

## Ensuring Good Governance

**Item: 09.14**

**Subject: MAKING A DECISION ABOUT FUTURE RATES**

**Presented by: Corporate and Organisational Services, Rebecca Olsen**

### Alignment with Delivery Program

1.4.3 Build trust and improve Council's public reputation through transparency and accountability.

### RECOMMENDATION

**That Council:**

- 1. Place the following draft documents on public exhibition for a period of 28 days from 21 November to 18 December 2016:**
  - Amended 2013-2017 Delivery Program.
  - Amended Long Term Financial Plan.
- 2. Lodge an IPART expression of interest for a Special Rate Variation in December 2016 in relation to embedding the existing Special Rate Variation into the future noting that the submission of an expression of interest will not bind Council in applying for a Special Rate Variation.**
- 3. Note that a further report will be tabled at the February 2017 meeting of Council, detailing the submissions received from the public during the exhibition period that will provide Council with information that can be taken into account in considering whether to formally apply for a Special Rate Variation to maintain the current funding levels.**

### Executive Summary

Over the past five years, Council has placed a high focus on improving and maintaining our regions key transport assets, including the significant sealed and unsealed road network. In 2012 a Special Rate Variation (SRV) of 4.43% above the rate peg was approved by the Independent Pricing and Regulatory Tribunal (IPART), under guidelines set by the NSW Office of Local Government. The value of the expiring SRV is \$1.7m in 2016-2017.

This current SRV expires on 30 June 2017. Should there be a desire to maintain this funding and hence the resultant delivery outcomes, an application must be made to IPART via a specific process which is determined by IPART.

This report will cover details of the existing SRV and the delivery outcomes of that funding, the IPART process and the community engagement that has been undertaken and will continue to be undertaken.

More specifically as part of the IPART requirements, the existing Council adopted 2013-2017 Delivery Program and the Long Term Financial Plan need to be amended and exhibited. If there is a desire to maintain the level of funding of the existing SRV, an Expression of Interest (EOI) will need to be lodged at some point in December 2016, noting that the timing of this has not yet been released by IPART.

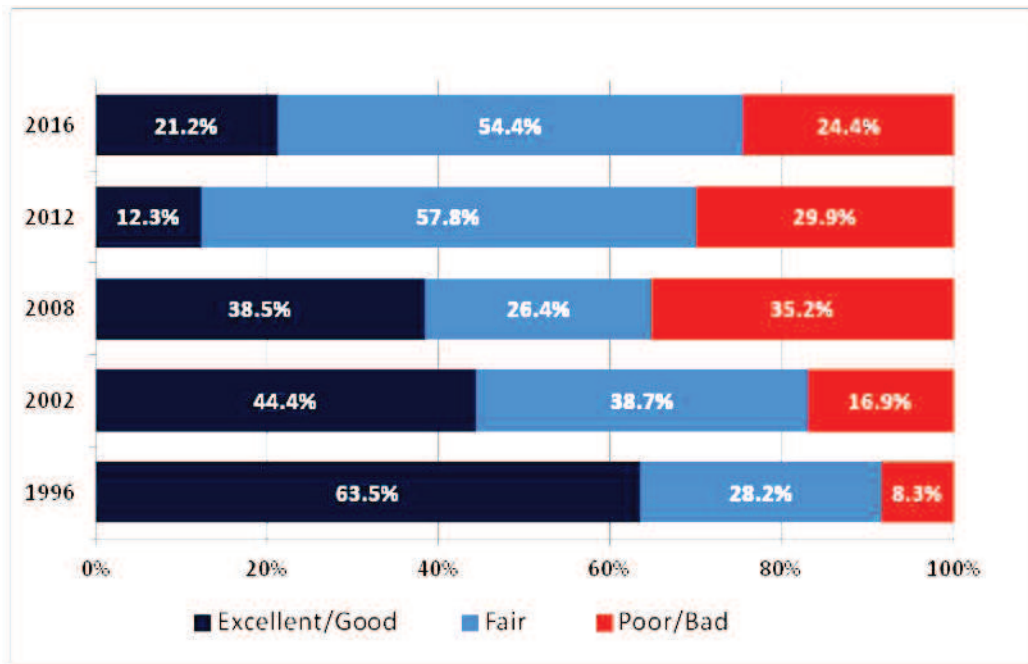
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It is proposed to provide another report to Council in February 2017 for Council to consider the community engagement undertaken and any submissions received on the amended Delivery Program and Long Term Financial Plan.

