



Ashfield Council

Ashfield Council

Additional Modelling

March 2015

Introduction

- ❖ Following the completion of the shared modelling project for the inner west councils, Ashfield has sought further advice on the impacts of:
 1. Allocating the operating surplus to infrastructure
 2. Allocating the operating surplus of an Ashfield, Leichhardt and Marrickville merger option
- ❖ This report sets out the answers to these further enquiries

- ❖ The inner west shared modelling project was based on information provided by each council
- ❖ Required maintenance and the infrastructure backlog were calculated in accordance with a standardised approach developed by Morrison Low using condition 3 as satisfactory and benchmarking required maintenance based on like councils
- ❖ The five councils agreed that no provision should be made in the modelling funding any shortfall in infrastructure expenditure identified through the project
- ❖ The rationale was that any decision about funding any infrastructure shortfall was a matter for the council to resolve by re-allocating funds, seeking further efficiencies or increasing revenue e.g. SRV

- ❖ If the combined inner west council was to satisfy the infrastructure related Fit for the Future benchmarks, it would have the following annual shortfall in infrastructure expenditure:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Renewals	27,698	42,932	52,329	41,276	31,555	37,297	37,048	42,577	42,900	43,234	44,501
Depreciation	34,949	34,788	37,291	38,578	39,874	40,117	41,351	42,623	43,934	45,286	46,678
Gap	7,251	-8,144	-15,038	-2,698	8,319	2,820	4,303	46	1,034	2,052	2,177
Backlog	201,634	103,249	95,105	80,067	77,369	85,688	88,508	92,811	92,857	93,891	95,943
Backlog Target	40,177	41,722	42,328	43,409	43,719	43,768	43,923	44,050	44,241	44,373	44,509
Gap	161,457	61,527	52,777	36,658	33,650	41,920	44,585	48,761	48,616	49,518	51,434
Actual Maintenance	31,282	23,487	23,487	23,487	23,487	23,487	23,487	23,487	23,487	23,487	23,487
Required Maintenance	28,664	33,882	34,112	34,518	34,651	34,764	34,873	34,984	35,084	35,163	35,255
Gap	-2,618	10,395	10,625	11,031	11,164	11,277	11,386	11,497	11,597	11,676	11,768
Total gap	166,090	63,778	48,364	44,991	53,133	56,016	60,274	60,304	61,247	63,246	65,380

- ❖ The modelling of the inner west council estimated the following operating results (excluding grants and contributions for capital purposes) over the same period

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operating Result (excluding grants and contributions for capital purposes)	-2,465	-8,644	5,297	-25,696	-6,435	14,267	55,558	8,639	15,189	10,302	5,004

