Submission on NSW Council Rate Pegging Review

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INTRODUCTION

Rate pegging should be abolished. It flies in the face of both Integrated Planning and Reporting (IPR) and Australia's democratic system, leaving local Councils financially hamstrung and democratically disempowered.

IPR is predicated on each local government area self-determining the range and level of services the community it serves wants and needs. Strategies, policies and plans need to be prepared and actioned following extensive local community consultation, including consultation on budgets. Councils must regularly report on their expenditure and produce Annual Financial Reports and Financial Statements that are audited by the NSW Audit Office and provided to local communities for review and comment.

Rate-pegging undermines the very principles of IPR:

- It fosters apathy and a disengaged community who come to rely on a centralized authority (IPART) to mandate changes instead of being routinely active participants in local decisions.
- It undermines community confidence in local Councils as many ratepayers deem a Special Rate Variation application to signal that their Council is incompetent or irresponsible with fiscal governance and incapable of living within their means when an SRV is actually a necessary, responsible and inevitable action of the Council.
- It causes delays in appropriate, incremental (smaller) rates increases as the process of Special Rate Variations are time consuming, expensive, and are often put off for too long as they are generally politically fraught so avoided until the matter becomes critical.

It would be preferable to allow Councils to responsibly determine the rates required to deliver the range and quality of services each community needs, knowing there is an actively engaged citizenry to whom they must be fully accountable under IPR.

Councils should be allowed to raise the revenue they need in step with their communities and meet the residents' expectations without artificial barriers being imposed from above. This process is already proven in relation to water, wastewater and waste management so why not for general fund activities?

If, however, abolition of the rate peg is not possible, then please consider Leeton Shire Council's responses to IPART's questions, which are attached.

Yours faithfully,

Jackie Kruger, General Manager

RESPONSES TO IPART'S RATE PEGGING QUESTIONS

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

The current system is fundamentally broken. It needs to look forward, not back. It needs to reflect the true costs of delivering services in rural and remote areas, not be "one size fits all" metro-centric. This applies also to the cost components that are used in IPART's calculation methodologies. We strongly recommend a rate peg that more accurately reflects the additional cost pressures experienced in geographically disbursed regions that support large road networks.

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

IPART should work to a forward looking forecast of costs and inflation, rather than the current mismatch of when Councils incur inflation based cost increases and when they can address this through rates.

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

At the very least, ensure Award wage increases and superannuation increases are included in the rates peg. Previous IPART explanatory documents have asserted that using the public sector increase in wages rather than the Local Government Award increase has an immaterial affect, but this does not match the actual impact that it has on Councils. Without a rate peg that fully reflects Award increases, services will have to be cut to maintain current staffing levels.

With asset custodianship being a major part of Council's role, the relevant sector inflation and predictions should be considered.

This would allow the cost of materials (including but not limited to fuel, electricity and bitumen) should be considered in the rates peg, having regard to their forward costs, not their costs in previous years.

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?

While population is not a good indicator of the variety of services Council's must provide (the reverse can be true), there are issues with the population data used. At the very least, IPART should consult with Councils before settling on a population figure. For example, in Leeton Shire, we have significant numbers of migrants on temporary visas who are residents in our Shire and access Council services. These people are not captured by the census. The same will be said from many areas with high tourism where infrastructure must support holiday season population surges often far greater than permanent population.

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

Councils are best placed to understand their financial challenges and how best to achieve productivity improvements. Each Council has its own unique circumstances and story. It is utterly ridiculous for IPART to assume in any rate peg formula that all Councils will achieve efficiencies in any one year. Councils are judged on how they use the scarce resources that they have available by their ratepayers and it is certainly not IPART's role to impose a productivity improvement assumption on Councils when determining the rate peg.

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

We strongly urge IPART to step away from blunt step changes for specific issues such as elections where this is subsequently followed by negative adjustments to 'reset'. This year's original reset to 0.7% is an example of how outrageously impactful blunt step changes can be.

We would like IPART to consider of the realities many Councils face in an environment of climate change impacts and natural disaster events. The rate peg should anticipate issues of one sort or another.

Cybersecurity is expensive and needs to be appropriately included in any rate peg calculations, including making up for the last 5 years which have been left to Councils to shoulder using their reserve funds.

Lastly, ongoing cost shifting from state government remains unaddressed.

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

This is a loaded, unreasonable, and insulting question. Any Council that imposes unnecessary rate increases on its ratepayers will soon be voted out. This question should instead read as follows: "Has the rate peg <u>failed</u> to protect ratepayers from unnecessarily big rate hikes when Councils have had no option but to undertake the onerous and expensive task of preparing Special Rate Variations before they go broke?"

Responsible, small rate increments that respond to community endorsed programs and services is the much better way to go.

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

No. And NSW Councils' general funds are going backwards as a result. This is unfair and unreasonable on local Councils. It is essential that IPART removes the backwards approach of setting future rate peg limits based on historical costs and instead relies on a level of intelligent predictive analysis so that Councils' income has some hope of increasing in line with actual costs.

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

The rate peg has directly impacted NSW Councils' ability to raise revenue to meet the services their communities expect – forcing Councils to use cash reserves for general fund operations and asset renewals. This depletes internal reserves required for major upgrades and emergencies. Special Rate Variations are time consuming for Councils to apply for and can be politically fraught, disproportionate to the rate increase achieved.

