



Independent Pricing and Regulatory Tribunal

Narromine Shire Council's application for a special variation for 2015-16

under section 508A of *Local Government Act 1993*

Local Government — Determination
May 2015



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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.

Under the *Local Government Act 1993* (the Act) councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. These increases may be for either an increase in a single year (section 508(2)) or successive increases for up to seven years (section 508A).

IPART assesses these applications against criteria in Guidelines set by the Office of Local Government (OLG).¹ Box 1.1 explains the Guidelines for 2015-16.

Narromine Shire Council applied for a multi-year special variation under section 508A. The council requested increases of 5.9% in 2015-16 and 6.5% in 2016-17, or a cumulative increase of 12.8% over the next two years, and for the increase to remain in the rate base permanently.² We have assessed the council's application, and decided to allow the special variation as requested.

Box 1.1 The Special Variation Guidelines for 2015-16

IPART assesses applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income for 2015/2016*, issued by the Office of Local Government.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and 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. 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.

Our decision enables the council to fund a program of expenditure to improve its financial sustainability, including loan repayments and for the maintenance and renewal of key road assets. The council consulted its community extensively to address these issues, both in reviewing its Integrated Planning and Reporting (IP&R) documents and in preparing its special variation application.

¹ Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2015/2016*, October 2014 (the Guidelines).

² Narromine Shire Council, *Special Variation Application – Part A, 2015-16* (Narromine Council, *Application Part A*), Worksheet 4.

1.1 Our decision

We determined that Narromine Shire Council may increase its general income between 2015-16 and 2016-17 by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (2.4% in 2015-16).³ The cumulative increase of 12.8% is 7.3% more than the assumed cumulative rate peg increase over these years.

After the last year of the special variation (2016-17), the increase will remain permanently the council's rate base.

Table 1.1 sets out our decision.

Table 1.1 IPART's decision on Narromine Shire Council's application for a special variation in 2015-16

	2015-16	2016-17
Percentage increase approved	5.9%	6.5%

Note: The rate peg in 2015-16 is 2.4%. In later years the council has assumed a rate peg of 3%.

Source: Narromine Shire Council, *Application Part A*, Worksheet 1 and IPART calculations.

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

³ The council has assumed a rate peg of 3% in future years. The special variation percentage approved will not change to reflect the actual rate peg in those years.

Box 1.2 Conditions attached to Narromine Shire Council's approved special variation

IPART's approval of Narromine Shire Council's application for a special variation over the period from 2015-16 to 2016-17 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation to improve its financial sustainability and fund the program of expenditure outlined in its application and listed in Appendix A.
 - ▼ The council reports in its annual report for 2015-16 to 2024-25 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix B
 - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and any corrective action taken or to be taken to address any such variation
 - expenditure consistent with the council's application and listed in Appendix A, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.
 - ▼ The council reports in its financial statements for 2015-16 to 2024-25 (currently in Special Schedule 9) on its compliance with the special variation and these conditions.
-

2 What did the council request and why?

Narromine Shire Council applied to increase its general income by a cumulative 12.8% over the 2-year period from 2015-16 to 2016-17, and to permanently incorporate this increase into its general income base.⁴

The council estimated that if the requested special variation is approved, its permissible general income would increase from \$4.9 million in 2014-15 to \$5.5 million in 2016-17. This would generate additional revenue of \$525,000 above the rate peg increases over two years.

The council intends to use the additional revenue from the special variation to fund operating expenditure associated with loan repayments and for the maintenance and renewals of road infrastructure. Over the medium to longer term, the additional revenue will also improve its financial sustainability and reduce its operating deficit (before capital revenue) over the 10 years to 2024-25.

⁴ Narromine Council, *Application Part A*, Worksheet 4.

The council has successfully applied for \$3.0 million under the Local Infrastructure Renewal Scheme (LIRS) to fund its capital works program. Under the interest subsidy scheme, councils are able to reduce backlogs on major infrastructure. Narromine Shire Council will use the additional special variation income to offset interest and redemption payments on the loan.

