



Independent Pricing and Regulatory Tribunal

Local Government Cost Index

Local Government — Information Paper
December 2010



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1 Introduction

This Information Paper provides a guide to the Local Government Cost Index (LGCI). It describes the information sources that we have used, the structure of the Index and how it is calculated.

IPART has developed the LGCI for use in setting the maximum allowable increase in general income (the 'rate peg') for local government in New South Wales, commencing with the 2011/12 income year. IPART is required to have regard to a productivity factor in addition to the LGCI in setting the annual rate peg.

During 2010 IPART conducted a survey of councils to estimate the cost index. The survey related to costs for operational activities by councils funded from general income.

The next section describes the principal features of the LGCI. Section 3 presents an analysis of the increase in the LGCI over the year to the September quarter 2010 and the cost components that contributed to that increase. Section 4 considers the productivity factor. Our reasons for adopting a single index are given in Section 5. The final section outlines our plan to publish periodical updates to the LGCI.

2 What is the LGCI?

The LGCI is a measure of movements in the unit costs incurred by NSW councils for ordinary council activities funded from general rate revenue. The LGCI is designed to measure how much the price of a fixed 'basket' of inputs acquired by councils in a *given period* compares with the price of the same set of inputs in the *base period*.

The LGCI does not directly measure councils' total level of costs. It is a composite index that combines changes in a number of input price indexes over time. The LGCI is similar to the Consumer Price Index (CPI) in this respect. The CPI does not measure household costs directly, but measures changes in prices of various goods and services over time.

2.1 What are the components of the LGCI?

The component price indexes of the LGCI have been selected to mirror selected cost categories for NSW councils. Table 2.1 shows the structure of the LGCI.

Table 2.1 Structure of the LGCI

Cost items	Component price indexes^a
Recurrent	
Employee benefits and on-costs	LPI - Public sector, New South Wales
Plant and equipment leasing (excluding waste management)	PPI - 663 Other goods and equipment rental and hiring
Operating contracts (excluding waste management)	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 not elsewhere classified
Insurance	CPI - Insurance Services, Sydney
Telecommunications, telephone and internet services	CPI - Telecommunications, Sydney
Printing publishing and advertising	PPI - 16 Printing (including the reproduction of recorded media)
Motor vehicle parts	CPI - Motor vehicle parts & accessories, Sydney
Motor vehicle repairs and servicing	CPI - Motor vehicle repair & servicing, Sydney
Automotive fuel	CPI - Automotive fuel, Sydney
Electricity	CPI - Electricity, Sydney
Gas	CPI - Gas & other household fuels, Sydney
Water and Sewerage	CPI - Water & sewerage - Sydney
Road, footpath, kerbing, bridge and drain building materials	PPI - 3101 Road and bridge construction, New South Wales
Other building and construction materials	PPI - 3020 Non-residential building construction, New South Wales
Office supplies	CPI - Audio, visual and computing media and services, Sydney
Emergency Services Levies ^b	Price index developed by IPART
Other expenses	CPI - All groups, Sydney
Capital expenditure	
Buildings - non-dwelling	PPI - 3020 Non-residential building construction, New South Wales
Construction works - road, drains, footpaths, kerbing, bridges	PPI - 3101 Road and bridge construction, New South Wales
Construction works - other	PPI - 3101 Road and bridge construction, New South Wales
Plant and equipment - machinery	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 - Sydney

^a Data sources for the component price indexes are provided in Appendix B. 'LPI' refers to ABS Catalogue 6345.0 Labour Price Index, Australia, 'PPI' to ABS Catalogue 6427.0 Producer Price Indexes, Australia and 'CPI' to ABS Catalogue 6401.0 Consumer Price Index, Australia.

^b Emergency Services Levies include levies related to the NSW Fire Brigade, Rural Fire Services and State Emergency Services.

The main features of the LGCI are:

- ▼ The fixed base period weights are derived as the average cost expenditure shares of each cost component in the Local Government Cost Survey (average of 2008/09 and 2009/10).
- ▼ Changes in the LGCI represent changes in the weighted average of the component price indexes.
- ▼ The annual percentage change in the LGCI is calculated on an annual average basis by comparing the average level of the index for the latest 4 quarters with the average of the index for the preceding 4 quarters.

The base period of the LGCI is defined to be the December quarter 2008. Historical estimates have been calculated for the LGCI prior to December quarter 2008.

Appendix A provides a technical specification of the LGCI. Appendix B defines the component price indexes.

