4 November 2022

Carmel Donnelly PSM
Chair, Independent Pricing and Regulatory Tribunal NSW

Online submission: ipart.nsw.gov.au

Dear Ms Donnelly

Review of the Rate Peg Methodology

Thank you for the opportunity to comment on IPART's Issues Paper, and for conducting this review that is open to changing the least effective aspects of the rate-pegging system in NSW.

The Southern Sydney Regional Organisation of Councils (SSROC) is an association of twelve local and municipal councils in the area south of Sydney harbour. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. The SSROC area covers central, inner west, eastern and southern Sydney, an area with a population of over 1.8 million and contributes much of Sydney's gross domestic product.

The current NSW system of rate capping reduces councils' capacity to deliver local infrastructure such as parks, bridges, libraries, sports centres and cycleways. It also negatively affects services. NSW Productivity Commission has recognised this inefficiency, and further suggested that rate-pegging is part of the cause of the complicated infrastructure contributions system that exists in NSW. Key concerns with the current methodology are:

- The Local Government Cost Index (LGCI) is not representative of actual costs likely to be borne by councils in the coming year. Being based on costs from two years ago, the LGCI lags behind actual costs, particularly when inflation is volatile as it is now and for the immediate future. It completely omits even foreseeable higher costs for the period covered by the rates review, and does not accommodate reasonable forecasts or even known cost increases.
  This failing was clearly demonstrated by the very large number of councils – 89 – that sought special variations to the 0.7% calculated cap for last year.

- Conflicting priorities exist in the terms of reference of the review. IPART is asked to have regard to both protecting ratepayers from excessive rate increases, while also setting a peg that reflects inflation and enables financial sustainability.
  These priorities are impossible to reconcile, since councils are not protected from excessive price increases due to inflation or failed markets. The impact of a rate cap that does not reflect actual costs is a reduction in council revenue in real terms, and further demonstrates that the methodology in not an effective.
  Protecting ratepayers from excessive rate increases is judicious; however, preventing

reasonable rate increases necessitated by real costs risks perverse outcomes such as deterioration of services and assets.

- Incorrect allowance is made for wages, since IPART applies the public service wage increase, instead of the actual local government increase for the year. With labour costs representing around 38.6 per cent of the LGCI it is a major factor. Yet these future costs are known when the local government award is negotiated and could accurately be incorporated.

- The population factor is a useful additional element in the methodology, and the only one that varies by council. It will need to be adjusted to reflect reality and be more timely. 2020/21 was not a representative year due to COVID, and while an exceptional situation, serves to highlight the inadequacy of dependence on historical data when influencing factors are known. Some councils report that the factor is insufficient to provide the infrastructure and services required by growth cities.

- New cost imposts on local government by the State Government are not accounted for in the methodology at all, despite them being known. Councils are required to deliver infrastructure and services such as open space for active and passive recreation, but the the funding available and does not adequately supplement it and there is no scope for councils to add new cost elements into the LGCI.

In conclusion, SSROC would urge IPART to recommend that that rate peg is not a suitable mechanism for achieving the aims of controlling unreasonable rate increases while maintaining the financial sustainability of councils in NSW. It should be replaced with a mechanism that deals with exceptions and does not prevent councils from reasonable cost-reflective rate increases.

SSROC recommends that:

1. The LGCI be replaced with a more cost-reflective leading indicator of actual future costs.
2. Future wage cost increases be driven by award rates and incorporate any external known factors (such as the superannuation guarantee).
3. Additional costs imposed on councils be reflected in forward costs (such as the need for flood mitigation and other climate change adaptation measures).
4. Rating systems should be flexible enough to allow for differences between costs for different councils.
5. Rate-setting should remain an annual process, so that forecast costs are as accurate as is reasonably possible.

In order to meet the timeline of this consultation it has not been possible for this submission to be endorsed at a meeting of SSROC. I will contact IPART should any issues arise as a result. Should you have any questions in relation to this letter, please contact the me at ssroc@ssroc.nsw.gov.au.

Yours sincerely

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Helen Sloan
Chief Executive Officer
Southern Sydney Regional Organisation of Councils