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WHAT

IPART has reweighted the Local Government Cost Index (LGCI) based on the results of the 2019 cost survey of councils.



WHY

Since 2010, IPART has determined the maximum percentage by which councils may increase their general income (rates revenue) for the financial year. This annual maximum percentage increase is known as the 'rate peg'.

The rate peg is mainly based on the annual change in the LGCI.

The LGCI measures price changes over time for cost items relevant to NSW councils.

IPART's reweighting of the LGCI, based on the results of the 2019 cost survey, ensures the relativities between cost items remain accurate.

Councils that wish to seek additional increases in general income beyond the annual rate peg can apply to IPART for a special variation increase.



HOW

IPART analysed data from the 2019 cost survey by:

- ▼ Each of the LGCI's 26 cost items for 2017-18 and 2018-19
- ▼ The Office of Local Government's classification of councils into 11 groups
- ▼ Council category – ie, metropolitan, regional and rural (refer to Figure 1).



KEY CHANGES

The 2019 cost survey showed that the composition of NSW councils' general expenditure has changed only slightly (see Table 1).

We determined that:

- ▼ Operating expenditure (day to day costs of running councils) decreased to 67.2% of total expenditure (70.5% in the 2015 cost survey).
- ▼ Within operating expenditure, the cost share of employee expenses decreased to 38.2% in 2019 (from 41.2% in 2015). This remains the largest cost item in the LGCI.
- ▼ Capital expenditure increased to 32.8% of total expenditure (29.5% in the 2015 cost survey).
- ▼ Within capital expenditure, the cost share of construction works – roads, drains, footpaths, kerbing, bridges, increased to 22.2% in 2019 (from 19.6% in 2015).



WHAT NEXT

The reweighted LGCI will be used to calculate the rate peg for 2021-22 onwards.

IPART will release the rate peg for 2021-22 in September 2020.

1 Results of the 2019 cost survey

The LGCI measures price changes in councils' operating and capital expenses that are funded through general (rates) income. We requested information on councils' operating and capital expenses for 2017-18 and 2018-19 in the 2019 cost survey, to smooth out the impact of one-off costs.

NSW councils' expenditure weights (% of total costs)

Table 1 presents the updated expenditure weights for each cost item within the LGCI, based on the responses of 67 councils that participated in the survey (52% response rate).

Table 1 NSW councils' expenditure weights, % of total costs

Cost item	2015 cost survey	2019 cost survey	Change (percentage points)
Operating cost items	70.5	67.2	-3.3
Employee benefits and on-costs	41.2	38.2	-3.0
Plant and equipment leasing	0.3	0.3	0.0
Operating contracts	1.0	2.1	1.1
Legal and accounting services	0.8	0.8	0.0
Office and building cleaning services	0.3	0.3	0.0
Other business services	5.9	6.1	0.2
Insurance	1.5	1.2	-0.3
Telecommunications, telephone and internet services	0.6	0.4	-0.2
Printing, publishing and advertising	0.6	0.6	0.0
Motor vehicle parts	0.3	0.3	0.0
Motor vehicle repairs and servicing	0.6	0.4	-0.2
Automotive fuel	0.9	0.8	-0.1
Electricity	2.7	2.0	-0.7
Gas	0.1	0.1	0.0
Water and sewerage	0.4	0.4	0.0
Road, footpath, kerbing, bridge and drain building materials	2.5	2.5	0.0
Other building and construction materials	0.5	0.7	0.2
Office supplies	0.3	0.3	0.0
Emergency Services Levy	1.4	1.4	0.0
Other expenses ^a	8.9	8.4	-0.5
Capital cost items	29.5	32.8	3.3
Building – non-dwelling	3.9	4.3	0.4
Construction works – roads, drains, footpaths, kerbing, bridges	19.6	22.2	2.6
Construction works – other	2.0	2.5	0.5
Plant and equipment – machinery etc.	3.4	3.0	-0.4

Plant and equipment – furniture etc.	0.1	0.1	0.0
Information technology and software	0.5	0.7	0.2
Total	100.0	100.0	0.0

