

Rate peg for NSW councils for 2022-23

13 December 2021

For the first time, the rate peg for 2022-23 will include a population factor that varies for each council in NSW depending on how fast its population is growing.

IPART has set the 2022-23 rate peg for each council at between 0.7% and 5.0%, depending on its population factor. The population factor ranges between 0% and 4.3% (see Attachment C for a table presenting the population factor and rate peg for each council).

The rate peg for 2022-23 is based on the change in the Local Government Cost Index (LGCI) and an adjustment to remove the costs of the 2021 local government elections that were included in the 2021-22 rate peg, and a population factor.

1 The rate peg will maintain per capita general income

The revised approach to the rate peg now includes a population factor for each council. The population factor is calculated to maintain per capita general income over time as councils' populations grow.

The population factor is calculated as the change in residential population less any increase in general revenue from supplementary valuations.

We plan to review the performance of our new methodology within 5 years to ensure it remains appropriate and consistent with its intended purpose to align councils' general income with population growth.

We set the rate peg for 2022-23 using the following formula:

$$\text{Rate peg} = \text{change in LGCI} - \text{productivity factor} + \text{other adjustments} + \text{population factor}$$

The components of the rate peg for 2022-23 are made up of:

- The change in the local government cost index (LGCI) to June 2021 of 0.9%.
- A productivity factor set to 0.0% because the ABS indices we use for the LGCI incorporate improvements in labour and capital productivity.
- A downward adjustment of 0.2% to remove the additional revenue that was included in the 2021-22 rate peg to meet the costs of the 2021 local government elections.
- A population factor for each council (see Attachment C for a table presenting the population factor for each council).

The NSW Government has undertaken to fully fund the increase in 2021-22 emergency services levy (ESL) contributions^a and cover any COVID-related increases in the cost of local government elections.

We note:

- Under our revised approach, 47 (37%) of the 128 councils receive a population factor greater than 0% and a rate peg of up to 5.0%.
- Many councils will receive additional income from supplementary valuations.^b For example, 107 councils (84%) received additional income from supplementary valuations in 2019-20. Of those, 23 councils (18%) received more income from supplementary valuations than was required to maintain per capita income.

^a LGCI uses the ESL payments lagged by one year. For example, the LGCI for 2022-23 uses the change in the ESL between 2020-21 and 2021-22.

^b Refer to Section A6 for further information

A Background information

A.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 wastewater charges.

Councils can increase general income by the rate peg, less than the rate peg, or not at all. If a council does not apply the full rate peg increase, it will be able to catch up on the shortfall in general income over any one or more of the next 10 years.

The rate peg applies to general income in total, and not to individual ratepayers' rates. This means that councils may increase categories of rates by more than, or less than the rate peg percentage, as long as the total increase in general income remains within the rate peg. Individual ratepayer's rates are also affected by other factors, such as land values determined by the Valuer General of NSW.

The rate peg is typically based on the change in the Local Government Cost Index (LGCI), a productivity factor and, from 2022-23, a population factor for each council. However, IPART has discretion over the rate peg percentage and can adjust the rate peg above or below the percentage produced by the LGCI, productivity factor and population factor, if we consider this appropriate. For the 2022-23 rate peg, we have adjusted the rate peg by -0.2%, to remove increases in the costs of conducting the 2021 local government elections that we included as a temporary adjustment in the 2021-22 rate peg. This adjustment ensures that ratepayers are not overcharged in non-election years (see Section A.4).

A.2 What is the 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 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, 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 over the year to June 2021, we combined the 26 cost components using expenditure weights based on NSW councils' expenditure in 2017-18 and 2018-19. We aim to update the expenditure weights every four years to ensure the relativities between cost components remain accurate. The last reweight of the LGCI was completed in May 2020, using the results of the 2019 cost survey of councils.

The cost components measure price changes over the year to June 2021, compared to the year to June 2020, with the exception of the Emergency Services Levy (ESL), where we have used forecast costs for 2021-22. The NSW Government has undertaken to fully fund the increase in ESL contributions, so that councils will pay the same amount they paid last year.

