Executive Summary

[redacted] would like to thank IPART for the opportunity to comment on the Rate Peg methodology. Council's submission focuses on aligning the determination of rate indexation to service levels rather than a prescribed rate peg being determined a macro level. The Integrated Planning and Reporting framework has been mandated for over a decade and this reporting mechanism provides a solid platform for Council's to engage with the community in setting service levels and aligning resources to deliver these services. In seeking changes to how the rate peg is calculated and set, the conversation of the relevance of the rate peg in light of the Integrated Planning and Reporting framework should commence as an industry. Throughout this submission, the emphasis on abolishing the rate peg and replacing it with a more strategic approach in determining rates indexation at a local level (as opposed to current blanket approach) and aligning them to service levels agreed to by the community through the development of the annual Operational Plan process. As there will be additional scrutiny on the Integrated Planning and Reporting deliverables through the Audit, Risk and Improvement Committees, an opportunity exists to align Council's primary revenue source to strategic process that will be scrutinised through an audit and improvement lens. Whilst Wingecarribee Shire Council acknowledges there are political impediments in abolishing the rate peg, as an industry, the conversation about controlling the indexation on our Council's primary revenue source needs to commence.

[redacted] looks forward to engaging you in the workshops throughout November and December this year.

Response to questions presented in the IPART Issues Paper:

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

The Local Government Cost Index uses lag indicators to determine the rate peg which is then applied to Council's rates revenue. The extent to which the Local Government Cost Index reflects changes in costs and inflation is not reflect of how Council's operate, in particular the inability to capture the vast levels of services that varies from across the state which is driven by the needs of the community and Council's requirement to deliver on its statutory obligations. The issues with the current approach are:

- The retrospective nature of the rate peg and does not consider imminent pricing increases where Councils are exposed to fund current expenditure increases (such as fluctuation in electricity) while waiting wait almost two financial years until the impact of the pricing is factored into the rate peg based on the current methodology.
- The Local Government Cost Index is more a blanket approach that does not take into consideration service levels of individual Local Government areas and the diverse needs of some of the communities throughout the state.
- Specifically, the Employee Benefits indicators is aligned to the NSW Public Sector increases and not the Local Government Award. As Employee Benefits can represent up to 55% of the total operating costs of a Council, it would be common sense to align this specific indicator to the Local Government Award rather than the NSW Employee Benefits indicators.

A better approach in dealing with rates indexation would be abolishing the rate peg and replacing it with a process where Council's are required to disclose to the community, as a part of the draft Operational Plan, which services the rates increases are attributed to. This will allow the elected Council (or Administrator) to get a sense, from the community, if the rates increase is reflective of services level demands and if the community is willing to pay for these service levels. As a mitigating control, to ensure ratepayers are not disadvantaged, any rate peg that is more than 2% cumulative over a four year term of the Council (as a hypothetical indicator) above the September All Groups Sydney CPI must require IPART endorsement through a concise application process prior to submitting to the draft Operational Plan to Council for public exhibition. This process will ensure that rating indexation is aligned to service levels rather than inflation solely.

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 referenced in question 1, a better approach would be abolishing the rate peg and engaging with the community to determine service levels and the appropriate rate increase as a part of the draft Operational Plan process. An IPART endorsement process would be required if the rate peg is more than 2% cumulative over a four year term of the Council (as a hypothetical indicator) above the September All Groups Sydney CPI. In this instance, an application must be submitted and endorsed prior to the draft Operational Plan to Council for public exhibition. An alternate solution could be that the Operational Plan increases be reviewed by the Audit Office, to ensure the rates increases are attributed to services to ensure complete transparency, prior to the Operational Plan being presented to Council to be placed on public exhibition.

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

Councils have been required to developed Long Term Financial Plans (LTFP's) for over a decade and refined methods in presenting their respective plans. Each Council is unique in its community demands and service levels, and the information that underpins these plans should align to the Operational Plan. At a high level, these drivers are usually derived from:

- Salaries and Wages – The Local Government Award.
- Materials and Contractors – Based on large size contracts which have a material impact on budget movement (broken into smaller subsets such as technology, legal etc).
- Other Expenses – Generally aligned with CPI or other indexes aligned to the RBA.
- Capital Expenses - Generally aligned with CPI or other indexes aligned to the RBA.

Councils should have sufficient information within its LTFP and contract register to establish a cost indexes and use the methodology outlined in question 1 and 2 to apply a rate increase and align it to the services levels expected by the community.

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?

