AlburyCity

IPART Submission

Principles / Themes

AlburyCity's draft submission highlights that:

- A better approach would be to utilise the existing NSW Local Government Integrated Planning and Reporting Framework to better effect
- The current rate peg methodology is restrictive both on councils and the community, as the current rate peg approach does not support the achievement of the Council's draft four year delivery program and the community strategic plan
- The rate peg adds to financial sustainability challenges by not reflecting local government costs when inflation is on the rise, as it is based on historic inflation
- The rate peg is currently a one size fits all approach, based on the 'average' council, and does not take into account the different challenges and relative needs of metropolitan, regional and rural councils.
- The rate peg is limited in its purpose and does not address the financial sustainability challenges of local government.
- The rate peg does not take into account demand for changes in service levels, covid operational impacts, depreciation of infrastructure assets, the impacts of natural disasters, and other sustainability challenges.
- The rate peg relies on a special variation process to gain IPART approval to increase rates above the rate peg to fund changes in service provision and is resource intensive. Rather than establishing a sustainable rate peg methodology from the outset.

Questions

1. To what extent does the Local Government Cost Index reflect changes in councils' costs and inflation? Is there a better approach?

A better approach would be to utilise the existing NSW Local Government Integrated Planning and Reporting Framework to better effect. The current rate peg methodology is restrictive both on councils and the community, as the current rate peg approach does not support the achievement of the Council's draft four year delivery program and the community strategic plan, although they are both underpinned by a robust community engagement process.

While it is incumbent on councils to demonstrate to our communities that we are effective and efficient in our operations, our experience has been that public submissions received have been focused on requests that Council does more for the community, rather than on limiting rate increases.

Whilst we understand the overall purpose of the rate peg is to prevent what IPART believe are unnecessary excessive rate increases the rate peg is impacting the long-term financial sustainability of councils. The scope of this initiative needs to consider the long-term impact to councils and not just the short-term impact to the ratepayer.

The other significant concern we have is that the index used is using data that is two years behind what is occurring in the current environment, thus it does not reflect the changes in council costs in a timely manner. For example, road construction costs increased by 7.7% in 2021/22 but the rate peg for 2023/24 only allowing for an increase of 5.2% based on the increases in 2019/20 and 2020/21.

2. What is the best way to measure changes in councils' costs and inflation, and how can this be done in a timely way?

The timing of the rate peg release is not the issue in question, the inherent challenge is how the rate peg is calculated, that is, on historic inflation rather than forecast inflation. A forecast model would improve the alignment the rate peg with actual inflation experienced by councils.

3. What alternate data sources could be used to measure the changes in council costs?

There are many predictive instruments in the marketplace that would help in the calculation of a more relevant rate peg %. Where the predictive measure is found to be inaccurate then the following year could include a revision/correction factor.

For example, as wages are approx. 40% of the input consideration in assessing the rate cap percentage should NSW Local Government Award changes be used rather than the ABS - NSW Public Sector Wage Price Index. This would use a Local Government indicator rather that a State Government indicator

4. Last year we included a population factor in our rate peg methodology. Do you have any feedback on how it is operating? What improvements could be made?

The population change is an important aspect of the rate peg calculation – where there are high levels of population growth, without the offset of revenue growth in supplementary valuations, it is important that Council can action the needs of the municipality in a timely and proactive manner.

It is potentiality too early to make a full judgment of this initiative after only one year of operation.

5. How can the rate peg methodology best reflect improvements in productivity and the efficient delivery of services by councils?

We understand that it is challenging in coming up with a sector-wide productivity improvement measure to be considered in setting the rate peg. Councils are best placed to understand the significant financial challenges experienced by the sector and are judged on how they use the scarce resources that they have available by the ratepayer.

6. What other external factors should the rate peg methodology make adjustments for? How should this be done?

Other factors may include:

- Lack of understanding of the demand for services delivered by Council for ratepayers, which may be impacted by the increasing financial constraints that a rate peg places on Council.
- Aging infrastructure assets and the associated asset management plans and requirements

- The escalating depreciation expenses associated with increasing input costs for renewal and replacement of assets
- Changing nature of the workforce, generational change and Pandemic impacts on operational capability
- Climate adaption (as a proactive measure)
- Increasing natural disasters

7. Has the rate peg protected ratepayers from unnecessary rate increases?

The implementation of a rate peg has definitely limited rate increases, but this has been at the expense of the financial sustainability of Council services.

8. Has the rate peg provided councils with sufficient income to deliver services to their communities?

No, as the rate peg does not take into account the demand for services, ageing infrastructure, escalating depreciation expense and covid operational impacts, inert alia, and therefore places greater strain of the financial sustainability of Council.

