

Independent Pricing and Regulatory Tribunal

Rate Peg Focus Groups Research Report

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Quality and Compliance Statement

This project was conducted in accordance with the international quality standard ISO 20252, the international information security standard ISO 27001, as well as the Australian Privacy Principles contained in the Privacy Act 1988 (Cth). ORIMA Research also adheres to the Privacy (Market and Social Research) Code 2021 administered by the Australian Data and Insights Association (ADIA).

Acknowledgments

ORIMA pays respect to Aboriginal and Torres Strait Islander Peoples past and present, their cultures and traditions and acknowledges their continuing connection to land, sea and community.

We would also like to acknowledge and thank all the participants who were involved in our research for their valuable contribution.

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Executive Summary

Background and technical information

The rate peg is the maximum amount in percentage terms by which a council may increase its rates income in a year. IPART sets this percentage every year, on behalf of the Minister for Local Government, and has done so since first delegated by the then Minister in 2010.

The purpose of the rate peg is twofold:

1. It allows all councils to automatically increase their rates each year to keep pace with the estimated change in the costs of providing their current services and service levels to households, businesses, and the broader community - that is, their base costs. This helps ensure that they can maintain the scope, quantity and quality of these services over time without undermining their financial sustainability.
2. It also limits the impact of these automatic increases on ratepayers, by ensuring that councils cannot increase their rates by more than the estimated change in their base costs, and that they engage with their communities if they propose a step change in their rates revenue to fund improvements in the scope, quantity or quality of their services.

In 2022/23 IPART is conducting a review of the methodology used for setting the rate peg. Surveys of NSW residents (November 2022) and businesses (March 2023) have been conducted to explore current views, experiences, and preferences; and to establish a baseline of community perceptions. In April 2023 a series of five focus groups were also conducted, three with the general community and two with businesses. All groups were conducted online, and included participants from metropolitan areas, regional cities and rural areas of the state. The three community groups were split by the segments identified in the survey (see survey report for details) and the two business groups were split between micro (0-4 employees) and small and medium (5-199 employees) businesses.

Summary of results

The five focus groups with community members and the NSW business community provided important additional insight into the views of NSW ratepayers. As was seen in the survey stage, the views of residents and of businesses were very similar in most important ways, and the broad conclusions from both audiences are the same.

Consistent with the survey results, the community focus groups showed NSW residents have mixed views as to the current level of service delivery and value they get from paying rates, have very limited understanding of how rates are set (including almost no awareness of any regulation of this process), and a fairly pervasive impression that councils are not making the most effective use of the rates they receive. Compared to residents, business participants demonstrated some nuances – they were less variable in their views, saw less value from council rates, wanted to hold councils to a higher level of business practice, and were somewhat more dispassionate and mechanical in their preferences – but overall they reflected the same general opinions and values.

The survey suggested there are quite disparate preferences in the NSW community about how a regulator should approach the challenge of setting rates. However, **the focus groups suggest that underlying the differences residents and businesses actually see a much more consistent and near-**

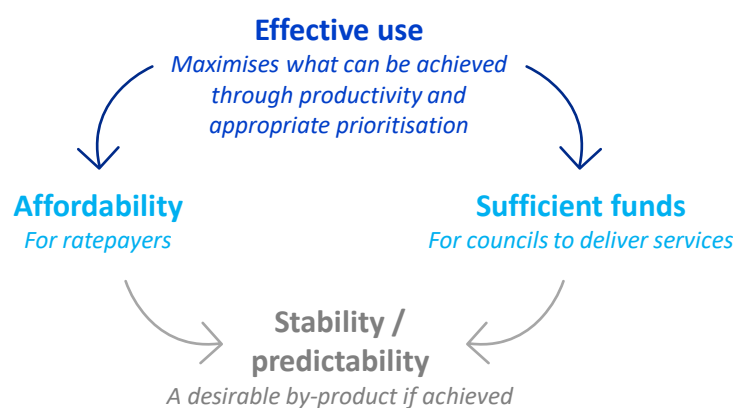
universal paradigm. The seemingly different preferences observed in the survey preferences are more reflective of personal circumstances, initial dispositions and experiences, rather than stemming from different inherent principles or values.

Prior to the conversations (which are central to the focus group format), a substantial proportion of participants instinctively adopted an inwardly-oriented heuristic of seeking to minimise personal or direct costs. This heuristic led to favouring any option which appears to minimise their direct costs. However, **in the community groups the chance to discuss issues and hear other opinions tended to prompt, if anything, a broadening of consideration of the value of paying rates to enable greater levels of community services and amenity.** In these groups, some participants who started off with more inwardly-oriented preferences changed their opinions somewhat. This opportunity to hear other viewpoints was not possible in the survey context, and this seemed to account for most variations seen between the groups and the survey results. **In the business groups there were no participants who felt they got good value from rates, so there was also no opportunity for business participants to hear different perspectives – and hence there was no similar tendency to broaden views seen in these groups.**

Participants had only a fairly general sense of what rates are used for by their councils, and this is **strongly influenced by the most tangible things that they can see and what they personally use.** Many of the purposes that rates are used for by councils are not readily visible, and so are not really included in their implicit assessments of value. Specific examples where services or facilities are below their expectations, or where funds are spent on ‘non-essential’ projects, are much more noticeable than those which are smoothly delivered and maintained to expectations. Hence, in the absence of clear information about how rates are used, many people are more likely to focus on aspects that fall below expectations.

Combined with a stereotype that councils are usually inefficient organisations (a particularly strong feeling for business participants), **there is a widely-held view that councils don’t maximise what they achieve with rates, and that therefore ratepayers generally have to pay more than they need to.**

The survey suggested that the most important consideration for ratepayers is affordability, ahead of money from rates being used effectively, and councils budgetary needs to fund services. However, **in the focus groups it was apparent that these are not separate considerations at all, but rather different facets of a single system.** *Effective use* sits at the top of the system, because this is the key to maximising the value achieved from rates at an individual and collective level. From an individual perspective, effective use means that rates can be minimised and *affordability* maximised. From a collective perspective, effective use means it is more likely that in total the council will have *sufficient* funds.



From either perspective, this was likely to result in greater stability and predictability as a desirable by-product (these characteristics are of somewhat more value to businesses, as they facilitate planning).

Most participants, regardless of their starting position and preferences, acknowledge the fundamental value of services and the necessity of at least some level of rates – but they all have a desire to optimise the value. For some resident and businesses there is a genuine need to minimise the magnitude of

the cost for affordability reasons, but even those who can afford to pay rates with relatively less stress want them to be used as effectively as possible.

At present, there is a general view that councils are not very efficient and productive organisations, and many feel councils collectively have a dubious track record of decision making and general financial management. Therefore, **while they acknowledged that it came with some additional costs, there was a strong acceptance of the role of a regulator to oversee councils setting and use of.** Businesses are also frustrated that councils don't seem to have to play by the same rules that they do, and want more business-like expectations of accountability and performance to be applied to councils.

There was virtually no awareness that there is current regulation of council rates. Residents and business participants shared **a strong view that community awareness there was a regulator and that a system of regulation for council rates was in place had its own inherent value.** Simple awareness of credible regulation can give them confidence that the system is governed to at least some extent, and providing guardrails so the cost to individuals of maintaining community amenity is as low as possible.

Most participants found it easier to articulate *what* they wanted a regulator to achieve than to visualise exactly *how* they would go about doing that. Each group discussion ultimately focussed on a few **common key concepts, or characteristics, that they would like a regulated rates system to have:**

1. **Transparent.** This is driven by the current patchy information and lack of control ratepayers feel over how their rates are actually used. Transparency includes information available on how rates have been used, are planned to be used, and how and why rates changes have been approved.
2. **Accountable.** This is driven by the current low level of trust in the integrity and competence of councils to use revenue from rates as intended. Accountability includes demonstrating that funds were used for what they were allocated to (as well as effectiveness and efficiency).
3. **Effective / Efficient.** This is driven by a sense that councils could make much better use of the rates that they collect, thus being able to reduce the cost on ratepayers and need for further increases.
4. **Fair / equitable.** This is driven by a sense that there is currently inequity in what ratepayers pay and get, and a concern that increasing rates has the biggest impact on the most vulnerable members of a community. Fairness includes equity between different councils, that funds are used equitably across locations within any given council, and that there is an effective way to identify and protect people who cannot afford to pay (full) rates.

At present NSW residents and businesses have low understanding of how rates work and feel powerless in the relationship. However, they do value the essential services their councils provide and the communities they create, and ultimately most are happy to contribute to the funding of those services through rates. **They just want the rates system to be more equitable and effective than they currently believe it to be, and see the role of the IPART as a regulator as a critical safeguard to extract more efficiency from it.**

Background and Technical Details

Background

The role of the NSW Independent Pricing and Regulatory Tribunal (IPART) is to help NSW residents get safe and reliable services at a fair price. It has a number of roles:

- the independent pricing regulator for water, energy, public transport and local government
- the licence administrator of water, electricity and gas
- the scheme administrator and regulator of the Energy Savings Scheme

The rate peg is the maximum amount in percentage terms by which a council may increase its rates income in a year. IPART sets this percentage every year, on behalf of the Minister for Local Government, and has done so since first delegated by the then Minister in 2010.

The purpose of the rate peg is twofold:

1. It allows all councils to automatically increase their rates each year to keep pace with the estimated change in the costs of providing their current services and service levels to households, businesses, and the broader community - that is, their base costs. This helps ensure that they can maintain the scope, quantity and quality of these services over time without undermining their financial sustainability.
2. It also limits the impact of these automatic increases on ratepayers, by ensuring that councils cannot increase their rates by more than the estimated change in their base costs, and that they engage with their communities if they propose a step change in their rates revenue to fund improvements in the scope, quantity or quality of their services.

In 2022/23 IPART is conducting a review of the methodology used for setting the rate peg. To support other aspects of the review, a survey was conducted of members of the community in November 2022 and of businesses in March 2023. The purpose of the Rate Peg Survey was to obtain reliable information from NSW residents and businesses about what is important to them with respect to the setting of council rates.

Following the surveys, a series of qualitative focus group discussions were conducted – three with community members, and two with key decision makers in small and medium sized businesses. The purpose of the focus groups was to explore the reasons behind the views and preferences expressed in the survey, including the relative strength of opinions.

Technical details

All of the focus groups were conducted as 90-minute online sessions, with 8-9 participants. Participants were coordinated by specialist qualitative research recruiters using a script to explain the process, obtain informed consent to participate, and identify which group participants best fit into. All participants in qualitative research are paid an incentive to recognise their time and effort. Such incentives broaden the range of people who agree to participate in the focus groups and increase the proportion who actually attend, thus substantially increasing the quality of the data obtained.

The same discussion guide was used for both the resident / community focus groups and the business focus groups (see Appendix A).

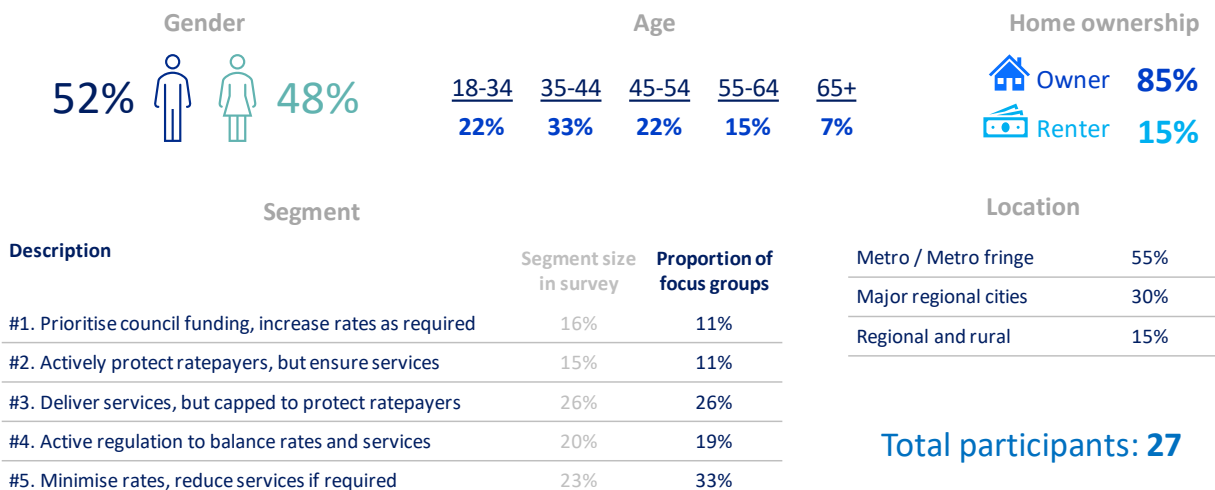
Focus groups were conducted in April 2023.

