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Your submission for this review:
The current rate peg methodology is a one size fits all approach, however, it is evident that not all Councils fit the one mould. The rise in the number of Special Rate Variation (SRV) applications submitted on the grounds of declining financial sustainability highlights the need for reform in this area. This risk of not taking action is that the Local Government sector becomes financially unsustainable. Our Council is of the view that the rate peg should be removed, and each Council be given the power to set its individual rate peg based on the needs and wants of the community. Further, our Council supports IPARTs position (as disclosed in the 2016 IPART Review of Local Government Rating System: Final Report) that rates should be levied against the capital improved value of a property, and not the unimproved value. This would provide a more equitable system for spreading Councils rates across a Councils ratepayers. Lastly, our submission highlights that if the rate peg is not to be removed, there are a number of inputs which need to be revised to ensure the rate peg accurately reflects the differences between each Council, and further considered the external costs Council are increasing incurring for which there is no means over recovering.

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

The 26 components (including associated inflator and weighting) used to determine the movement in Local Government Cost Index are included in table A1 of the "Review of rate peg methodology" information paper.

Whilst understanding the need to maintain a simplified rating methodology, a "one size fits all" approach to calculating the rate peg does not take into account the disparity in expenditure across all Councils, particularly those that differ greatly due to geographic and demographic factors.

There could be consideration of further components being included in the basket of goods used to calculate the index. Further, the index could be separately calculated for councils in metropolitan, regional and rural locations.

Another consideration is the time lag in the calculation, and the mismatch this creates between actual costs being incurred and increases in the rate peg. Historical cost increases should not be used. Instead, forward looking ABS data should be used to determine the increase in councils' costs.

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

Councils' costs vary significantly across different councils. The disparity based on geographical location could be addressed by considering different rate pegs for metropolitan, regional and rural councils. Further, forward looking indices should be used as discussed in Question 1.

A rate peg range could also be considered. This would provide councils with some flexibility to select a rate peg within the range that is appropriate for their specific circumstances and local inflationary factors. A range would also allow councils further flexibility to ensure the rate peg is set at an appropriate level that allows Councils to deliver on their Community Strategic Plans.

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

A number of components used in the Local Government Cost Index could be assessed using actual data or more appropriate indices.

For example, employee benefits and on-costs which have a 2021 weighting of 38.6%, is valued using a Public Sector Wage Price Index. A more appropriate index would be the Local Government (State) Award, or for those councils under enterprise bargaining agreements the actual increase embedded in those agreements could be used.

Further, the time lag in calculating the movement in councils' costs needs to be addressed to alleviate the timing mismatch between actual cost increases and the rate peg. This would be addressed through the use of forward looking data, instead of measuring historical changes.

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?

It is too early to comment on how the productivity factor is working as this is the first year it has applied.

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

With limited means to raise general revenue outside of the rating system, councils are actively pursuing ways to work more efficiently so their limited resources can provide the maximum benefit for its community.

However, the ability to identify and implement such initiatives comes at a cost. In recent times councils have had to divert costs away from these initiatives in order to fund new costs which are outside of councils control. For example, costs associated with the COVID 19 pandemic, the ongoing wet weather events, and the competitive labour market.

Applying a blanket productivity factor to all councils assumes that all councils have the same resources to invest in efficiency initiatives, which is not correct. This could lead to poorly funded councils falling even further behind if their rate peg is reduced by a generic productivity factor.

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

The types of costs that could be considered in determining the rate peg include:

- Costs associated with COVID 19 – councils incurred additional costs to comply with COVID 19 restrictions, as well as loss of revenue from closure of facilities as a result of the pandemic. These costs have not been recovered through the rate peg or through any source of government funding. As restrictions have eased, so too have the ongoing costs of COVID-19, however councils have been significantly impacted in both the 2021 and 2022 financial years.
- Significant increases in asset values – the Audit Office have required councils to revalue all asset classes as at 30 June 2022, resulting in significant increases to asset values. These increases in turn result in significant ongoing depreciation charges and increases to the required expenditure on infrastructure renewal, placing pressure on councils to remain financially sustainable.
- Environmental initiatives – the shift towards net zero is coming at a considerable expense to councils. Inclusion of an environmental levy as part of the calculation could be considered.
- Ongoing wet weather events - these are increasing the deterioration of councils assets, leading to an increase in the required expenditure on asset maintenance/renewal and mowing.

- Competitive labour market – salary and wages paid in the local government industry are below those paid in the private sector. This makes it difficult to attract and retain quality staff.
- Ongoing inflationary pressure and the increasing costs of basic utilities.

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

The rate peg has protected ratepayers to the extent that it provides a maximum ceiling. However, as can be seen through the approved SRVs, which are publicly available on IPART's website, over the past 5 years numerous Councils have applied for, and had approved, SRVs that are well in excess of a 10% increase. Some closer to 30%-40%.

