Independent Pricing and Regulatory Tribunal

Yass Valley Council's application for a special variation for 2016-17

under section 508A of *Local Government Act 1993*

Local Government — Determination
May 2016

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ISBN 978-1-925340-84-6

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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 income from rates. 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 either for a single year (section 508(2)) or for successive years 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 2016-17.

Under the Act, councils must also apply to IPART if they wish to increase their minimum rates above the statutory limit.[2] We are required to assess councils' applications for minimum rates increases against the criteria included in the OLG Guidelines for minimum rates.[3]

Yass Valley Council applied for a multi-year special variation under section 508A. The council requested increases of 8.5% each year for the four years 2016-17 to 2019-20, a cumulative increase of 38.6%. It applied for the increase to remain permanently in the rate base.[4]

After assessing the council's application, we decided to allow the special variation as requested. We have made this decision under section 508A of the Act.

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1 Office of Local Government (OLG), *Guidelines for the preparation of an application for a special variation to general income for 2016/2017,* January 2016 (the Guidelines).

2 Under Section 548(3)(a) of the Act, the minimum amount of an ordinary rate cannot exceed the statutory limit set in the *Local Government (General) Regulation 2005* (clause 126) unless the Minister approves a greater amount by instrument in writing given to the council. The Minister has delegated this authority to IPART. In 2015-16 the prescribed statutory limit is $497. In 2016-17 it will be $506, ie, an increase of 1.8% which is the rate peg for 2016-17.

3 OLG, *Guidelines for the preparation of an application to increase minimum rates above the statutory limit 2016/17*, December 2015 (Guidelines for minimum rates). Where a council is submitting a special variation application and also wishes to increase its minimum rates above the statutory limit, it is not required to submit a separate application but must clearly address the minimum rate increase in the special variation application: Guidelines for minimum rates, p 4.

4 Yass Valley Council, *Special Variation Application Form Part A 2016-17* (Yass Valley, *Application Part A),* Worksheet 1.

As part of its application the council also sought to increase the minimum amount of the rate in four subcategories above the statutory limit in 2016-17. This reflects its proposal to apply the same 8.5% special variation increase in general income in each year to the minimum amounts of its ordinary rates. The council has specified a minimum rate in four rating subcategories. For three (Business, Residential Yass and Residential Murrumbateman), it applied to set the minimum amount at $535 in 2016-17 (and therefore $580 in 2017-18, $630 in 2018-19 and $683 in 2019-20). In the Residential Villages subcategory, it applied to set the minimum rate in 2016-17 at $522 (and therefore it would be $566, $614 and $667 in the next three years).[5]

After assessing the council's application we have decided to allow the requested minimum amounts under section 548(3) of the Act.

Box 1.1 The Guidelines for 2016-17

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 2016/2017*, issued by the Office of Local Government. Refer to Table 3.1 for more details on the criteria in the Guidelines.

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, in particular the Delivery Program and Long Term Financial Plan, must contain evidence that supports a council's application for a special variation.

A council that is the subject of a merger proposal will not be eligible for a special variation for the 2016-17 rating year.

Our decisions enable the council to improve its financial sustainability and fund capital expenditure on essential asset renewal, specifically for roads and bridges, and community projects, while maintaining service levels across other key services, and, in time, increasing investment in asset maintenance. The council consulted its community in drawing up its Integrated Planning and Reporting (IP&R) documents, developing its Fit for the Future (FFTF) proposal, and in preparing the special variation application.

5 Yass Valley, *Application Part A,* Worksheet 5a.

1.1 Our decision

We determined that Yass Valley Council may increase its general income between 2016-17 and 2019-20 by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (1.8% in 2016-17).[6] The cumulative increase of 38.6% is 29.0% more than the assumed rate peg increase over these years.

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.

Table 1.1 sets out our decision on the special variation application and Box 1.2 summarises these conditions.

Table 1.1 IPART's decision on Yass Valley Council's application for a special variation in 2016-17 (%)

	2016-17	2017-18	2018-19	2019-20
Percentage increase approved	8.5	8.5	8.5	8.5

Note: The rate peg in 2016-17 is 1.8%. In later years the council has assumed a rate peg of 2.5%.

Source: Yass Valley, *Application Part A*, Worksheet 1.

Box 1.2 Conditions attached to Yass Valley Council's approved special variation

IPART's approval of Yass Valley Council's application for a special variation over the period from 2016-17 to 2019-20 is subject to the following conditions:

- The council uses the additional income from the special variation for the purposes of improving financial sustainability and additional capital expenditure as outlined in the council's application and listed in Appendix A.
- The council reports in its annual report for each year from 2016-17 to 2025-26 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.

6 The council has assumed a rate peg of 2.5% in future years. The special variation percentage approved will not change to reflect the actual rate peg in those years.

We also determined that the council may set minimum amounts for its ordinary rate for 2016-17 as shown in Table 1.2. The Guidelines for minimum rates provide that once an amount above the statutory limit is approved, the percentage increase in general income will automatically apply to the minimum rate.

Table 1.2 IPART's decision on Yass Valley Council's application to increase the minimum amounts of the ordinary rate above the statutory limit in four rating subcategories from 2016-17 to 2019-20 ($)

Rating subcategory	2016-17	2017-18	2018-19	2019-20
Residential Yass, Residential Murrumbateman and Business	535	580	630	683
Residential Villages	522	566	614	667

Note: For the years 2017-18 to 2019-20 the minimum rate is determined by the percentage increase of the special variation approved by IPART.

Source: Yass Valley, *Application Part A*, Worksheet 5a.

2 What did the council request and why?

Special variation

Yass Valley Council applied to increase its general income by a cumulative 38.6% over the 4-year period from 2016-17 to 2019-20, and to permanently incorporate this increase into its general income base. The increase requested is 8.5% per year, 6.7% above the rate peg in 2016-17 and 6% above the council's assumed rate peg of 2.5% for the following three years.[7]

The additional revenue will improve the council's financial sustainability, and, according to the council, strengthen its case to remain a stand-alone council.

Although the council's FFTF Action Plan included a special variation (8.5% per year for five years, cumulative 50.4%), it advised IPART it would defer consideration of the special variation for at least a year. The council was assessed as Not Fit as it did not satisfy the financial criteria overall.

