Woollahra
Municipal
Council

Council Ref: 22/208160
Your Ref:

1 November 2022

Independent Pricing & Regulatory Tribunal
PO Box K35
Haymarket Post Shop
NSW 1240

To Whom It May Concern

**Woollahra Municipal Council Submission to the
Review of the Rate Peg Methodology**

Thank you for the opportunity to provide a submission in response to the issues paper on the review of the rate peg methodology.

Woollahra Council welcomes the review of the rate peg methodology and sincerely hopes that the IPART and the NSW Government gives due consideration to all submissions lodged as part of this review.

Included below are the Woollahra Council responses to the questions asked in the issues paper, as adopted by Council on Monday 31 October 2022.

Prior to moving into specific responses to the IPART questions below, the following key issues should be addressed in relation to the rate peg:

A. In the first instance, abolish rate pegging altogether in NSW and allow Councils to determine their own rate increases on an annual basis, with the community then able to hold Council to account for these decisions come election time.

B. Failing the abolition of the rate peg, implement a range of different cost indexes across the different types of Councils that better reflects the mix of Councils across NSW i.e. metropolitan, regional and rural.

C. Continue with the population factor as part of the rate peg, even though in the case of Woollahra Council this has had no impact at all to date due to our low population growth.

D. Request the OLG (in conjunction with the IPART) develop a streamlined SRV application process that is less resource intensive for Councils. This could mean a streamlined SRV application process being required for minimal proposed rate increases above the rate peg amount (i.e. say up to 2% above the rate peg) for perhaps a maximum of 2 to 3 years and then retain the existing more detailed SRV application process for Councils who wish to raise their rates by more than 2% above the rate peg.

Following are the Woollahra Council responses to the questions posed by the IPART in the review of the rate peg methodology issues paper:

1. **To what extent does the Local Government Cost Index reflect changes in councils' costs and inflation? Is there a better approach? Page 7.**

   Response:

   Prior to responding to this specific question, Council considers the statements made on Page 6 by the IPART that Councils can raise additional income by applying for grants and through their user fees and charges, as being oblivious to the way most grant funding plays out for Councils.

   Grants by their very nature are generally one-off and are for specific purposes that may or may not align with the projects and / or priorities of Council. Also, the majority of grants (excluding the Federal Assistance Grants (FAG)) require a contribution from Council either on a 1:1 basis or a 2:1 basis, with Council carrying the balance of the funding requirement and generally all further ongoing maintenance requirements.

   Further to the above, excluding the FAG funding, the majority of other grants that are available to Councils are not for operational purposes, but are generally focussed on capital projects.

   The reality is that outside of the FAG funding, there is very little guaranteed recurrent funding available to Councils from other levels of government. This means that the majority of grant funding available to Councils is competitive, where one Council is competing against the next Council for limited grant funds for specific purposes, with no guarantee of success.

   It is also fair to say that apart from the majority of non-FAG funding being mainly available for capital projects (and being a competitive process as mentioned above) grant programs generally rely heavily on the sentiment of the State / Federal government of the day, as to where they wish to apply the funds and for which types of projects, therefore much grant funding does not necessarily reflect a user-needs system.

   Further to this, in recent years we have seen grant programs carry additional and non-budgeted conditions in connection with them (i.e. reducing turn-around times for Development Application processing), which can place additional staffing costs on Councils, noting that these types of costs are not factored into the grant funds and potentially have the effect of reducing the actual amounts of grant funding that can be used. Also, unrealistic or tight time constraints in grant funding may further decrease the impact of that funding. In an appropriately funded world, Councils should be able to reduce reliance on grant funding for one off projects in favour of utilising their own funding.

   This leads to one of the fundamental issues facing local government, being the funding model for Councils. The funding model for local government is effectively broken and no level of one-off successful grant applications can take away from the fact that issues such as cost shifting and rate pegging constrain a Council from being able to achieve long-term financial sustainability, with any degree of certainty.

   In relation to fees and charges, most Councils review their fees & charges on an annual basis and have a specific pricing policy applied to fees & charges.

   From a Woollahra Council perspective, there are 4 x pricing categories used to ensure that the range of fees and charges reflect the cost of providing services to the Woollahra Community. As a matter of policy, Council increases fees and charges each year by at least the CPI where practical, unless it would have an adverse impact on forecast revenue or users' capacity to pay. Variations to this are reported to Council and determined as required.

To the substance of the question asked, the LGCI has not worked due to a range of factors. One is the lag factor (which is discussed further in this submission), but also due to the inclusions of the LGCI. For instance, the fact that the LGCI it does not currently include something as fundamental as reference to the NSW Local Government (State) Award (which sets the wages and conditions for the majority of non-contracted staff across Councils in NSW), is evidence of why the LGCI is not reflective of changes in costs for Councils.

Collecting expenditure data for the LGCI every 4 to 5 years in the current economic climate is not conducive to it being an accurate predictor of the true costs Councils are facing.

It is hard to see how the LGCI takes into account the full range of services a Council provides i.e. libraries, open space & parks, footpaths and active transport, heritage protection etc. The basket of goods provided for in the current LGCI is not considered to be broad enough, particularly considering the differences in service offerings that exist across Councils in NSW.

One measure that could be considered for inclusion in the LGCI basket of goods, is the increasing level of motor vehicle ownership, which has a direct impact on increasing traffic numbers. Increasing vehicle ownership impacts negatively on our roads and results in an increased need for expenditure on road maintenance, therefore some measure around traffic movement increases and or decreases / levels of vehicle ownership would be a worthwhile consideration for inclusion in the LGCI basket of goods.

