Weddin Shire Council
Input into the review of the IPART methodology for rate peg increases

November 2022

WEDDIN SHIRE COUNCIL

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To Whom it May Concern

Weddin Shire Council understands IPART is seeking feedback from councils and other stakeholders as it reviews the methodology for rate peg increases (the Review). Firstly, thank you for the opportunity to provide feedback on an issue that goes to the heart of the two greatest challenges for Local Government, **sustainability and the relationship with the State.** These two challenges were identified at the Destination 2036 Conference in Dubbo in 2011.

> *"In fact the prevalent option was that the financial difficulties and infrastructure gap facing Councils had been created by rate pegging on NSW Councils over the last 30 years,"*
>
> *"The universal call was to remove rate-pegging, stop cost-shifting and to review the tax system so that local government is acknowledged in tax revenue for the many essential services and facilities they provide."*[1]

Both of these challenges remain today. The IPART determination of the rate peg as 0.7% is a clear and present reminder of this ongoing parlous situation which ultimately impacts communities across NSW with a greater impact on non-metropolitan communities as they have a greater breadth of service delivery.

Weddin Shire Council through the Central NSW Joint Organisation (CNSWJO), like others, and the Local Government sector more broadly has advocated for years for change in the Local Government Cost Index. Change is only happening because the 0.7% rate rise this year has exposed a methodology which for decades has been profoundly wrong. That Councils had to progress "Special" Rate Variations to manage this travesty is quite simply a bastardisation of the English language. The ongoing continuation of Councils having to undertake this tortuous process because the BAU costs to Councils have not been effectively recognised by the LGCI since its inception is exemplified by the "Special" rate variation process this year to manage a blatantly wrong number generated by IPART.

[1] Amalgamation raised its head at Destination 2036 - Government News

CNSWJO and before it, Centroc has consistently advocated the removal of rate pegging on the grounds that:

- electoral accountability has already proven to be a highly effective tool in containing rates;
- the introduction of Integrated Planning and Reporting (IPR) in 2009 further enhanced accountability and community engagement, further rendering rate pegging unnecessary and frustrating effective IPR; and
- rate pegging has been serving to create an ever-expanding funding deficit for NSW councils. This has been recognised in numerous reports and reviews over the past 20 years.

Ironically, IPART's findings on why a Waste Peg was not required apply to the Rate Peg, these being:

- It did not reflect costs increases beyond council control,
- There were methodology and data limitations. It was difficult to find one rate for all, and
- It limited councils' ability to provide what the community wants.

Weddin Shire Council acknowledges that the discontinuation of rate pegging is outside the scope of this Review and is a matter of NSW Government policy. This has been raised in the various presentations by Councils to IPART on the issues paper. However, Weddin Shire Council maintains that a review of the rate peg methodology needs to address the policy it is based on and the outcomes the methodology is designed to deliver. Rate pegging is the fundamental question.

2. Background

Local government is under sustained financial stress. This is a result of:

- the compounding impacts of rate pegging,
- growing populations where mandatory Treasury Common Planning Assumptions under report this growth with its knock on impacts for further service delivery for Councils as they meet the gap,
- increased responsibilities, and
- cost shifting from the Federal and State governments including declining Commonwealth Financial Assistance Grants (in real terms).

Cost shifting by the NSW Government onto local government is currently estimated to be around $800 million per annum (representing over 6% of total local government revenue). Rate pegging is foremost among them. To define cost shifting and as per our submission this includes Councils providing aged care services, childcare services, healthcare services and facilities and youth services.

This is exacerbated by the willingness of the NSW government to persist with poor legislation enactment, like Red Fleet which further deteriorates Council's financial sustainability as well as exposing them to potential litigation.

The NSW Productivity Commission, reinforced by IPART who has reached similar conclusions, has confirmed the long-held view of local government and the findings of numerous Inquiries over many years that the rate peg is not working. Both the Productivity Commission and IPART have concluded that rate pegging does not provide councils with adequate revenue to fund the infrastructure and services needed to support communities. This is resulting in declining per capita revenue and a growing revenue gap. NSW per capita rates are lower than any other state and the Productivity Commission estimates that NSW councils have foregone $15 billion in rate revenue over the past 20 years compared to Victorian councils, as the result of rate pegging.

