Annual Business Plan and Budget 2023-24

The impact of CPI movements on Council's service costs and budget

CITY OF MITCHAM

Objectives

Understand Current Approach & Principles

Relativity of Cost of Services and CPI

Impact of movements in CPI

Options & Other Approaches

Feedback

Mitcham Approach

- **Commitment to keep existing service costs at or below CPI**
- **Fully fund and project cost of services based on most relevant indices**
- **Raise revenue at point of service commitment**

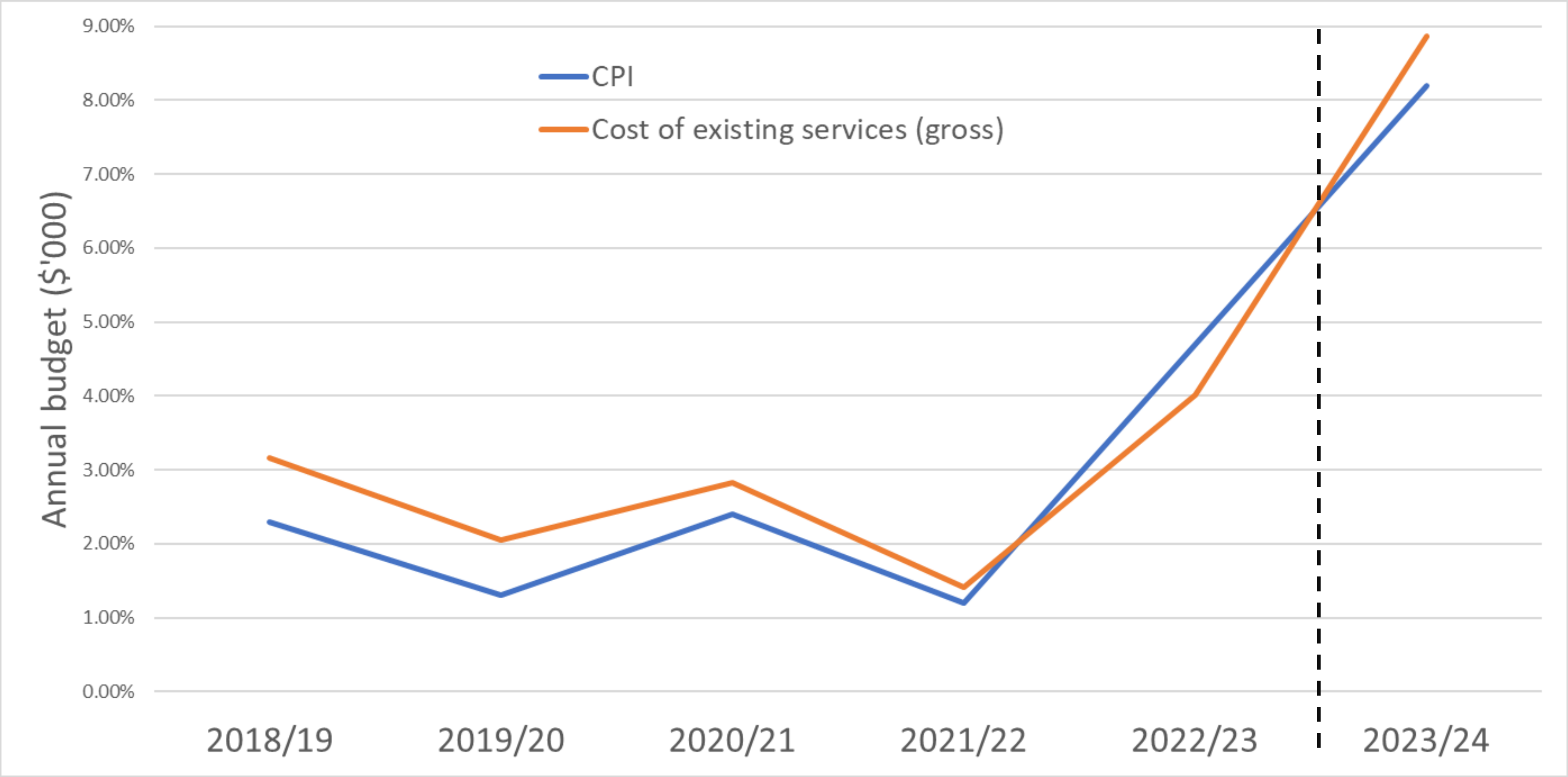
- Most years this requires savings

- Usually between $200k - $400k required.

