

IPART has set the 2020-21 rate peg for NSW councils at **2.6%**

The rate peg is based on the **change** in the **Local Government Cost Index (LGCI)**



We calculated the rate peg for 2020-21 by:

Taking the **increase** in the LGCI
to June 2019 of **2.6%**



The rate peg sets the **maximum increase** in each council's general income for the 2020-21 financial year. For most councils, general income consists entirely of rates revenue.

Councils have discretion to determine how to allocate this increase between different ratepayer categories. Individual rates are also affected by other factors, such as land valuations.

Councils may apply to IPART for a special variation to increase general income above the rate peg.



We have changed the way we account for **Emergency Services Levy costs**

Previously, we included actual costs incurred by councils for the Emergency Services Levy (ESL) in the LGCI. However, due to timing constraints, actual ESL cost changes were included in the LGCI with a two year lag.

For the 2020-21 rate peg, we have used the forecast ESL contribution of councils for 2019-20. This has reduced the lag between when councils face changes in ESL costs and when these cost changes are reflected in the LGCI and hence the rate peg, from two years to one year.



We will invite councils to complete a **cost survey**

As part of maintaining the effectiveness of the LGCI, we will invite councils to complete a cost survey in November 2019. This cost survey will be used to update the expenditure weightings of the LGCI, to ensure they remain accurate. The updated LGCI would apply to the rate peg from 2021-22 onwards.



Councils **must not increase** their general income by more than the rate peg of 2.6% for 2020-21, unless IPART grants approval for a special variation.

Councils applying for a special variation **must satisfy the criteria** listed in the Office of Local Government's Guidelines.

1 What is the rate peg?

The rate peg is the **maximum percentage** amount by which a council may increase its general income for the year. For most councils, general income consists entirely of rates income. For a small number of councils, general income also includes some annual charges such as drainage levies. The rate peg does not apply to stormwater, waste collection, water and sewerage charges. The rate peg applies to general income in total, and not to individual ratepayers' rates.

The rate peg is based on the change in the Local Government Cost Index (LGCI) and consideration of a productivity factor.



2 What is the Local Government Cost Index (LGCI)?

The LGCI is a price index for councils in NSW. It measures price changes over the past year for goods, materials and labour used by an average council. It is similar to the Local Government Price Index used in South Australia and, in principle, to the Consumer Price Index (CPI), which is used to measure changes in prices for a typical household.

The LGCI is designed to measure the average change in prices of a fixed 'basket' of goods and services that are purchased by councils, relative to the prices of the same basket in a base period.

- ▼ The index has **26 cost components**, such as employee benefits and on-costs (mainly salaries and wages), and building materials for roads, bridges and footpaths. The cost components represent the purchases made by an average council to undertake its typical activities. To measure changes in these cost components, we mainly use ABS price indexes for wages costs, producer and consumer prices.
- ▼ The ABS uses quality adjustments in its price measures to take into account improvements in labour and capital productivity.

To calculate the LGCI for 2020-21, we combined the 26 cost components using expenditure weightings based on NSW councils' expenditure in 2013-14 and 2014-15. The cost components measured cost changes over the four quarters to June 2019 compared to the four quarters to June 2018, with the exception of the Emergency Services Levy (ESL), where we have used forecast costs for 2019-20.

We will invite councils to complete a cost survey in November this year. Information collected through this cost survey will be used to update expenditure weightings in the LGCI to ensure they remain accurate. The updated LGCI will apply to the rate peg from 2021-22 onwards.

For more detail on the Local Government Cost Index, see our Fact Sheet, *Local Government Cost Index Survey 2015*, published in October 2015. This is available on our [website](#).

3 What price changes influenced the LGCI?

We used the change in the LGCI to June 2019 when setting the rate peg for 2020-21. This change in the LGCI was 2.6%.

The main contributors to the change in the LGCI for the period ending June 2019 were:

- ▼ An increase of 2.6% in employee benefits and on-costs, measured by the ABS wage price index for the NSW public sector
- ▼ An increase of 3.8% in construction works – roads, drains, footpaths, kerbing, bridges costs, measured by the ABS producer price index for roads and bridge construction – NSW
- ▼ An increase of 3.7% in building – non-dwelling costs, measured by the ABS producer price index for non-residential building construction – NSW.

