

8 September 2020

WHAT

IPART has set the 2021-22 rate peg for NSW councils at 2.0%.

The rate peg for 2021-22 is based on the change in the Local Government Cost Index (LGCI), consideration of a productivity factor, and an adjustment for the costs of the 2021 local government elections.

WHY

The rate peg represents the maximum percentage amount by which a council may increase its general income for a financial year. For most councils, general income consists entirely of revenue from rates.

WHO

Councils have discretion to 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.

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

HOW

We set the rate peg for 2021-22 using the following approach:

- ▼ Taking the increase in the LGCI to June 2020 of 1.8%
- ▼ Setting the productivity factor to 0.0%
- ▼ Adding an adjustment of 0.2% to allow councils to collect additional revenue in 2021-22 to meet the costs of the 2021 local government elections.

WHAT NEXT

Councils must not increase their general income by more than the rate peg of 2.0% for 2021-22, unless IPART grants approval for an SV.

Councils applying for an SV must satisfy the criteria listed in the Office of Local Government's SV Guidelines. The Guidelines will be available on IPART's website when published.

Councils applying for an SV for 2021-22 must notify IPART by 27 November 2020.

[IPART's website](#) also includes general information on the SV requirements and recent applications from councils.

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. Councils have discretion to determine how to allocate the rate peg increase, and may increase categories of rates by more than, or less than the rate peg.

The rate peg is typically based on the change in the Local Government Cost Index (LGCI), and consideration of a productivity factor. However, IPART has discretion over the rate peg percentage and can adjust the rate peg above the percentage produced by the LGCI and productivity factor, if we consider this appropriate. For the 2021-22 rate peg, we have adjusted the rate peg by an additional 0.2%, to account for increases in the costs of conducting local government elections. This is discussed in further detail in Section 2.

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 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, 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 2020, 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 2020, compared to the year to June 2019, with the exception of the Emergency Services Levy (ESL), where we have used forecast costs for 2020-21.

For more information, see our [Information Paper](#) on the Local Government Cost Index.

What price changes influenced the LGCI?

The rate peg for 2021-22 is mainly based on the change in the LGCI over the year to June 2020 of 1.8%. The main contributors to the change were:

- ▼ An increase of 2.4% in employee benefits and on-costs, measured by the ABS Wage Price Index for the NSW public sector
- ▼ An increase of 3.8% in other business services, measured by the ABS Producer Price Index for other administrative services, not elsewhere classified
- ▼ An increase of 0.7% in construction works – roads, drains, footpaths, kerbing, bridges costs, measured by the ABS Producer Price Index for roads and bridge construction – NSW.

Most components of the LGCI experienced moderate price inflation over the period to June 2020 (see Section 3 for a table showing the price changes in all cost components of the LGCI).

We have made an adjustment for the costs of the 2021 local government elections

In setting the rate peg for 2021-22, IPART has recognised that councils face higher costs for their 2021 local government elections. The total cost of the 2021 elections is expected to be around 34% higher than the total cost of the 2016 and 2017 elections. This is substantially higher than the cumulative increases in the Consumer Price Index for Sydney, and IPART's rate peg, over the past four years.

As a result, we have adjusted the 2021-22 rate peg by an additional 0.2%, to assist councils to meet the costs of the 2021 local government elections. The adjustment is based on the total forecast increase in election costs as a percentage of total rates revenue for all councils in NSW.

The adjustment represents the experience of the average council in NSW. This is consistent with our approach of using the average price change for other cost components of the LGCI, such as councils' contributions to the Emergency Services Levy. However, we recognise that the magnitude of increases in election costs vary between individual councils. Councils that require additional increases above the rate peg can apply to IPART for an SV for 2021-22.

The adjustment will need to be reversed through the 2022-23 rate peg – that is, for the 2022-23 rate peg, we will take the increase in the LGCI over the year to June 2021, determine an appropriate productivity factor, and make a downward adjustment to offset the additional 0.2% included in the 2021-22 rate peg. This ensures that ratepayers are not overcharged in subsequent, non-election years.

3 Change in the LGCI for the year ended June 2020

Cost components	Weight as at end June 2019 (%)	Price change to end June 2020 (% annual average)	Contribution to index change (percentage points)
Operating cost components			
Employee benefits and on-costs ^a	38.2	2.4	0.90
Plant and equipment leasing	0.3	0.6	0.00
Operating contracts	2.1	3.0	0.06
Legal and accounting services	0.8	2.4	0.02
Office and building cleaning services	0.3	1.7	0.01
Other business services	6.1	3.8	0.23
Insurance	1.2	1.5	0.02
Telecommunications, telephone and internet services	0.4	-3.8	-0.01
Printing, publishing and advertising	0.5	4.7	0.03
Motor vehicle parts	0.3	0.9	0.00
Motor vehicle repairs and servicing	0.4	2.8	0.01
Automotive fuel	0.8	-3.2	-0.03
Electricity	2.1	-3.4	-0.07
Gas	0.1	0.6	0.00
Water and sewerage	0.4	4.1	0.02
Road, footpath, kerbing, bridge and drain building materials	2.5	0.7	0.02
Other building and construction materials	0.7	1.2	0.01
Office supplies	0.3	1.2	0.00
Emergency services levy	1.4	10.5 ^b	0.15
Other expenses ^c	8.4	1.0	0.09
Capital cost components			
Buildings – non-dwelling	4.3	1.2	0.05
Construction works – roads, drains, footpaths, kerbing, bridges	22.2	0.7	0.17
Construction works – other	2.5	0.7	0.02
Plant and equipment – machinery, etc.	3.0	3.5	0.10
Plant and equipment – furniture, etc.	0.1	1.7	0.00
Information technology and software	0.7	-2.9	-0.02
Total change in LGCI	100.0		1.8

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

^b Percentage change represents the price change over the year to June 2021, compared to the year to June 2020.

^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.