

Independent Pricing and Regulatory Tribunal
New South Wales

Port Macquarie-Hastings Council's application for a special variation for 2017-18

under section 508(2) of *Local Government Act 1993*

Determination
Local Government

May 2017



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1 Determination

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

Under the *Local Government Act 1993* (the Act) councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. These increases may be either for a single year (s508(2)) or for successive years up to seven years (s508A).

IPART assesses these applications against criteria in the Guidelines set by the Office of Local Government (OLG).¹ Box 1.1 explains the Guidelines for 2017-18.

Port Macquarie-Hastings Council applied for a single year variation under section 508(2). The council requested an increase of 5.39% for 2017-18, to remain permanently in the rate base.²

After assessing the council's application, we decided to allow the special variation as requested. We have made this decision under section 508(2) of the Act.

Box 1.1 The Guidelines for 2017-18

IPART assesses applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income for 2017/2018*, issued by the Office of Local Government. Refer to Table 3.1 for more details on the criteria in the Guidelines.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and documents to the special variation process. Councils are expected to engage with the community about service levels and funding when preparing their strategic planning documents. The IP&R documents, in particular the Delivery Program and Long Term Financial Plan, must contain evidence that supports a council's application for a special variation.

¹ Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2017/2018*, December 2016 (the Guidelines).

² Port Macquarie-Hastings Council, *Special Variation Application Form Part A 2017-18* (Port Macquarie-Hastings, *Application Part A*), Worksheet 1.

Our decision enables the council to continue to fund a program of proactive maintenance and renewal of the council’s road network. The council consulted its community extensively to address these issues, both in reviewing its IP&R documents and in preparing its special variation application.

1.1 Our decision

We determined that Port Macquarie-Hastings Council may increase its general income in 2017-18 by 5.39%, including the rate peg of 1.5% that is available to all councils (see Table 1.1). The special variation can be retained in the council’s general income base permanently.

We have attached conditions to this decision, including that the council uses the income raised from the special variation for purposes consistent with those set out in its application.

Table 1.1 sets out our decision and Box 1.2 summarises these conditions.

Table 1.1 IPART’s decision on Port Macquarie-Hastings Council’s application for a special variation in 2017-18

Component	%
Increase to maintain and renew the council's road network and reduce its infrastructure backlog.	3.89
Rate peg	1.50
Total increase	5.39

Box 1.2 Conditions attached to Port Macquarie-Hastings Council's approved special variation

IPART's approval of Port Macquarie-Hastings Council's application for a special variation in 2017-18 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of maintaining and renewing the council's road network as outlined in the council's application and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2017-18 to 2026-27 on:
 - expenditure consistent with the council's application, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.

We note the council will be reducing its general income for 2017-18 by \$1,739,710 (the value of the expiring special variation).^a This reduction must take place before the council's general income is increased in 2017-18 in accordance with IPART's determination.

^a Port Macquarie-Hastings Council, *Application Part A*, Worksheet 1.

2 What did the council request and why?

Port Macquarie-Hastings Council applied to increase its general income by 5.39% in 2017-18, consisting of:

- ▼ a 3.89% increase to maintain and renew the council's road network, and
- ▼ the rate peg of 1.5%.³

This contrasts with the council's proposal submitted for the Fit for the Future (FFTF) assessment conducted in 2015. At that time, the council proposed a cumulative increase of 52.4% over five years from 2017-18, including the rate peg. These funds would be applied to improve financial sustainability and reduce the infrastructure backlog. The proposal included the continuation of an existing special variation of 4.43% that expires on 30 June 2017.

The proposed increase is limited to replacing this expiring special variation. The expiring levy was originally approved for 4.43% for the period 2012-13 to 2016-17 (five years) to address the infrastructure backlog relating to the road network. The levy formed part of an approved special variation of 15.33%.⁴

The expiring special variation reduces the council's general income by 3.7% at the end of 2016-17. Applying the proposed special variation of 5.39% to this reduced base provides a total increase to general income of 1.50% in 2017-18, which is equal to the rate peg.

Under the proposed special variation, the council's permissible general income would increase from \$47.1 million in 2016-17 to \$47.8 million in 2017-18. The council applied to permanently incorporate this increase into its general income base.

The special variation would generate additional revenue of \$1.8 million compared to rate increases at the assumed rate peg. This figure would increase to \$19.8 million over a 10-year period, as the special variation remains permanently in the council's rate base.