Community groups

The three community groups were structured around the five segments that were identified in the survey. Conducting groups with largely like-minded residents was intended to allow participants a comfortable space to talk about their opinions, while allowing some contrast and differences to be observed within and across the different groups. This was achieved by asking prospective participants four of the eight trade-offs from the survey that collectively allowed a sound guide to the segment they were most likely to belong to (noting that individuals do not necessarily hold *all* of the specific preferences of their segment).

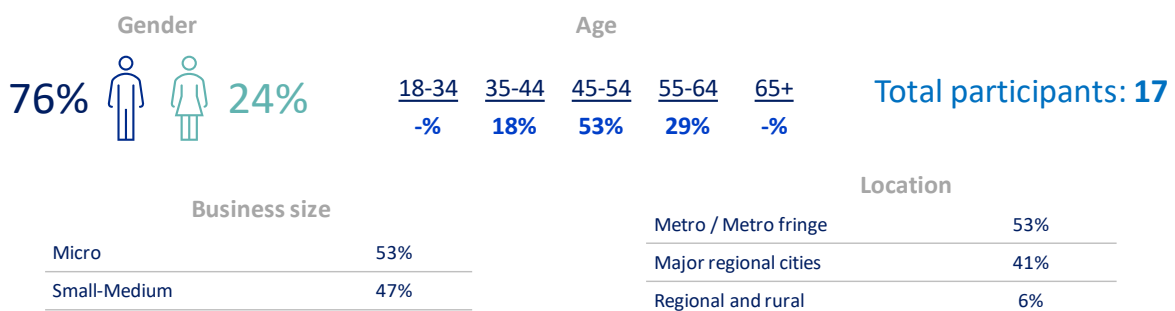
Segment 5 was the most distinct segment in the survey, and therefore one focus group was conducted just with this segment. For the purposes of practical recruitment and based on key similarities, one of the other groups targeted participants from segments 1 and 3, and the other participants from segments 2 and 4. These combinations allowed points of similarities and points of differences in opinion to be discussed in these groups.

Each focus group was recruited to have a balance of male and female participants, and a wide range of ages. Each group consisted of some participants from the Sydney metropolitan area, regional cities, and regional or rural areas. The breakdown of participants was:



Business groups

The two business groups were structured around business size based on employee numbers. One group was with micro businesses (sole traders up to a maximum of 4 other employees), and one with small and medium businesses with 5-100 employees. The breakdown of participants was:



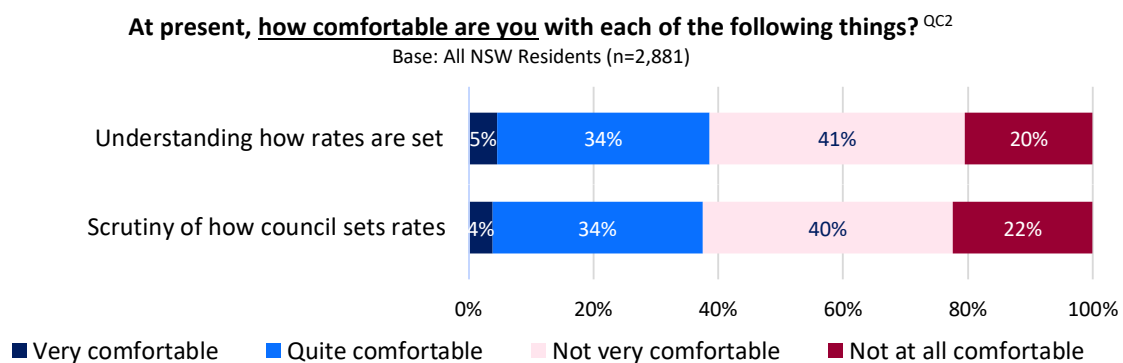
Detailed Results

Community Members

Current Perceptions

Understanding and Engagement

The community survey conducted in late 2022 suggested that NSW residents generally had low-to-moderate comfort with their knowledge and understanding of rates, including how they are set.



The community focus groups also showed that **many residents do have limited, if any, understanding of how council rates are set; and many have low levels of trust in councils and their use of rates.** A small number of focus group participants had quite detailed knowledge about rates, but this usually stemmed from specific experiences (such as the purchase of a first house, local problems or issues, or substantial changes to their rates or services) rather than general knowledge, and most participants knew little.

“I’ve got no idea, honestly.” [Multiple participants, segments 1 and 3]

It was also apparent from the groups that most residents don’t typically give a lot of thought or consideration to their rates. For some at least, this reflects a lack of perceived control of being able to do anything about them anyway, and hence there is little motivation to understand them.

“I don’t have a lot of knowledge around it. When you asked about rates I just said it was a mandatory thing. So to me it comes from someone, someone dictates it, and there must be some planning done behind it. I’ve never really looked into it because I feel it’s just something that I have to pay. I’m not saying it’s a waste time reviewing that. But to me it was just a mandatory thing, so I didn’t look into the background behind it.” [Female aged 48, Metro, segment 2]

“It is quite frustrating at times when you personally might not realise the entire value of what you’re paying. You just sort of assume that everything is going ultimately for the greater good. And so I think I’m sort of trying to disassociate myself from the dollar I pay, because ultimately I have no impact on it.” [Male aged 26, Metro, segment 5]

However, **while many had little knowledge or spontaneous motivation to seek out understanding, most were very interested in the topic of rates.** For the majority rates are a significant regular household cost or bill, and most did have opinions and engage with the discussion. In fact, the lack of existing knowledge or sense of control was a major driver in their overall views of how they would like the rates system to be improved – with concepts of transparency and accountability very prominent.

Participants could identify a range of things that they thought councils used rates for, but these were generally only in conceptual ways. Uses such as roads, waste services, assets and amenities (such as parks), events and the like were often mentioned. Less commonly individual participants mentioned uses such as paying council employees, parking services (in both positive and negative terms), libraries and general maintenance. **For the most part, they relied on things they could see or assume councils must do to judge where rates are used.**

For many participants, the 'default' or latent view on aspects relating to rates seemed to be (at least initially) driven by a reasonably simple "inwardly-oriented" view of wanting to pay the least possible amount in rates or taxes. In the absence of knowledge or a sense of control, the simplest narrative is that rates are a large cost that they would prefer to minimise and that councils don't use the funds efficiently, and so instinctive reactions can often reflect this perspective. This was a particularly common starting point for people who are in segment 5 from the survey (which had the strongest preference for prioritising lower rates regardless of the impact on service levels).

However, through the conversations in all focus groups some participants noted that they became aware of greater complexity than they were previously cognisant of – such as the differences across locations (especially between urban and rural settings), and broader considerations than just that most simple inward-oriented perspective. As such, **where participants changed their views during the groups, they tended to move to less inwardly-oriented views after hearing the discussions.**

Starting opinions

Focus group participants had little knowledge about how rates are set or detailed knowledge of how they are used, and consistent with this their starting opinions (or general 'disposition') to the concept of rates was quite mixed. Some participants' overall first associations with 'council rates' are framed quite positively around services and the upkeep of their communities, some were quite neutral and emotionless, and others were framed more around the cost imposed on households.

Positive views of rates

"I actually really enjoy our Council. We have a lot of additional services in the area that we get. One of the things our Council does, I guess I see them giving back. They do give back to the community in different ways as well. Events is one. We have an annual children's event. I was a single mother for a little while there. I was completely poor, and we could go to this event every year, my little guy would get a balloon, so they do give back." [Female aged 48, Metro, segment 2]

Neutral views of rates

"I have totally neutral feelings towards them. Nothing, to be honest." [Female aged 38, Metro, segment 3]

Negative views of rates

"It's a necessary evil. It's just one of those things you have to pay, there's not much to it." [Female aged 45, Regional city, segment 5]

"It is a big bill that you can't escape." [Male aged 32, Metro, segment 4]

This is consistent with what was seen in the survey, where a little over two-in-five respondents rated the current quality and level of services provided to them by their local councils as *good or very good*, around a third said they *were ok* and one-in-five said they were *not good enough*.

The extent to which participants experienced the concept of rates primarily as 'a cost of worthwhile services they got' or as 'a bill to resent' seemed driven in part by the extent to which they could look beyond the impost of the bill on their personal or household situation, and their sense of 'value' for what they received. Across all segments, the sense of value was only indirectly linked to household income, and if anything more to the sense of financial stress a household felt.

Perceptions of value

The perceived 'value' associated with rates was dependent on several factors. Straight affordability (the ability for a household to be able to pay the rates bill without undue stress or financial impact) is a part of that equation, but even for some participants who found rates hard to afford, depending on these other considerations they may still feel that they were at least getting 'value' for that hardship.

As most participants have incomplete or only conceptual knowledge of what rates are used for, **the value they ascribe is primarily driven by what they can see or experience**. As the lists below describe, there are a range of specific factors that can contribute to a better or worse sense of value.

Factors that affect perceptions of value

Increase perceptions of value

- When you can see thing being done / the council and its workers looking busy [SEE](#)
- When you personally use services and facilities [USE / RELEVANCE](#)
- When you have information about what rates are being used for [UNDERSTAND](#)

"But when you get that bill, you know, at the start of the financial year it's a big amount and I think with your tax returns the way you see there is that breakdown of exactly where it's going, that could also make you feel like you are involved in doing something. It's a lot more effort to get that for your council. Just a little thing to say this is how your rates contributed to what we've done, because if I can't really call on the guidance, I actually don't know why I'm paying." [Female aged 39, Regional city, segment 3]

- When problems and issues are fixed [SOLVE](#)
- When you feel good for supporting vulnerable people in the community [SUPPORT](#)
- When the community meets your expectations as a place to live [AMENITY](#)

"Rather than trying to get to fixated on the money, which is obviously, you know, it's tough. But I think what I'm trying to do is to try and take myself out of the emotion part of it, and maybe just trying to at least see look around me and say that things are at least in order. It's not too much in disarray, and that I'm not living in a rubbish dump of sorts." [Male aged 26, Metro, segment 5]

Decrease perceptions of value

- Personal affordability issues [AFFORDABLE](#)
 - Having no information [UNDERSTANDING](#)
- "So largely speaking, we're largely in the dark." [Male aged 68, Metro fringe, segment 3]*
- When it feels like a lot of money [COST](#)
 - When the community doesn't meet your expectations as a place to live [AMENITY](#)
 - When things are not fixed / not fixed properly / not done well [ERRORS](#)
 - When not responsive to requests or feedback [UNRESPONSIVE](#)
- "We had nearby problems with the intersection, and no one's listening. No one cares from the Council." [Female aged 45, Regional city, segment 5]*
- When rates are used on projects that you don't agree with or use [POOR DECISIONS](#)
 - When the organisation is wasteful or pays a lot for things to be done [INEFFICIENT](#)
 - Feel like services are declining [DECLINE](#)

“When it feels like services are declining and the cost is going up.” [Female aged 51, Metro, segment 3]

- Feel inequity with other ratepayers (in council or across councils) **INEQUITY**

“It can also be very variable, depending on whether you're in town or out of town. People who are more remote will have significantly less services provided, and then they still pay towards it.” [Female aged 39, Regional city, segment 3]

“My block size is very similar to a friend in Newcastle Council, and she pays less rates than me. So understanding from council to council how things are calculated, I've got no idea.” Female aged 45, Regional city, segment 5]

Some of these factors that increase or decrease the sense of value are the flip sides of the same thing, but participants identified more ways that rates can seem like poor value than the ways that make rates feel like good value. In part this stems from the power of visibility and tangibility.

Many of the things that councils use rates for are not immediately visible to residents (eg: maintenance, backroom services, administrative functions), or relate to general business-as-usual activity that does not attract much notice. Because of this, it is perhaps easier for residents to notice those things that fall below their expectations rather than which meet (or exceed) their expectations, and for these deficits to become the most salient and relatively important to them.

“I think the visibility of it. And then the fact that you use it passively. You're not actually thinking about it when you're receiving the utility from those things.” [Male aged 26, Metro, segment 4]

Alongside this list of factors there are also several more holistic opinions, assumptions or considerations that influence different people on an individual basis:

- The perceived value of those who can afford to contributing to the collective benefit of the community, in particular to support people who many need specific services but be less able to afford to contribute to them.