7 Yass Valley, *Application Part A*, Worksheets 1 and 4. The rate peg for 2016-17 was announced in early December, after the council had commenced consultation. The council determined to apply on the basis of the total percentage increase in revenue per year on which the financial modelling was based and on which it had consulted the community: see Yass Valley, *Application Part B*, p 5.

Consequently, the council decided to consult the community about a special variation to improve its financial sustainability and strengthen its chance of remaining a stand-alone council. The term of the special variation needed was reduced from five to four years, based on a remodelled long term financial plan.[8]

The council estimated that if the requested special variation is approved, its permissible general income would increase from $7.7 million in 2015-16 to $10.6 million in 2019-20. It calculated that this would generate additional revenue of $5.3 million above the assumed rate peg increases over four years, and $19.8 million over 10 years.[9]

The primary purpose of the additional revenue is to help the council meet the FFTF benchmarks, and reduce its operating deficit over the 10 years to 2025-26. With the additional revenue from the special variation, it forecasts a positive operating performance ratio in 2023-24, and in time, both the building and infrastructure asset renewal ratio and the asset maintenance ratio will improve as a result of additional expenditure on infrastructure maintenance and rehabilitation.[10]

The council's Long Term Financial Plan (SRV version), adopted in February 2016, indicates that with the special variation the council will have revenue of $21.5 million more than under the base case, of which $10.7 million will fund additional operating expenses, leaving $10.8 million for capital expenditure.[11]

The council intends to use the additional revenue from the special variation to fund essential asset renewal, specifically for roads and bridges, as well as maintaining service levels across other key services and providing funds for community projects. In its application the council indicated that over the next five years it will spend:

- $0.2 million on community projects
- $1.1 million on rural roads resealing
- $1.7 million on gravel roads resheeting
- $2.9 million on timber bridge rehabilitation

8 The revised LTFP factored in additional Roads to Recovery (R2R) funding received for 2015-16 and 2017-18 and treated such grants as operational revenue, which is consistent with the approach generally adopted by councils in NSW: see Yass Valley, *Application Part B,* p 5.

9 Yass Valley, *Application Part A,* Worksheet 6. This estimate does not assume any growth as a result of additional rate assessments forecast by the council.

10 The council notes that the special variation does not provide sufficient revenue or surpluses to allocate funds towards infrastructure upgrades and address the infrastructure backlog within the FFTF-required timeframe, but it is an acceptable compromise between the competing objectives of minimal financial impact on ratepayers and maintaining minimal acceptable service levels in key services, particularly roads: Yass Valley, *Application Part B*, p 10.

11 Yass Valley, *Application Part A,* Worksheet 7 and IPART calculations. The growth in rates and charges revenue is higher than the estimate in Worksheet 6 as it incorporates the impact of the growth in assessment numbers as a result of new residential development over those 10 years, and higher charges.

- $0.4 million on public amenities
- $0.3 million on sporting fields and playgrounds
- $0.2 million on Murrumbateman traffic improvements, and
- $0.2 million on kerb and gutter replacement.[12]

Details of individual projects to be delivered in the next five years where the special variation is identified as the funding source are set out Appendix A of the *Revised Delivery Program 2013-2017 (Incorporating Special Rate Variation)*.

More detail on the council's proposed program of expenditure and the LTFP to 2025-26 is provided in Appendix A and Appendix B.

Increase to minimum rates

As part of its application, the council proposed increasing the minimum rates each year by the same percentage increase in general income it requested.[13]

Minimum rates are set in four rating subcategories. In Residential Yass, Residential Murrumbateman and Business the minimum rate in 2015-16 is $493. In Residential Villages it is $481. Both these amounts are below the statutory limit for the minimum amount of an ordinary rate in 2015-16 of $497.[14]

Applying an 8.5% increase in 2016-17 would take the minimum rates to $535 and $522, which would be above the statutory limit of $506 in 2016-17. In subsequent years an 8.5% increase would result in minimum rates of $683 and $667 respectively after four years.

The council requested this increase because it does not propose any change to the rating structure. Retaining the proportion of properties on the minimum rate (ie, 33% of residential properties and 16% of businesses) would maintain the current distribution of the rating burden, which it considers equitable.

3 How did we reach our decision?

We assessed Yass Valley Council's application against the criteria in the Guidelines for special variations and increases to minimum rates.

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12 Yass Valley, *Application Part A,* Worksheet 6 and *Application Part B,* p 12. Worksheet 6 also indicates expenditure of $11.6 million on Local Road Infrastructure Projects and $1.7 million on community projects from 2021-22 to 2025-26. Given the additional funding of operating expenses shown in the LTFP in Worksheet 7, not all of the capital projects can be funded exclusively from the special variation income above the rate peg.

13 Yass Valley, *Application Part B,* p 25 and *Application Part A,* Worksheet 5a.

14 *Local Government (General) Regulation 2005*, cl 126.

In making our assessment we also considered the council's most recent IP&R documents, which support its application, as well as its FFTF proposal and a range of comparative data about the council, set out in Appendix C.[15]

Yass Valley Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan 2013-30* (CSP), *Revised Delivery Program 2013-2017 (Incorporating Special Rate Variation)* (*Revised Delivery Program 2013-2017*), Long Term Financial Plan (SRV Version) 2015 – 2026 (LTFP) and *Operational Plan 2015-2016*.

The rate increases for which the council has applied are significant, and we considered, among other things, the council's need for the increase, its consideration of the community's priorities, capacity and willingness to pay, and the impact of the rate increase on ratepayers. We note that the cumulative percentage increase the council requested is lower than the special variation identified in its FFTF proposal. It is consistent with Scenario 2 that it consulted its community about in May 2015.

We found that Yass Valley 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, and reflects community priorities, TCorp's recommendations and responds to IPART's assessment of the council's financial sustainability in FFTF.
2. The council provided evidence that **the community is aware** of the need for and extent of the rate increases, used a variety of methods to engage with ratepayers, and provided opportunities for them to provide input on the proposal.
3. The **impact of the proposed rate rises on ratepayers** is significant, but reasonable given the council's existing rate levels, its history of special variations, the purpose of the special variation, and the council's consideration of ratepayers' willingness and capacity to pay.
4. The council provided evidence that the relevant **IP&R documents have been exhibited and adopted**.
5. The council reported **productivity savings** in past years, and indicated its intention to improve efficiency during the period of the special variation.

