Summary of discussion at our Rate Peg Methodology workshop for ratepayers

6 June 2023

1 Overview

We held 1 online workshop with ratepayer stakeholders on 6 April 2023 and had 22 attendees.

This paper presents a summary of the key issues discussed at this workshop including:

- Feedback on our process and options we are considering for the rate peg methodology.
- Feedback on the broader regulatory framework.

2 Feedback on our process and options we are considering

Key Theme	Summary of workshop views
General methodology	• Some ratepayers wanted IPART to provide long term forecasts of the options that were presented because inflation has been volatile over the past 12 months. They thought longer-term analysis would be more informative for ratepayers when making submissions to the Draft Report. • Some ratepayers were concerned about changing the methodology leading into a period of economic uncertainty. They noted the flaws with the methodology but considered that the current economic climate may not be the most appropriate time for change. • Some ratepayers commented that the lag is not a significant problem. They stated that the lag cuts both ways and that councils do not seem to have an issue when inflation is lower than the rate peg.
The Local Government Cost Index (LGCI)	• Some ratepayers were concerned about how the existing rate peg method compares to changes in the Consumer Price Index (CPI) and noted that council incomes have grown by much greater than the CPI.
Labour costs	• Some ratepayers did not support the idea of using the Local Government (State) Award to measure changes in councils' labour costs. Some ratepayers considered that it could remove incentives for councils to effectively control wage increases during negotiations. Some ratepayers were concerned about the accountability and transparency of labour costs. We heard concerns around the costs of contractors and executive remuneration. • Some ratepayers thought that councils should not compete with the private sector for equivalent wages and that instead councils should offer other benefits such as flexible working and other employment conditions. • Some ratepayers expressed support for using the Fair Work Commission's minimum wage increases. • Some ratepayers were in favour of forecasts due to timeliness, while others were concerned about their accuracy. • Some ratepayers were concerned that using the Award could increase the gap over the last 10 years between CPI and rates revenue. • Some ratepayers felt that if there are shortages in specific areas these increases could be targeted rather than increasing labour costs across the board.
Depreciation	• Some ratepayers were concerned that including depreciation expenses in the rate peg would create incentives for councils to increase capital expenditure and potentially make capital expenditure decisions that are not the best value for money.

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	• Some ratepayers felt that councils are not forward planning for maintenance and repair of assets, which is leading to higher expenditure. • Some ratepayers were also concerned that decisions councils make in their asset management strategy could artificially change their depreciation expense. • Some ratepayers were concerned that using depreciation may incentivise more capital expenditure but that does not necessarily incentivise more efficient and effective capital expenditure.
Council diversity	• Some ratepayers supported reflecting council diversity through the rate peg as long as this does not increase the average rate peg across the state. They commented that if some councils have less favourable characteristics that require a higher rate peg, then some councils must have more favourable characteristics that should receive a lower rate peg. • There seemed to be little support from ratepayers to use roads per capita as a measurement of diversity between councils. • Some ratepayers said that IPART should consider the community's capacity to pay as a metric to group councils.
Population factor	• Some ratepayers expressed support for continuing to deduct supplementary valuations from the population factor. • Some ratepayers thought the population factor should be reduced for each council to factor in economies of scale. They argued that fixed costs are a lower proportion of total costs if the population increases and that should cause economies of scale. • Some ratepayers also supported removing prisoners from the population factor. Other ratepayers wanted more information about the impact of prisons on council expenditure. • Some ratepayers felt that there had not been enough years with the population factor included in the rate peg to make an accurate assessment on what could be changed.
Productivity	• Some ratepayers were concerned that there is no effective measurement of productivity in the local government sector. • Some ratepayers were concerned that councils provide examples of productivity improvements but without a robust measure there is no measurement to show if there are productivity improvements across the sector. • Some ratepayers felt that providing councils additional revenue for productivity improvements would remove incentives and that if councils cannot afford to invest in such projects, they should seek to reduce other expenditure instead of increasing rates. • Some ratepayers were concerned that there is a duplication of efforts across the local government sector as each council develops an individual solution to issues that are common across the sector. These ratepayers felt that opportunities should be explored to develop common solutions and that this would be more efficient.
Costs due to external changes	• Some ratepayers argued that they already contribute to the Emergency Services Levy (ESL) through their insurance premiums and that if the cost was passed through to councils, ratepayers would be contributing twice to the ESL. • Some ratepayers argued that no external costs should be included in the rate peg. They argued that these costs should be absorbed through improvements in efficiency and re-prioritisation of services. • Some ratepayers acknowledged that if costs are directly transferred to councils from the State government that funding should be provided. But that this funding should come from the State government instead of ratepayers. • Some ratepayers suggested that IPART could act as an arbiter to determine if enough funding for new activities has been transferred to councils from the State government and that councils could appeal to IPART for a ruling on whether sufficient funding has been transferred. • Some ratepayers placed a high value on ecologically sustainable development and that environmental considerations should be included in the rate peg methodology. • Some ratepayers thought the costs arising from natural disasters and climate change should be funded by the State Government instead of through rates.
Ratepayer affordability	• Some ratepayers considered that a forward–looking approach that could respond to changes in economic conditions in a timelier manner would help support ratepayer affordability. There was some support for a rate peg that could address both ratepayer affordability and council sustainability. (For these ratepayers the affordability concerns stemmed from large special variation increases above the rate peg.) • Some ratepayers were concerned that rises in the rate peg have outpaced inflation and noted that this was putting financial strain on those with fixed incomes such as pensioners. • We heard concerns that some communities were paying both rates and community association levies to offset council costs for infrastructure. • Some business ratepayers were concerned that increases in rates are not evenly distributed across a council's rating base. They felt they were paying a disproportionately high share of rates and in effect subsidising other ratepayers. • We heard that ratepayers should be allowed greater ability to help councils with certain projects in the community to offset costs.

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	• Some ratepayers were concerned that IPART's options to change the rate peg did not indicate how they would perform in the long term against the Reserve Bank of Australia's historical inflation target of between 2-3%. These ratepayers commented that ratepayers would need to know this before being able to make an informed submission to the Draft Report. • A ratepayer gave a specific example that in their local government area their council rates are in the highest 30% and the median income is in the bottom 30%, and they also pay some of the highest sewage charges in Australia.

3 Feedback on the broader regulatory framework

Key Theme	Summary of workshop views
Capital Improved Value (CIV) property valuations	• Some ratepayer raised the equity of rates as an issue and argued that rates are a regressive form of taxation that unfairly impacts low-income households. • We heard that the timing of rates notices did not allow ratepayers enough time to review the impact of, and potentially reject new property valuations on their rates set by the Valuer General.
Special variations	• Some ratepayers felt that the special variation (SV) process incentivised poor council performance, because of the financial need criterion. Ratepayers argued that as underperforming councils are eligible for SVs, the criterion creates a perverse incentive to underperform for additional revenue. • Ratepayers suggested that councils were not undertaking sufficient community consultation and engagement when applying for an SV. • Some ratepayers were concerned that their council was seeking an SV despite having a large number of assets on their books, particularly cash at bank. They felt that council assets could be considered in the SV assessment process. • A ratepayer gave a specific example about millions in restricted council funds that couldn't be used by the council and to some extent influenced the council's application for an SV.