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Date of submission: Tuesday, 1 November 2022

Your submission for this review:
Upper Hunter Shire Council (UHSC) welcomes the opportunity to make a submission on the IPART Issues Paper on rate capping. In summary, Council believes that the one aspect of the Issues Paper that has not been adequately addressed is the abolishment of rate capping in NSW. In this respect, Council is fully supportive of Professor Dollery in his review of the Issues Paper and his recommendation 1: A first best approach to abolish rate capping and grant local councils the freedom to strike their own rates and be held accountable by their own local residents. In regard to the 20 questions posed in the Issues Paper the questions and Councils responses are provided in the attached submission.

Submission to

IPART, LGNSW and OLG on the

IPART Issues Paper

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In summary, Council believes that the one aspect of the Issues Paper that has not been adequately addressed is the abolishment of rate capping in NSW. In this respect, Council is fully supportive of Professor Dollery in his review of the Issues Paper and his recommendation 1: A 'first – best' approach to abolish rate capping and grant local councils the freedom to strike their own rates and be held accountable by their own local residents.

In regard to the 20 questions posed in the Issues Paper the questions and Council's responses are shown below.

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

The use of an average index is too blunt of a tool when considering councils of different size, regions and community make up. The weightings used by IPART, for example, do not reflect the weightings of the Upper Hunter Shire and as such the index is significantly lower than actual costs. In addition, smaller councils are often operating under a number of different awards especially when those councils provide services such as child care and aged care and these awards and staff payments cannot be averaged across a local government award.

Page 7 (fig 1) of the IPART Issues Paper shows the weighting for each however when compared to UHSC actuals it is apparent how far these vary.

IPART Weighting		UHSC Actual
38.6%	Labour	29.9%
26.9%	Road and bridge construction	19.8%
6.2%	Business services, including administrative services	9.0%
4.9%	Non-residential building construction	1.2%
3.0%	Plant and equipment – machinery	1.3%
2.3%	Utilities (electricity, gas, and water)	1.4%
2.1%	Operating contracts	3.4%
1.5%	Emergency services levy	1.0%
1.2%	Insurance	1.5%

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

Professor Dollery provides strong arguments for more accurate rate capping based on better indices and geographical and regional influences. Council is supportive of Professor Dollery's position.

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

Council's biggest increases in cost has been labour, materials and fuel. Relying on long term (2 years in some instances) of data is not adequate when there are large spikes in prices

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?

The report (pg 8) states "When the population a council serves grows, the costs of delivering local government services in the council's area also grow." This is an over simplistic statement and fails to recognise that the cost does not increase proportionally. In fact the reason for amalgamation of so many local government areas was to provide a more efficient mechanism so that larger populations could be serviced with less staff in a more efficient way. There are two flaws with the present population growth mechanism:

(i) Councils that do have growth are achieving this primarily through higher land density development so the assets provided by the council are not increasing by the same rate of growth. Some assets may be utilised at a higher rate such as parks and community halls and where new assets are required these will be funded through developer contributions. Where existing assets are impacted through increased use, such as roads, then the already increased rate revenue from the growth in rateable properties should address this. There is in fact a double dip occurring where councils are getting increased rateable properties <u>plus</u> an increase in the amount levied on each property.

(ii) There is an incorrect statement in the Issues Paper that as councils grow they provide more services. This is incorrect and in many smaller councils (especially in rural and regional areas) the council provides services far in excess of larger councils due to the fact there are no other state or private providers to do so and the size of the council area precludes a commercial provider undertaking these services. In the case of UHSC, because of our low population, we provide aged care services, child care services, subsidised rental to medical practitioners, all of which wouldn't be provided if we had sufficient growth to attract private investors to run these services. As such the logic that a population growth equates to Council providing additional services is incorrect and serves to actually disadvantage smaller councils with low growth who provide a vast array of services to its community until such time as population growth is sufficient to attract commercial providers.

