

[REDACTED]
Sent: Saturday, 16 February 2019 3:14 PM

To: Local Government Mailbox <localgovernment@ipart.nsw.gov.au>

Subject: Port Stephens Council - Special Rate Variation Submission _ IPART

To Whom It May Concern,

I wish to raise concerns over Port Stephens Council's proposed Special Rate Variation (SRV). I provide the following information as reasoning why the proposed option should not proceed.

Port Stephens Council's Fit for the Future submission was assessed by the Independent Pricing and Regulatory Tribunal (IPART) in mid-late 2015 and found that Port Stephens Council was Fit for the Future (as can be seen by the table below extracted from Port Stephens Council Improvement Proposal endorsed at its 9 June 2015 meeting).

Assessment summary

Scale and capacity	Satisfies
Financial criteria:	Satisfies overall
• Sustainability	Satisfies
• Infrastructure and service management	Satisfies
• Efficiency	Satisfies

Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity - satisfies

- The council's proposal is consistent with the ILGRP's option.
- Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.
- As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
- The council has a robust revenue base and has demonstrated effective regional collaboration.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmarks for the infrastructure backlog, asset maintenance and delivery service ratios by 2019-20.
- The council states it has revised the methodology for calculating the backlog ratio from the 2014-15 year onwards, which we consider to be reasonable.

Efficiency - satisfies

- The council meets the criterion for efficiency based on its forecast for real operating expenditure per capita reducing over the period to 2019-20.

Page 3 & 4 of the Port Stephens Council Improvement Proposal states that:

Management of Port Stephens Council (the Council) requested a review of the Long Term Financial Plan (LTFP) as part of the 2016 budgeting process. PKF Lawler Partners were engaged during January 2015 to complete the agreed upon procedures. The LTFP articulates the various financial strategies available to Council as part of fulfilling its overall objectives including (but not limited to):

- *Maintaining the existing standard of service provision to the community;*
- *Achieving long term financial sustainability;*
- *Ability to re-invest into asset renewal and capital works; and*
- *Being Fit for the Future.*

Covering a ten year horizon, the Plan is underwritten by a series of modelling and associated analyses (e.g. Fit for Future ratios), which take into account known events at the time of its preparation, but also make assumptions with respect to future events. This engagement was also completed concurrently with a review of the Asset Management Plan, which also forms part of Council's Fit for the Future submission to the New South Wales (NSW) State Government via IPART.

Scope to undertake new functions and major projects

Council's rigorous fiscal discipline allows for a modest surplus going forward which Council has determined would be applied to reduction in the asset backlog (with consequent reduction in the asset maintenance required over time). This will be achieved without the need to apply for a special variation to rates. Under this fiscally conservative Long Term Financial Plan to 2025 Council has the scope to undertake new projects provided that there is alignment with the Community Strategic Plan; and value to the community and Council that outweighs other priorities. Alternatively Council will have a cushion to absorb unplanned events that negatively impact on its budget – the April 2015 storm is an example, where the net effect on the bottom line is estimated to be <\$250,000.

No mention of an SVR to enable Council to become Fit for the Future.

Page 20 of the Port Stephens Council Improvement Proposal provides further information on Council's outlook to maintain Fit for the Future benchmarks:

2.3 Performance against the Fit for the Future Benchmarks

Description	Current Performance	Future Performance	Benchmark	Comment
Operating Performance Result	0.0010 3 year average from 2012-2014	0.035 3 year average from 2015-2017	Greater or equal to break-even average over 3 years	The current performance ratio is based on a 3 year average between 2012 and 2014. The ratio was affected by the non-payment of the 2014 4th quarter Federal Assistance Grant. Had Council received this operating grant the ratio would have been 0.010 instead of 0.0010.
Own Source Revenue	77.9% 3 year average from 2012-2014	81.21% 3 year average from 2015-2017	60.0%	Council has strong revenue streams outside of grants which include commercial income from our investment portfolio, commercial property portfolio, holiday parks and Newcastle Airport.
Building and Infrastructure Asset Renewal	85.4% 3 year average from 2012-2014	103.71% 3 year average from 2015-2017	>100% average over 3 years	Council has slowly been growing its capital budget in order to reinvest into its building and infrastructure. In 2014 Council achieved a 114% renewal rate with plans to continue at this rate.
Infrastructure Backlog	5.57% As at 30 June 2014	2.27% As at 30 June 2017	<2%	Refer to section 3.1 for comments on Council's Infrastructure backlog.
Asset Maintenance	50.7% 3 year average from 2012-2014	98.2% 3 year average from 2015-2017	>100%	Refer to section 3.1 for comments on Council's Asset maintenance.
Debt Service Ratio	8.19% 3 year average from 2012-2014	4.62% 3 year average from 2015-2017	>0% and <20%	Council's debt and cash ratios remain steady and within the benchmark limits.
Real Operating Expenditure per capita	Decrease from 1.33 in 2011/12 to 1.23 in 2013/14	Decrease from 1.24 in 2015 to 1.13 in 2017.	Decreases over time	Decrease achieved despite average population growth of 1.2% -1.4% p.a.