Table 3.1 summarises our assessment against the criteria. Sections 3.1, 3.2 and 3.3 discuss our findings against criteria 1, 2 and 3 in more detail.

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15 See Appendix C. Yass Valley Council is in OLG Group 11, which is classified as Rural Very Large Agricultural (pop 10,001-20,000). The group comprises 21 councils, including shire councils such as Cabonne, Cooma-Monaro Cowra, Forbes, Parkes, Tumut and Young, and Palerang Council.

Table 3.2 summarises our assessment against the criteria for increasing minimum amounts of the ordinary rate above the statutory limit.

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

Criterion	IPART findings
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, in particular 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.	The council's IP&R documents clearly explain the need for and purpose of the special variation (SV) and show: ▼ It meets challenges facing the council, is consistent with community priorities established through its IP&R processes in recent years, and is reflected in its Delivery Program and LTFP. ▼ It will improve the council's financial sustainability, by reducing the operating deficit and, in time, improving asset renewal and maintenance ratios. ▼ The SV revenue will be allocated to a program of capital expenditure, with the identified works in the first five years mainly for road and bridge infrastructure and community projects. In its Fit for the Future assessment in October 2015, IPART assessed the council as Not Fit, as it did not satisfy the FFTF financial criteria overall. The council's Action Plan included an SV but the council advised that it would defer considering the SV for a year. IPART modelling found that the council may not be able to achieve an operating surplus in the required timeframe, and without the SV, the ratio would decline substantially. The SV responds to TCorp's findings about the council's financial sustainability and the need to generate additional revenue or reduce expenditure to meet its growing community's needs. The council considered alternatives to a rate rise. It will reduce expenditure through selling land assets, operational efficiencies, and improved productivity.
2. Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan 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 community awareness and input occur.	The council demonstrated that it had made the community aware of the need for, and the extent of, the proposed rate increases, and how the extra revenue would be spent. This occurred in two stages during 2015, in preparing the FFTF proposal and when revising the Delivery Program and LTFP. The council used a variety of strategies including a mailout, its website and social media, community forums, media releases and fact sheets with rates calculators. A random telephone survey in May 2015 showed 50% support for an SV at least as large as the requested SV. Written submissions showed some support for an SV. Common concerns were affordability, council inefficiency and mismanagement, and the need to reduce expenditure and find alternative revenue sources. IPART received one submission opposing the SV.

Criterion	IPART findings
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 Delivery Program and Long Term Financial Plan should: ▾ 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 community's capacity to pay.	The cumulative increase over four years of 38.6% (or 29.0% above the rate peg) is relatively high. The impact on ratepayers will be significant but reasonable given: ▾ current average rate levels that are at the median of the range across surrounding councils, and not far from the average of Group 11 councils ▾ socioeconomic indicators of capacity to pay, such as SEIFA rank (135), relatively high average incomes, and low levels of unemployment and pensioner rebates, and ▾ a hardship policy is in place which can assist ratepayers affected by the increase. The council considers that the increases are affordable, based on socioeconomic indicators and rates in comparable councils.
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 income.	The council adopted a revised CSP in June 2013. On 10 February 2016 the council adopted the *Revised Delivery Program 2013-2017* incorporating the Long Term Financial Plan (SRV Version) 2015-26. It was exhibited from 20 November to 18 December 2015.
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.	The council outlined a range of cost containment measures and productivity improvements in both the *Revised Delivery Program 2013-2017* and its FFTF Action Plan. Examples of past and future initiatives and quantified savings are: ▾ plans for service reviews across all operations ▾ a staffing review in 2016, and closer management of staff levels (eg, $300k saving in 2015-16) ▾ a review of plant and fleet management (projected $100k pa savings) ▾ reviews of operations of saleyard ($30k saving in 2015-16) and swimming pools ($15k pa savings) ▾ a procurement review and more use of competitive tendering ▾ revised telecommunications packages and software licensing (at least $75k savings), and ▾ energy audits of infrastructure and use of new technology to save costs. Many reviews are yet to be implemented and it may be some time before savings are realised. Productivity data compares favourably with peer councils (see Appendix C, Table C.2).

Note: SEIFA is the Socio-Economic Indexes for Areas: refer to Appendix C, Table C.2. The rank of 153 denotes the least disadvantaged council in NSW.

Sources: Yass Valley, *Application Part A*, and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp); *Yass Valley Shire Council Financial Assessment, Sustainability and Benchmarking Report*, April 2013; Yass Valley Council, *Revised Delivery Program 2013-2017*; Yass Valley Council, Long Term Financial Plan (SRV Version), February 2016.

Table 3.2 IPART's assessment of Yass Valley Council's application to increase minimum rates against the criteria in the Guidelines for minimum rates

Criterion	IPART findings
1. Rationale for increasing minimum rates above the statutory amount	The council has adopted minimum rates to ensure there is an equitable contribution for services where properties have a relatively low land valuation. Applying the special variation percentage increase to the minimum rate avoids any inequity that may occur if the additional revenue were to be raised only from ratepayers not on the minimum rate.
2. Impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category	Increasing the minimum rate by the same percentage as other ratepayers will maintain the current rating structure and proportion of ratepayers on the minimum amount (16% of businesses and 33% of residential properties, with a higher proportion in the villages).
3. Consultation the council has undertaken to obtain the community's views on the proposal	During the consultation process the council clearly showed the impact on the amounts of the minimum rates.

Source: Yass Valley, *Application Part A*, Worksheet 5a and *Application Part B*, p 25.

3.1 Need for and purpose of the special variation

We consider that the council has met this criterion. A special variation is a fundamental strategy for improving the council's financial sustainability. Its primary purpose is to ensure the council achieves a positive operating performance ratio by 2024-25, which was a key measure in the FFTF assessment. It is reflected in the IP&R documents and responds to community priorities, and TCorp recommendations.

Following IPART's FFTF assessment that Yass Valley Council was Not Fit because it did not meet the financial sustainability criteria overall, the council agreed that improving its operating performance by means of the requested special variation is necessary to demonstrate to the Government that it can address its financial sustainability, which would be an otherwise very difficult task.

IP&R processes and documents

Yass Valley Council's IP&R documents set out the need for, and purpose of the requested special variation to improve the council's financial sustainability, primarily by reducing its operating deficit over the 10 years to 2025-26. The additional revenue will fund capital expenditure on roads, bridges, public amenities and recreation facilities, and community projects, and, in time, increased maintenance and rehabilitation of assets will reduce the infrastructure backlog.

