CANBERRA REGION
JOINT ORGANISATION

crjo.nsw.gov.au • PO Box 66 QUEANBEYAN NSW 2620

3 July 2023

IPART NSW
PO Box K35
HYMARKET POST SHOP
NSW 1240

Via website: www.ipart.nsw.gov.au

Dear Sir/Madam,

Re: CRJO Submission - IPART Review of Rate Peg Methodology June 2023

The Canberra Region Joint Organisation (CRJO) comprises 11 LGAs adjacent to the Australian Capital Territory and Victorian borders and the Sydney basin, with diverse topographic (coastal, alpine, and tablelands environs), demographic (indigenous, migrant, aged and family cohorts) and economic (agricultural, forestry, fishing, government, energy, manufacturing, tourism and special activation) characteristics. The region is extraordinarily vulnerable to natural disasters. The SEIFA rankings of the LGAs reflect the equivalent spectrum of wealthy metro and poor rural councils, with several member councils bearing the cost of services or facilities that should be those of government or private sector (health, aged care). The planned growth, revenue raising capacity and financial sustainability of many CRJO councils remain at risk.

The CRJO acknowledges the depth of analysis and the breadth of stakeholder engagement by IPART in the rate peg methodology review and applaud the learnings and recommendations by IPART outside the brief – particularly the recognition of issues such as the emergency services levy, granted and gifted assets, underfunded regulatory and development costs, cyber security, the rating system and the ongoing funding model for local government in NSW. We hope the proposed mitigation of the LGCI and other lags, together with the split timing of rate peg announcements, will improve certainty for the sector.

At the outset, we note the proposed base cost proposal (illustrated in charts) would generally produce a better (initial) rate peg for most councils – and would be difficult for councils not to support.

We acknowledge further work is required and appreciate reference groups are proposed to assist.

While there is broad support for the proposed base cost (BCC), new factors and groupings of councils, we will present differing views on the population factor and requirements for special variations. We revisit several elements of the initial CRJO submission to the Review, particularly suggesting alternate rating models, mechanisms to ease the historic underfunding of member councils, improvements to the consistency of classification and reporting of local government costs, and clarification of data and reporting responsibilities of State agencies (Office of Local Government, Grants Commission, Audit Office).

This submission is segmented to respond to the nine questions posed by IPART, as well as commentary on the discussion points in the Paper. Where IPART proposals are supported, or suggestions put by the CRJO, they are highlighted in *italics*.

IPART Review of Rate Peg Methodology June 2023

1 Response to questions – Canberra Region Joint Organisation

We are seeking comment on:

1. **What are your views on using one of the following options to measure changes in employee costs in our Base Cost Change model? How can we manage the risks associated with each option when setting the rate peg?**
    a. Use annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies, adjusted to reflect any change in the superannuation guarantee rate.
    b. Use the Reserve Bank of Australia's forecast change in the Wage Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies), adjusted to reflect any change in the superannuation guarantee rate.

Response

- Like many local councils, the services and asset maintenance profiles of our members tend to be labour intensive (~40%), while capital works tend to be biased towards contracts and suppliers. Overall, the employment cost component of most member councils' annual budgets is in the order of 28-35%. Some councils have signalled a preference for the full value of Award increases to pass through to the rate peg (ie 2.5% Award increase), noting in its simplest and most transparent form, say 30% of that 2.5% (0.75%) would factor in the rate peg. In real terms, that would equate to a sample council with a $100m budget and $30m employment cost, receiving a 0.75% ($225k) rate peg uplift, compared to an increased wage bill of 2.5% ($750k) – noting part of that wage bill is supported by grants and other revenues.
- It is important to acknowledge a council is unlikely to seek a special variation for higher employment costs, and that proposition is most unlikely to be supported by ratepayers. Therefore, it is important that significant cost factor is reflected generously in the rate peg.
- Most councils utilise a 'salary system' as a tool to appropriately attract, remunerate and retain skills to their organisation. The LG Award is often the 'base', setting the entry and allowance levels for the various operational, administrative, trade, specialist and professional banded roles. The Award is effectively negotiated between an elected member (LGNSW) and union (USU) body – once endorsed through the Commission, the annual indices is known for up to 3 years and minimises the impact of lag. Typically, the Award increments are published before the proposed indicative rate peg each year.
- Due to the competition for skills with the adjacent ACT and Commonwealth Governments in the Canberra Region, many member councils pay a wage premium above Award.

We support use of the 2-factor approach (use of the LG Award, and in its absence, the RBA's Wage Price Index; as well as movements in superannuation guarantees) as it is simpler and mitigates concerns with the lag. However, we note it is even less able to reflect regional differences. We suggest the employee cost factor in the BCC may be differentiated by the proposed council groupings (metro, regional, rural), with a weighting to reflect the difficulty in attracting/retaining skills in regional and rural areas, and the wage premiums often required.

It is suggested a wage premium value (such as paid by CRJO members) be attributed as a 'productivity' factor.

2. Are there any alternative sources of data on employee costs we should further explore?

Response

We are satisfied the proposed data sources are the most common and reliable available for the sector, without IPART appraising individual council's circumstances.

