LOCAL GOVERNMENT NSW

Draft Submission: IPART Review of the Rate Peg Methodology

NOVEMBER 2022

LOCAL GOVERNMENT NSW

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

OVERVIEW OF THE LOCAL GOVERNMENT SECTOR

Local government in NSW employs more than **55,000 people**

Local government in NSW looks after more than **$136 billion of community assets**

Local government in NSW spends more than **$1.9 billion each year on caring for the environment, including recycling and waste management, stormwater management and preserving and protecting native flora and fauna**

NSW has 450 council-run libraries that attract more than **34.8 million visits each year**

Local government in NSW is responsible for about **90% of the state's roads and bridges**

NSW councils manage an estimated **3.5 million tonnes of waste each year**

NSW councils own and manage more than **600 museums, galleries, theatres and art centres**

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INTRODUCTION

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing all NSW general purpose councils and related entities. LGNSW facilitates the development of an effective, community based system of local government in the State.

LGNSW welcomes the opportunity to contribute to the Independent Pricing and Regulatory Tribunal (IPART) Review of the Rate Peg Methodology. LGNSW welcomes the review as a response to the realisation that the current methodology fails to cope with economic volatility.

This was clearly demonstrated by the Local Government Cost Index (LGCI) determination of 0.7% for 2022-23, (later adjusted to 2.5% for most councils after introduction of a one off Additional Special Variation), but with councils now facing an inflation rate of 8% in 2022-23. This shock came after a decade or more of relatively low and stable prices and wages that had not tested the LGCI for volatility.

LGNSW acknowledges that the discontinuation of rate pegging is outside the scope of this Review and is a matter of NSW Government policy. However, LGNSW maintains that a review of the rate peg methodology cannot be conducted in total isolation from the policy on which it is based and the performance of that policy. Rate pegging is the fundamental question.

The submission outlines LGNSW's position on rate pegging, presents an overview of the financial sustainability of local government to provide context, responds to the 20 questions raised by IPART and makes a number of recommendations to improve the current rate pegging methodology and related policies in the interim.

TERMS OF REFERENCE (TOR)

LGNSW acknowledges that IPART has been tasked with reviewing:

- Possible approaches to set the rate peg methodology to ensure it is reflective of inflation and costs of providing local government goods and services.
- Possible approaches to stabilising volatility in the rate peg, and options for better capturing more timely changes in both councils' costs and inflation movements.
- Alternate data sources to measure changes in councils' costs.
- Options for capturing external changes, outside of councils' control, which are reflected in councils' costs.
- The effectiveness of the current LGCI approach.
- Whether the population growth factor is achieving its intended purpose.

In undertaking the review, IPART should have regard to:

- The Government's commitment to protect ratepayers from excessive rate increases and to independently set a rate peg that is reflective of inflation and cost and enabling financial sustainability for councils.
- The differing needs and circumstances of councils and communities in metropolitan, regional and rural areas of the State.
- Ensuring the rate peg is simple to understand and administer.

LGNSW considers the Terms of Reference to be sufficiently broad to cover all aspects of rate pegging methodology but notes that they do not extend to include the question of discontinuing rate pegging or other potential reforms to the rating system, such as rate exemptions. Many councils have expressed disappointment with these limitations.

BACKGROUND

Financial Sustainability

Financial sustainability remains the major challenge facing local government as evidenced by the crippling infrastructure maintenance and renewal backlog of approximately $3.8 billion according to Office of Local Government figures.

Local government is under escalating financial stress. This is a result of the compounding impacts of rate pegging, growing populations, increased responsibilities, growing community expectations, cost shifting from the Federal and State governments and declining Commonwealth Financial Assistance Grants (in real and proportional terms) and in more recent years, successive natural disasters and a pandemic.

