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DUBBO REGIONAL COUNCIL

To Whom it May Concern

DUBBO REGIONAL COUNCIL SUBMISSION – IPART REVIEW OF RATE PEG METHODOLOGY - SEPTEMBER 2022

Dubbo Regional Council welcomes the opportunity to provide comments to the Independent Pricing and Regulatory Tribunal of NSW (IPART) on the review of the rate peg methodology.

Our feedback is based on the below key points:

- The Local Government Cost Index (LGCI) data is 'rearward-facing'. We believe a forward looking methodology should be utilised, data should be captured annually and cost indexes derived NSW local government. Rather than different tiers of government
- Different cost indexes should be implemented for metropolitan, regional, rural and remote councils in NSW as Councils within NSW vary significantly terms of the characteristics of the areas and the populations they serve
- The efficient delivery of services and measures undertaken for productivity improvements should not have a negative impact on the rate peg methodology. Council's should be rewarded for such measures.
- The rate peg puts pressure on Councils to either reduce existing service levels, the provision of front-line services, or maintenance and upgrades of infrastructure to ensure financial sustainability when adopting the Operational Plan
- The rate peg makes it difficult for councils to accurately plan and budget, especially when the rate peg differs to the 2.5% as advised by IPART for long term financial planning.
- All costs impacting councils must be considered as part of the determination of the rate peg.

It is noted that half of NSW councils have sought a special rate variation in the past five years, while as a merged Council, our general rates income were frozen by Government and not able to increase beyond the rate peg until 2021/2022. Council's expenditure budget has grown from a combined $158 million at the time of merger to around $222m in 2022/2023, including $75 million of capital works funded through a combination of capital grants, developer contributions, loans and reserve funds.

NSW councils are subject to a rate peg that is determined by the Independent Pricing and Regulatory Tribunal. Even with a 2.3% rate peg in 2022/2023, the external cost increases have outstripped our general revenues.

Financial sustainability needs to be at the forefront of all council's and it should be noted that the NSW Audit Office reports yearly on specific performance benchmarks.

Q1. To what extent does the Local Government Cost Index reflect changes in Council's costs and inflation? Is there a better approach?

The Local Government Cost Index (LGCI) is not an entirely appropriate and reliable index of municipal costs in New South Wales local government. The LGCI does not accurately depict the typical 'basket of goods' purchased by NSW local councils.

The LGCI data is 'rearward-facing' methodology which is particularly problematic during periods like councils are currently experiencing with rising inflation. Higher inflation means that councils are facing increased costs in delivering services to the community. The inflation rate is currently sitting at 7.3 per cent and is expected to rise over the coming months. As stated in the IPART Issues Paper there is a 2-year lag between the time period that price changes are measured over and when these price changes are reflected in the rate peg. This lag is leading to material differences between the rate peg councils receive and the real cost movements and escalating prices faced by council in the year to which it applies.

In addition, other factors can impact on the capture of costs measured by the Australian Bureau of Statistics (ABS), for example the rate cap for 2023/2024 is based on the change in the average costs incurred by a typical council between 2020/2021 and 2021/2022 when most councils were making Covid-19 related cutbacks.

The LGCI represents a composite of cost indexes derived from different tiers of government rather than a cost index of NSW local government.

As stated in the IPART Issues Paper the 128 NSW Councils across NSW differ widely in terms of the characteristics of areas and the populations they serve. The LGCI needs regional weightings reflective of regional cost disparities across NSW. Costs for metropolitan, regional, rural and remote councils vary and this should be reflected appropriately by setting different cost indexes for categories of councils.

Q2. What is the best way to measure changes in councils' costs and inflation, and how can this be done in a timely manner?

Different cost indexes should be implemented for metropolitan, regional, rural and remote councils in NSW. Data should be captured annually.

Q3. What alternate data sources could be used to measure the changes in council costs?

