CANBERRA REGION
JOINT ORGANISATION

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4 November 2022

Independent Pricing and Regulatory Tribunal NSW
PO Box K35
HAYMARKET POST SHOP, NSW 1240

Dear Sir/Madam,

**Re: CRJO Submission to IPART Review of the Rate Peg Methodology**

## Introduction

The NSW Independent Pricing and Regulatory Tribunal (IPART) released an Issues Paper in September 2022, seeking submissions on the current approach to rate pegging and options to modify those settings. The Review is guided by the framing of terms of reference by the Minister for Local Government following concerns raised by the sector with regard to the 2023 rate peg and the 2021 population peg final report - both of which were seen to under-rate the cost pressures on local councils.

This submission forms three parts: the first is to outline cost and growth pressures on the member councils of the Canberra Region Joint Organisation (CRJO), in turn highlighting the inadequacy of indexation imposed by rate pegging and development contributions settings; the second is to propose an alternate rating and indexation model for funding infrastructure and services; and the third is to respond to the specific questions raised in the IPART Issues Paper.

## Context

Rate pegging was introduced by the NSW Labor Government in the mid-1970s and continued by successive governments. Ironically, the impact of capping of general rate income was exacerbated by later governments through ‘cost shifting’, by introducing legislation to meet the government’s social or environmental policy agenda, then imposing the delivery of those ideals through underfunded or unfunded regulatory and other services mandated for delivery by local councils. Indeed, the portion of general rates applied between infrastructure and community/environmental services also shifted in the decades following, as (mostly) metropolitan councils moved to fill the community or environmental voids left by Government, or to meet local (populist) ambitions. The 2006 Percy Allen review into the Financial Sustainability of local government then uncovered the ‘infrastructure backlog’ crippling the sector. Local government legislation under section 8 was modified following the subsequent Independent Panel Review in 2012 to (properly) require councils to (inter alia):

- carry out functions in a way that provides the best possible value for residents and ratepayers
- be responsible and sustainable, aligning general revenue and expenses
- invest in responsible and sustainable infrastructure for the benefit of the local community
- have regard to achieving intergenerational equity, and

- work co-operatively with other councils and the State government to achieve desired outcomes for the local community

The Local Government Cost Index (LGCI) was developed by IPART for use in setting the rate peg in 2010, following a review of the Revenue Framework for the Local Government sector. The decision was made to set the rate peg with reference to a local government-specific cost index rather than a broad economic index (such as CPI or the Wage Price Index) to better reflect the composition of councils' costs and the relative importance of individual costs.

The IPART 2021 Population Peg papers identified the subsequent per capita gap between own source reviews and expenditures by councils, as well as the rate yield growth margins of capped local councils to non-capped in other Sate jurisdictions over the decades. Indeed, that Final Report acknowledged:

- councils' costs increase with population growth
- costs vary depending on the type of development
- rural councils face population related issues that cannot be solved through (this) review
- existing service levels (per capita) are the best indicator of per capita costs with population growth
- aged care, childcare and social housing costs are distributed among the ratepayers
- tourism adds pressure to cost of council, with limited scope to recover costs through user pays
- bushfire and flood legacy impacts last beyond funding timeframes

That Report concluded:

- rates revenue has not kept pace with population growth
- per capita rates are decreasing, while cost are increasing

The Report recommended then that 'each council's general (rates) income on a per capita basis should be maintained as its population grows'.

Unfortunately, many of those matters could not be addressed as the scope of that Population Peg Review was narrow. Indeed, the determination was to ultimately deduct the value of supplementary rate growth from property development negating any gains generated by the population peg!

However, it is proposed those items should now be contemplated under the Rate Peg Methodology Review.

## Background

The 2008 IPART report on the Revenue Framework for Local Government presented five alternative regulatory frameworks that could replace the current rate-pegging system, but was not taken up by Government:

Option 1 would retain existing rate-pegging arrangements, but publish the economic basis for the peg, modify the special variations process, and leave all other charges unregulated.

Option 2 would develop a more 'disaggregated form of ratepegging' using specific pegs for specific categories of council.

Option 3 would 'reduce the scope of rate-pegging to cover only local government revenue needed to fund operating expenditure', thereby excluding capital expenditure and all other charges unregulated.

Option 4 would retain rate-pegging but exempt individual councils, provided they could demonstrate financial prudence and operational efficiency in various stipulated ways.

Finally, Option 5 would remove mandatory rate-pegging and simultaneously 'enhance accountability to the local community' using several criteria and the threat of a 'default rate cap'.

Then in its submission to the Independent Local Government Review Panel in 2012, IPART noted in part:

- LGAs vary widely in size, demographics, topography and economic base. This variety creates a diverse range of challenges for councils when it comes to providing infrastructure and ensuring their financial sustainability.
- Local governments are ideally placed to stay focused on local issues and to both understand and meet the needs of their communities. Understanding community preferences requires a significant amount of community engagement by councils.
- The level of efficiency is likely to vary considerably across councils but found that most are aware of their need to be as efficient as possible.
- Collaborative arrangements can lead to efficiency gains and savings for councils and should be further supported where possible.
- The rate pegging regime is more flexible than many realise. Special variations are an integral part of it, and they allow a council to apply to increase revenue by more than the rate peg. In addition, part of council revenue is not pegged eg, waste and other user charges.
- More flexibility can be injected into the rate pegging system in such a way that it would reduce compliance costs and potentially improve council accountability to communities.
- There is often a fundamental mismatch between small, usually rural, councils' expenditure responsibilities and their revenue bases. Applying for a special variation will not usually resolve the mismatch because of the council's limited rates base. Alternative solutions are needed if such councils are to be financially sustainable.
- The current grants system appears to be inadequate to address the long-term financial sustainability of many small rural councils heavily dependent on grant income.
- In addition, there can be significant costs and complexity for councils in seeking other State and Federal Government funding because of the range of grants that are available.
- Many councils have the capacity to borrow more for their infrastructure needs. Further encouraging councils with the capacity to borrow more to do so to address backlogs can help improve performance in the longer term.
- Funding infrastructure for new developments in rapidly growing LGAs can be a challenging dilemma for some councils.

Later, in its Review of Reporting and Compliance Burdens on Local Government in 2016, IPART aimed to identify inefficient, unnecessary or excessive burdens placed on local government by the State in the form of planning, reporting and compliance obligations, and to then improve the efficiency of local government in NSW and enhance the ability of councils to focus on delivering services to their communities. It was acknowledged the State devolves regulatory responsibilities to local government and the cumulative impact of these responsibilities, regulated fees, and multiple reporting requirements, as systemic burdens. The Report made recommendations to reduce cost shifting, enabling better cost recovery, managing the growth of regulatory requirements on councils and avoiding duplicative reporting requirements.

Further, the 2021 NSW Productivity Commission's (PC) Paper on Productivity Reform recognised a flexible rating system was the most efficient way of helping councils meet the risings costs of serving their communities.

NSW's rate peg is being blamed for councils not having enough money to provide their rapidly growing communities with new infrastructure.

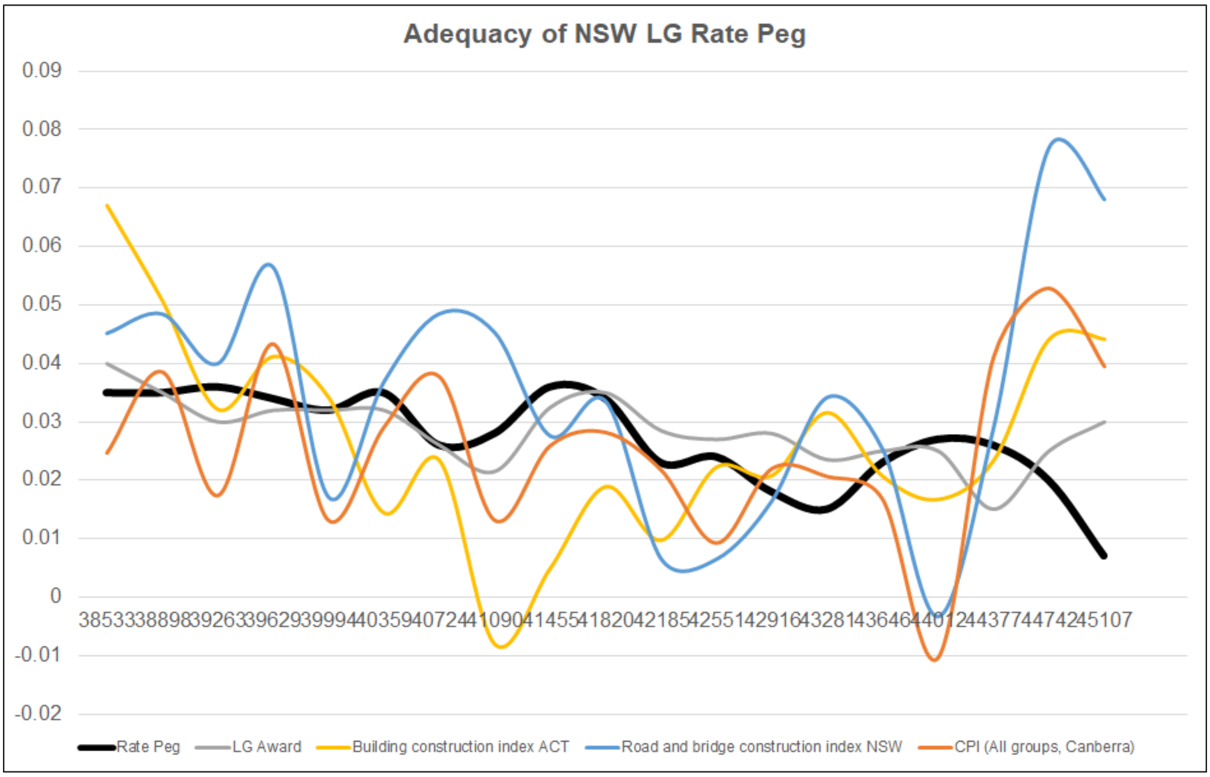
The Report signalled NSW councils have foregone about $15 billion in rates compared with Victoria since 2000, and the NSW Productivity Commission says that except for raising user charges or extracting developer contributions, councils don't have alternative funding sources needed to service higher populations or maintain and operate a larger capital stock.

While previous Reports recognised the financial failings of pegged rating and contributions systems, it remains the Government's imperative to take up any of the recommendations. IPART has acknowledged the local government sectors claims of cost shifting. This submission (in part) suggests the nett cost of administering State legislation should be a feature of setting the rate peg.