The increase is to fund road network maintenance and renewal. Road renewal funding would be spent on unsealed roads maintenance, resurfacing, rejuvenation treatments, and road construction.⁵

The council indicated during the 10 years of its LTFP, it proposes to spend an additional \$19.8 million on road maintenance and renewal.⁶

More detail on the council's proposed program of expenditure to 2026-27 is provided in Appendix A.

³ Port Macquarie-Hastings Council, *Application Part A*, Worksheet 4 and Port Macquarie-Hastings Council, *Application Part B*, p 9.

⁴ Comprising a permanent increase of 10.9% (including the rate peg at 3.6%) and the temporary levy at 4.43%.

⁵ Port Macquarie-Hastings Council, *Application Part A*, Worksheet 6.

⁶ Port Macquarie-Hastings Council, *Long Term Financial Plan*.

3 How did we reach our decision?

We assessed Port Macquarie-Hastings Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, which support its application, as well as its FFTF proposal and a range of comparative data about the council, set out in Appendix B.⁷

Port Macquarie-Hastings Council has applied for a special variation on the basis of its adopted IP&R documents, in particular the *Delivery Program, Long Term Financial Plan 2016-2026*, and *Asset Management Plan*.

In assessing the rate increase for which the council has applied we considered, among other things, the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact of the rate increase on ratepayers. We note the council's current application requests slightly lower percentage increases than those it consulted its community about and originally notified us it would require.

We found Port Macquarie-Hastings Council's application met the criteria. In particular, we found:

1. The **need for the proposed revenue** reflects community priorities as is demonstrated in the above IP&R documents.
2. The council provided evidence that **the community is aware** of the need for, and extent of, the rate rise. It used a variety of strategies to inform the community, with the purpose of the special variation clearly outlined. There were sufficient opportunities for community feedback, and the council considered the community's views.
3. The **impact of the proposed rate rises on ratepayers** is reasonable given the council's existing rate levels, the purpose of the special variation, indicators of the community's capacity to pay, and the council's consideration of ratepayers' willingness and capacity to pay. The net impact in 2017-18 of the proposed and expiring special variations is 1.5%, a rise equal to the rate peg.
4. The council provided evidence that the relevant **IP&R documents have been exhibited and adopted**.
5. The council demonstrated **productivity savings and cost containment strategies** in past years, and indicated its intention to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria. The sections following the table discuss some of our findings in more detail.

⁷ See Appendix B. Port Macquarie-Hastings Council is in OLG Group 5, which is classified as Urban Large/Very Large Regional Town/City. The group comprises 8 councils, including councils such as Coffs Harbour City and Tweed Shire.

Table 3.1 Summary of IPART’s assessment of Port Macquarie-Hastings Council’s application for a special variation against the criteria in the Guidelines

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council’s General Fund (as requested through the special variation) is clearly articulated and identified in the council’s IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.</p>	<p>The council’s IP&R documents explain the need for and purpose of the special variation (SV) and show:</p> <ul style="list-style-type: none"> ▼ It is consistent with community priorities. ▼ It will fund the existing level of road network renewal and maintenance through additional operational expenditure and capital works. <p>Our FFTF assessment observed the council’s forecast operating performance ratio was -3.6% in 2015-16, and that a proposed special variation of 8.7% per year from 2017-18 would improve this ratio to 6.5% by 2019-20. The improvement was dependent on the proposed rate increase.</p>
<p>2. Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. The council’s community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur.</p>	<p>Overall, we consider the community was adequately consulted. The council used a range of engagement methods to make the community aware of the need for, and extent and impact of the rate rise, and to seek community feedback. Feedback was sought via a telephone survey (800 participants), a survey accessible in both hard copy and online (426 responses), and community consultation sessions.</p> <p>The council gave detailed explanations about the purpose and impact of the SV, outlining the outcomes and achievements attributable to the most recent SV.</p> <p>IPART received 10 submissions, all opposing the SV.</p>
<p>3. The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan and Long Term Financial Plan should:</p> <ul style="list-style-type: none"> ▼ clearly show the impact of any rises upon the community ▼ include the council’s consideration of the community’s capacity and willingness to pay rates, and ▼ establish that the proposed rate increases are affordable having regard to the community’s capacity to pay. 	<p>The impact on ratepayers is modest and reasonable, given:</p> <ul style="list-style-type: none"> ▼ the total increase in rates is 1.5% in 2017-18 after accounting for the expiring SV, and ▼ from 2018-19 onwards, rates per year would increase by no more than the rate peg, unless the council applies for another SV. <p>Our assessment finds:</p> <ul style="list-style-type: none"> ▼ Current residential rate levels are similar to councils in the same OLG group (5), whilst higher than surrounding councils. ▼ Current business and farmland rate levels are lower than councils in the same OLG group. ▼ The council’s outstanding rates ratio is 5.34% for 2015-16, and is trending downwards. ▼ The council’s 2011 SEIFA rank (75 out of 153) is mid-range, indicating that residents are not unduly disadvantaged. ▼ The net impact of the special variation for 2017-18 is equal to the rate peg of 1.5%, representing a moderate increase on prior years.

