

29 October 2019

WHAT

Councils will be asked to complete a cost survey in November 2019, which will be used to update IPART's Local Government Cost Index (LGCI).

This Fact Sheet sets out our LGCI methodology (Section 1) and provides guidance to councils on how to complete the survey (Section 2).



WHY

Since 2010, IPART has determined the maximum percentage by which councils may increase their general income for the financial year (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. An example cost index is shown in Section 1.

We will use information collected through the cost survey to assist in determining the cost items that should be represented in the LGCI, and to reweight the LGCI to ensure the relativities between cost items remain accurate.

We have included some supplementary questions in the cost survey to:

- ▼ Seek feedback on IPART's rate peg process
- ▼ Obtain information on councils' Emergency Services Levy (ESL) costs and domestic waste management services.



HOW

Councils should:

1. Check the council's login details for our Council Portal. Some councils, including those formed by mergers in 2016, may need to register with the portal. Contact Arsh Suri on (02) 9113 7730 or arsh_suri@ipart.nsw.gov.au for assistance with the portal.
2. Download the survey form (available from 12 November 2019) from IPART's website.
3. Complete the survey form and Responsibility Statement and submit them via the Council Portal by close of business 11 December 2019.



WHEN

Key dates for the 2019 cost survey are:

- ▼ **12 November 2019** – survey available for download from IPART's website
- ▼ **11 December 2019** – councils are required to submit their completed surveys
- ▼ **March 2020** – details of the updated LGCI are published on IPART's website.



WHAT NEXT

All councils will receive an email in November, when the 2019 cost survey is available for download.

1 Our LGCI methodology

Step 1: Determine the cost items to be included in the index.

We determine the cost items in the index based on data received through the LGCI survey. Items directly priced in the index are selected on a significance basis.

Step 2: Assign weights to each cost item.

We calculate the weights using the average of the two years of data submitted by councils through the LGCI survey.

Step 3: Determine the price inflator for each cost item.

We use indexes published quarterly by the Australian Bureau of Statistics, with the exception of the inflator for the Emergency Services Levy,¹ which is produced by IPART based on data provided by NSW Treasury.

Step 4: Calculate the annual change in each cost item.

We take the weight of each cost item and multiply it by the percentage change in its price inflator. This gives the contribution of each cost item to the cost index.

Step 5: Calculate the overall change in the cost index by summing the contributions for each of the cost items.

Table 1 shows a simple hypothetical example of a cost index of council expenditure.

1. We determined there were three cost items.
2. We found that employee costs represented 50% of total costs, that is, a weight of 50% in the base period.
3. We determined that the price inflator for employee costs increased by 2.6% over the last 12 months.
4. We multiplied 50% by 2.6% to calculate that the contribution of the increase in employee costs to the total index is 1.3 percentage points.
Steps 2 to 4 were repeated for each cost item.
5. We summed the contributions to arrive at the total increase in the index (2.9%).

