

**Submission
No 60**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Albury City Council

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9 April 2024

To the Chair of the NSW Standing Committee on State Development,

Inquiry into the ability of local governments to fund infrastructure and services

AlburyCity welcomes the inquiry into the ability of local governments to fund services and infrastructure, including the impact of the rate peg and the effectiveness of the special variation process in providing the level of income councils require to meet the needs of their communities.

Councils across NSW provide important goods, services, and facilities to their local communities. It is important to acknowledge the breadth of services and infrastructure provided by rural councils and regional cities in comparison to metropolitan councils. On average, rates income represents around one third of NSW councils' combined total income. The other major sources of income include user fees, government grants and infrastructure contributions.

AlburyCity's submission highlights that it is AlburyCity's view that a better approach would be to utilise the existing NSW Local Government Integrated Planning and Reporting Framework to better effect.

- The rate peg is limited in its purpose and adds to the financial sustainability challenges of rural councils and regional cities.
- The rate peg does not allow councils to adjust their rates to reflect changes in their costs.
- The rate peg does not take into account demand for changes in service levels, the impacts of extreme weather events and other sustainability challenges.
- The rate peg does not cover cost increases when inflation is on the rise, as it ignores actual inflation for operating costs.
- The rate peg relies on a special variation process to gain IPART approval to increase rates above the rate peg to fund changes in service provision. Rather than establishing a sustainable rate methodology from the outset.
- The special variation application process is resource intensive and politically contentious. This is in part due any increase above the rate peg being considered 'unnecessary' or 'excessive' as described by IPART.
- It is unfortunate that the special variation process has become a place of last resort, with the majority of applications from councils representing rural and regional communities to generate the income required to adequately meet the needs of their communities.
- Past rate pegs have not matched service delivery cost increases borne by rural and regional local governments.

- The current approach is not working for rural councils and regional cities and an alternative approach is required that recognises their unique challenges.

AlburyCity also seeks the support of the NSW Government in advocacy for the Federal Government to restore Local Government Financial Assistance Grants to 1% of Commonwealth taxation revenue, transition away from the legislated minimum grant requirement, and reinstate the three-year indexation previously paused to support the sustainability of rural and regional communities based on the greatest need.

The Rate Peg

The rate peg is the maximum percentage amount by which a council may increase its general rates income for the year. The rate peg does not apply to domestic waste management collection, water and wastewater charges. The primary purpose of the rate peg has been to protect ratepayers from 'unnecessary' and 'excessive' increases in their rates bills. The Independent Pricing and Regulatory Tribunal (IPART) has set the rate peg under delegation from the Minister for Local Government since 2010.

As part of their review of the rate peg methodology in 2023 IPART further elaborated that the purpose of the rate peg is twofold:

1. *'It allows all councils to automatically increase their rates income each year to keep pace with the estimated change in the costs of providing their current services and service levels to households, businesses and the broader community.'*
2. *'It also limits the impact of these automatic increases on ratepayers, by ensuring councils cannot increase their rates income by more than the estimated change in their costs, without consulting with their communities through the special variation process.'*