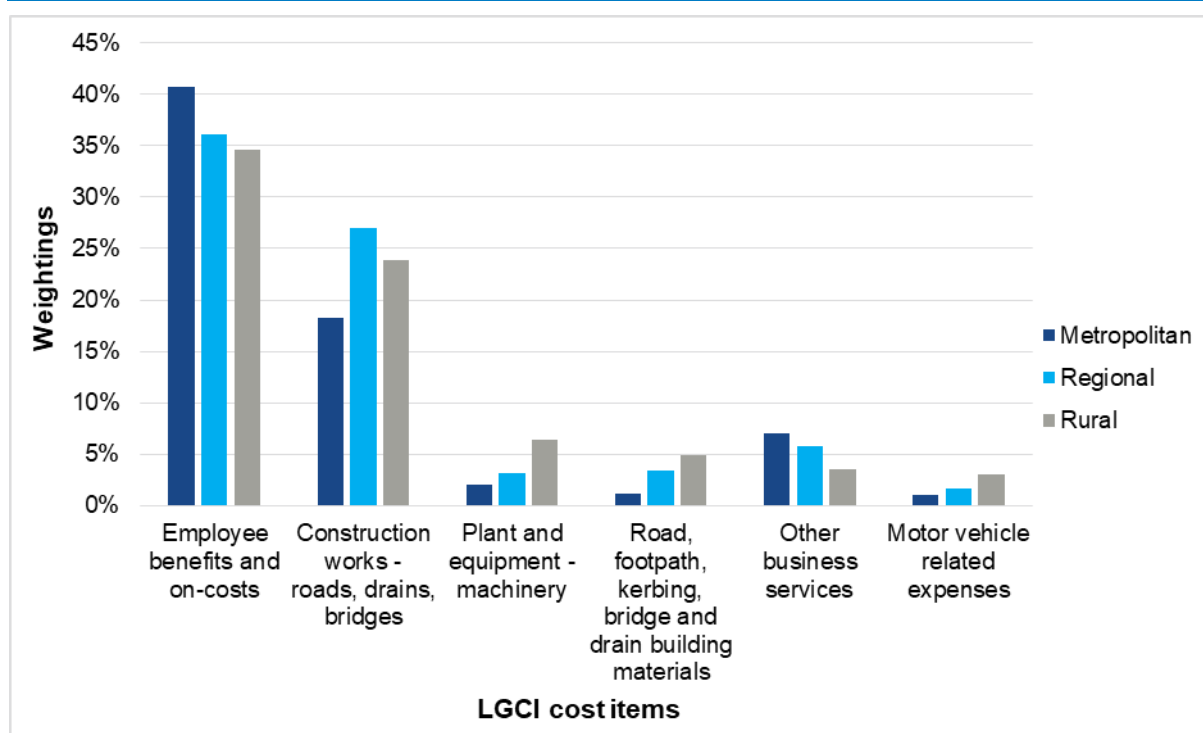
^a Includes miscellaneous expenses with low weights in the index eg, councillor and mayoral fees.

Note: Figures may not add due to rounding.

Expenditure weights by council category

We analysed expenditure by council category using data from the 2019 cost survey and identified some differences in the expenditure patterns for metropolitan, regional and rural councils. These differences are in line with results from similar cost surveys conducted in 2010 and 2015.

Figure 1 Differences in expenditure between council categories



Key differences in expenditure between council categories include:

- ▼ The cost share of Employee benefits and on-costs was higher for metropolitan councils (40.7%), compared to regional and rural councils (36.2% and 34.6% respectively)
- ▼ The cost share of Construction works – roads, drains, footpaths, kerbing, bridges was higher for regional and rural councils (27.0% and 23.9% respectively), compared to metropolitan councils (18.2%).

We will maintain a single LGCI

We recognise there are differences in expenditure between council categories, however, we have decided not to adopt separate cost indexes.

Our analysis shows that differences between movements in separate cost indexes over time are not material. We found that over the four years to the June quarter 2019, a LGCI for urban councils would have produced an average rate peg of 2.26% per year, compared to 2.18% per year for rural councils. This is similar to the average rate peg of 2.25% per year for all councils in NSW, based on IPART's actual LGCI.¹

Also, we do not have separate price indexes for the three council categories for the LGCI's cost items.² This means that even if we were to introduce separate cost indexes with difference expenditure weights, the price inflators would be the same across the cost indexes.

2 Feedback from the 2019 cost survey

We included supplementary questions in the 2019 cost survey to seek feedback on IPART's rate peg process, and obtain information on councils' Emergency Services Levy (ESL) costs and domestic waste management services. Councils also had the opportunity to raise any relevant issues they wished to bring to our attention.

In this section we present councils' responses to the supplementary questions, and discuss some of the issues raised by councils.

We will maintain the September rate peg release

We asked councils to indicate their preference between releasing the rate peg in:

- ▼ **September** – this provides councils with more time to prepare annual budgets, and engage with their communities on potential special variation applications
- ▼ **December** – this enables price changes that occur at the start of the financial year (ie, wages) to be reflected in the rate peg for the following year, instead of in two years' time.

