

## RATE PEG FOR NSW LOCAL COUNCILS FOR 2012/13

**Embargoed until 10am, 6 December 2011**

The Independent Pricing and Regulatory Tribunal (IPART) today announced that the rate peg for NSW local councils will be 3.6% in 2012/13. The rate peg sets the maximum increase in local governments' 'general income'. The main component of general income is rates revenue.

Mr Jim Cox, Chief Executive Officer and Full Time Tribunal Member of IPART advised "The Tribunal has determined a council rate peg of 3.6% for the coming financial year. In setting the rate peg, we have 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 rate peg applies to a council's income, not to an individual's rates, but if we assume that a council increases residential rates in line with the rate peg, the decision implies a rate increase in 2012/13 of around \$30 for the year, or less than \$1 per week."

The average residential rate assessment in NSW is around \$830 in 2011/12.

Similar to last year, we have based the rate peg on the increase in the local government cost index and a productivity factor. The index increased by 3.4% in the year to September 2011. We have then subtracted a productivity factor of 0.2% from the index. In addition, this year, we have added an advance to help councils meet increases in their costs as a result of the introduction of the carbon price. This advance adds 0.4% to the rate peg.

"The use of the index and a productivity factor provide a clear basis for determining the size of the annual rate peg. This approach allows council general income to increase in line with an index that reflects council costs, as well as encouraging local councils to continue to improve the efficiency of their operations."

"We consider that local councils can continue to provide services more efficiently over time and that some of these gains should be shared with ratepayers."

"The carbon price advance is necessary because the rate peg for 2012/13 is set using past prices. The Local Government Cost Index includes price data for the year to September 2011 as this is the latest quarter available at the time we announce the rate peg. The index does not yet include the impact of the carbon price to come into effect from 1 July 2012. We are including an advance in the rate peg to allow councils to meet higher prices for the goods and services they will buy."

"Given that it is currently uncertain how quickly the carbon price will flow into prices, we have set the amount of the advance conservatively."

“The advance for the carbon price is included in the 2012/13 rate peg only and will be reversed from the rate pegs over 2013/14 and 2014/15. This is because the actual impact of the carbon price will be reflected in the local government cost index from the September 2012 quarter. By reversing the advance, we will ensure that the impact of the carbon price is not counted twice in our rate peg decisions.”

Fact sheets and information papers on the rate peg and how the carbon price will affect councils are available on IPART’s website: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

For further information, contact: James Cox, Chief Executive Officer and Full Time Member  
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## **Background**

This year, the rate peg of 3.6% includes 3 components:

- ▼ the increase in the Local Government Cost Index of 3.4% in the year to September 2011
- ▼ a productivity adjustment, reducing the rate peg by 0.2%, and
- ▼ an advance for the impact of the carbon price on 1 July 2012 of +0.4%.

The Local Government Cost Index measures movements in prices of a representative ‘basket’ of inputs that are used to deliver local council services. The methodology used by IPART for the Local Government Cost Index is similar to the one used by the Australian Bureau of Statistics (ABS) for 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 (41.9%)
- ▼ Construction works – roads, drains, footpaths, kerbing, bridges (13.5%)
- ▼ Buildings – non-dwelling (6.5%)
- ▼ Other business services – including items such as contractor and consultancy costs (6.0%)
- ▼ Plant and equipment – machinery (4.1%)
- ▼ Road, footpath, kerbing, bridge and drain building materials (3.0%).

IPART conducted a survey of councils in September and October 2010 to determine the weights to be applied to the components of the index.

The *Local Government Act 1993* allows councils the flexibility to seek a ‘special variation’ (an increase above the rate peg). IPART assesses these applications against criteria set by the NSW Government.