**Discussion**

Council’s Road Network

The sealed road network condition in 2012 was the result of a progressive and significant decline in condition since 1996. This was due to insufficient annual budget and resource allocations toward sealed road maintenance. The graph below shows what percentage of our road network was in which condition from 1996 to 2016:



The service level experienced by residents up to 2012 was reactionary maintenance only, and was characterised by significant complaints back to Council during wet weather events, when the condition of the sealed road network would rapidly deteriorate and cause issues for residents. As the graph demonstrates, this resulted in a significant decline in the condition of our road network over time.

Available resources up to 2012 were only able to be applied to short-term reactive maintenance activities, such as jet patching. Jet patching is viewed as a reactionary holding treatment only, temporary in nature, effectively only postponing the requirement for a more expensive and higher level of maintenance intervention in the future.

Due to budget constraints, up to 2012 only minimal road resealing activities were able to be undertaken. In comparison to jet patching, resealing of bitumen and asphaltic surfaces is considered a preventative maintenance activity. Resealing activities extend the service life of the road and reduces the instance of pavement failures and the subsequent requirement for reactive maintenance. Further, resealing



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is around one tenth the cost of full reconstruction or asphalt overlays, and when done at the right time can extend the life of a road by 10 to 15 years.

While the 2012 position indicates a conscious application of scarce funding aimed at containing the backlog of 'poor' roads and retaining as many roads as possible in at least 'fair' condition, it can be seen that this was at the cost of less roads remaining in the 'good' category. As a result, in 2012, while the rapid increase in the proportion of 'poor' roads in prior years had been arrested, it was still very high, at about one-third of the network, and represented a stubborn and large backlog of work. In comparison, the improvement in the condition of the sealed road network in 2016 is the result of combining existing scarce maintenance funding with the first four years of clearly identified special rate funding, and applying these funds to specifically targeted long-term road maintenance activities.

The service level currently experienced by residents is a combination of proactive and reactive roads maintenance, with Council steadily addressing the previous decline in condition of the sealed road network, through targeted and specific programs of work. In addition, more efficient work practices and ongoing resealing programmes have led to an overall decrease of complaints from the public.

In 2012, in recognition that the general condition of the sealed road network across the local government area was deteriorating faster than current resources could address, Council resolved to take a proactive approach to manage this network. In line with this and following an application by Council, Council received approval from IPART to apply a Special Rate Variation from the commencement of the 2012/13 financial year. A key component of this SRV allowed for a 4.43% increase for five years.

The SRV meant that Council could transition from utilising a short-term reactive approach to its road maintenance activities, into the development and implementation of a roads maintenance and resealing program in excess of \$1 million per annum, plus invest an additional \$850,000 per annum into heavy patching and unsealed road maintenance.

These were the priorities that were identified by the community in the extensive engagement that supported the 2012 rate rise application process, and these were the areas that Council needed to focus on to halt the consistent annual decline in the condition of the road network.

Following are details of what has been achieved utilising the funding generated from each year of the existing SRV and what the impact would be should we lose the funding going into 2017-2018:

### Yr 1 of 4.43% SRV Funding:

Council was able to undertake the following proactive works, in 2012-2013, specifically utilising the **\$1,577,600** allocated in the first year of SRV funding:

- Completion of **\$800,000** of high traffic road resurfacing work, including resealing works on Randall and Cameron Street in Wauchope, on Pacific Drive and Gordon Street in Port Macquarie, on Ocean Drive in Lake Cathie and on Panorama Drive and Beech Street in Bonny Hills;

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- Completion of **\$398,000** of high priority unsealed road grading, under which all high priority unsealed roads were graded twice within the financial year, due to the addition of a fourth fulltime maintenance grading crew; and
- Completion of **\$200,000** in pavement rejuvenation across the region based on priority rankings, and investment of **\$180,000** to support design requirements for new road construction.

This was in addition to the ongoing reactive maintenance activities required to be undertaken in 2012/-2013 to maintain the overall road network.

