



## Special Variation Application Form Part B

Port Stephens Council

# Application Form

2023-2024

Local Government »



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Enquiries regarding this document should be directed to a staff member:

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## **The Independent Pricing and Regulatory Tribunal (IPART)**

Further information on IPART can be obtained from [IPART's website](#).

### **Acknowledgment of Country**

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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## Council information

<b>Council name</b>	Port Stephens Council
<b>Date submitted to IPART</b>	27/01/2023

## About this application form

IPART has revised the Application Form to be completed by councils applying for a special variation (SV) to general income for 2023-24 under section 508(2) or 508A of the *Local Government Act 1993* (LG Act). The application form is in two parts:

- Special Variation Application Form Part A (separate Excel spreadsheet)
- Special Variation Application Form Part B (this MS Word document)

The SV Application Form Part B consists of:

- Description and Context Questions
- Criterion 1: Need for the variation
- Criterion 2: Community awareness and engagement
- Criterion 3: Impact on ratepayers
- Criterion 4: IP&R documents
- Criterion 5: Productivity improvements and cost containment strategies
- Criterion 6: Other relevant matters
- Council certification and contact information
- List of attachments

When completing this Application Form, councils should refer to the following:

- Apply for a SV or minimum rates (MR) increase page of IPART's [website](#)
  - Fact Sheet – Special Variations in 2023-24
  - Information paper – Special Variations in 2023-24
  - Information paper – Community awareness and engagement for special variations

The Office of Local Government (OLG) [SV Guidelines](#) issued in November 2020.

## Preparing your application

### How much information should a council provide?

While the criteria for all types of SVs are the same, the OLG Guidelines state that the extent of evidence required for assessment of the criteria can alter with the scale and permanence of the SV proposed.

The amount of information that a council provides will be a matter of judgement for the council, but it should be sufficient for us to make an evidence-based assessment of the application. Generally, the extent of the evidence should reflect the size and complexity of the variation sought.

### Attaching supporting material

We encourage councils when filling in this Application Form to present data in tables or summaries and include full versions of documents as attachments. Responses in the text boxes should clearly cross-reference where the information is located in the supporting documents attached to the council's application. Extracts included in the responses in this application from Integrated Planning & Reporting framework (IP&R) documents and consultation material should be succinct and selected for relevance and significance.

### Confidential content in supporting material

IPART will post all applications (excluding confidential content) on the IPART website. Examples of confidential content are those parts of a document which disclose the personal identity or other personal information pertaining to a member of the public, or a document such as a council working document that does not have formal status, or a document which includes commercial-in-confidence content.

Councils should ensure supporting documents are redacted to remove confidential content where possible, or clearly marked as **CONFIDENTIAL**. To protect confidential details in submissions from ratepayers, either redact or submit as a confidential attachment (see List of attachments).

### Submitting the application online

Applications must be submitted through IPART's Council Portal by close of business on Friday, 3 February 2023.

- A file size limit of 10MB applies to the Application Form Part B.
- For supporting documents (Attachments) a file size limit of 400MB applies to public documents, and another 200MB to confidential documents.

Contact Arsh Suri on (02) 9113 7730 for assistance with using the Council Portal.

## Publishing the council's application

Councils should also publish their application on their own website for the community to access.



## Description and Context

These questions seek information not tied to a specific criterion in the OLG guidelines. Councils should provide a response where the Question is relevant to its application.

### Question 1: What is the type and size of the special variation the council is applying for?

In the checkbox and Table 1, please indicate the type of the proposed SV - section 508(2) or 508A the council is requesting and:

- specify the percentage increases in each of the years in which the SV is to apply,
- the cumulative increase for a section 508A SV, and
- whether the SV is to be permanent or temporary.

A year is within the SV period if it is a year in which the council is proposing an increase of income that is not the rate peg. For example, if a proposal was for a permanent SV of 10% in each year of the next 2-years then 2023-24 and 2024-25 would be within the SV period. If the proposal was for a temporary SV of 8% for 2023-24 to be retained in the rate base for 5 years, the SV period would be 2023-24 only.

Provide select the proposed SV type using the checkbox and complete Table 1.

#### Special variation type

#### Permanent or Temporary

☐

Section 508(2)

☒

Section 508A

☐

Permanent

☐

Temporary

Table 1 The council's proposed special variation

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Is this year in the SV period?	yes	yes	yes	no	no	no	no
Percentage increase (including the rate peg)	9.5%	9.5%	9.5%				
Cumulative percentage increase over the SV period for s 508A (including the rate peg)	9.5%	19.90%	31.29%				

**Note:** Please leave the percentage increase value blank for years that are outside of the SV period.

**Note 2:** The cumulative percentage increase is the total increase in rates over the SV period. For example, a permanent multi-year SV of 10% in 2023-24 and 15% in 2024-25 would be a cumulative increase of 26.5% over the SV period.

### Question 2: What is the key purpose of the requested special variation?

In the **text box** indicate at the highest level (that is, the shortest possible summary) the key purpose(s) of the proposed SV. The purposes could include one, or a combination of:

- improving financial sustainability
- maintaining existing services and service levels generally
- providing new or enhanced services or service levels for specific council operations



- implementing new projects or activities, e.g. environmental works
- reducing infrastructure backlogs for asset maintenance and/or renewals
- investing in new assets
- contributing to projects of regional significance
- meeting special cost pressures faced by the council
- meeting the shortfall where contributions for local infrastructure are capped.

This section should also include an outline of the key steps undertaken in reaching a decision to make an application.

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### **Key Purpose**

The key purpose of the Special Variation (SV) Application is financial sustainability.

SV income will be used to eliminate the successive operational budget shortfalls as forecasted within the Long Term Financial Plan (LTFP) and ensure Council can continue to deliver the activities and actions outlined in our Integrated Planning and Reporting suite of documents. Ensuring that rate income is sufficient to provide core services, and therefore, reduce the risk and reliance on commercial revenues.

The funding generated through this reasonable and affordable increase will also enable Council to deliver modest enhancements in four key areas of existing services as identified as priorities by our community, (i) road maintenance, (ii) condition of public space, (iii) protecting our natural environment and (iv) protecting our waterways.

### **Key Steps**

Council undertook a number of key steps in reaching a decision to apply for a SV. It did so with a data-driven management lead strategy that ensured the community was at the heart of decision-making. Each of the key steps articulated below, was carefully planned and considered by Council in a systematic way that ensured all options were explored before reaching the decision to make an application to IPART.

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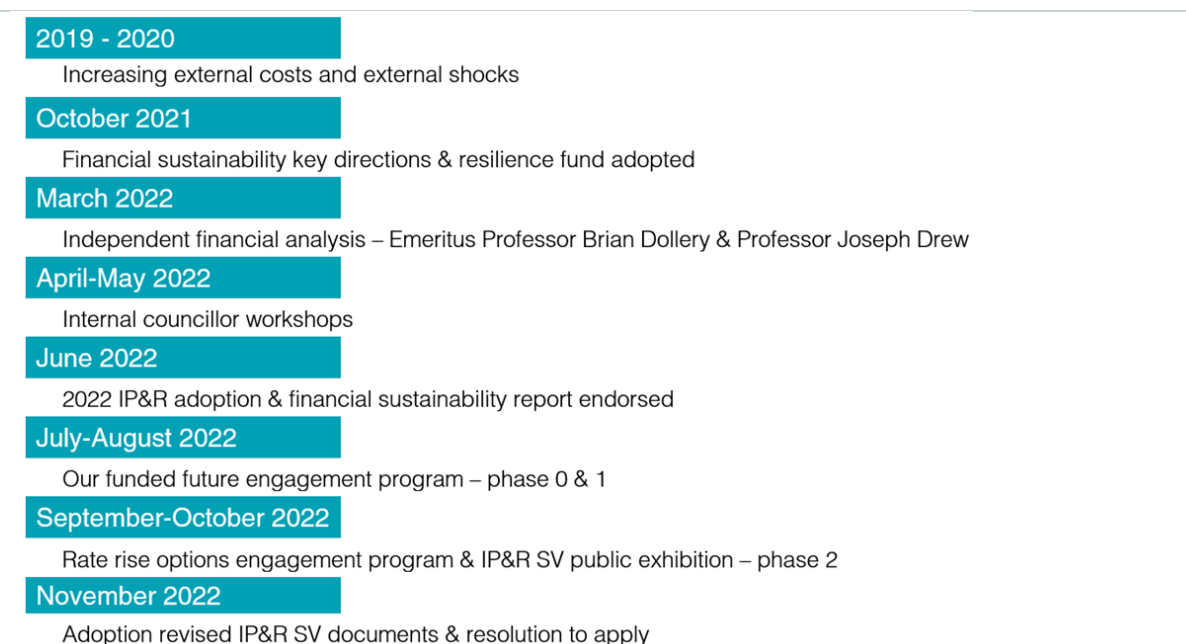


Figure 1: Key Steps Visual

From 2012 onwards Council began its financial recovery from years of operational deficits with the aim of achieving a small budget surplus target from 2014 onwards. The formalisation of this target into our IP&R documents sets a greater focus on performance and budget control across the organisation. Two of the numerous factors that supported Council in achieving this financial turnaround included the implementation of:

- a) Council's Service Review Program, and
- b) Treasury Model which improves strict budget culture and accountability.

See Criteria 5 for more information on Council's Service Review Program and Treasury Model.

Being able to maintain an underlying operating budget surplus has enabled Council in the past to address unexpected critical works and services that arise throughout the year. Achieving this target thus far has been further supported by effective financial reserve management, ongoing success with grant funding, aggressively pursuing non-rate revenue through our property development and investment portfolio, Council-owned and operated holiday parks and childcare centres, as well as a dividend from the operations of Newcastle Airport Pty Limited (NAPL).

From 2019 onwards Council's LTFP highlighted that from 2022 Council would start to face increased pressures but would still slightly remain in a small consecutive underlying surplus. Primarily the start of this downward trend centred on external factors such as the rate capping regime, where rate caps were less than increasing operational costs associated with insurance, workers compensation, cost shifting from state to local government and legislated changes in superannuation. These extended external factors have had and continue to have a negative impact on our ability to balance the budget.

Recently, Council has faced further external shocks with increased natural disasters, the Covid-19 Pandemic with the associated mandated lockdowns, and now increasing inflationary pressures.

These events impacted many of the income-generating sections of the organisation and significantly increased Council's costs. Income pressures included the loss of the annual dividend from Newcastle Airport of \$2 million dollars per annum as well as significant reductions to commercial income from its holiday parks and childcare centres operations. The recovery of these income streams is uncertain, a return date of the airport dividend not being expected for a number of years and Council is expecting a decline in travel demand, which will impact its holiday parks (particularly international visitors). Given that Council's rates income is significantly lower than its OLG5 category average it has become clear that Council's current rate base is not sufficient to fund core services alone.

Council's two biggest cost pressures that come with providing services for our community relates to materials and services and our employee costs. With the RBA predictions of a significant slowing in the global economy intensifying and the effect of high inflation as being a material risk, Council's concerns around rising cost pressures in both of these areas are warranted. It is further acknowledged that these costs will likely see further increases in the coming years and severely impact Council's ability to deliver existing service levels to its Community whilst remaining financially sustainable.

Council's road network has also been impacted by supply chain issues, prolonged wet weather conditions and multiple significant natural disasters. These influences meant that Council has had to prioritise resources between planned works and unplanned works when dealing with multiple declared natural disasters.

Continuous wet weather has made it difficult to complete Council's standard spray seals program, resulting in Council focusing funding on asphalt resurfacing which can be completed in less ideal weather conditions and all year round. However, this comes at a higher square metre rate due to the cost of the supply, delivery and construction methodology.

We know that these external impacts on our road network were felt by our community through increased customer requests and record low community satisfaction scores for roads. Council is currently working through its regular road condition survey that will truly uncover the damage to our road network from the past few years. The early data warrants Council's prediction that our road network has deteriorated with major changes in condition expected on survey completion.

Despite Council's demonstrated ability to implement effective short-term strategies such as across-the-board budget cuts of 10%, delaying of projects and cutting down of discretionary spending, concerns grew over Council's long-term financial sustainability outlook with its Operating Performance Ratio going below the OLG benchmark for three out of the five past financial years. This result demonstrates that Council has been walking a thin tightrope for a number of years now.

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After a series of internal efforts made to overcome rising costs pressures and external shocks to income, Council's first key step to address financial sustainability was the adoption of the Port Stephens Council Financial Sustainability Key Directions and Prosperity Fund (renamed Resilience Fund) in October 2021 (Attachment 20 - Council Report 26 October 2021 – Port Stephens Council Financial Sustainability and Prosperity Fund), which set key directions for ongoing financial sustainability.

After overcoming the delayed 2021 Council elections the incoming Council were briefed on the current financial position and outlook, to which they began holding regular workshops with executive and senior staff to set the strategic direction and investigate all options available to further address council's financial sustainability. This step was critical to ensuring that every alternative avenue to an SV was explored.

To confirm Council's internal data analysis Council engaged Emeritus Professor Brian Dollery and Professor Joseph Drew to conduct an independent financial analysis. Council opted to forgo traditional commercial consultants as the Professors are widely accepted by the sector as independent voices with a level of depth and insight beyond standard practices within the local government sector.

Four reports were commissioned in total, relating to financial sustainability, efficiency, capacity to pay and debt capacity. The reports recognised the effects taken by the organisation over the past few years in delivery services valued by the community under extremely low rate income compared to other councils of the same size and nature, but considered that such an ongoing approach could not be sustained and Council was considered at present financially unsustainable.

### **Financial Sustainability Analysis - Executive Summary Extracts**

*"It is noteworthy that senior management – especially those involved in financial matters – have done a sterling job. There is thus good reason to believe that their efforts have been pivotal in averting a financial crisis thus far".*

Moreover, it is abundantly clear that a special rate variation (SRV) is essential moving forward. The matter is not simply about ensuring adequate revenue receipts (an immediate concern), but it is also a pre-requisite for ongoing financial sustainability and intergenerational equity, as well as a remedy for dispelling dangerous levels of fiscal illusion."

The report introduced the concept of fiscal illusion noting that it was extremely high for Port Stephens Council. Fiscal illusion occurs when local ratepayers do not understand the financial circumstances of their local council and underestimate the true cost of current council services. Furthermore, when people receive a discounted price for Council services and think that their local government is in a good financial position then economic theory predicts that they will demand an excessive quantity and quality of council services. As a result, fiscal illusion places financial sustainability in jeopardy.

The reports confirmed Council has been subsidising its low rates income, on a comparative basis, through commercial income. This suggests that residents have not been paying the full price for the local public services that they consume and is evidence of entrenched fiscal illusion. Heavy reliance on commercial income to balance the budget leaves Council very vulnerable to further economic shocks and is not sustainable.

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The sophisticated economic modelling in the reports made the determination that Council had reached its debt limit and advised Council not to take on any more additional debt until a new additional revenue had been secured. It raised concerns surrounding Council cash flows and its very low levels of cash holdings in a relative sense and assessed the community's capacity to pay an increase in rates.

The independent reports made numerous recommendations where Council may be able to seize small gains and decrease our commercial risk. Some of these have since been implemented such as a review of fees and charges, capturing more tourist revenue and not relying on airport dividends for daily operations. Whilst others such as reviewing Developer Contribution Schedule, addressing fiscal illusion with an awareness campaign and aligning Service Review Program more closely to willingness to pay have been scheduled into ongoing business operations.

At the 28 June 2022 Council meeting, Council adopted its 2022-2032 Long Term Financial Plan as part of the IP&R documents. The 2022-2032 LTFP projected a ten-year \$80 million dollar operating shortfall, meaning that Council would see an operating deficit into the millions each year of the LTFP. This modelling took into consideration efforts made to date by Council as well as some of the recommendations made by the Professors. The IP&R documents articulated Council's concerns regarding financial sustainability and stated that it might be time for Council to investigate a SV.

Along with the 2022-2032 LTFP, Council endorsed the Financial Sustainability Report which detailed steps taken up to date to address financial sustainability and a detailed engagement program, named Our Funded Future, to discuss financial sustainability with the community and seek feedback on a numerous options.

In July-August 2022, Council undertook extensive community engagement that included five different options for a Special Variation, ranging from 26% to 45% cumulative. This was alongside non-rate income options for increasing fees and charges, reducing service delivery, selling underperforming assets, removal of the residential paid parking exemption, continuing efforts to seek grant funding and also sought feedback on service area priorities. This step ensured that the community were aware of all options being considered and had the opportunity to have their input prior to Council revising the IP&R documents for the next financial year being 2023-2024.

Council considered the community feedback from the Our Funded Future engagement at its meeting at the end of August 2022 and resolved to endorse the development of revised IP&R documents and phase 2 of the engagement program named 'Rate Rise Options'.

In September-October 2022, the draft IP&R documents were placed on public exhibition and included two SV scenarios, the base scenario, the inclusion of a one-off 5% increase in fees and charges, more active efforts in seeking grant funding and the continued investigation with community consultation of selling underperforming assets. Council also sought to exclude the removal of the residential paid parking exemption option from being further considered. It was decided that any net profits from the sale of underperforming assets and any future airport dividend would be placed in the Resilience Fund to be used for significant infrastructure projects or initiatives. This key step showed the community that their input was again directly reflected into the final IP&R documents.

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There was strong community acceptance that Council had to be in a strong enough position to continue services uninterrupted in the event of a further economic shock and natural disasters. Moreover, people expressed a strong desire to quickly address the decline in recent years rather than let matters decline further before taking corrective action to mitigate the compounding effects of several years of shortfalls.

Through the engagement and public exhibition period, there was strong support expressed for having a financially sustainable Council with a secure capacity to continue services at existing levels. Furthermore, the need for enhanced services in particular areas of Council – especially road maintenance was also said to be a high priority. Outcomes from the engagement demonstrated that whilst a substantial rate increase was concerning to some members of the community, most who engaged directly were understanding of Council's need for the proposed reasonable SV.

After extensive consideration community feedback and the current and future cost pressure predictors to council's operations and assets, Council resolved to apply to IPART for a lower rate increase percentage than originally proposed and adopted the revised IP&R documents with changes that again directly reflected community input. Refer to Criteria 3 for further details on community engagement outcomes.

### Question 3: Is the council proposing to increase minimum rates in conjunction with the special variation?

Complete this question if the council proposes to increase minimum ordinary or special rates in conjunction with the SV for 2023-24.

Councils may have to submit a separate application for an increase to MR in addition to applying for the SV.

A separate MR increase application is needed in the following circumstances:

- The council is currently charging a minimum ordinary rate *at or below the statutory limit*, and intends, as part of implementing the SV, to apply a lower, higher or the same percentage increase as the requested SV percentage, which would result in a minimum rate in any rating category or sub-category *exceeding the statutory limit* for the first time.
- The council is already charging a minimum ordinary rate *above the statutory limit*, and the council is seeking to increase a MR by a percentage *higher than* the proposed SV percentage increase for any year.
- The council proposes to charge a special rate (other than a water supply or sewerage special rate) above \$2.
- The council already has approval from IPART to charge a special rate (other than a water supply or sewerage special rate) above \$2 and proposes to increase the amount of that rate.

In these situations, councils should complete Minimum Rate Application Form Part B 2023-24 (Word document) available on our website [here](#).

Councils **do not need** to submit a separate MR increase application if, in conjunction with the special variation, the proposed increase to minimum rates would result in minimum rates in all rating categories and/or sub-categories still being *at or below the statutory limits*.

To respond to this question, councils need only to provide the summary information required in the **question box**.

IPART will rely on data in the SV Application Form Part A and the MR Increase Application Form Part A for detailed information about how the proposed SV would increase minimum amounts of rates.

### If the increase applies to an ordinary rate, complete this section

Does the council have an ordinary rate(s) subject to a minimum amount?

Does the council propose to increase the minimum amount of its ordinary rate(s) above the statutory limit for the first time?

Which rates will the increases apply to?

If the increase will apply to only some subcategories, specify

Does the council propose to increase the minimum amount of its ordinary rate(s)? If so, by what percentage?

X%

What will the minimum amount of the ordinary rate(s) be after the proposed increase?

\$Click to enter amount

Has the council submitted an application for a minimum rate increase?

### If the increase applies to a special rate, complete this section

Does the council propose to increase the minimum amount of a special rate above the statutory limit?

What will the minimum amount of the ordinary rate(s) be after the proposed increase?

\$Click to enter amount

Has the council submitted an application for a minimum rate increase?

Choose an item.

The council must ensure that it has submitted MR Increase Application Form Parts A and Part B, if required.



#### Question 4: Does the council have an expiring special variation?

If the council has an expiring SV, IPART requires additional information to ensure the Instrument approving a new SV accurately calculates the amount the council has to remove from its general income before applying any adjustment to the council's general income which may be approved.

OLG's SV Guidelines specify that councils must contact OLG to confirm the calculation of the amount to be deducted from the council's general income for the expiring SV.

Complete this question if the council has a temporary SV which is due to expire:

- on 30 June 2023, or
- at the end of a later year in the period the requested SV would apply.

The council must calculate the amount to be removed from general income when the SV expires in accordance with the method explained in Attachment 1 to the SV Guidelines. It should also seek confirmation of this calculation from OLG and attach OLG's advice to the Application Form.

Provide the information as requested in the question boxes.

Does the council have an SV which is due to expire on 30 June 2023? No

Does the council have an SV which is due to expire at some time during the period for which the new SV is being requested? No

If Yes to either question:

a. When does the SV expire?

b. What is the percentage to be removed from the council's general income?

c. What is the dollar amount to be removed from the council's general income?

Has OLG confirmed the calculation of the amount to be removed?

#### Attachments required:

- Instrument(s) approving any SV which expires at the end of the current financial year or during the period covered by the proposed SV.
- OLG advice confirming calculation of the dollar amount to be removed from general income as a result of the expiring SV.

### Question 5: Does the council have an existing (ongoing) section 508A special variation which applies in 2023-24?

Complete this question if the council has an existing section 508A multi-year SV instrument which approves an increase to general income above the rate peg for 2023-24 and future years within the period covered by the council's SV application.

If the council has an ongoing section 508A SV and is seeking additional changes to general income during the term of that existing SV, IPART will need to vary the original instrument if the additional SV is approved, rather than issuing an additional SV instrument to apply for 2023-24 (or later years).

The council should understand that by completing this application form and seeking a further change to the council's revenue path, it is, in effect, applying to IPART to vary the original instrument.

IPART will assess the application using the same criteria (see Criteria 1 to 6 in this SV Application Guide and the SV Guidelines), as for any application for a new SV.

While IPART's assessment will typically focus on the additional percentage increase sought, we may also consider whether it is appropriate to maintain the existing component of the section 508A SV, especially in light of any circumstances which are materially different from those in place when the original increase was approved.

OLG's SV Guidelines (Section 6) set out the list of factors which IPART may take into account when assessing an SV application, one of which is compliance with conditions in instruments approving previous SVs. When assessing applications for SVs in 2023-24, IPART will also take into consideration the council's compliance with conditions in instruments approving SVs in the previous five years.

The council's application should be clear about whether the information provided is in relation to the incremental increase being sought or the total cumulative increase that would be reflected in a varied instrument if the additional increase is approved.

Supporting documents could include extracts from annual reports or any other publications in which compliance with the terms of the SV has been reported to ratepayers.

Does the council have a section 508A multi-year SV instrument that applies in 2023-24?	No
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If yes to the above question, in the text box:

- Specify the percentage increase(s) and duration of the SV.
- Outline the council's actions in complying with conditions in the instrument approving the original SV.
- Describe any significant changes relevant to the conditions in the instrument since it was issued.

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Click here to enter text.

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#### Attachments required:

- A copy of the SV instrument.
- A declaration by the General Manager as to the council's compliance with the conditions specified in the SV instrument.
- Supporting documents providing evidence of the council's actions to comply with the conditions in the instrument.

#### Question 6: Has IPART approved a special variation for the council in the past five years?

When assessing applications for SVs in 2023-24 IPART will take into consideration the council's compliance with conditions in SV instruments approved in the previous five years. OLG's SV Guidelines (Section 6) sets out additional factors which IPART may take into account when assessing an SV application, one of which is compliance with conditions in instruments approving previous SVs.

Complete this question only if IPART has approved an SV for the council in the past five years.

You **do not need** to complete the text box for this question if the relevant information has been provided in the council's response to Question 5.

Supporting documents could include extracts from annual reports or any other publications in which compliance with the terms of the SV has been reported to ratepayers.

Does the council have a section 508(2) or 508A SV which IPART has approved in the past five years?	No
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If yes to the above question, in the text box, for each SV approved in the past five years, briefly:

- Specify the type of SV and the increase to general income approved.
  - Outline the council's actions in complying with conditions in the SV instrument(s).
  - Describe any *significant* changes relevant to the conditions in the SV instrument(s) since it was issued.
- 

Click here to enter text.

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#### Attachments required:

- A copy of the relevant instrument(s) approving SVs issued by IPART in the past five years.

- A declaration by the General Manager as to the council's compliance with the conditions specified in the SV instrument(s).
- Supporting documents providing evidence of the council's actions to comply with the conditions in the instrument(s).

### Question 7: Does a project to be funded by the special variation require a capital expenditure review?

Complete **the question box** if the council intends to use any of the additional general income the council would receive if IPART approves the SV to undertake major capital project(s) which require a capital expenditure review.

OLG's [Capital Expenditure Guidelines](#) require a capital expenditure review for projects that are not exempt and cost in excess of 10% of council's annual ordinary rates revenue or \$1 million (GST exclusive), whichever is greater.

A capital expenditure review is a necessary part of a council's capital budgeting process and should have been undertaken as part of the IP&R requirements in the preparation of the Community Strategic Plan and Resourcing Strategy.

Is a capital expenditure review required for a project to be funded by the proposed SV in accordance with OLG's Capital Expenditure Guidelines?	No
If Yes, has a review been done and submitted to OLG?	
If yes, has the review been included as an attachment to this application?	

### Question 8: Does the council have deferred general income increases available to it?

Complete **the question box** if council has decided not to apply the full percentage increases to general income available to it in one or more previous years under sections 506, 508(2) or 508A of the LG Act.

Section 511 of the LG Act was amended in 2020 to allow councils to catch-up any deferred general income increases over a period of 10 years.

In assessing this criterion, IPART will take into account whether a council has a large amount of revenue yet to be caught up over the next several years, and it should explain in its application how that impacts on its need for the SV.

Does the council have deferred general income increases available to it from one or more previous years under section 511 of the LG Act?	Yes
If Yes, has the collection of this additional income been included in the Council's Long Term Financial Plan (LTFP)?	No

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In the text box explain:

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a. The quantum, rationale and timing of any deferred increases in general income.

As articulated in Part A, Council has \$60,290 in catch ups from the previous financial year, representing 0.13% % of year zero income.

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b. When council plans to catch up on the deferred general income through the catch up provisions and whether this been included in the LTFP.

