

Reweighting of Local Government Cost Index



September 2016



WHAT

IPART has reweighted the Local Government Cost Index (LGCI) based on the results of the 2015 cost survey of councils.

Key changes include:

- ▼ Capital expenditure increasing to 29.5% of total expenditure (26.9% in the 2010 survey) and
- ▼ Operational expenses (day to day costs of running councils), decreasing to 70.5% of total expenditure (73.1% in 2010).



WHY

The LGCI measures cost changes over time for the works and services supplied by councils.

IPART's reweighting of the LGCI, based on the results of the 2015 cost survey, ensures the cost index is as up to date as possible.

The rate peg is determined by the annual change in the LGCI adjusted by an annual productivity factor.¹

The rate peg determines the annual amount by which councils can raise their overall general (rates) income each year.

Councils wishing to increase general income by more than the rate peg can apply to IPART for a special variation increase.



HOW

IPART analysed the 2015 expenditure weights (cost shares) by:

- ▼ Cost item, including each of the LGCI's 26 cost items for 2013-14 and 2014-15.

The 2015 results are the average of these two years.² See Table 1.

- ▼ Category of council, based on the Office of Local Government's (OLG) classification of councils into 11 categories.
- ▼ Type of council (rural, urban). Refer to Diagram 1.

These results were compared with those of a similar cost survey carried out in 2010 to establish the LGCI.



KEY CHANGES

The 2015 cost survey showed (Table 1) that the composition of NSW councils' general expenditure has changed only slightly as follows:

- ▼ Operational expenses have decreased to 70.5% of total expenditure (73.1% in 2010).
- ▼ The 2015 cost share of the largest cost item, employee expenses (41.2%), remained the same as in 2010.
- ▼ Capital expenditure has increased to 29.5% of total expenditure (26.9% in 2010).
- ▼ This reflects higher spending on roads and other construction excluding non-dwelling buildings. This cost share increased to 19.6% in 2015 from 13.7% in 2010.



WHAT NEXT

The reweighted LGCI will be used to set the rate peg increase for 2017-18. This will be determined in December 2016.

¹ The productivity adjustment factor is determined by IPART separately from the LGCI.

² The 2015 results were taken as the average of audited cost data we received for 2013-14 and 2014-15.

