MidCoast Council Submission to IPART

Review of Rate Peg Methodology Issues Paper September 2022

Introduction

The MidCoast is a large and diverse region of 195 towns, villages and localities. The MidCoast ranges from beaches to mountains over an area of 10,000 square kilometres.

The MidCoast is home to the Gathang speaking Aboriginal people, the Biripi and Worimi. We have a population of approximately 93,800 people living in around 40,000 households.

There are two main population centres, Taree and Forster-Tuncurry.

Taree is home to the region's public hospital, airport and train service. It is also a central place for sporting, entertainment and cultural facilities. Large tracts of industrial land support a focus on industry.

Forster-Tuncurry focuses on lifestyle, with tourism and retirement living driving the economy.

Rural and coastal centres include Tea Gardens-Hawks Nest, Gloucester, Wingham, Hallidays Point, Harrington and Old Bar.

The MidCoast is a popular location with retirees from the Central Coast and Sydney.

Most of our population growth has occurred in people aged 60 and over who make up 38.5% of our population.

Important to our community is climate change, Customer Service, Development Assessment, Economic Development, and Local and Regional Roads.

MidCoast Council has 3643 km of transport network assets which are valued at $2.7 Billion. Our total value of assets across all categories is $5 Billion. We are a Group 5 Council (as Classified by the OLG) and the average km of transport network assets of Group 5 Councils is 1283 km. MidCoast Council is 183% above the Group average for km of transport assets. We maintain 38 metres of road per resident compared to the Group average of 9 metres per resident. We would argue these assets are really liabilities, they cannot be sold and they have to be maintained to a satisfactory and safe level to service the local community. This responsibility comes at a considerable cost. Metropolitan Councils maintain around 2.5 to 3 metres of road per resident.

Our population density is 9 residents per km2 compared to the Group average of 229 residents per km2.

18% of MCC is National Park,12% is State Forest and 3.22% is waterways , meaning 33.22% of the area is non rateable.

The above figures are provided to highlight some of the unique characteristics of MidCoast Council and to demonstrate that a state-wide rate peg simply cannot accommodate the diversity of Councils across NSW let alone even within a Group of like Councils. To tinker with the methodology cannot correct a fundamental flaw of having a rate peg apply across all councils in NSW where such a diversity exists.

Summary of Councils Position

Council is aware of the submission lodged by the United Services Union. The submission contains a thorough and evidenced based review of the issues around rate pegging and its inherent limitations. Council supports the primary recommendations in that submission summarised below:

Recommendation 1 – Best approach - Abolish Rate Capping

Recommendation 2 – Second Best – Redesign Rate Capping

The following includes Councils comments on each of the 20 areas IPART has sought feedback on:

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

The LGCI is flawed as it contains too few items to accurately reflect a basket of goods representative of Local Government cost drivers. In addition, it does not take into account the different operating environments which Councils across NSW operate in. For example, Regional Councils have some differences in cost drivers compared to metropolitan councils given the nature of services provided. Also, Councils with large coastal areas such as MCC experience high levels of retiree population growth which creates a different service demand.

The LGCI is also rearward facing which is problematic particularly in high inflationary periods.

It is clear a better approach could be designed with some application of reasonable economic analysis rather than a focus of simplifying the rate peg. It should be accepted that a cost index for local government is not simple and for it to be a valid tool to peg rates it needs to be complex and consider a range of factors which impact the wide variety of councils across NSW. At a basic level the LGCI should consider relevant cost drivers for the various categories of Councils across NSW. A single cost index applicable to all councils has not worked and can never be an effective basis for the rate peg.

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

As mentioned in the response to Question 1 there needs to be differing cost indexes across the range of councils which have a mix of weightings relevant to the cost drivers of the different types of councils.

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

There is a range of actual data that could be used to monitor changes in council costs. Councils have a large labour base so using actual wage increase data for the Local Government industry would be appropriate. As mentioned in 1 and 2 the cost index needs to recognise the different cost drivers across different types of councils. A study of these cost drivers is required and then actual data could be sourced and weighted appropriately.

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?*

The population factor in our view applies a variable to the rate peg on only one factor which impacts on Councils costs. Councils in regional areas may have moderate or minimal population growth however experience deteriorating infrastructure caused by historical factors including past decisions of local councils and state governments. Applying an indexation based on population factors but no other relevant factors such as significant construction inflationary factors which impact on regional and rural councils is ineffective. The maintenance and renewal of failing infrastructure whose decline has been hastened by climate change impacts (significant weather events) is a more significant driver for many councils than population growth.

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

There is sufficient evidence to demonstrate that the productivity factor included in the rate peg does not in fact improve efficiency. If it is designed to improve efficiency it is ineffective. If this was the case NSW councils would be proven to be more efficient that other jurisdictions in Australia which don't have rate pegging. There is academic evidence to demonstrate that that States without rate pegging are equally or more efficient than NSW councils.

