

30 June 2023

Review of the rate peg methodology
Independent Pricing and Regulatory Tribunal NSW
PO Box K35
Haymarket Post Shop NSW 1240

Dear Ms Donnelly,

At its meeting of 27 June 2023, Maitland City Council resolved to provide the following responses to items IPART are seeking comment on in the Draft Report on the Review of the rate peg methodology of June 2023.

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 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 changes 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.*

Council Response – The most reliable and preferred measure of the changes in employee costs is the annual wages increases prescribed by the Local Government (State) Award (Award) coupled with any prescribed changes to the superannuation guarantee rate. An alternative measure is needed for those years in which the Award increases are still being determined at the time the rate peg is finalised, such as at present. The Reserve Bank of Australia's forecast change in the Wage Price Index is a suitable alternative measure, though the methodology should stipulate that the forecast change in the Wage Price Index is only to be used in the situation where Award increases have not yet been determined for the year the rate peg applies to.

In terms of the risks associated with use of the Award increases in the rate peg, Maitland City Council agrees that the current mitigating factors of community consultation on the long-term financial plan, ratepayers having the power of voting based on prior council decisions and the ultimate approval of Award increases by NSW Industrial Relations Commission will adequately mitigate any risk of an impact on Award increase negotiations.

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

Council Response – An alternative source of data on employee costs is the change in actual employee costs collected through the annual Financial Data Return. This measure, combined with Award increase for the year in which the rate peg would apply, would prove a more accurate measure and account for the impact of market forces on employee costs. Current labour market shortages are impacting on council employee costs above any determined Award increases as councils are forced to pay market force premiums to attract employees or pay a premium to labour hire companies or contractors to fill employee vacancies.

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?*

Council Response - Maitland City Council supports the release of indicative rate pegs in September, this better informs the processes of setting rates and subsequently the Delivery Program/Operational Plan, including the annual budget, and long term financial plan.

However, Council has significant concerns around its ability to finalise its Operational Plan and budget, including the setting of fees and charges, if the final rate peg is not released until May.

Working with current IP&R requirements Council needs to have draft rates and budget calculations completed to have the draft Delivery Program/Operational Plan on public exhibition by mid April in order to have the Delivery Program/Operational Plan finalised and adopted by Council in June in preparation for the commencement of the financial year.

Releasing the final rate peg in May will not allow sufficient time to complete this process.

Council does however, see merit in including the actual ESL assessments included in the rate peg for the coming financial year and suggests that council have the ability to complete all calculations based on the indicative rate peg provided in September and place IP&R documents on public exhibition based on the calculations using the indicative rate peg, noting that the draft rates and budget are subject to the final rate peg being released. Calculations will then need to be amended based on the final rate peg and presented to Council for adoption in June without further need for public exhibition.

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?*

Council Response – Maitland City Council is part of the Lower Hunter RFS District and the Rural Fire Service contribution is shared with Cessnock, Dungog and Port Stephens Councils. The Lower Hunter RFS arrangement is as follows:

Council	Percentage of RFS Contribution
Cessnock	32.5%
Dungog	25%
Maitland	15%
Port Stephens	27.5%

The Lower Hunter Zone Agreement relates only to the Rural Fire Service contribution. Maitland City Council is assessed directly for the Fire and Rescue NSW and NSW State Emergency Service contributions.

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:*
- Rural Fire Service*
 - Fire and Rescue NSW*
 - 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.

Council Response – Maitland City Council will be able to provide a copy of the Lower Hunter Zone Agreement when requested and a copy of the Council Contribution Assessment Notice for the NSW State Emergency Service and Fire and Rescue NSW contributions once received.

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?*

Council Response – Maitland City Council supports the establishment of a process to develop adjustment factors for groups of councils to account for increases in specific external costs. Council notes that a separate adjustment is proposed to capture the Emergency Services Levy and welcomes a process to capture other external costs that councils have no control over, whether due to climate, economic or legislative factors.

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

Council Response – Maitland City Council agrees that it is appropriate to assume that only residential supplementary valuations are driven by population growth and therefore supports including only residential supplementary valuations in the population factor calculation.

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

Council Response – Ideally, data pertaining to residential supplementary valuations would be provided by the Valuer General as part of the supplementary valuation listings and would be based on the property zoning information already held by the Valuer General. However, Council acknowledges that implementation of this data source may cause delays in the implementation of any changes to rate peg methodology.

As an alternative, sourcing the residential supplementary valuation data directly from councils through the Annual Financial Statements is feasible. The data would be readily available to councils from the processing of supplementary valuation lists and is able to be independently verified through the auditing of the Annual Financial Statements.

9. *What implementation option would you prefer for the changes to the rate peg methodology?*

Council Response – Based on the predicted impact on the rate peg of switching from the LGCI to the BCC in 2024-25, as shown in Figure 8.1, Maitland City Council supports the proposed implementation option whereby the following changes are implemented in the 2024-25 rate peg and a true-up is included to account for recent economic volatility:

- Replace the Local Government Cost Index (LGCI) with the 3-component Base Cost Change (BCC) model and use three (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 2024-25.

Concerns around the preferred implementation option of delaying the move from LGCI to BCC as part of the rate peg methodology until 2025-26, relate to the possibility of continued economic volatility resulting in the difference between the LGCI and BCC impacting the rate peg in 2025-26 with no true-up adjustment available.

Council appreciates the opportunity to make a submission on this draft report and we look forward to the final report and recommendations.

Yours Sincerely

[Redacted Signature]

[Redacted Title]