An example of how the overall change in a cost index is calculated is shown in Box 2.1

Box 2.1 How a cost index works

This is a simple hypothetical example in which a cost index increases by 3.0%. In this example, employee costs represent 40% of total costs, that is, a weighting of 40%. Assuming that the labour price index increases by 4.0% from a base of 100.0 to a level of 104.0, we multiply 40% by 104.0. The answer of 41.6 points represents the contribution of labour prices to the total index in the current period. If the same calculation is repeated for each cost item and the contributions are summed, this produces the overall index. Both the weighting of each cost item and value of its price index affects the contribution to the overall index level.

Cost Item	Weighting	Price Index Base Period	Current Period	
			Price index	Contribution to index
Employee costs	40%	100.0	104.0	41.6 pts
Materials	35%	100.0	102.5	35.9 pts
Other expenses	25%	100.0	102.0	25.5 pts
Total weightings	100%			
Cost Index		100.0		103.0
Percentage change				3.0%

2.2 What are the cost weights for the LGCI?

In September and October 2010 IPART undertook a survey of local government costs in NSW. We received useable survey returns from 109 councils. The survey returns provided cost data for both 2008/09 and 2009/10. Appendix C provides further details of the survey.¹

Based on our survey results, Table 2.2 presents a breakdown of NSW local council cost shares by LGCI components.² These are used as the fixed base period weights in the LGCI.³

'Employee benefits and on-costs' was the largest cost component, accounting for 41.2% of all costs over the 2 years. Other significant cost components were:

- ▼ Construction works – roads, drains, footpaths, kerbing, bridges (13.7%)
- ▼ Buildings – non-dwelling (6.9%)
- ▼ Other business services (6.1%)
- ▼ Plant and equipment – machinery (4.2%)
- ▼ Road, footpath, kerbing, bridge and drain building materials (3.0%).

Although the LGCI basket is fixed in terms of underlying weights, the effective expenditure share of each cost item can change over time as a result of changes in relative prices (see Appendix A).

¹ See also IPART, *Local Government Cost Survey Guidelines*, September 2010, which is available on IPART's website.

² Total costs refer to the total of the cost categories included in the LGCI. See Appendix C for details of costs excluded.

³ Unrounded cost shares are used in the LGCI.

Table 2.2 LGCI Base Period Cost Weights – NSW council costs, average % of total expenditure 2008/09 and 2009/10

Cost Index Items - Current	
Employee benefits and on-costs	41.2%
Plant and equipment leasing (excluding waste management)	0.4%
Operating contracts (excluding waste management)	1.4%
Legal and accounting services	1.1%
Office and building cleaning services	0.2%
Other business services	6.1%
Insurance	1.7%
Telecommunications, telephone and internet services	0.6%
Printing, publishing and advertising	0.6%
Motor vehicle parts	0.5%
Motor vehicle repairs and servicing	0.7%
Automotive fuel	1.2%
Electricity	2.4%
Gas	0.1%
Water and sewerage	0.5%
Road, footpath, kerbing, bridge and drain building materials	3.0%
Other building and construction materials	0.9%
Office supplies	0.4%
Emergency services levies	1.4%
Other expenses	8.8%
Total Current	73.1%
Cost Index Items - Capital	
Buildings – non-dwelling	6.9%
Construction works – roads, drains, footpaths, kerbing, bridges	13.7%
Construction works – other	1.4%
Plant and equipment – machinery	4.2%
Plant and equipment – furniture etc.	0.3%
Information technology and software	0.5%
Total Capital	26.9%

Note: 'Other business services' include materials and contracts such as other operating leases, contractor and consultancy costs. 'Other expenses' include a range of miscellaneous expenses with relatively low weights within the Index, such as councillors' and mayoral fees. Figures rounded to 1 decimal place.

Source: IPART calculations from council data.

3 Local Government Cost Index – September 2010

The LGCI rose 3.0% on an annual average basis for the year to the September quarter 2010 (Table 3.1). This rate of growth is based on a comparison of the LGCI average of the 4 quarters ending September 2010 with an average of the preceding 4 quarters.

Table 3.1 Local Government Cost Index, December quarter 2008 to September quarter 2010

Period (Quarter)	Quarterly Index (Base = December quarter 2008)	Average of 4 quarters (to September quarter)	Percentage Change (Annual average)
December 2008	100.0		
March 2009	100.4		
June 2009	100.8		
September 2009	102.7	101.0	
December 2009	103.1		
March 2010	103.7		
June 2010	103.9		
September 2010	105.4	104.0	3.0%

Note LGCI percentage changes may not align to above index numbers. Index numbers are published to one decimal place while the percentage changes are calculated from the unrounded index numbers.

