Submission No 32

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Office of Local Government NSW

Date Received: 26 April 2024

Department of Planning, Housing and Infrastructure

dphi.nsw.gov.au

Submission to the Ability of local governments to fund infrastructure and services inquiry

Legislative Council Standing Committee on State Development

NSW Government Submission

April 2024

Acknowledgement of Country

The Department of Planning, Housing and Infrastructure acknowledges that it stands on Aboriginal land. We acknowledge the Traditional Custodians of the land, and we show our respect for Elders past, present and emerging through thoughtful and collaborative approaches to our work, seeking to demonstrate our ongoing commitment to providing places in which Aboriginal people are included socially, culturally and economically.

Published by NSW Department of Planning, Housing and Infrastructure

dphi.nsw.gov.au

Submission to the Ability of local governments to fund infrastructure and services inquiry

First published: April 2024

Department reference number: A897552

DPHI-MC-R-DC-V1.0

Contents

Introduction

The NSW Local Government Act 1993 requires councils to provide strong and effective representation, leadership, planning and decision-making, and to carry out their functions in a way that provides the best possible value for residents and ratepayers.

Local government is established under the NSW Constitution. Councils are responsible for managing their own resources and balancing their own income, revenue and costs to ensure their ongoing financial sustainability. While the State Government has a regulator role in relation to local councils, the powers for intervention are at the more significant end and the state plays no major role in council operational decisions.

Section 8B of the Local Government Act 1993 outlines the principles of sound financial management which all councils should apply in their decision making and exercise of functions.

Section 8B Principles of sound financial management

> *The following principles of sound financial management apply to councils—*
>
> *(a) Council spending should be responsible and sustainable, aligning general revenue and expenses.*
>
> *(b) Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.*
>
> *(c) Councils should have effective financial and asset management, including sound policies and processes for the following—*
>
> > *(i) performance management and reporting,*
> >
> > *(ii) asset maintenance and enhancement,*
> >
> > *(iii) funding decisions,*
> >
> > *(iv) risk management practices.*
>
> *(d) Councils should have regard to achieving intergenerational equity, including ensuring the following—*
>
> > *(i) policy decisions are made after considering their financial effects on future generations,*
> >
> > *(ii) the current generation funds the cost of its services.*

The purpose of this submission is to provide an overview of the NSW local government sector, financial framework and information relation to the individual terms of reference for the inquiry.

Overview of the NSW local government sector

NSW is currently divided into 128 local government areas.

Councils are led by 1,259 councillors (noting that at any time there may be vacancies). There are currently four councils under administration. The number of councillors ranges from 7 to 15 in NSW. Population per number of councillors in 2021-22 ranges from over 26,500 residents per councillor in Blacktown, to 165 residents per councillor in Brewarrina.

Councils currently employ over 48,000 staff. The size of council staff in 2021-22 ranged from 40 staff in Hunter's Hill to over 1,900 in Central Coast (noting Central Coast operates a water utility).

The largest council in area is Central Darling, which covers 53,494km^2, with the smallest being Hunter's Hill at 6km^2. Similarly, population size varies enormously with Brewarrina Shire Council having 1,553 residents, while Canterbury-Bankstown Council has 382,831 residents as at the last Census.

These variations result in significant differences in population density (persons per sq km). Central Darling Shire has a population density of 0.03 per sq km, whereas the City of Sydney has over 8.000 persons per sq km.

Table 1 shows the total operating income from continuing operations of councils.

