File no: F16/694

2 November 2022

Review of rate peg methodology
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Online submission

Dear Sir/Madam

Review of the rate peg methodology

Council welcomes the opportunity to make a submission on the Independent Pricing and Regulatory Tribunal's (IPART) September 2022 Issue Paper on the review of the rate peg methodology.

In summary we submit that:

- the methodology used to measure the Local Government Cost Index (LGCI) must also incorporate forecast costs, not just be based on historical costs. The current 2-year lag between actual cost increases and the rate peg does not support councils in delivering their services and facilities to the community.
- a separate cost index should be introduced for growth councils to reflect the differing costs increases experienced by growth councils who have greater operational and capital costs.
- the methodology should include the addition of an asset maintenance and renewal factor, similar to the population factor, to enable councils to better manage their asset maintenance and renewal priorities.
- all cost increases of councils should be reflected in the LGCI including regulated fees.
- the 'population factor' in the rate peg methodology is not achieving its intended purpose and must be reviewed to include the additional operational and capital costs incurred by greenfield councils, as:
    - it does not provide additional revenue to fund the additional costs that are higher for greenfield councils to support service expansion and new essential infrastructure
    - our per capita general income will decrease as our population grows and we will be unable to maintain existing service levels
    - the review also failed to address funding for community facility buildings. In the North West Growth Area precincts, we have $525 million in

unfunded capital and lifecycle costs for community facilities buildings, that Developer contributions do not fund.

As this is a very important matter for Council, we would welcome the opportunity to discuss this submission further.

We submit the following feedback on the questions raised in the Issue Paper.

Q1. To what extent does the LGCI reflect changes in councils' costs and inflation? Is there a better approach?

The LGCI does not adequately reflect all the changes in costs incurred by councils. The 2-year lag between the time when costs are measured and when councils can recover these costs in the rate peg, means that the LGCI does not reflect the actual expenses of council, particularly when inflation is high. The LGCI needs to consider actual cost movements councils are subject to, rather than reported costs movements limited by a council's budget that is restricted by the rate peg.

Q2. What is the best way to measure changes in councils' costs and inflation, and how can this be done in a timely way?

The best way to measure changes in costs is to include reference to forecast costs, not only historical costs, as the current 2-year lag does not support councils in delivering their services and facilities to the community. Consideration should be given to allowing councils to submit evidence of their projected cost increases prior to IPART determining the rate peg. To ensure ratepayers are protected from excessive increases in rates, a methodology that uses forecast costs could provide for an adjustment to be made in the following years rate peg, if the projected cost increases were less than the actual costs incurred.

Q3. What alternate data sources could be used to measure the changes in council costs?

It is not appropriate to only consider the movement in actual expenditure for all councils, as this does not adequately reflect the actual movement in the costs of some services. Council's whose revenue is capped by rate pegging need to limit the amount they can fund for various services. This means that for some service areas, the movement in amount expended from one year to the next will often reflect budget limitations as opposed to the actual amount that is required to be expended to maintain service levels.

Suggested alternate data sources include:

- a local government-based road cost index, that tracks the movement (and forecast future movement) in the cost of core materials used in the construction and maintenance of roads. The index will need to consider the differing cost of roadworks in various local government areas based on geotechnical conditions, such as whether the road is land that is rich in clay or sandstone, and the costs of transporting materials to the location
- a local government-based energy cost index, that tracks the movement (and forecast future movement) in the cost of electricity, gas, diesel and petrol fuels
- a local government-based insurance cost index, that tracks the movement (and forecast future movement) in the cost of insurance for infrastructure assets having

regard for impacts such as natural disaster, war and global economic conditions. The index must also consider the extensive types of insurance cover that councils are now required to have including public liability, professional indemnity that also covers Councillors and Directors, property, motor vehicle, crime and cyber security and travel insurance.

Our response to question 11 submits that a separate cost index should be considered for growth councils such as Blacktown City Council. If this occurred, IPART could determine the forecast cost increases for growth councils, by applying the average projected cost increases submitted by councils in this category to IPART prior to the rate peg determination. As noted later, we also regard that a comprehensive review of the growth factor is required.

The 2-year lag also means that vital maintenance of assets and the infrastructure is deferred as the available budget, restricted by the rate peg, does not provide sufficient revenue to fund the required maintenance. Council's experience for the 2021/22 financial year has been a decline against the benchmark for the asset maintenance and renewal ratios.