3. Do you support releasing indicative rate pegs for councils in September, and final rate pegs that are updated for councils' Emergency Services Levy contributions in May?

Response

- Most councils' draft budgets are premised on their Delivery Program and December quarterly budget review statements (from January). An indicative rate peg published in September would assist that timing.
- The release of pegs should be timed around election cycles.
- In the Canberra Region, natural disasters typically occur in the period between the proposed release of indicative and final rate pegs. That may coincide with extra-ordinary claims for funding gaps in disaster works of councils, or ESL subsidy by Government, which may escape the gaze of IPART.

The staged release of the rate peg to accommodate the ESL is supported.

4. Do you have further information on arrangements between councils to share Emergency Services Levy (ESL) contribution bills including:

   a. what these arrangements cover (including whether they cover matters other than ESL contributions), and
   b. whether they apply to Rural Fire Service, Fire and Rescue NSW and NSW State Emergency Service ESL contributions, or contributions for only some of those services?

Response

- Refer to member council contributions information issued separately to IPART on this matter
- All member councils pay a contribution to each emergency agency
- CRJO councils would be classified as 'regional' and 'rural' under IPART's proposed groupings. Accordingly, they all support Fire and Rescue NSW, Rural Fire Service and State Emergency Service – through the ESL, their 'additional' contribution through insurance premiums, and provision of plant and facilities.
- IPART is referred to the current dispute with the NSW Audit Office and local councils, regarding accounting for emergency assets that remain under control of the Government but accounted for (and depreciated) by our councils. Attached is a paper by Regional Cities NSW that outlines those concerns.

5. **Would councils be able to provide us with timely information on the actual ESL contribution amounts they pay including contribution amounts paid to the:**
    a. Rural Fire Service
    b. Fire and Rescue NSW
    c. NSW State Emergency Service? For example, by providing us with a copy of any cost sharing agreement that sets out the proportion that each council pays.

Response

- It is suggested that IPART seek a summarised version of each local council agreements per agency, each year, for reference with the particular rate peg factor.
- Moreover, it is suggested IPART seek a foundation-setting summary table from each council outlining the capital value of emergency assets held on their respective Statement of Financial Position (Balance Sheet), and the annual value of depreciation of those assets and any net costs of maintenance borne by councils, impacting operating results on their Income Statement.

To assist council-specific adjustments to the rate peg by IPART to account for the impact of the ESL, our member councils would provide relevant information to IPART from the cost sharing agreements with the emergency agencies.

6. **Would you support IPART establishing a process to develop adjustment factors for groups of councils to increase the rate peg to cover specific external costs?**

Response

- As referenced in other responses, our Canberra Region local councils are diverse and subject to the full spectrum of changes to population, climate, asset resilience and financial sustainability. Several also sponsor services and facilities that would normally be the domain of other Government or private sector (essential worker accommodation, health clinics, aged care and childcare for example).
- In addition, the delivery of regulatory activity initiated by Government policy, and underfunded in the cost recovery of those programs by mandated fees, is more pronounced in regional and rural areas *without* population scale but *with* distance disadvantage.
- Similarly, grant funded programs are unfortunately often cost and time underestimated (by agencies and councils), leaving funding gaps (or lesser scope) to be borne by the local council.
- As noted in the IPART paper, those programs and facilities are outside the normal expectations of local councils and divert scarce resources from traditional local government services. IPART also noted the funding gap between regulated services and fee recoveries, and the impact of underfunding asset and service recovery following natural disasters.
- As suggested later in this submission (*funding model*), should local councils retreat their service offer to fundamental operations, maintenance and renewal of existing assets (per ratios); to tax-funded (rates, grants) public (CSO) and shared benefit services, and full fee-funded private and market services as published in their respective Revenue Policies; and then to mandated regulatory activity to the extent of fee recovery only - then in many circumstances the general rate yields would perhaps be sustainable.

It is suggested IPART also consider specific adjustment factors for councils based on joint organisations or ROCs, with geographically and economically similar profiles, and much of the templated data may be conveniently collated by those groups for delivery to IPART.

The proposal to establish a process to differentiate costs to guide adjustment factors for groups of councils is supported.

7. Would you support measuring only residential supplementary valuations for the population factor?

Response

- The view expressed by the CRJO in its initial submission to the Rate Peg Review remains unchanged:
  - the ABS Estimated Resident Population (rather than DPE forecasts) should guide the population factor of the rate peg, as growth in population influences demand for services and operation of facilities
  - the ERP has a lesser lag, with a true up at census cycles
  - growth in property assessments should shape the supplementary levies, as subdivision expands infrastructure networks which the increased general rate yield should then support
  - often the yield from supplementary levies is inadequate to compensate forecast annualised maintenance and depreciation of the new or extended assets from those subdivisions
  - the notion of discounting the population peg by the value of supplementary levies (for the purpose of maintaining 'current' rates per capita) is rejected as many regional councils have been subject to significant growth from historically low rating levels (ie former farming or fishing areas) that were then capped, and progressing an SRV to rebalance to contemporary levels has been politically problematic
- Initial supplementary valuations following subdivision, do not immediately increase land values. Increased income may be generated by change in rate category (and associated AV fraction), or change in base rates levied on the 'child' property/ies. All property LVs are adjusted following cyclic LGA revaluations by the Valuer-General
- The position to remove prison population movements from the ERP is noted, however increased population from establishment or expansion of aged care/independent living residential facilities should be retained. Indeed, those facilities should not be subject to ongoing general rate exemptions (particularly independent living), as those residents may continue to utilise councils' assets and services

Continued use of the Estimated Resident Population to guide the population factor is preferred.