Rate Peg Methodology Review

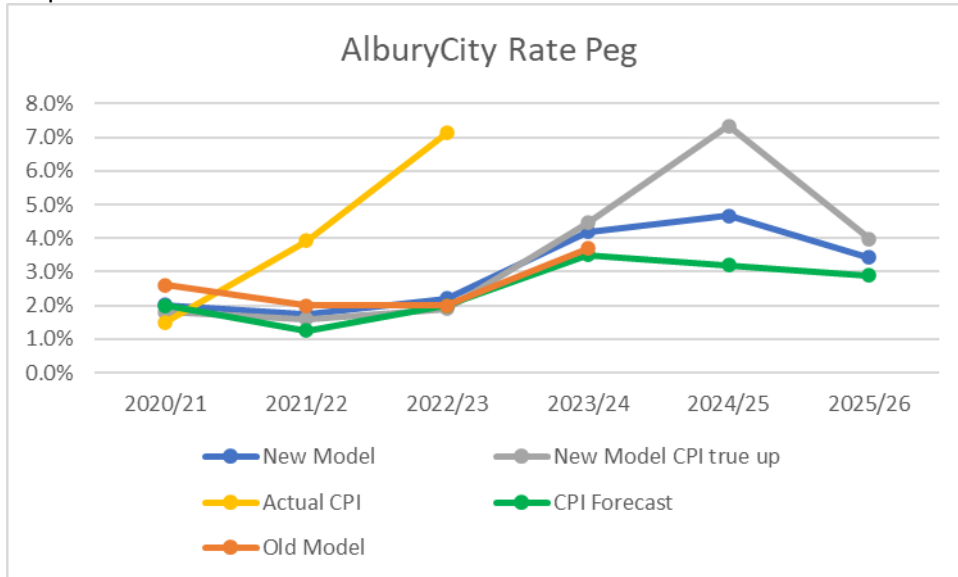
The announcement of a rate peg methodology review in June 2022 was considered a win for the sector, as IPART's decision to set a record low rate cap of 0.7% for 2021/22 just before inflation began to spiral to 7.1% by June 2022 was evidence the methodology being used was wrong.

This variation was mainly due to the rate peg methodology being based on past inflation, which created a two-year lag. However, the new forward looking rate peg methodology that has been applied by IPART for the 2024/25 financial year ignores actual CPI for local government operating costs (other than employee costs) as it is based on the Reserve Bank of Australia CPI forecast.

Graph 1 below demonstrates how the new methodology will actually be worse than the previous methodology where inflation increases unexpectedly, as components of the new methodology are based on the RBA forecast with no catchup for variations for actual CPI. For AlburyCity, this has

resulted in the rate peg being 2.7% or \$1.35 million lower than it should have been, with a true up for the 2024/25 financial year, resulting in a permanent ongoing revenue shortfall.

Graph 1



This is likely to be an ongoing challenge for the sustainability of local government services, where the RBA CPI forecast is less than the actual costs to maintain local government services.

Social and Economic Impacts of the Rate Peg

It is AlburyCity's view that a better approach would be to utilise the existing NSW Local Government Integrated Planning and Reporting Framework to better effect.

- The peg methodology is restrictive both on councils and the community, as the rate peg approach does not support the achievement of the Community Strategic Plan and the Council's Four Year Delivery Program.
- The rate peg is limited in its purpose and adds to the financial sustainability challenges of local government.
- The rate peg does not allow councils to adjust their rates to reflect changes in their costs.
- The rate peg does not take into account demand for changes in service levels, the impacts of extreme weather events and other sustainability challenges.
- The rate peg does not cover cost increases when inflation is on the rise, as it ignores actual inflation for operating costs.
- The rate peg relies on a special variation process to gain IPART approval to increase rates above the rate peg to fund changes in service provision. Rather than establishing a sustainable rate methodology from the outset.

Special Variation to Rates

A council can apply to IPART for a Special Variation to the rate peg which are assessed against the guidelines set by the NSW Office of Local Government, including the level of community awareness and how efficiently the council has been managing its finances. Council requests for Special Variations are often in order to develop or maintain essential community services or regional projects.

However, the Special Variation application process is resource intensive and politically contentious. This is in part due to any increase above the rate peg being considered 'unnecessary' or 'excessive' as described by IPART.

It is unfortunate that the special variation process has become a place of last resort, as evidenced by the 15 applications approved by IPART in 2023 with an average rate increase of 45%. Which has continued for 2024 with five councils applying for an average increase of 35%. With the majority of applications from councils representing rural and regional communities.

Significant rate increases such as these highlight sector sustainability challenges, if a council's long-term financial performance is sustainable where planned long-term service and infrastructure levels are met without unplanned increases in rates or disruptive cuts to services.