Criterion	IPART findings
	<p>The council considers the community has the capacity and willingness to pay the higher rates based on:</p> <ul style="list-style-type: none"> ▼ community survey results ▼ a low rates and annual charges outstanding ratio, and ▼ the net impact of the expiring and proposed SVs being a rise equal to rate peg.
4. The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general revenue.	The council adopted its Community Strategic Plan (CSP) in June 2011. The council exhibited its amended Delivery Program and LTFP between 21 November 2016 and 18 December 2016, adopting them on 15 February 2017.
5. The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.	<p>The application outlines a number of key savings and efficiency measures adopted by the council, including:</p> <ul style="list-style-type: none"> ▼ An ongoing service review project, with the aim of ensuring services are delivered at the agreed level and at best value. Estimated savings in the LTFP are \$300,000 per annum. ▼ A procurement strategy with estimated savings of \$1.3 million per annum. ▼ Restricting growth in Full Time Equivalent (FTE) staff. The council currently has 507 FTEs compared to 509 in 2008, and is focussing on restricting FTE growth to approximately 0.5% per annum. ▼ A review of the council's loan portfolio, with estimated savings of \$2.5 million over the life of the loans.

Note: SEIFA is the Socio-Economic Indexes for Areas: refer to Appendix B, Table B.2.

Sources: Port Macquarie-Hastings Council, *Application Part A* and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp); *Port Macquarie-Hastings Council Financial Assessment, Sustainability and Benchmarking Report*, October 2012; Port Macquarie-Hastings Council, *Delivery Program 2013-17*; Port Macquarie-Hastings Council, *Long Term Financial Plan 2016-2026*.

3.1 Need for and purpose of the special variation

We consider the council has met this criterion.

The council has clearly articulated the community's priorities and identified the need for and purpose of the requested special variation in its IP&R documents, which is to continue:

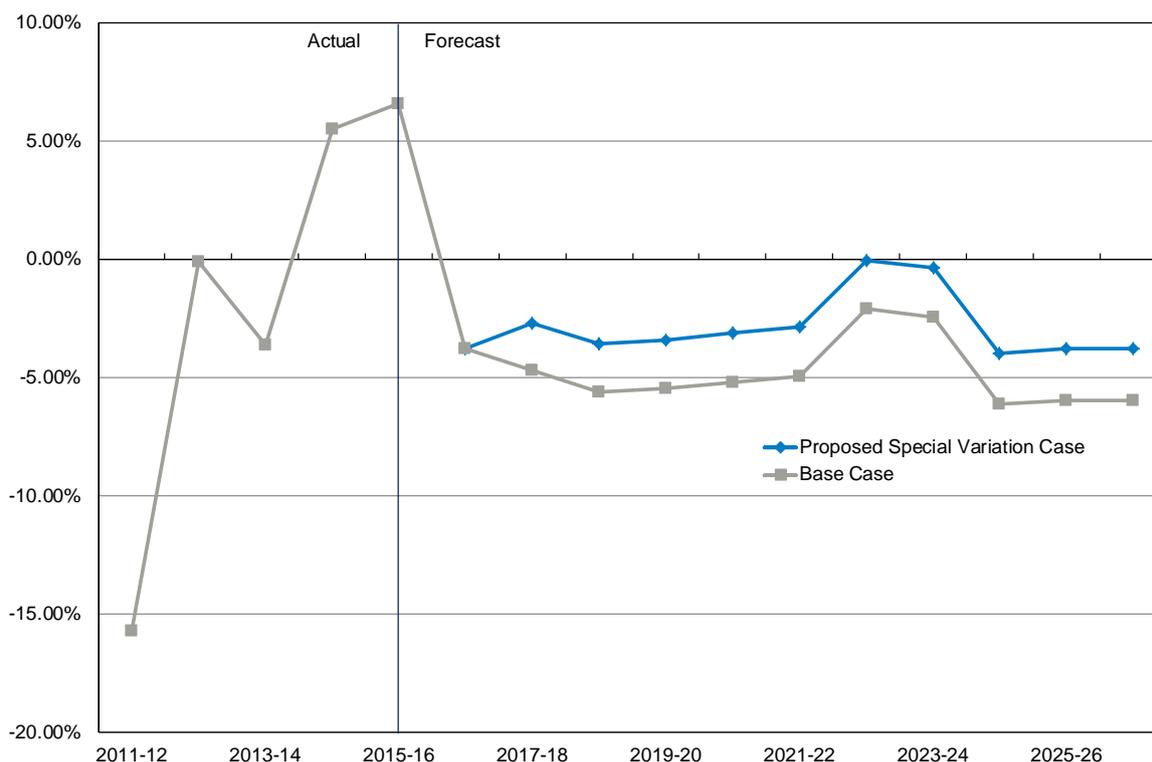
- ▼ current service levels for sealed and unsealed roads
- ▼ proactive maintenance of the road network
- ▼ high-traffic road resurfacing
- ▼ rejuvenation treatments, and
- ▼ road construction.