The use of the population factor to compensate councils for the costs associated with population decline, should be considered in a future review into the financial model for councils.

The deduction of supplementary levies from the population peg should be discontinued, or as a minimum, that deduction be discontinued through a special adjustment where individual councils demonstrate the general income gained by supplementary levies are (say) 75% offset by new or increased costs to operate, maintain and depreciate infrastructure established with those developments.

If you supported using residential supplementary valuations, what data sources would you suggest using?

Response

Refer response to Q7

8. What implementation option would you prefer for the changes to the rate peg methodology

Response

- Integrated Planning and Reporting (IPR) should feature as the preeminent form of community engagement, rather than additional engagement for an SRV or ASV. That may require an improved (including digital) form of engagement.
- Through IPR, a discussion on financial sustainability and asset resilience should feature each council term, with a dedicated section in the LTFP. That discussion could be informed by the previous End of Term Report and State of Infrastructure Report shaped by consistent asset condition and reporting guidance from IPWEA and IIMM (refer previous CRJO submission).
- Should a council scope an increase to general rates in IPR documentation, and that increase be supported by majority through a statistically reliable survey, then that increase may be carried though IPART as a simplified and ringfenced ASV.

Establishment of a local government reference group to advise on the implementation of our new rate peg methodology is supported.

We support the phased implementation over two years, being:

- *implement all changes in the 2024-25 rate peg and include a true-up, including:*
    - *replace the LGCI with the 3-component BCC model and use 3 council groups*
    - *amend the population factor to remove prison populations.*
    - *develop a separate ESL factor, and*
    - *include a one-off true-up adjustment for the differences between the LGCI and the BCC (excluding the ESL) so that councils would be no worse off under the new methodology compared to what they would have received under the existing methodology for FY25*
- *refine the ESL factor further with the reference group*
- *changes to the BCC does not inadvertently influence any applications for SRV during implementation*
- *review the rate peg methodology every five years*

2 Response to draft decisions, recommendations and findings

1. To replace the LGCI with a Base Cost Change model with 3 components:

a. employee costs
b. asset costs
c. other operating costs.

Response

The simplification of the LGCI into 3 Base Cost components is supported. As noted in the IPART paper, the larger impactors of costs for local councils cannot be aligned with CPI only, while many of the smaller components of the LGCI bear minor weightings on the rate peg calculations.

We agree the proposed BCC is more reflective of changes in councils' costs than the change in CPI.

2. To develop separate Base Cost Change models for 3 council groups:

a. metropolitan councils (Office of Local Government groups 1,2,3, 6 and 7)
b. regional councils (Office of Local Government groups 4 and 5)
c. rural councils (Office of Local Government groups 8 to 11).

Response

While a five category grouping of councils is preferred (including regional cities and coastal to capture those growth and regions-servicing factors), the proposed three council groupings is supported. Further, those groupings should then be used to recast OLG performance reporting.

3. For each council group, calculate the Base Cost Change as follows:

a. For employee costs, we would use the annual wage increases prescribed by the Local Government (State) Award for the year the rate peg applies, or the Reserve Bank of Australia's forecast change in the Wage Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies). We would adjust for changes in the superannuation guarantee in both cases. We are currently consulting on the best approach to measure changes in employee costs (see Seek Comment

b. For asset costs, we would use the Reserve Bank of Australia's forecast change in the Consumer Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies), adjusted to reflect the average difference between changes in the Producer Price Index (Road and bridge construction, NSW) and changes in the Consumer Price Index (All groups, Sydney) over the most recent 5-year period for which data is available.

c. For other operating costs, we would use the Reserve Bank of Australia's forecast change in the Consumer Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies).

d. Weight the 3 components using the latest 3 years of data obtained from the Financial Data Returns of councils in that group, and update the weights annually.

