Special Council Meeting

29 May 2023

Commencing at 3.00 pm

Agenda

Notice of Meeting.

To: The President and Councillors.

A Special Council Meeting of the Shire of Toodyay will be held at the Shire of Toodyay Council Chambers, 15 Fiennes Street, Toodyay WA 6566 on the above-mentioned date and time.

The Special Meeting of Council has been called by the Shire President.

The Special Meeting of Council is for the purpose of considering all matters related to the following:

1. Proposed Rate in the Dollar for 2023/2024;
2. Proposed Differential Rates; and
3. Objects and Reasons for Differential Rates.

Suzie Haslehurst

CHIEF EXECUTIVE OFFICER

Our Vision, Purpose and Values

The Shire of Toodyay works together with the community to obtain the best possible social, economic, and environmental outcomes for the people of Toodyay.

Vision:	We are a vibrant rural community that respects our environment, celebrates our past and embraces a sustainable future.
Purpose:	Local Government and community working together to obtain the best possible social, economic, and environmental outcomes for the people of Toodyay.
Community Values:	We value highly:

- Our sense of community support and spirit;
- Our natural environment and healthy ecosystems;
- Our rural lifestyle;
- Our historic town; and
- Our local economy built on agriculture and emerging tourism, arts and cultural opportunities.

Shire Values: To progress the community's aspirations, the Shire is guided by:

Integrity:	We behave honestly to the highest ethical standard.
Accountability:	We are transparent in our actions and accountable to the community.
Inclusiveness:	We are responsive to the community and we encourage involvement by all people.
Commitment:	We translate our plans into actions and demonstrate the persistence that produces results.

Disclaimer

Members of the public should note that in any discussion regarding any planning or other application that any statement or intimation of approval made by any member or officer of the Shire of Toodyay during the course of any meeting is not intended to be and is not to be taken as notice of approval from Council. No action should be taken on any item discussed at a Council Meeting prior to written advice on the resolution of the Council being received. Any plans or documents contained in this document may be subject to copyright law provisions *(Copyright Act 1998,* as amended*)* and the express permission of the copyright owner(s) should be sought prior to reproduction.

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Agendas & Minutes are located under the heading "Council Meetings" at

http://www.toodyay.wa.gov.au/Council/Council-Meetings/Agendas-Minutes-and-Notes

Public copies are available by contacting the Shire on (08) 9574 9300.

CONTENTS

ATTACHMENTS can be found in the Attachments Paper on the Council website alongside this agenda.

1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The Presiding Member is to run through the Preliminaries, and to declare the Ordinary Meeting of Council open.

Acknowledgement of Country: "*I acknowledge the Ballardong Noongar people, the traditional custodians of the land where we meet today and the Yued and Whadjuk people, who are traditional custodians of respective lands within the wider Shire of Toodyay. I pay my respect to their Elders, past, present and emerging*."

2 RECORDS OF ATTENDANCE

2.1 APOLOGIES

2.2 APPROVED LEAVE OF ABSENCE

Nil

3 DISCLOSURE OF INTERESTS

4 PUBLIC QUESTIONS

4.1 PUBLIC QUESTION TIME

5 PUBLIC SUBMISSIONS

6 OFFICER REPORTS

6.1 CORPORATE AND COMMUNITY SERVICES

6.1.1 Advertising of 2023/2024 Differential Rates

Date of Report:	10 May 2023
Applicant or Proponent:	Shire of Toodyay
File Reference:	FIN30/MIN1
Author:	M Werder – Project Manager T Bateman – Manager Corporate and Community Services
Responsible Officer:	T Bateman – Manager Corporate and Community Services
Previously Before Council:	Nil
Author's Disclosure of Interest:	Nil
Council's Role in the matter:	Legislative
Attachments:	1. Statement of Objects and Reasons 2023/2024; and ⇩ 2. WALGA's Economic Briefing - March 2023. ⇩

PURPOSE OF THE REPORT

To provide information for Councillors to consider the proposed Differential Rate categories, and the rate in the dollar and minimum payments for advertising prior to adoption of the 2023/2024 Annual Budget, as detailed in the Objects and Reasons for differential rates **(Attachment 1)**.

BACKGROUND

The power to raise local government rates is set out under the *Local Government Act 1995* (the Act). In determining the annual budget, Council may impose differential general rates and minimum payments on any rateable land in its district, pursuant to sections 6.33 and 6.35 of the Act.

When differential rating is to be levied, the Shire must give local public notice of the differential rates and minimum payments it intends to impose for a minimum 21 days and invite public submissions in accordance with section 6.36(3) of the Act. This process usually occurs between May and June in preparation for timely budget adoption.

COMMENTS AND DETAILS

Prior to adopting its annual budget each year, Council considers its current Strategic Community Plan, Corporate Business Plan and Long-Term Financial Plan (LTFP) and, subject to the rating provisions under the Act, may raise rate revenue at the level it determines appropriate. To determine this level, Council assesses the current and future service needs, aspirations of the community and their capacity to pay for those services.

The annual budget process commences in December each year with budget workshops and briefing sessions to consider the mid-year budget review, the upcoming budget timeline and various project briefs for the new budget year. As a result of the information presented during these sessions, Officers are recommending that to achieve an appropriate level of funding for operations and asset renewal whilst taking into consideration the current cost of living pressures, rate revenue would need to be increased by a minimum of 6% on the 2022/2023 budgeted rate revenue. Rate revenue from new properties will be in addition to this proposed rate increase.

This increase has been factored into the development of the draft budget and takes into account the following key considerations and their associated impacts:

- Since the 2019/20 financial year, the rates have increased by approximately 8.60% overall, representing an average of 2.87% per year. Despite the unpredictable economic climate throughout this period, the Shire maintained rates closely in line with the LTFP which factored a 2.50% increase per year.
- Over this same period, the consumer price index has increased by 16.4% - almost double the rates increase.
- Annual increases such as the local government cost index, construction costs, and external wage increases have also exceeded the rates increase over this time.
- Whilst still early in the budget development stage, Officers have factored significant increases into the draft budget such as 7% for electricity. The increase for streetlighting was initially expected to be 43% although this increase later rejected by the regulating authority.
- It is expected that the cost of waste disposal could increase by up to 48%, the impact of which represents an increase in rates of just short of 1.2%.
- Additionally, in the past year, the Shire has experienced significant cost increases of between 5-15% for many contracts, materials and capital works. Road construction costs increased 14% and 30% for asphalt and bitumen respectively. For the 2022/23 financial year, Officers were required to re-scope projects or seek additional funding opportunities to cater for these increases.

