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2022-23 Rate Peg Methodology Review
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, SYDNEY NSW 1240

Thank you for the opportunity to provide a submission on the review of Rate Peg Methodology Issues Paper, September 2022.

General comment.

Local Government is the only level of government in Australia where the ability to collect general revenue is constrained by an external body, that is not accountable to the voters. This is an absurd situation brought about by State politicians being concerned that local government rates would increase beyond the means of residents to pay while at the same time cost shifting State responsibilities to local government. Local government is the level of government that is closest to the voters. Local government must therefore be more responsive to voters needs than the other more remote levels of Government at State and Commonwealth. These constraints on revenue generation make it impractical for Local Government to react appropriately in short time frame to local needs: For example, the relatively recent floods, fires and drought.

Rate peg also fails to take into account the increased expectations of our community in terms of service delivery. As standards of living increase our community expects better services. In Rural areas, roads originally built for horses, drays and wagons are now carrying B-doubles. Whilst this 150 year jump is an extreme example, the unstoppable march of technology and consequent expectation needs to be accommodated.

In addition to these failures, the basic premise behind the implementation of the rate peg is seriously flawed. That is, that all councils were adequately and equitably funded prior to the implementation of rate peg. Unfortunately, the standard percentage increase across all councils has exacerbated the differences that existed prior to the implementation of rate peg.

In the long term, the net result of rate pegging has been the introduction of a major cost to councils to justify a periodic major rate increase, often tied to retrospective failures in service delivery, as opposed to small incremental increases in rates to meet community requirements, tempered by the need for elected representatives to meet constituent expectations.

Whilst respecting the benefits of having an external body determine the maximum rate increases allowed, we believe the rating system would be more equitable, flexible and responsive to our communities needs without IPART's involvement.

Specific comments on questions in the Issues Paper

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

   The Local Government Cost Index operates with a two-year lag. In times of low inflation this is not a major concern. However, as inflation increases this will considerably increase the burden on local government. The cost index could be improved by the use of known factors such as award increases, and the use of predicted increases projecting forward from current knowns such as increases in insurance costs, building and construction costs, energy (fuel, electricity, gas) costs. The projections could be corrected in the following years assessment, if necessary.

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

   Some costs to councils, such as employee benefits and on costs, and costs directly applied by the State Government are known; other cost increases can be predicted based on ABS data. Councils are not immune to cost increases across Australia. ABS reports changes quarterly in most commodities used by councils. It would be preferable to work on projections but even if we worked on the last years increases there would be one-year rather than a two-year lag.

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

   ABS data, including data to come from ABS- Construction Cost Index. This is particularly significant for rural councils as it better reflects our cost increases as against CPI.

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?*

   Our population growth is below the threshold, so the population factor has not affected our rate peg.

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

   Indiscriminately applied productivity savings are themselves counterproductive to efficient delivery of services. To have ongoing, unjustified productivity savings is illogical. We believe the current system relying on ABS data and recognition of past savings is appropriate.

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

   Rate pegging needs to make provision for additional costs imposed by government, such as the emergency services levy and costs associated with additional duties imposed on councils by government, such as the inground fuel tank monitoring. The former can be directly applied, the latter estimated. LGNSW has prepared several papers on cost shifting, particularly the 2018 paper "Impact of Cost Shifting on Local Government in NSW: a survey of councils" and should be further consulted on this point.

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

It would be interesting to see evidence one way or another on the impact of rate pegging *vs* the direct cost to the State Government and councils of implementing the rate pegging system and the consequent impact on rates levied. The process, if councils wish to apply for a special rate variation, involves considerable cost, particularly for small councils.

We believe rate pegging has reduced rate increases, whether these are unnecessary or not is debateable as the reduced rate income directly reduces our ability to deliver services and will eventually need to be supplemented by an SRV.

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

What is considered "sufficient" is debateable and a matter of judgement. Given the current weather conditions and the impact on our road infrastructure we believe our community would have liked us to have sufficient reserves to better address the current situation. Councillors, as elected officials in close contact with the local community, are in the best position to judge community perceptions on delivery of services.

