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[redacted]

27 October 2022

IPART Review of Rate Peg Methodology

Submission from a resident in the Tenterfield Shire Council

I agree and support there needs to be stability, a high level of governance, and protection against future shocks over the amount councils can increase rates each year.

In response to your Issues Paper, Question 7 "Has the rate peg protected ratepayers from unnecessary rate increases?"

No doubt the councils will argue that all increases are necessary. The question might more accurately have been phrased "Has the rate peg protected ratepayers from <u>excessive</u> rate increases?"

It is evident over the past decade that despite setting rate pegs, councils have been able to apply, and been approved for, increases over and above any annual "peg" or "cap" time and time again – through the Special Rate Variation process. It is recognised that the Special Rate Variation process does not form part of this review but it is obvious that the quantum of Special Rate Variations applications and approvals has in some way lead to this review being required.

Rate volatility is especially evidenced in the Tenterfield Shire Council through:

1. A Special Rate Variation approved in 2014 for an increase of 15% in 2014/15 followed by 10% increases in each of the next 3 years. These increases included the rate peg and were maintained permanently. This amounted to a cumulative 53.07% including the rate peg, over the four years 2014-2017. At the time, it was stated in IPART's media release that "We are conscious that our decision to approve the increase … is among the biggest percentage increases in NSW."
2. Tenterfield Shire Council has only incorporated the recommended maximum rate pegs into its rates notices for the years since that Special Rate Variation despite it being clearly inadequate to the budgetary requirements of the Council. A Council that cannot live within its means as evidenced by the $18 million of debt it has acquired to fund its activities and approval in the latest financial yar to seek up to another $3 million of debt. A Council that indulges in poor financial management as evidenced by the NSW Auditor-General's Report "Local Government 2021":

Tenterfield Shire Council	*• Council's negative unrestricted cash of $1.2 million represents a breach of section 409(3) of the LG Act.* *• Council is unable to verify that funds raised by special rates or charges were not used to pay for general fund expenses during the year ended 30 June 2021.* *• Council acknowledges it may have used restricted special rates and charges funds for purposes other than their intended use, without ministerial approval. Such unapproved use would not comply with section 410(3) of the LG Act.*

   Again, more evidence of the Tenterfield Shire Council's inability to manage its finances according to the cut of its cloth is attached – Tenterfield Fit for the Future – NOT FIT (IPART publication "Assessment of Council Fit for the Future Proposals: Appendix C, October 2015).

3. Meanwhile, many other councils take the route of applying for minimal Special Rate Variations year in year out for example, 2.5% in a given year, thus minimising the shock to their residents and attaining financial sustainability at what may be considered a more acceptable assault on residents' wallets.
4. Tenterfield Shire Council residents are now in the position where they are threatened with major bill shock in the next two years with the proposed Special Rate Variations on the table of which no doubt

> IPART is aware – as it was aware of the Tenterfield Shire Council's plan to seek approval for another special rate variation from 2018-19 of 54% over 7 years (same attachment refers, Fit for the Future NOT ["NOT" being the report's emphasis]), which presumably the 2023-24 Special Rate Variation is the iteration of that proposed application.

Although also not a part of this review, rate increases and rate pegging/capping methodologies <u>must</u> be viewed in context of the entirety of the rates and services charges by Council. "Rates" only form one part of the rates and services notices to ratepayers. Charges for services such as sewerage, stormwater, water and waste are also skyrocketing and there is no governance over any of these charges councils are able to impose on ratepayers. Hence there are year on year increases in the order of 5% to 15% across these services, as Councils are able to charge whatever they like.

The current rate peg methodology that incorporates an additional process for over-and-above increases year in year out is not working. I encourage you to find a process that will work and more importantly, honour the State Government's "commitment to protect ratepayers from excessive rate increases" as stated in this Review's Terms of Reference. In answer to the question "Has the rate peg protected ratepayers from unnecessary rate increases?" – the answer for Tenterfield Shire Council residents is a very solid "No."

In response to your Issues Paper, Question 10 "In what ways could the rate peg methodology reflect how councils differ from each other?

The Tenterfield Shire Council has released a consultant's paper "Capacity to Pay" in support of its upcoming Special Rate Variation (TSC website, Council meeting papers, October 2022). This paper talks about the growth in house property prices in the Tenterfield LGA, and how this growth "represents a significant increase in household wealth".

This paper gives absolutely no consideration to the actual facts of such "household wealth". This so-called "wealth" in this little village of Urbenville is represented by houses that are generally 40, 50, 60, 70, 80 years old, with little refurbishment and renovation. Many of these houses are occupied and owned by long-term residents now in their 70s and 80s with their sole income the aged care pension. Their home is their sole asset and mortgage-free simply by fact of them having lived in it for so long.