Community priorities were identified in a 2013 Community Satisfaction Survey, through annual Yass Valley Connect community forums and most recently during the FFTF community consultation in the first half of 2015.[16]

The council's IP&R documents clearly show consideration of a special variation in recent years. The Community Strategic Plan (revised in June 2013) requires the council to actively investigate and pursue alternative funding sources to strengthen its financial sustainability (Strategy 7.1.2), and to maintain infrastructure, assets and services to support the needs of the population, consistent with the community's priorities. A special variation was foreshadowed in the delivery program and operational plan adopted in June 2013 (Strategic Action 7.1.2.2). The 2015-2016 Operational Plan called for the council to assess the need for a special rate variation and pursue if appropriate, and to consider potential scenarios when preparing the council's FFTF submission.

The *Revised Delivery Program 2013-2017* was adopted in February 2016 following community consultation. It includes extensive coverage of the need for and impact of the requested special variation, and incorporates a revised Long Term Financial Plan (SRV Version) (LTFP).

The previous LTFP (June 2015) had reflected the rate increase included in the FFTF proposal. Remodelling following receipt of extra Roads to Recovery (R2R) funding and bringing its accounting treatment into line with other councils (ie, as operational grants rather than capital) allowed the council to reduce the term of the special variation needed from five to four years.

The council considered applying for a 10.9% increase in 2015-16 to address immediate infrastructure maintenance issues, but deferred applying to allow for more effective consultation with the community in the context of the FFTF process.[17]

The requested special variation responds to the assessment made of the council by NSW Treasury Corporation (TCorp) in 2013. TCorp observed that the council's financial position was 'Moderate', but considered its outlook to be 'Negative'. TCorp observed that the council faces sustainability issues, with forecasts that it would continue to generate operating deficits, was not spending enough on asset renewal (affecting the quality of assets and provision of services), and needed to address the needs of an increasing population by generating additional revenue or reducing expenditure.[18]

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16 Yass Valley, *Application Part B*, pp 4 and 8.

17 Yass Valley, *Application Part B*, pp 10-11, extracted from the *Revised Delivery Program 2013-2017*.

18 New South Wales Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18 and *Yass Valley Council Financial Assessment, Sustainability and Benchmarking Report*, April 2013, pp 4-5 and 30.

The special variation and Fit for the Future

A special variation was one of the fundamental elements of Yass Valley's FFTF Action Plan in the Council Improvement Proposal (CIP) submitted in June 2015. Through the FFTF process the council recognised it must balance its liquidity requirements with the need to invest in the renewal of assets. Potential scenarios were developed with input from a Community Working Group and subject to extensive consultation.

The CIP indicated that the council would be financially sustainable through a combination of rate increases, efficiency gains, sale of land assets and loans. The proposed rate increase was 8.5% per annum (6% above an assumed rate peg of 2.5%) for five years (a cumulative increase of 50.4% or 37.2% over the assumed rate peg).[19]

In September 2015 the council advised IPART that, in recognition of an additional $1.88 million in R2R funding received for the next two years, it had agreed to defer consideration of a special variation until September 2016, when further information about projected efficiency savings would be available.

IPART assessed Yass Valley Council as Not Fit. We considered the council may not be able to achieve an operating surplus in the required timeframe without a special variation or further cost savings. Although it met the scale and capacity criterion,[20] the council did not satisfy the financial criteria overall, and in particular the sustainability criterion, as a result of its forecast for a negative operating performance ratio to 2024-25.[21]

Financial sustainability, including infrastructure backlogs

As shown in Figure 3.1, the council's LTFP adopted in February 2016 is forecasting continuing operating deficits without a special variation (though slowly reducing from -8.4% in 2017-18 to -3.4% 2024-25). The special variation would enable the council to record operating surpluses from 2023-24 onwards.[22]

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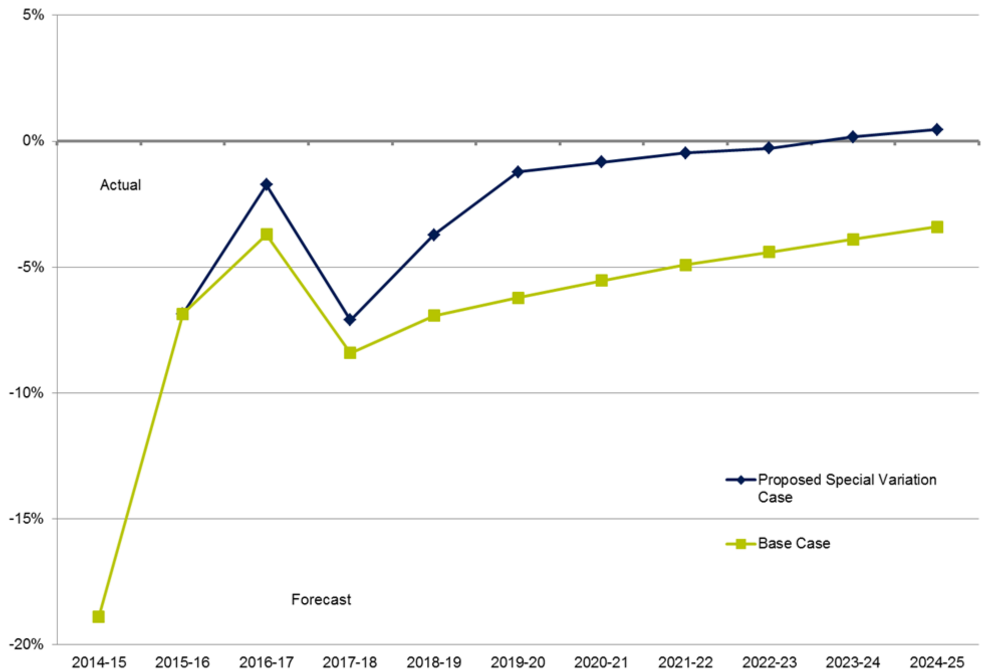
19 See Yass Valley, *Application Part B*, p 5 and Yass Valley Council, *Fit for the Future Council Improvement Proposal* (Yass Valley, CIP), June 2015, Section 3.4.