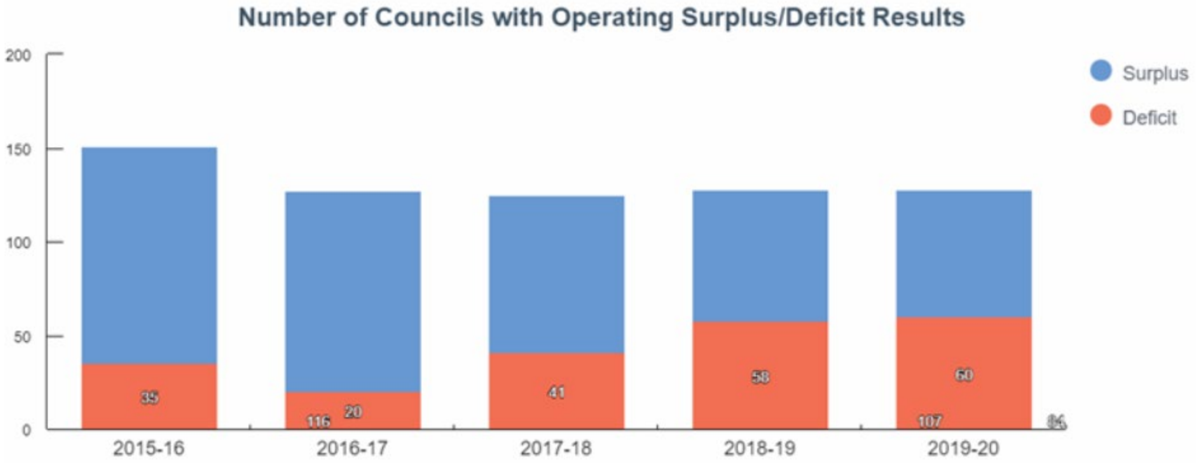
Cost shifting by the NSW Government onto local government is currently estimated to be approaching $1 billion per annum (representing around 7% of total local government operating revenue).

Commonwealth Financial Assistance Grants have been steadily declining as a proportion of total Commonwealth Government Taxation Revenue for the past three decades from around 1 percent to around 0.55 percent. They have also declined in real terms as a consequence of a 3-year freeze on indexation from 2014-15 to 2017-18. This cost NSW councils approximately $300 million with the funding base estimated to be 13% lower than it would have been without the impact of the freeze.

NSW per capita rates are lower than any other state and the NSW Productivity Commission estimates that NSW councils have foregone $15 billion in rate revenue over the past 20 years compared to Victorian councils as the result of rate pegging.

The cumulative financial impacts are evidenced by declining operating performance as demonstrated in Figure 1 below:

Figure 1



Rate Pegging

Rate pegging is a critical issue for local government in NSW and has been since its introduction in 1977. LGNSW has consistently advocated the removal of rate pegging on the grounds including that:

- Electoral accountability has proven to be a highly effective tool in containing rates to levels acceptable to communities.

- Only NSW and Victoria currently have rate pegging, Victoria only introduced the rate peg in 2016. There is no evidence of excessive rate increases in Victoria, prior to 2016 or in the other states.

- Rate pegging conflicts with the objectives of the Integrated Planning and Reporting (IP&R) framework. IP&R was introduced in 2009 and is the central plank of local government management in NSW, enhancing accountability and community engagement. The implementation of IP&R makes rate pegging redundant.

- Rate pegging has been serving to undermine the financial sustainability of NSW councils and depriving communities of infrastructure and services creating an ever-expanding funding deficit for NSW councils.

- This has been recognised in numerous reports and reviews over the past two decades commencing with the Independent Report on the Financial Sustainability of NSW Local Government (the Allen report) in 2006, the NSW Independent Local Government Review Panel in 2012 and more recently reviews by both the NSW Productivity Commission and IPART.

LGNSW also suggests that rate pegging has had a wider unintended 'dampening' effect on rates than simply that delivered by the rate peg. One likely explanation for the dampening effect is that rate pegging provides a public framework and creates public expectations about maximum rate increases, placing political pressure on councils to stay within the limit and not seek special variations.

LGNSW has argued that rate pegging provides an easy default option from both a political and managerial perspective since (a) all rate increases can be attributed to the state government; (b) the need for community consultation to justify rate increases is weakened; and (c) adhering to the rate peg limit avoids the problems contingent on Special Rate Variation applications. The net result of these factors has been the 'under-provision of community infrastructure and services', the emergence of a local infrastructure backlog and an 'undermining' of both the financial sustainability of councils and democratic accountability at the local level.