Table 3.2 below provides an analysis of the increase in the LGCI. The main contributors⁴ to the 3.0% rise in the LGCI in the past year were:

- ▼ Labour price increases of 4.1% which contributed 1.70 percentage points to the rise in the LGCI.
- ▼ Electricity prices which grew by 18.0% and contributed 0.45 percentage points to the rise in the LGCI.

Partially offsetting these increases were falls over the past year in:

- ▼ Information technology and software prices which fell by 19.3% and contributed minus 0.08 percentage points to the change in the LGCI, and
- ▼ Printing, publishing and advertising prices which fell by 8.3%, and contributed minus 0.05 percentage points to the change in the LGCI.

The weights shown in Table 3.2 are the effective weights for the year ended September 2009. These differ slightly from the base period weights reported in Table 2.2 because of changes in relative prices since the base period. Details of the calculation of effective weights are provided in Appendix A.

⁴ See Appendix A for details of the calculation of contributions to the change in the LGCI.

Table 3.2 Contributors to annual average change in the LGCI for year ended September 2010

Cost items	Effective weights for year ended Sep 2009^a	Price Change (% annual average)	Contribution to annual average change in LGCI
Employee benefits and on-costs	41.5%	4.1%	1.70
Plant and equipment leasing (excluding waste management)	0.4%	2.0%	0.01
Operating contracts (excluding waste management)	1.4%	1.3%	0.02
Legal and accounting services	1.1%	1.1%	0.01
Office and building cleaning services	0.2%	0.3%	0.00
Other business services	6.1%	0.5%	0.03
Insurance	1.7%	6.1%	0.10
Telecommunications, telephone and internet services	0.6%	-0.1%	0.00
Printing publishing and advertising	0.6%	-8.3%	-0.05
Motor vehicle parts	0.5%	2.3%	0.01
Motor vehicle repairs and servicing	0.7%	3.2%	0.02
Automotive fuel	1.1%	2.1%	0.02
Electricity	2.5%	18.0%	0.45
Gas	0.1%	6.8%	0.00
Water and Sewerage	0.5%	12.5%	0.06
Road, footpath, kerbing, bridge and drain building materials	3.0%	2.7%	0.08
Other building and construction materials	0.8%	-0.9%	-0.01
Office supplies	0.4%	1.6%	0.01
Emergency Services Levies	1.4%	2.6%	0.04
Other expenses ^b	8.8%	2.7%	0.23
Buildings – non-dwelling	6.8%	-0.9%	-0.06
Construction works - road, drains, footpaths, kerbing, bridges	13.6%	2.7%	0.37
Construction works - other	1.4%	2.7%	0.04
Plant and equipment – machinery	4.2%	0.6%	0.02
Plant and equipment – furniture etc.	0.2%	-1.7%	0.00
Information technology and software	0.4%	-19.3%	-0.08
Total change in LGCI			3.0%

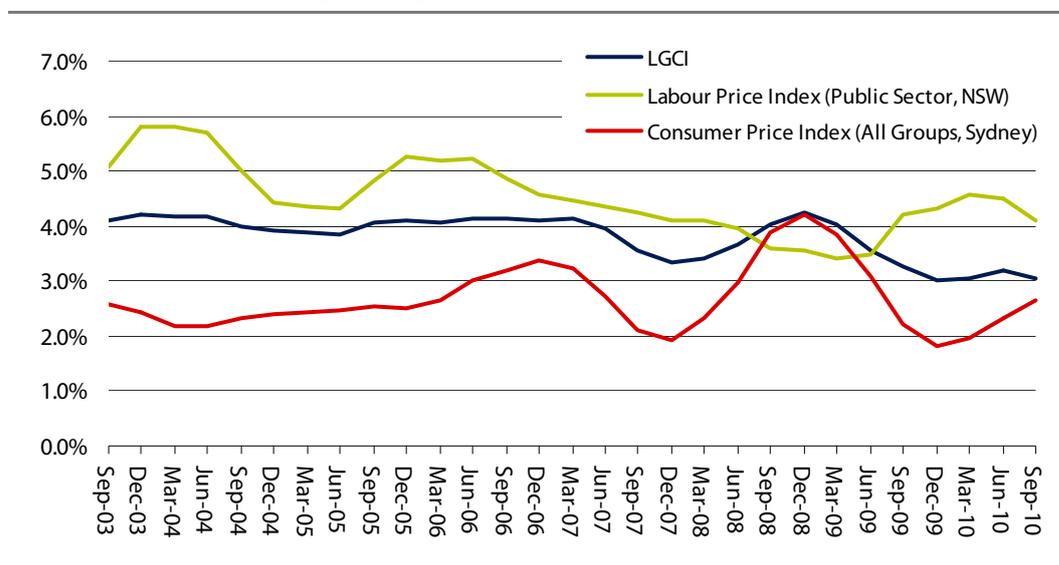
a The effective weights differ from the base period weights because of relative price changes since the base period (December quarter 2008). See Appendix A for the method of calculating effective weights.