Worth due consideration is the fact that the proposed increase this year, combined with previous years' increases, fails to cater for the recent increase in costs borne by the Shire. If the increase in Shire rates is lower than the increase in costs from external factors, this may create difficulties in allocating sufficient funds to maintain the same level of services that the community expects and relies upon.

Further, there is an expectation from the community that the Shire maintains its assets in a reasonable state and fit for purpose. The Shire is, however, aware of the impact increased rates has on the cost-of-living pressures. When making decisions about rate increases, the Shire carefully weighs the need for additional revenue against the potential burden it may place on ratepayers and strives to find a balance that ensures the sustainability of essential services while also considering the affordability for the community.

To address this situation, the draft budget prioritises essential services and ensures allocations are adequately supported according to risk. Projects proposed for inclusion in the 2023/24 draft budget will continue to be reviewed and prioritised according to risk levels to achieve a balanced budget. This may result in changes to the proposed rates in the dollar than those advertised. Any change will be considered in line with submissions received or valuation changes between now and budget adoption and may be adjusted accordingly.

Although differential rates have been imposed in the Shire of Toodyay for a number of years, it is a requirement that differential rates be advertised. It is noted that while local governments are required to advertise proposed differential rates, the final rates are determined by Council when adopting the Annual Budget.

Proposed Differential Rates

Differential rates form one part of local government's approach for setting rates. This means that local governments have the option to set more than one rate in the dollar based on property class, rather than having a uniform rate for all property classes. Differential rates allow different classes of property to be rated differently, to maintain relativity between general, residential, commercial, industrial and rural rating classifications.

For the 2022/23 financial year, Officers proposed a mining differential rate to offset some of the additional expenditure incurred by the Shire as a result of the operations of this specific sector. The proposed rate in the dollar was later rejected by the Minister and was quashed in the State Administrative Tribunal. Since this time, the Shire has been working closely with the mining operators and have developed a maintenance agreement which assists in managing these additional costs. As a result, Officers are not proposing a mining differential rate for the 2023/24 financial year.

The proposed 2023/2024 rates model has been based on a 6.0% overall increase which will provide budgeted rate revenue of $7,518,000. The proposed rate model provides no increase to the minimum rate of $1,351.00 as it is considered that this is appropriate taking into account the requirements of the Shire and compares with surrounding and similar local governments. To meet the 6.0% overall increase in rate revenue, individual rates categories may increase by approximately 7.17%.

It should be noted that valuations may vary between the rate modelling process and the rates strike as new or amended valuations are received from Landgate. Any changes after the current date are expected to be minor and are not expected to affect the foundation of this report.

In order to achieve a balance between maintaining service levels and keeping the increase to a minimum, is recommended that Council approves the proposed 2023/2024 rate in the dollar and the minimum rates to be advertised by public notice as per the following:

Basis of Rating	Current Rate in $	Proposed Rate in $
GRV Residential	0.138729	0.148676
GRV Commercial	0.147014	0.157555
GRV Industrial	0.128650	0.137874
GRV Rural	0.128292	0.137491
GRV Rural Residential	0.121456	0.130164
UV General	0.014170	0.015186

UV Rural	0.009128	0.008893

Basis of Rating	Current Rate in $	Proposed Rate in $
MINIMUM RATES		
GRV Residential	1,351.00	1,351.00
GRV Commercial	1,351.00	1,351.00
GRV Industrial	1,351.00	1,351.00
GRV Rural	1,351.00	1,351.00
GRV Rural Residential	1,351.00	1,351.00
UV General	1,351.00	1,351.00
UV Rural	1,351.00	1,351.00

IMPLICATIONS TO CONSIDER

Consultative:

Internal discussions relating to the development of the draft budget, including potential projects and rate increases, have taken place between staff and Councillors in a series of workshops.

The key message for the community is that the Shire is aware of the impact any increase has on the cost-of-living pressures however, income raised from rates is required to sustain the current activities and levels of service. When making decisions about rate increases, the Shire carefully weighs the need for additional revenue against the potential burden it may place on ratepayers.

The proposed Differential Rates are required to be advertised and public submissions sought in accordance with section 6.36 of the Act. An advertisement will be placed in the Toodyay Herald, on notice boards and the Shire's website for 21 days and any submissions received will be considered by Council. The Statement of Objects and Reasons is provided at **Attachment 1**.

Information to support the proposed increase to the rates in the dollar can be found in WALGA's Economic Briefing – March 2023 (**Attachment 2**).

Strategic:

Differential rates represent a strategic approach to rating. Rates are a major revenue source of Council used to achieve the objectives of the Strategic Community Plan and Corporate Business Plan. The purpose of levying rates is to meet the Shire's budget requirements to deliver services and projects each financial year.

Shire of Toodyay Strategic Community Plan

Built environment: Our buildings, roads and transport:

O 1: Ensure safe and sustainable transport options.

Governance: The way the Shire leads and operates:

O 1: Provide accountable and transparent leadership for the community.

Policy related:

Long Term Financial Planning

Significant Accounting Policy

Financial:

The financial implications of adopting a 6.0% overall rate increase would see an estimated additional rate yield of approximately $425,000 compared to the 2022/2023 financial year. The anticipated rate revenue for 2023/2024 is $7,518,000.

Note: The rate yield estimated above is based on current valuations provided by Landgate and may be subject to change.