Over 10 years, the special variation would generate revenue of \$3.8 million above the rate peg. The council indicated that over the 10 years it proposes to:

- ▼ offset repayments on LIRS loan of \$0.2 million
- ▼ increase road maintenance expenditure of \$1.4 million, and
- ▼ undertake renewals and capital expenditure of \$2.2 million.⁵

More detail on the council's proposed program of expenditure to 2024-25 is provided in Appendix A.

3 How did we reach our decision?

We assessed Narromine Shire Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, as well as a range of comparative data about the council, set out in Appendix C.⁶

Narromine Shire Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan Narromine Shire 2023*, the revised *Four Year Delivery Program 2012-13 to 2015-16*, *Long Term Financial Plan (2014-15 to 2023-24)* and *Asset Management Strategy*.

The rate increases for which the council has applied are not substantial, and we 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 rate increase on ratepayers.

On balance, we found that Narromine Shire Council's application met the criteria. In particular, we found that:

1. The need for the proposed revenue is demonstrated in the council's Community Strategic Plan, and reflects community priorities, and is supported by TCorp's assessment of the council's financial sustainability.

⁵ Narromine Council, *Application Part A*, Worksheet 6.

⁶ See Appendix C. Narromine Council is in OLG Group 10, which is classified as Rural Large Agricultural (population 5,001-10,000) or Remote (population 3,001-20,000). The group comprises 25 councils, including similar councils such as Junee, Liverpool Plains, Tenterfield and Oberon councils.

2. The council provided evidence that the community is aware of the need for and extent of the rate increases, and that it had considered the community's capacity and willingness to pay the proposed increases.
3. The impact of the proposed rate increases on ratepayers is not substantial and reasonable, given the council's existing rate levels, the purpose of the special variation and the council's consideration of ratepayers' willingness and capacity to pay.
4. The relevant IP&R documents have been exhibited and adopted.
5. The council 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.

Table 3.1 Summary of IPART's assessment of Narromine Shire Council's application for a special variation against the criteria in the Guidelines

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, including its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.</p>	<p>The council's IP&R documents clearly explain the need for and purpose of the special variation and show that:</p> <ul style="list-style-type: none"> ▼ it is consistent with community priorities ▼ it will reduce the road infrastructure backlog ▼ it will fund repayment of loans which have been granted a subsidy under LIRS, and ▼ it will improve long term financial sustainability. <p>TCorp observed in 2012 that the council's financial position was 'moderate' and outlook 'neutral'. TCorp indicated that the council needs extra revenue to achieve an operating surplus and to fund maintenance and asset renewal.</p> <p>The council considered alternatives to a rate rise such as increased fees and charges and concluded that a permanent increase to the rate base is required based on its location and limited revenue raising abilities.</p>
<p>2. Evidence that the community is aware of the need for and extent of a rate rise. The IP&R documentation should clearly set out the extent of the General Fund rate rise under the special variation. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure an opportunity for community awareness and input to occur.</p>	<p>The council demonstrated that it had made the community aware of the need for and the extent of the rate increase. The council used a variety of tools to engage with the community including online portals, newsletters, public meetings, advertisements and a survey. The outcomes were:</p> <ul style="list-style-type: none"> ▼ Results from the consultation process showed that of the 234 survey responses collected, 65% opposed the special rate variation and 31% supported an increase of some level (4% undecided). ▼ Feedback from the community (eg in survey and submissions to council) related to the level of consultation, affordability, efficiency and general performance of council. We received seven