The 2-year lag in the LGCI remains a problem for local councils. The LGCI uses the ABS information on prices, which relates to the previous financial year. As a result, there is a 2-year lag between when councils experienced cost changes and when the rate peg reflects those changes. For example, to set the rate peg for 2022-23, IPART measured the change in the LGCI in the year July 2020 to June 2021, relative to July 2019 to June 2020. This rate peg then came into effect in July 2022.

Specific to councils in the Canberra Region, Figure 1 below illustrates the gap between contemporary indices (building and civils construction for ACT) and the lag indices of LGCI.

Figure 1



What is clear though, is the portion of general purpose revenues (GPR) to overall local government revenue sources is in decline, with a majority of councils producing annual operating deficits (Figure 2) and average GPRs falling below 40% compared to the Office of Local Government (OLG) benchmark of 60% (Figure 3). It is acknowledged that ratio has recently been influenced by the surge in grants associated with natural disaster and pandemic recovery.

Figure 2

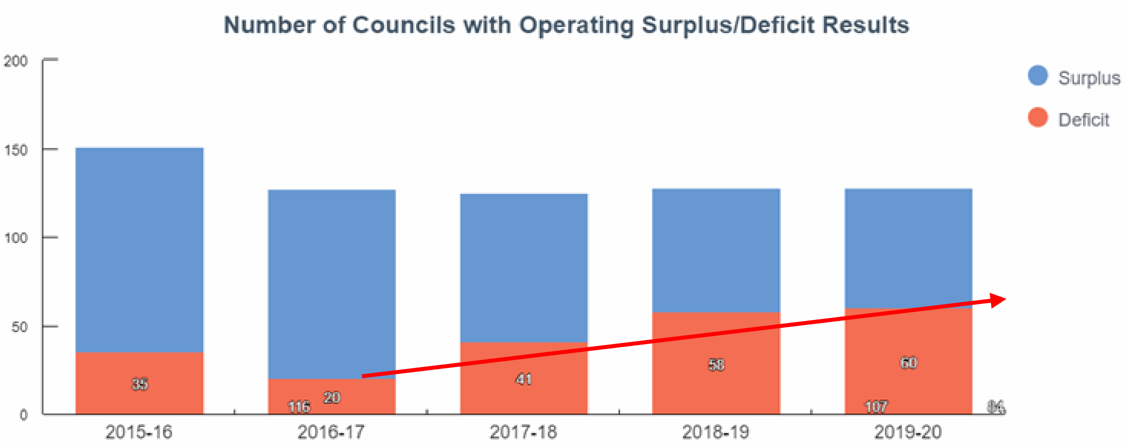
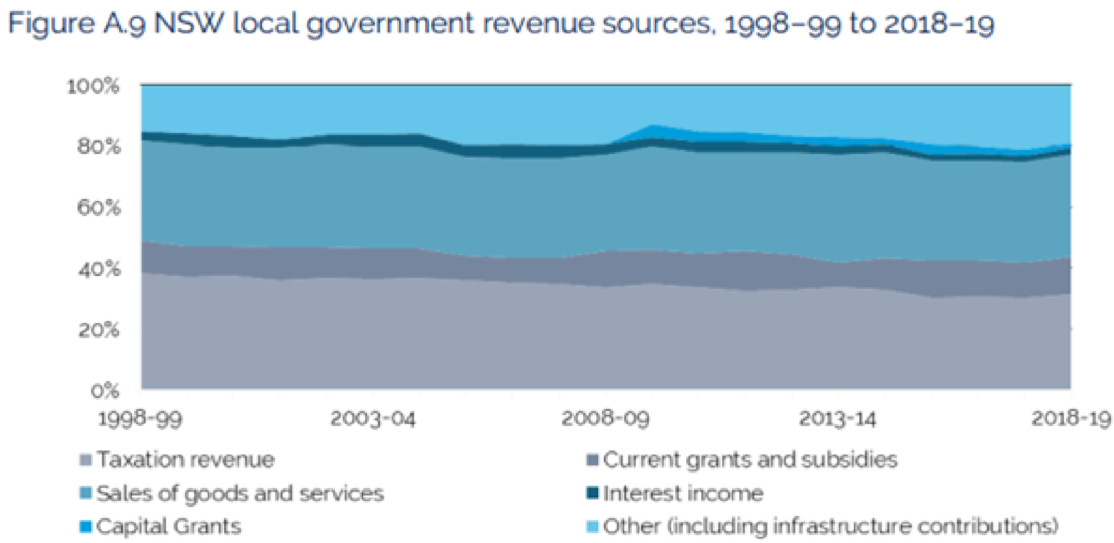



Figure 3




In its annual reporting, IPART records the applications and approvals of special rate variations (SRV). In summary, over the past decade, it is understood:

- For the ten-year period from 2011/12 to 2021/22 there have been some 165 special rate variation applications, of which 155 were approved. The average approved variation is 28%, with the highest approval being 70% and the lowest 2.7%, and over 70% of councils making at least one application.
- Many of the merged councils, restricted initially with a four year 'rate path pricing freeze' have lodged applications for significant SRVs, in part to resurrect SRVs proposed by the respective former councils that were disabled as a consequence of the merger process

- Most councils have sought SRVs to improve financial sustainability, reduce asset backlog, provide essential or extended services, meet community expectations, offset tourism impacts, or supplement grant or contribution-initiated project shortfalls.

So, not for want of prompting by IPART or PC, the Government has not carried the bulk or focus of the various Report recommendations into legislation, more often exacerbating the challenges to local government by:

- underfunding Government programs or projects to be delivered by councils, underscored at times by councils underestimating the costs for those programs and projects; councils excluding appropriate elements of project management and cost escalations; or delays in grant applications, execution of grant deeds and receipt of funding before commencement of the activity – at times leaving a gap for councils to fund to complete project, or abandon
- overregulation of fee recovery, discounting the ability of councils to fully recover the private benefit of programs and services
- introducing new programs to be delivered by local councils to meet Government policy objectives, with grant funding shrinking or removed over 1-3 years, generating a community expectation the councils will continue those programs at their own cost
- exposing capacity, capability and consistency gaps between councils, in terms of appropriately estimating, recording and attributing costs; capturing service and asset data; and monitoring and reporting performance
- diverting council focus from servicing, maintaining and renewing existing infrastructure, to expend effort on applying for grants made available to support new or upgraded assets, then diverting resources to deliver the funded projects within electoral cycles
- councils underestimating or excluding the recurrent cost of maintenance and depreciation (ie renewal) for new or upgraded assets generated by grant funding

State and federal government expenditure has increased around managing the health response to and economic recovery through COVID-19, which increases fiscal pressure. A constricting of government spending to reduce the fiscal imbalance is coming and this will impact councils' access to grants and other funding opportunities, as well as potentially increase cost shifting to councils.

All of this means that many councils will face the decision to seek an SRV or reduce services or defer asset renewals, or otherwise face the brink of a financial crisis. A finding in the recent Central Coast Council public inquiry report was that a significant factor in the deterioration of the financial position was repeated deficit budgets.

One may then surmise - if most councils have made one or more SRV application in the past decade, in a period when key financial ratios are still broadly in decline, then the process and consequence of rate pegging and SRV applications are out of step with the financial challenges of local government. If regular increases through a rate peg improve certainty *and sustainability*, then the ogre of bill shock (through SRV) should be lessened.

This submission proposes a fundamental rethink of the:

- rating model
- foundations of the rate base
- responsibility for settings and means of indexation
- reporting and benchmarking arrangements

## Submission Part 1 – cost and growth pressures

The CRJO comprises member councils of Bega Valley, Eurobodalla, Goulburn Mulwaree, Hilltops, Queanbeyan-Palerang, Snowy Monaro, Snowy Valleys, Upper Lachlan, Wagga Wagga, Wingecarribee and Yass Valley - which epitomises the nature of regional NSW councils that are subject to pressures from population and development growth, tourism, seasonality, infrastructure surge, merger, activation precincts, skill scarcity, disaster recovery, low historical general rate bases and a growing reliance on grants.

With reference to the attached datasheets, we have tabulated the change for those councils between 2016 and 2021 in:

- population
- nett operating costs (excluding waste, water, sewer)
- permissible general rate income
- special rate variations
- per capita nett costs and revenues, and associated gaps
- actual and required general assets maintenance
- actual general assets renewal and required (depreciation) expense
- actual general assets upgrades and capital (grant, contribution) funding provided
- key financial and asset ratios
- sample costs escalations for comparison to the local government cost index (LGCI)

Notwithstanding Government and community expectations of efficiency, sharing resources and cost savings, unfortunately much of the progress ordained by the Independent Panel and subsequent Reviews have been dismantled due to:

- disruption and diversion of focus associated with natural disasters and pandemic
- easing of financial metrics and recovery action to assist ratepayers impacted by above
- diversion of resources from planned infrastructure and program activity into those sponsored by grant stimulus or disaster recovery works
- significant turnover of councillors and senior staff (with consequent loss of sector knowledge), perhaps much due to extended electoral term and disaster fatigue

The following charts illustrate the

- annual gap between what should be expended on general assets maintenance repair and renewal (ie depreciation), compared to the permissible general income (Figure 4)
- the shift in expenditure between maintenance and renewals (Figure 5), and consequent influence on change in asset renewal, backlog and maintenance ratios between 2016 and 2021 (Figure 6)
- the charts also illustrate the reliance of regional and rural councils on grants to support renewal of assets, in turn influencing their respective own source revenue ratios (Figure 6)

Notwithstanding, all councils have endured a period of:

- widening gap between per capita expenses and revenues (Figure 7)
- decline in financial ratios
- broad deterioration of backlog, regardless of shift of spend between maintenance and renewals