9. How has the rate peg impacted the financial performance and sustainability of councils?

The size of the available rate rise has obviously been impacted by the rate peg. However, the impact of the rate peg has meant that Councils have been impacted in the ability to generate sufficient income to deliver the services expected of them by their communities. The rate peg also has a significant impact on the long-term financial sustainability of Council, as Council needs to consider the impacts of depreciation and asset replacement, which doesn't appear to be a consideration of IPART in setting the rate peg.

10. and 11. In what ways could the rate peg methodology better reflect how councils differ from each other? What are the benefits of introducing different cost indexes for different council types?

Differing cost indexes will recognise that not all councils are alike. IPART has access to existing data collected by IPART to assess expenditure profiles for different categories of councils ie metro, regional, and rural. This information should be considered in assessing the impacts of a 'catch-all' rate peg.

There exists an opportunity to include a factor of relative need, which could be based on the category of council applied by the NSW Grant Commission to recognise the financial sustainability challenges faced by councils.

Change is also more observable in the rural parts of the state – councils with high-density levels seem to be impacted less by some changes eg. drought/climate change, and digitalisation. However, at the end of the day, those councils that need a higher rate peg will be hitting their ratepayers in the back pocket.

12. Is volatility in the rate peg a problem? How could it be stabilised?

The current rate peg methodology does manage volatility by using an average of two (2) financial years. However, this is an historic average, up to two (2) years prior to the year in which the rate peg is applied, which does not address the issue of long-term sustainability.

13. Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs?

AlburyCity's preference would be for the rate peg to support the long-term financial sustainability of Council.

14. Are there benefits in setting a longer-term rate peg, say over multiple years?

A possible benefit includes certainty of the change in rate over a period of time, however, it is likely the risk of this approach would outweigh the benefits. For example, the current inflationary economic environment would see a long-term rate peg having a negative impact on the financial sustainability of Council.

15. Should the rate peg be released later in the year if this reduced the lag?
The volitivity of the rate peg is not a concern when it is done in real-time, or at least close to real-time. A two-year lag means that the volatility is felt by Council two years before it is felt by the ratepayers. Councils subsidies the ratepayer in time of rising inflation and then is seen to raise rates unfairly during times of decreasing inflation.

Again the issue is that the rate peg is determined on historical data/information and the timing of the release of the rate peg

16. How should we account for the change in inefficient labour costs?

Any productivity improvements noted in the Award should be taken into account, but it is important to also take into account the increases in the superannuation guarantee and the costs associated with activating different workforce models such as the use of contractors to supplement existing resources due to current workforce resourcing issues experienced.

17. Should external costs be reflected in the rate peg methodology and if so, how?

It is noted that adjustments are made by IPART to the rate peg to take into account some external costs outside of the control of councils such as emergency services levy increases by the NSW Government.

However other external costs and examples of cost shifting do not seem to be considered, that increase the financial burden on councils and the community.

***18. Are council-specific adjustments for external costs needed, and if so, how could this* be achieved?**

Council-specific adjustments are currently reviewed and assessed under the Special Variation regime. Unfortunately, this is a burdensome, resource-intensive process on Council and an additional financial burden for the community. A Special Variation could also increase rate rise volatility, which seems to be misaligned with the purpose of the implementation of a rate peg.

A change to the process could include the consideration for service demand/ageing infrastructure based on council category (metro, regional, rural) to reduce the need to undertake a Special Variation to rates.

Costs of individual council need to be considered but in a simpler process to enable the revision of the rate peg assigned

19. What types of costs that are outside councils' control should be included in the rate peg methodology?

Costs that are not in Council's control and should be considered when setting the peg include:
- Aging infrastructure assets and the associated asset management plans and requirements
- The escalating depreciation expenses associated with increasing input costs for renewal and replacement of assets
- Changing nature of the workforce, generational change and Pandemic impacts on operational capability
- Climate adaptation (as a proactive measure)
- Increasing natural disasters and
- costs shifting from differing levels of government without compensating funding

20. How can we simplify the rate peg calculation and ensure it reflects, as far as possible, inflation and changes in costs of providing services?

The process could be streamlined by not applying a rate peg.
Alternatively, the 26 Local Government Cost Index categories established by IPART could be reduced, especially if there are less material categories that have not significantly varied from CPI over a period of time. It is noted there are at least nine of the categories that are directly attributable to Sydney ratepayers leading to a Sydney-centric calculation so the reduction of Sydney-centric categories could also be considered.

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