



Independent Pricing and Regulatory Tribunal

Wollongong 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.

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).

Wollongong City Council applied for a multi-year special variation from 2014/15, under section 508A. The council requested annual increases of 6.13% in 2014/15, 6.23% in 2015/16 and 6.24% in 2016/17. This is a cumulative increase of 19.78% by 2016/17 (11.25% above the rate peg). 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 known as the Office of Local Government.

1.1 Our decision

We determined that Wollongong 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 (2.30% in 2014/15 and an assumed 3.00% in each of the following years). The cumulative increase of 19.78% is 11.25% more than the rate peg over these years.

After the last year of the special variation (2016/17), the increase 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 and the expiry of an existing special variation.

Table 1.1 IPART's determination on Wollongong City Council's special variation for 2014/15 to 2016/17

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 30 June 2014				129,315,790
2014/15	6.13	6.13	7,929,824 ^a	137,245,614
2015/16	6.23	12.74	8,550,402	145,796,016
2016/17	6.24	19.78	9,097,671	154,893,688

^a The calculations for 2014/15 include a prior year catch up of \$4,385 and deduction of \$1,615 for valuation objections.

Source: Wollongong City Council, *Special Variation Application 2014/15 - Part A*, Worksheet 1 & IPART calculations.

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 lists these conditions.

Box 1.2 Conditions attached to the approved special variation

IPART's approval of Wollongong City Council's application for a special variation over the period from 2014/15 to 2016/17 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of improving its financial sustainability and funding the program of expenditure outlined in the council's application and listed in Appendix A.
 - ▼ The council reports in its annual report for each year from 2014/15 to 2023/24 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
 - 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?

Wollongong City Council applied to increase its general income by a cumulative 19.78% over the 3-year period from 2014/15 to 2016/17, and to permanently incorporate this increase into its general income base.²

The council estimated that if its requested special variation is approved, its permissible general income will increase from \$129.3m in 2013/14 to \$154.9m in 2016/17. This will generate additional revenue of \$50.0m over 3 years, or \$29.0m above the rate peg increase.³

The council intends to use the additional revenue above the rate peg to improve its financial sustainability, to maintain services and for infrastructure maintenance and renewal.⁴

During the 3-year special variation period, the council will spend \$37.6m on its asset renewal program. This will be funded by \$29.0m from the special variation, \$7.0m in projected efficiency improvements, \$1.0m from other revenue and the

² Wollongong City Council, *Special Variation Application 2014/15 - Part A* (Wollongong City Council Application Part A).

³ Wollongong City Council Application Part A & IPART calculations.

⁴ Wollongong City Council, *Special Variation Application 2014/15 - Part B* (Wollongong City Council Application Part B), p 6.

balance of \$0.6m from service review adjustments. By 2017/18, the preferred scenario achieves a \$21.0m per annum improvement in the operating balance to direct towards asset renewal until 2023/24. Of this, \$1.0m is a proposed annual saving in depreciation from the extension of life on footpaths.⁵

More detail on the council's proposed program of expenditure to 2016/17 is provided in Appendices A and B.

3 How did we reach our decision?

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

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

The rates increases for which the council has applied are high, 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.

On balance, we found that the application met the criteria. In particular, we found that:

1. the need for the proposed revenue is demonstrated in the council's IP&R documents and supported by TCorp's assessment
2. the council provided evidence that the community is aware of the need for and extent of the rates rises, and that it had considered the community's capacity and willingness to pay the proposed rates rises
3. the impact of the proposed rates rises on ratepayers is high though reasonable given that the council has taken account of ratepayers' willingness and capacity to pay
4. the council made realistic assumptions concerning its projected service delivery and budget
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.

⁵ Wollongong City Council Application Part B, p 8 and IPART calculations.