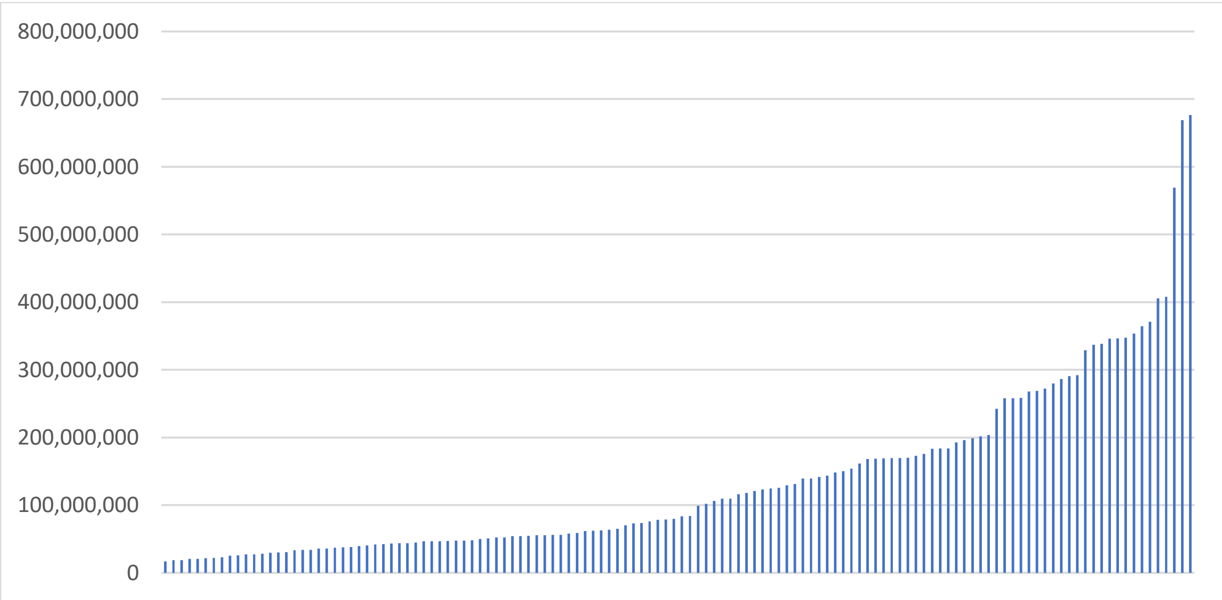


Table 1 – Total Operating Income by Council – 2021-2022

The smallest council by operating income (Lockhart) is almost 40 times smaller in operating income than the largest (Sydney). Both councils largely operate under the same rating and regulatory framework.

For many councils, road expenditure is one of the main non-employee expenditure related expenses. It is also one of the most significant asset classes. Table 2 shows the total road length (local and regional) per capita by council.

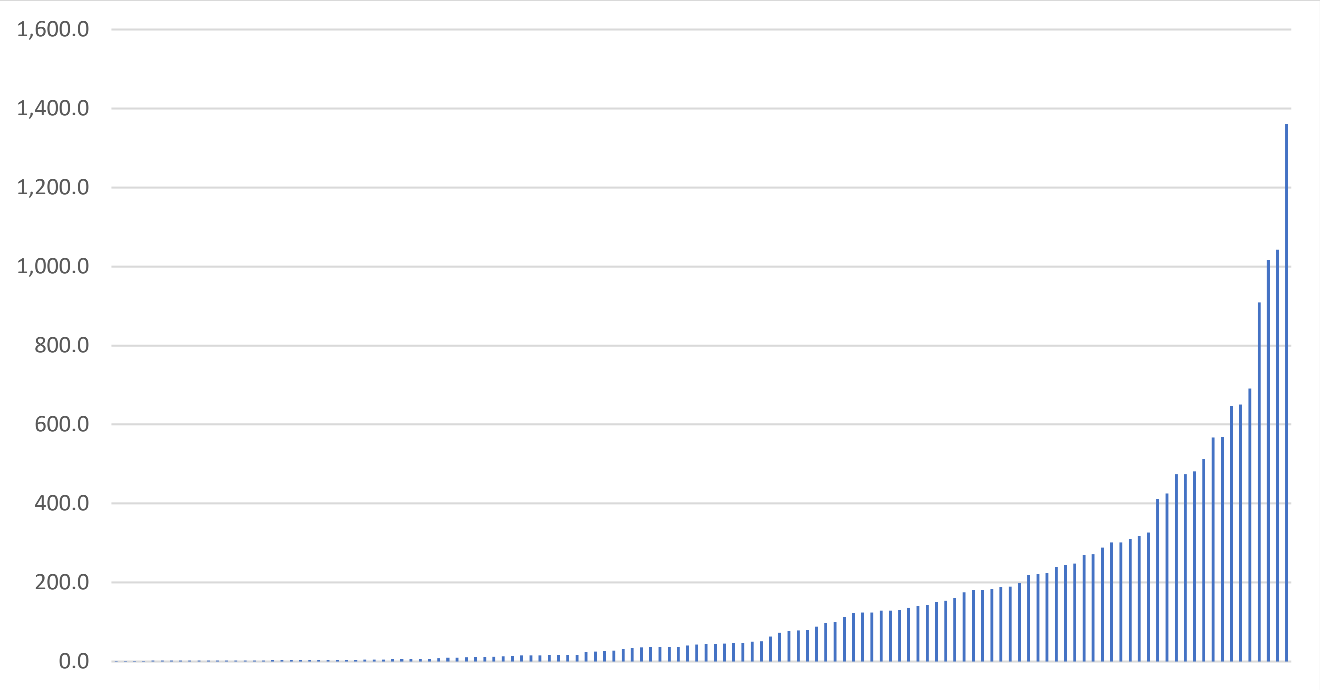


Table 2 – Metre road (regional and local) length per capita – 2021-2022

Here the diversity in councils is more significant. The council with the highest road length per capita (Central Darling) has over a kilometre of road (local and regional) per person living in the council area, whereas the smallest result has around 1.5 metres of road length per person (Sydney) living in the council area.

These differences in scale, size, demographics and geography mean that any analysis of local government in NSW needs to be nuanced and acknowledge these challenges as to what may be a suitable solution in one part of the State may not work for other parts of the State.

The data for this paper unless otherwise referenced, is sourced from the Office of Local Government (OLG) Time Series data.

Financial sustainability challenges

Many councils are reporting increasing levels of financial sustainability issues.

