Pennant Hills District Civic Trust Inc.

"preserving the residential amenity of Pennant Hills and its environs"

P.O. Box 453 Pennant Hills NSW 1715

www.PennantHillsCivicTrust.com

4 July 2023

Dear Sir/Madam

Pennant Hills District Civic Trust is a community residents' group in our 40th year focussed on improving the amenity of the area in all its forms.

CPI as a sole index has not served us well as it is over-simplistic, aggravated by the requirements of the SRV process in the event of major financing gaps emerging. As a community organisation, we don't want to ever endure another unnecessary SRV ordeal which was rancorous and not constructive. The opportunity cost alone from the diversion of Council time has been horrendous, and iPART should acknowledge its responsibility for the damage done, time lost, local divisiveness, and goodwill destroyed.

Whilst rates are probably 5% of the typical family tax burden, and despite that the benefit is very local and provides the most amenity, some residents behave as if it's an involuntary organ donation without anaesthetic and baselessly allege it's entirely squandered. Residents from all ends of the political spectrum suddenly become ultra conservative fiscal hawks with regards to just a few percent change on their $1500 local taxes, perhaps because it's easy to get 3 minutes of fame in Council meetings locally and grandstand on social media. If only this was matched by an iota of Civic interest over the course of decades where the SRV topic wasn't raised. Our observation of social media is that residents DO want services, just that a minority of aggressive individuals imagine that some mysterious public finances less specific to them should be tapped.

You will have noticed many submissions from residents to your SRV Review consultation process that reflect this attitude.

Following this bruising and personally abusive SRV process, can we use this opportunity to especially recommend that headline figures about rate increases talk in real not nominal terms, and about the delta beyond the peg, on a per annum basis? A significant part of the rancour was unsurprisingly triggered by iPART's misguided required approach to expressing the % increase.

Taking the example of Hornsby Shire, doing the maths, the SRV related increase is equivalent to a **12% one off increase** on a one year basis in 2022 money.

This is versus the **31%** that had to be published which included :

-4 years of projected rate peg reflection CPI inflation, compounded by itself and SRV increments.

- the proposed SRV % also compounded by CPI and previous SRV increments over 4 years.

Is the intention to create "sticker shock" iPART's rule on the headline calculation calculation formula? ***There isn't a more adverse formula approach possible to create a more alarming headline, 31% vs the "real" and "decision relevant" 12%.***

- Residents weren't being asked to discuss the peg, so why include it in the calculation/headline in the delta SRV figure residents are actually submitting on?
- The increase over 4 years included inflation compounding.

- Financial professionals let alone residents do not understand mathematical compounding concepts in distinguishing nominal from real increases.

Please find our comments below by section, and we are directionally supportive. This draft document and thought process is of a high quality and is applauded.

<u>Chapter 3 – The Index Approach</u>

Q1 "*Introduce a Base Cost Charge (BCC) model to replace the current Local Government Cost Index (LGCI) to be made up of only 3 components - a) employee cost, b) asset costs and c) other operating costs, excluding the Emergency Services Levy (ESL)"*

We welcome the sophistication on multiple dimensions to try and better model the reality.

- We are concerned that an ever-increasing capital base requires an increasing maintenance budget. Changes in the capital base are generally not primarily a function of inflation but rather, of investment.
- Directionally, the multi factorial modelling approach is an enormous improvement.
- As the years go by, there will be structural shifts happening between categories. Is there a process for recalibration of the base? We note mention of 5 year reviews of the peg process, but there may be need for something more Council specific available as there may be unintended consequences of the new approach. What about an optional Zero Based budget approach Councils could resort to if they saw a real threat to financial stability at any time or looking for a recalibration due to the local area's dynamics.
- Salary forecasting may need more sophistication – the mix of staff won't reflect the average of the whole economy. There may also be specific labour market conditions eventuating locally and we're aware of "churn" at Councils for many reasons – one example being in Regional Councils due to Planners being poached by State and working remotely whilst reporting to Parramatta HQ. This answers **question 2** "***Develop separate BCC models 3 groups of councils: a) metropolitan, b) regional and c) rural***". Be open to even more distinction where there is solid justification.
- We agree re ESL (emergency services levy) - see specific comments later.
- Actively keep the door open to refinement as the experience unfolds. It's all too complex to set a model in stone only to be re-examined in 2029 and not before. The CPI based peg got us into a situation reminiscent of the Soviet era 5 year plans, so let's be consciously more dynamic going forward in the spirit of this draft paper.

Q3 "*publish the indicative rate peg for councils around September each year (unless input data is not available) and final rate pegs around May each year"*

- Our Council was required to finalise the Delivery Plan now in June. So the final peg announcement in May sounds rather late?
- There could be merit in avoiding short term unplanned changes by using a medium term "true up" approach with more time for Councils to react.

Chapter 4 – Emergency Service Levy

Q4. "Include a separate adjustment factor that reflects the annual change in each Council's ESL contribution to reflect a) an individual council's contribution not part of a rural fire district, part of a rural fire district but not engaged in ESL contribution cost sharing arrangements, the only council in their rural fire district or part of rural fire district and engage in ESL contribution cost sharing and IPART has accurate information about what each council pays; and b) the weighted average change for each rural fire district, for councils that are part of rural fire district and engage in ESL contribution cost sharing (where IPART does not have accurate information about what they pay)."

