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3 November 2022

The Chair – IPART Review of Rate Peg Methodology
Via IPART online form

RE: <u>IPART Review of Rate Peg Methodology</u>

Council refers to the IPART review of rate peg methodology, Issues Paper dated September 2022, with written submissions sought prior to 4 November 2022.

Blayney Shire Council has seen the draft submissions prepared by both Local Government NSW (LGNSW) and Central NSW Joint Organisation (CNSWJO), of which Council is a member of both organisations and would like to strongly reaffirm its support for each respective submission.

In addition to the LGNSW and CNSWJO submissions, Council would like to specifically highlight to the tribunal;

The one size fits all model does not work.

This is confirmed and shown in Table B.1 where income sources across different Council types is broken down and shows significant disparity in the percentage of income generated by rates by each Council type.

The Large Rural Council category (which Blayney Shire is) shows rates income is on average 20% of total income, yet 32% is the average total rates income as a percentage across the entire NSW local government sector. This confirms a significant disparity exists for regional Councils to generate an appropriate level of income from rates.

Table B.2 and Figure B.2 further confirm that 57 (44.5%) of Rural and Large Rural Councils have sought a Special Variation (SV) in the past 10 years. Additionally, the average cumulative increase for these two categories had the two highest average cumulative increases for approved SV applications at approximately 30%.

Speaking to a number of councils at the recent Local Government NSW Annual State conference, many Councils (potentially 80 of the 128 NSW Councils) are and/or will be needing at an SV, some in the vicinity of 50%.

The following comments are provided to some of the specific questions asked by IPART;

1. To what extent does the Local Government Cost Index (LGCI) reflect changes in councils' costs and inflation? Is there a better approach?
A one size all approach does not work, there are too many varying factors for each of the 128 Councils in NSW. The points outlined on page 1 of this submission reaffirm this position.

2. What is the best way to measure changes in councils' costs and inflation, and how can this be done in a timely way?
A significant amount of Council works are construction related, in which unprecedented rises have been experienced. In some projects, such as bridges, increases in excess of 50% (Council can provide specific evidence on this) have been experienced.

Greater consideration and emphasis in calculating the rate peg needs to be placed on what is occurring in the construction industry, specifically inclusion of a specific Construction Cost Index.

Additional consideration in the Labour market needs to also be factored in, to consider when a Council is impacted by a State Significant Projects and/or large construction projects being undertaken nearby.

Blayney Shire has 3 such large projects which will likely concurrently overlap and drive a need for approximately 1,700 construction workers over a 4-year period. Council in turn then has to compete with inflated salary conditions for construction industry employees paid by these large private sector employers, that are contractually incentivised and driven to meet tight deadlines.

3. What alternate data sources could be used to measure the changes in council cost?
The current issues paper is backwards focused using historical data which in the fast-paced world of today, is already out of date. IPART and in particular the rate peg should and needs to be forward focused.

IPART should be surveying Councils in relation to their Long-Term Financial Plans;

- What is the likelihood the Council will require an SV, and
- If an SV is required how big may it be.

As outlined in question 1 an ability to capture and consider what is happening in the construction industry needs to be considered as a standalone factor. Potentially utilisation of a recognised Construction Cost Index would be appropriate.

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 focus on population growth is also noted but considered counterproductive because Councils with stagnant, minimal or declining population growth require the same if not a greater ability to increase income to simply maintain current levels of service.

The importance of this is reaffirmed through inclusion in the methodology used for the distribution of Financial Assistance Grants (FAGs), which takes into ‘relative disadvantage’. Similar provisions need to be considered in calculating the rate peg methodology for Councils with stagnant, minimal or no growth.

6. What other external factors should the rate peg methodology make adjustments for? How should this be done?
Impact of cost shifting needs to be considered.

Methodology should be modified to allow adjustments for external factors that affect groups of councils, affect councils unevenly or affect individual councils.

For example, the Emergency Services Levy (ESL) that has been included in the peg, does not fall evenly across councils, with the heaviest burden proportionally falling on rural/regional councils with a high RFS presence.

RFS asset depreciation is another factor that should be included.

7. Has the rate peg protected ratepayers from unnecessary rate increases?
The existence of the rate peg has not protected rate payers from unnecessary rate increases and has in fact had the opposite effect. There is a direct correlation to the rate peg creating significant ‘rate shock’ being significant rate increases at points in time for communities to create financial sustainability.

By not allowing a Council to undertake planned, strategic and measured rate increases to iron out identified long term financial sustainability issues, the rate peg only serves to drive the need for sudden large SV increases (some in excess of 50%) at a point in the future to create financial sustainably.

The current situation goes directly against the principle of ensuring intergenerational equity within communities, because it is always future generations having to bear significant increases rather than the current generation having appropriate increases at the time of having access to the services.

11. Is volatility in the rate peg a problem? How could it be stabilised?
12. Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs?
13. Are there benefits in setting a longer term rate peg, say over multiple years?
An option (and a simple one) to address questions; 11, 12 and 13, is review and expansion of the ‘Additional Special Variation’ (ASV) process created by the Office of Local Government in 2022.

If the ASV was able to be reviewed and expanded to simply allow Councils to levy an additional amount (say up to an additional 5%) above the set rate peg (whatever that is) all stakeholders would benefit.

Ratepayers would be protected from significant rate increases and a mechanism is provided to Councils to address long term financial sustainability concerns. It would be beneficial to all stakeholders, as it;

- Would still allow a rate peg to continue be set each year by IPART,
- Ensures the Government's commitment to protect ratepayers from excessive rate increases is retained,
- Provides a simple mechanism to Councils to ensure financial sustainability over the Long Term without the need to undertake the SV process.
- Would reduce the need for Councils to undertake the significantly resource intensive and inefficient SV process for Councils, particularly smaller Councils.

Thank you for the opportunity to make a submission to the review. Council clearly understands IPART's role in the existing process (and this review) and appreciates that IPART does not set policy which is the realm of government.

However, I trust through the weight of submissions that a clear appreciation is gained of the serious challenges placed on councils with significant constraints placed on the ability to raise revenue yet be expected to deliver services and remain financially sustainable.

Unless the system is adjusted to provide balanced rate increases that genuinely respect rising costs reflected across a number of indices, the need for large "rate shocks" are inevitable. This is neither fair to ratepayers nor Councils who need to divert significant resources to navigate the SV process or spend significant amounts on specialist consultants to assist them.

Council hopes that IPART can deliver a methodology that fairly respects all the costs borne by local government or are imposed by government cost shifting.

Yours faithfully

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Mark Dicker
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