Further to the above comments about the limitations to the current LGCI basket of goods, this is particularly relevant when you take into account the increased maintenance of parks and open spaces required by Councils due to climate change i.e. increasing rain and weather events, as well as the increased usage of our parks and open spaces during and post the pandemic. Whilst Council does not necessarily have a solution to how a new index that recognises increased parks and open spaces maintenance could be included as part of the LGCI basket of goods, this is something worth investigating further in an effort to ensure that the LGCI is taking into account the full range of services provided by a Council.

2. What is the best way to measure changes in councils' costs and inflation, and how can this be done in a timely way? Page 7.

Response:

Assuming the rate peg is to be continued to be set by the IPART, then there clearly needs to be some mechanism for the IPART to be able to use alternate data sources in order to assist in determining the LGCI and therefore the rate peg. A 2-year (plus) lag is not a satisfactory approach to setting the rate peg, nor does it reflect the costs that a Council is incurring.

Having said the above, it may be that the IPART are not using an appropriate inflator, which at the moment (as detailed in the Issues Paper) is based on a price index published by the ABS. It is agreed that there needs to be transparency in what the IPART is using by way of inflators, but we are not clear on whether the current rate peg methodology relies on only one inflator, or is there a range of them taken into account? Perhaps broadening the inflators used may be a better way to measure changes in costs and inflation, without a lag of 2 years.

Further to the above and assuming that the LGCI basket of goods is revised to better reflect a true local government basket of goods that is applicable to most Councils, then the IPART could also work with the Office of Local Government (OLG) and the

NSW Government more broadly to understand whether there is data that the State already collects from Councils that can be used within the rate peg methodology that better reflects changes in Council costs and inflation. The key point here is that there is a lot of data already captured by the State with the numerous returns etc that a Council is required to make each year, so perhaps some of this data can be used to assist in determining a more realistic rate peg methodology that better details cost movements across a Council-specific basket of goods.

Council also suggest that the IPART could work with a range of consulting economists to research the rate peg methodology and to potentially undertake some global comparatives to better understand how best to measure changes in Council costs etc.

3. **What alternate data sources could be used to measure the changes in council costs? Page 7.**

   Response:

   Please refer to our response to Question 2 above.

   Further to this, perhaps the IPART could work with procurement professionals in the government sector like Local Government Procurement and even the NSW Government's own procurement professionals to assist the IPART in determining real cost movements in key areas of goods and materials, since these organisations are dealing with these matters on a daily basis. This also leads to the question of what cost basis / inflators does the NSW Government itself use within its own businesses, as there may be little difference between State and local government cost changes etc.

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? Page 8.**

   Response:

   In direct response to this question, it is considered to be too early to understand if the population factor has had any impact on the rate peg methodology, noting that for a Council like Woollahra with relatively little population growth, the population factor is not likely to have any tangible benefits for our LGA.

   Having said the above, population growth is an imprecise measure of the challenges almost all metropolitan Councils are facing in meeting the changing needs of their communities. The legacy effect of successive inadequate rate peg increases has meant, for example, that Woollahra Council has not been able to keep pace with the growing demand for community facilities, as identified in our 2019 Woollahra Community Facilities Study. By way of example, our two branch libraries do not meet minimum floor space provision of 1,500m2 as recommended by the State Library of NSW, and our municipality lacks a large multipurpose community/indoor sports facility.

   With regard to the changing needs of the community, one aspect that the current population factor does not take into account is the broader demographics of an LGA, particularly around something such as an ageing population. As people age, there is often a requirement for a broader range of services to be provided to this part of the community, generally by the local Council. It is considered that into the future, the IPART could look at including some factor in its rate peg determinations that relates to an ageing population, reflecting the impacts this may have on a particular LGA.

Further to the comment above relating to population growth being an imprecise measure, one failing of such a measure is that it is not measuring an increase in additional dwellings built. In the Woollahra LGA, there are significant new dwellings being built, however there may be no resultant increase in population numbers e.g. 3 bed apartments for down-sizers. Whilst the actual population may not be increasing, those new dwellings create additional pressure on resources such as waste collection and roads maintenance and the IPART should look at this population growth metric more broadly in terms of new dwellings added. If a population increases but they are all living in 1 dwelling it might not impact on services, however if dwelling numbers increase, then this can impact on the delivery of services.

5. How can the rate peg methodology best reflect improvements in productivity and the efficient delivery of services by councils? Page 9

Response:

The first question to ask in response to this is whether it is in fact the role of the IPART to determine what is and isn't a productivity improvement in local government and whether the delivery of services is efficient. It is unclear at present, on what basis such determinations are made by the IPART.

Trying to adjust for productivity across the local government sector as a whole is near impossible. In this Issues Paper, the IPART themselves have stated that no one Council is necessarily the same as the next one, therefore trying to measure something like productivity across Councils and what the efficient delivery of services looks like across Councils has little meaning or value in reality.

As noted above, it is difficult to know at this point what indicators the IPART currently take into account to demonstrate if there has been evidence of productivity improvements in local government – see top of Page 9 of the Issues Paper. Understanding this may provide some guidance on where this can be improved or indeed not pursued further into the future.

As a genera comment, if Councils are going to continue to be rate pegged, then this same level of increase should be applied to all other Government-related bodies that impose costs on Councils i.e. through the Emergency Services Levy, the NSW Audit Office and the NSW Electoral Commission.

One of the glaring omissions from the Issues Paper is any mention or recognition of the level of cost shifting that takes place between the NSW Government and local government. The issue of cost shifting is an ongoing and ever growing problem for Councils and this directly impacts on the efficient delivery of services by a Council.