The council's IP&R documents clearly indicate the community's priorities were to maintain and improve the council's road network. Supporting evidence came from community engagement activities, including surveys, information sessions and fact sheets.

Financial sustainability, including infrastructure backlogs

The council forecasts consistent operating deficits in both the special variation and base case (ie, no special variation) scenarios as shown in Figure 3.1. The additional special variation expenditure is budgeted to be fully spent on roads maintenance and capital works. The council forecasts the special variation would enable continued funding of current levels of road network service.

Figure 3.1 Port Macquarie-Hastings Council’s Operating Performance Ratio excluding Capital Grants and Contributions (2010-11 to 2026-27)



Data source: Port Macquarie-Hastings Council *Annual Financial Statements*, various; Port Macquarie-Hastings Council, *Application Part A, Worksheet 7* and IPART calculations.

Table 3.2 Projected operating performance ratio (%) for Port Macquarie-Hastings Council’s special variation application

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Application - including SV (1-year 5.39%)	-2.7	-3.6	-3.4	-3.1	-2.8	0.0	-0.3	-3.9	-3.8	-3.8
Excluding SV	-4.7	-5.6	-5.5	-5.2	-4.9	-2.1	-2.4	-6.1	-5.9	-5.9

Note: The including SV scenario above reflects the single-year permanent 5.39% special variation (3.89% above rate peg) outlined in this determination.

Source: IPART calculations based on Port Macquarie-Hastings Council, *Application Part A, Worksheet 7*. Our measure of operating performance ratio excludes all capital items.

Box 3.1 Port Macquarie-Hastings Council's Fit for the Future (FFTF) Assessment

IPART's Fit for the Future assessment found the council:

- ▼ Met the criterion for sustainability. The council was forecast to meet the **operating performance benchmark** from 2019-20 based on its then proposed SV, meet the own source revenue benchmark in all forecast years, and improve the asset renewal benchmark in the outer forecast years.
- ▼ Did not meet the criterion for infrastructure and service management as it was not forecast to meet the **infrastructure backlog benchmark** before 2019-20. However, improvement was forecast for the asset maintenance ratio. The council met the debt service benchmark in all forecast years.
- ▼ Met the efficiency criterion based on a forecast decline in real operating expenditure per capita to 2019-20.
- ▼ Was forecast to reduce real operating expenditure per capita from \$1,060 in 2014-15 to \$990 in 2019-20.

NSW Treasury Corporation (TCorp) observed in 2013 the council's financial position was 'weak' and its outlook was 'negative'. This assessment was made largely because of a deterioration in the forecast operating results, with operating deficits forecast to be between \$15.5 million and \$20.4 million over the period to 2021-22.

We note the forecast OPRs in the council's FFTF proposal (Table 3.3) are better than the current special variation application. This is because the FFTF proposal assumed an existing temporary 4.4% special variation is permanently incorporated into the council's rate base, along with an additional five-year special variation of 8.7% per year, or 52% cumulative (39% above the rate peg), from 2017-18.

