



Independent Pricing and Regulatory Tribunal

Jerilderie 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.

Jerilderie Shire Council applied for a multi-year special variation under section 508A. The council requested increases of 10.0% in each of the years 2015-16 and 2016-17, or a cumulative increase of 21.0% over the 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. We made this decision under section 508A of the Act.

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 capital investment in rural and urban local roads. The additional revenue will allow the council to restore funding levels for transport infrastructure that will enable it to maintain Jerilderie's road network at the standard expected by the community.

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 Jerilderie Shire Council, *Special Variation Application – Part A, 2015/16* (Jerilderie Council, *Application Part A*), Worksheet 4.

1.1 Our decision

We determined that Jerilderie Shire Council may increase its general income in 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 21.0% is 15.53% more than the rate peg increase the council has assumed over these years.

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

Table 1.1 sets out our decision.

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

	2015-16	2016-17
Percentage increase approved	10.0	10.0

Note: The rate peg in 2015-16 is 2.4%. In 2016-17 the council has assumed a rate peg of 3%.

Source: Jerilderie Shire Council, *Section 508A Special Variation Application 2015-16 – Part A* (Jerilderie Council, *Application Part A*), Worksheet 1.

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.

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

IPART's approval of Jerilderie 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 fund the program of capital expenditure on rural and urban roads outlined in its application and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2015-16 to 2024-25 on:
 - 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 (currently in Special Schedule 9) each year from 2015-16 to 2024-25 on its compliance with the special variation and these conditions.

³ The council has assumed a rate peg of 3% in the next year. The special variation percentage approved will not change to reflect the actual rate peg in that year.

2 What did the council request and why?

Jerilderie Shire Council applied to increase its general income by a cumulative 21.0% 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 \$1.68 million in 2014-15 to \$2.04 million in 2016-17. This would generate additional revenue of \$389,291 above the rate peg increases over two years.

The council intends to use the additional revenue from the special variation to fund a program of capital investment in rural and urban local roads. This revenue will partly address a funding shortfall for transport infrastructure renewals identified through its asset management planning. The Transport Asset Management Plan adopted in 2014 identified a 10-year shortfall of \$7.38 million for renewal of priority transport infrastructure, and a \$1.23 million shortfall for priority upgrading of transport infrastructure.⁵

The additional investment will reverse the recent decline in budget allocations available for road infrastructure, and allow the council to provide roads at the standard that meets the community's priorities.

Over the next 10 years, the special variation would generate revenue of \$2.78 million above the rate peg. From this additional revenue, the council proposes to spend:

- ▼ \$200,000 on reseals of urban roads
- ▼ \$421,000 on gravel resheeting of rural local roads
- ▼ \$814,000 on reseals of rural local roads, and
- ▼ \$1.35 million on rehabilitation of rural local roads.⁶

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

⁴ Jerilderie Council, *Application Part A*, Worksheet 1.

⁵ Jerilderie Council, *Application Part B*, pp 3-4, and *Asset Management Strategy*, (June 2014), pp 3, 10, 12 and 15; *Transport Asset Management Plan* (June 2014), p 2.

⁶ Jerilderie Council, *Application Part A*, Worksheet 6.

3 How did we reach our decision?

We assessed Jerilderie 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, which support its application, as well as a range of comparative data about the council, set out in Appendix B.⁷

Jerilderie Shire Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan 2014-2024 (CSP)*, *Delivery Program and Operational Plan June 2014*, *Long Term Financial Plan 2014 - 2024 (LTFP)* and *Transport Asset Management Plan*.

The rate increase for which the council has applied is moderate 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 rate increase on ratepayers. As one of the smallest councils in NSW,⁸ Jerilderie Shire Council has limited opportunities for alternative revenue sources to meet the future needs of its road infrastructure.

We found that Jerilderie 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 IP&R documents, reflects community priorities, and responds to TCorp's assessment of the council's financial sustainability.
2. The council used a variety of strategies to engage with ratepayers and seek their feedback about the need for, and extent of, the special variation.
3. Overall, we consider the impact of the proposed rate increases is reasonable: it is minimal for residential and business ratepayers, and modest for the majority of farmland ratepayers. It is harder to assess reasonableness for larger farmland ratepayers, however the council considers that there is capacity to pay, taking into account comparative rate levels, current economic conditions and the purpose of the special variation.
4. The council provided evidence that the relevant IP&R documents have been exhibited and adopted.
5. The council reported and quantified several cost-savings initiatives, and actively pursues opportunities for contracts with RMS and other councils to increase revenue.