There are a range of services Councils are required, by the NSW Government, to provide, however in most cases, Councils are not able to charge cost recovery or fee for service charges for these services, noting that many of these are limited due to them being statutory charges determined by the NSW Government. This instantly impacts on productivity and efficiency, yet this is not being recognised by the IPART. In fact for the 2021-2022 financial year, cost shifting impacted on Woollahra Council by approximately $4.8 million.

Included as an Appendix to this submission, is a copy of an annual cost shifting report that was tabled at a meeting of Woollahra Council on Monday 31 October 2022. This report and its recommendations were unanimously adopted by Council and highlights that in one financial year, cost shifting has escalated from approximately $3.977million in 2020-2021 to approximately $4.788million in 2021-2022 for the Woollahra community.

In addition to the above, the issues paper notes that there has been a substantial growth in grants and contributions to Councils between 2010-2011 and 2020-2021. When considered in isolation, this looks like a large increase, however it does not take into account the ever-increasing levels of cost shifting that have taken place over this period of time and if appropriately calculated, it may well be found that there was very little overall advantage to Councils with this additional grant funding, due to the increased levels of cost shifting.

6. What other external factors should the rate peg methodology make adjustments for? How should this be done? Page 9

Response:

It is accepted that as detailed in the Issues Paper, the IPART has made some specific adjustments at certain moments in time, in order to reflect a range of impacts – see Page 9.

However, one off adjustments do not at all address the longer term cost trends and including them for one year only may not provide a long enough tail for some of the impacts to be seen. There is also the afore-mentioned lag factor to take into account.

Please refer to the response to Question 2 above that talks to the IPART using appropriate inflators as possibly being one of the keys to having a rate peg that better reflects external factors and reality.

7. Has the rate peg protected ratepayers from unnecessary rate increases? Page 14

Response:

It is farcical that this question has even been asked. Whilst on balance the rate peg may well have protected ratepayers from unnecessary rate increases across NSW, it has been at the expense of the financial sustainability of local government.

The entire premise of this question is that Councils are irresponsible and would if they could, place a greater burden on their ratepayers if they were able to.

Since around 2009-2010, Councils in NSW have been required to develop a range of planning documents under the Integrated Planning & Reporting (IPR) regime. This has created a rigorous and robust process whereby the plans determined by Councils largely reflect the needs and wants of the local community.

Councils should be able to have conversations with their community on the cost to deliver the services they require and in turn, the Council should then be able to set an appropriate increase in their annual rates that reflects the delivery of these services. To be forced by a rate pegging regime to only be able to increase rates to a certain level that has no link to the reality of what an individual community may want from their Council, is regressive. Each community has the opportunity to exercise their democratic right at each Council election if in fact they did not like the approach Council is taking in relation to rate increases.

This conversation cannot be had without discussing the Special Rate Variation (SRV) application process. As an SRV is the only mechanism by which a Council can seek to increase rates above the rate peg, it is a difficult, time consuming and costly process, with no guarantee of success. When the IPART are so concerned about the productivity and efficiency of Councils, then the much-promised and previously spoken about streamlined SRV process needs to be developed and implemented.

At this point in time, an SRV process (as per the current guidelines) can take around 12 months from the time a Council commences initial discussions with their community, then reflects the need and extent of a proposed SRV in all the relevant IPR documents, followed by detailed community engagement, culminating in formal resolutions of Council, topped off by the formal application process. This surely cannot be considered to be an efficient way to seek increases to rates needed to ensure the financial sustainability of a Council and to deliver the services the community need.

8. Has the rate peg provided councils with sufficient income to deliver services to their communities? Page 14

Response:

No.

As determined largely by this very Issues Paper, the rate peg is not a true reflection of the costs a Council faces due in part to the inadequacy of the LGCI and the lag that currently exists when determining the rate peg.

Whilst Council was already undergoing a range of budget repair initiatives, the announcement of the 0.7% rate peg in late 2021 for the 2022-2023 financial year, meant Council had to increase its efforts to implement budget saving measures, in light of the low and unrealistic rate peg. It is acknowledged that subsequent to this rate peg determination, amendments were made so that the rate peg applicable to Woollahra Council for 2022-2023 was 2%, not the 0.7% originally determined.

Further to this, over past 18 months, Woollahra Council has undertaken a comprehensive review of our fees and charges, looked at and implemented a range of internal efficiencies, undertaken a major staff redundancy program and implemented a range of other savings initiatives, to the value of approximately $3.8 million. However, even with this substantial saving (noting that cost shifting from the NSW Government is valued at approximately $4.8 million per annum to Woollahra Council), Council struggles to continue to provide current services, let alone increases to existing service levels, nor are we able to adequately fund critical infrastructure, without applying for an SRV.

This would seem to indicate that the rate peg does not provide this Council with sufficient income to deliver services to the community.

9. How has the rate peg impacted the financial performance and sustainability of councils? Page 14

Response:

In the first instance, please refer to the majority of the responses above. Further to this, following is a list of factors in response to this question:

- The 2-year plus lag referred to in the Issues Paper means that the rate peg is not reflective of costs being incurred by Councils.
- Until such time as the rate peg can be more forward looking rather than rear-facing, it will always impact on the financial sustainability of Councils.

- There are different cost structures across different Councils, therefore a single rate peg will never reflect the differences across NSW Councils, as highlighted by the IPART in this Issues Paper.
- The rate peg offers no protection from volatility or economic shocks.
- Accelerated depreciation of a range of assets is not taken into consideration in the rate peg. This is particularly an issue for Councils that constantly face a range of natural disasters impacting community assets.
- As noted earlier in this submission, whilst the rate peg has limited rate rises, it has been at the expense of the financial sustainability of Council.
- The current rate peg methodology does not take into account the high levels of cost shifting each Council has to bear from the NSW Government.

