# IPART RATE REVIEW METHODOLOGY 2022 QUESTIONS – WAVERLEY SUBMISSION

## INTRODUCTION

Waverley Council (Waverley) operates within the boundaries of its Local Government Area (LGA), covering 9km2 along Sydney's eastern suburbs of Bronte, Tamarama and Bondi, north to Dover Heights and Rose Bay, west to Queens Park, Bondi Junction and Charing Cross, and south to Bronte. Since 2016, our community has grown from around 72,000 to of 74,280, with annual growth decreasing to under 1% over the last three years. Located on Sydney's eastern seaboard, Waverley is just a few kilometres from the city centre and a must-see destination for visitors and with three famous beaches - Bondi, Bronte and Tamarama attracts visitors in excess of 1.5 million per year.

Waverley welcomes the opportunity to contribute to the Independent Pricing and Regulatory Tribunal (IPART) Review of the Rate Peg Methodology. Waverley welcomes the review as a response to the realisation that the current methodology fails to cope with economic volatility and relies upon and supports the LGNSW submission as being the position of Waverley Council.

This was clearly demonstrated in both the Local Government Cost Index (LGCI) determination of 0.7% for 2022-23, (later adjusted to 2.5% after introduction of a one off Additional Special Variation), but with councils now facing an inflation rate of 8% in the subject year. This shock came after a decade or more of relatively low and stable prices and wages that had not tested the LGCI.

Waverley Council, like all Local Government is under sustained financial stress. This is a result of the compounding impacts of rate pegging, demands on services and infrastructure from communities inside and outside of the LGA, increased responsibilities, cost shifting from the Federal and State governments and declining Commonwealth Financial Assistance Grants (in real terms). Waverley welcomes the Government’s commitment to review the Rate Peg methodology.

### Cost Index

1. **To what extent does the Local Government Cost Index (LGCI)reflect changes in councils’ costs and inflation? Is there a better approach?**

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

**WAVERLEY response to Q1 & 2**: The Local Government Cost Index (LGCI) does not adequately reflect the actual movements in council costs. The LGCI index is a lagged or “rearward” facing index – whilst other sectors adjust their pricing to reflect the forecasted economic whereas the LGCI uses historical data only. The LGCI is a one size fits all model, applying a standard basket of goods and an average weighting of these items across all councils.

Waverley council supports the view and submission of LGNSW that the LGCI needs to be re-designed as a more forward-facing index – involving the use of more timely data and/or forecast indicators.

3. **What alternate data sources could be used to measure the changes in council cost?**

**WAVERLEY response to Q3**: Waverley council supports the view and submission of LGNSW that additional accurate data that reflects actual cost movements rather than applying proxy indices. In particular, as wage costs are the single largest component of council expenditure one change would be to use the NSW Local Government (State) Award as opposed to NSW Public Sector Wage Cost Index. Additionally other examples of actual costs including actual auditing costs and actual audit committee costs.

**Population Growth**

4. **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?**

   **WAVERLEY response to Q4:** Waverley council supports the view and submission of LGNSW to improve the population factor may be to base it solely on population and removing the adjustment for supplementary valuations. As Waverley council is 9.2 square kilometres, growth in rateable properties is largely through high/medium density dwellings (i.e., apartment units) which can accommodate 2-4 individuals. Which means that the percentage growth in population does not have a direct correlation to the percentage growth in rates from supplementary valuations. The revenue generated by supplementary valuations should not be discounted from the population indexed rate peg. Furthermore, Waverley has an aging population which generates a higher proportion of pensioner rate rebates and that demographic has increasing demands on council services.

**Productivity**

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

   **WAVERLEY response to Q5**: Waverley council supports the view and submission of LGNSW that productivity improvements should be removed from the rate peg methodology. Any productivity gains made by councils should be retained to invest in maintaining services or infrastructure maintenance and renewal.

**External Factors**

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

   **WAVERLEY response to Q6:** Waverley council supports the view and submission of LGNSW that predictable costs, that apply to the whole sector such as election expenses and increases in superannuation guarantee contributions should continue. Waverley Council submits that any rate peg calculation method must embody "forward facing" elements, especially with respect to inflationary pressures.

**Historical Rate Peg, Cost Increases, Revenue & Expense**

7. **Has the rate peg protected ratepayers from unnecessary rate increases?**

**WAVERLEY response to Q7**: Waverley council supports the view and submission of LGNSW that there is no evidence to suggest the rate peg has protected ratepayers from "unnecessary" rate increases. Electoral accountability protects ratepayers from excessive rate rises. Deferral of needed rate increases, and budgetary constraints can deprive communities of services and infrastructure.

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

**WAVERLEY response to Q8**: Waverley council supports the view and submission of LGNSW that the number of Special Rate Variations (including by Waverley Council) evidences that the rate peg has been inadequate to provide Councils with sufficient income to deliver services to their communities.

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

**WAVERLEY response to Q9**: Waverley council supports the view and submission of LGNSW that the rate peg generally undermines financial sustainability. Rate revenue funds approximately 32.7% of Waverley's operating expense or 34.3% of the operating income in 2021-22.

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

**WAVERLEY response to Q10**: Waverley council supports the view and submission of LGNSW that historical modelling be undertaken to establish whether there are significant differences.

11. **What are the benefits of introducing different cost indexes for different council types?**

**WAVERLEY response to Q11**: Waverley council supports the view and submission of LGNSW that it would improve the cost reflectiveness of the index and improve financial sustainability outcomes.

### Volatility and Lags

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

The initial rate peg determination for 2022-23 of 0.7% clearly demonstrated that the volatility is a major problem where there are significant cost movements.

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

In the presence of volatility, the peg needs to better reflect actual cost movements.

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

**WAVERLEY response to Q12, 13 and 14**: Waverley council supports the view and submission of LGNSW that the initial rate peg determination for 2022-23 of 0.7% clearly demonstrated that the volatility is a major problem where there are significant cost movements. Additionally, there is volatility between the expected rate cap and actual proclaimed rate cap. A better approach to improving the accuracy of the rate peg to the year it is applied would be to apply a forward-looking forecast.

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

**WAVERLEY response to Q15**: There are potential advantages as would better reflect actual costs but then impacts forward planning. Waverley supports the release of an indicative peg and later releases of final peg with further data.

**Efficient Labour Costs**

16. **How should we account for the change in efficient labour costs?**
    **WAVERLEY response to Q16**: Waverley supports the adoption of the NSW Local Government (State) Award which would be reflective of the minimum labour costs councils face.

**Funding New Services & Activities**

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

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

**WAVERLEY response to Q17 and 18**: Waverley supports the submission that external costs be reflected in the rate peg methodology. In particular compliance costs such as Audit and ARIC committee costs. Each council has different costs reflected in the community demands for example Waverley includes Bondi Beach and the demands on the infrastructure and services are beyond the demands of the resident community.

19. **What types of costs which are outside councils' control should be included in the rate peg methodology?**

**WAVERLEY response to Q19**: Waverley supports the position that costs outside control should be considered including the escalating depreciation expenses associated with increasing input costs for renewal and replacement of assets; costs shifting from differing levels of government without compensating funding for example, Waverley has approximately 73,000 residents in its nine square kilometre LGA however with its iconic beaches has numbers exceeding **1.5m (TBC)** visitors placing huge demands on its infrastructure and services including roads; waste; lifeguards and other services.

**Simplifying the Rate Peg**

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

**WAVERLEY response to Q20**: Where possible LGCI should be future facing and using actual data from forward looking known variables.