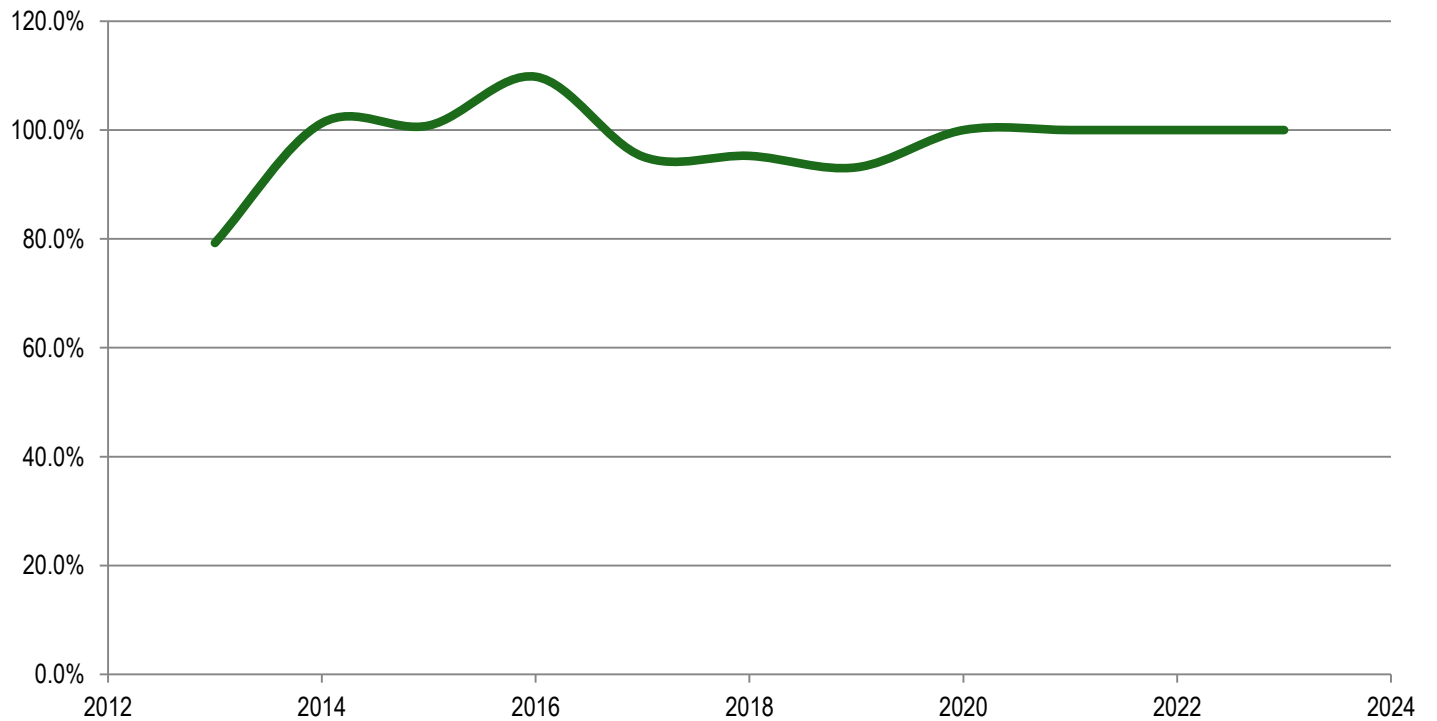
- ❖ It is entirely possible that a new council would make a policy decision to use any operating surplus to fund any shortfalls in asset expenditure
- ❖ This report examines the impact of this scenario as measured against the Fit for the Future benchmarks

- ❖ The following assumptions were made in modelling the 'surplus to infrastructure' scenario
 - Surpluses and deficits are not carried forward.
 - The total surplus is allocated to asset expenditure to achieve the best performance against the benchmarks
 - Expenditure on assets is prioritised in the following order
 - Asset renewals
 - Asset backlog
 - Asset maintenance
 - As such any surplus is used first to fund the shortfall in renewals then the backlog and then asset maintenance
- ❖ We note that the current model shows enough cash on hand of to be expected to cover the operating deficits in the early year of the model
- ❖ We note that in some years the modelling predicts expenditure of over 100% on renewals and a negative operating result (excluding grants and contributions for capital purposes). This reduces the infrastructure backlog but in order to improve the operating result the council may reduce the renewal expenditure to meet the benchmark

- ❖ The following table summarises the impacts. The key asset related benchmarks are then graphed on the following pages