### Yr 2 of 4.43% SRV Funding:

Council was able to undertake the following proactive works, in 2013-2014, utilising the second year of SRV funding:

- Completion of **\$827,000** of high traffic road resurfacing work, including rehabilitation works on Bago Rd South of King Creek near Wauchope, Koala St (Kennedy to Shearer St), Lake Rd (Lake Road and Jindalee Rd), and Pacific Dr (Pacific Dr and Flynn St, and Waterview to Bangalay) in Port Macquarie, and resealing works on Livingstone Rd (entire length) and Pacific Dr (Livingstone Rd to bus bay) in Port Macquarie;
- Completion of **\$411,000** of unsealed road grading work, including allocation of two additional grading crews to continue the grading program; and
- Completion of **\$207,000** in pavement rejuvenation across the region based on priority rankings, and investment of **\$186,000** to support design requirements for new road construction.

This was in addition to the ongoing reactive maintenance activities required to be undertaken in 2013-2014 to maintain the overall road network.

### Yr 3 of 4.43% SRV Funding:

Council was able to undertake the following proactive works, in 2014-2015, utilising the third year of SRV funding:

- Completion of **\$846,000** of high traffic road resurfacing work, including foam bitumen and asphalt rehabilitation works on Cameron St (High St to Bridge St) in Wauchope, Hastings River Drive (Tuffins Ln to Boundary St) and William St (Munster St to Grant St) in Port Macquarie;

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*New Asphalt, Cameron Street, Wauchope*

- Completion of **\$421,000** of unsealed road grading work, including allocation of two additional grading crews to continue the rural grading program; and
- Completion of **\$212,000** in pavement rejuvenation across the region based on priority rankings, and investment of **\$190,000** to support design requirements for new road construction.

During the same year, Council allocated approximately \$1m of additional funding to the existing road maintenance budget for road resealing, specifically to address lower priority local roads. This was in response to an independent assessment that Council commissioned in late 2013, that identified that Council possessed a high level of in-house technical skills, and that the road work prioritisation program was having a positive impact, there was still a need to invest in more proactive maintenance of the network to ensure that roads currently not in disrepair remained that way.

The program of work aimed to achieve the best economies of scale and positive impact on residential communities, and was implemented to support the positive impacts made to the condition of the road network from the first two years of SRV funding.

The works saw almost all streets in Lake Cathie and Bonny Hills resealed, and all the roads surrounding Sirius Drive in Lakewood. In addition, the entire length of Granite St in Port Macquarie was also resealed. Council's sealed road and drainage maintenance crews spent many weeks in these areas preparing the roads for reseat by fixing kerb and gutter, repairing sections of failed pavement and repairing damaged stormwater drainage.

In total, the resealing during 2014-2015 covered approximately 63km of local roads. These works were in addition to the rehabilitation and major resurfacing works on higher trafficked roads. To put this into context, Council maintains 875km of sealed roads and in the 2014-2015 financial year resealing and other pavement works were undertaken on 70.7km of road - equating to 8% of the sealed road network.

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Addressing 8% of the network a year is a significant target and means that all the sealed roads in the local government area would be resealed or rehabilitated every 12 - 14 years. Some years this result will fluctuate as some parts of the Local Government Area have roads in poorer condition that require more substantial and costly rehabilitation, as opposed to lower cost resealing. But this is a key target number in terms of managing the road asset and increasing the lifespan of this very significant infrastructure.

### Yr 4 of 4.43% SRV Funding:

Council was able to undertake the following proactive works, in 2015-2016, utilising the fourth year of SRV funding:

- Completion of **\$867,000** of high traffic road resurfacing work, including foam bitumen and asphalt rehabilitation works on Lord St (Gordon St to Yaranbee Rd) and Kennedy Drive (Yaranbee Rd to Coral St) in Port Macquarie, and Ocean Drive (near Waterview Cr) in West Haven;



*Pavement Rehabilitation, Lord St, Port Macquarie*

- Completion of **\$431,000** of unsealed road grading work, through allocation of two additional grading crews to continue the rural grading program, including 1km of works at each of Ballengarra Bransdon Rd in Telegraph Point and Pappinbarra Rd in Pappinbarra; and

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*Gravel Resheet, Ballengarra Bransdon Road, Telegraph Point*

- Completion of **\$217,000** in pavement rejuvenation across the region based on priority rankings, and investment of **\$195,000** to support design requirements for new road construction.

