

# Rate peg for NSW councils for 2016-17

4 December 2015

## WHAT

This Fact Sheet summarises IPART's decision on the rate peg for NSW councils in 2016-17.

For 2016-17, we have set the rate peg at 1.8% based on the change in the Local Government Cost Index (LGCI) and a consideration of a productivity factor.

## WHY

The **LGCI** measures price changes over the past year for goods, materials and labour used by an average council. We consider an adjustment for a **productivity factor** to the LGCI strikes a balance between ensuring that councils can meet the increased costs of delivering services resulting from price changes and making sure that councils share productivity gains with ratepayers.

## HOW

We calculated the rate peg for 2016-17 by:

- ▼ taking the increase in the LGCI for the year to September 2015 of 1.78%
- ▼ on this occasion, we have made a zero adjustment for productivity, to reflect that the change in productivity is not material (-0.05%).

This results in a rate peg of 1.78%, which we rounded to 1.8% for 2016-17.

## IMPACTS

The rate peg sets the maximum increase in each council's general income for the 2016-17 financial year. The rate peg applies to general income in total, and not to individual ratepayers' rates.

Councils have discretion to determine how to allocate this increase between different ratepayer categories. Individual rates are also affected by other factors, such as land valuations.

## WHAT NEXT

Councils must not increase general income by more than the rate peg. Councils requiring additional general revenue may apply to IPART for a special variation.

Councils applying for a special variation must satisfy the criteria listed in the Office of Local Government's Guidelines. The Guidelines require that councils establish a need for a special variation through the Integrated Planning and Reporting (IP&R) Process. This includes undertaking long term financial planning, ensuring community awareness of the need and extent of the proposed increase in rates, and consideration of the impact on ratepayers and the community's capacity and willingness to pay. In addition, councils must meet criteria related to productivity improvements.

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

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

For more detail on the Local Government Cost Index see our Fact Sheet, *Local Government Cost Index Survey 2015* published in October 2015. This is available on our [website](#).

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. The cost components represent the purchases made by an average council to undertake its typical activities. We constructed the index in 2010 based on a survey we undertook of NSW councils' expenditure in 2008-09 and 2009-10. The 2015 cost survey will update the expenditure weightings to ensure the relativities of the cost items within the LGCI remain accurate. The updated LGCI will be used to calculate the 2017-18 rate peg.

We use the change in the LGCI in the year to September 2015 to inform the rate peg for 2016-17. This is the latest available information at the time we set the rate peg. The change in the LGCI in the year to September 2015 was 1.78%.

The main contributors to increasing the level of the index over the year ending September 2015 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 5.1% in other business services costs (eg, materials and contracts such as other operating leases, contractor and consultancy costs), measured by the ABS producer price index for other administrative services, and
- ▼ an increase of 3.6% in plant and equipment (machinery), measured by the ABS producer price index for motor vehicle and motor vehicle part manufacturing, Australia.

Partly offsetting these impacts were decreases in electricity prices of 6.6%, and automotive fuel prices of 11.4%. See Section 3 below for a table showing the price changes in cost items for all components of the LGCI.

## 2 How did we determine the productivity factor for the 2016-17 rate peg?

The rate peg includes a productivity factor to allow ratepayers to share in council productivity gains. We calculated the productivity factor using the ABS market sector value-added multifactor productivity (MFP) based on quality adjusted hours worked. Based on this methodology, average productivity declined by 0.05% over the past 15 years. Since this change in productivity is not material, we have made a zero adjustment to the LGCI when calculating the rate peg for 2016-17. For more information on the productivity factor see our Fact Sheet – *Productivity for cost indices* published in October 2014. This is available on our [website](#).

### 3 Local Government Cost Index (LGCI)

#### The rise in the LGCI for the year ended September 2015

Cost items	Effective weight as at end Sep 2014 (%)	Price change to end-Sep 2015 (% annual average)	Contribution to index change (percentage points)
<b>Operating cost items</b>			
Employee benefits and on-costs	41.8	2.4	1.00
Plant & equipment leasing	0.4	-0.5	0.00
Operating contracts	1.3	4.2	0.05
Legal & accounting services	1.1	2.2	0.02
Office & building cleaning services	0.2	1.3	0.00
Other business services	5.8	5.1	0.30
Insurance	1.9	4.3	0.08
Telecommunications, telephone & internet services	0.5	-4.0	-0.02
Printing publishing & advertising	0.5	1.0	0.01
Motor vehicle parts	0.5	1.4	0.01
Motor vehicle repairs & servicing	0.7	0.4	0.00
Automotive fuel	1.2	-11.4	-0.14
Electricity	3.7	-6.6	-0.25
Gas	0.1	5.1	0.00
Water & Sewerage	0.5	1.8	0.01
Road, footpath, kerbing, bridge & drain building materials	3.1	1.3	0.04
Other building & construction materials	0.8	2.5	0.02
Office supplies	0.3	-4.0	-0.01
Emergency services levies	1.4	1.5	0.02
Other expenses <sup>a</sup>	8.6	1.8	0.16
<b>Capital cost items</b>			
Buildings – non-dwelling	6.1	2.5	0.15
Construction works – road, drains, footpaths, kerbing, bridges	14.0	1.3	0.18
Construction works – other	1.4	1.3	0.02
Plant & equipment – machinery, etc	3.7	3.6	0.13
Plant & equipment – furniture, etc	0.2	2.6	0.01
Information technology & software	0.3	-5.7	-0.01
<b>Total change in LGCI</b>	<b>100</b>		<b>1.78</b>

<sup>a</sup> 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.