OUTCOMES SOUGHT FROM IPART

I request that IPART gives consideration to the following:

(**a**) Inaccuracy of Council's Draft LTFP base case budget used to calculate the SRVs.

(**b**) Inaccuracy of the calculation of the SRVs shown in Council's Draft SAMP which was based on the inaccurate Draft LTFP base case budgets.

(**c**) Compliance of Council's Draft LTFP with the statutory standards for long term financial planning.

(**d**) Whether Council's application is contrary to "Principles of financial management" set out in section 8B of the Local Government Act 1993 (the Act).

(**e**) The extraordinary size of Council's request that results in a retained 33.5% compounded increase in general rates across all rated categories by 2020/21. Council's SRVs are the largest in their financial history and large when compared with SRVs ordinarily approved by IPART for other local councils.

(**f**) The permanence and rigidity of Council's SRVs, whereas the Draft LTFP on which it is based is required to be updated annually and reviewed in detail four yearly.

In the event that IPART approves an SRV or set of SRVs for Council:

(**g**) The SRVs are smaller and for a shorter term.

(**h**) A discount factor is applied to the SRVs to account for likely cost savings and efficiencies to be found by Council during the next ten years. Council has found cost savings and efficiencies during the last three years.

(**i**) Conditions to be included as provided by subsection 508A(4) of the Act.

1. Council is required to produce a LTFP that is reasonably accurate and compliant with requirements for the LTFP, and to produce a revised SAMP that is reasonably accurate. Council is then required to review the need for an SRV.

2. Council reviews their need for an SRV annually with regard to their updated financial position.

Fortunately Council's Draft LTFP is a draft.
Council acknowledged possible inaccuracies:

"the longer the term of a plan in years the greater the impact on the relevance of assumptions used for the later years, in terms of accuracy, ...It is on this basis that the LTFP will need to be regularly reviewed (at least annually)."
(Draft LTFP p15)

COUNCIL HAS NOT FULFILLED THE IP&R CRITERIA FOR AN SRV

- ### Criterion 1: necessity

Council has not clearly articulated the need for their SRVs.
Significant errors in the figures in Council's IP & R documents result in gross understatements of Council's forecast yearly financial outcomes.
If Council's Draft LTFP and Draft SAMP were corrected in revision, the asset funding gap premise for their SRVs would reduce to close to zero.
One error alone inflated Council's forecast needs above budget by $5 million per year.

Further, Council excluded existing alternative sources of revenue from their plans and forecast no new or increased sources of revenue excepting the CPI increase applied to the general rates receipts. The number of rate payers was assumed to stay the same for the next ten years, in contrast to population projections.

On the premise of an asset renewal and maintenance funding backlog estimated in Nov 2016 to be $50.2 million which is fully funded in Council's 2016/17 budget, Council proposed their SRVs to ratepayers as the only alternative to forced amalgamation.

- ### Criteria 2 and 4: Community Engagement

Due to Council's haste to meet the 13.2.17 deadline for SRV application, the public consultation process was inadequate. Council's figures used to calculate their SRVs were not released until the second round of public consultation 19.12.16 to 18.1.17 and that period included the Christmas/New Year break. Insufficient time was given for the public to sensibly interpret and respond to Council's roughly drafted budgets and plans.

The two financial documents Council used to calculate their SRVs were:

(a) Draft LTFP 2016 – 2026 #E2016/103686 (Draft LTFP);

(b) Draft Strategic Asset Management Plan, General Fund Assets, version 3.02 Nov 2016 (Draft SAMP).

- ### Criterion 3: Reasonable impact on rate payers

Council did not assess the financial impact of their SRVs on rate payers.
Council presumed that rate payers can afford up to a 15% per year SRV for four years compounded. Average **gross** incomes for Byron Shire individuals and households were well below the state averages and inconclusive regarding the SRV impact:

"Average individual gross weekly income	$477	($561 state)
Average household gross weekly income	$1,053	($1,477 state) ...

Gross business revenue from approximately 4,046 businesses was estimated to be $1.45 billion in 2014." (Draft SAMP page 2).

The determining factor of affordability is not the gross income or gross revenue but **disposable income** for individuals and households, and **net profit** for businesses. Council did not show that their SRVs are affordable at all.