Response

<u>Employee Costs</u>

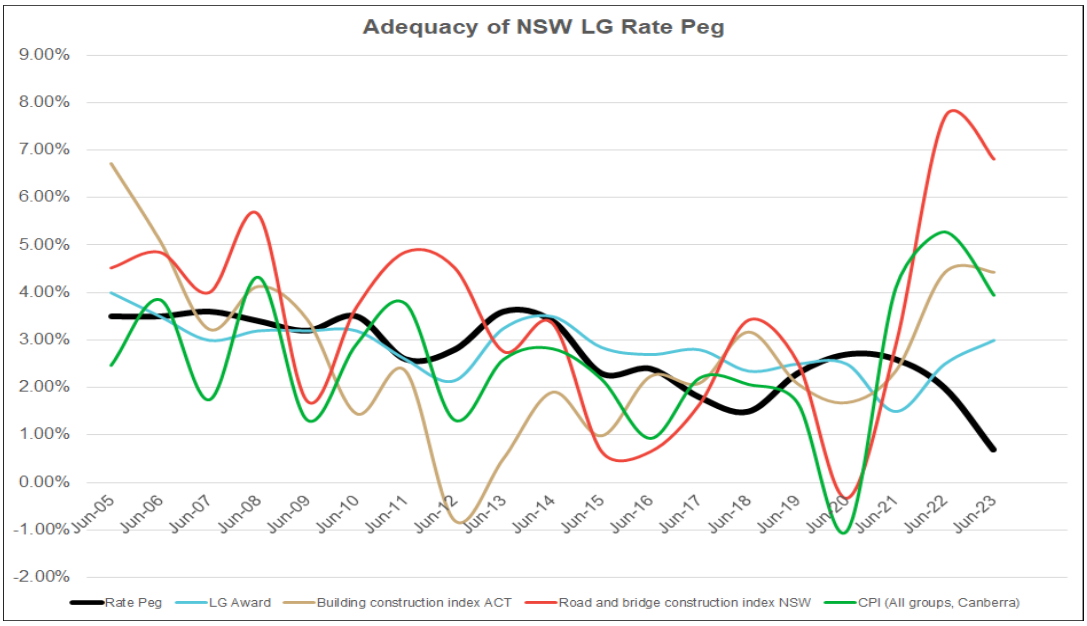
- Most councils utilise a 'salary system' as a tool to appropriately attract, remunerate and retain skills to their organisation. The LG Award is often the 'base', setting the entry and allowance levels for the various operational, administrative, trade, specialist and professional banded roles. The Award is effectively negotiated between an elected member (LGNSW) and union (USU) body – once endorsed through the Commission, the annual indices is known for up to 3 years, and minimises the impact of lag. Due to the competition for skills with the adjacent ACT and Commonwealth Governments in the Canberra Region, many member councils pay a wage premium above Award. It is suggested that value be attributed as a 'productivity' factor.

Use of the LG Award, and in its absence, the RBA's Wage Price Index; as well as movements in superannuation guarantees – is supported.

Asset Costs

- The recognition of the downstream impacts of capital assets acquired or constructed consequent to government grants through infrastructure stimulus and natural disasters; or gifted consequent to private or government development, is important. Several councils face the prospect of underfunded future provisions in operating, maintenance and depreciation. While a special rate variation remains an option to remedy individually, collectively the issue of underfunding infrastructure maintenance and renewals is prevalent in the Canberra region.
- We note IPART's concern with the lag in the PPI (road and bridge construction) but consider that option superior to CPI (refer chart below). *We do, however, suggest individual councils illustrate particular locality-based cost disadvantages they bear in any rate peg adjustments.* Some of that material may also then be utilised with assessment of disability factors with the Grants Commission (refer CRJO initial submission on 'roles').
- We are concerned however the PPI may not adequately capture fluctuations in fuel and energy costs, that significantly influence operations of facilities and maintenance of assets – both fundamental responsibilities of local government. Again, distance is a factor.
- *In line with our initial submission, we urge inclusion of energy price forecasts in the rate peg.*
- We also respect IPART's decision to not incorporate depreciation as a factor in the rate peg. *However, we suggest that with consistent condition and asset financial reporting (as outlined in our initial submission), IPART may rely on depreciation as a proxy for cost growth (above PPI) as an adjustment factor for each grouping of councils.*

Use of the Producer Price Index (road and bridge construction), adjusted on 5-yearly cycle is supported.



Other Costs

The proposed use of CPI and weightings is supported:

- *Use the Consumer Price Index from the most recent Statement on Monetary Policy (averaging the changes over the year to June and December for the year the rate peg applies).*
- *Weight the 3 components using the latest 3 years of data obtained from the Financial Data Returns of councils in that group, and update the weights annually.*

5. **To include a separate adjustment factor in the rate peg methodology that reflects the annual** change in each council's Emergency Services Levy (ESL) contribution. This factor will reflect:
    a. an individual council's contribution, for councils:
    – that are not part of a rural fire district, or
    – that are part of a rural fire district but do not engage in ESL contribution cost sharing arrangements, or
    – are the only council in their rural fire district, or
    – that are part of a rural fire district and engage in ESL contribution cost sharing where we have accurate information about what the council pays.
    b. the weighted average change for each rural fire district, for councils that are part of a rural fire district and engage in ESL contribution cost sharing arrangements where we do not have accurate information about what they pay

Context

Councils generally fund their ESL contribution from their general income and recover this cost through rates. IPART considers that the ESL contribution is a specific external cost that affects all councils, and an obligation all councils must meet. IPART propose to use the most up to date ESL information available when setting the rate peg, noting it is lagged by one year. ESL contribution amounts are not normally known until after 30 April of each year.

