

28 November 2017



## WHAT

IPART has set the 2018-19 rate peg for NSW councils at **2.3%**.

The rate peg is based on the change in the Local Government Cost Index (LGCI) and consideration of a productivity factor.



## HOW

We calculated the rate peg for 2018-19 by:

- ▼ taking the increase in the LGCI for the year to September 2017 of 2.3%, and
- ▼ setting the productivity factor to 0.0%.



## WHO

The rate peg sets the maximum increase in each council's general income for the 2018-19 financial year. For most councils, general income consists entirely of rates revenue.

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.

Councils may apply to IPART for a special variation (SV) to increase general income above the rate peg.



## WHAT'S NEW

**We've changed the way we estimate the productivity factor.**

We are setting the productivity factor at zero this year, because improvements in

productivity are reflected in the components of the LGCI.

In future years, we intend to set the productivity factor at zero as a default, but retain discretion to deduct a productivity factor, if there is evidence of productivity improvements in the local government sector that have not been fully incorporated in the LGCI.

If we intended to deduct a productivity factor in a particular year, we would give councils advance notice, at least four weeks before we announce the rate peg in that year.

**We would like to consult with councils and other stakeholders on a proposal to release the rate peg around the beginning of September in future years.**

We think this change would provide councils with more time to prepare annual budgets, and better engage with their communities on SV applications.



## WHAT NEXT

Councils must not increase general income by more than the rate peg, unless IPART grants approval for an SV.

Councils applying for an SV must satisfy the criteria listed in the Office of Local Government's Guidelines.

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

We welcome stakeholder feedback on the proposal to release the rate peg in early September in future years. Feedback is due by 12 February 2018.

## 1 What is the rate peg?

The rate peg is the maximum percentage amount by which a council may increase its general income for the year. For most councils, general income consists entirely of rates income. For a small number of councils, general income also includes some annual charges such as drainage levies. The rate peg does not apply to stormwater, waste collection, water and sewerage charges. The rate peg applies to general income in total, and not to individual ratepayers' rates.

## 2 What is the Local Government Cost Index (LGCI)?

The LGCI is a price index for councils in NSW. It measures price changes over the past year for goods, materials and labour used by an average council. 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.
- ▼ Each year, the ABS adjusts the change in the price of each cost component for improvements in both labour and capital productivity, by adjusting the price downwards for any improvement in the quality of that component. In other words, an improvement in productivity is reflected in each component of the LGCI.
- ▼ Hence, we have decided to set the productivity factor to zero as a default, and to apply this default value for the 2018-19 rate peg. In future years, we would retain discretion to deduct a productivity factor if there is evidence that productivity improvements in the local government sector are not fully incorporated in the LGCI. If we intend to deduct a productivity factor, we would give councils advance notice, of at least four weeks, before we release the rate peg in that year.

To calculate the LGCI in 2018-19, we combined the 26 cost components using expenditure weightings in a 2015 cost survey (based on NSW councils' expenditure in 2013-14 and 2014-15). We aim to update the expenditure weightings every four years to ensure the impact of each cost item on the LGCI remains accurate.

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](#).

### What price changes influenced the LGCI?

We used the change in the LGCI in the year to September 2017 when setting the rate peg for 2018-19. The change in the LGCI in the year to September 2017 was 2.3%.

The main contributors to the change in the LGCI over the year ending September 2017 were:

- ▼ an increase of 2.5% in employee benefits and on-costs, measured by the ABS wage price index for the NSW public sector
- ▼ an increase of 11.7% in electricity and street lighting charges, measured by the ABS consumer price index for electricity costs – Sydney, and
- ▼ an increase of 1.2% in construction works – roads, drains, footpaths, kerbing and bridges costs, measured by the ABS producer price index for roads and bridge construction – NSW.

Most components of the LGCI experienced moderate price inflation over the year to September 2017 (see Section 4 below for a table showing the price changes in cost items for all components of the LGCI).

### 3 Setting the rate peg in September in the future

We are considering whether to set the rate peg in early September each year, rather than around the beginning of December. This proposed change would apply for the following year's rate peg (2019-20) and thereafter.