10. In what ways could the rate peg methodology better reflect how councils differ from each other? Page 16.

Response:

The IPART has stated in this Issues Paper that Councils differ widely in terms of characteristics of the area and the populations they serve. The IPART go on to say that this means that a Councils cost of providing goods and services and their scope to raise revenue to cover these costs also vary. These statements are true and are hard to dispute, therefore, an extension of this is that grouping all Councils together for the purpose of determining the same rate peg may not make much sense.

It is acknowledged that the IPART's recent addition of the population factor as it relates to the rate peg is an attempt to recognise some differences between Councils, but obviously this is population based only and does not in fact take into account other key differences between say a metropolitan Council and a small rural Council. The statistics on Page 15 of the Issues Paper talk to this issue.

One solution may be to have an LGCI that applies to the key types of Councils rather than one overall LGCI i.e. metro / regional town / metro fringe / rural / large rural – refer to Page 15 of the Issues Paper. Accepting that the above may present too many Council types, perhaps it is more appropriate to simply have metro / regional / rural.

It is obvious that things like the availability of contractors, goods and materials, freight and fuel etc are considerably higher in rural and regional settings than they may be in a metro Council. Therefore, if there was some way of establishing an LGCI for the three main types of Council as noted above, this may go some way to addressing inconsistencies in trying to group all Councils together for the purpose of the one rate peg, outside of the population factor.

11. What are the benefits of introducing different cost indexes for different council types? Page 16

Response:

Please refer to the response above to Question 10. In addition to the previous response/s, the key benefit of introducing an LGCI based on the type of Council is that it may better reflect changes in costs that occur across metro, rural and regional Councils and may provide an avenue for Councils to be able to generate more income, without the costly need to apply for an SRV.

12. **Is volatility in the rate peg a problem? How could it be stabilised? Page 19**

    Response:

    Yes.

    Volatility in the rate peg is a problem, particularly when all Councils are required to develop a 10-year Long Term Financial Plan (LTFP). Currently the IPART instruct Councils to include the rate peg as determined for the first year (or current year as the case may be) of the LTFP and to then use an assumed rate peg of 2.5%.

    As history shows, using such a rate peg is not a true reflection of market forces or the economy at the time, noting the rate peg lag as detailed earlier in this submission.

    This year on year volatility makes financial forecasting for the LTFP very difficult indeed and therefore, when a new Council is elected and are developing their 4-year Delivery Program and then their annual Operational Plan, there is a degree of uncertainty around what the future income may be, if relying solely or in the main on the rate peg.

    This Issues Paper from the IPART details on Page 17, the key reasons why lag and volatility are problems and Council is in agreement with these comments.

13. **Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs? Page 19**

    Response:

    Yes.

    Councils (and of course the community) would prefer more certainty about the future of the rate peg. Having recently conducted broad community engagement for a proposed SRV application, one question that was asked on a number of occasions was if Council applies for an SRV now, what is in place to stop them (Council) from applying for another SRV in a few years' time.

    The above-mentioned question is detailed here as it goes some way to highlighting how uncertain ratepayers are when it comes to their rates each year and the fact that Councils are not able to provide any certainty around what a residents rates might be into the future. It is acknowledged that this could well be the case with or without a rate peg in place.

    Adjusting the components that make up the LGCI, reducing the lag of the LGCI and improving the predictability of the changes measured by the LGCI are all key to providing certainly to Councils and ratepayers. However, to provide more certainty, there needs to be a combination of approaches as detailed above, rather than the IPART or the NSW Government simply cherry-picking one aspect of this over another etc.

14. Are there benefits in setting a longer term rate peg, say over multiple years? Page 19

Response:

There may be some benefit in setting the rate peg for a longer period.

As detailed on Page 19 of the Issues Paper, if the IPART were to use forecasts in cost changes rather than lagged actual data, this may form the basis for being able to set a longer term rate peg.

It is acknowledged that there are inherent risks in forecasting, however there could be some mechanism in place by which the IPART and or the NSW Government could amend a rate peg for a certain year if it was deemed to be too non-reflective of reality i.e. as per the Additional Special Variation process applied for the 2022-2023 financial year following the December 2021 determination of the rate peg at 0.7%.

If the rate peg was to be set over a longer period, then perhaps it is logical to align a 4-year rate peg with the term of a Council. This would provide a newly elected Council with some certainty about what rates income levels are likely to be during their term of Council. At the outset of their term when Councillors are setting the four year Delivery Program, a longer term rate peg would provide Councillors with a real sense of what funding they have for all that they wish to achieve during that term of Council, providing them with a much closer sense of reality than they may have now. This would also provide Councillors with an opportunity to give early consideration in their term on whether they need to apply for an SRV at some point during that term of Council.

Setting the rate peg for a longer period could also provide the community with less volatility.

By some way of comparison, the NSW Local Government (State) Award (which applies to the majority of local government staff in NSW), has the percentage wage increases set for the three year period of the Award. This allows Councils to broadly accurately forecast their employee costs for the next three year period, thereby taking away a lot of volatility in the area of wages and employee costs.

Having said the above, setting a longer term rate peg could be problematic with the potential to box Councils in to a rate path that is not able to react to an environment of sudden economic changes as experienced over the past couple of years.