The LGCI should reflect the actual costs of maintaining assets, which is a significant issue for the entire Local Government sector. There have been numerous reports which have highlighted the inadequate funding for asset maintenance and renewal. The deferral of asset maintenance critically impacts the longevity of assets. The earlier that councils can fund maintenance or rejuvenation works, the longer councils will have before they incur the costs of replacing their assets.

The LGCI only reflects average costs increases for all councils. It does not account for councils that have differing additional costs such as growth councils. For Blacktown City, the amount received from the rate peg is not enough to cover the actual increased costs to Council of maintaining service levels and providing adequate infrastructure as our population grows.

As an example, in Blacktown City we have outgrown our Administration Centre that was originally built in 1964 and extended twice in 1985 and 1993, and our central works depot at Rooty Hill which was opened in 1983. The limitations of rate pegging over multiple years has meant that we have no ability to fund the expansion of this infrastructure which is adversely impacting our ability to support our city's growth. The weightings for the components of the LGCI do not adequately reflect the percentage amount that costs have increased, nor do they reflect all actual cost increases for councils. For example, information technology costs has a 0.6% weighting in the LGCI. Licencing fees for IT services and software are often increasing above CPI, with investment in technology required by councils to deliver services and improve on productivity.

A typical Australian small to medium sized business would allocate around 6% of its total revenue on IT related costs, around ten times the weighing for IT costs in the LGCI. Over the medium term, such companies would also experience average annual IT cost increases of around 5% to 6%. Rate pegging has limited the amount the local government sector can invest in IT infrastructure and systems, with a consequential impact on productivity and standards of customer service. Under investment can mean vulnerability to cyber security threats is heightened.

A similar issue with the LGCI is the weighting given for insurance costs. Insurance costs are weighted at 1.2% of the LGCI, however for Blacktown City our annual insurance costs have increased by $770,000 in 2022/23 following a $500,000 increase in 2021/22. As an example, if all other costs used to inform the LGCI increased annually by 2.5%, and insurance costs (which represent 1.2% as a proportion of the LGCI) increased by 25%, the required rate peg increase for all costs should be 2.9%. However, our experience has been that the LGCI has not shown any significant increase as a consequence of increased insurance costs, despite the actual significant increase in these costs.

Blacktown City submits that the Local Government (State) Award 2020 (the Award), or the applicable Enterprise Agreement, should be applied to measure wage increases. Labour costs are the highest component of the LGCI at 38.6%, however the increases applied using ABS price indexes, can be lower than the minimum increases councils must apply under the Award, noting that many councils must also support increases under separate Enterprise Agreements.

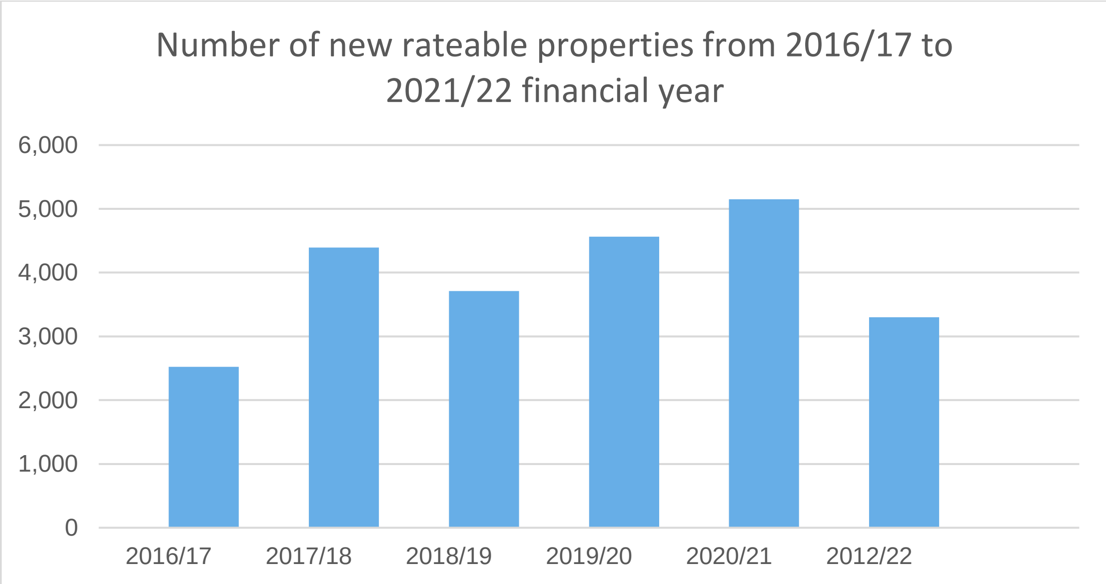
Councils are often one of the largest employers in their local government area, and like many businesses, are facing the challenge of recruiting and retaining qualified and skilled staff. If IPART was to apply the Award wage increases in the LGCI, this would support councils to fund the staff necessary to service the community, provide local employment opportunities and reduce the increasing gap in the revenue received from rates incomes compared with actual employee costs.