Figure 4

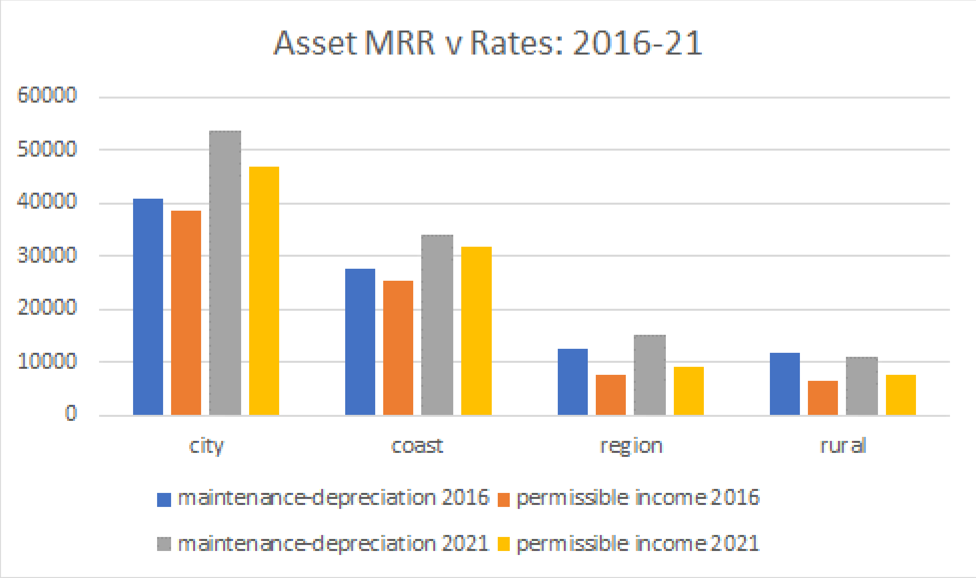



Figure 5

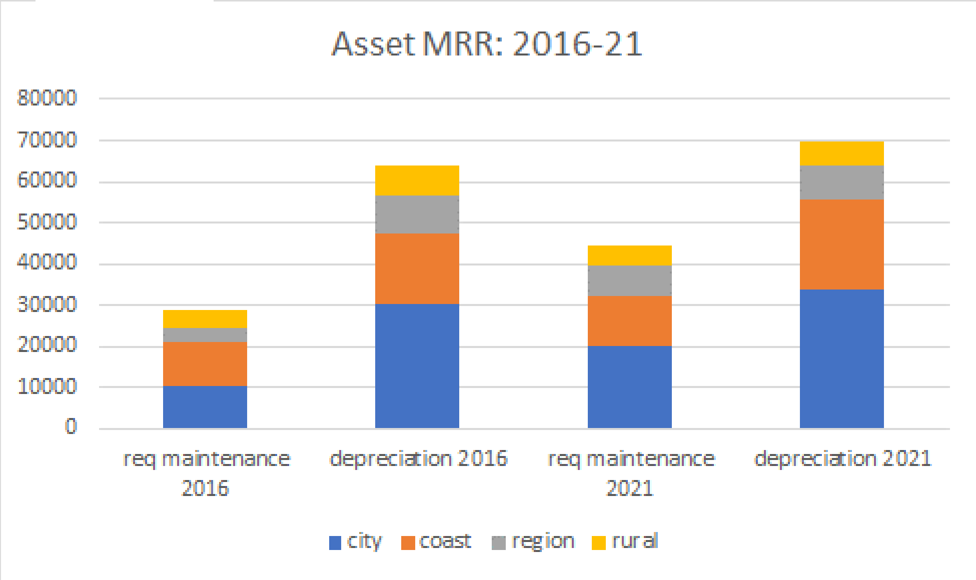
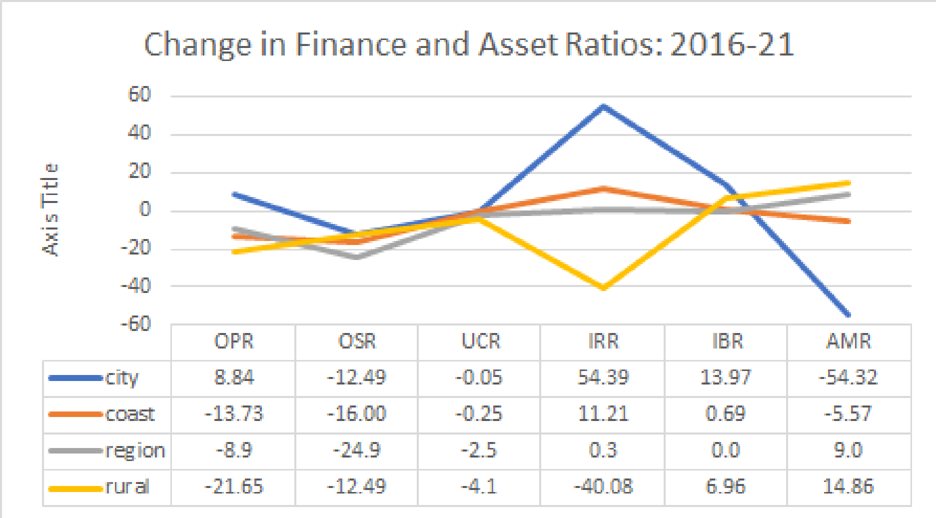
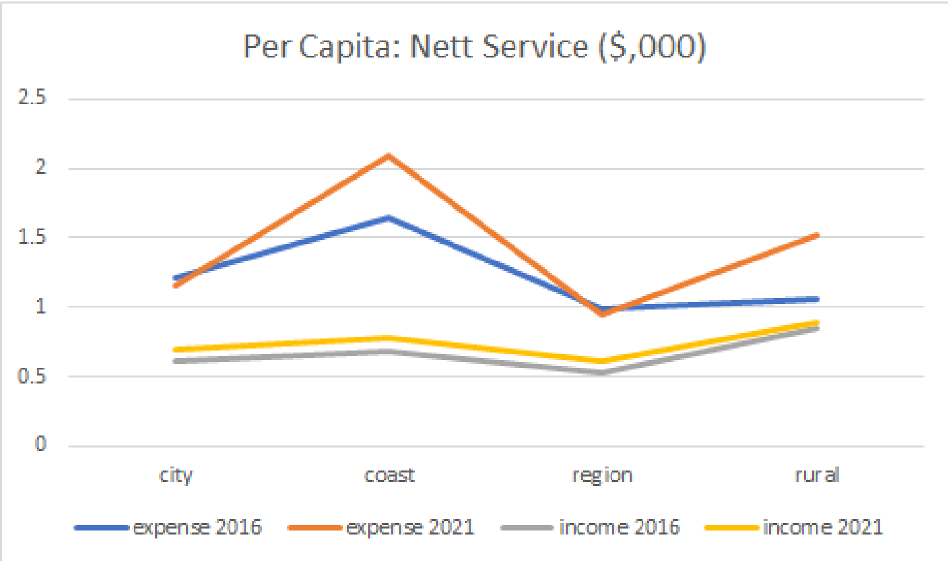


Figure 6




| | OPR | OSR | UCR | IRR | IBR | AMR |
|---|---|---|---|---|---|---|
| city | 8.84 | -12.49 | -0.05 | 54.39 | 13.97 | -54.32 |
| coast | -13.73 | -16.00 | -0.25 | 11.21 | 0.69 | -5.57 |
| region | -8.9 | -24.9 | -2.5 | 0.3 | 0.0 | 9.0 |
| rural | -21.65 | -12.49 | -4.1 | -40.08 | 6.96 | 14.86 |

Figure 7




We note the observation by IPART that the preliminary state-wide analysis suggests that on a per capita basis, movements in the rate peg appear to be similar to councils combined total operating expenses, and that IPART intends to undertake further analysis to understand if this varies depending on a council’s circumstances and location. It is also possible of course that councils have referred to the rate peg when setting their budgets and planning their expenditure, which would explain why councils’ total expenses per capita, and the rate peg have grown at a similar rate.

We also note a recognition the LGCI is designed to measure cost changes experienced by the average council in NSW, and as a result probably does not reflect the exact actual cost changes of any individual council. Every council is different, with different communities, services, and costs. For this reason, we suggest (and support) a move by IPART to establish an indices per council cohort.

However, the gap continues to grow between the per capita expense and revenues for many councils.

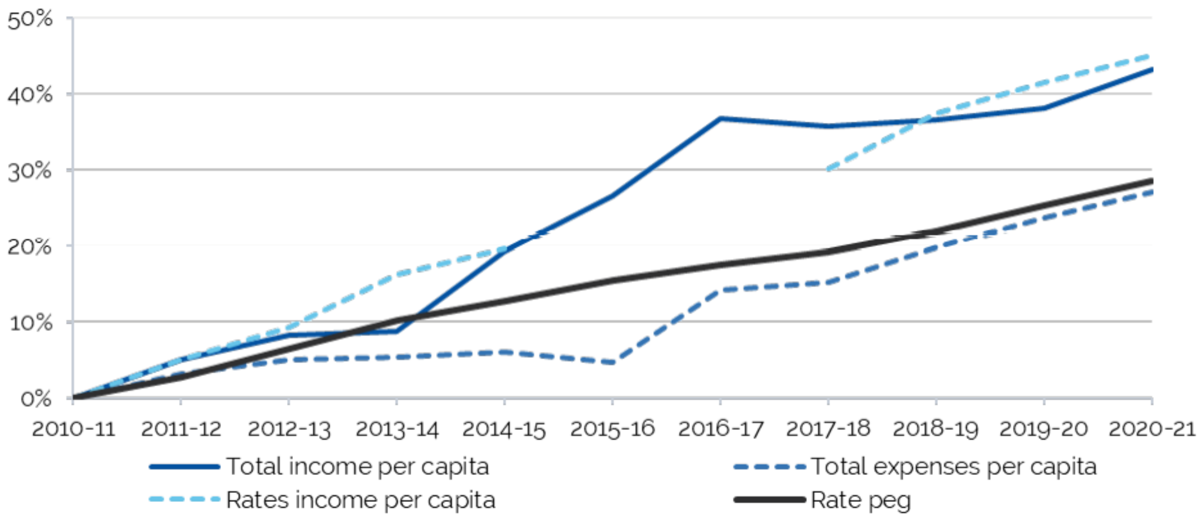
Indeed, even for growing councils with property development underway, the 2021 IPART report found:


Our analysis indicates councils are currently recovering about 60% of the costs of population growth through supplementary valuations.[9] The amount recovered varies between councils, depending on rate structure, land values and the type of development.

It is suggested the CRJO councils' data differs to the average of other councils summarised in the IPART Figure below, with per capita rates income growing in total between 5-15% (incl SRV) between 2016-2021, compared to the average 15% in the IPART figure below; while per capita expenses have grown 15-40%. The member councils are representative of the cohorts proposed in this submission:

- Regional City: Goulburn, Queanbeyan-Palerang, Wagga Wagga, Wingecarribee
- Coastal: Bega Valley, Eurobodalla
- Regional: Hilltops, Snowy Monaro, Snowy Valleys, Yass Valley
- Rural: Upper Lachlan

Figure 3.3 Growth in NSW councils' income, expenses, and rates income per capita compared to cumulative increases in the rate peg




This submission assumes rate pegging will continue as policy of Government. Therefore, alternate models and approaches are proposed in Part 2 below.

