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Independent Pricing and Regulatory Tribunal

Our reference: 11/563

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19 June 2012

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Dear Mr Hayward

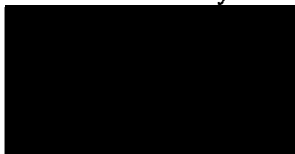
**INSTRUMENT OF APPROVAL AND FULL REPORT FOR SPECIAL RATE
VARIATION APPLICATION 2012/13**

I refer to IPART's determination on Port Macquarie-Hastings Council's application for a special variation in 2012/13 which was issued on 4 June 2012.

I am writing to advise you that copies of the final reports on our special variation determinations are now available on the IPART website. I have attached a hard copy of the final report and the Instrument of Approval for Port Macquarie-Hastings Council for your records.

If you have any queries, please contact Alison Milne on 02 9290 8443.

Yours sincerely



James Cox PSM
Chief Executive Officer
and Full Time Member

PORT MACQUARIE HASTINGS COUNCIL	
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Room	
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Bin	

LOCAL GOVERNMENT ACT 1993

INSTRUMENT UNDER SECTION 508(2)

PORT MACQUARIE-HASTINGS COUNCIL

The Independent Pricing and Regulatory Tribunal (IPART), delegate of the Minister for Local Government, pursuant to the delegation dated 6 September 2010, determines:

1. Under section 508(2) of the *Local Government Act 1993* (the Act), that the percentage by which Port Macquarie-Hastings Council may increase its general income for the year 2012/2013 is 15.33%.
2. The percentage increase set out in clause 1 above is subject to the following conditions:
 - I. The council uses the Additional Income for the purposes of funding maintenance and infrastructure works. These works are listed in Appendix A of IPART's determination dated June 2012 of the council's application under section 508(2) of the Act (IPART's Determination).

Additional Income means:

- a) the additional general income raised in accordance with clause 1 of this instrument, less
 - b) the additional general income that would otherwise be available to the council under section 506 of the Act.
- II. The council reports in its annual report for each rating year over the period from 2012/2013 to 2021/2022 on:
 - a) expenditure on maintenance and infrastructure works listed in Appendix A of IPART's Determination;
 - b) the outcomes achieved as a result of the special variation;
 - c) its asset renewal and maintenance expenditure;
 - d) its actual productivity savings achieved; and
 - e) any significant variations from its financial results as forecast in its Long Term Financial Plan and any corrective action taken or to be taken.
 - III. The council reduces its general income for the 2017/18 rating year by:
 - a) \$1,577,578 (Initial Reduction Amount); and
 - b) the cumulative additional income derived for the 2013/2014 to 2016/2017 rating years on the application of:
 - 1) any special variation percentage approved under section 508(2) or 508A of the Act for the council for each rating year during the period 2013/2014 to 2016/2017; and
 - 2) any general variation percentage approved under section 506 of the Act for the council for each rating year during the period 2013/2014 to 2016/2017, to the Reduction Amount.

Reduction Amount means:

The Initial Reduction Amount as increased by the additional income derived for each previous rating year relating to the Initial Reduction Amount.

[Note: the purpose of this clause is to reduce the council's general income to the amount of general income that the council would have had in 2017/18 without the temporary component of this special variation.]

Dated this

15th

day of

June

, 2012


Peter J. Boxall AO

Chairman, Independent Pricing and Regulatory Tribunal

Port Macquarie-Hastings Council's application for a special variation 2012/13

Local Government — Determination
June 2012

Port Macquarie-Hastings Council's application for a special variation 2012/13

Local Government — Determination
June 2012

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The Tribunal members for this assessment are:

Dr Peter J. Boxall AO, Chairman

Mr James Cox PSM, Chief Executive Officer and Full Time Member

Ms Sibylle Krieger, Part Time Member

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1 Determination

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

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

Port Macquarie-Hastings Council applied for a special variation of 15.33% in 2012/13. After assessing the council's application, we made a decision to approve the special variation as requested. We have made this decision under section 508(2) of the Act.

1.1 Our decision

IPART decided that Port Macquarie-Hastings Council can increase its general income by a total of 15.33% in 2012/13. This increase includes the rate peg of 3.6% that is available to all councils, an additional increase of 7.3% to be permanently retained in the council's general income base, and a further increase of 4.43% to be retained for a fixed term of 5 years. We have attached conditions to this decision, including that the council uses the income raised from the special variation for the purposes set out in its application.

Table 1.1 sets out our decision and Box 1.1 lists the conditions attached to it.

¹ Guidelines for the preparation of an application for a special variation to general income in 2012/2013 were issued by Division of Local Government, Department of Premier and Cabinet, September 2011.