20 The council's CIP was found to be consistent with the ILGRP preferred option to stand alone and to collaborate to form the Tablelands Joint Organization, and IPART did not identify a better alternative than the stand-alone proposal. The council was not required by the Government to put forward a merger proposal in response to IPART's assessment.

21 IPART, *Yass Valley Council CIP FFTF Summary Assessment*. See Appendix C.

22 Yass Valley, *Application Part A,* Worksheet 7.

Figure 3.1 Yass Valley Council's operating performance ratio excluding capital grants and contributions (2014-15 to 2024-25)



Notes: In 2014-15 Actual expenses have been adjusted to remove the impact of a $71.1 million revaluation decrement (loss) caused by the writeback of the bulk earthworks revaluation (see Yass Valley Council *Annual Financial Statements 2014-15*, Notes 4, 16 and Auditor's report, p 3). Operating balances in 2015-16 and 2016-17 reflect additional Roads to Recovery grants in those years, after which Grants and contributions for operating purposes will fall by $1.2 million and return to previous levels.

Source: Yass Valley Council, *Annual Financial Statements 2014-15*; and Yass Valley, *Application Part A, Worksheet 7* and IPART calculations.

Table 3.3 Projected operating performance ratio (%) for Yass Valley Council's special variation application compared with its FFTF proposal

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Application - including SV	-6.9	-1.7	-7.1	-3.7	-1.2	-0.8	-0.5	-0.3	0.2	0.5
Excluding SV	-6.9	-3.7	-8.4	-6.9	-6.2	-5.5	-4.9	-4.4	-3.9	-3.4
FFTF – including SV	-22.9	-14.1	-13.0	-11.2	-7.7	-4.4	-2.2	-0.9	-0.5	-0.1
FFTF – excluding SV	-17.4	-13.1	-14.0	-14.5	-13.6	-12.5	-12.0	-11.6	-11.3	-11.0

Note: FFTF figures are calculated as 3 year moving averages.

Source: Yass Valley, *Application Part A*, Worksheet 7 and IPART calculations.

Our FFTF assessment was made against the benchmarks for rural councils (Yass Valley is in OLG Group 11) and took into account the council's advice that the special variation would not commence in 2016-17 as proposed in the CIP.

Our assessment found that the council did not satisfy the financial criteria overall, although it did satisfy the scale and capacity criterion. We found that:

- Within the criterion for sustainability, the council would meet only one of the benchmarks, the **own source revenue ratio**.
- Even with the relatively large special variation, the **operating performance ratio** would not show a surplus within the timeframe, and the council would be vulnerable to unanticipated shocks. Deferring the special variation would delay achieving an operating surplus. Without it, IPART modelling found the ratio would decline substantially, as shown in Table 3.3.
- Although the **building and infrastructure renewal ratio** would improve to 73.5% in 2019-20, it would be below the 3-year benchmark, and was forecast to reach the benchmark only in 2021-22.
- The council satisfied the criterion for infrastructure and service management, based on forecasts to meet the benchmarks for the **asset maintenance ratio** and **debt service ratio** by 2019-20. The council forecast a decline in the **infrastructure backlog ratio,** which would be well above the benchmark in 2019-20 (although it would then stabilise, and reduce slowly from 2023-24 onwards). The council's infrastructure backlog has been increasing over time as insufficient resources have been allocated to asset renewal.
- It met the efficiency criterion based on a forecast of a decrease in **real operating expenditure per capita** over the period to 2019-20.

Alternative funding options

The council's CIP Action Plan proposed the special variation as one of a range of strategies to improve its financial sustainability. The *Revised Delivery Program 2013-2017* sets out the council's approach to alternative options.[23]

- **Sale of land assets** – the LTFP indicates sale proceeds of $1 million in the next two years. The council acknowledges that strategic land assets it holds will assist its long term financial sustainability, however these should not be used for addressing shortfalls in operating costs, but to fund upgrades to existing infrastructure. It has committed to reviewing its property assets to determine whether disposal is in the community's interest.
- **Additional borrowing** – The CIP included a loan of $1.5 million in 2016-17 (to fund asset maintenance before special variation funds were available). The LTFP shows no additional borrowing, but indicates that when the existing loan ($3.8 million for operating expenditure) is repaid, an extra $0.7 million will be available annually to fund asset maintenance from 2021-22.
- **Reduce operating expenses** – a range of productivity improvements and efficiency gains are outlined in Table 3.1 in relation to Criterion 5.
- **Reduction in service levels** – The council considers that the community expressed reasonable satisfaction with current levels of services in a Community Satisfaction Survey in 2013, and feedback from the community consultation meetings held in late 2015 indicated a desire for increased service levels, particularly road and bridge maintenance. This contrasts with a lower satisfaction level expressed in the May 2015 survey about FFTF special variation options by those favouring rate peg only increases, and some recent feedback favouring service cuts over increased rates.

  As an alternative to rate increases, the council considered service levels would need dramatic reductions. It concluded that reducing services was not generally supported and was not a desirable outcome of its objective of 'balancing the budget'; however detailed service reviews which are planned could identify areas where the community may consider reduced service levels could be appropriate.[24]

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23 See Yass Valley, CIP, June 2015, Section 3.4; *Revised Delivery Program 2013-2017* pp 9-13; and Yass Valley, *Application Part B*, pp 4-5 and 31-36.

24 Yass Valley, *Application Part B*, pp 13 and 35 and Attachment F(b), Micromex Research; and Yass Valley, CIP, June 2015, pp 7 and 25.

3.2 Community engagement and awareness

We consider that the council has met this criterion.

The council conducted a two-stage process to consult the community on proposals for a special variation:

- Stage 1 during early 2015 as part of developing its FFTF proposal, and
- Stage 2 in late 2015.

In Stage 1, in conjunction with a community working group (40 members), the council developed an Options Paper with two special variation scenarios[25] to use for community consultation from April to June 2015, along with:

- a flyer mailed to all ratepayers
- nine community forums (in Yass and villages)
- media releases and press articles and radio interviews, and
- a random representative telephone survey (409 respondents).[26]

During Stage 2 the *Revised Delivery Program 2013-2017* incorporating a revised LTFP with a special variation scenario was exhibited. It explained the need for, and impact on average rates of, the proposed special variation, and identified projects that would be funded by the additional revenue in the next four years. It was supported by:

- a flyer mailed out to all ratepayers and community associates
- media releases, press advertisements and media coverage
- fact sheets with rates calculators and indicative expenditure on infrastructure and community projects
- nine community forums in Yass and the small villages, and
- information on the council's website and social media.