While larger metropolitan councils are in relatively secure financial positions, many smaller regional and rural councils are struggling to make ends meet, through a combination of high costs, large capital and asset maintenance obligations and low ratepayer bases and limited income sources.

Geography, population and isolation all have an impact on a councils' financial sustainability with metropolitan councils significantly more resilient than rural and regional councils. This means rural and regional councils are becoming dependent on external sources of income, such as grants, in order to meet their capital and operational obligations.

Many councils are also struggling to maintain social services such as medical services, aged care homes and childcare centres which are subject to minimum service standards set by the Commonwealth and other agencies.

Council expenses have also become increasingly unpredictable – these include escalating labour and materials costs, chronic skills shortages in critical areas such as engineering, financial expertise, project management and road-building, and increased borrowing costs related to recent interest rate increases.

NSW councils have also been hit by the Pandemic and several years of environmental disasters including bushfires and floods, which means that critical funds and resources have had to be diverted towards recovery and rebuilding. While some of this funding is reclaimable through Natural Disaster Relief Arrangements, there is a cashflow impact and councils have had to delay or postpone other works due to lack of skilled staff.

Some of these issues are illustrated by the financial benchmarks, per council type, for local councils in 2021-22 below:

	State avg.	Metro	Metro fringe	Regional	Large rural	Rural	Benchmark
Own Source Revenue (%)	58.0	77.7	62.0	62.8	48.8	36.9	>60
Unrestricted Current Ratio (No.)	4.2	3.3	2.5	4.9	5.3	6.3	>1.5
Debt Service Cover Ratio (No.)	20.8	47.6	19.1	6.0	11.1	39.4	>2.0
Debt Service Ratio (%)	3.8	2.0	3.1	6.1	3.8	1.8	>0 <20%
Cash Expense Cover Ratio (Months)	15.1	15.2	15.6	15.0	14.2	16.9	>3.0
Rates & Annual charges outstanding (%)	6.6	4.9	5.3	6.8	7.1	8.6	<5 metro <10 rural

More information on each of the indicators and what they measure is here.

Response to individual terms of reference

Specific responses and information in relation to the terms of reference for the Inquiry into the ability of local government to fund infrastructure and services are detailed below.

The level of income councils require to adequately meet the needs of their communities

Total operating income for all councils in 2021-22 was $13.7 billion ($17.4 billion including capital grants and contributions).

The number of councils that have reported a net operating deficit before capital in 2021-22 was 55, with 73 councils reporting a net operating surplus.

Operating deficit amounts for individual councils ranged from $274,000 to $27.2 million.

The major source of income for councils is rates and annual charges. This includes residential, business, farming and mining rates, along with any special rates charged by councils. Annual charges include domestic waste, other waste charges, water and sewer (where these services are provided by the council) and stormwater management.

User charges and fees include activities such as water usage, drainage, parking fees, caravan parks, leisure centres, child and aged care services, building and regulatory services and private works. It is important to note that major types of council user charges and fees, including waste, sewer and water, should be charged by council on a cost recovery basis.

Expenditure

Employee costs are a significant expense to councils (34% on average) and include wages, salaries, leave entitlements, superannuation, workers compensation, fringe benefits and payroll tax.

Materials and contracts are also a large expense item for councils (36% on average). Materials and contracts consist of raw materials, contractor and consultancy costs, audit services and legal fees.

Depreciation is a non-cash expense that converts the capital cost of an asset into an operational expense. It reduces the value of assets as a result of wear and tear, age or obsolescence. Assets must be replaced or renewed at the end of their useful life.

The expenditure on depreciation indicates the amount of asset use that has occurred to the value of all council's assets during the year. Average depreciation expenditure was 24% of total operating expenses in 2021-22. The result for individual councils varies significantly, from a low of 13% to a high of 38%.

Another high-profile expenditure for local councils is the local government emergency services contribution. The cost of emergency services has historically been funded via combination of insurance companies (73.7%), NSW Government (14.6%) and (11.7%). While elements of the funding model have evolved and changed this con-funding methodology has been in place for a number of decades. The NSW Government has announced a review of the emergency services funding methodology and the recently released consultation paper is here.

Assets

NSW councils own and control assets with a total value of over $198 billion. These assets include cash, investments, infrastructure, plant and equipment, receivables, inventory and intangible assets. The largest component of councils' assets base is infrastructure, with a net book value of over $176.3 billion. Roads and related assets (eg bridges and footpaths) make up more than $70 billion or 39.74% of these assets, although often these assets can not be realised.

Rating

Local Government rating generates over $5 billion annually. Councils in metropolitan and urban areas tend to have relatively larger rating bases and therefore higher proportions of income from rates than those in regional and rural areas.

While rating is often considered by some as a fee for service it is more akin to a form of taxation, and is the primary revenue source for local government. The rating framework in NSW is technical and complex, and its administration by individual councils makes assessing the effectiveness of the current framework complex.

Under the *Local Government Act 1993* (LG Act), a rate may consist of:

- an ad valorem amount (i.e. a percentage – which may be subject to a minimum amount); or
- a base amount to which an ad valorem amount is added.