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>The council identified the need to improve its operating balance and increase expenditure on capital renewals.</p> <p>TCorp concluded the council has underspent on maintenance and capital expenditure and identified a need for additional revenue.^a</p> <p>The council’s IP&R documents clearly state the purpose and impact of the special variation. Maintenance and renewals were identified as key priorities in the Community Strategic Plan.^b</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, the impact of any rises on the community, and the council’s consideration of community capacity and willingness to pay higher rates. 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’s consultation materials clearly considered the community’s capacity to pay and willingness to pay higher rates.</p> <p>The council used a variety of methods to inform its community of the proposed rate increases and the impact on rates. This included a randomly selected Citizen’s Panel, newsletter and brochure mailouts, kiosks and online surveys.^c</p> <p>The council identified the community’s willingness to pay higher rates to retain existing services and maintain infrastructure through examining submissions and online survey responses.</p> <p>The council identified a large range in current rates (from \$867 to \$2,768) and capacity to pay between different council areas.</p> <p>The council also considered that a Socio-Economic Index For Areas (SEIFA) ranking of 100 out of 153 and a higher proportion of high income households than comparable councils constituted evidence for higher capacity to pay for a rate increase.^d</p> <p>However, the council also noted that community submissions called for the council to be more efficient and identified the potential impact on some low income ratepayers.</p> <p>As a result of community feedback the council responded by proposing a cumulative rate increase of 19.78% rather than higher options presented to the community in its consultation.^e</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 impact on ratepayers is high. The increase in rates over 3 years is 19.78%. The increase in average residential rates is an estimated \$238 and the increases in business rates range from \$1,000 to \$18,000 over the same period.^f</p> <p>The council has a financial hardship policy in place to assist affected ratepayers.^g</p>

Criterion	IPART findings
4. Delivery Program and LTFFP must show evidence of realistic assumptions.	The council's Delivery Program and LTFFP, contain realistic assumptions regarding the rates base, depreciation, funding sources, proposed level of service and assumed rate of work to address asset backlogs.
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.	The council has reported savings of \$20.3m since 2008 as a result of service reviews, expenditure reviews and employee resource reviews. ^h The council has projected that it will achieve efficiency and service review savings of \$7.6m by 2017/18 and \$5.0m per annum of ongoing savings. ⁱ

^a TCorp, *Wollongong City Council, Financial Assessment and Benchmarking Report*, pp 4 and 30.

^b Wollongong City Council, *Our Community Strategic Plan 2012-22*, p 12.

^c Wollongong City Council, *Application Part B*, pp 51-59.

^d Wollongong City Council *Application Part B*, p 65.

^e Wollongong City Council *Application Part B*, pp 57-68.

^f Wollongong City Council *Application Part A, Worksheet 3*.

^g Wollongong City Council *Application Part B*, p 78.

^h Wollongong City Council *Application Part B*, p 90.

ⁱ Wollongong City Council *Application Part B*, p 8 and IPART calculations.

3.1 Community engagement and awareness

We consider that the council has met this criterion. In particular it has shown that it took reasonable steps to make the community aware of the need for and extent of the special variation, including using a variety of engagement methods and providing opportunities for feedback.

The council received 800 submissions from a cross section of the community, across a variety of formats online and in letter form. Many opposed the rates increase, however some did not address rates specifically and instead focused on other issues.⁶ Several petitions with hundreds of signatures opposed the proposed closure of community facilities such as the Lakeside Leisure Centre, Unanderra Library and Gentleman's pool. Submissions received focused heavily on the need for council to be more efficient, citing outdated work practices, high overheads and high staffing levels.⁷

In response, the council modified its rate increase proposal by applying for 19.78% over 3 years rather than the higher options of 22.16% or 25.62% presented to the community in its consultation materials.⁸ The council also proposed a program of efficiency and service review savings which will fund additional increases in capital renewals.

⁶ Wollongong City Council Part B, p 55.

⁷ Wollongong City Council Part B, pp 53-54.

⁸ Wollongong City Council Part B, pp 57-59.

We have received 13 submissions from stakeholders opposing the council's application. In addition to the issues raised above, they also cited the council's previous financial management, the quality of consultation materials and the impact on business ratepayers and pensioners. We have taken into account the views raised by submissions in assessing the council's consultation processes and their financial analysis. Our assessment is that the council provided clear information to the community on the proposed special variation through a variety of consultation methods. The financial information provided in the council's application appears consistent with the rates revenue they are seeking.

4 What does our decision mean for the council?

Our decision means that Wollongong City Council may increase its general income over the 3-year period from \$129.3m in 2013/14 to \$154.9m in 2016/17 (see Table 1.1). After 2016/17, 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 3 years, the additional rates revenue will accumulate to \$50.0m, or \$29.0m above the rate peg.¹⁰ This allows the council to eliminate its operating deficit by 2016/17, while maintaining services consistent with community priorities and increasing asset renewals expenditure.

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, Wollongong City Council indicated that it intended to increase rates over the 3 years differently for each category.

The council has calculated that:

- ▼ Average residential rates will increase by a cumulative 20.3%, or by \$77 in the first year, and by \$238 over 3 years.
- ▼ Average farmland rates will increase by a cumulative 18.5%, or \$108 in the first year, and \$401 over 3 years.

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 DLG is responsible for monitoring and ensuring compliance.

¹⁰ Wollongong City Council Application Part A, Worksheet 1 and IPART calculations.