Table 1.1 IPART's decision on Port Macquarie-Hastings Council's application for a special variation in 2012/13 (%)

Component	Amount
Permanent increase in place of expiring special variation for roads and parks maintenance	7.30
Temporary increase for 5 years to address infrastructure backlog	4.43
Rate peg increase	3.60
Total increase	15.33

Box 1.1 Conditions attached to IPART' decision on Port Macquarie-Hastings Council's application for a special variation in 2012/13

IPART's approval of Port Macquarie-Hastings Council's application for a special variation in 2012/13 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding the works outlined in the council's application, and listed in Appendix A.
 - ▼ The council reports in its annual report for each rating year over the period from 2012/13 to 2021/22 on:
 - the program of expenditure listed in Appendix A
 - the outcomes achieved as a result of the special variation
 - its asset renewal and maintenance expenditure
 - its productivity savings achieved, and
 - any significant variations from its financial results as forecast in its Long Term Financial Plan and any corrective action taken or to be taken.
 - ▼ In 2017/18 the council reduces its general income to what it would have been without the 4.43% component of the special variation.
-

1.2 What did the council request and why?

Port Macquarie-Hastings Council requested a special variation of 15.33% in 2012/13.² The requested special variation amount included 3 components:

- ▼ a permanent increase of 7.30% to replace the value of an existing special variation for roads and parks maintenance that is due to expire on 30 June 2012
- ▼ a temporary increase of 4.43% for a fixed term of 5 years to address its infrastructure backlog, and

² Port Macquarie-Hastings Council, *Section 508(2) Special Variation Application* (Port Macquarie-Hastings Application) Part A, Worksheet 1.

- ▼ the rate peg increase of 3.6% that is available to all councils (and is permanently included in their general income).³

Table 1.2 shows the components of the requested special variation.

Table 1.2 Components of Port Macquarie-Hastings Council's requested special variation in 2012/13 (%)

Component	Amount
Permanent increase in place of expiring special variation for roads and parks maintenance	7.30
Temporary 5-year increase to address infrastructure backlog	4.43
Rate peg increase	3.60
Total increase	15.33

Source: Port Macquarie-Hastings Application Part B, pp 2-4 and p 7.

The council estimated that an increase of 11.73% above the rate peg would generate \$4.2m in additional revenue in 2012/13, and around \$38m over 10 years.⁴ It indicated it would use this income to help fund roads and parks maintenance, as well as reducing its infrastructure backlog (mainly roads).⁵ Its proposed expenditure includes:

- ▼ \$28.8m for infrastructure maintenance and renewal over 10 years
- ▼ \$2.7m for additional unsealed roads maintenance over 5 years
- ▼ \$4.2m for continuation of high traffic road resurfacing over 5 years
- ▼ \$1.1m for pavement rejuvenation over 5 years
- ▼ \$1.0m for road construction over 5 years.⁶

Appendix A sets out details of Port Macquarie-Hastings' proposed program of expenditure.

1.3 How did we reach our decision?

We assessed Port Macquarie-Hastings Council's application against criteria included in the Guidelines. We found that it satisfactorily meets all of these criteria.

Table 1.3 summarises our findings against each of the criteria.

³ The rate peg set by IPART for 2012/13 is 3.6%. The rate peg for 2013/14 will be determined by IPART in December 2012.

⁴ Port Macquarie-Hastings Application Part A, Worksheets 1, 4 and 6. Note that it is not possible to determine the council's future general income with precision. A council's actual general income is affected by many factors, including the number of rateable properties and adjustments for previous under-collection or over-collection of rates made by councils. The DLG is responsible for monitoring and ensuring compliance.

⁵ Port Macquarie-Hastings Application Part B, p 37.

⁶ Port Macquarie-Hastings Application Part A, Worksheet 6.

Table 1.3 Summary of IPART's assessment against the criteria in the Guidelines

Criterion	IPART findings
1. Demonstrated need for the rate increase implied by the special variation	<p>The council has demonstrated a need on the basis that:</p> <ul style="list-style-type: none"> ▼ The additional funding will allow the council to address infrastructure maintenance and backlog needs, consistent with its asset management planning and condition assessments. ▼ Rates are an appropriate source of revenue for this expenditure and the community supports the council's plans. ▼ The council has considered alternative funding options. ▼ The variation would also improve the council's longer term financial sustainability.
2. Adequate community consultation regarding the special variation	<p>The council has undertaken adequate community consultation and raised awareness of the requested rate increases through media publicity. The council also presented evidence of significant community support for the proposed rate increase through an online survey. While the survey was not random, we note that the response was high and that there is little opposition evident in the community.</p>
3. Reasonable impact on ratepayers	<p>The special variation is likely to have a moderate impact on most ratepayers. As ratepayers already pay some of the requested increase, the average net rate increase is 8.4% in 2012/13.</p> <p>Current rate levels and socioeconomic indicators in general suggest that there may be some capacity to pay issues, but the community appears to support the rate increase. The council will have a hardship policy in place to assist pensioners and those in financial hardship.</p>
4. Sustainable financing strategy consistent with the principles of intergenerational equity	<p>The council will continue to use loan funding to support its capital works program, consistent with the principle of using debt for long-lived assets.</p>
5. An explanation of the productivity improvements and cost containment strategies the council has implemented in past years, and is planning over the requested special variation period	<p>The council has achieved productivity savings in the past and aims to do so in the future. We encourage it to continue exploring opportunities for further service restructuring.</p> <p>We suggest that the council clearly communicates to its residents about the nature and value of productivity improvements it makes.</p>