Criterion	IPART findings
	<p>submissions expressing similar views.</p> <ul style="list-style-type: none"> ▼ Common community concerns were addressed by council with responses in the December 2014 newsletter to ratepayers.
<p>3. The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The IP&R processes should:</p> <ul style="list-style-type: none"> ▼ clearly show the impact of any rises upon the community ▼ include the council's consideration of the community's capacity and willingness to pay rates and ▼ establish that the proposed rate increases are affordable having regard to the local community's capacity to pay. 	<p>In spite of the limited capacity to pay, we consider the impact on ratepayers will be reasonable given:</p> <ul style="list-style-type: none"> ▼ Average residential rates will rise by 12.6% from \$614 or an estimated \$77 over the two years. ▼ Average business rates will rise by 12.2% from \$1664 or an estimated \$202 over the two years. ▼ Average farmland rates will rise by 13.4% from \$3,215 or an estimated \$432 over the two years. ▼ Average mining rates will rise by 12.8% from \$233,663 or an estimated \$29,893 over the two years. <p>Affordability of the proposed rate rise is an important concern for council. Narromine has an outstanding rates ratio of 7.4% (2013-14) which compares similarly to the state and OLG group 10 average of 7.5% and 6.0% respectively (latest data available 2012-13). The council is relatively disadvantaged (SEIFA ranking of 29/153) and is in the bottom quintile of councils.</p> <p>The council considers that the community had the capacity to pay the higher rates based on a comparison of neighbouring councils. Council undertook measures to minimise the impact by the reducing the size of variation sought from 13.4% cumulative to 12.8%.</p> <p>Affordability is supported by councils' recently adopted hardship policy and from the findings of Western Research Institute's assessment on the special variation impact which indicated ratepayers would not be significantly impacted.</p>
<p>4. The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general revenue.</p>	<p>The council adopted the CSP in June 2012. The council adopted its revised Delivery Program in February 2015 and exhibited as required.</p> <p>The council adopted the revised LTFP setting out the SV scenario in February 2015.</p>
<p>5. The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.</p>	<p>In recent years, the council has realised expenditure savings through productivity improvements and cost containment strategies such as resource sharing, administrative efficiencies, internal process reviews and improved performance management systems. The value of the savings has not been fully quantified.</p>

Note: SEIFA is the Socio-Economic Indexes for Areas: refer to Appendix C, Table C.2.

Sources: Narromine Council, *Application Part A*, and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp); *Narromine Shire Council Financial Assessment, Sustainability and Benchmarking Report*, April 2013; Narromine Shire Council, *Delivery Program 2012-13 to 2015-16*, pp 23-25; Narromine Shire Council, *Long Term Financial Plan 2014-15 to 2023-24*, Western Research Institute, *Report on Proposed Special Rates Variation for Narromine Shire Council*, February 2015 and Narromine Shire Council, *Financial Statements, 2013-14*.

4 What does our decision mean for the council?

Our decision means that Narromine Shire Council may increase its general income over the 2-year special variation period from \$4.9 million in 2014-15 to \$5.5 million in 2016-17. Table 4.1 shows the annual increases in the dollar amounts to the council's general income. These amounts reflect the percentage increases we have approved and, in 2015-16, adjustments that occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the council's revenue base. After 2016-17, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.⁷

Table 4.1 Permissible general income of Narromine Shire Council from 2015-16 to 2016-17 arising from the special variation approved by IPART

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 30 June 2015				4,857,558
2015-16	5.9	5.9	287,048	5,144,606 ^a
2016-17	6.5	12.8	334,399	5,479,005

^a A prior catch-up of \$452 that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2015-16.

Source: Narromine Shire Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

The council estimates that over these two years, the additional rates revenue will accumulate to \$525,000 above the rate peg.

This extra income is the amount the council requested to enable it to undertake additional operating and capital expenditure to maintain service levels at acceptable standards and to enhance its financial sustainability.

⁷ General income in future years cannot be determined with precision, as it will be influenced by several factors apart from the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance.

5 What does our decision mean for ratepayers?

IPART sets 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.