For more information on the LGCI see our [LGCI Information Paper](#). For more information about the 2019 council cost survey, see our [website](#).

A.3 What price changes influenced the LGCI?

The change in the LGCI over the year to June 2021 was 0.9%. The main contributors to the change were:

- An increase of 1.2% in employee benefits and on-costs, measured by the ABS Wage Price Index for the NSW public sector.
- An increase of 1.1 % 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 1.5% in other business expenses, measured by the ABS Producer Price Index for other administrative services, not elsewhere classified.
- Decreases in electricity, water and sewerage and automotive fuel of between 6.6% and 2.4%.

Attachment B shows the price changes in all cost components of the LGCI).

A.4 What adjustments have we made?

The 2021-22 rate peg included a temporary adjustment of 0.2% to pay for the December 2021 local government elections. We have removed the allowed dollar amounts for each council by adjusting the rate peg down by 0.2%. This adjustment ensures that ratepayers are not overcharged in non-election years. The NSW Government has undertaken to cover any COVID-related increases in the cost of local government elections.^c

^c The NSW Office of Local Government media release states that "(t)he NSW Government is putting up an additional \$29.1 million for the NSW Electoral Commission to ensure local councils and ratepayers do not foot the bill for election day delays caused by the COVID-19 Delta outbreak."

A.5 How have we calculated the change in employee costs?

Local Government NSW (LGNSW) raised a concern about using ABS Wage Price Index (WPI) to determine the increase in employee costs. LGNSW noted the majority of local government employees' rates of pay and allowances were increased by 1.5% under the Local Government (State) Award 2020^d, while the majority of state public servants' rates of pay and allowances were increased by 0.3% through the State Wage Case^e. It was concerned that the lower (0.3%) increase for state employees would result in a WPI that materially underestimated the increase in employee costs experienced by councils.

We decided, on balance, not to make an adjustment to the rate peg for higher council employee costs because we consider the impact of any adjustment is insufficiently material to warrant a departure from our standard methodology. Our methodology is based on independent, publicly available benchmark wage and price indices. We consider this approach is fair to councils and provides better protection to ratepayers than if we set the rate peg using councils' actual cost increases.

The actual increase in the WPI to June 2021 was 1.2%, or 0.3% lower than the 1.5% increase granted under the Local Government (State) Award 2020. As employee costs contribute around 40% to the LGCI, using 1.5% would have increased the peg by 0.1%.^f

A.6 How do we calculate the population factor?

The population factor is calculated for each council and is equal to the annual change in its residential population, adjusted for revenue received from supplementary valuations.

The population factor is equal to the maximum of the change in residential population less the supplementary valuations percentage or zero.

Councils with negative population growth will have a population factor of zero, ensuring no council receives a lower increase in general income, relative to a rate peg calculated using the LGCI, productivity factor and any adjustments. Councils that have recovered more from supplementary valuations than is required to maintain per capita general income as their population grows will also have a population factor of zero.

The population factor is calculated using the following formula:

$$\text{Population factor} = \max(0, \text{change in population} - \text{supplementary valuations percentage})$$

The change in population has been calculated using the estimated residential population (ERP) for 2019 and 2020 published by the Australian Bureau of Statistics (ABS). This is the most up to date ABS population data.

The calculation is shown in the following formula:

^d Local government employees guaranteed economically responsible pay rise (lgnsw.org.au)

^e C2021-01 - Variation to the Crown Employees (Public Sector - Salaries 2019) Award (nsw.gov.au)

^f The formula we would use to calculate the maximum adjustment is $(1.5\% - 1.2\%) \times 38.4\% = 0.1\%$, where 38.4% is the employee cost weight in the LGCI. The maximum amount (0.1%) assumes no productivity improvement.

$$\text{Change in population} = \max\left(0, \frac{\text{ERP 2020}}{\text{ERP 2019}} - 1\right)$$