That the Government has finally accepted this after 40 years is a major step forward in itself, and hopefully will open the door to other necessary reforms in future.

Finally, rating capping undermines local governance and the ability for communities to be masters of their place and its future. It undermines the Local Government Act 1993 at its heart – Integrated Planning and Reporting. It is disempowering, bad economics and poor strategic practice. It exacerbates Councils' a strained relationship with the State and their deteriorating financial position.

3. Response to the Terms of Reference

Weddin Shire Council understand the Terms of Reference for the Review to be:

Possible approaches to set the rate peg methodology to ensure it is reflective of inflation and costs of providing local government goods and services;

- *Possible approaches to stabilising volatility in the rate peg, and options for better capturing more timely changes in both councils' costs and inflation movements;*
- *Alternate data sources to measure changes in councils' costs;*
- *Options for capturing external changes, outside of councils' control, which are reflected in councils' costs;*
- *The effectiveness of the current LGCI approach;*
- *Whether the population growth factor is achieving its intended purpose.*

In undertaking the review, IPART should have regard to:

- *The Government's commitment to protect ratepayers from excessive rate increases and to independently set a rate peg that is reflective of inflation and cost and enabling financial sustainability for councils.*
- *The differing needs and circumstances of councils and communities in metropolitan, regional and rural areas of the State*
- *Ensuring the rate peg is simple to understand and administer.*

Weddin Shire Council would like to express the disappointment that the sector was not effectively engaged in the creation of these Terms of Reference and makes passing comment that this exemplifies the extent to which the NSW Government does things *to* the local government sector, not *with* it. Excluding the Local Government sector from the development of the Terms of Reference just perpetuates the comparatively dismal relationship in NSW between Local Government and the State.

4. Response to the questions raised by IPART

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

Like previous submissions to IPART on the LGCI, this submission suggests that the LGCI does not adequately reflect actual movements in council costs. Additional costs need to be included and there needs to be provision for adjustments for cohorts of councils and individual councils. Finally, there needs to be some type of quality stop process that prevents just plain wrong numbers being spat out of any formula – for example the 0.7% in 2022.

The LGCI index is a one size fits all model, applying a standard basket of goods to all councils and applying an average weighting of these items across all councils. At best this provides an approximate indication of aggregate local government cost movements and there may be large variations between the peg and the actual outcome for individual councils or cohorts of councils. It does not recognise that different councils or council cohorts may have significantly different cost structures or "baskets of goods." Examples from this region include:

- Rural Fire Service
- Emergency Services Levy
- Audit Risk and Improvement Framework costs (for example Assurance Mapping as described by the OLG costs a minimum of $100K per Council)
- Councils with high agricultural lands rating structure
- Councils that can't collect rates from State owned land (State forests and National Parks)
- Asset Revaluations
- Cybersecurity
- Additional planning activities where Councils report having to put on extra staff to manage the NSW Government Planning Portal
- Cost of elections
- Road network size
- Remoteness and associated transport costs

The LGCI is a lagged or "rearward" facing index. A deficiency that IPART itself acknowledges. Furthermore, it is effectively a two-year lag, meaning that there can be a large difference between the LGCI and the actual cost increases councils are facing in the budget year in which it is applied. This is clearly demonstrated in the LGCI of 0.7% for 2022-23, (later adjusted to 2.5% after introduction of a one off Additional Special Variation), but now facing an inflation rate of over 7% in the subject year.

The LGCI needs to be re-designed as a more forward-facing index. This could involve the use of more timely data and/or forecast indicators. State and Federal Governments use forecasts in developing budgets. Forecasting is looking at multiple futures and having the have foresight in managing volatility such as those presented with the COVID-19 pandemic. Weddin shire Council is open to the view that the indexes to be to be determined as a 3-year moving average. This would reduce volatility. However, this should again be subject to historical modelling to better understand what impacts this may have.

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

Data is not current enough. Weddin Shire Council supports the widely held view that the LGCI needs to be re-designed as a forward-facing index. This could involve the use of more timely data and/or forecast indicators. State and Federal Governments use forecasts in developing budgets.

