



## TRRA Submission on Port Stephens Council Proposal for Special Rate Variation (SRV)

### Introduction

Tomaree Ratepayers and Resident Association Inc. (TRRA) seeks to represent the interests of ratepayers and residents on the Tomaree Peninsula. Port Stephens Council will appreciate that its proposal for a Special Rate Variation (SRV) is a matter which affects all ratepayers, renters of property, businesses and farmers in our community.

TRRA welcomes the initiative of Council to investigate the feasibility of an SRV. In our submission to the Draft Integrated Plans (April 2018) we noted Council's claims that many of the community's requests for improved infrastructure and services could not be funded from the current revenue base. We supported the examination of additional funding sources as a key priority, including the consideration of a Special Rate Variation.

TRRA has sought to assess the opinions of its membership and the wider community on Council's proposal for an SRV by:

- Holding a Public Meeting on 6 August which was attended by some 80 persons from its membership and the community at large
- Monitoring communications from members via email and Facebook.
- Analysis of members' personal submissions, where we received copies
- Direct discussions with members of the community including business operators
- Monitoring the local press
- Attending a meeting on this matter conducted by the Tomaree Business Chamber
- Participating in Council's consultations (roundtables etc.)

In this submission it is our intention to reflect the reactions and suggestions which emerged from these sources.

### Council's Consultation and Communication of the SRV proposal

TRRA commends Council for its communication strategy which was well-conceived and accessible to most interested parties. Useful documentation explaining the reasons for and details of the proposed options was offered.

There has been a suggestion that the consultations may not have reached those in the community who are least able to afford the increases. The less well off (often renters) did not appear to have been attracted to the formal consultation sessions. Similarly, we query whether the business community was aware of, or made sufficient comment on, the proposals which impact significantly on their interest group.

The title "Special Rate Variation" may not have conveyed **the full consequence which is a significant increase in rates for all ratepayers if options 2, 3 and 4 are adopted.**

Some deficiencies in the information presented were:

- The fact that the yearly increases in options 2, 3 and 4 included the 2.5 % pegged rate increase was not made sufficiently clear
- The intention that after the application of 7 consecutive increases including the rate peg, the increased rate base would be maintained permanently.
- The intention to fund projects with loan monies especially in the earlier years with interest and repayments being met from later rate revenues was not adequately explained.
- Hardship relief measures and concessions for pensioners and others should have been discussed.

### **The Need for a Special Rate Variation**

The Council in presenting its proposals for an SRV referred to increased pressure to provide enhanced services and facilities which could not be funded from future revenues generated from rates, if future increases are limited to the pegged increases.

TRRA appreciates that without a lift in revenue, many of the major projects and even some ongoing maintenance obligations, may not be deliverable. Relevant considerations are the fact that Port Stephens rate level is one of the lowest among Lower Hunter Councils. It is also relevant that our property-based rates of around \$40 million currently represent only 29% of total annual revenue. User fees and Charges (29%) and operating and capital grants, interest and property investment revenue (31%) generate most of the remainder.

TRRA and other members of the community quite properly query whether all other options for boosting revenue or achieving efficiencies in Council's operations have been explored. Council has responded to this by referencing its implementation of "a range of productivity savings and reduced costs across its operations over recent years".

Against this it is relevant to note that the 2018 Community Satisfaction Survey results show that 27% of respondents expressed little or no confidence in the way Council is managing its resources, including assets and finances, with only 32% being confident or very confident. At our Public Meeting concerns were expressed in relation to possible outstanding liabilities involving the Lagoons Estate matter and the business track records for TreeEscapes and Thou Walla resorts. Questions have also been raised in relation to the cost/benefit outcome of the recent council expenditure in and around the Salamander Shopping centre.

Port Stephens Council; has made much of the fact that the we have a lower than average level of rates when compared with other Group 5 Councils. More detailed information to demonstrate this situation is required perhaps along the lines of the graphs presented in the Mayor's presentation. Where does each option if implemented leave us in the pecking order? Council should state what its objectives are in this regard. Are we aiming to reach the "average" or to lift our rates to match the highest levels such as apply in Maitland?