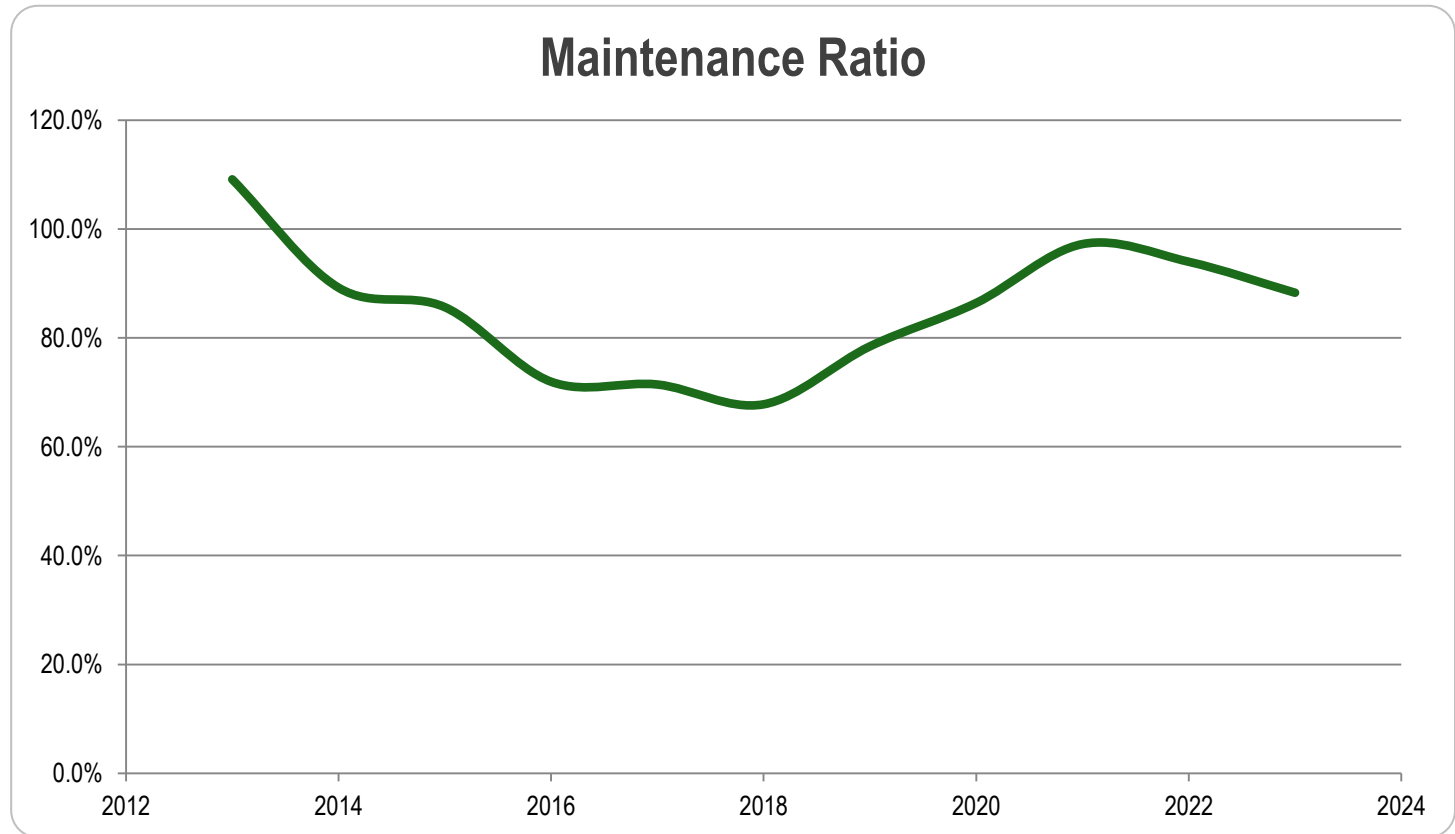
Benchmark	Merged council 'base'	Surplus to infrastructure
Operating Performance	Satisfies the benchmark by 2019	Trends more slowly to benchmark and satisfies by 2020
Own Source Revenue	Continues to exceed the benchmark	No change
Debt Service Ratio	Continues to exceed the benchmark	No change
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Building and Infrastructure Renewal	Falls below the benchmark by 2018	Satisfies, falls below and stabilises at the benchmark by 2020
Infrastructure Backlog	Does not meet the benchmark	Satisfies the benchmark by 2020
Real Operating Expenditure	Meets the benchmark	Meets the benchmark