Each year Council utilises a small amount of catch ups provisions as a rolling risk mitigation measure to ensure it does not exceed its notional rate peg. As the amount is considered immaterial, it has not been included into the LTFP.

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c. How does this deferred income impact on the council's need for the SV and its cumulative impact on ratepayers' capacity to pay?

The size of the catch up does not have a material impact on council's need for the SV and its cumulative impact on ratepayers' capacity to pay.

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## Criterion 1 – Need for the Special Variation

### Criterion 1 in the SV Guidelines is:

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 canvass alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios:

- Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business-as-usual model, and exclude the special variation, and
- Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.

The IP&R documents and the council's application should provide evidence to establish this criterion. This could include evidence of community need/desire for service levels/projects and limited council resourcing alternatives.

Evidence could also include the analysis of the council's financial sustainability conducted by Government agencies.

In assessing this criteria, IPART will also take into account whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act. If a council has a large amount of revenue yet to be caught up over the next several years, it should explain in its application how that impacts on its need for the special variation.

The response to this criterion should summarise the council's case for the proposed SV. It is necessary to show how the council has identified and considered its community's needs, as well as alternative funding options (to a rates rise). You should include extracts from, or references to, the IP&R document(s) that demonstrate how the council meets this criterion.

Information and financial analysis contained in the council's IP&R documents and its application should demonstrate the financial need for the proposed SV. IPART will undertake its own analysis of the council's financial performance under scenarios with and without the SV, as explained in Box 1. The council's response to criterion 1 should use the terminology included in Box 1

### Box 1 IPART analysis of financial need using information in the council's application for a special variation

IPART uses information provided by the Council in its application to assess the impact of the proposed SV on the Council's financial performance and financial position in relation to its operating result and infrastructure spending.

Based on the Council's application and LTFP (where appropriate), we calculate financial forecasts under three scenarios:

1. **The Proposed SV Scenario** – which includes the Council's proposed SV revenue and expenditure.
2. **The Baseline Scenario** – which shows the impact on the Council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
3. **The Baseline with SV expenditure Scenario** – which includes the Council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the Council's financial sustainability if it still went ahead with its full expenditure program included in its application but could only increase general income by the rate peg percentage.



## Case for special variation – How did the council establish the need for the special variation?

In the table below, please provide a short summary of what the council published in its IP&R documents that show that the council meets each component of criterion 1. Please also provide a reference to where in the IP&R documents this evidence can be found. The answers to these questions should explain:

- How the council identified and considered the community's needs and desires in relation to matters such as levels of service delivery and asset maintenance and provision.
- How the decision to seek higher revenues above the rate peg was made.
- Which other options were examined, such as changing expenditure priorities or using alternative modes of service delivery.
- Why the proposed SV is the most appropriate option: for example, typically other options would include introducing new or higher user charges and/or an increase in loan borrowings, public private partnerships or joint ventures.
- How the proposed SV affects the LTFP forecasts for the General Fund, and how this relates to the need the council identified. Our assessment will also consider the assumptions which underpin the council's LTFP forecasts.
- If the need for the expenditure is not required to meet a financial need, the council should provide evidence of the community's desires for the services or assets to be funded by the proposed SV and its willingness to pay for them.

If the council has **an ongoing SV**, while the response should focus on the additional percentage increase to general income being sought, it should also specify:

- How the council has implemented the program of expenditure funded by the existing SV income.
- Whether any circumstances relating to the financial need for the additional revenue changed since it was approved, for example the council has received grant funding or income from other sources for the project.
- How changed circumstances have given rise to the need for an additional increase to general income.
- How closely revenue and expenditure in past years matched the projections made in the council's LTFP when applying for the original, and if relevant, the reasons for any significant differences.

Where the council **proposes to increase the minimum amount of rates** in conjunction with the SV, the responses to the questions should include information about the MR increases where relevant. However, the council should explain its rationale for increasing minimum rates above the statutory limit when completing the MR Increase Application Form Part B in relation to criterion 1: Rationale.

Table 2 Criterion 1 components

Criteria	Evidence of meeting this criterion from the council's IP&R documents	Reference to IP&R documents
The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the SV) is clearly articulated and identified in the council's IP&R documents	<p>Council's 2022-2032 IP&amp;R suite of documents was developed through listening to the community's priorities and values as well as the onboarding of a new Council after delayed elections. The suite of documents encompassed the community's aspirations and priorities as well as Council's planned activities and actions to deliver on those aspirations and priorities.</p> <p>The 2022-2026 Delivery Program identified Financial Sustainability as one of Council's key priorities. The Delivery Program and the LTFP informed the community of Council's bleak financial position and outlook, currently implemented austerity measures, service review program and the independent reports commissioned from Professors Dollery and Drew.</p> <p>The 2022-2023 LTFP projected consecutive operating deficits to a sum of \$80 million dollar over the next ten years. The financial challenges, including significant commercial risks from the predicated economic slowdown and rising inflationary pressures, facing Council were clearly articulated and identified within the LTFP.</p> <p>This was continued throughout the revised IP&amp;R documents and the purpose of the SV was clearly articulated to the community as Financial Sustainability. For more detail see Criteria 4.</p>	<p>Attachment 1 - Relevant Extracts from the Adopted 2022 IP&amp;R Documents - Community Strategic Plan, p 22 Challenges</p> <p>Attachment 21 - Relevant Extracts from the Adopted 2022 IP&amp;R Documents - Delivery Program and LTFP, p27 Key Priority Financial Sustainability, p78 Key Directions for Financial Sustainability, p 32-33 LTFP executive summary and 67-73 and scenario projection</p> <p>Attachment 2 - Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation, p 11-15</p> <p>Attachment 3 - Adopted Resourcing Strategy 2023 to 2033 - Long Term Financial Plan (LTFP) - Revised for a Special Rate Variation, all pages</p>
In establishing need for the SV, the relevant IP&R documents should canvass alternatives to the rate rise.	<p>The 2022 IP&amp;R documents articulated to the community the financial sustainability outlook and opened the conversation on alternatives to a rate rise.</p> <p>On independent advice and internal reviews, Council's 2022-2023 LTFP included a 10% increase to non-statutory fees and charges and increased smart parking income from the further rollout of smart parking sites across the LGA.</p> <p>Whilst Council initially considered additional debt funding as an alternative to the rate rise, due to the results arising from the independent sophisticated debt capacity assessment conducted as well as rising interest rates Council has not included any additional debt in its operations in forward planning.</p> <p>It is important to note that Council specifically canvassed and discussed non-rate options along with the base scenario with the community during the Our Funded Future Phase 1 engagement program. It was clear from the community engagement there was a lack of support for the base scenario and any reduction in services, see Criteria 2 for more information.</p>	<p>Attachment 1 - Relevant Extracts from the Adopted 2022 IP&amp;R Documents - Community Strategic Plan, p 22 Challenges</p> <p>Attachment 21 - Relevant Extracts from the Adopted 2022 IP&amp;R Documents - Delivery Program and LTFP, p27 Key Priority Financial Sustainability, p78 Key Directions for Financial Sustainability, p 32-33 LTFP executive summary and 67-73 and scenario projection</p> <p>Attachment 3 - Adopted Resourcing Strategy 2023 to 2033 - Long Term Financial Plan (LTFP) - Revised for a Special Rate Variation</p>

	<p>The revised 2023-2024 IP&amp;R modelled a further 5% increase to non-statutory fees and charges, articulated a continued commitment to more actively pursue grant funding support through a dedicated Grants Officer and confirmed that any net profits from the sale of underperforming assets as well as any future airport dividend received are to be placed in the Resilience Fund. Meaning that these funds will be quarantined from daily operations and reduced reliance on commercial income as advised in the independent reports.</p> <p>Through this extensive program, Council believes it has exhausted every alternative avenue that would be financially responsible and align with community expectations.</p>	
In demonstrating this need councils must indicate the financial impact in their LTFP	In Council's revised LTFP both the base scenario under rate capping and the SV scenario was modelled in full. This included an impact statement and a full set of financial statements with ratios to show the financial impact of each scenario.	Attachment 3 - Adopted Resourcing Strategy 2023 to 2033 - Long Term Financial Plan (LTFP) - Revised for a Special Rate Variation, p 78 - 84
The IP&R documents and the council's application should provide evidence to establish this criterion. This could include evidence of community need/desire for service levels/projects and limited council resourcing alternatives.	<p>Council's engagement program outcomes are provided in criteria 2 of this application and shows the community's need and desire for a financially sustainable council as well as support for some enhanced services in priority areas as identified by the community.</p> <p>Council's IP&amp;R suite of documents has been revised to reflect the outcomes of the engagement program dedicated to addressing financial sustainability and modest enhancements to priority areas. Whilst the base scenario projections show an unsustainable outlook. Refer to criteria 2 and 4 for more information.</p>	<p>Attachment 1 - Relevant Extracts from the Adopted 2022 IP&amp;R Documents - Community Strategic Plan, p 27, 31, 36, 40 Focus Areas</p> <p>Attachment 2 - Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation, p 28, 35,89</p> <p>Attachment 3 - Adopted Resourcing Strategy 2023 to 2033 - Long Term Financial Plan (LTFP) - Revised for a Special Rate Variation, p 78-84</p> <p>Attachment 16 - Relevant Extracts - Adopted Resourcing Strategy 2023 to 2033 - Strategic Asset Management Plan (SAMP) - Revised for a Special Rate Variation, p 105-108</p>
Evidence could also include the analysis of the council's financial sustainability conducted by Government agencies	<p>Council commissioned an independent financial analysis through the University of New England's Centre for Local Government. Emeritus Professor Brian Dollery and Professor Joseph Drew undertook the assessment and produced four reports</p> <ul style="list-style-type: none"> <li>• Financial Sustainability</li> <li>• Efficiency</li> <li>• Capacity to Pay</li> <li>• Debt Capacity</li> </ul>	<p>Attachment 18 – Independent Financial Analysis 2022 – Financial Sustainability Report, Capacity to Pay Report, Efficiency Report, Debt Capacity Report</p> <p>Attachment 2 - Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation, p 12</p>

The reports concluded that Port Stephens Council was not financially sustainable, but commended Council for its financial management efforts and work on efficiency. Furthermore, sophisticated econometric modelling demonstrated comfortable capacity to pay a cumulative increase of 34.92% via a SV. In addition, the reports also identified that Council had reached its debt capacity.

Council included commentary around these reports in the revised Delivery Program and Operational Plan, the reports were published on Council's website, requests for hard copies were fulfilled and a summary video of the reports was made by Professor Drew and posted to Council's website.

Council did request a copy of the latest TCorp credit assessments but was declined as the work cannot be shared externally.

IPART will also take into account whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act. If a council has a large amount of revenue yet to be caught up over the next several years, it should explain in its application how that impacts on its need for the SV.	Council does not have any large amount of revenue yet to be caught up over the next several years, under section 511 of the Local Government Act.	n/a
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**Note:** Reference to IP&R documents should include Application attachment number, document Name, section reference, page reference. For example: Attachment 3, Council LTFP, section 3.2, pp 20-25.

## Financial sustainability of the council – What will be the impact of the proposed special variation?

The proposed SV may be intended to improve the council's underlying financial position for the General Fund, or to fund specific projects or programs of expenditure, or a combination of the two. We will consider evidence about the council's current and future financial sustainability and the assumptions it has made in coming to a view on its financial sustainability.

In the **table**, the council's response should explain:

- The council's understanding of its current state of financial sustainability, its long-term projections based on alternative scenarios and assumptions about revenue and expenditure.
- Any external assessment of the council's financial sustainability (e.g. by auditors, NSW Treasury Corporation), indicating how such assessments of the council's financial sustainability are relevant to supporting the decision to apply for an SV.
- The council's view of the impact of the proposed SV on its financial sustainability.

Table 3 Council's financial sustainability

Item	Description	Reference to IP&R documents
Improve the councils underlying financial position for the general fund	<p>Council's key purpose of the SV is financial sustainability as measured by the OLG benchmarks and the comprehensive reports of Professor Dollery and Drew.</p> <p>Under the base scenario Council will see successive operating deficits primarily due to increasing operating costs and restricted rates income. Council would thus be very vulnerable to further economic shocks or natural disasters in the absence of an approved SV.</p> <p>Under the SV scenario Council will see a return to surplus results for the majority of the life of the LTFP and enable Council to continue existing operations as outlined in the IP&amp;R documents.</p>	<p>Attachment 2 - Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation, p 11 and 89</p> <p>Attachment 23 - Adopted Resourcing Strategy 2023 to 2033 - Long Term Financial Plan (LTFP) - Revised for a Special Rate Variation, p 78-84</p>
<b>And / Or</b>		
Fund specific programs of expenditure	<p>A secondary focus if the above financial sustainability target is reached, some of the SV income will be used to fund modest enhancements to areas of priority as identified by the community.</p> <p>These areas include</p> <ul style="list-style-type: none"> <li>• Road maintenance</li> <li>• Condition of public space</li> <li>• Natural environment</li> <li>• Waterways and foreshores</li> </ul>	Attachment 2 - Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation, p 28

Attachment 16 - Relevant Extracts -  
Adopted Resourcing Strategy 2023  
to 2033 - Strategic Asset  
Management Plan (SAMP) - Revised  
for a Special Rate Variation, p 105-  
108

**Note:** Reference to IP&R documents should include Application attachment number, document Name, section reference, page reference. For example: Attachment 3, Council LTFP, section 3.2, pp 20-25.

## Financial indicators – What will be the impact of the proposed special variation on key financial indicators over the 10-year planning period?

In the text box please give a brief explanation on how the proposed SV would affect the council's key financial indicators (for the general fund, over the 10-year planning period):

It is important to note that through the Independent Financial Analysis conducted by Professors Dollery and Drew over 50 metrics were assessed and as a result Council was deemed unsustainable. See Attachment 18 – Independent Financial Analysis 2022 – Financial Sustainability.

### Operating Performance

The proposed SV would see Council's Operating Performance Ratio (OPR) ratio return to a positive result for the life of the LTFP. This is compared to a negative OPR ratio result trend under the base scenario and the basis for the financial need of the SV.

Council, in conjunction with Newcastle Council co-owns Newcastle Airport with a corporate structure in place. Whilst Council is obligated under the Accounting Standards to consolidate the entities for its financial reporting, the Newcastle Airport functions under its own complex corporate structure. Meaning the responsibility for daily operations of the airport facility is removed from Council's control and is undertaken by the Airport itself.

Council's primary investment strategy for the Airport is to provide a facility for economic growth to the region, and measures its returns in the long-term asset growth and value of the facility with dividends used in line with the resilience fund, rather than reliance on daily operations. The unconsolidated OPR ratio provided below shows a more realistic picture of Council's forecasted operations and should be taken into consideration when assessing its application for an SV for the key purpose of financial sustainability.

#### Operating Performance Ratio - Unconsolidated (Excl. Airport)

Base Scenario	0.3%	-0.4%	-1.4%	-2.5%	-3.7%	-4.2%	-4.8%	-6.0%	-6.2%	-6.7%	-7.3%
Operating Revenue	124,948	129,797	133,504	136,755	139,950	143,323	146,755	150,262	153,839	157,484	161,164
Operating Expenses	124,611	130,282	135,332	140,187	145,061	149,408	153,762	159,263	163,431	168,087	172,990
SV Scenario	0.3%	1.5%	2.1%	1.5%	2.0%	2.0%	2.1%	1.6%	1.9%	1.7%	1.3%
Operating Revenue	124,948	132,240	139,672	147,143	150,739	154,566	158,494	162,530	166,674	170,925	175,237
Operating Expenses	124,611	130,282	136,753	144,937	147,749	151,437	155,192	159,943	163,431	168,087	172,990



The results from the last few years highlight how exposed Council has become to commercial risk in its struggle to maintain sufficient revenues despite clearly inadequate rates income. Demonstrated experience confirms that the continuation of this trend ultimately puts Council in a financial position where it is vulnerable to external shocks that have significant financial and service level impacts.

Council is acutely aware of the projections of the RBA over a significant decline in economic growth and rising inflationary pressures on its daily operations and their longevity. The SV OPR result will not only enable Council to continue existing service levels but back the rebuilding of cash reserves, in particular, unrestricted cash to safeguard Council's operations and expected future asset rehabilitation work.

### **Own Source Revenue**

Council has worked hard to achieve a diversified revenue stream to fund operating results with non-core local government revenues. This is highlighted by Council's Own Source Revenue ratio which is consistently above the benchmark. These revenue streams such as Council's holiday parks, property portfolio and Newcastle Airport are slowing or nearing their peak. Taking into consideration recommendations made by the Professors to reduce reliance on commercial income – especially those related to tourism make Council's LTFP quite vulnerable and drives fiscal illusion.

### **Rates and annual charges**

Council has a long-standing history of strong rates collections for a regional Council as a result of its collection processes, focus on digital transformation in the receipting platforms and the inherent low levels of rates by comparison. With the proposed SV being lower than the expert community capacity assessment, Council expects its collections pattern to continue with an average of 3% notwithstanding the proposed SV.

### **Building and asset renewal**

New projects are only added to the SAMP and LTFP when funding is secured. As such, there is no appetite to change this approach due to the uncertain nature of grant funding and restrictions on Developer Contributions funding.

Grant funding is typically allocated to new assets as per the requirements of the grant funding to secure a net positive benefit from the infrastructure investment and in short, development contributions having a legal requirement for the infrastructure spending to be needed as a consequence of new development as identified in Council's Development Contributions Plan. As a result, there are existing communities in Port Stephens with ageing assets and infrastructure gaps that cannot be allocated these sources of funding.

Council's SAMP prioritises funding towards renewals over new assets and is reflected in prior years' results. The renewal process is dictated by risk, assessment of the asset deterioration, community service delivery and available funding. Given increased inflationary costs in materials and contracts this trend will decrease further below the benchmark.

**Infrastructure backlog**

Council's current backlog of \$15.5 million is largely dominated by sealed roads, which makes up 78% of the value. Given Council's expectation of its road network deterioration from external impacts such as prolonged wet-weather and declared natural disasters, it expects to see Council's backlog increase over the life of the LTFP. Whilst Council has a demonstrated history of receiving State and Federal grants that are directly utilised in bringing the backlog down, these are increasingly uncertain.

The base scenario forecasts operational deficits at existing service levels, without fully modelling corrective action of reduced services as it is in contrast to community support. Council assumes no material difference in expenditure between the base and the SV model.

Council's concern over financial sustainability will not be resolved entirely by an SV but is a critical step in resolving the matter. With inflationary pressures rising at a rapid pace, the assumptions made in regard to expenditure costs may well prove to be conservative.

In Table 5 please provide the councils key financial indicators.

Table 5 Council financial indicators

Ratio – SV Scenario	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Operating performance ratio excluding capital items	-0.3%	3.1%	3.5%	2.9%	3.3%	3.4%	3.5%	3.1%
Own source revenue ratio	79.4%	87.4%	87.7%	88.2%	88.3%	88.5%	88.7%	88.9%
Rates and annual charges ratio	3.1%	3.1%	3.1%	3.2%	3.2%	3.2%	3.2%	3.2%
Building and asset renewal ratio	83.2%	84.7%	84.4%	84.4%	83.9%	84.5%	85.6%	85.8%
Infrastructure backlog ratio	1.9%	2.2%	2.2%	2.5%	2.9%	2.8%	3.2%	3.5%

## Criterion 2 – Community awareness and engagement

Criterion 2 in the SV Guidelines is:

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. In particular, councils need to communicate the full cumulative increase of the proposed special variation in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. Council should include an overview of its ongoing efficiency measures and briefly discuss its progress against these measures, in its explanation of the need for the proposed SV. 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 IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.

To complete the questions for criterion 2 provide relevant extracts of the IP&R documents that set out the rate rises under the proposed SV and attach relevant samples of the council's consultation material.

The response should provide details and examples to demonstrate the clarity of information presented in the consultation materials, including information about:

- The need for the proposed SV.
- Specific programs or projects, levels and types of services, investment in assets and the options for funding them by rate increases.
- The proposed cumulative rate increases including the rate peg for each major rating category (in both percentage and dollar terms), particularly where the increase is to be applied differentially across ratepayer categories (i.e. rates will not increase uniformly by the SV percentage).
- The annual increase in average rates that will result if the proposed SV is approved in full (and not just the increase in daily or weekly terms).
- The size and impact on rates where an existing SV will continue, expire, be renewed or replaced at the end of the current financial year or during the period when the requested SV will apply.
- The rate levels that would apply without the proposed SV (clearly showing the impact of any expiring SV).
- Outlining evidence of residents and ratepayers being aware of the proposed SV.
- Outcomes could include the number of people reached by mail outs, the number of attendees at events and participants in online forums, the number of submissions made, surveys or feedback forms completed, as well as evidence of media reports and other indicators of public awareness of the council's SV intentions.
- Explaining how the community responded and the feedback the council received about its proposal.

The response should indicate how participants responded to any surveys, particularly the level of support for specific programs or projects, levels and types of services, investment in assets, as well as the options proposed for funding them by rate increases. Where the council has received submissions from the community relevant to the proposed SV, the application should set out the views expressed in those submissions.

Although this criterion does not require the council to demonstrate community support for the proposed SV, it is required to consider the results of the community consultation in preparing the application. The response should identify and document any action taken, or which will be taken, to address issues of common concern within the community about the proposed SV.

Some councils will need to provide additional information in their response to demonstrate how consultation material explained to the community details about the proposed SV and its impact on rates to reflect the specific circumstances of their application, for example:

- If the council is **renewing or replacing an expiring SV**, information was provided about the purpose, and duration of the expiring SV, the original and current percentage of general income the SV represents, whether the new SV is temporary or permanent, the amount of any *additional* increase above the rate peg being requested, and that if the proposed SV is not approved (i.e. only the rate peg applies), the year-on-year change in rates would be lower, or that rates may fall
- If the council **has an existing (ongoing) section 508A SV** and is applying for an *additional SV*, how the consultation material explained details about the existing SV, its size and duration, and the impact on rate levels when it does expire, as well as the impact on rate levels and annual increases with and without the additional SV.
- If the council proposes to **increase minimum rates**, the increase to minimum amounts, and any change to the proportion of ratepayers on the minimum rate for all relevant rating categories which would occur as a result of the SV.
- Where the council intends to **make any changes to the rating structure in 2023-24** in conjunction with the proposed SV, such as changes to subcategories and adjusting ad valorem rates following new land valuations, the need for or purpose of the change and its impact was explained to the community.

## How did the council engage with the community about the proposed special variation?

In the table below please provide evidence as to how the councils community engagement met criterion 2.

Table 4 Evidence of council's community engagement meeting criterion 2

Criteria	Evidence of meeting this criterion	Reference to application supporting documents
Evidence that the community is aware of the need for and extent of a rate rise.	<p>Council developed a comprehensive multi-phase Communications and Engagement Program to meet the following objectives through each of its four phases.</p> <p><b>Phases 0 &amp; 1: July 2022 – August 2022</b></p> <ul style="list-style-type: none"> <li>• Increase community awareness of Council's financial situation and its journey to date</li> <li>• Inform the community about Council's financial sustainability options</li> <li>• Seek community feedback on options for Council's financial sustainability</li> <li>• Identify the community's views on options for financial sustainability</li> </ul> <p><b>Phase 2: September 2022 – October 2022</b></p> <ul style="list-style-type: none"> <li>• Continue to increase community awareness of Council's financial situation and its journey to date</li> <li>• Inform the community about the preferred rate increase options for Council's financial sustainability</li> <li>• Seek community feedback on the preferred rate increase options for Council's financial sustainability</li> <li>• Identify the community's views on the preferred rate increase scenarios</li> </ul> <p><b>Phase 3: November 2022 – May 2023</b></p> <ul style="list-style-type: none"> <li>• Create community awareness of next steps for community engagement with IPART</li> <li>• Inform the community about the rate increase option Council intends to include in an application to IPART</li> <li>• Inform the community of IPART's determination</li> </ul> <p>These objectives outline the importance Council placed on ensuring the community was aware of the need and extent of a rate rise and genuinely engaged the community throughout the process ensuring issues and concerns were understood and incorporated into decision-making.</p> <p>The below awareness summary tables detailed Council's reach and participation across the four phases of the engagement program. The methods to achieve this reach and participation are outlined below. Council defines active participation as any time a person has actively done something to be part of the engagement. This can be completing the online survey, visiting the website for more information, clicking or liking a social media post, attending a community information session or contacting Council to ask questions or find out more. Although reach and participation may be duplicated in some parts across phases, the community were part of the ongoing conversation, providing informed feedback into decision-making.</p>	<p>Attachment 11 - Communication and Engagement Plan - Phase 0 &amp; 1 - Our Funded Future</p> <p>Attachment 18 - Communications and Engagement Plan - Phase 2 - Rate Rise Options</p> <p>Attachment 30 - Communications and Engagement Plan - Phase 3 - Rate Rise</p> <p>Attachment 14 - Communications and Engagement Report - Phase 0 &amp; 1 - Our Funded Future</p> <p>Attachment 20 - Communications and Engagement Report - Phase 2 - Rate Rise Options</p>

Awareness Summary				
	Phase 0	Phase 1	Phase 2	Phase 3
<b>Reach</b>	119,456	122,929	121,999	55,599
<b>Participation</b>	1,401	6,547	7,957	288

Attachment 31 -  
Communications and  
Engagement Report -  
Phase 3 - Rate Rise

Figure 2: Awareness summary table

The awareness summary confirms the effectiveness of the communication and engagement program to create awareness in the community of the need for and extent of the rate rise. A full comprehensive report containing the materials and community feedback is located Communications and Engagement Report attachments.

Outcomes of each phase were reported back to Council in the form of a Council Meeting Business Paper with the Communication and Engagement Report as an attachment. These documents were publicly available on Council's website via the standard minutes reporting process as well as directly linked to the SV project webpage.

#### Rate Notice Brochure

To ensure all ratepayers were aware that Council was considering a SV, a two page hard copy SV brochure was included with the annual rate notice received by ratepayers on the 13 July 2022 before the first phase of engagement commenced on 18 July. A total of 35,478 SV brochures were distributed. Ratepayers who receive their notices in electronic format received an electronic version of the brochure linked with their electronic notice. The two-page brochure included a message from the acting General Manager outlining Council's previous financial history, current and forecasted financial position, corrective action already undertaken, introduced a range of financial sustainability solutions, including a special variation, and provided information on how ratepayers could have their say. Additional hard copies of the brochure were placed at customer-facing facilities such as the administration building front counter and libraries (Attachment 9, page 24-25).

#### Snap Poll

A snap poll was implemented pre and post community information sessions in phase 1 to capture the effectiveness of the communications and engagement leading up to and within each session. This involved two questions asked of attendees of the community information sessions pre and post session to gauge any movement in awareness and level of support for a SV. Thirty attendee's completed the snap poll with results showing both a higher level of being informed as well as greater support for a SV post-session (Attachment 9, page 11- 12).