Table 3.1 summarises our assessment against the criteria.

⁷ See Appendix B. Jerilderie Shire Council is in OLG Group 8, which is classified as Rural Small Agricultural, population up to 2,000. The group comprises four councils, the others being Conargo and Urana shire councils, which adjoin Jerilderie, and Brewarrina Shire Council. We also referred to comparative data from the nearby councils of Berrigan and Murrumbidgee.

⁸ Jerilderie has the second smallest population and number of rate assessments of NSW councils.

Table 3.1 Summary of IPART’s assessment of Jerilderie 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 set out the need for, and purpose of, the special variation (SV). It is consistent with community priorities and will address the identified shortfall in asset renewals and upgrades, and improve the council’s financial sustainability, although it will continue to record operating deficits over the next 10 years.</p> <p>TCorp observed in 2012 that the council’s financial position was ‘moderate’ but outlook ‘negative’. Although expected to be sustainable in the short term, TCorp considered that:</p> <ul style="list-style-type: none"> ▼ operating deficits would continue, at a level likely to affect service delivery ▼ although road condition was currently good to satisfactory, projected capital expenditure was not enough to fund renewals and upgrades, and ▼ more borrowing would pose a risk to financial sustainability. <p>As suggested by TCorp, the council undertook more asset management planning and identified a shortfall of \$8.61m for road renewals and upgrades over the next 10 years. Sufficient funds for this purpose are not available from alternative sources such as grants, loans, and higher fees and charges.</p> <p>The SV will also will also improve the council’s financial sustainability by improving cash flow and financial indicators such as the operating balance ratio own-source operating revenue, rates and annual charges ratio and asset renewal ratio.</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’s community engagement was appropriate for the small community, and provided sufficient opportunities for feedback. A range of strategies was used to engage with the community. These included exhibiting the Delivery Program, direct mailouts, an opt-in survey, website information, community meetings, meetings with councillors and staff, and newspaper, radio and television coverage.</p> <p>Ratepayers had opportunities to provide feedback on the draft Delivery Program, through the survey, at two public meetings, and directly to councillors and staff.</p> <p>The SV received limited support from the community – 31% in the survey, and 34% at meetings. IPART received six submissions from farmland ratepayers, all opposing the SV. Major community concerns included affordability, particularly for farmland ratepayers, inefficient council practices and poor financial management, and that infrastructure was well maintained and so the expenditure unnecessary.</p>

Criterion	IPART findings
<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>The impact will be minimal, and the increase affordable, for residential and business ratepayers as current average rate levels are low.</p> <p>For most farmland ratepayers increases will be relatively moderate (for 72% of assessments, the 2-year increase is, on average, \$480 or less). Affordability for farmland ratepayers, particularly larger agricultural businesses, is harder to assess.</p> <p>The council recognises some unwillingness among farmers to pay higher rates but concluded there was capacity to pay in that category of ratepayers. Its view was based on factors such as farmland rates in Jerilderie comparing favourably with those in nearby council areas, rates being a wealth tax and land values an indicator of capacity to produce income, the return to good conditions and generally higher prices for agricultural commodities. Also relevant was that the revenue would be used to meet a need to some extent generated by the impact of higher mass vehicles using more rural roads to access farms.</p> <p>The council will consider applications made in cases of hardship, although no formal policy is in place.</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 a revised CSP in June 2014. <i>Delivery Program 2014 – 2018 and Operational Plan 2014 – 2015</i> proposing SV of 10% pa in Years 2 and 3 was exhibited April–June 2014, and adopted June 2014.</p> <p>LTFP with the SV scenario was adopted in June 2014. <i>The Asset Management Strategy and the Asset Management Plan for Transport Infrastructure</i> were adopted June 2014.</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>Recent, quantified cost-saving initiatives have included reduced supervision at leisure facilities (\$27k pa) and handing back Crown-owned buildings (\$18k pa).</p> <p>The council actively pursues private works, contracts with Roads & Maritime Services and nearby councils that result in more efficient use of employees and equipment, and also generates \$25k pa from consulting services to other councils.</p> <p>The LTFP forecasts very modest operating cost savings.</p> <p>Jerilderie's performance indicators are close to the Group average (see Appendix B).</p>

Sources: Jerilderie Council, *Application Part A*, and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp), *Jerilderie Shire Council Financial Assessment, Sustainability and Benchmarking Report*, April 2013; TCorp, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013; Jerilderie Council, *Delivery Program and Operational Plan* June 2014; Jerilderie Council, *Long Term Financial Plan 2014 – 2024* and Jerilderie Council, *Transport Asset Management Plan* (June 2014).