In NSW, an ad valorem amount is a variable charge set as a proportion of the unimproved land value of the property – that is, the value of the property without any buildings, houses or other capital investments.

A minimum amount, where applied, is a flat charge which applies instead of the ad valorem amount, when it is greater than the ad valorem amount.

A base amount, where applied, is a fixed charge that is levied equally against all rateable properties within a given rate category, or subcategory of land use. In 2013-14, the ad valorem rate on land value accounted for 75% of all NSW council rate revenue. It is the primary method for raising rating income.

Unimproved land values are determined, at least every three years, by the NSW Valuer General.

Councils may vary the way they calculate rates for different categories of property. For example, they can use a different percentage of the unimproved land value to calculate the ad valorem amounts, apply different minimum amounts, or add different base amounts. There are four main rating categories:

- residential;
- business;
- farmland; and
- mining.

Councils may also determine subcategories within each of these four categories, and vary the way they calculate rates for each subcategory. However, the degree of flexibility varies across categories.

Financial Assistance Grants

Another significant source of income for most councils are Federal Financial Assistance Grants (FA Grants). The Australian Government provides unconditional FA Grants to councils under the provisions of the *Local Government (Financial Assistance) Act 1995* (Cth) and national principles which come under this Federal Act.

There are two components to financial assistance grants:

- General Purpose – in 2023-24 totalling $675,648,877; and
- Roads – in 2023-24 totalling $277,534,692.

While the FA Grants are allocated notionally for general purpose and roads, the FA Grants are provided to councils untied.

For a State to receive the funding it must have a local government grants commission. Allocations to individual councils are determined by each State’s local government grants commission using fiscal equalisation principles, aiming to provide funding based on relative need. These principles allocate FA Grants on the basis that each council should be able to function, by reasonable effort, at a standard not lower than the average standard of other councils.

FA Grants are a significant revenue source for most councils in NSW, particularly rural and regional councils where there is a lower population and economic base from which to draw rates and other income. The total pool for the FA Grants is a matter for the Australian Government. It is noted that the relative value of the FA Grants has declined over the last few decades.

However, all councils are guaranteed at least 30% of what it would have received if allocated on a per capita basis. This principle has the impact of limiting the ability of the NSW Grants Commission to fully allocate the FA Grants based on need.

Following an extensive review of the financial assistance grant model over several years, recommendations were made to refine and improve parts of the expenditure allowance under the General Purpose Component (GPC) of FA Grants. In 2018, the Commission began transitioning to refinements consistent with the National Principles and the NSW Government policy to allocate grants, as far as possible, to councils with the greatest relative disadvantage. This has been an extended transition to ensure changes in council FA Grants have not been too significant with a 'cap' and 'collar' approach adopted by the Commission. It is noted that decisions on the allocation are a matter for the Commission.

Additional information

In addition to federal grants, councils receive significant resources, through both grants and support, from the State government each year. These are provided for both operational and capital purposes and tend to be tied grants for particular services, programs, infrastructure or projects.

The State has provided significant capital investment for a range of programs and purposes to improve services and infrastructure available to NSW communities, including as a result of natural and environmental disasters and other economic and service delivery enhancement programs. These grants however impact councils in terms of increased asset maintenance costs, depreciation expense and operating expenses. The depreciation implications of natural disaster funding is a financial issue which has particularly caused concern for a number of councils.

Councils also receive infrastructure contributions which are tied to infrastructure associated with development activity. Infrastructure contributions are provided by developers and can be contributed via money, land, works-in-kind or a combination of these. They assist councils with providing new infrastructure, including footpaths, cycleways, and roads. Councils can also negotiate voluntary planning agreements which can also be used to fund infrastructure associated with development. While infrastructure contributions are determined at a local level there is a framework of legislation, regulation and ministerial directions which oversee the framework. An overview of the rules and framework governing infrastructure contributions is available here.

Examine if past rate pegs have matched increases in costs borne by local governments

The LG Act sets out a process regulating the amount by which councils increase their general income, the main component of which is rates revenue from ordinary and special rates.

Each year, the Independent Pricing and Regulatory Tribunal (IPART) (under a delegation from the Minister for Local Government which has been in place since 2011-12) determines the maximum percentage by which a council may increase its general income in the coming year, known as the 'rate peg'. The rate peg does not apply to stormwater, waste collection or water and sewerage charges which are collected on a fee-for service or cost recovery basis. Prior to the delegation to IPART, the Minister for Local Government set the rate peg annually.

The rate peg is adjusted each year to reflect changes in the costs for councils to provide services to their communities.

Commencing in 2024-25 IPART has changed the way it calculates the rate peg, to more accurately reflect the increase in costs for each council, after a comprehensive review of the rate peg methodology by IPART. For more details on the rate peg calculation methodology please see here. It is noted that since 2011-12 the calculation of the rate peg has been done completely independently from Government.