“It can be difficult at times to see what we get for the really high rates that we pay... but I really understand the value of the group paying for all of the services. If we think about the direct benefit that we get we probably only get roads. and our roads, like many around New South Wales, are extremely poor – so I can only say that we get value out of paying rates if I think about it in terms of the collective. [But] I know that there's a lot of vulnerable people around where I live. If they couldn't access things like the library... we have a brilliant health service that goes above and beyond. I don't access that health service, but I think it is really important if I can pay a small amount so that means they also only have to pay a small amount.” [Female aged 43, Rural, segment 1]

“I don't know. Maybe I'm silly, but I still believe in caring for the community. I see a lot of homeless people. You see a lot of people who kind of need those services. If it was a user pay system then they wouldn't get the help that they needed, and I can afford to pay for them.” [Male aged 53, Metro, segment 1]

- Holding a general disposition that in Councils are untrustworthy, wasteful, inefficient and / or ineffective users of the funds they have.
- Perceptions of equity for ratepayers across different councils, or in different living arrangements (eg: apartment complexes versus freestanding housing).
- That their expectations of what is an acceptable place to live are being met (noting that what is 'acceptable' varies considerably across locations and individuals).

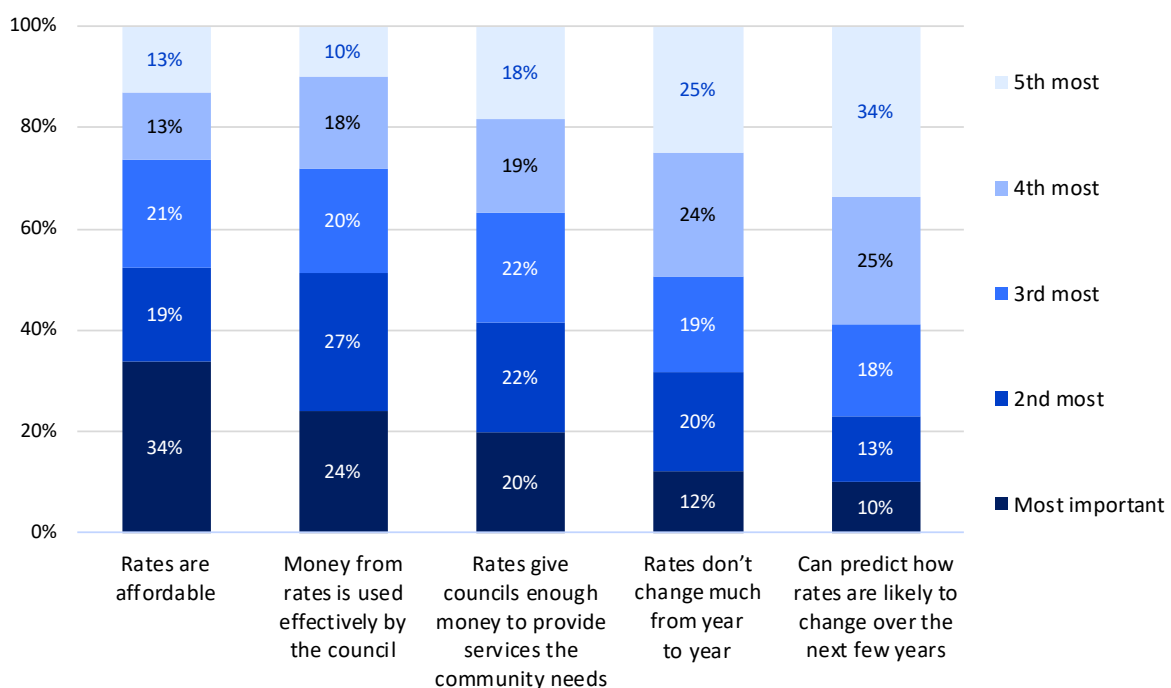
Priorities and Drivers

Prior to the survey five potential ‘drivers’ or priorities for ratepayers were identified. In the survey respondents were then asked to rank these from most to least important for them. This showed a reasonably clear ordering of the five, but also that each was important to at least some respondents.

In the survey ‘affordability’ emerged as the most important priority, ahead of money being used effectively and giving councils enough to provide the services their communities needed. Stability and predictability were relatively less important.

Of the following considerations, please rank them from most important (1) to least important (5) to you at the moment. ^{QD1}

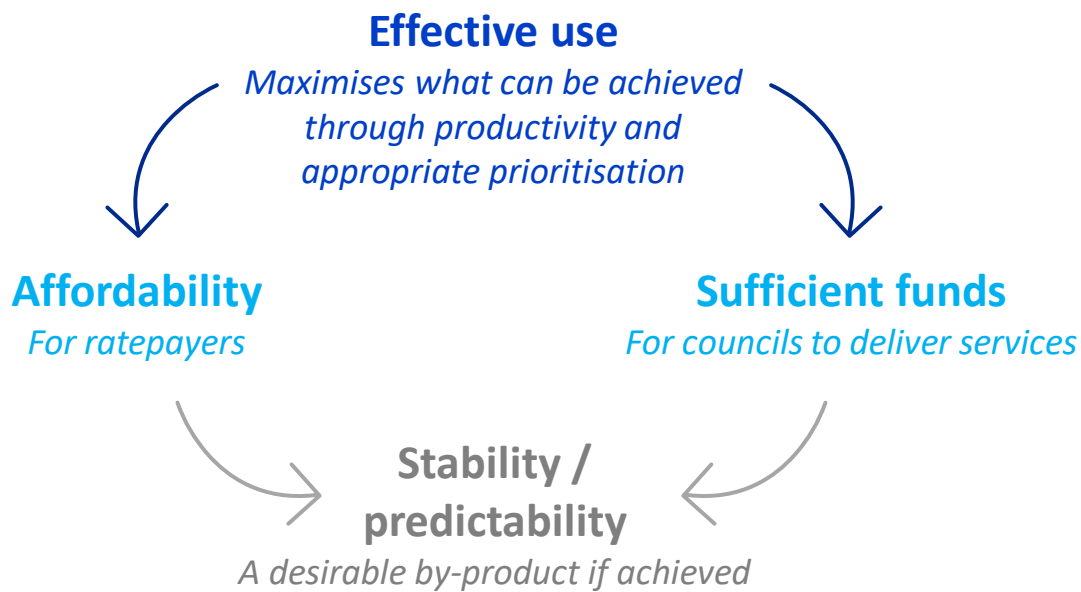
Base: All NSW Residents, only online respondents (n=2,593)



In the focus groups, the same broad pattern emerged, with a focus on affordability, effective use and having sufficient funding available for services. The difference between the survey and the focus groups was that **participants in the groups described all of these key priorities as different facets of an interconnected system, rather than distinct factors.**

In essence, **effective use sits at the top of the system, because this is the key to maximising the value achieved from rates at an individual and collective level.** From an individual perspective, effective use means that rates can be minimised and affordability maximised. From a collective perspective, effective use means it is more likely that in total the council will have sufficient funds. From either perspective, this was likely to result in greater stability and predictability as a desirable by-product.

Participants mostly placed one of the three most common priorities from the survey as their most salient characteristic, but essentially saw a ‘virtuous cycle’ that encompassed them all. What was most salient to each individual depended on their circumstances, initial disposition and previous experiences, but regardless of which they put at the top of their personal list, they could almost all see the cyclical linkages.



Effective use was considered foundational, from several perspectives. Ethically, effective use was considered to be a minimum standard for appropriate use of public funds. Functionally, effective use was key to optimising the value proposition both in terms of minimising costs to ratepayers and to maximising the outcomes achieved. Councils are widely considered to have a poor track record in effective use of funds (both in terms of decision making and productivity), and therefore many participants emphasised ‘effective use’ as the single most important priority for them as a point of major improvement (and greater accountability as an outcome they would like from regulation).

“It just makes sense to me. You don’t use money inappropriately.” [Female aged 48, Metro, segment 2]

“Regardless of whether there is enough money or not, we want them to use it effectively as we do.” [Female aged 63, Rural, segment 4]

“If you use the money effectively, then it is going to contribute to [rates] being affordable.” [Female aged 43, Rural, segment 1]

Affordability was the most direct, tangible, personal experience of paying rates though, and there were two perspectives which appeared to prompt some participants to prioritise this facet as their *most* salient. For some, the default inwardly-oriented narrative emphasises minimising personal costs and so affordability is instinctively their first reaction. For others, the precedence of affordability was based on their financial circumstances, where the basic ability to pay (increasing) rates was in doubt or placed a hardship on their households.

“I just basically looked at my own circumstance, and which one would benefit me the best.” [Male aged 38, Regional city, segment 3]

“Affordable was very much on par with using the funds effectively, you want to see the money used effectively, but not everyone can afford to pay.” [Female aged 45, Regional city, segment 5]

“The selfish reasoning that if I can't afford to pay it, then the personal stresses and the impact upon my own family is probably significantly more than if a few services are reduced, or if the money is used a little bit less effectively.” [Female aged 39, Regional city, segment 3]

“Making sure there's enough money to fund the basics. We need a baseline set of services that are costed with set rates that are equally charged for everyone, and I think everything after that should be a nice to have. But I think there are some basics, you know, in each area. I'm in a fairly wealthy area but I'm not particularly wealthy myself, and sometimes I look at the money, and I think what are you spending my money on?” [Female aged 43, Metro, segment 5]

Councils having sufficient funds to deliver services was prioritised by some participants who generally had the means to currently pay their rates, and who also held the ongoing delivery and maintenance of their services as a priority. However, while many people in the groups (sometimes grudgingly) recognised the need for rates to exist and for them to increase over time in order for councils to be able to deliver the services they wanted / needed / valued – there were barriers for some participants to put this as their *main* priority. There were concerns that councils being able to solve their weaknesses in productivity and effectiveness by simply raising rates didn't impose a sufficient discipline on them to do more with what they had and / or to make better choices about where to spend; while some participants also felt that councils generally have a lot of money and don't actually need to be given more¹.

“If they don't get enough money they're not going to be able to use it effectively, because they're going to be hamstrung with having to look at where to spend the money.” [Female aged 60, Regional city, segment 4].

“I have bought into an area and spent a lot of money on our property, and I would be horrified if my services weren't kept up to scratch, because my resale value of my property would deteriorate.” [Female aged 57, Rural, segment 5]

“Councils receive a lot of money from different areas, and most of it's probably not put back into community services to people.” [Female aged 57, Rural, segment 5]

“Hear stories of councils that have like lots and lots of money, and kind of hang on to it.” [Male aged 44, Metro, segment 5]

Stability and **predictability** of rates in the focus groups, as in the survey, were less important considerations. A few participants mentioned the desirability of a status quo where rates and services were in balance; and of the potential value of being able to budget over a longer timeframe for both councils and themselves. However, almost no participants put these concepts ahead of one of the three most salient facets of the rates system, and these were more like 'desirable by-products' than key outcomes or priorities in their own right.

Most participants did not feel that what was most important to them in the current financial circumstances was substantially different to what would usually be the case for them. If anything, the current economic climate pushes more participants to reflect on affordability, and to anticipate that rates are likely to increase – but their guiding principles did not feel substantially different.

¹ This view was usually associated with having heard media reports of councils that accumulated large amounts of unused funds, or inappropriately used / mismanaged funds.

Regulation

The survey and the focus groups made it clear that NSW residents do see a lot of value in the services and amenity that their councils provide, and most acknowledge that rates are an inevitable necessity to help fund those. Many participants in the focus groups were complimentary to their councils in part and overall, and collectively they brought a diverse set of opinions into the groups.

Overall however, there is also a lack of trust in councils to optimise the use of the rates, through a combination of inefficiency, questionable decision-making, and (at times) significant mismanagement. Therefore, there is felt to be a lot of scope for council performance to be improved and the burden of rates on ratepayers to be minimised.

While there was a little scepticism from some participants about the costs and effectiveness of regulation, there was **generally a high level of support and enthusiasm for oversight and regulation of council rates**. For the most part, participants were not previously aware of the regulatory process, and there was almost no awareness of IPART specifically. Many participants assumed that the current research was more about *introducing* regulation of council rates rather than reviewing how it was done.

"I'm glad to hear that there's movement, you know there is someone coming? Finally. I just want to, I want them held accountable, you know. Do what you're meant to be doing. Use the money most efficiently and effectively, whatever that looks like. At the moment I think they're a little bit rogue, like they're self-governed." [Female aged 43, Metro, segment 5]

Desired Outcomes

In combination, the discussion of what constitutes value from paying rates and consideration of several trade-offs that a regulator needs to make tended to open participants' eyes to the complexity and nuances of the balance between rates and services. Where participants changed opinions in the groups, this was almost always to change from an instinctively inwardly-oriented preference to a (sometimes grudging) acceptance of the value of paying rates even when they increase.

It was apparent that **most participants found it easier to articulate *what* they wanted a regulator to achieve than to visualise exactly *how* they would go about doing that**.