There needs to be several indexes for different council cohorts or categories e.g: metro, coastal, regional city, regional, rural remote. Weddin Shire Council supports the introduction of multiple indices in principle if it can be demonstrated that there is or can be material differences. This needs to be subjected historical modelling and adopted if material differences are evident. Councils have similar but also unique pressures. A forward-facing index needs a level of flexibility for Councils to plug into and utilise. We are not advocating flexibility where Councils can individually apply their own rules apply but a sound model that can be worked through clusters and appropriate to that local government area. For example, staffing pressures are across every local government area however the reasons for staffing pressures can be different. Staffing wages vary for different Councils and as a collective, wages are not competitive to other levels of government or private industry. However, a breakdown of all Councils' workforce costs will show even greater discrepancies across the State and will be for different reasons and thus requiring flexibility in the index and how it is applied.

In some local government areas which are economically impacted by mining or other dominant employers can greatly impact the workforce demographic of an entire local government area. Comparing a workforce like Weddin Shire Council to Blayney Shire Council, although similar in population numbers and issues, both shires have different workforce pressures. For example, Blayney Shire Council's proximity to CADIA versus Weddin Shire Council's further proximity means the local workforce is not dominated by a high mining workforce. However, in my four months as General Manager, our exit interviews have determined that our workforce resignations have included some retirements while others have gone into private sector and other public sector employment and stating that higher remuneration was the reason for their resignations.

Weddin Shire Council also supports the views that the basket of goods for each index needs to be updated more frequently and supports further research on the use of a 3-year rolling average to smooth volatility. Arguably, an annual review across the sector to account for change would be worthwhile given the extent to which Councils have to manage change in cost shifting and other imposts to their financial position.

There is potential to use Financial Return data.

Staff vacancies should be included in any forward modelling. The reasons for staffing vacancies varies across Councils and a model needs to predict multiple futures. For example, Weddin Shire Council has long had issues with wages being lower than the 0 to 10th percentile when compared with Councils of similar size, and thus applying a rural index may not necessarily be the solution. It requires a level of increased flexibility and variance to allow it to increase rates in line with staffing costs to equitably bring it up to other similar sized Councils. Any flexibility will need to be supported by data to ensure accountability and transparency.

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

One approach involves introducing additional accurate data that reflects actual cost movements rather than applying proxy indices.

The most obvious example is to use the NSW Local Government (State) Award as opposed to NSW Public Sector Wage Cost Index, LGNSW have long argued for this change. This would provide a significant improvement to accuracy as:

- Wage costs are the single largest component of council expenditure be a significant improvement as wage costs are the single largest component of council costs, representing nearly 40% of the LGCI.
- It is a more accurate reflection of actual cost increases that are faced by councils.
- It is forward looking measure.

Other examples that would be best applied at an individual council level include:

- Audit costs (which have escalated rapidly in recent years)
- Audit & Risk Improvement Committees costs (ARICs) which have been imposed on councils in recent years
- Emergency Services Levy
- Costs of elections
- Disability Factors
- SEIFA Index
- Inflation/CPI
    - Operating statements – grants and contributions.

As noted in response to question 2, there is a need to adopt forward facing indicators. The Australian Bureau of Statistics (ABS), Reserve Bank, NSW Treasury provide CPI forecasts that could be substituted for LGCI components based on CPI, making forward determinations rather than lagged determinations.

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?

Weddin Shire Council supports the introduction of a population growth factor in principle. However, the first two years of operation have produced inconsistent and counter intuitive results.

Given the importance of the impact of perverse impacts from population modelling, this region seeks to work with IPART on calculating the population factor. Data from the NSW Government Planning Portal could be helpful.

Weddin Shire Council believes that this only goes so far and that there are vast improvements that could be made outlined in this submission.

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

Productivity improvements should be removed from the rate peg methodology. Productivity cannot be accurately measured across the local government sector as councils are too diverse.

It would need to be conducted on an individual council basis and even then would be complicated by the multifaceted operations of councils. Individual assessments are not consistent with a sector wide peg. It also adds unnecessary complexity to the peg. IPART has set the productivity factor at zero since 2018-19 demonstrating the above and ranged insignificantly between 0.0% to 0.2% when applied. The factor should be removed permanently.

Any productivity gains made by councils should be retained to invest in maintaining services or infrastructure maintenance and renewal. Penalising councils for productivity improvements introduces a perverse disincentive.

