maitland
city council

Our Ref: 2609821

18 November 2022

Independent Pricing and Regulatory Tribunal
Level 16, 2-24 Rawson Place
SYDNEY NSW 2000

Delivered electronically to:
Localgovernment@ipart.nsw.gov.au
CC Scott_Chapman@ipart.nsw.gov.au

Dear Mr Chapman,

RE: Maitland City Council – submission on rate peg methodology issues paper

Thank you for granting Council an extension to make a submission on the IPART review of rate peg methodology issues paper. As one of the fastest growing LGAs in NSW, with a predominately greenfield-based population growth, the rate peg methodology is of keen interest to Council as we face the challenge of long term financial sustainability and ensuring our own source revenue can maintain delivery of essential infrastructure and services to our community into the future.

The following has been prepared by Council officers. We include responses to both individual and aggregated questions as follows:

1. *To what extent does the Local Government Cost Index reflect changes in councils' costs and inflation? Is there a better approach?*
2. *What is the best way to measure changes in councils' costs and inflation, and how can this be done in a timely way?*
3. *What alternative data sources could be used to measure the changes in council costs?*

Combined response to questions 1, 2 and 3.

The Local Government Cost Index does not reflect the true changes in costs that councils face in providing services to their communities. A LGCI based on already available forecast and known increases to costs faced by councils will better reflect the actual costs incurred by councils and allow revenue to be increased accordingly to maintain service levels to communities. Use of forecast CPI to account for increases in operational costs, construction cost indices for capital costs and agreed NSW Local Government Award increases for employee costs will result in a LGCI that more accurately reflects the true increase in costs faced by councils.

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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?*

As one of the fastest growing regional LGAs critical to achieving dwelling growth targets in the Hunter, we strongly support inclusion of a population factor in the rate peg methodology. However, we have concerns about the source of and timeliness of the data used for the population growth factor and the reduction of this factor by the growth in rates from supplementary valuations. We suggest use of Council's own planning forecasts, as verified by the State and underpinned by growth in rateable properties, to determine a population growth factor. The growth factor can then be adjusted over the longer term with the release of census data. In our experience any growth in rates brought about from supplementary valuations is minimal in comparison to the increase in costs due to population growth in the LGA. Therefore, reducing the population growth factor by the supplementary valuation percentage negates the necessary increase in income required to maintain service levels to an increasing population.

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

With more than a decade of IP&R, councils can demonstrate their asset and service planning is aligned to community priorities, service levels have been established and costs associated with those service levels are clearly evident to the community. We can see no greater indicator of improvements in productivity and the efficient delivery of services to our community than being able to deliver on expected service levels whilst remaining financially sustainable and do not see a need for the rate peg methodology to be used to reflect improvements in productivity and efficiency in delivering services.

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

IPART should retain the discretion to adjust the rate peg to allow for the impact of external factors on council resources. Factors that should be considered in the rate peg methodology for adjustments should include:

- Labour market shortages
- Impact of repeated natural disasters
- Supply chain delays
- Impact of price increase and supply constraints of service providers to councils.

The impact of external factors should be considered not only on an industry wide basis but were appropriate for affected individual councils or regions.

7. *Has the rate peg protected ratepayers from unnecessary rate increases?*
8. *Has the rate peg provided councils with sufficient income to deliver services to their communities?*
9. *How has the rate peg impacted the financial performance and sustainability of councils?*

Combined response to questions 7, 8 and 9.
The perception that the rate peg protects from 'unnecessary rate increases' needs to be challenged by the entire local government sector. The rate peg has kept rate increases relatively low, however it has come at the cost of limiting the ability of councils to provide services expected by modern and evolving communities and maintain assets to an expected level.

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It is clear that the sector as a whole is significantly underfunded, and in the absence of alternatives to generate own source revenue in the quantum required, the rate peg and special variations are the only mechanisms available. Councils are forced to choose those services that can be offered to their communities and the level of the service to be offered whilst balancing services to the community with necessary maintenance of an aging asset base in an increasingly difficult economy. There is no doubt that the rate peg has impacted the financial performance and sustainability of councils, readily evidenced by the increase to income under the rate peg being insufficient to offset cost increases associated with standard operating expenses.