Legal and Statutory:

Sections 6.33 and 6.34 of the *Local Government Act 1995* allow local governments to impose differential rates and minimum payments. Section 6.36 requires local governments to give notice of certain rates before imposing them. Council is requested to endorse for advertising, the proposed rates in accordance with Section 6.36 of the Act.

Section 6.35 (6) of the *Local Government Act 1995* states that a differential minimum payment may be imposed.

Risk related:

There are significant financial and operational risks associated with setting rates for the budget adoption process. Setting the rates too high for the purpose of advertising, bears significant reputational risk as setting the rates in the dollar too high can cause stress and anger within the community. Setting them too low for the purpose of advertising may set unrealistic expectations and inhibit Council's ability to respond to cost increases from external factors. Compliance with statutory provisions helps to mitigate these risks.

Workforce related:

There are no adverse workforce implications as a result of the officer's recommendation.

VOTING REQUIREMENTS

Absolute Majority

OFFICER'S RECOMMENDATION 1

That Council:

1. Approves the proposed 2023/2024 differential rate categories, rate in the dollar and minimum payments for advertising prior to adoption of the 2023/2024 Annual Budget as follows:

Basis of Rating	Current 2022/23 Rate in $	Proposed 2023/24 Rate in $

GRV Residential	0.138729	0.148676
GRV Commercial	0.147014	0.157555
GRV Industrial	0.128650	0.137874
GRV Rural	0.128292	0.137491
GRV Rural Residential	0.121456	0.130164
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Basis of Rating	Current 2022/23 Rate	Proposed 2023/24 Rate
MINIMUM RATES		
GRV Residential	1,351.00	1,351.00
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GRV Rural Residential	1,351.00	1,351.00
UV General	1,351.00	1,351.00
UV Rural	1,351.00	1,351.00

2. Endorses the Objects and Reasons for proposed differential rates for the 2023/24 financial year provided as Attachment 1 to this report to be published on the Shire’s website.

Shire of Toodyay

Statement of Objects and Reasons for Differential Rating

In accordance with Sections 6.33 & 6.36 of the *Local Government Act 1995* and the Council's intention to continue levying differential rates for the 2023/2024 Financial Year, the Shire is required to publish its Objects and Reasons for implementing the differential rates categories.

All land, except exempt land, in the Shire of Toodyay is rated according to its Gross Rental Value (GRV) in townsites or Unimproved Value (UV) as determined by the Valuer General's Office, and in accordance with the requirements of section 6.28 of the *Local Government Act 1995*.

The proposed rates in the dollar ($) for the various differential rates are calculated to provide the shortfall in income required to enable the Shire to provide necessary works and services in the 2023/2024 financial year for each category after taking into account all non-rate sources of income.

GRV – Residential (599 properties)

The objective of the GRV Residential differential rate is to apply a base differential general rate to residential land, zoned for non-business purposes. It acts as the Shire's benchmark differential rate by which all other GRV rated properties are assessed. The reason for this rate is to ensure that all ratepayers make a reasonable contribution towards the ongoing maintenance and provision of works, services and facilities throughout the Shire of Toodyay.

The rate in the $ of 0.148676 has been set to ensure that the proportion of total rate revenue derived from residential property remains consistent with previous years and in recognition of the above.

GRV – Commercial (28 properties)

The objective of the GRV Commercial rate is to ensure that all properties within the Shire used for business or commercial purposes, generally within the town centre or local centres, contribute fairly and equitably towards Shire services. The reason for this rate in the dollar is set to ensure that the rates derived from commercial land recognises the specific demands on the Shire's infrastructure and services.

The rate in the $ of 0.157555 has been set to ensure that the proportion of total rate revenue derived from commercial property remains consistent with previous years and in recognition of the above.

GRV – Industrial (21 properties)

The objective of the GRV Industrial differential rate is to ensure that all properties used for industrial purposes within the Shire, contribute fairly and equitably towards Shire services. The reason for this rate in the dollar is set to ensure that the rates derived from industrial land recognises the specific demands on the Shire's infrastructure and services.

The rate in the $ of 0.137874 of has been set to ensure that the proportion of total rate revenue derived from industrial property remains consistent with previous years and in recognition of the above.

GRV – Rural (115 properties)

The GRV Rural rate applies to properties that are zoned for rural proposes such as broad-scale or intensive agriculture, rural pursuits and some tourist related activities. The objective of this rate is to recognise the specific demands on the Shire's infrastructure and services arising from these land uses.

The rate in the $ of 0.137491 has been set to ensure that the proportion of total rate revenue derived from rural properties remains consistent with previous years and in recognition of the above.

GRV - Rural Residential (1019 properties)

This rate applies to those properties in local residential centres such as Morangup, Dumbarton and Bejoording that provide for a range of lifestyle opportunities with a rural character and amenity.

The rate in the $ of 0.130164 has been set to ensure that the proportion of total rate revenue derived from rural residential properties remains consistent with previous years and recognises the demand on Shire infrastructure and services from the activity on GRV Rural Residential properties.

UV – General (462 properties)

The rate in the $ of 0.015186 has been set to ensure that the proportion of total rate revenue derived from rural small holdings remain consistent with previous years and recognises the demand on Shire infrastructure and services from the activity on UV General properties.

UV – Rural (184 properties)

The rate in the $ of 0.008893 has been set to ensure that broadacre farming properties, those over 100 hectares and used for grazing or cropping, are not adversely affected by the valuation changes of small rural holdings.

Differential Minimum Payment (780 properties)

A minimum payment of $1,351 is applied to lower valued GRV & UV properties in recognition that every property receives some minimum level of benefit from works and services provided. The minimum payment helps encourage development and discourage speculation. The minimum rate has not increased over the previous four years.