The council has calculated over the special variation period:

- ▼ The average residential rate will increase in 2015-16 by \$35 and a cumulative increase of \$77 over two years.
- ▼ The average business rate will increase in 2015-16 by \$88 and a cumulative increase of \$202 over two years.
- ▼ The average farmland rate will increase in 2015-16 by \$210 and a cumulative increase of \$432 over two years.
- ▼ The average mining rate will increase in 2015-16 by \$13,808 and a cumulative increase of \$29,893 over two years.
- ▼ The minimum rates for each category will increase by a cumulative 12.0%.

Table 5.1 sets out Narromine Shire Council's estimates of the expected increase in average rates in each of the main ratepayer categories.

Table 5.1 Indicative annual increases in average rates under Narromine Shire Council's approved special variation, 2015-16 to 2016-17

Category	2014-15 ^a	2015-16	2016-17	Cumulative \$ increase	Cumulative % increase
Residential	614	649	691	77	12.6
Ordinary	595	625	665	70	11.8
Trangie	512	542	577	65	12.6
Narromine	624	661	704	80	12.8
Tomingley	312	331	352	40	12.8
Skypark	2,114	2,274	2,422	308	14.6
Business	1664	1753	1866	202	12.2
Ordinary	1,568	1,647	1,754	185	11.8
Trangie	1,463	1,549	1,650	187	12.8
Industrial	1,162	1,197	1,275	112	9.7
Narromine	1,916	2,030	2,162	245	12.8
Farmland	3,215	3,425	3,647	432	13.4
Mining	233,663	247,470	263,556	29,893	12.8

^a 2014-15 is included for comparison.

Note: Some numbers may not add due to rounding. The average rate is calculated and includes the ordinary rate rates applying to the rating category. Council does not have any special rates.

Source: Narromine Council, *Application Part A*, Worksheet 5a.



Appendices

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

Table A.1 and Table A.2 show Narromine Shire Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the special variation revenue above the rate peg of \$3.8 million over 10 years to fund:

- ▼ LIRS loan repayments of \$185,000
- ▼ increased operating expenditure relating to roads maintenance of \$1.4 million, and
- ▼ capital expenditure on road renewals of \$2.2 million.⁸

As a condition of IPART's approval, the council will indicate in its Annual Reports how its actual expenditure compares with this proposed program of expenditure.

⁸ Source: Narromine Council, *Application Part A*, Worksheet 6, and figures provided by Narromine Shire Council.

Table A.1 Narromine Shire Council – Income and proposed expenditure over 10 years related to the special variation (\$000)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Special variation income above rate peg	170	355	366	377	388	400	412	424	437	450	3,778
Funding for increased operating expenditures	53	94	137	141	145	150	154	159	163	168	1,364
Funding for loan repayments	35	31	28	24	21	18	13	9	5	1	185
Funding to reduce operating deficits (or increase surpluses)	82	230	201	211	222	233	245	256	268	281	2,230
Funding for capital expenditure	82	231	202	212	222	233	245	257	269	281	2,232
Total expenditure	170	356	366	377	388	400	412	424	437	450	3,780

Note: Numbers may not add due to rounding.

Source: Narromine Council, *Application Part A*, Worksheet 6, and figures provided by Narromine Shire Council, March 2015.

Table A.2 Narromine Shire Council – Proposed 10-year capital expenditure program related to the special variation (\$000)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Roads Renewal	82	231	202	212	222	233	245	257	269	281	2,232
Total Capital Expenditure	82	231	202	212	222	233	245	257	269	281	2,232

Note: Numbers may not add due to rounding.

Source: Narromine Council, *Application Part A*, Worksheet 6.

B Narromine Shire Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, Narromine Shire Council is to report annually against its projected revenue, expenses and operating balance as set out in its LTFF (shown in Table B.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capitals and contributions. In order to isolate ongoing trends in operating revenues and expenses, our analysis of the council's operating account in the body of this report excludes capital grants and contributions.

