Response to IPART's Review of the Rate Peg Methodology

IPART SUBMISSION COMMENTS

The state have always maintained that rate pegging protects ratepayers from unaffordable rate increases but in reality, it denies ratepayers and residents the quality services needed by the community as identified in its Community Strategic Plan. It creates a false impression or sense of security with ratepayers that Councils can provide and continue to at least maintain existing service levels and that they are affordable within the rate peg.

Councils are required to develop a Community Strategic Plan which in turn should inform Long Term Financial Plans, Delivery Plans, Asset Management Plans etc. It's a waste of time consulting with the community to determine a Strategic Plan that cannot be funded. It is accepted that a Council can apply for a Special Variation but why should that be necessary if the Council has already gone through the process of the community consultation to develop and review the Community Strategic Plan and when Delivery Plans and LTFP's are the subject of public exhibition, scrutiny and submissions?

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 Local Government Cost Index (LGCI) is problematic as a reliable reflection of the costs faced by NSW local governments. Firstly, it contains too few items to accurately measure a council's usual goods and services. Secondly, the pricing data used in the LGCI is rearward facing and therefore does not consider future inflation which has caused a major issue with the rate peg in 2021/22. Additionally, the current LGCI includes cost indexes from different tiers of government but does not consider regional and environmental factors. Finally, the LGCI only looks at the average council's "basket of goods and services", this hinders Councils who operate outside of the 'average' services.

   Council is of the opinion that the best approach available is to remove the rate peg entirely and allow the individual council control of their rating income as is the case with service charges. This would allow council to engage with their communities in a more meaningful manner and provide the services required without limitation from a third-party governing body. Barring this, a minimum improvement would be for IPART to implement different cost indexes for council types and consider the location, size and population of the council. As well as implementing a methodology that considers pricing costs for the last 12 months up to the last financial quarter before setting 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 noted in question 1 consideration should be given to removing the rate peg. Otherwise, IPART should introduce different LGCI's based on council location, area size and population in order to account for cost differences faced by metropolitan, regional and rural councils. Per the United Services Unions (USU) review into the rate peg the LGCI should also be amended to reflect a three-year average of the goods and services and the weighting of those items, while also accounting for price increase for the last 12 months up to the financial quarter immediately prior to setting the rate peg.

3. What alternate data sources could be used to measure the changes in council costs?
   IPART should expand the LGCI to include the likes of actual wage increases for council employees, auditing costs, asset revaluation data, election costs and compliance costs at a minimum.

   IPART should also look at the disability factors already recognised and utilised in the Grants Commission Formulae for distribution of Financial Assistance Grants.

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 stated during the implementation of the population factor consideration should be given to including both projected and actual population statistics. For the same reason consideration is now being given to the lag in the cost index, only using historical population data does not allow Council's to be financed effectively when it is needed.

5. How can the rate peg methodology best reflect improvements in productivity and the efficient delivery of services by councils?
   Improvements in productivity and efficiency should not be considered in the methodology. If Councils are aware that improvement in efficiency is going to reduce their total income there is no incentive to improve. A Councils usual implementation would be to pursue increases in efficiency and productivity so that future costs are reduced and that income can then be put towards other projects and bettering the local community. If the methodology looks to punish improvements it would not achieve its purpose of providing the best services for the community.

6. What other external factors should the rate peg methodology make adjustments for? How should this be done?
   The main external factors requiring consideration is inflation and its impact on a rearward facing LGCI. IPART needs to implement a forward facing LGCI as has been previously stated in the above questions.

   Additionally, IPART should consider the environmental impacts local government experience and the effects it can have on local infrastructure. While funding is made available for natural disasters it is not always sufficient to meet the costs required to adequately repair the damage experienced.

7. Has the rate peg protected ratepayers from unnecessary rate increases?
   While it may be argued that the rate peg can protect ratepayers the issue with rate pegging will come to a head in the future. Councils can experience political pressure to not exceed IPART's rate peg by applying for a Special Rate Variation (SRV) when it is required. This results in councils becoming underfunded and unable to meet service level requirements, which can result in future SRV's being sought for significant amounts. For example, Balranald and Cootamundra-Gundagai have received SRV's for 94% and 53% in the past 5 years. It is argued that if councils had the autonomy to increase rates as required their ratepayers would not have experienced and suffered from such large SRV.