## Submission Part 2 – alternate rating and indexation model

The responsibility of local councils in line with the *Local Government Act 1993* is to provide and maintain infrastructure and facilities (assets) proportionate to the demographic, geographic and risk profiles of the LGA. It follows then that taxes (rates/grants) should fund assets, upon which public benefit services are premised; and for which financial (ie OSR) benchmarks should be based.

In that context, grants may principally be assigned to improvements and expansions of assets, or to offset the identified additional loads on those assets due to non-ratepaying beneficiaries (eg tourists, freight).

The balance of general rates may then meet public benefit services supported by grants (incl FAG) and produce surpluses to progressively fund future renewal and upgrades. However, many regional and rural councils have duplicated facilities and long linear networks to support dispersed communities in differing densities – perplexed the historically lower rating bases and quantum of assessments chokes the capacity of those local councils to provide the scope and standard of assets and services most contemporary communities would expect. This is amplified now with residents and business relocated following Covid, and expecting the standards enjoyed in their former cities. This is particularly so for many CRJO councils near Canberra whose exodus by ACT ratepayers across the border brings expectations of lower rates with equivalent services.

Fundamental to the purpose of the rate peg no doubt is affordability and to minimise bill shock to ratepayers. However, its secondary purpose should support the objects of the legislation around *financial responsibility and sustainability*. It is suggested those latter elements signals the primary purpose of the general rate is to fund the provision and maintenance of public assets and services. It does not seem the growth in depreciation expense (the annualised proxy for renewals) – which has been also impacted by receipt of gifted (by developers) and granted (by governments) - features as an element in the LGCI, a point that regularly features in this submission.

We are becoming aware several councils' attempts to secure borrowings through NSW Treasury Corp (TCorp) for the purpose of asset renewals or upgrades, are being thwarted by TCorp insistence on financial plans producing positive financial ratios and applying 'realistic' contemporary indices on forecast expenditures rather than utilise the (usually) lower rate peg. This points to the sector's concerns the LGCI is backward facing and may not include enough components in its 'basket'. IPART may consider consulting with TCorp to understand those thresholds and the potential application to the rate peg.

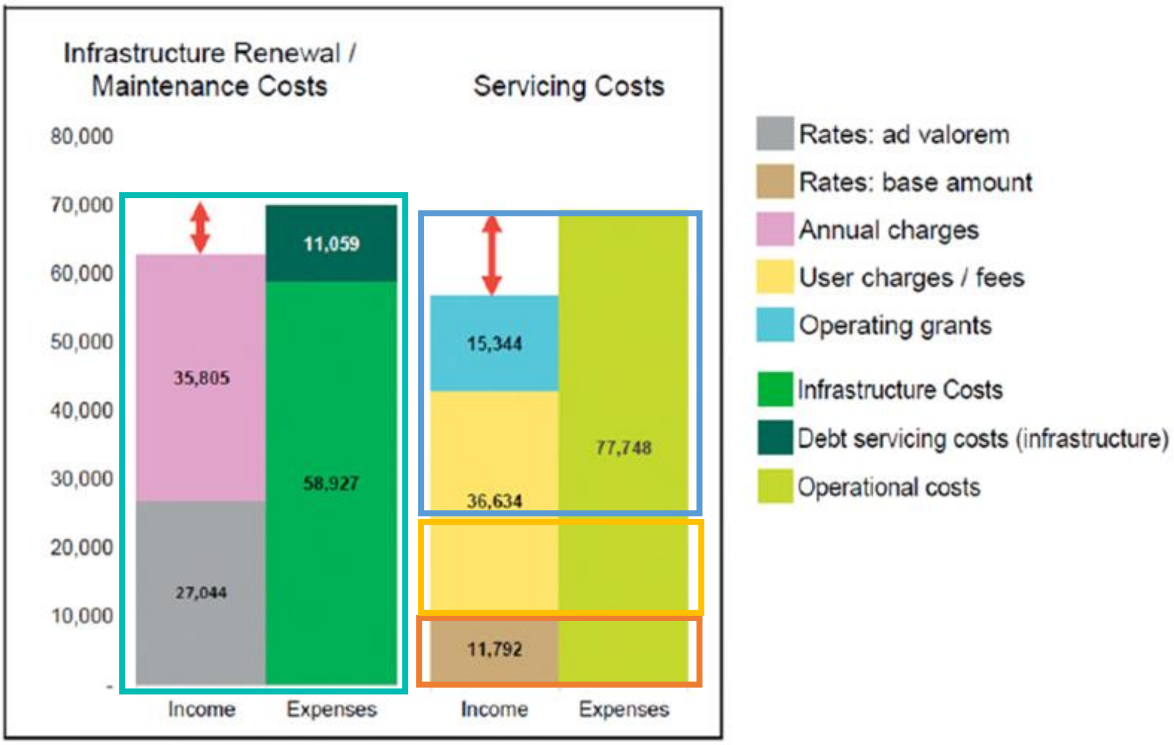
Unfortunately, the underlying gap between per capita expenses and revenues may be greater than published, as councils shave their expenditure profiles to match the funding available through the rate peg – more often by receding services or deferring asset renewals and maintenance. This submission suggests setting an '*asset peg'* and a '*service peg'* to differentiate the cost drivers between servicing assets and servicing people and reinstating the full value of the '*population peg'* to accommodate growth in public benefit services. The submission proposes those cost drivers be assessed separately by the NSW Audit Office by council cohort (ie growth in asset maintenance and renewal costs, evidenced by revaluations); while the costs drivers for services be prompted by a different set of metrics determined by IPART. Those indices may differ for setting a peg for the ad valorem notional yield (for assets), and a separate peg for the base rate yield (for public benefit services or CSO).

The CRJO member councils deploy an ad valorem and base rate model, utilising all rate categories (residential, business, farmland, mining) with subcategories established on locality, intensity of use or population for example. Most member councils have one or more significant renewal energy installation/s, through wind farm, solar array, hydro or methane production, for which a discrete annual rate or contribution does not apply. This matter is promoted later in the submission.

An alternate model is proposed for consideration (Figure 8), that differentiates the ad valorem general rate as the primary funder of infrastructure servicing, maintenance and renewal; while the base rate underpins the provision of services for public benefit (or community service obligation) – both rates are supported by relevant operational and maintenance grants.

*Of course, it is a council's choice to transition to an alternate model, no doubt with many preferring just to increase the notional rate yield (ad valorem and base rates) in toto, then assign the funding to assets and services as they see fit.*

Figure 8

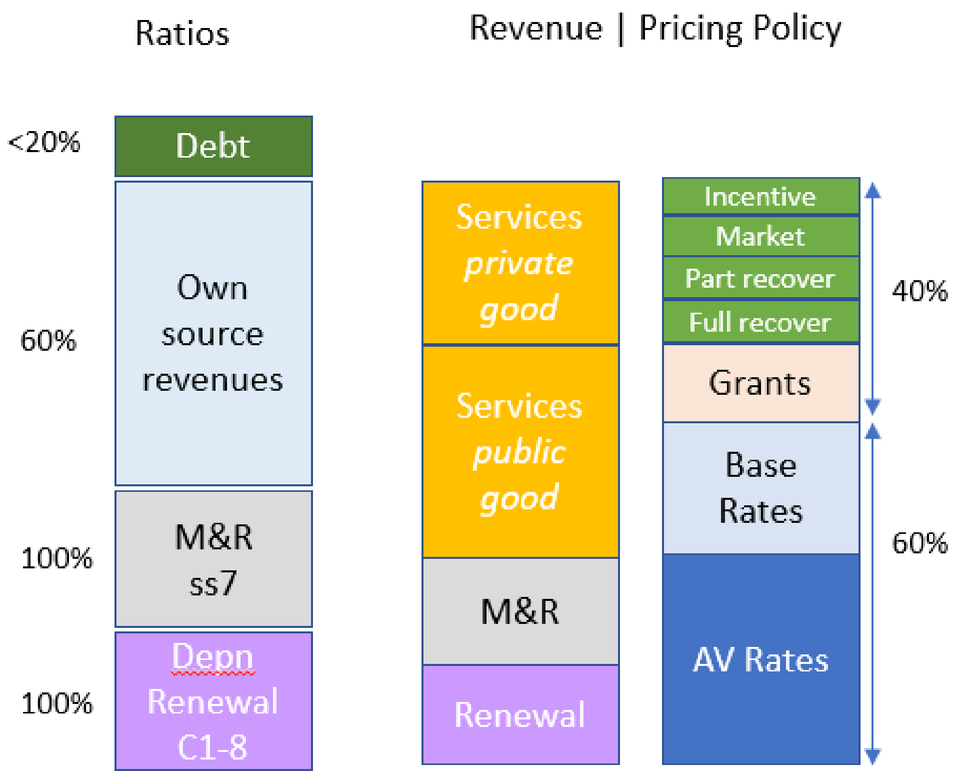



While this example illustrates a high level funding model for a multipurpose council (where water, sewer and waste utility annual charges apply), the following principles are involved:

- maintenance, renewal, upgrade and debt servicing costs of infrastructure are met by
  - property taxes (LV), including ad valorem rates, utility annual charges, development contributions and asset specific grants
- nett cost of public services ie community service obligations (CSO), met by
  - fixed component of the general rate (base amount) and general purpose grants (FAG)
- additional services (above the CSO), met by
  - fees, charges and specific purpose grants
- utilities (water, sewer and waste services) met by
  - specific user charges and fees
- governance and corporate overhead costs attributed across the asset and service areas

The gap in asset costs and funding, and service costs and funding is then illustrated, prompting policy decisions and public discussion to modify revenue levels or asset standards and services to 'narrow the gap'.

