



I write to **oppose** the application made to IPART by Port Stephens Council for a Special Rate Variation (SRV).

Is there a genuine need for a SRV? The General Manager's Article in "Informe" dated 29 November 2018 "Shining Bright in Port Stephens" reported that council had delivered in the last twelve months "more than \$28 million worth of major projects, including building the Fern Bay Community Centre, Yacaaba Street extension, and Fingal Bay rural fire station to name a few. We've also upgraded key roads, pathways, amenities and boat ramps across Port Stephens although there's plenty more to do". An earlier article in "Informe" dated 20 November states that "Port Stephens Council will invest \$25.2 million in major projects across our local government area in 2018-2019 to improve the quality of facilities for our community. Roads, drainage, libraries, parks, playgrounds, pools, holiday parks and sporting facilities are all set to benefit!" The Mayor's statement in this article provides information on the sources of funding for these projects as follows "About a third of the funding (\$8 million) will come from rates, fees and charges. The rest will come from other revenue sources including grants (\$5.6 million), as well as holiday parks, property investments, developer contributions, donations and dividends from Newcastle Airport (\$11.6m combined)".

I note that the application to IPART will include among necessary "projects" funding of a number of asset maintenance backlogs and/or service or quality increases. It has not been made clear in the documentation why the Council has such an asset maintenance backlog having regard for its usual annual provision for depreciation. The SRV bid does refer to increased standards of service but I believe it should be made clear what is the apportionment of any SRV increase for this purpose between spending on asset maintenance backlog and enhancement of services. Furthermore, there would seem to be a need for some indication of just what is proposed in the way of increased levels of service or quality of assets.

To more fully address the issues in the above paragraph, Tomaree Ratepayers & Residents Association (TRRA) in its submission dated 21 December 2018 on the revised Integrated Plans, posed the following questions to Council based on an analysis of the information published in its Annual Financial Statement for 2017/2018. In its summary of submissions received no reference was made to these inquiries and similarly no mention was made of the issues raised on the Revised Integrated Plans which ultimately are the basis for Council's application to IPART for the SRV.

Unanswered Questions: 1. What is the estimated financial value of Council's refurbishment capital backlog as of end 2017/18 financial year? 2. Why has this capital refurbishment backlog occurred, given Council has an annual depreciation allocation for refurbishment of assets? Is it a) Council's valuation of its assets is in error? Or b) Council's productivity and performance in delivering the projects was not industry efficient? Or c) Depreciation funds have been diverted to non-refurbishment activities? Or d) Other reasons than above? Please quantify. 3. If the answer to 2 above is b) What is Council doing to ensure its performance is industry competitive in the refurbishment of its asset base? How is this bench marked and demonstrated to the community? 4. If the answer to 2 above is c) Where have these funds been diverted? Can Council provide a list of the initiatives and their respective costs and an explanation as to why? 5. Council in the SRV application is proposing to increase the frequency of the level of service in refurbishment of its assets. Can Council please quantify whether this is either; a) an increase in Council's historical

refurbishment capital performance to achieve the specified asset condition standards of service in the pre-SRV SAMP or b) a proposal to offer a higher level of asset condition standards of service in the capital refurbishment of assets. 6. If the answer is b), what is the cost increase to the annual depreciation allocation that will result? 7. Can Council provide assurance that the Commercial Businesses' assets are self-funding in their historical years and 10 year forward year projections with respect to; a) both refurbishment and enhancement capital works? and b) operations and maintenance? The premise of this question being that Council should provide assurance that general rates revenue, including any SRV, will not be used to cross subsidise these businesses in any way?

IPART's assessment criteria TRRA queried whether Council has demonstrated that its variation proposal meets the following Criteria 3. on page 8 of Guidelines for the Preparation of an application for a Special Variation to General revenue "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 rate 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 Council's public consultation processes were well conceived and information on the quantum of the proposed increases for each option was clearly presented and well publicised. I request that IPART carefully examines the "Community Consultation Report" which was tabled for the Port Stephens Council Meeting on 9 September 2018. This document provides specific results of the opinions expressed in surveys and written submissions in respect of each of the options which were presented by Council to the public. These results clearly indicate a strong public opposition to the proposed SRV options which was most strongly directed towards Options 3 and 4. In a subsequent presentation to a community group meeting, when questioned on these results, the Mayor responded to the effect that the results of surveys and the views presented in submissions should not be given too much weight. He claimed that there was a "silent majority" that was fully supportive of the proposed SRV. He stated that these views had been conveyed to him and some other councillors informally in social, sporting and business encounters. There is no sound evidence of the extent of this "silent majority" and I believe that the only objective available guide to community attitudes is in the survey results, views expressed at consultation sessions and the content of written submissions. In the briefing for the Council Meeting held on 29 January 2019 where council resolved to apply for the SRV it was stated that: Council undertook extensive consultation and received approximately 2,000 submissions and completed surveys. Overall 74% of respondents selected Option 1 (rate peg only) as their first preference, while 17% of respondents selected one of the SRV options as their first preference with 9% not answering the question. . IPART's attention is drawn to the following extract from this briefing paper which seeks to dismiss the basis for publicly expressed opposition. "OPPOSITION TO PROPOSED SRV • Council should live within its means. The proposed SRV is not necessary. • A number of comments about a Council that has previously been rated as 'Fit for the Future' making a proposed SRV is unjustifiable. • Concern about existing costs. • Many projects are "nice to have" rather than essential. • Priorities should be roads, foreshore erosion and environment. (Council's) RESPONSE Council can continue with its current program of works and service delivery without a SRV. The annual rate peg rise allows for maintenance of services but a continuing diminution of infrastructure and no ability to undertake and maintain range of new infrastructure. However, community feedback has continually highlighted that more is expected and this cannot be funded by grants or investment income alone. PREVIOUS COMMUNITY FEEDBACK • Misconception voiced at meetings and in a number of submissions that the majority of ratepayers have objected to the proposed SRV in the Stage One consultations. (Council's) RESPONSE This is not accurate. Council

