

Our ref: GC/vkm: F- 129951  
Your ref: -----



21 October 2022

Carmel Donnelly PSM  
Chair  
Independent Pricing and Regulatory Tribunal

E [ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au)

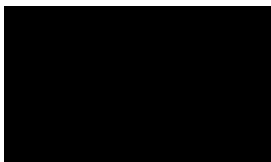
Dear Chair

### **Review of Rate Peg Methodology**

Please find enclosed this Councils submission into the review of the rate peg methodology plaguing local government in the state for almost half a century.

The main thrust of the submission supports the abolition of rate pegging entirely. I have no objection to the submission being made public and can be contacted on T [REDACTED]. Should you seek any further explanation of information or simply wish to discuss this extremely important issue

Yours sincerely



**Mr George Cowan**  
**General Manager**

Enc: Submission to IPART

## **Submission to IPART on the review of the rate pegging arrangements**

**Context:** The review of the methodology is being undertaken by IPART (interesting in itself) within the context of a situation where the current methodology has been discredited following the declaration of a 0.7% rate increase for 21/22, followed by a flood of SRV applications invited and approved outside the established processes. At what cost? The cost of the additional SRV round could have been mitigated by the Minister simply providing a 2.5% peg to override the IPART recommendation.

The cumulative impact of successive rate peg limits below the CPI is obvious to all when one looks at the financial position of LGAs in NSW. The industry is headed for a situation where the cumulative operational deficits are approaching half a billion dollars and sustainability indicators are weakening across the board.

Since its appointment, the NSW Audit Office has worked with local governments to improve the accuracy of asset accounting to the extent that asset values, condition ratings, life expectancies and depreciation figures can be relied upon to reflect the true picture confronting councils.

Integrated Planning and Reporting provisions in the Local Government Act and Regulation were introduced some 12 years ago and councils are now in their third iteration of Community Strategic Plans and associated documents. The engagement between councils and their communities is mature and effective and now forms the basis of local government activities. That process is mandatory (required by the State Government), but is yet to be recognised by IPART

I believe IPART should be providing the following recommendation to the NSW Government:

1. **Recommendation one:** Abolition of Rate Pegging – since the introduction of the Integrated Planning and Reporting requirements of the Act and Regulation, councils are attuned to the expectations of their communities in a way that was not even envisaged when rate pegging was first introduced last century. The continued existence of rate pegging reflects State political expediency rather than any semblance of an effective management process or tool. Councils should be allowed to raise the revenue they need in step with their communities and meet the residents' expectations without artificial barriers being imposed from above. This process is proven in relation to water, wastewater and waste management: why not general fund activities?

If that option was not available (under the TOR) or is so politically unpalatable...

2. **Recommendation Two:** Replace the current arrangements with a new methodology that ...

- Removes the backwards approach of setting future rate peg limits based on historical costs, and instead relies on a level of intelligent predictive analysis so that council's income has some hope of increasing in line with actual costs and the methodology is forward-looking rather than reactive. Any forward-thinking methodology should be influenced by including an examination of factors affecting costs across the industry in addition to inflationary estimates flowing from a simple index.
- Abandons the 'one size fits all' approach and recognises that whilst all councils are similar, all councils are different. Applying a flat percentage increase across all LGAs only serves to increase the differences between rating levels, particularly between rural, regional, fringe metro and metro councils and fails to recognise the differences between communities. Councils' costs inputs do not come in percentages, they come in dollars. It costs a similar amount and sometimes more for fuel, electricity, and wages in the rural areas as it does in the larger centres and in the city. The discussion paper itself identifies the existing differences in average rates across the LGAs and the use of a flat percentage only serves to exacerbate those differences.
- Considers the impact of State Government charges, cost shifting and regulation change on local government, including examples such as audit and ARIC costs, elections, and the Emergency Services levy. At the moment, State Government can and do make regulatory changes and introduce requirements that have financial ramifications for councils in the full knowledge that those costs cannot be recovered from the respective communities.
- Allows for the impacts of climate and weather changes and natural events and emergencies.
- Embodies the changing role of LGAs and the expectation of communities and the State agencies in terms of soft services such as economic development, housing, health, and welfare.
- Avoids the time-consuming and very costly process of seeking a special rate variation by establishing some simple eligibility criteria, for example: if the current general rate was lower than the average, the own source revenue was below the accepted threshold, or the operating ratio was negative. With the Audit Office responsible for local government audits, surely the legitimacy of those ratios would not be under question: every Council must produce them, so why not use them?

- Removes the current impotent provision allowing the Minister to override the IPART determination.
- Acknowledges that the State Government and its agencies expect LGAs to be financially sustainable, including the ability to fund the depreciation and renewal of assets. The Audit Office is driving the revision of asset accounting in councils: it is unreasonable to have one government agency acting in this way, having OLG judge councils on the results, whilst IPART ignores those expectations.