Should that alternate model be progressively established, the revenue and pricing policies may enable OLG financial and asset ratios to be more consistently realised:




However, in the face of the deferral of infrastructure contribution reforms and special infrastructure levies, and with reference to Attachment 2, the model may be operationalised in the following manner, which outlines the Approach, Standards, Accountability, Monitoring and Reporting:

1. **Reframe** the cohorts for councils as an alternate for OLG group classifications and IPART rate pegging: to recognise the differing growth, revenue and cost profiles, and modify the respective financial and asset ratios accordingly
   i. metro
   ii. coastal
   iii. regional city (or combine with metro fringe)
   iv. regional
   v. rural
   vi. remote
2. **Reset** the foundation notional general rate yield for councils and the means of indexation: noting many of the growth councils (eg coastal, regional city) were farming or fishing communities when rate pegging began in the 1970s, with councillors subsequently reluctant to impose higher taxes on that heritage, or even dismissed the application of the rate peg in any particular year. Many of those councils are now subject to sea/tree change, ageing populations and a linear system of infrastructure exposed to climate risk. That heritage may

be exacerbated by the merging of adjoining councils with similarly low rate bases. The suggested steps are:

i. Determine the annualised renewal and maintenance expense for general assets (derived from asset management plans and financial plans), as reported respectively in IPPE Note C1-7 and Special Schedule 7
ii. Set a (say) 5 year path to lift the yield for the ad valorem component to the equivalent of annualised maintenance and renewal of general assets over that period (for existing assets and assets subsequently acquired by grant or development)
iii. Assign NSW Audit Office (AO) to
    i. validate that reset yield assessment for council or cohort
    ii. validate the annual changes by asset revaluations (as summoned by AO)
    iii. be the proxy for indexation to that component of rate yield (rather than IPART), and
    iv. subsequently audit those respective asset financial statements each year
iv. Ad valorem rate is differentiated by Land Value (LV) determined independently on three yearly cycles by the NSW Valuer General (VG), in turn signalling
    i. a capacity to pay in the localities of the LGA where LVs have changed beyond the average per category
    ii. opportunity to define a differential in the type and standard of general assets provided in the localities
v. The portion of the Ad Valorem Rate within the general rate notional yield is modelled and published in the Revenue Policy
vi. This may be known as the '*asset or infrastructure peg'*
vii. Further consideration may be given to capture some of the value gain subsequent to three-yearly LV revaluations
    i. enable (say) a 5% uplift to the notional yield, with the redistribution of the rate burden considered with reassessment of the council rate structure
    ii. growth in LV is indicative of market movements and capacity to pay
viii. Base Rate is differentiated by rate category, location and level of service, premised on policy decisions identifying certain public benefit services as a CSO, and the nett costs of which are to be recovered by the base rate and supported by relevant grants, noting
    i. public and private benefit services are differentiated and published
    ii. pricing policies articulate the mode of recovery of costs for private benefit services (ie market, full cost recovery, part cost recovery, incentive, regulatory, penalty etc)
    iii. relevant service statements, recoveries and associated performance measures are published and reported within Integrated Planning and Reporting (IPR), and monitored by Audit Risk and Improvement Committee
    iv. the portion of the Base Rate (or minimum rate) within the general rate notional yield is modelled and published in the Revenue Policy
    v. the Base Rate yield is indexed by the LGCI (or its replacement) determined annually by IPART
ix. This may be known as the '*service peg'*
x. Special Rate Variations may be sought for (but not limited to)
    i. co-funding grants or contributions for new or upgraded infrastructure (not subject to community engagement if published in asset plans, contribution plans or terms of grant funding)

    ii. co-funding grants or contributions for resited or upgraded infrastructure to mitigate exposure to climate risk (not subject to community engagement if published in asset, resilience or climate plans)
    iii. introducing new services, or expanding existing services, or changing levels of service, or funding shortfalls in grant funded services (subject to community engagement and any refined SRV process established by IPART)
3. **Reinstate** the '*population peg'* without discount of supplementary levies:
    **i.** acknowledging that rate growth by generation of assessments supports the ongoing maintenance and renewal of assets with those developments; while the population peg supports the extension of services to a growing demographic
4. **Remove** the Emergency Services Levy as an intergovernmental transfer from the general rate notional yield, instead
    i. enabling a separate annual charge by council cohort and based on rating categories, through relevant elements of s501, to collect and disburse the funds required by Government; activated through the FES legislation
5. **Reassign** responsibilities
    i. NSW Audit Office (AO) to
        i. validate that reset assessment of ad valorem notional yield by council
        ii. validate annual changes to notional yield summoned by asset revaluations (ie keep pace with escalations)
        iii. be the proxy for indexation to that component of rate yield (rather than IPART) by council cohort and
        iv. subsequently audit those respective asset financial statements (ie IPPE C1-7, ss7, Fair Value, Useful Life or their replacements) each year
    ii. IPART to
        i. consider a weighted LGCI by OLG Group or cohort to reflect a council's
            - freight disadvantage (eg distance from metro or regional city as source of skills, contract and supplies)
            - skills disadvantage (eg access to skills, premiums applicable to short term staff or consultants)
            - rating capacity disadvantage (eg historically low rate base, impacted by demographic change, economic/mining change, rental vacancy)
            - obligations to fill the void (eg providing services and accommodation to house critical public workers eg health)
            - exposure to competitive construction stimulus such as mines, SAP, Snowy 2.0, Aerotropolis
            - nett cost of administering State legislation should be a feature of setting the rate peg
            - additional loads on assets due to non-ratepaying beneficiaries (eg tourists, freight).
        ii. index the Base Rate notional yield by the LGCI (or its replacement) by cohort of council
        iii. apply a three year rolling average to smooth any lumpiness/volatility
        iv. assess SRV applications to either (or both) of the ad valorem and base/minimum rate yields

v. publish annual LGCI and rate peg/s by cohort, and the correlation of the peg to pricing principles (ie capacity to pay, beneficiary, intergenerational, community service obligation)
vi. report on annual SRV applications and outcomes

iii. Councils to
i. consider rating structure, modelling and pricing path following each LV revaluation, or at least in each term,
ii. differentiate public and private benefit services, and associated policies wrt pricing recoveries, capacity to pay, hardship and rebates, treating gifted and granted assets, and accepting grants (eg type and purpose sought, and terms of submission, acceptance and delivery)
iii. utilise LV as potential differentiator of asset standard and type
iv. utilise base rate per category/subcategory as potential differentiator of level of service
v. determine differential rates to recover full cost (servicing, maintenance, renewal) of new or expanded assets in greenfield areas, from commencement of developments
vi. review development contribution plan values 5 yearly and indices annually
vii. publish an end of term 'state of infrastructure report', correlating with audited asset financial statements and ratios; recording inspected changes in asset condition using IIMM metrics; expansion of asset base (consequent to grants and developments); highlighting outcome of key projects or disaster recoveries; and forecasting indicative ad valorem yields for next term for general assets servicing, maintenance, renewal, *and resilience*

iv. Local Government Grants Commission (LGGC) to
i. monitor and report on changes in unit rates and per capita expenses in determining annual distribution of Financial Assistance Grant (FAG) by cohort

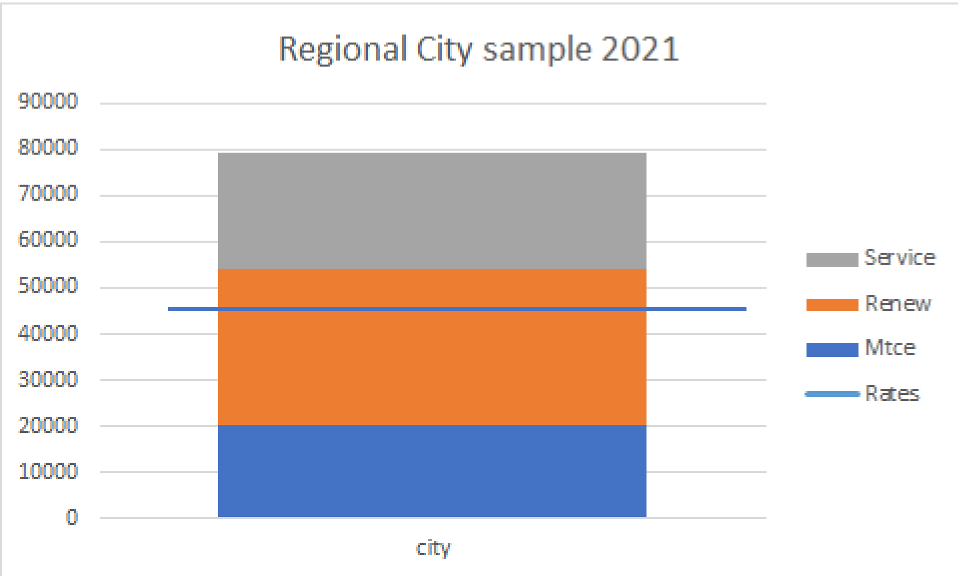
v. Office of Local Government to
i. modify council group classifications (refer suggested cohorts)
ii. modify Code of Accounting Practice to accommodate asset statement audits
iii. modify key financial, personnel and asset ratios per cohort (say OSR: 60% metro, 50% regional, 40% rural)
iv. introduce new rate category/subcategory 'energy'
v. embed 'state of infrastructure report' into IPR
vi. guide standard approach to asset condition and revaluations (eg IIMM and IPWEA models)
vii. guide standard approach to cost attributions to reflect real costs and service cost benchmarks
viii. guide standard approach to accounting differentiation of asset servicing/operations from maintenance, renewal, upgrade and resilience, as each influences asset values and subsequent impacts on ratios and depreciation
ix. publish optimised comparative asset, financial and rating data on its website, for councils and community to check service and asset unit rates, benchmarks, staff ratios and average rates by category

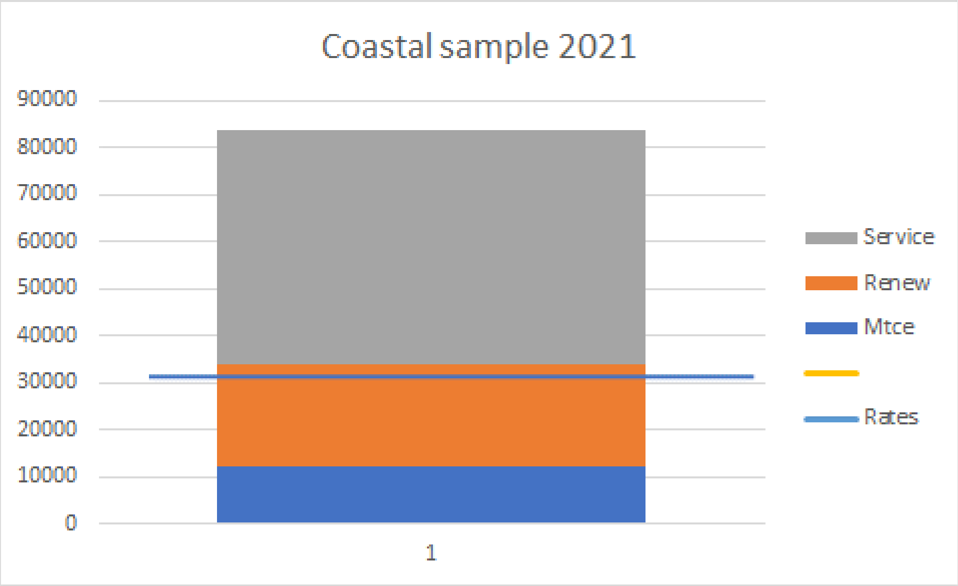
vi. Audit Risk and Improvement Committees (ARIC) to
i. monitor development, review and performance of service statements
ii. monitor development, review and performance of asset plans