Prior to the introduction of the new 2024-25 rate peg methodology, the rate peg (excluding the population factor) was the same for all councils within NSW. It was determined based on measuring the average change in costs faced by NSW councils. IPART could also make further adjustments to account for productivity improvements in the local government sector and other external factors likely to affect councils' costs (for example the inclusion of an adjustment for election costs based on the expected average council cost).

Until 2024-25, IPART measured average annual changes in council's costs using the Local Government Cost Index (LGCI), which measures the change in prices of a fixed 'basket' of goods and services purposed by the average council relative to the prices of the same basket in the base period. It is similar in principle to the Consumer Price Index (CPI) used to measure price changes in a typical household.

The LGCI was developed by IPART in 2010, and at the time IPART undertook its review of the rating methodology in 2022, it included 26 cost components. The accuracy of the index was assessed by IPART through the collection of data on councils' expenditure every 4-5 years and using the data to update the weights of the cost components.

The main cost components in the LGCI and weights at the end of June 2021 were Labour (38.6%), Road and bridge construction (26.9%), business services, including administrative services (6.2%0, non-residential building construction (4.9%), plant and equipment –

machinery (3.0%), utilities (2.3%), operating contracts (2.1%), emergency services levy (1.5%) and insurance (1.2%).

In 2021, a population growth factor was added to the rate peg so that councils could increase their rates income in line with the annual change in the residential population in their area, minus any supplementary valuations they receive. This council-specific percentage was then added to the rate peg (as measured by the LGCI). As a result, the rate peg for 2022-23 varied between 0.7% and 5.0% with the application of the population factor.

With the introduction of the new rate peg methodology in 2024-25, IPART has moved away from the LGCI model and now calculates the rate peg using a model that produces a rate peg that more accurately reflects the increase in costs for each council.

IPART's new rate peg methodology uses forward looking measures of councils' base costs, addressing the issue of using lagged data in a volatile economic climate. It is also expected that 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 more accurately consider the diversity of councils across the State.

This new model:

- Measures 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.
- Uses 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 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.

- Includes a separate council-specific ESL factor, lagged by one year that reflects the annual change in each council's ESL contribution. Additionally, some councils received a council-specific adjustment in their rate peg for the 2024-25 financial year to reflect the increase in the ESL in the years when increases were not captured by the rate peg because they were subsidised by the NSW Government

Councils also received a population factor. The population factor maintains the amount of rates collected per person in areas that have a growing population. The population factor for each council ranges from 0% to 2.7%.

In the 2024-25 financial year the population factor includes:

- An annual population factor to adjust for the change in the residential population of a council area (excluding the prison population) from 2020-21 to 2021-22.
- A population true-up based on 2021 Census data.

As a result, the core rate peg for the 2024-25 financial year for each council (i.e. before applying the population factor) ranges from 4.5% to 5.5%. This includes the base cost index and the council specific Emergency Services Levy (ESL) factor. The final rate peg for the 2024-25 financial year for each council (i.e. after applying the population factor) ranges from 4.5% to 8.2%.

Under the old rate peg methodology, the average annual change in the ESL contribution across all NSW councils was included in the rate peg. However, the use of average ESL contribution figures meant that some councils over-recovered the ESL contribution and other councils under-recovered this change. The new methodology includes a separate council specific ESL factor that reflects the actual change in a councils ESL contribution. The ESL factor is based on the year-on-year change in the ESL contribution with a one-year lag.

Once the rate peg is known each year, councils set their rates for each rating category so that their annual general income does not increase in percentage terms by more than the rate peg for that year. This gives councils some flexibility to vary the increase in rates across categories (e.g. to increase residential rates by a higher percentage than farmland rates), as long as the total increase in revenue does not exceed the rate peg determined by IPART.

History of rate pegging

In 1976, the State Government decided to limit the percentage by which local government rate revenue could be increased from one year to the next, so that the existing level of service could be maintained though not increased. The legislation and framework governing rate pegging has gone through several changes since 1976 to evolve into the model that is in use today. Significant changes to the rate peg calculation methodology have been applied for the calculation of the rate peg methodology for the 2024-25 rating year.

While there has been changes to the methodology over time, the primary basis of the setting of the rate peg has been to reflect the costs faced by the local government sector, whether it be by use of CPI or other indexes or approaches.

The history of the rate peg since implementation has been as follows. The figures shown in brackets is the year ended change in the CPI (as at the June quarter) based on data published by the Australian Bureau of Statistics (ABS) and the Reserve Bank of Australia (RBA):

