undertaking the review, IPART should have regard to:

- the Government's commitment to protecting ratepayers from sudden or excessive rate rises, while improving the financial sustainability of local government
- ensuring the Rate Peg can be understood by councils and the communities they serve
- the differing needs and circumstances of councils and communities in metropolitan, regional, and rural areas of the State, and
- any other matter it considers relevant.



**Consultation**

IPART should consult with relevant stakeholders—including NSW Government agencies—as part of its review. It may also publish a draft report and conduct public consultation.

**Reporting**

IPART should submit its final report to the Minister for Local Government within 9 months of receiving the terms of reference.