ECONOMIC BRIEFING

MARCH 2023

WALGA

OVERVIEW

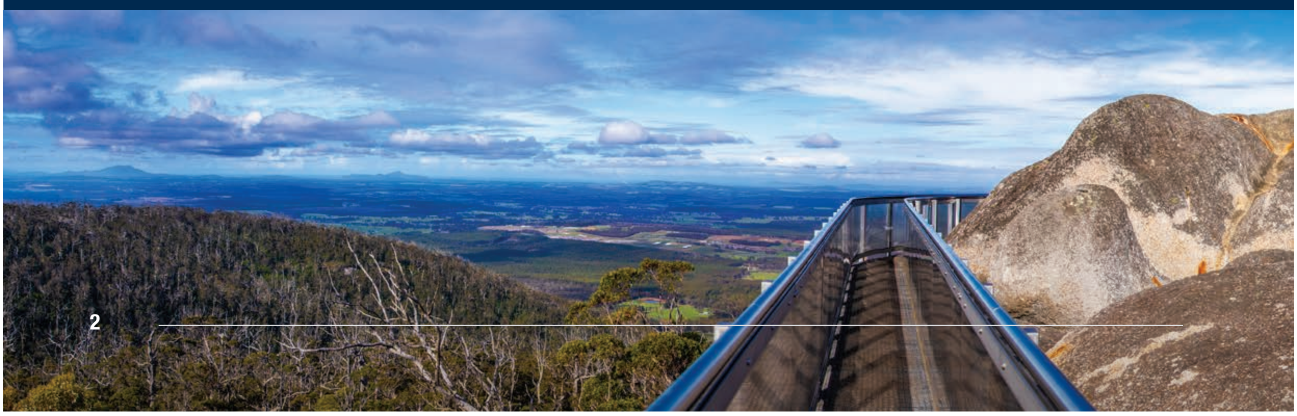
Inflation continues to be the key issue facing the global and domestic economies. Despite early signs that it is peaking in Australia, it is expected to remain elevated for some time.

The RBA has made clear its focus is to bring inflation back within its target band. In the first two meetings of 2023, the RBA has continued its recent run of **interest rate** rises to dampen demand and slow spending, bringing the official cash rate to 3.6%.

While much of the focus has been on the **cost of living** for households, Local Governments have also faced a high-cost environment in recent years.

Local Government costs – as measured by the WALGA Local Government Cost Index (LGCI) – have accelerated for the past two years. However, there are positive signs that the LGCI may have peaked after the index eased for the second consecutive quarter in December 2022.

The LGCI is expected to grow 4.5% through 2022-23, down from the increase of 6.4% in 2021-22. Local Government costs are then expected to grow 2.9% in 2023-24 as inflation is forecast to ease.



Much of the increase in the LGCI in recent years has been led by the spike in **construction costs**, which have been growing at unprecedented rates as a result of a supply chain constraints, COVID-19 stimulus induced demand, and labour shortages.

Local Governments can expect to see some relief in this area, as supply constraints begin to ease and demand slows as stimulus is unwound and interest rate rises begin to take effect.

However, it is important to note that construction costs are not expected to return to their 2020 levels, rather they are expected to grow at a more moderate pace.

There will be regional differences in construction costs that stem from the local market for labour, materials, competing projects and other location-specific factors.

A focus area for Local Governments should be **wages**, which are tipped to increase following several years of modest growth.

Wages growth is expected to outpace the LGCI in coming years as it begins to grow again in real terms. The private sector is leading this growth as it responds quicker to the increased competition for talent than the public sector.

The **labour market** remains tight across the country as job vacancies continue to outnumber unemployed persons and the unemployment rate remains low. This will continue to pose challenges for the sector to attract and retain staff and will add to wage pressures.

The **WA economy** is on track to record below-trend growth of 1% in 2023-24 and 1.75% in 2024-25 as commodity prices are expected to ease, Government stimulus comes to an end, and households rein in spending in response to interest rate rises and the higher cost of living.

NOTE

The significant challenges of forecasting in the current economic environment mean **the LGCI should be used with caution**. The LGCI will be subject to revisions in coming months, as the impact of recent rate rises and developments in the global economy become clearer. An increase in wage pressures may also see the index revised higher.

It is important that Local Governments take into account their own local issues and experiences when considering cost pressures. It would also be prudent for Local Governments to prepare for multiple scenarios for cost increases in coming years.

INFLATION IS AT A THREE-DECADE HIGH

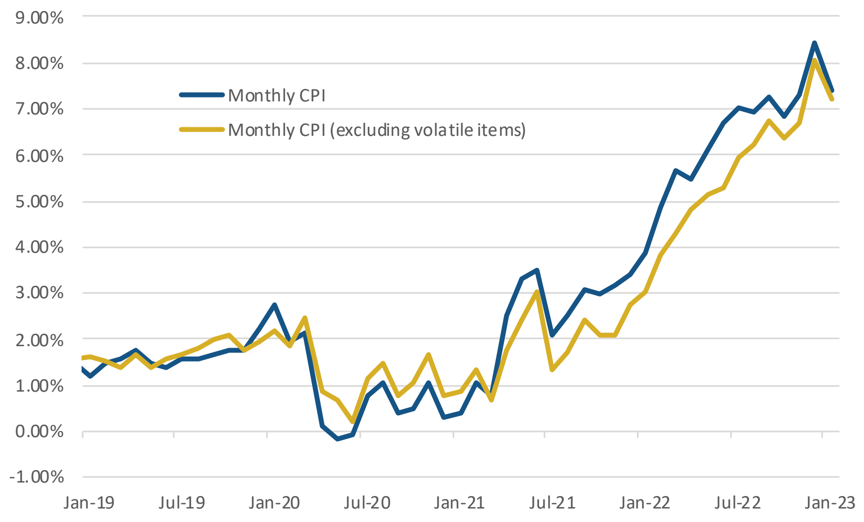
Like most of the developed world, inflation in Australia remains high. The Australian CPI reached 7.8% in the December quarter of 2022 – the highest rate of growth since 1990. This was replicated across the country with the Perth CPI reaching 8.3% off the back of strong increases in the price of housing, recreation and culture, food and beverages and household furnishings.

While spikes in inflation are often driven by particular commodities or events, it is important to note that the current inflationary pressures are spread throughout the economy. The Reserve Bank of Australia's (RBA) preferred measure of inflation, the Trimmed Mean, which excludes large price rises and falls to reduce volatility, is running at 6.9%. This is the highest rate of growth recorded since this measure was first published in 2003 and is well outside the Reserve Bank's target band of 2-3%.