### **The SRV Trade-off**

Ultimately the potential benefit in terms of delivering more of the requested projects needs to be balanced against the potential impact of rate increase options on affordability and the viability of business operations across the LGA.

TRRA in this submission does not attempt make a definitive judgement on these trade-offs but simply seeks to pass on the perceptions of concern and benefit which have been expressed.

## Affordability

Councillor Giacomo Arnott made a strong plea for consideration of the impact of the proposed increases on some segments of the community. At our Public Meeting his concerns were echoed by other speakers who were directly involved with volunteer welfare work in the community. Many of their clients are renters who can expect the landlords to pass on the increased rates. Others are younger people who may have stretched their capacity to the limit with mortgage finance.

Reference was made to the recent sharp increase in power prices, petrol prices, health insurance, food and housing, all contributing to a family budget squeeze. Wages have remained relatively flat over recent years.

At the other end of the spectrum are pensioners whose incomes are at best pegged to cost of living adjustments while Council's \$250 rate concession has not moved for decades. On the Tomaree, a portion of senior citizens have much of their assets tied up in their houses and are therefore asset rich and cash poor.

No details have been presented on the effect of the rate peg changing from the estimated 2.5%, should the peg increase to 3% (or even more if cost of living balloons due to future inflation and interest rates). 3% was the value assumed by Maitland and Newcastle in their approval for an SRV for the years following the first-year rate of 2.3% and 2.4%. Does this result in options 2 to 4 also increasing another 0.5%, or if the increase is fixed a reduced income will be received by Council to fund the proposed projects. This will have a compounding negative effect with the projects costing more and any loans (unless at a fixed interest rate) also costing more. Over a proposed loan/s period of 10 to 20 years this could result in a serious financial risk.

An article in the Sydney Morning Herald dated 31 August 2018 under the headline *THE ONLY WAY IS UP* offers a prediction on the trajectory of bank interest rates in the wake of the recent Westpac increase. Its conclusion is that "it is inevitable other major banks will follow its lead and raise mortgage rates". The article points to increasing funding cost both locally and globally as the reason for this prediction. As well as Council's debt-servicing, this more general trend will reduce the capacity of the average citizen to afford a significant rate hike.

TRRA submits that any loan should be restricted to a short to medium period and not long-term.

Council has drawn attention to a recent decrease in overall unemployment figures in Port Stephens. While these official statistics are a guide, welfare workers pointed out that in some localities unemployment was still a serious problem.

While there was limited comment made from the floor at the Meeting of the Tomaree Business Chamber, we are aware of concerns which have been expressed by individuals with long experience in the Tomaree real estate and commercial property sectors. Business rates for average land values are currently \$4451 per annum (compared with \$1048 for residential). The Council's tabulation of rate increases for options indicate the following increase for businesses after 7 years from the current \$4,451 to:

Option 1: \$5291

Option 2: \$6917

Option 3: \$7385

Option 4: \$7880

In the case of more highly-valued land which would apply to some properties in a centre such as Nelson Bay (say \$1m.), rates payable after 7 cumulative increases for options 2, 3 and 4 reach \$15,649, \$16,707 and \$17,825 respectively. It is acknowledged that for most small businesses these rates would be split across a number of strata titles, but the magnitude of the increase would still impact on their viability.

Many smaller businesses in Nelson Bay have been experiencing great difficulty in remaining viable, particularly with the expansion of the Salamander Shopping Centre and nationwide changes in the retail market. This is evidenced by the steadily increasing number of vacant retail and commercial premises in Nelson Bay (35 in a recent count). Rate hikes as proposed may well be a trigger for even more closures across our town.

Such an outcome would negate some of the reasoning behind the SRV which is directed to expenditures on public domain projects in our town centres. It is understood that the scale of the proposed increases arises from the combined application of the % increase to the Business Base Rate as well as the Commercial Rate. This may present an opportunity to offer a measure of relief.

TRRA urges Council to make further inquiries with the Business Community on the potential impacts of the SRV before proceeding.

Council has indicated a willingness to consider relief measures such as the level of the Pensioner concession. Another option mentioned was greater encouragement of those experiencing hardship to have their rate increases assigned as a capital sum to be realised and paid at the time of a sale of the subject property. This latter option is already available but we understand few ratepayers have taken it up. As with reverse mortgages generally, the concept is not popular in the community.