This change could make the SV process easier for councils. Councils would also have more time to prepare an SV knowing the rate peg for the following year.

This earlier notification could help councils who apply for an SV to improve consultation with their communities. In practice, many councils that apply for an SV begin their community consultation and updating Integrated Planning & Reporting (IP&R) documentation before December. Currently, these councils may need to amend their documentation and consult further after we announce the rate peg.

Setting the rate peg in September would reduce this problem by allowing councils to include the actual rate peg in their consultation before December.

In consultation, and in previous submissions, councils have indicated to IPART they would prefer the rate peg to be released earlier, to allow more time to prepare annual budgets, even if they do not apply for an SV.<sup>1</sup>

#### How would we transition to a September release?

We currently calculate the rate peg based on data up to September of the previous year. If we adopt the proposed approach, we would set the rate peg based on data up to June of the previous year.

If we bring forward when we set the 2019-20 rate peg by three months to September, the rate peg would be based on price changes for three quarters in 2019-20 only (December 2017, and March and June 2018). Therefore to set the rate peg for 2019-20, we would need to convert these price changes into an annualised percentage change.<sup>2</sup> In future years, the LGCI would be based on four quarters of price changes (September, December, March and June each year). The underlying data series used to calculate the LGCI are available quarterly, and we do not propose to change the underlying methodology.

<sup>1</sup> IPART, *Revenue Framework for Local Government Final Report*, December 2009, p 182.

<sup>2</sup> For example, a cumulative 3% price change over three quarters would convert to an annualised percentage change of about 4%.

## Have your say

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We invite stakeholder feedback by 12 February 2018 on the proposal to release the rate peg around the beginning of September in future years. We will make a decision on when to set the rate peg after considering stakeholder feedback. If we decide to set the rate peg in September 2018, we would announce this decision when we announce our 2018-19 SV decisions in May 2018.

Submissions can be emailed to [localgovernment@ipart.nsw.gov.au](mailto:localgovernment@ipart.nsw.gov.au) or posted to:

Local Government Team  
Independent Pricing and Regulatory Tribunal of NSW  
PO Box K35  
Haymarket Post Shop NSW 1240

## 4 Change in the LGCI for the year ended September 2017

Cost items	Effective weight as at end Sep 2016 (%)	Price change to end-Sep 2017 (% annual average)	Contribution to index change (percentage points)
<b>Operating cost items</b>			
Employee benefits and on-costs	41.6	2.5	1.03
Plant & equipment leasing	0.3	-1.9	-0.01
Operating contracts	1.0	1.5	0.02
Legal & accounting services	0.8	1.7	0.01
Office & building cleaning services	0.3	3.0	0.01
Other business services	5.9	2.6	0.16
Insurance	1.7	4.1	0.07
Telecommunications, telephone & internet services	0.5	-4.8	-0.02
Printing publishing & advertising	0.5	-4.7	-0.03
Motor vehicle parts	0.3	2.9	0.01
Motor vehicle repairs & servicing	0.6	0.5	0.00
Automotive fuel	0.7	5.6	0.04
Electricity	2.6	11.7	0.30
Gas	0.1	3.0	0.00
Water & Sewerage	0.4	-5.2	-0.02
Road, footpath, kerbing, bridge & drain building materials	2.4	1.2	0.03
Other building & construction materials	0.5	4.7	0.02
Office supplies	0.2	1.1	0.00
Emergency services levies	1.4	1.3	0.02
Other expenses <sup>a</sup>	8.9	2.1	0.18
<b>Capital cost items</b>			
Buildings – non-dwelling	4.0	4.7	0.19
Construction works – road, drains, footpaths, kerbing, bridges	19.3	1.2	0.23
Construction works – other	2.0	1.2	0.02
Plant & equipment – machinery, etc	3.5	0.6	0.02
Plant & equipment – furniture, etc	0.1	1.2	0.00
Information technology & software	0.4	-3.1	-0.01
<b>Total change in LGCI</b>	<b>100.0</b>		<b>2.29</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.