b Other expenses include a range of miscellaneous expenses with relatively low weights within the Index, such as councillors' and mayoral fees. Figures may not add due to rounding.

Figure 3.1 shows historical estimates of movements in the LGCI since 2003 and comparisons with movements in the CPI - All Groups (Sydney) and the Labour Price Index (Public Sector, NSW). For most of this period, the rate of growth of the LGCI has been higher than growth in the CPI (All Groups, Sydney) but less than that of the Labour Price Index (Public Sector, NSW).

The historical estimates of movements in the LGCI are subject to a number of assumptions. They assume the same base period weights over the whole historical period. Also, as the price index for Emergency Services Levies is not calculated prior to September 2008, this item has been assumed to move in line with the CPI (All Groups, Sydney) prior to that period.

Figure 3.1 LGCI estimates from September quarter 2003 to September quarter 2010, annual average change (%)



Source: IPART calculations from ABS data.

4 Productivity adjustment

In determining the rate peg for NSW local government IPART is required to have regard to a productivity factor as well as movements in the LGCI.

IPART has determined the productivity factor for local government in 2011/12 to be 0.2 percentage points. As a result, the rate peg for 2011/12 has been set at 2.8%.

Our analysis indicated that there is no established measure of NSW local government productivity. The productivity factor that we applied was a judgment by the Tribunal.

The latest ABS National Accounts data suggest that economy-wide labour productivity gains have averaged around 1.2% per annum over the last 5 years.⁵ Since labour costs amount to 41.2% of total council costs⁶, the use of the economy-wide productivity gains would lead to a productivity factor of around 0.5 percentage points. In view of the uncertainties involved, IPART has significantly discounted this figure in determining a factor of 0.2 percentage points for NSW local government in 2011/12.

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.

5 Why we chose a single index

The survey results indicated considerable variability in cost profiles among individual councils. There were also systematic differences, on average, between the cost structures of urban and rural councils. For example, urban councils had a higher weighting for employee costs (42.0%) compared to rural councils (35.5%), but a lower weighting for construction works – roads, drains, footpaths, kerbing, bridges (13.0%) compared to 18.4% for rural councils.

Nonetheless, we decided not to adopt separate urban and rural cost indexes for the following reasons.

Firstly, our historical analysis indicated that the differences between movements in separate urban and rural cost indexes over time were not material (see Table 5.1).

For example, over the 8 years to the September quarter 2010, a LGCI for rural councils is estimated to have increased at a compound annual rate of 3.7% compared with 3.9% for urban councils and 3.9% for all councils.

Also, we do not have separate urban and rural price indexes for the LGCI's cost components. On balance, we considered that the additional complexity arising from separate urban and rural cost indexes (and separate urban and rural 'rate pegs') was not warranted in these circumstances.

⁵ ABS Australian System of National Accounts, Cat. 5204.0, 2009/10 – Table 13.

⁶ Base period cost weight, Table 2.2.

Table 5.1 LGCI, Annual average % change – by type of council

	Year ended September quarter							
	2003	2004	2005	2006	2007	2008	2009	2010
All councils	4.4%	4.1%	4.3%	4.2%	3.5%	4.0%	3.4%	3.0%
Urban councils	4.4%	4.2%	4.3%	4.2%	3.5%	4.0%	3.5%	3.0%
Rural councils	4.4%	3.6%	4.0%	4.3%	3.4%	4.1%	2.9%	3.0%

6 Future publications

We plan to publish updates of the LGCI on an annual basis on our website. We intend to revise the base period cost weights every 4 years.



Appendices

A Technical specifications

The LGCI is designed to measure how much the cost of acquiring a fixed 'basket' of inputs acquired by councils in a *given period* compares with the cost of the same set of inputs in a *base period*. As such it is a 'base-weighted' index: it uses the basket of inputs and their weights from the *base period*.