15. Should the rate peg be released later in the year if this reduced the lag? Page 20

Response:

With the rate peg being released in around September each year, this is generally considered satisfactory for budgeting purposes, as Woollahra Council is in the early stages of drafting the next financial year's budget at that point in the year. Having said the above, we know the world and local economy can change in less than 6 months, so it is possible that releasing the rate peg later in the year may not provide any added benefit.

Further to this, simply pushing the rate peg announcement to later in the year does not really address the lag factor i.e. on balance it is probably better for Councils to know earlier in the year what the rate peg is so that they can budget appropriately for it from the outset of the budgeting process. However, if there is already a 2 year lag in the way in which the rate peg is calculated, and the rate peg is announced in September to be applicable the next July, then the lag is closer to 3 years.

16. How should we account for the change in efficient labour costs? Page 20

Response:

As detailed earlier in these responses, it is not clear why the IPART does not use the NSW Local Government (State) Award when looking to use wages data. As noted in the response to Question 14 above, the Award sets the percentage wage increases for a three year period and all Councils are required to use these increases as the minimum that they can increase wages by.

A higher-level question perhaps is why do the IPART feel they need to account for efficient labour costs in the first place? Accepting that labour costs may form part of the LGCI, is it the role of the IPART to determine what efficient labour costs are, considering the vast differences that can exist between Councils.

17. Should external costs be reflected in the rate peg methodology and if so, how? Page 21

Response:

In the first instance, refer to the response to Question 5 above on this matter and several of the above responses that talk to issue of cost shifting, noting that cost shifting is one of the external costs that a Council rarely has any control over.

If the LGCI is appropriately updated to reflect more closely the costs a Council is facing, then there may not be a need to consider how to incorporate other external costs.

18. Are council-specific adjustments for external costs needed, and if so, how could this be achieved? Page 21

Response:

Please refer to the response to Question 10 above.

If the type of Councils (metro / rural / regional) were taken into account when setting the rate peg i.e. a separate rate peg for each type of Council and assuming that the LGCI provides less lag than it does now, this may be sufficient to adjust for external costs.

19. What types of costs which are outside councils' control should be included in the rate peg methodology? Page 22

Response:

The response to Question 10 above provides some insight into costs that may be outside the control of Councils, noting once again the ever increasing impact of cost shifting from other levels of government on Councils.

It is also fair to say that the majority of cost changes that impact on a Council are in fact out of the control of the Council and like any other business, Council can only respond to these cost changes by changing associated revenue charges, the volume of usage and or the quality or level of service.

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? Page 22**

Response:

The IPART have commented on Page 22 of the Issues Paper that by simplifying the rate peg methodology, it would make it easier for Councils to predict the likely rate peg when planning. Whilst this might be true, if the IPART are the body charged with setting the rate peg, then that is what they should do and for a longer period than just one year. It should not be up to individual Councils to try to predict what the rate peg might be in any given year for forecasting purposes etc.

Reducing complexity when considering the rate peg methodology is critical as it should be something that all Councils and ratepayers are able to easily understand.

If rate pegging is to remain, then as detailed previously in these responses, the IPART and or the OLG need to establish a more streamlined SRV process for Councils. The additional costs the current SRV process impose on a Council are somewhat counter-intuitive to applying for the SRV in the first place, particularly when the IPART are focused on the productivity and efficiency of Councils.

Thank you once again for the opportunity to lodge a submission to the issues paper on the review of the rate peg methodology. Council looks forward to continuing to participate in this important review.

If you have any questions in relation to this submission, please contact Council's General Manager, Craig Swift-McNair on [redacted].

Yours sincerely

[redacted]

Craig Swift-McNair
General Manager

Item No:	12.4
Subject:	**FINANCIAL IMPACT OF COST SHIFTING FROM OTHER LEVELS OF GOVERNMENT 2021-2022**
Author:	Sue Meekin, Director Corporate Performance
Approver:	Craig Swift-McNair, General Manager
File No:	22/207204
Purpose of the Report:	This report details information relating to the financial impact on Council of cost shifting from other levels of government.
Alignment to Delivery Program:	Strategy 11.2 Secure Council's financial position.

Recommendation:

THAT Council:

A. Receive and note the Financial Impact of Cost Shifting from Other Levels of Government 2021-2022.

B. Note that the estimated value of cost shifting from other levels of government impacting on Woollahra Council for 2021-2022 was approximately $4.788million.

C. Note that a Financial Impact of Cost Shifting from Other Levels of Government report will continue to be tabled at future Council meetings annually in October, detailing the impact of cost shifting to Council for the preceding financial year.

D. Request the General Manager to include in the annual review and update of Council's Long Term Financial Plan (LTFP), a scenario that will be modelled in the LTFP that highlights the financial position of Council if cost shifting from other levels of government was removed.

E. Note that the General Manager is continuing to work with neighbouring Councils and the Council members of the Southern Sydney Regional Organisation of Councils (SSROC) on the financial impacts of cost shifting, with a view to being able to collate similar information as included in this report across the member Councils of the SSROC, in order to be able to present a regional perspective on the value of cost shifting impacting member Councils.

Executive Summary:

Local Government NSW (LGNSW) define cost shifting as follows:

Cost shifting occurs when the responsibility for, or merely the cost of, providing a certain service, concession, asset or regulatory function is shifted from one sphere of government to another, without corresponding funding or revenue raising ability required to deliver that new responsibility.

Councils in NSW have been subject to cost shifting for many years and as LGNSW have stated, cost shifting is one of the most significant problems faced by Councils in NSW. Along with rate pegging, cost shifting undermines the financial sustainability of the local government sector by forcing Councils to assume responsibility for more infrastructure and services, without sufficient corresponding revenue. Cost shifting diverts ratepayers' funds away from much-needed local infrastructure projects to meet additional demands placed on a Council by State and Federal Governments.