Community feedback to both rounds of consultation gauged by letters to the editors of our two weekly newspapers was an almost unanymous expression of unwillingness to pay the SRV increases.

- **Criterion 5: Productivity improvements and cost containment**

In Council's LTFP and SAMP forecasts, no mention was made of future improved efficiencies or cost savings. That was despite five such features since 2013 listed in Council's achievements in advertisements for their SRVs.

WHY I OBJECT TO BYRON SHIRE COUNCIL'S SRVS

Unnecessary

The abnormal size of Council's SRVs is reason enough to doubt the financial modelling and to question the necessity. After Council released the financial statements and plans used to calculate their SRVs, on 19.12.16 for the second period of public consultation, I could see how errors and inconsistencies in the "Base Case" budget had caused miscalculation of the SRVs. Forecast expenditures were grossly overstated and revenues grossly unstated. Council's claim that multiple SRVs are necessary for their financial "fitness" and sustainability is not supported by their figures.

Such exceptionally large SRVs are not necessary for Council to keep their agreement with the NSW Government to include an SRV in the "Fit for the future Council Improvement Program". A much smaller SRV or set of SRVs would satisfy that requirement.

Council's SRVs are also less necessary than when they were proposed last October. A new NSW Premier and new Minister for Local Government have announced new policies. One announcement from the new leadership was that Council amalgamations would no longer be forced in regional areas. If the threat of amalgamation is withdrawn the urgency and pressure under which Council proposed their SRVs is largely dispelled.

Council's premise: cannot afford a backlog of asset works

Council's financial premise for the necessity of SRVs is that they do not have the funds for a backlog of asset maintenance and renewal works. Those works are required to raise the standard of Council's "high risk assets" - mostly roads, bridges and drains, to "satisfactory".

Quoting Council's brochure sent to rate payers during October 2016:

"If Council decides not to seek a rate increase ...Council would likely be considered NOT Fit for the Future under NSW local Government reforms and could be considered a possible amalgamation target. Over time, continuing deterioration of assets will adversely affect services to the community. The lack of investment in asset maintenance and renewal will challenge the sustainability of Council."

The central premise that Council cannot afford a backlog of high risk asset works was stated in the Draft LTFP:

"Based on the condition assessment of the transportation network, Council's predictive asset conditioning modelling indicates the failure of significant assets and sections of road network. The financial outcome of those failures wilol be to increase the Council Infrastructure Asset Backlog and the estimated costs to reinstate failed assets and bring the assets back to an acceptable condition would be beyond Council's current capacity to fund." (Draft LTFP page 14).

Council's Draft LTFP and Draft SAMP confirmed that the asset funding backlog is the largest determining factor in their SRV calculations. $50.2 million is Council's estimated cost to repair the backlog and the figure used in the SRV calculations (Draft SAMP pages 17, 18 and 65). $50.2 million is close to one third of the $158.5 million 10 years total asset capital expenditure in Council's Draft SAMP model.

The $50.2 million asset funding backlog is fully paid for expenditure in Council's budget for the current year 2016/2017.

From the two consolidated general budgets for 2016/2017 that were provided by Council for public comment, a summary of the relevant totals is given here.

Budget 1: **General (all funds) budget 2016 - 2017** Source: "Revised Delivery Program 2014 - 2017, pages 42-44, Byron Shire Council 2016 - 2017 Budget Estimates Summary"	
Total Operating Expenditure	$60,197,700
Total Operating Revenue (less grants and contributions)	72,763,800
Total Capital Expenditure	52,159,600
Total Available Capital Works Receipts/Funding including grants and contributions, transfers from reserves	54,861,500

Budget 2: **Consolidated budget 2016 - 2017** Source: Draft LTFP page 6 "Consolidated Cash Flow Satement (base case) Estimated Budget 2017*	
Total Operating Activities Payments	$60,197,700
Total Operating Activity Receipts (less grants and contributions, investment revenue)	65,782,000
Investing Activity Payment: Purchase of infrastructure property, plant and equipment	52,159,600
Total Available Capital Works Receipts/Funding including grants and contributions, transfers from reserves and investment revenue	54,823,900

* The Draft LTFP Consolidated budget for year "2017" means the year 2016/2017, by the identical figures to the 2016/1017 Revised Delivery Program budget pp 42-44.