A commonly used formula for this purpose is:

$$I_t = \frac{\sum p_{it} \cdot q_{i0}}{\sum p_{i0} \cdot q_{i0}} \times 100 \quad (\text{A.1})$$

where

I_t represents the value of the index in period t

p_{it} represents the price of item i in period t

p_{i0} represents the price of item i in period 0 (the base period)

q_{i0} represents the quantity of item i in period 0 (the base period).

As noted above, an important feature of this index⁷ is that the quantity of each input item is assumed to be unchanged from that in the base period.

In practice, we do not have direct data observations for quantities of the inputs acquired by councils. However, the Local Government Cost Survey provides data for expenditure by councils on their inputs. Expenditure on an individual item in period t is the product of its price and quantity:

$$e_t = p_t \cdot q_t \quad (\text{A.2})$$

The base period weight for cost item i can be defined as:

$$w_{i0} = \frac{p_{i0} \cdot q_{i0}}{\sum p_{i0} \cdot q_{i0}} = \frac{e_{i0}}{\sum e_{i0}} \quad (\text{A.3})$$

⁷ Technically, this index is referred to as a Laspeyres price index.

Using this expression, the index formula in equation A.1 can be rearranged⁸ to obtain:

$$I_t = \sum w_{i0} \left(\frac{p_{it}}{p_{i0}} \right) \times 100 \quad (\text{A.4})$$

Base period

The base period of the LGCI is defined to be the December quarter 2008. The LGCI is equal to 100.0 in the December quarter 2008.

Base period weights

The base period weights w_{i0} are derived from the Local Government Cost Survey. The weights for the December quarter 2008 are determined by summing the cost expenditures for each item from the Survey for 2008/09 and 2009/10, and expressing this as a proportion of total cost expenditure for the 2 years.

Expenditure weights may change

The LGCI basket is fixed in terms of underlying quantities of inputs. The weights are expressed in terms of expenditure shares but the effective expenditure shares can change over time as a result of changes in relative prices. In this respect the LGCI is similar to the CPI.⁹

For any period, the effective expenditure weight for any item can be calculated by dividing the points contribution for that item by the LGCI level.

Price indexes

We do not have direct data observations for the specific prices councils pay to acquire the inputs. However, we have price index data corresponding to each cost item of the LGCI. The price terms p_{it} in the LGCI are the price indexes shown in Appendix B.

Quarterly price indexes are available from the Australian Bureau of Statistics for each component of the LGCI apart from Emergency Services Levies. We have developed a price index for Emergency Services Levies as follows:

⁸ See ABS, *Australian Consumer Price Index: Concepts, Sources and Methods*, 2009 (Cat no 6461.0) pp 18-19.

⁹ ABS, *A Guide to the Consumer Price Index 15th Series*, 2005 (Cat no 6440.0), p 7.

$$\rho_{ESL,t} = \frac{\text{Levy contributions}_t}{\text{NSW rateable properties}_t} \quad (\text{A.5})$$

where

$\rho_{ESL,t}$ represents the price for Emergency Services Levies on NSW councils in period t

$\text{Levy contributions}_t$ represents the funding contributions for Emergency Services payable by NSW councils in period t

$\text{NSW rateable properties}_t$ represents the number of properties in NSW subject to council rates in period t

Data used to construct this price index are shown in Appendix E.

Annual percentage changes

IPART calculates the annual percentage change in the LGCI using the *annual average* method. That is, we calculate the annual percentage change in the LGCI by comparing the simple (arithmetic) average level of the index for the latest 4 quarters with the average level of the index for the preceding 4 quarters.

Contributors to change in LGCI

Changes in the LGCI represent the weighted average price change of all the items in the LGCI. An analysis of the major contributors to the overall movement in the LGCI needs to have regard to both the price change for each item and its relative importance in the LGCI. For each item we calculate its 'points contribution' to the LGCI. The points contribution is the price index number for each item multiplied by its weight in the LGCI. The change in a component item's points contribution from one period to another reflects that item's contribution to the change in the LGCI.

IPART calculates the contribution of each item to the annual percentage change in the LGCI based on the individual item contributions to the index level in each quarter. We calculate the average of the latest 4 quarters and the preceding 4 quarters for each individual item. We then calculate the index point difference between the 2 results.

For example, the contribution of the Labour Price Index to the percentage change in the LGCI is:

$$\text{Labour contribution to } \% \Delta I_t = \frac{\text{LabourContribution}_t - \text{LabourContribution}_{t-1}}{I_{t-1}}$$

Where

Labour contribution_t represents the points contribution to the LGCI of the Labour Price Index in period t.