Asset Renewals Ratio



local government

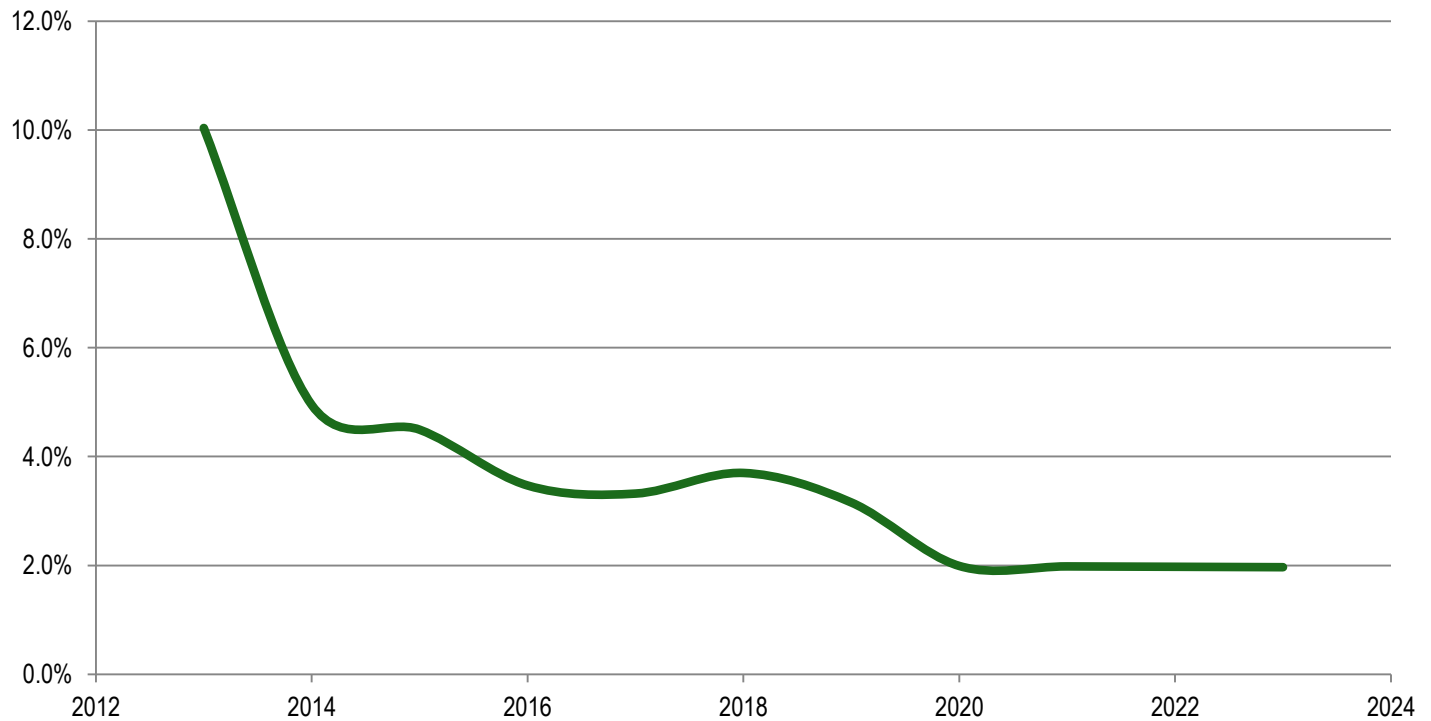
Infrastructure Funding Gap



local government

Infrastructure Funding Gap

Infrastructure Backlog



local government

Infrastructure Funding Gap

- ❖ The following table sets out the allocation of expenditure against each of the benchmarks

