



Independent Pricing and Regulatory Tribunal

Blacktown City Council's application for a special variation for 2014/15

under section 508A of *Local Government Act 1993*

Local Government — Determination
June 2014

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1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils may increase their general income, which mainly comprises rates income. Each year, we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

However, councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. We are required to assess these applications against criteria in the Guidelines set by the Office of Local Government (OLG),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Blacktown City Council applied for a multi-year special variation from 2014/15, under section 508A. The council requested annual increases of 6.70% in 2014/15 and 5.11% in 2015/16, a cumulative increase over 2 years of 12.15%. After assessing its application, we decided to approve the variation as requested. We made this decision under section 508A of the Act.

Box 1.1 The Guidelines for 2014/15

We assess applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income*, issued by the Office of Local Government.

The Guidelines adopt the same criteria for applications for a special variation under either section 508A or 508(2) of the *Local Government Act 1993*.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) documents to the special variation process. Councils are expected to engage with the community about service levels and funding when preparing their strategic planning documents. As a result, for most criteria, the IP&R documents (eg, Delivery Program and Long Term Financial Plan) must contain evidence that supports a council's application for a special variation.

¹ Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application for a special variation to general income for 2014/15*, September 2013 (the Guidelines). Effective February 2014 the Division of Local Government became the Office of Local Government.

Our decision enables the council to increase its infrastructure renewal expenditure to target reduced infrastructure backlogs as defined in its Asset Management and Renewal trigger project² strategy, which it adopted after extensive consultation on its Integrated Planning and Reporting (IP&R) documents and the proposed special variation.

1.1 Our decision

We determined that Blacktown City Council may increase its general income by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (2.3% in 2014/15 and an assumed 3.0% in each of the following years). The cumulative increase of 12.15% is 6.78% more than the rate peg over these years.

After the last year of the special variation (2015/16), the increase above the rate peg will remain permanently in the council's rate base.

The annual increases in the dollar amounts reflect the percentage increases we have approved and any adjustments to the council's general income that occur as a result of various catch-up and valuation adjustments.

Table 1.1 IPART's determination on Blacktown City Council's special variation for 2014/15 to 2015/16

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 30 June 2014				127,126,873
2014/15	6.70	6.70	8,370,448 ^a	135,497,321
2015/16	5.11	12.15	6,923,913	142,421,234

^a Including adjustments of \$(147,052).

Source: Blacktown City Council, *Special Variation Application 2014/15 – Part A*, Worksheets 1 and 6.

We have attached conditions to this decision, including that the council use the income raised through the special variation for purposes consistent with those set out in its application. Box 1.2 summarises these conditions.

² Blacktown City Council, *Special Variation Application – Part B* (Blacktown Application Part B), Appendix 9, Community Strategic Plan, p 49.

Box 1.2 Conditions attached to the approved special variation

IPART's approval of Blacktown City Council's application for a special variation over the period from 2014/15 to 2015/16 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of renewal capital expenditure on existing infrastructure assets outlined in the council's application as listed in Appendix A.
 - ▼ The council reports in its annual report for each year from 2014/15 to 2023/24 on:
 - expenditure consistent with the council's application and listed in Appendix A, and the reasons for any significant differences from the proposed expenditure
 - the outcomes achieved as a result of the actual program of expenditure.
 - ▼ The council reports to the Office of Local Government by 30 November each year on its compliance with these conditions.
-

2 What did the council request and why?

Blacktown City Council applied to increase its general income by a cumulative 12.15% over the 2-year period from 2014/15 to 2015/16, and to permanently incorporate this increase into its general income base.³

The council estimated that if its requested special variation is approved, its permissible general income will increase from \$127.1m in 2013/14 to \$142.4m in 2015/16.