By contrast, the current special variation application only incorporates the temporary special variation being added permanently to the rate base, and hence forecasts a lower OPR for the years 2017-18 to 2019-20.

Table 3.3 Projected operating performance ratio (%) for Port Macquarie-Hastings Council's FFTF proposal

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
FFTF – including SV (5-year, 52% cumulative)	-14.0	-3.6	-8.5	-2.1	2.6	6.5
Current SV Application - including SV (1-year 5.39%)	NA	NA	NA	-2.7	-3.6	-3.4

Note: FFTF figures assume that the council applies for an SRV of 52% cumulative (39% above rate peg) over five years from 2017-18 that includes an existing 4.4% levy.

Source: Port Macquarie-Hastings Council, *Council Improvement Proposal*, June 2015. Our measure of OPR excludes all capital items.

Source: IPART, *Assessment of Council Fit for the Future Proposals*, October 2015, p323, and NSW Treasury Corporation, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18.

Alternative funding options

The council has considered a number of alternative revenue options such as user fees and charges, borrowing, and funding expenditure from reserves:

- ▼ In the case of user charges and fees, the council concluded the implementation of road access fees would be impractical.
- ▼ Borrowing was ruled out as an alternative funding source due to the ongoing nature of roads maintenance expenditure.
- ▼ Whilst the council has a relatively high level of reserves, 70% of the \$214 million cash and reserves balance is externally restricted and allocated to specific funding purposes,⁸ and hence could not be redirected to the maintenance and renewal of the council's road network.

3.2 Community engagement and awareness

We consider the council has met this criterion.

The council used a variety of methods to engage with the community, ensuring ratepayers were aware of the proposed special variation and had opportunities to provide feedback. The council provided information about the need for and the extent and impact of the rate increase, and sought community feedback.

Community awareness and associated feedback came from a variety of engagement methods, including:

- ▼ advertising and media releases
- ▼ community forums
- ▼ council kiosks at community events
- ▼ social media engagement
- ▼ community surveys (both online and hard-copy)
- ▼ a local government area-wide telephone survey, and
- ▼ Fact Sheets.

A community engagement survey ('Your Voice our Community') was undertaken in 2016 to understand community perceptions regarding council services and satisfaction. The survey received 274 responses, with a majority of respondents suggesting the council should either 'keep doing' or 'do more' with respect to sealed and unsealed roads.⁹

The council also engaged the University of Technology Sydney Institute of Public Policy and Governance in May 2016 to conduct a random telephone survey of the local government area (LGA). The survey investigated community attitudes, values, and perceptions of services, facilities, and infrastructure provided by the council. Some key findings of the survey include:

⁸ Port Macquarie-Hastings Council, *Financial Statements 2015-16*, Note 6(c).

⁹ Port Macquarie-Hastings Council, *Application Part B*, p 18.

- ▼ 93% of respondents nominated creating and maintaining sealed roads as the local government function of greatest importance
- ▼ 79% of respondents suggested the council should invest more in roads, and
- ▼ 63% of respondents believed local government should spend ‘a little more’ or ‘a lot more’ on services in the local area.¹⁰

Outcome of consultation on rate increases

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

A community survey specifically related to the proposed special variation was conducted during October-December 2016, with 426 responses received. When asked whether maintaining current rate levels (through the proposed special variation) was reasonable, 55% of respondents either strongly agreed or agreed, compared to 33% who either strongly disagreed or disagreed. When asked whether maintaining the current rate level was affordable, 52% either strongly agreed or agreed, whilst 33% either strongly disagreed or disagreed.¹¹

Submissions

The council received five written submissions in response to the public exhibition of the amended 2013-2017 Delivery Program and amended LTFP 2016-2026. All five submissions opposed the proposed special variation. The main reasons for opposition were:

- ▼ the rate increase was unaffordable
- ▼ the council should use alternative sources of funding, and
- ▼ there was no need for another special variation.

The council considered its community’s feedback and provided individual responses to concerns that were raised.¹²

We received 10 submissions all opposing the SV, mainly on the grounds that the council has a large cash and reserves balance.

3.3 Reasonable impact on ratepayers

We consider the council has met this criterion.

We consider the impact of the special variation on average rate levels is reasonable given current average rate levels and the community’s capacity to pay. Our conclusion is supported by socio-economic indicators for Port Macquarie-Hastings when compared to similar and neighbouring councils, and the council’s consideration of affordability.

¹⁰ Port Macquarie-Hastings Council, *Application Part B*, pp 38-39.

