

Local Government Economic Briefing



3 December 2018

WA LOCAL GOVERNMENT COST INDEX

Price pressures facing Local Governments have picked up in the September quarter of 2018, in a sign that conditions in the WA economy have started to turn the corner.

The Local Government Cost Index (LGCI) grew by 0.7% in the September quarter of 2018, to stand 1.5% higher over the year.

Table 1 LGCI by component, September 2018

Index	Quarterly change (%)	Annual change (%)
Wages (WA Wage Price Index)	0.6	1.6
Road and Bridge Construction	0.9	2.9
Non-residential Building	0.0	-0.2
Other costs (Perth CPI)	0.5	1.2
Machinery and Equipment	0.1	-0.1
Electricity and street lighting	5.8	5.8
Local Government Cost Index	0.7	1.5

The stronger growth during the September quarter was due to a pick up in price pressures across the board, with all categories increasing during the quarter.

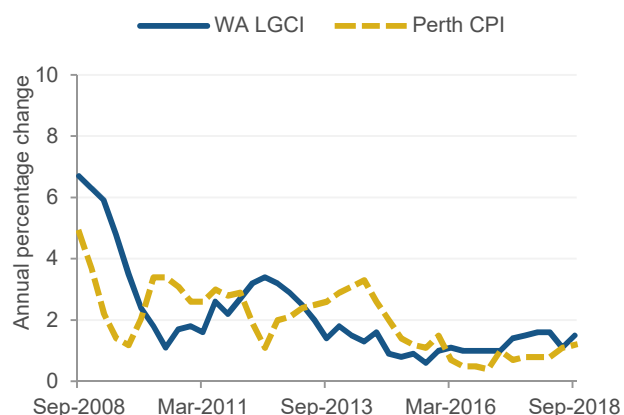
The largest increases related to energy costs, with the new annual regulated electricity and street lighting tariffs coming into effect during the quarter. Electricity costs increased by 7.3% in both quarterly and annual terms, while street lighting costs were up by 3.2%.

Road and bridge construction costs also recorded their strongest quarterly increase since December 2013, rising by 0.9%. In annual terms, road and bridge construction costs are up by 2.9%.

Wages, consumer prices, and equipment costs also recorded modest growth up by 0.6%, 0.5% and 0.1% respectively during the quarter.

By contrast, non-residential building costs still remain subdued, being flat again during the September quarter and declining over the year (down by 0.2%). The cost of non-residential construction has now been falling in annual terms since June 2015, however the pace of decline has started to ease in recent months.

Figure 1 LGCI vs Perth CPI



With signs that the WA economy is now emerging from its downturn, it is prudent for the sector to prepare for price increases in the years ahead. WALGA's latest forecasts for the LGCI predict the index will rise by 1.8% in 2018-19.

2018 Nobel Prize – Insights for Policy Makers

In recent months, the 2018 Nobel Prize for economics was jointly awarded to economists William Nordhaus and Paul Romer for their work in constructing models to show how the market economy interacts with the environment and knowledge.

Nordhaus' work developed a model that integrates climate change into macroeconomic analysis and suggests that a uniform international carbon tax is the most appropriate policy solution to address greenhouse gas emissions.

Romer's work recognises the importance of innovation and ideas in supporting economic prosperity and demonstrates how knowledge is a driver of economic growth over the long term. This research builds on his work of the 1990s and shows how economic forces govern the willingness of firms to produce ideas and innovations.

While the work of both recipients is of interest to policy makers, Romer's findings are of particular importance for Local Governments in determining the focus of activities to support economic development. Romer's work encourages efforts to support the development of knowledge and innovation, such as investments in education and scientific research.

While some may argue that these activities are the realm of the Federal or State Government, Local

Governments can and do play an important role in supporting economic activity at a local level.

The sector's responsibilities are broad and include a wide range of functions, many of which can be used to support knowledge and innovation. Some examples of these types of activities are as follows.

- Provision of public goods and infrastructure that support education, such as child-care, public libraries, community resource centres and internet infrastructure.
- Business incubators, support programs and mentoring.
- Rates incentives and grants.
- Business events, workshops, expos and networking.
- Seed funding for new or start-up ventures.
- Research projects in conjunction with the private sector and tertiary institutions.

In determining economic development strategies, Local Governments should bear in mind Romer's research which emphasised the importance of a policy focus on supporting knowledge and innovation in order to encourage long term prosperity.

WALGA is currently undertaking a project to support the sector to understand the role it can play in supporting local economic development outcomes. More information can be found at: <https://www.walga.asn.au/Policy-Advice-and-Advocacy/Economic-Development/Economic-Development-Framework.aspx>

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