While rate pegging has been instrumental in delivering NSW the lowest per capita rates in Australia, it is doing so at a cost to NSW communities and the NSW economy.

LGNSW is pleased that the NSW Government, in accepting and supporting the findings and recommendations of the NSW Productivity Commission report on infrastructure contributions and the IPART report on the review of the rate peg to include population growth, has finally acknowledged that rate pegging has been damaging NSW since its introduction in 1977, confirming the long-held views of local government and the findings of numerous Inquiries over many years referred to in the introduction.

That the Government has finally accepted this after 40 years is a major step forward in itself, and hopefully will open the door to other necessary reforms in the future. While falling short of the removal of rate pegging, LGNSW welcomes the Government's commitment to review the rate peg methodology.

Rate Exemptions

While also beyond the terms of reference for this review. It is LGNSW's policy position that all land used for commercial or residential purposes should be subject to rates regardless of tenure. In some cases, rate exemptions should simply be abolished (e.g., Forests NSW). In other instances, it may be a matter of legislating tighter eligibility criteria and/or introducing a system of partial exemptions as applied in other jurisdictions.

Many current exemptions serve to provide financial benefits to numerous organisations, benevolent institutions, private schools, universities and some government business enterprises that are no longer justified in terms of principles of optimal taxation, particularly principles of equity and efficiency.

The distinction between charitable and social activity and commercial activity has blurred progressively over time with community orientated enterprises increasingly engaging in more commercially focused activity. Often it is no longer appropriate for local ratepayers to subsidise activities of exempt institutions where institutions act commercially, benefit from council services, and have capacity to pay.

LGNSW acknowledges that this is a complicated and contentious area. However, there are a number of exemptions where there is a strong case for reform to correct current anomalies and distortions. LGNSW would welcome IPART's review considering shifts in the amount of rateable land in recent years.

RESPONSES TO IPART QUESTIONS

Cost Index

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

   This submission concludes that the LGCI in itself does not adequately reflect actual movements in council costs. Additional costs need to be included and there needs to be provision for adjustments for cohorts of councils and individual councils.

   - The LGCI index is a one size fits all model, applying a standard basket of goods to all councils and applying an average weighting of these items across all councils. At best this provides an approximate indication of aggregate local government cost movements and there may be large variations between the peg and the actual outcome for individual councils or cohorts of councils. It does not recognise that different councils or council cohorts may have significantly different cost structures or "baskets of goods".
   - The LGCI is a lagged or "rearward" facing index. A deficiency that IPART itself acknowledges. Furthermore, it is effectively a two-year lag, meaning that there can be a large difference between the LGCI and the actual cost increases councils are facing in the budget year in which it is applied. This is clearly demonstrated in both the LGCI of 0.7% for 2022-23, (later adjusted to 2.5% for most councils after introduction of a one off Additional Special Variation), but now facing an inflation rate of over 8% in the subject year.

- LGNSW supports the view that the LGCI needs to re-design as a more forward facing index. This could involve the use of more timely data and/or forecast indicators. State and Federal Governments routinely use forecasts in developing budgets, planning and policy making.
- Many have recommended the introduction of several indices for different council cohorts or categories e.g., metro, coastal, regional city, regional, rural remote. LGNSW supports the introduction of multiple indices in principle if it can be demonstrated that there is or can be material differences. This needs to be subjected to historical modelling and adopted if material differences are evident.

LGNSW is open to the view proposed by the NSW Revenue Professionals [i], along with Dollery[ii] and others who recommend that the indexes be determined as a 3-year moving average. This would reduce volatility. However, this should again be subject to historical modelling to better understand what impacts this may have.

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

- LGNSW supports the widely held view that the LGCI needs to re-design as a forward facing index. This could involve the use of more timely data and/or forecast indicators.
- Many have recommended the introduction of several indices for different council cohorts or categories e.g., metro, coastal, regional city, regional, rural remote. LGNSW supports the introduction of multiple indices provided that it can be demonstrated that there is or can be, material differences between the cohorts. This will require detailed historical modelling. If material differences are evident, it is imperative the new methodology must be adopted.
- LGNSW also supports the view that the basket of goods for each index needs to be updated more frequently and supports further research on the use of a 3-year rolling average to smooth volatility.