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Renewals	0	0	-15,038	0	0	2,820	4,303	46	1,034	2,052	2,177
Backlog	0	0	20,335	0	0	11,447	25,266	0	0	0	0
Maintenance	0	0	0	0	0	0	11,386	8,593	11,597	8,251	2,826
Retained Surplus	0	0	0	0	0	0	14,603	0	2,558	0	0

- ❖ Ashfield is also considering a potential merger of Ashfield, Leichhardt and Marrickville as an option ('A,L and M option')
- ❖ If the A,L and M option was to satisfy the infrastructure related Fit for the Future benchmarks it would have the following annual shortfall in infrastructure expenditure

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Renewals	15,289	13,921	27,640	21,573	17,443	18,036	18,154	19,874	18,836	19,182	19,494
Depreciation	20,687	18,609	20,745	21,367	22,116	22,325	22,995	23,685	24,395	25,127	25,881
Gap	5,398	4,688	-6,895	-206	4,673	4,289	4,841	3,811	5,559	5,945	6,387
Backlog	14,010	58,380	63,068	56,173	55,967	60,639	64,929	69,770	73,580	79,140	85,085
Backlog Target	24,787	25,956	26,024	26,541	26,767	26,863	26,967	27,065	27,165	27,194	27,233
Gap	-10,777	32,424	37,044	29,632	29,199	33,776	37,962	42,705	46,416	51,945	57,852
Actual Maintenance	21,065	13,281	13,281	13,281	13,281	13,281	13,281	13,281	13,281	13,281	13,281
Required Maintenance	16,675	19,914	19,999	20,199	20,316	20,415	20,515	20,618	20,710	20,785	20,867
Gap	0	6,633	6,718	6,918	7,035	7,134	7,234	7,337	7,429	7,504	7,586
Total gap	-5,379	43,745	36,867	36,343	40,907	45,200	50,037	53,852	59,405	65,394	71,826

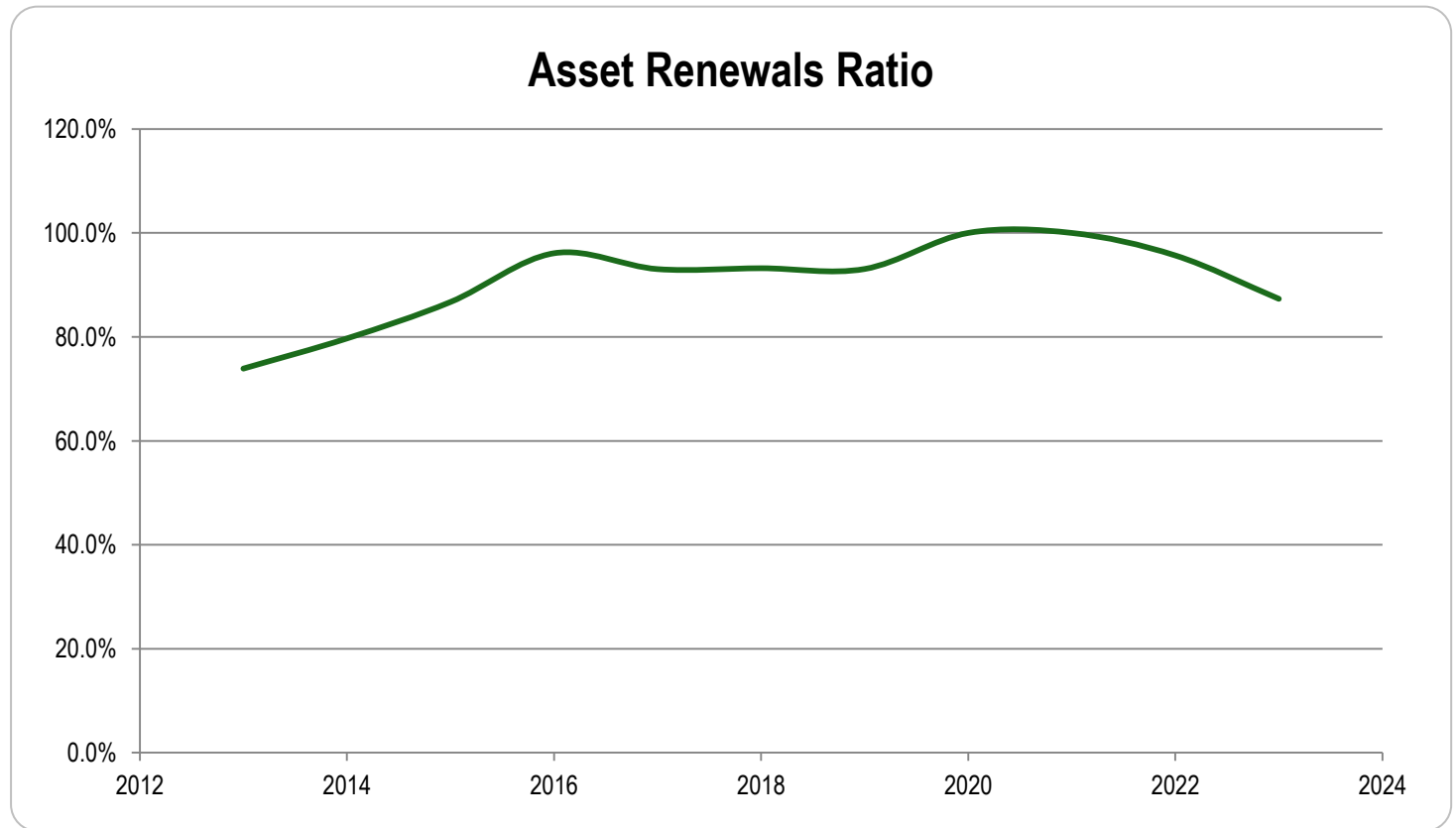
- ❖ The modelling of the A,L and M option estimated the following operating results (excluding grants and contributions for capital purposes) over the same period