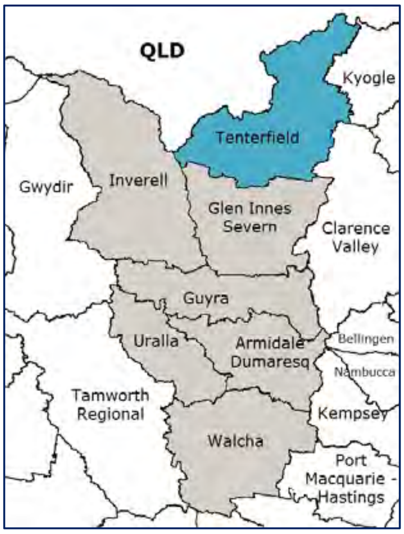
Other owners buy because of the comparatively low entry cost of homes in this village – people who are on a disability pension but have been able to afford their own home, or low-income families, or single income older women. Even with COVID real-estate impacts, houses in this village are still able to be purchased for $250,000, $300,000, to a maximum of $315,000, up from $100, 000, $150,000 or $180,000 two years ago. According to this consultant's paper, the residents of Urbenville are considered to have "capacity to pay" based on the equity in their home and the fact that some are mortgage-free. This criteria may fit those buying multi-million dollars houses in Sydney or the coast, but it does not acknowledge the difference in a rural location like Urbenville with its low value housing stock and a demographic skewed to the elderly (see latest and previous Census data). This consultant's paper also talks about net increases in savings in households over the past 5 years, with lower discretionary expenditure on things like hotels, cafes and restaurants but has disregarded the impact of COVID restrictions and lockdowns in half of that timeframe, and even the fact that places such as Urbenville do not have cafes and restaurants to spend one's spare cash.

I sincerely hope that IPART takes a good close, better look than this consultant has, at the difference in councils and how the rate peg methodology impacts the residents in LGAs like Tenterfield Shire Council, a Council that likes to spend ratepayers' money as though it were a Council located in a wealthy and income-generating location such as the coast or Sydney, but is in fact located in an area with significant disadvantage, low value housing stock, and prohibitive access to services (lack of services, distances required to be travelled to gain services, etc).

Sincerely

Cynthia Coppock

TENTERFIELD SHIRE COUNCIL – CIP



NOT FIT

Area (km²)	7,024	Population 2011	7,000
OLG Group	10	(2031)	7,150
ILGRP Group	F		
Operating revenue (2013-14)	$10m	TCorp assessment	Weak FSR Negative Outlook
ILGRP option	Council in New England JO (shaded area).		

Assessment summary

Scale and capacity	**Satisfies**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. While it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FFTF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- Hence we have assessed the council as meeting the scale and capacity criterion.
- Notwithstanding this, Tenterfield's population is below the level the ILGRP considers appropriate for a non-metropolitan council. The council's forecast for an ongoing, albeit reducing, infrastructure backlog reflects weak revenue, limits discretionary spending and circumscribes the council's ability to undertake new projects and respond to complex change.
- Our analysis suggests the council may have insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments.

Sustainability – does not satisfy

- The council does not satisfy the sustainability criterion since its forecast to meet the benchmark for the operating performance ratio assumes a successful application for and adoption of a large special variation. We consider this assumption may not be reasonable.
- In 2014, Tenterfield received approval for a special variation of 53.1% (43.0% above the rate peg) over 4 years. On expiry, the council intends to seek approval for another special variation from 2018-19 of 50.4% (31.5% above the rate peg) over 7 years. Combined, the special variations would increase rates by 130.2% (99.3% above the rate peg) over 11 years.
- Given the approved special variation in 2014, the magnitude of this additional special variation is significant. Accordingly our analysis indicates the council's assumption of subsequent special variations is not reasonable. As a result, its forecasts do not meet the benchmark for the operating performance ratio.
- The council forecasts its own source revenue ratio (including FAGs) will meet the benchmark by 2019-20. We have assessed all councils in OLG Groups 8-11 with the inclusion of FAGs for this ratio.
- The council forecasts the building and asset renewal ratio will be 73.3% by 2019-20, but exceeds 100.0% during the period to 2019-20. These figures include the assumption of the approved special variation and we have therefore assessed the council does not meet this benchmark.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet or improve close to the benchmarks for the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio by 2019-20.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real opex per capita to reduce over the period.

Other relevant factors	
Social and community context	The community of interest for the LGA focuses on the town of Tenterfield, which is distant from other regional centres such as Glen Innes (60 minutes to the south). The council states it is more closely aligned with communities to the north east than communities in the New England area.
Community consultation	The council conducted community engagement sessions about the Fit for the Future process. Proposed improvement actions were made available for public comment. Further consultation will occur about expected service levels and measures to improve the council's financial position.
Water and/or sewer	The council operates water and sewer businesses. The infrastructure backlog for these businesses is around $3.8m.
Submissions	We received one submission relating to Tenterfield's proposal, suggesting boundary changes to include towns affected by dual border problems.