Gunnedah
Shire Council

Independent Pricing and Regulatory Tribunal
PO Box K35
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SYDNEY NSW 1240

Lodged as an electronic submission

4 November 2022

Dear Madam,

RE: Submission – Review of the rate peg methodology – Issue Paper

Thank you for the opportunity to provide feedback on the Review of rate peg methodology – Issues Paper, September 2022. In this submission Council have responded to each of the questions raised and wish to provide the following feedback.

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

Since 2010, the Local Government Cost Index (LGCI) as the primary input in setting the annual rate peg is a very transparent mechanism to measure price changes for costs items relevant to local councils. However, its weakness is that it is backward focused as opposed to forward looking.

Councils are required under the Integrated Planning and Reporting (IP&R) framework, which has been in place since 2009, to have a Long-Term Financial Plan (LTFP) in place to support the objectives of the Community Strategic Plan. The LTFP like the Community Strategic Plan and Delivery Program are forward focus, as should the LGCI.

The payment of the Financial Assistance Grant (FAG) to local councils from the Federal Government is an example where the grant pools changes annually in line with changes in population and adjusted for the actual Consumer Price Index (CPI) for that year.

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 2 year lag needs to be reduced with the gathering of more timely information based on future focus and known price movements, such as the Australian Bureau of Statistics monthly CPI indicator. This indicator provides a timely indicator of inflation using the same data collected for use in the quarterly CPI using price movements between 62 and 73 per cent of the weight of the quarterly CPI budget.

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

Many alternate data sources are available such as the Local Government (State) Award, actual audit office fees, councillor remuneration rulings, and actual election costs which can be used to measure the changes in council cost.

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?

Unfortunately, the population factor adjust is also a lag indicator. The current 2022-23 Estimated Residential Population (ERP) used the growth measure between 2019 and 2020. It is vital that the difference in timing should be reduced to enable a closer alignment of the population growth to the associated increase in demand for council services.

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

Productivity gains should be encouraged as part of the IP&R process. Any reduction to the rate peg for productivity gains should be excluded from the rate peg calculation, thus enabling the gains to be reinvested into improved services.

Given the timeframe over which councils have been applying for Special Rate Variations and the need to demonstrate efficiency and productivity through that process, the perception that there are direct financial gains to be made from additional efficiency and productivity measures in the local government sector is inaccurate. This has also been evidenced through local government amalgamation processes.

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

As mentioned earlier the rate peg should be forward looking. A rate peg amount could be set based on forward focusing elements which could in the following year be adjusted to reflect the actual cost movement.

The rate peg does not reflect the increasing cost of compliance faced by councils each year. Examples include increasing costs associated with the emergency services levy and the higher than CPI cost increases that are passed on by agencies like the NSW Audit Office.

Another emerging area is the prevalence of natural disasters and the impact on Council infrastructure that this has. Council's in these situations may receive Disaster Recovery Funding for directly impacted assets but other costs, such as increasing insurance premiums, are not covered. Funding to improve infrastructure so that it is less impacted in disaster events is only available in extremely limited circumstances.

IPART could provide councils the opportunity to submit information into the process each year about external factors that impact local government before setting the rate peg.

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

Since the introduction of the IP&R framework, councils are required to undertake extensive community consultation that will enable community sentiment to be determined prior to progressing with a major movement in rates. IP&R was not in place when rate pegging was first introduced in 1977. Consideration should now be made to provide councils with more authority to enable general rates to be determined based on the outcome of community consultation, without state government oversight.

The power granted to councils under various Acts and Regulations to manage and hold vast networks of assets is at odds with the limited power that council has to determine its own revenue path. Keeping in mind that many of council's key sources of revenue from fees and charges, such as development approval fees, are also determined by State Government.

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

No. However, councils have the option to seek a Special Rate Variation (SRV) over and above the rate peg limit to enable councils the opportunity to generate additional rate income to deliver services to their communities. The SRV process is complicated and expensive requiring the dedication of significant time and resources from councils and the associated community consultation processes generate a large amount of negative criticism towards councils resulting in Special Rate Variations being an option that many councils will only support as a last resort. This leads to scenarios where councils cut services back to the bare minimum possible before seeking additional funding. The areas that tend to suffer most are asset renewal programs. This, in turn, leads to an under investment in assets and a burden placed on future generations.