In having undertaken an enormous body of work to improve Council's long- term financial position, including the consideration of an application to the Independent Pricing & Regulatory Tribunal (IPART) for a potential Special Rate Variation (SRV), it is important that an issue such as cost shifting is clearly understood by Councillors, Council staff and the community. As noted above, cost shifting and the rate peg impact dramatically on Councils, when there is little opportunity for Councils to raise sufficient corresponding revenue when assuming responsibility for more functions and or services.

A report was presented to the Strategic & Corporate Committee at its meeting of 21 March 2022 and subsequently to Council on 28 March 2022, which estimated the impact of cost shifting to Woollahra Council for 2021-2022 to be a minimum of **$3.977million**. It noted at the time that there were some items yet to be qualified and quantified from a Woollahra Council perspective and were listed as 'To Be Advised' (TBA).

Following the finalisation of the annual financial statements for 2021-2022, we are now in a position to assess the actual financial impact of cost shifting for 2021-22, including for some of those areas previously identified as TBA.

The result of this work shows that the financial impact of cost shifting on Woollahra Council for 2021-2022 is approximately **$4.788million**.

The majority of cost shifting impacts on Council come from the NSW State Government, with the most significant areas in 2021-2022 being the contribution by Council to Fire & Rescue NSW, the Waste Levy and the loss of the Compliance Levy.

Discussion:

By way of background, on 28 March 2022, Council unanimously resolved the following in relation to the tabling of the first cost shifting report:

THAT Council:

A. *Receive and note the Financial Impact of Cost Shifting from Other Levels of Government 2021-2022.*

B. *Note that the estimated value of cost shifting from other levels of government impacting on Woollahra Council for 2021-2022 is $3.977million.*

C. *Note that in addition to this report, a Financial Impact of Cost Shifting from Other Levels of Government report will be tabled at future Council meetings annually in October, detailing the impact of cost shifting to Council for the preceding financial year.*

D. *Request the Mayor and General Manager write to the State and Federal Members of Parliament as listed below, requesting the following:*

   i. *Restoration of the Financial Assistance Grants funding to a level equivalent to at least 1% of Commonwealth Taxation Revenue.*
   ii. *Putting an end to cost shifting immediately.*
   iii. *Returning 100% of income from the waste levy to all NSW Councils.*
   iv. *Reimburse Councils for the mandatory pensioner rate rebates.*
   v. *Development by IPART of a more streamlined and faster Special Rate Variation process for use by Councils.*

   - Premier of NSW, The Hon. Dominic Perrottet MP
   - NSW Treasurer, The Hon. Matt Kean MP
   - NSW Minister for Local Government, The Hon. Wendy Tuckerman MP
   - Member for Vaucluse, The Hon. Gabrielle Upton MP
   - Member for Sydney, Mr. Alex Greenwich MP
   - Member for Wentworth, Mr. Dave Sharma MP
   - Leader of the NSW Opposition, Mr. Chris Minns MP

- Shadow Minister for Local Government, Mr. Greg Warren MP
- All other members of NSW Parliament
- with a carbon copy (CC) to Local Government NSW
- with a carbon copy (CC) Australian Local Government Association
- with a carbon copy (CC) to SSROC.

E. Provide to the public, copies of correspondence to and from the State and Federal members of Parliament those specifically named in point D) above.

F. The Mayor and General Manager investigate a motion of these lines being tabled in instrumentalities such as the Australian Local Government Association Conference, SSROC and other appropriate forums etc.

As per part C. of the above-mentioned resolution of Council, this report is the annual report on cost shifting, following the finalisation of the 2021-2022 financial year.

Cost shifting to local government is not a new issue, as it has been taking place for decades. However, as Councils (like most businesses) are forced to do more with less, the challenge of financial sustainability becomes more complex, therefore it is important to provide some context around what the impact of cost shifting is on Council and ultimately the community.

The major types of cost shifting are generally considered to be:

- The withdrawal or reduction of financial support once a program is established and or transferred to local government.
- The transfer of assets without appropriate funding support.
- The requirement to provide concessions and rebates without adequate compensation payments.
- Increased regulatory and compliance arrangements and
- Failure to provide for indexation of fees and charges for services prescribed under various pieces of State legislation or regulation.

Cost shifting clearly impacts on Council's available funds with which it is able to deliver quality services and infrastructure for the community. If Council was not impacted by cost shifting or to the degree that it is currently impacted by cost shifting, this would mean Council could spend additional funds on:
- Additional services to the community.
- Increasing existing service levels to the community.
- New capital / renewal infrastructure works.
- Increased spending on maintenance of Council assets.

For more than a decade, LGNSW has monitored cost shifting to Councils in NSW via a survey that has historically been undertaken every two years, noting that the most recent survey is from 2018. It should also be noted that the 2018 LGNSW cost shifting survey includes data from the 2015-2016 financial year. Nevertheless that report states that the cost to NSW Councils for the 2015-2016 financial year from cost shifting was approximately $820 million. Whilst there is no recent combined data available on this matter, one could assume that the collective figure for cost shifting to NSW Councils for the 2021-2022 financial year may well be close to $1 billion if not more.

Over the decade that LGNSW was undertaking the cost shifting survey, it was found that not only was cost shifting continuing to grow, it was growing at an accelerated rate, with the per annum estimated value of cost shifting having more than doubled in that decade of reporting.

