

# Local Government Cost Index Survey 2015



October 2015



## WHAT

IPART in November 2015 will request councils to complete a Cost Survey that will be used to update the Local Government Cost Index (LGCI).

Councils are to submit their survey return, through IPART's Council Portal, before close of business on **Wednesday, 9 December 2015**.

This Fact Sheet provides guidance to councils on how to complete the survey which will be posted on **IPART's website on 10 November, 2015**.



## WHY

Since 2010, IPART has determined the allowable annual increase in local government general income (rate peg). The rate peg is determined having regard to the annual change in the LGCI and an annual productivity factor.<sup>1</sup>

The LGCI measures price changes over time for cost items relevant to NSW councils. An example of how a cost index is calculated is shown in Section 1, below.

The 2015 cost survey will update the expenditure weightings to ensure the relativities of the cost items (Section 3) within the LGCI remain accurate.

<sup>1</sup> The productivity adjustment factor is determined by IPART separately from the LGCI.



## HOW

In preparation for the upcoming release of the survey on our website your council will need to:

- ▼ Step 1: Re-familiarise yourself with your login details for our [Council Portal](#). A small number of councils may need to register.
- ▼ Step 2: Download an electronic version of the survey form (available from 10 November 2015) from [IPART's website](#).
- ▼ Step 3: Complete the survey form and Responsibility Statement and submit them to IPART via the Council Portal from 10 November to the close of business on **9 December 2015**.

The information that councils will require to complete the survey is outlined in Sections 2 and 5.

The cost items for the LGCI and their price inflators are listed in Section 3.



## WHEN

The key dates for the 2015 cost survey are:

- ▼ 10 November 2015 – survey available for download from IPART's website
- ▼ 9 December 2015 – Councils are to submit their completed LGCI Surveys via IPART's [Council Portal](#)
- ▼ February/March 2016 – Details of the updated LGCI are published on the IPART website.



## WHAT NEXT

All councils will receive an email in November, when the 2015 Cost Survey link is available to download.

# Local Government Cost Index Survey 2015



## 1. How a cost index works – a simplified example

To calculate the annual change in a cost index, we take the weighting of each cost item and multiply it by the change in the relevant price indicator (expressed as a percentage). This gives the contribution of each cost item to the cost index. We then sum the contributions for each of the cost items to give the percentage change in the cost index.

The table below shows a simple hypothetical example in which a cost index increases by 3.7%. In this example, employee costs represent 50% of total costs, that is, a weighting of 50% in the base period. Assuming that the labour price index increased by 4.2% over 12 months, we multiply 50% by 4.2%. The answer, 2.1% points, represents the contribution of the increase in employee costs to the total index. This is done for each cost item and then the contributions are summed to arrive at the total increase in the index. Both the weighting of each cost item and value of its inflator affect the contribution to this overall change.

Cost Item	Expenditure Weighting in the base period (a)	Change in price indicator (b)	Contribution to index (a x b)
Employee costs	50%	4.2%	2.1% pts
Materials	35%	3.5%	1.2% pts
Other expenses	15%	2.5%	0.4% pts
<b>Total weightings</b>	<b>100%</b>		
<b>Overall change in index</b>			<b>3.7%</b>

## 2. Information required to complete the cost survey

The index is intended to capture data on the operating and capital costs incurred by local government in ordinary council activity.

These expenses are funded from councils' general income and include those costs for council's use of water and sewerage services.<sup>2</sup> However, the following are excluded from the survey:

- ▼ water supply and sewerage fund (trading) operations, and
- ▼ other business activities.

The information required from councils is specified in Section 5 in the form of a sample copy of the survey. This is not to be completed by councils – the actual survey form is available for download from the IPART website (from 10 November 2015).

<sup>2</sup> Section 505 of the *Local Government Act 1993* defines 'General Income' as applying to income from ordinary rates, special rates and annual charges, other than rates and charges relating to water supply and sewerage services, and annual waste management and stormwater charges and annual charges referred to in Section 611 of the legislation.

## Scope

Data for some other costs are to be included in the survey to facilitate reconciliation to councils' statutory accounts but are not used in the LGCI. For instance, borrowings costs and depreciation are excluded from our index because the LGCI is concerned with price changes in the cost of acquiring goods and services, not the cost of financing their acquisition. Costs associated with waste management are also included in the survey but not in the LGCI, as they are currently recovered through separate charges.

### **The survey will use cost data for 2013-14 and 2014-15**

We request information for 2013-14 and 2014-15. This is to ensure any one-off cost impacts are smoothed out over this period. Data for both of these years should be consistent with councils' audited statutory accounts and the Financial Data Returns that the council submitted to the Office of Local Government (OLG).

The survey adopts the same definitions as the OLG's Local Government Code of Accounting Practice and Financial Reporting for the major categories and sub-categories of expenses. However, some further dissection of expenses sub-categories is required to match the requirements of the LGCI.

Where data disaggregation is not possible, careful estimates are acceptable if signed off by the Responsible Accounting Officer. Councils with difficulty meeting the data requirements for the survey should contact us to discuss.

### **Certification of data**

The survey should be lodged accompanied by the Responsible Accounting Officer's Statement (see Certification provided at Section 4).

### **Submission of survey – 9 December 2015**

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Councils are requested to submit their completed surveys via the IPART Council Portal. Councils may register or login from the Local Government homepage.

There may only be one username/email address registered for each council. Any council previously registered for a special variation application or Fit for the Future proposal can use these login details to access the portal and to submit their survey.