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

One approach involves introducing additional accurate data that reflects actual cost movements rather than applying proxy indices.

- The most obvious example is to use the NSW Local Government (State) Award as opposed to NSW Public Sector Wage Cost Index, LGNSW has long argued for this change. This would provide a significant improvement to accuracy as:
  - wage costs are the single largest component of council expenditure currently representing nearly 40% of the LGCI
  - it is a more accurate reflection of actual cost increases that are faced by councils
  - it is a forward-looking measure.

- Other examples that would be best applied at an individual council level include:
  - Audit costs (which have escalated rapidly in recent years)
  - Audit & Risk Improvement Committees costs (ARICs) which have been imposed on councils in recent years
  - Emergency Services Levy.

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- As noted in response to question 2, there is a need to adopt forward facing indicators. The Australian Bureau of Statistics (ABS), Reserve Bank, NSW Treasury provide CPI forecasts that could be substituted for LGCI components based on CPI, making forward determinations rather than lagged determinations.

Population Growth

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?

- LGNSW supported the introduction of a population growth factor in principle and continues to do so. There is no disputing that population growth is clearly a major driver of infrastructure and service costs for councils. This has been recognised and reinforced by the findings of IPART and the NSW Productivity Commission.
- However, the first two years of operation have produced inconsistent and counter intuitive results (e.g., a fast growing LGA like Blacktown has not earned a growth factor adjustment). One option to improve the factor may be to simplify the determination of the factor adjustment and base it solely on population and removing the adjustment for supplementary valuations.
- The Canberra Region Joint Organisation (CRJO)[iii] submission argues that the supplementaries should not be deducted from any general rate increase from a population peg.

Productivity

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

Productivity improvements should be removed from the rate peg methodology. Productivity cannot be accurately measured across the local government sector as councils are too diverse and carry out a wide and unevenly varied range of functions.

Productivity improvements would need to be conducted on an individual council basis and even then would be complicated by the multifaceted operations of councils. Individual assessments are not consistent with a sector wide peg. This element also adds unnecessary complexity to the peg. IPART has set the productivity factor at zero since 2018-19 demonstrating the above and it ranged insignificantly between 0.0% to 0.2% when applied. The factor should be removed permanently.

Any productivity gains made by councils should be retained to invest in maintaining services or infrastructure maintenance and renewal. Penalising councils for productivity improvements introduces a perverse disincentive.

External Factors

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

LGNSW agrees that predictable costs that apply to the whole sector such as election expenses and increases in superannuation guarantee contributions should continue to be included.

LGNSW also holds the view that the methodology should be modified to allow adjustments for external factors that affect groups of councils, affect councils unevenly or affect individual councils.

Population growth is a major external factor and is recognised by IPART, however, as discussed elsewhere the methodology needs to be revisited.

The Emergency Services Levy (ESL) which IPART has acknowledged as a significant cost factor and included in the peg, does not fall evenly across councils with the heaviest burden proportionally falling on rural/regional councils with a high RFS component. Under the current methodology, the cost is averaged and diluted and therefore does not adequately compensate those most affected.

LGNSW maintains that individual councils should be allowed to adjust rates to recover the full cost of the ESL. This should not require a special variation. LGNSW has strongly advocated for the decoupling of the ESL from the rate peg.

RFS asset depreciation is another external factor that should be included. LGNSW strongly refutes the NSW Government determination that RFS mobile assets are the property of councils and must be recorded on council books. This includes the depreciation expense.

Historical Rate Peg, Cost Increases, Revenue & Expense

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

There is no evidence to support the conclusion that the rate peg has protected ratepayers from **"unnecessary"** rate increases. Comparisons with other States without rate pegging support the view that electoral accountability protects ratepayers from excessive rate rises. (Refer to Background)

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

The observation that there have been 178 SV applications over 10 years with 165 approved in full or in part provides clear evidence that the rate peg has been inadequate.