Each group discussion ultimately focussed on a few common key concepts, and despite the seemingly stark differences in the preferences of the segments in the survey, in the focus groups it was apparent that there was **really just one near-universal paradigm that underlay those different specific preferences**. Participants generally saw effective use of revenue raised through rates as foundational to both their own affordability, and to councils having sufficient funds to deliver services; and had almost universally desired characteristics they wanted to see in the system for setting and collecting rates. **The differences expressed in the survey stemmed more from personal circumstances, initial dispositions and experiences, rather than from different principles or values**.

Ratepayers generally have limited knowledge of how rates are used or set, and feel very little control to influence either aspect. They experience a direct personal cost of paying rates, but feel they have limited ability to tangibly discern how they are used. Combined with a stereotype that councils are generally not efficient or productive, and media coverage of significant negative events and issues about councils – most ratepayers are left with a feeling of distrust that they are not being over-charged.

With these contextual drivers, **ratepayers want the regulator² to deliver a rates system that is:**

1. **Transparent.** This is driven by the current patchy information and lack of control ratepayers feel over how their rates are actually used. Transparency includes information available on how rates have been used, are planned to be used, and how and why rates changes have been approved.

“How much has been attributed to each project. It’s like setting a budget right. If you set a budget, you put out a plan. So you actually say, this is the budget that we’re trying to achieve, and this is how we’re going to achieve it, and at the end of the day this is what we actually did - where the shortfalls or outcomes were. The Council would report on it, but there’d be some kind of control in terms of a framework that the Council would need to adhere to and report on.” [Female aged 48, Metro, segment 2]

“I was thinking in a way I’d like some sort of comparison. Would be useful to compare similar councils on maybe size or population, almost like a peer review, so people can see how their councils compare to other councils.” [Female aged 63, Rural, segment 4]

2. **Accountable.** This is driven by the current low level of trust in the integrity and competence of councils to use revenue from rates as intended. Accountability includes demonstrating that funds were used for what they were allocated to (as well as effectiveness and efficiency).

“It’s just making sure that they adhere to what they’re supposed to be doing.” [Female aged 43, Metro, segment 5]

“I want to know my money is being spent well, and I think the only way that I can see if that is the case is, across councils, I can see that this is the percentage of money that that my Council spent on each area in comparison to other councils.” [Male aged 57, Metro, segment 3]

3. **Effective / Efficient.** This is driven by a sense that councils could make much better use of the rates that they collect, thus being able to reduce the cost on ratepayers and need for further increases.

“There’s a really important role if you’re a regulator in councils having oversight of the disbursement of their funds... so that there is a governing body that can see if those funds aren’t effectively used.” [Female aged 43, Rural, segment 1]

4. **Fair / equitable.** This is driven by a sense that there is currently inequity in what ratepayers pay and get, and a concern that increasing rates has the biggest impact on the most vulnerable members of a community. Fairness includes equity between different councils, that funds are used equitably across locations within any given council, and that there is an effective way to identify and protect people who cannot afford to pay (full) rates.

“There’s got to be some way for people to be able to approach council or to be identified who can’t afford to pay.” [Female aged 43, Rural, segment 1]

“My block size is very similar to a friend in Newcastle Council, and she pays less rates than me. So understanding from council to council how things are calculated, I’ve got no idea.” Female aged 45, Regional city, segment 5]

² Ratepayers do not especially break down (nor likely care) to what extent all these outcomes are in the remit of IPART – they are the outcomes they wish to be achieved, and that IPART can contribute to.

Ratepayers recognise that there will be some additional costs associated with regulation, but are generally willing to pay those costs because their experiences suggest that the risks of no regulation are worse in the long run (bearing in mind that participants in the research noted that it was hard to judge trade-offs of rates and services without knowing the magnitude of changes).

Simple awareness of credible regulation can give them confidence that the system is governed to at least some extent, and providing guardrails so the cost to individuals of maintaining community amenity is as low as possible. This allows them to feel confident that:

- Their money paid in rates is not being wasted
- Their money paid in rates is being used effectively
- The most vulnerable are not being unreasonably affected without due recourse
- Rates are as low as they can reasonably be
- The right balance is being struck
- They can understand how the system works

At the end of the day, the collective summary might be best expressed as “*make sure our money is used well*”, but as one participant noted, it is also to:

“Keep the budgets honest.” [Male aged 39, Regional city, segment 5]

While participants ultimately found it easier to articulate outcomes of regulation more so than processes, they did suggest a number of **mechanisms or processes** that some felt would be useful. These included:

- Develop a reporting framework that all councils need to report expenditure against, so that there is a standard and comparable format for published information (possibly drawing on the example of the way information about how income tax revenue is used is provided with tax returns).
- Publish benchmarks (for comparable types of councils) on both actual spending, and also what are appropriate or best practice costs for relevant services, so that interested ratepayers can readily assess performance.
- Consider identifying a minimum set of standard services with fixed rates for all ratepayers, so that there was equity across locations and an affordable base for people who can’t afford higher rates.
- As part of the process of considering the next rate peg, review previous / current expenditure against what was planned or committed (including taking into account any unspent / poorly spent funds).
- Provide some sort of method / toolkit / support for councils to meaningfully and cost-effectively consult with their community if and when required.
- Develop a community awareness and profile of their own, so that ratepayers are aware of the fact that a regulator is providing oversight to council rates.

“I think the regulator needs to get its brand out there, because I didn't know about them. I think if the Regulator is going to be transparent and justify what they're doing, we need to know that they exist. They need to demonstrate that they're making some decisions or doing some things based on what they've heard from people.” [Female aged 63, Rural, segment 4]

Considerations and Challenges

Through the course of the focus group discussions, participants identified a range of issues, challenges and considerations that are applicable when thinking about rates. These included:

- The identification and protection of individuals who cannot afford to pay rates is very important (both to those who have difficulty affording rates themselves, and to those who feel uncomfortable about placing undue pressure on members of their community).
- Unlike income tax, which is directly linked to ability to pay (as it is varied based on income), rates are generally not varied by factors associated with ability to pay (for example, asset-rich cash-poor households, or low-income people living in more affluent suburbs).
- For those people who live near council boundaries, the inequities of rates and / or services can be more apparent.

“It also depends on where you are to the town boundary, whether you were in the rural area. Where I live, the creek runs through the middle of town and one side is classified as a different council to the other side, so services are quite mixed within our area.” [Female aged 57, Rural, segment 5]

- Some of the things that councils spend money on – such as administrative functions, support services, maintenance etc – are not readily visible to ratepayers, and therefore not factored into their implicit perception of the value they get from paying rates. For many people, it is also more likely that they will notice a ‘deficit’ in services than to notice something that is smoothly and effectively delivered and meets their expectations. Again, this has the effect of meaning that ratepayers are more likely to be unsatisfied with the value from their rates if they don’t have any more complete information.
- Ratepayers currently feel very little sense of control over rates. This leads to a sense of frustration in some, and disengagement in others. Knowing that a regulator is overseeing rates may help to offset the lack of control, knowing that at least there is a mechanism exerting some discipline on the system.
- Discussion of rates appears to increase perceptions of the complexity of balancing the need to fund valued services and minimising the burden on ratepayers. This tends to make people less likely to instinctively choose inwardly-oriented options that are in their own perceived best interest, compared to when they respond to these concepts in isolation and without hearing other viewpoints.

Advice for a Regulator

The focus groups closed with participants being asked if they had any last piece of advice that they would want IPART, as the regulator, to consider. The main themes of trying to create transparency, accountability, fairness and increased effectiveness continued to emerge in these suggestions, but several other points were made by one or more participants.

- Have standard systems that apply across all councils, but allow enough flexibility to adapt to each circumstance in a fair way – there can’t be a one-size-fits-all process, but it needs to be fair to people in all councils.
- Any system needs to make sure it actively identifies and protects vulnerable people.
- Bring the whole process ‘into the light’ – do it publicly, facilitate transparency and promote fair comparisons.

- Be open, not defensive when questioned.
- If you are going to audit councils – do it well, so that it works.
- Make sure councils take care of their communities.
- If trade-offs of costs and services need to be made, ratepayers need enough information about what is being traded off to effectively assess the options.

Guiding Principles

The key section of the survey was for respondents to indicate which of two competing approaches they would prefer IPART to adopt in their role as the regulator when setting the rate peg. Respondents to the survey and participants the focus groups were asked to consider a number of such trade-offs, and asked to pick the option they preferred most or disliked least. This approach compels people to consider the ramifications of their preference, and requiring an either/or choice means that they can't 'sit on a fence' that may not exist in practical terms.

Eight trade-offs were included in the survey. Of these, at an overall level there were only three where there was more than a 60% majority preference, and in two of the eight preferences were almost perfectly split. While there did not appear to be any clear demographic factors at play with these preferences, a segmentation analysis found five segments that had quite distinct patterns of preferences.

Based on their distinctive characteristics, the segments were summarised as:

	Segment description (<i>based on distinctive preferences</i>)	Segment size
	#1. Prioritise council funding, increase rates as required	16%
	#2. Actively protect ratepayers, but ensure services	15%
	#3. Deliver services, but capped to protect ratepayers	26%
	#4. Active regulation to balance rates and services	20%
	#5. Minimise rates, reduce services if required	23%

The focus groups were recruited around these segments, putting people with similar or contrasting preferences together in order to explore the rationales behind these preferences in more detail. Segments 1 and 3 were combined and segments 2 and 4 were combined in groups, with segment 5 in a separate group. In each focus group two-to-four of the trade-offs were discussed in depth.

The preferences expressed in the focus groups were broadly consistent with what would be expected from the survey, noting that not every individual has exactly the same profile across every trade-off as their segment overall. Where the focus group participants' preferences were not entirely consistent with the survey, this appeared to reflect participants taking a more complex and collective view of the trade-off choices than individuals did when responding to the survey in isolation (be it due to the social desirability pressure of the group setting, or just having heard the greater range of opinions and perspectives in the group conversations).

Trade-off A

Trade-off A asked whether all councils should change rates by the same amount each year, or whether each council's rate change should be more individualised.

When IPART and councils are considering some of these trade-offs, which approach would you prefer that they took? Segment preferences. ^{QD2}

Base: All NSW Residents (n=2,881)

	NSW	#1	#2	#3	#4	#5
<i>Segment preferred trade-off option is shaded</i>	100%	16%	15%	26%	20%	23%
How rates change						
Each council's rate change can be a different amount to suit their situation	67%	81%	74%	81%	62%	
All councils change rates by the same amount each year						57%

In the survey only segment 5 (who placed the highest premium on minimising rates even if it meant reducing services) leaned towards all councils changing rates by the same amount each year. This trade off was explicitly discussed with segment 5, and indirectly with other segments.

In the groups, including the discussion with segment 5, there was almost universal agreement that rates should be individualised to each councils' needs, context and events. In part this was driven by participants not wanting to (by default) be paying for things that their council could never realistically provide, with the distinction between urban and rural councils particularly pertinent.

Despite the acceptance that there was not a one-size-fits-all solution to changes in rates, segment 5 in particular were attracted to processes that were likely to deliver lower rates and rate changes if possible. This prompted one participant to suggest a 'tiered' approach to rates where there was a mandatory 'baseline' set of services with a fixed rate, and then a need to work out a model of charging for additional 'nice-to-have' services that some people might want.

"Making sure there's enough money to fund the basics. We need a baseline set of services that are costed with set rates [that are equally charged for everyone]. I think everything after that should be a nice to have, but there are some basics. I'm in a fairly wealthy area but I'm not particularly wealthy myself, and sometimes I think what are you spending my money on?" [Female aged 43, Metro, segment 5]

Trade-off B

Trade-off B asked people to consider the trade-off between the size of approved base rate changes each year and how often councils would then need to consult with their communities.

When IPART and councils are considering some of these trade-offs, which approach would you prefer that they took? Segment preferences. ^{QD2}

Base: All NSW Residents (n=2,881)

	NSW	#1	#2	#3	#4	#5
<i>Segment preferred trade-off option is shaded</i>	100%	16%	15%	26%	20%	23%
How rates change						
The approved base rate change each year is quite small - and councils then need to actively consult with their community about possible larger changes quite often	78%		80%	85%	89%	92%
Approved base rate changes are larger, and councils don't then need to actively consult with their community very often		70%				

This trade-off had the clearest majority in the survey, with a preference for small base changes to be approved and more frequent need for community consultation – but the focus group discussion (with segments 1 and 3) found it hard to validate that position. This appeared to be an example of where the default simplest response is significantly impacted by discussing its complexity and practicality.

In principle participants found the idea of smaller base rates being approved appealing, as it put more of a cap on likely increased household costs. However, very quickly they moved on to expressing concern about the practicality, effectiveness and cost of consultation.