This cannot be healthy for rural and regional communities, and appears to be further evidence of:

- Limitations on rural councils and regional cities to generate the income required to adequately meet the needs of their communities.
- Past rate pegs have not matched service delivery cost increases borne by rural and regional local governments.
- The social and economic impacts of the rate peg on rural and regional communities.
- The current approach is not working for rural councils and regional cities and an alternative approach is required that recognises their unique challenges.

Financial Assistance Grants

The significance of the funding support provided by the Australian Government to rural and regional councils through the distribution of Financial Assistance Grants, and in turn the sustainability of local communities, cannot be understated.

AlburyCity also seeks the support of the NSW Government in advocacy for the Federal Government to restore Local Government Financial Assistance Grants to 1% of Commonwealth taxation revenue, transition away from the legislated minimum grant requirement, and reinstate the three-year indexation previously paused to support the sustainability of rural and regional communities based on the greatest need.

In summary:

- The Financial Assistance Grants provided by the Australian Government are untied in the hands of local government, allowing councils to spend the grants according to local community priorities for the provision of services and maintenance of services and infrastructure.
- This untied grant funding is significant in the hands of rural councils and regional cities, representing the majority of operational grant funding received from other levels of government for the provision of services and maintenance of infrastructure.
- The value of Financial Assistance Grants provided to local government has declined over the past three decades from 1% of Commonwealth taxation revenue to around 0.55%, which has placed strain on the services and infrastructure provided by rural councils and regional cities to their communities.
- While government capital grants support the renewal and construction of local government infrastructure, the unique nature of the Financial Assistance Grant Program plays a significant role in the sustainability of local government services and infrastructure.
- The requirement that each council receives a minimum per capita share of untied financial assistance prevents the distribution of grants to rural councils and regional cities that require greater based on relative need.
- The Commonwealth decided to pause indexation for three years from 2014/15 to 2016/17 due to budget constraints, which has not yet been reinstated, leaving an ongoing revenue gap for the delivery of local government services, which has been particularly felt by rural councils and regional cities.

Conclusion

It is AlburyCity's view that a better approach would be to utilise the existing NSW Local Government Integrated Planning and Reporting Framework to better effect.

- The peg methodology is restrictive both on councils and the community, as the rate peg approach does not support the achievement of the Community Strategic Plan and the Council's Four Year Delivery Program.
- The rate peg is limited in its purpose and adds to the financial sustainability challenges of rural councils and regional cities.
- The rate peg does not allow councils to adjust their rates to reflect changes in their costs.
- The rate peg does not take into account demand for changes in service levels, the impacts of extreme weather events and other sustainability challenges.
- The rate peg does not cover cost increases when inflation is on the rise, as it ignores actual inflation for operating costs.
- The rate peg relies on a special variation process to gain IPART approval to increase rates above the rate peg to fund changes in service provision. Rather than establishing a sustainable rate methodology from the outset.
- The special variation application process is resource intensive and politically contentious. This is in part due to any increase above the rate peg being considered 'unnecessary' or 'excessive' as described by IPART.

- It is unfortunate that the special variation process has become a place of last resort, with the majority of applications from councils representing rural and regional communities to generate the income required to adequately meet the needs of their communities.
- Past rate pegs have not matched service delivery cost increases borne by rural and regional local governments.
- The current approach is not working for rural councils and regional cities and an alternative approach is required that recognises their unique challenges.

Rural councils and regional cities do everything they can to keep rates as low as possible, while also delivering upon the services and infrastructure that our communities expect and deserve as articulated in their Community Strategic Plans.

We cannot do this with a legislated rate peg system that appears to be incapable of sustainably supporting the delivery of regional services and infrastructure in a dynamic and rapidly changing economic landscape.

AlburyCity also seeks the support of the NSW Government in advocacy for the Federal Government to restore Local Government Financial Assistance Grants to 1% of Commonwealth taxation revenue, transition away from the legislated minimum grant requirement, and reinstate the three-year indexation previously paused to support the sustainability of rural and regional communities based on the greatest need.

AlburyCity would like to invite NSW Parliament to hold an inquiry hearing in Albury and AlburyCity could provide a host venue if required.

Regards,

Kylie King
Mayor