It is our understanding these relief measures are not available to renters. Does the Council have any plans to extend relief measures to those occupying rental properties?

The Affordable Housing Income Gap Report by Compass Housing (reported in the Newcastle Herald 21/08/2018) stated '...Port Stephens surpassed the 30 per cent of income benchmark deemed to indicate housing stress while Newcastle, Maitland and Cessnock were in the high 20s. Port Stephens renters are spending more than a third of their weekly income (35 per cent) on rent in the Hunter's highest proportional cost, reflecting a \$177 per week shortfall in incomes despite the suburb having the third-lowest median rent ahead of Cessnock and Maitland.' If investors are unlikely to be able to pass any rate increases onto their tenants, this may also have a negative effect of discouraging any further investment in the area.

**TRRA recommends that Council provide more details of the number of ratepayers and households which are likely to experience hardship and detail any relief measures it intends to put in place. Revenue implications of such relief measures would also be a consideration.**

At the most general level of analysis the point has been made that Council is proposing options for increase in rates which far exceed the recent trends in cost of living and wages. The logic of such a level of increase is thus difficult to justify.

## **IPART Decisions**

Council's SRV proposal will ultimately require approval by the Independent Pricing and Regulatory Tribunal, a state authority. IPART's Website provides a listing of SRVs approved in recent years which should provide some guidance as to the possibilities of having an application accepted, modified or rejected.

Our review of this list indicates that the majority of approvals are for SRVs which apply for periods of less than 5 years and for increases which are typically 6 % or less.

There have been notable exceptions for Lower Hunter Councils namely:

- Singleton - a permanent 7.3% increase including the rate peg from 1 July 2014.
- Cessnock City Council - Replacement of an existing SRV of 9.45 % with a one-off 9.55% increase including the rate peg
- Maitland City Council - 7 consecutive increases of 7.255% each year from 2014/15 including the rate peg to be applied permanently.
- Newcastle - 5 consecutive increases of 8% each year from 2015/16 including the rate peg to be retained permanently in its rate base.

The Maitland and Newcastle increases were calculated to generate a cumulative increase (including rate peg) of 63.2% and 46.93% respectively. The Port Stephens' proposal of Option 2, 3 and 4 will generate cumulative increases of 56%, 66% and 77%.

TRRA assumes that Port Stephens Council has already analysed these applications and the reasons for the IPART approvals. The results of this analysis would be of great interest to the Port Stephens community as a guide to what reasoning is acceptable to IPART and why Council chose the four options over a fixed 7-year period only. Council could also report to our community on the extent of ratepayer acceptance of these increases in our neighbouring Councils and the outcomes in terms of increased levels of service and enhancement of capital works/projects delivery.

### **Projects and Enhanced Services to be Funded**

TRRA welcomes the attempt to provide a proposed list of projects and services which could be funded under the SRV options, together with indicative costings.

In our submission to the Integrated Plans we noted 'Income based on rate-pegging is clearly insufficient to fund infrastructure improvements over and above asset maintenance. The other funding options of borrowings, grants and a Special Rate Variation (SRV) need to be considered seriously. **SRV ensures a known amount of extra funding to commit to the capital works 'wish list' but will need community support, which will only be forthcoming if there is a clear consensus on priorities.'**

However, a number of responses from the community call for a more clearly-stated vision for the future of Port Stephens as a local government area and for its various localities. This would necessitate **settled** Strategies for the towns and other employment centres such as Williamstown. It is argued that without this visionary framework it is not possible to identify projects and to assign them the appropriate priorities.

Information should be provided on exactly how the project lists and priorities were determined. TRRA believes that further community consultation is necessary to confirm that the lists properly reflect community needs.

TRRA recognises the council recently revised its Community Strategic Plan and revised its Integrated Plans to reflect this Community Plan. The published Capital Works Plan and the Long-term Financial Plan were prepared and adopted as a consequence of this process. Unfortunately, the relationship between the Capital Works Plan and priorities and the SRV projects list is quite unclear. The SRV projects list appears to be overly ambitious and most of the major projects mooted for large allocations do not have sound business cases. By way

of example, projects subject to this query include \$10m for Depot relocation, \$3m for the Birubi Information Centre and \$5m, \$10m and \$13m for Medowie, Nelson Bay and Raymond Terrace town centre upgrades.