Further, IPART itself has acknowledged the financial deficiency in advocating for the adoption of the Population Growth Factor.

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

The rate peg has generally served to undermine financial sustainability. Based on OLG data, many councils are producing consolidated operating deficits, with nearly all producing General Fund annual deficits with deteriorating trend lines.

The fact that the 178 SV applications were for the purposes of financial sustainability, addressing 'asset backlogs' and funding future 'infrastructure obligations' indicates that the rate peg is inadequate to support financial performance and financial sustainability.

Council differences?

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

The rate peg methodology could potentially determine different pegs for different regions, categories or cohorts of councils. This would be justifiable if it can be demonstrated that there would be material differences in the pegs determined for different cohorts. This may involve different weightings and “different baskets of goods”.

LGNSW recommends that historical modelling be undertaken to establish whether there are significant differences, and if so, they should be introduced immediately.

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

It would potentially improve the cost reflectiveness of the indices and improve financial sustainability outcomes by recognising the differences in cost and expenditure structures between council types. The peg would be closer to the actual cost movements faced by individual councils.

Refer to response to Q.1 and Q10.

Volatility and Lags

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

The initial rate peg determination for 2022-23 of 0.7% clearly demonstrated that the volatility can be a major problem where there are significant cost movements.

Most councils are subject to a 2.5% peg in 2022-2023 while real inflation is likely to be around 8%. This indicates that councils will fall further behind and further deterioration of council Operating Performance Ratios would be expected.

This will be the biggest gap between the LGCI and the Consumer Price Index on record.

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

In the presence of volatility, councils have indicated that the peg needs to better reflect actual cost movements.

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

This would be potentially beneficial but only if increases are maintained in real terms. This would require annual adjustments if there were volatility that increases costs beyond those factored into the longer-term peg. It would be difficult to predict an accurate long-term cap.

A multiple year rate peg forecast may assist councils with planning and indicate the need for future SVs.

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

There are potential advantages in that the peg will better reflect actual costs to be faced by councils. However, there are disadvantages in terms of certainty and forward planning. An alternative may involve continuing early release but using forward estimates to better reflect likely movements rather than lagged data.

Alternatively, Dollery[iv] suggests the release of an indicative peg within the existing timeline to assist with planning and locking in a final peg as late as practical.

Both are potentially workable options that should be further investigated.

Efficient Labour Costs

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

LGNSW strongly supports adoption of the NSW Local Government (State) Award, which would be more reflective of the actual changes in labour costs councils face and as previously noted, it is an actual forward measure. LGNSW has made previous representations on this component.

As noted in response to Q. 5, LGNSW does not believe that productivity factors can be accurately measured in a sector as diverse as local government.

Funding New Services & Activities

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

All material external costs imposed on local government by legislation, regulation, abrogation of responsibility by other spheres of government or otherwise should be included. It is recognised that this may be a difficult exercise, but some are readily identifiable, e.g., audits costs, cost of maintaining Audit Risk Improvement Committees, the ESL and RFS mobile asset depreciation.

Population growth is already reflected.

LGNSW also support the position on Pensioner Rate Rebates presented by Dollery - “adjustments need to be made to the permissible general income calculation to account for the portion of the pensioner rebates *not* refunded by the NSW Government (i.e., the notional general income should be increased by the amount of the rebates *not* received back as a subsidy). This simple change would mean that rural and fringe councils, which are often in the most precarious financial position, would no longer be penalised by the higher and increasing proportion of pensioners that choose to live in their areas”.[v]

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

Yes. LGNSW is firmly of the view that council specific adjustments are needed. Refer response to Q.6, Q.19. and Recommendation 10. Certain significant costs do not apply to all councils or fall evenly across all councils. There needs to be a mechanism to enable councils to recover these costs.

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

As noted previously (Q.6), the ESL and RFS asset depreciation should be included, although best as individual council determinations.