The special variation will generate additional revenue of \$23.7m over 2 years, comprising \$8.4m in 2014/15 and \$15.3m in 2015/16 (\$8.4m carried forward from 2014/15 plus the 2015/16 incremental increase of \$6.9m). This is \$14.2m above the rate peg increase.⁴

The council intends to use the additional revenue above the rate peg to fund increased renewal requirements on existing infrastructure assets. During the 2-year special variation period, the council will spend an additional \$20.0m on its renewal program for existing infrastructure assets. This will be funded with \$14.2m through the special variation,⁵ \$2.0m through sustainable operating savings and \$4.0m allocated from the infrastructure sinking fund.⁶

More detail on the council's proposed program of expenditure to 2023/24 is provided in Appendix A.

³ Blacktown City Council, *Special Variation Application – Part A* (Blacktown Application Part A), Worksheet 1.

⁴ Blacktown Application Part A, Worksheet 1; IPART calculations.

⁵ Blacktown Application Part A, Worksheet 6.

⁶ Blacktown Application Part B, p 22.

3 How did we reach our decision?

We assessed Blacktown City Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, which support its application, as well as a range of comparative data about the council, set out in Appendix B.

Blacktown City Council has applied on the basis of its adopted IP&R documents, in particular its Delivery Program, Long Term Financial Plan (LTFF) and Asset Management Plans (AMP).

The rates increases for which the council has applied are significant, and we carefully considered, among other things, the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact of the rates increases on ratepayers.

We found that the application met the criteria. In particular, we found that the council:

1. Demonstrated the need for additional revenue to manage asset renewal backlogs and fund projected asset renewal needs through Council's IP&R documentation and Asset Management Plans.⁷
2. Provided evidence that the community is aware of the need for and extent of the rates rises.
3. Had considered the community's capacity and willingness to pay the proposed rates rises.
4. Made realistic assumptions concerning its projected service delivery and budget.
5. Reported productivity savings in past years, and indicated its intention to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria.

⁷ Blacktown Application Part B, Appendix 13.

Table 3.1 Summary of IPART’s assessment against criteria in the Guidelines

Criterion	IPART findings
<p>1. Need for and purpose of the special variation must be clearly articulated in the council’s IP&R documents. Evidence could include community need/desire for service levels/projects and limited council resourcing alternatives, and the assessment of the council’s financial sustainability made by the NSW Treasury Corporation (TCorp). The LTFP must include scenarios both with and without the special variation.</p>	<p>Blacktown City Council’s LTFP clearly articulated the need for and purpose of the special variation and presented scenarios with and without the special variation.^a</p> <p>Financial analysis of the council by TCorp^b indicated that while council was considered moderately sustainable in the medium term, asset renewal spending was an underperforming area. The special variation renewal program will address concerns around asset renewal spending, improving the Infrastructure Asset Renewal Ratio and broadly stabilising the Building and Infrastructure Backlog Ratio.^c</p>
<p>2. Evidence that the community is aware of the need for, and the extent of, the proposed rate rises. The IP&R documents should clearly explain the rate rise, canvas alternatives to the rate rise, and indicate the impact of any rises on the community. The council should demonstrate use of an appropriate variety of engagement methods to raise community awareness and provide opportunities for input.</p>	<p>The council has consulted broadly with the community around the proposed rates rises, engaging with ratepayers in a targeted and consistent manner and over a reasonable time-frame.^d The consultation included direct mail-outs, community forums, a telephone survey^e, an online forum and broad media coverage of the proposed rates rises.^f</p> <p>While the Delivery Program^g did not clearly address the purpose and magnitude of the special variation and the impact on ratepayers, the LTFP, which was exhibited, provided the necessary information.^h The Community Strategic Plan identified and broadly quantified a need consistent with the special variation.ⁱ</p>
<p>3. Impact on affected ratepayers must be reasonable, having regard to current rate levels, existing ratepayer base and the proposed purpose of the variation. The council’s IP&R process should establish that proposed rate rises are affordable, having regard to the community’s capacity to pay.</p>	<p>The council has assessed, with reasonable regard, the ability and willingness of ratepayers to pay for the special variation.^j The council’s assessment included an evaluation of the nature of business activity across the council area, business rates of other comparable councils, and the low level of business arrears (2.4%), subsequently targeting the majority of the special variation increase to commercial centres business ratepayers through a 12.3% increase in 2014/15 and a further 13.0% in 2015/16.^k</p> <p>Residential, farmland and general business rates will increase by 5.3% (3.0% above the rate peg) in 2014/15,^l reverting to the rate peg in 2015/16. Arrears for council rates and charges are a relatively low 3.4%.^m The council has a hardship policy in place, and provides a voluntary pensioner rebate.ⁿ Written submissions were received by council from 159 ratepayers. Of 154 submissions opposing the increase, 89 were from commercial centres ratepayers (2.7% of the commercial centres assessments).^o</p> <p>IPART received 1 written submission, from a residential ratepayer, opposing the increase.</p>

