



SUBMISSION BY MOSMAN MUNICIPAL COUNCIL TO IPART REGARDING THE DRAFT REPORT ON THE REVIEW OF THE RATE PEG METHODOLOGY

Prepared June 2023

Mosman Municipal Council has consistently advocated for enhancements to the NSW rating system. Council appreciates the opportunity to provide feedback on the Draft Report and IPART recommendations aimed at improving rate peg methodology.

We are pleased to observe that, as part of the review, IPART also proposes improvements to the broader regulatory framework pertaining to the financial sustainability of councils. These recommendations encompass enhancing the financial model for Councils, promoting equity within the rating system, and ensuring that statutory charges accurately reflect the complete costs associated with service provision.

Furthermore, Council welcomes the opportunity to contribute to this Review and offers our input to ensure that the concerns and challenges faced by Councils in maintaining financial sustainability receive appropriate recognition and effective solutions.

IMPROVING HOW CHANGES IN COUNCILS' BASE COSTS CAN BE MEASURED

Q1. 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.*

This option, as evaluated in the Centre for International Economics (CIE) report, is considered to be unbiased, stable, highly accurate, and timely (except for the first year). It offers a simple and cost-effective implementation for both Councils and IPART.

However, there are certain drawbacks to using the Awards as a component of the BCC:

1. It fails to reflect the complete wage increase faced by Council, as it does not encompass factors such as the attraction and retention premium and executive packages, which are not covered under the Awards.
2. Council's objectivity in the wage negotiation process could be questioned when Council can recoup the increase from Rates.
3. The Awards rate will not be available during the first year of the three-year term when negotiations are taking place.

Despite these limitations, Council supports using the Awards increase to measure changes in employee costs within the BCC for the reasons highlighted in the CIE report.

- 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.

The RBA Wage Price Index (WPI) forecasts wage growth in Australia by analysing surveys from private and public sectors across different regions and industries. While the RBA is known for producing reliable economic data, and the WPI forecast provides a timely estimate of the expected future labour cost change, there is a high risk of bias associated with this option. This is due to the consistent difference between RBA forecasts and actual outcomes, as seen in the past forecast performance of the RBA CPI. IPART has proposed to address this issue by implementing a true-up adjustment in the following year.

IPART has also indicated that they plan to use the RBA forecast only when the Awards rate is not available.

The increase in the superannuation guarantee (i.e. 10.5% in 2022-23 to 12% in 25-26) will be adjusted when using either of the above measures.

Council supports using the RBA WPI and implementing a true-up in the following year to measure changes in employee costs in the BCC in the years when the Awards increase is not available.

Q2. Are there any alternative sources of data on employee costs we should further explore?

The CIE report discusses several alternatives to measure employee costs, in addition to the Awards and the RBA WPI. One approach that also scored highly is the Council-specific Wage Price Index (WPI) for all Councils or groups of councils. This option takes into account that many councils pay above award minimums and have progressive salary systems. Using a Council-specific WPI would provide more tailored and accurate data for each council, addressing the unique characteristics of our workforce.

IPART should thoroughly explore the option of developing a Council-specific Wage Price Index (WPI) and consider implementing this measure in the Base Cost Change (BCC) model. By doing so, the measurement of the change in employee costs would more accurately reflect the actual wage-price increase pressures experienced by councils. This approach demonstrates a proactive approach to ensuring a fair and accurate assessment of employee cost changes.

Q3. 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 the proposal to release indicative rate pegs for councils in September and provide final rate pegs that are updated to account for councils' Emergency Services Levy (ESL) contributions in May. This arrangement ensures that Council is appropriately compensated for the increase in ESL contribution and allows for better financial planning and budgeting.

ADJUSTING FOR EMERGENCY SERVICE LEVY

Q4. 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*
- 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?*

Not applicable to Mosman Council

Q5. *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.

Mosman Council does not have any cost-sharing arrangement.

CAPTURING EXTERNAL CHANGES OUTSIDE COUNCILS' CONTROL

Q6. *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's proposal to establish a process for developing adjustment factors for groups of councils. These adjustment factors would improve the rate peg to cover specific external costs, including:

- Nature disaster emergencies
- Cyber security
- New cost-shifting resulting from changes in legislation

Council believes that implementing such a process would enable this group of councils to proactively receive compensation for increased external costs, rather than addressing them retrospectively through the Special Rate Variation (SRV) process. However, it is important to note that any adjustment factors should be subject to an appropriate approval process.

REFINING THE POPULATION FACTOR

Q7. *Would you support measuring only residential supplementary valuations for the population factor?*

Council supports IPART's proposal to include only the Residential Supplementary Valuation % in the calculation of the Population factor. While this method presents challenges, including a one-year lag in data availability and high costs associated with data collection, it is considered a more appropriate approach for calculating the cost of growth compared to the current method of including supplementary valuation for all rating categories.

Q8. *If you supported using residential supplementary valuations, what data sources would you suggest using?*

Given the unavailability of residential supplementary valuations data from sources like the ABS, the OLG, or the Valuer General, implementing the use of residential supplementary valuations in the calculation of the population growth factor poses certain challenges. One possible solution is to collect the data from all 128 Councils. Moreover, to ensure transparency, it would be necessary to persuade the OLG to amend the Code of Accounting Practices and Financial

Reports, enabling the disclosure of residential supplementary valuations in the annual financial statements.

TRANSITION ARRANGEMENTS

Q9. What implementation option would you prefer for the changes to the rate peg methodology?

IPART presented the following implementation options in their draft reports:

1. Implement some of the changes in the 2024-25 rate peg, including the ESL factor.
2. Delay the implementation of all changes to the methodology until the 2025-26 rate peg.
3. Implement all changes in the 2024-25 rate peg.
4. Implement all changes in the 2024-25 rate peg and incorporate a true-up mechanism to ensure that Councils would not suffer any financial disadvantage.

Council prefers option 1, which involves using the LGCI in the rate peg calculation to compensate Council for the cost increases in 2023-24 that were not reflected in the 2023-24 rate peg due to the two-year lag in LGCI data.

Option 1 also includes the implementation of a separate Emergency Service Levy (ESL) factor that reflects Council's own contribution. However, in determining the ESL for 2024-25 IPART should consider the ESL increase in 2023-24 that were not accounted for in the 2023-24 rate peg.