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

Rate peg restrictions do not enable councils to generate additional income to cover additional recurrent costs as the result of grant funded capital projects. The majority of grant funding is allocated for new capital project and limited grant funds are available for the maintenance and upgrading of existing assets. This results in additional maintenance being incurred by councils which is not factored into the existing rate peg methodology. Subsequently, resulting in reduction in the level of services for other areas within the council or the need for a council to apply for a Special Variation.

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

Each Council has it's own unique challenges based on its location and the services that it is required to provide due to it's geographical location. Eg, coastal LGAs have the responsibility for beaches and tourism compared to a rural base council with a larger road network to maintain, with a smaller rate base to do so. Even if a different LGCI index is calculated for each of the four main council categories in NSW (metropolitan, regional, rural and remote councils), there will still be differences in the operating environments and services provided by these councils which may benefit one council over another due population variations within these categories.

IPART may wish to reference the isolation factors which are used to inform the FAG allocation to councils as part of the rate peg calculation for individual councils The information gathered for the isolation factor could be used to avoid separate data collation and collection.

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

There would be benefits for different cost indexes for different council types. As mentioned above council's in different categories will have different exposure to different cost factors based on their size and location.

An example is election costs. For the last local government election the rate peg was increased by 0.2%. For Gunnedah Shire Council, this equated to around $27k but the election cost $118k. The factor of 0.2% may have been relevant in an urban council but not for regional councils. This resulted in Council having to divert funds from service delivery to assist with covering these costs.

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

In times of high unexpected inflation, rate peg volatility is a problem. The LGCI needs to be more forward facing than focusing on historical costs. IPART should draw guidance from key economists to assist with the development of forward facing LGCI.

In addition, consideration should be made to incorporate a potential smoothing mechanism to avoid shocks to councils and/or rate payers. This could be achieved by having a floor and ceiling with catch-up provisions (akin to notional rate calculation). If initial LGCI is say above 4% then ceiling kicks in and remainder of difference is applied to following year. If initial LGCI is below 1% then floor kicks in and difference is passed on as a calculation adjustment factor for following year.

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

It would be best to have a rate cap that was accurate and adequate to meet the demands of financial sustainability. How that is determined will be up to IPART and the NSW Government to determine should the rate peg remain in place.

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

Consideration should be given to establishing a minimum rate peg increase set at a fixed percentage (excluding the population factor) which could be included in Council's LTFP. Should the calculated rate peg amount be lower than the fixed percentage, the fixed percentage is applied. This will avoid the issue councils faced this financial year with a 0.70% increase when most council's LTFP incorporated a 2.50% increase in their LTFP as per IPART's suggestion. Refer to IPART's webpage "Assumed rate peg for 2024-25 and future years".

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

No. The rate peg should not be released later in the year. There should be some certainty on rate peg announcement timing, either by legislation or policy, making IPART accountable to publish it before councils start their IP&R cycle.

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

Actual labour costs should be aligned with the Local Government State Award increases and an allowance made for step progressions based on skills. In addition allowance should also be factored in for costs associated with attracting quality staff.

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

Yes. External costs that apply to all councils uniformly should be included in the rate peg methodology.

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

Yes, council specific adjustments for external costs are needed, to cover such items that are past on to local councils from other level of government via legislation such as Audit Risk Improvement Committees and the partial reimbursement of the mandatory pensioner rate rebate, which is full funded by other state governments.

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

Costs that are imposed by other levels of government with out adequate income to support the delivery of the service should be factored into the rate peg methodology. A recent example is the requirement of council to make superannuation payments for elected councillors.

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?

A simplified rate peg calculation is not the answer. The LGCI needs to be informed by forward facing and reliable data which is acceptable by councils and their communities.

If you have any questions, please contact Council's Revenue Accountant, Anthony Egan on [redacted]

Yours faithfully

[redacted]

Anthony Egan
Revenue Accountant

Reference: ae