IPART Review of the Rate Peg Methodology

Ku-ring-gai Council Submission

November 2022

1. To what extent does the Local Government Cost Index reflect changes in councils' costs and inflation? Is there a better approach?	The current methodology is rear looking and not representative of current or future cost pressures. It is slow to respond to periods of inflation volatility and the LGCI components are not reflective of all councils' costs. The two year lag between when cost change is measured and when the rate increase takes effect means that councils are always financially penalised. It is critical that this lag be addressed. Labour comprises around 40% of the weighting in the current LGCI. Forward looking labour costs are known with certainty through the Award increases negotiated at the time of each new Local Government Award. The rate peg should use the forward looking Award increases combined with any legislated increases (such as in the Superannuation Guarantee rate) as a primary input to the calculation. The rate peg should never be set at a rate lower than the known forward looking remuneration increases. Councils are different. The methodology must account for the differences between metro, rural, coastal, inland, growing, stable, large and small (to name a few). One size fits one, not all. The Local Government Cost Index (LGCI) is too broad and does not incorporate the actual typical costs and basket of goods incurred by Councils . The increased number of SRVs approved by IPART in the last 10 years is a good indicative that LGCI is not reflective of changes in councils' costs and inflation
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 significantly reduced or removed, but preferably, a reliable forward looking measurement of actual cost changes should be used. Also, the methodology must use the actual Local Government (State) Award as a benchmark and the rate peg should never be lower than the forward looking Award increases.

	Better index price would include a 3 year moving average plus price increase projection for the forthcoming year with consideration of various operational environments for different Councils.
3. What alternate data sources could be used to measure the changes in council costs?	The methodology must use the actual Award as a benchmark and the rate peg should never be lower than the forward looking Award increases. Data sets that reflect councils' increasing requirement to invest in resilience, renewable energy, climate change, and cybersecurity should be identified and incorporated into the methodology. The best measure of actual costs are the Audited annual financial statements of NSW Councils and these should be used as a significant part of the determination of actual costs, ie actual employee costs, actual maintenance and renewal costs, auditing fees, IT and cyber security costs etc.
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?	NSROC supports the inclusion of a population factor in the methodology. However, the lag between the data used and the calculation means that the 2022/23 population factor used information from 2020/21 at the height of the pandemic when migration rates were suppressed. This rate is unlikely to reflect the actual growth patterns in 2022/23. The lag between data and release of the rate peg must be reduced. The methodology should also capture the costs associated with transitory workers, students and visitors. Councils provide services and infrastructure for which they receive no income from these non-rate paying individuals.

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5. How can the rate peg methodology best reflect improvements in productivity and the efficient delivery of services by councils?	The rate peg has not kept pace with council service delivery costs. While councils have been forced to innovate and create efficiencies, there is a limit to what can be achieved. Ratepayers are therefore impacted by an unsustainable reduction in service and maintenance year on year. The methodology should reward the community for council productivity gains and efficient delivery of services through either increased levels of service, or through lower rates and charges.
6. What other external factors should the rate peg methodology make adjustments for? How should this be done?	The revised methodology should be agile enough to rapidly adapt to changes driven by forces outside councils' control. Examples include supply chain delays, global economic forecasts, political instability, natural disasters and weather events. The methodology should also reflect unique costs that have occurred in the last twelve months or that are predicable for the relevant period. For example, the additional 0.2% added onto the 2021-22 rate peg to account for the costs of conducting council elections, and its subsequent withdrawal in 2022-23 is appropriate. Similar instances of these types of costs should be included in the methodology.
7. Has the rate peg protected ratepayers from unnecessary rate increases?	We object to the use of the term 'unnecessary' as this implies that councils increase rates without reason and without thorough consideration of the implications. Communities hold councils accountable for service levels and the efficient use of rates income. Councils produce, exhibit and accept submissions on Integrated Planning and Reporting (IP&R) documents each year. This framework gives the community visibility into how rates and revenue are being used to realise community aspirations. It also gives the community the opportunity to identify and raise questions on any inefficient use of resources and proposed rates and fees and charges.

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8. Has the rate peg provided councils with sufficient income to deliver services to their communities?	No. The rate peg has not kept pace with inflation or employee costs. That is why councils have had to seek Special Rate Variations. In addition the rate peg has not kept up with the increased cost of providing infrastructure, ie increase in required maintenance, renewal and upgrades of Councils infrastructure to maintain existing level of services over time, as well as depreciation which needs to be funded. Insufficient level of funding on infrastructure creates significant infrastructure asset backlogs and will require increase rates (SRVs) in future to help fund this gap and bring assets in a satisfactory condition.
9. How has the rate peg impacted the financial performance and sustainability of councils?	The disparity between the rate peg and costs of delivery born by councils has severely undermined the financial sustainability of councils
10. In what ways could the rate peg methodology better reflect how councils differ from each other?	Councils are inherently different from each other, even those in close proximity. The methodology must account for the differences between metro, rural, coastal, inland, growing, stable, large and small (to name a few). One size fits one, not all. The methodology should reflect the costs each council incurs in delivering services. These costs will vary depending on supply chain, staff availability, rates base and proportion of unrateable land, population size etc. Alternatively, given that councils must consult extensively with their communities as part of the Integrated Planning and Reporting Framework, the rate peg could be removed. Councils would then set rates in consultation with their communities.
11. What are the benefits of introducing different cost indexes for different council types?	There is benefit if the introduction of cost indexes allows the methodology to reflect the cost of delivering services more accurately and reduces volatility in the rate peg

12. Is volatility in the rate peg a problem? How could it be stabilised?	Yes. The current methodology is rear looking and not representative of current or future cost pressures. This should be addressed by removing the lag between inflation data and setting the rate peg. The methodology should be future facing and align more closely with the current financial environment.
13. Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs?	A better alignment to actual costs. Council would also prefer certainty that the rate peg will be appropriate to cover fluctuations in costs
14. Are there benefits in setting a longer term rate peg, say over multiple years?	The recent financial environment has demonstrated that forecasting costs is challenging. It is unlikely that a long term rate peg would be useful
15. Should the rate peg be released later in the year if this reduced the lag?	Changing the timing of the release of the rate peg has implications for statutory Integrated Planning and Reporting requirements. Care must be exercised when considering how this might operate in practice.
16. How should we account for the change in efficient labour costs?	Councils' are legally bound to adopt the increases in the Award. The methodology must use the forward looking Award increases combined with any legislated increases (such as in the Superannuation Guarantee rate) as a primary input to the calculation. The rate peg should never be set at a rate lower than the known forward looking remuneration increases.
17. Should external costs be reflected in the rate peg methodology and if so, how?	Yes. Material one off costs impacting all councils, such as new taxes, increased election costs or increases in the superannuation guarantee contributions should be included in the rate peg methodology, as well as cost of natural disasters and significant weather events.

18. Are council-specific adjustments for external costs needed, and if so, how could this be achieved?	One off external costs for specific councils should be addressed via funding from other levels of government (grants and disaster relief funding), or through a more simplified Special Rate Variation process
19. What types of costs which are outside councils' control should be included in the rate peg methodology?	Costs that apply to all councils should be included in the rate peg methodology
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?	The rate peg methodology should be future facing and reflect the NSW Local Government (State) Award combined with any legislated increases (such as in the Superannuation Guarantee rate) as a primary input. The lag between data and when the peg increase takes effect should be reduced. The rate peg should never be set at a rate lower than the known forward looking remuneration increases.