Review of Rate Peg Methodology – Issues Paper

Berrigan Shire Council Response

Berrigan Shire Council Introduction

The Berrigan Shire is a rural community with a population exceeding 8,500 and comprising the four towns of Finley, Berrigan, Tocumwal and Barooga; bordered by the Murray River and bushlands in the south and surrounded by dry and irrigated farming lands.

The Council collected $5.7m in ordinary rates in 2022/23 from 5,141 assessments and a rateable land value of $821m

The Council employs 102 staff.

IPART has been requested to review its methodology for calculating and applying the rate peg.

Preferred outcome – abolish rate pegging

Berrigan Shire Council's preferred position is the complete abolition of the rate pegging mechanism.

When rate pegging was introduced, it was transparently a political device with no underlying economic or financial rationale. The decision-making process had no regard for "costs" and "efficiencies" and was only focused on what the government thought the public would tolerate.

Once introduced, the NSW Government (rather than Councils) found themselves responsible for balancing the financial requirements of local government with community expectations.

This effectively relieved Councils from having to make these difficult decisions themselves. Anecdotally, I have heard a former Councillor (from a neighbour Council) advocate for rate pegging as it removed the political burden from him to set a rate.

By taking responsibility from local government to set their own rates, it creates a "beggar" mentality where Councils can avoid the difficult discussions with residents about their rates and simply complain that the Federal and State governments need to provide more funding.

The transfer of responsibility for rate pegging to IPART has at least placed a veneer of science on the process but this is just post-hoc rationalisation. It did allow the Government to sidestep the responsibility for setting rates it inadvertently took on when it introduced the rate peg, by handing it off to an independent tribunal to set.

IPART to its credit, continue to tinker with the rate pegging model to try and find a workable solution. The reality is the task is impossible. To set a peg that applies to the incredibly diverse group of local authorities and the even more diverse group of activities these Councils undertake is futile. The more IPART tinker with the model, the more complex it gets and the more anomalies – like the 2021/22 rate peg – will arise.

The SRV process is an incredibly time and resource consuming exercise – and one that all but the very largest Councils will avoid unless they are on the verge of financial collapse. It is not a solution. The design of the SRV system is designed to make it easy for large Councils and difficult to impossible for rural and regional ones.

Evidence provided by software provider LG Solutions shows that most requests for SRVs come from large Councils with the resources to provide all the information required by IPART. These requests are mostly for small amounts and track expenditure and service delivery.

Rural and regional Councils are much less likely to make a submission. When they do make a submission, it is not usually to adjust service levels but rather a desperate attempt to stay afloat. The requests are much larger – seeking 10% or more – plus a margin to recover the costs of employing consultants or additional staff to assist with the IPART process.

Rate pegging is broken – it needs to cease.

Alternative model – empower and monitor Councils

Instead of setting a rate peg, local government should be empowered to make its own decisions about its rates and charges and wear the political consequences of these decisions.

The NSW Government has put in place the Integrated Planning and Reporting Framework to facilitate these discussions about rates and service levels between Councils and communities – let this do its work. If the Government feels the IP&R needs strengthening to undertake this role, then strengthen it.

There is still a role for IPART in this model.

Instead of setting an annual peg and assessing SRVs across the sector, IPART would review individual Councils rates on request. These requests could come from:

1. The community (via petition, similar to petitions to parliament)
2. The Minister for Local Government
3. The Council itself

This suggestion flips the model from "Set a peg for all Councils and Council need approval to exceed this" to "Councils set their own rates as they see fit and IPART will review if Council is seen to be abusing this power".

Following a review, IPART can make recommendations to the Council and the Minister regarding the reasonableness or otherwise of a rate increase and any actions that may be required.

Question

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

Council has no expertise in statistical analysis and is prepared to accept that IPART can competently calculate an index tracking movement in the prices of a bundle of goods and services over time.

A better question to ask is "Is the Local Government Cost Index a suitable tool for determining a rate peg?" The answer to this question is "No". Council's infrastructure requirements and its service level commitments do not adjust year-on-year based on the costs of inputs 12 to 18 months ago.

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

IPART should abandon the attempt to measure changes in councils' costs and inflation – at least for the purpose of setting a rate peg.