The supplementary valuations percentage for each council is calculated using the following formula:

$$\text{supplementary valuations percentage} = \max\left(0, \frac{\text{supplementary valuations}}{\text{notional general income yield}}\right)$$

In this formula:

supplementary valuations means the total value of adjustments to a council's general income for 2019-20 that the council made under paragraphs 509(2)(b) and (c) of the *Local Government Act 1993* (LG Act). 21. This is the amount recorded as 'Plus or minus adjustments' in each council's 'Special schedule – Permissible income for general rates' for 2020-21 submitted to the Office of Local Government (OLG) in the 2020-21 Financial Statements.

notional general income yield means the general income of the council for 2019-20 prior to adjustment under paragraphs 509(2)(b) and (c) of the LG Act. This is the amount recorded as 'Last year notional general income yield' in each council's 'Special schedule – Permissible income for general rates' for 2020-21 submitted to the OLG in the 2020-21 Financial Statements.

The supplementary valuations percentage is calculated based on supplementary valuations revenue and notional general income yield for the same year as the ERP data. Each year we will update the formula.

Worked example

For example, Albury has a rate peg of 1.1%. its ERP grew by 1.3% in 2019-20 while it received income from supplementary valuations equal to 0.9% of the Notional General Income Yield over the same period.

We calculated Albury's rate peg as follows:

$$\text{Change in population} = \max\left(0, \frac{55,055}{54,344} - 1\right) = 1.3\%$$

$$\text{supplementary valuations percentage} = \max\left(0, \frac{391,000}{43,365,000}\right) = 0.9\%$$

$$\text{Population factor} = \max(0, 1.3\% - 0.9\%) = 0.4\%$$

$$\text{Rate peg} = 0.9\% - 0\% - 0.2\% + 0.4\% = 1.1\%$$

For more information on the population factor, see our final report on including population growth in the rate peg on our [website](#).

A.7 Councils can seek additional increases

Councils can seek additional increases to general income above the rate peg, by applying to IPART for a special variation (SV).

Councils applying for an SV must satisfy the criteria listed in the Office of Local Government's SV Guidelines. The Guidelines are available on [IPART's website](#). Councils applying for an SV for 2022-23 must apply to IPART by 7 February 2022. IPART's website also includes general information on the SV requirements and recent applications from councils

B Change in the LGCI for the year ended June 2021

Cost components	Weight as at end June 2020 %	Price change to end June 2021 (% annual average)	Contribution to index change (percentage points)
Operating cost components			
Employee benefits and on-costs ^a	38.4	1.2	0.44
Plant and equipment leasing	0.3	1.1	0.00
Operating contracts	2.1	0.4	0.01
Legal and accounting services	0.8	1.4	0.01
Office and building cleaning services	0.3	1.4	0.00
Other business services	6.2	1.0	0.06
Insurance	1.2	3.0	0.04
Telecommunications, telephone and internet services	0.4	-2.4	-0.01
Printing, publishing and advertising	0.6	2.3	0.01
Motor vehicle parts	0.3	-1.2	0.00
Motor vehicle repairs and servicing	0.4	1.4	0.01
Automotive fuel	0.8	-2.4	-0.02
Electricity	2.0	-3.8	-0.07
Gas	0.1	-6.8	-0.01
Water and sewerage	0.4	-6.6	-0.03
Road, footpath, kerbing, bridge and drain building materials	2.5	1.1	0.03
Other building and construction materials	0.7	0.0	0.00
Office supplies	0.3	0.9	0.00
Emergency services levy ^b	1.5	0.0	0.00
Other expenses ^c	8.4	1.5	0.13
Capital cost components			
Buildings – non-dwelling	4.2	1.1	0.00
Construction works – roads, drains, footpaths, kerbing, bridges	21.9	1.1	0.25
Construction works – other	2.5	-0.3	0.03
Plant and equipment – machinery, etc.	3.1	0.1	-0.01
Plant and equipment – furniture, etc.	0.1	-0.4	0.00
Information technology and software	0.7	0.0	0.00
Total change in LGCI	100.0		0.9

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

b The NSW Government has undertaken to fully fund the increase in 2021-22 ESL contributions

c Includes miscellaneous expenses with low weights in the index – eg, councillor and mayoral fees.

