

2015/16 RATE PEG FOR NSW LOCAL COUNCILS

2 December 2014

Increases in local council general income will be capped at 2.4% in 2015/16 reflecting low inflation and subdued public sector wages growth.

The rate peg is determined by the Independent Pricing and Regulatory Tribunal (IPART) each year and sets the maximum general income NSW councils can collect. For almost all councils, general income is solely rates revenue. The rate peg does not apply to stormwater, waste collection, water and sewerage charges.

Announcing the annual rate peg today, IPART Chairman Peter Boxall said the rate peg is determined by changes in the Local Government Cost Index (LGCI) that measures changes in the average costs faced by councils.

“The Local Government Cost Index increased by 2.47% in the year to September 2014, reflecting the continuing low inflationary environment and a subdued rate of public sector wages growth since late 2012,” Dr Boxall said.

“In order to return efficiency improvements in council services to ratepayers, we have deducted a productivity improvement factor of 0.04% to arrive at the rate peg of 2.4%.”

“While it is up to each council to determine the impact on individual rate assessments, if a council decides to increase residential rates in line with the rate peg, it would mean an additional \$22 for the year, or around \$0.42 per week, for the average household. The average residential rate assessment in NSW will be around \$945 in 2015/16.”

Dr Boxall said councils wanting to increase their revenue by more than the rate peg need to apply for a special variation and must advise IPART of their intent to apply by 12 December 2014.

A fact sheet on the rate peg is available on IPART's website: www.ipart.nsw.gov.au.

Media contact: Julie Sheather 02 9290 8403 or 0409 514 643

Local Government rate peg 2015/16– fast facts

- ▼ There are 152 local councils in NSW. The rate peg applies to most councils, except those that have previously been approved a special variation for the 2015/16 year or those that apply in February 2015 and are approved a special variation covering the 2015/16 year.
- ▼ The IPART rate peg is a maximum allowable increase to council general income. Individual councils determine how that maximum increase is applied to different groups of ratepayers. For example, some rates might increase by more than 2.4% and others may increase by less as long as the total increase in general income does not exceed 2.4%.
- ▼ The underlying 2015/16 rate peg of 2.43% has been rounded to 2.4% and consists of two components: (1) the increase in the Local Government Cost Index (LGCI) in the year to September 2014 of 2.47%; (2) less a productivity adjustment of 0.04%.
- ▼ The Local Government Cost Index (LGCI) measures price movements of a representative 'basket' of inputs that are used to deliver local council services, in a similar way the Australian Bureau of Statistics (ABS) measures the Consumer Price Index (CPI). The main components of the index and their percentage share of the overall index are:
 - Employee benefits and on-costs (41.7%)
 - Construction works – roads, drains, footpaths, kerbing, bridges (13.9%)
 - Buildings – non-dwelling (6.1%)
 - Other business services – including items such as contractor and consultancy costs (5.9%)
 - Plant and equipment – machinery (3.7%)
 - Road, footpath, kerbing, bridge and drain building materials (3.1%)
 - Electricity (3.8%).
- ▼ We reviewed our methodology for calculating the productivity factor this year which resulted in a productivity factor of 0.04%. This was because the ABS discontinued the series we previously used. We have decided to use the market-sector measure published by the ABS that is a value-added multi factor productivity based on quality adjusted hours worked. We have continued to use a long-term (15-year) average as it smooths out short-term volatility in the annual changes in the index.
- ▼ We have decided to make no adjustment to the 2015/16 rate peg for the carbon price repeal effective 1 July 2014. This is mainly because the LGCI captures some of the impact of the carbon price removal as it includes price changes for the year to September 2014. We estimate that the effects of the carbon price removal will be captured gradually in the 2015/16, 2016/17 and 2017/18 rate pegs.
- ▼ Councils may seek approval to increase their general income by more than the rate peg by applying to IPART for a special rate variation. Councils wishing to apply for special variations must notify IPART by 12 December 2014.