There was no mention of an SRV by Port Stephens Council to enable it to become Fit for the Future.

Page 21 goes on to say that a Special Rate Variation is not required. This statement has been taken directly from Council's Long Term Financial Plan 2015-2025.

In the past Council has applied for special variations to rates to fund economic development; environmental works; and re-development of the Nelson Bay town centre. Historically Council has applied the normal annual rates increase allowed by the Office of Local Government and later IPART and will continue to do so. However in the interests of our community it is not anticipated that Council would seek any special variations to rates for the foreseeable future.⁵

⁵ Port Stephens Council Long Term Financial Plan 2015-2025

No anticipated need in Council's Long Term Financial Plan to need an SVR.

I now refer you to pages 39 – 42 of the Port Stephens Council Improvement Proposal, which identified the current situation of the Building & Infrastructure Renewal and how Council planned to address the shortfall.

Building and Infrastructure Renewal – Current Situation

Council has developed an Asset Funding Strategy: the statement of intent for the Asset Funding Strategy is to prioritise funds towards the renewal and maintenance of assets. This Asset Funding Strategy is cognisant of the Council's duties and responsibilities outside of asset management and not all monies can be diverted to the funding of assets. There are also other documented policies, such as the Acquisition and Divestment of Land Policy that already allocates sale of lands profits to other functions and services of Council.

The sources of funds included in the Asset Funding Strategy are:

- *sales of commercial or Council operational lands*
- *savings made from commercial arm of Council*
- *borrowings*
- *operational savings*
- *sustainability reviews savings*
- *grants*
- *contributions from other organisations and committees*
- *continue to shift funds in the Capital Works Program from new assets to renewal*

These additional funds can be used as seed and matching monies to improve Council's position in gaining additional grants and Section 94 to further reduce Council infrastructure backlog. While the additional monies are not guaranteed, when funds are available they are to be prioritised towards the renewal and maintenance of existing assets.

The average over three years is >100% which allows for a reduction in the infrastructure backlog.

No mention of an SVR to enable Council to become Fit for the Future.

Page 47 of the Port Stephens Council Improvement Proposal discussed how the Council would maintain assets into the future.

Asset Maintenance – Future Performance

Approach

Council has recently changed its focus towards a risk assessment/management approach to asset maintenance based on condition and fitness for purpose.

Over the last several years there has been at Port Stephens Council change in funding the maintenance and renewal of existing assets to reduce the backlog. This change has, and will continue to have an impact on the financial sustainability of the organisation and gives an increased ability to provide services to the community through assets.

Each of the above challenges has been addressed through the Long Term Financial Plan 2015-2025. The LTFP is based on achieving the following outcomes:

- *Progressively increasing the underlying operating surplus;*

- *Reducing the infrastructure gap;*
- *Starting to bridge the asset maintenance funding gap to ensure Council infrastructure is maintained at a satisfactory level;*
- *Achieving a financial structure where new assets or existing asset renewal needs are met from the base operating income of Council;*
- *The retention of service provision at present levels.*

Financial: *Council intends to reduce the maintenance gap by 51.0% in the period to 2020. Council has focused its funding towards renewal of assets rather than building new ones until the backlog is addressed so that adding to its considerable pool of assets is not going to be an issue in the short to medium term.*

To eliminate the maintenance gap entirely (i.e. meet the benchmark 100%) requires an estimated \$1.1 million additional expenditure per annum. Council intends to apply a combination of the following:

- 1. An additional \$500,000 p.a. directed to asset maintenance of sand extraction royalties, which are in the planning stage as at 2015 – to be put into the Long Term Financial Plan from 2016-2017;*
- 2. Divert proceeds from land sales from general operations to asset maintenance;*
- 3. Proactively re-assess actual condition of assets to refine required maintenance figures;*
- 4. Increase borrowings, if available at low interest (e.g. LIRS) – Council currently has achieved success in two rounds, approved loans of \$1 million and \$2 million respectively. Council's debt service ratio is healthy across the period – see below;*
- 5. Divestment of some vacant operational land, subject to market conditions being positive for a sale.*

Again, no mention of an in this proposal to IPART about applying for an SRV.

