murray river council

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Feedback on Draft Report on Review of the Rate Peg Methodology

June 2023

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1. Summary Feedback

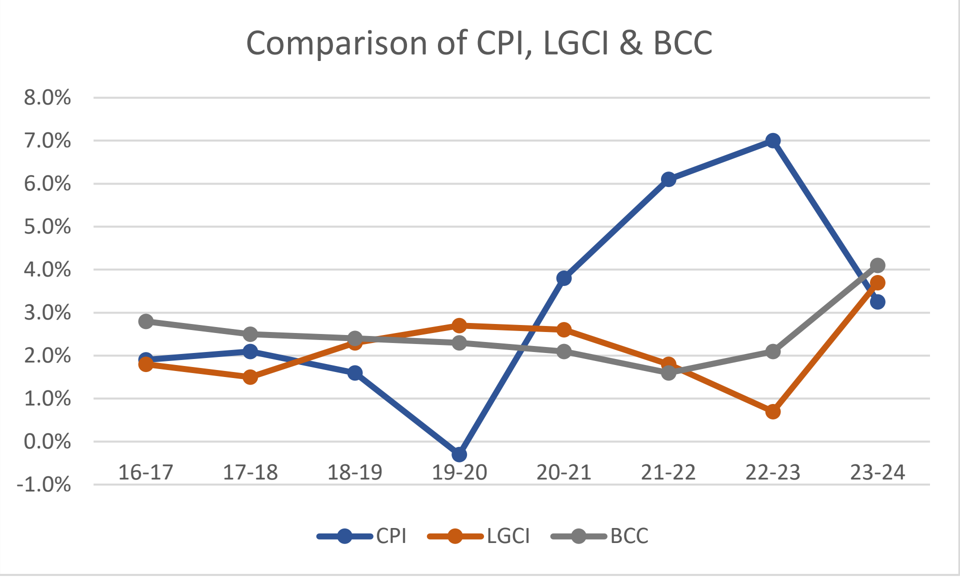
Item		Comment
Use of State Award, Superannuation Adjustments	✔	Murray River Council (MRC) supports the use of the Local Government (NSW) Award (Award) as it directly reflects the cost changes experienced by Councils. Adjustments for superannuation changes are required as the Award does not reflect the super changes.
Timing of Rate Peg	!	MRC supports the release of an indicative figure early. September works well for timing. Release of the final figure in May does not work for MRC. It will need to be released latest, end of March to enable it to fit in with the statutory budget timelines.
Weighting of BCC Components	✔	MRC supports the methodology suggested in the draft report.
Separate Rate Pegs for 3 Council Groups	!	Given the negligible differences between the three groups, when the methodology is applied retrospectively, MRC does not see any benefits in maintaining three groups. Not opposed to it either.
ESL	✔	MRC supports a separate adjustment for changes in the ESL. A one-off adjustment also needs to be made for the impact of the removal of subsidies in FY 23-24. ESL should be a separate levy in the Rates Notice. ESL amounts are determined by State Revenue. See attached statement from State Revenue to MRC.
Local Government Reference Group.	!	MRC is supportive of IPART establishing such a group, provided that IPART is genuinely open to (and the State permits IPART to) incorporating inputs from such a group into setting Rate Pegs. If that is not the case, then setting up such a group is a waste of time and money.
Adjustment for Specific External Costs	✔	MRC is supportive of this measure. The measure should include adjustments to accommodate changes in external revenues as well as costs. E.g., If the increase in FAGS is less than the Rate Peg, that should trigger an adjustment.
Population Factor	✔	MRC supports the exclusion of prison populations (noting that it has no impact on MRC).
Implementation Option		MRC strongly supports the implementation of the BCC for FY 2024-25 with a one off true-up factor.

2. General Observations

One of the key difficulties for Councils, resulting from the current methodology for setting the Rate Peg (LGCI), is that there is a lag between actual costs incurred by Councils and the revenue generated from General Rates. Both the lag, and the feedback from councils that it is a major issue, are documented in the draft report. As such, we believe one of the primary drivers for, and objective of, the current review should have been to identify a methodology that eliminated or significantly minimised the timing disparity between when costs were incurred, and revenues are generated.