Response

- We acknowledge IPART's concerns there may be individual over or under-recoveries of the change in ESL.
- We note IPART assumed some councils are part of rural fire districts and may have entered arrangements with other councils to share the costs of the Rural Fire Service component of the Emergency Services Levy (ESL). They may therefore pay an amount that is different to the ESL contribution set out in their assessment notice. In line with the ESL information provided separately by members to IPART, member councils are not aparty to such arrangements and are levied directly.
- Member councils were subject to significant natural disaster (flood, fire) events in 2019-21. Over 70% of some council's land mass is dominated by national park and state forest – unfortunately often the site of ignition if those disasters. However, as those lands are exempt from rating, the cost of maintaining infrastructure to and through those large tracts of land are borne by councils. In some circumstances, the restoration of infrastructure damaged by those disasters remains unfunded and incomplete. As suggested later in this submission, contributions by government trading enterprises to those costs should be pursued.

We support IPART's proposal to capture individual councils' change in the ESL contribution in the rate peg methodology as a separate, council-specific adjustment factor, so that councils can fully recover the changes in this cost.

7. **Maintain the current approach and make additional adjustments to the rate peg on an as needs basis for external costs.**

Context

IPART noted the concerns raised councils about funding additional requirements and responsibilities outside the control of councils, including operational costs and depreciation that emerge from infrastructure that may be gifted or transferred to councils; costs driven by climate change, natural disaster emergencies and response; facilities underfunded by developer contributions; cyber security and underfunded regulatory changes. Similarly, some member councils sought increases in their rates revenue for the range of services councils provide including health, welfare, and housing services, that would normally be carried by Government.

Response

We support IPART establishing a process to develop adjustment factors for groups of councils to increase the rate peg to cover specific external costs.

We support a review of the special variation process to include streamlining the process, reducing administrative burden on councils and enabling councils to make joint applications. This may include introduction of a trimmed ASV process to enable rate variations supported through the IPR process (refer previous comments).

8. **Change the 'change in population' component of the population factor to deduct prison populations from the residential population in a council area and then calculate the growth in the non-prisoner residential population of a council area for the relevant year. IPART would not make retrospective adjustments for previous population factors.**

Response

Noted and supported.

9. Retain the productivity factor in the rate peg methodology and for it to remain as zero by default unless there is evidence to depart from that approach.

Context
The Review questioned whether there are opportunities for councils to use common services to reduce costs. There may be opportunities for the costs and risk management challenges to be spread across councils. If the NSW Government took a lead in negotiating with key service providers, there could be opportunities to increase efficiency and productivity across the sector. An opt-in would be the most balanced approach to provide the councils the opportunity to bargain together for services.

Response

- The application of productivity to the broader local government sector is vexed. As IPART noted, ratepayers expect evidence of productivity, yet councils maintain productivity is inherently demonstrated by delivering services and assets within the indexed thresholds set by the rate peg and regulatory pricing.
- However, the decade long delay in an upgraded performance reporting framework by OLG, has been usurped by individual councils forming their own metrics, or joining with LG Professionals in the Performance Excellence Program (PRP). Often, productivity may be subject to sieve analysis (unplanned employee absences impacting overtime, LTI and leave entitlement growth for example). It is noted the Audit Office recent report on OLG identified that delay and urged a review of the framework and metrics. In turn, that may assist the shared data gathering between IPART and agencies (refer CRJO initial submission).
- We suggested a new set of performance and rating metrics be considered in a subsequent submission to the first IPART paper.

We do not support the retention of a productivity factor as a tool to reduce the rate peg.

We suggest a template for productivity measures be examined through the reference group, so those measures may be included in future applications for SRV's by councils.

We support the recommendation that the NSW Government explores opportunities across the sector to improve productivity, particularly through service provision of solutions to address key issues facing the local government sector.

10. Review the rate peg methodology every five years, unless there is a material change to the sector or the economy, to ensure its stays fit for purpose.

Response
A cyclic review of the methodology is supported.

3 Draft recommendations:

1. **Establish a local government reference group to advise on the implementation of our new rate peg methodology.**

Response
Establishment of a reference group comprising sector representatives (incl LG Professionals including Finance Professionals, LGNSW, LG Solutions, Joint Organisation and ROC), is supported.

