Summary of discussion at Rate Peg Methodology workshops

12 December 2022

1 Overview

We invited stakeholders to participate in a series of 7 workshops to inform our review of the rate peg methodology. We offered 3 in-person workshops in Sydney, Wagga Wagga and Tamworth, and 4 online workshops held in November and December 2022. Around 250 people attended across the 7 workshops, with most of the attendees representatives from councils, the Office of Local Government, Regional Organisations of Council and peak bodies including Local Government NSW, NSW Revenue Professionals. Only a small number of ratepayers attended the workshops.

We note that in our online workshop on 2 December 2022, we incorrectly stated that the typical rate in NSW had not increased significantly relative to inflation over the last 10 years. We were referring to the relative increase of the rate peg itself, rather than the typical rate. The typical rate has risen by more than the rate peg over this period.

This paper presents a summary of the key issues discussed at the workshops as follows:

- Session 1 – the review
- Session 2 – base costs and the LGCI
- Session 3 – costs of new activities and services.

2 The review

Table 1 Key themes raised in session 1

Key Theme	Summary of workshop views
Councils are struggling to maintain long term financial sustainability	• Councils and council organisations held the view that councils were struggling to maintain long term financial sustainability under the current rate peg methodology. • Councils are resorting to the Special Variation (SV) process to remain financially sustainable. • Some councils with a smaller rate base would still not achieve financial sustainability with a rate increase. • This was a dominant theme of the discussion at all workshops, and especially at regional workshops.
IPART should consider outcomes from The Integrated Planning and Reporting (IP&R) Framework	• A large portion of attending stakeholders supported IPART using aspects of the IP&R framework, including the Community Strategic Plan (CSP), Delivery Program and Financial Data Return's (FDR) in its calculation of the rate peg. • Several councils advocated that the CSP is developed with ratepayers in mind and lets ratepayers make informed decisions about the level of services that their council should provide. Some argued that IPART should place greater trust in councils' ability to finance with their communities in mind. • By considering the IP&R process, the rate peg could therefore use more granular data on councils, consider ratepayers willingness to pay and consider each council's long term financial plan.

Key Theme	Summary of workshop views
The Special rate Variation (SV) process is difficult and expensive	• Several stakeholders raised that the Special Variation (SV) process was costly, time consuming and heavily politicised within communities. This is disincentivising councils to apply for to extra funding. • Councils are relying on the SV process for financial sustainability rather than to fund new projects. Councils are avoiding the SV process due to barriers and as a result are falling behind financially. • Councils however appreciated the recent Additional Special Variation (ASV) process and would welcome a similar component in the methodology. • Councils also expressed difficulty in widely engaging with their communities.

3 Base costs and the LGCI

Table 2 Key themes raised on session 2

Key Theme	Summary of workshop views
IPART must consider the diversity of councils	• Almost all engaging stakeholders expressed concerns that the rate peg is too broad and does not consider how diverse councils are across the state – particularly the discrepancies between rural and metropolitan councils. • Stakeholders suggested several alternate methodologies that would account for different council types, including: – Grouping councils by type or characteristics – Releasing a rate peg range – Applying 'triggers' or 'box-ticking criteria' for individual rate peg increases – Benchmarking a base rate but allowing extra flexibility for councils or including a true-up mechanism. • Some stakeholders suggested that IPART factor in councils' other revenue streams, including FAGs and alternate revenue sources.
Lag in the methodology is an issue	• Some stakeholders advocated that the lag in the methodology is an issue where there is volatile inflation. Stakeholders noted that IPART's initial rate peg of 0.7 for 2022-2023 was a typical example of this issue. • Forward looking indicators could be used to address lag. • The lag can make planning and community conversations around rates more difficult for councils.
The LGCI's labour cost component is not reflective of true Local Government Labour costs.	• Almost all attending stakeholders showed considerable frustration with IPARTs use of the Wage Price Index (WPI) as the labour cost component of the LGCI. • Recent increases in the WPI have been considerably lower than what has been negotiated in the Local Government (State) Award Wage. • The labour cost component is not reflecting the current premiums that Councils are having to pay to retain and attract staff in a very competitive labour market. This was especially raised by regional councils with reference to the current skills shortage across the state. • The labour cost component does not reflect councils need to hire additional staff or to fill current vacancies. • Efficiency of labour is not an issue for councils. • The cost of contractors to fill positions previously occupied by full time staff puts upward pressure on labour costs. • Compensating councils for actual costs may only reflect expenses in less than ideal conditions. Rather than providing councils with an appropriate level of funding.

