

### ITEM 3 LATE REPORT: APPLICATION TO APPLY BUDGETED RATE VARIATION

This report seeks endorsement to apply to IPART to use Council's budgeted rate variation for its 2022-2023 rates indexation. If endorsed, the proposed variation would be included as an option in the draft Revenue Policy (part of the Integrated Planning & Reporting suite) for community consultation in May.

While IPART had published an initial Rate Peg of 1% for Wollongong in December, following advocacy from Local Government NSW and other industry players, the Minister for Local Government has provided opportunity for Council's to request a percentage increase that is line with their published budgets for 2022-2023 up to 2.5%. Wollongong City Council's budget adopted in June 2021, provided for a 1.8% rate variation for 2022-2023. While this variation remains below the current price inflation for next year, it would support the maintenance of Council's financial sustainability and allow full delivery of the planned future program.

#### RECOMMENDATION

- 1 Council make application to IPART for a permanent additional special variation, under the process announced by the Minister for Local Government on 8 March 2022, for the use of the 1.8% general income increase in 2022-2023 as adopted in Council's budget in June 2021.
- 2 Council officers participate in the proposed review of the calculation of the Rate Peg for future years and Council make submission to any proposals or discussion papers put forward.

#### REPORT AUTHORISATIONS

Report of: Brian Jenkins, Chief Financial Officer

Authorised by: Renee Campbell, Director Corporate Services - Connected + Engaged City

#### ATTACHMENTS

There are no attachments for this report.

#### BACKGROUND

Wollongong Council and its community have worked together over the past 10 to 15 years to achieve a financially sustainable future for Council. While our community engagement has highlighted a clear desire for increased services and levels of service in many areas, which will require the creation of additional capacity, Council's first obligation is to the principles of financial sustainability and good financial management. To manage this, Council's Financial Strategy sets the parameters within which Council agrees to operate to maintain accepted financial outcomes. Council's 10 year continuous budget process and targeted long term financial outcomes ensure decisions are made today that provide reasonable certainty over future financial sustainability. The greatest risk in this process is that the underlying indices, particularly the correlation between the rates index and the cost of service, are substantially mismatched in the future.

Over the period since the introduction of the IPART calculated Rate Peg (2011-2012), Council and the economy in general have experienced historically reasonable levels of price inflation, wages indexation, and unemployment. The movements from year to year have been reasonably orderly and incremental. During that time, rate increases have been set between 1.5% and 3.6%. 2021-2022 saw a 2% Rate Peg.

Moving into 2021-2022, Council's budget had forecast a relatively constant level of cost inflation before starting to trend upwards post 2022-2023. Council's indexation for the rate increase in 2022-2023 was 1.8% with cost increases ranging from 1.5 to 2.7%. Forecasts were based on the information available at the time in March 2021 and were considered reasonable. The latter part of the 2021 calendar year has seen economic conditions start to move with greater volatility due to supply issues and inflationary pressures across other parts of the world and historically tight labour markets have emerged over recent months. Current cost inflation forecasts for 2022-2023 (CPI) are now forecast by the Reserve Bank of Australia to be 3.75%, with unemployment estimated at an historically low 4%.

The IPART Rate Peg for 2022-2023, which is based on a basket of goods and services reflecting council expenditure, was calculated based on cost movements between June 2020 and June 2021. This measurement has resulted in an index calculated at 0.9%, which was discounted by 0.2% to adjust for a prior year increase that allowed for the cost of council elections. While this calculation reflects the price movements in 2020-2021, it is not reflective of the environment Council is now faced with based on current and, more importantly, forecast indexation for next year.

Having managed through the past two devastating years that saw the threats of fire, flood, pandemic and more floods within our community, the new challenge for 2022-2023 is the rapidly escalating cost of delivering service that Council will be faced with. Following advocacy from Local Government NSW and other industry players, the Minister for Local Government, Treasurer and the Premier have recognised the significant impact that the historically low Rate Peg of 0.7% would have had on Local Government moving into next year. The Minister has now provided opportunity for councils to request a revised percentage increase that is in line with their published budgets for 2022-2023 up to 2.5%.

Wollongong City Council had included a provision for an increase in General Income from rates of 1.8%. This was based on cost indexes of 1.5% for goods and services and 2% for labour costs, which are now predicted to be below actual costs.

The IPART Rate Peg, which is based on IPART’s Local Government Cost Index (LGCI), provided for 0.7% (0.9 less 0.2 % to remove concession for the cost of Local Government elections in 2021-2022). The LGCI used to assess this increase was based on price movements between June 2020 and June 2021. As noted above, the world economy has moved reasonably quickly since that time and is now expected to show more significant increases in cost moving into next year. By way of comparison, the table below shows the scale of variation between some of the major price indexation categories used to determine the Rate Peg from June 2021 compared to the December 2021 figures.