Of those that completed the snap poll, 86% of attendees being 'somewhat aware' before the information session commenced. This demonstrates the effectiveness and clarity of Council's communication methods in creating awareness in the community, regardless of attending a detailed information session. Key movements of note include a 167% increase within the 'A fair bit' informed category, being 33% pre-session to 80% post-session. This was in conjunction with a decrease within the 'Not at all' category from 7% pre-session to 0% post-session. Given the complex nature of the content, this result commends the delivery.

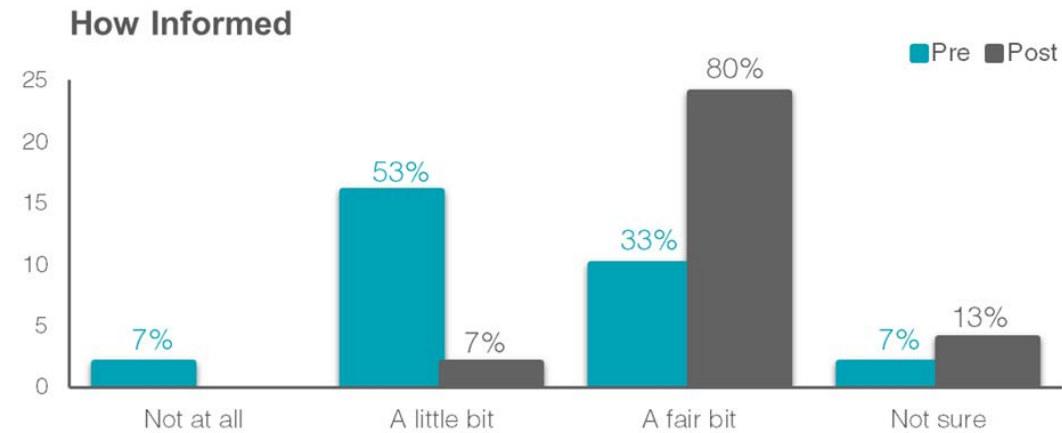


Figure 3: How informed result – community information sessions

The snap poll also asked attendees how supportive they were of a SV prior to the sessions and also post-session. Prior to the sessions, 19% of attendees were 'somewhat supportive' of an SV, with an increase of 237% to 64% of attendees being 'somewhat supportive' post-session. This demonstrates that the need and extent of the proposed SV was clearly understood by those that attended the sessions and the community members who engaged at these sessions are supportive of a SV for Port Stephens.

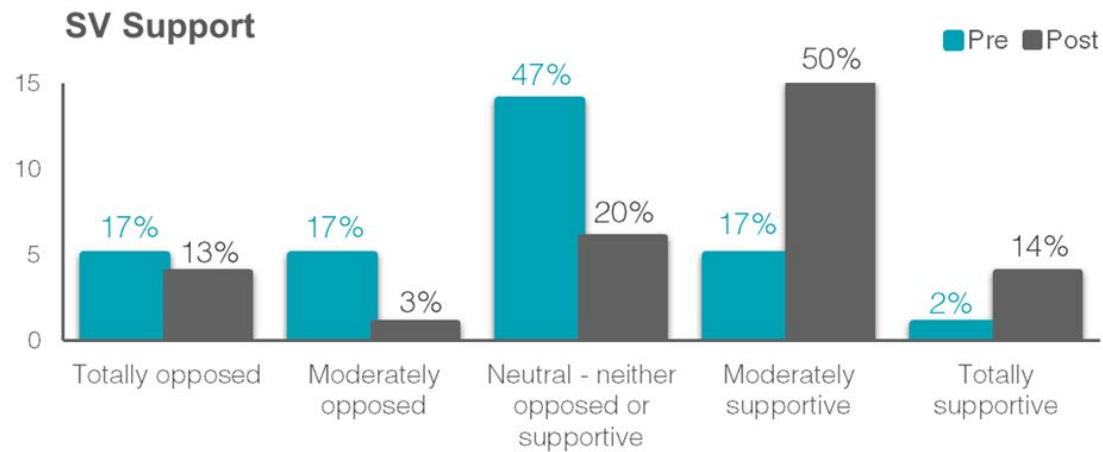


Figure 4: SV Support result – community information sessions



### Surveys

A combined total of 1,075 participants undertook the two surveys conducted across phase 1 and 2, additionally providing 3,288 comments.

Phase 1 survey saw the utilisation of a new engagement tool for Council called Ethelo. Ethelo provides a transparent and decentralised eDemocracy digital platform that combines fairness and collective intelligence to unlock the answers to hard contentious problems.

This long format survey enabled respondents to be informed about the background and context of Council's financial sustainability outlook, whilst also exploring both non-rate and rate income options and giving their input on service priorities. It allowed respondents to view not only their own selections and comments but those of the group in real time. The platform's algorithm presents the 'general consensus' rather than a majority/polarisation vote (Attachment 9, page 65 – 104 & Attachment 27 - Web Link to survey provided).

Of the 425 participants who completed this survey in Phase 1, it is also important to note that a further 790 people visited the survey who chose not to complete the survey. This demonstrates a high awareness rate but lower motivation on providing feedback on the topic.

Built on the feedback gained from the extensive Phase 1 survey, a short Survey Monkey survey was developed to check in with the community and seek feedback on the two narrowed-down SV options and an overall preference on a path forward during Phase 2. A link to the previous survey was included thus ensuring that participants could refresh and reflect on the conversation so far (Attachment 10, page 56 – 61).

The survey results clearly show that the community is aware of the need for, and extent of a rate rise. Of those that completed the survey, 83% expressed overall support for Council to be financially sustainable (Figure 5) and 53% of respondents preferred an SV as the path forward for Council (Figure 6).

The survey also sought views on how supportive respondents were of the SV funding some enhanced services aligned to community priorities identified in the IP&R Integrated Engagement Program and outlined in the 2022 CSP. Figure 7 shows that 63% of respondents supported funding some enhanced services from an SV and Figure 8 outlines 54% of respondents were supportive of the proposed spread of 'additional' funds across four priority areas.

80% of respondents said that the process was informative enough to provide good feedback (Figure 9), demonstrating that the community had an opportunity to give valuable input rather than simply vote.

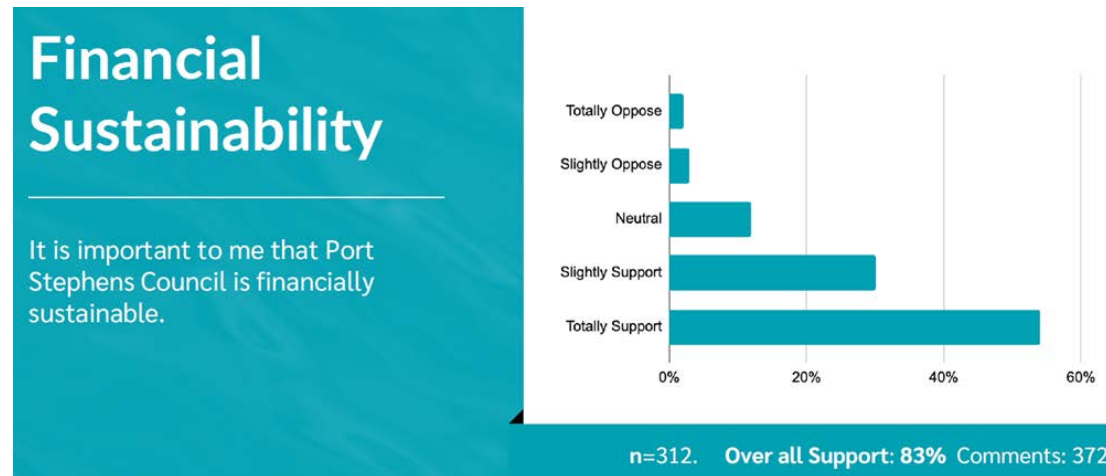


Figure 5: Phase 1 survey result

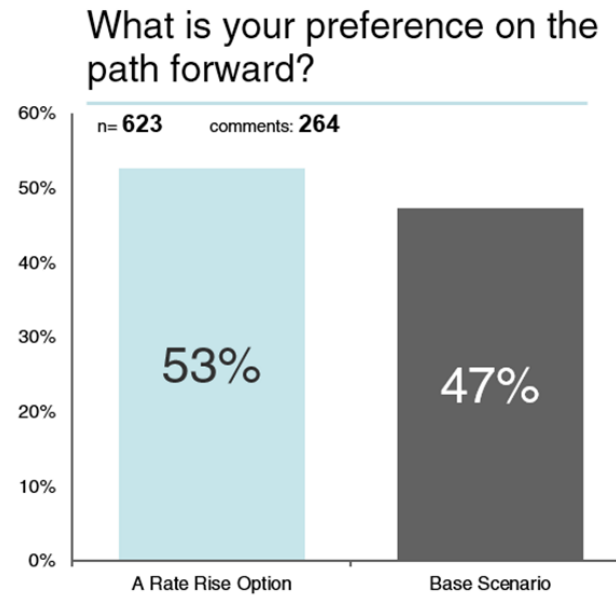


Figure 6 : Phase 2 survey result

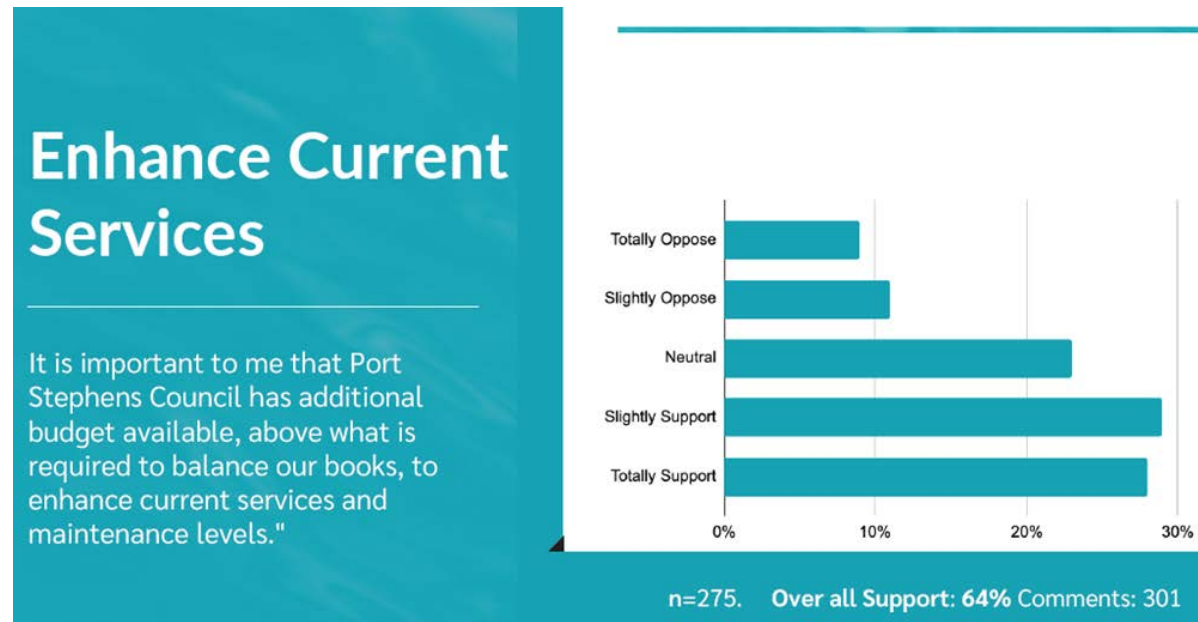


Figure 7: Phase 1 survey result

How supportive are you of this proposed distribution of extra funds if a rate increase is applied?

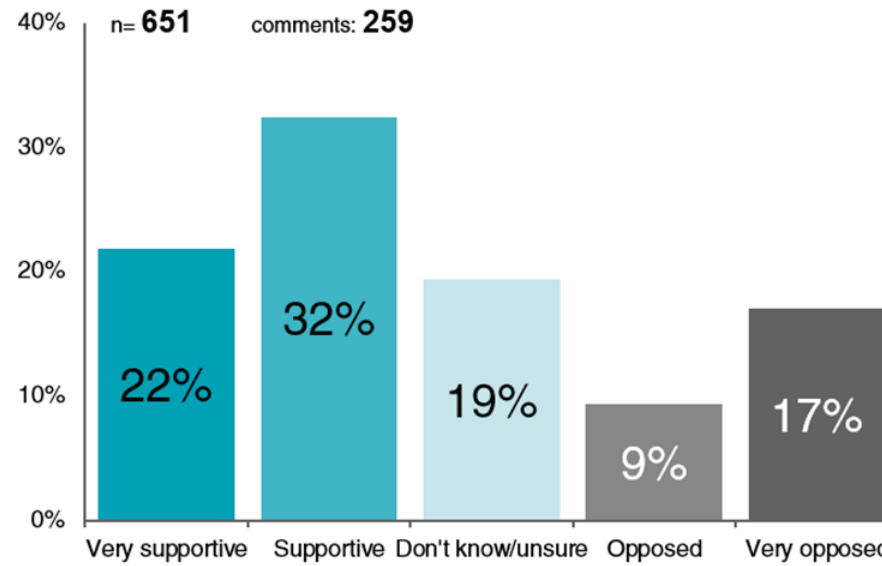


Figure 8: Phase 2 survey result

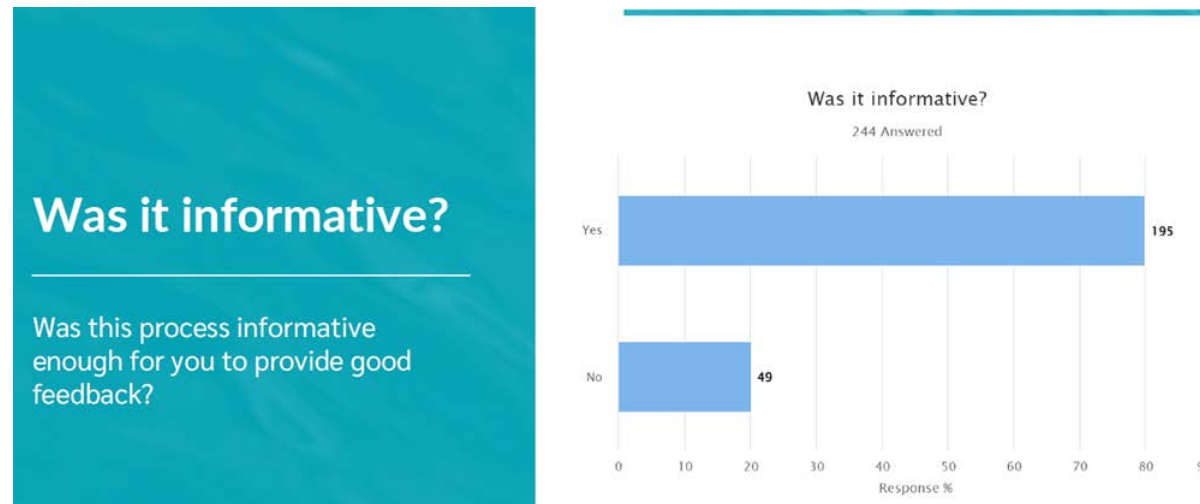


Figure 9: Phase 1 survey result

#### Submissions

Council received a total of 138 submissions during Phase 2 of the communication and engagement program that sought feedback on the two narrowed-down SV options and the public exhibition of the revised draft Integrated Planning & Reporting Documents. Of the submissions, 58 were from individuals, 1 from a community association group and 79 were petition-style submissions (Attachment 11).

It should be noted that singular comments received in response to awareness-generating emails sent to Council's contact databases such as the 'Have your Say' membership database, were considered as a submissions. Some submissions received acknowledged Council's need for raising rates and its efforts in raising awareness and engaging with the community with a few submissions suggesting a smaller increase would be more tolerable.

The substantial communication and engagement methods used and results of their implementation throughout phase 0,1 and 2, clearly demonstrate that the community is aware of the need for and extend of the rate rise.

The Delivery Program and LTFP should clearly set out the extent of the General Fund rate rise under the SV, for the average ratepayer, by rating category.

The below specifics of the proposed special variation are clearly shown through the Delivery Program and LTFP documentation

- annual percentage
- cumulative percentage
- planned services impact statement
- enhanced services impact statement and summary
- projected operating result
- formal rate structure, ad valorem rate, base amount, base amount yield %, estimated rate yield \$
- average impact per rating category
- impact statement – workforce, finances, assets

Attachment 2 - Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation - p11, 26-28, 88-89, 95, 97-99, 108

	<ul style="list-style-type: none"> <li>• forecasted ten-year financial statements</li> <li>• enhanced services detailed works plan (SAMP)</li> </ul> <p>The Delivery Program and factsheets included the exact table formats specified in IPART's Community Awareness and Engagement for Special Variation Information Paper to show the average increase for each rating category. Furthermore, Council created a rates calculator which allowed ratepayers to review the impact of each of the proposed SV options using their individual land value, rather than the category averages.</p>	Attachment 3 - Adopted Resourcing Strategy 2023 to 2033 - Long Term Financial Plan (LTFP) - Revised for a Special Rate Variation, p11, 33, 42, 100-108
The council need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category.	<p>Throughout phase 1, Council sought views on five special variation options, ranging from 26% to 45% cumulative across one year and up to four years. In phase two based on the community input, Council narrowed down the rate rise options to two scenarios which were modelled into the IP&amp;R. These two options included the single year 26% scenario and the independent recommendation multi-year 10.5% for three consecutive years with a cumulative impact of 34.92%. Ultimately resolving to submit an application for multi-year 9.5% for three consecutive years with a cumulative impact of 31.29%</p> <p>Council clearly provided all critical information about the proposed SV options to the community throughout each phase of the engagement. This included factsheets, both survey's, Council's website and the IP&amp;R documents. Communication material and engagement tools clearly communicated the cumulative increase of each proposed SV in percentage terms, and the cumulative increase in dollar terms for the average ratepayer, by rating category. Council's fact sheet and adopted IP&amp;R documents included the exact table formats specified in IPART's Community Awareness and Engagement for Special Variation Information Papers.</p> <p>Council created an online rates calculator allowing ratepayers to review the impact of each of the proposed SV options using their individual land value, rather than the category averages. The rates calculator was designed with the user experience front of mind, ensuring the customer interface was user-friendly. Ratepayers simply needed to select their rating category and enter their land value. From this, the annual and cumulative increase amount in percentage and dollar terms would display. It included an image of a rate notice to assist ratepayers in locating their rating category and land value on their rate notice, information on the permanent nature of the SV, and a disclaimer relating to the general revaluations process. A PDF version of the results was available for download and assisted council staff in accessing the rates calculator and providing the information on behalf of ratepayers who did not have online access.</p> <p>During phase 1 and 2 Council facilitated community information sessions and attended numerous community associations and special interest group meetings presenting the financial need for the proposed SV, each proposed SV scenario using both cumulative percentage and dollar terms for the category average, and the proposed enhancements to services. Council presentations were clear, concise and adjusted towards its audience, for example, the business category average rates was displayed when meeting with Business Port Stephens. A presentation was recorded, published on Council's website and a link was sent through to special interest groups for distribution to their members.</p>	<p>Attachment 9 - Communications and Engagement Report - Phase 0 &amp; 1 - Our Funded Future</p> <p>Attachment 10 - Communications and Engagement Report - Phase 2 - Rate Rise Options</p> <p>Attachment 12 - Communications and Engagement Report - Phase 3 - Rate Rise</p> <p>Attachment - 5 - Community Presentation Slidedeck - Phase 0 &amp; 1 - Our Funded Future</p> <p>Attachment 7 - Community Presentation Slidedeck - Phase 2 - Rate Rise Options</p>
The council's community engagement strategy for the SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur.	<p>Council's SV communication and engagement program took a phase approach ensuring the community received accessible and easy-to-understand information on the proposal along with ample opportunities to participate and also deliberate. The phases included:</p> <ul style="list-style-type: none"> <li>• Phase 0 - inform the community on Council's financial situation and the current and short-term mitigation strategies that have been implemented to date.</li> <li>• Phase 1 - provide options to the community that creates a financially sustainable Council.</li> <li>• Phase 2 - publically exhibit the options within the Integrated Planning &amp; Reporting documents or further discuss the community's views on the preferred options if necessary (This phase was dependent on the outcome of Phase 1).</li> </ul>	<p>Attachment 4 - Communication and Engagement Plan - Phase 0 &amp; 1 - Our Funded Future</p> <p>Attachment 6 - Communications and Engagement Plan - Phase 2 - Rate Rise Options</p>

- Phase 3 – inform the community on Council's chosen rate rise option for an application to IPART, the next steps of community engagement and IPART's determination.

Building on the Integrated Engagement 2022 IP&R program (see Criteria 4), the SV communication and engagement program was designed based on the demographic analysis or audience profile of the Port Stephens community and utilised the suggested community engagement methods suggested in IPART's Community Awareness and Engagement for Special Variation Information Papers.

The SV communication and engagement program was given the highest priority by Council – Council's Executive Team led the process with dedicated support staff and a high level of Councillor contribution. In the interest of good governance and transparency, Council scheduled the engagement program to ensure sufficient time to engage with the community (avoiding the end of the year holiday season), adequately consider all feedback, revise and adopt the IP&R documents all before submitting an intention to apply to IPART before November 2022.

Throughout each phase of the engagement, Council used a wide range of communication and engagement methods to maximise community awareness and input. Key methods included, a separate two-page information brochure included in the July 2022 Rate Notice to all ratepayers, two online surveys, promotional content published in the local newspaper and on social media pages, regularly updated Council webpage accessible from a home page tile, Facebook Live Q&A session, formal submission on the revised IP&R documents, face-to-face and online community information sessions and presentations to general community and special interest groups.

Attachment 8 -  
Communications and  
Engagement Plan -  
Phase 3 - Rate Rise

Attachment 9 -  
Communications and  
Engagement Report -  
Phase 0 & 1 - Our Funded  
Future

Attachment 10 -  
Communications and  
Engagement Report -  
Phase 2 - Rate Rise  
Options

Attachment 12 -  
Communications and  
Engagement Report -  
Phase 3 - Rate Rise

Communication & Engagement Method Summary				
Method	Note	Instance	Reach	Participation
Community information sessions including Drop-Ins sessions at outdoor cinema events, shopping centres and the VIC		13	-	110
Dedicated webpage	Revised throughout the process - including downloads of factsheets, IP&R documents, Rates calculator, and 8 different FAQs videos and independent webinars	1	-	5,684
Direct email to stakeholders groups	Updated throughout the program	4	72	-
E-newsletter	Updated throughout the program	7	12,808	-
Google ads		1	15,300	-
Interactions	Enquiries from the community tracked through dedicated SV CRMs	1	-	55
Media releases and media-related articles		17	176,000	-
On-hold messaging	Updated throughout the program	1	9,132	-
Paid print advertising		4	57,000	-
Radio		11	unknown	
Ratepayer-wide communication - Your Port/Rate Notice		1	35,478	-
Social Media	Included 1 Facebook Live Q&A	39	114,167	8,834
Special Interest groups meetings/communication		17	26	295
Static displays		15	unknown	
Formal Submission Opportunity	In response to IP&R revised documents	1	-	138
Survey		2	-	1,075

Figure 10: Communications and engagement method summary



	All engagement material including flyers, factsheets and posters had a QR code that linked directly to the dedicated website providing the most up to date information as a single source of truth.	
Explain the action, if any, the council took in response to feedback from the community	<p>Council's communication and engagement plan included the success criterion of reflecting community feedback in the decision-making process.</p> <ul style="list-style-type: none"> <li>Success Criteria 4: Community feedback reflected in the direction taken by Council.</li> </ul> <p>The multi-phase approach allowed Council to collect, pause, analyse and incorporate feedback into the next phase of the discussion with the community. Phase 1 sought community views on a range of non-rate options and five SV scenarios. Feedback during this phase was used to develop the detail for the Phase 2 communication and engagement program, narrowing down the SV scenarios and either implementing or discounting the non-rate options. This ensured that feedback was incorporated into the revised draft IP&amp;R documents for public exhibition. And once again, the IP&amp;R documents were further reviewed and changes made post completion of their public exhibition reflecting the preferred SV and subsequent community feedback.</p> <p><b>Phase 0 and 1 actions</b></p> <p>As part of phase 0 &amp; 1 Council sort feedback on a number of rate income and non-rate income options to help turn the financial position around. Some of these included:</p> <ul style="list-style-type: none"> <li>The removal of the current paid parking residential exemption. Support was divided, correlating to the ratepayer's proximity to paid parking locations.</li> <li>A secondary review of non-statutory fees and charges with the initial 10% increase. Whilst there was support for focus in this area, 10% was considered too high by some.</li> <li>Special variations scenarios that either did not repair the budget for the majority of the LTFP or were in excess of a cumulative increase of 35% were considered unsustainable and unaffordable.</li> </ul> <p>In response to community feedback, Council committed to retaining the paid parking residential exemption, a one-off increase to non-statutory fees and charges of a reduced 5% and proposed SV scenarios that did not repair the budget for the majority of the LTFP or were in excess of a cumulative increase of 35% were discounted.</p> <p>Council also reviewed its current hardship provisions, preparing four additional affordability measures, subject to an approved SV, to seek feedback on during phase 2.</p> <p><b>Phase 2 Actions</b></p> <ul style="list-style-type: none"> <li>Community feedback during the public exhibition period reflected sentiments about the current economic situation, particularly with respect to the cost of living. Whilst the desire for immediate enhanced services was high, Council considered that a large one-off increase may place financial stress on some members of our community.</li> <li>In relation to the enhanced service area priorities it was clear that the condition of roads was of both high priority and importance to the community.</li> </ul> <p>In response to the community feedback, Council has applied for a lower percentage amount, now known as a reduced Independent Recommendation Scenario of 9.5% for three consecutive years. This would see the average residential cumulative increase reduced from \$401 to \$359 for the three years. As a result, the amount of additional funds available to enhance services in the four community-prioritised areas has been reduced accordingly whilst maintaining similar percentage distribution of funds.</p>	<p>Attachment – 20 - Council Report 23 August 2022- Our Funded Future - Phase 0 and Phase 1 Engagement</p> <p>Attachment 20 - Council Report 13 September 2022- Draft IP&amp;R Documents including Special Rate Variation Options - Phase 2 Rate Rise Options</p> <p>Attachment 20 - Council Meeting Report 8 November 2022 - Special Rate Variation - Revised IP&amp;R Documents Rate Rise Options Engagement</p>

Council modified the proposed schedule of enhanced services to ensure road maintenance expenditure was brought forward to see initial 'additional funds' raised in 2025 and 2026 solely focused on road maintenance and remaining key areas of condition of public space and protecting our natural environment and waterways commencing in 2027.

With support from the community, Council resolved to endorse the inclusion of the four additional affordability measures into the Council's Hardship Policy, subject to an approved SV.