- ▼ Average mining rates will increase by a cumulative 20.3%, or \$4,246 in the first year, and \$13,028 over 3 years.
- ▼ Business Commercial rates will increase by a cumulative 20.8% or by \$493 over the first year and \$1,458 over 3 years.
- ▼ Business Heavy Industrial rates will increase by a cumulative 19.3% or by \$879 in the first year and \$2,968 over 3 years.
- ▼ Business Light Industrial will increase by a cumulative 20.3% or by \$338 in the first year and \$1,042 over 3 years.
- ▼ Business Heavy 1 rates will increase by a cumulative 8.5% or by \$4,998 in the first year and \$6,855 over 3 years.
- ▼ Business 3C Regional will increase by 5.2% in 2014/15 and then the rate peg thereafter.
- ▼ Minimum rates will increase by a cumulative 20.3%, or \$155 for all categories except Business – Heavy 1 Activity 1 and Business 3C Regional which will increase by the rate peg only (cumulative 8.5%).¹¹

Table 5.1 shows how much average rates are expected to increase in each main ratepayer category. The actual impact of our determination on rates is a matter for the council to decide, however, 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 Category	2014/15		2015/16		2016/17	
	%	\$	%	\$	%	\$
Residential	6.59	77.35	6.23	77.90	6.24	82.89
Farmland	4.98	108.05	6.23	142.00	6.24	151.09
Mining	6.63	4,246.67	6.23	4,254.65	6.24	4,526.97
Business – Business Commercial	7.03	492.91	6.23	467.76	6.24	497.59
Business – Heavy Industrial	5.72	879.33	6.23	1,011.96	6.24	1,076.73
Business – Light Industrial	6.58	338.16	6.23	341.15	6.24	363.00
Business – Heavy 1 Activity 1	2.30	4,997.58	3.00	6,654.96	3.00	6,854.61
Business – 3C Regional	5.16	1,089.73	3.00	666.34	3.00	686.33

Source: Wollongong City Council Application Part A, Worksheet 5a.

¹¹ Wollongong City Council Application Part A, Worksheet 5a.



Appendices

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

Tables A.1 and A.2 show Wollongong City Council's proposed expenditure of the special variation funds over the next 10 years.

The council projects an improvement in the operating balance of \$203.8m over 10 years, comprising:

- ▼ \$143.3m of additional special variation revenue (Table A.1), and
- ▼ \$41.1m efficiency improvements
- ▼ \$4.4m service reductions
- ▼ \$10.3m reduced depreciation
- ▼ \$4.8m additional other revenue.¹²

The council intends to use these funds (except non-cash depreciation savings) towards a \$190.1m capital expenditure program (Table A.2).

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

¹² Wollongong City Council Application Part B, Long Term Financial Plan and IPART calculations.

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	4,953	9,534	14,544	14,981	15,430	15,893	16,321	16,763	17,215	17,680	143,314
Effect of special variation on reducing operating deficits / increasing operating surpluses	4,953	9,534	14,544	14,981	15,430	15,893	16,322	16,763	17,215	17,680	143,314
Funding for capital expenditure	6,070	12,080	19,400	20,000	20,577	21,173	21,785	22,415	22,962	23,679	190,141

Source: Wollongong City Council Application Part A, Worksheet 6.

Table A.2 Proposed capital program 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
Public transport facilities (bus shelters etc.)	22	58	92	95	98	100	104	106	110	113	898
Roadworks – road resurfacing	543	1,350	1,848	1,905	1,960	2,016	2,075	2,135	2,196	2,255	18,283
Roadworks – road reconstruction	579	2,152	3,859	4,390	4,517	4,648	4,782	4,921	5,063	5,198	40,109
Bridges, boardwalks and jetties	111	286	462	476	490	506	519	534	549	564	4,497
Footpaths	2,657	2,589	4,157	4,286	4,410	4,537	4,668	4,803	4,942	5,074	42,123
Cycle/shared paths	100	318	831	857	882	907	934	961	988	1,015	7,793
Carparks	55	144	231	238	245	252	259	267	275	282	2,248
Community buildings including cultural centres (IPAC, Gallery, Town Hall)	1,462	3,779	5,666	5,429	5,585	5,747	5,913	6,084	6,260	6,427	52,352
Public facilities (shelters, toilets etc)	71	184	296	305	314	323	332	342	351	361	2,779
Crematorium/cemetery facilities	11	29	46	48	49	50	52	53	55	56	449
Play facilities	120	311	499	514	529	544	560	576	593	609	4,855
Recreation facilities	106	276	443	457	470	484	498	512	527	541	4,314
Sporting facilities	78	201	323	333	343	353	363	374	384	395	3,146
Aquatic facilities (pools etc)	155	403	647	667	686	706	726	747	769	789	6,295
Total	6,070	12,080	19,400	20,000	20,578	21,173	21,785	22,415	23,062	23,679	190,141

Source: Wollongong City Council Application Part A, Worksheet 6 and Revised Delivery Program 2012-17, Adopted 17 February 2014.