“For council to make any changes, you're saying that they need to consult with community. Is that correct? Look, I work for the New South Wales Government and for us to do anything we have to consult with the community by and large. I would imagine that if I wanted to change anything that I would want to talk to the people, to get their opinions about whether they like that or not. Get them to agree with those changes, yes or no, and then go forward with your plan.” [Male aged 53, Metro, segment 1]

“When I hear the word ‘consultation’ I think ‘well that's expensive’, when it's probably not gonna sway that much anyway. There's only so much that we can do. So I know we consult, but what people want is not rational, like you can't achieve it. So you spend all this money to get these ridiculous ideas that you can't do anyway.” [Female aged 39, Regional city, segment 3]

“I think the only consultation that that would work in this circumstance is going to be another vote. So you have a council vote every 4 years. If you wanted to increase spending I could imagine the only option that you would have is to go back and request another vote on the budget increase. I can't see that that it could work any differently.” [Male aged 57, Metro, segment 3]

In exploring ways that effective consultation could be made more practical one suggestion was for the councils to consult with services and organisations that could represent the community – but that was not considered a viable method by some participants.

“I don't know, because then my question is, what service represents me in my views? I'm not linked in with anyone, so I feel that they can't know my specific views, you know.” [Female aged 39, Regional city, segment 3]

Ultimately the focus group conversation was unresolved, with the absence of an effective way for councils to actually do the necessary consultation activity a substantive barrier to implementing their more preferred approach to slowing rate increases.

“What we're talking about is increasing rates for a specific purpose, so the only viable way that you could do it is a vote. You couldn't do it on a consultation basis, because I don't understand what that mechanism could possibly look like.” [Male aged 57, Metro, segment 3]

Trade-off C

Trade-off C asks people to consider the difference between averaging change over a number of years, but trading that lower level of fluctuation off against the risk that councils may not have enough money to deliver services every year when doing so.

In the survey, overall respondents were split exactly 50:50 on this trade-off, though three of the five segments had quite decisive majority preferences.

In the focus groups this trade-off was discussed in most detail in the group with segments 2 and 4. As the survey results would anticipate, opinions here were split. As with trade-off B, some participants were attracted to the ‘safety’ of averaging out increases to avoid larger annual changes, but there was also a grudging recognition of the value of allowing rates to increase to meet the need to fund services.

“It's not something that I would like, it changing massively each time, but I think it's reality.” [Female aged 48, Metro, segment 2]

When IPART and councils are considering some of these trade-offs, which approach would you prefer that they took? Segment preferences. ^{QD2}

Base: All NSW Residents (n=2,881)

	NSW	#1	#2	#3	#4	#5
<i>Segment preferred trade-off option is shaded</i>	100%	16%	15%	26%	20%	23%
How rates change						
Rate changes are averaged out over years – but sometimes councils may not have enough money for all services each year	50%				51%	86%
Rate changes vary more from year to year and will sometimes be larger – but councils will always have the money to deliver services	50%	68%	71%	58%		

Some participants noted that it was hard for them to evaluate the two different approaches without knowing more details of a) what services would be reduced first, and b) over what sort of timeframe the averaging was to be done. If this approach was to be considered, ratepayers would need to have more insight into the parameters and details to be able to effectively evaluate it.

Interestingly, the focus group conversation revealed that beyond the impact on the rates they pay, there is another consideration which can sway people in either direction depending on the assumptions they make: which approach will allow or encourage councils to plan better? On the one hand some participants felt that councils could (or would have to) plan and budget better if the averaging approach was taken, so they would have clearer visibility of future year budgets.

“It would let council have a plan. They know the basic level of services, and they should be able to look through 3-5 years in advance for those big improvements, and therefore budget them in and not have to spring it on you.” [Female aged 39, Regional city, segment 3]

“If you understand that you’ve got a finite amount of money, you just need to work towards a budget instead of having a bottomless pit and being frivolous with the cash, and then just trying to get some more next year.” [Male aged 39, Regional city, segment 3]

“If you had a bottomless pit where you could always call upon, you know, taxpayers or whatever, you’d be a lot more frivolous with your spending. Whereas when things are budgeted and you know it’s only going to be averaged out over so many years, you just have to be good tomorrow, a little bit more resourceful.” [Male aged 32, Metro, segment 4]

Others felt that, even though it came at greater risk of increases to ratepayers, that councils would be better able to plan if they knew that they were basically going to be able to get the total amount of money that they needed.

“So if they know that they’re going to have enough money, they can plan for the future, and just know what they can do for the community.” [Female aged 60, regional city, segment 4]

The discussion on this trade-off reflected the overall cyclical nature of the relationship between effective spending, having enough money to fund services, and affordability for ratepayers. As in the overall discussion, there is a grudging recognition of the need for councils to have enough money – but also an obligation to use that money effectively, so that the impost on ratepayers was as low as possible.

Trade-off D

Trade-off D looks at the balance of funding services using rates that everyone pays regardless of who uses them, against having lower base rates and adopting a user pays model for some services.

When IPART and councils are considering some of these trade-offs, which approach would you prefer that they took? Segment preferences. ^{QD2}

Base: All NSW Residents (n=2,881)

	NSW	#1	#2	#3	#4	#5
<i>Segment preferred trade-off option is shaded</i>	100%	16%	15%	26%	20%	23%
How councils balance services and rates						
Councils keep rates to a minimum, and then are more likely to apply a user-pays system to fund some services	55%		100%	79%		76%
Councils primarily fund services using rates that everyone pays regardless of who uses them		89%			100%	

Overall, there was a slight preference in the survey for using a user pays system – but very different views across the five segments. Reflecting the diverse opinions, In the focus groups this trade-off was discussed with all segments.

As was seen in a number of the focus group conversations, while instinctive first responses of some participants was for the rates-minimising option (in this case, use of user pays models), the discussion turned up more complex considerations and several practical and ethical barriers to that approach.

Adopting a user pays approach to funding services had an initial appeal in that it minimises rates, and reflects an equity that comes from only people who are getting the benefit of some services having to pay for them. One participant described this as a good theoretical way of maximising economic efficiency.

“I think theoretically, it would lead to more efficiency, and greater allocation of resources towards what it produces. But socially speaking, that may not bode well because of the fact that then you restrict access that was once public.” [Male aged 26, Metro, segment 5]

However, a range of barriers were quickly identified in all groups, including:

- Vulnerable people who might most need the services will be the ones to miss out because they can’t afford them.
- There may be unintended behavioural consequences.

“By making something user pay, you tend to drive certain behaviours that you may not necessarily want. So for example if we go back to the rubbish one, if you’re making people pay, you know additional money over and above, then you may have people dumping rubbish.” [Male aged 57, Metro, segment 3]

- How would you even practically charge people to use some facilities and amenities.

“I get if you’re not using a green bin, you shouldn’t have to pay for it. I get that bit. But if you’re out and you haven’t paid to use the amenities like a park or something. How would that work? You’ve got to show, pass or swipe in as you go? Just doesn’t make sense” [Male aged 35, Regional city, segment 5]

- The administrative burden.

- It makes it hard to plan and budget (and you still need to fund the services anyway).

“So every time you go to the library it's gonna cost you a dollar. But how do they know how many people are going to go? So if they're charging you a dollar and they really should have charged \$10 because only a few people came through the door that month for that service. It's very hard to budget.” [Female aged 48, Metro, segment 2]

“The Council still needs to have the service available.” [Female aged 39, Metro fringe, segment 3]

- How would visitor's use of services be allowed for.

Some people also took a more philosophical approach, and reflected on whether that was the type of community that they wanted to live in.

- Does that push our society to a model of paid public services that might not be what we want overall.
- It diminishes the sense of being part of a caring community.

“I'm grateful in my local community, so if there's a lack of incentivisation for doing things that are for the community nett good, then you're almost disenchanted from the community mindedness.” [Male aged 26, Metro, segment 4]

“This user pays is a slippery slope to being like America, so public services are not in the taxation system. It can add up quickly. I'm still happy to be in a community where you know certain things are available. Just value the concept of having that available at a base level. [It's a good] point about the social aspect of excluding certain groups. Maybe they rely on those facilities to participate in the community.” [Male aged 33, regional city, segment 5]

In the end, the view of most groups was that user pays had an instinctive initial appeal, but that there were a lot of practical barriers to how it would actually work in practice.

“It sounds good, but I can't see how it can easily work in practical terms.” [Female aged 63, Rural, segment 4]

“So in theory, user pay system is good. But in practice yeah, I think you you've got more layers of complexity there, but purely as a hypothetical I like the idea of it.” [Male aged 26, Metro, segment 4]

Of all the group participants, those in segment 5 perhaps gave the most thought to how it might be able to work, primarily so that the raw cost of rates for people who could not easily afford them was kept to a minimum – but there were several suggestions related to the ‘user pays’ approach that were made. One was that rather than the focus being ‘users paying’, that instead there could be some sort of incentive or reward system for people that related to their behaviours. Another was the suggestion that there should be a standard baseline set of rates and services that apply to all people, and then a series of ‘add-ons’ that people could opt into to reflect their needs and means.

Trade-off E

Trade-off E is about whether councils increase rates to fund existing services, or change rates by less but may need to reduce the services delivered to stay within their available budget.

When IPART and councils are considering some of these trade-offs, which approach would you prefer that they took? Segment preferences. ^{QD2}

Base: All NSW Residents (n=2,881)

	NSW	#1	#2	#3	#4	#5
<i>Segment preferred trade-off option is shaded</i>	100%	16%	15%	26%	20%	23%
How councils balance services and rates						
Councils increase rates in order to fund the services they currently provide, even when some of these services have become more expensive	57%	65%	85%	52%	89%	
Rates change by less, but councils sometimes reduce services in order to deliver them within available funds						89%

Several of the trade-offs survey respondents and focus group participants were asked to consider essentially got at the choice between increasing rates further or limiting services. This specific trade-off focussed on the delivery of existing services as they become more expensive. As with most of these types of trade-offs, in the survey there was a slight preference for increasing rates rather than limiting services – but considerable variations seen by segment, especially segment 5, with whom this trade-off was most closely discussed.

Preferences in this trade-off were essentially driven by the fundamental salience of affordability, as seen throughout the focus group conversations. Some people, especially (but not only) those in segment 5, ultimately feel that affordability is the main consideration, and therefore councils need to make better use of funds and/or take difficult decisions about what gives within their budget.

“I guess it's the appetite for the environment we're in right now. Things are costing a lot more. Something has to give.” [Female aged 43, Metro, segment 5]

“Sometimes you see wasteful things with council. So you know, if they restrained, then hopefully, common sense would bring it to a point where they go ‘Okay, well, we can't do that anymore’. But you know, the central services still stay. But some of the wasteful things may disappear.” [Female aged 45, Regional city, segment 5]

Other people, mostly where pure affordability is not such a tangible concern, wanted increases in rates to be kept to a minimum through productivity and more effective use of funds, but grudgingly felt that rates increasing was less concerning than services decreasing.

“I have bought into an area and spent a lot of money on our property, and I would be horrified if my services weren't kept up to scratch, because my resale value of my property would deteriorate.” [Female aged 57, Rural, segment 5]

As with trade-off C, several participants noted that it was difficult to meaningfully assess their preferred approach without having a clearer understanding of what services would be traded off.

Trade-off F

The final trade-off in the block relating to how councils balance services and rates looked at the extent to which councils increase rates in order to fund more or better quality services, as opposed to just continuing to deliver current services.

When IPART and councils are considering some of these trade-offs, which approach would you prefer that they took? Segment preferences. ^{QD2}

Base: All NSW Residents (n=2,881)

	NSW	#1	#2	#3	#4	#5
<i>Segment preferred trade-off option is shaded</i>	100%	16%	15%	26%	20%	23%
How councils balance services and rates						
Rates change by less, but councils limit improvements to services in order to stay within the available funds	51%			59%		91%
Council rates increase in order to fund more and/or better quality services	49%	58%	71%		79%	

Whereas there was a slight preference for councils to increase rates to fund existing services in the survey, opinions were almost perfectly split on whether or not councils should increase rates to fund improvements to services. Segments 1, 2 and 4 all favoured increasing rates in both circumstances, but to a lesser extent for service improvements. Segment 5 felt that councils should limit services in both cases, while segment 3 was the least decisive across these trade-offs. This trade-off was primarily discussed with segments 2 and 4.

Overall, in the group discussion there was more of a preference for increasing rates to fund improving services, following the pattern of discussions seemingly resulting in people taking less self-oriented or rate-minimising positions through the course of the conversations. As with some other trade-offs, it was noted by some participants that they needed more information about what services would be traded-off in order to meaningfully form a considered view of their preferred option.