Council welcomed the additional rates revenue generated from the population growth factor. The additional rates revenue generated by population growth factor has been used to partially fund the expanded services levels (attributed to growth) but is still inadequate to fund the growing demands on Council services and expanding asset base. The methodology goes someway to funding expanded services levels and asset bases, but as infrastructure depreciates, and higher levels of intervention maintenance is required on aged infrastructure, Council's will eventually experience funding shortfalls to maintain these assets in the medium and longer term. This is also compounded by the lag effect receiving the full benefit of the population growth (outlined in our response in question 1), where the growth factors aren't fully realised until two years after the growth has occurred.

Further improvements to consider could be related to:

- Population growth based on the number of expected occupants rather than number of supplementary values.
- Reduce the timing difference between when subdivisions (supplementary values) occur, and population increases.

Other alternate options could see a change to the valuation where the Capital Improved Values (CIV) replaces the existing valuation system to reflect the uplift and gentrification of an area.

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

Each council has different service levels and community demands on services and infrastructure established by Council through the community feedback. The principle of incorporating a productivity factor into Council's rate peg is counter intuitive as rates revenue is re-invested into the community. Penalising councils for efficiency gains only disadvantages communities in the services they are receiving.

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

As referenced in our response to question 1 and 2, a better approach would be abolishing the rate peg and setting appropriate rate increase as a part of the draft Operational Plan process. This proposed process is more agile and allows Council's to factor in the impact of these external factors specific to their Council area as opposed to a blanket approach. Again, it is suggested that an IPART endorsement process should be triggered if the rate peg that is more than 2% cumulative over a four year term of the Council (as a hypothetical

benchmark) above the September All Groups Sydney CPI. The September All Groups Sydney CPI will have factored in external market forces and allowed to be considered as a part of determining the rates indexation when costing services and infrastructure costs.
If the rate peg methodology were continuing, the rate peg should make allowances for external factors such as:

- Delays with importing foreign sourced goods;
- Cost indexes relating to government rather than commercial or retail indexes
- Impact of natural disasters and inclement weather events
- Ensuring that rate pegging indexes align to Government based indexes such as the Emergency Services Levy.
- Cost Shifting from Federal and State Government to Local Government
- Resilience.

These external factors should form a part of the calculation and could be reversed in future rate peg calculations if the no longer impact the price of goods and services.

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

Council does not believe in this philosophy of unnecessary rate increases as Council aligns it rates revenue to services delivered. The philosophy of attempting to achieve low rates disadvantages the community and results in reduced service levels and intergenerational deterioration of assets. In preparing its Operational Plan, Wingecarribee Shire Council aligns its limited resources to provide the best possible services and manage its assets in an effective manner to ensure value for money is delivered to the community. The development of the Operational Plan is constructed within the Integrated Planning and Reporting Framework that requires extensive community consultation that allows for review by the Council through numerous consultation steps.

It is important to note that the Integrate Planning and Reporting framework was not in place when rate pegging/capping was introduced in 1977 yet the NSW Government has made no concessions to allow the ratepayers of NSW more choices in how the community can be better funded.

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

No. Therefore councils are still applying for Special Rate Variations.

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

It is evident that with a number of Council's continuing to apply for Special Rate Variations, that the financial performance and sustainability of Council's has been negatively impacted by the rate peg.

Throughout this submission, reference to removing the rate peg and aligning rate increases to the Operational Plan process (as a part of the Integrated Planning and Reporting Framework) is being proposed. The suggested process will ensure adequate indexation controls are in place to protect ratepayers from any unjustified rate increases. This will ensure that rate increases align to service levels (and inflation) rather than the existing blanket approach where Council is expected to squeeze services into a rate peg which ultimately leads to reduced service levels (both community services and asset related services) to balance the budget.

The proposed service levels will also allow Council's to adequately fund maintenance and depreciation to ensure future generations are not continually playing catch up with asset renewals and infrastructure.

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

As referenced in our response to question 1 and 2, a better approach would be abolishing the rate peg and setting appropriate rate increase as a part of the draft Operational Plan process. This proposed process is more agile and allows Council's to factor in the impact of these external factors specific to their Council area as opposed to a blanket approach. Again, it is suggested that an IPART endorsement process should be triggered if the rate peg that is more than 2% cumulative over a four year term of the Council (as a hypothetical benchmark) above the September All Groups Sydney CPI. The September All Groups Sydney CPI will have factored in external market forces and allowed to be considered as a part of determining the rates indexation when costing services and infrastructure costs.
An alternate solution could be that the Operational Plan increases be reviewed by the Audit Office, to ensure the rates increases are attributed to services to ensure complete transparency.