LGNSW also maintains that any reduction in Commonwealth Financial Assistance Grants (FAGs) in real terms should be included in the index. For example, while FAGs are normally escalated in real terms per capita, the Federal Government imposed a three-year freeze between 2014-15 and 2017-18. This directly cost NSW councils around $300 million and reduced the base on which future adjustments are made. Councils are still bearing the compounding effect of the freeze.

Identifiable cost shifts from the State or Commonwealth Government would ideally be included.

Simplifying the Rate Peg

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 simplest way to ensure that rate revenue reflects inflation and changes in the costs of service delivery is to abolish rate pegging. The introduction of the peg introduced complexity from the outset and necessitates further complexity if we are to increase accuracy and reduce volatility.

It will be challenging to simplify the rate peg calculation while ensuring that it reflects inflation and changes in the costs of providing services. Most of the emphasis in this submission has been on improving accuracy and reliability. The associated remedies recommended in this paper such as having multiple LGCI indices, using forward looking indicators including real costs and forecasts, expanding provisions for individual council determinations, and introducing a "reality check" (see recommendation 8 below) may further add complexity.

There may be some further scope for rationalising some of the smaller cost components in the LGCI and bundling them under a CPI adjustment, but these do not appear to provide a significant improvement in simplicity.

It would seem the real opportunities for improving simplicity of the rate pegging system involve changing the standing of the rate peg from binding to non-binding and/or providing greater flexibility around the peg and streamlining the SV process. (Refer recommendations 2, 3 & 4 below.)

RECOMMENDATIONS

LGNSW makes the following recommendations:

1. Abolish rate pegging

LGNSW is firmly of the view that rate pegging should be abolished. Our long-held position has been reinforced by a large and solid body of independent, government and academic reviews over the past two decades. Several of these reviews are identified earlier in this submission and the evidence is conclusive.

However, LGNSW recognises that the continuation or otherwise of rate pegging is not included within the terms of reference for this review.

LGNSW proposes a number of alternative although not mutually exclusive interim measures to improve the rate pegging methodology and the operation of the rating system.

2. Rate peg as a non-binding reference peg

Change the binding rate peg into a non-binding reference peg. This would continue to be a published indicator that would influence public and political expectations and in doing so, guide councils' actual rate determination. Councils would have the discretion of exceeding the reference peg but would be subject to informed ratepayer scrutiny and would need to justify increases above the reference peg.

If considered necessary, even if only for political assurance, IPART could monitor increases beyond the reference peg and intervene by exception (e.g., where increases appear to be excessive).

3. Allow councils to exceed the peg by a determined margin without Special Variation (SV)

This would remove the burden of making a SV for small and moderate variations. Councils advise that the regulatory burden of the SV process coupled with political complexity acts as a deterrent to applying for an SV. This can be financially damaging where there are legitimate needs for increased rates to strengthen financial sustainability and address infrastructure backlogs. Failure to act will worsen the current situation and create larger deficiencies in future years.

4. Streamline the SV process

IPART's ability to implement the Additional Special Variation (ASV) and process the 86 applications in a short time period demonstrated that there is scope to simplify and expedite the SV process. If adopted in conjunction with Recommendation 3, only large SVs would need to be subject to comprehensive community consultation and IPART assessment.

5. Reconstruct the LGCI as a forward-facing Index

As argued elsewhere in the submission LGNSW supports the introduction of a more forward-facing index. This position is broadly supported in the local government sector as the only practical way of dealing with economic volatility. The submission has suggested several ways a more forward-facing index may developed such as adopting the NSW Local Government Award as the wage cost index.

An added benefit of a forward-facing index is that it is easier for councils and the community to comprehend. It is easier to understand the price increases you are currently facing rather than the price movements you faced two years ago.

6. Introduce separate indices for different categories of councils

LGNSW supports the many voices in the local government sector that recommend the introduction of several indices for different council cohorts or categories e.g.: metro, coastal, regional city, regional, rural remote. LGNSW supports the introduction of multiple indices in principle if it can be demonstrated that there are or can be material differences. This needs to be subjected to historical modelling and must be implemented if material differences are evident. It will be important for the sector to have an understanding of how this may affect the outcomes for their council before multiple indices are implemented.