The communications and engagement program remained agile and responsive to community needs throughout the phases. Recurrent comments and questions raised in the community information sessions, Facebook Live event and the online survey comments were monitored and responded to publically by Council's Executive Team through either rapid response videos or for more complex responses such as the land revaluations and rate capping, a recorded webinar. The videos were published throughout different channels, including Facebook Page, YouTube Channel and Council's website. All of which was support by a series of written FAQs, which were updated frequently throughout the phases in response to feedback from the community.

In efforts towards transparency further details on how Council considered the feedback from the community is documented in the various Business Paper reports to Council and also the Council Meeting webcast recordings, which are both publicly available on Council's website.

**Note:** Reference to application supporting documents should include Application attachment number, document Name, section reference, page reference. For example: Attachment 7, Community mailout leaflet, section 1, pp 1-3.

In the text box below, provide any other details about the councils: consultation strategy, timing or materials that are not captured in Table 4.

Council's overarching communication and engagement strategy's vision is to actively communicate and engage in a way that tells our stories, listens to our community, informs our future and improves the wellbeing of the community. In 2021 Council brought together its communication and engagement teams, creating a shift in thinking towards a genuine integrated and inclusive approach, where Council actively engages in open and honest dialogue with the community to embrace diverse opinions and values.

In conjunction with the IP&R integrated engagement program (refer to Criteria 4), Council's revised Communication and Engagement Strategy was in development during the SV engagement period. The strategy's purpose, vision, principles and objectives along with the Internal Association for Public Participation (IAP2) spectrum was used as the foundation in the development of the detailed SV multi-phase communication and engagement program.

Phase 0 & 1 was named 'Our Funded Future' and presented a range of financial sustainability options. It included options in the non-rate income, SVs, and reducing expenditure areas to put forward a holistic view to the community. Following the completion of the first two phases, Phase 2 was renamed 'Rate Rise Options', making sure the narrowed-down focus and purpose of the engagement was clear to the community. Council's dedicated webpage and all communication material were updated to reflect the name change.

In the text box below, please provide any other details about the community's involvement in, engagement with or support of the proposed SV not captured in Table 4.

During the public exhibition period, IPART announced the 2023-2024 financial rate peg amount set at 3.7%. In addition, Port Stephens was assigned an additional population growth factor of 0.7% - taking the total rate increase to 4.4%. As this announcement was made earlier than in previous years it resulted in a contrast of the base scenario from 2.5% that was currently out for public exhibition at the time.

In response, Council made contact with IPART to assess any further requirements. Whilst there was no additional requirements, Council updated its communications material to reflect the announced 4.4% rate cap as soon as possible after the announcement. This included updates to its Rate Rise Option's website (which included factsheets), updating community presentations that were yet to occur, as well as providing additional communication about the change through an information video published on the website and posted to Council's Facebook page.

The changes to the IP&R documents in response to the rate cap announcement were captured in the Report back to Council on the 8 November 2022, specifically in the updated Statement of Revenue Policy and Long Term Financial Plan contained in the amendment attachment 5 Changes to the 2023 to 2033 Integrated Planning and Reporting documents revised for a Special Variation (Attachment 20 – page 29-78).

Council also provided an overview of the ongoing efficiency measures and its progress against these measures to the community. This provided Council with an opportunity to further educate the community on its Service Review Program underpinned by the Business Excellence Framework. This was particularly discussed at community presentations, Facebook Live Q&A session and was detailed in the revised Delivery Program & Operational Plan.

Council was committed to ensuring the community had access to correct information at all times throughout the engagement program. To ensure this, front facing staff across all sites were put through numerous briefings regarding the engagement, Council's intranet has a dedicated SV page which stored all critical information and printable factsheets and FAQs. The SV engagement was a topic of discussion for the General Mangers Address and weekly email updates during the program. DL flyers were handed to outdoor staff to provide to the community whilst out performing their duties across the LGA. Additionally, Councillors were given a social media toolkit, in which they were encourage to employ on their social media channels and also through community social media groups that Council cannot access.

In Table 5 please list out any other attachments that the council has relied on to respond to criterion 2 not otherwise detailed in Table 4.

Table 5 Other criterion 2 attachments

Attachment number	Name of document	Page references <sup>a</sup>

a. If document is only relevant in part.

## Criterion 3 – Impact on ratepayers

### Criterion 3 in the SV Guidelines is:

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
- demonstrate 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.

In assessing the impact, IPART may also consider:

- Socio-Economic Indexes for Areas (SEIFA) data for the council area; and
- Whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act.

This Application Form asks four questions for criterion 3. Councils should provide evidence to demonstrate:

1. the **impact on rates** of the proposed SV, including the **impact on minimum amounts** of any ordinary or special rate
2. how the council considered that the proposed rate rises were **affordable, having regard to ratepayers' capacity and willingness to pay**
3. how the council **addressed concerns about affordability** in determining the special variation is applied for, and
4. the council's plans for **addressing hardship** ratepayers may experience in meeting their obligations to pay rates in the future.

As well as considering the evidence provided by the council to demonstrate that the proposed rate increase is affordable for its community, IPART will undertake its own analysis of affordability by considering a range of data, including:

- the average growth in the council's rates in recent years, including previous SV increases
- how the council's average rates, current and under the proposed SV, compare with those in similar councils, and
- socio-economic indicators such as median household income, average rates to income ratio, outstanding rates ratio and SEIFA ranking.

The council's response to criterion 3 should also indicate how the required information is reflected in the Delivery Program and Long Term Financial Plan.

## Is the impact on rates of the proposed special variation reasonable?

Although much of the quantitative information we need on the impact of the proposed SV on rate levels will already be contained in Worksheets 5a and 5b of SV Application Form Part A, the response to this question should clearly set out:

- the impact on rates across the council's rating structure should the SV be approved, compared with
- the rate levels which would apply if the SV is not approved.

This information should be provided in a table indicating average rates in 2023-24, and then both the dollar and percentage increase for each rating category and subcategory for each year of the proposed SV, and the cumulative increases for the whole period.

A simple table is sufficient where the council intends to apply the proposed SV percentage increase in general income to all rating categories and subcategories.

The approach is likely to be more complex where the council is applying an increase differentially across ratepayer categories or making any changes to the rating structure in 2023-24. In this case, the council's response should explain the basis for allocating the increase to general income among the ratepayers and how the rating structure would be different from that which would apply if the SV is not approved, and why. This information will be relevant to our assessment of the reasonableness of the impact on ratepayers.

If relevant, the council's response should also indicate the impact of any other anticipated changes (e.g. receipt of new valuations) in the rating structure, or any changes to other annual ratepayer charges such as for domestic waste management services. Please provide the councils response in the text box below.

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### **Impact on rates across council's rating structure compared to base**

Council is applying for a multi-year special variation of a reasonable 9.5% for three consecutive years, with a cumulative impact of 31.29%. If successful, the special variation will be enacted across all rating categories equally and held in perpetuity in the rate base.

It is known that any special variation will have an impact on ratepayers, however, based on the range of data that Council considered, which is presented within this application, including financial analysis and feedback received from its community engagement undertaken Council considers the impact of the special variation to be reasonable.

Council's rating structure consists of four categories – residential, business, farmland, and mining (with currently no assessments being levied under the mining category). Council has made subcategories of the ordinary rate in the residential and farmland categories for ratepayers whose properties are located within the Williamstown Management Area, an area defined by the NSW Environment Protection Authority as being affected by contamination with fire-fighting foam originating from the RAAF Base at Williamstown.

Council revised and adopted its IP&R documents on 8 November 2022 showing the rate structures for the base scenario and the special rate scenario were included for comparison (Attachment 22, page 97 & 99).

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Attachment 22, shows a table indicating average rates in 2023-24, reflecting 1 July 2022 land values, and then both the dollar and percentage increase for each rating category and subcategory for each year of the proposed SV, and the cumulative increases for the whole period is attached.

### General re-valuation

Council received its general revaluation file which contained land values with the base date of 1 July 2022 from the NSW Valuer General on 14 November 2022 after Council's community engagement and public exhibition period. Whilst revaluations do not increase Council's total income Council took additional steps to inform the community of the expected revaluation timing alignment with a proposed 2023-2024 SV implementation.

This included a disclaimer provided in the IP&R documentation held in the Delivery Program and Operational Plan rates structures (Attachment 2, page 99), a disclaimer provided on the online interactive rates calculator (Attachment 10, page 21), FAQs response and an information video on the process of land revaluations and rate pegging (Attachment 10, page 24).

Since receiving the 1 July 2022 land values and resolving to submit its special variation application Council has completed initial data analysis and reconciliations that indicate the anticipated impact of the revaluation.

Land in Port Stephens LGA increased 84.4% during the revaluation period 1 July 2019 to 1 July 2022 from \$9.805 billion to \$18.086 billion. This increase was not uniform across all land categories.

LGA wide	84.4% increase
Residential land category	84.4% increase, in line with the LGA average
Business land category	83.6% increase, slightly lower than the LGA average
Farmland land category	105.4% increase, significantly higher than the LGA average
Note: Council's total rates income <u>will not</u> increase by more than the 4.4% rate cap or if approved, the SV amount. Council will adjust the calculation used to calculate rates to ensure total rates income does not exceed the cap % or SV % increase allowed.	

Council's long standing rating policy has the farmland rate structure identical to the residential rate structure to

- a) recognise that the farmland category includes farming businesses as well as most of the land in size over 40 hectares. Including land which may not be used for residential purposes and might not be used for a business of farming, eg bush blocks, and hobby farms to ensure alignment of the residential and farmland rates
- b) to eliminate the incentive for ratepayers to seek re-categorisation to a lower rate. If Council had a lower farmland rate then some ratepayers may successfully argue that their land is not used for a 'business of farming' and is a place of living in a rural lifestyle.

The impact of the uneven distribution of land value increases will see a larger-than-average increase in farmland rates, reflecting the strong growth in land values. The larger increase in this category, resulting from the revaluation, aligns with independent recommendations to Council:

*"In addition, we recommend that any SV approved is weighted so that it improves distributive justice between rateable categories. In essence, most of the SV should fall on residential and farm ratepayers. **In particular, farm businesses** receive an effective discount on the real tax liability actually realised when compared to residential landowners. Farm businesses also receive a much more substantial tax discount relative to non-farm business"*

Council intends to communicate the revaluations and provide information regarding the NSW Valuer General and hardship assistance available, through its information brochure YourPort provided with the rate notices issued in July and on our website.

### **OLG5 Comparison**

Comparison analysis of the OLG category 5 comparative information clearly shows existing rates at Port Stephens Council are lower than each rating category average and the absolute lowest in the residential category. Notably, the proposed SV would still result in all Port Stephens average rates being lower than the OLG5 averages in every single rating category in three years' time at the conclusion of the special variation (Attachment 22).

### **Capacity to Pay Report**

Council commissioned a Capacity to Pay report that provided empirical evidence that demonstrated that existing levels of rate income for Port Stephens Council are inadequate. The report confirmed that the cumulative effect of the proposed increase would see Council's rate income increase towards the average level of rates income expected of a local government that exhibits the income characteristics of Port Stephens.

*"Accordingly, it is recommended that council apply for an increase at least equivalent to eight percent (8%) above the cap for each of three (3) years."*

Sophisticated econometric modelling held within the Capacity to Pay Report shows that the proposed special variation is under the mean response expected for a council with Port Stephens' socio-demographics and ratepayer profile. It is therefore asserted that the increase sought within this SV application is reasonably within the community's capacity limits.

The impact of an SV increase is mitigated to an extent by the tax deductibility of rates as a business expense for farms, businesses and rental properties. It is recognised that eligible pensioners receive a rebate concession of up to \$250 p.a. and along with other welfare recipients have their incomes increased twice annually in line with inflation. This means that the real impost of the SV is considerably less than the nominal amount.

In this instance, and in the context of financial need, the special variation and Council's efforts into productivity and cost containment are needed to ensure current levels of services remain during the incoming period of high inflation and Council remains financially sustainable.



## How has the council considered affordability and the community's capacity and willingness to pay?

The council's response in the text box below should provide evidence to establish:

- That the proposed SV is reasonable in the context of the current rate levels, ratepayer base and its purpose.
- How the council considered the community's capacity and willingness to pay, and that the rate increases would be affordable for the community.

Evidence about capacity to pay could include a discussion of such indicators as SEIFA rankings, land values, average rates, disposable incomes, the outstanding rates ratio and rates as a proportion of household/business/farmland income and expenditure, and how these measures relate to those in comparable or neighbouring council areas.

As many of these measures are highly aggregated, it may also be useful to discuss other factors that could better explain the impact on ratepayers affected by the proposed rate increases.

While councils should consider the affordability of the proposed rate increases for **all** affected ratepayers, in some circumstances, particularly where the increase will not be uniform for all ratepayers, councils should explain how the **affected** ratepayer capacity to pay was considered. This could apply, for example, where:

- The council intends to **apply the increase differentially across ratepayer categories**.
- The council intends to **make changes to the rating structure in 2023-24** in conjunction with the proposed SV.
- The proposal would **increase minimum rates** by a significantly high percentage.

Please provide the councils response in the text box below.

It has been a proud strategy and achievement of Port Stephens Council for some time now to have the lowest rates in the OLG5 category and still be able to deliver services valued by our community in the best possible way with fewer resources. Through a policy decision in 2002 Council has supplemented low rates income with commercial returns.

However, the recent economic trends with external shocks of the Covid-19 pandemic, increasing natural disasters, and entering a period of high inflation have highlighted the risk associated with such an approach. Council needs to re-assess how we can reasonably deliver services consistent with our community values in an environment of economic instability, and still remain financially sustainable.

Late 2021, Council commissioned Emeritus Professor Brian Dollery and Professor Joseph Drew from the University of New England for an independent assessment of the community's capacity to pay an increase in rates. Council sought independence to provide rigorous and sophisticated data analytics to inform its decision-making in line with our Business Excellence philosophy.

A Capacity to Pay Report was one of the four reports presented to Council in March 2022. The report details a comprehensive analysis of Port Stephen's socio-demographics and ratepayer profile and capacity to pay an increase in rates via a special variation.

Analysis of the following indicators for Port Stephens against fourteen peer group councils were performed, outcomes of each analysis can be found in Attachment 18 – Independent Financial Analysis 2022 - Capacity to Pay Report

- rates, fees and annual charges per assessment (\$)
- total rates per property assessment (\$)
- comparison of average rates (\$), residential, farmland and business rates per assessment (\$)
- rates and charges outstanding
- census data socio-economic indexes for areas (SEIFA)
- concessions including aged pensions, newstart allowance / jobseeker, disability pension, single parent pension
- median and mean wage earner income, median equivalised household income, household stress (mortgage & rent), distribution of land values, houses median sales prices
- p80/20 income inequality ratio and gini coefficient income inequality metric
- business activity
- econometric analysis of total rate capacity

Econometric modelling was the centrepiece of the report. Econometrics is the most sophisticated and rigorous method to assess capacity. Professor Drew who conducted the modelling is a highly published and respected econometrician, of international standing, with the report referring to the peer-reviewed scholarly literature verifying his choice of methodology. Through the econometric analysis, it was determined that council apply for an "increase at least equivalent to eight percent 8% above the cap for each of the three (3) years." This is a total 10.5% increase p.a. with a cumulative impact of 34.92%

Council's prior year's performance when it comes to the OLG Rates and annual charges outstanding percentage ratio has consistently met not only the regional benchmark of 10% but the metro benchmark of 5%. Council saw a slight increase over the 2020 and 2021 years as an expected result due to the Covid-19 pandemic and a Council decision not to pursue debt recovery activities during times of mandated shutdown. Since then, the ratio outcome has returned to record low of 1.77%. Such a consistent record of exceeding the benchmark for this ratio gives a clear indication that there is a capacity to pay an increase in rates.

Rates and annual charges outstanding ratio						
2022	2021	2020	2019	2018	2017	2016
1.77%	3.29%	3.05%	2.99%	2.84%	2.80%	2.69%

Figure 11: Rates and annual charges outstanding ratio trend

In addition to the internal and external data analysis, Council initially sought the community's views on financial sustainability and five different special variation scenarios ranging from cumulative percentages of 26% to 45%. This included key questions asked in the first phase of engagement seeking views on the

- importance of a financially sustainable council with a 83% overall support response;

- b) enhancement of current services with a 64% overall support response;
- c) base scenario - a reduction in services with a 37% overall support response

It was clear from the initial results the community understood Council's financial position, supported the importance of being financially sustainable, and had a preference for enhancing services rather than reducing them. One of the key themes to come out of the first phases of community engagement was affordability in the current economic climate.

In response to initial community views, Council carried forward the independent recommendation of 10.5% for three years scenario and the single year 26% scenario to the second phase of engagement. It did not continue exploring the two largest cumulative increases of 38.56% and 45.08%.

Both the independent recommendation and the single year scenario provided Council with a sustainable budget repair and allowed for some enhancement of services, with the single year being the lowest cumulative impact out of the five scenarios. Phase 2 also saw Council propose and ultimately endorse additional affordability measures for consideration and implementation in Council's current Debt Recovery and Hardship Policy, subject to an approved SV.

Council's second phase of community engagement saw 53% support for a rate rise option over the base scenario strikingly showing a willingness to pay the proposed increase from those who undertook the survey. Council listened to the concerns raised around the affordability of a larger single year increase by some members of its community and resolved to apply for a smaller annual amount over three years at a reduced annual amount of 9.5%. As a result, there was a reduction in the overall cumulative size of the SV to 31.29%.

## How does the council intend to address hardship?

Does the council have a hardship policy?	Yes
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If yes, is an interest charge applied to late rate payments?	Yes
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The response in the text boxes below should explain any measures the council has in place, or intends to introduce, measure for dealing with cases where ratepayers experience hardship in meeting their obligation to pay rates.

Evidence can relate to a formal hardship policy which the council has adopted, and/or processes the council has in place, or intends to implement. The response should explain who the potential beneficiaries are and how they are or will be assisted. Alternatively, the response should explain why no such measures are proposed.

The council should also indicate whether the hardship policy or other measures are referenced in the council's IP&R documents (with relevant page reference or extract provided). Please provide the councils response in the text boxes below.

a. Explain the measures the council proposes to use to reduce the impact of the proposed SV on vulnerable ratepayers, or alternatively, explain why no measures are proposed.

Council understands that affordability is an issue for some sections of our community with some members of our community being more financially vulnerable than others. Whilst the proposed SV has been externally deemed as reasonable Council understands that hardship may be temporary due to a change in circumstances such as a loss or change in income, illness, family situation, or permanent with respect to low income groups sensitive to cost changes.

Council has a number of existing mechanisms to act fairly and flexibly to assist a ratepayer who is experiencing hardship – whether it be for a short period of time or more enduring. These are in Council's adopted Debt Recovery and Hardship Policy, which aims to ensure that hardship is recognised and people are treated with respect and compassion in considering their circumstances. The policy has been developed in line with the Debt Management and Hardship Guidelines issued by the OLG in 2018.

### **All ratepayers**

The policy currently provides the following rate hardship assistance for all ratepayers including self-funded retirees:

- Flexible payment options
- Flexible repayments of overdue rates and charges
- Interest reduction
- Financial assistance in the year following a general revaluation
- Rates Assistance Program

Council has 26,814 non-pensioner rate assessments. These are predominantly residential rate assessments with 443 farmland properties and 1,931 business rate assessments. Approximately 9,400 rate notices are sent to destinations outside Port Stephens LGA.

The impact of a SV increase is mitigated to an extent by the tax deductibility of rates as a business expense for farms, businesses and rental properties, and for some with concessional rebates for residential assessments.

Self-funded retirees of retirement age are unable to access a part pension (and consequently a pensioner rate concession) if their assets or income is above the Centrelink means test. It is arguable that self-funded retirees have been assessed by Centrelink as having sufficient assets or income so as not to require Commonwealth income support making them less likely to require hardship assistance.

### **Flexible periodic payment options**

Council offers a range of payment methods for rates to assist ratepayers pay on time. Ratepayers have the option to make payments via direct debit, mail, Bpay and BPoint, telephone, online and in person at any Australia Post outlet or Council's administration building. They can be paid fortnightly, quarterly or annually through an automatic transfer arrangement.

### **Extended and flexible repayments of overdue charges**

Council accepts flexible repayment arrangements including fortnightly direct debits. Council presently has 503 ratepayers utilising fortnightly direct debit.

**Interest reduction**

Council staff are delegated the power to write off small amounts of accrued interest over the phone where the person was unable to pay the rates and charges when they became due and payable for reasons beyond their control. Ratepayers seeking to have interest written off under hardship are able to do so upon application and assessment of financial position and personal circumstances.

**Revaluation rate increase**

Following a general revaluation of land for rating purposes, Council offers financial assistance of up to \$200 to ratepayers whose rates have increased by a higher percentage than an amount that Council determines each revaluation. This potential assistance is available to the 5% of ratepayers who have experienced the largest increase in rates as a result of the revaluation.

This financial assistance measure is available for one year following each three yearly general revaluation. Assistance is offered subject to application and assessment by Council staff in accordance with a formula. Council budgets \$20,000 each revaluation for this assistance.

**Pensioner concessions**

The Local Government Act 1993 provides for mandatory pensioner concessions, applied up front on rate bills for eligible pensioners who receive a pension from Centrelink or certain pensions from the Department of Veterans Affairs.

In 2019 Council undertook its 'Business Improvement' process in order to enable pensioners to apply for a rebate over the phone and via Council's website through an online form. This new process reduced time spent internally processing the form and creates ease for pensioners. Council currently has 6,133 rate assessments receiving pensioner concessions totalling approximately \$1.47m per annum.

**The policy currently provides additional rate hardship assistance for pensioners including:**

- Backdating of pensioner concessions and extending concessions to avoid hardship; and
- Deferral of rates against the estate.

Pensioner concessions are backdated for up to two years if a pensioner did not apply in a prior year when they were eligible.

Council also grants a full concession to a pensioner liable for paying the rates in circumstances where there is a discrepancy in the ownership of the property. For example, where property ownership remains in the name of a deceased person and the pensioner resides in the property and has assumed responsibility for paying the rates.

**Deferral of rates against the estate**

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Aged pensioners with net annual ordinary rates exceeding 8% of the age pension may enter into a written agreement to defer payment of their rates until after their death. The rates, charges and interest charges accrue annually and Council sends the ratepayer a letter each year to sign and return confirming that they wish to continue the arrangement. Council currently has four deferrals in place and has had numerous agreements in place in the past 17 years which have continued until the ratepayer has passed away and the rates have been paid out of their estate.

Eligibility for a pensioner rate concession requires the pensioner to receive at least a part pension in order to receive a pensioner concession card.

### **Rates Assistance Program**

Council introduced its Rates Assistance Program for non-pensioners in 2019-2020 which was at the time subject to a successful SV application for that year. Council decided at the time to still implement the Rates Assistance Program after an unsuccessful determination as an act of consideration for ratepayers facing hardship.

The program partners with local welfare and financial counselling services to act as referral points for ratepayers experiencing financial hardship. Participating services are able to assess a ratepayer's individual financial circumstances and recommend to Council that financial assistance towards rates and charges up to \$250 per ratepayer per annum be granted due to financial hardship.

Council strives to make this process as simple and accessible as possible. Our partners are available to conduct appointments with ratepayers over the phone, require no forms to be completed by the ratepayer, accept supporting documents via email and text and Council has an affiliation with Linked Community Transport Services for ratepayers who wish to attend the partners office in person where organised transportation is needed.

Council's current partners in this initiative are as follows

- Port Stephens Family and Neighbourhood Services
- Tomaree Neighbourhood Centre
- Samaritans Foundation

Assistance is currently limited to non-pensioners to assist individuals or families who are experiencing financial hardship and difficulty paying rates, but are not eligible for a pensioner rate concession. Each participating service is given an annual limit of \$5,000 that they can recommend for financial assistance. Assistance is provided in the order that recommendations are received by Council to a maximum total amount of \$15,000 per annum currently working with three service providers.

Council publishes details of the Rates Assistance Program on its website and also has an information brochure that is emailed or posted to ratepayers upon request or staff initiated during ratepayer repayment discussions.

### **Hardship Panel**

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As part of its hardship provisions, Council's Hardship Panel considers and determines request for hardship assistance if a ratepayer or resident is dissatisfied with the initial decision of Council staff. The General Manager or Mayor may refer any Council matter involving financial hardship of a ratepayer or resident to the Hardship Panel for consideration and advice.

### **Additional Affordability Measures**

Council still enacted the Rates Assistance Program after the unsuccessful SV application in 2019-2020 further boosting Council's response to hardship for its community within its already comprehensive hardship policy.

Furthermore, acknowledging that an increase from a special variation at this time would need further measures to address financial hardship.

And with that, Council proposed additional affordability measures for consideration as part of the proposed special variation in order to mitigate the impact of a rate increase on those ratepayers who may experience financial stress. This included four additional measures that sought to assist pensioners, non-pensioners, primary producers, and users of Council's fees and charges financial assistance.

- 1 Increase the scope of the Rates Assistance Program to include pensioners to a limit of \$250 (whilst still maintaining their pension rebate) and increase the limit for non-pensioners to \$500.
- 2 Increase the scope of the Fees and Charges financial assistance to include waste charges reduction for koala carers, in addition to ratepayers with medical conditions that result in a large amount of waste.
- 3 Increase the scope of the Debt Recovery and Hardship Policy to include a mechanism, within appropriate parameters, for the referral of financial hardship matters to Council in the event of a significant event affecting Port Stephens primary producers.
- 4 Increase the debt balance threshold for the commencement of legal action from \$1,200 to \$1,400.

These additional affordability measures were included in appendix four of the Delivery Program and Operational Plan which was placed on public exhibition as part of the revised IP&R documents. Council also communicated these additional measures within its recorded webinar and community face-to-face engagement presentations. The additional affordability measures were well received by community members in particular the inclusion of pensioners into the scope of the Rates Assistance Program.

If the SV is approved Council intends to communicate these additional affordability measures to ratepayers through its information brochure 'YourPort' provided with the rate notices issued in July and on our website.

It is noted that these additional affordability measures are extra hardship provisions that can only be funded if the SV is granted and as such is subject to an SV approval.

### **Rates Structure Review**



Within the Capacity to Pay report, it was recommended that base rates should be either eliminated or reduced substantially to improve capacity to pay and increase distributive justice. The report acknowledged that changes to the rate structure are a time-consuming exercise, have political implications, and also requires substantial community engagement and deliberation.

Upon receipt of the report, Council has created an internal working group on this matter and commenced initial investigations and data analysis on various change scenarios to the rates structure and its potential impacts to seek a greater distributive justice within the rates structure.

b. Indicate whether the hardship policy or other measures are referenced in the council's IP&R documents (with relevant page reference or extract provided).