Year	% increase	Year	% increase	Year	% increase
1977	12 (13.6)	**1993**	2.6 (1.8)	**2008/09**	3.2 (1.4)
1978	9.5 (8.0)	**1994**	3.5 (1.8)	**2009/10**	3.5 (3.1)
1979	8 (8.8)	**1994/95**	NIL (4.5)	**2010/11**	2.6 (3.5)
1980	10 (11.0)	**1995/96**	2.2 (3.1)	**2011/12**	2.8 (1.2)
1981	12.5 (8.4)	**1996/97**	2.7 (0.3)	**2012/13**	3.6 (2.4)
1982	12 (10.9)	**1997/98**	3.1 (0.7)	**2013/14**	3.4 (3.0)
1983	11 (11.1)	**1998/99**	1.7 (1.0)	**2014/15**	2.4 (1.5)
1984	8 (4.0)	**1999/2000**	2.4 (3.1)	**2015/16**	2.5 (1.0)
1985	8 (6.6)	**2000/01**	2.7 (6.1)	**2016/17**	1.8 (1.9)
1986	8 (8.5)	**2001/02**	2.8 (2.8)	**2017/18**	1.5 (2.1)
1987	7 (9.3)	**2002/03**	3.3 (2.6)	**2018/19**	2.4 (1.6)
1988	6.5 (7.2)	**2003/04**	3.6 (2.5)	**2019/20**	2.7 (-0.3)
1989	6.5 (7.5)	**2004/05**	3.5 (2.5)	**2020/21**	2.6 (3.8)
1990	7.3 (7.7)	**2005/06**	3.5 (4.0)	**2021/22**	2.0 (6.1)
1991	6.7 (3.3)	**2006/07**	3.6 (2.1)	**2022/23**	0.7 (6.0)
1992	NIL (1.2)	**2007/08**	3.4 (4.4)	**2023/24**	3.7

It is important to note that councils are not required to increase their rates by the rate peg. Councils can choose to apply a lower rate peg. This provides councils with the flexibility to ensure their rating collection is reflective of local and Statewide circumstances, and to manage the fluctuations that occur from time to time such as economic downturns (including COVID-19 or agricultural) and/or the effect of natural disasters by providing councils with greater options when making long-term decisions regarding their rates.

Some councils have taken this option in the past, however councils are able to catchup on the shortfall in general income over any one or more the next 10 years when economic circumstances improve, and it is a matter for the respective council to determine how it spreads the catchup over the period.

Councils can also seek approval to increase their general income above the rate peg by applying for a special variation.

Current levels of service delivery and financial sustainability in local government, including the impact of cost shifting on service delivery and financial sustainability, and whether this has changed over time

The powers and responsibilities of councils derive mainly from the LG Act. The key functions of councils are to deal with and provide for local community needs, such as building regulations and development, public health, local roads and footpaths, parks and playing fields, libraries, local environmental issues, waste disposal, and many other community services. The LG Act was amended in 2016 to introduce new guiding principles, in Chapter 3, for local government that should inform all council activities. In addition, Chapter 3 of the LG Act outlines the principles of sound financial management and the integrated planning and reporting (IP&R) principles that apply to councils.

Not all councils perform the same functions and services. There is no common or minimum service delivery standard for councils in NSW. The clearest example of this is water and sewer services. While communities in metropolitan Sydney, the Illawarra and Hunter (not Central Coast) have water and sewer services provided by State Government entities, the rest of NSW (excluding parts of the Far West) have water and sewer services provided by local council water utilities, via local and/or county councils, depending on location.

The service mix within an individual council is often a result of location, community demands and history. For example, while many councils run airports or air strips, some of these are run on a fully commercial basis generating significant revenue, whereas some others are operated by the council, essentially as a community service obligation, and only generating small relative revenues.

Numerous other Acts such as, but not limited to, the *Environmental Planning and Assessment Act 1979*, the *Roads Act 1993*, *Companion Animals Act 1998* and the *Rural Fires Act 1997* also confer responsibilities and obligations on councils. It has been estimated that councils have over 120 regulatory functions, involving over 300 separate regulatory roles, emanating from over 60 State Acts. It is important to note that most of these functions are subject to the discretion of the individual local council as to the exercise or operation of the function.

Many of the roles of councils, under legislation, are historical and date back to the establishment of local government in NSW, such as the local government role in emergency services or management of pets in the community. While the role of the State and local councils has evolved over time, many of the fundamental building blocks of council roles and functions evolve from the original, historical role and functions of councils in NSW.

There are also a range of services, where council acts as a service provider, either as a community service or provider of last resort, or combination of both. Examples of services provided by councils in this space include medical practices, childcare, and aged care facilities. For some councils these services are a significant expenditure source with only marginal external revenue attracted.

While these services are not mandated by either the State or Federal Government, councils, in conjunction with their community, have determined to provide these services to ensure the services within their community. While this is particularly an issue in rural and regional councils, many councils in metropolitan and urban NSW also provide services to support weakness in the private market.

Many of the cost shifting examples cited by the local government sector are historical in nature (for example the NSW Waste Levy and pensioner concession framework) and some date back to the establishment of councils. The State Government and Parliament have also at times imposed statutory limits of some council fees and charges, for policy reasons. On the other hand, the State also provides significant grants and support to councils each year.

Assess the social and economic impacts of the rate peg in New South Wales for ratepayers, councils, and council staff over the last 20 years and compare with other jurisdictions

While in general terms NSW rates are traditionally more stable than in other jurisdictions, it is difficult to compare the impacts of the rate peg to other jurisdictions due to the wide ranging geographic, demographic, and economic differences between the states (IPART, Review of the Rate Peg Methodology Issues Paper, 2023, pg 31). Care needs to be had to examine the different factors and service delivery roles applied in each jurisdiction before comparisons are made.