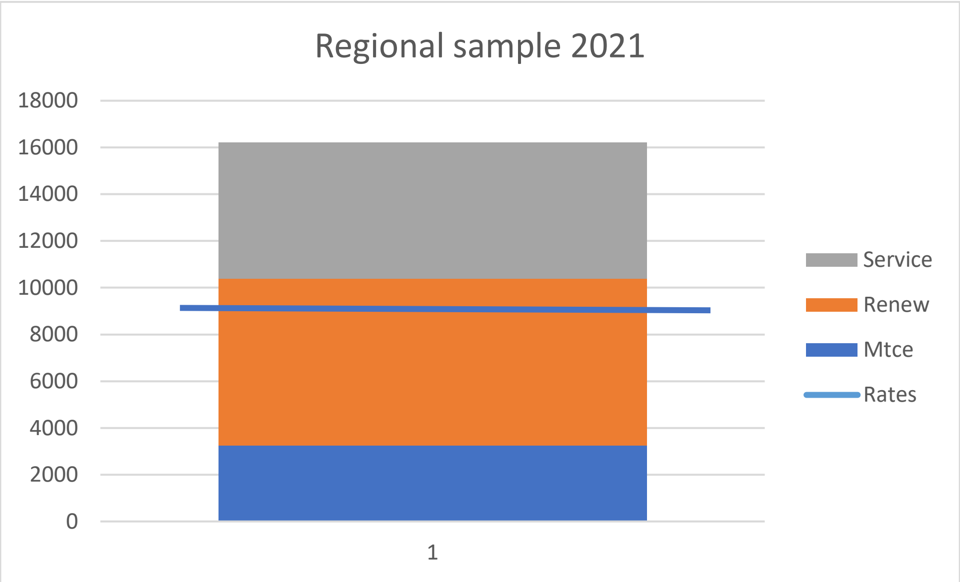
Noting the financial information is provided by member councils, the following charts ($,000) illustrate an indicative rebuild required of CRJO council cohort's general fund budgets, applying the 'reset' in section 2 above:

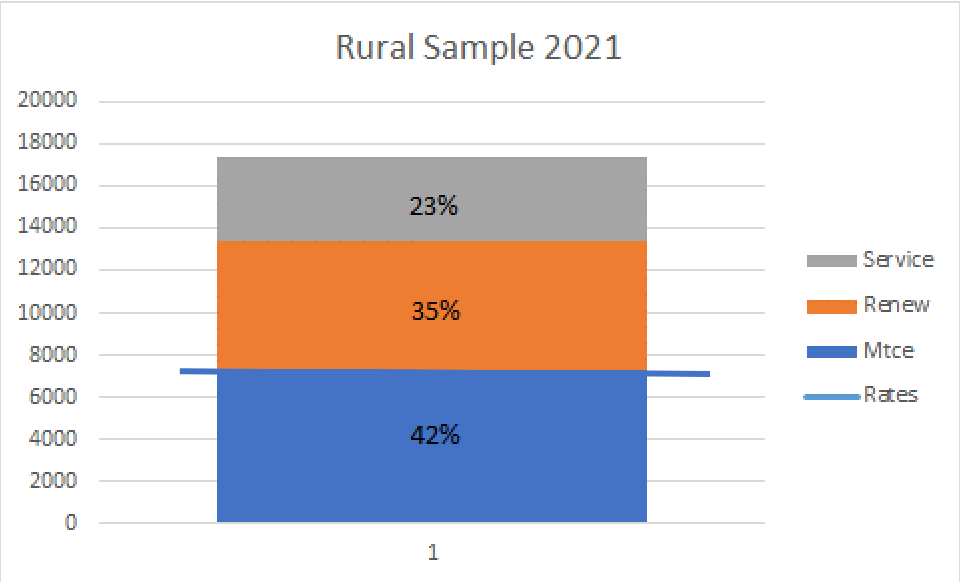
- None of the samples indicate permissible income is sufficient to cover required general asset maintenance and renewal
- None of the samples indicate sufficient general rates revenues to support public benefit services (or CSO); requiring councils to seek grants to support public benefit services and deploy aggressive fee arrangements to recover the cost of private benefit or regulatory services – in turn aggravating already tenuous capacity to pay principles in LGAs with smaller populations, lower SEIFA levels or lower economic activity
- Consequently, all will be continually reliant on grants to maintain or renew assets; or seek further grants, contributions or debt to accommodate growth in the asset base. These will have flow on effects to UCR and OSR ratios – particularly for regional and rural councils. There is broad concern that the scope and scale of grant funding will subside substantially with Government dealing with its own fiscal issues following disasters and pandemic
- Increases in the asset base (and subsequent spike in depreciation) follows acquisition of new or upgraded assets funded by grants or gifted though developments (eg city/coastal); in turn reinforcing the claim of this submission to discontinue the discount of the population peg by the value of supplementary levies

Ideally, a council's general operating cash revenues should exceed operational cash expenses, by the equivalent of the non-monetary depreciation value, which may then be appropriated for capital renewals.




Coastal sample 2021
90000
80000
70000
60000
50000
40000
30000
20000
10000
0
1
Service
Renew
Mtce
Rates


Regional sample 2021
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
1
Service
Renew
Mtce
Rates


Rural Sample 2021
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
23%
35%
42%
1
Service
Renew
Mtce
Rates

### Submission Part 3 – response to IPART questions

1. To what extent does the Local Government Cost Index reflect changes in councils' costs and inflation? Is there a better approach?
   - Note approach in Part 2 to separately index the ad valorem component by annualised cost for asset maintenance and renewal, moderated by AO-induced changes in asset valuation
     1. if LGCI does apply, then civil construction, plant and contract costs should reflect relative council cohort disadvantage in freight, skills and contract supply etc
     2. labour costs should reflect known award and super movements in advance
   - Note approach in Part 2 to separately index the base/minimum rate component with LGCI
   - While the mix of components in the LGCI may be notionally appropriate, it is suggested each should be subject to a discrete moving index (say over three years to smooth out risk of bill shock), and assigned to each council cohort, so that
     1. labour costs reflect known award and super movements in advance
     2. financial effect of emergency services levy (ESL) is stripped out and separately calculated by council cohort (if a separate ESL charge is not introduced)
     3. movement in insurance costs moderated by advice from local government insurance pools and mutuals
     4. movement in electricity and fuel market forecasts are captured
     5. other indices should reflect the nearest capital city for those council cohorts (eg Sydney, Canberra, Brisbane, Melbourne)
2. What is the best way to measure changes in councils' costs and inflation, and how can this be done in a timely way?
   - Refer response to Q1
   - Three-yearly survey of council cohort costs (perhaps through joint organisations) to record ranges of cost movements for the LGCI major cost components, and recalibrate per cohort
   - The LGCI point of determination may be June 30 of previous FY to draw on movement in three year average, to apply from 1 July the next FY
3. What alternate data sources could be used to measure the changes in council costs?
   - Refer Part 2 Submission
     1. utilise the annualised renewal and maintenance expense for general assets (derived from asset management plans and financial plans), as reported respectively in IPPE Note C1-7 and Special Schedule 7
     2. consider a weighted LGCI by OLG Group or cohort to reflect the
        - freight disadvantage (eg distance from metro or regional city as source of skills, contract and supplies)
        - skills disadvantage (eg access to skills, premiums applicable to short term staff or consultants)
        - rating capacity disadvantage (eg historically low rate base, impacted by demographic change, economic/mining change, rental vacancy)
        - obligations to fill the void (eg providing services and accommodation to house critical public workers eg health)
        - exposure to competitive construction stimulus such as mines, SAP, Snowy 2.0, Aerotropolis
        - nett cost of administering State legislation should be a feature of setting the rate peg
        - additional loads on assets due to non-ratepaying beneficiaries (eg tourists, freight).

   iii. the above data may be normalised utilising annual LGGC average costs per service, modified to council cohorts rather than state-wide averages. While these may feature in weightings by LGGC in FAG calculations, the value may be best disclosed and calibrated in the peg settings

4. Feedback on the population factor in the rate peg methodology.
   - Refer Part 2 Submission
   - Per findings in IPART Report: councils' costs increase with population growth; rural councils face population related issues that cannot be solved through (that) review; rates revenue has not kept pace with population growth
   - The discounting of any general rate increase from a population peg through deduction of supplementary levies from new assessment should cease as
     i. rate growth by generation of assessments supports the ongoing maintenance and renewal of assets; while the population peg supports the extension of services to a growing demographic
     ii. provides transparency and certainty to councils and community of the nature and value of rate increases
5. How can the rate peg methodology best reflect improvements in productivity and the efficient delivery of services by councils?
   - Refer Part 2 Submission
     i. Councils establish policy decisions identifying certain public services as a CSO, and the nett costs of which are to be recovered by the base/minimum rate and supported by relevant grants, noting
        - public and private benefit services are differentiated and published
        - pricing policies articulate the mode of recovery of costs for private benefit services (ie market, full cost recovery, part cost recovery, incentive, regulatory, penalty etc)
        - relevant service statements, recoveries and associated performance measures are published and reported within Integrated Planning and Reporting (IPR), and monitored by Audit Risk and Improvement Committee
   - An automatic 0.2% productivity factor discounted from the annual rate peg, should be abolished
   - A productivity component may be incorporated into council SRV applications
6. What other external factors should the rate peg methodology make adjustments for?
   - Refer Part 2 Submission
     i. Changes in asset maintenance and renewal (ie depreciation) expenses by council cohort, including as consequence of grant funded and development gifted assets
     ii. Changes in Government policy with regard to devolved regulatory or policy agenda programs for delivery by local councils, that are not fully offset by ongoing grant funding or fee recovery
     iii. Nett costs to councils as consequence of cashflowing or underestimating or underfunding reinstatement of assets as part of disaster recovery
7. Has the rate peg protected ratepayers from unnecessary rate increases?
   - Refer Part 2 Submission
     i. Yes. Councils have generally matched expenses (on assets and services) to available funding generated by the rate peg

    ii. This points to the Accountability and Transparency of councils in profiling assets and services, and setting acceptable rating and pricing paths for their respective maintenance and delivery
    iii. There is likely a continuing inconsistency in local councils' appetite and approach to capturing real cost (with attributions) to then appropriately apportion rates and fees recoveries