Employee benefits need to reflect all employee costs including future superannuation increases, workers compensation and training costs. Ideally training expenditure as a proportion of total employment costs should be 1% or greater. In the case of Blacktown City, and doubtless many other councils, the limitations caused by rate pegging prevent this target being met, causing an under skilling of staff and lower productivity.

Q4. Last year we included a population factor in our rate peg methodology. Do you have any feedback on how it is operating? What improvements could be made?

Blacktown City is the largest council by population in NSW, with its population increasing by up to 10,000 new residents each year, though this amount can fluctuate from year to year.

The graph below shows the number of new rateable properties in Blacktown City for the period 2016/17 to 2021/22. There was a significant drop in the new properties in 2021/22 compared to the previous year, with the reduction being close to 40%. This variability from year to year makes it difficult to accurately budget for responding to the costs of growth.



For the 2022/23 and 2023/24 rate peg, we received a 0% population factor.

A population factor that only considers the change in residential population does not allow for the increased operating costs of servicing growing populations, nor the necessary capital expenditure needed for new essential infrastructure.

An important factor to consider is that growth extends beyond just residential properties to include growth in new business. In the case of Blacktown City, our annual gross regional product is $22.35 billion per annum with 27,247 businesses. This is attributable to a wide range of industries including education, health, logistics and manufacturing. Many of these industries rely heavily on the transport of materials to their business and the resultant transport of completed goods from their business. This is putting an increased strain on our road network, some of which was not constructed to cope with the higher traffic volume of heavy vehicles.

The population factor must be reviewed to ensure it adequately captures the actual cost increases of greenfield councils, including increased costs of asset maintenance and renewal, and addresses the capital costs required to fund community facilities that cannot be funded from developer contributions. Our response to questions 9-11 details the challenges Blacktown City faces in maintaining our assets and infrastructure.

The addition of the population factor was based on the following principles:

- it would enable councils to maintain per capita general income over time as populations grow
- is founded on existing service levels, represented by general income per capita, is the best indicator of the future costs of servicing population growth
- there is a mostly linear relationship between population growth and council costs.

We do not agree with these principles. The population factor has not provided any additional revenue for Blacktown City and will not avoid a continued decrease in our general income on a per capita basis. It is also erroneous to assume that current income per capita for established areas of a LGA are sufficient for newly developed areas of a LGA in which services and required infrastructure still need to be provided.

Although supplementary valuations increase general income throughout the year as new properties are created, our rates income per capita is reduced as development occurs.

The rate of our annual population growth has effectively doubled over the last 10 years. The high minimum rate within our rating structure has meant that our rates revenue is already higher in percentage terms than our population growth.

We still have significant development to occur in the North West Growth Area, where it is projected we will have 84,648 additional dwellings and an increases population of 256,100. This is higher than the current population of many large councils including Cumberland City Council and Sutherland Shire Council. Our overall operating revenue per capita will reduce as this development occurs.

The population factor, founded on existing service levels of rating revenue per capita, is insufficient to address future costs of growth, which cannot be funded from Section 7.11 developer contributions, grants or fees and charges.

The construction of new Section 7.11 funded infrastructure presents a future challenge for councils in maintaining these assets and future renewal costs, neither of which have any specific funding source other than rates revenue. This future cost was not properly considered in the current growth factor for the rate peg or the current LGCI methodology.

Our additional operational and capital costs listed below that we must fund as a result of our growth do not reflect a linear relationship.

Our additional **annual** operational costs, that do nott include renewal or depreciation costs, include but are not limited to the following:

- increased open space maintenance costs for an additional 890 hectares of open space - $1.6 million
- increased transport and water management infrastructure space maintenance costs - $1.1 million
- increased information technology costs - $100,000
- increased postage and bank fees - $80,000
- increased cost of local government elections fees - $77,000
- increased street lighting costs - $67,000
- increased Valuer General fees - $30,000
- increased cost of pensioner rebate - $35,000.