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

The attempt to set Council rates based on changes to input costs is flawed. However, there are at least some common-sense checks IPART could make before issuing a rate peg including consideration that the rate peg will at least meet the increased labour costs to Council in the current Award.

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 factor has had little impact on the Council to date.

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

The rate peg should not try and capture productivity improvements. Decisions about how to best use savings from productivity gains should be made by Councils in consultation with their community.

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

As flawed as using the LGCI to set the rate peg is, it is at least simple and straight-forward. Tinkering with the rate peg will only make the process less transparent and more likely to be biased. As each bias is accounted for and "corrected", the whole mess will become entirely unwieldy and bureaucratic.

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

It has protected ratepayers from rate increases. It has probably "protected" ratepayers and residents from delivery of essential services and "protected" the NSW government from Councils complying with their obligations.

Any position on whether rate increases are "necessary" or "unnecessary" is a value judgement rather than an economic proposition.

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

No.

The evidence is clear. Rural and regional Councils are forced to seek huge SRVs when their rate revenue is insufficient to generate the income they need to deliver the services they are required to deliver.

Councils should be encouraged to seek small and sustainable SRVs early before they get into trouble but the time and resources required to make a suitable application mean that applications are not made until drastic action is needed.

Setting a one-size-fits-all rate peg forces rural and regional Councils with less scope for efficiency gains into a spiral where less revenue is available making it more difficult to undertake activities that may address their underlying problems.

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

As per Q8, the rate peg and SRV system forces Councils to “fail” before a solution is found.

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

As per Q6, the more complicated IPART makes the rate peg system, the more complicated and less transparent it becomes.

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

Clearly, the operating environment of a rural and regional Council is completely different to that of a large Sydney Council like Blacktown or Canterbury/Bankstown.

The best way to deal with this is to abolish the peg and allow Councils to set their rates based on their own operating environment.

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

Much like electricity transmission, much of Councils’ costs (especially rural and regional Councils) is tied up in the long-term operation, maintenance and eventual replacement of infrastructure – over cycles of up to 50 years.

Councils are required to make sure they are able to fund the future replacement of this infrastructure. This requires a decision making horizon much greater than a 12-month cycle.

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

Councils would prefer to make their own trade-offs based on their own operating circumstances. However, if forced to choose, at least some certainty about a band for the following 3 years following would assist future budgeting.

The shock of the 0.7% rate peg should never happen again.

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

Maybe not a single rate peg but at least a band (say 1% either way from the current peg) for the following years increase. Alternatively, “smooth” the index over time to reduce volatility.

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

No. The rate peg should be issued as early as possible. The fact of rate pegging means that Council must prepare its budgets “backwards”. Instead of determining its service levels, identifying its costs and other revenues and generating rates to meet the funding gap, Council’s revenue is dictated by IPART and it sets its service standards based on this.

Delaying the rate peg forces Councils to try and predict IPART’s intention and a “wrong” prediction causes havoc for Council budgets.

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

By empowering Councils to make their own decisions based on their own operating circumstances in consultation with their communities.

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

Attempts to "adjust" the LGCI to account for external costs will make the model more complex and less transparent without addressing the fact that it is rate pegging as a concept that is the problem.

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

If the rate peg is to be tailored for each individual Council, the obvious question is "what is the entire point of the rate peg?"

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

The most obvious missing (and hidden) cost not shown is the burden of cost shifting from Federal and State Government to Local Government without an associated funding stream.

The cost of the increasing regulatory burden placed on Councils (such as the recent requirement for Audit, Risk and Improvement Committees, the imposition of the new Planning Portal etc.) is also not factored in.

Increased costs for services provided by the NSW Government to Councils also need to be considered. Audit costs have almost tripled since the NSW Audit Office took on the role. The Electoral Commission of NSW is also able to "negotiate" fees with Councils for election services from a position of virtual monopoly. FRNSW and RFS fees are set by NSW Government fiat with no input from Councils at all about service levels.

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?

Simplifying the rate peg and addressing the inherent inequities in the rate peg are in tension. IPART can look to make the rate peg more equitable and fit for purpose, but this will require more data to be fed into the system, more analysis of this data and more massaging of the output.

The simplest and easiest solution is to abandon the rate peg and have IPART transition to an advisory and review role with regard to local government general rates.

Matt Hansen
Deputy Chief Executive Officer
Berrigan Shire Council

Email: [redacted]

Phone: [redacted]