Rounding conventions

LGCI index numbers and percentage changes are published to one decimal place, with the percentage changes being calculated from the *unrounded* index numbers.

Back-casting the LGCI

To provide historical comparisons, estimates of the LGCI have been calculated for the 7 years prior to the base period (the December quarter 2008). This has been achieved using the historical expenditure weights from the December quarter 2008.

The price index for Emergency Services Levies is not calculated prior to the September quarter 2008. For the back-cast LGCI, the price index for Emergency Services Levies has been assumed to move in line with the CPI, All Groups, Sydney.

Emergency Services Levies have a weight of 1.4% within the LGCI.

Substitution bias

Base-weighted indexes such as the LGCI may overstate cost increases because they do not allow for substitution in response to changes in relative prices. For example, a council could reduce the quantity of a given input as a result of a rise in its relative terms and at the same time increase the quantity of a substitute input. The potential bias will be limited by periodically updating the LGCI weights.

Reweighting the LGCI

We plan to update the fixed base period weights of the LGCI every 4 years to reflect changes in expenditure patterns of councils. The updated LGCI will be calculated by chaining the index for each future quarter to the last quarter of the former weighting period (before the expenditure weights are updated).

B Component Price Indexes

All price indexes used in the LGCI are currently produced quarterly by the Australian Bureau of Statistics (ABS), with the exception of the price index for Emergency Services Levies, which is calculated by IPART.

Three key ABS price publications are used, namely:

- ▼ the Labour Price Index (LPI)
- ▼ the Producer Price Index (PPI), and
- ▼ the Consumer Price Index (CPI).

Current costs

1) Employee benefits and on-costs

LPI – Public sector, NSW

ABS Cat. 6345.0 Labour Price Index, Australia

Table 4b. Total Hourly Rates of Pay Excluding Bonuses: Public Sector by State, Original (Quarterly Index Numbers)

Series A2599999R

2) Plant and equipment leasing (excluding waste management)

PPI – 663 Other goods and equipment rental and hiring

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 21. Selected output of division L rental, hiring and real estate services, subdivision, group and class index numbers.

Series A2314181T

3) Operating contracts (excluding waste management)

PPI – 729 Other administrative services

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 23. Selected output of division N administrative and support services, group and class index numbers.

Series A3343926K

4) Legal and accounting services

PPI – 693 Legal and accounting services

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 22. Selected output of division M professional, scientific and technical services, group and class index numbers.

Series A2314220W

5) Office and building cleaning services

PPI – 7311 Building and other industrial cleaning services

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 23. Selected output of division N administrative and support services, group and class index numbers.

Series A2314262V

6) Other business services (this cost item includes architectural services, surveying services, consultant engineering, computer services, market research, contract staff, security services)

PPI – 7299 Other administrative services not elsewhere classified

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 23. Selected output of division N administrative and support services, group and class index numbers.

Series A3343934K

7) Insurance

CPI – Insurance services, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2331971C

8) Telecommunications, telephone and internet services

CPI – Telecommunication, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2328506L

9) Printing, publishing and advertising

PPI – 16 Printing (including the reproduction of recorded media).

ABS Cat. 6427.0 Producer Price Indexes, Australia.

Tables 10 and 11. Articles Produced by manufacturing industries, division index numbers and percentage changes and index numbers for subdivisions, groups and classes.

Series A3343851C

10) Motor vehicle parts

CPI – Motor vehicle parts and accessories, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2328686J

11) Motor vehicle repairs and servicing

CPI – Motor vehicle repair and servicing, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2328731J

12) Automotive fuel

CPI – Automotive fuel, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2328596C

13) Electricity (including street lighting charges)

CPI – Electricity, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2328101R

14) Gas

CPI – Gas and other household fuels, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2331881X

15) Water and sewerage

CPI – Water and sewerage, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2329856F

16) Road, footpath, kerbing, bridge and drain building materials

PPI – 3101 Road and bridge construction, New South Wales.

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 15. Selected output of division E construction, subdivision and class index numbers.

Series A2333685A

17) Other building and construction materials

PPI – 3020 Non-residential building construction, New South Wales.

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 15. Selected output of division E construction, subdivision and class index numbers.

Series A2333679F

18) Office supplies

CPI – Audio, visual and computing media and services, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2330261T

19) Emergency services levies

IPART has developed a price index for Emergency Services Levies imposed on NSW councils. The index formula is shown in Appendix A and data used to construct the index are shown in Appendix E.