Our additional capital costs, which cannot be funded from developer contributions, include:

- community facilities - $525 million
- a new depot to support our City’s growth - $35 million to $45 million
- a new SES facility - $2 million to $4 million
- additional office accommodation to support our increase in staff - $80 million to $100 million

- additional plant and equipment - $760,000 per annum.

Our additional rates revenue from population growth is around $4 million per annum. The aggregate of additional operating costs to properly support our population growth is well above this amount, meaning that council needs to compromise on maintenance and service levels to remain within budget.

Q5. How can the rate peg methodology best reflect improvements in productivity and the efficient delivery of services by councils?

Attempting to reflect improvements in productivity in the rate peg methodology would be both problematic and likely to inadvertently penalise some councils. Productivity can be regarded as an increase in the amount of output produced for a given amount of inputs. Output can be measured reasonably reliably for a distinct type of product or service for which the number produced can be accurately measured. However, productivity is more difficult to reliably measure when users of a product or service have particular expectations on quality of output, or how well the output meets their needs. This is an issue with many of the services provided by the local government sector.

For example, the mowing of parks and reserves has this year been particularly impacted by unusually wet weather. At times it has simply been too wet to safely use the plant and equipment for cutting grass. At other times when the weather has been more favourable, even an increased frequency of grass cutting work has not been adequate to keep parks and reserves at a standard expected by the community.

Similarly, the wet weather has caused a dramatic increase in the amount of pothole repairs for roads. The increase in output has not been adequate to return the condition of roads to an expected service. Consequently, for both these service areas, which represent a significant proportion of a council's total budget, the reliable measuring of productivity can be complicated by external factors beyond a council's control.

In the context of information technology additional expenditure on improved software does not always result in an improved output which can be reliably measured for a sector wide rate peg. When IPART originally developed its rate peg methodology in around 2011, IPART noted the reduced cost of computer equipment as a justification towards having a productivity factor incorporated in the rate peg. What was not acknowledged was the cost of software required for computer devices has generally increased at a rate in excess of the relative rate peg.

A review of our overall IT operational expenditure (which includes software licensing and support costs, cyber security systems) has shown over the period 2010/11 to 2021/22 our costs have increased by around 245%. Avoidance of these costs would mean lower productivity of our staff, and greater risk of our systems and data being inappropriately accessed.

It is acknowledged that councils should continually improve and work more efficiently to achieve improved efficiencies in service delivery. Blacktown City Council has had, since 2016, a comprehensive business improvement program referred to as our Better Practice Review (BPR) program. Briefly, this program is progressively reviewing each of our core service areas to identify whether the service is meeting current (and projected future) expectations and requirements, how the service can be improved and at what cost, and what opportunities exist to improve the efficiency of service delivery and thereby lower its net cost. What has been a recurring observation has been that with investment in enhanced technology and/or newer equipment, service efficiency can be improved.

It is considered that the majority of NSW councils are committed to achieving improved efficiencies. Quite often, this is necessary to simply maintain existing services as an LGA grows. In the case of Blacktown City, in which our population increases annually by up to 10,000 new residents, and our city's annual gross regional product increased by 4% noting COVID reduced this amount from previous increases, limitations on our revenue by rate pegging and reductions in some of our grants and other revenues, means achieving improved efficiencies is essential. It is also necessary to meet increased expectations by residents. How the efficiencies achieved can be reliably measured on a sector wide basis is considered to be beyond the scope of a rate peg methodology which is fair and transparent.

Q6. What other external factors should the rate peg methodology make adjustments for? How should this be done?

The rate peg methodology should allow for an adjustment to be made whenever there are mandatory increases such as the superannuation levy, emergency service levy or dust diseases levy applied to councils without a revenue source from the Government that has mandated the change.

The increased costs of local government elections must also be included in the methodology. IPART's review of local government election costs in 2019 identified that for Blacktown City the cost of the then 2020-21 election, excluding the proposed government subsidy, would be $2,032,000 compared to the 2016/17 election costs of $1,306,000.

These costs are likely to increase for subsequent elections with no indication from the NSW Government that further funding will be provided to councils to supplement these costs. Recent advice from the NSW Electoral Commission is the costs it will incur for the leasing of election venues for the 2024 Local Government election will be well above the current CPI.