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

C Population factors and rate pegs for all councils

Councils with a population factor greater than 0% for 2022-23 are indicated by bolded blue font.

Council	Change in population	Supplementary valuations percentage	Population factor	Rate Peg (including population factor)
	%	%	%	%
Albury	13	0.9	0.4	1.1
Armidale Regional	0.0	0.1	0.0	0.7
Ballina	13	2.0	0.0	0.7
Balranald	0.0	0.8	0.0	0.7
Bathurst Regional	0.9	0.7	0.2	0.9
Bayside	17	0.9	0.9	1.6
Bega Valley	0.7	0.9	0.0	0.7
Bellingen	11	0.5	0.6	1.3
Berrigan	0.4	0.2	0.2	0.9
Blacktown	2.3	2.3	0.0	0.7
Bland	0.0	0.1	0.0	0.7
Blayney	0.1	0.0	0.0	0.7
Blue Mountains	0.1	0.0	0.1	0.8
Bogan	0.0	2.8	0.0	0.7
Bourke	14	0.0	1.4	2.1
Brewarrina	0.0	0.0	0.0	0.7
Broken Hill	0.0	0.6	0.0	0.7
Burwood	0.7	3.6	0.0	0.7
Byron	2.0	0.4	1.6	2.3
Cabonne	0.3	0.1	0.2	0.9
Camden	6.3	2.0	4.3	5.0
Campbelltown	1.9	1.3	0.5	1.2
Canada Bay	0.6	0.1	0.5	1.2
Canterbury-Bankstown	0.7	0.6	0.1	0.8
Carrathool	0.0	0.0	0.0	0.7
Central Coast	0.5	0.3	0.3	1.0
Central Darling	0.0	0.0	0.0	0.7
Cessnock	2.1	2.1	0.0	0.7
Clarence Valley	0.1	0.8	0.0	0.7
Cobar	0.0	0.3	0.0	0.7
Coffs Harbour	0.5	0.5	0.0	0.7
Coolamon	0.0	0.0	0.0	0.7
Coonamble	0.0	0.0	0.0	0.7
Cootamundra-Gundagai Regional	0.0	0.0	0.0	0.7
Cowra	0.0	0.2	0.0	0.7
Cumberland	0.5	0.0	0.5	1.2
Dubbo Regional	0.6	0.6	0.0	0.7
Dungog	2.6	0.9	1.7	2.4
Edward River	0.0	0.0	0.0	0.7
Eurobodalla	1.3	0.3	1.0	1.7
Fairfield	0.0	0.4	0.0	0.7
Federation	1.3	0.4	0.9	1.6
Forbes	0.2	0.3	0.0	0.7
Georges River	0.5	0.6	0.0	0.7