Note: In accordance with the Guidelines, IPART may also consider any other matters it considers relevant in assessing a council's application for a special variation. In the case of Port Macquarie-Hastings' application, no other matters were identified.

1.4 What does our decision mean for the council?

Our decision means that Port Macquarie-Hastings Council can increase its general income by around \$5.5m in 2012/13.⁷ After this year, all other things being equal, its general income will increase by the annual rate peg unless we approve a further special variation. However, the council must reduce its general income by around \$1.8m in 2017/18, when the temporary component of the special variation expires.⁸

In contrast, if we had decided not to approve the council's requested special variation, it would have had to reduce its general income by around \$2.5m (the value of an expiring special variation) before increasing it by the rate peg rise of 3.6%.

1.5 What does our decision mean for ratepayers?

Port Macquarie-Hastings Council indicated that it intends to apply the rate increase implied by the special variation differentially across its ordinary rating categories. Residential and mining ratepayers will face higher increases in percentage terms, but business and farmland ratepayers will pay more in dollar terms. In 2012/13:

- ▼ average residential rates will increase by \$81 (or 8.4%)
- ▼ average business rates will increase by \$163 (or 5.0%)
- ▼ average farmland rates will increase by \$105 (or 6.4%), and
- ▼ average mining rates will increase by \$66 (or 12.1%).⁹

However, these rate increases are indicative only and the actual impact on individual rating categories is a matter for the council to determine, consistent with this decision.

If the special variation were not approved, the current special variation would expire and all ordinary rates would have decreased by around 3.5% in 2012/13.¹⁰

⁷ Port Macquarie-Hastings Council Application Part A, Worksheet 1.

⁸ This estimate assumes forward rate pegs of 3%. As stated in footnote 4, the actual general income in future years will be influenced by a range of factors apart from the rate peg.

⁹ Port Macquarie-Hastings Application Part A, Worksheet 5, and IPART calculations.

¹⁰ Port Macquarie-Hastings Application Part A, Worksheet 5, and IPART calculations.

1.6 What does the rest of this report cover?

The rest of this report discusses the council's application and our assessment and findings in making our decision in more detail:

- ▼ Chapter 2 focuses on the council's application.
- ▼ Chapter 3 discusses our assessment against the criteria.

The appendices provide the council's proposed program of expenditure on asset maintenance and renewal, and a summary of the comparative data we considered in our assessment – such as average local government area (LGA) income levels and council labour costs.

2 Port Macquarie-Hastings Council's application

Port Macquarie-Hastings Council applied to increase its general income by 15.33% (including the rate peg of 3.6%) in 2012/13. This included an increase of 4.43% for a fixed term of 5 years, and an increase of 10.90% to be retained permanently in the council's general income.¹¹

The sections below provide some brief background information on the council and its history of special variations. The subsequent sections outline its application for a special variation in 2012/13, how the council proposes to use the additional income it would raise, and how the necessary rate increases would affect different ratepayers.

2.1 About the council

Port Macquarie-Hastings Council serves an area along the north coast of NSW, 260km north of Newcastle and 510km south of Brisbane.¹² Its LGA has a SEIFA ranking of 86, which positions it slightly above the midpoint of NSW councils in terms of relative advantage.¹³

The council is in DLG Group 4, which indicates it is classified as an "urban, small to medium-sized regional city".¹⁴ IPART considers that this group is the most suitable peer grouping for the purpose of comparing it with other councils.

¹¹ Port Macquarie-Hastings Application Part B, pp 2-3 and p 7.

¹² <http://www.hastings.nsw.gov.au/www/html/77-introduction-to-hastings.asp>.

¹³ SEIFA is the Socio-Economic Index for Areas published by the Australian Bureau of Statistics and incorporates a number of individual indexes that can be used to determine the level of social and economic well-being in regions relative to one another. One of the indexes is the Index of Relative Socio-economic Advantage and Disadvantage for NSW in 2006. The SEIFA used in this report ranks Local Government Areas from 1 to 153 (includes 1 ranking for "unincorporated NSW"). A ranking of 1 means the council is least advantaged relative to all the other councils in NSW. A ranking of 153 means it is least disadvantaged relative to all the other councils in NSW.