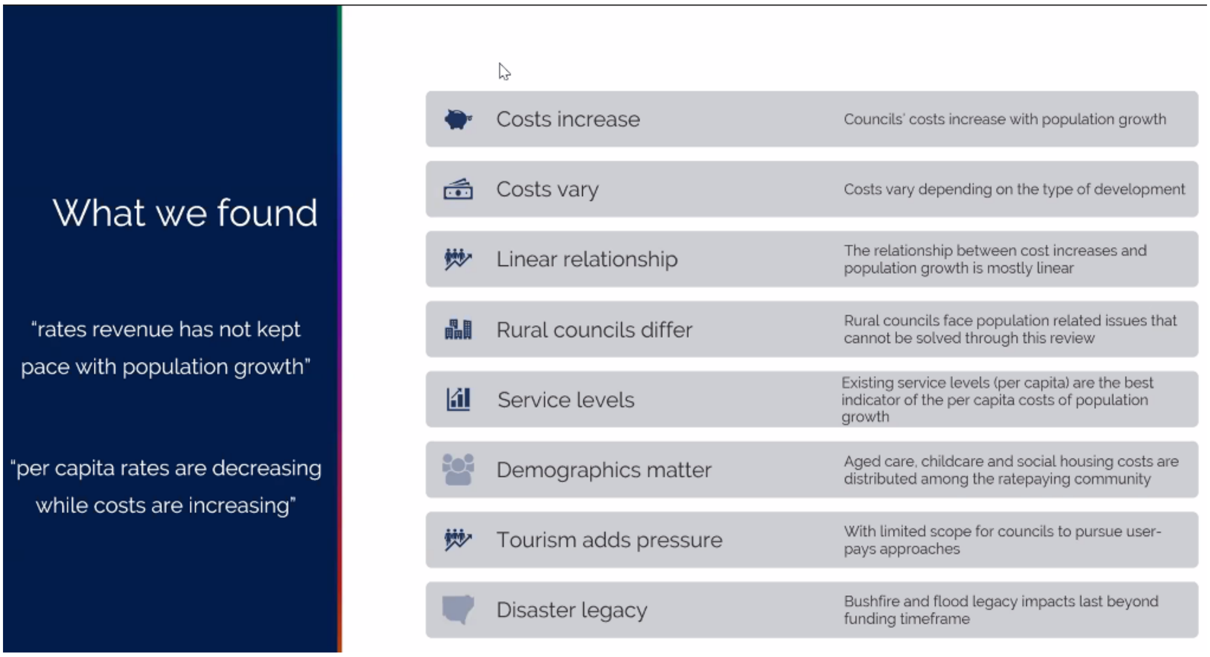
2. **The NSW Government consider commissioning an independent review of the financial model for councils in NSW including the broader issues raised in this report.**

Context
The review of local government by the Independent Panel that shaped 'Destination 2036' drew on the 2006 Allen Review (then citing the $6bn asset backlog and the under-funding of local government)…what's changed? Surely a reflection on those reports and the more recent Productivity Commission and IPART Reviews, continue to point to the chronic underfunding of councils, and the capacity and capability chasm in many regional and rural councils. The sector is now embracing 'resilience' as an expression of survival, rather than an ambition to plan for the future.

IPART noted there would be benefits of reviewing the financial model for councils to ensure improved outcomes for the citizens of NSW and enhance the local government rating system, the local government revenue framework, and the relationships between councils and ratepayers.

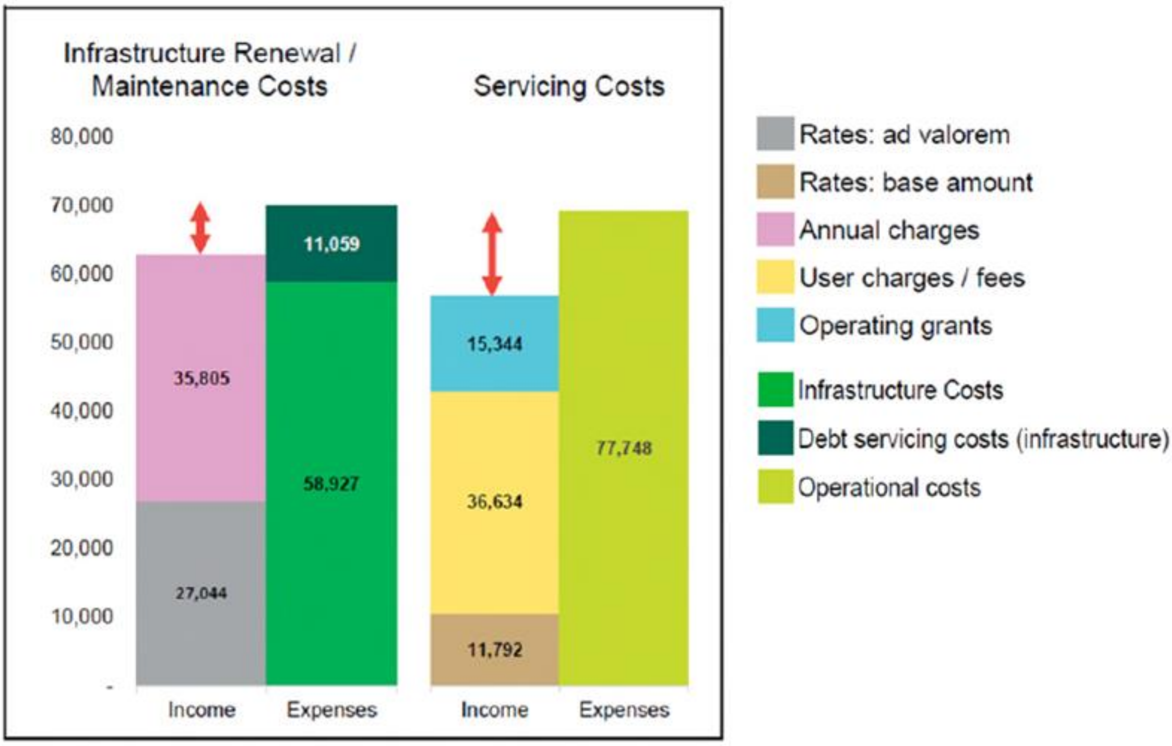
IPART also consider that it is important to strengthen the incentives for councils to improve their performance. The recommended review could also consider incentives for councils that demonstrate good performance to be rewarded with greater autonomy.