This has created a reliance on, often, competitive grant funding to undertake renewals and in a bizarre twist places councils with a larger number of disasters with a distinct advantage.

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

Rural and regional Councils have different cost and staffing pressures than major centres and cities due to transport cost pressures, different geographical contexts and differing socioeconomic makeup.

Councils understand their local communities and context and are best placed to consider rate increases and manage demands for Council assets and services.

There should be greater recognition of the cost of 'soft operations' such as museums, galleries, libraries, economic development, community development and resource intensive community advocacy (health, water security, policing, housing, welfare, education etc)

11. What are the benefits of introducing different cost indexes for different Council types?
As previously noted, regional and rural Councils have different demands on their resources. Various state agencies have enough information that can help inform different cost indexes at a more granular level. At a bare minimum, regional and rural locations should have a different index to metropolitan LGAs.

12. Is volatility in the rate peg a problem? How could it be stabilised?
Yes, Councils have long term plans that anticipate at least a 2.5% rate peg per annum. This should be the minimum and then should be adjusted upwards if forward inflation pressures are identified. It is important to better align the rate peg with the timing of inflation increases than leave Councils facing a timing mismatch between inflationary pressure and the lag with the rate peg.

13. Would Councils prefer more certainty about the future rate peg, or better alignment with changes in costs?
Councils need both, not either or. Minimum should be the 2.5% we apply in our Long Term Financial Plans.

14. Are there benefits in setting a longer-term rate peg, say over multiple years?
Yes, with provision for IPART to adjust expeditiously in periods of high inflation so as not to compromise the financial sustainability of member Councils. A longer-term peg should be coupled with a simplified rate variation process.

15. Should the rate peg be released later in the year if this reduced the lag?
No – the peg is required early for budgeting purposes. What is important is for the rate peg to be future focused and not based on the past.

16. How should we account for the change in inefficient labour costs?
This is a loaded, unreasonable, and insulting question. Many Councils do benchmarking and service reviews to ensure their operations are smart and efficient, including comparing staff costs. Many, if not all, regional and rural areas have existing issues with attracting and retaining staff, resulting in labour cost impacts, as well as cost pressures related to having to utilise consultants and contractors to carry out key tasks. Councils have already pretty much exhausted productivity gain opportunities in their efforts to date to counter the fact the rate peg mostly has not covered existing cost increases for a great many years.

17. Should external costs be reflected in the rate peg methodology and if so, how?
Yes, while we don't appreciate the practice of the NSW government passing responsibility and liability onto local Councils, it is essential that any cost shifting from state government be considered by IPART as this increases the financial burden on Councils and the community. Further, this income must be sustained.
The same applies to activities forced onto local government that need ongoing investment, such as Audit Risk and Improvement Committees with paid independent directors, NSW Audit Office auditing of the sector, underground petroleum storage inspections, Crown Lands and Native Title management etc.

***18. Are Council-specific adjustments for external costs needed, and if so, how could this* be achieved?**
It's time to abandon the 'one size fits all' approach and recognises that whilst all Councils are similar in some way, in reality all Councils are different. Applying a flat percentage increase across all LGAs only serves to increase the differences between rating levels,

particularly between rural, regional, fringe metro and metro Councils and fails to recognise the differences between communities.

Councils' costs inputs do not come in percentages, they come in dollars. Relatively speaking it can cost more for fuel, electricity and wages in the rural areas compared to the larger centres and in the city. The discussion paper itself identifies the existing differences in average rates across the LGAs and the use of a flat percentage only serves to exacerbate those differences.

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

All manner of compliance forced on the sector including Audit Risk and Improvement Committees with paid independent directors, NSW Audit Office auditing of the sector (which has double audit fees), underground petroleum storage inspections, Crown Lands and Native Title management, Planning Portal support services, Children's Services (to cover child/educator ratios imposed by Regulator), Disability Improvement Action Plans, Aging Strategies, Local Strategic Planning Statements, etc etc.

The rate peg should also allow for the impacts of climate and weather changes and natural events and emergencies.

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?

Move away from Sydney centric price indicators and ensure a forward-looking inflation calculation.
It's important that IPART recognizes the financial sustainability issues facing Councils across NSW and ensures that they are appropriately funded to serve their communities into the future.

CONCLUSION

The impact of successive rate peg limits below the real cost increases is obvious to all when one looks at the financial position of the majority of local Councils across NSW. The sector is headed for a situation where the cumulative operational deficits of their general funds are approaching half a billion dollars and sustainability indicators are weakening across the board.

Councils have made good strides improving the accuracy of asset accounting to the extent that asset values, condition ratings, life expectancies and depreciation figures can be relied on to reflect the true picture confronting Councils.

Integrated Planning and Reporting (IPR) provisions in the Local Government Act and Regulation were introduced some 12 years ago and Councils are now in their third iteration of Community Strategic Plans and associated documents. The engagement between Councils and their communities is much more mature and effective and now forms the basis of all local government activities.

IPR is legislated and working well, yet is apparently not recognised by IPART. This must change. We reiterate that abolition of the rate peg is our Council's first preference.

Thank you for the opportunity to comment~~.~~

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