FACT SHEET

Rate peg for NSW councils for 2014/15

2 December 2013

IPART is responsible for setting the maximum increase in general income councils can receive each year. Known as the rate peg, IPART has set the cap at 2.3% for 2014/15 based on movements in indices reflecting council costs, a productivity factor and the withdrawal of the carbon price advance.

What is the rate peg?

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

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 in 2012/13 was 3.6% (including the carbon price advance of 0.4%), and in 2013/14 was 3.4% (including a withdrawal of part of the carbon price advance of 0.1%).

Over the past 5 years to 2014/15, the rate peg has averaged 2.9%.

How did we set the rate peg for 2014/15?

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.

We calculated the rate peg for 2014/15 by:

- taking the increase in the LGCI for the year to September 2013 of 2.8%
- deducting a productivity factor of 0.2%.

This resulted in an underlying rate peg of 2.6% in 2014/15.

We then deducted 0.3% to adjust for the remainder of the 0.4% carbon price advance that was brought forward into the 2012/13 rate peg.

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 2013 to inform the rate peg for 2014/15. This is the latest available information at the time we set the rate peg. The change in the LGCI in the year to September 2013 was 2.8%.

The most important contributors to the change in the index were:

- A 2.6% increase in Employee benefits and on-costs, measured by the ABS wage price index for the NSW public sector. This makes up 1.10% of the change in the index.
- A 3.2% increase in Construction works, measured by the ABS producer price series for Road and Bridge Construction in NSW. This makes up 0.44% of the change in the index.
- A 14.9% rise in Electricity prices. This makes up 0.50% of the change in the index.

How did we determine the productivity factor for the 2014/15 rate peg?

The rate peg includes a productivity factor to allow ratepayers to share in council productivity gains. We have retained the same level of productivity factor of 0.2% as in the previous 3 years.

Last year we developed a methodology for determining a long term 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?

In 2012/13 we included a carbon price advance of 0.4%. This year we have completed the adjustment for this advance.

The carbon price advance was included in 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 bring forward the councils' ability to pay for the increased costs. It meant that councils were not out of pocket during the time lag between the carbon price being introduced and its effects being captured in the LGCI.

The 0.4% advance is being backed out over two years, by adjusting the rate peg by 0.1% for 2013/14 and the remaining 0.3%in the rate peg for 2014/15. We have made these adjustments to the rate peg to avoid double counting the impact of the carbon price which will have flowed through to the LGCI over the past 2 years.

What does the rate peg mean for ratepayers?

The rate peg sets the maximum increase in each council's general income for the 2014/15 financial year. The average residential rate per assessment in NSW in 2013/14 is around $890. The rate peg decision implies an average rate increase of around $20 in 2014/15.

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.

What does the rate peg mean for councils?

Councils must increase general income by no more than the rate peg.

Councils requiring additional general revenue to address financial sustainability, infrastructure backlogs or increasing demand for services may apply to IPART for a special variation.

Councils who apply for a special variation must satisfy the criteria listed in the Division of Local Government's Guidelines. The Guidelines require that councils must establish a need for a special variation through the Integrated Planning and Reporting (IP&R) process. This includes undertaking long term financial planning and community consultation to establish the need for and the extent of the special variation required. In addition, councils must meet criteria related to productivity savings.

See the IPART website for information on the special variation requirements and councils that have applied in recent years.

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

Want more information?

See the IPART website for the related information paper on the 2014/15 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, *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