Constraints imposed by the rate peg have resulted in councils being more reliant on grants from State and Commonwealth Governments to meet community expectations, and governments feeling more obligated to meet these expectations. For example, the recent road grants announced by the State Government to address community concerns about road conditions caused by the current wet season.

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

The rate peg has significantly impacted on the financial performance and sustainability of councils. The sustainability of councils is regularly questioned by Government. Given the perceived, and generally applied, productivity savings, the cost shifting and imposition of costs by government that have not been taken account of in rate pegging, and removal of the options for councils for small incremental, annual increases to meet increased costs, the State Government is forcing councils to apply for one off special rate variations to remain financially sustainable. Councils struggle with real efficiency savings putting staff under extreme pressure to maintain delivery with less real resources until they reach breaking point. This is evidenced by the number of councils now considering or applying for special rate variations in excess of or approaching 50% to enable delivery of services at the expected standard to continue. Or from Figure B2 in the Issues Paper where the average cumulative increase for Rural councils approaches 40%. The high percentage increases are often justified as "catch up" to address services that have deteriorated due to insufficient funds.

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

The rate peg methodology should be kept simple. However, we believe there would be benefits in determining the rate peg individually for the five council types as outlined in Table 4.1. The needs and cost of delivery of services differ between councils. For example, small rural councils have very limited opportunity to increase income via such items as parking metres. This difference between councils can be most effectively and generally expressed in terms of council type.

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

    Cost indexes could be expected to vary considerably between council types, particularly between metropolitan and rural councils. The development of different cost indexes for different council types will better align the rate peg to actual cost increases.

12. *Is volatility in the rate peg a problem?*

    Yes, in terms of long-term planning, however the two-year lag is more of an immediate issue.

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

    There is need for better and more timely alignment with cost changes.

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

    A longer-term rate peg would be of benefit in terms of ensuring consistency between councils for long term planning. However, this would be of more benefit to the State government than for individual councils. There would be little benefit for individual councils and would exacerbate the lag issues.

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

    Releasing the rate peg later in the year, if it would reduce the lag would be of benefit.

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

    With increasing inflation, the lag in accounting for changes in labour costs will be a significant imposition on councils. These costs, via State Awards are generally very predictable in real time and should be accounted for as such.

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

    As stated in our opening general comments, addressing increased community expectations in terms of standard of services is a major challenge to councils. This is currently addressed, in part, by seeking increased capital grants from the State and Commonwealth. However, these grants do not address the longer-term operating expenses and depreciation cost borne by council that are not taken account of in the rate peg.

    These external costs are having a major impact on the long-term sustainability of councils and should be accounted for in the rate peg.

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

    Major council specific adjustments are accounted for in SRVs. To apply them outside this system would be difficult and add another layer of cost to councils in putting together and justifying the increases. The best way by which council specific adjustments can be accommodated is to abandon the rate peg.

19. *What types of costs which are outside council's control should be included in rate peg methodology?*

    Major additional costs imposed by the State Government have historically been accounted for when brought to IPART's attention. In addition to these one-off major cost increases such as the election expenses and emergency services levy, there are numerous smaller costs that individually are not particularly onerous, but collectively have a very significant impact. For example, the monitoring of underground fuel storage facilities, and the increased environmental requirements for landfill. These types of costs are addressed in some detail in the Local Government NSW report Impact of Cost shifting on Local Government in NSW, 2018.

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?*

    Rate peg calculations need to be kept simple, but also need to reflect real costs movements. To remove anyone of the LGCI components runs the risk of missing an important component of the calculation. The analyses of variations of the rate peg from the CPI over time (Figure A3, in the issues paper) show more volatility but very little financial benefit to ratepayers has been achieved by rate pegging. Any reductions in rates would be reflected by a direct reduction in services.

Thank You again for the opportunity to comment

Yours sincerely

[redacted]

Mayor Robert Bell