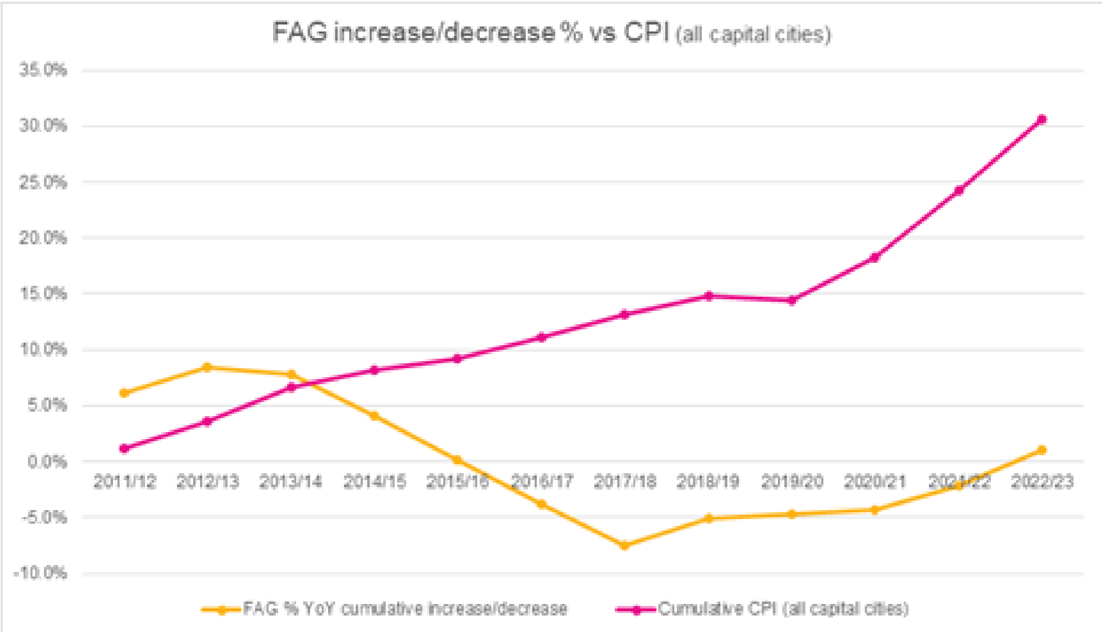
The cost of commonly used materials and equipment by councils can often increase by a greater amount than the typical goods and services used to measure CPI. These include the materials used in the construction and maintenance of roads, drainage networks and buildings. Similarly, the standards which some works need to comply with have increased, and consequently so has the cost. For example, the cost of replacing a playground in 2012 was $60,000 compared to replacement today at a cost of $165,000.

As a greenfield council, Blacktown City faces a number of financial challenges in funding the increased capital costs for new essential infrastructure, and the operational costs of servicing our city's rapid growth. The amount we receive from the rate peg, even with the addition of the population factor, is not enough to cover these costs and we rely on the Federal Government Financial Assistance Grant (FAG) to help fund this shortfall.

For most if not all councils, the Financial Assistance Grant (FAG) represents one of the largest sources of discretionary revenue after general rates revenue. However, the rate peg methodology does not factor in the ongoing decrease in councils' FAG allocation, in the same way that the FAG allocation does not account for the impact of rate pegging.

Blacktown City is experiencing, in real terms, a continued reduction in the amount of the Financial Assistance Grant (FAG) revenue received per capita. This decline is a consequence of the overall amount of FAG paid to council, having not increased since 2012/13, while our population continues to increase. In 2012/13 the amount of FAG received equated to an amount of $59.29 per capita. In 2020/21 this has reduced to $35.96 per capita.

If the amount of FAG paid to Council for 2020/21 was to be increased so that it remained at the 2012/13 amount of $59.29 per capita and then was indexed in line with CPI, the additional amount of FAG to be paid would be an additional $7.53 million. This would have averaged at annual increases from 2013/14 to 2020/21 of $941,000. The below graph details that the FAG allocations that Blacktown City has received over the past 11 years are well below the CPI increases for the same period.



From the 2023/24 financial year onwards, the NSW Local Government Grants Commission will reinstate the practice of capping the FAG allocation to councils. For Blacktown City, we anticipate this will result in a further reduction in our FAG allocation that will contribute to the deficit in revenue we are experiencing in supporting our growth.

Therefore, in its review it is important that IPART considers the decline (in real terms) of FAG received per capita by councils and provides an adjustment in the rate peg that considers the amount allocated to councils by the NSW Local Government Grants Commission and the impact this has on councils' services.

Q7. Has the rate peg protected ratepayers from unnecessary rate increases?

