

Our reference: 22/54-13

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8 March 2024

Mr David Reynolds,
Chief Executive, LGNSW
Level 8
28 Margaret Street
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via email

Dear Mr Reynolds

Response to LGNSW's letter to IPART's Chair

I am writing in response to your letter of 10 January 2024 regarding LGNSW's concern about the new rate peg methodology which was implemented for the rate peg for the 2024-25 financial year. As noted in our initial reply of 16 January, the Tribunal wished to consider the matters you have raised before responding in detail.

The Tribunal thanks LGNSW for raising the concerns of the local government sector about the high inflation experienced in the 2022-23 financial year which has not been reflected in the rate peg for the 2024-25 financial year, as the new methodology uses forward looking indicators.

We further note that the letter cited inflation in the 2021-22 and 2022-23 financial years. Inflation in the year 2021-22 was reflected in the rate peg for the 2023-24 financial year, to the extent it impacted the Local Government Cost Index (LGCI) under the old methodology.

As outlined in the [Final Report](#) on our review of the rate peg methodology, we decided not to include any additional adjustments in the rate peg to capture recent inflationary impacts because the divergences caused by the 2-year lag in the LGCI even out over time, and 86 councils already received an additional increase to assist with the lag not reflecting higher-than expected inflation rates through the special round of additional special variations (ASVs) in 2022.

That said, we acknowledge that some councils may not have applied for an ASV in 2022 or may, for other reasons, be impacted by the implementation of the new rate peg methodology.

While the Tribunal does not intend to revisit its decision not to include an adjustment for 2022-23 inflationary impacts in the rate peg for the 2024-25 financial year or to recommend any ASV style process for 2024-25, we will consider whether there is a case for a special adjustment factor to be included in a future rate peg.

IPART's new rate peg methodology allows for special adjustment factors to be included in the rate peg for specific costs faced by councils or groups of councils, where ratepayers benefit from the activities generating the costs and when we have the necessary information to accurately ascertain the quantum of those costs.

In contrast, introducing an ASV process would require new special variation guidelines to be issued by the Office of Local Government and Councils would need to individually apply,

We envisage the new rate peg methodology could allow for a specific adjustment factor to be made for a group of councils where we identify that there have been material impacts due to the implementation of the new rate peg methodology. As outlined in our Final Report, we have undertaken to establish a council implementation reference group to assist us in identifying these impacts. We are in the process of establishing this group and propose to consult on a draft Terms of Reference for the governance of the group.

We expect to contact LGNSW to seek nominations for LGNSW representatives for members of the group once the Terms of Reference are finalised. We will also seek your views on the draft Terms of Reference when we publicly consult on it.

The Tribunal will work with the council implementation reference group to identify any adjustments that should be considered when the 2025-26 rate peg is decided.

IPART's contact officer for this is Sheridan Rapmund, Director, contactable on (02) 9290 8430.

Yours sincerely

8/03/2024

X



Signed by: carmel.donnelly@ipart.nsw.gov.au

Carmel Donnelly PSM
Chair

CC:

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