

## FACT SHEET

# Rate peg for NSW councils for 2012/13

Based on *2012/13 Rate Peg: Incorporating the Local Government Cost Index, productivity factor and carbon price advance*

6 December 2011

### What is the rate peg for 2012/13?

The rate peg determines the allowable increase in local councils' general income. General income mainly includes income from council rates, but also includes certain other types of council income.

IPART has set the rate peg percentage for 2012/13 at 3.6%. We set the rate peg using the following approach:

- ▼ we took the increase of 3.4% in the Local Government Cost Index (LGCI) for the year to September 2011
- ▼ we deducted a productivity factor of 0.2%
- ▼ for this year only, we have added a carbon price advance of 0.4%.

We have included the carbon price advance because the LGCI we used to set the rate peg for 2012/13 includes price data up to September 2011, so it does not include the impact on prices of the introduction of the carbon price.

In setting the rate peg, we sought to strike a balance between ensuring that councils can meet the increased costs of delivering services and ensuring that councils share efficiency gains with ratepayers.

The average residential rate per assessment in NSW in 2011/12 is around \$830. The rate peg decision implies a rate increase of \$30 in 2012/13. However, the rate peg applies to a council's income, not to an individual's rates. Councils have discretion how to apply the rate peg amongst ratepayer categories and, therefore an individual ratepayer's rates may

increase by more or less than the rate peg percentage.

### What is the Local Government Cost Index (LGCI) and how do we measure the change in the LGCI?

The LGCI is a price index for councils in NSW. It is like the Local Government Price Index used in South Australia and 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 change in price of a fixed 'basket' of goods and services that are purchased by councils in a given period, relative to the price of that same basket in a fixed, base period. There are 26 components of the index eg, employee benefits and on-costs, building materials for roads, bridges and footpaths.

We use the change in the LGCI in the year to September to set the rate peg. This is the latest available information at the time we set the rate peg in December. The change in the LGCI in the year to September 2011 was 3.4%.

We constructed the index in 2010, following a survey of councils in NSW about their expenditure in 2008/09 and 2009/10. For more detail about how we constructed the LGCI, see our Information Paper on the Local Government Cost Index published in December 2010. This is available on our website:

<http://www.ipart.nsw.gov.au/local-government/localgovernmentcostindex.asp>

### **How did we determine the productivity factor for the 2012/13 rate peg?**

The rate peg includes a productivity factor to allow ratepayers to share in the efficiency gains made by councils.

To calculate the productivity factor, we used the latest ABS National Accounts data for market sector labour productivity as a whole over the last 5 years.

We found that productivity gains were equivalent to 1.03% per annum over the last 5 years in the market sector.

We applied this increase to labour costs, which are 41.9% of total council costs, to get a reduced productivity factor of 0.43%

We discounted this number by half due to uncertainty about the extent to which market sector productivity growth reflects productivity growth in the local government sector. This reduced the productivity factor to 0.22%.

### **What is the carbon price advance and how is it calculated?**

The carbon price advance increases the rate peg for 2012/13 by 0.4%. The carbon price will take effect from 1 July 2012.

This advance is necessary because the rate peg for 2012/13 is set using past prices. The LGCI includes price data for the year to September 2011, since this is the latest data available at the time we set the rate peg. The LGCI we have used to set the 2012/13 rate peg does not yet include the impact of the carbon price.

We will make downward adjustments to the rate pegs in 2013/14 and 2014/15 to reverse the carbon price advance made in 2012/13.

### **Why is IPART reversing the carbon price advance?**

If we did not remove the advance, we would be double-counting the effect of the carbon price in the rate peg in future years.

The effects of the carbon price will gradually flow through to electricity and other prices used in the LGCI in 2013/14 and 2014/15. We will make a downward adjustment to the rate pegs in these years to reverse the carbon price advance made in 2012/13. We will remove 0.1% of the advance in the 2013/14 rate peg and 0.3% of the advance in the 2014/15 rate peg.

### **What is the rate peg and rate pegging?**

Since 1977, certain council revenues (known as general income) have been regulated in NSW under an arrangement known as 'rate pegging'.

Rate pegging limits the amount by which councils may increase their general income. General income mainly comprises rates revenue, but also includes certain annual user charges. It excludes stormwater and waste charges, and water and sewerage charges.

The rate peg is the maximum percentage amount that a council may increase its general income for the year. Previously, the rate peg was set by the Minister for Local Government. Since 2011/12, it has been set by IPART under a delegation by the Minister for Local Government.

IPART set the rate peg percentage for 2011/12 at 2.8%. We have now determined the rate peg percentage for 2012/13 is 3.6%.

If a council wishes to increase its general income by more than the rate peg percentage, it must obtain approval for a 'special rate variation' from IPART.

### **What does the 3.6% rate peg increase apply to?**

The rate peg sets the maximum increase in each council's 'general income' for the 2012/13 financial year. The main component of general income is rates revenue. General income does not include other forms of revenue such as fees, fines, water or sewerage rates, domestic waste management charges and developer charges. It does include a small number of annual charges for some councils, such as drainage levies.

The rate peg does not apply to individual ratepayers' rates. The rate peg applies to a council's 'general income' in total. Councils have significant discretion to determine how to allocate this increase between different ratepayer categories. Individual rates are also affected by other factors, such as land valuations. Therefore, an individual ratepayer's rates may increase by more or less than the rate peg amount.

### **What does the rate peg mean for ratepayers?**

As previously stated, the rate peg applies to general income, not to ratepayer assessments. Councils are able to determine how to apply the rate peg amongst ratepayer categories, so individual ratepayer assessments may increase by more or less than the rate peg percentage.

However, if we assume that the council allocates the rate peg percentage to all ratepayer categories equally and the ratepayer's property is not revalued, the rate peg decision means that for a ratepayer paying rates of \$1,000 in 2011/12, their rates will increase by \$36 in 2012/13, or less than \$1 a week.

The average residential rate per assessment in NSW in 2011/12 is estimated to be around \$830 per year.

### **Want more information?**

See the IPART website for related information papers:

- ▼ 2012/13 rate peg
- ▼ Effects of the carbon price on local councils.

Go to the IPART website:

<http://www.ipart.nsw.gov.au/local-government/local-government.asp>