Author name: L. Black

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Your submission for this review:
Please see attached Council report and minute resolved at the Ordinary Meeting of Council held 25 October 2022.

ITEM 07.22.239 RATE PEG METHODOLOGY SUBMISSION TO IPART

Meeting	Council	25 October 2022
Directorate	Corporate & Community	
Prepared by	General Manager, Laura Black	
Reviewed by	General Manager, Laura Black	
Attachments	Nil	

SUMMARY

This reports seeks Council's support to lodge a submission to IPARTs Review of the Rate Peg Methodology. The submission is due by 4 November 2022. The Issues paper can be found here [Issues Paper - Review of rate peg methodology - September 2022 | IPART].

OFFICER RECOMMENDATION

That Council makes a submission to IPART's review of the rate peg methodology including the matters detailed in the report.

LINKAGE TO OUR COMMUNITY PLAN

Theme	Leadership
Objective	We will have a strong, accountable and representative Government

KEY ISSUES

At its Ordinary Meeting held 21 April 2021, Council resolved to make a submission to IPARTs review of the rate peg to include population growth. While in support of the inclusion, Council maintained that ABS population growth data, which is lagged by three years, is not an appropriate measure of population growth in the current year. And is therefore not an appropriate measure for considering rate peg to fund increased services and infrastructure to meet the demands of population growth.

Indicative of this is the fact that IPARTs proposed rate peg for 2023/2024 is the third highest in the State, based on population change that occurred in 2020/2021 during the COVID pandemic. However, the demands of an increased population on councils is felt immediately. In the case of Clarence Valley Council, 2020/2021 saw a significantly increased demand for development and building services, growth in the number of requests for information and GIPA requests, counter services and rating enquiries, increased reports for regulatory services and facility and open space maintenance. Remuneration to service these demands will not begin to be met until 2023/2024 under the current methodology.

While the exact cost of population increase is difficult to quantify, suffice to say it impacts activity across the organisation and is often dependent on level of service experience of residents and their expectation of service levels in their new local government area. Generally speaking, it is observed that residents expect at least equal levels of service to the area they came from, which can be problematic for regional and rural councils, when the resident's previous location was metropolitan and many services including road infrastructure is State funded either directly or through non-government services.

Per Council's submission in 2021, it is considered that a more accurate real time indicator of population change would be the inclusion of building approvals as an indicator of growth. While the population data is a guide, the number of building certificates/construction certificates issued by Council is a better guide than development applications (DA) as DA's only indicate that a development is approved but is not indicative of construction commenced and occupied.

Council is also of the view that the population growth factor should be set for groups of “like councils”. For example, councils located on the coast should have their population growth assessed separately to councils located west of the great divide and metropolitan councils which should be grouped together along with Wollongong, Newcastle and the Central Coast. As social population movements broadly fit the categories of farm and tree change, coastal sea change and metropolitan living.

In house and own source resourcing is the way in which councils can increase productivity however IPARTs consideration of productivity gains is unrealistic for non-metropolitan councils with comparatively smaller rate bases. Examples of key issues include:

- significant skills shortages across the sector result in costly competition to attract skilled labour to non-metropolitan councils;
- the greatest operational efficiencies require significant investment in IT systems, cloud migration and upskilling of staff and communities;
- skills shortages rely on outsourcing activity and functions for commercial rates.

Ultimately the problem lies in the fact that the Local Government Cost Index (LGCI) is always calculated on an historical cost basis. In this case the LGCI has been calculated “as at 30/6/2021” while the CPI seems to have been on a continual rise since July 2021, and all indications are that inflation will continue to rise for a while to come. The following is more than likely in relation to the current & future rate pegs:

	Council Awarded Rate Peg	CPI may run at	Potential Revenue Deficit
YE 21/22	2.0%	4.2%	2.2%
YE 22/23	0.7%	4.5%	3.8%

This means there is up to a 6% revenue shortfall to be felt by Council in the current year and this gap stands to increase should the methodology behind IPART’s rate peg calculation not change.

A review of the weighting of the cost components of the LGCI is required as the proportion of Council’s budget spent on roads and bridges (predominantly contractual arrangements) in 2020/2021 was over 37.24%, while the LGCI assumes 26.9% and the allocation to business services (consultants and professional services) was over 11.68%, while the LGCI assumes 6.2%. These allocations are subject to significant market variability that is well beyond the control of local government, as they are in high demand.

While the rate peg does provide protection to rate payers from excessive rate increases, it also continues the practice of delivery of services that fall short of the expectations of ratepayers. Comparison of any non-metropolitan council customer satisfaction survey will typically show low satisfaction levels with road infrastructure, aged community facilities and those services such as planning and building services where professional staff shortages exist.

BACKGROUND

The role of the rate peg is to protect ratepayers from excessive rate increases, and to create a financial incentive for councils to improve their productivity and efficiency. However, it also needs to allow councils’ rates income to vary annually to reflect, as far as possible, changes in the cost of providing services due to factors such as inflation and population growth. Otherwise, they may have to reduce the quality or scope of their services to their communities or seek other sources of income.

COUNCIL IMPLICATIONS

Budget/Financial
Nil in relation to adopting the recommendation of this report.

Asset Management
Nil in relation to adopting the recommendation of this report.

Policy and Regulation
Nil in relation to adopting the recommendation of this report.

Consultation
Nil in relation to adopting the recommendation of this report.

Legal and Risk Management
Nil in relation to adopting the recommendation of this report.

Climate Change
Nil in relation to adopting the recommendation of this report.