Council	Change in population	Supplementary valuations percentage	Population factor	Rate Peg (including population factor)
	%	%	%	%
Gilgandra	0.0	0.1	0.0	0.7
Glen Innes Severn	0.0	0.4	0.0	0.7
Goulburn Mulwaree	1.4	1.4	0.0	0.7
Greater Hume	0.7	0.8	0.0	0.7
Griffith	0.5	0.5	0.0	0.7
Gunnedah	0.1	0.0	0.1	0.8
Gwydir	0.0	0.3	0.0	0.7
Hawkesbury	0.7	0.6	0.1	0.8
Hay	0.0	0.3	0.0	0.7
Hilltops	0.0	0.0	0.0	0.7
Hornsby	0.3	0.5	0.0	0.7
Hunters Hill	0.0	0.1	0.0	0.7
Inner West	0.6	0.0	0.6	1.3
Inverell	0.0	3.3	0.0	0.7
Junee	0.0	0.5	0.0	0.7
Kempsey	0.6	0.5	0.1	0.8
Kiama	1.3	0.4	0.9	1.6
Ku-ring-gai	0.4	0.9	0.0	0.7
Kyogle	0.0	0.7	0.0	0.7
Lachlan	0.0	0.1	0.0	0.7
Lake Macquarie	0.9	0.9	0.0	0.7
Lane Cove	1.0	2.4	0.0	0.7
Leeton	0.0	0.1	0.0	0.7
Lismore	0.0	0.3	0.0	0.7
Lithgow	0.0	0.0	0.0	0.7
Liverpool	1.6	1.4	0.3	1.0
Liverpool Plains	0.0	0.2	0.0	0.7
Lockhart	0.0	0.0	0.0	0.7
Maitland	2.6	3.1	0.0	0.7
Mid-Coast	0.6	0.4	0.2	0.9
Mid-Western Regional	0.5	0.5	0.0	0.7
Moree Plains	0.0	0.0	0.0	0.7
Mosman	0.0	0.0	0.0	0.7
Murray River	1.7	0.9	0.8	1.5
Murrumbidgee (new)	0.0	0.0	0.0	0.7
Muswellbrook	0.0	5.3	0.0	0.7
Nambucca	0.3	0.7	0.0	0.7
Narrabri	0.0	0.0	0.0	0.7
Narrandera	0.0	0.0	0.0	0.7
Narromine	0.0	0.0	0.0	0.7
Newcastle	1.1	0.6	0.5	1.2
North Sydney	0.2	0.0	0.2	0.9
Northern Beaches	0.2	0.5	0.0	0.7
Oberon	0.1	0.4	0.0	0.7
Orange	0.1	0.8	0.0	0.7
Parkes	0.0	0.0	0.0	0.7
Parramatta (new)	1.2	1.6	0.0	0.7
Penrith	1.6	0.8	0.7	1.4
Port Macquarie-Hastings	1.7	0.7	1.0	1.7
Port Stephens	1.4	0.8	0.6	1.3

Council	Change in population	Supplementary valuations percentage	Population factor	Rate Peg (including population factor)
	%	%	%	%
Queanbeyan-Palerang Regional	1.9	2.0	0.0	0.7
Randwick	0.7	0.1	0.6	1.3
Richmond Valley	0.1	0.3	0.0	0.7
Ryde	1.6	2.9	0.0	0.7
Shellharbour	1.9	0.5	1.4	2.1
Shoalhaven	1.5	0.5	1.0	1.7
Singleton	0.0	1.3	0.0	0.7
Snowy Monaro Regional	1.0	0.9	0.1	0.8
Snowy Valleys	0.0	0.1	0.0	0.7
Strathfield	1.9	1.4	0.4	1.1
Sutherland	0.8	0.9	0.0	0.7
Sydney	1.1	0.5	0.7	1.4
Tamworth Regional	0.0	0.6	0.0	0.7
Temora	0.0	0.1	0.0	0.7
Tenterfield	0.0	0.0	0.0	0.7
Hills	3.3	2.4	0.9	1.6
Tweed	1.4	0.4	1.0	1.7
Upper Hunter	0.0	0.2	0.0	0.7
Upper Lachlan	2.7	1.0	1.7	2.4
Uralla	0.0	0.0	0.0	0.7
Wagga Wagga	0.8	1.1	0.0	0.7
Walcha	0.0	0.0	0.0	0.7
Walgett	0.0	0.0	0.0	0.7
Warren	0.7	0.1	0.6	1.3
Warrumbungle	0.0	0.1	0.0	0.7
Waverley	0.1	0.0	0.1	0.8
Weddin	0.0	0.0	0.0	0.7
Wentworth	0.5	1.0	0.0	0.7
Willoughby	0.1	0.1	0.1	0.8
Wingecarribee	1.2	0.8	0.5	1.2
Wollondilly	1.6	1.1	0.6	1.3
Wollongong	0.8	0.5	0.3	1.0
Woollahra	0.1	0.2	0.0	0.7
Yass Valley	1.4	0.8	0.6	1.3