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Independent Pricing and Regulatory Tribunal
PO Box K35 Haymarket Post Shop
SYDNEY NSW 1240

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Dear Tribunal

Review of the Rate Peg Methodology – Issues Paper

Thank you for the opportunity to make a submission on this very important topic. Due to timing issues this paper has been unable to be put before Council for consideration. However, Councillors have been provided with a copy of the submission for their information and comment.

The current methodology for determining the Local Government Cost Index is in dire need of review. In times where the economy is stable using historical data as a basis for rate peg determination does not present the significant financial constraints we are now facing. In the current volatile economy Councils are suffering extreme financial stress.

This was highlighted when the 0.7% rate peg was determined for the 2022/23 financial year where an emergency ASV scenario was established. This resulted in Mosman being granted a 2.3% rate peg. The volatility of the economy saw the National CPI rise to 6.1% for the 2021/22 year with the ASV rate peg amount being overwhelmed. To make matters worse, calculating the permissible rate limit for 2023/24 requires that Councils use the 2022/23 rate income was the starting point for calculating rate income. All Councils have been severely handicapped. The latest CPI – September 2022 is now running at 7.3% and Council has been limited to a 3.7% rate peg increase on the already low 2022/23 starting point.

Councils need to build their budgets looking forward. Councils must use the Local Government award to address employee costs. Council's must use their contracted CPI price movements to apply a relevant budget for those services.

The LGCI needs to look forward to determining future rate pegs. It would help Council maintain is sustainability and continue to deliver the services expected. To do this the LGIC must address the most current information for the starting point. The methodology should be simplified. It is suggested that items with a current weighting below 5.0% no longer be used as the items covered are generally immaterial compared to each Council's total budgetary input. Further this will assist in making a determination a more efficient process.

Yours Sincerely

[redacted]

Dominic Johnson
General Manager

Response to Issues

Issue 1

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

Comment

The LGCI does not reflect the current economic situation faced by Councils. It suffers from lag and places Councils in an untenable situation to develop their budgets and long term financial plans. A better approach would be to close the gap between rate peg determination and announcement to the budget year. It would be more appropriate to use the December Quarter CPI covering current economic circumstances and allow announcing the rate peg in February. This would align closely to Council's budget cycle.

Issue 2

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

Comment

The LGCI needs to focus on the larger inputs to each Council's cost structures. Items that have less than 2.0% weighting are considered immaterial to the scale of the budgets. A reduction in the number of factors/indices would make rate peg determination more efficient.

Councils also suffer from IPART not using a known cost increase such as the Award. Councils are required to legally comply with the Award increases, but the LGCI uses a factor that is not related to local government and effectively makes a productivity reduction in a significant way against a major cost driver in the budget.

Issue 3

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

Comment

The Local Government Award as a minimum should be the basis for assessing employee cost movements. There remains a shortfall with this approach as well, where the percentage increase will not reflect step increases and productivity increases that will happen 'on the ground' each year. It also overlooks the impact of the staff availability in the reduced numbers of the talent pool, but is more closely aligned with the cost increases than the government employment sector index currently used.

Issue 4

Last year we included a population factor in our rate peg methodology. Do you have any e on how this is operating? What improvements could be made?

Comment

Mosman Council is not a high growth population Council and does not benefit from this. Mosman Council has one of the highest density populations but receives no allowance to cater for the needs of high density areas.

Issue 5

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

Comment

The rate peg as currently used drives the need to review service levels as it is set too low compared to actual costs to Council. Compared to the briefing papers of the amendment to the Local Government Act in 1976, the purpose of the rate peg was to allow Councils to continue to deliver the same level of services. If a Council wanted to introduce a new service it had the option of cancelling an existing service or seeking a special variation. Even where the rate peg matches inflation and increases to employee costs it still ignores the increased costs relating to additional regulation, climate change, cyber security costs, and exploding insurance costs. Accordingly in current times government should not expect to see significant efficiency dividends.

Issue 6

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

Comment

The management of external costs that are not subject to Council's direction or decision such as the cyclical Election Costs, the Emergency Services Levy and the Sydney Region Development Fund Levy should be moved out of the rate peg 'pool' of funds. These passed on costs are not subject of annual CPI increases but are mandatory costs imposed on Council.