8. Has the rate peg provided councils with sufficient income to deliver services to their communities?
    - No. Refer Part 2 Submission
        i. Dependent on the foundation of the original LGA general rate base, the imposition of rate pegging, emergency service levies and unsubsidised pension rebates has eroded local government's ability to deliver the gamut of services and assets expected (by community survey and Community Strategic Plan)
        ii. Fundamental to the legislated responsibilities of councils is to match revenues and expenses, be financially sustainable and invest responsibly in infrastructure.
        iii. The evidence of 165 SRV applications over 10 years, with 70% of councils applying more than once, for the purposes of 'financial sustainability' and 'asset backlog' for example, would signal the rate peg is inadequate to provide councils with sufficient income
9. How has the rate peg impacted the financial performance and sustainability of councils?
    - Refer Part 1 Submission
        i. Based on OLG data, the majority of councils are producing consolidated operating deficits, with nearly all producing General Fund annual deficits, and trend lines deteriorating
        ii. The frequency of recent natural disasters has narrowed community focus on the condition of assets, and an expectation of improved maintenance performance
        iii. Local government is the nursery of skills in the development and construction sectors. The migration of skilled workers out of local government (and regions) is bearing a higher cost of employment of staff or contractors/consultants
        iv. Consequently, council's reputation (in part) plays a part in community views on proposals to increase rates by SRV
        v. The size of SRVs are growing towards 100%
        vi. Certainty of revenue growth (say through a three year rolling peg average and population peg) smooths out bill shock
10. In what ways could the rate peg methodology better reflect how councils differ from each other?
    - Refer Part 2 Submission
        i. Reimagine council classifications from OLG groups to 'cohorts' that are subject to different growth, distance and cost profiles (metro, coast, regional city, regional, rural, remote)
        ii. Establish an 'asset peg' and 'service peg' by cohort, utilising the metrics outlined in Submission Part 2
        iii. In much the same way, the 'population peg' differentiates councils by growth
11. What are the benefits of introducing different cost indexes for different council types?
    - Refer above
12. Is volatility in the rate peg a problem? How could it be stabilised?
    - Refer response to Q1
    - The issue is the volatility in the gap between peg settings and nett costs (refer earlier comments on TCorp)

- Similar volatility in utility markets (particularly sectors subject to carbon or fossil fuel politics) has made a nonsense of modest falls in energy prices in the year of rate peg estimation, only for those values to be blown away by extravagant increases in the year of the rate peg application. With reference to Attachment 1 sample cost escalations, some member council energy costs (even with a PPA) are now forecast to rise 300% (QPRC)

13. Would councils prefer more certainty about the future rate peg, or better alignment with changes in costs?
    - Both. Refer response to Q2, Q3, Q6 and Q12
14. Are there benefits in setting a longer term rate peg, say over multiple years?
    - Yes. Councils may prepare their financial plans on 'known' rate peg movements (subject to decisions on setting an asset and service rate peg), and model scenarios with changes to asset standards, public benefit services, and levels of service that may be subject to respective SRVs or pricing paths for private benefit services
15. Should the rate peg be released later in the year if this reduced the lag?
    - Yes. Notwithstanding requests in this submission for three rolling rate pegs, advice to councils by March each year may improve the certainty of income and equivalence to most frequent indexed changes to costs
16. How should we account for the change in efficient labour costs?
    - Draw on data available to the sector, including
        i. labour costs reflect known award and super movements
        ii. movement in employment insurance costs moderated by advice from local government insurance pools and mutuals
        iii. skills disadvantage by council cohort (eg access to skills, distance from metro, market premiums applicable to short term staff or consultants)
17. Should external costs be reflected in the rate peg methodology and if so, how?
    - By survey, council cohorts may elicit the nett cost (through underfunding) of public and private programs devolved by Government, with the change in that annualised cost becoming a feature of the three year rolling average
    - Similarly, the nett cost of underfunded projects prompted by grant stimulus or natural disaster grants, may feature as an element in the methodology. In this case 'grant stimulus' means projects and programs that were not proposed within council asset or service plans, or forecast in the financial plans, but were introduced through agency or local member initiative
    - Nett costs of maintenance and renewal of assets that are the subject of transfer of ownership to Government (eg regional roads and emergency service facilities)
18. Are council-specific adjustments for external costs needed, and if so, how could this be achieved?
    - See above
19. What types of costs which are outside councils' control should be included in the rate peg methodology?
    - There has been significant narrative in the sector on 'cost shifting' - the introduction of legislation or regulation to meet the government's social or environmental policy agenda, then imposing the delivery of those ideals through underfunded or unfunded regulatory services mandated for delivery by local councils. In many circumstances, Government mandates the fees below cost or without regulatory impact assessments, and with little scope for indexation.
    - Those nett costs, or annualised change in nett costs, should feature in rate peg calculations
    - While both Governments bear the broader cost of response and recovery associated with natural disasters, the nett cost (to councils) of those, and other undeclared events that occur

(storms, floods) that redirect resources and impede normal asset and service regimes, should also be considered in peg methodology or as a streamlined process for SRV.

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?
    - Ideally most taxation systems are premised on simplicity, transparency, ease of administration etc. As councils need to illustrate consideration of the various principles of revenue raising (capacity to pay, beneficiary, intergenerational, community service obligation), perhaps in converse, the rate peg methodology published by IPART may delineate the peg performance against those principles (capacity to pay, intergenerational equity etc)
    - Refer also to Submission Part 2, 2 vii on LV value share

# Attachment 1 – CRJO Councils Datasheet

| | | Council | BVSC | ESC | GMC | HC * | QPRC * | SMRC * | SVC * | ULSC | WWCC | WSC | YVC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| * merged council May 2016 | | subregion | coast | coast | table | table | city | alpine | alpine | table | city | table | table |
| | | Group | 4 | 4 | 4 | 11 | 4 | 4 | 11 | 10 | 4 | 4 | 11 |
| | | | | | | | | | | | | | |
| Population | Census | 2016 | 33253 | 37232 | 29609 | 18498 | 56027 | 20218 | 14395 | 7695 | 62385 | 47882 | 16142 |
| | | 2021 | 35942 | 40593 | 32053 | 19254 | 63304 | 21666 | 14891 | 8514 | 67609 | 52709 | 17281 |
| | change | 5 yr % | 8.1% | 9.0% | 8.3% | 4.1% | 13.0% | 7.2% | 3.4% | 10.6% | 8.4% | 10.1% | 7.1% |
| Operating Costs | | | | | | | | | | | | | |
| **Nett Operating Cost ($,000)** | Governance | 2016 | -1547 | 1,038 | 263 | | | 1554 | 585 | 691 | 1817 | -1316 | 162 |
| **Special Schedule 1* | Administration | 2016 | -1189 | 927 | 9242 | | | 9541 | 2136 | 1978 | 17723 | 12725 | 2,668 |
| *(non-capital only)* | Public Order & Safety | 2016 | -821 | 2,820 | 837 | | | 634 | 518 | 508 | 1040 | 2344 | 882 |
| | Health | 2016 | -242 | 445 | 384 | | | -8 | 101 | 141 | 1065 | 0 | 334 |
| | Environment (ex Waste) | 2016 | -154 | 4,162 | -101 | | | -1213 | 285 | 364 | 3027 | -129 | 3,221 |
| | Community Services | 2016 | -682 | 8,004 | 457 | | | 473 | 345 | 127 | 580 | 176 | 491 |
| | Housing & Community Amenities | 2016 | -3145 | 6,260 | 1102 | | | 1623 | 874 | 700 | 3027 | -185 | 2,322 |
| | Recreation and Culture | 2016 | -3750 | 10,022 | 4758 | | | 3208 | 3502 | 1390 | 14452 | 8143 | 2,269 |
| | Mining & Construction | 2016 | -5640 | 645 | 50 | | | 33 | 701 | 30 | -402 | 962 | 0 |
| | Transport & Communication | 2016 | -4493 | 22,615 | 6115 | | | 5881 | 3908 | 2395 | 34074 | 12641 | 11,150 |
| | Economic Affairs | 2016 | -630 | 6,446 | 749 | | | 283 | 1241 | -156 | -846 | -1799 | 989 |
| | **TOTAL** | 2016 | -22293 | 61530 | 23856 | 0 | 0 | 22009 | 14196 | 8168 | 75557 | 33562 | 24488 |
| | | | | | | | | | | | | | |
| **Nett Operating Cost ($,000)** | Governance | 2021 | -931 | 2,087 | 340 | | | | 0 | 1456 | 1552 | 1371 | 239 |
| **FDR* | Administration | 2021 | -18311 | 11 | 12594 | | | 98005 | 6959 | 3321 | 20945 | 18872 | 5,917 |
| *(non-capital only)* | Public Order & Safety | 2021 | -1493 | 5,025 | 1315 | | | | 3293 | 815 | 1512 | 1751 | 1,237 |
| | Health | 2021 | -45 | 425 | 615 | | | | 51 | 221 | 829 | 0 | 502 |
| | Environment (ex Waste) | 2021 | -1306 | 4,361 | -230 | | | | -1062 | 292 | 3184 | 2015 | 3,452 |
| | Community Services | 2021 | -328 | 9,703 | 750 | | | | 635 | 57 | 856 | 228 | 0 |
| | Housing & Community Amenities | 2021 | -1801 | 3,501 | 1650 | | | | 1333 | 875 | 3880 | 879 | 2,154 |
| | Recreation and Culture | 2021 | -7108 | 17,386 | 7250 | | | | 2341 | 1656 | 17330 | 2964 | 2,257 |
| | Mining & Construction | 2021 | 277 | 3,602 | 0 | | | | 363 | 114 | -529 | 831 | 9 |
| | Transport & Communication | 2021 | 3463 | 33,161 | 9875 | | | | 1296 | 4115 | 30441 | 13341 | 10,662 |
| | Economic Affairs | 2021 | -769 | 5,698 | 980 | | | | -1132 | -9 | -1945 | -1063 | 1,803 |
| | **TOTAL** | 2021 | -28352 | 84938 | 35139 | 0 | 0 | 98005 | 14077 | 12913 | 78055 | 41189 | 28232 |
| | | | | | | | | | | | | | |
| **Per Capita ($,000)** | | 2016 | -0.670 | 1.653 | 0.806 | 0.000 | 0.000 | 1.089 | 0.986 | 1.061 | 1.211 | 0.701 | 1.517 |
| | | 2021 | -0.789 | 2.092 | 1.096 | 0.000 | 0.000 | 4.523 | 0.945 | 1.517 | 1.155 | 0.781 | 1.634 |
| | change | % | 17.7% | 26.6% | 36.1% | #DIV/0! | #DIV/0! | 315.5% | -4.1% | 42.9% | -4.7% | 11.5% | 7.7% |