Council has a number of current mechanisms to act fairly and flexibly to assist a ratepayer who is experiencing hardship – whether it be for a short period of time or more enduring. These are in Council's adopted Debt Recovery and Hardship Policy (Attachment 13), which aims to ensure that hardship is recognised and people are treated with respect and compassion in considering their circumstances. The policy has been developed following the Debt Management and Hardship Guidelines issued by the OLG in 2018.

Council proposed additional affordability measures for consideration as part of the proposed special variation in order to mitigate the impact of a rate increase on those ratepayers who may experience financial stress. This includes four additional measures that seek to assist both pensioners, non-pensioners, primary producers, and users through Council's fees and charges financial assistance.

These measures were referenced in the revised Delivery Program and Operational Plan (Attachment 6, pages 14 and 107).

Table 6 Criterion 3 attachments

Council-assigned number	Name of document	Page references <sup>a</sup>
4	Independent Financial Analysis 2022 - Capacity to Pay Report	
24	Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation	14, 107
33	Average Rates Table	
34	OLG5 Comparison - Average Rates Projections	
35	Debt Recovery and Hardship Policy	

a. If document only relevant in part.



## Has the council considered the impact of the SV in its IP&R documents?

In the table below provide evidence that the council met the reporting requirements of criterion 3 in tis delivery program and LTFP.

Table 7 Consideration of the proposed SV impact in IP&R documents

Criteria	Evidence of meeting this criterion from the council's IP&R documents	Reference to IP&R documents
<b>The Delivery program and LTFP should:</b>		
Clearly show the impact of any rises upon the community	<p>The below specifics of the proposed special variation are clearly shown through the IP&amp;R documentation</p> <ul style="list-style-type: none"> <li>• annual percentage</li> <li>• cumulative percentage</li> <li>• planned services impact statement</li> <li>• enhanced services impact statement and summary</li> <li>• projected operating result</li> <li>• formal rate structure, ad valorem rate, base amount, base amount yield %, estimated rate yield \$</li> <li>• average impact per rating category</li> <li>• impact statement – workforce, finances, assets</li> <li>• enhanced services detailed works plan</li> </ul>	<p>Attachment 2, Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation, p11, 26-28, 88-89, 95, 97-99, 108</p> <p>Attachment 21 - Adopted Resourcing Strategy 2023 to 2033 - Workforce Management Strategy (WFMS) - Revised for a Special Rate Variation, p11,</p> <p>Attachment 3, Adopted Resourcing Strategy 2023 to 2033 - Long Term Financial Plan (LTFP) - Revised for a Special Rate Variation, p32-33, 42,</p> <p>Attachment 16, Relevant Extracts - Adopted Resourcing Strategy 2023 to 2033 - Strategic Asset Management Plan (SAMP) - Revised for a Special Rate Variation, p100-108</p>
Include the council's consideration of the community's capacity and willingness to pay rates	<p>Commentary on Council's consideration of the community's capacity and willingness to pay is included Council's Delivery Program and Operational Plan, in particular, noting the Independent Reports commissioned that examine Port Stephens community's capacity and the reduced cumulative impact of the proposed SV that was ultimately put forward.</p> <p>Furthermore, Council utilised the engagement material and Council Meeting Business Paper Reports post engagement and public exhibition periods to include its consideration.</p> <p>Further detail on Council's consideration of the community's capacity and willingness to pay rates is included in Criteria 2.</p>	<p>Attachment 2, Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation, p 3-4, 12-14, 107</p>

Establish that the proposed rate increases are affordable, having regard to the community's capacity to pay

Council's proposed rate increase is for the key purpose of financial sustainability yet it is known that any special variation will have an impact on ratepayers.

The General Managers Messages and background section in the Delivery Program and Operational Plan provides commentary on the need for a special variation, steps taken in the decision-making and consideration of submitting an application, its impacts if successful, and reference to the independent reports commissioned.

In the Resourcing Strategy, section 5.1.2 giving a description of average rates comparison where Port Stephens Council has lower average rates than the OLG5 category averages.

Furthermore, Council utilised the engagement material and in particular the Independent Capacity to Pay Report to establish that the proposed rate increase is affordable, having regard to the community's capacity to pay.

Attachment 2, Adopted Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation, GM Message p 3-4, Background 12-14, 107

Attachment 3, Adopted Resourcing Strategy 2023 to 2033 - Long Term Financial Plan (LTFP) - Revised for a Special Rate Variation, p3-4, 53 section 5.1.2

**Note:** Reference to IP&R documents should include Application attachment number, document Name, section reference, page reference. For example: Attachment 3, Council LTFP, section 3.2, pp 20-25.

## Criterion 4 – Exhibition of IP&R documents

### Criterion 4 in the SV Guidelines is:

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. It is expected that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

The formal requirements applying to IP&R documents are set out in the *Integrated Planning and Reporting Guidelines for Local Government in NSW* and the *Integrated Planning and Reporting Handbook for Local Councils in NSW*.

For the purposes of applying for an SV, councils should note:

- If amendments to an adopted **Delivery Program** or **Community Strategic Plan** are needed to incorporate or update information about the proposed SV, the draft documents should be re-exhibited for a period of 28 days, and adopted before the council submits its Application Form to IPART.
- The exhibition period should be scheduled so that there is an opportunity for the council to formally consider and resolve to adopt the revised documents. It will be expected that a council will hold an extraordinary general meeting, if necessary, to meet this requirement.
- The council should adopt a version of the **LTFP** which incorporates modelling of the proposed SV before the council submitting the application to IPART.
- When applying for a SV for 2023-24 councils do not need to prepare, exhibit or adopt the **Operational Plan for 2023-24**.
- If council has used supporting evidence from the **Operational Plan for 2023-24** to demonstrate how it satisfies other criteria, the council should also provide information about this document in its response to criterion 4.

Where the proposed SV is to fund asset management, the council's **Asset Management Strategy and Plan(s)** should be adopted before submitting the application to IPART.

### What IP&R processes did the council use in determining to apply for a special variation?

In the text box indicate the progress of identifying the need for the SV being incorporated into the IP&R documents by providing information about community engagement and when key revisions were made to the IP&R documents.

Port Stephens Council is committed to a truly integrated approach to our planning, reporting and engagement. Ensuring that integration is at the heart of what we do, we use the Integrated Planning and Reporting (IP&R) Framework to plan for the future and report on our progress to our community. Council uses 7 key metrics to report on our performance, one being financial sustainability.

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### **Earlier LTFP's Iterations**

Council's published LTFP from as early as 2018-2019 began to highlight that from the 2022 financial year onwards Council would be facing increased financial pressures and would still remain in small consecutive surpluses however struggle to meet its financial sustainability key metric of 1% underlying operating surplus. Primarily centered on external factors such as the rate capping regime, where rate caps were less than its increasing operational costs associated with insurance, workers compensation, cost shifting from state to local government and legislated changes in superannuation began to negatively impacting Council's ability to balance the budget.

### **Annual Reporting and Community Satisfaction Surveys**

Financial Sustainability has been a focus of the past three Annual Reports. Adopted on 24 November 2020, the 2019-2020 Annual Report detailed to the community that Council did not achieve its 1% target, rather an underlying deficit of (\$185,000) from a predicted deficit of \$4.3 million. Further followed by the 2020-2021 Annual Report adopted on 26 October 2021 recording a budget result of a modest underlying surplus of \$583,000 from a predicted deficit of \$2.3 million.

The Annual Reports made commentary on the impacts of the Covid-19 pandemic, and increasing external operational costs on Council's financial position. Noting the recovery of its financial position over the past two years in the order of \$7 million was made possible by containing expenditure that came at a cost to our service delivery and our community felt it.

Council's 2021-2022 Annual Report adopted on 13 December 2022 recorded another modest underlying surplus of \$586,000 through ongoing austerity measures as Council endorsed a one-off \$1 million reduction from our operating budget from March 2022. Whilst this result demonstrates Council's ability to implement short-term strategies there was still a need for a long-term solution (Attachment 24).

Council's annual Community Satisfaction Survey (CSS) asks our local residents their opinion of our services and facilities. The CSS provides data for measuring progress on a number of our Community Strategic Plan Indicators and Operational Plan Effectiveness Measures. Council has seen a decline in our satisfaction level over the past two years, reflecting the Covid-19 pandemic, an increase in natural disasters and discussions held with the community around a declining financial sustainability outlook. 2022 saw our lowest overall score of 64% in recent years. As to be expected given proposed SV awareness, the community confidence in the management of our resources declined significantly in the 2022 and feedback to improve our roads was the most frequently occurring theme (Attachment 24).

### **IP&R Integrated Engagement Approach**

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From September 2020, Council commenced the development and implementation of its new IP&R integrated engagement program with the community to assist in identifying priorities to inform Council's suite of strategic documents (Attachment 24). This four-stage approach included engagement activities such as the 2020 Place Score Survey, Place Plan workshops, Community Satisfaction Survey, Place and Vision Workshops, Community Strategic Plan check-in and a range of public exhibition activities. After each engagement phase council staff shared the outcomes to ensure that Council's direction and each strategic document reflected the community's input and were integrated across Council.

### **Financial Sustainability & Prosperity Report**

At its 26 October 2021 meeting Council acknowledged the ongoing impacts on its financial sustainability outlook and endorsed the Financial Sustainability and Prosperity Fund (later renamed Financial Sustainability and Resilience Fund) to set key directions for ongoing financial sustainability (Attachment 20). The report detailed Council's strategy and performance towards financial sustainability over the past ten-years, emphasised Council's ability to implement effective short-term strategies in response to the Covid-19 pandemic and increased natural disasters, and based on the updated LTFP projections of consecutive operating deficits recommended the re-setting of strategies to attain ongoing financial sustainability into the future. A summary of the key directions for financial sustainability was incorporated into the 2022-2026 Delivery Program and Operational Plan.

### **2022 -2032 IPR documents & 2022-2023 fees and charges**

Council's 2022-2032 IP&R suite of documents was developed through listening to the community's priorities and values as well as the on boarding of a new Council after delayed elections. The documents considered the ongoing financial impacts the organisation was facing and collectively considered what Council could affordably and reasonably deliver to the community with limited resources. The 2022-2032 IPR Suite of documents were publicly exhibited on the 28 April 2022 and adopted on the 28 June 2022 (Attachment 20).

With the Financial Sustainability and Resilience Fund adopted and the development of the 2022-2032 LTFP factoring in the continuing implications of the pandemic, increasing natural disasters and forecasted high inflation outlook correlated to global factors, it was clear there was a need to proactively address the underlying issues of financial sustainability.

The suite of documents, articulated the rate peg of 0.07% and population growth factor of 0.06%, addressed Council's investigations and pursuits of other avenues in combatting Council's financial position, indicated that it may be timely to investigate the merits of a special variation and advised the community of the Additional Special Variation announced by IPART in March 2022.

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The 2022-2026 Delivery Program identified Financial Sustainability as one of Council's key priorities. The Delivery Program and the LTFP informed the community of Council's bleak financial position and outlook, currently implemented austerity measures, Council's service review program and the independent reports commissioned from Professors Dollery and Drew.

It also informed the community of the alternative revenue paths Council had identified and modelled into its plans. These included the further rollout of smart parking, a one-off increase in non-statutory fees and charges of 10%, locking in loans at record low interest rates, and outlined the process of community engagement if Council was to consider a special variation.

With the above measures modelled into the adopted LTFP and a materials and contracts assumption at 5.1% with 3.5% beyond 2026 against a rate peg under the approved additional special variation of 2.5%, the projected operating result for the 2022-2032 LTFP encompassed consecutive deficits for all three scenarios modelled. The need to consider a special variation to address financial sustainability was established.

Council received one submission during the public exhibition period from a community group association which included the topic of financial sustainability in their submission. The group reiterated that the past two years have been difficult with the unprecedented COVID-19 pandemic and 'Council is faced with significant financial sustainability issues if continued prudent financial management is not carefully exercised' and supported the work undertaken by staff and councillors to address the financial sustainability outlook.

### **Financial Sustainability Report and Our Funded Future Engagement**

Simultaneously, with the adoption of the 2022-2032 IP&R documents on the 28 June 2022, Council staff sought and received endorsement of

- the Financial Sustainability report which again highlighted Council's concerns around its financial sustainability outlook,
- noted the workshops undertaken by Council staff and Councillors in response to the independent reports,
- to commence an engagement process to discuss the financial sustainability of the Council over the next 10 years with the community, including but not limited to the prospect of submitting a Special Variation for the 2023-2024 financial year, and
- the Communications and Engagement Plan named Our Funded Future, to discuss a range of financial sustainability options with the community.

### **Development of IP&R revised for Special Rate Variation**

At its 23 August 2022 meeting Council considered the outcomes of the Our Funded Future engagement and endorsed the development of the second phase of community engagement and to revise the IP&R documents to reflect community feedback and include narrowed-down special variation options (Attachment 20)

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Council consulted the Office of Local Government to confirm which of the IP&R documents required revision for the purpose of a special variation application. It is important to note that the Community Strategic Plan (CSP), while prepared and endorsed by Council, is not a Council Plan. It is the community's plan, to be delivered by all organisations, key stakeholders, residents and businesses alike. This is important to note because it means that the CSP is not where detailed budgets and resource planning of Council is undertaken – it is undertaken as part of the Delivery Program and supporting Resourcing Strategies.

As a result of extensive community engagement and the on boarding of the newly elected Council, the CSP was revised and adopted in June 2022, which included the key direction/goal of financial sustainability. The key purpose of the proposed SV was to fulfil the established priorities of the CSP and therefore Council revised all IP&R documents with the exception of the CSP.

### **Revised IPR for 2023-2024**

Council endorsed on the 13 September 2022 (Attachment 20) that the draft revised IP&R documents (Delivery Program, Operational Plan and Resourcing Strategy including the Workforce Management Strategy, Long Term Financial Plan, Strategic Asset Management Plan and Statement of Revenue Policy) to be placed on public exhibition from 14 September 2022 to 12 October 2022.

Integrated into the documents were two special variation options, a 26% single year increase and a multi-year 10.5% increase for three consecutive years, alongside the base scenario of 2.5% rate peg. The need, purpose and impact of both a special variation scenario as well as the impact of the base scenario were communicated throughout the IP&R documents. Council's current and planned productivity and cost containment strategies were included as were details on the proposed four key enhanced services priority areas.

Held within appendix four of the Delivery Program and Operational Plan Council proposed four additional affordability measures for community feedback and consideration. These included assistance for pensioners, non-pensioners, primary producers and users of the fees and charges. Proposing that if a special variation were approved these measures would be incorporated into Council's current Debt Recovery and Hardship Policy with the aim to further support ratepayers that may experience financial hardship from the impact of an approved special variation.

During the public exhibition period, IPART announced the 2023-2024 rate peg amount was set at 3.7%, with Port Stephens population growth factor of 0.7% - taking the total rate peg to 4.4%.

Council was scheduled to consider the submissions and engagements outcomes of the revised IP&R documents on the 25 October 2022 meeting in anticipation of being able to meet a deadline of an unknown date in November, if they were to submit an intention to apply for a special variation. With the intention to apply date being announced by IPART as the 25 November 2022, the item was deferred to allow further time to consider the outcomes. As a result the item was deferred to the meeting on 8 November 2022 (Attachment 20)

At its 8 November 2022 Council meeting it was resolved to submit an application to IPART for a special variation and with that, adopted the revised IP&R documents being the

- 2022-2026 Delivery Program,
- 2023-2024 Operational Plan,

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- 2023-2024 Statement of Revenue Policy,
  - 2023-2033 Resourcing Strategy including the 2022-2026 Workforce Management Strategy, 2023-2033 Long Term Financial Plan, 2023-2033 Strategic Asset Management Plan).

In direct response to community feedback and formal submissions gained in the public exhibition and engagement period, the:

- Special variation percentage being applied for was amended to a three-year 9.5% increase, rather than 10.5% scenario or the single year 26%. This impacted the enhanced area's level of funding
- Enhanced services in the focus area of road maintenance was made a priority with respect to the schedule of proposed works. This priority of roads is further supported in Council's annual 2022 Community Satisfaction Survey conducted in August and September where 'maintaining local roads' scored the lowest satisfaction percentage of 17% (Attachment 24, page 11). For the past two years maintenance of roads has been identified as the top area for improvement and has been the most frequently occurring theme in respondents' comments
- Develop a program to further address recommendations of the independent financial review

To ensure transparency, Council Reports not only included the reasoning behind changes but an attachment of highlighted changes to the IP&R documents was provided. This included changes to the LTFP in which the base scenario of 4.4% and a special variation scenario of 9.5% were modelled in full.

Adopted changes were made in full prior to publishing the documents on Council's website. The Office of Local Government was notified as required by the IP&R guidelines and handbook and has accepted the publishing of the documents.

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## When did the council meet the formal requirements for all relevant IP&R documents?

The table seeks information which demonstrates that the council has met the formal requirements for the preparation, exhibition, adoption and publication of the current IP&R documents. Please complete Table 8 for all IP&R documents relevant to the council's application.

Table 8 IP&R documents

Document	Exhibition dates	Adoption date	Placed on council's website	Web link
Community strategic plan 2022 to 2032	28 April to 26 May 2022	28 June 2022	1 July 2022	<a href="https://www.portstephens.nsw.gov.au/council/plans-and-reporting/integrated-plans">https://www.portstephens.nsw.gov.au/council/plans-and-reporting/integrated-plans</a>
Delivery Program 2022 to 2026	13 September 2022 to 12 October 2022	8 November 2022	10 November	<a href="https://www.portstephens.nsw.gov.au/council/rate-rise-options/rate-rise-options">https://www.portstephens.nsw.gov.au/council/rate-rise-options/rate-rise-options</a>
Long Term Financial Plan 2023 to 2033	13 September 2022 to 12 October 2022	8 November 2022	10 November	<a href="https://www.portstephens.nsw.gov.au/council/rate-rise-options/rate-rise-options">https://www.portstephens.nsw.gov.au/council/rate-rise-options/rate-rise-options</a>
Asset Management Strategy / Plan(s) 2023 to 2033	13 September 2022 to 12 October 2022	8 November 2022	10 November	<a href="https://www.portstephens.nsw.gov.au/council/rate-rise-options/rate-rise-options">https://www.portstephens.nsw.gov.au/council/rate-rise-options/rate-rise-options</a>
Operational Plan 2023 to 2024	13 September 2022 to 12 October 2022	8 November 2022	10 November	<a href="https://www.portstephens.nsw.gov.au/council/rate-rise-options/rate-rise-options">https://www.portstephens.nsw.gov.au/council/rate-rise-options/rate-rise-options</a>
Annual Report 2019 to 2020	n/a	n/a	25 November 2020	<a href="https://www.portstephens.nsw.gov.au/council/plans-and-reporting/annual-report">https://www.portstephens.nsw.gov.au/council/plans-and-reporting/annual-report</a>
Annual Report 2020 to 2021	n/a	n/a	27 October 2021	<a href="https://www.portstephens.nsw.gov.au/council/plans-and-reporting/annual-report">https://www.portstephens.nsw.gov.au/council/plans-and-reporting/annual-report</a>
Annual Report 2021 to 2022	n/a	n/a	14 December 2022	<a href="https://www.portstephens.nsw.gov.au/council/plans-and-reporting/annual-report">https://www.portstephens.nsw.gov.au/council/plans-and-reporting/annual-report</a>
Community Satisfaction Survey 2022	n/a	n/a	14 December 2022	<a href="https://www.portstephens.nsw.gov.au/council/plans-and-reporting/community-satisfaction-report">https://www.portstephens.nsw.gov.au/council/plans-and-reporting/community-satisfaction-report</a>

## What, if any, relevant issues arose in the public exhibition of the IP&R documents?

In the text box explain any issues arising from the council's IP&R processes and documentation associated with the proposed SV which you consider are relevant factors in assessing the council's application, including responses to public exhibition.

This question seeks information about issues that arose in the council's undertaking of its IP&R processes with the community by publicly exhibiting the IP&R documents, which could be relevant for IPART's assessment of the council's application.

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### **Rate cap announcement**

During the public exhibition period, IPART announced the 2023-2024 rate peg amount set at 3.7%, with Port Stephens population growth factor of 0.7% - taking the total rate increase to 4.4%. The timing of this announcement resulted in a contrast to the base scenario that was currently out for public exhibition.

In response, Council made contact with IPART to assess any further requirements. Whilst there was no additional requirements, Council updated its communications material to reflect the announced 4.4% rate cap. This included updates to its Rate Rise Option's website (which included factsheets), updating community presentations that were yet to occur, as well as providing additional communication about the change through an information video published on the website and posted to Council's Facebook page.

The changes to the IP&R documents in response to the rate cap announcement were captured in the Report back to Council, specifically in the updated Statement of Revenue Policy and LTFP.

### **Special rate percentage change**

After consideration of the independent advice sought, community engagement results and formal submissions received during the public exhibition period, together with the impact and affordability of a rate increase during the current economic outlook, Council resolved to submit an application for a lower rate increase of 9.5%, compared to that originally proposed of 10.5%. It also committed to finding more solutions to reduce operating costs.

### **Targeting and prioritising road maintenance**

Whilst our principle focus has been achieving financial sustainability, throughout all the conversations with the community about financial sustainability and a potential rate increase, it was clear that the number one priority for Port Stephens is the condition of its local roads and in particular the desire for increased roads maintenance to address potholes.

In direct response to this key issue, Council put forward that over half or the majority of any 'additional funds', after repairing the budget, raised from an approved SV would be spent on road maintenance. Further to this, it was amended that Council would prioritise upfront road maintenance efforts in the proposed schedule of works timeline rather than spread the funds out over a ten-year period.

### **Further commitment to reducing operating costs**

Throughout the community engagement and public exhibition periods a large portion of the community raised strong views that the current asset conditions and service levels should be at a minimum, continued at existing levels with a preference for enhancements. Additionally, the some of the community viewed that Council should finding savings internally.

Council understands the tension between the community's opposition to a reduction in service levels or asset conditions and any proposed SV. Council acknowledges that a hybrid approach to both a reasonable SV and more solutions to reduce operating costs through our matured service review program and further investigator recommendations from the Independent Financial Analysis will enable Council to deliver current service levels with some enhancements and be financially sustainable over the long term.

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## Criterion 5 – Productivity improvements and cost containment strategies

### Criterion 5 in the SV Guidelines is:

The IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies the council has realised in past years and plans to realise over the proposed special variation period.

Councils should present their productivity improvements and cost containment strategies in the context of ongoing efficiency measures, and indicate if the estimated financial impact of the ongoing efficiency measures has been incorporated in the council's Long Term Financial Plan

This Application Form asks four questions relating to:

1. The approach to improving productivity in operations and asset management.
2. Outcomes realised from productivity improvements and cost containment strategies in past years.
3. Productivity improvements and cost containment strategies planned for future years.
4. Evidence of productivity and efficiency.

Councils can adopt a very broad range of strategies, initiatives or activities to improve the efficiency of their operations and the productivity of their workforce, and to contain costs and increase revenue. They may arise from reviewing service priorities, levels of service, labour and capital inputs, and organisational structures or services to be delivered.

Drawing on our experience in past years, we will be placing an emphasis on councils' applications demonstrating how they satisfy criterion 5. To demonstrate that a council has met this criterion, it is not sufficient to list a series of cost-saving or revenue-raising initiatives. Councils should provide evidence of strategies and activities and robust data quantifying the efficiency gains.

### What is the council's strategic approach to improving productivity in its operations and asset management?

The council's response should identify how, as an organisation, it has approached improving productivity in its operations and asset management. It could refer to approaches such as:

- comprehensive strategic-level review of council operations including service priorities, levels of service, labour and capital inputs
- targeted reviews of discrete areas of council operations encompassing all aspects of processes, procedures, procurement, scheduling and equipment use
- reviewing service standards so that the more closely align with community expectations
- organisational restructure
- redesigning processes such as financial reporting, people/performance/project management to achieve efficiencies

- reviewing procurement strategies
- pursuing opportunities for commercialisation and business improvement
- review of assets in order to rationalise and divest property.

Please provide the council's response in the text box below.

Council runs a whole suite of strategies to drive up quality and value whilst reducing costs. Council has a demonstrated history over the past ten years of pursuing efficiencies in order to provide quality services to its community. Council's strategic approach to improving productivity in its operations and asset management is entrenched within the Australian Business Excellence Framework (ABEF) and has resulted in over \$7 million in savings back into the organisation over its program's life.

The Business Excellence philosophy provides a holistic approach to business improvement and is adopted into Council's Integrated, Planning and Reporting. The Framework is based on a set of 9 universal principles, which provide guidance, support and tools that allow us to measure and continuously improve our systems, processes and relationships.

We measure what we do in order to develop a high-performing organisation that has a strong culture of 'delivering services valued by our community in the best way'. The ABEF framework drives the achievement of the strategies, objectives and deliverables within Council's integrated plans, simply put it's 'how we do things at PSC'.

Council has created a Council-wide culture of continuous improvement through the implementation of the ABEF with a dedicated team to assist the organisation with improvement through best practice strategies, methodologies and tools as outlined below.