¹¹ Port Macquarie-Hastings Council, *Application Part B*, p 20.

¹² Port Macquarie-Hastings Council, *Application Part B*, pp 40-41.

Magnitude of increase

The council requested a single-year increase of 5.39%, which will remain permanently in the rate base. This increase comes after a cumulative increase in average residential rates of 60.8% since 2006-07. This rise since 2006-07 is sizable when compared to the cumulative rise of 33.1% under the rate peg during this period. However, the effect of the special variation for 2017-18 is equal to the rate peg of 1.5%. Rate increases in future years will be no more than the rate peg, unless the council applies for further special variations.

The council's consideration of impact on ratepayers

The council considers the existing community has the capacity and willingness to pay. As outlined in section 3.2, through multiple surveys of the community the council has identified the maintenance and renewal of the road network as a priority for the community.

In terms of affordability, the council's outstanding rates and annual charges ratio for 2014-15 was 6.33%, compared to the OLG Group 5 average of 4.48%. Despite being higher than the group average, the 2015-16 ratio has fallen to 5.08%, which the council says indicates the community in aggregate has capacity to meet the existing level of rates. Of 426 respondents to a community survey, 65% believed that current rate levels are reasonable and affordable, or otherwise did not believe the current level of rates are unreasonable or unaffordable.¹³ Further, the 2011 SEIFA ranking of 75 out of 153 councils in NSW indicates residents of the LGA are not unduly disadvantaged.

Given the net impact of the special variation is equal to the rate peg of 1.5% for 2017-18, the council believes the community has both the capacity and willingness to pay for the special variation that permanently replaces the expiring special variation.

In assessing the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth of rates in various rating categories. We found since 2006-07:

- ▼ The council has applied for and been granted three special variations that were used for infrastructure maintenance and renewal, and to address the infrastructure backlog.
- ▼ The average annual growth in residential ordinary and special rates was 4.9%, whilst the average annual growth in business rates was 4.0%. This compares to the average annual growth in the rate peg of 2.9% over the same period.

We also compared current rates and socio-economic indicators within the LGA as shown in Table 3.4.

¹³ Port Macquarie-Hastings Council, *Application Part B*, p 50.

Table 3.4 Port Macquarie-Hastings Council – comparison of rates and socio-economic indicators with surrounding councils and Group 5 averages (2014-15)

Council (OLG Group)	Average residential rate (\$) ^a	Average business rate (\$) ^b	Average taxable income (2011)	Ratio of average rates to average income (%)	Outstanding rates ratio (%) ^c	SEIFA Index NSW Rank ^d
Neighbouring Councils						
Bellingen Shire (11)	968	915	34,585	2.6	3.30	55
Coffs Harbour City (5)	977	4,169	39,207	2.4	6.50	70
Kempsey Shire (4)	856	1,923	35,177	2.4	3.43	4
Nambucca Shire (11)	855	1,764	34,014	2.4	3.93	9
Port Macquarie-Hastings (5)	1,043	3,397	39,480	2.6	6.33	75
Group 5	1,076	5,195	45,429	2.4	4.48	N/A

a The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.

b The average business rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.

c The outstanding rates ratio includes water and sewer.

d The highest possible ranking is 153 which denotes a council that is least disadvantaged in NSW.

Source: OLG, unpublished data; ABS, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.

Based on 2014-15 data, we found:

- ▼ The council's average residential rate levels are slightly lower (\$1,043) than the Group 5 average (\$1,076). The council's average residential rate levels are 10% higher than Coffs Harbour City (\$977), a similar Group 5 council.
- ▼ The council's average business rates of \$3,397 are slightly lower than a comparable Group 5 council, Coffs Harbour City (\$4,169), and substantially lower than the Group 5 average of \$5,195. However, the council's average business rates are higher than surrounding councils.

Taking all these factors into account, we consider the impact of the increase to be reasonable.

4 What does our decision mean for the council?

Our decision means Port Macquarie-Hastings Council may increase its general income in 2017-18 by an estimated \$2.4 million as indicated in Table 4.1.¹⁴ This increase will be permanently incorporated into the council's revenue base. After 2017-18, the council's general income can increase by no more than the annual rate peg unless we approve further special variations.¹⁵

Table 4.1 Permissible general income of Port Macquarie-Hastings Council in 2017-18 arising from the special variation approved by IPART

Notional general income 2017-18 (\$)	Adjustment: expiring special variation (\$)	Increase approved (%)	Annual increase in general income (\$)	Adjustments: Catch-ups, valuations ^a (\$)	Permissible general income 2017-18 (\$)
47,103,557	1,739,710	5.39	2,445,111	507	47,809,465

^a Prior catch-up of \$507 to be recouped in 2016-17 that had not been recouped by the time of the application was submitted to IPART.