"I found it difficult because we don't know the amount. It's a bit difficult to make that decision. What are you thinking? Is that a huge difference?" [Female aged 63, Rural, segment 4]

For those who preferred increasing rates in order to improve services, the rationale was similar to what was seen in other trade-offs. Fundamentally, so long as the increases are minimised by effective use of the funds and it doesn't push them to their own affordability threshold, there is value in the services.

- We expect a level of services, and if anything what we expect is only increasing.
- We know that costs of everything are going up, and so therefore the costs of the services we want from rates are also going to be going up.
- The consequences of reducing services is worse than the increase in rates.

"Councils need to keep providing services. And so raising revenue through rates, it's just something that has to happen. And of the two consequences I think hacking back [services] would be a lot worse across the board when you start to see it. You know the roads not getting fixed. It's catastrophic if the bins don't get emptied." [Female aged 39, Metro fringe, segment 3]

- It will cost more in the long run if we don't keep on top of things now.

"It costs more in the long run. If you just leave things, like the potholes we've had to put up with, after all the rain and everything." [Female aged 60, Regional city, segment 4]

Also as seen in all discussions and trade-offs, it was acknowledged that different people will hit their affordability threshold at different points, and that any increases in rates will inevitably increase the proportion of people who are stressed by affordability.

"I was thinking about whether people can pay? You know that that balance between... if somebody doesn't have the finances to pay, well, the money is not going to be there anyway. I don't want to change my vote, but I'm just thinking about the balance." [Female aged 63, Rural, segment 4]

Trade-off G

Trade-off G considers IPART's role as a regulator, and whether it should prioritise protecting ratepayers from unreasonable increases or prioritise ensuring councils have sufficient funds.

When IPART and councils are considering some of these trade-offs, which approach would you prefer that they took? Segment preferences. ^{QD2}

Base: All NSW Residents (n=2,881)

	NSW	#1	#2	#3	#4	#5
<i>Segment preferred trade-off option is shaded</i>	100%	16%	15%	26%	20%	23%
How IPART reviews rates						
When reviewing rate changes IPART prioritises protecting ratepayers from unreasonable increases	62%		53%	80%		86%
When reviewing rate changes IPART prioritises ensuring councils have enough money to continue to deliver existing services		75%			51%	

By a moderate margin, in the survey respondents preferred IPART to prioritise protecting ratepayers from unreasonable rate increases, with only segment 1 holding a substantive preference for prioritising sufficient funding for council services ahead of protecting ratepayers. This trade-off was most fully discussed with segment 5, but touched on in all groups.

As with many of the trade-offs, even with segment 5 the conversation resulted in some movement away from the instinctive prioritisation of ratepayers (as largely reflected in the survey) to a more nuanced view of the need for councils to have sufficient funding. In the groups opinions were split about how IPART should pursue its role as the regulator, and participants found it easier to describe *what* they thought it was important for a regulator to achieve than it was to describe *how* it should achieve that.

The desire to protect ratepayers from unreasonable increases was linked to perceptions that councils were inefficient users of funds, which was in part attributed to councils thinking they could always just get more from ratepayers next year, and so did not need to improve their performance or make difficult choices. The protection of ratepayers was seeking to optimise the fundamental relationship between effective use, affordability and sufficient fundings, with a precedence placed on the affordability.

"So we don't get sluggish." [Male aged 44, Metro, segment 5]

The argument for prioritising sufficient funding was the same one seen across many of the trade-offs discussed – essentially recognising the value of maintaining current and expected standards, and ensuring at least a baseline level of services.

“Everybody wants better quality of living, and to fund that better quality of living councils will need to pay people to provide services that we all want to have and cherish.” [Female aged 57, Rural, segment 5]

“Making sure there's enough money to fund the basics. We need a baseline set of services, and I think everything after that should be a nice to have.” [Female aged 43, Metro, segment 5]

Trade-off H

The second trade-off about IPART’s regulatory approach asks people to consider the relative merits of IPART only looking closely at rate changes when a potential issue is identified compared to the value of active scrutiny but the additional time and cost required for doing that.

When IPART and councils are considering some of these trade-offs, which approach would you prefer that they took? Segment preferences. ^{QD2}

Base: All NSW Residents (n=2,881)

	NSW	#1	#2	#3	#4	#5
<i>Segment preferred trade-off option is shaded</i>	100%	16%	15%	26%	20%	23%
How IPART reviews rates						
IPART actively scrutinises council rate changes – requiring more time and cost for the review process each year	55%		100%		90%	83%
IPART only looks closely at council rate changes when a potential issue is identified		81%		100%		

In the survey there were differing views about whether the additional time and cost required for IPART to actively scrutinise all council rate changes each year was worthwhile, with a slight majority overall feeling this was the case. This trade-off was most specifically discussed with segments 2 and 4 (who in the survey were both strongly in favour of active scrutiny), but indirectly in all groups.

In the focus group, the participants were all in for scrutiny of council rate changes. By this latter stage of the focus groups participants had discussed at length the balance between minimising rates and ensuring councils had sufficient funds, and each group independently identified the central role of councils effectively using funds in achieving both outcomes.

From this, they wanted a much higher level of transparency about how rates were used and accountability for them being well-used. The role of the regulator that they envisaged was to provide both these aspects, and they considered holding councils accountable to their use of rates was key to setting appropriate rate changes. They generally agreed that while scrutiny has costs, that the benefits justify these costs:

- Greater accountability means more effective use of rates.
- Greater accountability means more trust of councils.

“It will cost more money, but I think it's really necessary. It's really important to have scrutiny in place. Yeah it will increase the cost, it has to, but it puts the accountability back on them and then in turn, it gives trust to the general community, so that the community trusts the Council because the Council is being scrutinised or being held accountable.” [Female aged 48, Metro, segment 2]

- Any ‘rogues’ or mismanagement will be picked up before it does too much damage.
“I’ve grown up in a council that was busted, I think at least once, maybe twice, for corruption. So any amount of scrutinising and watchdogs I’m all for it.” [Male aged 35, Metro, segment 4]
“To allow for that rogue Councillor, that has a PET project, and just actually to put limits and have those checks on going. I think that’s really important.” [Female aged 39, Rural, segment 3]
- This approach will save money in the long term by minimising losses and waste.
“In the end it’ll cost more if there is a problem and then it has to be fixed down the track. I mean, we’ve had a problem up here for a while. Other councils are in administration. So you’re better have more scrutiny now.” [Female aged 60, Regional city, segment 4]

Business Community

i As was seen in the rate peg surveys, the observations from the focus groups with members of the NSW business community were largely similar to and congruent with those from the wider community of NSW residents. **The survey results from the two groups were nearly identical in many places, and though in the focus groups there were several distinct nuances seen between residents and business participants, the overall conclusions from the business community were the same.**

In this reporting of the outcomes from the business groups, we focus on identifying what was similar to or different from the community groups, rather than fully reporting all the details, as this would largely duplicate the previous section of the report.

Current Perceptions

Understanding

In the survey, business respondents gave very similar (moderately low) ratings as residents did for their level of comfort with a variety of aspects of the rates system – including their own understanding of how rates are set, how much they can trust councils to keep rate changes reasonable and the level of scrutiny of how council rates are set. In the focus groups, the business representatives generally had no more understanding of how rates are set than residents (including almost no awareness of any regulation), though they were if anything more engaged with the topic.

When asked how well they felt they understood the process by which council rates are set, their responses were almost identical to the community groups:

“I’ve got no idea, honestly.” [Multiple participants, community segments 1 and 3]

“Not very well at all. Zero really.” [Multiple participants, small and medium businesses]

Also as with the community groups, business participants were quick to identify inconsistency in their experiences across different councils as one of the factors that made them sceptical of the inherent value and fairness in the rates system. The participants in the business groups seemed more likely to have personal experience of rates across multiple councils (in part through some being more affluent and owning multiple properties), and this created a clear sense of inconsistency for them – but with little if any sense of justification for the variations.

“There’s just so much visible inconsistency, and I shake my head all the time. Surely we’re in 2023 now?” [Small and medium business]

While the business participants did not have more specific knowledge of what rates were used for, or how they were set – they did tend to have stronger opinions about councils and rates than was typical in the community groups. This may be because, **as business people, they are used to focussing on budgets and finances, and place a premium on cost-effectiveness.** As will be discussed in several places in this section of the report, **business people appear to hold councils to a higher level of financial accountability, and were almost universally critical of the value councils returned to their ratepayers.**

Starting opinions

The community focus groups showed participants came into the groups with a wide range of views about the value ratepayers received from their councils, and so the discussions included a range of positive, neutral and negative dispositions towards councils and towards rates. **The business group participants almost universally brought negative impressions of councils and rates into the group, and reported they saw very limited value being delivered by councils.**

The main driver for this more negative disposition appears to also be the most substantive difference seen between the community and business groups: that **business participants explicitly wanted councils to be accountable to the same sort of business standards, discipline and efficiency that they themselves needed to embody** to run a successful business. In practice, they consider councils to be far from that level, and from this stems their general view that councils are in no way maximising the value they should be getting from rates.

“My underlying feeling of inefficiency in councils comes from comparing them to private enterprise. What incentive is there for [councils] to be more efficient?” [Small and medium business]

“We can do what they do in a tenth of the time.” [Small and medium business]

“If council was a small business, they’d go broke.” [Micro business]

“I just see waste and misuse.” [Small and medium business]

In common with the community groups, from this **they conclude that rates could be much lower if they were only used more effectively.**

The business participants also expressed a generally **low level of trust in councils’ decision making.** This distrust stemmed from a combination of concern about deliberately unfair decisions about which contractors won tenders or which projects were approved (up to and including corrupt activities), and a poor ability discern what were likely to be worthwhile projects or investments. While some participants could give examples of judicious investments that had delivered value for their communities, far more participants had examples of what they considered to be poor judgement.

“I instantly just think collective waste. For example, there’s a square near us in the shopping centre that’s been completely refurbished. Now that didn’t need refurbishing. We wouldn’t refurbish it.” [Micro business]

“This bike path in Sydney, they had to rebuild it three times and it cost \$7 million for 200 metres.” [Small and medium business]

“I think it depends on what the Council is spending the money on. Sometimes it’s to put in some sculptural thing that they spend an awful lot of money on. You can’t always see the value in that particular thing.” [Small and medium business]

“In my consulting work I would always challenge leaders or people who have access to resources or money: would you do it if it was your money? So ask yourself that question. So if councils and decision-makers, before buying up art installations, ask if it was your money would you buy that installation for that purpose?” [Small and medium business]

“One of the issues I think we find in our area is that there’s lobby groups with vested interests, and when they push hard enough, generally the projects happen, whether it’s for the benefit of all the community or not.” [Micro business]

This lack of trust is **exacerbated by a sense that councils don’t have to play by the same rules that businesses do.** Businesses (and households) have to make tough, pragmatic decisions about how to

operate, because they don't have an ability to simply to generate new revenue or capital without finding a way to earn it – either through productivity gains, cost cutting decisions, or new and more profitable activities. However, with the ability to just raise rates the next year to cover any shortfall, participants felt that councils operate without that level of discipline, as though they have a 'get out of jail free' card that they can play no matter how poorly they operate.

"We make sacrifices, you know, and they've got to learn to start doing that as well." [Micro business]

"At the end of the day, it's a budget, you know. The target was given, and there's a budget to follow." [Small and medium business]

"Households are making hard trade-offs now, and it's getting worse as rates go up. Businesses are doing exactly the same, going into the new financial year going: how much do we have to cut things? And then we are given 4 different options about how [councils] are going to increase rates. Why are they not having the same trade-off discussions that families are having around Australia thinking, hey, we've got to cut our costs?" [Micro business]

Overall, business participants felt councils often make questionable decisions, don't have the discipline to maximise what they get for their money, and don't feel the pressure of having genuine financial constraints. This was more consistent and pronounced than in the community groups, and as a result, their starting point is that they have little trust in councils' financial management capabilities, and this largely shapes their view on how they would like rates to be managed.

"Councils just aren't that trustworthy with money." [Micro business]

Perceptions of value

The factors that make the value of rates look better or worse to business participants are largely the same as for residents – but seen through the eyes of businesses operating in competitive environments, they hold councils to even higher standards and expectations. Overall, while residents had mixed opinions on the value that their councils provided, business participants generally felt that they got little value.

"No. I think they're I think they're very expensive for what you get." [Small and medium business]

"They just seem to be exponentially getting higher and higher every year. But I don't actually see anything that relates to. Why they would be getting high every year? They are getting very, very expensive where we are now, and we don't have much positive feedback on that. Sorry." [Micro business]

As with residents, businesses focused on the tangibility of the services and outcomes that they could see and which they used when considering the concept of 'value'.