20) Other expenses

CPI – all groups, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2325806K

Capital

21) Buildings – non-dwelling

PPI – 3020 Non-residential building construction, NSW

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 15. Selected output of division E construction, subdivision and class index numbers.

Series A2333679F

22) Construction works – road, drains, footpaths, kerbing, bridges

PPI – 3101 Road and bridge construction, New South Wales.

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 15. Selected output of division E construction, subdivision and class index numbers.

Series A2333685A

23) Construction works – other

PPI – 3101 Road and bridge construction, New South Wales.

ABS Cat. 6427.0 Producer Price Indexes, Australia

Table 15. Selected output of division E construction, subdivision and class index numbers.

Series A2333685A

24) Plant and equipment – machinery

PPI – 231 Motor vehicle and motor vehicle part manufacturing

ABS Cat. 6427.0 Producer Price Indexes, Australia.

Tables 10 and 11. Articles Produced by manufacturing industries, division index numbers and percentage changes and index numbers for subdivisions, groups and classes.

Series A2305910L

25) Plant and equipment – furniture etc.

PPI – 24 Machinery and Equipment manufacturing

ABS Cat. 6427.0 Producer Price Indexes, Australia.

Tables 10 and 11. Articles Produced by manufacturing industries, division index numbers and percentage changes and index numbers for subdivisions, groups and classes.

Series A2305934F

26) Information technology and software

CPI – Audio, visual and computing equipment, Sydney

ABS Cat. 6401.0 Consumer Price Index, Australia

Table 13. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City

Series A2329271X

C Local Government Cost Survey

In September and October 2010 IPART undertook a survey of local government costs in NSW. Full details of the data collected can be found in the *Local Government Cost Survey Guidelines 2010*, which is available on IPART's website.

Since the LGCI is intended to capture data on the operational costs incurred by councils in ordinary council activity (that are funded from councils' 'general income') certain costs were specifically excluded from the survey:

- ▼ water supply operations
- ▼ sewerage service operations
- ▼ other business activities.

Costs associated with councils' domestic waste management were included (and separately identified) in the survey, to facilitate reconciliation to councils' statutory accounts, but we have excluded them from the LGCI as they are recovered through separate charges.

Data for a number of other costs were included in the survey but are not used in the LGCI:

- ▼ Borrowing costs
- ▼ Depreciation and amortisation
- ▼ Land acquisition
- ▼ Impairment
- ▼ Revaluation decrements – infrastructure, property, plant and equipment
- ▼ Bad and doubtful debts
- ▼ Interest and investment losses
- ▼ Net loss from the disposal of assets
- ▼ Net share of interests in joint ventures and associates.

These items are excluded because the scope of the LGCI is the operational costs of councils as reflected in the prices paid for purchases of goods and services (including employee costs). This approach is consistent with a similar local government cost index developed by the Australian Bureau of Statistics for the South Australian Local Government Financial Management Group.

Borrowing costs are excluded because the LGCI is intended to reflect the cost of direct acquisitions of goods and services rather than their financing. The Consumer Price Index similarly excludes mortgage interest costs.

Land acquisition is excluded from the LGCI. Some NSW councils, particularly those in growth regions, make significant land acquisitions in new release areas for roads, parks and community facilities. However, such acquisitions have been largely funded from development contributions rather than from rate revenue.

We received completed survey returns from 112 councils, an overall response rate of 74%. The response rate was highest for urban city/metropolitan councils and lowest for rural councils (Table C.1)

Table C.1 Local Government Cost Survey - response rates

Council regions	Response Rate
Urban City/Metropolitan (Groups 1 to 3)	91%
Urban regional/fringe (Groups 4 to 7)	76%
Rural small/large (Groups 8 to 11)	59%

Note: Council regions are based on council groups used by the Division of Local Government (DLG).

Despite considerable efforts to resolve all data quality issues, 3 returns were ruled out of scope due to incomplete or erroneous data. This left 109 useable survey returns on which we based our analysis.

All survey returns received were accompanied by a Responsibility Statement signed by the council's Responsible Accounting Officer testifying to the accuracy of the data submitted. All returns provided for 2008/09 were sourced from audited financial statements. Approximately half of the 2009/10 returns were based on audited financial statements.

Some councils were unable to provide the level of cost disaggregation requested for certain items (mainly 'raw materials and contracts') or some individual cost items (mainly 'water and sewerage' costs incurred on their own account). We asked councils to provide careful estimates. Where councils were unable or reluctant to make careful estimates, we made estimates of these costs based on the cost shares reported by all other councils.

