Our Reference: 2116#1459

2022-2023 Rate Peg Methodology Review
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP
SYDNEY NSW 1240

3 November 2022

Dear Sir/Madam

SUBMISSION - REVIEW OF RATE PEG METHODOLOGY ISSUES PAPER – SEPTEMBER 2022

Thank you for your invitation to make submission in response to the Review of Rate Peg Methodology Issues Paper – September 2022. The opportunity to submit comment is welcomed.

Please find attached a technical staff submission from Wollondilly Shire Council's experienced team.

If any further information is required please do not hesitate to contact Council's Revenue Team Leader, Simone Fisher on [redacted]

Yours faithfully,

[redacted]

Ben Taylor
Chief Executive Officer

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Submission - Review of Rate Peg Methodology Issues Paper – September 2022

Thank you for your invitation to make submission in response to the Review of Rate Peg Methodology Issues Paper – September 2022. The opportunity to submit comment is welcomed.

We have included a response to each of the items that IPART is seeking feedback on below.

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

The Local Government Cost Index (LGCI) reflects the average costs across all NSW Council's but does not reflect the circumstances and movements of individual Council's. Material differences between the costs of providing services and infrastructure may be experienced between different local government areas which is not captured in the LGCI. This may support a need for multiple rate pegs or other alternatives.

Councils are required to prepare a 10-year Long Term Financial Plan (LTFP) as part of the Integrated Planning and Reporting (IP&R) framework process. Council's LTFP is future facing and includes an estimate of future costs. The LGCI should be future facing and based on the Council's future costs and estimated inflation as exhibited in Council's LTFP. This is of particular importance in times volatility and unpredictable inflation as a rear facing LGCI can create a dramatic disparity between the rate peg and actual changes to Council costs as occurred with the 2022/2023 rate peg.

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?

As a general rule Council's use 3rd party economic projections for the Consumer Price Index (CPI) when projecting future year estimates for expenditure. This rarely covers the increase in total costs due to utility costs and state government cost shifting significantly exceeding the CPI over many years. The cost shifting includes and is not limited to the following: -

1. Contribution to Fire and Rescue NSW
2. Contribution to Rural Fire Service
3. Contribution to NSW State Emergency Service
4. Pensioners rates rebates
5. Public library operations
6. On-site sewerage facilities

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7. Administration of the Companion Animal Act (NSW) 1998
8. Functions under the Protection of the Environment Operations Act (NSW) 1997
9. Functions as control authority for noxious weed
10. Citizenship ceremonies
11. Flood Mitigation programs
12 Road safety
13. Waste levy
14. Department of Housing properties exempt from the Stormwater Management Charge
15. Elections

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

Council's own data forecasts and forward facing budget projections.

<u>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?</u>

The NSW rates system has not previously adequately compensated Council's for population growth and the costs associated with additional demand for infrastructure, facilities and services. This has prevented Council's from raising adequate rates and maintaining a per capita general income as population grows.

Whilst the introduction of the population factor may improve Council's ability to maintain its rate income on a per capita basis as population grows, use of historical growth data does not allow rates to keep pace with population growth and does not provide income growth to cover the demand for additional services and new infrastructure at the critical time that it is required.

Discontinuing the use of historical ABS data and allowing Council's to have carriage to forecast growth and use future population projection inputs for calculation of a population factor would be an improvement to the current methodology, however better options are available which would allow for increased supplementary rates without the need for a population factor, increase equity of the NSW rating system and align rates levied closer with the ability to pay principle.

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The NSW Government should give further consideration to IPARTs previous recommendation and provide Council's with the option to use Capital Improved Valuations (CIV) as the basis for rating.

Due to the current use of Unimproved Land Value (UIV) as the basis of rating, growth in secondary dwellings results in an increased population and demand and cost to Council services yet no increase to the rate base. This issue could be resolved with the use of CIV as the basis of rating. Use of CIV would ensure that properties with a secondary dwelling are equitably rated based on the real population housed in those dwellings as the secondary dwelling would be captured as part of the assessments CIV. In these circumstances use of the UIV as the basis of rating is not equitable and does not adhere to the ability to pay principle of rating.

