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Your submission for this review:
Dear Tribunal, Thank you for the opportunity to present this submission on behalf of Bellingen Shire Council. Council is supportive of the rate peg methodology review and urges IPART and the NSW Government to finally fix the key financial driver impacting the financial sustainability of Councils across the State. Council's detailed submission is attached for your consideration. Kind Regards, Chris Hodge Chief Financial Officer

3 November 2022

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
SYDNEY NSW 1240

Dear Tribunal,

Review of the rate peg methodology – Issues Paper

Thank you for the opportunity to present this submission on behalf of Bellingen Shire Council.

Council is supportive of the rate peg methodology review and urges IPART and the NSW Government to finally fix the key financial driver impacting the financial sustainability of Councils across the State.

Bellingen like many councils across the State is under continued financial pressure to deliver essential services to our communities. As a result of over 4 decades of rate pegging in NSW, Bellingen's income has not kept pace with the costs of providing services and maintaining its $0.5 Billion in infrastructure. This has been demonstrated in the number of special variation (SV) applications that Council has been required to apply for in recent years. All SV's have been for maintaining current service levels, *not* for new or improved services, this is out of step with the intent of the rate peg, which should sufficiently cover the costs of maintaining current service levels.

The information provided in this document reflects Bellingen Shire Council's submission to IPART in response to the issues paper.

Set out below is our submission to each of the 20 questions listed in paper:

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

   The concept of developing a rate peg that is accurate for all Councils is principally flawed, as it assumes (i) all Council have the same cost drivers; (ii) all Councils are financially sustainable as a starting point; (iii) assets are deteriorating at the same rate every year; and (iv) assumes no infrastructure backlog to be addressed.

   For Bellingen, the financial environment is particularly challenging, with the low population numbers, disparate population centres and challenging climatic environment, achieving ongoing financially sustainability is difficult.

Whilst the above challenges are not unique to Bellingen, introducing a rate peg that sufficiently addresses the above issues across all councils is an impossible task. A more practical approach would be to abolish rate pegging in its entirety and allow Councils to control its primary income source. As a comparative, Councils have been managing their water and sewer funds appropriately for decades, without the unnecessary fluctuations that have been seen with SV's.

In the event that the abolishment of rate peg is not supported, the following improvement of the setting of the rate peg are recommended:

a. In the first instance, allow Councils to have a one-off rate increase to a level that allows them to maintain its current service levels without the need to go through a costly, time consuming and politically damaging SV process.
b. Provide a unique rate peg for each Council that recognises the impact of key issues facing each Council, such as:
    i. Recognition of the impact of climate change. This is particularly challenging for managing infrastructure assets where Council is seeing an acceleration in asset deterioration.
    ii. Recognition of disparate population centres.
    iii. Recognition of both population growth and declining population numbers.
    iv. Regard for unique challenges, for urban, rural, remote and coastal communities.
    v. Recognition of area of non-rateable land. Over 57% of the Bellingen Shire is made up of State Forest, National Park and Crown land. This is a considerable disadvantage for Council and needs careful consideration in the annual rate peg setting process.
c. Update the Local Government Cost Index with a more appropriate 'basket of goods and services'.
d. Rate peg should be forward looking, rather then the current system of a backwards looking rate peg that is currently creating a two-year lag. This places Councils in a constant cycle of playing catch-up, resulting in the need for SV's to maintain current service levels.

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

As noted within question 1 above, in addressing the unique cost drivers impacting each Council it is suggested that an individual approach be taken in the setting of a rate peg. The possibility of grouping of like for like Councils may be a more efficient way of providing a rate peg.

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

Council would suggest that there is more accurate data that IPART can use to determine a forward-facing rate peg. Possible additional data sources:

a. Actual wage increases data for Local Government employees.
b. Actual Emergency services levy costs increases by council (these increases will vary council to council)
c. Asset deterioration data (asset deterioration rates are significant cost drivers for council)

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?

Population growth has and will continue to have an impact on the costs of providing service for councils.

Further improvements to consider in order to establish a more accurate population factor:

a. Consider changes in demographics as a result of population changes.
b. Address lag between increase in population and the year rate peg is implemented.
c. Review the subtracting of the supplementary rates in the growth factor.

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

At present, most councils actively seek out efficiency gains to mitigate the flaws in the current rate peg methodology. Any efficiency factor will further exacerbate the financial sustainability issues facing councils across the State.

Council strongly advocates for the removal of any efficiency factor in the rate peg.

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

As discussed above, there are a number of unique factors that impact each Council. External factors to consider:

a. Impact of COVID on Council operations.
b. Impact of climate change and continued impact of natural disasters and severe weather events.
c. Emergency services levy.
d. Coastal management and associated additional costs.
e. Population demographics, including pensioner concession required to be granted.
f. Global economy and supply change interruptions.

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

No. Evidence of the number and scale of SV applications over the past decade would suggest that there is only a short-term protection from excessive rate increases. There are dozens of examples of 30%+ rate increases implemented by councils across the State. This delay also presents significant intergenerational equity risks.

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

No. Despite Bellingen's best efforts to improve its financial position through efficiency improvements and the implementation of multiple SV's in recent years, Council does not have sufficient revenues to deliver services at acceptable levels to its community. Council is currently considering additional SV's to continue to maintain service levels.

Bellingen, like most councils across the state have a significant infrastructure backlog to address. As at the 30 June 2022, Council reported a cost to bring assets to an agreed service level of 5.67%. In dollar terms, this percentage represents $32.3M in required expenditure. To compare this to Councils 2022/23 rate peg increase, the 2.5% increase (rate peg + ASV) only generated an additional $220,359 to go towards maintaining infrastructure and service provision. There is clearly a disconnect between the volume of assets to maintain and the current rate peg increases.