A further consideration is the capacity of the Port Stephens Council to manage the ambitious list of projects and enhanced services which would come on stream over a relatively short time period. Final priority setting, design, documentation, approval, oversight of implementation and on-going management will require significant additional resources over and above council's current capacity.

TRRA appreciates that the community places a very high priority on upgrading of our road network. However, the proposition that the SRV would enable the sealing of all the roads in our LGA, should be carefully considered in relation to other project priorities, business cases relating to projected traffic volumes maintenance costs and the actual capacity of council to maintain those roads into the future.

### **Alternative Sources of Funding/Savings**

On page 4 of a recent Information Paper circulated by Council in a table showing the sources of its Operating Revenue 2016/17 the relative importance of two sources stand out:

- a) User fees and charges (includes Newcastle Airport and Holiday Park income) \$38m. (29%)
- b) Operating and capital grants, interest and property investment revenue \$40.8 m (31%)

When Council last made a bid for major rate increases TRRA recommended an alternative approach involving a significant audit of the holiday park business centre which at that time had some serious loss-making operations and a review of the financial arrangements relating to its investments in Newcastle Airport.

As a consequence, significant changes have reduced the losses from underperforming holiday parks and new contractual arrangements which yielded a useful dividend flow from the airport. The airport appears to be a growing asset and its expanding adjacent commercial and industrial operations would seem to offer enormous potential to generate additional revenue for Council.

**TRRA recommends that Council revisits Newcastle Airport, marginally performing holiday parks and property investments to ensure that their revenue potential is maximised.**

**We also urge Council to increase its efforts to secure grant funding from State and Commonwealth sources.**

**The land development and disposal/leasing activity based around Salamander Shopping Centre is a multi-million dollar Council undertaking which proceeds without a publicly accessible business case. TRRA requests that this business initiative declares its financial situation and potential to contribute to Council's revenue outcomes. What return are we receiving on the capital expenditure?**

## The Way Forward and Conclusions

Prior to Council proceeding with an application for an SRV, TRRA believes that Councillors and the public should be provided with the following information:

1. More details on the Council's assessment of the impacts of the options on residents, ratepayers and businesses
2. More discussion of alternative sources of revenue and savings
3. Details of hardship relief options under consideration for the less well-off members of our community and struggling businesses, together with an assessment of the likely costs of these measures to rate revenue
4. Details of the timing and extent of borrowing which will be necessary to initiate major projects, together with an assessment of the financial risks posed by future increases in interest rates and costs generally
5. Council's proposed processes and criteria for selecting projects and services to be funded from the SRV increased revenue. This would need to cover plans for further community consultation.

Council has requested community feedback on the four options outlined in the Information Booklet.

Having considered the range of public comment so far available to TRRA we believe that Council should adopt a less ambitious goal in terms of the extent and scale of the projects and augmentation of services. One option would be to nominate a small number of major projects which would make a big impact and attract strong community support. In the East Ward, an example would be the replacement of the Donald Street East Carpark. Under this approach it would be easier to prepare a business case (there would be many fewer projects to evaluate).

Under this approach it would be possible to raise the necessary funds with a lower rate increase option say Options 2 or 3. Consideration could also be given to a shorter period of cumulative increases say 3 or 4 years. At the end of that period the community acceptance of the SRV could be assessed and, if favourable, further applications could be made to IPART to continue or augment the SRV programme. This would also provide an opportunity to make a reassessment of the general economic conditions applying at that time, such as inflation, interest rates and wages growth.

Such an approach is quite common among the listed IPART approvals.

As a general observation TRRA considers that Options 3 and 4 with 7-year cumulative increases to be retained permanently in the rate base would be unacceptable to most ratepayers and could have serious negative impacts on businesses across Port Stephens.

A common community opinion is that the expenditure on projects in each locality should be proportional to the additional SRV revenue raised in that locality.

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31 August, 2018