

Local Government Economic Briefing



10 September 2018

WA LOCAL GOVERNMENT COST INDEX

Price pressures facing Local Governments continued to increase in the June quarter of 2018, though at a more modest pace than recent times.

The Local Government Cost Index (LGCI) grew by 0.2% in the June quarter of 2018, to stand 1.1% higher over the year.

Table 1 LGCI by component, June 2018

Index	Quarterly change (%)	Annual change (%)
Wages (WA Wage Price Index)	0.3	1.5
Road and Bridge Construction	0.4	2.1
Non-residential Building	0.0	-0.6
Other costs (Perth CPI)	0.2	1.1
Machinery and Equipment	-0.4	-0.9
Electricity and street lighting	7.1	7.1
Local Government Cost Index	0.2	1.1

The more modest pace of growth this quarter reflects prices for machinery and equipment, which fell by 0.4 per cent during the June quarter 2018, to stand 0.9% lower than a year earlier. This is the first time that machinery and equipment costs have fallen in annual terms since March 2015.

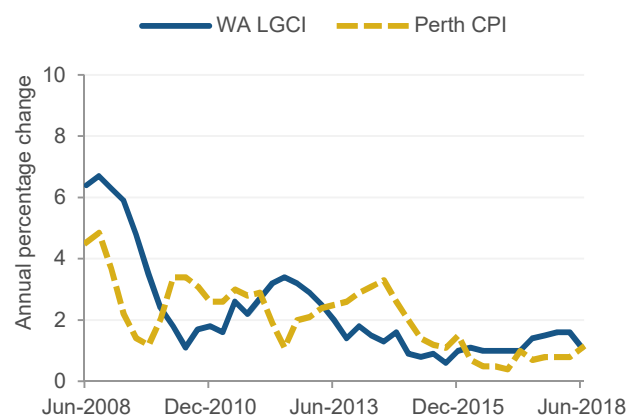
Non-residential building costs also continue to weigh on the index. Although they remained flat during the quarter, non-residential building cost have recorded their 13th consecutive quarter of decline after falling by 0.6%.

However, costs pressures increased across all other categories during the quarter. In particular, road and bridge construction costs rose by 0.4% during the quarter, and are 2.1% higher than a year earlier – the largest increase since September 2014.

Other costs (as represented by the Perth CPI) also gathered pace, up by 0.2% in the June quarter of 2018, and 1.1% compared to a year earlier – the largest annual increase in two and a half years.

The new regulated electricity and street lighting prices that came into effect earlier in the year are also contributing to cost pressures (up 9.7% and 2.8% respectively in annual terms).

Figure 1 LGCI vs Perth CPI



Although cost pressures facing Local Government remain modest, it is prudent for the sector to prepare for prices to rise in coming years as the economy gathers pace. WALGA's latest forecasts for the LGCI predict the index will rise by 1.8% in 2018-19.

COMMUNITY PULSE – THE ECONOMIC DISCONNECT

In recent weeks, the Committee for Economic Development of Australia released a new research report into community perceptions of economic growth and development.

The study examined the views of 400 Western Australians from across the state, and found that the community do not feel that they personally have experienced the benefits of Australia's 26 years of uninterrupted economic growth.

The results showed that only 40% of Western Australians believed that they had benefitted from recent economic growth, which was below the national average of 45%. In particular, Western Australians considered that large corporations and senior executives were the big winners, with 78% and 77% respectively considering that these groups had gained a lot.

By contrast, 54% of respondents believed that non-working citizens had not gained at all, while 43% of respondents believed that people like themselves had also not benefitted.

In terms of the issues that were identified as most important to the Western Australian community, these were consistent with national priorities and included basic health services, essential services, affordable housing, chronic disease services, job security, and reduced violence. Western Australians

also placed a greater priority on mental health services.

Interestingly, education issues such as improved outcomes in schools and access to new skills and training were areas where Western Australians were largely indifferent.

As well as understanding community priorities, the report also sought insights into attitudes towards work. The key findings for Western Australia were:

- 61% of workers were satisfied with their own pay levels, which is higher than the national average of 53%.
- 87% of Western Australians have a commute to work of less than an hour.
- 17% of workers would welcome new technology in their job, though 16% are worried it would replace them.
- Western Australians believe that growing the number of jobs is critical to the future (39%), along with a greater number of permanent jobs (22%).

Overall, the study provides important guidance for Governments at all levels on community needs and preferences, and will be an important guide to ensure that spending and other policy programs are cognisant of issues that matter the most to the community.

However, it also reinforces that there is a disconnect between the current narrative about the economy and the need for reform, and how communities are feeling about their own personal situation - particularly in an environment where the labour market has been weak and living costs remain high. In this regard, it is important that we remain cognisant of issues that are popular, and

balance these against those which are strategically important to the future of the economy.

Despite these perceptions, a reform agenda that is aimed at improving productivity is still essential to the state's economic future.

This was reflected in the recent Productivity Commission's report, *Shifting the dial: 5 year productivity review*. This examined recent trends in Australia's productivity, and set out the key areas where reform is needed to ensure our future economic success. These included reforms across a range of areas including those which were not rated as high priorities for the community, and included a focus on:

- Healthier Australians
- Future skills and work
- Better functioning towns and cities
- Improving the efficiency of markets
- More effective Governments

Governments at all levels clearly must do a better job of bringing the community on board and ensuring that the benefits of ongoing growth can be felt locally. As the closest level of Government to the community, Local Governments have an important role in this regard in driving economic development activities at a local level.

For further information or to download the report please visit: <https://www.ceda.com.au/Research-and-policy/Community-pulse-2018-the-economic-disconnect>

*For further information or to comment please contact Dana Mason on 9213 2096 or email dmason@walga.asn.au. Current and previous editions of **Economic Briefing** are available at <http://walga.asn.au/News,-Events-and-Publications/>*