In addition the current 'basket of goods' the following data should be measured:

- Actual wage data for local government employees
- Actual changes to superannuation guarantee
- Actual auditing costs
- Actual Council (including audit) committee costs
- Number of rate assessments measured from rating data returns
- Actual remuneration rulings for councillors
- Actual costs for holding councillor elections
- Compliance costs

Q4. Last year we included a population factor in our rate peg methodology. Do you have any feedback on how it is operating? What improvements could be made?

Council acknowledge there are several costs to community caused by population growth currently not funded through rates and developer contributions. Some of these costs may not be services that Local Government are directly responsible for like demands on educational facilities and health systems, however population growth does create increase costs on services that are provided by Councils.

The growth component will be different for each Council depending on the demographic of their respective LGA and the demand for infrastructure and services provided to the community by the local council.

Council supports the introduction of population factor to the rate peg methodology to compensate councils for population growth allowing Councils rates income to grow in line with the annual change in the residential population in their area. However, Council believes the methodology needs further review with regard to the current process of calculating the population factor by determining the maximum change in the residential population in the council areas less the supplementary valuation percentage.

Council acknowledge that Councils receive an increase in rate income from supplementary valuations, however these supplementary valuations are generally a result from the subdivision of land creating new dwellings in housing estates which include new infrastructure and recreational areas which must be serviced and maintained by Council. In regional Councils supplementary valuation increases also reflect the business and farmland rating categories and the rate peg applies to council's total general income derived from all rate categories.

In addition to measuring growth in land valuations from supplementary valuations, Council's annual rating returns should be reviewed to determine the quantity of additional properties by category (residential, farmland, business) over the last 12 months that Council will be servicing.

Costs for servicing additional properties are different to costs associated with servicing a growing population. Supplementary valuations from new subdivisions should not cancel out calculation of the council-specific population factor which would include new residents to other areas of the LGA that will require Council's services. The rating return is audited by the Audit Office and is a transparent method of capturing the growth aspect from a rating perspective generated from new subdivisions.

IPART Issues Paper Figure A.1 2023-24 rate peg, population adjustments and supplementary valuations by council demonstrates that a lot of LGAs, including Dubbo Regional Council, with strong supplementary growth did not receive a population factor adjustment due to the increasing supplementary land valuations. These Councils all have additional rateable assessments to provide services to which may include new housing estates which are separate costs from those involved in providing services to an increasing population.

Another issue faced by Council is the population factor in the rate peg methodology being based on the most recent ABS population data. The ABS population data is lagged by three years. As evident in the regions recent COVID 19 response, Dubbo services a large 'underground' population from Western NSW who reside in Dubbo and utilise services provided within the Dubbo community, however they are not officially captured in ABS population data as being a permanent residents of Dubbo.

In addition, Dubbo's low rental vacancy is contributed to by interim workers who do not permanently reside in Dubbo.

Q5. How can the rate peg methodology best reflect improvements in productivity and the efficient delivery of services by councils?

The efficient delivery of services and measures undertaken for productivity improvements should not have a negative impact on the rate peg methodology. Council's should be rewarded for such measures. Dubbo Regional Council has a program of service reviews that is publicly available. This is aimed at creating efficiencies and potentially reducing services to an affordable level. Given the cost increases in the sector, productivity improvements allow Council to continue current service delivery in part. Ultimately the elected body as representatives of the community should decide what are the community outcomes realised by productivity gains.

Q6. What other external factors should the rate peg methodology make adjustments for? How should this be done?

The current methods for determining the rate peg are based on 'rear-facing' elements which is problematic during periods of increasing inflation such as the current environment impacting upon councils. External factors that provide more 'forward facing' elements with respect to inflationary pressures require development.

IPART have previously adjusted the rate peg for factors they consider would impact on councils costs that are not captured or reflected in a timely manner through the existing rate peg methodology. This is an important ability that needs to remain to allow IPART to adjust the rate peg or unforeseen circumstances such as the recent Covid-19 pandemic.