"I think to me value is first tangible. If I can physically and tangibly touch it and feel it and see it." [Small and medium business]

"The transparency of where our money's been spent. There's a lot of community services out there that people don't even know exist, so maybe if people knew where the money was being spent, they could see that it was being spent well, they wouldn't object to funding some of these services." [Small and medium business]

"So you know, if you're actually utilising those services it doesn't hurt quite so much." [Small and medium business]

“The uncertainty as to where the funds go. Often we see the waste, and people notice the waste, and everyone talks about the waste, but they don’t talk about all the good things that are happening by the councils and how much they actually cost. Maybe be more transparency is needed. And maybe the councils need to have some kind of benchmark.” [Small and medium business]

Also as with residents, the sorts of things that made rates feel like poorer value was when things were not done well, when there was a sense that councils overpaid for things, being wasteful and not fixing or building things well.

“Councils pay through the nose for any work.” [Micro business]

The biggest difference to residents was that businesses also identified perceptions of bureaucracy and red tape as an example of what makes council rates feel like poorer value. In this case, the connection was that they were paying what felt like high rates, but still not getting an efficient service.

“When you ask them for certain services, it’s always more red tape. And then there’s user pay as you go services. Say, for example, you want to do an application? That’s not part of my rates.” [Small and medium business]

“There is a lot of bureaucrats around any sort of development you want to do. Say you want to put an awning up in your shop or you want to develop property or do anything. Then there’s lots of inefficient processes to go through for some reason. I know you need some sort of processes and disciplines, but they’re different for every single Council.” [Micro business]

“I just think of compliance. Difficulties in dealing with them, really they just tend to pass the buck. They don’t want to make a decision, so it just gets passed around. So just slow, and compliance is just ruining the councils.” [Micro business]

Priorities and Drivers

Business participant’s consideration of various potential drivers of what is most important about rates was effectively identical to residents. While each individual participant put one of the five priorities as number one for them, they too described a single underlying paradigm where money being used effectively was the foundation of affordability and having sufficient funds to deliver services, and from there stability and predictability would be higher anyway.

“Obviously things like affordability are very important. We’ve just talked about all the waste in councils that we all know is there. If the money was actually being used effectively, and we could see that, then rates would come down tremendously, and that’d be affordable.” [Micro business]

“Basically, if they can become more efficient, we’re going to get a better service, it’s going to cost us less, it’s going to change less. I guess as a small business owner, efficiency is what it’s for.” [Micro business]

“I think the reason why I put effective use as the first priority is because if you know what the effective use is, then we can predict what the cost is. So by being used effectively, that kind of creates some of those other things.” [Small and medium business]

As with the residential community groups, some participants placed immediate affordability at the top of their priority list, but generally linked that to effective use by councils.

“As a small business you're not always making a huge amount of money, especially when things have been tough - like we've just had COVID, we've had lots of things going on. We may not always be getting the amount of work we want, for the revenue coming in to pay for the things that we need to pay for like rates. So affordability certainly is a big thing, especially for me, because I do all the finances for my for our business. The bottom line is something I'm looking at every single day when I'm making decisions for our business. You want [rates] to be affordable. But again, if they are using it effectively, it is more affordable.” [Micro business]

If there was one slight nuance that was present in the business participants' discussion by comparison on the residential groups, predictability may be somewhat more important to businesses, to allow them more ability for formal business planning over multiple year time horizons.

Regulation

As was the case with the community groups, given their current concerns about the efficacy of the rates system and councils' use of rates money, **business participants were all for oversight of councils.** As noted in the considerations and challenges section below, there was some concern around whether another government agency could really provide a sufficiently strong level of regulation, but conceptually there was only strong support for oversight.

“Start putting some heat on them.” [Micro business]

“We can't be paying for [councils'] mistakes.” [Small and medium business]

“I think we all want to see that transparency, a bit of accountability, a bit of efficiency.” [Micro business]

“It's not their money, it's just play money to them, like it's just monopoly money. It's not used properly if they are not accountable.” [Micro business]

Desired Outcomes

Business participants wanted a similar set of outcomes to those identified in the community groups, and they used virtually identical language and rationales. The key outcomes that they wanted regulation to deliver was a rates system that was:

1. Transparent
2. Accountable
3. Effective / efficient
4. Fair / equitable

In each of these cases, the intent was virtually identical to the community groups. Transparency was all about shining a light on the process and providing information to ratepayers about how and where rates were used; accountability was about introducing a higher level of consequences for councils in their use of rates; effectiveness and efficiency was about making productivity gains and better decisions; and fairness was about equity across locations and ensuring that there was some protection for those more impacted by costs.

“I guess it just gives you some peace of mind, and it comes back to the term transparency is, if you know where the money is going.” [Micro business]

"They just can't waste and go 'it's just never ending stream of money'." [Micro business]

"We see the bill, what we're not seeing the results. So what is happening in between? Where is it going? What's it doing? And why, don't we, as the people who pay the rates see that?" [Micro business]

"They're making mistakes here which hundreds of thousands of dollars. You know they just need to be accountable for this." [Micro business]

One nuance that was a little more pronounced in what business participants (especially those from small and medium sized businesses) wanted from a regulator compared to the community groups was a more active and strong level of 'pushback' from the regulator to councils. Whereas the community groups really didn't talk much about their expectations of the relationship between the regulator and councils, business participants were clear that they expected the regulator to be a strong party in that relationship.

"Oh, I hope they push back on councils." [Small and medium business]

"Be firm, and push councils for private sector efficiencies." [Small and medium business]

"Who makes the final decision? Is what they come up with final, or just a recommendation?" [Small and medium business]

"They really need to investigate it. They need to investigate it thoroughly and make sure that that they've looked under every rock, you know." [Micro business]

Business participants identified several **mechanisms or processes** that they thought could be helpful. As with the community groups, several business participants talked of the importance of benchmarking across councils, as well as more standardised reporting frameworks that enabled clearer and more consistent data to be available.

"I agree with transparency. You should know where every dollar's going, into what categories. A good regulator would be benchmarking them across councils and saying 'you know which ones are achieving more efficient costs', and hold any others to account, saying '[that's] not good enough'." [Small and medium business]

One suggestion from the small and medium business group that was well-supported by other participants was for a mechanism by which ratepayers could report examples of inefficiency or waste directly to the regulator (rather than the council), so that it would be a more powerful mechanism.

"A reporting mechanism where ratepayers can report waste. and then they've got some sort of punitive consequences." [Small and medium business]

Considerations and Challenges

For the most part what business participants thought and felt was congruent with what community participants expressed, and the underlying paradigm of extracting more value from rates was common across both audiences.

- The biggest difference (or nuance) was the higher expectations of businesslike efficiencies that businesses had for councils compared to residents. This expressed itself in several ways, such as the lower perception of current value and greater sense of frustration with red tape and decision-making processes. It also translated into a challenge to the fundamental

assumption of the rate peg as a mechanism to put a cap on rate increases. Whereas residents focussed on minimising rate increases as much as possible, some business participants questioned whether rates should increase at all, and in some cases felt that there were sufficient productivity gains to be made that (some) councils' rates should actually *decrease* in the immediate future.

"It's not always about an increase." [Micro business]

"I took the line that these councils should be striving for efficiency and to do the right thing. Rather than saying all the increases should be the same, the question is: where's the money going now? Should a decrease come in a lot of areas because we've identified inefficiency?" [Micro business]

"How robust is the mechanism that [the regulator] uses to increase or decrease how they set the rates?" [Small and medium business]

- The lived experience is that rates never do go down though, and the fact that such corrections didn't seem to ever happen was identified as a further reason to resist increases.

"Because if it they increase the rates, it's never going back down again. I've never seen the rates go down." [Micro business]

"Smaller changes are much friendlier and easier to deal with than large ones. I suppose those large changes could be up or down. But I'm sure they would only be up." [Small and medium business]

- Compared to the community focus groups, business participants made a bigger distinction between essential services councils provided to their communities, and 'nice-to-have' projects where money was spent. Some residential participants did conceptualise a baseline of basic standardised services that could apply across councils, but business participants discussed this more as individual councils identifying what are essential services that need to be funded by rates, and what is not in that category (which is where they perceived a lot of waste to occur).
- As with the community groups, some business participants also identified the need for a regulator to be visible and transparent in itself, so that the community could have confidence in the regulatory system in place.

"First time I heard [of a regulator]. Is it transparent? That's my first question? It sounds like men in in black suits, in dark rooms magically put these algorithms together and get a magic number, but I've never heard of it. I didn't even know that that we had a regulator. My first question about public policy is transparency - that it instils trust in me as a ratepayer." [Small and medium business]

"I'm with everyone else: accountability, transparency. But also that IPART have their own accountability and transparency as well, not just making the councils accountable." [Small and medium business]

"I think I think it's good to see that someone is actually working behind the scenes, and it's getting looked at. You know, it's not a something which has been left." [Small and medium business]

- Amongst business participants there was also some scepticism around the extent to which government regulation and oversight of government would actually be effective in itself. This was not something that was brought up in any of the community groups.

“I don't know whether a Government department can oversee another government department. I just see that all the time, and there's no accountability to it. They just go 'yeah, that's okay, let's move on'. Someone independent or a large accounting company or something, that would be more independent than another public service.” [Micro business]

- A final consideration expressed by micro business participants was the potential need for costs such as flood repairs to be shared over a longer timeframe so as to keep the immediate impost on ratepayers more affordable.

“I think we've just got to be a little bit more patient. Sometimes we've just got to sit back and wait for stuff to get repaired, not just top up [rates] and cover absolutely everything. Rather than increasing the rates in one go to solve a problem. Maybe it's about both the councils and the ratepayers having the patience to do it over a longer period of time.” [Micro business]

- It was observed in the community focus groups that the effect of the discussions was, if anything, for participants to broaden their views on the complexity of balancing the cost of rates with service delivery. Where residential participants changed their views through the groups, it was always away from an instinctive inwardly-looking gut reaction to a (sometimes grudging) acceptance that higher rates did have some value. This same effect was not observed in the business groups. This may be because business participants were more of one mind, and so did not hear the same diversity of experiences and opinions, or may reflect that their views are more fixed. In each of the community groups there were participants who had positive views on their council's performance and use of rates, but these more balancing views counter to some participants' starting dispositions were largely absent in the business groups.

Guiding Principles

In the survey the overall preferences of business respondents were very similar to those from the wider community.

Each of the eight trade-offs used to explore the guiding principles that business participants would like to see applied by IPART when setting the rate peg was explored in one of the two business groups. For the most part, the discussions of the trade-offs were similar to those in the wider community groups. The summaries in this section focus on the stronger views of the business groups, or nuances that were what distinct or dissimilar to the residential community groups.

Trade-off A

Trade-off A asked whether all councils should change rates by the same amount each year, or whether each council's rate change should be more individualised.

This trade-off was discussed with the micro business group, who (like the community discussions) universally agreed that there was a need for council rates to vary individually. This was to allow for the different practical needs of different councils, their different logistical situations (especially from rural and urban councils), and differences in current efficiencies.

“I think it has to be different area by area, unless you fundamentally believe every council is equally efficient.” [Micro business]

Trade-off B

Trade-off B asked people to consider the trade-off between the size of approved base rate changes each year and how often councils would then need to consult with their communities.

This was discussed with the small and medium sized business group. In the surveys this trade-off had the clearest majority preference for one option, which was smaller base changes and more frequent consultation. In the community focus group though, participants quickly expressed concern about the practicality and cost of effective consultation, and somewhat reluctantly switched to preferring an approach that required less frequent consultation (despite fundamentally preferring smaller rate increases).

Unlike the community group (and in some ways not consistent with many of their often-expressed views about wanting councils to be more efficient), the business participants saw no particular problem with councils being required to consult their communities. The residential group participants quickly moved to considering how well consultation would really be done, and how their views would be captured. In the business group it was largely considered sufficient to email or mail to all households, and they did not move on from the initial instinctive preference for small base rate changes that was seen in both surveys.

Trade-off C

Trade-off C asks people to consider the difference between averaging change over a number of years, but trading that lower level of fluctuation off against the risk that councils may not have enough money to deliver services every year when doing so.

Both the community and business surveys were fairly evenly split on this trade off. In the business focus groups it was discussed with the micro businesses. As with the community groups, business participants' opinions were also split in the discussion.

For business participants one key appeal of averaging out rate changes was that it allowed them to more accurately do their own business planning. Like the residential participants, those attracted to this approach also felt that it would allow councils to plan and prioritise better, and also impose a higher level of budgetary discipline on them.

"It was a little bit of a selfish reason, to begin with, at least. If you know what's coming, what your rates are going to be coming in for a council, then you know what efficiencies you have to take to make it work." [Micro business]

"...and maybe then the Council goes 'well, yeah, we have to work a budget just like a regular person', and things get done better, cheaper, efficiently." [Micro business]

For those who felt that the preferred approach was to have greater year-on-year fluctuations, as was the case with the resident participants, business participants just accepted that this approach was required in order for councils to be able to realistically deliver services.