While inflation is running hot, there are signs that it may have peaked. The ABS's new monthly inflation measure provides a more timely, but less robust, indication of inflation than the quarterly figure. The monthly Australian CPI reduced from 8.4% in December to 7.4% in January suggesting that the interest rate rises may be starting to have an impact. The RBA is likely to be cautious about the monthly figures and will be focussed on the next quarterly reading in April before they become confident that inflation has peaked.

Looking forward, the RBA expects inflation to begin to ease, but remain elevated for some time. Growth in the national CPI is expected to slow to 6.75% in June 2023 and 4.75% by December 2023. It isn't until June 2025 that it expects inflation to return to the upper-bound of their target band of 2-3%.

Monthly Consumer Price Index, Australia, Annual % Change



SOURCE: ABS; WALGA

WHILE INFLATION STAYS HIGH, INTEREST RATES WILL CONTINUE TO RISE

With inflation outside of its preferred range, the RBA has embarked on a series of rapid interest rate rises.

In its first two meetings of 2023, the RBA hiked the official cash rate by 25 basis points in both February and March, bringing the Cash Rate Target to 3.6%. This represents a 350 basis point increase in less than a year – the sharpest increase on record – and a sign of the Bank's commitment to bringing inflation under control.

The full impact of interest rate rises on the broader economy have not yet been seen, as it takes three to six months to flow through to debt repayments and impact household spending.

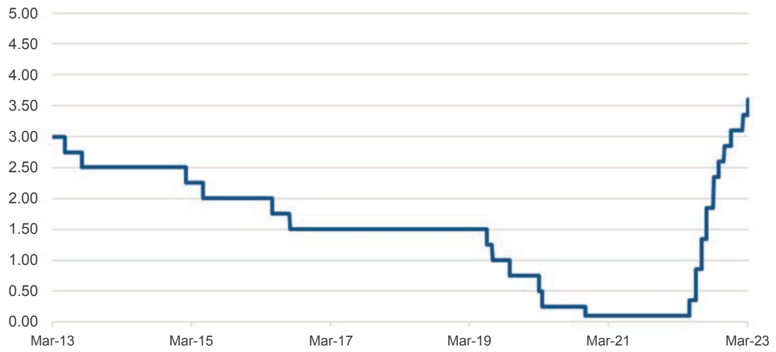
However, the rapid increase in the cash rate has now exceeded the Australian Prudential Regulation Authority's (APRA) 'serviceability buffer' of 3%. Banks add this buffer to the current loan interest rate to 'stress test' borrowers' capacity to service the loan if interest rates were to rise 3%. Given the RBA has now increased interest rates by 3.5%, and this increase has largely been passed on to the consumer by the banks, there is a higher risk that consumers will not be able to meet their repayments.

While further interest rate rises are not being ruled out according to the Minutes of the RBA's March Monetary Policy Meeting, most commentators consider their language softened somewhat from the previous month, which means that the end of the tightening cycle may be in sight.

While much of the focus on the impact of interest rate rises has been on households, Local Governments will also be affected by rising interest rates when they take out new loans or when they use a short-term loan facility. Conversely, Local Governments with cash investments should expect to see higher returns.

The bulk of Local Government borrowings are long-term fixed rate loans through the WA Treasury Corporation (WATC). They will not be impacted by the recent interest rate rises until the loan matures.

RBA Cash Rate Target, Australia, %



SOURCE: RBA; WALGA

RISING COST OF LIVING HAS DENTED CONSUMER CONFIDENCE

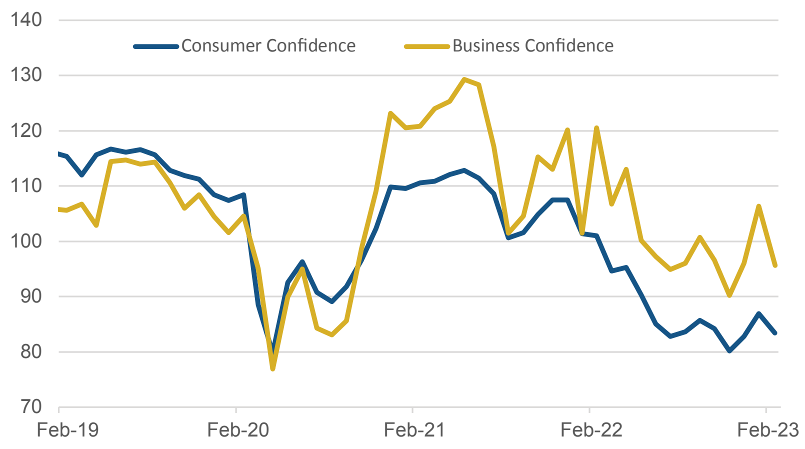
Unsurprisingly consumer confidence remains at record low levels as increases in both inflation and interest rates continue to squeeze household budgets.

The expected slowdown in consumer spending wasn't yet evident in January's Retail Trade data, which was unexpectedly robust, growing at 2.4% in WA during the month. More data on spending habits in the first quarter of this year is required before the RBA can feel comfortable its actions to date have had the desired effect in slowing down household spending.

Business confidence indicators are patchy as firms are cautious about the performance of the national economy in the near term.

As Government stimulus unwinds, it is the private sector that will increasingly drive economic growth, so it is critical that businesses believe that the next 12 months will be a good environment to invest in. In contrast with the rest of the country, business confidence in WA has been climbing for three consecutive months, according to Roy Morgan.

