

# Local Government Economic Briefing



17 May 2018

## WA LOCAL GOVERNMENT COST INDEX

Local Governments continue to face modest price pressures, according to the latest Local Government Cost Index (LGCI). The index grew by 0.2% in March 2018, to stand 1.6% higher over the year.

Table 1 LGCI by component, March 2018

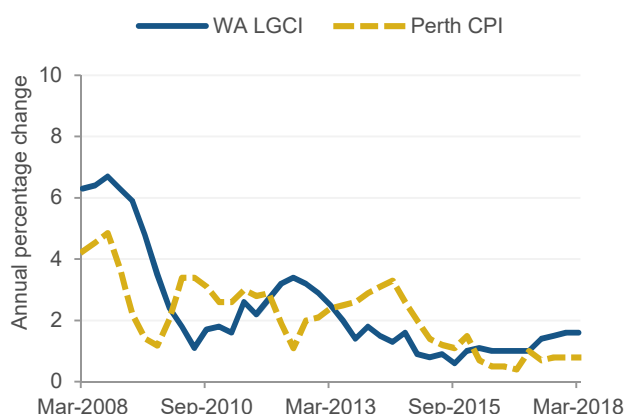
Index	Quarterly change (%)	Annual change (%)
Wages (WA Wage Price Index)	0.3	1.5
Road and Bridge Construction	0.3	1.8
Non-residential Building	-0.2	-0.6
Other costs (Perth CPI)	0.1	0.9
Machinery and Equipment	0.2	2.7
Electricity and street lighting	7.1	7.1
<b>Local Government Cost Index</b>	<b>0.2</b>	<b>1.6</b>

Electricity prices continue to drive upward pressure in the index in annual terms (up 9.7%), in line with the ongoing impact of the new regulated tariffs that came into effect for the 2017-18 financial year. Street lighting costs are also up by 2.8% compared to a year earlier.

Outside of State Government costs, there continues to be modest increases in the cost of machinery and equipment (+2.7%), road and bridge construction (+1.8%), and wages (+1.5%). Other costs (as measured by the Perth Consumer Price Index), remained contained, rising by just 0.9% over the year.

By contrast, non-residential building continued to provide relief for the sector, falling by 0.6% over the year to March. Non-residential building costs have been flat or declining since December 2014.

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. WALGA's latest forecasts for the LGCI predict the index will rise by 1.9% in 2017-18, and 1.8% in 2018-19.

## STATE AND FEDERAL BUDGETS

### WA Economy

The 2018 budget provided updated economic forecasts, which confirm that the WA economy is set to improve in the years ahead.

After contracting by 2.7% in 2016-17, the WA economy is on track to grow by 2.5% in 2017-18. Forecasts for 2018-19 have been revised upwards since the Mid-Year Financial Projections Statement, with the WA economy now expected to grow by 3.25% (up from 3%).

The improvement in the economy in the short term is underpinned by continued growth in exports, as production from the state's resources sector ramps up after years of investment in new capacity. This has been supported by an improvement in commodity prices in recent times.

Over the medium term, economic growth has also been revised up slightly across the forward estimates, averaging 3.2% per annum, compared to 3% at Mid-Year Review. However, economic growth in WA will still remain below the long term average of 4.7% per annum for the foreseeable future.

Importantly, growth is expected to become more broad-based as the domestic economy emerges from its trough and begins to recover.

After declining for the past four years and another two negative years still to come, business investment is expected to turn around from 2019-20. A modest expansion is predicted, driven by maintenance on existing resource projects rather than major new investment projects.

Household consumption is also expected to pick up in coming years. Treasury's forecasts show that consumer spending will rise by 2.25% in 2018-19, before accelerating to 3.5% by the end of the forward estimate period, on the back of improved consumer confidence and more favourable labour market conditions.

The state's labour market is already showing positive signs with 29,400 new jobs created in 2017-18, and a further 20,000 jobs expected in 2018-19. In line with this, the unemployment rate is forecast to decline steadily from a peak of 6.2% in 2016-17 to 5% by 2021-22.

The more favourable conditions will also see more people attracted back into the workforce, with the state's participation rate likely to increase from a recent low of 67.3% in 2016-17, to 68.7% by the end of the forward estimates.

This returning workforce will add to the supply of labour and act to subdue wages growth in the short term. The Wage Price Index is expected to grow by 1.75% in 2018-19, but will pick up to 3.25% by 2021-22 as economic growth gathers pace.

Broader inflationary pressures are also expected to increase as economic conditions improve. While a modest 1.5% increase in the Consumer Price Index is expected in 2018-19, this is forecast to grow to 2.5% by 2021-22.

For Local Governments, the improvement in the economy is likely to bring some good news in terms of relief from the pressures that the downturn created, such as late payments and lower revenues from fees and charges. However, it will add to broader inflationary pressures faced by the sector.

**Table 2 Economic Forecasts**

	2016-17	2017-18	2018-19	2019-20	2020-21
	%	%.	%	%	%
<b>Gross State Product</b>	-2.7	2.5	3.25	3.75	3.0
Household Consumption	1.1	1.75	2.25	3.25	3.5
Business Investment	-28.5	-7.0	-14.0	6.0	7.0
Dwelling Investment	-22.5	-6.25	4.75	5.75	3.25
Exports	7.3	5.5	7.5	3.5	2.0
Imports	-0.4	-3.5	-2.75	2.5	3.0
<b>Unemployment Rate</b>	<b>6.2</b>	<b>5.75</b>	<b>5.75</b>	<b>5.5</b>	<b>5.25</b>
<b>Wage Price Index</b>	<b>1.4</b>	<b>1.5</b>	<b>1.75</b>	<b>2.75</b>	<b>3.0</b>
<b>Consumer Price Index</b>	<b>0.6</b>	<b>1.0</b>	<b>1.5</b>	<b>2.0</b>	<b>2.5</b>

## Fees and Charges

While the recent trends and predictions for the LGCI and the broader WA economy show that the sector needs to plan for costs to increase in coming years, there are also a number of Government fees and charges that are set to rise.

Water charges are expected to rise by 6% in 2018-19, while increases have also been announced for electricity tariffs as outlined below.

**Table 3 Electricity Tariffs**

	2018-19	2019-20	2020-21	2021-22
	%	%.	%	%
<b>Medium Business (L3/L4)</b>	3.7	3.7	3.7	3.7
<b>Medium business time of use (R3)</b>	5.5	5.5	5.5	5.5
<b>Street lighting (Z)</b>	3.2	3.2	3.2	3.2
<b>Unmetered supply</b>	5.2	5.2	5.2	5.2

## Financial assistance grants

Councils should be aware of cash flow implications from the timing of payments for Commonwealth Financial Assistance Grants (FAGs). Half of the FAGs allocation for 2018-19 will be paid in the 2017-18 financial year, but will be identified as 2018-19 funding.

## Other announcements

Further detail of the key announcements in the 2018 State and Federal Budgets can be found in the previous two editions of the Economic Briefing.

[https://www.walga.asn.au/getattachment/Policy-Advice-and-Advocacy/Economic-Development/Economic-Policy-and-Advocacy/State-Budget-Comments-WALGA-\(1\).pdf.aspx?lang=en-AU](https://www.walga.asn.au/getattachment/Policy-Advice-and-Advocacy/Economic-Development/Economic-Policy-and-Advocacy/State-Budget-Comments-WALGA-(1).pdf.aspx?lang=en-AU)

<https://www.walga.asn.au/getattachment/Policy-Advice-and-Advocacy/Economic-Development/Economic-Briefing/Federal-Budget-Update-2018.pdf.aspx>

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