Note: The above information is correct at the time of the council's application (February 2017).

Source: Port Macquarie-Hastings Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

This extra income is the amount the council requested to enable it to undertake additional expenditure on operating maintenance and capital improvements to the council's road network, and to maintain service levels at acceptable standards.

¹⁴ Port Macquarie-Hastings Council, *Application Part A*, Worksheets 1 and 4.

¹⁵ General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance.

5 What does our decision mean for ratepayers?

We set the allowable increase in general income, but it is a matter for each individual council to determine how it allocates any increase across different categories of ratepayers, consistent with our determination.

In its application, Port Macquarie-Hastings Council indicated it intended to increase rates uniformly for each category.

The council has calculated for 2017-18:

- ▼ the average residential rate will increase by 1.5%, or \$17.23
- ▼ the average business rate will increase by 1.5%, or \$56.43, and
- ▼ the average farmland rate will increase by 1.5%, or \$28.20.

Table 5.1 sets out the proposed impact of rate increases on all affected ratepayer categories.

Table 5.1 Indicative increases in average rates under Port Macquarie-Hastings Council's approved special variation for 2017-18

Category	Average rate 2016-17 (\$)	Increase (%)	Increase (\$)	Average rate 2017-18 (\$)
Residential Average	1,150	1.5	17	1,167
Residential – Urban	1,140	1.5	17	1,157
Residential – Other Hastings	1,184	1.5	18	1,202
Business Average	3,766	1.5	56	3,822
Business – Urban	2,813	1.5	42	2,855
Business – Other Hastings	1,530	1.5	23	1,553
Business – Port Macquarie CBD	10,993	1.5	165	11,158
Farmland Average	1,883	1.5	28	1,912
Farmland	1,883	1.5	28	1,912

Notes: 2016-17 is included for comparison.

The average rate is calculated by Port Macquarie-Hastings Council, and includes the ordinary rate and any special rates applying to the rating category.

Numbers are rounded to the nearest dollar. Some numbers may not add due to rounding.

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

The percentage increases in average rates are less than the rise in general income of 5.39% because of the expiring special variation that reduces rates by 3.7% at the end of 2016-17.



Appendices



A Expenditure to be funded from the special variation

Table A.1 and Table A.2 show Port Macquarie-Hastings Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the additional special variation revenue, above the rate peg, of \$19.8 million over 10 years to fund additional maintenance and renewal of the road network. We note:

- ▼ an improvement in the operating balance (excluding capital grants and contributions), of \$14.9 million, and
- ▼ higher unsealed roads maintenance of \$4.8 million over this period (see Table A.1).

At the same time, the improvement in the operating balance will fund \$14.9 million in extra road renewal capital expenditure over the period from 2017-18 to 2026-27 (see Table A.2).¹⁶

As a condition of IPART's approval, the council is to indicate in its Annual Reports how its actual expenditure compares with this proposed program of expenditure.

¹⁶ Port Macquarie-Hastings Council, *Application Part A*, Worksheet 6.

Table A.1 Port Macquarie-Hastings Council – Income and proposed expenditure over 10 years related to the special variation

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Special variation income above assumed rate peg	1,764,654	1,808,770	1,853,989	1,900,339	1,947,847	1,996,544	2,046,457	2,097,619	2,150,059	2,203,811	19,770,088
Funding for increased operating expenditures	430,852	441,623	452,664	463,980	475,580	487,469	499,656	512,148	524,951	538,075	4,826,999
Funding to reduce operating deficits or (increase surpluses)	-	-	-	-	-	-	-	-	-	-	-
Funding for capital expenditure	1,333,802	1,367,147	1,401,326	1,436,359	1,472,268	1,509,075	1,546,801	1,585,471	1,625,108	1,665,736	14,943,093
Additional expenditure	-	-	-	-	-	-	-	-	-	-	-

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

Source: Port Macquarie-Hastings Council, *Application Part A*, Worksheet 6.

