

## DISCUSSION PAPER ON ADDITIONAL SPECIAL VARIATION

Following the introduction of the new methodology for the Local Government general rate peg recommendations with the inclusion of population growth into the calculation, the detrimental effect on the **RURAL** Councils has been considered to be significant and quite untenable.

Based on the methodology used by Independent Pricing and Regulator Tribunal (PART), the Councils who have large growth surge in their LGA areas appear to receive preferential treatment with recommended increased % levels for their rate peg, while those LGA areas who have low to negative growth are disadvantaged by the minimum level of rate peg that doesn't even cover the increased annual cost of running the organisations caused by the Local Government Award increased and CPI rises.

Although the argument is understandable in considering a growth factor into the equation, the calculation is skewed to more metropolitan and large regional based LGAs due to their inherent population growth. With LGAs that have limited scope of population growth they are behind the eight ball to start with and disadvantaged as they are assessed under the new growth formula which results in minimum level of general rate peg which for some astounding reason is significantly below the general cost of living or CPI, especially when it is considered that delivery services to the community it just as paramount in the rural areas as metropolitan and large regional areas are.

Upper Hunter Shire Council (UHSC) is a small rural Council that has a significant footprint of 8,100km<sup>2</sup> area that contains a significant and diverse range of infrastructure and facilities within the General Fund including:

- 1770km of sealed and unsealed road network
- 28 km footpaths
- 93 bridges
- 3 Council administration office (from amalgamation in 2004)
- 8 community halls
- 5 public libraries
- 3 Public swimming pools
- 3 Youth Centres
- 2 Childrens Education Care Services
- 1 Aged Hostel facility
- 17 Independent Units, 2 Low Income Housing & 1 emergency housing
- 3 Animal shelters
- 5 Waste facilities
- 1 Livestock Saleyard facility
- 1 Aerodrome
- 119 hectares of open space facilities

*(UHSC maintains a Water and Sewer fund)*

Due to this diverse range of services and infrastructure, the cost of delivery to the Community is quite extensive with costs carefully allocated from the limited sources of funds available to Council.

As a result, UHSC is very reliant upon grant funding to improve its infrastructure base and assist with some corporate/operational running of Council with the majority of its recurrent revenue generated from annual rates & charges, user fees & other revenue sources effectively used to deliver services to the community.

Based on the projected 2022/2023 budget the level of increases to Councils recurrent revenue is extremely low in comparison to the expected increase in employee remunerations and CPI levels.

Revenue Streams

- Annual Rates - Increase by IPART recommended rate peg 0.70%
- Annual Charges - Kerbside collection increased by IPART recommended 1.10%
- User Fees - Increase by CPI conservative level of approx. 2.5%
- Operational grant funds - Increased by a conservative level of 2%
- Other revenues - Increase by CPI conservative level of approx. 2.5%

Primary Operational Expenditures

- Employee Remuneration - Award Increase by 2% + Super Guarantee (SGC) increase by 0.50%
- Operational Costs - Increased by CPI which is expected to run between 2.5 to 3.5%

When using these assumptions the high-level overview of the dollar (\$) value impost on Council becomes evident with the operating expenditure outweighing own source operating revenue.

	\$'000	Calculation Assumptions
<b>Revenue</b>		
Annual General Rate	82	Notional Rate base of \$11.66m @ 0.70%
Annual Charges (Kerbside Collections)	42	Kerbside Collection charges of \$3.8m @ 1.1%
User Fees	200	Average total user fees of \$8m @ 2.5%
Operational Grants	200	Average operational grants (incl FAGS) of \$10m @ 2.5%
<b>Total increase in Operational Revenue</b>	<b>524</b>	
<b>Expenditure</b>		
Employee Remuneration	325	Award increase 2.0% + SGC increase 0.5% on operation wages of approx. \$13m
Operational Costs	450	Annual operational costs of approx. \$15m @ 3.0%
<b>Total increase in Operational Expenditure</b>	<b>775</b>	
<b>(Deficiency) between increase in operational revenue and expenditure</b>	<b>(251)</b>	

The effect of the reduction in IPART recommended rate peg has a significant effect on Councils operational activities to deliver a satisfactory service to the community.

The continuing decline in rate peg since 2020 has had a snowball type effect on Councils ability to provide a balance budget each year with the tipping point being the reduction in operational costs for services provided by Council to the community, as there are limited avenues and levers to generate additional revenue streams to cover increased costs. Over the past 5 years Councils rate peg has declined considerably in contrast to % increase in wages award and general costs (CPI) as highlighted in the below table:

Year	Rate Peg	Award Wages	CPI (Syd Avg)
2019	2.3%	2.5%	1.67%
2020	2.7%	2.5%	(1.04)%
2021	2.6%	1.5%	4.01%
2022	2.0%	2.0% + 0.5% SGC	4.39% (Estimated)
2023	0.7%	2.0% + 0.5% SGC	3.00% (Estimated)

Obviously in the above tables the effect of COVID-19 on the economies CPI % during the 2019 and 2020 and then the corrections in 2021 2022 adds a bit of misnomer on the calculations however it can be seen by just the award increase % that the rate peg levels are not keeping in pace with the cost of living.

Looking at the \$ effect of Councils operational revenue and expenditure the decline monetary resources has provided challenges in its ability to deliver services to the Community and has place pressures within Council to meet these challenges especially in the 2022 and 2023 years with the increased CPI and the reduction in rate peg % recommended.

Year	Rates \$	Annual Charges & User Fees \$	Operational Grants \$	Employee Costs \$	Operational Costs \$	Est Net Cost to Council
2019	213	251	185	297	229	(123)
2020	293	257	188	305	(145)	(578)
2021	290	263	192	187	566	8
2022	229	270	196	317	631	253
2023	82	242	200	325	450	251

Based on the above assumptions and with the decline in the general rate peg to 0.70%, Council is current showing a deficit budget to the Community of \$162,000.

Therefore, Council is reliant upon the return to at least the 2.0% expected general rate peg in order to provide a balanced budget to the Community without having to reduce services to achieve this outcome.

In addition, Council has factored into its current proposed Long Term Financial plan that the minimum general rate peg will have a base of at least the 2.0% increasing to 2.5% in line with a conservative CPI factor.

In summary, Council considers that its proposal to increase the general rate peg from 0.70% to 2.0% is conservative and reasonable for the Community to absorb in order for Council to deliver the required satisfactory services warranted.