In the current environment of high inflation, Council has seen a significant increase in the costs of providing services. In particular, Council has examples of projects that have more than doubled over the past few years. The current rate peg means Council has been required to lower services levels, resulting in an increase in the infrastructure backlog. This is not a favorable outcome to our communities.

Council urges IPART to consider the volume of assets that councils are required to maintain in developing the new rate peg framework and the costs associated in maintaining these assets.

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

Rate peg has had a detrimental impact on the financial position of Council. Bellingen has and will continue to report operational deficits in its general fund without the help of future SV's. As referenced above, Council has a vast network of road and bridges that need to be constantly maintained. Unfortunately, the rate peg has failed to address the significant costs required in maintaining these assets, this is reflected in our large infrastructure backlog.

Unfortunately, one of the consequences of this under funding is the requirement for Councils to utilize borrowings in order to fund these works. This further exacerbates the financial challenges Council is facing. Council has also seen a significant decline in its internal and unrestricted cash reserves in recent years.

To provide a working example of the impact of annual costs that Council has little control over and the comparison to the annual rate peg, below is just one example of the impact an average rate peg has on the financial sustainability of Council:

2022/23

Rate peg	
Income from rate peg (based on 2.5% average rate peg):	$220,359
Expense examples:	
Wage increase - NSW Local Government (State) Award increase (2% increase)	$213,960
Emergency Service Levy Increase 2022/23	$165,009
	$378,969

From the example above, we can see the average rate peg fails to cover just a few examples of expenses Council has no control over. If the intent of the annual rate peg is to maintain service levels, the above example clearly shows the vast gap in just covering the annual wage increase. This leaves no funds to contribute to the maintenance of services and infrastructure. This annual affect has continued to deteriorate the financial position of Council.

10. In what ways could the rate peg methodology better reflect how councils differ from each other?

As referenced within question 1 and 2 above, a more appropriate way of setting the rate peg would be the possible grouping of like for like councils. IPART should consider the following in the possible setting of different rates:

a. Road length per capita.
b. Number of bridges per capita.

c. Differing factors facing metropolitan vs regional communities.
d. Additional costs of servicing coastal communities.
e. Impact of Climate change.
f. Population density and impact of disparate communities.
g. Capacity to generate own source revenue.

11. What are the benefits of introducing different cost indexes for different council types?

It is hoped that a more accurate LGCI and more targeted rate peg will better represent the actual costs associated with maintaining service levels and managing infrastructure renewals. The key benefits to an appropriate rate peg is a reduction in the need for future SV's and reduction in rate increase fluctuations.

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

Some volatility in the rate peg is expected due to economic fluctuations year to year. However, large fluctuations in the rate peg have been problematic in the establishment of mandatory IP&R planning documentation, particularly in preparing the Long Term Financial Plan and Asset Management planning.

Providing stability in the rate peg could be achieved by using a forward-looking moving average. This would be of assistance in making decisions regarding the need and use of future SV's and the planning of our infrastructure renewal program.

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

Council's preference is for a rate cap that was accurate and adequately met the demands of financial sustainability.

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

As per Q13 above, Councils preference is for an accurate rate peg that adequately addresses the financial sustainability challenges facing Bellingen.

15. Should the rate peg be released later in the year if this reduced the lag?

For planning purposes, it is important that the rate peg be released early to ensure any budget implications are considered and appropriately addressed. To reduce the lag, this could possibly be achieved through releasing an early indicative rate, followed by a final rate closer to the commencement of the financial year. Although this needs to consider the current community consultation constraints of the current IP&R process.

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

As detailed in Question 5, most councils actively seek out efficiency gains to mitigate the flaws in the current rate peg methodology. Any efficiency factor will further exacerbate the financial sustainability issues facing councils across the State.

Council strongly advocates for the removal of any efficiency factor in the rate peg.

Council notes the current practice of using the NSW public sector wage price index (WPI). A more appropriate index would be a combination of the NSW Local Government (State) Award and allowance for the impact of market factors impacting the costs of attracting and maintaining staff, this is particularly challenging in regional and rural areas.

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

As detailed throughout this submission, many important costs are not currently considered. In the past IPART have considered costs such as LG elections, however, have failed to consider a vast array of factors having a greater impact on the financial sustainability of councils (many have been referenced throughout this document). Additional external considerations should be given to:

a. Cost of councils portion of pensioner concession. For Bellingen, 25% of ratepayers are currently entitled to a pensioner concession. This represents an additional net cost to council of $220K each year.
b. Additional audit costs and associated compliance costs (asset revaluation costs, ARIC committee costs).
c. Impacts of cost shifting from other levels of government.
d. Legislative changes impacting councils. For example, changes to the 2021 Environmental Planning and Assessment Amendment (Compliance Fees) Regulation removed a significant revenue source during the 2021/22 financial year.

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

Yes. See Question 17 above.

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

As per responses above, there are multiple costs outside Council's control. All costs associated with these items should be considered when establishing the rate peg.

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 cost drivers for each council are vast, variable, and highly individualised. To provide a simplistic approach to a complex problem is difficult and likely to exacerbate the current fiscal imbalance that exists across councils. Achieving accurate outcomes is preferable to a simplistic one.

I trust this information is of some assistance to IPART in finalising its review.

If you have any enquiries or require clarification, please do not hesitate to contact me directly.

Kind regards,

Chris Hodge
Chief Financial Officer

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