The following table provides specific details on cost shifting currently identified by Woollahra Council:

	Impacts of Cost Shifting from NSW Government	**2021/2022 Actual $**
1	Contribution to Fire and Rescue NSW	**2,091,725**
2	Contribution to NSW Rural Fire Service	N/A
3	Contribution to NSW State Emergency Service	**68,798**
4	Pensioners rate rebates	**166,561**
5	Voluntary conservation agreements	N/A
6	Public library operations	**53,625**
7	Shortfall in cost recovery for regulation of on-site sewerage facilities	N/A
8	Shortfall in cost recovery for regulatory functions/services under the Companion Animal Act (NSW) 1998	**176,916**
9	Shortfall in cost recovery for regulatory functions/services under the Contaminated Land Management Act (NSW) 1997	**20,065**
10	Shortfall in cost recovery for functions under the Protection of the Environment Operations Act (NSW) 1997	**105,137**
11	Shortfall in cost recovery for functions as control authority for noxious weed	N/A
12	Functions under the Rural Fires Act (NSW) 1997	N/A
13	Immigration services and citizenship ceremonies	**5,624**
14	Shortfall in cost recovery in the administration of food safety regulation	**382,392**
15	Provision of educational services	N/A
16	Crime prevention/policing	N/A
17	Flood Mitigation program	**251,470**
18	Transfer of responsibilities for roads under RMS road reclassification reviews	N/A
19	Medical services	N/A
20	Road safety	N/A
21	Community and human services	N/A
22	Waste Levy	**1,045,094**
23	Sewerage treatment system license fee	N/A
24	Waste management site license fee	N/A
25	Taking away of revenue from crown reserve land under council management	N/A
26	Shortfall in cost recovery for processing of development applications	N/A
27	Removal of ability for Councils to charge Compliance Levy Fees from 1 January 2022	**421,392**
	TOTAL	**4,788,798**

The table above broadly includes items that have historically been included in previous LGNSW cost shifting surveys and you will note that some items are not applicable to Woollahra Council. The amounts included in the table above are not necessarily exhaustive and as our reporting on cost shifting becomes more sophisticated over time, the table above may well change with the addition of new or altered items.

There are other impacts of cost shifting that are not easily quantifiable and there are impacts currently being absorbed by Council or likely to be absorbed by Council into the future. For instance, there are continual changes being made by the NSW Government in relation to the way development assessment is to take place within Councils. Assuming for the moment that these changes are appropriate, Council is hampered by the fact that the range of development assessment charges a Council can charge, are set by the NSW Government through the Environmental Planning & Assessment Regulation 2021. These fixed statutory charges do not cover roughly half of the cost of the development assessment process, therefore, Council has no opportunity to raise these charges.

Whilst it is accepted that a full cost recovery model for development assessment may not be appropriate, greater flexibility in setting charges would be a sensible way forward that would allow Councils some ability to recoup some of the costs involved in development assessment, particularly as the system becomes increasingly more complex.

As previously reported, In April 2020, the NSW Government requested that the NSW Productivity Commissioner review the infrastructure contributions system and make recommendations for reform. The stated intention was to determine whether the current system met the objectives of certainty and efficiency. The NSW Productivity Commissioner released the final report on the Review of Infrastructure Contributions in New South Wales on 3 December 2020, with the NSW Government accepting all 29 recommendations included in the final report. The Environmental Planning and Assessment Amendment (Infrastructure Contributions) Bill 2021 (the Bill) was introduced to NSW Parliament on 22 June 2021.

This Council, along with many other Councils lodged a submission on the Bill, which was adopted by Council on 28 February 2022. In the context of cost shifting, the analysis undertaken by Council staff at the time estimated that Council could lose **$2.49million** in revenue over the course of just one year, if the Bill proceeds in its current form.

It should be noted that at the time of writing this report, it is understood that the NSW Government will not be moving forward with the Bill, however that is not to say this Bill will not be further progressed at some point in the future.

Grant Funding:

Whilst the focus of this report is on the value and impact of cost shifting from other levels of government on Council, it should be acknowledged that Council does receive a level of grant funding each year from the State and Australian Government.

The key grant received from the Australian Government by Councils across Australia is known as the Financial Assistance Grants (FAGs). These grants are paid to Councils to help deliver services to our community and are paid annually.

For Woollahra Council, for the 2021-2022 financial year, Council received $1.734m in FAGs from the Australian Government, with part of that amount being a general component of $1.276m, with the other portion being a local roads component of $457k. Importantly, these grants are what are known as untied grants, meaning Council can spend them at their discretion, rather than on specific services etc.

In relation to other grants, during any given year, local Councils have an opportunity to apply for a range of grant funding from the State and / or Australian Government. These grants are generally around specific government initiatives and programs and it is up to each individual Council to decide whether a grant is appropriate to their needs or not. The majority of one-off grants require some form of financial and or in-kind contribution from Council, noting that grants that are successfully applied for by a Council, can only be used for the specific purpose that the grant was provided for and not for general operational purposes.

The purpose behind including information in this report around grant funding, is to ensure there is some balance in the conversation around cost shifting, with the key point being that whilst this report highlights the negative impacts of cost shifting from other levels of government, Council does apply for and receive a range of grant funding from these same levels of government.

However, the reality is that outside of the FAGs as detailed above, there is very little guaranteed recurrent funding available to Councils from other levels of government. This means that the majority of grant funding available to Councils is competitive, where one Council is competing against the next Council for limited grant funds for specific purposes, with no guarantee of success.