The SRV process is both costly and time consuming. Council looking for a minor variation to the rate peg are unlikely to have the resources to consider an SRV application as the cost outweighs the benefit. Instead it appears councils are waiting and building up a need over a number of years then applying for larger SRVs once their financial sustainability has significantly deteriorated.

Large SRVs do not protect the ratepayers from rates shock. IPART could consider simplifying the process so that if a council requires an SRV it could apply for smaller, more regular increases which could help manage the rate shock for ratepayers, or alternatively, remove the rate peg all together.

The removal of the rate peg will allow Councils to better plan. Using the Long Term Financial Plan Councils can propose what future rate increases will be in the short and medium term. These future rate increases would be based on the expenditure included in the Long Term Financial Plan, with this expenditure being required to meet the objectives of Councils Community Strategic Plan and Delivery Program.

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

As noted in question 7, the majority of SRV applications are requesting to increase the rate peg on the grounds of financial sustainability. This indicates that those councils do not have the appropriate income to deliver services, and vital infrastructure, to their communities. As the rate peg is a main source of income for councils, this indicates it is not providing sufficient income across all councils.

Council proposes the removal of the rate peg entirely.

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

A review of the SRV applications on IPARTs website indicates that the majority of applications over the past 5 years have been on the grounds of financial sustainability. The number, and type of, applications indicate that the rate peg has negatively impacted councils' financial sustainability.

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

As noted in the Information Paper, all councils differ based on geography and demographics. These differences mean the costs incurred by each council can vary widely. It is unlikely that a "one size fits all" rate peg will be able to provide individual councils with sufficient resources to deliver the services it needs.

The consideration of setting a different rate peg for metropolitan, regional and rural councils is an appropriate consideration and will aid in providing a more individualised rate peg for each category.

Further, as noted in question 2, a rate peg range could be considered allowing council some flexibility in selecting an appropriate peg that meets the councils specific needs.

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

As referred to in question 10, the expenses and revenues vary across councils based on a number of factors, including geography.

The consideration of setting a different rate peg for metropolitan, regional and rural Councils is an appropriate consideration and will aid in providing a more individualised rate peg for each category.

Further, as noted in question 2 a rate peg range could be considered allowing Council some flexibility in selecting an appropriate peg that meets the Councils specific needs.

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

Volatility is a problem when there are significant movements in the inputs to the calculation, and these movements are:

1) unfavourable for councils; and
2) not in line with current price indexes

The key to reducing this volatility is using relevant data. Historical cost increases should not be used. Instead, forward looking ABS data should be used to determine the increase in councils' costs.

Further matters for consideration include the timing of the rate peg announcement as noted below in question 15, as well as the time lag in the data used to calculate the rate peg as detailed in question 2.

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

Better alignment with the actual change in councils' costs is of greater issue than having certainty around future rate pegs.

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

The rate peg should continue to be calculated annually.

A longer term rate peg will not address the inaccuracies in the rate peg methodology and its ability to fairly represent the actual cost increases to councils.

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

To combat the risk associated with a high inflationary environment, a draft rate peg should be released by December each year to assist councils in preparing their annual budgets. A final rate peg would then be released before final budgets are adopted in June each year.

To protect councils from any unforeseen decrease in the draft rate peg, there should be a commitment that the final rate peg will not drop below the draft rate peg released in December.

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

The application of a state-wide public sector index is not appropriate when capturing the increase in labour costs at a local government level.

One option is for the Local Government (State) Award to be applied when looking at employee costs in the local government Sector. Alternatively, increases in labour costs could be taken as the average of the private sector and the public sector Australian Wage Price Index movements.

Further consideration needs to be made for costs associated with a competitive labour market. Councils are struggling to attract and retain quality staff resulting in a decrease in service levels, and/or, an inability to deliver required capital works. This is particularly concerning in LGAs experiencing population growth where the delivery of new infrastructure is vital.

The Local Government (State) Award is unable to compete with wages offered in the private sector, forcing councils to look for ways to offer additional financial incentives above and beyond the Award. These additional costs need to be captured.

A one off "other adjustment" could be factored into the rate peg calculation to compensate for the significant rise in employee costs resulting from competitive labour forces.

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

All costs should be considered as part of the rate peg methodology, including external costs.

These costs could be included as an “other adjustment” in the rate peg calculation, or could be built into the Local Government Cost Index, if they consistently apply to the majority of councils.

Further, as noted in question 2, a rate peg range could be considered allowing Council some flexibility in selecting an appropriate peg that meets the councils specific external costs.

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

As proposed at question 17, council specific adjustment for external costs should be considered.

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

Refer to question 6.

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?

The rate peg methodology is already simplified, and potentially oversimplified. The risks associated with an oversimplified system is that it no longer provides a fair and equitable system for all councils based on their individual circumstances.

A more appropriate course of action would be to consider how the current regime can be improved to more accurately reflect the costs associated with councils.