Strategies, methodologies and tools	Details
Asset Management (AM)	<p>Council has been on a concentrated Asset Management journey since 2008 with the introduction of the first asset management maturity assessment to determine the organisation's ability to undertake AM. The assessment identified an improvement program in which Council has been consistently working through a large number of improvements to build the organisation's ability to undertake AM.</p> <p>As per Council's Asset Management Policy, we have adopted the International Infrastructure Maintenance Manual (IIMM) in our Strategic Asset Management Plan (SAMP), Asset Management Guidelines and organisational structure. This structure has allowed the custodian of all of the community's assets to be consolidated into one area of Council and hence providing a consistent approach of AM, which in turn is in accordance with the IIMM. Council change in focus over the past years is detailed in the SAMP, where the asset funding strategy's intent is to reduce the infrastructure gap and promote early asset management interventions.</p>

	<p>In addition, to the Annual Community Satisfaction Survey, Council seeks the community's input regarding desired levels of services for asset management. Feedback gained forms the basis of the Demand Management documented in each chapter of the SAMP and has been compared to the levels of service that Council is obligated to provide in relation to compliance, risk mitigation and condition assessments.</p> <p>Council takes a very involved strategic approach to AM. Staff have been involved in the Institute of Public Works Engineering Australasia (NSW) and are one of the IPWEA NSW Asset Management Panel Members that has provided guidance and advice to other Councils and the Office of Local Government. The learnings gained from being an active participant of this Panel have allowed first contact with AM industry leaders and the ability to effectively incorporate AM into Port Stephens Council.</p>
Continuous Improvement Programs	<p>Under the Business Excellence framework Council systematically conducts targeted reviews of discrete areas of Council's operations through a number of continuous improvement programs. These encompass all aspects of service levels, processes, procedures, procurement, and organisational structure with the aim of achieving efficiencies, containing costs and better aligning our services to community expectations. These programs include;</p> <ul style="list-style-type: none"> <li>• Service Review Program</li> <li>• Service Level Agreement Review Program</li> <li>• Plan, Do, Study, Act (PDSA) Process Improvement Methodology</li> <li>• PDSA training</li> <li>• Business Improvement Ideas database and process (BII)</li> <li>• Self-Assessments</li> <li>• Promapp (process system) / Process Facilitation</li> <li>• Promapp (process system) trainingBusiness Excellence Awareness training</li> <li>• Business Excellence Networking</li> </ul>
Grants Income/Office r	<p>Council has been leading the industry to have its own dedicated Grants Officer strategically and uniquely placed in the Financial Services Section. The purpose of this role to identify grant funding, manage applications and ensure grant funding is received in full. Whilst reliance on grant funding is not financially sustainable, having a dedicated officer that is not only able to identify and assist the organisation in applying for grant funding but also use their financial expertise to reconcile grant expenditure and submit grant funding milestones and acquittal reporting. This is imperative to ensuring that Council collects all allocated grant funding income in a timely manner to assist with cash flow management. Since 2016 Council has had a dedicated Grants Officer to seek and secure funding from a range of funding bodies which has increased our approval success by 62%.</p>

<p>Integrated Planning and Reporting</p>	<p>Council is committed to a truly integrated approach to our planning, reporting and engagement. Ensuring that integration is at the heart of what we do, we use the Integrated Planning and Reporting (IP&amp;R) Framework to plan for the future and report on our progress to our community.</p> <p>Through the IP&amp;R process, Council regularly undertakes a comprehensive strategic-level review of Council operations including service priorities, levels of service, labour and capital inputs. This is coupled with community engagement in order to review service standards to more closely align with community expectations.</p> <p>Council sets itself seven key result measures that it annually reviews to ensure Council is operating within the Business Excellence Framework and delivering services in the best possible way. We drive transparency around our performance of these metrics through our Annual Report and with that, keeps Council accountable to its commitments to productivity and cost containment.</p>
<p>Non-Rate Revenue Sources</p>	<p>Since 2002 Council has had a deliberate strategy of increasing sources of non-rate revenue to support the provision of Council services to the community. This strategy in the past has been successful and has enabled Council to maintain the lowest rates in the region whilst continuing to deliver services valued by the community. The key sources of non-rate revenue for Council include returns from:</p> <ul style="list-style-type: none"> <li>• Council's property development and investment portfolio – managed in accordance with the Property Investment Strategy</li> <li>• Council's Beachside Holiday Parks (BSHP) operations – managed in accordance with the BSHP Delivery Program</li> <li>• A dividend from the operations of Newcastle Airport Pty Limited (NAPL) – managed in accordance through a separate NAPL governance process.</li> <li>• Smart Parking in town centres across the LGA.</li> </ul> <p>These strategies provide capital growth and recurrent income streams which Council has been effectively using to subsidise its low rates income. Whilst these are strategies that Council will continue to carry out it has been highlighted through the Covid-19 pandemic and the independent advice presented to Council that this strategy when solely relied upon to fund daily operations comes with a high level of commercial risk and needs to be re-balanced.</p>

Project Management Framework	Council has a corporate Project Management Framework based on the best practice 'Project Management Body of Knowledge' (PMBOK) principles. Our public infrastructure projects are planned, designed, delivered and managed by appropriately qualified and competent staff, utilising external expertise for specialist advice and support where required. Our processes and projects are regularly reviewed and audited to ensure compliance and facilitate continuous improvements.
Renewable energy	In March 2022, under a landmark agreement with the Southern Sydney Regional Organisation of Councils (SSROC), Council committed to 100% solar energy being supplied to more than 1940 streetlights, libraries, sports fields and other sites across the region. Council is also a proud partner of Australia's largest local government climate network. The Cities Power Partnership will help advance our work in this space including a Sustainability Action Plan that will set clear emission reduction and renewable energy targets to create a strong, clean local economy.
Shared Services	<p>Council is committed to working with our industry to ensure best practice, and shares services where available to reduce costs, such as library services, weed management, legal services, regional procurement and environmental services.</p> <p>Council is a part of The Hunter Joint Organisation (HJO) and its group entities such as Arrow Collaborative Services Limited, who improve the quality and efficiency of local government services in the Hunter. The HJO is the hub for local government collaboration. They strengthen our communities by being the local voice on regional strategic issues and delivering tailored local government solutions. It provides shared knowledge, networks, cultural experiences and economies of scale to build and drive the economy in the community. The HJO provide leadership, support, guidance, advocacy and resources in line with policy and legislation</p> <p>Council's Service Review Program includes in the process to look at shared service opportunities for each service package every four years as part of the review. In addition, Council's Business Excellence team undertake various networking sessions throughout the year internally and with partner organisations to identify where shared services could be achieved.</p>
Strategic Workforce Management	Council has consistently pursued a number of strategies within the Human Resource management area aimed at reducing costs and increasing productivity. The Workforce Management Strategy assists Council plan its human resource requirements needed to deliver on its plans for the community now and into the future. Ensuring the right workforce is a critical element to delivering each of the Council's plans and promises to the Community in the most efficient way.

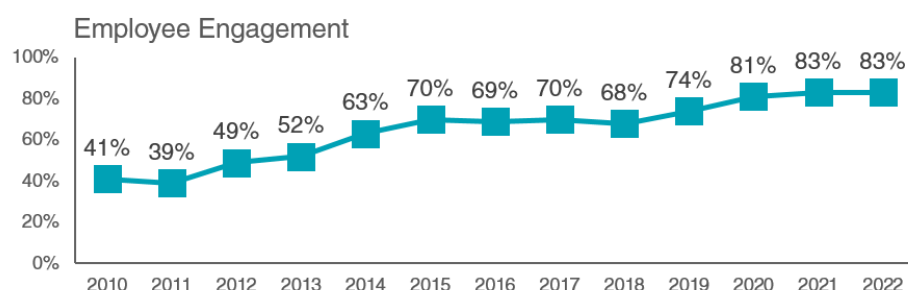


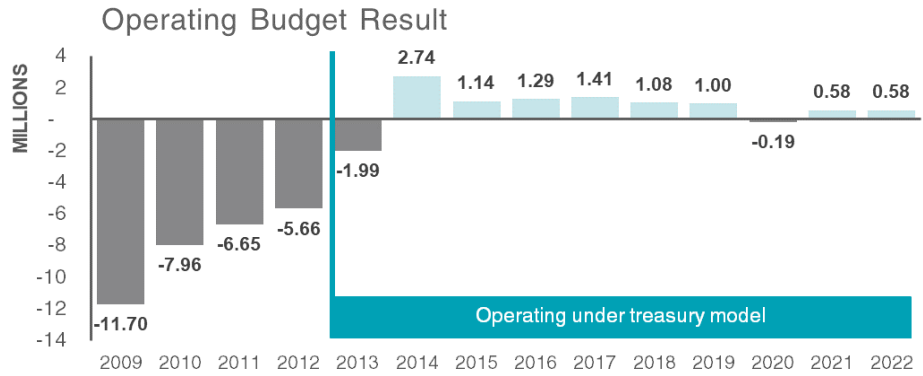
Council's Workforce Management Strategy is based on delivering 4 strategic objectives

1. Recruit - Promote Port Stephens Council as a Best Employer to attract top talent.
2. Retain - Support our people to be healthy, resilient and engaged.
3. Develop - Empower our people to grow and develop through lifelong learning.
4. Inspire - Inspire a culture of excellence through continuous improvement and healthy relationships

Council is committed to being financially sustainable, requiring Council to take a holistic approach to balance its resources and part of that is our workforce. When considering employee terms and conditions, Council's commitment to financial sustainability is carefully considered with our Enterprise Agreement being negotiated using the Interest Based Bargaining methodology.

Council has been working to improve the engagement of our workforce for some time with great results that make us part of the upper quartile of highly engaged organisations in the Australian workforce. Council drives the engagement and development of its people to ultimately deliver better more efficient services for its community



Treasury model	<p>Since 2012 Council has operated under the treasury model to strengthen financial management and improve budgetary controls across the organisation. This model involves the Executive Team setting budget parameters and Financial Services ensuring control towards these parameters. This budgeting approach encourages business units within Council to coordinate and collaborate with each other so that resources are optimally pooled and programs appropriately targeted to inclusively service the needs of the community. As a direct result of this budget methodology and strict budget culture, the treasury model has seen Council achieve a financial recovery over the last 10 years. This strategic approach has assisted during the Covid-19 pandemic where Council had</p> <p style="text-align: center;"><b>Operating Budget Result</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Operating Budget Result (Millions)</th> </tr> </thead> <tbody> <tr><td>2009</td><td>-11.70</td></tr> <tr><td>2010</td><td>-7.96</td></tr> <tr><td>2011</td><td>-6.65</td></tr> <tr><td>2012</td><td>-5.66</td></tr> <tr><td>2013</td><td>-1.99</td></tr> <tr><td>2014</td><td>2.74</td></tr> <tr><td>2015</td><td>1.14</td></tr> <tr><td>2016</td><td>1.29</td></tr> <tr><td>2017</td><td>1.41</td></tr> <tr><td>2018</td><td>1.08</td></tr> <tr><td>2019</td><td>1.00</td></tr> <tr><td>2020</td><td>-0.19</td></tr> <tr><td>2021</td><td>0.58</td></tr> <tr><td>2022</td><td>0.58</td></tr> </tbody> </table> <p>forecasted deficits up to 4 million in which it was able to only just recovery.</p>	Year	Operating Budget Result (Millions)	2009	-11.70	2010	-7.96	2011	-6.65	2012	-5.66	2013	-1.99	2014	2.74	2015	1.14	2016	1.29	2017	1.41	2018	1.08	2019	1.00	2020	-0.19	2021	0.58	2022	0.58
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Whilst Council has been diligent and recognised throughout the industry in the pursuit of continuous improvement, productivity enhancements and cost containment it is clear that efficiency gains, measured in % of operating budget have decreased in a relative sense as our Service Review Program has matured over time.

Council quite achievement in this space has not been as transparent or evident as it could have been to our community. Feedback of this nature was gained during the engagement program, with some natural scepticism within the community as to the efforts Council was making to save money, keep costs down, reduce discretionary spending, and to 'live within its means'. Council took every engagement opportunity during the SV process to spread awareness of the measures it undertakes continuously. This will continue through our engagement programs to address fiscal illusion as identified by the independent Financial Sustainability Report.

## What outcomes has the council achieved from productivity improvements and cost containment strategies in past years?

In responding to the questions that address this point, wherever possible the council should:

- provide information about productivity improvements and cost containment strategies implemented during at least the past two years
- quantify in dollar terms the gains past initiatives have realised

- present these gains as a percentage of operating expenditure.

You may in this question provide evidence of overall improvements in the council's financial situation from productivity and operational improvements and provide specific examples of initiatives or activities such as:

- introducing environmental and energy efficiency initiatives
- adopting more efficient information and communications technology for a range of activities such as communications, document processing, financial transactions, outdoor staff operations, e-recruitment
- shared purchasing through joint organisations of councils
- improved management of workers compensation insurance claims and safety audit
- seeking private contract works for road maintenance
- contracting to provide services to other councils
- reviewing community venue management to increase the utilisation of venues and associated revenues
- reviewing charges to ensure greater cost-recovery for council-provided services
- review of and refinancing loan borrowings
- adopting waste management strategies to reduce landfill waste and associated costs.

Please provide the council's responses to the questions in in the text boxes below.

a. Explain initiatives undertaken in the past few years to improve productivity and contain costs.

### **1.1 Initiative: Service Review Program**

Council established its Service Review Program in 2011 which has evolved and improved over the years. The purpose of the Service Review Program is to ensure that Council's services reflect the local community needs and expectations, both in terms of quality and cost whilst ensuring sustainability. The Service Reviews are completed over a four-year program, allowing for every service package (60 service packages) to be reviewed 1 in 4 years. In 2017 an additional mid-way review was introduced, allowing for a review of all 60 service packages every 2 years.

The process establishes, through the use of fact and data, common understanding of how services fit in to the big picture and a framework for sustainable decision making. The process involves asking three fundamental questions:

- 1) What do we deliver?
- 2) What level of service is required?
- 3) How can we do it better?

The service review program assists us to better manage our scarce resources, while improving what we do and how we do it whilst achieving sustainability.

The success and sustainability of our Service Review process can be attributed to the way we have incorporated business principles into the process. Each of our reviews takes into consideration:

- 1) The community strategic plan and other key strategies
- 2) Customer and other stakeholder needs
- 3) Systems thinking
- 4) Engaging our people's enthusiasm
- 5) Innovation, learning and process thinking
- 6) The use of information and knowledge to make decisions
- 7) Applying an understanding of statistical thinking and the concept of variation
- 8) Ethical, social and environmental considerations
- 9) Leadership drivers such as values, behaviours and the desired culture

Using a risk-based approach, each service review considers a number of factors including a thorough review of the processes. Analysing processes has allowed us to identify defects, rework and non-value adding activities. This is difficult and takes time - but using the data, information and knowledge derived from the review allows us to get to the heart of how our outputs and ultimately outcomes are delivered and what human, financial and asset resources are required.

The Service Review program is facilitated by an internal resource supported by the Service Review team which includes representatives from Human Resources, Finance, Enterprise Risk, Digital Transformation, and Communications. Council supports this initiative through its governance documentation and a full suite of processes and templates to guide section managers and employees through the process which details consultation and communication stages.

### **2.1 Initiative: Plan, Do, Study, Act (PDSA) Process Improvement Methodology**

The PDSA methodology allows for a structured and disciplined process to review a process for improvement and can be used for any situation by teams or individuals.

The process is in-depth with nine steps across the four stages allowing for rigour in thinking, stakeholder participation, benchmarking, root causes analysis and cost benefit analysis prior to implementing any improvement.

Council has captured completion of 26 facilitated PDSA process teams since 2013 (8 completed over the last two years). It is noted that prior to 2016 the capture of PDSA's were not mandatory and likely there were more completed than captured.

### **3.1 Initiative: Business Improvement Idea Register (BII)**

Council recognises the importance of the innovation and ideas from the our employees actually doing the tasks to contribute to improvement in our organisation, this means that we welcome our employees to be part of the improvement solution and encourage improvement ideas.

All BII's are processed in a coordinated manner through an assessment which includes the below detailed steps prior to prioritisation:

- Process review
- Risk assessment
- Cost benefit analysis
- Business case preparation
- Approval process

Prioritisation includes evaluation of importance, impact, organisational focus priorities, funding and resourcing.

#### **4.1 Initiative: Review of Fees and Charges**

For the 2022-2023 financial year, upon advice from Professors Dollery and Drew Council took a deep dive look into its non-statutory fees and charges to review any discrepancy between extant fees and charges with respect to the actual costs of delivery.

#### **5.1 Initiative: Smart Parking**

Late 2020, Council implemented a new integrated Smart Parking system in Nelson Bay which was the first of its kind in the Hunter region and is designed to increase parking spaces, promote turnover, improve safety in the town centre and capture tourist revenue in this popular seaside tourist area.

#### **6.1 Initiative: Strategic Property – Rationalisation of assets/commercial development & investment properties**

Council has an outstanding track record when it comes to its Strategic Property business unit. Strategic Property generate non-rate revenue from our commercial investment portfolio, development and sale of council land & biodiversity offset schemes to supplement restricted income from rating and statutory fees and charges.

#### **7.1 Initiative: Reviewing Loan Portfolio**

During the 2022 period of low-interest rates and with an expectation of rising interest rates, Council exercised good financial management and foresight to seize the opportunity to review our loan portfolio and renegotiate with our lenders.

#### **8.1 Initiative: Zero-based Budgets**

In 2020, Council completed its first zero-based budget program post-implementation of the treasury model. Zero-base budgeting is a method of budgeting in which all expenses must be justified for the new financial year. This is in contrast to traditional budgeting which is based on historical information and adjusting it as needed.

#### **9.1 Initiative: Project Management Framework (PMF) Revision**

In 2022 Council undertook an internal Project Management Audit that led to the Project Management Framework and end-to-end project delivery process being reviewed and updated.

#### **10.1 Initiative: Asset Management (AM) Maturity Assessments**

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Since 2008 Council has undertaken 3 other major maturity assessments based on the original GHD Percy Allen Assessment and more recently, the National Assessment Framework for Local Government Asset Management and Financial Planning. These regular assessments are built to test our performance against the improvement program, and also rebuild the improvement program by setting a higher standard as we have matured.

#### **11.1 Initiative: Community Asset Dashboards**

In 2022 the SAMP included the newly created Community Asset Dashboards that provide a snapshot of asset in terms of its condition, functionality, and capacity. They have been created in accordance with the NSW Institute of Public Works Engineering Australasia (IPWEA) Guidelines.

#### **12.1 Initiative: Asset funding strategy intent**

Council change in focus over the past years is detailed in the SAMP, where the asset funding strategy's intent is to reduce the infrastructure gap and promote early asset management interventions. In addition to what is documented in the SAMP, Council has further expanded the incorporation of resource recovery materials, capital installation of utility infrastructure (with a short-term payback period) and introduction of policy for private asset delivery with the aim to reduce the organisation's operational expenditure on the AM service delivery.

#### **13.1 Initiative: Asset Management Strategy and Structure Redesign 2019**

A recent service review of the Asset Section focused on the overarching management of asset strategy, leading to a redesign of the role and team responsibility and reporting with clear distinction of planning and reporting requirements and active asset management and operational matters.

#### **14.1 Initiative: Sustainability, climate change and the circular economy**

Council aims to create an environmentally sustainable community by reducing greenhouse emission and adapting to our changing climate. As such, Council has a Climate Policy with a 3 focus action plan of, education, mitigation and adaption and is increasing its focus in the circular economy. To support this, Council has a sustainable energy and water reserve which is used to fund efficiency projects that will positively contribute towards Council finding sustainable utility solutions.

#### **15.1 Initiative: Waste Services – Domestic waste processing**

Port Stephens Council previously composted all red lid bin waste into a Mixed Waste Organics Output (MWO) product for use in agricultural application. Due to the banning of MWO product for this purpose, Council reassessed options and have had to now landfill all of this material whilst in the process of implementing a green bin.

#### **16.1 Initiative: Budget Response to Covid-19 Pandemic**

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Like all businesses, Council faced external shock from the Covid-19 pandemic, more so with a hit to our non-rate revenue sources. In response, Council implemented short-term strategies to contain its costs.

b. Outline the outcomes which have been achieved.

### **1.2 Outcome: Service Review Program**

Over the years the process has provided significant savings and improved services for the organisation and the community including non-financial results including:

- Employee consultation has improved
- Understanding of the process has improved
- Understanding and delivery of service levels have improved
- Cross organisation communication is more consistent
- Improved integration with the internal service delivery teams such as HR and Finance
- Full peer review of every review prior to presentation to Senior Leadership Team provides thoroughness of the business cases presented.

Council's Service Review Program has stood the test of time including 14 months under the threat of a potential merger and a change in leadership of elected members and senior staff. Now in its fourth round, the Service Review Program has realised real, significant and sustainable savings and has created a deeply ingrained culture of continuous improvement.

At the same time, Council's key metrics have all been in the top quartile and have superseded targets. Council now has a culture of excellence driven by its leadership team, who have demonstrated an appetite for transformational change.

Due to the volume of completed Service Reviews, case study examples have been provided below.

#### **1.2.a Case Study - Property Services 2020**

The Property Services section generates revenue from a commercial investment portfolio, development land bank, biodiversity offset scheme and holiday parks to supplement restricted income from rating and statutory fees and charges. The Property Services section is responsible for the delivery of property projects that contribute to Council's financial sustainability and the social, environmental and economic sustainability of the Port Stephens community.

Improvements from the review resulted in

- Restructuring the team
- Creating a commercial Investments Property Strategy
- Recruit for the right roles, right skills and experience to increase proactive management
- Improving processes, reporting and stakeholder engagement

#### **1.2.b Case Study - Executive Administration General Manager's Office 2022**

Executive Administration provides administration support and services to the Mayor, Councillors and General Manager.

Improvements from the review resulted in:

- Improvement to Council Meeting Minutes processes to reduce costs
- Structure and resources are at correct level for service delivery

## **2.2 Outcome: Plan, Do, Study, Act (PDSA) Process Improvement Methodology**

Workshopping an improvement with a cross section of stakeholders across the organisation using continuous improvement methodologies and tools allows for a deeper understanding of how each different parts of the organisation can work collaboratively to achieve community priorities.

Improvements from PDSA's have included:

- Improvements in technology
- Process improvements reducing hardcopy processing and printing
- Automation of manual administration tasks
- Implementation of online services
- Implementing change to rostering to allow for increased productivity with fleet and outdoor teams (less maintenance downtime)
- Reviewing contracts and achieving better service at a lower cost

All of the above allows for benefits including:

- Hard savings back to the organisation
- Reinvested savings of reduction in time
- Improved customer experience
- Improved service delivery
- Improved engagement of employees and increase in productivity

Again, due to the volume of PDSA's completed, case study examples have been provided below.

### **2.2.a Case Study - Duty Counter 2020**

A full review of the current Duty Counter process was completed which resulted in improvements in the process, systems and service delivery.

Improvements included:

- Implementation of a new roster system with same pattern each month for increase planning
- Updating scripts for customer service enquiries to improve customer first contact response
- Updating FAQ's to allow for additional situations and improved information for customer self service
- Improvement to website content and improved user access
- Script/Triage enquiry training for Customer Service Officer
- Improved processes to set clear expectations
- Improved capture enquiries, update and close enquiries
- Improved reporting Implement an increased recognition process to acknowledge the work completed on duty counter to increase staff morale



## 2.2.b Case Study - Cemeteries 2021

A full review of the current cemeteries process was completed which resulted in improvements in process, systems and service delivery. These improvements will allow for a reduction of manual administration, accurate capture of the services, costs and applications, allowing for an improved customer service experience to the customer.

Improvements included:

- Full review of legislative requirements to clearly understand Council's legislation for level of service
- Re-allocation for improved alignment of the cemetery maintenance to the Public Domain and Services team
- Improvements to the technology to allow for, increased tracking of requests, task allocation and accountability and increase transparency and reporting
- improved customer service for multiple administration staff to assist
- Renegotiation of existing maintenance contract for increased service and lower cost
- Creation of online applications for improved customer service and reduction in manual administration task and hardcopy printing and posting.

## 3.2 Outcome: Business Improvement Idea Register (BII)

The Business Improvement Ideas database is a tool for employees to submit their innovative ideas for improvement, providing opportunity for all employees to actively improve their processes with support from the organisation and with that, positively contributes to a culture of continuous improvement.

A significant amount of BII's focus on system improvement but they can also include direct process improvement identification, automation opportunities and accountability clarity. Improvements have included the following case studies:

### 3.2.a Case Study - Process Improvement

Whilst Council is responsible for complying with the State Records Act with regards to record keeping, there are specific regulations around Children Services records. A BII was received to investigate improvement of their record keeping processes to reduce costs and increase productivity.

Improvements included

- Reduction in hard copy printing
- Online enrolment self-service for the customers
- Ease of access for digital records
- Compliance with the State Records Act
- Implementing an efficient disposal program
- Savings in hard copy printing, scanning and staff time
- Savings in hard copy storage
- Reduction in risk to council of loss or damage of hardcopy records

### **3.2.b Case Study - System Improvement**

Council has a significant amount of forms for our community to transact with the organisation. Assessment of the current forms and associated processes identified opportunities to move a number of Council's forms from paper static to streamlined online interactive forms with online payment opportunities. During this review the entire process is examined and redesigned to not only facilitate online interaction but also improve internal efficiencies

#### **Results**

- 100 customer-facing forms identified for digital transition – including forms that require receipting function
- Reduction in hard copy printing and postage
- Online self-service for improved customer experience
- Reduction/Elimination of manual processing through system integration
- Increased data capture, transparency and integration with council's financial systems

### **3.2.c Case Study - Other Initiative Improvements**

A BII was received to introduce an Aboriginal Procurement Policy to raise awareness within our contractors of opportunities within our Aboriginal Community. Assessment of the improvement included stakeholder engagement, review of any existing legislation or guidelines and review of current associated processes. Assessment found this to be beneficial, low risk and necessitated low resource requirement, therefore processes were updated to include awareness as part of the Social Procurement Policy.

### **4.2 Outcome: Review of Fees and Charges**

On completion of the internal review and before the adoption of the 2022-2023 Fees and Charges Council staff provided a recommendation to the Executive Team, which was subsequently supported, for a one-off increase to non-statutory fees and charges by 10%. Council received no submissions during the public exhibition period regarding the one off increase which aligned with the Independent Financial Sustainability Analysis comments that Council's fees were at low levels and had the capacity to increase.

### **5.2 Outcome: Smart Parking**

The implementation of Smart Parking in the Nelson Bay CBD included new parking meters, number plate recognition instead of paper tickets, parking sensors and a new app increasing ease of use for its users. As part of the implementation, Port Stephens residents can apply for an exemption and do not pay for parking under the scheme.

### **6.2 Outcome: Strategic Property – Rationalisation of assets/commercial development & investment properties**

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Each year, Council will develop and sell property along with managing its investment property portfolio in order to deliver property services and business outcomes that contributes to the social, economic and financial sustainability of Council, the Government and the Community. Any net returns are safeguarded in the property reserve for reinvestment in accordance with Property Strategy, with any surplus to be redirected into the Resilience fund to enable strategic use of these funds.

### **6.2.a Case Study - Subdivision**

In the financial year to June 2022 Council developed a 4 lot residential subdivision. All lots were sold at auction with the sales completed in December 2021. The gross realisation from the development, including GST, was \$2,518,500. Total costs associated with the development were \$53,123, leaving a net profit of \$2,465,377. Additional land sales completed in the financial year grossed \$8,110,000 (less \$145,555.20 expenditure) and biobank credit sales grossed \$2,424,852 (with nil expenditure).

### **7.2 Outcome: Reviewing Loan Portfolio**

Given that interest rates were expected to increase Council sought numerous quotes and refinanced two loans at a low fixed interest rate. Given the rise in interest rates over the past twelve months this foresight and subsequent action was imperative to containing Council's costs for the next few years.

### **8.2 Outcome: Zero-based Budgets**

This detailed review of each business unit's financial allocation was performed to reset the treasury model, identify any potential savings and re-align Council's budget to changing service and regulatory demands. The zero-based budget process also reiterated to the organisation that Council requires continuous strict budget management.

### **9.2 Outcome: Project Management Framework (PMF) Revision**

A review of the Project Management Framework (PMF) identified improvements, and acknowledged the subtle difference between specific infrastructure project delivery and more general corporate project delivery, primarily in relation to the documentation and tools developed and used for the former. The end-to-end lifecycle was also extended to include the "idea" phase and the "occupy/maintain phase". These changes broaden the scope for all areas of Council to use the framework and ensured whole-life asset management was being considered for infrastructure projects. Current and industry standard frameworks such as the PMF, enable Council staff to manage their projects efficiently.