¹⁴ DLG, *Snapshot of NSW Councils: Comparative Information on NSW Local Government Councils 2008/09*, pp 11-17. The Australian Classification of Local Governments (ACLG) system classifies councils into 22 categories according to their socio-economic characteristics and their capacity to deliver a range of services to the community. The DLG has reduced this to 11 groups because some of the ACLG categories contained few or no councils in NSW. There are 32 councils in DLG Group 4 including Kempsey Shire Council and Tamworth Regional Council.

In 2010/11, its average residential rates were \$880, which was higher than the average for DLG Group 4 (\$806) and for all NSW councils (\$659).¹⁵ Rates and annual charges made up 46.4% of its total General Fund revenue,¹⁶ which was higher than the average for DLG Group 4 (39.9%) but similar to the average for NSW (46.7%). However, user charges and fees comprised only 10.6% of this revenue, much lower than the average for DLG Group 4 (17.0%) and for all NSW councils (14.9%).¹⁷ Capital grants and contributions made up 22.2%, which was a much higher share than the average of 12.9% for DLG Group 4 and 12.2% for all NSW councils.

2.2 History of special variations

Port Macquarie-Hastings Council has had 2 special variations approved in the past 5 years, both of which were essentially to fund the same asset maintenance programs that the council's requested variation in 2012/13 is intended to fund.

In 2010/11, the Minister for Local Government approved a 9.96% increase under section 508(2) of the Act for a fixed term of 1 year to fund asset maintenance and renewals.¹⁸

In 2011/12, the council applied to IPART for a multi-year special variation under section 508A to fund a range of initiatives. However, we approved a single-year increase of 10.1% under section 508(2) to continue the 2010/11 special variation for a further fixed term of 1 year. We made this decision because:

- ▼ the council did not demonstrate sufficient community support, and its consultation materials did not always clearly explain the rate impact to the community
- ▼ the council was planning to significantly reduce debt, while at the same time increasing rates to undertake a significant capital works program, which was not consistent with intergenerational equity.¹⁹

2.3 Requested special variation in 2012/13

Port Macquarie-Hastings Council's application for a special variation in 2012/13 effectively seeks to permanently continue the special variation approved last year, as well as temporarily increase its income to address its infrastructure backlog.

¹⁵ DLG, unpublished comparative data, 2010/11.

¹⁶ General Fund refers to all council activities except Water and Sewer. In some cases, a council's General Fund may also exclude its other separate business activities eg, airports, but these General Fund data do not exclude this type of service revenue.

¹⁷ DLG, unpublished comparative data, 2010/11.

¹⁸ DLG, *Special Variation Master Record*, copy provided to IPART in October 2010.

¹⁹ IPART, *Port Macquarie-Hastings Council's application for a special variation*, June 2011.

The council requested a total special variation of 15.33% in 2012/13.²⁰ If approved, it estimates this special variation would increase its total permissible general income for this year by around \$5.5m (Table 2.1). This estimate has been verified by the DLG.²¹

Table 2.1 Estimated impact of Port Macquarie-Hastings Council's requested special variation on its general income in 2012/13

Adjusted notional general income 2011/12 (\$)	Annual increase in general income (%)	Annual increase in general income (\$)	Permissible general income ^a 2012/13 (\$)
35,611,237 ^b	15.33	5,459,203	41,069,028

^a Permissible general income refers to the maximum general income that the council can generate in the year. It equals the previous year's notional general income level adjusted for any expiring special variation, other adjustments (prior year catch ups, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage. Port Macquarie-Hastings Council's proposed permissible general income in 2012/13 includes the requested special variation of 15.33% (\$5,459,203), as well as a deduction of a prior year excess amount of \$1,412.

^b The 2011/12 adjusted notional general income level includes the deduction for the expiring special variation (\$2,510,328) and it is not part of the council's application and is only included here to indicate the size of the base income to which the special variation applies.

Source Port Macquarie-Hastings Council Application Part A, Worksheet 4.

The council indicated that the requested special variation consists of 3 components:

- ▼ a 7.30% increase to be permanently incorporated into the general income base, which would essentially replace the value of the expiring 2011/12 special variation for roads and parks maintenance
- ▼ a 4.43% increase to be retained in the income base for a fixed term of 5 years to address the infrastructure backlog, and
- ▼ the rate peg increase of 3.6% that is available to all councils.

Note that in setting the rate peg amount, IPART included a carbon price advance of 0.4% to assist councils to meet higher prices arising from the introduction of the carbon price from 1 July 2012.²²

²⁰ Port Macquarie-Hastings Application Part A, Worksheet 1.

²¹ DLG, *Assessment of Port Macquarie-Hastings Council's 508(2) special variation application – Part A*, March 2012.