Criterion	IPART findings
4. Delivery Program and LTFP must show evidence of realistic assumptions.	The assumptions for income and expenditure growth in the LTFP are reasonable, ^p and are reflected at a high level in the Delivery Program.
5. Productivity improvements and cost containment strategies realised in past years must be explained, as well as plans to realise savings over the proposed special variation period.	<p>The council has reported substantial cost savings over recent years, including:^q</p> <ul style="list-style-type: none"> ▼ Self-insurance for Workers Compensation obligations, estimated \$750k annual saving. ▼ Review of Community Events program and Advertising program, estimated \$400k annual saving. ▼ Changes to council pensioner rebate scheme, estimated \$1m annual saving. <p>Council has committed to further cost reductions of \$1m per annum to support the renewals program.^r</p>

^a Blacktown *Application Part B*, Appendix 15, *Long Term Financial Plan*, pp 16 – 28, 38–40, 56-58.

^b New South Wales Treasury Corporation, *Blacktown City Council, Financial Assessment, Sustainability and Benchmarking Report*, 26 April 2013, p 5.

^c Blacktown *Application Part B*, pp 41-42. The Infrastructure Asset Renewal Ratio improves from a projected 30% (2022/23) to 55% with the special variation (against the benchmark TCorp target of 100%), while the Infrastructure Backlog Ratio at 2022/23 is projected at 9%, a substantial improvement on the projected 17% without the special variation.

^d Blacktown *Application Part B*, Appendix 21, *Community Engagement Plan – Proposed Special Rate Variation 2014/15*.

^e Blacktown *Application Part B*, Appendix 22, *Blacktown Community Research*, Micromex, December 2013, p 6; Key survey findings included “residents have no stomach for a decline in infrastructure (86%) and the general majority (61%) do not want to see a decline in services”.

^f Blacktown *Application Part B*, Appendices 22-27.

^g Blacktown *Application Part B*, Appendix 16, *Revised Delivery Program 2013-2017*.

^h Blacktown *Application Part B*, Appendix 15, *Long Term Financial Plan*, pp 23–28.

ⁱ Blacktown *Application Part B*, Appendix 9, *Community Strategic Plan*, p 49.

^j Blacktown *Application Part B*, section 5, pp 59-80.

^k Blacktown *Application Part B*, pp 22, 77-78; IPART calculations. Over the 2 years of the special variation the commercial centres business ratepayers (representing 68% of business ratepayers and 20% of 2013/14 general income) will fund 56% of the \$14.2m special variation income above the rate peg. While the average increase in the commercial centres rates is \$2,038 over 2 years, approximately 28% of affected ratepayers will have a significantly lower average increase of \$223. Commercial centres business ratepayers are referred to as business sub-category ratepayers by the council.

^l Blacktown *Application Part A*, Worksheet 5a.

^m Blacktown *Application Part B*, section 5.2.13, p 77.