Special variations are a legitimate tool but come at a considerable cost to councils and need to be managed carefully with the community. A rate peg methodology that adequately forecasts for increased costs to councils and applies a timely population growth factor will ameliorate need for councils like Maitland to apply for special variations on financial sustainability grounds and focus more on major infrastructure or service level changes identified as a need by the community.

10. *In what ways could the rate peg methodology better reflect how councils differ from each other?*
11. *What are the benefits of introducing different cost indexes for different council types?*

Combined response to questions 10 and 11.
The concept of an 'average' Council is flawed, as is the thought that a common rate peg will be appropriate for all councils. The concept of segmenting the sector according to geographic and demographic factors may assist in setting a rate peg that better reflects the circumstances of councils like Maitland with outer LGA greenfield growth, family demographic and high vehicle dependency.

12. *Is volatility in the rate peg a problem? How could it be stabilised?*
13. *Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs?*
14. *Are there benefits in setting a longer term rate peg, say over multiple years?*
15. *Should the rate peg be released later in the year if this reduced the lag?*

Combined response to questions 12, 13, 14 and 15.
Volatility in the rate peg is necessary in order to allow for economic and other external factors and keep council rates income in line with costs. However, this volatility needs to be offset with an element of predictability and transparency in the rate peg methodology that barring unexpected variations due to economic and other external factors, enables councils to make reasonable assumptions in their long term financial plans.

Ultimately council prefers better alignment of the rate peg with the changes in costs to council. However, there is merit in releasing a rate peg estimate for the four years aligned with the IP&R cycle to allow for planning over the term of council and in the long term financial plan.

There is no benefit in delaying the release of the rate peg each year. Councils need to commence preparation of budget and operational plan as soon as the financial statements from the prior financial year are completed and lodged to allow sufficient time for public exhibition and council adoption. Delaying the release of the rate peg would impact on this process.

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

The WPI is not an effective measure of changes to labour costs for councils. At a minimum the NSW Local Government (State) Award and changes in the superannuation guarantee should be used to predict the change in labour costs. Factoring in changes in NSW councils' total employee costs will assist in identifying changes in labour costs resulting from councils needing to utilise changing workforce models due to a difficult labour market, for example needing to pay premiums to attract employees or use consultants.

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

External costs that are outside of the control of councils should be included in the rate peg methodology where they are known and the impact on councils can be forecast, leaving the special variation process for construction of major infrastructure and service level changes or the introduction of new services. Recent significant examples are fuel and energy costs, where there is little to no changes Council can make operationally to address the impacts of such increased expenses. Adjustments for identified external costs can be factored into rate peg calculation as they have been in the past for impacts such as emergency services levy increases and local government election costs.

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

Council or regional specific adjustments to account for external costs are needed and will reduce the need for special variations to cover external costs. Councils can be segmented according to geographic or demographic factors where such factors determine the impact of specific external costs, and where the impact of external costs has been identified to impact on such a segment an adjustment to the rate peg can be applied. Alternatively, where specific councils are identified as being impacted by external costs, an adjustment can be applied to the impacted council. Introduction of a mechanism similar to the additional special variation used in 2022/23 for affected councils to apply for consideration for an adjustment to the rate peg to account for circumstances faced by individual councils.

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

Costs outside of councils' control that should be considered in rate peg methodology include:

- Changing nature of the labour market, increasing difficulty in attracting employees leading to the need to pay premiums and utilise consultants
- Repeated extreme weather events
- Ageing infrastructure
- Supply chain difficulties leading to the need to look to alternative sources for goods and services
- Increase in construction costs
- Increase in energy costs
- Increase in fuel costs.

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 calculation can be simplified by reducing the number of cost components in the LGCI and largely basing the rate peg calculation in forecast CPI and known cost changes such as award increases and superannuation guarantee and then applying adjustments to this base rate peg as appropriate for known external costs or identified efficiencies.

Once again, thank you for the opportunity to put forward Council's views. Should you have any questions, our Manager Finance and Procurement Ms Annette Peel can be contacted on: [redacted] noting that Ms Peel has also registered to attend a workshop for regional Councils next week.

Yours sincerely,

[redacted]

David Evans PSM
General Manager