²² Given that the effects of the carbon price will eventually be captured in the Local Government Cost Index (LGCI), we will reverse the upfront adjustment we have made in the 2012/13 rate peg over 2 years. We will deduct 0.1% in 2013/14 and 0.3% in 2014/15 from the rate pegs in these years. See IPART, *Effects of the carbon price on local councils*, Local Government – Information paper, December 2011 for more information.

Table 2.2 sets out the components of the council's requested special variation.

Table 2.2 Components of Port Macquarie-Hastings Council's requested special variation in 2012/13 (%)

Component	Amount
Permanent increase in place of expiring special variation for roads and parks maintenance	7.30
Temporary 5-year increase to address infrastructure backlog	4.43
Rate peg increase	3.60
Total increase	15.33

Source: Port Macquarie-Hastings Application Part B, pp 2-3 and 7.

2.4 How the council proposes to use the income raised

The council has indicated that it will use the income raised by this special variation (around \$38m over 10 years) to help fund roads and parks maintenance, as well as reducing its infrastructure backlog (mainly roads).²³ Its proposed program of expenditure (see Appendix A) includes:

- ▼ \$28.8m for infrastructure maintenance and renewal over 10 years
- ▼ \$2.7m for additional unsealed roads maintenance over 5 years
- ▼ \$4.2m for continuation of high traffic road resurfacing over 5 years
- ▼ \$1.1m for pavement rejuvenation over 5 years
- ▼ \$1.0m for road construction over 5 years.²⁴

The funds raised by the special variation contribute to a much larger capital works program to be undertaken by the council, which amounts to around \$258m over 10 years (excluding water and sewer).²⁵

2.5 How the council proposes to allocate the special variation among ratepayers

The council has 2 categories of residential rates (urban, other) and 3 categories of business rates (urban, other and a CBD rate). It also has farmland and mining categories.

²³ Port Macquarie-Hastings Application Part B, p 37.

²⁴ Port Macquarie-Hastings Application Part A, Worksheet 6.

²⁵ Port Macquarie-Hastings Application Attachment 2c, 10 Year Capital Works Programme and IPART calculations.

Port Macquarie-Hastings Council proposes to apply the rate increase implied by the special variation differentially across its rating categories. Residential and mining ratepayers will face higher increases in percentage terms, but business and farmland ratepayers will pay more in dollar terms.

Table 2.3 shows the council's proposed rate increases and their impact on average rate levels for each ordinary rate category.

Table 2.3 Impact of the requested special variation on average rate levels for each ordinary rate category

	2011/12	2012/13
Residential – urban(\$)	958	1,039
Increase (\$)		81
Increase (%)		8.4
Residential – other (\$)	999	1,082
Increase (\$)		84
Increase (%)		8.4
Business – urban (\$)	2,379	2,511
Increase (\$)		132
Increase (%)		5.6
Business – Port Macquarie CBD (\$)	9,425	9,811
Increase (\$)		386
Increase (%)		4.1
Business – other (\$)	1,208	1,295
Increase (\$)		86
Increase (%)		7.1
Farmland rates (\$)	1,652	1,757
Increase (\$)		105
Increase (%)		6.4
Mining (\$)	545	612
Increase (\$)		66
Increase (%)		12.1

Note The percentage increases differ from the special variation of 15.33% because the 2011/12 rate levels include the expiring variation that is already being paid by ratepayers. The 12.1% increase in mining rates is levied on a single assessment. The council also levies 2 special rates – the Broadwater special rate and the Sanctuary Springs special rate, but the special variation will not be applied to these categories.

Source: Port Macquarie-Hastings Council Application Part A, Worksheet 5.

3 | IPART's assessment

To make our decision on Port Macquarie-Hastings Council's application for a special variation in 2012/13, we assessed this application against each of the 5 criteria set out in the Guidelines for section 508(2) applications. We found that the application adequately meets these criteria.

Table 1.3 (in Chapter 1) summarised our findings in relation to each of the criteria. The sections below discuss these findings in more detail.

3.1 Criterion 1 - Demonstrated need for the rate increases implied by the special variation

Councils seeking special variations must demonstrate that their requested increase in general income is necessary. This includes:

- ▼ supporting their application with relevant strategic, asset management and long-term financial planning information
- ▼ providing evidence that the income raised by the special variation will be used to fund an efficient and feasible program of expenditure, and
- ▼ if possible, providing evidence that the special variation will improve their financial sustainability.

As Chapter 2 discussed, Port Macquarie-Hastings Council requested the special variation to provide funding towards roads and park maintenance, as well as reducing its estimated infrastructure backlog of \$112m (\$97m is related to roads).²⁶ The council has indicated that this program is part of a larger program that includes around \$258m of capital works over 10 years (excluding water and sewer).²⁷

In addition to the \$38m income that the special variation will raise over this period, the council proposes to fund this larger program through:

- ▼ new borrowings
- ▼ higher user fees, charges, grants and other income.