4 What does our decision mean for the council?

Our decision means that Jerilderie Shire Council may increase its general income over the 2-year special variation period from from \$1.68 million in 2014-15 to \$2.04 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.⁹

Table 4.1 Permissible general income of Jerilderie 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				1,683,282
2015-16	10.0	10.0	168,060	1,851,342 ^a
2016-17	10.0	21.0	185,134	2,036,476

^a A prior year excess of \$268 is to be deducted in 2015-16.

Source: Jerilderie Council, *Application Part A, Worksheets 1 and 4.*

The council estimates that over these two years, the additional rates revenue will accumulate to \$389,291 above the rate peg.

This extra income is the amount the council requested to enable it to fund a program of capital investment in rural and urban local roads. The expenditure will reverse the recent decline in budget allocations available for renewal and upgrades to road infrastructure, and allow the council to provide roads at the standard that meets the community's priorities.

⁹ 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.

In its application, Jerilderie Shire Council indicated that it intended to increase rates over the two years uniformly for each category. Given the relatively small numbers of residential and business properties, and their low valuations, the rate base in Jerilderie is predominantly in the farmland category.¹⁰

Table 5.1 sets out Jerilderie Shire Council's estimates of the expected increase in average rates in each ratepayer category and subcategory. The council calculated that:

- ▼ the average residential rate will increase by a cumulative 21.0%, or by \$27 in the first year and by \$58 over the two years
- ▼ the average business rate will increase by a cumulative 21.0%, or by \$45 in the first year and by \$95 over the two years, and
- ▼ the average farmland rate will increase by a cumulative 21.0%, or by \$278 in the first year and by \$586 over the two years.¹¹

In its application, the council noted that these average increases are not indicative of the actual impact on many ratepayers as a result of land values in the shire. The application shows that:

- ▼ while the average increase for residential ratepayers in 2015-16 is \$27, some 74% will pay, on average, less than \$21, and
- ▼ while the average increase for business ratepayers in 2015-16 is \$45, some 63% will pay, on average, less than \$37.¹²

¹⁰ Jerilderie has a total population of around 1500, and almost 1,100 rate assessments. Currently farmland ratepayers contribute 89.3% of the rate revenue, residential ratepayers 6.6% and business ratepayers 4%.

¹¹ The average rate in each category is the total ordinary rates revenue divided by the number of assessments. Jerilderie has no special rates. Jerilderie Council, *Application Part A*, Worksheet 5a.

¹² These lower averages reflect the very low land values for the majority of residential and business rate assessments: Jerilderie Council, *Application Part B*, Attachment 16, Indicative Part A Worksheet 5b (Wk5b Residential & Business) and IPART calculations.

The wide spread of valuations of the properties across the seven farmland subcategories, and also within some subcategories, means that the impact for individual farmland assessments may be very different from the average. We note that:

- ▼ the increase in 2015-16 for Farmland F1 is, on average, \$148, but ranges from \$35 to \$1,216, and
- ▼ the increase in 2015-16 in the River & Groundwater subcategory is, on average, \$353, but ranges from \$85 to \$1,088.¹³

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

Category	Number of rate-payers	Average rate in 2014-15 ^a (\$)	Average rate in 2015-16 (\$)	Average rate in 2016-17 (\$)	Cumulative increase (\$)	Cumulative increase (%)
Residential						
Residential	382	254	279	307	53	21.0
Rural residential	26	574	632	695	121	21.0
Business	150	453	499	549	95	21.0
Farmland						
Farmland F1	81	1,478	1,626	1,788	309	20.9
Berriquin	154	2,480	2,728	3,001	521	21.0
Berriquin Large	22	5,777	6,353	6,990	1,213	21.0
Coleambally	183	2,334	2,568	2,825	490	21.0
Corurgan	34	3,430	3,772	4,151	720	21.0
River & Groundwater	55	3,528	3,881	4,269	741	21.0
River & Groundwater Large	10	13,667	15,030	16,537	2,870	21.0

^a 2014-15 is included for comparison.