No, it has created a shortfall in funding that ratepayers will be required to fund through Special Rate Variations or by having their service levels reduced. A significant proportion of councils which apply for an SRV, do so to increase funding for asset renewal/maintenance often due to the premature failure of infrastructure assets. This highlights that while in the short term rate pegging may limit rate increases, in the medium to longer term it causes a higher increase in rates to respond to the cost of renewing infrastructure which has failed prematurely.

The role of the rate peg is to ensure that councils can vary their rates income so they can provide services to their communities. To do this, the rate peg must reflect the actual costs of providing those services. However, for some time now, the rate peg has not covered the real increase in the cost of providing facilities and services, and until the 2022/23 rate peg, did not account for council's population growth. This has created a growing gap between the cost of providing services and maintaining assets, and the available funding to meet those costs with councils having to compromise on maintenance and service levels to remain within budget.

Although the 'population factor' has been included in the rate peg methodology, it did not compensate councils for the increased additional operational and capital costs incurred by councils for population growth that has already occurred. As mentioned in our response to question 4, Blacktown City received a 0% population factor for the 2022/23 and 2023/24 rate peg.

This ongoing shortfall in funding means that ratepayers will likely be subject to a Special Rate Variation to catch up with the limitations imposed by the rate peg or councils will be required to reduce service levels and required maintenance of assets and infrastructure.

Q8. Has the rate peg provided councils with sufficient income to deliver services to their communities?

No. IPART's Final Report on the review of the rate peg to include population growth, acknowledged that costs of growth are not being fully met for NSW councils in general, with faster growing councils tending to be unable to recover additional revenue through general income in proportion to their growth. This will mean growing councils will be unable to maintain their service levels.

Our response at questions 4 outlines the additional operational and capital costs we are incurring as a result of our growth. Our experience has been that our community has higher service level expectations, than is what is currently being delivered, particularly in the North West Growth areas where we have $525 million unfunded capital costs for community facilities.

The current methodology is supported by the principle that councils can maintain existing service levels on a per capita income basis. As referred to in our response to question 6, Blacktown City's general income is decreasing on a per capita basis and we are unable to maintain existing service levels and keep up with our increasing maintenance needs.

The State Government policy decision to exclude community facility buildings from funding by developers has meant councils now need to fund this capital expenses from rates revenue.

Q9. How has the rate peg impacted the financial performance and sustainability of councils?

For Blacktown City, the rate peg is a contributing factor that impacts our financial sustainability, along with cost shifting and decreases in Government funding allocations.

We have previously made various submissions to both IPART and the NSW government regarding the limitations with the existing rate peg methodology and the impact this has on council's financial sustainability. In summary these include:

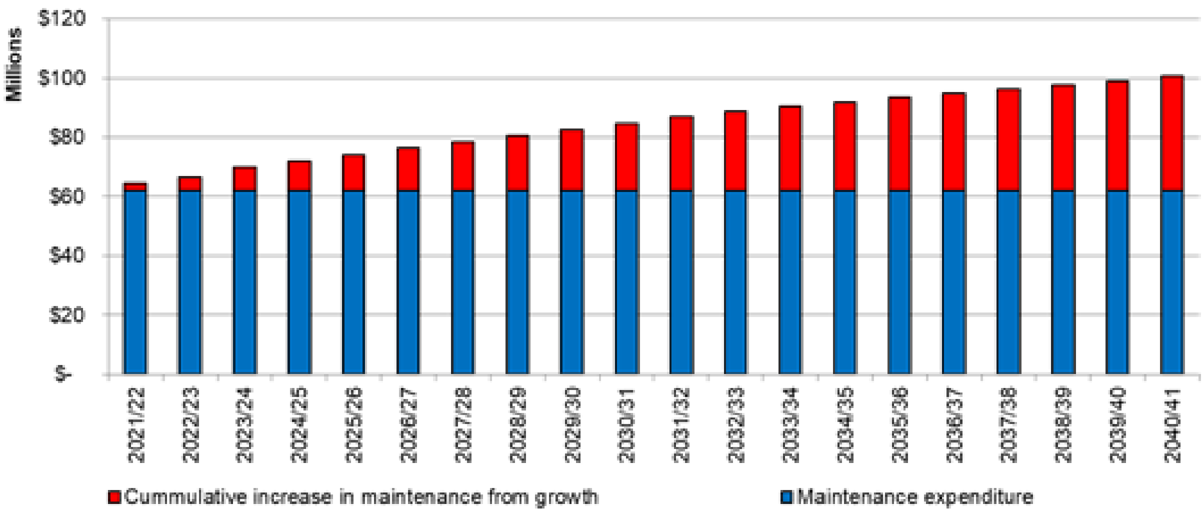
- the rate peg does not properly support the increased costs of addressing the various challenges of responding to our City's rapid growth
- the rate peg is generally below the actual increases in many of our unavoidable costs
- it does not allow sufficient funding of the maintenance and renewal of our existing infrastructure.