Most components of the LGCI experienced moderate price inflation over the period to June 2019 (see Section 3 below for a table showing the price changes in cost items for all components of the LGCI).



4 Our approach to the Emergency Services Levy



The Emergency Services Levy (ESL) component of the LGCI measures changes in funding contributions by NSW councils for Fire and Rescue NSW, the Rural Fire Service and the State Emergency Service. This component accounted for a 1.4% expenditure weighting in the LGCI as at June 2018.

Previously, to compensate councils for the cost of the ESL, we included the actual amount paid by councils each year. However, due to the delay in obtaining an audited figure, there was a two year lag between when councils paid these costs and when they were reflected in the LGCI and hence the rate peg.

The cost of the ESL has increased from \$123.9 million in 2018-19 to \$142.5 million in 2019-20. Given the increase in ESL costs, we have modified our approach to measure this cost component in the LGCI.

For the 2020-21 rate peg, we have included the forecast 2019-20 ESL costs that will be faced by councils as we are confident this is a robust estimate and it reduces the lag – between when councils face changes in ESL costs and when these cost changes are reflected in the rate peg – from two years to one year.

As the Government has announced it will fund \$13.6 million of councils' contribution to the ESL for 2019-20, we have applied an adjustment to include only the cost of the ESL forecast to be actually paid by councils. This means that for the 2020-21 rate peg, we have incorporated the change in councils' ESL costs from 2017-18 to 2019-20, adjusted for the Government's contribution.

We are aware that the Government has announced that it is consulting with local councils to better manage the impacts of the ESL on their annual budgeting cycles. This may assist councils in developing their financial plans, including consideration of a special variation if necessary.

For the 2021-22 rate peg and thereafter, changes in ESL costs will be reflected in the rate peg in the year after costs are incurred.



5

Change in the LGCI for the year ended June 2019

Cost items	Effective weight as at end-Jun 2018 (%)	Price change to end-Jun 2019 (% annual average)	Contribution to index change (percentage points)
Operating cost items			
Employee benefits and on-costs ^a	41.6	2.6	1.09
Plant & equipment leasing	0.3	2.0	0.01
Operating contracts	1.0	1.1	0.01
Legal & accounting services	0.8	2.7	0.02
Office & building cleaning services	0.3	3.6	0.01
Other business services	6.0	0.8	0.05
Insurance	1.7	0.6	0.01
Telecommunications, telephone & internet services	0.4	-4.8	-0.02
Printing publishing & advertising	0.5	12.8	0.06
Motor vehicle parts	0.3	1.1	0.00
Motor vehicle repairs & servicing	0.6	2.0	0.01
Automotive fuel	0.8	5.5	0.04
Electricity	3.1	-0.9	-0.03
Gas	0.1	-0.9	0.00
Water & Sewerage	0.3	1.1	0.00
Road, footpath, kerbing, bridge & drain building materials	2.4	3.8	0.09
Other building & construction materials	0.5	3.7	0.02
Office supplies	0.2	2.0	0.00
Emergency services levies	1.4	1.4	0.02
Other expenses ^b	8.8	1.7	0.15
Capital cost items			
Buildings – non-dwelling	4.1	3.7	0.15
Construction works – road, drains, footpaths, kerbing, bridges	19.1	3.8	0.72
Construction works – other	1.9	3.8	0.07
Plant & equipment – machinery, etc	3.4	2.7	0.09
Plant & equipment – furniture, etc	0.1	2.3	0.00
Information technology & software	0.4	-4.4	-0.02
Total change in LGCI	100.0		2.6

Note: Figures may not add due to rounding. Percentage changes are calculated from unrounded numbers.

^a Employee benefits and on-costs includes salaries and wages.

^b Includes miscellaneous expenses with low weights in the Index, eg, councillor and mayoral fees.

6

We will be conducting a cost survey



When we developed the LGCI in 2010, we said that we intend to revise the cost index weights every four years. The index was last reweighted in 2016, using cost data for 2013-14 and 2014-15.

We will be conducting a cost survey of councils this year. The results of this survey will be used to reweight the LGCI in 2020. The reweighted LGCI would then be used to calculate the rate peg for 2021-22 onwards.