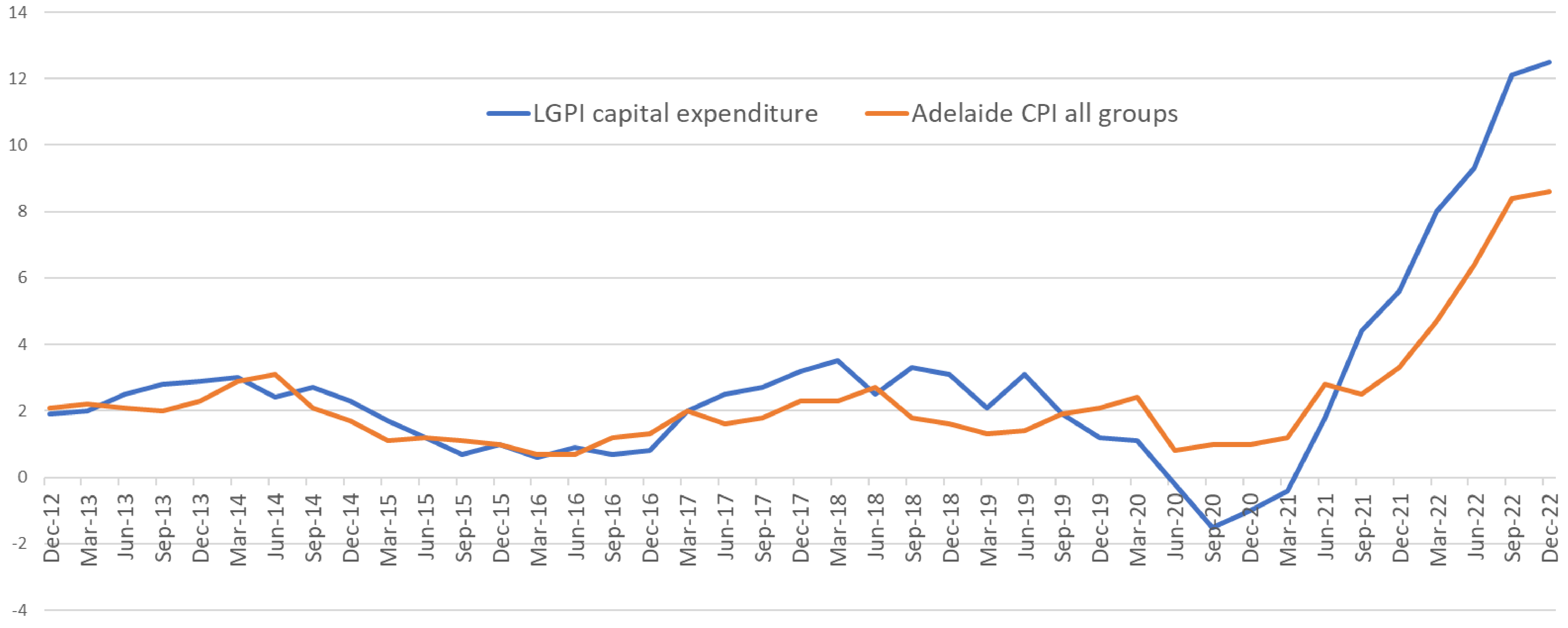
- Every year since commitment savings have been in excess of that required to meet CPI

- Council decision
  - New Services
  - Cover Cost Shifting
  - Lower Rate Rise
  - Improve Financial Position (surplus and debt repayment)