| | | Council | BVSC | ESC | GMC | HC * | QPRC * | SMRC * | SVC * | ULSC | WWCC | WSC | YVC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | subregion | coast | coast | table | table | city | alpine | alpine | table | city | table | table |
| | | Group | 4 | 4 | 4 | 11 | 4 | 4 | 11 | 10 | 4 | 4 | 11 |
| **Rates** | | | | | | | | | | | | | |
| **Special Schedule ($,000)** | Total permissible general rates income | 2016 | 22105 | 25,433 | 17698 | | | 14885 | 7701 | 6554 | 38677 | 33517 | 7,649 |
| *general rates* | Total permissible general rates income | 2021 | 25307 | 31,745 | 20908 | | | 31301 | 9029 | 7589 | 46953 | 52588 | 11,305 |
| | **change** | % | 14.49% | 24.82% | 18.14% | #DIV/0! | #DIV/0! | 110.29% | 17.24% | 15.79% | 21.40% | 56.90% | 47.80% |
| | | | | | | | | | | | | | |
| | **TOTAL NOC less TOTAL PGRI** | 2016 | -44398 | 36097 | 6158 | 0 | 0 | 7124 | 6495 | 1614 | 36880 | 45 | 16839 |
| | **TOTAL NOC less TOTAL PGRI** | 2021 | -53659 | 53193 | 14231 | 0 | 0 | 66704 | 5048 | 5324 | 31102 | -11399 | 16927 |
| | **change** | % | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | Supp levy value raised in period: 2016-2021 | $,000 | 351 | 710 | 1237 | | | | | | | 2453 | |
| | | | | | | | | | | | | | |
| | SRV value raised in period: 2016-2021 | $,000 | 32679 | 4890 | | | | | | | 7692 | 13699 | 2,304 |
| | | | | | | | | | | | | | |
| **Per Capita ($,000)** | | 2016 | 0.665 | 0.683 | 0.598 | 0.000 | 0.000 | 0.736 | 0.535 | 0.852 | 0.620 | 0.700 | 0.474 |
| | | 2021 | 0.704 | 0.782 | 0.652 | 0.000 | 0.000 | 1.445 | 0.606 | 0.891 | 0.694 | 0.998 | 0.654 |
| | **change** | % | 5.9% | 14.5% | 9.1% | #DIV/0! | #DIV/0! | 96.2% | 13.3% | 4.7% | 12.0% | 42.5% | 38.1% |
| | | | | | | | | | | | | | |
| | **ad valorem yield** | 2016 | | | | | | | | | | | |
| | | 2021 | | 13,499 | | | 26,951 | | 7,107 | | | | |
| | **base rate yield** | 2016 | | | | | | | | | | | |
| | | 2021 | | 18,246 | | | 13490 | | 1932 | | | | |
| **Assets** | | | | | | | | | | | | | |
| **Special Schedule ($,000)** | required maintenance | 2016 | 13955 | 10,695 | 8825 | | | 8082 | 3247 | 4313 | 10566 | 10829 | 5,576 |
| *general infrastructure assets* | actual maintenance | 2016 | 18980 | 10,695 | 9094 | | | 6561 | 2862 | 4573 | 11973 | 9348 | 5,464 |
| *(ex water, sewer, waste)* | **gap** | $ | -5025 | 0 | -269 | 0 | 0 | 1521 | 385 | -260 | -1407 | 1481 | 112 |
| | required maintenance | 2021 | 21120 | 12,247 | 7204 | | | 1415 | 9089 | 7331 | 20083 | 11125 | 3949 |
| | actual maintenance | 2021 | 19190 | 11,438 | 8912 | | | 9293 | 9089 | 7066 | 11785 | 15909 | 3965 |
| | **gap** | $ | 1930 | 809 | -1708 | 0 | 0 | -7878 | 0 | 265 | 8298 | -4784 | -16 |
| **Note C1-7 ($,000)** | depreciation | 2016 | 12840 | 17,020 | 12771 | | | 10033 | 7140 | 4937 | 30445 | 16207 | 5161 |
| **Special Schedule ($,000)** | renewals | 2016 | 9756 | 24,648 | 8792 | | | 3870 | 9718 | 7580 | 11261 | 11976 | 3366 |
| *general infrastructure assets* | **gap** | $ | 3084 | -7628 | 3979 | 0 | 0 | 6163 | -2578 | -2643 | 19184 | 4231 | 1795 |
| *(ex water, sewer, waste)* | depreciation | 2021 | 17633 | 21,791 | 17087 | | | 12996 | 8143 | 6014 | 33841 | 20231 | 6866 |
| | renewals | 2021 | 48535 | 27,204 | 23985 | | | 4585 | 18174 | 12820 | 29165 | 26771 | 6576 |
| | **gap** | $ | -30902 | -5413 | -6898 | 0 | 0 | 8411 | -10031 | -6806 | 4676 | -6540 | 290 |
| **Note C1-7 ($,000)** | additions new/upgrade | 2016 | 5055 | 8,655 | 5553 | | | 886 | 2181 | 0 | 19073 | 14147 | 8094 |
| **Note B2-4 ($,000)** *(ex FAG)* | capital grants & contributions | 2016 | 3611 | 6,855 | 3183 | | | 4869 | 153 | 1593 | 15160 | 12420 | 5862 |
| *(ex water, sewer, waste)* | **gap** | $ | 1444 | 1800 | 2370 | 0 | 0 | -3983 | 2028 | -1593 | 3913 | 1727 | 2232 |
| | additions new/upgrade | 2021 | 17112 | 39,220 | 36446 | | | 0 | 2273 | 0 | 41382 | 28653 | 17868 |
| | capital grants & contributions | 2021 | 30941 | 55,917 | 22354 | | | 9775 | 10718 | 7305 | 43148 | 29360 | 13126 |
| | **gap** | $ | -13829 | -16697 | 14092 | 0 | 0 | -9775 | -8445 | -7305 | -1766 | -707 | 4742 |

| | | Council | BVSC | ESC | GMC | HC * | QPRC * | SMRC * | SVC * | ULSC | WWCC | WSC | YVC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | subregion | coast | coast | table | table | city | alpine | alpine | table | city | table | table |
| | | Group | 4 | 4 | 4 | 11 | 4 | 4 | 11 | 10 | 4 | 4 | 11 |
| Ratios | operating performance ratio % | 2016 | 2.78 | 8.07 | -4.08 | | | xx | 4.0 | 13.01 | -18.92 | -1.59% | -13.67% |
| **Note G5-2** | operating performance ratio % | 2021 | 3.52 | -5.66 | -3.4 | | | -43.27 | -4.9 | -8.64 | -10.08 | -2.23% | -5.10% |
| *(general fund)* | own source revenue ratio % | 2016 | 1.29 | 66.2 | 66.59 | | | xx | 70.0 | 65.28 | 60.34 | 73.38% | 61.11% |
| | own source revenue ratio % | 2021 | 42.99 | 50.24 | 48.74 | | | 54.22 | 45.1 | 52.79 | 57.33 | 67.40% | 49.75% |
| | unrestricted current ratio % | 2016 | 1.29 | 2.68 | 494 | | | xx | 5.3 | 6.40 | 2.51 | 5.4 | 204% |
| | unrestricted current ratio % | 2021 | 0.93 | 2.43 | 269 | | | 2.27 | 2.8 | 2.30 | 2.56 | 4.67 | 336% |
| | debt service ratio % | 2016 | 6.12 | 4.91 | | | | xx | 6.2 | 22.37 | -1.05 | 7.93 | 83% |
| | debt service ratio % | 2021 | 4.92 | 3.45 | | | | -6.87 | 3.6 | 5.75 | 4.97 | 8.69 | 322% |
| | | | | | | | | | | | | | |
| **Special Schedule** | buildings & infrastucture renewals ratio % | 2016 | 65.93 | 119.71 | 68.32 | | | xx | 1.4 | 148.04 | 32.06 | 87.62% | 85.32% |
| *general infrastructure assets* | buildings & infrastucture renewals ratio % | 2021 | 106.72 | 130.92 | 140.37 | | | 161.46 | 1.7 | 107.96 | 86.45 | 104.78% | 118.02% |
| *(ex water, sewer, waste)* | infrastructure backlog ratio % | 2016 | 0.94 | 8.51 | 3.22 | | | xx | 1.0 | 1.55 | 39.41 | 1.48% | 4.59% |
| | infrastructure backlog ratio % | 2021 | 2.99 | 7.82 | 1.55 | | | 0.03 | 1.0 | 8.51 | 25.44 | 1.66% | 1.56% |
| | asset maintenance ratio % | 2016 | 2.15 | 100 | 103 | | | xx | 91.0 | 106.00 | 113.00 | 0.86% | 98.00% |
| | asset maintenance ratio % | 2021 | 136.01 | 94.43 | 123.71 | | | 0.66 | 100.0 | 120.86 | 58.68 | 143% | 100.38% |

## Sample Cost Escalations

| | | | | | | |
|---|---|---|---|---|---|---|
| **Escalation (examples)** | Utilities (energy, telecoms) | % | | | 57.5% | 2.49 |
| *(2020-2022 %)* | Fuels | % | | 14% | 28.6% | 36.33 |
| | Employment | % | | 18% | 15.6% | 16.35 |
| | Road maintenance/construction materials | % | | 43.9% | 25.0% | |
| | Buildings maintenance/construction materi | % | | 11.6% | 12.0% | |

Figure 2.1 Main cost components in the LGCI and weights as at end June 2021

| | |
|---|---|
| 38.6% | Labour |
| 26.9% | Road and bridge construction |
| 6.2% | Business services, including administrative services |
| 4.9% | Non-residential building construction |
| 3.0% | Plant and equipment – machinery |
| 2.3% | Utilities (electricity, gas, and water) |
| 2.1% | Operating contracts |
| 1.5% | Emergency services levy |
| 1.2% | Insurance |

## Attachment 2 – Alternate Rating and Reporting Model