If increases to population growth resulting from growth from secondary dwellings is captured in the population growth factor this also creates an increased burden of rates for other ratepayers which is not equitable. The option to use CIV as the basis for rating would cause an increase to the rateable land value when a secondary dwelling is built/occupied and allow Council to equitably apply rates to that individual property.

As also highlighted in our previous submissions we maintain concerns that the population factor in the rate peg methodology will lead to inequities with ratepayers located some distance from development and major growth centres. Unless residential sub-categories are widely used this could result in ratepayers outside of growth centres incurring increased rates as a result of the population factor.

The generalised presumption that existing ratepayers will benefit from improvements to services and infrastructure to service population growth is not accurate in rural or semi-rural Local Government Areas (LGA's). As an example, Wollondilly Shire Council is currently experiencing significant growth in Wilton. Under the current IPART population factor rate peg methodology residents in towns located up to 60 kilometres away or geographically isolated from the growth centre are required to make additional rate contributions as a direct result of the growth despite not being within reasonable proximity to the new growth centre and its services and infrastructure.

The use of residential subcategories to apply the growth increase to particular areas only or the use of special rates would create an overly complicated rate structure, difficulties justifying the rate structure to ratepayers and the possibility of future inequities.

As the population factor only considers a Council's residential population rather than the service population the population factor is not effective for Council's who have larger service populations due to transient population in tourism or business employment centres. This places further demand on Council's ability to keep pace with demand for services and facilities.

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

Individual Councils have differing service levels and demands as agreed with their communities. Productivity Improvements are already encouraged as part of the IP&R process, monitored closely by Council staff and elected bodies, and should not be included in the rate peg methodology.

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

Each Council experiences external factors that should be adjusted for when determining a Council's permissible rate income. These include:

- the communities demand for services, facilities and infrastructure
- growth of the local government area and delivery of additional infrastructure
- economic factors including, inflation forecasts, interest rate movements, NSW Government policies such as changes to distribution of grants, audit and regulatory reporting requirements and changes to development contributions
- Additional capital works expenditure resulting from natural disasters and major weather events
- Additional staff costs resulting from skill shortages, award increases and contracts following major weather events
- The expansion of the role of local government, including social services, Rural Fire Services and additional compliance processes
- Legislative changes which result in additional costs to Council, including mandating the audit office and removing the competitive tendering process and superannuation payments for elected councillors
- Increases in other major expenses including, building materials, utilities and insurances

External costs factors that have occurred in the previous financial period or that are predictable for the following period should be adjusted for.

The rate peg methodology should include a mechanism for Council to set a balanced budget in consultation with their communities which enables community services and facility demands to be provided without the need for Council's to make a Special Rate Variation Application (SRV) as the process of making application for an SRV results in significant costs and the diversion of staff and resources away from providing services.

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

The NSW rate peg is an inappropriate restriction placed on a democratically elected Council and a "protection" that is unnecessary. Local Government elections are a democratic process which ensures that Councils are accountable to their communities. Councils are best placed to consult with their communities and to set rates based on individual communities demands for services, facilities and infrastructure and to set a budget that is in line with its Integrated Planning and Reporting (IP&R) framework.

The rate peg should be removed and Council should be responsible for determining its own level of rate income in consultation with its community and be accountable to its community as is the case in other states in Australia.

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

A rate peg is not an effective methodology to provide sufficient rate income to Council to provide infrastructure or to meet the demand for services. On 19th May, 2015 IPART approved Council's Special Rate Variation (SRV) application of 10.8% per annum for four years commencing 2015/2016. An SRV was required to enable Council to address a substantial infrastructure maintenance backlog and to enable service demands to continue to be met. This would not have been possible with the rate peg.