Criteria Results 2015 - 2017		
BENCHMARK		RESULT
<i>Operating Performance Ratio (greater or equal to break-even average over 3 years)</i>		0.035
<i>Own Source Revenue Ratio (greater than 60% average over 3 years)</i>		81.21%
<i>Building and Infrastructure Asset Renewal Ratio (greater than 100% average over 3 years)</i>		101.52%
<i>Infrastructure Backlog Ratio (less than 2%)</i>		2.27%
<i>Asset Maintenance Ratio (greater than 100% average over 3 years)</i>		98.93%
<i>Debt Service Ratio (greater than 0 and less than or equal to 20% average over 3 years)</i>		4.62%
<i>A decrease in Real Operating Expenditure per capita over time</i>		Decreasing
Criteria Results 2018-2020		
BENCHMARK		RESULT
<i>Operating Performance Ratio (greater or equal to break-even average over 3 years)</i>		0.047
<i>Own Source Revenue Ratio (greater than 60% average over 3 years)</i>		81.85%
<i>Building and Infrastructure Asset Renewal Ratio (greater than 100% average over 3 years)</i>		115.17%
<i>Infrastructure Backlog Ratio (less than 2%)</i>		1.96%
<i>Asset Maintenance Ratio (greater than 100% average over 3 years)¹²</i>		101.67%
<i>Debt Service Ratio (greater than 0 and less than or equal to 20% average over 3 years)</i>		2.95%
<i>A decrease in Real Operating Expenditure per capita over time</i>		Decreasing

Page 60 of the Port Stephens Council Improvement Proposal discussed how the Council rejected considering an SRV when preparing it's Fit for the Future submission as per the table below (amongst other Actions not shown in my submission).

3.5 Other Strategies Considered

Council considered the options in the table below when drawing up its Action Plan. For the reasons outlined these options were not taken up.

Option	Rationale for Rejection
Special Variation to Rates	<ul style="list-style-type: none"> a. This would be a 'short term' fix but is not justified in terms of impact on the community; b. Whilst it is always an option for Port Stephens Council, we feel that we have other mechanisms that would be better (own source revenue other than rates, for example) to fund any shortfall in asset maintenance, given that by 2020 we will achieve the target of >100%.

My questions to Council in the initial community consultation (and logged during the exhibition period were:

- What had changed significantly in the past 24-36 months to propose such a significant SRV given the examples provided painted Port Stephens Council in a relatively strong position (i.e. Fit for the Future). Was the Fit for the Future submission misleading or incorrect to appease the State Government at the time?
- Are some of the projects identified (and not necessarily currently identified in any strategic masterplan of Plan of Management) the best use of Council's funds? Personally, the current standard of town centres and neighbourhoods across Port Stephens is more than adequate. I'm sure the tourists who might spend 1-4 weeks in our beautiful region each year aren't here for the streetscapes and pedestrian friendly areas. I also believe that the majority of the foreshore improvements and coastal protection works, including boat ramps, sand management and accessible beach access should be funded by RMS and the state government as the owner/controller of the waterways and not local Council's.

I feel that something has gone significantly wrong at some stage for Council to now be making an application to IPART for an SRV in such a sort time since it lodged it's Fit for the Future submission in 2015 that the Council needs to reconsider it's position and certainly question senior management about what has happened since mid 2015 when all things appeared to be on-track for a steady future for the area.

The average rate payer will not be able to absorb the significant SRV's proposed and I'm sure if given the opportunity to revisit their desired level of service compared with the cost to deliver, would reconsider quite quickly.

Yours Sincerely

Nathan Eveleigh & Rebecca Eveleigh

[REDACTED] | Raymond Terrace NSW 2324
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