The draft paper concurs with us that Residents don't understand the value of what Council are doing for them, and over-react as if rates were 90% of their tax burden. Don't aggravate this value perception by mixing ESL with Council Rates.

There's a strong case that ESL should remain as of general taxation like State roads. To a significant extent ESL is by nature a public good. If a State road is washed away in a Country LGA with 3000 residents, it's the same principle that we're not expecting them to take a rate hike to fix it for us all. Hawkesbury Council doesn't fund RAAF Windsor within its boundaries. Nor do I pay more tax because there are lots of schools, retirees and hospitals in my LGA.

Abundant local fire prone bushland is equally every State resident's responsibility as it is local residents. In fact, here in Hornsby Shire we already contribute for Council care of bushland which more urban Council residents are "free riding" upon.

Having considerable State and Federal bushland has also increased compliance costs, which is hidden (we don't necessarily oppose) but still lands on local residents.

The Trust is deeply worried about ESL suddenly absorbing a large part of the SRV increases just agreed for many Councils, (or to bankrupt those that haven't yet applied), and this must imperatively be avoided.

- It would be hugely dysfunctional to put Council through a journey to hell and back to fix the underfunding issues acknowledged in the paper, and then immediately land Councils back "in the cactus" and wreck the carefully multi-year delivery plans we've all just laboured over.
- There would be a catastrophic erosion of public trust having taken so many hours of their goodwill and time to discuss SRV's and have Council explain what the increase would fund, and then conduct a barefaced reappropriation of the rate increase to backfill what has for years been funded by general taxation. How would one expect to get resident engagement ever again?

If there is still going to be a forced recharge, we agree this should be passed through for the reasons of

- transparency
- comparability of Council spend over time

Appropriateness of the charge by LGA is a key topic which the pass-through transparency will assist in highlighting.

The Trust recommends shifting the ESL contributions away from local Councils back to the State Government who manages NSW Fire and Rescue, NSW Ambulance, NSW Police, SES and other emergency services. Fees to cover costs can be collected through taxes or levies through the Government, rather than through Councils who – a prima facia – carry no immediate responsibility for these services.

Regarding ***Q5 "Councils to provide IPART with timely information on the actual ESL contribution amounts they pay including contribution amounts paid to a) Rural Fire Service, b) Fire and Rescue NSW, and c) NSW State Emergency Service.***

The Trust is not qualified to contribute.

Regarding **Q6 "*set ESL factors and a final rate peg for each council in May after ESL contributions for the year the rate peg is to apply are known, so that councils can recover changes in ESL contributions in the year contributions are to be paid."***

We re-iterate – don't conflate Rates with recovery of a new State Tax using Council as some kind of bridging fund mechanism.   The charge through to the residents must be clearly itemised.

Chapter 5 – External Costs

Q7 "M*aintain the current approach and make additional adjustments to the rate peg on an as needs basis for external costs"*

We agree there needs to be a method of funding necessary new expenditure e.g. on climate related stormwater engineering, or meeting new cyber security standards, without a full blown rancorous SRV process like we've just experienced.   E.g. If a Sydney LGA is going to need heavy duty stormwater infrastructure using designs specifications until now only appropriate for for Cairns, QLD, the new peg is not going to suffice.   Nor are today's residents going to feel full ownership for a multi-generational investment if Councils are forced into tortuous public consultations.

Equally there may be some very discretionary amenity that residents really want provided, and there's no mechanism today if there's no willing private sector provider.

Chapter 6 – The Population Factor

As population rises, there are direct variable cost increases that should be covered, and rising Council revenue is a small palliative for residents facing increased density and congestion as they should get better services.

Conversely we agree with the approach not to adjust rates downwards to compensate for economies of scale.   There are plenty of pressures against amenity of an area as density increases, and this is one small tailwind. New residents get the benefit of intergenerational transfer, but there's invariably the need for diverse investment in amenity for decades ahead (e.g. recreation) that's heavily front weighted.   The Trust would argue that discussions about lag on indices are trivial compared to the lag in strategic proactive funding.

6.3.5 is an important point about maintaining facilities popular with visitors from “out of area”. In order to ensure facilities are funded, and there’s not a disincentive to provide attractive amenity, this needs further thought.

Sydney Councils with Beaches have been able to very effectively monetise facilities with elevated parking costs. It’s not so obvious how to “return the favour” to their residents on a “pay to play” basis. But 100% funding by locals does not seem equitable, and the suggestion is that State are the appropriate level of government to level the playing field with support for great public facilities in NSW.

Q8 – ***deduction of the Prison Population from the formula***

This is trivial at 14K people out of 8million, but presumably prisons are disproportionately in low density areas. Excluding prisoner numbers would seem intuitive since by definition they can’t enjoy services – did there need to be a specific question?

Chapter 7 – Productivity Factor

Agree on the approach. Whilst the dynamics are not well understood, coding in a reducing budget method looks likely to get Council back into the underfunded situation we’re trying to get out of.

So until there’s more consensus and “light” on this topic, Council Executives we hope are getting productivity gains which are being reflected in quality.

Best Regards,

Michael Rosettenstein, President

Pennant Hills District Civic Trust Inc

Mobile: +61[redacted]

Web: www.PennantHillsCivicTrust.com

Email: [redacted]@PennantHillsCivicTrust.com