A moderate annual increase over many years to maintain infrastructure and meet demands for services is a preference over a sharp increase following an SRV. Moderate annual increases also ensure that intergenerational equity is maintained.

Council's should be provided autonomy to set rates in consultation with their communities which accounts for local demands and circumstances.

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

The 2022/2023 rate cap was the lowest rate cap in 20 years and did not reflect the cost pressures placed on Council resulting from the COVID-19 pandemic, natural disasters and other external economic factors. This has placed pressure on Council's ability to prepare a balanced budget and to fund planned infrastructure projects.

Rate pegs which are not reflective of actual increase in costs to provide services, facilities and infrastructure impact Council financial performance and sustainability and in time force Council to either reduce services and infrastructure projects or to increase debt.

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

Individual Councils differ in many ways and if Council's are not granted the autonomy to set rates a rate peg methodology should be set that considers individual or at a minimum regional LGA differences. Examples of the differences that should be considered include:

- Individual Council's opportunities to generate revenue outside of rates. Many Councils outside of major cities have limited capacity to raise revenue sources outside of rates.
- The cost burden of rate exemptions for individual Council's. Current provisions allow for properties used for residential purposes by Community Housing Providers and Religious and Charitable Organisations to be exempt from rates. Such exemptions create a misalignment between the number of ratepayers and the population benefiting from Council facilities and services. In LGA's with a higher number of these properties an inequitable burden of rates is redistributed amongst ratepayers not eligible for exemption.
- Burden of pension concession rebates. The NSW Government currently funds 55% of the mandatory pension concession rebate. Council's with a higher percentage of aged population and retirement communities carry a larger burden to provide rate concessions as well as demand for senior and access services.
- The geographical and environmental features of an LGA or region, including the area of the LGA and dispersion of the population
- Socio-economic features of an LGA
- The costs associated with servicing a transient population, such as in tourism and business centres

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

If there is a material difference between different council types such as metropolitan, peri-urban and regional council costs this may be an argument to support introducing different cost indexes.

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

Yes. This was experienced in 2022/2023.

This could be stabilised with the use of forward-facing cost indicators and predictions of Council future needs as presented in its LTFP.

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

Better alignment with changes in costs.

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

A longer term rate peg would allow councils to forward plan and budget but during periods of volatility, unpredictable inflation or where Council's operating costs increase as a result of natural disasters or pandemics as has occurred in recent years this could be at a detriment to Council's ability to fund expected services and facilities.

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

Early release of the rate peg allows Council's to better budget and plan for the future year and provides time to give due consideration to making application for an SRV. Reducing the lag would be of benefit during periods of volatility and unpredictable inflation as experienced for 2022/2023. A better option would be a forward-facing methodology.

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

Simply the Local Government State Award increase should be used here.

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

External costs that apply to all Council's should be included in the rate peg methodology. Mechanisms to reflect external costs for individual Council's or regions should also be reflected on a case by case basis in certain circumstances without the need to make an SRV application.

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

Council-specific adjustments for external costs are needed. Council's prepare public information through the IP&R process, Financial Reporting and Office of Local Government Data Returns. These documents could be utilised to identify the future needs of the Council and to identify additional external costs that have arisen.

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

Costs that apply to all Council's that are outside of a Council's control should be included in the rate peg methodology. Specific examples of these include:

- Local Government State Award increases
- economic factors including, inflation forecasts, interest rate movements, NSW Government policies such as changes to distribution of grants, audit and regulatory reporting requirements and changes to development contributions
- Additional staff costs resulting from skill shortages, award increases and contractors
- The expansion of the role of local government, including social services, Rural Fire Services and additional compliance processes
- Legislative changes which result in additional costs to Council, including mandating the audit office and removing the competitive tendering process and superannuation payment for elected councillors

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?

Where possible the LGCI should be future facing, as is the case with SRV applications and Councils LTFP.