As noted in our response to question 3, we have been unable to adequately fund within the limitations of rate pegging, the cost of increasing the capacity of our Administration Centre or our main works depot. We have also been unable to increase the capacity of our branch libraries for more than a decade, despite an increase in our population of 103,000 in this time, equivalent to a 33% increase.

Similarly, councils are required to fund the cost of SES facilities, with our Mount Druitt SES currently operating out of a 30-year-old transportable building.

Through the development of our City, we will receive new assets anticipated to be in the amount of $2.5 billion over the next 20 years. This will require a significant increase in funding for maintenance of our infrastructure, which is not available from the current rate pegging system. In effect, each new property developed in the City generates greater services expenditure by Council than the extra revenue provided by its rates.

We currently spend over $60 million a year on maintenance of infrastructure assets, however there is an increasing backlog of works. The below graph demonstrates the increase in our asset maintenance costs over the next 20 years, which will be a significant challenge for council to fund given the current rate peg limitations, which will have an adverse impact on the condition and life of our infrastructure assets.



Our service levels are impacted by the rate peg, as we underfund some of our core services to balance our budget, including our open space maintenance, civil asset maintenance and building maintenance. Over the past 5 years the funding able to be allocated to these areas compared to the levels required have been as follows:

- open space maintenance allocated $6 million, with up to $16 million priority requirements identified for funding (largely driven by City growth as well as rising community expectations)
- civil asset maintenance allocated $1.8 million, with $6.8 million priority requirements
- building maintenance allocated $1.2 million, with $4 million of priority requirements.

To invest the required amount to adequately maintain our assets and balance future budgets, we would need to reduce service levels and capital works and/or apply for a Special Rate Variation at a considerable additional cost to council, to make up the shortfall in revenue needed to maintain service levels.

We have limited means outside a Special Rate Variation to increase our revenue. Around half of our fees and charges are regulated by the State Government. If we were to increase the remaining fees, it may result in the services we provide being no longer affordable for our community or not being competitive with other providers. By comparison, a 1% increase in rates revenue is roughly equivalent to a 10% increase in our discretionary fees.

Q10. In what ways could the rate peg methodology better reflect how councils differ from each other?

The Local Government Remuneration Tribunal categorises councils based on criteria that reflects their population, growth and service levels, yet the LGCI makes no distinction for these differences and only reflects average costs increases.

The rate peg methodology needs to account for the additional operational and capital costs outlined in our response to question 4, with the LGCI reflecting actual cost increases incurred by growth councils.

Q11. What are the benefits of introducing different cost indexes for different councils?

A separate cost index should be introduced for growth councils to reflect their differing costs increases, as the addition of the ‘population factor’ in the rate peg methodology has failed to address these costs for Blacktown City.

As previously stated Blacktown City will receive new assets anticipated to be in the amount of $2.5 billion over the next 20 years. To support growth councils in maintaining their assets, IPART should consider adding an ‘asset maintenance and renewal factor’, similar to the population factor, to the rate peg methodology for councils that have an increasing asset base due to development.

This will allow councils to carry out the necessary maintenance of their assets and infrastructure when its required, rather than deferring this cost resulting in the deterioration of assets and an increasing asset maintenance and renewal backlog.

Q12. Is volatility in the rate peg a problem? How could it be stabilised?

Yes, volatility is a problem as evidenced by the 0.7% 2022/23 rate peg. As referenced throughout our submission, a rate peg based on actual and forecast costs will assist in stabilising this volatility.

All NSW councils are required to complete a 10-year Long-Term Financial Plan as part of the Integrated Reporting and Planning framework. Typically, these plans use indexes to project future revenues and expenditures. It is often difficult to project these factors over the medium to longer term so most councils tend to use the same indexes for multiple years. In this context, fluctuations in the rate peg can cause differences between actual annual budget projections and that contained in a council's Long-Term Financial Plan. However, in periods of rapid price movement such as the current economic environment, it is appropriate that the rate peg increases significantly.

Q13. Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs?

While we would ideally want certainty about the rate peg and better alignment with costs, our preference would be better alignment with the changes in our costs.