B Wollongong City Council's projected revenue, expenses and operating balance

The council will also report annually against its projected revenue, expenses and operating result as classified in its Annual Financial Statements and shown in Table B.1.

Revenues and the operating result in the annual accounts are reported inclusive of capital grants and contributions and asset sales.

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 excluded all items of a capital nature. When they are included in the council's public reports, total revenue will be higher and the operating deficit lower (or the operating surplus higher).

Table B.1 Summary of projected operating statement for Wollongong City Council, 2014/15 to 2023/24 (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total revenue	252,124	262,260	278,353	283,219	293,268	304,156	313,531	323,664	334,479	343,809
Total expenses	251,331	258,097	266,295	274,270	283,935	293,327	304,732	315,250	326,268	338,308
Operating result including capital grants and contributions	793	4,163	12,058	8,949	9,333	10,829	8,799	8,414	8,211	5,501

Source: Wollongong City Council, *Resourcing Strategy 2012-22*, adopted 17 February 2014, p 33.

C 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 C.1 we show how selected indicators for Wollongong City Council have changed over the 3 years to 2011/12.

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

	2009/10	2010/11	2011/12
Productivity (labour input) indicators^a			
FTE staff (number)	977	981	983
Ratio of population to FTE	206	205	205
Average cost per FTE (\$)	\$82,749	\$88,907	\$95,301
Employee costs as % operating expenditure (General Fund only) (%)	39.0	39.9	40.3
Consultancy/contractor expenses (\$m)	\$56.87	\$58.88	\$63.77
Consultancy/contractor expenses as % operating expenditure (%)	27.4	26.7	27.4

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

Source: DLG, unpublished data.

In Table C.2 we compare the latest selected published data on Wollongong City Council with the average of the councils in DLG Group 5 and with NSW councils as a whole.

We note that contractor and consultant expenses and their proportion of total expenditure are higher than the Group 5 average. Wollongong City Council has also advised that the numbers reported for contractor and consultancy expenses include non-operational expenditure. It has advised that its contractor net cost for operating expenses was \$31.1m in 2011/12.

The council also has a higher than average level of FTEs. This reflects the large population base it services. It has a higher ratio of population per FTE than other Group 5 and NSW councils. Wollongong City Council has advised that these figures exclude seasonal employees who are hired on a short term basis throughout the year. The total costs of these employees are included in the council's employee costs which may cause the reported cost per employee to appear higher than actual costs per employee. The council's application also indicates its intent to undertake significant service reviews and cost reductions over the next 10 years.

Table C.2 Select comparative indicators for Wollongong City Council, 2011/12

	Council	DLG Group 5 average ^a	NSW average
General profile			
Area (km ²)	684		
Population	201,215		
General Fund operating expenditure (\$m)	232.6		
General Fund operating revenue per capita (\$)	1,088	1,177	2,011
Rates and annual charges revenue as % General Fund income (%)	60.0	48.4	45.7
Average ordinary rate indicators^b			
Average rate – residential (\$)	1,045	911	685
Average rate – business (\$)	8,991	4,330	2,552
Average rate – farmland (\$)	1,979	1,724	2,123
Average rate – mining (\$)	56,267	52,975	107,443
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	47,114	42,432	44,140
Growth in average annual income, 2006-2010 (% pa)	2.9	3.5	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	2.2	2.2	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	100		
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	5.7	5.4	7.0
Productivity (labour input) indicators^d			
FTE staff (number)	983	695	293
Ratio of population to FTE	205	169	126
Average cost per FTE (\$)	95,301	79,825	74,438
Employee costs as % operating expenditure (General Fund only) (%)	40.3	34.5	36.8
Consultancy/contractor expenses (\$m)	63.8	21.3	6.9
Consultancy/contractor expenses as % operating expenditure (%)	27.4	11.7	9.3

^a OLG Group 5 is classified Urban Large/Very Large Regional with a population of >70,000. The group comprises 6 councils including Coffs Harbour City Council, Lake Macquarie City Council, Newcastle City Council, Shoalhaven City Council and Tweed Shire Council.

^b Average rates equal total ordinary rates revenue divided by the number of assessments in each category. We note that Wollongong City Council currently reports its average rates using a different calculation which does not include pensioner rebates.

^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.