D LGCI – Historical estimates

Table D.1 shows historical estimates of the LGCI from September quarter 2001 to the September quarter 2008 and actual LGCI index numbers to September quarter 2010.

Table D.1 September quarter 2001 to September quarter 2010

Period (Quarter)	LGCI Quarterly Index (Base = December quarter 2008)	LGCI 4 quarter average	% change (annual average)
September 2001	75.6		
December 2001	75.5		
March 2002	76.5		
June 2002	77.2	76.2	
September 2002	77.9	76.8	
December 2002	78.6	77.6	
March 2003	80.0	78.4	
June 2003	80.4	79.2	4.0
September 2003	81.6	80.2	4.4
December 2003	82.1	81.0	4.5
March 2004	83.3	81.8	4.3
June 2004	83.7	82.7	4.3
September 2004	84.7	83.4	4.1
December 2004	85.5	84.3	4.0
March 2005	86.7	85.2	4.1
June 2005	87.2	86.0	4.1
September 2005	88.7	87.0	4.3
December 2005	89.3	88.0	4.4
March 2006	90.0	88.8	4.3
June 2006	90.9	89.7	4.3
September 2006	92.6	90.7	4.2
December 2006	92.9	91.6	4.1
March 2007	93.3	92.4	4.1
June 2007	94.0	93.2	3.9
September 2007	95.3	93.9	3.5
December 2007	96.0	94.6	3.3
March 2008	97.1	95.6	3.4
June 2008	98.1	96.6	3.7
September 2008	99.5	97.7	4.0
December 2008	100.0	98.7	4.3
March 2009	100.4	99.5	4.1
June 2009	100.8	100.2	3.7
September 2009	102.7	101.0	3.4

Period (Quarter)	LGCI Quarterly Index (Base = December quarter 2008)	LGCI 4 quarter average	% change (annual average)
December 2009	103.1	101.7	3.1
March 2010	103.7	102.6	3.1
June 2010	103.9	103.3	3.2
September 2010	105.4	104.0	3.0

Note: The base period is December quarter 2008. The series assumes the same base period weights over the whole historical period. As the price index for Emergency Services Levies is not calculated prior to September quarter 2008, this item has been assumed to move in line with the CPI (All Groups, Sydney) prior to that date. LGCI percentage changes may not align to above index numbers. Index numbers are published to one decimal place while the percentage changes are calculated from the unrounded index numbers.

Source: IPART.

E Emergency Services Levies

Emergency Services Levies comprise the funding contributions by NSW councils for the NSW Fire Brigade, Rural Fire Service and State Emergency Service.

We have developed a composite price index for this cost item based on the Effective rate of Emergency Services Levies formula specified in Appendix A.

Total Emergency Services Levies payable by NSW councils in recent years are shown in Table E.1.

Table E.1 Emergency Services Levies

	2007/08	2008/09	2009/10	2010/11 (Budgeted)
NSW Council contributions				
NSW Fire Brigade (\$m)	61.2	63.2	64.0	69.6
Rural Fire Service (\$m)	26.4	29.9	23.5	29.2
State Emergency Service (\$m)	0.0	0.0	5.5	7.0
Total contributions (\$m)	87.6	93.1	93.1	105.8
NSW Rateable properties (No.)	2,857,400	2,885,120	2,906,613	2,932,245
Effective rate of levy (contribution per property, \$)	30.7	32.3	32.0	36.1
%change in effective rate		5.2%	-0.7%	12.6%

Note Prior to 2009/10, councils contributed 12.3% and 13.3% to the NSW Fire Brigade and Rural Fire Service budgets respectively. In 2009/10 the total NSW council contribution to the emergency services agencies was reduced to 11.7%. See NSW Mini Budget 2008-09, Media release: <http://www.ses.nsw.gov.au/news/9589.html>. 2010/11 contributions are budgeted figures from NSW Treasury. Numbers may not add due to rounding.

Source: Council contributions data - NSW Treasury. Rateable properties data - Division of Local Government. The 2010/11 rateable properties figure includes an estimate for 5 councils which had not provided returns to DLG at the time of writing. The estimate for these councils is calculated using a two year average of the annual change in the number of rateable properties for this group of councils.

For the purpose of the quarterly price index for Emergency Services Levies, the annual change in the effective rate of the levies in each financial year is assumed to take effect in the September quarter of each year.