This leads on to one of the fundamental issues facing local government, being the funding model for Councils. The funding model for local government is effectively broken and no level of one-off successful grant applications can take away from the fact that issues such as cost shifting and rate pegging constrain a Council from being able to achieve long-term financial sustainability, with any degree of certainty.

At the core of this issue is the fact that according to the Australian Local Government Association (ALGA), local government has the smallest revenue base of all tiers of government, raising only 3.6% of Australia's total taxation revenues. Hand in hand with this, is that whilst local government only raises this minimal level of taxation revenue, Councils across Australia are responsible for managing and maintaining around 75% of the total road length in Australia or 662,000 klm's of roads and overall are responsible for around one third of non-financial assets across Australia, including roads, buildings and land.

The management of local roads is of course only one service that a Council provides to the community. For instance, a Council like Woollahra also provides waste management and cleansing services, a preschool, land use planning, heritage planning, building and development services, environmental management, community services, culture and arts, engineering services, open space and recreation management, tree management, library services and corporate services to name a few. All of these are delivered with a revenue base that is significantly smaller than other levels of government.

In addition to the above, there are also growing community expectations that a Council can and will continue to support the community not only in the delivery of services as detailed above, but across a range of new and or improved services, as well as be the lead when supporting the community manage and recover from things like a pandemic and natural disasters etc.

In general terms there is of course no issue in a Council being faced with growing community expectations, however the success of a local community can depend in part on the financial sustainability of their Council, therefore it is critical that Councils are able to raise sufficient revenue with which to continue to deliver services to the community, in the most efficient and effective manner possible.

<u>The Rate Peg:</u>

As noted earlier in this report, rate pegging is one of the key factors that can constrain a Council from being able to raise sufficient revenue with which to be able to provide ongoing and improved services to the community. This was evidenced by the 2022-2023 rate peg determination by the Independent Pricing & Regulatory Tribunal (IPART) for Woollahra Council (and many other Councils) of 0.7%, which was the lowest rate peg for approximately twenty years. This meant that Council could only increase its overall rates income for 2022-2023 by 0.7%, which equated to approximately $292,710 and fell some $543,603 short of the 2% rate peg that was included in the draft 2022-2023 budget.

Following advocacy by LGNSW and others, an Additional Special Variation (ASV) process for 2022-2023 was introduced which saw Woollahra's rate peg effectively restored to the 2%.

On the subject of the rate peg, in late September 2022, the IPART released an issues paper on the review of the rate peg methodology in NSW, including the Local Government Cost Index (LGCI). A separate report on this review is included on the Council meeting agenda for this 31 October 2022 meeting. Whilst this review is welcomed, it is fair to say that the best long-term scenario would be for the NSW Government to abolish rate pegging and in its place allow Councils the freedom to determine our own rates, through a suitable and accountable mechanism.

It should be noted that the General Manager is continuing to work with neighbouring Councils and the Council members of the Southern Sydney Regional Organisation of Councils (SSROC) on the financial impacts of cost shifting, with a view to being able to collate similar information as included in this report, across the member Councils of the SSROC, in order to be able to present a regional perspective on the value of cost shifting impacting member Councils.

Options:

This report is largely for noting, however Council can resolve in line with the recommendations included in this report or resolve in some other manner.

Community Engagement and / or Internal Consultation:

There has been no community engagement in relation to this report. Internal consultation has taken place with the General Manager, Director Corporate Performance, Chief Financial Officer, Directors & Managers.

As per Part E. of the above-mentioned 28 March 2022 resolution of Council (which requested that Council make public copies of correspondence to and from the State and Federal members of Parliament i.e. those specifically named in Part D. of the resolution) please note that the letter sent by the Mayor and General Manager to various people, along with any responses received to that letter, are provided in **Attachment 1**.

Policy Implications:

There are no specific policy implications as a result of this report, noting that the impact of cost shifting is a matter that must be taken into account when considering what services Council provides to the community and in the development of Council's Long Term Financial Plan.

Financial Implications:

As detailed earlier in this report, the impact of cost shifting on Woollahra Council for 2021-2022 is estimated to be $4.788million and this clearly impacts on Council's available funds with which it is able to deliver quality services and infrastructure for the community. If Council was not impacted by cost shifting or to the degree that it is currently impacted by cost shifting, this would mean Council could spend additional funds on:

- Additional services to the community.
- Increasing existing service levels to the community.
- New capital / renewal infrastructure works.
- Increased spending on maintenance of Council assets.

Whilst the estimated value of cost shifting as detailed in this report is currently absorbed into Council's annual budget, any reduction in the level of cost shifting from other levels of government will positively impact on Councils budget and future financial sustainability.

Resourcing Implications:

There are no direct resourcing implications as a result of this report.

Conclusion:

As can be seen from the information included in this report, the impact of cost shifting from other levels of government to Council is substantial and impacts on our ability to continue to deliver the range and quality of services our community deserve. Of equal importance is the fact that cost shifting continues to impact negatively on the financial sustainability of Council.

It is acknowledged that as detailed in this report, Council does receive a range of grant funding from other levels of government. However these grants do little to offset cost shifting, nor do they address the fundamental issues that exist around the funding model for local government. Until there is a broader review of the long-term funding model to local government, issues like cost shifting may well continue to force Councils to potentially reduce services to the community over future years.

Importantly, none of the information included in this report takes anything away from the fact that Council needs to continue to do what it can to ensure its own financially sustainable future. The constraints on Council revenue are well known and this, along with effectively managing the expenses that are within Councils control, will continue to be a feature of the budget repair work Council is undertaking now and in future years.

Attachments

1. Cost Shifting Letter to NSW Parliamentarians & Responses Received - April 2022