Local Government Cost Index – results of 2015 Cost Survey



1. NSW councils' expenditure weights (% of total costs)

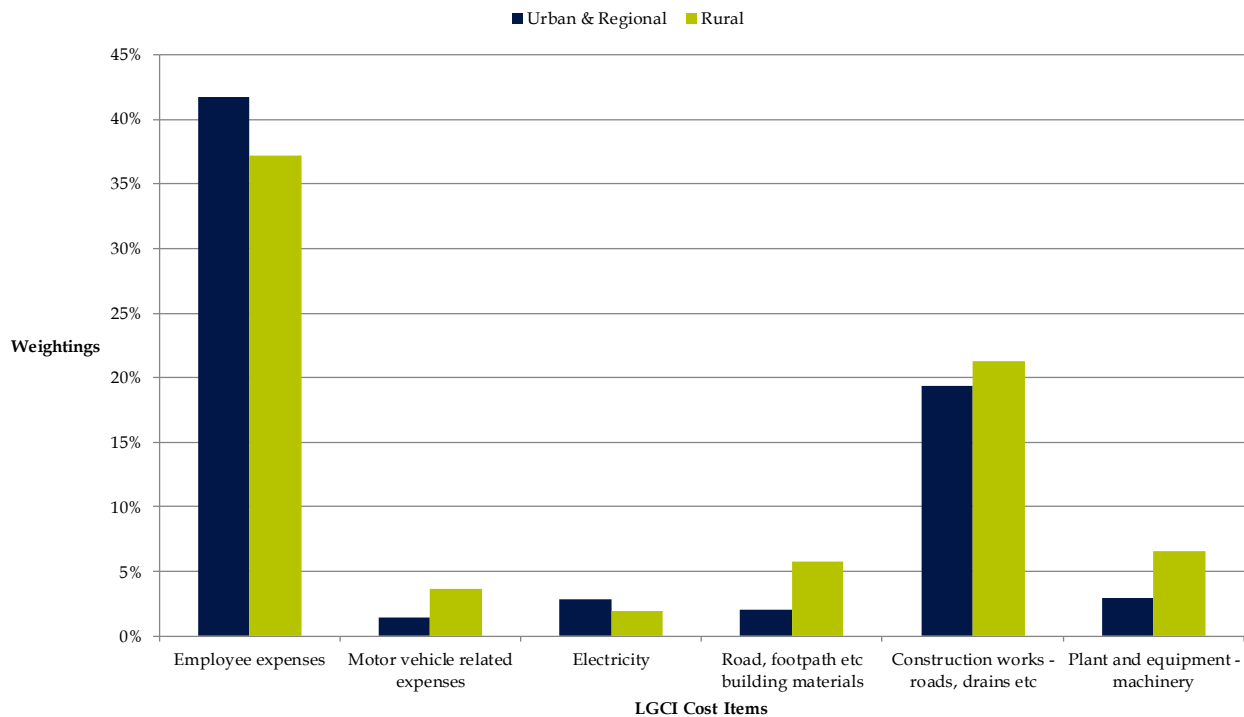
The LGCI measures changes in councils' operating and capital expenses for providing local services that are funded through general (rates) income. Table 1 presents the updated expenditure weights for each cost item within the LGCI based on the responses of the 114 councils that participated in the survey (75% response rate). The 2015 weights are the average of the cost shares for 2013-14 and 2014-15 as reported by these councils.

Table 1 NSW Council Expenditure Weights (cost shares), % of total costs³

COST INDEX ITEMS – RECURRENT/OPERATIONAL	2010 Weights	2013-14	2014-15	2015 Weights
(1) Employee benefits and on-costs	41.2	41.5	40.9	41.2
(2) Plant and equipment leasing	0.4	0.3	0.3	0.3
(3) Operating contracts (excluding waste management)	1.4	1.0	1.0	1.0
(4) Legal and accounting services	1.1	0.8	0.8	0.8
(5) Office and building cleaning services	0.2	0.3	0.3	0.3
(6) Other business services	6.1	5.7	6.0	5.9
(7) Insurance	1.7	1.6	1.5	1.5
(8) Telecommunications, telephone, internet services	0.6	0.6	0.6	0.6
(9) Printing, publishing and advertising	0.6	0.6	0.6	0.6
(10) Motor vehicle parts	0.5	0.3	0.3	0.3
(11) Motor vehicle repairs and servicing	0.7	0.6	0.6	0.6
(12) Automotive fuel	1.2	0.9	0.8	0.9
(13) Electricity	2.4	2.9	2.5	2.7
(14) Gas	0.1	0.1	0.1	0.1
(15) Water and sewerage	0.5	0.4	0.4	0.4
(16) Road, footpath, kerbing, bridge, drainage materials	3.0	2.5	2.5	2.5
(17) Other building and construction materials	0.9	0.5	0.5	0.5
(18) Office supplies	0.4	0.3	0.2	0.3
(19) Emergency Services Levies	1.4	1.4	1.3	1.4
(20) Other expenses	8.8	9.3	8.5	8.9
Sub-total for Operational expenses	73.1	71.5	69.6	70.5
COST INDEX ITEMS – CAPITAL				
(21) Buildings – non-dwelling	6.9	4.3	3.6	3.9
(22) Construction works – roads, drains, bridges	13.7	18.5	20.6	19.6
(23) Construction works – other	1.4	1.6	2.3	2.0
(24) Plant and equipment – machinery	4.2	3.5	3.4	3.4
(25) Plant and equipment – furniture etc.	0.3	0.1	0.1	0.1
(26) Information technology and software	0.5	0.5	0.5	0.5
Sub-total for Capital expenses	26.9	28.5	30.4	29.5
COMBINED TOTAL	100.0	100.0	100.0	100.0

³ Due to rounding, the sum of individual percentages may not correspond to 100%.