If you have any questions regarding the portal or to retrieve or update your existing login details, please contact:

Himali Ranasinghe (02) 9113 7710 or [himali\\_ranasinghe@ipart.nsw.gov.au](mailto:himali_ranasinghe@ipart.nsw.gov.au)

Arsh Suri (02) 9113 7730 or [arsh\\_suri@ipart.nsw.gov.au](mailto:arsh_suri@ipart.nsw.gov.au)

### **Publication of the LGCI**

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Details of the calculated LGCI and its methodology are expected to be published on IPART's website in late February or early March 2016.

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## Contact for further information

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If you have any questions, for example, concerning the data required for completing the survey, the timeline for completed surveys, or how the results of the cost survey or the LGCI will be used, please contact:

Joyce Tapper (02) 9290 8464 or [joyce\\_tapper@ipart.nsw.gov.au](mailto:joyce_tapper@ipart.nsw.gov.au)

Tony Camenzuli (02) 9113 7706 or [tony\\_camenzuli@ipart.nsw.gov.au](mailto:tony_camenzuli@ipart.nsw.gov.au)

### 3. Local Government Cost Index – structure

#### LGCI cost items and the price indexes that measure their changes

Recurrent cost items	Component price (inflator) indices <sup>a</sup>
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

<sup>a</sup> 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 are 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 the NSW Treasury and the Office of Local Government.<sup>3</sup>

<sup>3</sup> 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).

## 4. Responsible Accounting Officer's Statement

For 2013-14 and 2014-15:

Submitted for \_\_\_\_\_ (name of Council)

To:           The Chief Executive Officer  
              Independent Pricing and Regulatory Tribunal of NSW  
              PO Box K35  
              Haymarket Post Shop NSW 1240

I state that:

- a) the accompanying financial information:
  - is the best available information of Council's financial and operational affairs for the stated year/s:
  - exhibit a true and fair view of the financial and operational affairs of Council for the stated year/s:
- b) there are no circumstances which would render any particulars included in the financial information to be misleading or inaccurate for the stated year/s:
- c) the accompanying financial information (indicate whichever is applicable):
  - for 2013-14 has / has not been audited
  - for 2014-15 has / has not been audited.

Certified by the Responsible Accounting Officer:

(Sign Responsible Accounting Officer)

(Name Responsible Accounting Officer)

(Dated)

## 5. Local Government Cost Survey – information requirements

### Local Government Operational Costs - General Operations

(Excludes Water Supply and Sewerage Services Operations and other business activities)<sup>4</sup>

(Note: **Do not complete this form.** Please download and complete the Excel data template from IPART's website on the [Local Government page](#))

				2013-14			2014-15		
				Waste Mngmt \$'000	Other excl W+S \$'000	Total excl W+S \$'000	Waste Mngmt \$'000	Other excl W+S \$'000	Total excl W+S \$'000
<b>Expenses from continuing operations</b>									
			Employee benefits and on-costs						
			Borrowing costs						
			Materials and contracts						
			Raw Materials and consumables						
			Road, footpath, kerbing, bridge and drain building materials						
			Other building and construction materials						
			Office supplies						
			Motor vehicle parts						
			Motor vehicle repairs and servicing						
			Automotive fuel						
			Other (raw materials and consumables)						
			Contractor and consultancy costs						
			Operating contracts (administrative)						
			Other (contractor and consultancy)						
			Audit and legal fees						
			Operating leases:						
			- Buildings						
			- Computers						
			- Motor vehicles						
			Motor vehicle parts						
			Motor vehicle repairs and servicing						
			Automotive fuel						
			Other motor vehicle						

<sup>4</sup> Note that council's own expenses for water and sewerage services are to be included through this cost survey.

		2013-14			2014-15		
		Waste Mngmt \$'000	Other excl W+S \$'000	Total excl W+S \$'000	Waste Mngmt \$'000	Other excl W+S \$'000	Total excl W+S \$'000
	- Other (operating leases)						
	Other materials and contracts						
	Plant and equipment leasing						
	Office and building cleaning services						
	Other (materials and contracts)						
	Depreciation and amortisation						
	Impairment						
	Other expenses						
	Revaluation decrements - IPPE						
	Bad and doubtful debts						
	Mayoral fee						
	Councillors' fees						
	Councillors' (incl Mayor) expenses						
	Insurance						
	Street lighting						
	Electricity						
	Telephone						
	Contributions and donations						
	Levies						
	- Planning levy						
	- Waste levy						
	- Other levies						
	Emergency Services levy						
	Fire Brigade Levy						
	Rural Fire Service Levy						
	Other (levies)						
	Other – (specify if material)						
	Gas						
	Water and sewerage (Council's consumption only)						
	Printing, publishing and advertising						
	Telecommunications and internet services						
	Other expenses						
	Interest and investment losses						
	Net Loss from the disposal of assets						
	Net share of interests in joint ventures etc						
	<b>Total expenses from continuing operations</b>						



		2013-14			2014-15		
		Waste Mngmt \$'000	Other excl W+S \$'000	Total excl W+S \$'000	Waste Mngmt \$'000	Other excl W+S \$'000	Total excl W+S \$'000
<b>Capital expenditure</b>							
	Plant and equipment						
	Leased plant and equipment						
	Office equipment						
	Information technology (Hardware and software)						
	Other (office equipment)						
	Furniture and fittings						
	Land						
	Buildings						
	Dwellings						
	Non dwellings						
	Infrastructure						
	Stormwater drainage						
	Roads, bridges, footpaths						
	Construction works – roads, footpaths, kerbing, bridges						
	Construction works - other						
	Other capital expenditure						
	<b>Total</b>						

**Notes:**

W+S Water supply and Sewerage service (business trading) operations are excluded from this survey. However, the council's own expenses for water and sewerage services are to be captured through this cost survey.

IPPE Infrastructure property, plant and equipment.