More than 50% of survey responses indicated a preference for a September rate peg release.

We adjusted for the increase in councils' Emergency Services Levy contributions in 2019-20

The ESL component of the LGCI measures changes in funding contributions by NSW councils for Fire and Rescue NSW, the Rural Fire Service and the State Emergency Service.

For the 2019 cost survey, we asked councils to provide their expenses for 2017-18 and 2018-19. This means that the data from the 2019 cost survey does not include the 15.0% increase in councils' ESL contributions in 2019-20.

We made an adjustment to the expenditure weight of the ESL cost item in the LGCI to incorporate the percentage increase in councils' ESL contributions in 2019-20. This resulted

¹ Urban councils include metropolitan and regional councils.
IPART's rate peg is rounded to one decimal place. We have presented the average rate peg to two decimal places for comparison.

² The Consumer Price Index (CPI) is only available for capital cities, and the Wage Price Index (WPI) and Producer Price Indexes (PPI) are mostly compiled at the State and Territory level.

in a slightly higher expenditure weight for the ESL cost item – from **1.2%** based on survey data to **1.4%** with the adjustment.

We acknowledge councils' concerns regarding election costs

Some councils expressed concerns about increases in the costs of conducting local government elections.

We are exploring options to address increases in election costs, and will provide more information on this when we release the 2021-22 rate peg in September 2020.

We will release an Information Paper on domestic waste management charges

IPART, under delegation from the Minister for Local Government, has the power to specify the percentage by which domestic waste management charges may be varied in a given year. We have up until now opted not to set a limit on these charges.

We asked councils to provide information on their domestic waste management operations to inform our approach to assessing these charges in future years. We intend to release an Information Paper on this around mid-2020 – which will set out a number of pricing principles and potential regulatory options – and invite feedback from councils and other stakeholders.

3 Contact for further information

If you have any questions about the results of the cost survey or the LGCI, please contact:

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4 Local Government Cost Index – structure

Table 2 shows the price inflators for the LGCI's 26 cost items.

Table 2 LGCI cost items and price inflators

LGCI cost item	Price inflator
Operating cost items	
Employee benefits and on-cost	WPI – Public sector, NSW
Plant and equipment leasing	PPI – 663 Other goods and equipment rental and hiring
Operating contracts	PPI – 729 Other administrative services
Legal and accounting services	PPI – 693 Legal and accounting services
Office and building cleaning services	PPI – 7311 Building and other industrial cleaning services
Other business services	PPI – 7299 Other administrative services n.e.c.
Insurance	CPI – Insurance, Sydney
Telecommunications, telephone and internet services	CPI – Telecommunication equipment and services, Sydney
Printing, publishing and advertising	PPI – 16 Printing (including the reproduction of recorded media)
Motor vehicle parts	CPI – Spare parts of accessories for motor vehicles, Sydney
Motor vehicle repairs and servicing	CPI – Maintenance and repair of motor vehicles, Sydney
Automotive fuel	CPI – Automotive fuel, Sydney
Electricity	CPI – Electricity, Sydney
Gas	CPI – Gas and other household fuels, Sydney
Water and sewerage	CPI – Water and sewerage, Sydney
Road, footpath, kerbing, bridge and drain building materials	PPI – 3101 Road and bridge construction, NSW
Other building and construction materials	PPI – 3020 Non-residential building construction, NSW
Office supplies	CPI – Audio, visual and computing media and services, Sydney
Emergency Services Levy	IPART index based on data provided by NSW Treasury
Other expenses	CPI – All groups CPI, Sydney
Capital cost items	
Building – non-dwelling	PPI – 3020 Non-residential building construction, NSW
Construction works – road, drains, footpaths, kerbing, bridges	PPI – 3101 Road and bridge construction, NSW
Construction works – other	PPI – 3101 Road and bridge construction, NSW
Plant and equipment – machinery etc.	PPI – 231 Motor vehicle and motor vehicle part manufacturing
Plant and equipment – furniture etc.	PPI – 24 Machinery and equipment manufacturing
Information technology and software	CPI – Audio, visual and computing equipment and services, Sydney

Note: Detailed data sources are set out in [IPART, Local Government Cost Index – Information Paper, December 2010](#).

The price inflators are published quarterly by the Australian Bureau of Statistics, with the exception of the inflator for the ESL, which is produced by IPART based on data provided by NSW Treasury.