Outcome of consultation on rate increases

Although this criterion does not require councils to demonstrate community support for the special variation, we note there is evidence of support for the requested rate increases.

The council received 39 formal written submissions in Stage 1, and 20 in Stage 2, and the telephone survey canvassed the views of 409 residents.

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25 The base case assumed a 2.4% rate peg. Scenario 2 was for four annual increases of 8.4% (ie, 6% above the rate peg) and Scenario 3 was for five annual increases of 9.4% (ie, 7% above the rate peg. See Attachment E(a) pp 19 ff.

26 Yass Valley, CIP, June 2015, Section 3.4.

The telephone survey indicated Scenario 1 (Rate peg only) was the first preference of 50% of respondents, 34% preferred Scenario 2 (8.4% pa for four years), and 16% preferred Scenario 3 (9.4% pa for five years). Scenario 2 is consistent with the special variation now requested by the council.

Supporters of Scenario 1 referred to affordability, the council's need to improve efficiency or use other revenue sources, and that extra spending would not benefit them. Scenario 2 was seen as a fair balance between maintaining services without increasing rates excessively. Scenario 3 was supported as necessary for financial sustainability and to maintain and improve facilities in Yass Valley.[27]

Submissions

Submissions and feedback in both stages recognised that rate increases were necessary to improve the council's financial sustainability. However, there were mixed views about rate increases, affordability, alternative funding strategies, reducing expenditure and the council remaining stand-alone.[28]

Some considered that the increases would not be affordable, particularly for rural ratepayers and older residents, but it was not the most prominent concern. Common themes across all submissions were the need for the council to:

- improve efficiency, reduce costs and conduct its planned service reviews
- be more accountable for how it manages assets (including land acquisitions) and delivers services, and
- review the rating structure and consider alternative revenue raising strategies such as more grants, asset sales, higher charges and business development.

IPART received one submission which considered that the special variation was invalid on procedural grounds, and should be rejected because of the council's mismanagement of operations and assets. It supported a review of operations and expenditure to improve efficiency and ensure financial sustainability.

3.3 Reasonable impact on ratepayers

The council requested increases of 8.5% each year for the four years 2016-17 to 2019-20, a cumulative increase of 38.6% (or 29.0% above the assumed rate peg rise). The council intends to apply the same percentage increase each year to all categories and subcategories of ratepayers and to the minimum rates.

27 Yass Valley, *Application Part B*, Attachment F(b) Micromex Research, *Yass Valley Council Fit for the Future*, June 2015.

28 Yass Valley, *Application Part B*, Attachment F(a).

We consider that the impact of the special variation on average rate levels will be significant, but reasonable given current average rate levels and the community's capacity to pay in particular, as well as the clear need for the special variation to improve financial sustainability. Our conclusion is supported by socioeconomic indicators for Yass Valley, compared with rate levels in similar and neighbouring councils, and the council's consideration of affordability.

The council's consideration of impact on ratepayers

In assessing the impact of the proposed increases on ratepayers, the council considered current rate levels and how they compared with those in surrounding councils, and a range of socio-economic indicators.[29]

- Current average rate levels in Yass Valley are comparable with those in councils in the surrounding region. In all categories the average rate in Yass Valley are at the median of the range in nine surrounding councils, some of which had also foreshadowed rate increases in their FFTF proposals.[30]
- Socioeconomic indicators, such as the relatively low unemployment rate (related to its proximity to employment opportunities in Canberra) and higher levels of personal income and superannuation income that are higher than NSW averages, suggest increases are likely to be affordable.
- The SEIFA ranking (135, the second highest in regional NSW) indicates residents are not unduly disadvantaged and could have capacity to pay higher rates.
- The outstanding rates ratio (6.6% for the General Fund) is within the OLG benchmark of 10% for rural councils.

The council does not propose measures other than those in its recently adopted hardship policy. It notes that it has never had an application for relief as a result of hardship, and the level of rate increase is not expected to create hardship.[31]

IPART's assessment

In assessing the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth of rates, as well as comparative and socioeconomic data.

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29 See Yass Valley, *Application Part B*, pp 26-28 and *Revised Delivery Program 2013-2017*.

30 We note that many of the surrounding councils, including two seeking high rate increases are subject to a merger proposal and not eligible for a special variation in 2016-17.

31 Yass Valley, *Application Part B*, p 28 and Attachment G, and *Revised Delivery Program 2013-2017*.

We found that:

- Since 2004-05 the average annual growth in the average residential rate was 5.2%, 3.7% for business rates, and 4.0% for farmland rates, compared with the average annual increase in the rate peg of 3.1%.[32]
- The council received a special variation in 2005-06 for infrastructure in conjunction with a rate restructure following expansion of the LGA from council boundary adjustments in 2004.
- Compared with the average of rates in the 30 councils in OLG Group 11, the average residential rate in Yass Valley is close to the group average, while the average business rate is about 10% higher and the average farmland rate just over 20% lower.
- Future increases in average rates in Yass Valley will be significantly higher than increases in councils in the surrounding area as six of the nine are subject to a merger proposal and therefore a rates freeze this year, and of the others, only one has an approved special variation.

Taking all these factors into account, we consider that although the proposed increases are relatively high, the impact is reasonable.

4 What does our decision mean for the council?

Our decision means that Yass Valley Council may increase its general income over the 4-year special variation period from $7.7 million in 2015-16 to $10.6 million in 2019-20. 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 2016-17, 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 2019-20, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.[33]

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[32] The difference between the total increase and the rate peg increase is caused by growth in the number of rateable properties due to the subdivision of land: see Yass Valley, *Application Part B*, p 23.

[33] General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to 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.

Table 4.1 Permissible general income of Yass Valley Council from 2016-17 to 2019-20 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 1 July 2016				7,650,913
2016-17	8.5		648,201	8,299,114[a]
2017-18	8.5	17.7	705,425	9,004,538
2018-19	8.5	27.7	765,386	9,769,924
2019-20	8.5	38.6	830,444	10,600,368
Total increase approved			**2,949,455**	

a An excess of $2,127 is to be deducted from the council's notional general income in 2016-17.

Source: Yass Valley, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

The council estimates that over these four years, the additional rate revenue will accumulate to $5.34 million above the assumed rate peg increases.