By providing Council's with autonomy and accountability in relation to rate setting in their Council area there is incentive to become more efficient. Councils are very good at engaging and interacting with their communities. The IPR framework promotes this and Councils have become very effective at understanding what their communities want. What councils find on the ground is that their communities expect them to provide efficiency in how they operate. The incentive to become efficient comes from the understanding of local communities and responding to their priorities. By becoming more efficient council can more effectively respond to their community. That should be the incentive not providing a broad based productivity factor applied across NSW in a one size fits all rate peg

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

The rate peg should consider forward economic projections rather than rearward. These economic projections need to be based on local government specific drivers and some local government expertise being included on a rate peg panel of experts would be supported.

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

The answer to this question is more complex than the premise of the question asked. It could be argued that the rate peg does protect ratepayers but from what. The rate peg does the following:

- artificially keeps rates low and protects some ratepayers in the short term and then loads the burden onto other ratepayers when councils are forced to apply for large rate increases to address lack of services or unsatisfactory standards of service to the local community.

- leads ratepayers to believe that the rate peg is the true indicator of cost increases so anything above that reflects poorly on the council operations. It creates a false ceiling as ratepayers want costs to be retained within the rate peg but services to increase. This is reflected regularly at community meetings and feedback forums. The rate peg is used as a benchmark when evidence shows it is flawed in reflecting councils cost drivers.

- keeps taxes low while creating a divergence between services demanded and the ability to raise funds. It avoids a mature conversation with the community and instead requires councils to argue against the validity of the rate peg. Without the rate peg council can have an open conversation with the community on service provisions and rate levels without the false ceiling of the rate peg.

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

There is evidence available to demonstrate that the rate peg does not provide councils with sufficient income. The one size fits all rate peg is inadequate as previously mentioned in this submission. Councils across NSW have vastly different cost drivers depending on whether they are metropolitan or regional/rural and other factors include geographic and demographic features. There is also a large variance in income raising capacity across various councils. For example, many metropolitan councils can raise significant funds through parking revenue. The artificially low rate peg forces councils into large SRV's to compensate and this creates a community impression that the council has been mismanaged when the reality is it is addressing issues relating to an inadequate rate peg being applied over many years.

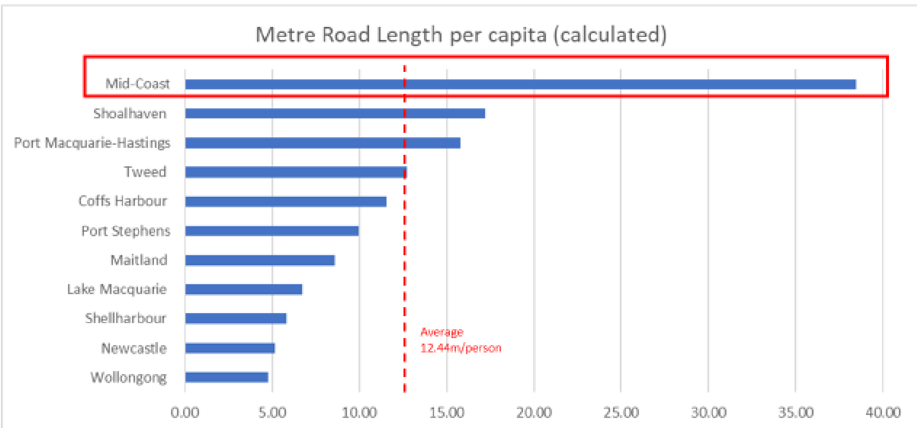
9. *How has the rate peg impacted the financial performance and sustainability of councils?*

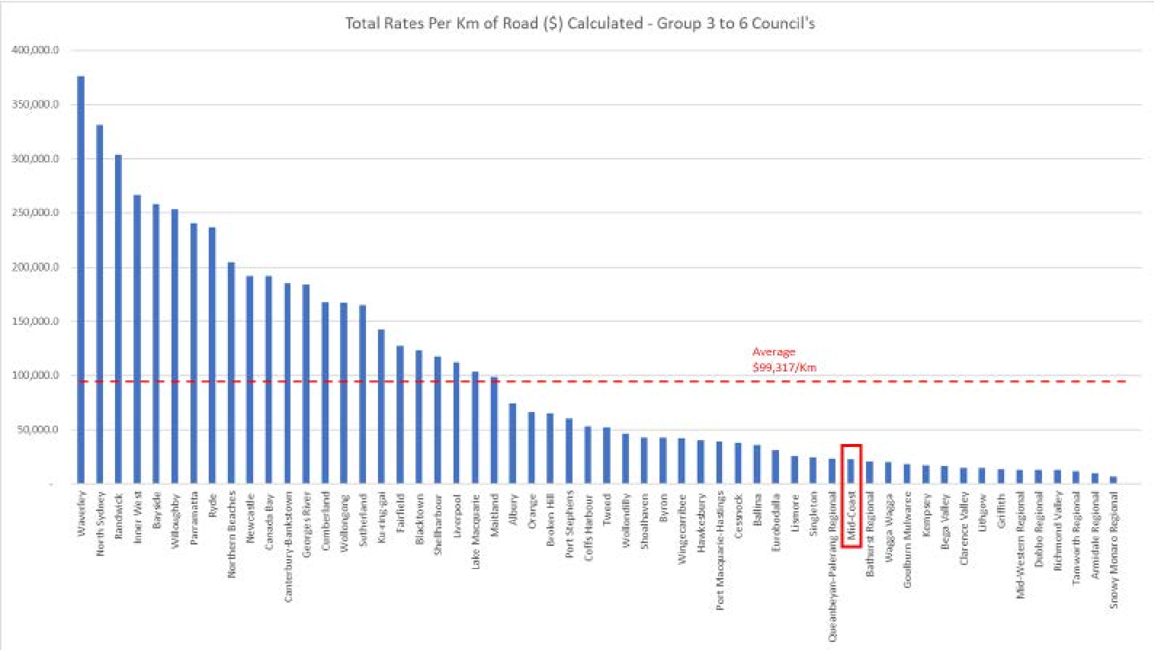
There have been academic studies undertaken to review this question and it is suggested IPART undertake their own research. Our view is that the rate peg has negatively impacted financial performance and sustainability for the reasons set out through this submission.