Sadly, a retrospective application of the proposed methodology (BCC) seems to indicate that it will fail miserably in achieving that outcome, anytime there is a significant shift in the CPI, as can be seen from Figure 1. Any Rate Pegs calculated using the BCC will likely be way off the actual realities of costs experienced by councils, except under very stable inflationary conditions.

Figure 1: Comparison of CPI, LGCI & BCC



Note: CPI as per ABS. LGCI & BCC as per Table B.1 of the Draft Report on Review of the Rate Peg Methodology.

Given that timing gaps will still be very much a part of the Rate Peg under BCC, and the very marginal differences between the LGCI & the BCC (apart from 22-23), the question has to be asked; What has the time, effort and money invested in the review achieved?

Volatility of Rate Peg

Based on comments in numerous places across the draft report, minimising volatility in the Rate Peg seem to be an overarching objective of IPART. This is detrimental to councils. MRC is of the view that what is required is a Rate Peg that is more synchronised with the actual cost changes experienced by councils. **When inflation is volatile, the Rate Peg needs to be equally volatile**.

3. Methodology

LGCI to Base Cost Change

As demonstrated in Section 1, MRC is of the view that the BCC, including the use of three separate elements within BCC, is in theory an improvement on the current LGCI methodology. However, in practical terms the change will achieve very little to address the core issue faced by MRC (and all NSW councils) resulting from the application of the LGCI; namely the timing disparity between income and expenses during periods where inflation is somewhat volatile.

- Employee Costs: MRC supports the use of the Award increase to measure changes in employee costs, as this directly reflects the actual cost increases experienced by councils. MRC also supports the additional adjustments for changes in the superannuation guarantee, as the Award changes will not include super changes.
- Asset Costs: MRC does not agree with the position of IPART on not adopting a true-up approach. The primary reason for not adopting such an approach seems to be that it will inject volatility into the Rate Peg. However, such volatility will only be experienced when inflation is volatile. In our opinion, that is exactly what is needed to ensure that the Rate Peg is more reflective of the actual cost changes experienced by councils. Adopting a true-up approach will contribute towards bridging the gap between CPI and BCC (see Figure 1).
- Other Operating Costs: MRC supports the use of the RBA CPI for Other Operating Costs.
- Weighting: The proposal contained in the draft report of using Financial Data Returns, averaged within each group, to weight the 3 components of the proposed BCC is supported by MRC.

3 Council Groups

As depicted in “Box 3.1 Our new BCC model” within the draft report, application of the individual BCC of the different groups retrospectively indicates that there is very little difference between the resulting Rate Pegs for the three groups. Given that why have three groups?

Population Factor

MRC does not have any prisons within its geographic region and as such will be unaffected by the proposed change to exclude prison populations from the population factor calculation. Nonetheless, MRC is of the view that it is a supportable decision.

4. Separate Adjustments

Adjustment for ESL

For MRC, the ESL is specified by State Revenue (see invoice contained in Attachment 1). IPART should be able to obtain the ESL assigned to each council from State Revenue.

MRC is of the firm view that the Local Government Act needs to be amended to permit Councils to create a separate “Emergency Services Levy” in the Rate Notice, so that ratepayers are clear on what they are paying for their emergency services. IPART refers to adopting mechanisms to ensure that local governments operate efficiently and are held accountable for their costs. Hiding the ESL within rates is a clear contradiction of that position, as it does not promote the emergency services organisations to operate efficiently or be held accountable for the costs they incur.

MRC is also of the view that IPART needs to include a special adjustment in the FY 24-25 Rate Peg, to account for the loss of the ESL subsidy in FY 23-24. This can be an individual adjustment (similar to the population factor) as the impact of the subsidy removal varied considerably between councils.

Adjustments for External Factors

MRC supports a mechanism to adjust the Rate Peg for costs imposed on Councils by external agencies. MRC strongly recommends that such costs be factored into a separate levy, (could be named "Cost Shifting Levy") so that it is clear to all ratepayers the revenue raised from such a levy and its application. It would place more accountability on State politicians from hiding behind council rates to balance state budgets (consistent application of the accountability and efficiency principles).

These adjustments should include an adjustment for any failures of FAGS to keep up with inflation (or the Rate Peg). A simple mechanism could be that if the increase in FAGS in less than the Rate Peg, the difference should be an adjustment factor.