Response
The recognition by IPART of the financial sustainability pressures on NSW local government in this Review is significant. Indeed, in the first Population Peg Review, IPART noted a range of factors influencing costs on councils that were outside the scope of that Report's terms of reference, per below:



Generally, the broader CRJO views are expressed below in Section 4, but some preliminary suggestions include:

- The former Government commissioned an Independent Panel to review the classifications and recommend the transfer of regional roads from local councils back to the NSW Government. We understand that Report has not been considered by the current Government, yet may unlock millions of dollars of depreciation and net cost of maintenance of regional roads from council accounts that currently place the operating results and utilisation of resources at risk.
- Similarly, relief from the intergovernmental transfer (ESL) and the maintenance, depreciation and renewal of emergency assets, should also improve the financial results of councils and enable diversion of resources to traditional local services.
- The initial CRJO submission to the Rate Peg Review suggested an alternate funding model to illustrate the source, application (and gap) in funding between costs to maintain to adopted local asset standards and service levels, so that (for a multipurpose council example below):
    - maintenance, renewal, upgrade and debt servicing costs of infrastructure are funded by property taxes (ULV), including ad valorem rates, utility annual charges, development contributions and asset specific grants
    - nominated public benefit or community service obligations (CSO) are funded by the fixed component of the general rate (base amount) and general-purpose grants (FAG)
    - additional services (above the CSO) are met by fees, charges and specific-purpose grants
    - water, sewer and waste operational services are covered by user charges and fees



In this way, the land value (LV) differentiates the standard of asset by category/locality, and the Base Rate differentiates the CSO level of service by category/locality.

Importantly, to redress the historic low rate base for many councils, we suggest the ad valorem component on the rate structure could be reset and phased to accommodate the AMP/LTFP forecast for asset OMR and depreciation for those councils (as a minimum obligation of local government).

- While optional in OLG quarterly budget review statement templates, most councils tend to use the Income Statement format for budget and reviews. Rather than continue to use the Income Statement formats (input model) for annual budgets, it is suggested council budgets disclose either the functional classifications (used for segment reporting and Grants Commission), or the revenue types (input) and expenditure purpose (outputs), proposed on asset operations and maintenance, debt servicing, depreciation and non-asset services to improve transparency.

General Operations (i.e., excl water & sewerage)	2018/19 projection $M	2019/20 projection $M	2020/21 projection $M	2021/22 projection $M
Operating Budget (all projections expressed in constant 2016/17 dollars)				
Rates & annual charges	44.647	45.363	46.087	46.819
Fees & user charges	15.580	17.116	17.525	19.169
Government operating grants	10.519	10.507	10.493	10.481
Operating contributions & other revenue n.e.i. (incl interes	7.483	7.293	6.879	6.610
Dividends from commercial operations (water & sewerag	0.000	0.000	0.000	0.000
Total Revenue	78.229	80.279	80.984	83.079
Service provision (opex minus int, maint & depn expenses	57.930	56.828	53.972	53.756
Interest expense	1.815	2.076	2.191	2.166
Asset maintenance	6.810	7.062	7.294	7.530
Asset depreciation	16.674	17.747	18.032	18.712
Total Expenses	83.230	83.714	81.488	82.164
Operating Surplus/(Deficit)	**-5.001**	**-3.435**	**-0.505**	**0.915**
Capital Budget (all projections expressed in constant 2016/17 dollars)				
Government capital grants	53.968	3.824	9.055	0.651
Capital contributions (cash)	30.064	1.618	12.894	0.993
Asset sales	0.859	0.846	8.108	0.819
Cashflow generated by annual depreciation charge	16.674	17.747	18.032	18.712
Total Receipts	101.565	24.035	48.089	21.174
Infrastructure rehabilitation	1.878	1.879	1.881	1.882
Infrastructure renewals	7.843	9.425	11.496	12.064
Infrastructure enhancements	70.618	11.618	40.340	1.985
Acquisition of non-infrastructure assets	3.606	3.706	3.791	2.031
Total Payments	83.945	26.629	57.507	17.961
Capital Surplus/(Deficit)	**17.620**	**-2.594**	**-9.419**	**3.213**
OVERALL SURPLUS/(DEFICIT)	**12.620**	**-6.029**	**-9.923**	**4.128**
Key sustainability indicators				
Operating Performance Ratio (% of Total Operating Revenue)	-6.4%	-4.3%	-0.6%	1.1%
Infrastructure Backlog Ratio (% of Infrastructure WDV)	2.5%	2.4%	2.2%	2.1%
Debt Service Ratio (% of Total Operating Revenue)	2.5%	4.0%	3.9%	3.8%
Service Level Ratio (relative to 2015/16)	96.0	92.7	86.6	84.9
Rating Effort Ratio (relative to 2015/16)	107.3	107.9	108.5	109.0

- IPART should re-prosecute its previous reports on revenue raising and regulatory impacts on local government, to the new Government.
- The rethinking of infrastructure contribution reforms, removing the abolition of community facilities from the essential works list, and requiring 5-yearly plan reviews, and contemporary revaluations (aligned to council asset revaluations) may be recommenced, to enable councils to narrow the funding gap on expanded or new infrastructure. Further, the opportunity to raise special infrastructure levies to match grants and contributions should be considered.
- Should local councils retreat their service offer to fundamental operations, maintenance and renewal of existing assets (per ratios); to tax-funded public (CSO) and shared benefit services, and full fee-funded private and market services as published in their respective Revenue Policies; and then to mandated regulatory activity to the extent of fee recovery only - then in many circumstances the general rate yields would perhaps be sustainable. In those settings, perhaps then the communities would comprehend the spread of services provided by councils, and their inherent value (should they no longer be available).