During the same year, Council again allocated approximately \$1m of additional funding for road resealing, specifically to address lower priority local roads. The program of work continued to build on the positive impacts made to the condition of the road network from the previous three years of SRV funding.

The works saw Council's sealed road operational crews primarily stationed in the Camden Haven area. 63km of local streets within the Laurieton, North Haven, Dunbogan, and Lakewood areas were resealed during 2015-2016. Based on Council maintaining 875km of sealed roads, this equates to approximately 7% of the sealed road network. Council's ability to reseal or rehabilitate all sealed roads in the local government area every 12 -14 years remains a key target number in terms of managing the road asset and increasing the lifespan of this very significant infrastructure.

### **Yr 5 (current financial year) of 4.43% SRV Funding:**

In 2016-2017, in accordance with the Council adopted Operational Plan, Council will undertake the following proactive works, utilising the fifth year of SRV funding:

- Completion of **\$882,000** of high traffic road resurfacing work;
- Completion of **\$438,000** of unsealed road grading work, through allocation of two additional grading crews to continue the rural grading program; and

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- Completion of **\$221,000** in pavement rejuvenation across the region based on priority rankings, and investment of **\$198,000** to support design requirements for new road construction.

During the same year, Council will again continue to focus on addressing lower priority local roads, to continue to build on the positive impacts made to the condition of the road network from the previous four years of SRV funding.

### 2017-2018 and Beyond:

A loss of the existing SRV in 2017-2018 would halt and then reverse the critical progress made in the preceding years. Council would no longer be in a financial position to strategically manage its road assets, and the condition of the network would deteriorate year on year.

Council would be forced to revert to a reactive approach to roads maintenance. Resealing and rejuvenation works would once again be predominantly replaced by reactive jet patching works. Sealed roads in the local government area would only be able to be resealed or rehabilitated every 25 years. There would be a significant decrease in the level of service provided to residents by these assets.

### IPART requirements

Council's rating revenue is regulated under "rate pegging". Independent Pricing and Regulatory Tribunal NSW (IPART) sets a rate peg which limits the amount by which councils can increase their rate revenue from one year to the next. For many years, the rate peg limit has not kept pace with the spiralling increases to costs for councils in NSW to deliver vital community services.

IPART provide Councils with a guide to the expected rate peg. It is then up to each Council to assess whether there will be sufficient funds to deliver its services. Councils have conversations with the community as to whether the increase is sufficient to continue to deliver the existing range and standard of services available, whilst also ensuring there are sufficient funds to maintain and renew infrastructure. If they feel the increase is insufficient Council can request an increase above the rate peg limit. These increases are known as a Special Rate Variation (SRV).

A NSW Council can apply to IPART for a special variation above the rate peg provided Council has engaged its residents in the discussion and Council has shown a sustainable financing strategy and productivity improvements.

As detailed earlier in the report, Council applied for a SRV to fund asset improvements in 2012. The current SRV funding will expire as of 30 June 2017.

In early December 2016 (date TBC), Council will be required to submit an Expression of Interest (EOI) to IPART, informing that they are planning to submit an application for a SRV in February 2017. It is important to note that whilst it is a requirement to submit an EOI in December, the submission of the final application in February still requires a resolution by Council prior to proceed.

Council's decision making in applying for the proposed SRV will be assisted by the community consultation program Council is conducting, specifically related to the SRV, of which includes consultation regarding Council's planning documents.



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As part of the IPART assessment criterion 4, Council is required to exhibit the relevant Integrated Planning and Reporting (IP&R) documents (where required), approved and adopted by the Council before the Council applies to IPART for a special rate variation.

IPART assessment criteria 1 states “the need, and purpose of, a different revenue path for 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.”

The current Council adopted Delivery Program and Long Term Financial plan do not adequately address this requirement because at the time of adoption of these documents by Council in mid 2013, no consideration was given to the future of the SRV at that time. As detailed earlier in this report, the purpose of this report is to approve the following draft documents to be placed on public exhibition for a period of 28 days from 21 November to 18 December to comply with IPART guidelines and to demonstrate to the community via our planning documents the proposed SRV. The documents for exhibition are:

- Amended Delivery Program 2013-2017 (Attachment 1)
- Amended Long Term Financial Plan 2016-2026 (Attachment 2)

It should be noted that the presentation and format of these documents will continue to be reviewed and refined during the exhibition period.