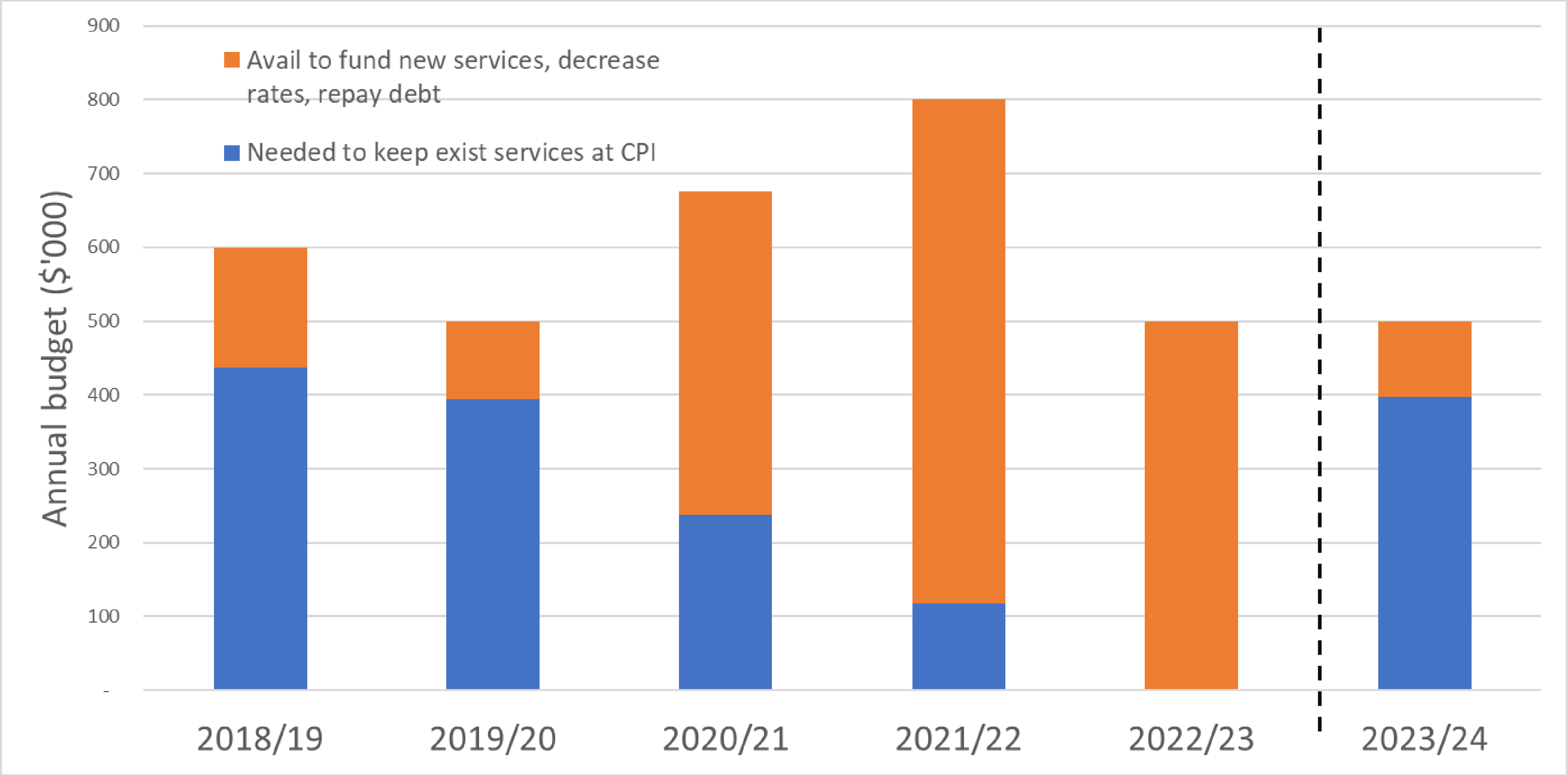
Cost of Services vs CPI