This extra income is the amount the council requested to improve its financial sustainability and fund capital expenditure on essential asset renewal, specifically for roads and bridges, and community projects, while maintaining service levels across other key services, and, in time, increasing investment in asset maintenance. As a result of the special variation and other strategies to improve its financial sustainability, the council forecasts that it will achieve a surplus in its operating balance (excluding capital grants and contributions) by 2023-24. In addition the building and infrastructure asset renewal ratio and asset maintenance ratio will improve.[34]

The minimum amounts of the four ordinary rates above the statutory limit which have been approved by IPART for the years 2016-17 to 2019-20 are set out in Table 4.2. After 2019-20, these minimum amounts can be increased by the annual rate peg unless a further increase to the minimum amount is approved.

Table 4.2 Yass Valley Council – Approved increases to the minimum amounts of the ordinary rate above the statutory limit from 2016-17 to 2019-20 ($)

Rating subcategory	2015-16[a]	2016-17	2017-18	2018-19	2019-20
Residential Yass, Residential Murrumbateman and Business	493	535	580	630	683
Residential Villages	481	522	566	614	667

a 2015-16 is included for comparison.

Source: Yass Valley, *Application Part A*, Worksheet 5a.

34 Yass Valley, *Application Part A,* Worksheet 7 and IPART calculations; and Yass Valley, *Application Part B*, pp 15-16.

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, Yass Valley Council indicated that it intended to apply the cumulative increase of 38.6% over the four years uniformly for each category, subcategory, and to minimum rates.

The council has calculated that:

- the average residential rate will increase by a cumulative 38.6%, or by $63 in the first year and by $286 over four years
- the average business rate will increase by a cumulative 38.6%, or by $183 in the first year and by $829 over four years
- the average farmland rate will increase by a cumulative 38.5%, or by $178 in the first year and by $809 over four years.[35]

Table 5.1 sets out Yass Valley Council's estimates of the expected increase in average rates in each ratepayer category and subcategory. In each case the annual increase is 8.5% and the cumulative increase over the four years is 38.6%.

35 Yass Valley, *Application Part A,* Worksheet 5a.

Table 5.1 Yass Valley Council – Indicative average rates 2016-7 to 2019-20 under IPART's approved special variation ($)

Rating category	2015-16[a]	2016-17	2017-18	2018-19	2019-20	Cumu-lative increase
Residential						
Non-urban	967	1,048	1,138	1,234	1,339	372
Yass	557	605	656	712	772	215
Villages	486	528	572	621	674	186
Murrumbateman	780	847	919	997	1,081	301
Sutton Village	909	986	1,070	1,161	1,259	351
Gundaroo Village	605	657	713	773	839	234
Business						
Business	2,228	2,417	2,623	2,846	3,087	860
Sutton Gundaroo	712	773	838	910	987	275
Farmland	2,100	2,278	2,471	2,681	2,909	809

a 2015-16 is included for comparison.

Note: Numbers may not add due to rounding.

Source: Yass Valley, *Application Part A,* Worksheet 5a.

Increases for properties on the minimum rate (33% of residential and 16% of business assessments) are set out in Table 4.2. The current minimum rates will increase by 8.5% per year for four years (cumulative 38.6%). The council has calculated for minimum rates, that:

- in the Residential Yass, Residential Murrumbateman and Business subcategories the increase will be $42 in the first year and $190 over four years, and
- for the Residential Villages subcategory, the increase will be $41 in the first year and $186 over four years.

Appendices

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

Table A.1 shows income and proposed expenditure related to Yass Valley Council’s special variation over the next 10 years, and Table A.2 shows the proposed capital expenditure across different classes of assets.

A program of expenditure on capital projects over the next five years is identified in the council’s application and Appendix A of the *Revised Delivery Program 2013-2017*. It relates to expenditure on urban and rural road infrastructure and bridges, public amenities and recreation facilities and community projects. Identified project funding includes:

- $0.2 million on community projects
- $1.1 million on rural roads resealing
- $1.7 million on gravel roads resheeting
- $2.9 million on timber bridge rehabilitation
- $0.4 million on public amenities
- $0.3 million on sporting fields and playgrounds
- $0.2 million on Murrumbateman traffic improvements, and
- $0.2 million on kerb and gutter replacement.[36]

For the remaining five years of forecast spending associated with the special variation, the council’s application identified that the additional revenue would be spent on local road infrastructure.

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.

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36 Yass Valley, *Application Part A*, Worksheet 6 and *Application Part B*, p 12; and *Revised Delivery Program 2013-2017*, Appendix A. Worksheet 6 also indicates expenditure from 2021-22 to 2025-26 of $11.6 million on Local Road Infrastructure Projects and $1.7 million on community projects. Given the additional funding of operating expenses shown in the LTFP in Worksheet 7, not all of these can be funded exclusively from the special variation income above the rate peg.

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

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Special variation income above assumed rate peg	**513**	**1,023**	**1,589**	**2,215**	**2,270**	**2,327**	**2,385**	**2,445**	**2,506**	**2,569**	**19,844**
Transfers from reserves	0	0	0	14	62	109	159	212	269	330	1,017
Funding for increased operating expenditures	513	1,023	1,589	2,215	2,270	2,327	2,385	2,445	2,506	2,569	19,844
Funding to reduce operating deficits (or increase surpluses)	513	1,023	1,589	2,215	2,270	2,327	2,385	2,445	2,506	2,569	19,844
Funding for capital expenditure	**460**	**967**	**1,560**	**2,229**	**2,333**	**2,436**	**2,544**	**2,657**	**2,775**	**2,899**	**20,861**
Other uses[a]	53	56	29	0	0	0	0	0	0	0	
Additional expenditure	**460**	**967**	**1,560**	**2,229**	**2,333**	**2,436**	**2,544**	**2,657**	**2,775**	**2,899**	**20,861**

[a] Other uses of the income from a special variation for Yass Valley Council consists of transfers to reserves.

Note: Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding for capital expenditure. Funding for improving the operating balance generates cash flow that is available for funding capital expenditure.

Source: Yass Valley , *Application Part A,* Worksheet 6.