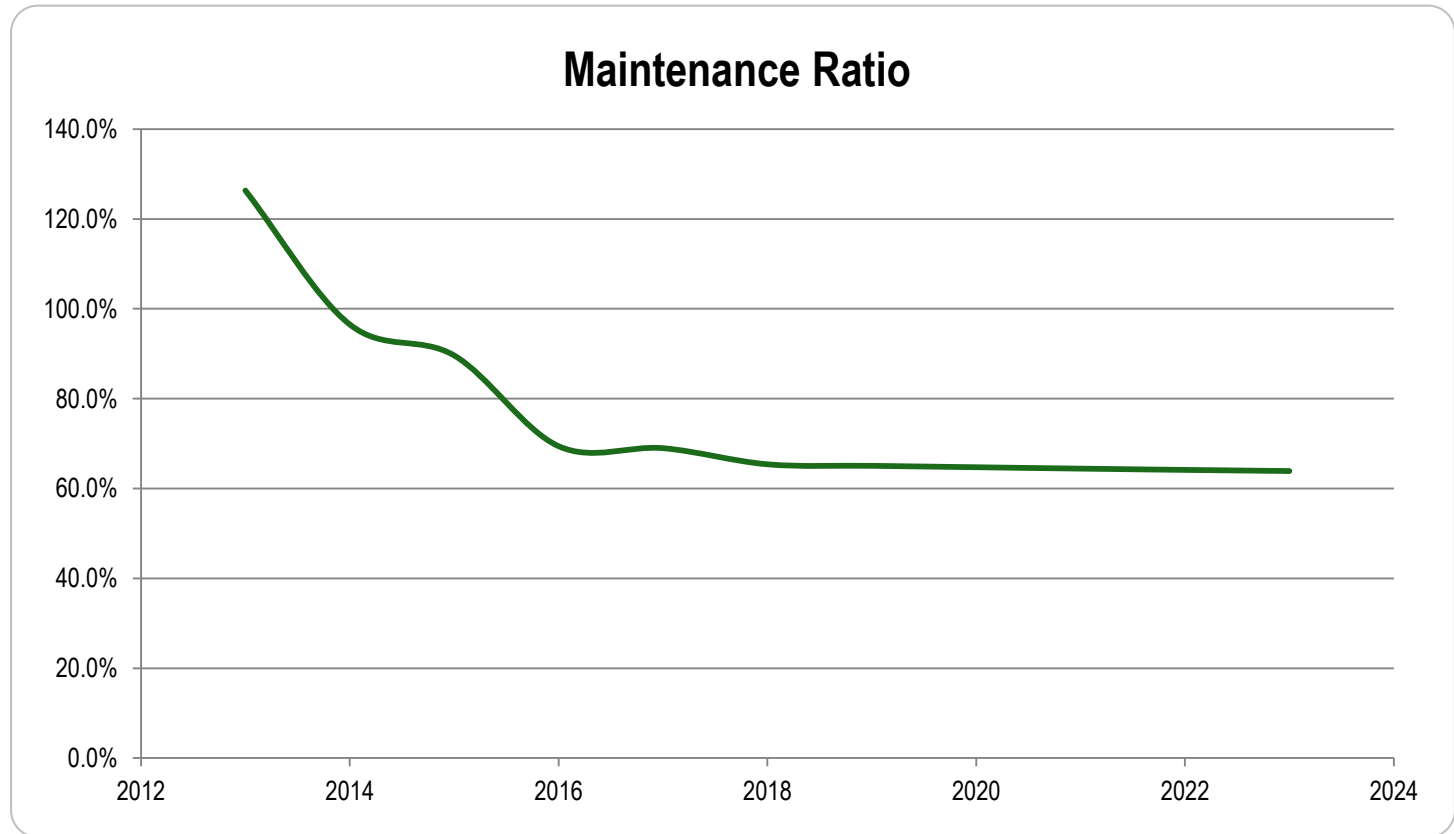
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Operating Result (before grants and contributions for capital purposes)	-139	2,111	70	-24,681	-3,019	6,706	24,123	4,360	5,900	2,776	-609