### Community Engagement

A requirement of IPART is to conduct sufficient community awareness and engagement for Special Rate Variations. The purpose is to ensure councils fully consult with their communities, demonstrate the financial impact the proposed SRV would have and allow the community with opportunity to provide feedback to Council.

To meet the criteria set by IPART, Council has developed a community engagement program related to the proposed SRV. This includes consulting with the community through a variety of methods and will build upon the community engagement Council has conducted to-date.

Council undertakes regular community engagement on how the community feels about our region, current Council services and community expectations on levels of service. Recent engagement activity includes the February 2015 phone survey (sample over 600 people) conducted by Micromex, the October 2015 to December 2015 Your Voice Our Community face-to-face and online engagement process (sample 274 people), and the July 2016 region-wide telephone survey conducted by University of Technology Sydney (sample 800 people). These interactions have highlighted the community’s continuing desire to do more when it comes to our roads. Council has listened to the priority the community place on continuing to build on the progress made over the last five years in prioritising funding to maintain and renew Council’s road network.

During November and December 2016, Council will continue this engagement by talking with the community about the proposed SRV impact, affordability and determining the community’s willingness to pay. Engagement will take place via the

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public exhibition of the amended Delivery Program 2013-2017 and Long Term Financial Plan 2016-2026, face to face (events, pop up stands, community forum), online survey (PMHC Listening) and information factsheets (Attachment 3).

### Financial Implications

As mentioned earlier in this report, the current SRV funding will expire as of 30 June 2017. It is important to consider the impact the loss of this funding would have on the progress made to-date:

- Council would no longer be in a financial position to strategically manage its road assets, and the condition of the network would deteriorate year on year;
- Council would be forced to revert to a reactive approach to roads maintenance;
- Resealing and rejuvenation works would once again be predominantly replaced by reactive jet patching works;
- Sealed roads in the local government area would only be able to be resealed or rehabilitated every 25 years; and
- There would be a significant decrease in the level of service provided to residents by these assets.

To continually support Council's maintenance and renewal of its infrastructure projects, Council proposes a SRV application to permanently embed the current SRV funding. IPART have indicated a rate peg of 2.5% for 2017-2018. Port Macquarie-Hastings rate base growth over the last five years means to continue the current level of funding provided by the expiring SRV the percentage required has changed from the original 2012 SRV of 4.43% plus rate peg to 3.96% (6.46% including rate peg).

To ensure there is no increase to rates created by the SRV other than the predicted rate peg increase, Council is proposing to apply to continue the current funding at 6.46% including the rate peg. It is important to note there will be other increases to rates relating to other components of the rate bill, the financial impact discussed here relates only to the rating part.

The two scenarios to consider when looking at Council's financial position following the expiry of the current SRV:

- Scenario 1: Reduce (rate peg only, 2.5%)  
In 2017-2018 the current SRV expires which means rates would reduce. Each year after that they would increase by the rate peg only.
- Scenario 2: Maintain (rate peg + SRV, 6.46% including rate peg)  
Council would continue receiving the funds from the current SRV and receive the predicted rate peg of 2.5%. This means in 2017-2018 the community would only see the impact of the rate peg increase.

The average impact to rates is shown in the table below:

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Rate Category	6.46% increase including rate peg Average annual increase 2017/18
Residential	\$28.70
Business (defined urban)	\$70.20
Business CBD	\$280.40
Business (other Hastings)	\$37.80
Farmland	\$47.40

IPART require Councils to display the financial impact of the Expiring SRV (ESV) and the proposed SRV in a specific way. The table below meets these criteria and describes the impact the two scenarios would have in both dollar and percentage terms to average residential rates:

### Residential

\$ Impact on Average Residential Rates Rounded		Current	2017/18	2018/19	2019/20	2020/21
Scenario 1: Reduce. (ESV + Rate Peg)	Average Rates under 2.5% Rate Peg with ESV	\$1,147.50	\$1,132.30	\$1,160.70	\$1,189.70	\$1,219.40
	Average Annual Increase / (Decrease) \$		(\$15.20)	\$28.40	\$29.00	\$29.70
	Annual increase/ (decrease)%		(1.32%)	2.50%	2.50%	2.50%
Scenario 2: Maintain (ESV, SV + Rate Peg)	Average Rate with a 6.46% SV (including 2.5% rate peg)	\$1,147.5	\$1,176.2	\$1,205.6	\$1,235.7	\$1,266.6
	Average Annual Increase / (Decrease) on Prior Year \$		\$28.70	\$29.40	\$30.10	\$30.90
	Annual increase/ (decrease)%		2.50%	2.50%	2.50%	2.50%
Difference between Scenario 1 and Scenario 2			\$43.90	\$44.90	\$46.00	\$47.20

Under Scenario 2, average residential rates will go up by approximately \$29 in 2017-2018 compared to what they are now.