4 Costs of new activities and services

Table 3 Key themes raised in session 3

Issue	Summary of stakeholder views
Ratepayers	• Ratepayer issues raised were more specific and included: – Accounting for negative population growth - Rates have increased faster than CPI – IPART transparency • There was a positive sentiment toward IPART undertaking a survey of ratepayers – councils would like a copy of the survey and to be involved in future surveys.
There is a need to consider new activities and services councils must provide and additional costs they are faced with	• The new and external costs being placed on local governments, that are not included in the rate peg, was the dominant theme of the 3rd session at workshops. • State or federal government decisions that increase the cost base for councils should be included within the rate peg or as an adjustment. Examples of these costs include the Emergency Services Levy (ESL), accounting treatment of Rural Fire Service assets, depreciation of gifted assets, new compliance costs, cybersecurity and other unique services that are provided following consultation with community. • Some councils noted that services developed in consultation with the community should not be referred to as discretionary services. • Some councils suggested they should have flexibility in raising revenue for services that have community support and that these could be separate from the rate peg. There should be scope in the methodology for continuous reassessment and adjustment to include these types of new services. • Councils receive significant capital grant funding, but this does not include the operating expenditure or depreciation expenses of maintaining assets over time. • Some councils, particularly regional and rural councils, are stepping in to provide services that were previously provided by other levels of government, i.e., health and housing services.
The population growth factor needs modification	• The lag in the population growth rate is an issue. For example, if councils were funded sooner, they could build houses faster to promote further growth. • The population factor did not address or 'catch-up' on previous growth. • The population growth factor fails to address the eventual need for new and expanded facilities. • There are cost demands generated in non-residential population growth that are not accounted for. • Councils that conduct supplementary valuations are not benefitting from the population growth factor. • Conversely, councils with little or no growth are generally more likely to be struggling financially and are disadvantaged by the factor. • During intercensal periods there can be considerable errors in population figures. • Rateable properties was suggested as an alternative measurement of population growth • Some stakeholders questioned if prison populations were being included in the population growth factor
The productivity factor is not required	• Attending councils suggested that the productivity factor was not required. • Councils could not afford to invest into systems and processes for efficiency gains.
Climate change	• Challenges of reducing substantial emissions from council waste management facilities mean that some councils cannot consider being carbon neutral. • There is a need for providing infrastructure such as electric vehicle charging stations to meet the government's target for net zero emissions to meet the Paris Agreement. • While climate change is an important issue and an adjustment would be welcomed by the sector, councils do not want this to become a political issue. IPART should consider the adjustment as part of a range of adjustments. • Councils are mostly acting to respond to climate change. • Councils must seek a balance when dealing with climate change. Climate change initiatives are difficult because they are often above and beyond planned works and day to day requirements. However, they should be encouraged to reduce disaster recovery and further financial suffering. • There are reasonably good Natural Disaster Restoration and Recovery Arrangements in place to cover the costs of restoring assets. The rates have never been expected to cover this.

Issue	Summary of stakeholder views
	• Councils have different capacities to invest, for example in long lasting materials for roads. Instead, councils continue to repair older roads with less efficient materials. • For councils with low-rate bases, no rate peg increase would cover the costs of maintaining rural roads and assets affected by increased wet weather. • There is a need to consider the costs of supporting renewable energy zones. Rating structures may not allow councils to proactively get money to support an ongoing cost. • Energy efficiency gains are offset through higher prices of energy as utilities need to meet fixed costs. • Climate change impacts the costs of contractors. Councils are experiencing contractor shortages. State coordination is needed to manage the costs.

5 Other issues

Table 4 Other issues raised throughout the workshops

Issue	Summary of stakeholder views
A number of comments were made on a wide range of issues across the seven workshops. These are included here.	• Councils are reluctant to take on debt.. • The rate peg system is detracting from important aspects of the Fit for the Future review, including financial sustainability and councils' relationship with state government. • Council accountability to ratepayers already exists through the democratic process and finance documentation submitted to the audit office. • Recommendations that are outside the scope of IPART's role should still be included in the report so that stakeholders can advocate for those recommendations to state government. • Any use of council data and information within the rate peg calculation will also be lagged. • Councils may be limited in other options to raise revenue, e.g. fees • Councils argued that rates should be based on Capital Improved Value (CIV) and raised issues about properties that are exempted from rates. • Access to insurance can be limited for some assets, causing costs to be volatile.

Table 5 Follow-up questions

Question	Response
Understanding that the rate peg only limits councils' revenues. Is consideration given to prevent councils [from] unnecessarily impacting a small group of individuals?	• The current rate peg methodology is a cap on total rates revenue collected by councils. Councils have the flexibility to set individual property rates based on the council's revenue policy. We are not considering changing the approach from a revenue cap to a cap on the individual property rates that a council can levy. Councils are required to levy rates consistent with its revenue policy and the OLG issues guidelines on best practice approaches for managing debt and hardship.