Index	Component of LGCI	Percentage of LGCI	June Index	December Index
Labour Price Index – Public Sector	Employee Benefits & Oncosts	38.4%	1.3%	2.3%
Producer Price Index - NSW	Construction Works & Costs	26.9%	2.5%	4.3%
CPI - All Groups Sydney	Other Expenses	8.4%	1.2%	3.5%
<b>Percentage of Total LGCI</b>		<b>73.7%</b>		

In addition, Fuel, which makes up 0.8% of the LGCI basket of goods, has moved from a negative index of -2.4% to a +5.9% increase for the 12 months to December. While the movements in the last half of 2021 vary substantially from the June indexes and are considered stark compared to movements in the last decade, the forecasts for 2022-2023 and beyond are now expected to be equally, if not more expansive.

The limitation to retain Council’s budgeted rate General Income increase of 1.8% into 2022-2023 will still place considerable pressure on Council’s budget and capacity moving forward and highlights the need for Council and Government imposed estimates to be constantly updated to reflect current and future estimated economic variables. Considering this and other issues, the Minister for Local Government has committed to reviewing the current Rate Peg methodology with the industry over the coming year. It is intended that Council and its officers would play an active role in that review to ensure Wollongong City Council’s views are considered.

Should the proposal to apply for application of the budgeted rate index of 1.8% be endorsed, the proposed rate to be applied for 2022-2023 would be included as an option in the Revenue Policy that is scheduled to be exhibited for community consultation and feedback along with the full suite of Integrated Planning documents in May 2022. This would include the draft Community Strategic Plan, Delivery Program & Operating Plan, and the Resourcing Strategy. The Revenue Policy and Budget estimates would include two scenarios: one based on the proposed rates increase and one based on the initial IPART Rate Peg. The budget currently being prepared would also include two scenarios to show the

financial impacts of the two options. IPART would also publish the Application for Variation and seek community feedback on the application at the same time, prior to giving approval by 21 June if considered appropriate.

Council's scenarios would include the impact on ratepayers. It is recognised that ratepayers, and our community in general, have been at the coalface of the difficulties presented over the past two years and that they will be further impacted (both positively and negatively) by the anticipated buoyant future economy, where unemployment is predicted to be low, and wages should be increasing along with interest rates and the costs of goods and services. The potential impact on residential ratepayers based on the average rate of \$1,570 would be \$12.54 over the initial Rate Peg figure, although that figure would vary based on the value of individual properties. The impact for Council's financial sustainability is \$1.445M per annum based on current prices. With the potential for increased indexation moving forward, the impact of this will be more significant if this base is not maintained at an appropriate level to offset the increased costs.

## PROPOSAL

It is proposed that Council endorse an application to IPART for an Additional Special Variation as announced by the Minister for Local Government in line with Wollongong City Council's budgeted increase in rates General Income of 1.8% for 2022-2023. Following this application Council would present a Revenue Policy to the community for consultation and feedback with two rating and budget scenarios based on the proposed increase and the initial IPART Rate Peg. Council would then make its final decision on the rate General Income increase for 2022-2023 at its June meeting, subject to approval from IPART and review of the community feedback.

## PLANNING AND POLICY IMPACT

Wollongong City Council's Financial Strategy provides a clear direction and context for decision making that guides the allocation, management and use of its financial resources. It aims to ensure that Council remains financially stable while giving focus to financing key Council priorities through strong financial management. It acts as the catalyst for improving efficiency and releasing resources to improve frontline services and continuity. The Financial Strategy sets the parameters within which Council agrees to operate in order to maintain accepted financial outcomes and should be viewed as an enabling Strategy that aims to provide financial stability, affordability, focused delivery and value for money over the short, medium and longer term.

This report contributes to the delivery of Our Wollongong 2028 Goal 4 We are a Connected and Engaged Community. It specifically delivers on Strategy 4.3.2 Resources (finance, technology, assets and people) are effectively managed to ensure long term financial sustainability.

## SUSTAINABILITY IMPLICATIONS

This report addresses the need to ensure long term financial sustainability

## RISK MANAGEMENT

Ensuring appropriate levels of income are available to deliver Council's services in the short and longer term are underpinned by good financial planning and management. There is significant risk at present that the upward trends in costs of service to Council and generally will place significant risk on Council's finances, such that long term financial sustainability would not be ensured.

## FINANCIAL IMPLICATIONS

The impact of approval to apply the budgeted rate variation of 1.8% for 2022-2023 is estimated to be \$1.4M in that year. As this amount would be requested to remain within Council's base rates for future periods this approval is more significant over the longer term. As future increments are provided based on cost indexes, if this amount is not in the rates base moving forward it would not be recovered and would leave a gap between service cost and delivery that would need to be adjusted by other means. Council is a large organisation and can adjust capacity and services over time through additional

revenues, efficiency gain, or service cuts, however, there is also a clear growing demand for increased services and service levels into the future.

## CONCLUSION

Council management of its financial sustainability is a key requirement of the Local Government Act that requires responsible and sustainable alignment of general revenues and expenses. While Council is yet to consider its draft Integrated Planning suite for 2022-2023 and beyond, it is reasonable based on the current economic conditions to provide an option in its plans for the budgeted position in addition to the IPART Rate Peg, which is well below current indexation and forward estimates. Should Council endorse this approach, both options will be presented to Council in its draft Integrated Planning Suite and, if again endorsed at that time, will then be presented to the community for further consultation before a final decision is made in June.