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

The benefits of introducing different cost indexes for different Council types would be a matter of how they are calculated. If the Council indexes are not developed on an evidence based methodology for each Council, having different cost indexes would be irrelevant and the blanket approach would be just as effective. Cost indexes should be created on a Council by Council basis and should align with actual costs Councils are experiencing. These drivers include:

- Salaries and Wages – The Local Government Award.
- Materials and Contractors – Based on large size contracts which have a material impact on budget movement (broken into smaller subsets such as technology, legal etc.).
- Other Expenses – Generally aligned with CPI or other indexes aligned to the RBA.
- Capital Expenses - Generally aligned with CPI or other indexes aligned to the RBA.

Councils should have sufficient information within its LTFP and contract register to establish a budget and use the methodology outlined in question 1 and 2 to apply a rate increase and align it to community demand.

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

Yes. The calculation and fluctuation the rate peg determined for the 2022/23 financial year of 0.7% demonstrates that the rate peg methodology is flawed. By abolishing the rate peg and aligning rate increases to service levels would be a more appropriate way to stabiles rates growth and justify the growth through the Operational Plan process (refer Question 1 and 2).

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

Council prefers better alignment as it can align rates revenue to services provided through the Operational Plan process. If the rate peg is abolished and aligned to Operational Plan service levels, this would provide both certainty and better alignment.

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

Setting a longer term rate peg would work if Council's had the ability to determine their own rate indexation and align them to their service offerings. This would mean that the long term financial plan could see inflation and service based movements rather than deteriorating service levels and asset conditions over the life of the LTFP through a rate peg.

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

No. Councils need to prepare for budgets in October/November to meet exhibition timelines of the Integrated Planning and Reporting framework documents. The rate peg should be released after the September ABS inflation figures are released to ensure they are incorporated into the rate peg.

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

We believe accounting for actual labour costs should be aligned with changes in the NSW Local Government (State) Award to be more reflective of council's costs. These costs should include the cost of attracting qualified staff to ensure Councils can operate effectively.

Council believes factoring in an efficiency gain into the rate peg is counter intuitive as any efficiency gains will re-invested into other community priorities.

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

Yes. External costs that have an economic impact at a state, national or international level should be included in the rate peg methodology. These may different impacts on Council and should be considered based on location and demographic.

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

As referenced in question 1 and 2, a better approach would be abolishing the rate peg and engaging with the community to determine service levels and the appropriate rate increase as a part of the draft Operational Plan process. An IPART endorsement process should be triggered if the rate peg that is more than 2% cumulative over a four year term of the Council above the September All Groups Sydney CPI. In this instance, an application must be submitted and endorsed prior to the draft Operational Plan to Council for public exhibition. An alternate solution could be that the Operational Plan increases be reviewed by the Audit Office, to ensure the rates increases are attributed to services to ensure complete transparency.

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

As referenced in our response to question 1 and 2, a better approach would be abolishing the rate peg and setting appropriate rate increase as a part of the draft Operational Plan process. This proposed process is more agile and allows Council's to factor in the impact of these external factors specific to their Council area as opposed to a blanket approach. Again, it is suggested that an IPART endorsement process should be triggered if the rate peg that is more than 2% cumulative over a four year term of the Council (as a hypothetical benchmark) above the September All Groups Sydney CPI. The September All Groups Sydney CPI will have factored in external market forces and allowed to be considered as a part of determining the rates indexation when costing services and infrastructure costs.

If the rate peg methodology were continuing, the rate peg should make allowances for external factors such as:

- Delays with importing foreign sourced goods;
- Cost indexes relating to government rather than commercial or retail indexes
- Impact of natural disasters and inclement weather events
- Ensuring that rate pegging indexes align to Government based indexes such as the Emergency Services Levy.
- Cost Shifting from Federal and State Government to Local Government
- Resilience.

These external factors should form a part of the calculation and could be reversed in future rate peg calculations if the no longer impact the price of goods and services.

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 referenced in question 1 and 2, a better approach would be abolishing the rate peg and engaging with the community to determine service levels and the appropriate rate increase as a part of the draft Operational Plan process. An IPART endorsement process should be triggered if the rate peg that is more than 2% cumulative over a four year term of the Council above the September All Groups Sydney CPI. In this instance, an application must be submitted and endorsed prior to the draft Operational Plan to Council for public exhibition. An alternate solution could be that the Operational Plan increases be reviewed by the Audit Office, to ensure the rates increases are attributed to services to ensure complete transparency.