Consumer and Business Confidence, Australian Monthly Index



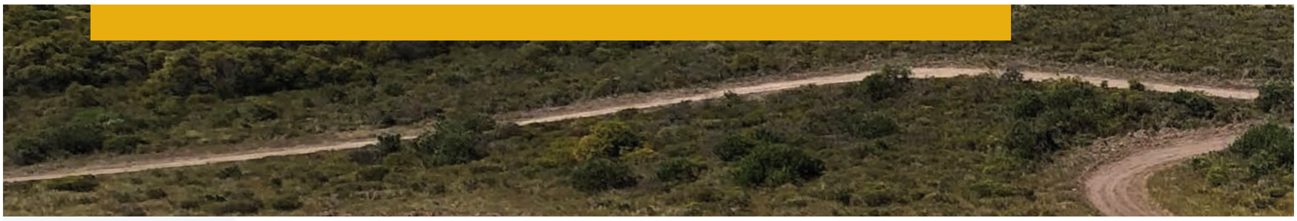
SOURCE: ROY MORGAN; WALGA

LOCAL GOVERNMENTS ARE NOT IMMUNE FROM INFLATION, BUT SOME RELIEF IS IN SIGHT

While much of the focus has been on the impact that inflation has had on households, businesses and Government have also experienced the pain of higher prices in recent times.

Local Government costs – as measured by the WALGA Local Government Cost Index (LGCI) – have accelerated for the past two years. However, there are signs that the rapid cost increases experienced by the sector are easing.

After stabilising in September quarter of 2022, the LGCI has started to slow, but remains above the long-term average. The LGCI grew by 1.1% in the December quarter of 2022 to stand 4.7% higher than a year earlier. This is down from the 5.3% rate of growth recorded over the year to September. The index has now eased in annual terms for the past two quarters.



GROWTH IN CONSTRUCTION COSTS CONTINUES TO EASE

Much of the increase in the LGCI over the past few years has been attributed to construction costs, which make up a fifth of the Index and have been growing at unprecedented rates, due to a number of global and domestic factors.

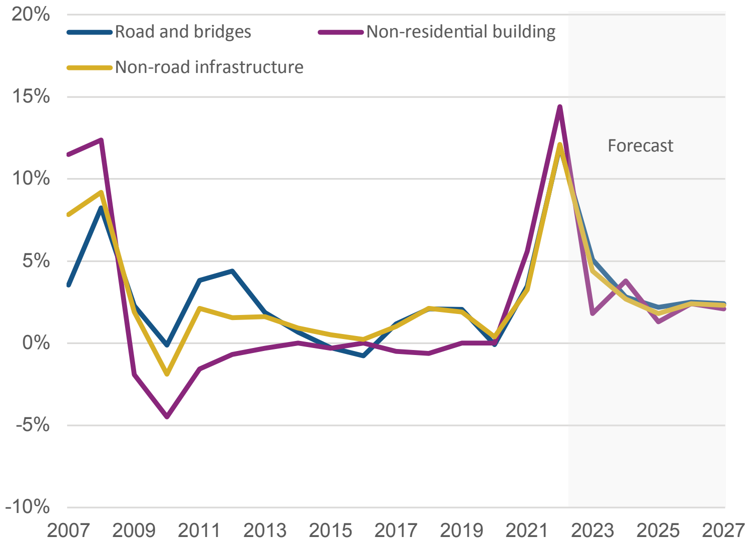
Increases in the order of 10 to 15% have been recorded in recent years due to the pick up in global demand coming out of the pandemic; strong construction activity driven by Government stimulus; constrained supply of materials and increased shipping costs; reduced mobility of labour leading to labour shortages, and the impact of the Ukraine conflict on commodity prices.

However, construction cost growth is starting to moderate as borders reopen, global trade resumes and supply constraints ease. On the demand side, the end of stimulus programs, inflation and rising interest rates have begun to reduce demand, and construction businesses are better able to work through their backlog of projects.

Non-residential building costs increased 5% in the 12 months to December 2022, down from a 14.2% increase over the year to September. Non-road infrastructure is similar, with the peak having passed, and a projected annual growth in costs of 4.4% at June 2023.

Road and bridge construction costs have been slower to come down, however they have eased to 9.5% over the year to December 2022 and are expected to end 2022-23 with 5.1% annual growth.

Construction Cost Indexes, WA, Annual % Change



SOURCE: ABS; MACROMONITOR; WALGA

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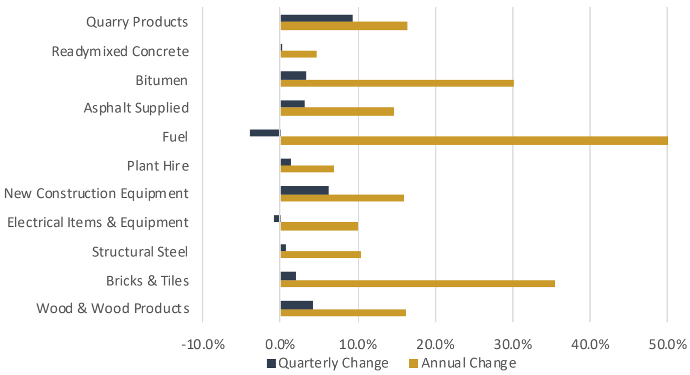
A key driver of movements in construction costs is materials. Concrete, cement and sand prices are driven by national and regional supply, as well as the amount of construction work performed. In the 12 months to December, 2022, Readymixed Concrete costs increased 4.6% and cement costs increased 10.3%. As construction work completed normalises, it is expected that growth in these costs will ease and continue to grow at a modest rate.

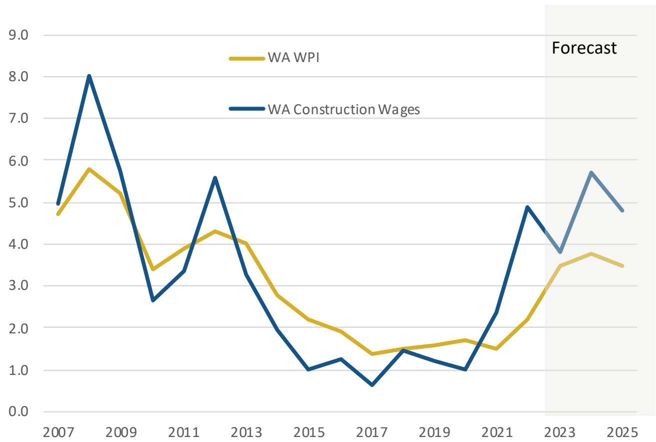
Reinforcing steel is another significant component of construction costs, and is strongly linked to the global market and the strength of the Australian Dollar. During the pandemic steel prices rose sharply as the global demand from economic stimulus exceeded the constrained supply. Just as prices were starting to ease in early 2022 as global conditions normalised, supply was impacted again as two major steel suppliers – Russia and Ukraine – reduced their exports due to the war. Prices are expected to moderate in the short term before returning to a steadier growth path.

