

Independent Pricing and Regulatory Tribunal
Via online submission

Dear panel members,

Review of the rate peg to include population growth

The NSW Productivity Commission appreciates the opportunity to provide a submission to the Independent Pricing and Regulatory Tribunal's (IPART) *Review of the rate peg to include population growth*.

The Commission agrees with the principles underpinning IPART's preferred approach, outlined in p.12 of the Draft Report. As highlighted in our submission to the Issues Paper, the rate peg reform is critical for successful implementation of the broader reform package for infrastructure contributions by 1 July 2022.

The additional revenue will provide councils with resources to deliver growth infrastructure not attributable to individual developments. It will also fund the operation and maintenance of assets where user charging is not feasible and/or inappropriate. Critically, the reform will enable developer contributions to be set no higher than efficient cost—the most cost-effective way of delivering a minimum acceptable level of service—of local infrastructure.

Along with rate peg reform, IPART should establish benchmark costs based on efficient infrastructure delivery and review the essential works list to ensure only development-contingent items are funded from contributions.¹

In summary, having the new arrangements in place from 2022-23 will allow other reforms to be progressed in line with Department of Planning, Industry and Environment's (DPIE) implementation roadmap. A reformed rate peg will ensure councils are not left worse off once local contributions are rebalanced under an efficient, principles-based system.

In response to specific discussion questions posed in the Draft Report, the Commission provides the following comments.

1. Should our methodology be rebased after the census every five years to reflect actual growth?

The Commission acknowledges that while the overall impacts of rebasing past population estimates are likely to be minimal, there are significant variations observed at the local government level. This is especially the case for smaller regional councils where the change is substantial (e.g. 10 per cent for Central Darling Shire Council).

¹ For further detail, see Recommendations 4.5 and 4.6 of the NSW Productivity Commissioner's Final Report of the *Review of Infrastructure Contributions*.

The Commission agrees there is an opportunity for IPART to factor in a true-up/true-down of past population estimates to reflect actual growth following the Census. Two options exist for IPART's consideration:

- Option 1 (do nothing) – councils can still apply to IPART for a special variation to increase their general income over the reformed rate peg. This includes where councils need to 'catch up' on past population growth where they have experienced reduced per capita general income over time.
- Option 2 (automatic rebase adjustment) – IPART automatically rebases the population growth factor for each council following release of Census data. This could be subject to a materiality threshold to minimise complexity. If a true-down adjustment is required (i.e. estimated population growth is higher than actual growth), IPART should not apply a population factor lower than zero. This would ensure councils are not unexpectedly left worse off than under existing rate peg arrangements.

2. In the absence of a true-up, should we impose a material threshold to trigger whether an adjustment is needed on a case-by-case basis to reflect actual growth?

See response to Question 1.

3. Do you have any other comments on our draft methodology or other aspects of this draft report?

Modelling differences in the expected benefits from the rate peg reform is causing stakeholder confusion and impinging on its acceptance

Stakeholders have highlighted lower than expected benefits in IPART's modelling compared to independent modelling undertaken by the Centre for International Economics (CIE) on behalf of the Commission.

Following discussions with IPART, the Commission understands that IPART's modelling of expected benefit (\$116 million over the four years to 2020-21) was not reported correctly. When clarified, the reported impacts on expected future rates revenue collection is consistent with CIE's modelling for the Commission.

IPART has advised they will provide clarification in their Final Report, scheduled for release in September 2021.

Regular reviews of the rate peg methodology will ensure it remains relevant and consistent with its intended purpose

The Commission agrees that regular reviews of the rate peg methodology should be undertaken to ensure it remains appropriate and consistent with its intended purpose. A five-year review timeframe is appropriate.

The Productivity Commission and NSW Treasury are available to offer further advice on design and implementation of the rate peg reform. Please contact John Bransgrove on john.bransgrove@treasury.nsw.gov.au or 0450 644 875 if we can be of further assistance.

Yours sincerely,



Peter Achterstraat AM
NSW Productivity Commissioner

6 August 2021