²⁶ Port Macquarie-Hastings Council Application Part B, p 2.

²⁷ Port Macquarie-Hastings Application Attachment 2c, 10 Year Capital Works Programme and IPART calculations.

We are satisfied that the purpose of the special variation is consistent with the community's objectives which flow from the council's strategic planning, and reflects its community's priorities. The community has indicated that they expect improvements in transport infrastructure.²⁸ The council's Community Strategic Plan also makes direct reference to improving quality of infrastructure, including roads.²⁹ Its asset management plan for transport infrastructure supports the nature of the proposed works.³⁰

We are also satisfied that the council has demonstrated that it needs to generate some of the additional revenue it requires for these projects through rate increases, and that it has considered and utilised alternative revenue sources as part of its funding proposal.³¹

While we have not undertaken a detailed evaluation of the council's expenditure items, we consider the proposed expenditure estimates are based on appropriate research and feasibility work, including:

- ▼ independent assessments of the council's road network undertaken in 2008, and a new independent assessment scheduled for 2012
- ▼ established unit rates for similar projects recently completed.³²

The council has also shown how the special variation will have a small positive effect on its recurrent and capital financial sustainability.³³ Its application indicated that:

- ▼ with the special variation, it will have an operating deficit (excluding capital grants and contributions) of around \$18m in 2020/21, and an asset renewal ratio of 50% in 2014/15
- ▼ however, without the special variation, it will have a deficit of \$23m in 2020/21, and an asset renewal ratio of 25% in 2014/15.³⁴

The latter scenario still includes all proposed maintenance, as the council has indicated that it would proceed with this even if the special variation were not approved.

²⁸ Port Macquarie-Hastings Council Application Part B, p 2.

²⁹ Port Macquarie-Hastings Council Application Part B, p 4.

³⁰ Port Macquarie-Hastings Council Application Attachment 13 - Transport Asset Management Plan.

³¹ Port Macquarie-Hastings Council Application Part B, p 9.

³² Port Macquarie-Hastings Council Application Part B, pp 13-14.

³³ A council's financial sustainability is based on a combination of its operating (or recurrent) performance and its capital performance. Recurrent sustainability means that councils are able to fund their recurrent expenditures from recurrent revenues, and so avoid using capital revenues for this purpose or running recurring operating deficits. Capital sustainability means that councils are able to fund infrastructure (both new and renewals) and asset maintenance to a level sufficient to ensure they can provide affordable services that meet reasonable standards over a 10-year period.

³⁴ Port Macquarie-Hastings Council Application Attachment 3 - Long Term Financial Plan 2012/13, pp 18 and 22; Part B, p 22.

Given these factors, we assessed that Port Macquarie-Hastings Council has demonstrated a need for the funds requested in its application. The special variation does provide the council with additional recurrent funding to ease the short-term pressures it faces, but it does not solve the council's financial sustainability issues. We encourage the council to develop a strategic plan to address the impact of the Glasshouse on its operating expenditure.

3.2 Criterion 2 - Adequate community consultation

Councils seeking special variations must demonstrate that they have undertaken adequate community consultation regarding the special variation and the associated program of expenditure. The consultation material should be clear and accurate, and should explain what the rate increase will be used for and its impact on ratepayers.

We found that Port Macquarie-Hastings Council has engaged extensively with the community to determine expenditure priorities and to determine whether there is support for the requested rate increase. The council's community consultation included mailing information about the proposed special variation to all ratepayers, conducting an online survey, conducting a media relations campaign to all print and electronic media outlets, and placing information materials promoting the survey in all council facilities, including libraries, offices and the Glasshouse.³⁵

The council's online survey involved approximately 2,500 respondents. It found that:

- ▼ 38% of respondents supported the rate increase associated with the requested special variation
- ▼ 37% supported paying the same level of rates (ie, continuing the expiring variation)
- ▼ 25% supported paying lower rates with a reduction in service levels.³⁶

Of the 38% in support of the rate increase, 44.5% indicated they preferred a higher increase in rates (\$100) to generate more funds for ongoing road maintenance, bridges, parking and road construction works.³⁷

The number of respondents was relatively high for an online survey. However, the survey itself is subject to self-selection bias and may not be representative of the views of the community, since people who choose to participate in these surveys may hold strong views either for or against the matter in question.

³⁵ Port Macquarie-Hastings Application Part B, pp 29-31.

³⁶ Port Macquarie-Hastings Application Part B, p 34.

³⁷ Port Macquarie-Hastings Application Part B, pp 34-35.