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

The measurement of efficiency in local government has still not been adequately defined. As seen in the Fit for the Future process, relying on 10 KPIs to measure a council's performance fails to take into consideration many factors including rateable area (if a council has 50% national park and unrateable land how can it be compared to another council with only 10% unrateable land), length of roads, weather conditions, heavy vehicle routes, distance from major centres. There is no one size fits all which is why trying to develop a measure for 128 vastly different LGAs is flawed. Instead, the abolition of the rate peg and providing each council with the mechanism to determine their own within their own political space is the only solution.

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

As pointed out able councils provide a vast array of services not included in the LGCI and a more targeted actual cost of service provision should be undertaken.

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

No. The rate peg has stifled councils from providing the appropriate services and service levels to our community. It has resulted in lower service levels only. The argument that removing rate pegging will result in councils going crazy with rate increases is ludicrous. No elected member of a council will increase rates without a good cause and some may actually choose to not increase as much as they no longer have the protection of "well we're just implementing what IPART recommended" and will have to justify their decision making. Professor Dollery points out many examples across Australia where rate pegging is not used and the councils are providing value for money efficient services to their communities.

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

No. Services are cut each and every year to be able to provide services within our financial means.

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

The financial performance would appear (by looking at the KPIs) to be maintained however the financial KPIs don't measure the real service delivery to the community.

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

The methodology of additional incremented level of rate peg percentage for growing population areas has the effect, in Council's opinion, of a methodology that is detrimental to the smaller rural and regional councils. This opinion is based on the fact that the level of rate peg approved is normally below that of the current consumer price index (CPI), meaning Council's ability to maintain the level of service for the community declines due to reduced dollars to spend.

It is noted that with smaller rural communities, rating revenue is primarily the main form of constant revenue stream that Council can generate, which is obviously outside the delivery of operational and capital grant funding that is not guaranteed. Limiting the level of rate peg percentage to a minimal base rate, like the 0.70% initially provided for the 2022/2023 year, places these councils into total despair removing the council's ability to service the community of basic requirements.

In addition, with a lot of smaller rural councils, similar to that of the Upper Hunter Shire, the vast rural unsealed and sealed road network places strains on the Council financially and thereby limiting the level of rate peg percentage reduces Council's ability to maintain and service these roads to the level of satisfaction required by the farming ratepayers. Therefore, when it is recommended that when determining the methodology behind the rate peg consideration of the Council's geographical footprint and road network may be prudent.

It can be said that with a growing region councils do benefit from additional revenue streams including s94 and s64 development contributions to increase infrastructure amenities for the Community.

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

Unless an index can take into account all the variables as highlighted in point 5 above, then there is no benefit in introducing more. As pointed out above you have 128 different councils and no index will be representative of them all, or even representative of different types (unless you are prepared to have 128 different types of course).

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

Volatility is not a problem provided it follows the true costs. When costs of fuel, wages and materials are going up by 5% or more and IPART makes a determination of a rate peg of 0.7% then that volatility against actual costs is the biggest concern for councils as the rate peg has no real world relativity to the costs being faced by the council.

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

Certainty may assist but certainty of a low rate peg (or an incorrect rate peg amount) won't provide much long term sustainability to a council if it has to wait several years to get it adjusted.

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

See point 13.

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

The release date of the rate peg information, as it currently stands in December preceding the next financial year, meets Council's requirements for preparation of the forward year's budget.

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

The demonstration of an efficient labour force and costs associated with this should not have an influence on the rate peg increments as this efficiency should remain with Council to achieve increased level of services for the Community.

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

All costs should be accounted for in the rate peg. There is no known logic for removing any costs.

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

Absolutely yes and the only way to do council specific adjustments is to allow each council to determine these adjustments themselves and take ownership of them. No two councils are the same and trying to place an artificial index based on average costs across 128 councils is in itself flawed. If council specific adjustments are to be made by IPART how would IPART have the resources to control and measure this? It is inefficient to think IPART could do this better than the council itself.

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

All costs should be included in the rate peg. To not include some costs will automatically result in councils having insufficient funds to operate.

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 simplest, most cost efficient mechanism is to abolish the rate peg and allow councils to determine their own rates.