Selected components of construction costs, WA, Quarterly v Annual % Change December 2022



SOURCE: ABS; MACROMONITOR; WALGA

Construction Wages WA v Wage Price Index WA, Annual % Change



SOURCE: WA TREASURY; MACROMONITOR; WALGA

A major contributor to the increase in road costs in recent times has been the rise in the cost of asphalt (increasing 14.6% in 2022) and bitumen (increasing 30.1% in 2022). These are closely linked to the increase in oil prices related to Russia's invasion of Ukraine. It is expected that as oil prices adjust to the geopolitical situation, growth in asphalt and bitumen costs will ease.

Labour costs are also a major driver of construction costs. Construction wages in WA have been growing strongly in recent times, up by 4.9% in the year to June 2022 according to Macromonitor. They are expected to remain above the state average in the short to medium term as demand remains high while constraints remain around skills shortages and labour supply. These challenges are likely to be starker in regional locations where employee attraction is already a major issue.

Looking forward, construction costs are expected to continue to ease across 2023-24. However, it is important to note that construction costs are not expected to return to their 2020 levels, rather they are expected to settle at this new level with modest ongoing growth.

There will be regional differences that stem from the local market for labour, materials, competing projects and other location-specific factors. Local Governments are encouraged to liaise with suppliers to understand where their cost pressures lie.

WAGE PRESSURES ARE STARTING TO BUILD

The increase in wages has not just been limited to the construction sector. Wages are finally starting to pick up in line with the widespread increases in inflation.

Wages growth accelerated in Australia, with the national Wage Price Index (WPI) for the December quarter up by 0.8% and 3.4% in annual terms. In WA, the WPI grew by 0.8% during the December quarter and 3.6% over the year. This represents the largest increase in annual terms in a decade.

Wages growth continues to be driven by the private sector, which is faster to respond to the tight labour market. The WPI for the private sector in WA increased 4.2% in the 12 months to December 2022. By contrast, the public sector WPI in WA grew by 1.13% over the same period. However, this is expected to come under pressure going forward as the public sector responds to market conditions and the recent State Government pay rises of 3% flow through.

In WALGA's 2023 Salary and Remuneration Survey of 77 WA Local Governments, respondents forecast a 6.9% median increase in total employment expenses in 2022-23. As staff numbers in Local Governments vary from year to year, this metric is not an indicator of wages rises. WALGA's Employee Relations team reports that in recent months, median wage increases in approved WA Local Government Enterprise Agreement are increasing in response to market conditions. WALGA members can find out more by reaching out to the Employee Relations team.

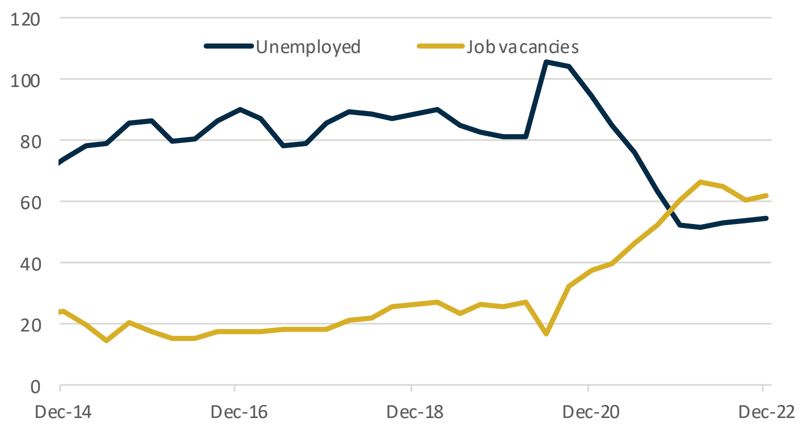
Wage Price Index, WA, Annual % Change

LABOUR SHORTAGES PERSIST

The labour market in WA remains tight. The number of people employed in WA has been flat for nine months with few net jobs created. Advertised job vacancies are unable to be filled, with the number of jobs on offer still close to record highs, and above the number of unemployed people.

The unemployment rate in WA remains historically low at 3.8% in February 2023 and the participation rate is still high at 69% suggesting that there is very little spare capacity in the labour market. High commodity prices, the solid construction pipeline, and robust business confidence suggest that the WA labour market will remain tight over the near term.

Job Vacancies v Unemployed Persons, WA Public and Private, '000s



LOCAL GOVERNMENT COSTS TO REMAIN HIGH

Looking ahead, Local Governments can expect to experience some relief with growth in the Local Government Cost Index (LGCI) expected to have peaked in 2021-22. After an increase of 6.4% in 2021-22, Local Government costs in WA are expected to rise by 4.5% in the 12 months to June 2023. The Index is then expected to slow further to 2.9% in 2023-24 and 2.4% in 2024-25.

However, with inflation remaining high across the whole economy, forecasts for the LGCI over the next two years have been revised upwards since the last Economic Briefing. Whilst there are early signs of cost pressures easing in some sectors of the economy, this is happening at a slower rate than previously predicted.