The CRJO supports the independent review of the financial and asset sustainability of local councils, guiding a new funding model for the future.

4 Matters for further consideration:

1. The eligibility of current rate exemptions could be better targeted to improve outcomes for ratepayers and councils.

Comment
Our member councils raised this matter at the Queanbeyan roundtables – many of which are hampered by the significant exemptions due to crown lands (specifically government enterprise such as state forests) and expansion of independent living villages. Both examples continue to require and to utilise council assets and services, without appropriate contribution.

The matter of lack of indexation and under-subsidisation of pension rebates has been recognised in the IPART Report.

2. The use of the Capital Improved Valuation (CIV) method to levy local council rates could improve the efficiency and equity of rates.

Comment
It is noted that the CIV method may be difficult to initially value, then administer for many regional and rural councils. IPART recognised a CIV may be appropriate to metro and high growth LGAs (including some regional cities or coastal centres). The CRJO suggests the previous IPART reports on the matter be re-prosecuted for targeted discussion.

A better way to improve efficiency and equity may be to remove land taxes nationally, relying on a higher GST being distributed between local governments across Australia, through a refreshed Financial Assistance Grant and Grants Commission distribution. In that way the costs of valuing, administering, communication and recovering land taxes would be removed.

3. There could be merit in considering whether to introduce an additional constraint (i.e. conditions) on the rate peg to provide confidence to ratepayers that increases are reasonable.

Comment
Should the rate peg (adjusted to account for particular council circumstances) be significant, then the purpose (or ringfencing that purpose) for that council may be disclosed or included as a condition. Otherwise, conditions should only apply to SRVs.

4. Some councils may not have an adequate rate base and a mechanism should be developed to enable councils found to have insufficient base rates income to achieve financial sustainability.

Comment
This matter was highlighted in the initial CRJO submission and referred to again in this submission. Some interim solutions have been suggested in previous points. Future discussion may explore identifying a benchmark rate per capita per council grouping, OLG time series data, and the particular nuances of similar LGAs (regional city and coastal for example) subject to historically low general rating income.

5. Statutory charges for services provided by councils may not be recovering the full cost of service provision, such as for development approval fees and stormwater management service charges.

Comment
Discussion no doubt will continue on the purpose of local councils applying government policy (devolvement or cost shifting), with fees set by Government clearly underfunding the recovery of those costs for what would primarily be private beneficiaries or offenders. Councils do not have the

option to withdraw from those services, as legislation often requires local government to remain as the 'parachute' in the absence of providers in the local market (development certification for example).

That discussion should at least draw on previous IPART and Productivity Commission Reports on the regulatory imposition on local government, ideally reigniting the requirement for impact statements to be published before promulgation. That discussion may also include the notion of setting progressive or regressive charging, which tends to be the bane of development and infrastructure fees cited by IPART.

Should local councils retreat their service offer to fundamental operations, maintenance and renewal of existing assets (per ratios); to tax-funded public (CSO) and shared benefit services, and full fee-funded private and market services as published in their respective Revenue Policies; and then to mandated regulatory activity to the extent of fee recovery only - then in many circumstances the general rate yields would perhaps be sustainable. In that way, the void may be filled by Government NGO's or community. Perhaps then, community may understand the extent and value (in financial and liveability contexts) of council services.

6. **Councils could be better supported to serve their communities more effectively to build community trust in councils. This could include improvements in how councils undertake and implement their integrated planning and reporting.**

Comment
OLG has commenced a refresh of IPR, with much of the new initiatives expected to commence from the 2024 elections. Those reforms could expand to require councils to:

- Progressively align plans, policies and programs under QBL pillars (or similar council CSP goals – community, environment, economic, civic)
- Prioritise actions and projects from plans and strategies through a QBL filter into Financial Plans and Delivery Programs
- Account for and publish a schedule in financial statements of operational and capital expenses rearranged through a QBL filter
- Arrange rating and pricing models to illustrate revenue raising and expenditures per above
- Ringfencing, accounting and reporting SRVs for specific purposes
- Establishing new s501 charges for specific purposes (eg heritage, tourism, climate, flood, bushfire, coastal) through IPR

7. **There are opportunities to strengthen council incentives to improve their performance, including considering whether there is merit in a model that would exempt councils that demonstrate an agreed level of performance and consultation with ratepayers from the rate peg.**

Comment
Perhaps a more contentious matter to explore, where a council's scale and access to skilled resources potentially being a differentiator of effort and success.

Response
The CRJO supports establishment of a reference groups and an independent review of the funding model of local government, and assumes these above matters would be referred to both – enabling future opportunity for engagement with our member councils.