5. Timing of Rate Peg

MRC supports the release of an indicative Rate Peg early. September works well for timing.

Release of the final figure in May does not work for MRC. In keeping with sound community engagement principles, MRC adopts the process of provisionally adopting the budget in early May, placing the provisional budget on public display (40 days) before final adoption in late June. Release of the final figure in May does not leave adequate time to make the necessary adjustments to the budget, keeping in mind that adjustments in the rates revenue will have knock-on impacts on other items throughout the budget.

The final figure will need to be released latest, end of March to enable it to fit in with the budget timelines for MRC.

6. Local Reference Group

MRC is supportive of IPART establishing such a group, provided that IPART is genuinely open to (and the State government permits IPART to) incorporating inputs from such a group into setting Rate Pegs.

If that is not the case, then setting up such a group is a waste of time and money.

7. Implementation

MRC strongly supports the implementation of the BCC methodology for FY 2024-25, with a one-off true-up adjustment to negate the lag effect of the LGCI.

MRC recommends a true-up calculation to cover the last three finical years (FY 2021-22 through to FY 2023-24). This will provide councils some relief from the gap between cost increases and revenue increases experienced over that time.

8. Independent Review of the NSW LG Financial Model

MRC strongly supports an independent review of the LG financial model, the operative word being "independent". Another factor that would be very important is the terms of reference for such a review. If the terms of reference is limited to serve the purposes of the State government, then such a review would be of no benefit.

MRC is of the view that the current financial model for LGs in NSW is inconsistent with the democratic principles and is also inconsistent with the intents of the Local Government Act.

A Council is a democratically elected body that should have the freedom to set its own rates and be accountable to its electors every four years for the manner in which the Council has conducted itself over that period. Not all states have the state government holding the strings of the rates revenue raised by local governments. There is no evidence to show that states with state control of local government rates have resulted in lower general rates in those states.

The local government Act envisages a process where councils engage with the communities every four years to determine the service delivery priorities. It's almost pointless undertaking this expensive and extensive consultation process, to then not be equipped to supply what the community has asked for. It raises expectations that, in most circumstances, end up being dashed.

SRVs as a mechanism for funding community identified initiatives is inefficient and cost prohibitive.

Local Government Councillors should be free to set their General Rates based on the consultations they have undertaken with the communities on service delivery priorities, depending on the individual circumstances of each council. They are accountable to those same communities every four years.

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Attachment 1

NSW GOVERNMENT | Revenue

Council Contribution Assessment Notice

Contribution amounts in this notice have been assessed by the Emergency Services Minister for the 2023/24 Tax Year

Issue Date	28 April 2023
Enquiries	1300 241 869 (8.30am - 5.00pm)
Website	www.revenue.nsw.gov.au

MURRAY RIVER CNCL
PO Box 21
MATHOURA NSW 2710

Council ID	144400861
Correspondence ID	1764368120

APPROVED May 1, 2023

[redacted]

Terry Dodds

Assessment details

Total Council Annual Contribution	(Combined RFS, SES & F&RNSW)	Amount Due	$ 738,682.64

Individual Contribution Assessment Totals

NSW RURAL FIRE SERVICE	Amount Due	$ 635,065.00
NSW STATE EMERGENCY SERVICE	Amount Due	$ 58,255.64
FIRE AND RESCUE NSW	Amount Due	$ 45,362.00

Instalment details

Pay in four instalments	Payment Reference	Due Date	Amount Due
FIRST INSTALMENT	1764368088	30/09/2023	$ 184,670.66
SECOND INSTALMENT	1764368096	31/12/2023	$ 184,670.66
THIRD INSTALMENT	1764368104	31/03/2024	$ 184,670.66
FOURTH INSTALMENT	1764368112	30/06/2024	$ 184,670.66

You can find information on the current rate of interest at www.revenue.nsw.gov.au.

If your payment is not received by the due date, the instalment will be in arrears and collection activity will commence.

For information on how to set up a direct debit arrangement refer to the back of this notice.

For questions about the calculation of your assessment for the quarters specified, contact the relevant emergency services department. Their contact information is on the back of this notice.

Scott Johnston
Chief Commissioner of State Revenue