Council considers that just as the new population factor results in differing rate peg percentages being set for different Councils, external factors should be considered in setting different rate peg % for councils experiencing different economic or environmental conditions. For example Councils forcibly amalgamated in 2016 have experienced significant increased costs and infrastructure needs that Council's should be allowed to address through a higher rate peg %. Councils experiencing severe climatic conditions and associated costs from drought, bushfires and flood could be considered each financial year when determining the appropriate rate peg.

Q7. Has the rate peg protected ratepayers from unnecessary rate increases?

Council does not believe that rate pegging protects ratepayers from 'unnecessary' rate increases.

The rate peg puts pressure on Councils to either reduce existing service levels, the provision of front-line services, or maintenance and upgrades of infrastructure to ensure financial sustainability when adopting the Operational Plan. The longer-term impact is that Council's eventually need to apply for a Special Rate Variation to ensure their asset related service levels are not reduced.

Each financial year IPART receive Special Rate Variation applications from Councils who have determined they require an increase to their general rate income above the rate peg. Whilst Council must actively engage with residents about increases above the rate peg as part of their IPART application, Council's Integrated Planning and Reporting requirements and Council's democratic nature including four year election cycles would ensure Councils were seeking community endorsement of rate increases above CPI.

Q8. Has the rate peg provided councils with sufficient income to deliver services to their communities?

As detailed by IPART Issues Paper volatility in the rate peg makes it difficult for councils to plan and budget. As advised by IPART, Councils traditionally use an assumed rate peg of 2.5% in long term financial planning. The 2022/2023 rate peg of 0.7% was unanticipated by any council and resulted in IPART approving Additional Special Rate Variations for 86 Councils who received less than the council's assumed rate peg incorporated into their Integrated Planning and Reporting.

The rate peg for the last 5 years has fluctuated making it difficult for Council's to accurately undertake long term financial planning.

2018/2019	2.3%
2019/2020	2.7%

2020/2021 2.6%
2021/2022 2%
2022/2023 0.7%*
*subsequently amended to allow Councils to apply for an Additional Special Variation in line with their councils long term financial planning.

Q9. How has the rate peg impacted the financial performance and sustainability of councils?

Dubbo Regional Council being a newly merged Council was subject to the 4-year rate path freeze. All amalgamated councils were restricted from applying for a SRV or making changes to their rating structure during this 4 year period.

Political controversy and timings of elections impact on councils applying for Special Rate Variations and ensuring they have sufficient income to deliver services to their communities.

Q10. In what ways could the rate peg methodology better reflect how councils differ from each other?

As highlighted within the IPART Issues Paper Councils within NSW vary significantly terms of the characteristics of the areas and the populations they serve. Council agrees that the councils should be better categorised to reflect their differing characteristics and circumstances and the cost differences between councils in providing goods and services to their communities.

Council supports the investigation into the degree of variability in cost profiles across different councils and council types in NSW with consideration into ways in which the rate peg methodology could better reflect council differences.

Q11. What are the benefits of introducing different cost indexes for different council types?

Introducing different cost indexes for different council types would better represent different characteristics and needs of different communities across the state of NSW.

This would better reflect needs of local communities and costs faced by differing Council profiles. This would be clearer for residents to understand costs specific to their council that have been measured in a LGCI applicable to their category of council.

Q12. Is volatility in the rate peg a problem? How could it be stabilised?

Council has traditionally undertaken long term financial planning by modelling for 2.5% rate peg increase as per IPARTS 'assumed rate peg' notifications. As the rate peg had been below 2.5% for 2021/2022 Council decreased modelling for 2022/2023 financial year to 2.3%. The rate peg announcement of 0.7% significantly impacted Council's financial planning and draft Operational Plan. IPART then announced Councils could apply for a Special Variation in line with Council financial planning up to 2.5%. As Council had elected to undertaken planning on more conservative 2.3%, Council could only apply to increase rates by 2.3%.

Councils have recently been notified by IPART that Councils applying for a special variation in 2023-24 should use the 2023-24 rate peg set for their council by IPART in their applications and use an assumed rate peg of 2.5% for 2024-25 and in future years.

The current inflation levels and 'rear facing' cost measurements make it difficult for Council to prepare long term financial plans with any accuracy.