As noted above, for example, in NSW many councils play a role in the provision of water and sewer which provides implicit and explicit economies of scale for NSW councils. Whereas in most other jurisdictions, water and sewer services are generally provided by the State Government.

OLG has, and continues to publish, Time Series data since 1994 on its website. A link to the data is available here. OLG also publishes a range of council performance information on the YourCouncil website.

Compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff

Victoria is the only other jurisdiction in Australia with a form of rate pegging, which although differs in certain aspects is broadly similar to that applied in NSW. All other States have a rating framework that is set at the individual local government level with differing levels of State Government regulation, for example levels of public notice and consultation required.

In NSW the calculation and rules around the rate peg have gone through numerous iterations since its introduction in 1976. For example, in the 1980's for a period of around 4 years the rate peg also provided a maximum increase on individual ratepayers assessment notices.

The most recent changes to the rate peg methodology have been implemented for the 2024-25 rating year following a comprehensive review by IPART. Since the delegation of the Ministerial Powers to IPART in 2011, the Government and IPART have made several changes to the calculation of the rate peg and Special Variation process to better reflect the needs of the community and local councils. These include the ability for councils to defer rates rises in a single year and then do a catch up in future years and the introduction of a population growth factor.

Review the operation of the special rate variation process and its effectiveness in providing the level of income councils require to adequately meet the needs of their communities

Councils can apply to IPART for a 'special variation' to allow them to increase general income above the rate peg for a range of reasons to increase the quality or quantity of infrastructure or services they provide to their communities. The Office of Local Government (OLG) sets guidelines for this process, however the process is administered independently by IPART, under delegation from the Minister for Local Government.

The current Guidelines and framework are embedded within the council IP&R framework. Details about the IP&R framework is available here.

IP&R provides a mechanism for councils and the community to have important discussions about service levels and funding priorities and to plan in partnership for a sustainable future. IP&R therefore underpins decisions on the revenue required by each council to meet the community needs and demands, and in particular, whether the council requires a special variation to meet those needs.

There is a range of reasons why councils apply for a special variation. It can be:

- for a particular program of works or works streams, for example town centre improvements, or a program of road renewals, and/or

- rather than assigning the funding to particular projects or programs council seeks the special variation as an agreed component within the overall Delivery Program.

Some examples of approved special variations include:

Council	**Year**	**Total % increase approved, including the rate peg**	**State Purpose**
Hunter's Hill	2022-23	Permanent increase of 16.9% in 2022-23 and 7.8% in 2023-24 i.e. 26.02% cumulative increase over 2 years, applied to residential and business ratepayers	Replace 2 expiring special variations, complete the council's capital works program, reduce its asset backlog and improve its long-term financial sustainability.
Kyogle	2022-23	Permanent 2.5% increase in 2022-23, applied across residential, business and farmland ratepayers.	Deliver the council's commitments in its long-term financial plan, continue delivering existing services and infrastructure programs, and improve its financial sustainability
Ballina Shire	2018-19	15.54%	Fund infrastructure asset renewal, Healthy Waterways program and improve financial sustainability.
Kempsey Shire	2018-19	6.50%	Renew an expiring environmental levy
Randwick City	2018-19	19.85%	Fund new community facilities and projects, maintain service levels and provide antiterrorism infrastructure
Lismore City	2016-17	3.6%	Biodiversity Management Strategy
Wagga Wagga City		5.6%	Fund upgrading of Main City and North Wagga levee banks.

IPART's assessment of applications for a special variation examines the extent to which councils have fulfilled their obligations under IP&R, in accordance with the criteria outlined in the guidelines. In particular, the focus is on the importance of linking community outcomes and aspirations (as identified in the IP&R Community Strategic Plan) to key actions (the IP&R Delivery Program). It also identifies the need for councils to ensure that the appropriate resources are available at the right time (IP&R Resourcing Strategy).

To be eligible for a special variation, councils need to show IPART there is:

- a demonstrated need for higher increases to charges
- community awareness of their plans
- a reasonable impact on ratepayers
- a process to exhibit relevant council documents to the public
- a history of well-documented council productivity improvements and cost containment strategies

In addition to the council's evidence, IPART will assess any other information considered relevant, including letters from ratepayers. IPART also has the ability in special circumstances to approve a special variation if these criteria are not being met.

Community engagement is front and centre for all aspects of IP&R, including the special variation process.