ⁿ Blacktown *Application Part B*, Appendix 19, *Hardship Policy*. While council reduced its pensioner rebate from 1 July 2013 as a cost saving measure, it still offers a rebate of up to \$105 in addition to the mandatory pensioner rebate.

^o Blacktown *Application Part B*, section 4.3e, pp 56-57.

^p Blacktown *Application Part B*, Appendix 15, *Long Term Financial Plan*, pp 4–13; and Appendix 16, *Revised Delivery Program 2013-2017*, p 105.

^q Blacktown *Application Part B*, section 7, pp 94-102.

^r Blacktown *Application Part B*, Appendix 15, *Long Term Financial Plan*, p 29.

4 What does our decision mean for the council?

Our decision means that Blacktown City Council may increase its general income over the 2-year period from \$127.1m in 2013/14 to \$142.4m in 2015/16 (see Table 1.1).⁸ After 2015/16, all other things being equal, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.⁹

The council estimates that over these 2 years, the additional rates revenue will accumulate to \$23.7m, or \$14.2m above the rate peg.¹⁰ This extra income is at the level council requested, allowing it to increase its capital expenditure on renewal of existing assets over the 10-year period to 2023/24 and to reduce its asset renewal backlog from \$68.3m in 2012/13 to a projected \$33m in 2022/23.¹¹

5 What does our decision mean for ratepayers?

We set the allowable increase in general income, but it is a matter for each individual council to determine how it allocates any increase across different categories of ratepayer, consistent with our determination.

In its application, Blacktown City Council indicated that it intended to allocate the increase in rates as follows:¹²

- ▼ Average residential rates will increase by a cumulative 8.4%, or \$46 in the first year, and \$73 over 2 years.
- ▼ Average farmland rates will increase by a cumulative 8.4%, or \$157 in the first year, and \$251 over 2 years.
- ▼ Average general business rates will increase by a 8.4%, or \$318 in the first year, and \$508 over 2 years.
- ▼ Average commercial centres business rates will increase by a cumulative 26.9%, or \$932 in the first year, and \$2,037 over 2 years.

⁸ Blacktown Application Part A, Worksheet 1.

⁹ General income in future years cannot be determined with precision because it will be influenced by several factors apart from the rate peg. Those factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The OLG is responsible for monitoring and ensuring compliance.

¹⁰ Blacktown Application Part A, Worksheet 1 and IPART calculations.

¹¹ Blacktown Application Part B, sections 3.3.8 and 3.3.9, pp 38-40.

¹² Blacktown Application Part B, pp 61-64 and IPART calculations.

Table 5.1 shows the expected increase to average rates in each main ratepayer category. The actual impact of our determination on rates is a matter for the council to decide, but the overall impact across the ratepayer base will be consistent with our determination.

Table 5.1 Indicative annual increases in average rates as a result of the determination

Year	Residential		General Business		Commercial Centres Business		Farmland	
	%	\$	%	\$	%	\$	%	\$
2014/15	5.3	46	5.3	318	12.3	932	5.3	157
2015/16	3.0	27	3.0	190	13.0	1,105	3.0	94

Source: Blacktown *Application Part B*, pp 61-64 and IPART calculations.



Appendices

A Expenditures to be funded from the special variation above the rate peg

Tables A.1 and A.2 show Blacktown City Council's proposed expenditure of the special variation funds over the next 10 years, as reflected in Part A of Blacktown City Council's special variation application. These tables relate to the increased general revenue raised from the special variation and do not reflect the additional commitments toward cost savings and funding from other sources, totalling \$3.0m per annum.¹³

From the time that the revised LTFP was exhibited to the time that the special variation application was submitted to IPART, council's rating base had increased, meaning that the expected special variation income has increased over that presented in the LTFP and allocated against asset renewal expenditure programs. Table A.2 addresses this by including an asset renewal expenditure program 'unspecified', which reflects the difference in revenue between council's planning documents and the expected special variation revenue at the point of application. As a growth area, council's rating base could again move relative to the information submitted in the special variation application. The council should ensure that the 'unspecified' category is updated to reflect further changes and that the amounts in that category are committed to renewal programs.