"Obviously council has got to be held accountable for their works and whatnot, but they're also not immune to labour increases, material increases and whatnot. So it's going to have to fluctuate year on year. If you want services provided you have to pay for them at the end of the day. Sorry." [Micro business]

Trade-off D

Trade-off D looks at the balance of funding services using rates that everyone pays regardless of who uses them, against having lower base rates and adopting a user pays model for some services.

The user pays trade-off was discussed with the small and medium sized businesses. In the surveys there was a slight preference for using a user pays approach. This initially emerged in the residential groups, where some people were instinctively attracted to the economic efficiencies of this approach. However, participants in these groups quickly focussed on the practical and ethical difficulties of a user pays model that emerged through discussion.

The business participants' preferences started, and remained, split. Some were strongly attracted to the 'logical' appeal of users pays (despite in some cases having previously identified having to pay for services that were not covered in their rates as a point of criticism of the value councils deliver).

"I'm drawn to the smaller base and then having the ability to charge on a user basis. So that that was not a hard decision for me." [Small and medium business]

Those business participants who preferred to fund services with rates everyone paid regardless of use tended to focus on the social equity dimension, and there was no real discussion of the practical or logistical challenges that the residential groups identified (which may potentially stem from business people seeing fewer logistical challenges in charging people to use things).

"As a community minded person I don't mind everyone kicking the tin to make sure that the community has good facilities, as long as it's done well." [Small and medium business]

"We want our kids to be actively engaged in our communities, and we want to provide services for disadvantaged people. If we make it a user pay service then these kids are on the street mucking around because they can't afford to pay to go to whatever the activities are, or use the library or things like that. So, if we want to keep our communities moving forward and progressing, then we need those of us who ... are significantly more affluent than other people in our community to be paying rates." [Small and medium business]

Even those most in favour of the user pays approach still acknowledged the need to implement it in such a way as to not restrict access to services to vulnerable members of the community.

"The user pay system doesn't have to be a restriction on the people who can't afford it. Yeah, it needs to be structured in a way that low-income family can still access certain services, because otherwise you end up fragmenting the community even more. I just think, yeah, the user pay system, it's good." [Small and medium business]

Trade-off E

Trade-off E is about whether councils increase rates to fund existing services, or change rates by less but may need to reduce the services delivered to stay within their available budget.

This trade-off was discussed by the micro businesses. The discussion was consistent with that seen in the residential group. For those who were attracted to the approach to changing rates by less and sometimes reducing services, this was simply a case of recognising that there are times when any organisation needs to 'tighten the budget', and to have more realistic expectations.

Some participants noted that once rates increase they never go back down, and so there is a risk that what were intended to be specific and necessary increases would become the new normal and never removed again. This was felt to be a reason to be wary of allowing increases.

For those who felt that rates should increase to maintain existing services, as with the residential participants, this was driven by a sense of 'acceptance' that that is a cost of having the services.

Trade-off F

The final trade-off in the block relating to how councils balance services and rates looked at the extent to which councils increase rates in order to fund more or better-quality services, as opposed to just continuing to deliver current services.

This trade-off was discussed with the small and medium sized businesses. As in the surveys and in the community focus groups, business participants' preferences were fairly evenly split. The appeal of increasing rates to fund new and better services was similar to the residential participants' views – primarily that it is required to make a better place for people and businesses to be, and that there is a risk associated with letting services decline.

"I don't mind paying for a service, if I'm going to get it. I'll talk quite often to my kids about paying taxes if you want to have a nice hospital. If you want to have good roads, and you want to have facilities." [Small and medium business]

"Cutting funds and having less money spent on maintaining assets and things in the community – that's damage borrowing in my opinion." [Small and medium business]

On the other hand, the reasons for not increasing rates to improve services are the same ones that were discussed in other contexts: the need to work to a budget, to make better choices about what to spend on, and not to just think there is an endless bucket of funds that can be accessed.

"There needs to be some regulation on what they're actually spending on, because I don't know how many people in our community would have voted to have some bizarre sculptural thing." [Small and medium business]

"You can't just have a blank cheque." [Small and medium business]

Trade-off G

Trade-off G considers IPART's role as a regulator, and whether it should prioritise protecting ratepayers from unreasonable increases or prioritise ensuring councils have sufficient funds.

This trade-off relating to IPART's regulatory role was discussed with micro businesses. In both surveys and in the community focus groups there was a moderate preference for prioritising protecting ratepayers, alongside acknowledging the importance of ensuring councils are adequately funded.

The micro business participants strongly felt that the priority for a regulator needed to be protecting the ratepayer – in part at least because they felt that councils can't be broadly trusted to manage their finances (and therefore rates) very well.

"I think there's not much point for having a regulator if they're not protecting us." [Micro business]

"I think it comes back to [what] we're all really alluding to, and probably skating around, is that some councils are not that trustworthy with money." [Micro business]

Some business participants prioritised council funding, and others were sympathetic to needing to ensure a suitable level of funding at least. In comparison to residential participants, business participants gave more explicit consideration to the concept of *essential services* that could not be compromised rather than rolling up all services as a collective concept. Some residential participants *did* talk about needing to provide a baseline level of basic services, but the business participants were much more explicit in their views that not all services were equal.

“How do you drop the quality of services? I struggle with that. But maybe they could drop some of the projects – the local parks, or footpaths – the non-essential stuff.” [Micro business]

“Essential services, they need to maintain those. But some of the projects – you know, the upgrades to libraries, just some of the sort of simpler projects – maybe non-essential services could sort of go on holiday.” [Micro business]

Trade-off H

The second trade-off about IPART’s regulatory approach asks people to consider the relative merits of IPART only looking closely at rate changes when a potential issue is identified compared to the value of active scrutiny but the additional time and cost required for doing that.

This trade-off relating to IPART’s regulatory role was discussed with small and medium sized businesses. In the surveys views were mixed on this trade-off, and though by this stage of the discussion residential participants were all in for scrutiny, business participants in the group reflected the split preferences in the survey.

Those who were attracted to active scrutiny were focussed on the accountability that known scrutiny would create. While they recognised that there would be cost associated with that, their view was that a clean and efficient process did not need to be too costly, and that IPART would be likely to waste less money than councils and therefore be a cost-saving in the long run. These views were very similar to those expressed in the community focus groups.

“What gets checked, gets done.” [Small and medium business]

For those who felt that IPART should only look into identified issues, this was in part to reduce the administrative burden, the need for data collection, and bureaucracy; while still having a mechanism that would be able to investigate issues. It was noted by several participants that this approach would work best if it was coupled with a mechanism that allowed ratepayers to report issues directly to IPART.

“Yes, it will put more on the efficiency and clarity, but it will also put more pressure on the workforce and more of the data, more reporting.” [Small and medium business]

Appendices

Appendix A: Discussion Guide

Warm-up questions (5 mins)

Introductions: tell us a bit about yourself

- a. Name / what you'd like us to call you tonight

- b. Where in NSW you live (and where you are tonight if that's different)

- c. **Community**: Whether you are a homeowner or renting, or what your living arrangements are? **Business**: what type of business you operate?

Part 1: Rates in general (25 mins)

To begin with, at the most general level, what sorts of things first come to mind when I talk about 'council rates'?

- RECORD AS POSITIVE / NEUTRAL / NEGATIVE

How well do we think we understand how the process of setting rates works?

- How do we think they are set now?

What do we think Councils use rates for?

- MODERATOR TO PROVIDE INFORMATION.
 - Council rates are made up of several components.
 - Some of these rate for specific purposes – such as waste collection, and water and sewerage services if your council provides these services to you.
 - Within council rates there is also a more general component, which creates general revenue for councils to use for their work through the course of the year
 - Tonight we are mainly talking about this general revenue component, rather than the defined components

I know that rates are a 'cost' for households, but I'm more interested in the sense of 'value' that comes for that cost.

- Overall, do rates feel like good value?
- What makes them feel like good / better value?
- What makes them feel like poor / worse value?

Compared to other types of comparable household costs, do rates seem like better or worse value? GET INDIVIDUAL RESPONSES TO THESE

- House and contents Insurance
- Utilities like power and water

- Income tax
- Consumption taxes on specific things you choose to consume or use

Have we ever really thought about rates like this before? Does it make us change our views at all?

Part 2: Drivers [20mins]

When we think about how rates change from year to year, there are a number of things that people tell us are important to them. I'd like to read you a list of five of the most common ones, and then ask you to rank them from most to least important for you personally right now...

1. Council rates are affordable
 2. Council rates don't change much from year to year
 3. You can predict how council rates are likely to change over the next few years
 4. Rates give councils enough money to provide services the community needs
 5. Money from rates is used effectively by the council
- OK, which one did we put as most important? RECORD
 - START WITH MOST COMMON: How come this is the most important?

I asked you to tell me what is most important right now. Is what is most important now different in any way at the moment, compared to how things might usually be, given the economic situation we find ourselves in?

Part 3: Preferences [35mins]

In NSW there is a regulator of council rates that sets the amount that they can increase total revenue raised from rates each year, which is IPART or the Independent Pricing and Regulatory Tribunal.

Each year IPART sets what is known as a Rate Peg for each council, that sets the amount they can raise in total from rates. Councils can then apply for larger "special changes" if they feel they need to, and they can decide how to raise those rates from various different types of ratepayers.

IPART is currently reviewing the method it uses to set the rate peg – hence this discussion we are having tonight.

Before we talk about some of the specific things IPART considers, what would we like a regulator of council rates to do more than anything else?

- First, what *outcomes* would we want a regulator to achieve?
- And second, and more difficult perhaps, what do we want from a regulator in terms of the *process* they use?

When IPART and councils are considering the rate peg each year they need to make some trade-offs – and we are going to talk about a few of these now.

While in reality things are not quite this black and white, for the purposes of tonight I'd like to understand which way you personally would like them to lean – so in this discussion I'm going to ask you to pick whichever of two options you'd prefer IPART to prioritise when setting the Rate Peg.

In some cases this might mean choosing the option you would prefer from two good options, and sometimes it might mean choosing the one you dislike least – but this is how it works for IPART, and so that is how we are going to approach these.

I'm going to start by reading you four different trade-offs, and I'd like you to write down which one you would prefer IPART to take. **READ FOUR BEFORE DISCUSSION**

A	All councils change rates by the same amount each year	1	OR	Each council's rate change can be a different amount to suit their situation	2
B	The approved base rate change each year is quite small - and councils then need to actively consult with their community about possible larger changes quite often	1	OR	Approved base rate changes are larger, and councils don't then need to actively consult with their community very often	2
C	Rate changes are averaged out over years – but sometimes councils may not have enough money for all services each year	1	OR	Rate changes vary more from year to year and will sometimes be larger – but councils will always have the money to deliver services	2
D	Councils primarily fund services using rates that everyone pays regardless of who uses them	1	OR	Councils keep rates to a minimum, and then are more likely to apply a user-pays system to fund some services	2
E	Councils increase rates in order to fund the services they currently provide, even when some of these services have become more expensive (eg more road maintenance due to heavy rainfall)	1	OR	Rates change by less, but councils sometimes reduce services in order to deliver them within available funds	2
F	Council rates increase in order to fund more and/or better quality services	1	OR	Rates change by less, but councils limit improvements to services in order to stay within the available funds	2
G	When reviewing rate changes IPART prioritises ensuring councils have enough money to continue to deliver existing services	1	OR	When reviewing rate changes IPART prioritises protecting ratepayers from unreasonable increases	2
H	IPART actively scrutinises council rate changes – requiring more time and cost for the review process each year	1	OR	IPART only looks closely at council rate changes when a potential issue is identified	2

○ **FOR EACH TRADE-OFF DISCUSSED:**

- Which one did we prefer? --> FOCUS ON DOMINANT VIEW FIRST
- How clear or easy was it for us to choose a preference here?
- What was driving our preference? What was most important?
LINK PROBES TO DISCUSSION OF DRIVERS WHERE RELEVANT
 - EXPLORE: DOES THE SAME DRIVER LEAD TO DIFFERENT PREFERENCES?
- How bad would the alternative be? Could we live with it?
- Is there anything that we have heard that made us change our mind about which approach we prefer? INCLUDING FROM PREVIOUS DISCUSSIONS

Part 4: Close [5 mins]

Thanks for your participation in this discussion.

What has been the most interesting or influential thing that you heard, or thought, or learned this evening?

Is there anything we have changed our minds on tonight?

If there was one last piece of advice that we could give IPART as part of its review – what would it be?

Thank and close