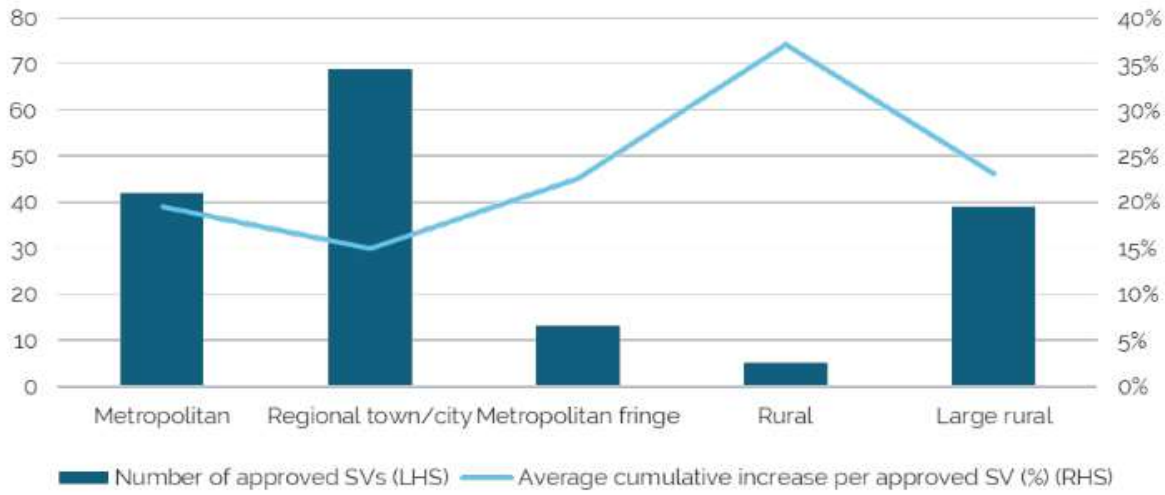
As noted by IPART, rates income per capita increased by 45% from 2010-11 to 2020-21. This is equivalent to an average increase of around 3.8% per year, which is around 50% higher than the average rate peg of 2.5% per year over the same period, indicating that many councils are not having difficulty meeting the requirements for special variations (IPART, Review of the Rate Peg Methodology, Issues Paper, 2023, p 34).

From 2011-12 to 2022-23, IPART approved 168 applications for special variations, skewed toward metropolitan and regional councils. Typically, rural and large rural councils are less likely to apply for special variations.

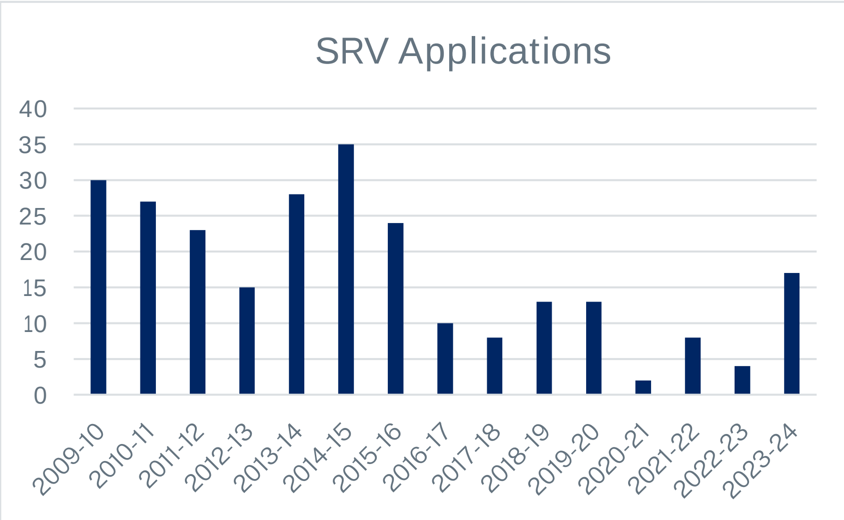
As shown in the table below (sourced from IPART's Review of the Rate Peg Methodology Issues Paper, 2023, p 35), metropolitan councils represent 19.5% of all councils in NSW, but account for 25.3% of all SV applications, whereas regional councils represent 28.9% of all councils, but 40.7% of all SV applications. In contrast, together rural and large rural councils represent 44.5% of all councils, but only 26.9% of SV applications.

Council type	Councils in NSW		SV applications	
	Number of councils	Proportion of councils	Number of applications	Proportion of applications
Metropolitan	25	19.5%	46	25.3%
Regional town/city	37	28.9%	74	40.7%
Metropolitan fringe	9	7.0%	13	7.1%
Rural	15	11.7%	7	3.8%
Large rural	42	32.8%	42	23.1%
Total	**128**	**100%**	**182**	**100%**

The table below, also extracted from IPART's issue paper, shows that the number of special variation applications approved by IPART and the average cumulative increase per special variation. It indicates that while rural councils had the lowest number of approved special variation applications, rural councils also had the highest cumulative increase.



The following table is based on OLG data and shows the number of special variation applications over a period of time. It should be noted that the total number of councils has changed over time. From 2009-10 – 2015-16 there was 158 NSW councils, 2016-17 - 2019-20 the 20 new merged entities could not apply for a SRV, and from 2020-21 to current there is 128 NSW councils.


SRV Applications
40
35
30
25
20
15
10
5
0
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
2022-23
2023-24