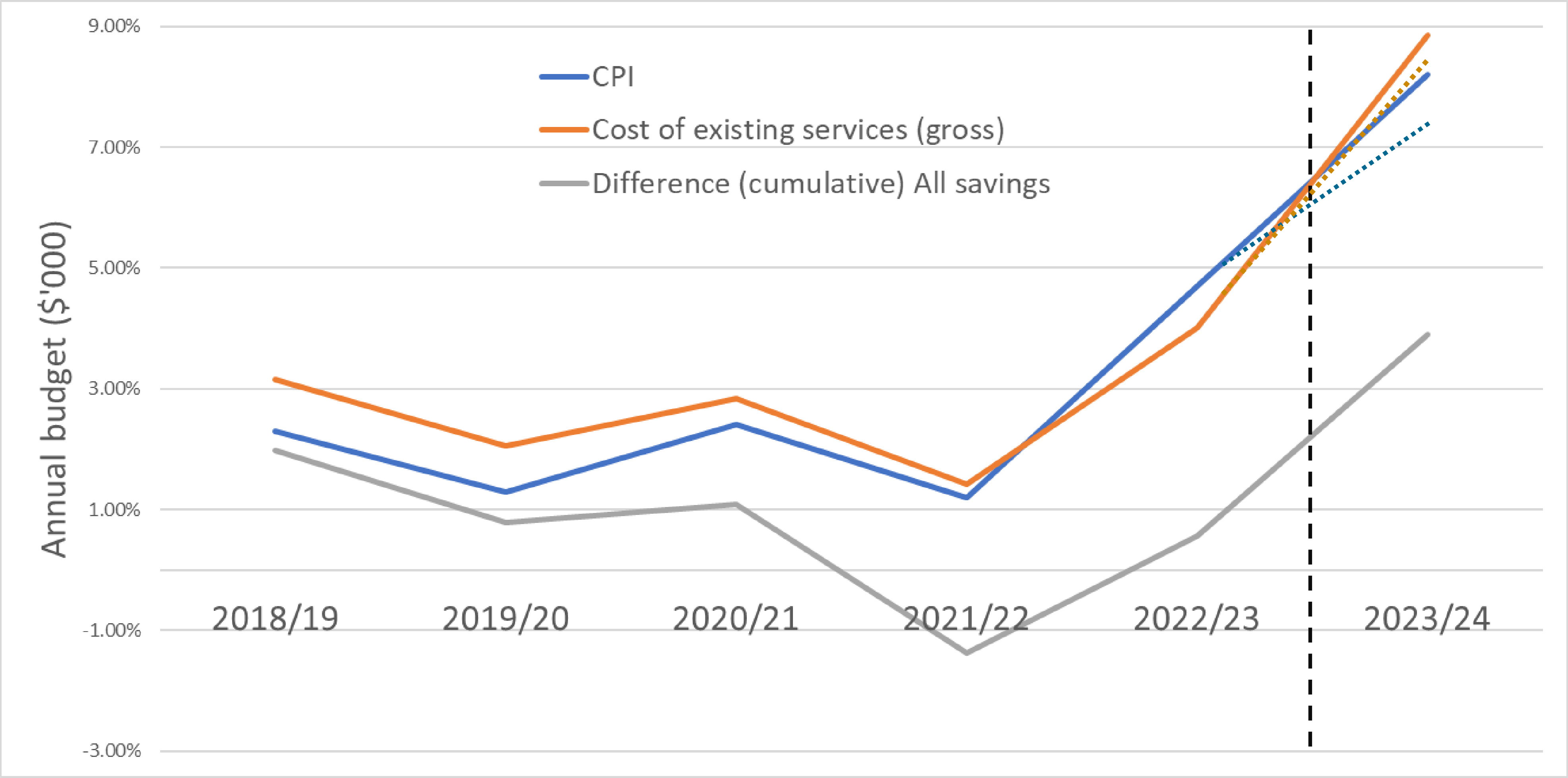
LGPI (Capex) vs CPI - Annual % Change (Qtrly Data)