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

As referred to previously in this submission a one size fits all rate peg is flawed and if a rate peg methodology is to continue rather than be abolished it should be reflective of the different types of councils. Unless there can be some equalisation through a systemic review of local government funding the rate peg cannot continue to operate under a blanket methodology across all of NSW.

The following charts which we have been sharing with our community in our twice yearly community conversation forums (14 to 16 community meetings twice per year to listen to our community) demonstrate the differences between councils on per capita road length and rates collected per km of road. Road maintenance and renewal is a key cost driver for MidCoast Council. Clearly roads are important to other councils also but the driver and challenges to fund are greater in our area when compared to many other councils. This is one example of how the rate peg could better reflect the differences between councils.





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

Put simply different cost indexes for different types of councils would provide a more relevant rate peg which would more closely reflect the cost drivers for each different type of council. It would assist further if there was a range within the rate peg to enable some autonomy and accountability to be exercised by Councils within each category.

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

Rate peg volatility cannot really be avoided particularly in times of economic instability. More problematic is the long term indicative rate peg projection which councils are advised to factor into their LTFP. The actual rate peg does not traditionally track well when compared to this and causes significant variation to the LTFP projections. The long term advice on the LTFP projections should be more regularly reviewed to ensure it is more closely aligned with the actual rate peg. The use of more current forward looking data rather than backward looking would also assist.

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

Council would prefer a rate peg that was accurate and reflected actual change in costs. Certainty about the rate peg is secondary. While in stable economic conditions there can be a level of certainty that is not the case in volatile times as recently experienced.

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

Councils need certainty that the rate peg will be relevant to economic conditions at the time. Setting a long term rate peg would not be able to achieve this and therefore would not be supported. There could be an indicative peg over multiple years but this would have to include flexibility to adjust depending on economic conditions.

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

In order to accommodate economic volatility, it may be necessary to release the rate peg later in the year. This however needs to be balanced against allowing time for councils to make a decision on special rate variation applications. Reviewing the SRV timeframes and requirements could assist in allowing for a later rate peg announcement.

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

Efficiency in operations should not be accounted for in the rate peg. Councils should have autonomy to implement and benefit from efficiency in operations. Councils are accountable to their communities through the IPR framework in a more direct way than any other level of Government. It follows that any efficiency gain will be applied to community priorities in accordance with Councils engagement with their community. This could be through service provision or reduction in costs; however it needs to be at the discretion of the elected Council in the preparation of their Delivery Programs and Operational Plans.

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

All relevant costs should be reflected in the rate peg. As mentioned previously an expert panel should be implemented to ensure all relevant cost drivers are reflected in the rate peg and applied to categories of council rather than a state-wide rate peg.

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

This is answered in Q 17.

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

A relevant basket of costs should be applied as has been outlined in our submission. It is not possible to cater for all variances between councils even within groupings. A Rate Peg Range would provide the flexibility for local councils to reflect external cost impacts and variations.

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?*

As mentioned previously in this submission simplifying the rate peg is not the answer. If the rate peg has to remain it has to be reflective of costs and flexible enough to accommodate economic volatility. Simplicity is not the primary objective so shouldn't be a driver.

Concluding Comments

MidCoast Councils position as made clear in this submission is:

1. Rate pegging should be removed and councils accountable to their communities through the Integrated Planning and Reporting Framework. Councils work closely with their communities and have an understanding of community needs and priorities. This should include being able to set appropriate rating levels under the IPR framework. The Governments role should be intervention by exception where councils are either implementing large unjustified rate increases or are keeping rates at very low levels when financial indicators are identifying sustainability issues. A framework could be developed for such an intervention process.
2. Should rate pegging not be removed the current methodology should be redesigned to accommodate the following:
    - A cost index be developed for different categories of councils and then a rate peg be calculated for each category of Councils. The rate peg should include a range so that councils can apply a level of rates within the range after working through community priorities under the IPR framework.
    - An expert rate peg panel should be established to ensure the cost index is reflective of local government costs drivers
    - A review of the SRV timeframes to accommodate the process complexity should be undertaken. Reference is made to the Victorian SRV process for an example of an improved process.

Adrian Panuccio

General Manager

2 November 2022