Councils need certainty in the rate peg to be able to complete their budget and Long-Term Financial Plan. If the rate peg was applied over multiple years it should align to the Delivery Program and Resourcing Strategy.

Q14. Are there benefits in setting a longer term rate peg, say over multiple years?

Consistent with our response to question 13 above, we would support having a minimum amount for the future years rate peg, but not a maximum amount. Having a minimum amount would only be appropriate if there were no future downward adjustments to the rate peg, if IPART later considered an earlier year's minimum amount was below its calculated LGCI.

As shown in the table below the rate peg for the period 2016/17 to 2022/23 has averaged 2.2% per annum. The rate peg for the first 4 years of this period was similar to corresponding rate of CPI, but for the last 3 financial years it has been well below the corresponding CPI. Having a 'ceiling' on the maximum rate peg for future years would be problematic if it was informed by past years rate peg, as it would be well below the actual cost increase.

Year	Rate pegging limit	CPI (weighted average all capital cities)
2016/17	1.8%	1.9%
2017/18	1.5%	2.1%
2018/19	2.3%	1.6%
2019/20	2.7%	-0.3%
2020/21	2.6%	3.8%
2021/22	2.0%	6.1%
2022/23	2.5%	6.3%
Total cumulative increase	**15.4%**	**21.5%**
Average annual increase	**2.2%**	**3.1%**

Q15. Should the rate peg be released later in the year if this reduced the lag?

The rate peg should be released no later than December to allow council's sufficient time to make any necessary adjustments to the budget and Long-Term Financial Plan to reflect the actual v's assumed rate peg.

Q16. How should we account for the change in efficient labour cost?

As stated in question 3, Blacktown City submits that the Local Government (State) Award 2020 (the Award) or the applicable Enterprise Agreement, should be applied to measure wage increases. Employee benefits also need to reflect all employee costs including future superannuation increases, workers compensation and training costs. To ensure staff obtain and maintain the skills required for continued productivity, training expenditure as a proportion of total employment costs, should be 1% or greater.

Councils are often one of the largest employers in their local government area, and like many businesses, are facing the challenge of recruiting and retaining qualified and skilled staff. If IPART was to apply the Award wage increases in the LGCI, this would support councils to fund the staff necessary to service the community, provide local employment opportunities and reduce the increasing gap in the revenue received from rates incomes compared with actual employee costs.

Employee benefits need to reflect all employee costs including future superannuation increases, workers compensation and training costs. Ideally training expenditure as a proportion of total employment costs should be 1% or greater. In the case of Blacktown City, and doubtless many other councils, the limitations caused by rate pegging prevent this target being met, causing an under skilling of staff and lower productivity.

Q17. Should external costs be reflected in the rate peg methodology and if so, how?

Yes, as previously mentioned external costs that apply to all councils should be included in the rate peg methodology such as any cost shifted from the Government to councils without a funding source and election costs.

This would also include increased Valuer General fees and mandatory increases such as the superannuation levy, emergency service levy or dust diseases levy other specific costs include items such as insurance costs, costs of legislated employee entitlements such as domestic violence leave.

Q18. Are council-specific adjustments for external costs needed, and if so, how could this be achieved?

Yes, there will be situations where an individual council will have specific costs. This could include costs incurred in responding to natural disasters, including urgent repair works required following the natural disaster, unforeseen cost increases due to localised problems such as supply chain issues. These increases in external costs for a specific council should be reflected in its LGCI.

Q19. What type of costs which are outside councils' control should be included in the rate peg methodology?

This should include any costs to other levels of government which are above the calculated rate peg. Other costs could include the movements above CPI for the cost of plant and equipment, such as trucks and light plant essential for providing core services, parks and reserves and roads and drainage maintenance.

Q20. How can we simplify the rate peg calculation to ensure it reflects, as far as possible, inflation and changes in costs of providing services?

The rate peg methodology should provide for a base rate peg that reflects the actual costs incurred by councils in the LGCI using forecast costs, with an adjustment to be made in the following years rate peg, if the projected cost increases were less than the actual costs incurred.

In addition to the base rate peg, further adjustments should be made to cover external and mandated costs identified in questions 17-19, with an additional population factor or asset maintenance factor applied for growth councils.

We welcome the opportunity to comment on the matters raised in the Issue Paper. If you would like to discuss this matter further, please contact me on [redacted]

Yours faithfully

[redacted]

Kerry Robinson OAM
Chief Executive Officer