The council also received 80 submissions from the public in relation to the proposed special variation. Of these, 4 supported higher rates, 3 supported paying the same level of rates and 20 were opposed to the rate increase. The remaining submissions did not express an opinion on the proposed rate increase, but commented on other issues, including road condition, maintenance and the consultation process.³⁸

We received 5 direct representations from the public and considered these as part of our assessment. These submissions raised concerns about the condition of roads in the area and the council's financial management. We also received a submission from the Port Macquarie-Hastings Chamber of Commerce indicating business support for the special variation.

Overall, we assessed that the council met this criterion and that the results of its consultation show that the community is largely supportive of a rate rise to fund road works. However, we also note that these results also indicate there is some concern over the council's financial management. The council should continue to communicate the outcomes its works program delivers and the efficiency savings it achieves to the community.

3.3 Criterion 3 - Reasonable impact on ratepayers

This criterion is important, given that the primary purpose of regulating council revenues is to protect ratepayers from unreasonable increases in rates. To assess whether the council's application meets the criterion, we considered the magnitude of the impact of rate rises resulting from the requested special variation, the ratepayers' capacity to pay the increased rates, and outcomes from the council's community consultation (as discussed above).

Overall, we assessed that Port Macquarie-Hastings Council's proposed rate increases would have a moderate impact on most ratepayers. While some indicators suggest there may be some capacity to pay issues, we consider that the magnitude of the increase will be affordable for most ratepayers.

As Table 2.3 in Chapter 2 indicated, average rates will increase by between 4.1% (Port Macquarie CBD business rates) to 12.1% (mining rates). The average rates for urban residential ratepayers will increase by 8.4% (or around \$81) in 2012/13. In all rating categories, the increase is less than the 15.33% increase we approved because a large component of the full increase is already incorporated into rates (the 7.3% increase to replace the expiring special variation of roads and parks maintenance). In addition, some of the increase is for a fixed term of 5 years only, so rates should decrease somewhat at the end of this term.

³⁸ Port Macquarie-Hastings Application Part B, p 36.

We note that the Port Macquarie-Hastings LGA has a higher than average proportion of its community aged over 65.³⁹ Its average annual household income was \$34,213 in 2010/11, which is lower than the average for DLG Group 4 (\$38,502) and NSW (\$41,376). Its outstanding rates ratio in 2010/11 was 9%, which is a little higher than the averages for DLG Group 4 and NSW (6-7%), but still within the DLG benchmark range of less than 10%.⁴⁰ These indicators suggest some ratepayers may find the proposed rates increase difficult to pay.⁴¹

We also note that while the council does not have a hardship policy in place, it has drafted a policy which will be adopted prior to 30 June 2012.⁴² The council currently has hardship provisions within its Debt Recovery Policy, which allow pensioners to accrue rates as a debt against their property or estate.⁴³

3.4 Criterion 4 - Sustainable financing strategy consistent with the principles of intergenerational equity

Councils seeking special variations must demonstrate that they have considered the use of all available financing options to address their capital expenditure requirements. Their financing strategy must be both sustainable and ensure intergenerational equity. The concept of intergenerational equity means that the costs of long lived assets (like infrastructure) are shared between current and future users, based on their share of the use of these assets over their life. For example, this may be achieved by council borrowings, which spread the financing costs of infrastructure over a long period, rather than meeting these costs through large rate increases in the short to medium term.

Overall, we are satisfied that Port Macquarie-Hastings Council has a financing strategy that is consistent with intergenerational equity. The council has considered other methods of financing its proposed expenditure program as part of its long-term financial plan. It has maintained the use of debt to fund capital works and increased the amount of grant funding it can obtain.⁴⁴

In addition to the funds to be raised by the requested special variation, the council proposes to use alternative revenue sources and a 10-year borrowing program to support the costs associated with its overall expenditure program. We consider it affordable and reasonable, in part because the program will maintain the council's debt service ratio at around 16% for the next 3 years.⁴⁵

³⁹ Port Macquarie-Hastings Application Part B, p 39.

⁴⁰ DLG, unpublished comparative data, 2010/11. The DLG's accepted benchmark is <5% for urban and coastal councils and <10% for rural councils. (See: DLG, *Snapshot of NSW Councils: Comparative Information on NSW Local Government Councils 2009/10*, p 39.)

⁴¹ See Appendix B.

⁴² Port Macquarie-Hastings Council Application Hardship Policy.

⁴³ Port Macquarie-Hastings Council Application Attachment 6.

⁴⁴ Port Macquarie-Hastings Council Application Part B, pp 47-48.

⁴⁵ Port Macquarie-Hastings Council Application Part B, p 22.

3.5 Criterion 5 - Productivity improvements and cost containment strategies

Councils seeking special variations must demonstrate that they have implemented a program of productivity or efficiency improvements and cost containment strategies to ease expenditure pressures before considering an increase in rates. In particular, they need to provide details of the productivity improvements, efficiencies and cost containment strategies that they have implemented over the past 2 or more years, and details of those that they propose to realise over the period of the special variation.