The cost shifting of services to local government from the State and Federal Government means that the delivery of services also varies from Council to Council. For example, some Councils have delved into aged care services, family and childcare services, youth services and community services. For Weddin Shire Council, this has included building the Grenfell Medical Centre to get a local doctor to town. In addition, Council also maintains housing for our local Doctor to keep our local doctor in town. We are not unique in providing this service due to the cost shifting/service shifting. Other rural and regional Councils have been placed in the position of providing housing for allied health professionals and building their own medical practices. There are ongoing arguments between the State and Federal governments around health care, on Medicare and NSW Health. This is a circular conversation. This was identified in the Rural and Regional Health Inquiry by the various Councils affected by this issue.

We are not entering into this debate here. However, the point to emphasise is that the services varies across each local government area and the pressures the ratepayers place on Councils to deliver services that are outside the general remit of local councils. A rating system that supports the services that Councils take on because of cost shifting or service shifting needs to be considered to ensure productivity and efficient delivery of services.

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

Weddin Shire Council agrees that predictable costs, that apply to the whole sector such as election expenses and increases in superannuation guarantee contributions should continue.

Weddin Shire Council also holds the view that the methodology should be modified to allow adjustments for external factors that affect groups of councils, affect councils unevenly or affect individual councils.

The reasons for staffing vacancies varies across Councils and a model needs to predict multiple futures. For example, in Weddin Shire Council has long had issues with wages being lower than the 0 to 10th percentile when compared with Councils of similar size and thus applying a rural index will also need a level of flexibility that is supported by data to allow it to increase rates in line with staffing costs to equitably bring it up to other similar sized Councils.

Furthermore, each Council's workforce plan will have differing pressures. To increase existing staffing salaries to be competitive with similar sized markets will have significant costs to Council. However, this does not acknowledge the issue of unfunded positions with Councils.

In Weddin Shire Council's example, positions such as Human Resources Officer; Work, Health and Safety Officer; Information Technology specialist and an Accountant are all fundamental positions that are currently not resourced within Council's current workforce. The issue we face is the ability to meet local government industry standards for our existing staff salaries and our ability to resource these additional positions is simply not there. As our submission highlighted earlier, although the alternative could be a rural rate peg index, this won't necessarily resolve the issue if it is one rule applies to all rural Councils because of the complexities and unique issues within each local government area.

The Emergency Services Levy (ESL) that has been included in the peg, does not fall evenly across councils, with the heaviest burden proportionally falling on rural/regional councils with a high RFS presence.
RFS asset depreciation is another factor that should be included.

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

This is a nonsense question and flies in the face of Integrated Planning and Reporting and a matter raised by many General Managers/CEOs across the region directly to IPART. Further it is an exemplar of the pervasive and unhelpful thinking that somehow the State needs to manage 'bad' Local Government through a sectoral response.

There is no evidence to support the conclusion that the rate peg has protected ratepayers from **"unnecessary"** rate increases. Comparisons with other States without rate pegging support the view that electoral accountability protects ratepayers from excessive rate rises.

Rather, rate pegging has been found to deprive communities of services and infrastructure.

The rate peg should be relevant and if the State is concerned about a potential crazy Council doing something terrible – set a minimum and maximum peg.
Finally, there is tension between trying deliver Council sustainability and keeping rates as low as possible.

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

Not in this region. That "Special" rate variations are being sought to fund Business as Usual operations of Councils, like wage growth, as a result of the current model is both a travesty and misuse of the English language.

Further, it forces Councils to push their liabilities into the future making our children pay for today's broken system. This is outside the principles of intergenerational equity enshrined in the Local Government Act.

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

The rate peg has generally served to undermine financial sustainability. Based on OLG data, the majority of councils are producing consolidated operating deficits, with nearly all producing General Fund annual deficits with deteriorating trend lines.

The fact that the 178 SV applications were overwhelmingly for the purposes of 'financial sustainability' and addressing 'asset backlogs' and funding future 'infrastructure obligations' indicates that the rate peg is inadequate to support financial performance and financial sustainability.

The rate cap has forced Councils to:

- find efficiencies with the perverse outcome of incentivizing cutting corners.
- reduce services, lessen maintenance on infrastructure.
- delay maintenance.
- undermine service provision.
- contravene the Local Government Act.
- go broke.
- fail to deliver on their Community Strategic Plans.