Table B.1 Summary of projected operating statement for Narramine Shire Council, 2015-16 to 2024-25 (\$000)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total revenue	17,615	17,405	17,713	18,192	18,803	19,085	19,482	20,017	20,454	21,007
Total expenses	16,520	16,921	17,260	17,716	18,296	18,647	19,071	19,596	20,012	20,589
Operating result from continuing operations	1,096	485	453	475	507	438	411	421	441	419
Net operating result before capital grants and contributions	6	57	5	32	46	33	6	11	31	9

Note: Numbers may not add due to rounding.

Source: Narramine Council, *Application Part A*, Worksheet 7.

C Comparative indicators

Performance 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.

Table C.1 shows how selected performance indicators for Narromine Shire Council have changed over the four years to 2012-13.

Table C.1 Trends in selected performance indicators for Narromine Shire Council, 2009-10 to 2012-13

Performance indicator	2009-10	2010-11	2011-12	2012-13	Average change (%)
FTE staff (number)	79	86	89	92	5.2
Ratio of population to FTE	86	79	78	75	-4.4
Average cost per FTE (\$)	66,924	64,070	67,562	67,152	0.1
Employee costs as % operating expenditure (General Fund only) (%)	22.0	35.0	36.7	39.1	
Consultancy/contractor expenses (\$m)	2.0	2.2	1.9	1.7	-5.9
Consultancy/contractor expenses as % operating expenditure (%)	8.3	12.8	10.4	9.4	

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

General comparative indicators

Table C.2 compares selected published and unpublished data about Narromine Shire Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

As indicated in section 3, Narromine Shire Council is in OLG Group 10. Unless specified otherwise, the data refers to the 2012-13 financial year.

In 2011, average income for individuals was 12.7% lower than the state average but 3.7% above the group average. Narromine is placed in the lowest quintile of relative socio-economic advantage and disadvantage indexes with a SEIFA ranking of 29/153 for councils.

While the data indicators suggest ratepayers in Narromine Shire Council have limited capacity to pay, we note the outstanding rates and annual charges ratio has fallen from 9.8% in 2012-13 to 7.4% in 2013-14.⁹ Additionally, the average residential rate is comparable to OLG Group 10 rate.

⁹ Narromine Council, *General Purpose Financial Statements*, 30 June 2014, p 52.

Table C.2 Select comparative indicators, Narromine Shire Council, 2012-13

	Narromine Shire Council	OLG Group 10 average	NSW average
General profile			
Area (km ²)	5,245	-	-
Population	6,850	-	-
General Fund operating expenditure (\$m)	15.3	-	-
General Fund operating revenue per capita (\$)	1,986	2,561	2,026
Rates revenue as % General Fund income (%)	36.5	26.3	46.8
Own-source revenue ratio (%)	52.3	49.5	71.1
Average rate indicators^a			
Average rate – residential (\$)	510	515	712
Average rate – business (\$)	1,571	1,141	2,688
Average rate – farmland (\$)	3,036	2,248	2,194
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	42,839	41,325	49,070
Growth in average annual income, 2006-2011 (% pa)	7.5	6.0	5.2
Average residential rates 2012-13 to average annual income, 2011 (%)	1.2	1.3	1.5
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	29		
Outstanding rates and annual charges ratio (General Fund only) (%)	9.8	7.5	6.0
Productivity (labour input) indicators^c			
FTE staff (number)	92	105	294
Ratio of population to FTE	75	71	127
Average cost per FTE (\$)	67,152	66,915	75,736
Employee costs as % operating expenditure (General Fund only) (%)	39.1	35.1	37.1
Consultancy/contractor expenses (\$m)	1.7	2.3	7.8
Consultancy/contractor expenses as % operating expenditure (%)	9.4	9.3	10.3

^a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

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

^c Except as noted, data is based upon total council operations, including General Fund, Water & Sewer and other funds, if applicable. 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, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005-06 to 2010-11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.