Independent Pricing and Regulatory Tribunal

FACT SHEET

Rate peg for NSW councils for 2013/14

26 November 2012

IPART is responsible for setting the maximum increase in general income councils can receive each year. Known as the rate peg, the increase for 2013/14 has been set at 3.4%.

What is the rate peg?

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

Rate pegging limits the amount by which councils may increase their general income. General income mainly comprises rates revenue, but it also includes some annual charges. General income does not include water or sewerage rates or charges, waste collection or stormwater management charges.

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

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.

The rate peg is mainly based on the Local Government Cost Index (LGCI), which measures price movements over the past year for goods, materials and labour used by an average council. We also deduct a productivity factor.

The rate peg was 2.8% in 2011/12, and 3.6% in 2012/13.

How did we set the rate peg for 2013/14?

In setting the rate peg, we seek to strike a balance between ensuring that councils can meet the increased costs of delivering services resulting from price changes and ensuring that councils share productivity gains with ratepayers.

The 3.4% rate peg for 2013/14 was calculated by:

- taking the increase in the LGCI for the year to September 2012 of 3.7%
- deducting a productivity factor of 0.2%, and
- deducting 0.1% to remove part of the carbon price advance of 0.4% that was included in the rate peg last year.

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

The LGCI is a price index for councils in NSW. It is similar to the Local Government Price Index used in South Australia and 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. We constructed the index in 2010, following a survey of councils in NSW about their expenditure in 2008/09 and 2009/10.

We use the change in the LGCI in the year to September 2012 to inform the rate peg. This is the latest available information at the time we set the rate peg. The change in the LGCI in the year to September 2012 was 3.7%.

The most important contributors to this increase were:

- A 3.3% increase in Employee benefits and on-costs, measured by the ABS wage price index for the NSW public sector.
- A 5.6% increase in Construction works, measured by the ABS producer price series for Road and Bridge Construction in NSW.
- A 15.9% rise in Electricity prices.

How did we determine the productivity factor for the 2013/14 rate peg?

The rate peg includes a productivity factor to allow ratepayers to share in council productivity gains. We set the productivity factor for 2013/14 at 0.2%, the same level as in the previous 2 years.

To calculate the productivity factor, we used the latest ABS National Accounts data for market sector multifactor productivity as a whole over the last 15 years. We found that productivity gains were equivalent to 0.3% per annum over the last 15 years in the market sector.

We discounted this number to 0.2% in light of the factors that may cause productivity growth to be higher in the market sectors of the economy than in the local government sector.

What is the carbon price advance and why is it being reversed?

The carbon price advance was included the 2012/13 rate peg because the LGCI in the year to September 2011 did not include the impact of the carbon price on council costs (since it was based on price data up to the September 2011 quarter and the carbon price was introduced from July 2012). We included the carbon price advance to allow council rate revenue to increase in line with expected cost movements in 2012/13.

We are removing 0.1%from the rate peg in 2013/14 to reverse part of the 0.4% carbon price advance we included in the rate peg for 2012/13. We are making this adjustment to the rate peg to avoid double counting the impact of the carbon price which will eventually be reflected in the LGCI. We will remove 0.3% from the rate peg in 2014/15.

What does the rate peg mean for ratepayers?

The rate peg sets the maximum increase in each council's general income for the 2013/14 financial year.

Because the rate peg applies to general income in total, and not to individual ratepayers' rates, 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.

The average residential rate per assessment in NSW in 2012/13 is around $860. The rate peg decision implies an average rate increase of around $30 in 2013/14.

Want more information?

See the IPART website for the related information paper on the 2013/14 Rate Peg.

http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Rate_Peg

For more detail on the Local Government Cost Index, see our Information Paper on the *Local Government Cost Index* published in December 2010. This is also available on our website:

www.ipart.nsw.gov.au/Local_Govt/local-government-cost-index