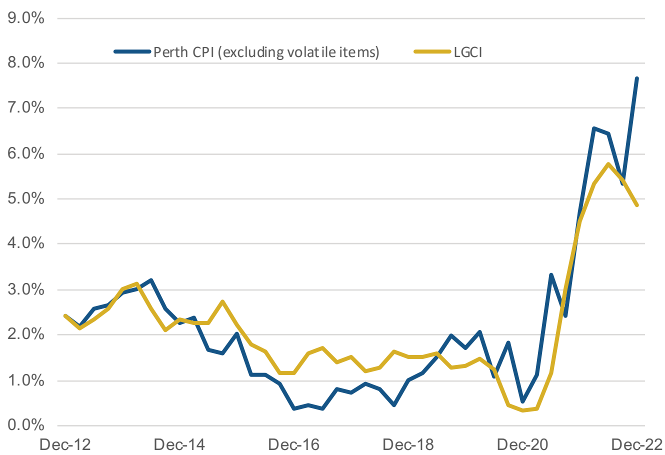
The easing in the Index reflects a slowdown in the rate of growth of construction costs, as COVID-19 related stimulus comes to an end, supply chain challenges improve, and the costs of materials begins to return to more normal levels. Machinery and equipment costs are also expected to continue to record strong growth in the year ahead, rising by 10.7%.

However, the slowdown is not expected to be consistent across all areas of Local Government costs. Inflationary pressures are patchy, and the sector should prepare for some components of the Index to continue to experience strong increases.

A key area of focus for Local Governments is employee costs, which make up over a third of the Index. Whilst modest wage increases over the past two years have helped to keep a lid on the LGCI, this trend is not expected to continue. Wages growth is expected to outpace the LGCI in coming years as growth resumes in real terms, with an increase of 3.8% expected in 2023-24 and a further 3.5% in 2024-25. This is dependent on inflation moderating in line with RBA and Treasury forecasts, as well as no new major global economic shocks of the magnitude that has been seen with the pandemic and the Russian invasion of Ukraine.

For Local Governments in WA, the key lesson from recent years is to build flexibility into four-year budgets and prepare for multiple scenarios. For those with major upcoming construction projects, liaising with suppliers to understand the regional cost pressures and supply constraints, will help to make better decisions around the timing of these projects.

LGCI vs CPI (excluding volatile items) Annual % Change



SOURCE: ABS; WALGA

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WA ECONOMY TO SLOW

The year ahead will be a challenging time for policy makers as they look to rein in inflation without sending the economy into recession.

The Australian economy continued to grow in the December quarter with GDP up 0.5% and 2.7% over the year. Despite the rate rises, household consumption grew 0.3% in December. In their February Economic Outlook, the RBA estimated GDP growth of 2.25% in 2022-23, slowing to 1.5% in 2023-24.

In WA, State Final Demand, which measures the domestic economy excluding imports and exports, was flat in December growing by just 0.1%. For the year, WA still recorded robust growth of 3.2%, on the back of solid consumer spending. The mining industry continues to be the largest contributor to national economic growth which bodes well for WA, which will benefit from a strong investment pipeline. Deloitte's December Investment Monitor reports $42 billion of engineering projects are under construction in WA with a further $105 billion in planning.

The WA Government's Mid-year Financial Projections Statement forecasts that the State's economy will out-perform expectations in 2022-23 and increase 3% led by a stronger than expected housing market and robust business investment, exports, and Government spending. This is predicted to be short-lived with the WA economy to grow 1% in 2023-24 and 1.75% in 2024-25 as commodity prices are forecast to ease, Government stimulus continues to decline, and households rein in spending.

The labour market is forecast to remain strong. The unemployment rate is forecast to bottom out at 3.5% in the current financial year, increasing to a still low 4% in 2023-24 and 2024-25. The participation rate is forecast to come down only slightly from the record highs. At the same time employment growth is forecast to grow less than 2% annually over the next three years, in-line with modest economic growth. This tight labour market translates into wages growth of 3.5% in 2022-23, 3.75% in 2023-24 and 3.5% in 2024-25, with wages to grow faster than inflation from the next financial year, which will bring some relief to households.

Both the national and state economies are tied to the global situation. The International Monetary Fund has raised its estimate for global economic growth slightly to 2.9% in 2023 as central banks across the globe tackle inflation. The reopening of China has revived hopes for the global economy, however there is a significant challenge to restart its economy in a climate where households are cautious about spending. Whether China can reach its economic growth target of 5% will have a major bearing on the health of the Australian economy, particularly given its role as the state's largest export market.

WA Treasury Mid-year Financial Projections Statement – WA Economic Outlook

	2021-22 %	2022-23 %	2023-24 %	2024-25 %	2025-26 %
Gross State Product	3.1	3.0	1.0	1.75	2.25
Household Consumption	5.3	2.5	2.0	2.5	2.5
Business Investment	4.0	9.75	6.25	2.5	1.25
Dwelling Investment	2.2	6.0	5.0	-7.25	6.25
Government Investment	11.5	16.5	7.5	3.25	0.75
Merchandise Exports	-2.9	3.0	0.25	1.0	1.5
Merchandise Imports	-1.9	3.25	2.25	1.0	0.75
Employment Growth	5.4	1.75	1.25	1.25	1.25
Unemployment Rate	3.7	3.5	4.0	4.0	4.25
Participation Rate	69.3	69.1	69.1	68.7	68.4
Wage Price Index	2.2	3.5	3.75	3.5	3.25
Consumer Price Index	5.1	5.25	3.25	2.5	2.5

LGCI FORECASTS

Component	Weighting	2021-22 (a)	2022-23 (f)	2023-24 (f)	2024-25 (f)
Employee costs	35%	2.7	3.8	3.8	3.5
Materials and contracts	28%	5.7	4.8	2.1	1.7
Furniture	1%	7.5	3.6	1.3	1.3
Non-residential Building	5%	14.4	1.8	3.8	1.3
Machinery and Equipment	5%	12.2	10.7	2.4	1.9
Non-road Infrastructure	9%	12.2	4.4	2.7	1.8
Road and Bridge Construction	10%	12.0	5.1	2.8	2.2
Utilities	3%	1.4	2.5	2.5	2.5
Insurance	1%	7.0	5.1	2.8	2.8
Other costs	3%	5.9	5.3	3.3	2.5
LGCI	**100%**	**6.4**	**4.5**	**2.9**	**2.4**

QUESTIONS

If you have any questions on the contents of this report, please direct them to the WALGA Economics Team.

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