It is considered that a monetary addition of external costs be added to the rate 'pool' of rate pegged rate income. The 'pool' amount would be increased in accordance with the peg and the statutory costs transparently identified. The various rates in the dollar being determined on the total of 'pool' and identified external costs.

Issue 7

Has the rate peg protected ratepayers from unnecessary rate increases?

Comment

It is questionable. If rate increases fall behind costs causing Council to seek a special variation to recover a reasonable rate base then the 'protection' is limited. As identified in the briefing paper the annual amount of average rates per household is low compared to energy costs, commute costs or motorway tolls. It is noted that motorway toll increases are limited to 4.0% or the CPI whichever is the higher.

Issue 8

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

Comment

When rate pegging was introduced in 1976 it was on the basis of allowing Councils to continue to provide existing service levels. Now with recent rate pegs falling significantly below cost increases the aim appears to be reducing service levels.

Issue 9

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

Comment

The last two rate peg amounts were significantly below the broad CPI levels on which a large number of major contracts are based. Council will undoubtedly suffer as a result. Council has a declining number of permanent staff and has discontinued a number of services including direct childcare, before and after school care, vaccination services, community bus services and direct provision of many out-door maintenance services partly as a result of declining income relative to increasing costs.

Issue 10

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

Comment

The rate peg should take a focus on the regional areas with a different peg for each Council region as identified in Appendix B. Applying the same peg to Brewarrina and Mosman is unrealistic and does not consider the differing issues between each Council.

Issue 11

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

Comment

Costs are different in each area covering issues such as population density needs, length and type of roads, availability of service providers and expectations of ratepayers.

Issue 12

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

Comment

The volatility has set a handicapped starting point for the pool of rates to be increased. The 2021/22 rate peg of 0.7% was increased by an ASV to 2.3% for Mosman (incorporating the 0.7% amount). However, this was overshadowed by actual increases in that financial year where the national CPI rose by 6.1% with the Sydney all Groups at 5.3%. The increase in rates using the 2022/23 rate peg will be based on the 2021/22 permissible limit. In the circumstances this is totally in adequate. The methodology has no allowance to recover the impacts of volatility and will set another low starting point for the 2023/24 rate peg. This issue needs to be addressed.

Issue 13

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

Comment

A better alignment of the setting procedure with the most up to date information as the basis using either the September CPI or the December CPI. Certainty that budgets will not have major deficits when a large gap between the rate peg and inflation or spiralling costs is not a preference but a pre-requisite of effective governance.

Issue 14

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

Comment

Events in the past two years indicate there is no reliable way to forecast future events that may impact on prices. It would be a folly to attempt a reasonable longer multiple year rate peg.

Issue 19

What type of costs which are outside council's control should be included in the rate peg methodology?

Comment

The following items should be excluded from the rate peg and listed as separate monetary amounts to be recovered either as an addition to the rate peg 'pool' of as a separate annual charge

- Emergency Service levies
- Election Costs
- Planning levies (Sydney Region Development Fund)
- Valuer General valuation costs
- Audit Fees

A further issue currently included in the rate peg considerations that has become an area of considerable concern is insurance costs. The State has experienced an unprecedented spate of natural disasters which has resulted in steep increases in insurance premium costs, well above CPI movements.

Issue 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?

Comment

Simplify the model by using less inputs, preferably just the broad basket CPI. A productivity factor standardised at 0.1% could be adopted.

Issue 15

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

Comment

Yes

Issue 16

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

Comment

Use the Award as a basis, Councils are legally bound to adopt the increases. It should also make an allowance for the award requirement for Councils to have a progressive salary system. This requires council to include additional monies for the same number of staff to do the same role as they advance in skill or experience. In reality this adds an additional percent to the award increases for each budget year.

Issue 17

Should external Costs be reflected in the rate peg methodology, and if so, how could this be achieved?

Comment

It is considered that a monetary addition of external costs be separately added to the rate 'pool' of rate pegged rate income. The 'pool' amount would be increased in accordance with the peg and the external costs transparently identified. The various rates in the dollar being determined on the total of 'pool' and identified external costs. The monetary amounts would be based on each years known costs/projections. Only in an election year, for example, would the cost of the elections be added.

Issue 18

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

Comment

As in the response to the above. Alternatively a change in legislation could be made and a new 'annual charge' could be established to cover external costs. This then would be outside the rate peg methodology.