### **10.2 Outcome: Asset Management Maturity Assessments**

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Regularly assessing Council's Asset Management (AM) maturity against a National Framework ensures continual improvement in AM practices. Council are able to determine the appropriate goal for AM maturity and set strategic objectives in order to achieve the agreed level of maturity. The National Framework identifies areas for improvement and assists Council in identifying ways to better understand community expectations and manage service delivery while lowering risk and lifecycle costs through the use of improved practices and new technology.

### **11.2 Outcome: Community Asset Dashboard**

These dashboards are a simple way of presenting a basic status of the asset class that can be used for communication and understanding of the levels of service they provide. By implementing these dashboards, Council aims to have the community further understand the asset status to ensure they can make a more informed decision when it comes to giving feedback. In return, Council demand and general asset management will be more aligned to community expectations. It should be noted that this is the first year that these dashboards have been introduced and future generations of the dashboards will see a refinement of the data that is shown in them.

### **12.2 Outcome: Asset Funding Strategy intent**

The change in focus has been achieved through

- Improving own funds at maturity through linking our financial and asset position
- Shifting Council's Capital Works funds towards renewal instead of new assets
- Increasing the amount of road reseals undertaken in any one year
- Taking advantage of the State government initiatives such as the COVID stimulus packages
- Borrowing money to renew assets to reduce asset lifecycle costs
- Discussions with user groups and the community generally about asset services to closer align spending with expectations
- Improving internal Council efficiencies to free up funds for asset renewal through Council's Service Review Program
- Continuous improvement in the Capital Works and maintenance processes to drive efficiencies and reduce costs. This in turn resulted in savings which could be reinvested into the renewal of assets.

### **13.2 Outcome: Asset Management Strategy and Structure Redesign 2019**

The previous arrangement had the overall responsibility of maintenance planning and operational matters sitting outside Assets' span of control. This included active management practices combined with planning and reporting requirements. Whilst this some of this approach worked well in a linear process there was limited overall management of assets and minimal feedback to the asset owner that allows for better decision-making.

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The redesign to the strategy and structure of the Assets section achieved a distinct separation between the active management of assets and the planning and reporting requirements of assets as well as bringing more asset management into the Assets Section span of control. This saw a higher level of service resulting in a proactive rather than reactive approach to the management of assets. Increased asset inspections, higher level of condition data, eradication of duplication and overlap of works on the ground were key outcomes.

#### **14.2 Outcome: Sustainability, climate change and circular economy**

Council in recent years has focused on unlocking a new circular economy to reduce waste and extend the life of unwanted household items. Council's drop off days all play a part in the circular economy. Reusing and recycling helps to reduce landfill, and increases the efficient use of natural resources, such as energy, water and materials. Circular economy initiatives such as the drop off days, the circular economy asphalt project, newly illuminated haul roads and storage areas being powered by the sun (as opposed to fossils at no additional cost) will ultimately save economic materials in use at their highest value and contain costs in the long run.

Under the Climate Change Policy the following outcomes have been achieved

- Installing a solar photovoltaic system on Council's Administration Building
- Installing solar photovoltaic systems on many of our libraries, community centres and Rural Fire Service buildings.
- Installing solar pool pre-heating at Lakeside Leisure Centre, Tomaree Aquatic Centre and Tilligerry Aquatic Centre.
- Installing solar photovoltaic system and water tank at Salamander Waste Transfer Station.
- In a first for the Hunter region, we used recycled glass 'greencrete' in the upgrade of Tanilba Bay roundabout. This is a great example of finding new ways to reuse materials as part of a circular economy.
- Installed Building Management System and Programmable Logic Controller at our Administration Building, Lakeside Leisure Centre and many sports and community buildings to deliver energy efficiencies and lower operating costs.
- Installing water-saving irrigation and stormwater harvesting at Medowie Park and Kindlebark Oval.
- Installing variable-speed drives (VSD) at Lakeside Leisure Centre plus Kangaroo Street and Stockton Street flood pumps to save energy consumption.
- Installing energy-saving LED field lighting at Ferodale Netball Courts, Tomaree Netball Courts and Tomaree Sports Complex
- Installing energy-saving LED lighting at our Administration Building, Tomaree Library and Community Centre, Council works depots, Birubi Surf Club and a number of community centres and halls.

#### **15.2 Outcome: Waste Services – Domestic waste processing**

Changes in the processing method result in direct savings to Council in processing costs. These savings are proposed to be used as part of the supply and rollout for implementation of the third bin (Green Waste) to ratepayers.

#### **16.2 Outcome: Budget Response to Covid-19 Pandemic**

As a result of the Covid-19 restrictions Council needed to recover lost income with short-term strategies. These strategies focused on containing costs by placing the entire organisation into austerity measures, where recruitment was effectively frozen, projects were delayed and discretionary spending was halted.

c. Where possible, quantify the gains these past initiatives have realised.

### 1.3 Gains: Service Review Program

Since the commencement of our Service Review Program in 2012 we have achieved:

- 94 reviews completed
- 242 service packages reviewed
- 10 reviews per annum (approx.)
- Over \$7 million dollars in savings (hard and reinvested efficiency savings).

A clear result that Council has over the past ten years critically focused on productivity enhancements and containing costs. Council averages approx. 30 scheduled reviews per annum whilst completing additional reviews as opportunities arises.

The following graph represents the cumulative net savings from commencement of the Service Review Program. It does not take into account the budget response to Covid-19-Pandemic, see 16.3

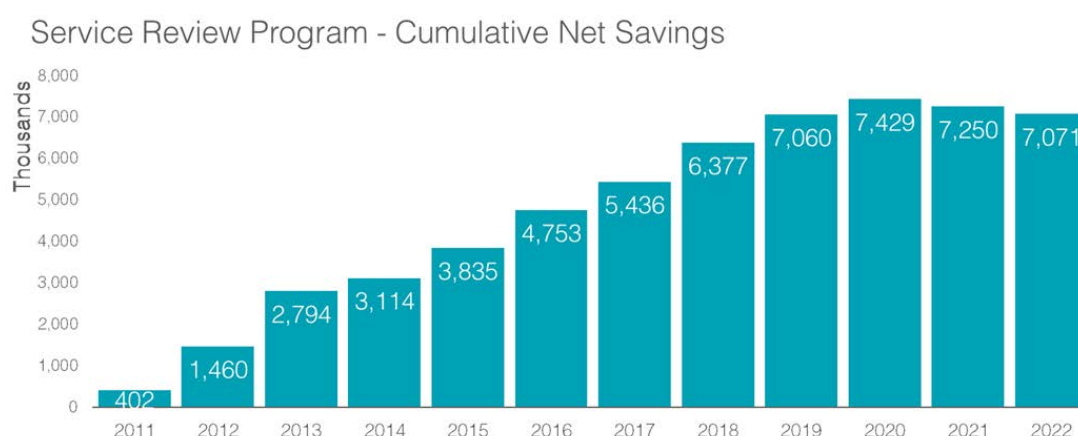


Figure 12: Service Review Program – Cumulative Net Savings

#### 1.3.a Case Study - Review Property Services 2020

Savings realised at the time of the review included a one-off saving of \$416,000 and an ongoing annual saving of \$83,000 p.a.

Further benefits and savings since implementation of the review recommendations:

- Returns from development projects increased 97.5% from 2019 to 2020, and 127% from 2020 to 2021
- Commercial investment property vacancy rates have reduced from 7% in 2019 to 2.4% in 2022
- 30% increase in daily café sales since 2022

### 1.3.b Case Study - Executive Administration General Manager's Office 2022

Containing costs by discontinuing the printing, professional binding and hard copy storage of Council Agendas and Minutes. Savings on paper, printing, binding, storage space, staff time and digitisation costs resulted in a hard savings of \$10,000.

### 2.3 Gains: Plan, Do, Study, Act (PDSA) Process Improvement Methodology

From 2019 to 2022 Council has completed 16 major PDSA Process Improvements.

#### 2.3.a Case Study - Duty Counter

\$8,200 per annum efficiency savings	Section Manager rate at a level 23 of \$82 per hour x 2 hours per week x 50 weeks This time has been reinvested in to priority work within the section.
\$4,800 per annum efficiency savings	Customer Services rate at a level 8 of \$32 per hour x 3 hours per week x 50 weeks = \$4,800 per annum approx.  This saving is based on the reduction of time spent on enquiries by customer service officers by improving self-servicing, improved triaging and software improvements.  This time has been reinvested in to priority work within the section.
Total efficiency reinvested savings of approx. \$13,000	

#### 2.3.b Case Study – Cemeteries

\$5,000 saved by renegotiating the maintenance contract	These funds were reinvested to increase the maintenance of the cemeteries to meet customer expectations.
\$5,550 per annum efficiency savings	Officer rate of \$37 per hour x 3 hours per week x 50 weeks = \$5,550 per annum approx.  This time has been reinvested in to priority work within the section.
Total efficiency reinvested savings of approx. \$10,550	

### 3.3 Gains: Business Improvement Idea Register (BII)

From 2015 – 2022 a total of 358 Business Improvement Ideas have been completed and Implemented to achieve effectiveness for the organisation. Of the 358, 171 were process improvements, 162 were system improvements and 25 were other improvements.

Savings in hard copy printing - \$96 per annum	4 pages x 480 applications x \$0.05 cents per print
Savings in postage - \$576 per annum	\$1.20 postage per item x 480 applications
Savings in scanning and manual administration processing - \$3,600 per annum	15mins of Children's Services Administration Officer Rate 7 @ \$30 per hour was saved per application 480 X \$7.50



Savings in hard copy storage – \$345.36 per annum	<p>108 boxes identified for immediate disposal  <math>\\$0.26 \text{ (per box per month)} \times 108 \text{ boxes} \times 12 \text{ months} = \\$336 \text{ per annum}</math></p> <p>Ongoing storage savings (now digitised and not required to save offsite)</p> <p><math>\\$0.26 \text{ (per box per month)} \times 3 \text{ box} \times 12 \text{ months} = \\$9.36 \text{ per annum}</math></p>
\$4,617.36 per annum – Total savings for this Process Improvement BII	

### 3.3.b Case Study - System Improvement

Savings from reduction in customer service phone enquiries - \$6,000 per annum	<p>Of the 100 identified, 50 forms are now online, reducing enquiries as customers are now able to pay online without the need to contact Council.</p> <p>The reduction in customer service phone enquiries is difficult to quantify as the forms differ in activity and time required for officers to process on a call, as a conservative result would be (50 forms x 2 enquiry per month = 1200 enquiries per annum at 10 mins of Customer Service Officers time rate 8 @ \$5 per 10mins = \$6,000 per annum.</p>
Savings from hard copy printing - \$6,000 per annum	50 forms x average 2 pages per form x \$0.05 x 1200 form requests per annum = \$6,000 per annum
Savings from postage of forms - \$360 per annum	300 of the 1200 form requests (25% of all requested forms posted) x \$1.20 postage per item = \$360 per annum
Savings in scanning and manual administration processing - \$2,700	<p>Average Administration Officer Rate 8 @ \$30 per hour</p> <p>1200 hardcopy forms processed @ 3 mins per form @ \$1.50 = \$2,700 per annum</p>
Savings in hard copy storage – \$3.12 per annum	1200 hardcopy forms x 1 box per month storage @ \$0.26 = \$3.12 per annum
<p>\$15,063 per annum – Efficiency savings to date (50 forms) for this Process Improvement BII</p> <p>It is noted that there are approximately 30 more identified forms to transition. Using \$15,000 per 50 forms as an average saving. A further \$9,000 in efficiency savings is anticipated on completion of online form transition for the 30 remaining identified forms.</p> <p>It is noted that a software solution tool was purchased at a cost of \$12,000 resulting in an overall result of \$12,000 savings, however the tool will be utilised ongoing to further reduce hardcopy forms and further savings in the future</p>	

### 4.3 Gain: Review of Fees and Charges

The 10% increase to non-statutory fees and charges was modelled into the 2022-2032 LTFP as an approximate \$500,000 increase in income to the 2022-2023 financial year.

### 5.3 Gain: Smart Parking



Since the implementation of Smart Parking in Nelson Bay Council has received \$2.4 million in income. It is noted that Covid-19 travel restrictions have impacted this result significantly. Council has modelled into the 2023-2033 LTFP an expected additional income return of \$750,000 per annum with the implementation of further sites across the LGA.

### **6.3 Gain: Strategic Property – Rationalisation of assets/commercial development & investment properties**

On the past four years, the Strategic Property business unit has delivered on average \$6.4 million per annum return back to the organisation.

### **7.3 Gains: Reviewing Loan Portfolio**

With interest rates continuously rising an exact cost saving gain is unable to be quantified. However it is known that Council has locked in loans at rates lower than current levels which is proving to be containing our interest expenses during this time of high economic instability and will continue to do so for the upcoming financial years.

### **8.3 Gains: Zero-Based Budgets**

Highlights from the review process included redesign of operational funding of \$1.3 million designated towards increasing asset maintenance programs and customer service roles, a favourable result of \$69,634 for the reduction in discretionary spending and identification of emerging items such as the growth in Children Services and Koala Sanctuary opening.

### **9.3 Gains: Project Management Framework Revision**

As a result of the improvements to the Project Management process, there is now a stronger focus on adequately resourcing the Initiate and Planning phases. This has led to significant improvements in lead times for projects and variations are known and proactively managed earlier in the project. Materials and contracts are procured through panel contracts which have resulted in a considerable reduction in the risks associated with time, quality and costs.

Capturing whole-of-life assets drives asset management maturity and better more informed decisions. With Council adopting a multi-year Capital Works Program these improvements allow for initiation and survey to be completed well in advance as well as ensuring projects are in the pipeline to align with potential grant funding opportunities. Following this, the Capital Works team have clear lead and lag indicators to allow us to now measure the improvements.

### **10.3 Gains: Asset Management Maturity Assessments**

As a direct result of the numerous Asset Maturity assessments, and change in focus over the last ten years, Council has seen its asset renewal, asset maintenance and infrastructure backlog ratios all significantly improve to meet OLG benchmarks. In particular, Council's infrastructure backlog has reduced from \$29 million in 2014 to \$15.5 million in 2022 and as such approximately 95% of Council's overall assets are sitting in condition Category 1 to 3 (Attachment 23).

### **11.3 Gains: Community Asset Dashboards**

Council is yet to realise a quantifiable gain as these dashboards are in their first year of implementation with further developments scheduled. However, the expected gain will come from the community's ability to easily see how an asset class is performing and the breakdown of conditions for each asset class. Providing the community with an easy-to-understand overview of each asset class, how it performs, its condition and the community's satisfaction provides a level of transparency for the community and can be used as a tool to drive conversations around community expectations.

### 12.3 Gains: Asset funding strategy intent

A shift in funding towards renewals instead of new assets can be seen in Council's asset renewals ratio significantly increasing sitting at 54.40% in 2011, to 137.78% in 2022 (Attachment 23).

Whilst Council's road spending has increased over the previous years - being \$9 million in 2017 and reaching almost \$15 million in 2022, with the heavy assistance of State and Federal funding programs and Council safeguarding the road reseal budget allocation each year, it is still below benchmarking standards. Council on average, over the past eight years, completed over 120,000 m2 each year in road reseals, with benchmarking standards suggesting 298,000 m2 per year is required to adequately manage Council's road network.

Since 2016 Council has had a dedicated Grants Officer to seek and secure funding from a range of funding bodies which has increased our approvals success by 62%. Council has been successfully combining multiple sources of funding to achieve improved long-term outcomes for projects to benefit the community.

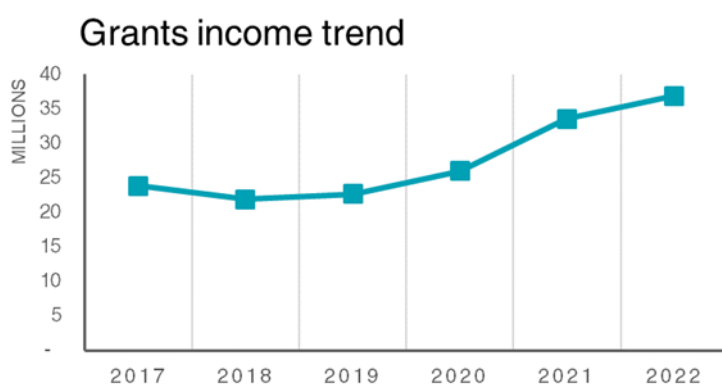


Figure 12: Grants income trend

In the past Council has undertaken loan funding to renew assets to reduce asset lifecycle costs. However, independent advice has concluded that Council has reached its debt capacity and this is no longer a viable and financially responsible solution.

### 13.3 Gains: Asset Management Strategy and Structure Redesign 2019

The structure redesign allowed for further analysis of asset lifecycle data and development of prioritised future works programs. This ensures optimisation intervention points can be achieved with assets being replaced prior to the cost of maintaining the asset outweighing the replacement. With a major cultural change, Council is starting to realise the desired frequency of asset inspections and the separation of focus is coming to fruition. In turn, the accuracy and currency of the asset condition data will improve and through our Special Schedule 7 ratios Council is seeing improvements in its overall asset management.

### **14.3 Gains: Sustainability, climate change and circular economy**

From Council drop off days, in the past twelve months Council has diverted 1,423 mattresses, over 10 tonnes of tyres, 5 tonnes of e-waste and 8.383 tonnes of unwanted chemicals from entering landfill or recycled and disposed on correctly.

The circular economy asphalt project has saved the use of 8.8 tonnes of bitumen, 78.8 tonnes of natural sand by utilising recycled materials and the benefits continue long after the road is built, as the circular economy asphalt being 100% recyclable at the end of its first life. Meaning it is a truly sustainable solution for recycling waste and is the first of many trials of similar products planned for across the LGA.

### **15.3 Gains: Waste Services – Domestic waste processing**

Previously processing methods were at a cost of \$306.00 per tonne, whilst the new processing method is at a cost of \$250.00 per tonne. With averaging at 27,000 tonnes per annum, Council saved over the previous twelve months \$1,512,000 and will have this saving embedded into its waste processing costs into the future.

### **16.3 Gains: Budget response to Covid-19 Pandemic**

The budget recovery resulted in containing costs of \$7.4 million across two financial years through austerity measures. However, we know this came at a costs to our service delivery and it was felt by our community as discussed during the community engagement program.

## **What productivity improvements and cost containment strategies are planned for future years?**

The council should provide information that details initiatives planned for the next two years when requesting a one-year section 508(2) SV, or to match the duration of the proposed SV.

The response should, wherever possible:

- estimate the financial impact of strategies intended to be implemented in the future
- present these as a percentage of operating expenditure
- indicate whether the proposed initiatives have been factored into the council's Long Term Financial Plan.

In the text boxes below:

a. Explain the initiatives which the council intends to implement.

Port Stephens Council is a leader in continuous improvement, especially in the adoption of technology to provide more secure, efficient ways of doing business, and in the long-term, reducing operational costs. Council's current efficiency levels have been independently measured and confirmed by Professors Drew and Dollery as being "good value for money".

Council has been focused on our financial sustainability for many years now. Through the lengthy implementation of Business Excellence and the Service Review Program, all 'low hanging fruit', 'quick wins' or known 'high return – low risk' initiatives resulting in major cost efficiencies have been realised in the early years. This has resulted in planned initiatives being relatively lower in impact and any significant cost reduction being closely aligned with a significant reduction in service levels.

Despite Council's ability to implement effective short-term strategies with a conscious effort in reducing expenditure and increasing income we are finding it increasingly difficult to remain financially sustainable and deliver services at the level our community requires. Continuing operations at existing service levels with our current levels of rates income has now become unsustainable.

Council is working on addressing this under its Financial Sustainability Strategy adopted in October 2022, which is aimed at delivering on the following objectives:

- Strategic Objective 1: Avoid Shocks
- Strategic Objective 2: Attain Underlying Surplus
- Strategic Objective 3: Funding significant infrastructure and projects
- Strategic Objective 4: Increase Income
- Strategic Objective 5: Review and adjust services
- Strategic Objective 6: Advocacy and Partnerships

Council has additionally been actively working through the recommendations of the Independent Financial Analysis and have further investigations on reviewing the Developer Contribution Schedule, addressing fiscal illusion with an awareness campaign and aligning service reviews more closely to willingness to pay have been scheduled into ongoing business operations to undertake.

Council's current continuous improvement programs takes these objectives into consideration and continues to strengthen. Whilst the Continuous Improvement Programs are led by the Executive Team it is important to note that through these practices Council staff are encouraged to contribute their ideas and input to ensure we are getting "on the ground" knowledge.

These practices are ingrained in our culture and reviews are undertaken continuously and systematically. In addition to the below list of initiatives, from 2023 each Section within Council must have a critical review of at least one major process they are responsible for per annum using the Plan, Do, Study Act review process.

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The below planned initiatives demonstrate Council's continuous commitment to pursue productivity efficiencies regardless of their relatively low impact and will continue to implement strict budget controls whilst optimising innovative and technological advancements.

Planned Initiatives	Details
<b>a.1 Business Improvement Ideas identified for implementation 2023</b>	<ul style="list-style-type: none"> <li>• <b>Children's services booking software</b> - Improvement opportunity to investigate new software solution. Anticipated to improve online self-service for customers who can view, book and alter child care bookings and further reduction in administration processing for staff.</li> <li>• <b>Waste App</b> - A new app that will reduce printing costs of notifications and annual calendars and will provide a personalized notification tool for the community on their waste arrangements and education. This App allows residents to access detailed information about their bin service, what's accepted in bins and locations for alternative programs like battery recycling.</li> <li>• <b>Website Display Book Publication Tool</b> - A tool to easily showcase large content of information on our website to the community. Benefits include, customer satisfaction with a higher rate of accessibility within the PSC website, automation and prioritisation across website domain, enhanced content readability, improve search engine rankings, attract more visitors with SEO auditing tool.</li> <li>• <b>Brolly Social Media Capture Tool</b> - A tool to capture all social media content to safe guard the community and the organisation on records management compliance. Benefits include accurate capture of all social media platforms, compliance of record management requirements as per the State Records Act, user friendly system and improved monthly metric reports, accurate capture of all social media platforms, and easy access to social media records if requirement for GIPA requests or legal matters.</li> <li>• <b>Image Library</b> - A tool to easily access and manage Council's photography and reduce costs for professional photography for marketing.</li> <li>• <b>Bing Mail Services</b> - An online tool to process outgoing mail for the organisation, reducing manual administration and printing costs. Benefits include self-managed platform, time and efficiency for Information Services, can use to send SMS or voice alerts, system allows us to send via email if there is a registered address rather than posting, this will save on printing and mailing costs, option to send a voice recording which comes via a phone call. Ability to save templates for the voice options (weed spraying etc.)</li> </ul>
<b>b.1 Carbon Neutrality Plan 2025</b>	<p>In October 2021 Council resolved to become Carbon Neutral by 2025. In response to the Council resolution the following actions have been completed and planned in response to the resolution.</p> <ul style="list-style-type: none"> <li>• October 2021 - Profiling Council's Carbon (including all GHG emissions) footprint and baseline emissions.</li> <li>• April 2022 - Carbon Neutral emissions profiling complete and recommend actions identified</li> <li>• October 2022 - Project Control Group (PCG) established to further investigate the action plan and roadmap.</li> </ul>

	<ul style="list-style-type: none"> <li>October 2022 - Draft Carbon Neutral Action Plan collation. The action plan sets out Low, Medium and High actions for areas to investigate and will form part of the broader Sustainability Plan.</li> <li>March 2023 – Present draft action plan and roadmap to the Executive Team</li> <li>March 2023 - Development of Environmental Sustainability Strategy and Action Plan (ESSAP) - The ESSAP will then identify the specific actions (amongst addressing other issues) that Council will take to reduce our operational emissions and how much offsetting will be required to become Carbon Neutral by 2025. e.g. install EV charging station in Council administration building.</li> </ul>
<b>c.1 eInvoicing</b>	Post interview, the Finance Expenditure Team were invited by the Australian Taxation Office to join the eInvoicing Local Government Community of Practice Group. eInvoicing is the new standardised way of exchanging invoices directly between suppliers' and buyers' software. Council have taken the lead and will be our CIVICA/Efficiency Leaders "beta" case for this new technology.
<b>d.1 EV charging</b>	Council is supportive of the NSW Electric Vehicle Strategy and investigating local opportunities for Council to support the transition to EV's. Council's Strategic Planning team have commenced consultation with stakeholders to identify opportunities available to Council and expects to present a report to Council in March 2023, whilst Council is still in the early investigation stage it is eager to see some progress in this space for our community.
<b>e.1 Further rollout of Smart Parking</b>	Following the success of the Nelson Bay Smart Parking implementation, Council agreed through the 2022-2023 IP&R documents to further rollout Smart Parking across other tourist sites throughout the Tomaree peninsula to further capture tourist revenue.
<b>f.1 Further rollout of solar panels</b>	Council is rolling out the installation of Solar PV across 14 priority community sites including sport facilities, libraries, aquatic centres, depots and admin buildings. This project will reduce Council's electricity consumption and operational costs while assisting with our sustainability objectives.
<b>g.1 Introduction of Green Bin</b>	<p>Council in the Waste Services Area are introducing a third bin into the community for separation and collection of Garden Organics. The introduction of this service is Council's first step to meeting the EPA's mandating of FOGO to all NSW Council's by 2030.</p> <p>Council have conducted audits of the red lid bin and discovered approximately one third of the bin contents are Garden Organics. Council by implementing the third bin, are hoping to achieve a recovery of this product through reuse. Through past savings in processing costs, moving forward Council are proposing to rollout the third bin and provide collection of this material to the residents of Port Stephens at no extra cost to the ratepayer through the Domestic Waste Charge.</p>

<b>h.1 Service Package Strategy Implementation</b>	<ul style="list-style-type: none"> <li>• Alignment of Business Excellence with Integrated Planning</li> <li>• Further support for Business Planning</li> <li>• Reduction in time preparing corporate documentation</li> <li>• Improvement with planning, productivity and efficiency</li> <li>• Further transparency of the connection between the services.</li> </ul>
<b>i.1 Service Review Program</b>	<ul style="list-style-type: none"> <li>• <b>Infrastructure</b> processes deep dive end to end to seek further efficiencies and improvements.</li> <li>• <b>Land use planning and delivery</b> process deep dive end to end to seek further efficiencies and improvements.</li> <li>• <b>Koala Sanctuary</b> review to increase proactive marketing of the holiday parks with international tourism agencies</li> <li>• <b>Holiday Parks</b> review to improve net profit</li> <li>• <b>Financial Services</b> review Section to streamline structure alignment, improve automation of processes.</li> </ul>
<b>j.1 Surplus land review – rationalisation of assets</b>	One of the non-rate revenue options Council implemented as part of feedback sought from the community was to investigate and consider the sale of land that was surplus to our needs. The development project pipeline currently includes two smaller-scale and two larger-scale projects.
<b>k.1 Zero based Budget - Secondary Round</b>	In addition to Council's quarterly budget review process it is further proposed that in 2025, Council will undergo another zero based budget process, being five year since last process. Whilst any financial impact is unable to be estimated at this time, Council believes this process supports a strict budget management culture within the organisation. The process drives the organisation to re-aligns budget allocation to community priorities and contain costs.

b. Estimate their financial impact.

