Moree Plains Shire Council

Feedback on IPART Review of the rate peg methodology- Draft Report

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.

Moree Plains Shire Council's annual labour costs are $19.1M which is 70% of our General Fund rate income of $28.1M, so it is important that this index clearly reflects changes applicable to Moree.

Council has a preference for using option a) *"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"* wherever possible.

This is because forward looking labour increases are known with certainty through the Award increases negotiated at the time of each new Local Government Award. Future superannuation guarantee rates are also known with certainty.

However, if IPART is required to use the RBA Wage Price Index in a year between confirmed Award increases, a "True Up" should occur in the year following, accounting for any difference between the final Award increase and the estimate provided by the RBA's Wage Price Index.

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

explore?

IPART should look to identify external factors which affect regional and rural Councils including significant increases in salary costs to attract staff, higher transport and materials costs.

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 supports draft report's inclusion of a separate adjustment to the rate peg to reflect the annual change to the Emergency Services Levy (ESL).

Council is supportive of the release of indicative rate pegs for councils in September, as it provides a level of certainty for budgeting and long term financial planning purposes.

An update in May is supported with the option to carry forward the increase to the next years rate peg if Council has already adopted its annual budget.

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 does not have any ESL sharing arrangement with other councils and so have no further information or comment on these arrangements.

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.

Council is of the view that the ESL contribution amounts should be provided to IPART at the same time they are issued to individual councils. This removes another compliance task for councils and ensures accuracy from the source. Council advocates for the calculation and issue of the ESL by State Government, to be much earlier in the year than it presently is.

Council does not have any ESL sharing arrangement with other councils and so the cost sharing agreements are not applicable.

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 supports IPART establishing a process to develop adjustment factors for groups of councils to increase the rate peg to cover specific external costs largely beyond councils' control. An index for regional and rural councils who are experiencing increased expenses to attract staff, obtain materials and transport costs.

A template index which councils can use to highlight their specific challenges would be supported.

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

Council supports the retention of a population growth factor in the calculation of rate pegs for individual councils. This ensures councils are appropriately compensated for the cost of growing populations. The population growth factor will be important to Councils like Moree Plains Shire Council as initiatives such as the Special Activation Precinct are completed which will lead to significant population increases.

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

Council supports the continued use of Valuer General (VG) data.

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

Council supports the option to implement all changes in the 2024-25 rate peg and include a True Up, which provides a reimbursement for any shortfall. This option would facilitate the

transition to the forward-looking Base Cost Change (BCC) model while ensuring that through

a True Up, councils would be no worse off.

General Feedback on IPART draft decisions:

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

a) employee costs

b) asset costs

c) other operating costs.

Council supports the replacement of the Local Government Cost Index (LGCI) with a Base Cost Change Model (BCCM) as it is simpler, more transparent and forward looking. This is a welcome change compared to the LGCI which is backward looking and not timely.

11. 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).

Council supports the development of separate BCCM for 3 council groups. This facilitates a rate peg that recognises the individual cost pressures experienced by these different types of councils.

12. 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 1).

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 Statementon 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.

Council supports the use of these measures as they are objective and forward looking. The use of the Producer Price Index to supplement CPI for asset costs is appropriate.

13. To publish indicative rate pegs for councils around September each year (unless input data is not available) and final rate pegs around May each year.

See Question 3 above.

14. To include a separate adjustment factor in our rate peg methodology that reflects the annual change in each council's Emergency Services Levy (ESL) contribution.

Council is in full support of being reimbursed for the annual change in Council's Emergency Services Levy in the rate peg.

15. To set Emergency Services Levy (ESL) factors and a final rate peg for each council in May after ESL contributions for the year the rate peg is to apply are known, so that councils can recover changes in ESL contributions in the year contributions are to be paid.

Council is in full support of being reimbursed for the annual change in Council's Emergency Services Levy in the rate peg.

16. To maintain our current approach and make additional adjustments to the rate peg on an as needs basis for external costs

Council supports the continuation of the current approach by IPART to identify and make adjustments to the rate peg on an as needs basis for material external costs.

17. To 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. We would not make retrospective adjustments for previous population factors.

This is not applicable to Moree Plains Shire Council.

18. To 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.

Council would prefer the removal of the productivity factor as it assumes all councils are operating inefficiently and is not reflective of actual cost growth. In addition, Council is supportive of the productivity factor remaining as zero by default and requiring evidence to move from that position. This recognises that Council productivity gains are reinvested into improved service levels.

19. To review our 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.

Council agrees with the review of the rate peg methodology every 5 years to ensure it remains optimal.