7. Reset the foundation notional general rate yield

LGNSW supports the recommendation of CRJO[vi] to reset the foundation notional general rate yield to make sure that the rate base is adequate to fund infrastructure and service needs and is at least comparable with other councils in the same cohort.

8. Introduce a 'Reality Check'

LGNSW recommends that the rate peg be subject to a "reality" or "sanity" check before the final determination is made. The check should be carried out by a panel consisting of IPART representatives, independent economists and local government experts. The latest available price data, including forecasts, should be made available to the panel.

LGNSW believes that the 0.7% determination for 2022-23 would not have passed a reality check. It should have rung alarm bells and triggered an urgent response. It was clearly a Covid induced momentary economic anomaly and more recent indicators available at the time of final release were pointing to an increase in prices.

LGNSW acknowledges that introducing a reality check will also introduce discretionary judgement to the peg determination process. There are some concerns in the sector about this and few would want to see the rate peg determination process revert to being one of political discretion.

It would be essential that the review panel is not politicised and operates under IPART's umbrella of independence.

9. Rate Peg Floor/Minimum Peg of 2.5%

LGNSW recommends the introduction of a minimum rate peg or floor of 2.5%.

This would help avoid large shocks and coupled with the reality check would eliminate the possibility of a negative rate peg.

10. Expanded provision for individual council determinations

Provision needs to be made for the rate peg to recognise cost impacts that affect an individual council or groups of councils including both short term shocks, such as natural disasters and ongoing costs that do not impact councils uniformly. Prime examples of the latter include the ESL and RFS mobile asset depreciation. This would be an alternative to decoupling the ESL from the rate peg by allowing councils to introduce a separate charge to fully recover the cost of the ESL.

The introduction of the Population Growth Factor has already set the precedent for individual council determinations.

While individual assessment involving multiple cost types has a degree of complexity, it may be simplified by establishing an agreed list of acceptable costs for which accurate data is readily available.

Individual assessments following natural disasters could be simplified by allowing flexibility beyond the peg in following years.

CONCLUSION

LGNSW is pleased to have the opportunity to make this submission to the IPART Review of the rate peg methodology and looks forward to ongoing participation in the consultation process. LGNSW commends the NSW Government and IPART for undertaking this review in response to the rate peg shock resulting from the LGCI determination for 2022-23 of 0.7%.

The LGNSW submission closely reflects the widely held views of NSW councils and others in the local government sector. It is based on comments received from councils, past LGNSW Annual Conference resolutions and submissions on rate pegging. It is also based on research and commentary from experts on the local government sector.

The submission emphasises our firm position that rate pegging should be abolished as it is detrimental to the financial sustainability of councils, deprives communities of infrastructure and services and is damaging to the NSW economy as a whole. It argues that the electoral accountability combined with the IP&R framework and associated Long Term Financial Planning make rate pegging redundant.

LGNSW also recognises that abolishing rate pegging is outside the Terms of Reference for this review despite the evidence. In view of this, the submission makes several recommendations to improve the rate pegging methodology and related policies in the interim. These recommendations involve:

- removing the time lag by redesigning the methodology to make it more forward-looking index
- recognising the cost differences between categories or cohorts of councils
- providing councils with more flexibility around the rate peg
- recasting the rate peg as a non-binding reference rate
- streamlining the SV process.

LGNSW looks forward to discussing our recommendations further in the forthcoming workshops and other related consultations.

LGNSW strongly encourages IPART to also to give full consideration to the many submissions made by individual councils, JOs and other parties.

LGNSW especially commends the submissions made by the NSW Revenue Professionals, Canberra Regional Joint Organisation and Brian Dollery on behalf of the United Services Union.

End Notes

[i] NSW Revenue Professionals Submission – IPART review of the rate peg methodology Nov 2022

[ii] Brian Dollery (for USU) Submission– IPART review of the rate peg methodology Nov 2022

[iii] Canberra Region Joint Organisation (CRJO) submission- IPART review of the rate peg methodology Nov 2022

[iv] Dollery ibid

[v] Dollery ibid

[vi] CRJO ibid