In its application, Port Macquarie-Hastings Council indicated that it has achieved productivity savings and undertaken a number of cost containment strategies that have generated further savings for the council. Specifically:

- ▼ it has achieved productivity improvements in recurrent expenditure of around \$4.1m in the past 2 years (\$3.1m in ongoing annual savings)⁴⁶
- ▼ it has identified the potential for productivity improvements of 4% of operating expenses over the next 5 years per annum.⁴⁷

The complete list of the council's productivity and cost containment strategies are detailed in Part B of its application. Some of the specific projects it has undertaken include:

- ▼ the sale of Timbertown, Wauchope, which was operating at a loss, which has improved the council's overall position by \$600,000 on an ongoing basis
- ▼ the resignation of the management of the Bonny Hills and North Haven Caravan Parks (The council recognised that the management and operation of caravan parks is not its core business. As a result of negotiations with the Land and Property Management Authority, its overall position has been improved by \$190,000.)
- ▼ adoption of on-line fee payments and on-line certificate systems
- ▼ a review of the council's motor vehicle fleet (currently underway).⁴⁸

As part of our assessment, we also examined comparative data on productivity from the DLG for 2010/11 as presented in Appendix B. These data indicate that although Port Macquarie-Hastings Council has a higher number of full time equivalent (FTE) staff (447 compared with the Group 4 average of 313), the number of residents per FTE staff member is higher, which is an indicator of comparative efficiency.

The council also has higher average employee costs and significantly higher contractor costs than the average for DLG Group 4. However, employee costs as a share of total expenditure are lower than average.

⁴⁶ Port Macquarie-Hastings Application Part B, p 49.

⁴⁷ Port Macquarie-Hastings Application Part B, p 49 and IPART calculations.

⁴⁸ Port Macquarie-Hastings Application Part B, pp 49-52.

We encourage the council to continue to review its service delivery methods to demonstrate efficiencies and to continue to communicate these improvements to the community.



Appendices

A Port Macquarie-Hastings Council's Proposed Program of Expenditure

Table A.1 Port Macquarie-Hastings Council's works program summary (\$ '000)

	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Infrastructure maintenance/renewal	2,510	2,586	2,663	2,743	2,825	2,910	2,997	3,087	3,180	3,275
Additional unsealed roads maintenance	500	515	530	546	563					
Continuation of high traffic road resurfacing	800	824	849	874	900					
Pavement rejuvenation	200	206	212	219	225					
Road construction	180	185	191	197	203					
Total	4,190	4,316	4,446	4,579	4,716	2,910	2,997	3,087	3,180	3,275

Note Figures may not add due to rounding.

B Comparative indicators

Table B.1 Selected comparative indicators for Port Macquarie-Hastings Council, 2010/11

	Port Macquarie-Hastings Council	DLG Group 4 average	NSW average ^e
General profile indicators			
Area (km ²)	3,683	-	-
Population (no.)	75,104	-	-
General Fund operating expenditure (\$m)	82.9	54.4	54.8
General Fund revenue per capita (\$)	1,306	1,484	2,006
Rates revenue % total General Fund revenue	46.4	39.9	46.7
Average rate indicators^a			
Average rate level – residential (\$)	880	806	659
Average rate level – business (\$)	2,923	2,894	2,450
Average rate level – farmland (\$)	1,555	1,702	2,121
LGA socio-economic/capacity to pay indicators			
Average annual income, 2009 (\$)	34,213	38,502	41,376
Growth in average annual income, 2006-2009 (%)	5.0	4.6	4.4
Ratio of average residential rates (2010/11) to average annual income, 2009 (%)	2.3	2.0	1.5
SEIFA, 2006 (NSW rank) ^b	86	-	-
Outstanding rates ratio (%) ^c	8.6	6.0	7.3
Productivity indicators			
FTE staff (no) ^{c,d}	447	313	294
Ratio of population to FTEs ^{c,d}	168	127	126
Average cost per FTE (\$)	78,611	72,277	71,155
Employee costs as % ordinary expenditure	34.5	38.3	37.3
Contractor expenses (\$) ^c	11,451,000	4,584,370	6,238,288
Contractor expenses as % ordinary expenditure ^c	9.0	5.9	8.0

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

^b See footnote 13 for SEIFA index.

^c Based upon total council finances and operations ie, General Fund and Waste and if applicable, Water and Sewer and other funds (eg, Airport Fund).

^d Total number of FTEs is at 30 June 2010, which was reported in council's consolidated financial reports.

^e NSW averages exclude Snowy River Shire Council because data were not yet available.

Note: General Fund refers to all council activities except Water and Sewer.

Source: DLG, unpublished comparative data, 2010/11 and ABS, National Regional Profiles, NSW, November 2011.