undertook extensive consultation and received approximately 2,000 submissions and completed surveys. Overall 74% of respondents selected Option 1 (rate peg only) as their first preference, while 17% of respondents selected one of the SRV options as their first preference with 9% not answering the question.” I challenge the basis for these responses. I also believe that the Council’s responses do not justify a conclusion that “there is a capacity and willingness to pay rate increases as proposed under option 3 as proposed by Council. Additionally, there is no argument presented why Option 3 (the 7.5% increase) has been recommended rather than any of the other options ,

Another consideration mentioned in the Guidelines relates to “significant change in circumstances affecting the need for additional revenue and or the capacity of Council to maintain its revenue”. In the documentation supporting the SRV proposal there is minimal argument presented to support this circumstance. In my assessment the healthy trends in residential home construction and new industrial capacity, especially associated with Newcastle Airport (half owned by Port Stephens Council), should be expanding the Council’s rate base and its capacity to fund projects. The supporting material for the SRV does not adequately address the possible extent of hardship which may be the result of the proposed increases. I believe that the following socioeconomic indicators demonstrate that there is a significant proportion of vulnerable households in Port Stephens:

22.9% of the population are seniors aged 65 and above, compared to only 16.3% for NSW as a whole (<https://www.communityprofile.com.au/portstephens/>);

- An unemployment rate of 7.2%, compared to only 6.3% for the State as a whole (ibid);
- It is more than 20 per cent poorer than NSW as a whole, with a median weekly household income of \$1180 compared to \$1486 for all of NSW;
- There are more poor people: 23.2% of Port Stephens households have a gross weekly income of less than \$650, compared to 19.7% of all NSW households (ibid).

It may not be surprising, then, that a huge majority of residents who were surveyed opposed any SRV.

Council offers no comment in relation to the impact of Option 3 on renters or the business community many of whom are also renters. TRRA in its initial submission raised the potential for smaller retail and commercial businesses to be severely stressed by the extent of the rate hikes on business property which already have a high base rate reflecting an earlier special levy. We do not want any more empty shops in Nelson Bay.

It is acknowledged that hardship relief measures have been included in the SRV package, but these do not appear to extend to renters or to the business rate payers.

I accept that the proposed project priorities nominated for funding are desirable in a utopian sense. The “something for everybody” approach obviously underlies the asserted need to pursue the high rate increase factor and the extended time financing scenario with 20-year loan obligations. It is not surprising that the project list in such an offering was well received by the community which always has a wish list of ‘nice to have’ projects.

I believe that a more acceptable approach would be to establish a less ambitious list of projects based on a more rigorous prioritisation. This would need to have regard to cost/ benefit criteria and where appropriate, serious business cases to establish on-going Project feasibility and sustainability. The quantum of the proposed rate increase could be reduced and the time for cumulative rate rises brought back to say 3-4 years. If such evidence of need and sustainability was demonstrable, the

proposal would have more chance of being accepted by the community. Reliance on Loan Funding Council has stated that its Long- Term Plan is based on projections for a period of 10 years yet it intends to leverage its Increase in SRV revenue with \$60 million in loan funds over 20 years with some of the increased rate revenue being applied to loan servicing. I am concerned this will commit future Councils and ratepayers to an ongoing financial regime based on high rates and long-term loan servicing commitments. I consider that there is a significant risk factor associated with potential for changing business and economic circumstances over the next 20 years.

If the council succeeds with its application, it is at the higher end of the options normally granted by IPART. I note the current Council which is proposing the SRV has only 18 months to run before the next elections. I do not recall any of the current Councillors expressly flagging an intention for an SRV during the election campaign in 2017. I suggest that a less ambitious project list and shorter period for rate rises would be much more saleable to the community and allow the necessary flexibility to respond to the changing social, business, technical and financial conditions. There would be greater opportunity to assess the success of Council in delivering the programme and if proven, there would be an option of applying to IPART for an extension of the SRV.

John McInerney

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