In addition to the use of the expected special variation revenue of \$93.2m over 10 years (Table A.2), the council has committed a further \$30.0m over 10 years, comprising \$10.0m in operating cost savings and \$20.0m in transfers from the Infrastructure Sinking Fund.¹⁴ These commitments are being incorporated into the Delivery Program to provide ratepayers with an objective view of the \$123.2m of allocated asset renewal spending as part of the overall special variation commitment.¹⁵

The council will indicate in its Annual Reports how its actual expenditure has evolved relative to its proposed program of expenditure.

¹³ Blacktown Application Part B, section 3.2, p 22 and IPART calculations.

¹⁴ Ibid.

¹⁵ Blacktown City Council, *Draft Delivery Program 2013-2017 and Operational Plan 2014/2015*, viewed 2 June 2014.

Table A.1 Income and proposed expenditure related to the special variation (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	TOTAL
Special variation income above rate peg	5,594	8,620	8,879	9,145	9,420	9,702	9,993	10,293	10,602	10,920	93,168
Funding for asset renewal capital expenditure	5,594	8,620	8,879	9,145	9,420	9,702	9,993	10,293	10,602	10,920	93,168
Balance of funding	–	–	–	–	–	–	–	–	–	–	–

Note: This table addresses the general income component of the special variation. In its IP&R documents, council has committed a further \$3.0m per year to the special variation program.

Source: Blacktown Application Part A, Worksheet 6.

Table A.2 Proposed use of special variation income (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Transport Renewal Program											
Road Surface Treatment	1,272	2,114	1,962	3,130	1,684	1,358	1,040	1,714	430	361	15,067
Road Upper Course Treatment	1,222	1,502	1,551	1,397	703	1,352	909	1,408	597	363	11,004
Road Reconstruction incl. K&G	–	230	78	22	180	189	951	818	507	176	3,153
Bridges	400	229	190	201	212	232	236	248	261	275	2,484
Pathways	434	284	943	515	1,211	717	150	218	1,371	309	6,149
Carparks	411	628	837	446	1,222	697	520	531	1,184	454	6,933
Footpaths	–	620	620	620	310	310	310	310	–	–	3,100
	3,739	5,607	6,182	6,332	5,522	4,856	4,116	5,247	4,351	1,938	47,890
Building Renewal Program											
Aged & Disabled Services	–	57	19	41	21	14	152	41	30	16	391
Amenities & Sporting Facilities	375	136	21	78	340	209	249	279	61	159	1,907
Child Care Centres. Pre-school & Baby Health	35	75	69	232	223	159	78	77	43	71	1,062

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Community & Neighbourhood Centres	90	200	144	10	239	164	447	99	289	245	1,927
Operational Buildings	207	102	228	219	505	200	548	436	251	850	3,546
Heritage	–	28	16	9	25	24	20	118	64	2	306
Leisure Centres & Pools	–	329	416	132	281	179	563	246	251	373	2,770
Libraries	184	111	65	83	151	97	224	227	56	8	1,206
Residential & Commercial	20	49	102	92	149	467	119	162	31	124	1,315
	911	1,087	1,080	896	1,934	1,513	2,400	1,685	1,076	1,848	14,430
Open Space Renewal Program											
Facilities	198	178	–	–	36	–	–	–	464	1,781	2,657
Fences	21	155	9	52	67	25	280	40	407	1,812	2,868
Irrigation	80	107	40	383	–	826	815	786	927	310	4,274
Furniture	100	87	199	50	73	81	812	–	244	180	1,826
Paths	65	–	–	–	–	–	–	–	242	302	609
Playgrounds	250	255	210	256	598	1,055	–	682	801	686	4,793
	714	782	458	741	774	1,987	1,907	1,508	3,085	5,071	17,027
Other Renewal Programs											
Fixed Plant	–	279	289	300	311	323	335	348	361	375	2,921
Aquatic & Leisure Centres	193	700	700	700	700	700	700	700	700	700	6,493
Unspecified ^a	37	165	170	176	179	323	535	805	1,029	988	4,407
	230	1,144	1,159	1,176	1,190	1,346	1,570	1,853	2,090	2,063	13,821
Asset Renewal Programs	5,594	8,620	8,879	9,145	9,420	9,702	9,993	10,293	10,602	10,920	93,168