- ❖ It is entirely possible that a new council would make a policy decision to use any operating surplus to fund any shortfalls in asset expenditure
- ❖ The same assumptions as used for the inner west scenario have been applied to the A, L and M option

- ❖ The following table summarises the impacts on the A,L and M Option. The key asset related benchmarks are then graphed on the following pages

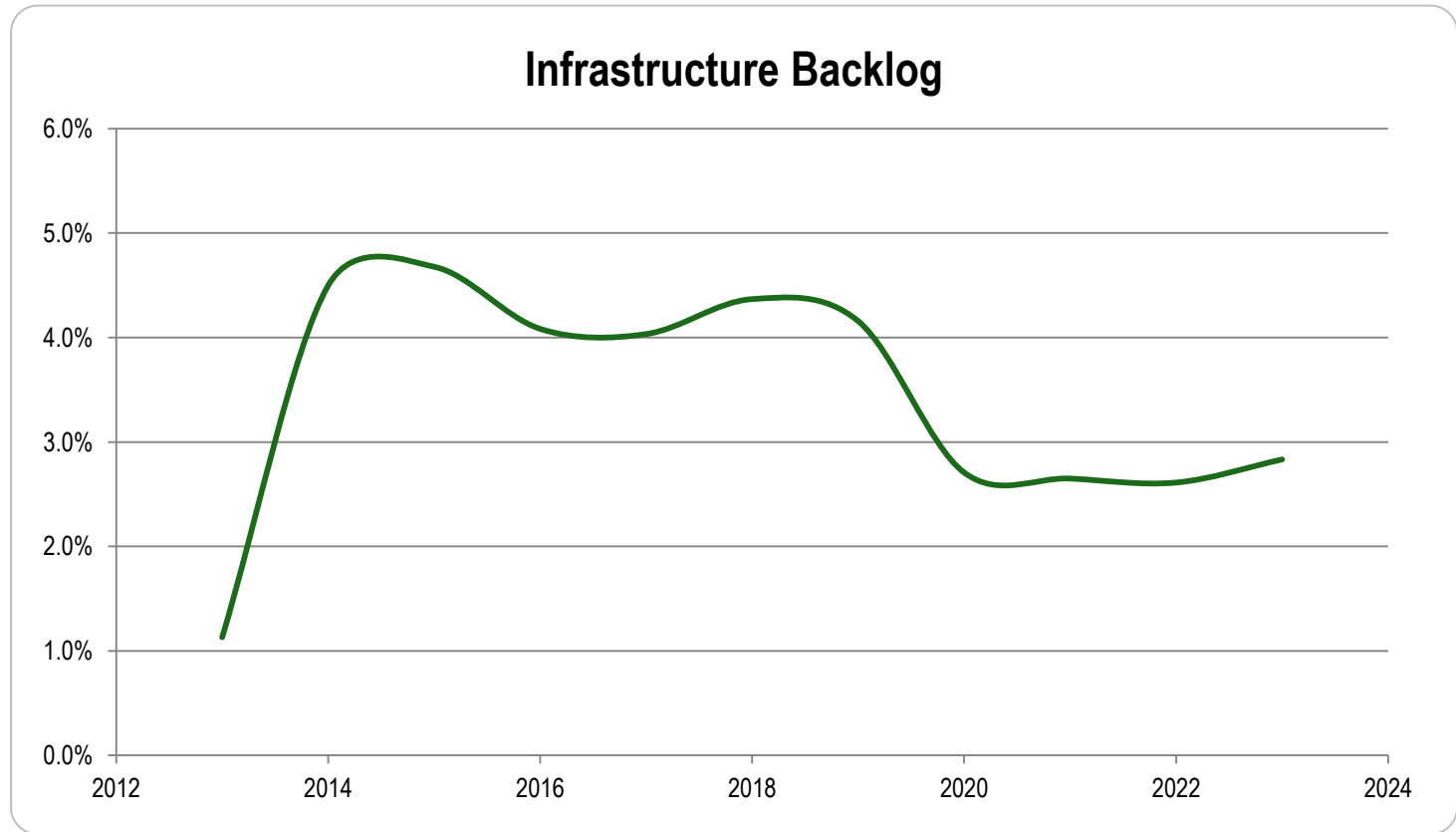
Benchmark	A, L and M Option	Surplus to infrastructure
Operating Performance	Meets the benchmark in 2019	Meets the benchmark in 2020
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Ratio	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Building and Infrastructure Renewal	Meets the benchmark in 2016, then falls below	Meets the benchmark in 2020 and 2021
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Meets the benchmark	Meets the benchmark





local government

Infrastructure Funding Gap



local government

Infrastructure Funding Gap

- ❖ The following table sets out the allocation of expenditure against each of the benchmarks

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Renewals	0	2,111	-6,895	0	0	4,289	4,841	3,811	5,559	2,776	0
Backlog	0	0	6,965	0	0	2,417	19,282	549	341	0	0
Maintenance	0	0	0	0	0	0	0	0	0	0	0
Retained Surplus	0	0	0	0	0	0	0	0	0	0	0



A word cloud of local government services. The words are arranged in a cluster on the right side of the slide. The colors of the words are: 'local government' (dark blue), 'procurement' (light green), 'alliance partnering' (dark blue), 'long term financial plan' (grey), 'asset management' (dark blue), 'waste management' (dark green), 'governance' (dark blue), 'financial/feasibility modeling' (light green), 'economic development' (dark blue), and 'sustainability' (dark green).

local government
procurement
alliance partnering
long term financial plan
asset management
waste management
governance
financial/feasibility modeling
economic development
sustainability