

BELLINGEN SHIRE COUNCIL



3 July 2023

Review of the rate peg methodology
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
SYDNEY NSW 1240

Dear Tribunal,

Review of the rate peg methodology – Draft Report

Bellingen Shire Council would like to thank the Tribunal for their work to date on attempting to improve the financial sustainability of the Local Government sector and appreciates the opportunity to present this submission on behalf of Council.

Council is supportive of the rate peg methodology review and urges IPART and the NSW Government to finally fix the key financial driver impacting the financial sustainability of Councils across the State.

Bellingen like many councils across the State is under continued financial pressure to deliver essential services to our communities. As a result of over 4 decades of rate pegging in NSW, Bellingen's income has not kept pace with the costs of providing services and maintaining its \$0.5 Billion in infrastructure. This has been demonstrated in the number of special variation (SV) applications that Council has been required to apply for in recent years. All SV's have been for maintaining current service levels, *not* for new or improved services. This is out of step with the intent of the rate peg, which should sufficiently cover the costs of maintaining current service levels.

As referenced in previous submissions towards this review, the concept of developing a rate peg that is accurate for all Councils is principally flawed, as it assumes (i) all Councils have the same cost drivers; (ii) all Councils are financially sustainable as a starting point; (iii) assets are deteriorating at the same rate every year; and (iv) assumes no infrastructure backlog to be addressed.

Council notes, the proposal to create 3 groups of councils will partially address the above issues.

For Bellingen, the financial environment is particularly challenging, with the low population numbers, disparate population centres and challenging climatic environment, achieving ongoing financial sustainability is difficult.

Whilst the above challenges are not unique to Bellingen, introducing a rate peg that sufficiently addresses the above issues across all councils is an impossible task. A more practical approach would be to abolish rate pegging in its entirety and allow Councils to control its primary income source. As a comparative, Councils have been managing their water and sewer funds appropriately for decades, without the unnecessary fluctuations that have been seen with SV's.

To ensure a future rate peg that sufficiently delivers financial sustainability to the sector, the first and most vital step is to allow Councils to have a one-off rate increase to a level that allows them to maintain its current service levels without the need to go through a costly, time consuming and politically damaging SV process. This one-off increase will sufficiently address the recent impacts of the rising Emergency Service Levy (ESL) costs being faced by many Councils across the State.

The information provided in this document reflects Bellingen Shire Council's submission to IPART in response to the *Draft Report*.

Set out below is our submission to each of the 9 questions listed in paper:

1. ***What are your views on using one of the following options to measure changes in employee costs in our Base Cost Change model? How can we manage the risks associated with each option when setting the rate peg?***
 - a. ***Use annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies, adjusted to reflect any change in the superannuation guarantee rate.***
 - b. ***Use the Reserve Bank of Australia's forecast change in the Wage Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies), adjusted to reflect any change in the superannuation guarantee rate.***

Councils' preference is to use the Local Government (State) Award for the year that the rate peg applies *plus* an index to allow for additional costs associated with the retention and attraction of staff.

In recent years, employee costs have increased at rates well above the current LG Award rates due to the industry pressures being faced as a result of the low unemployment rate and subsequent market competition to retain staff. By using a singular rate focused on award increases only, the rate peg inadvertently ignores a significant cost to Council.

Council requests IPART consider this ongoing additional cost as part of the final Base Cost formulae in future rate peg determinations.

2. Are there any alternative sources of data on employee costs we should further explore??

Notwithstanding the response to Q1 above, a large employee cost driver is the annual workers compensation premium. Over the past 2 years, Council has seen increases of over \$260K to its annual premium.

To compare this to Councils 2022/23 rate peg increase, the 2.5% increase (rate peg + ASV) only generated an additional \$220,359 to go towards maintaining infrastructure and service provision. There is clearly a disconnect between these cost increases and the current rate peg increases.

Council requests IPART consider this ongoing additional cost as part of the final Base Cost formulae in future rate peg determinations.

3. Do you support releasing indicative rate pegs for councils in September, and final rate pegs that are updated for councils' Emergency Services Levy contributions in May?

Council does not support this recommendation.

In order for Council to meet its responsibilities under the Integrated Planning and Reporting (IP&R) Guidelines, Council commences its annual budget process in December each year. To enable sufficient time to exhibit its IP&R documents (minimum 28 days), the release of a rate peg in May is too late in the process.

Council requests IPART consider the exhibition requirements under the IP&R legislation and release a final rate peg prior to December each year.

4. Do you have further information on arrangements between councils to share Emergency Services Levy (ESL) contribution bills including:

- a. what these arrangements cover (including whether they cover matters other than ESL contributions), and**
- b. whether they apply to Rural Fire Service, Fire and Rescue NSW and NSW State Emergency Service ESL contributions, or contributions for only some of those services?**

Council is not involved in a shared ESL contribution arrangements with other councils.

As referenced with your draft report, councils will experience substantial cost increases in 2023-24 as a result of changes to the ESL funding. This will have a significant impact on Councils budget and subsequent cash flow.

Council requests that this be allowed for in a once-off increase for all impacted Councils. It is requested that for those Councils with a current approved special variation, that this increase be made outside the current approved SV arrangements. Understandably, the late notice of the removal of the ESL levy subsidy will not be included in any current approved SV.

5. Would councils be able to provide us with timely information on the actual ESL contribution amounts they pay including contribution amounts paid to the:

- a. Rural Fire Service**
- b. Fire and Rescue NSW**
- c. NSW State Emergency Service?**
For example, by providing us with a copy of any cost sharing agreement that sets out the proportion that each council pays.?

I suggest IPART obtain this information from the NSW State Government.

6. Would you support IPART establishing a process to develop adjustment factors for groups of councils to increase the rate peg to cover specific external costs?

Councils supports this approach to address one-off increases impacting a group of councils, so long as the process is efficient and cost effective.

7. *Would you support measuring only residential supplementary valuations for the population factor?*

Council does not support the proposal to measure only residential supplementary valuations. Growth in other categories used in the rating process have impacts on the provision of Council services and therefore should be recognized in the population factor.

8. *If you supported using residential supplementary valuations, what data sources would you suggest using?*

Per Q7 above, Council does not support.

9. *What implementation option would you prefer for the changes to the rate peg methodology?*

Rather than a staged approach as proposed, Council would like to see the impact of a one-off increase, giving councils the autonomy to introduce these changes in accordance with the needs of their communities as they see fit.

Council requests IPART to decouple the one-off catch-ups, such as the ESL and other costs not captured within the latest rate peg from the previously approved Special Variation approvals.

Further to the above, Council notes that IPART has recognised the issue of councils with a high proportion of land that is exempt from rates and that some council's rate base may be too narrow to raise enough income to cover the costs of its services, undermining its financial sustainability. Council also notes IPART's commentary regarding the impact on pensioner concessions on Councils rates income. Council remains concerned about how this matter can be resolved and what IPART or the NSW Government can do to assist councils facing sustainability issues.

I trust this information is of some assistance to IPART in finalising its report.

If you have any enquiries or require clarification, please do not hesitate to contact me directly.

Kind regards,