The community engagement fact sheets (Attachment 3) include the above modelling for each of the rating categories.



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To ensure SRV increase to rates is only seen by the community as per the rate peg increase (2.5%), Council is proposing to apply to continue the current funding and permanently embed it at 6.46% including the rate peg - as outlined in Scenario 2 above.

The community engagement fact sheets and amended Delivery Program 2013-2017 and Long Term Financial Plan 2016-2026 demonstrate the financial scenarios that support this proposed application.

### Options

Council could decide not to place the amended Delivery Program 2013-2017 and Long Term Financial Plan 2016-2026 on public exhibition and not to progress with the Expression of Interest (EOI) to IPART in December 2016 (noting Council will make a formal decision about the SRV application in February 2017).

### Community Engagement & Internal Consultation

#### *Community Engagement Program (external):*

Council has to-date conducted regular engagement with the community relating to the services the community receives.

During November and December 2016, Council will continue this engagement by talking with the community about the proposed SRV impact, affordability and determining the community's willingness to pay. Engagement will take place via the public exhibition of the amended Delivery Program 2013-2017 and Long Term Financial Plan 2016-2026, face to face (events, pop up stands, community forum), online survey (PMHC Listening) and information factsheets (Attachment 3).

*Internal engagement* has taken place with:

Councillors;  
General Manager;  
Directors;  
Chief Financial Officer; and  
Group Managers.

### Planning & Policy Implications

As previously discussed in the report the current Council adopted Delivery Program and Long Term Financial plan do not adequately address this requirement because at the time of adoption of these documents by Council in mid 2013, no consideration was given to the future of the SRV at that time. The purpose of this report is to approve the following draft documents to be placed on public exhibition for a period of 28 days from 21 November to 18 December to comply with IPART guidelines and to demonstrate to the community via our planning documents the proposed SRV. The documents for exhibition are:

- Amended Delivery Program 2013-2017 (Attachment 1)
- Amended Long Term Financial Plan 2016-2026 (Attachment 2)

It should be noted that the presentation and format of these documents will continue to be reviewed and refined during the exhibition period.

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### Financial & Economic Implications

The current SRV funding will expire as of 30 June 2017. It is important to consider the impact the loss of this funding would have on the progress made to date:

- Council would no longer be in a financial position to strategically manage its road assets, and the condition of the network would deteriorate year on year;
- Council would be forced to revert to a reactive approach to roads maintenance;
- Resealing and rejuvenation works would once again be predominantly replaced by reactive jet patching works;
- Sealed roads in the local government area would only be able to be resealed or rehabilitated every 25 years; and
- There would be a significant decrease in the level of service provided to residents by these assets.

There are two scenarios to consider when looking at Council's financial position following the expiry of the current SRV:

- Scenario 1: Reduce (rate peg only, 2.5%)  
In 2017-2018 the current SRV expires which means rates would reduce. Each year after that they would increase by the rate peg only.
- Scenario 2: Maintain (rate peg + SRV, 6.46% including rate peg)  
Council would continue receiving the funds from the current SRV and receive the predicted rate peg of 2.5%. This means in 2017-2018 the community would only see the impact of the rate peg increase.

To continually support Council's maintenance and renewal of its infrastructure projects, it is the staff's recommendation that an SRV application to permanently embed the current SRV funding is made. To ensure SRV increase to rates is only seen by the community as per the rate peg increase (2.5%), Council is proposing to apply to continue the current funding at 6.46% including the rate peg (Scenario 2).

The amended Delivery Program 2013-2017 and Long Term Financial Plan 2016-2026 support this proposed application.

### Attachments

- 1 [View](#). Amended Delivery Program 2013-2017
- 2 [View](#). Amended Long Term Financial Plan 2016-2026
- 3 [View](#). SRV Fact Sheets