Note: The average rate is calculated by dividing the revenue from ordinary rates in the category or subcategory by the number of rate assessments in that the category or subcategory. There are no special rates.

Note: Some numbers may not add due to rounding.

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

¹³ For these examples, the average rate is based on the mid-point of land value in the lowest and highest land value bands in each subcategory: Jerilderie Council, *Application Part B*, Attachment 16, Indicative Part A Worksheet 5b (Wk5b Farmland).



Appendices

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

Table A.1 and Table A.2 show Jerilderie 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 \$2.78 million over 10 years, spending:

- ▼ \$200,000 on reseals of urban roads
- ▼ \$421,000 on gravel resheeting of rural local roads
- ▼ \$814,000 on reseals of rural local roads, and
- ▼ \$1.35 million on rehabilitation of rural local roads.¹⁴

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.

¹⁴ Jerilderie Council, *Application Part A*, Worksheet 6.

Table A.1 Jerilderie 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	128	261	269	277	286	294	303	312	321	331	2,783
Funding for capital expenditure	128	261	269	277	286	294	303	312	321	331	2,783
Total expenditure	128	261	269	277	286	294	303	312	321	331	2,783

Note: Numbers may not add due to rounding.

Source: Jerilderie Shire, *Application Part A*, Worksheet 6.

Table A.2 Jerilderie 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
Increased reseals of rural local roads		80	80	90	90	81	93	100	100	100	814
Increase rehabilitation of rural local roads	94	97	99	96	100	177	173	170	170	172	1,348
Increased gravel resheeting of rural local roads	34	34	40	41	46	36	37	42	51	59	421
Increased reseals of urban roads		50	50	50	50						200
Total Capital Expenditure	128	261	269	277	286	294	303	312	321	331	2,783

Note: Numbers may not add due to rounding.

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

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

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

Performance indicator	2009-10	2010-11	2011-12	2012-13	Average change (%)
FTE staff (number)	44	45	45	45	0.8
Ratio of population to FTE	38	37	34	34	-3.6
Average cost per FTE (\$)	60,955	63,378	68,000	66,422	2.9
Employee costs as % operating expenditure (General Fund only) (%)	35.1	34.3	34.3	31.9	
Consultancy/contractor expenses (\$000)	40	76	81	93	32.5
Consultancy/contractor expenses as % operating expenditure (%)	0.5	0.9	0.9	1.0	

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

As indicated in section 3, Jerilderie Shire Council is in OLG Group 8. Unless specified otherwise, the data refers to the 2012-13 financial year.

Table B.2 Select comparative indicators for Jerilderie Shire Council, 2012-13

	Jerilderie Shire Council	OLG Group 8 average	NSW average
General profile			
Area (km ²)	3,352		
Population	1,526		
General Fund operating expenditure (\$m)	8.7		
General Fund operating revenue per capita (\$)	4,911	5,966	2,026
Rates revenue as % General Fund income (%)	19.8	17.3	46.8
Own-source revenue ratio (%)	46.4	38.9	71.1
Average rate indicators^a			
Average rate – residential (\$)	203	218	712
Average rate – business (\$)	302	296	2,688
Average rate – farmland (\$)	2,602	2,306	2,194
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	40,528	43,063	49,070
Growth in average annual income, 2006-2011 (% pa)	4.5	6.8	5.2
Average residential rates 2012-13 to average annual income, 2011 (%)	0.5	0.5	1.5
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	101		
Outstanding rates and annual charges ratio (General Fund only) (%)	7.0	8.8	6.0
Productivity (labour input) indicators^c			
FTE staff (number)	45	43	294
Ratio of population to FTE	34	37	127
Average cost per FTE (\$)	66,422	73,363	75,736
Employee costs as % operating expenditure (General Fund only) (%)	31.9	29.4	37.1
Consultancy/contractor expenses (\$m)	0.1	1.0	7.8
Consultancy/contractor expenses as % operating expenditure (%)	1.0	8.5	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.