Table A.2 Port Macquarie-Hastings Council – Proposed 10-year capital expenditure program related to the special variation

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Roads											
High traffic resurfacing	904,273	926,880	950,052	973,803	998,148	1,023,102	1,048,679	1,074,896	1,101,769	1,129,313	10,130,916
Rejuvenation treatments	226,068	231,720	237,513	243,451	249,537	255,775	262,170	268,724	275,442	282,328	2,532,726
Road construction	203,461	208,548	213,761	219,105	224,583	230,197	235,952	241,851	247,897	254,095	2,279,451
Total Capital Expenditure	1,333,802	1,367,147	1,401,326	1,436,359	1,472,268	1,509,075	1,546,801	1,585,471	1,625,108	1,665,736	14,943,093

Note: Numbers may not add due to rounding.

Source: Port Macquarie-Hastings Council, *Application Part A*, Worksheet 6.

B Comparative indicators

Performance indicators

Indicators of council performance may be considered across time, either for one council or across similar councils, or by comparing similar councils at a point in time.

Table B.1 shows how selected performance indicators for Port Macquarie-Hastings Council have changed over the four years to 2014-15.

Table B.1 Trends in selected performance indicators for Port Macquarie-Hastings Council, 2011-12 to 2014-15

Performance indicator	2011-12	2012-13	2013-14	2014-15	Average annual change (%)
FTE staff (number)	444	459	489	492	3.5
Ratio of population to FTE	169	166	155	155	-2.9
Average cost per FTE (\$)	81,360	79,969	84,227	86,268	2.0
Employee costs as % operating expenditure (General Fund only) (%)	31.7	33.9	35.9	37.7	6.0
Consultancy/contractor expenses (\$m)	13.7	14.2	12.0	12.7	-2.6
Consultancy/contractor expenses as % operating expenditure (%)	10.3	10.3	8.2	9.3	-3.6

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

In addition to the above table the following comparisons can be made:

- ▼ Employee expenses as a percentage of operating expenditure have increased from 31.7% in 2011-12 to 37.7% in 2014-15. This compares with an average of 36.2% in 2014-15 for Group 5 councils.¹⁷
- ▼ Based on 2014-15 data, consultancy/contractor expenses as a percentage of operating expenditure (9.3%) are favourable compared to the average for Group 5 councils (13.3%) and a comparator council, Coffs Harbour City (21.0%).
- ▼ In total the council spent 47% of 2014-15 operating expenditure on employee costs and consultancy/contractor expenses. This proportion is similar to Coffs Harbour City (50.3%) and the average for Group 5 councils (49.5%).

¹⁷ OLG, unpublished data.

General comparative indicators

Table B.2 compares selected published and unpublished data about Port Macquarie-Hastings Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

As noted in section 3, Port Macquarie-Hastings Council is in OLG Group 5. Unless specified otherwise, the data refers to the 2014-15 financial year.

Table B.2 Select comparative indicators for Port Macquarie-Hastings, 2014-15

	Port Macquarie-Hastings Shire Council	OLG Group 5 average	NSW average
General profile			
Area (km ²)	3,682		
Population	76,017		
General Fund operating expenditure (\$m)	89.4		
General Fund operating revenue per capita (\$)	1,261	1,315	
Rates revenue as % General Fund income (%)	47.7	49.7	
Own-source revenue ratio (%)	68.6	72.7	
Average rate indicators^a			
Average rate – residential (\$)	1,043	1,076	790
Average rate – business (\$)	3,397	5,195	2,949
Average rate – farmland (\$)	1,780	2,069	2,490
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	39,480	45,429	49,070
Growth in average annual income, 2006-2011 (% pa)	4.5	4.7	5.2
Ratio of average residential rates 2013-14, to average annual income, 2011 (%)	2.6	2.4	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	75		
Outstanding rates and annual charges ratio (General Fund only) (%)	6.33		
Productivity (labour input) indicators^c			
FTE staff (number)	492	692	295
Ratio of population to FTE	155	171	127
Average cost per FTE (\$)	86,268	87,160	80,173
Employee costs as % operating expenditure (General Fund only) (%)	37.7	36.2	38.6
Consultancy/contractor expenses (\$m)	12.7	26.7	8.8
Consultancy/contractor expenses as % operating expenditure	9.3	13.3	10.9

a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

b Average annual income includes income from all sources excluding government pensions and allowances.

c Except as noted, data is based upon total council operations including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Source: OLG, unpublished data; ABS, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.