Q13. Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs?

As per other comments within this submission the current methodology for setting the rate peg are 'rear facing'. Council believes the methodology requires amendment to ensure that the rate peg better reflects current inflation and costs currently being experienced by Councils.

Q14. Are there benefits in setting a longer term rate peg, say over multiple years?

Council does not consider that the rate peg should be set for multiple financial years in advance as this would not reflect changes to the economy that impact on Councils costs. Examples include the current inflation levels and external factors that were not anticipated the recent Covid-19 pandemic. Council thinks consideration of IPART setting a minimum rate peg % for future financial years in line with the Integrated Planning and Reporting cycle (e.g. 2.5%) that councils can more accurately rely upon when undertaking long term financial planning would be beneficial. This would prevent situations occurring like 2021/2022 where 86 councils applied to IPART for an Additional Special Rate variation as the rate peg was unexpected and did not align with council's true costs or long term financial planning.

Q15. Should the rate peg be released later in the year if this reduced the lag?

While releasing the rate peg later in the year could reduce the lag, the early release of the rate peg allows Councils to prepare their annual Operation Plan based on actual rate income and better inform the community. In accordance with the Integrated Planning and Reporting framework Council needs to adopt a Draft Operational plan incorporating the Revenue Policy, advertise for 28 days (typically May) and consider submissions prior to adoption in June. To allow Council staff an appropriate period of time to determine the rate structure to ensure compliance with the rate peg and prepare accurate budgets for the next financial year, the rate peg for the next financial year needs to be announced no later than December each financial year.

Q16. How should we account for the change in efficient labour costs?

Similar to question 5, the efficient delivery of services and measures undertaken for productivity improvements should not have a negative impact on the rate peg methodology. Council's should be rewarded for such measures.

Council staff are employed under the NSW Local Government (State) Award, which is reflective of the actual changes in labour costs councils face.

Q17. Should external costs be reflected in the rate peg methodology and if so, how?

All costs impacting councils must be considered as part of the determination of the rate peg. This should include adjustments for current economic conditions such as the current inflationary pressures that are not reflected in the current 'rear facing' calculation methodologies.

Cost shifting to local government from both federal and state governments is an issue of significant concern to NSW councils. Examples of cost shifting include local government election costs, contributions to the NSW Rural Fire Service, NSW State Emergency Service, Fire and Rescue NSW, lack of adequate funding for public libraries, the cost of regulation of companion animals and administration of environmental regulations. Should federal and state governments continue to transfer responsibility and associated costs for service provision to local government, this will have a negative impact on council's current financial position.

Q18. Are council-specific adjustments for external costs needed, and if so, how could this be achieved?

Making appropriate adjustments to the 'basket of goods and services' measured in the LGCI to ensure costs faced by councils are accurately measured would reduce the need for 'external costs' adjustments. Cost shifting to local government, pensioner rebate costs and increased compliance costs need to be measured and appropriately reflected in rate peg methodology.

IPART should retain current ability to apply council-specific adjustments where necessary such as those detailed in figure IPART Issues Paper A.2 IPART adjustments to rate peg percentage, 2011-12 to 2023-24. This is essential to ensure unforeseen costs faced by councils and costs outside the set 'measured costs' are accurately reflected by IPART in determining the rate peg.

Q19. What types of costs which are outside councils' control should be included in the rate peg methodology?

Similar to question 17, examples of cost shifting include local government election costs, contributions to the NSW Rural Fire Service, NSW State Emergency Service, Fire and Rescue NSW, lack of adequate funding for public libraries, the cost of regulation of companion animals and administration of environmental regulations. Cost shifting to local government from both federal and state governments is an issue of significant concern to NSW councils.

Q20. How can we simplify the rate peg calculation and ensure it reflects, as far as possible, inflation and changes in costs of providing services?

Council doesn't believe that the rate peg calculation should be simplified, we believe that the rate peg should be forward-facing and reflective of the current economic conditions, rather than rearward-facing.

Yours faithfully

[redacted]

Murray Wood
Chief Executive Officer