Review of Rate Peg Methodology

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

The breadth of services councils provide to their diverse and growing communities is extensive and not consistent across councils nor reflected in the rate peg calculation (LRCI) or Local Government Act 1993.

Entrusting councils to set an appropriate rate (i.e. remove rate peg) to fund priority services, would enable efficient service delivery and agility in responding to rising costs and changes in priorities.

For councils to meet the growth and expectations of their communities a special rate variation would currently be required to fund the Award based workforce increases and to fund services that are specific to their communities needs/aspirations.

The special rate variation process is costly and can take over 18 months to prepare for and in the final stage may not result in final approval as it becomes politicised.

Enabling the Council to align rate revenue to the integrated planning and reporting would enable efficient decision making and service provision to the specific community needs.

If removing the rate peg was not feasible, the calculation is required to be redesigned. Similar to the population factor the calculation requires the ability to accommodate differing circumstances.

A consideration in the redesign is recognising the breadth of services councils now provide in the Local Government Act or undertaking a rate peg calculation based on the service portfolio specific to councils, i.e. not a one size fits all approach to costs.

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

Refer response to Q1

Three-yearly survey of council cohort costs (perhaps through joint organisations) to record ranges of cost movements and service mix for the LGCI major cost components, and recalibrate

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

Refer response to Q1

Utilise the annualised renewal and maintenance expense for general assets (derived from asset management plans and financial plans), as reported respectively in Note C1-8 and Special Schedule 7

4. Feedback on the population factor in the rate peg methodology.

Not accounting for retrospective population growth is going to create a financial funding lag that is contradicts section 8b of the Local Government Act 1993. By not correcting the error of the rate peg not factoring population growth costs passes the cost of today's services on future generations. SRV are highly difficult to get the support of Council's to proceed with.

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

Refer response to Q1 and Q4

By creating a situation in which setting appropriate income levels is highly costly, political and time consuming, detracts from activities that can produce productivity and efficiency. Further it delays the rate revenue being set at the appropriate level to fund the costs of services that year which also contravenes section 8B of the Local Government Act.

All Council's with consecutive operating performance ratios in deficit are contravening the Act and likely require a SRV but for political reasons it is not palatable. Assist in enforcing that councils must adopt a neutral or positive operating performance ratio and removing the rate peg will provide a natural push and pull.

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

Refer response to Q1 and Q4

Limitations of cost recovery for regulated fees and State Levies. Without adequately funding other costs the natural fall back will be rates. Charges such as Stormwater have not been reviewed for over 20 years and do not cover the cost of services. The emergency service levy is not permitted to be recovered via a charge. Should a council do a SRV application to cover the emergency service levy. This doesn't seem an appropriate method or recovery. A charge would be but is not permitted.

If regulated charges increased adequately then the strain on rates would reduce.

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

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As per the finding of the productivity commission in NSW the rates have been materially lower than those of other States.

The rate peg has materially impacted NSW compliance with section 8B of the Act. Unless a Council has sort a SRV it is likely future generations will have to wear the costs of previous generations due to the short fall in funding via the rate peg and regulated charges being insufficient to cover key services.

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

Refer response to Q7

Dependent on the foundation of the original general rate base, the imposition of rate pegging, emergency service levies and unsubsidised pension rebates has eroded local government's ability to deliver the gamut of services and assets expected (by community survey and Community Strategic Plan)

Fundamental to the legislated responsibilities of councils is to match revenues and expenses, be financially sustainable and invest responsibly in infrastructure.

The evidence of 165 SRV applications over 10 years, with 70% of councils applying more than once, for the purposes of 'financial sustainability' and 'asset backlog' for example, would signal the rate peg is inadequate to provide councils with sufficient income

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

Refer response to Q7

- Based on OLG data, the majority of councils are producing consolidated operating deficits, with nearly all producing General Fund annual deficits, and trend lines deteriorating
- The frequency of recent natural disasters has narrowed community focus on the condition of assets, and an expectation of improved maintenance performance
- Local government is the nursery of skills in the development and construction sectors. The migration of skilled workers out of local government (and regions) is bearing a higher cost of employment of staff or contractors/consultants
- Consequently, council's reputation (in part) plays a part in community views on proposals to increase rates by SRV
- The size of SRVs are growing towards 100%
- Certainty of revenue growth would assist in planning and long term forecasts.

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

Refer response to Q1

Review the services council provide in the Local Government Act – define services that must be funded by a SRV and those that are to be funded via the rate peg increase. Requires separation as Council's financials are mixed with mandatory services and discretionary services/service levels.

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

Refer response to Q1

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

Refer response to Q1

The SRV process is timely, costly and an unstable form of securing revenue. This causes a delay in closing funding gaps between the rate peg and service provision costs. This then potentially places council in contravention of section 8B of the Local Government Act for that year or until the gap is closed.

Greater certainty over a 3-5 year period would enable sufficient planning on service management, productivity initiatives or an SRV if the rate peg was not sufficient. Draft Budgets are prepared in December prior to the June adoption in the preceding year. 6 months is not sufficient to close any funding gaps that a lower rate peg may create.

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

Refer response to Q1 and 12.

Both are required. I think with a review of cost calculation will derive better alignment, though certainty will be critical if SRV are still going to be required to fund discretionary services or Award based workforce.

If certainty was provided and it was found to have been too high/too low a make up or reduction period could occur similar to what occurs now with permissible rate income calculation and any over levying.

If rate pegging continues, the current work involved in reporting/auditing compliance is in place, therefore this could be expanded to give greater certainty and correct any anomalies.

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

Refer response to Q1, Q12 and Q13.

Yes. Councils may prepare their financial plans on 'known' rate peg movements (subject to decisions on setting an asset and service rate peg), and model scenarios with changes to asset standards, public benefit services, and levels of service that may be subject to respective SRVs or pricing paths for private benefit services

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

Yes - refer response to Q1, Q12 and Q13.

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

Draw on data available to the sector, including:

- labour costs reflect known award and super movements
- movement in employment insurance costs moderated by advice from local government insurance pools and mutuals
- skills disadvantage by council cohort (eg access to skills, distance from metro, premiums applicable to short term staff or consultants)

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

Yes, quarterly amendments to rates could occur or via the ability to recoup as a charge i.e. emergency services levy.

Refer response to Q1, Q4 and Q6

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

Refer response to Q1, Q4 and Q6

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

Refer response to Q1, Q4 and Q6

All regulated charges are outside our control therefore recovering sufficient revenue to cover costs indirectly impacts council's ability to control costs.

Waste Management is a good example of the costs being predominantly outside the Council's control, therefore flexibility in establishing the charge is critical for council's to maintain service standards.

I continue to support clear, efficient and transparent DWM changes and pricing principles.

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?

Ideally most taxation systems are remised on simplicity, transparency, ease of administration etc. The Rate peg is not working and history will highlight that it has resulted in NSW council's not have appropriate funding to cover the costs and then contravene section 8B of the Act.

To avoid SRVs council's have potentially understated depreciation to improve financial performance. Encourage transparent and true service/assets costs is essential with the rate set at the appropriate level to fund these costs.

With the Audit Office of NSW being responsible for auditing NSW councils has strengthened the accuracy of financial reports though it may be too late and now the true costs of operating councils is apparent and the revenue is short as there is a significant backlog.

Remove the rate peg.