Table A.2 Yass Valley Council – Income and proposed expenditure over 10 years related to the special variation ($000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Special variation income above assumed rate peg	**513**	**1,023**	**1,589**	**2,215**	**2,270**	**2,327**	**2,385**	**2,445**	**2,506**	**2,569**	**19,844**
Community projects	0	0	200	0	0	313	327	342	357	373	**1,912**
Rural roads resealing	102	210	215	221	392	0	0	0	0	0	**1,140**
Gravel roads resheeting	179	367	376	387	399	0	0	0	0	0	**1,708**
Timber bridge rehabilitation	179	391	769	780	792	0	0	0	0	0	**2,911**
Public amenities	0	0	0	200	200	0	0	0	0	0	**400**
Sporting fields and playgrounds	0	0	0	200	100	0	0	0	0	0	**300**
Murrumbateman traffic improvements	0	0	0	240	0	0	0	0	0	0	**240**
Kerb and gutter replacement	0	0	0	200	0	0	0	0	0	0	**200**
Rural and urban road rehabilitation	0	0	0	0	450	0	0	0	0	0	**450**
Local road infrastructure projects	0	0	0	0	0	2,123	2,217	2,316	2,418	2,526	**11,600**
Transfers to and from reserves	52	56	29	-14	-62	-109	-159	-212	-269	-330	**-1,017**
Additional expenditure	**460**	**967**	**1,560**	**2,229**	**2,333**	**2,436**	**2,544**	**2,657**	**2,775**	**2,899**	**20,861**

Note: Numbers may not add due to rounding.

Source: Yass Valley, *Application Part A,* Worksheet 6.

B Yass Valley Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, Yass Valley Council is to report annually against its projected revenue, expenses and operating balance as set out in its LTFP (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 Yass Valley Council, 2016-17 to 2024-25 ($000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total revenue	23,820	23,660	24,941	26,431	27,340	28,294	29,265	30,290	31,345
Total expenses	23,328	24,363	24,894	25,737	26,523	27,353	28,248	29,099	30,030
Operating result from continuing operations	492	-703	47	694	817	941	1,017	1,190	1,315
Net operating result before capital grants and contributions	-399	-1,617	-892	-311	-220	-130	-80	50	138

Notes: Numbers may not add due to rounding.

Source: Yass Valley, *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 Yass Valley Council have changed over the four years to 2013-14.

Table C.1 Trends in selected performance indicators for Yass Valley Council, 2010-11 to 2013-14

Performance indicator	2010-11	2011-12	2012-13	2013-14	Average change (%)
FTE staff (number)	132	135	133	136	1.0
Ratio of population to FTE	112	115	120	118	1.6
Average cost per FTE ($)	71,856	67,681	80,098	77,831	2.7
Employee costs as % operating expenditure (General Fund only) (%)	38.0	34.0	39.1	38.3	0.3
Consultancy/contractor expenses ($m)	0.3	0.4	0.4	0.3	5.2
Consultancy/contractor expenses as % operating expenditure (%)	0.9	1.4	1.4	1.0	4.7

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.

Our 2015 FFTF review found that:

- There was no evidence identified for a better alternative to the Independent Local Government Review Panel (ILGRP) option.
  - The ILGRP option was for Yass Valley to be a stand-alone council in the Tablelands Joint Organisation JO,[37] and that it would be able to use the JO to enhance scale and capacity in the future.
- The council's FFTF proposal relied on a successful special variation of 50.4% cumulative over five years (37.2% above the assumed rate peg). The council subsequently advised IPART that it did not intend to proceed with an application until after the September 2016 council elections.

[37] Independent Local Government Review Panel, *Revitalising Local Government, Final Report*, October 2013.

- The council was assessed as Not Fit. While the council satisfied the scale and capacity criterion, it did not satisfy the financial criteria overall.
  - Primarily the finding was based on the council's forecast negative operating performance ratio by 2024-25, which IPART considered was a key measure of financial sustainability that councils must meet to be considered 'Fit'.
  - It satisfied the infrastructure and service management and efficiency criteria, but not the sustainability criterion.
- Of the benchmarks in the sustainability criterion:
  - The council forecast it would meet only the own source revenue ratio benchmark of 60% for rural council (69.7% excluding Financial Assistance Grants in 2018-19).
  - The building and infrastructure renewal benchmark was forecast to be 73.5% by 2019-20, which was well below the benchmark.
  - With the large special variation the council narrowly missed the operating performance benchmark (-0.1% in 2024-25). IPART modelling of the ratio without the special variation found it declined substantially.
- The council satisfied the infrastructure and service management criteria. It forecasts meeting the benchmarks for the asset maintenance ratio and the debt service ratio by 2019-20, and reducing the infrastructure backlog to 4.5% by 2019-20, stabilising it then slowly reducing it from 2023-24 onwards.
- The council met the efficiency criterion based on its forecast for a decrease in real operating expenditure per capita over the outlook period to 2019-20.

General comparative indicators

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

As indicated in section 3, Yass Valley Council is in OLG Group 11. Unless specified otherwise, the data refers to the 2013-14 financial year.

Table C.2 Select comparative indicators for Yass Valley Council, 2013-14

	Yass Valley, Council	OLG Group 11 average	NSW average
General profile			
Area (km^2)	3,999		
Population	15,981		
General Fund operating expenditure ($m)	25.0		
General Fund operating revenue per capita ($)	1,166	1,893	1,857
Rates revenue as % General Fund income (%)	31.2	35.2	48.9
Own-source revenue ratio (%)	67.4	62.5	73.8
Average rate indicators[a]			
Average rate – residential ($)	683	681	743
Average rate – business ($)	2,061	1,871	2,781
Average rate – farmland ($)	1,988	2,538	2,293
Socio-economic/capacity to pay indicators[b]			
Average annual income for individuals, 2011 ($)	55,718	43,932	49,070
Growth in average annual income, 2006-2011 (% pa)	5.9	5.3	5.2
Average residential rates 2013-14 to average annual income, 2011 (%)	1.2	1.6	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	135		
Outstanding rates and annual charges ratio (General Fund only) (%)	8.8	6.3	5.5
Productivity (labour input) indicators[c]			
FTE staff (number)	136	146	294
Ratio of population to FTE	118	N/A	127
Average cost per FTE ($)	77,831	N/A	78,374
Employee costs as % operating expenditure (General Fund only) (%)	38.3	36.4	38.1
Consultancy/contractor expenses ($m)	0.3	2.3	8.3
Consultancy/contractor expenses as % operating expenditure (%)	1.0	6.7	10.5

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. N/A = data not available.

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.