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

The rate peg methodology could potentially determine different pegs for different regions, categories or cohorts of councils. This would be justifiable if there are material differences in the outcomes.

Weddin Shire Council recommends that historical modelling be undertaken to establish whether there are significant differences, and if so, they should be introduced immediately.

Examples from this region include:

- ESL,
- RFS,
- Unrateable land requiring Council services (National Parks and State Forests),
- Own source revenue capacity,
- SEIFA,
- Quantum of roads against population density, and
- Multiple delivery of community service infrastructure and services (eg pools).

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

Any improvement to the current arrangement on rating capping will bolster local governance and the ability for communities to be masters of their place and its future. Rate capping undermines the Local Government Act at its heart – Integrated Planning and Reporting. It is disempowering, bad economics and poor strategic practice. It exacerbates Councils' the poor relationship with the State and their deteriorating financial position.

Notable, regional and rural Councils are disproportionately adversely impacted by the current arrangements creating a socially unacceptable divide between metropolitan and non-metropolitan communities.

As Councils are unable to deliver services and infrastructure from own source income, so they must participate in the competitive funding framework with its associated significant input costs. There is opportunity for IPART to look at the broader funding framework for Councils and make recommendations to the NSW Government in that regard.

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

The initial rate peg determination for 2022-23 of 0.7% clearly demonstrated that the volatility is a major problem where there are significant cost movements.
Stabilisation could be supported by:

- using a range thereby allowing councils to stabilise,
- benchmarking – then allow the percentages above and below and explain why, and
- benchmarking the rate peg against other indices like CPI.

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

In the presence of volatility, the peg needs to better reflect actual cost movements.

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

This is potentially beneficial but only if increases are maintained in real terms. This would require adjustments if there is volatility that increases costs beyond those factored into the longer term peg. It would be difficult to accurately predict an accurate long-term cap.

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

There are potential advantages in that the peg will better reflect actual costs. However, there are disadvantages in terms of certainty and forward planning. An alternative may involve continuing early release but using forward estimates to better reflect likely movements rather than lagged data.

Alternatively, the release of an indicative peg within the existing timeline to assist with planning and locking in a final peg as late as practical.
Both are potentially workable options that should be further investigated.

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

Weddin Shire Council strongly supports adoption of the NSW Local Government (State) Award, which would be more reflective of the actual changes in labour costs councils face.

As noted previously in response to Q. 5, Weddin Shire C does not believe that productivity factors can be accurately measured in a sector as diverse as local government. Efficiency dividends do not reflect HR environment in councils
Any efficiencies gained are applied to the deficit of the provision of services and infrastructure and do not translate into surpluses.

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

Yes. Have an LGCI and then add an additional factor based on the applicability

Flag specific costs for specific councils or cohorts of Councils.

The geographic size and population density of the LGA should be a consideration.

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

Yes. Refer response to Q.6.

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

Further to the advice in Q.6 and given climate change, natural disaster should be given special consideration as well as the capacity to build a response to future disasters (betterment). As stated earlier, there are also differing services that each Council provides and can be outside of the control of Council to manage because of how Councils have inherited these legacy issues.

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?

Given the application of the process as it stands is so bad, there is no way out of introducing complexity to manage a poor situation. It goes without saying that ending rate pegging would simplify matters significantly.

Having said that, removal of the productivity indice would make one small improvement.

Allowing councils to increase rates 2-3% above the rate peg without SV application would reduce the use of SRVs to fund sustainability. This option has previously been raised by councils and included as an interim measure to the ending of rate pegging by LGNSW. This makes the peg more of a reference rate. It would make councils more accountable to their communities and is consistent with allowing councils bot to adopt the rate peg.

Simplify the Special Variation application process.

Introduce quality control measures so we never have a 0.7% rate rise again.

In conclusion, in the absence of removing the rate peg in its entirety, Weddin Shire Council welcomes any opportunity to work closely with IPART on creating a better model that leads to financial sustainability for Councils. We look forward to participating with IPART in your future workshops.

Please feel welcome to contact me, at any time regarding this submission on [redacted]

Yours faithfully

[redacted]

Noreen Vu
GENERAL MANAGER