Upcoming Initiatives	Estimated financial impact
<b>a.1 Business Improvement Ideas identified for implementation 2023</b>	<ul style="list-style-type: none"> <li>• <b>Children's services booking software</b> - Current software solution has been investigated and will allow for a significant reduction in administration manual processing of which a full cost benefit analysis will be completed at the time of investigation.</li> <li>• <b>Waste App</b> - Anticipated Reduction in printing costs of calendar and notices \$6,000 in year 1 &amp; \$12,000 annually from year 2.</li> <li>• <b>Website Display Book Publication Tool</b> - Efficiency savings will be captured as part of the implementation. It is anticipated that a reduction in time saving for Communication and Engagement Officer to develop print hardcopy magazine, develop videos and upload to the website will be achieved at a minimum.</li> <li>• <b>Brolly Social Media Capture Tool</b> - Anticipated efficiency savings to be captured as part of the trial. Estimated at \$1000 per annum.</li> <li>• <b>Image Library</b> - Efficiency savings will be captured as part of the further investigations. It is anticipated that a reduction in time saving for Communication and Engagement Officer to search for images, upload images, inventory images and contract professional photography will be achieved.</li> </ul>



	<ul style="list-style-type: none"> <li>• <b>Bing Mail Services</b> - Reduction in hardcopy printing and manual administration processing will be achieved at the minimum. Anticipated efficiency savings will be captured as part of the trial. The amount of savings will differ depending on what activity is completed, reductions in postage and printing will occur for every service utilised with Bing.</li> </ul>
<b>b.2 Carbon Neutrality Plan 2025</b>	Once the ESSAP is developed in its entirety specific actions that Council will take to reduce our operational emissions and how much offsetting will be required to become Carbon Neutral by 2025 will be known.
<b>c.2 eInvoicing</b>	<p>With Council adopting this technology, Council will see the following productivity improvements</p> <ul style="list-style-type: none"> <li>• Eventually benefiting from the increased efficient processing of 20,000 annual Accounts Payable Invoices from our Suppliers</li> <li>• Strengthening working relationships with our Suppliers by straight through processing, ultimate elimination of emailed invoices, thus reducing the opportunity of email interception and fraud</li> <li>• Faster payment turnaround</li> <li>• Greater focus on the purchasing transactions, leading to more accurate and up to date financial information which will compliment enhanced budget management</li> </ul>
<b>d.2 EV charging</b>	The financial impact is unable to be estimated at this stage.
<b>e.2 Further rollout of Smart Parking</b>	Council has modelled into the 2023-2033 LTFP an expected additional income return of \$750,000 per annum with the implementation of further sites across the LGA.
<b>f.2 Further rollout of solar panels</b>	By installing these solar photovoltaic systems across 14 community assets, Council expects to save \$91,920 on our yearly energy costs and reduce the total energy usage on these facilities annually by 25%.
<b>g.2 Introduction of Green Bin</b>	From the audits, it is estimated garden organics at approximately 9,000 tonnes per annum of material at a cost of \$100.00 per tonne to process, will save \$1,530,000 per annum in contrast to the land fill processing costs. The above pricing is subject to change through annual CPI increases, fluctuating waste tonnages and services as well as transport and logistics costs however this saving will be compounded into its waste processing costs into the future.
<b>h.2 Service Package Strategy Implementation</b>	Financial impact is unknown at this stage, however this process will allow for time saving of management leadership roles and improved planning which will in turn result in improved productivity with financial benefit to the organisation and community service delivery.



<b>i.2 Service Review Program</b>	<ul style="list-style-type: none"> <li>• <b>Infrastructure &amp; land use planning</b> deep dive end to end - Financial impact is unknown at this stage, however at the very least team collaboration and process improvement identification are anticipated which will in turn result in improved productivity with financial benefit to the organisation and community service delivery</li> <li>• <b>Koala Sanctuary</b> review - Financial impact is unknown, particularly with the impact to international tourism by Covid-19, it is anticipated that there will be an increase market share, which in turn will result in improved income for the holiday parks</li> <li>• <b>Holiday Parks</b> review – After five service review rounds a further \$4,000 per annum in savings is anticipated</li> <li>• <b>Financial Services</b> review - Financial impact is unknown at this stage, however at the very least team collaboration and process improvement identification are anticipated which will in turn result in improved productivity with financial benefit to the organisation and community service delivery</li> </ul>
<b>j.2 Surplus Land Review - Rationalisation of assets</b>	<p>Due diligence investigations are currently underway on all projects with gross returns of circa \$4 million expected to be realised from these projects in 2025-26.</p>
<b>k.1 Zero based Budget - Secondary Round</b>	<p>Financial impact is unable to be estimated at this stage, with the primary aim to contain discretionary costs continuing within the budget.</p>

c. Indicate whether these have been incorporated in the council's Long Term Financial Plan.

As part of Council's rolling Service Review Program, any hard savings are captured throughout the year in the Quarterly Budget Review process. After which, the adjusted budget is used as the starting point to prepare the LTFP each year.

Council anticipates some further initiatives to be identified during each individual service review, from the known planned hard savings included in this application, an average of 0.62% annual operational savings are expected to be realized and ultimately be incorporated into the LTFP revisions.

As Council has been completing a rigorous service review program for more than 10 years a much higher percentage of operational savings have already been realized. It is important to note that this process however does not account for any 're-invested savings' back into that section where efficiencies are used to deliver a higher or new level of service.

The percentage outlined above may be considered immaterial, meaning the amount would not significantly impact the overall financial position or decision-making for the purpose of financial sustainability. Nevertheless, Council is committed to realizing every efficiency opportunity available whether it be a hard or reinvested savings back to enhancing service levels.

## How have the council's levels of productivity and efficiency changed over time, and compare with those of similar councils?

To demonstrate how efficiency has changed over time, councils could use data based on studies of the council itself, or measures against the performance of comparable councils, and also rely on comparative data produced by OLG data such as:

- number of full-time employees (FTE)
- ratio of FTE to population
- average cost per FTE
- employee and on-costs as percentage of ordinary expenditure
- consultancy/contractor expenses over time.

In the text box summarise data which demonstrates how the council has improved productivity and indicate its performance against that of comparable councils.

### Independent Efficiency Report

An Efficiency Report (Attachment 18) was conducted as part of the independent analysis undertaken by Professors Dollery and Drew. This report examined various measures of efficiency by which Port Stephens Council is compared with its respective peer group of NSW local councils. The report details the results of various frequently employed efficiency ratios, global intertemporal data envelopment analysis (DEA) of tax efficiency, and a standard scholarly local intertemporal analysis of relative technical efficiency. A focus on the econometric analysis conducted to identify the determinants of relative technical efficiency and commentary is made in respect to the particular characteristics of Port Stephens area that negatively impact the efficiency of Council.

The sophisticated DEA undertaken showed the performance of Council against sixty-seven councils is close to the typical result. Moreover, the score attained was 0.75; that is, the efficiency of Council is far closer to unattainable perfectly efficient, being a score of (1), than it is to perfectly inefficient, being a score of (0). The report articulates that Council has improved its efficiency over time and assures the reader that Council is providing 'good value for money'.

Port Stephens population size, proportion of people on an aged pension and increase in unincorporated business income, were identified variables outside of Council's control that are negatively associated with technical efficiency

Within the Financial Sustainability Report, Professor Dollery and Drew examined Council level of productivity and efficiency performance over time in respect to, staff expenditure by assessment, proportion of expenditure on staff, population growth/population density, operational expenditure by capita and property assessment, and budget accuracy.

Results and commentary around these ratios noted that management especially those involved in financial matters had done a sterling job. Council was commended on its budget accuracy which is linked to technical efficiency and good cost control in regard to staff expenditure as Council spends slightly less on staff per assessment than its typical peer.

From both the Efficiency and Financial Sustainability Report, it was confirmed that Council compared well to other NSW Councils and has improved over time. The robust DEA analysis is evidence and assurance to both IPART and Port Stephens Council ratepayers that Council is providing good value for money.

### OLG Comparative Time Series Data

Further to the independent Efficiency Report, Council have demonstrated improvements over time towards containing costs and employee expenditure trends. With FTE continuously lower than the category 5 average, ratio of FTE to population coming in line with category averages and total governance and administration expenditure remains constant and lower than the category average.

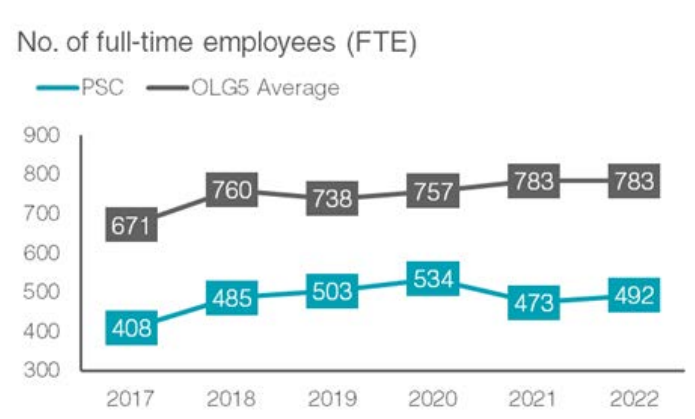


Figure 13: No. of full-time employee (FTE) trend

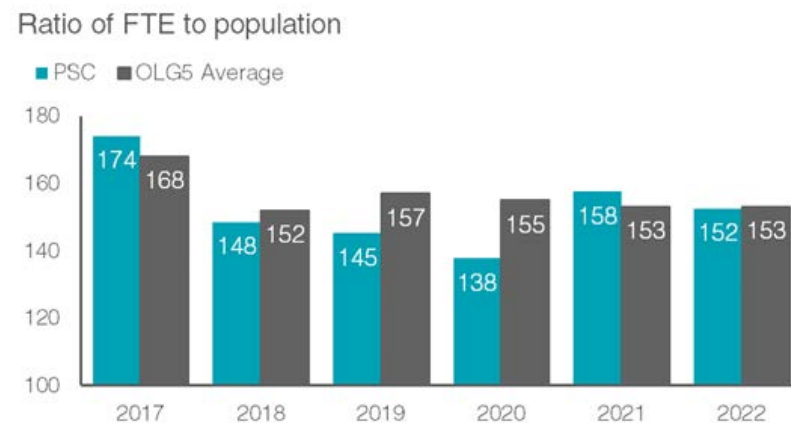


Figure 14: Ratio of FTE to population trend

### Governance & Administration Expenditure

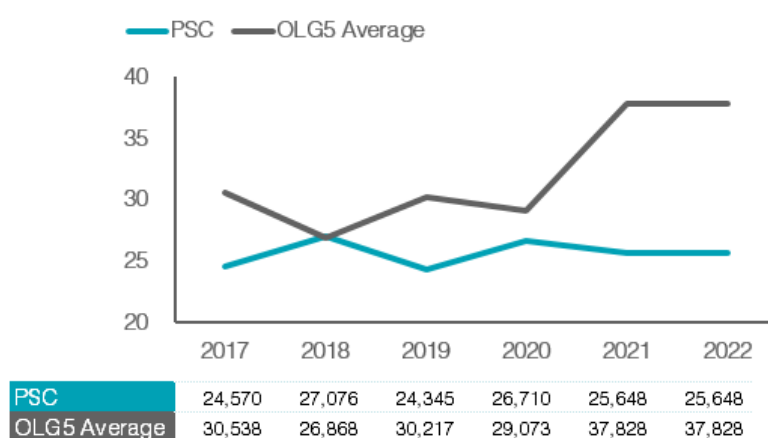


Figure 15: Total Governance & Administration trend

Council has contained costs with its average cost per FTE and employee and on costs as a percentage of ordinary expenditure remaining steady. An increase in recent years of consultancy/contractor expenses is evidence of rising inflation in the construction space with the Council's Capital Works Program.

	2017	2018	2019	2020	2021	2022
As percentage of ordinary expenditure						
Employee and oncosts	41%	40%	43%	44%	41%	40%
Consultancy/contractor	33%	35%	31%	31%	40%	40%
Average cost per FTE (\$'000)	110	97	103	105	110	108

Figure 13: Employee Expenditure Trend

### Local Government Performance Excellence Program Report

Council's workforce, finance, operations and service delivery are annually benchmarked within Local Government Professionals, NSW and PricewaterhouseCoopers (PwC's) Local Government Performance Excellence Program Report (Attachment 25). The report includes 13 participating WA Councils and 32 NSW Councils, 4 of which are included in OLG category 5. Utilising this data Council is able to better communicate, control and manage their internal business performance. Highlights relating to efficiency performance are shown below.



Figure 14: Local Government Professionals, NSW and PricewaterhouseCoopers (PwC's) Local Government Performance Excellence Program Report Highlights

### Business Excellence Maturity

Council first explored Business Excellence back in the late 1990's. In 2001, the first self-assessment against the Business Excellence Categories took place which produced a structured, prioritised list of activities. In 2009, the Business Excellence journey was re-invigorated and re-focused in response to current challenges including increasing community expectations, reduction of income, increased regulation requirements, changing global and political context and inconsistent approach to continuous improvement.

In response to the need to "get back to basics" the tag line of "working together - doing the right things, the best way" was established with annual continuous improvement roadmaps developed utilising the data from the self-assessment results.

To track and measure the progress of ABEF implementation Council utilises the ABEF Assessment tool. The ABEF assessment tool translates the core principles of Business Excellence into a set of criteria that can be used for assessment and improvement planning. Assessment helps Council to move from the Principles of Business Excellence to plans and actions using the seven ABEF categories.

Scoring is out of 1000 points and is used for awards, providing indication of implementation maturity. In 2006 Council's score rating was 456. In 2021 Council's score rating was 631.50.



Figure 15: Port Stephens Council Business Excellence Maturity Result

In 2023 the following is in place:

- Every employee of Council receives training on the ABEF and Council's Business Excellence approach as part of their induction.
- A dedicated and respected team driving the Business Excellence approach and support the organisation.
- Tried, tested and continuously improved processes, tools, templates and guide to support improvement.
- Facilitation service to support teams continuously improve their business.
- Senior Management understanding and promoting the framework.
- A resilient workforce who embrace change for improvement sake.
- Invitations regularly from Industry Experts to present to local councils sharing our knowledge.

Over the last two years Council has met with 45 council's to share knowledge in Business Excellence Approaches including ABEF implementation, Service Review Programming and Processes, Business Improvement Ideas implementation, Business Excellence Training Programs and Process Mapping implementation. Council is considered a leader in the NSW Business Excellence industry.

#### Service Review Program Best Practice

Council's Service Review Program has delivered significant benefits to the broader local government industry and other councils. Council is frequently called on to provide advice, information and support to many councils across the country. A large percentage of our processes are replicated by many other councils, often without them knowing where it came from. As a result of the IP&R guidelines, many local councils are just starting on implementing a Service Review Program, Council has matured their program over a 10+ year period.

This is a great advantage, however councils who are now embarking on their excellence/review journey are seeing significant savings that we achieved 10 years prior so it is difficult to compare in \$ dollar figures.

The efficiency processes being implemented by other councils is new and will require time and resources to embed thoroughly. At Port Stephens Council it is embedded in our culture and "just how we do things". To continue to identify hard dollar savings is becoming increasingly difficult however we will keep endeavouring to do so in 2023.

Council is now in its fourth round of its 4 year service review cycle. The evolution of the approach for 2023 will allow for a deeper dive to continually find efficiency savings, however to find further significant savings will require reduction in services to the community, which the community has demonstrated that it has no appetite for.

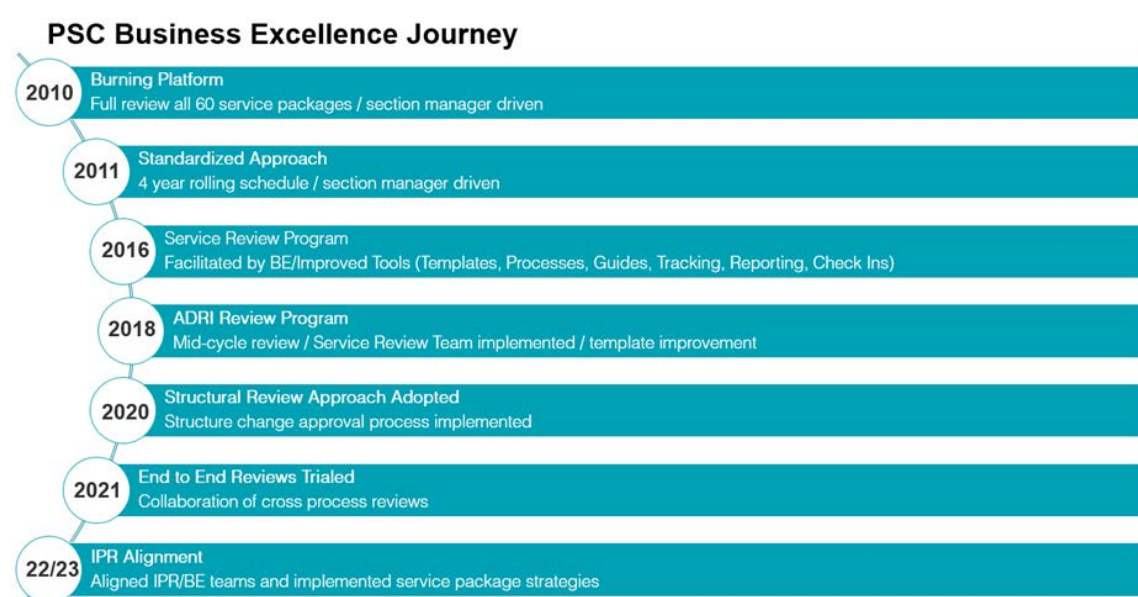


Figure 16: PSC Business Excellence Journey Visual

This application details both internal and independent analysis demonstrating that Council has improved its efficiency over time to a level that is commendable. Council has implemented and matured various systematic processes that have entrenched a Council-wide culture of continuous improvement. In its nature, Council will continue to drive continuous improvement to find productivity and cost containment measures but in the absence of an approved SV Council will be financially unsustainable.

Table 9 Criterion 5 attachments

Council- assigned number	Name of document	Page references <sup>a</sup>
18	Independent Financial Analysis 2022 - Efficiency Report	
23	Infrastructure Assets Ratio Trend	
25	Extract Pages from PWC Local Government Performance Excellence Program FY22 - Port Stephens Council	

a. If document only relevant in part.



## Criterion 6 – Other relevant matters

Criterion 6 in the SV Guidelines is:

Any other matter that IPART considers relevant.

The Guidelines provide further that we will assess each application based on its merits against the assessment criteria. In doing so, the following may be considered:

- size of the council
- resources of a council
- size (both actual \$ and %) of increase requested
- current rate levels and previous rate rises
- purpose of the SV
- compliance with this or any other applicable guideline
- compliance with the conditions of any previous SVs, and
- any other matter considered relevant in the assessment of a SV application.

In assessing applications for SVs for 2023-24, IPART will continue its approach of assessing each of the five criteria, then making an overall assessment taking into account these other relevant factors.

The council should only respond to this question if it wishes to provide information in addition to that provided elsewhere in the Application which it would like IPART to consider when assessing its proposed SV. It is not necessary to specifically deal with several of the factors listed in OLG's Guidelines such as the size of increase requested, current rate levels and previous rate rises, and purpose of the SV.

The response may refer to any other matters the council considers relevant to IPART's deliberations. In the text box the council may provide information in addition to that provided elsewhere in the Application Form which it would like us to consider when assessing its proposed SV.

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[Click here to enter text.](#)

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### Reporting requirements SV compliance

In the text box propose SV compliance requirements in addition to those in the IP&R documentation that the council feels are appropriate for this application (if relevant).

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[Click here to enter text.](#)

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Table 10 Criterion 6 attachments

Council- assigned number	Name of document	Page references <sup>a</sup>

a. If document is only relevant in part.

## Council certification and contact information

Councils must submit a declaration in the specified form. It should be completed by the General Manager and the Responsible Accounting Officer.

### Certification of application

Prepare a document in the form indicated below, sign, scan and attach as a public supporting document.

### Application for a Special Rate Variation

To be completed by General Manager and Responsible Accounting Office

**Name of council:**

Port Stephens Council

We certify that to the best of our knowledge the information provided in this application is correct and complete.

**General Manager (name):**

[Redacted]

**Signature and Date:**

X  
Tim Croisdale  
General Manager

**Responsible Accounting Officer (name):**

[Redacted]

**Signature and Date:**

X  
Tim Hazell  
Financial Services Section Manager

**Note:** These signatures will be redacted before publication of the application.

## Council contact information

IPART's formal contact with the council will be with the General Manager.

During the assessment period, IPART officers are likely to contact the council with detailed queries about the application and supporting documents. Councils should provide details of the primary contact for such inquiries where this person is a council officer who is not the General Manager. Council officer contact details will be redacted before publication of this application.

### General Manager

**General Manager contact phone**

[REDACTED]

**General Manager contact email**

[REDACTED]

Note: These contact details will be redacted before publication of the application.

### Primary council contact

**Council contact phone**

[REDACTED]

**Council contact email**

[REDACTED]

**Council email for inquiries about the SV application**

[REDACTED]

Note: These contact details will be redacted before publication of the application.

### Secondary council contact

**Council contact phone**

[REDACTED]

**Council contact email**

[REDACTED]

**Council email for inquiries about the SV application**

[REDACTED]

Note: These contact details will be redacted before publication of the application.

## List of attachments

To complete (adding rows as necessary):

- Assign an identifying number and/or letter to each document.
- Name each document.
- Check the box to indicate that it is being submitted with the application.

### List of attachments to the council's application

Council- assigned number	Name of attachment	Is the document included in the application as submitted?
<b>Mandatory forms/attachments</b>		
	Application Form Part A (Excel spreadsheet)	<input checked="" type="checkbox"/>
	Application Form Part B (this Word document)	<input checked="" type="checkbox"/>
15	Council resolution to apply for the for the minimum rate increase variation	<input checked="" type="checkbox"/>
<b>14</b>	Certification	<input checked="" type="checkbox"/>
<b>If applicable for Description and Context Question 4</b>		
	Instrument for expiring special variation	<input type="checkbox"/>
	OLG advice confirming calculation of amount to be removed from the council's general income	<input type="checkbox"/>
<b>If applicable for Description and Context Questions 5 and 6</b>		
	Declaration of compliance with conditions in past instruments (if applicable)	<input type="checkbox"/>
	Relevant instrument(s) for past special variations (if applicable)	<input type="checkbox"/>
	Evidence of compliance with conditions in past instruments (if applicable)	<input type="checkbox"/>
<b>Mandatory public supporting material (i.e. to be published on IPART's website)</b>		
1	Community Strategic Plan – Relevant extracts	<input checked="" type="checkbox"/>
<b>2</b>	Delivery Program – Relevant extracts	<input checked="" type="checkbox"/>
3	Long Term Financial Plan with projected (General Fund) financial statements (Income, Cash Flow and Financial Position) in Excel format	<input checked="" type="checkbox"/>
4,5,6,7,8	Consultation material, e.g. copies of media releases, notices of public meetings, newspaper articles, fact sheets used to consult on rate increase and proposed special variation	<input checked="" type="checkbox"/>
9,10,11,12	Community feedback (including surveys and results if applicable)	<input checked="" type="checkbox"/>
18	Willingness to pay study (if applicable) Independent Financial Analysis 2022: Financial Sustainability Report, Capacity to Pay Report, Efficiency Report, Debt Capacity Report	<input checked="" type="checkbox"/>
13	Hardship Policy	<input checked="" type="checkbox"/>
<b>Other public supporting material</b>		
16	Asset Management Strategy / Plan(s) (if applicable)	<input checked="" type="checkbox"/>
	Operational Plan for 2021-22 (i.e. not for 2022-23) (if applicable)	<input type="checkbox"/>
	NSW Treasury Corporation report on financial sustainability (if applicable)	<input type="checkbox"/>

Council- assigned number	Name of attachment	Is the document included in the application as submitted?
17	Resolution to adopt revised IP&R documents - Council Meeting 8 November 2022	Yes
19	Summary of Resolutions	Yes
20	Council Report 26 October 2021 - Port Stephens Council Financial Sustainability Key Directions and Prosperity Fund Council Report - 28 June 2022 - 2022-2032 IP&R Documents Council Report - 28 June 2022 - Financial Sustainability Report Council Report 23 August 2022- Our Funded Future - Phase 0 and Phase 1 Engagement Council Report 13 September 2022- Draft IP&R Documents including Special Rate Variation Options - Phase 2 Rate Rise Options Council Report 25 October 2022 - Special Rate Variation - Revised IP&R Documents Rate Rise Options Engagement Council Report 8 November 2022 - Special Rate Variation - Revised IP&R Documents Rate Rise Options Engagement	Yes
21	Relevant Extracts from the Adopted 2022 IP&R Documents - Delivery Program and LTFP Draft Delivery Program 2022-2026 Operational Plan 2023-2024 - Revised for a Special Rate Variation Draft Resourcing Strategy 2023 to 2033 - Revised for a Special Rate Variation Adopted Resourcing Strategy 2023 to 2033 - Workforce Management Strategy (WFMS) - Revised for a Special Rate Variation	Yes
22	Average Rates Tables OLG5 Comparison - Average Rates Projections	Yes
23	Infrastructure Assets Ratio Trend	Yes
24	Relevant Extracts from the Annual Report 2020 2021 2022 Relevant Extracts from Community Satisfaction Survey 2022 IP&R Engagement Approach Journey Snapshot	Yes
25	Extract Pages from PWC Local Government Performance Excellence Program FY22 - Port Stephens Council	Yes
26	LTFP & Ratios - Excel Format	Yes

## Important information

### Submitting online

Applications must be submitted through the Council portal by close of business on Friday, 3 February 2023.

- A file size limit of 10MB applies to the Part B Application Form.
- For supporting documents (Attachments) a file size limit of 400MB applies to public documents, and another 200MB to confidential documents.

### Confidential content

We will publish all applications (excluding confidential content) on our website. Examples of confidential content are those parts of a document which disclose the personal identity or other personal information pertaining to a member of the public, a document such as a council working document that does not have formal status, or document which includes commercial-in-confidence content.

Councils should ensure supporting documents are redacted to remove confidential content where possible, or clearly marked as CONFIDENTAL.

### Publishing the council's application

Councils should also publish their application on their own website for the community to access.