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

It is fair to say that the current rate peg system does not sufficiently cover council's costs solely based on the number of SRV's constantly being applied for. Aside from the above mentioned substantial SRV's IPART only needs to review the 2022/23 rate peg whereby they had to provide for an Additional Special Variation Program as the 0.7% was insufficient to meet service levels. 86 out of the total 128 NSW councils received the additional SRV in 2022/23.

9. How has the rate peg impacted the financial performance and sustainability of councils?
   As noted above the rate peg has impacted council's ability to provide and maintain the required service levels of their respective local government areas. The rate peg slowly wears down council reserves and results in action not being taken until the Council is on the verge of financial instability. Yes, IPART currently provides the options for SRV's to assist, but this type of financial sustainability is not effective.

10. In what ways could the rate peg methodology better reflect how councils differ from each other?
    Similarly, to the introduction of the population factor, IPART should also consider data surrounding location and size. These data points can have impacts on things such as tourism, infrastructure networks and expected service levels. A greater demand in tourism accounts for a higher burden on Council's assets above the regular level and leads to increased maintenance and higher standard service levels. A larger size/area impacts on the total length of assets which must be maintained and a larger population leads to higher usage and maintenance rates of assets.

    Consideration should be given to the impacts of significant increases over a number of years in Emergency Services Levy, cost shifting impacts of transferring Native Title responsibilities onto Councils, as well as the amount of unrateable land within an LGA.

    Consider the number of housing lots within an LGA in manufactured home estates that provide a level of affordable housing but are not rated the same as individual residential dwellings but place the same demands on Councils for infrastructure and services.

    Consider the long term and cumulative impacts of the erosion of Financial Assistance Grants in terms of percentage of total taxation revenue.

11. What are the benefits of introducing different cost indexes for different council types?
    This would allow for a more accurate assessment, and thereby a better cost reflection, between different council types.

12. Is volatility in the rate peg a problem? How could it be stabilised?
    After the 2021/22 rate peg, yes volatility is an issue as council's are informed to base projections on a 2-2.5% rate peg. Receiving a surprise 0.7% increase later into the year (due to first inclusion of the population growth factor) negatively impacted the proposed budget and long-term financial plan. As indicated within the "other adjustments" section of the rate peg, as demonstrated in figure 4.2 of the issue papers, IPART could set a minimum rate peg % and if the actual rate peg drops beneath this minimum, it could be slowly apportioned over the next several years to eliminate such extreme volatility.

13. Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs?
    Adjusting the rate peg to be more reflective of current costs should not mean the rate peg becomes any more volatile. As outlined above introducing a set minimum could assist with this volatility while still allowing for accurate cost indicators.

14. Are there benefits in setting a longer term rate peg, say over multiple years?
    No, Council's need certainty that the rate peg will be sufficient to meet the current market as it occurs and not subject to an insufficient rate peg for multiple years.

15. Should the rate peg be released later in the year if this reduced the lag?
    This would be dependent on what is considered "later in the year" as the closer you go to 30 June the more issues arise from the perspective of setting budgets and Long-Term Financial Plans.

16. How should we account for the change in efficient labour costs?
    As detailed in question 5 it is believed accounting for productivity and efficiency would be counterintuitive to the overall goal which is to provide ratepayers with the services at a fair and reasonable cost. Any area of improvements should not be a detriment to Council and should instead allow Council to focus on other services.

17. Should external costs be reflected in the rate peg methodology and if so, how?
    As provided in questions 3 and 6 costs cost such as projected inflation, compliance measures (ARIC committees, audits, asset revaluation) all need to be considered and reflected in the revised rate peg.

    Additionally, pension rebate entitlements not subject to the government refund should be considered for inclusion so Councils with older demographics are not being penalised or handicapped financially for having pensioners reside in the area.

18. Are Council-specific adjustments for external costs needed, and if so, how could this be achieved?
    Council specific costs would be welcomed as it would allow for a more accurate cost reflection in the Rate Peg. This could be achieved by conversations with councils and the use of their own data such as the costs listed in questions 17.

19. What types of Costs which are outside councils' control should be included in the rate peg methodology?
    Additional costs which should be considered and included are detailed in responses to previous questions.

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?
    A simple rate peg will not accurately reflect the costs experienced by Council's. IPART should be less concerned with simplicity and more concerned with ensuring local government bodies are being adequately financed by producing individual council rate pegs. The most convenient and simple method of which would be to hand control back to the local councils and remove the restrictive rate peg.