^a Difference arises due to growth in the rate revenue base from the time of the LTFP consultation to the special variation application date.

Note: This table addresses the general income component of the special variation. In its IP&R documents, council has committed a further \$3.0m per year to the special variation program. Numbers may not add to subtotals due to rounding.

Source: Blacktown City Council; IPART calculations.

B Comparative indicators

Indicators of council performance may be considered across time, either for one council or across similar councils, or by comparing similar councils at a point in time.

In Table B.1 we show how selected indicators for Blacktown City Council have changed over the 3 years to 2011/12.

Table B.1 Trends in selected indicators for Blacktown City Council, 2009/10 to 2011/12

Productivity (labour input) indicators^a	2009/10	2010/11	2011/12
FTE staff (number)	1,376	1,329	1,336
Ratio of population to FTE	218	226	234
Average cost per FTE (\$)	\$70,795	\$74,223	\$77,642
Employee costs as % operating expenditure (General Fund only) (%)	45.5	42.9	42.6
Consultancy/contractor expenses (\$m) ^b	\$20.8	\$20.1	\$20.9
Consultancy/contractor expenses as % operating expenditure (%)	9.7	8.6	8.6

^a Based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

^b Consultancy/contractor expenses comprise approximately \$2m of consultancy expenses, the remainder relating to (predominantly) road contractor costs.

Source: OLG, unpublished data.

In Table B.2 we compare the latest selected published data on Blacktown City Council with the average of the councils in the OLG Group and with NSW councils as a whole.

Table B.2 Select comparative indicators for Blacktown City Council, 2011/12

	Council	OLG Group 3 average ^a	NSW average
General profile			
Area (km ²)	240		
Population	312,479		
General Fund operating expenditure (\$m)	243.7		
General Fund operating revenue per capita (\$)	763	847	2,011
Rates revenue as % General Fund income (%)	42.1	55.4	45.7
Average ordinary rate indicators^b			
Average rate – residential (\$)	808	790	685
Average rate – business (\$)	6,315	4,935	2,552
Average rate – farmland (\$)	2,875	2,124	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	44,910	52,899	44,140
Growth in average annual income, 2006-2010 (% pa)	3.3	3.1	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	1.8	1.6	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	93		
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	3.4	3.3	7.0
Productivity (labour input) indicators^d			
FTE staff (number)	1,336	571	293
Ratio of population to FTE	234	247	126
Average cost per FTE (\$)	77,642	85,525	74,438
Employee costs as % operating expenditure (General Fund only) (%)	42.6	41.6	36.8
Consultancy/contractor expenses (\$m)	20.9	16.0	6.9
Consultancy/contractor expenses as % operating expenditure (%)	8.6	14.9	9.3

^a OLG Group 3 Local Government Area is classified Metropolitan Developed with a population exceeding 70,000. The group comprises sixteen (16) councils. Comparable Group 3 councils include Fairfield City Council and Bankstown City Council.

^b Average rates equal total Ordinary Rates revenue per category divided by the number of assessments in each category.

^c Average annual income includes income from all sources excluding government pensions and allowances.

^d Based upon total council operations. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Source: OLG, unpublished data; ABS, *National Regional Profiles, NSW*, November 2011; ABS, *Regional Population Growth*, July 2012; ABS, *Estimates of Personal Income for Small Areas, 2005-06 to 2009-10*, February 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013.