Application of Savings



Cost of Services vs CPI – Last 5 years



Impact of CPI movement

Movement in CPI does not result in 1:1 movement of cost of services

Current Mix – Service Cost Drivers

~ 40% CPI

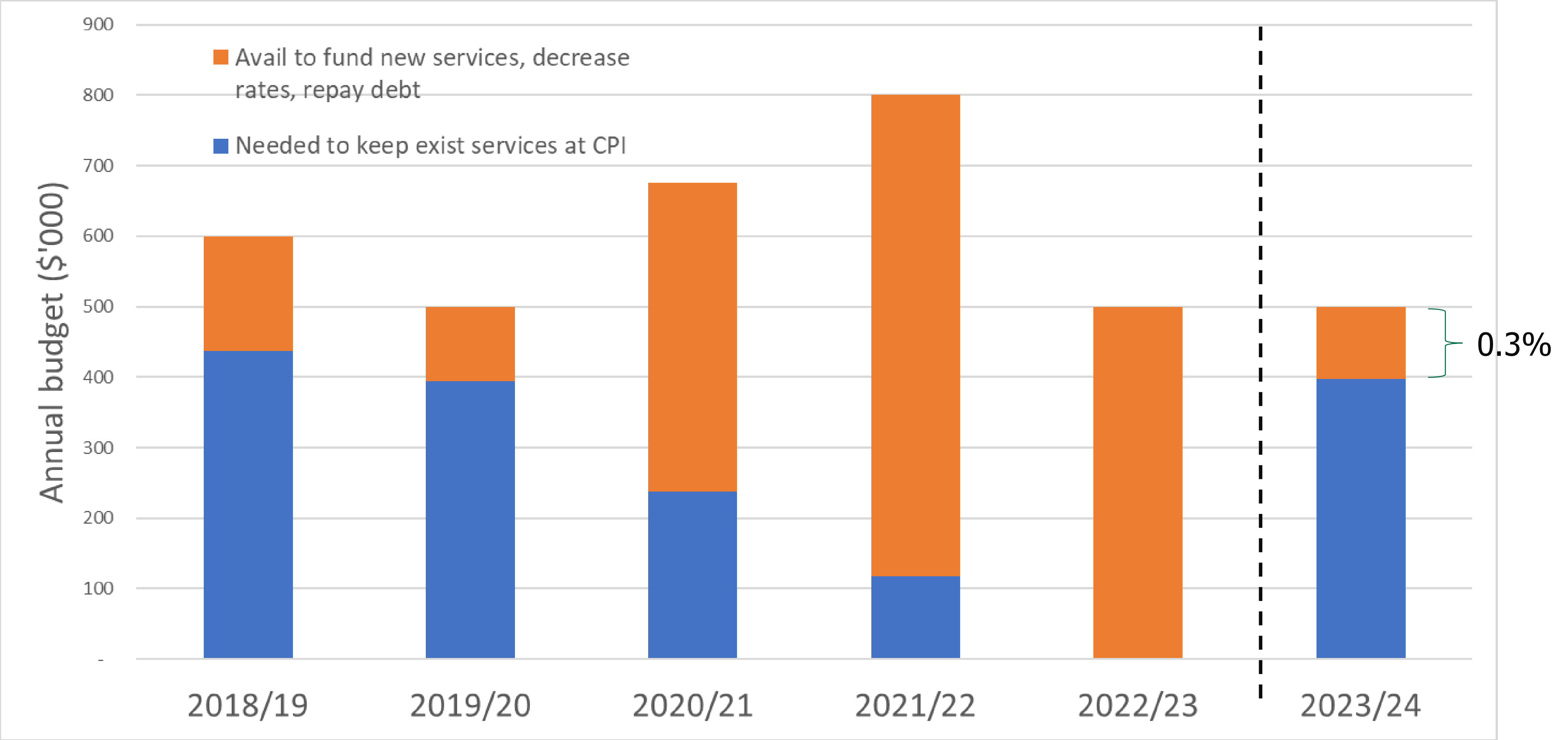
~ 25% Construction and Asset Price Costs (LGPI Capex)

~ 35% Non CPI related (LGPI Recurrent (Adjusted))

Current Forecast CPI march – 8.2%

Each 0.5% below this ~ $180k additional pressure to meet commitment

Savings Capacity



Options

0.5% CPI ~ $180k (or 0.2% Rates)

To maintain commitment next year (i.e. reduce rates 1:1 for CPI change)

- Increase Savings by $180k for every 0.5% drop in CPI
- Reduce Surplus by $180k for every 0.5% drop in CPI
- Reduce Indexation of Capital/Depreciation by 1.1% for every 0.5% drop in CPI

Rate Shifting

To maintain a fully funded and costed budget (based on $500k savings)

- Reduce Rates by 0.2% for every 0.5% drop in CPI

(not in line with commitment next year but still below commitment overall over last 5 years)

What are Others Doing

Based on a CPI forecast of 8.2%

Wide range between 8.9% - 4.5%

<u>To achieve a rate much lower than CPI;</u>

One or more of:

- Reducing surplus (previous over rating?)
- Cutting services
- Running deficits for next 1, 2, or 3 years
- Reduced or no indexation on Capital/Depreciation
- Lower indexation on expenditure (i.e. Wages/Elec)
- Unidentified savings numbers in the budget

Rate Shifting to future year(s)

Rate Shifting to future year(s) or realising previous inefficiencies

Thoughts

How important is commitment to existing services at CPI

In each Year ? – Need to find $180k for every 0.5%

Over a period ? – Reduce rates 0.2% for every 0.5%

Rate Shifting

Mechanism ?

Quantum ?

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