RAMJO SUBMISSION TO IPART REVIEW OF RATE PEG METHODOLOGY

Overarching comments

The underlying assumptions on the Local Government Cost Index ("LGCI") are extremely broad and use of 'an average council' does not take into account the population disbursement throughout NSW. Regional and rural areas have higher costs as a result of distance and transport costs, and the LGCI is skewed towards metropolitan areas.

We'd like to bring to IPART's attention that applying for special rate variations is an onerous and time consuming task, especially for smaller regional councils with low staff capacity. Additionally, being flagged as being subject to a special rate variation can cause issues with local communities disproportionate to the impact of the underlying rate rise.

The past few years have been extremely taxing for councils, through drought, bushfires and COVID, financial reserves have already been drawn on.

Questions

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

RAMJO is concerned with the calculation methods used in the LGCI, especially around the time lag with the inflation indicators used. The cost components of the LGCI are also explicitly weighted with Sydney centric inflators, which we'd like IPART to review.

RAMJO would support a split by rate peg into geographic or size based categories, reflecting the additional cost pressures noted by geographically disbursed regions supporting large road networks. The 'average' council means costs skew metropolitan.

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

RAMJO would support a forward looking forecast of costs and inflation, rather than the current mismatch of when councils incur inflation based cost increases and when they can address this through rates.

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

Previous IPART explanatory documents have asserted that using the public sector increase in wages rather than the Local Government Award increase has an immaterial affect, but this does not match the actual impact that it has on councils. As we explained in our previous submissions to IPART on the rate peg, in the 2021-2022 year Carrathool Shire will have a rates increase under the peg of $25k, and a wage increase of $120k. For Hay Shire Council there will be an $18k rates increase, a wage increase of $94k. This means services must be cut to maintain current staffing levels. At the bare minimum the rate peg should align with mandated staff cost increases, and be genuinely linked to local government rates.

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?

RAMJO has concerns around the accuracy of the population data used, as growth areas such as Federation Council LGA have population growth materially greater than is being allocated to them through the population growth index. We would urge IPART to review the data sources used to calculate the population factor, or allow councils to have input into this factor.

The growth index also does not consider any additional services or facilities that may be required to support a stable population whose demographics are changing: for example, many communities across NSW have ageing populations that may require additional services or support from councils.

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

Given RAMJO does not believe that the rate peg covers existing council cost increases, we would urge the productivity factor to be set aside, as councils are using their own productivity improvements to cover current price pressures, and should not be further penalized. Councils are already efficient organisations, especially in rural areas.

We echo member council Albury City's comments that councils are best placed to understand the significant financial challenges experienced by the sector and are judged on how they use the scarce resources that they have available by the ratepayer.

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

We would urge IPART to step away from blunt step changes for specific issues such as elections where this is subsequently followed by negative adjustments to 'reset'. There have been multiple submissions made by the JO network showing that adjustments for issues like election costs don't fully cover these costs in prior rate pegs for many councils, so a negative adjustment lands hard.

We would like IPART to consider of the realities many councils face in an environment of climate change impacts and natural disaster events.

Lastly, ongoing cost shifting from state government has been unaddressed.

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

RAMJO believes the implementation of a rate peg has curtailed rate increases, but is concerned about the financial sustainability of some of our member councils as a result, and believes the rate peg system to be responsible for this.

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

No, RAMJO has concerns about the long term sustainability of our member councils. The pressures on ageing infrastructure continue to grow, for example. IPART's exposure document itself makes reference to the proportion of councils' income that is grants, and notes these are predominantly capital grants, so operational / service based revenue sources have been curtailed.

The rate peg may have delivered sufficient income under an old local government model of "roads, rates and rubbish", but is no longer reflective of the diverse range of services councils provide. Councils now provide people based services, moving from the traditional property based services.

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

The rate peg has directly impacted councils' ability to raise revenue to meet the services their communities expect. As we have mentioned previously, special rate variations are time consuming for councils to apply for, and can be politically fraught disproportionate to the rate increase achieved.

10. In what ways could the rate peg methodology better reflect how councils differ from each other?
Rural and regional councils have different cost and staffing pressures than major centres and cities, due to transport cost pressures, different geographical contexts, and differing socioeconomic makeup.
Councils understand their local communities and context, and are best placed to consider rate increases and manage demands for council assets and services.

11. What are the benefits of introducing different cost indexes for different council types?
As previously noted, regional and rural councils have different demands on their resources. We believe between data collection by various state agencies, enough information exists to be able to offer different cost indexes at a more granular level. At a bare minimum, regional and rural locations should have a different index than Sydney LGAs.

12. Is volatility in the rate peg a problem? How could it be stabilised?
Volatility in the rate peg is less of a problem than the timing mismatch between inflationary pressure and the lag with the rate peg.

13. Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs?
RAMJO's preference would be for the rate peg to support the long-term financial sustainability of councils, and many RAMJO member councils would prefer the rate peg was abolished altogether.

14. Are there benefits in setting a longer-term rate peg, say over multiple years?
This would provide certainty to councils for long term planning, but RAMJO believes that in periods of high inflation a long term peg would affect the financial sustainability of member councils. A long term peg would need to be coupled with a simplified rate variation process, or a built in mechanism adjusting the peg without need for a special rate variation where inflation rises outpace the peg.

15. Should the rate peg be released later in the year if this reduced the lag?
RAMJO does not believe the issue is the timing of the rate peg release, rather the historical data used to calculate the peg.

16. How should we account for the change in inefficient labour costs?
RAMJO would like to point out that many if not all regional and rural areas have existing issues with attracting and retaining staff, resulting in labour cost impacts, as well as cost pressures related to having to utilise consultants and contractors to carry out key tasks. Also, councils are already working to utilise any productivity gains to counter the fact the rate peg mostly does not cover existing cost increases. Additionally, the super guarantee has been increasing and will only be addressed in 2023-2024's rate peg increase.

17. Should external costs be reflected in the rate peg methodology and if so, how?
RAMJO echoes member council Albury City's comments that there are some external costs outside of the control of councils such as emergency services levy increases by the NSW Government taken into account by IPART.
However we would like to see cost shifting from state government be considered by IPART, as this increases the financial burden on councils and the community.

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

As noted earlier, RAMJO would like to see a simplified special rate variation application process, as the existing process is a burdensome, resource-intensive process on councils, making it difficult for smaller and under resourced councils to be able to do this.

RAMJO would like to see regional and rural adjustments made to the rate peg.

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

Where councils can't control price / cost rises, there should be consideration given, eg state government cost shifting. Additionally, where regulatory changes add additional ongoing costs to councils, such as audit and ARIC costs.

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?

RAMJO would like to see broader location based categories moving away from Sydney centric price indicators, and a forward looking inflation calculation.

We'd also recommend a broader look at the financial sustainability of councils, ensuring that they are able to serve their communities into the future.

Lastly, RAMJO would like to see a renewed consideration of abandoning the rate peg altogether.

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