Diagram 1 – Key differences in expenditure for Urban and Rural councils



There are some differences in costs between rural and urban councils. Rural councils generally have higher cost shares for plant and equipment machinery. This accounted for 6.5% of expenditure for rural councils as compared with 3.0% for urban councils.

Other differences in costs between rural and urban councils include:

- ▼ Employee expenses were higher (41.8%) for urban councils as compared with 37.1% for rural councils.
- ▼ Roads construction represented 21.3% of spending by rural councils as compared with 19.3% by urban councils.
- ▼ Materials expenses for roads, footpaths, bridges and drainage accounted for 5.7% of costs for rural councils and 2.0% for urban councils.
- ▼ Motor vehicle related expenses represented 3.7% of costs for rural councils as compared with 1.4% for urban councils.
- ▼ Electricity costs were higher (2.8%) for urban than for rural councils (1.9%).

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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2. Local Government Cost Index – structure

LGCI cost items and the price indexes that measure their changes

Recurrent cost items	Component price (inflator) indices ^a
Employee benefits and on-costs	WPI - Public sector, NSW
Plant & equipment leasing (excluding waste management)	PPI - 663 Other goods & equipment rental and hiring
Operating contracts (excluding waste management)	PPI - 729 Other administrative services
Legal & accounting services	PPI - 693 Legal & accounting services
Office & building cleaning services	PPI - 7311 Building & other industrial cleaning services
Other business services	PPI - 7299 Other administrative services not elsewhere classified
Insurance	CPI - Insurance Services, Sydney
Telecommunications, telephone & internet services	CPI - Telecommunications, Sydney
Printing publishing & advertising	PPI - 16 Printing (including reproduction of recorded media)
Motor vehicle parts	CPI - Spare parts and accessories for motor vehicles, Sydney
Motor vehicle repairs & servicing	CPI - Maintenance and repair of motor vehicles, Sydney
Automotive fuel	CPI - Automotive fuel, Sydney
Electricity	CPI - Electricity, Sydney
Gas	CPI - Gas & other household fuels, Sydney
Water & Sewerage	CPI - Water & sewerage - Sydney
Road, footpath, kerbing, bridge & drain building materials	PPI - 3101 Road & bridge construction, NSW
Other building & construction mats	PPI - 3020 Non-residential building construction, NSW
Office supplies	CPI - Audio, visual & computer media & services, Sydney
Emergency services levies	IPART index of council ESL per rateable property
Other expenses	CPI - All groups, Sydney
Capital cost items	
Buildings – non-dwelling	PPI - 3020 Non-residential building construction, NSW
Construction works - road, drains, footpaths, kerbing, bridges	PPI - 3101 Road & bridge construction, NSW
Construction works - other	PPI - 3101 Road & bridge construction, NSW
Plant & equipment – machinery	PPI - 231 Motor vehicle & motor vehicle part manufacturing, Australia
Plant & equipment – furniture, etc	PPI 24 Machinery & equipment manufacturing, Australia
Information technology & software	CPI - Audio, visual & computer equipment & services, Sydney

^a Detailed data sources are set out in IPART, *Local Government Cost Index – Information Paper*, December 2010. 'WPI' = ABS Wage Price Index, 'PPI' = Producer Price Index and 'CPI' = Consumer Price Index.

The price inflator for each cost category is published quarterly by the Australian Bureau of Statistics, with the exception of the inflator for emergency services levies, which is produced by IPART based on data provided from NSW Treasury and the Office of Local Government.⁴

⁴ The 'Emergency Services Levy' (ESL) provides funding towards Fire and Rescue NSW (FRNSW), NSW Rural Fire Service (RFS) and the NSW State Emergency Service (SES).