

RATE PEG FOR NSW LOCAL GOVERNMENTS FOR 2011/12

Embargoed until 10am Friday 10 December 2010

The Independent Pricing and Regulatory Tribunal (IPART) today announced that the rate peg for NSW local governments will be 2.8% in 2011/12.

The rate peg sets the maximum increase in local governments' 'general income'. The main component of general income is rates revenue.

The Chair of IPART, Mr Rod Sims advised "We have based our decision on the increase in the Local Government Cost Index, which IPART has developed and which is being released with this decision. The index increased by 3.0% in the year to September 2010. We have then subtracted a productivity adjustment of 0.2% from the increase in the index to determine a rate peg amount of 2.8%."

"The use of the index and a productivity factor provide a clear basis for determining the size of the annual rate peg. This approach will see council general revenues increase in line with an index that reflects council costs and will encourage local governments to continue to improve the efficiency of their operations."

This rate peg decision is the first to be made under the new policy arrangements which were announced by the Premier on 4 June 2010. The new arrangements require IPART to determine the maximum allowable increase in the general income of local governments ('rate peg') commencing with the 2011/12 income year.

The Local Government Cost Index measures movements in prices of a representative 'basket' of inputs that are used to deliver local government 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 index are:

- ▼ Employee benefits and on-costs (41.2%)
- ▼ Construction works – roads, drains, footpaths, kerbing, bridges (13.7%)
- ▼ Buildings – non-dwelling (6.9%)
- ▼ Other business services – including items such as contractor and consultancy costs (6.1%)
- ▼ Plant and equipment – machinery (4.2%)
- ▼ Road, footpath, kerbing, bridge and drain building materials (3.0%).

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

In addition, a productivity factor has been applied.

“Local governments can continue to provide services more efficiently over time and some of the gains should be shared with ratepayers.”

“We found that there is no established measure of local government productivity, so ultimately, the productivity factor that we applied was a judgement call for the Tribunal.”

“The latest ABS National Accounts data indicate that economy-wide labour productivity gains averaged around 1.2% per annum over the last 5 years. Labour costs amount to approximately 40% of total council costs, so if we used the economy-wide efficiency gain, the productivity factor would be around 0.5%. We have applied a conservative factor of 0.2% for 2011/12,” Mr Sims said.

The Tribunal plans to consult with expert bodies, such as the Australian Bureau of Statistics and the Productivity Commission, and councils in 2011 in order to refine the productivity factor for use in the 2012/13 financial year.

Mr Jim Cox, the Chief Executive and Full-Time Tribunal Member, said, “IPART has brought forward the timing of the announcement of the rate peg to provide councils with greater certainty over their future budgets and service plans.”

“In 2008/09, IPART conducted a review of local government financing. Local Governments argued consistently to us that they need a clear basis for setting the rate peg and that the rate peg should be announced earlier in the local government planning process.”

The Local Government Act allows councils to seek a ‘special variation’, or an increase above the rate peg. The Premier announced on 4 June 2010 that IPART would also be determining applications for special variations for the 2011/12 financial year and beyond.

Mr Cox advised “Each council’s elected representatives may decide to apply for a further (‘special’) variation in rate income depending on local requirements for additional revenue. IPART will carefully scrutinise such applications to ensure proposals align with community wishes and are supported by a sustainable medium term financial plan and other strategic plans.

“The information paper on the methodology for the Local Government Cost Index and further information on IPART’s role in rate setting are available on IPART’s website: www.ipart.nsw.gov.au”

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