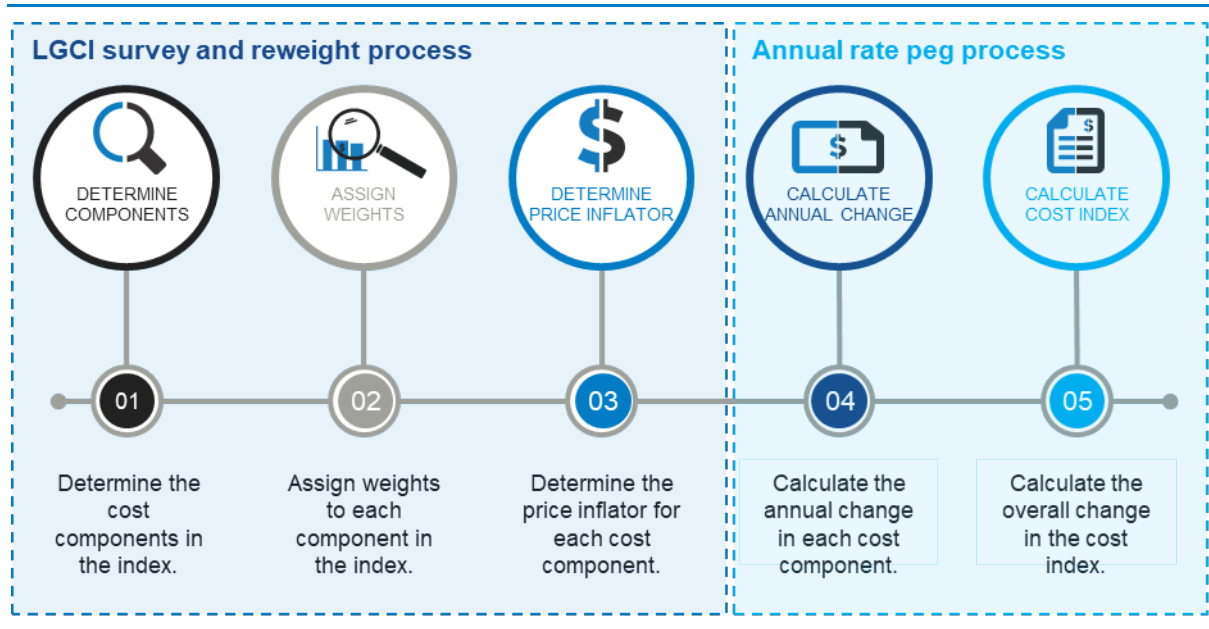
Table 1 Cost index of council expenditure

Cost item	Weight in the base period (a)	Change in price inflator (b)	Contribution to index change (a x b)
Employee costs	50%	2.6%	1.3 pp
Materials	35%	3.7%	1.3 pp
Other expenses	15%	1.7%	0.3 pp
Total	100%		
Overall change in index			2.9%

¹ 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).

Figure 1 summarises our LGCI methodology.

Figure 1 Our LGCI methodology



2 Information for councils on how the LGCI survey will be conducted

As noted, the survey will be available on IPART's website on 12 November 2019.

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 undertaking ordinary council activity.

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

- ▼ Water supply and sewerage fund (trading) operations, and
- ▼ Other business activities.

Scope

The survey asks for data on 44 categories of operating expenditure, and 12 categories of capital expenditure.

Data for some costs are included in the survey to facilitate reconciliation to the data in councils' statutory accounts but are not used in the LGCI, for instance, borrowing costs and

² 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.

depreciation. Such costs 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 2017-18 and 2018-19

We request information for 2017-18 and 2018-19, to ensure any one-off cost impacts are smoothed out over this period. Data for both of these years should be consistent with the 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 expense 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.

Supplementary questions and feedback on the survey

We have included supplementary questions in the cost survey to seek feedback on IPART's rate peg process. We are also seeking information on councils' future ESL costs to inform our treatment of this cost item in the LGCI reweight, and scope its potential impact on councils' annual budgeting cycles and need for a special variation.

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, and impose conditions with the respect to the variation of these charges. While we have not limited these charges in previous years, we have included some supplementary questions on councils' domestic waste management services in the cost survey to inform our approach to assessing these charges in future years.

Councils will also have the opportunity to provide general feedback on the cost survey and/or raise any relevant issues they would like to bring to our attention.

Submission of survey – 11 December 2019

Councils are requested to submit their completed surveys via the IPART [Council Portal](#). Councils may register or login from the Local Government homepage on the IPART website.

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. Councils formed by mergers in 2016 should create a new registration with the Council Portal.

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

Arsh Suri (02) 9113 7730 or arsh_suri@ipart.nsw.gov.au

Publication of the LGCI

Details of the calculated LGCI and its methodology are expected to be published on IPART's website in March 2020.

Contact for further information

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

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