Both versions of Council's consolidated budget for the financial year 2016/1017 show an abnormal item of capital/investment expenditure $52,159,000. That is in addition to normal operating expenditure $60,197,700. Both budgets show an abnormal amount of capital works funding available $54.8 million in addition to the normal operating receipts $65.8 to 72.8 million.

Clearly Council's premise for their SRVs: the $50.2 million asset maintenance and renewal backlog, is fully funded and paid for in the 2016/2017 financial year.

The $50.2 asset backlog should have been left out of the SAMP 10 year model

Reason 1

As explained in the previous page, in Council's consolidated budget for 2016/2017, the $50.2 million backlog is fully paid for from $54.8 million available capital works funding. Nevertheless, in the Draft SAMP the $50.2 million is included as a "Deferred Renewal (**Unfunded**) Required Expenditure Total (SAMP pp17, 18) and as a "Projected Outlay" (SAMP p65), in the SAMP year 1.

The $50.2 million backlog is then included in the ten year total $158.5 million SAMP projected outlays called the "Life Cycle Costs" for the ten years' plan. The annual Life Cycle Cost averaged to $15.8 million per year is the figure Council have as their financial goal of their SRVs. The difference between the projected $15.8 million and the $9.7 million per year forecast to be available from the Draft LTFP "base case", is the $6.1 million annual funding gap Council intends to fill with their SRVs. The $9.7 million is, in the SAMP terminology, the "Life Cycle Expenditure" part of the Life Cycle Costs.

By Council counting the $50.2 million as funded expenditure once in the 2016/2017 budget, then the second time in the SAMP ten year model but without the $55 to 57 million funding, Council has overstated their SAMP total projected outlays by that $50.2 million.

When the $50.2 million abnormal item from the budget year 2016/2017 is omitted from the SAMP ten year plan as it should be, the $158.5 million Life Cycle Cost is corrected to $108.3 million and the annualised Life Cycle Cost $15.8 million is corrected to $10.8 million. the annual funding gap is corrected from $6.1 million to $1.2 million.

With all other figures in the modelling left unchanged, the corrected $1.2 million annual funding gap is not, I submit, enough to justify any but a small one year SRV.

Council's SAMP annual funding gap of $6.1 million used to calculate the SRVs was modelled in error because the $50.2 million backlog expenditure was included in the SAMP in error.

Reason 2

Council's Draft LTFP and Draft SAMP relate to two different ten year spans.

Council's LTFP year 1 is 2016/17 and year 10 is 2025/26 (Draft LTFP pp2,15,37). Quoting the Draft LTFP:

"This LTFP utilises the adapted 2016/2017 original budget estimates as the starting point" (p2).

"• Base Case Scenario – Current Original 2016/2017 Budget Estimates plus 9 year projections ..." (p15).

Council's SAMP year 1 is 2017/18 and year 10 is 2026/27 (SAMP p65).
Quoting the Draft SAMP:

"Under Scenario 1 the existing funding gap is expected to increase from $40.4M in year 1 to $61M by 2027" (SAMP p17)

The SAMP page 65 Scenarios clearly show year 1 is 2017/18 and year 10 is 2026/27.

By Council advancing the LTFP year 1 2016/17 by one year to be SAMP year 1 2017/18 the error of the inclusion of the $50.2 million asset backlog in the SAMP was obscured. Should the LTFP and the SAMP relate to the same 10 year period or not?

Reason 3

" The SAMP pertains only to the general fund assets because water and sewerage assets are covered in separate Strategic Business Plans ..." (SAMP p4)

The $50.2 million asset backlog included in SAMP Life Cycle Costs was the **consolidated** budget total. The General Fund base case funding gap, called the "BTS Backlog" in the SAMP (pp17, 18 and 65) wass $38,152,000".

Reason 4

Because the asset backlog premise for the SRVs is **retrospective**, the sum of previous years unspent funds collected form previous years' rate revenue.

I have run out of time to continue.

One final point regarding understated revenues in Council's Draft LTFP.

No CPI or organic increases were applied to forecast receipts other than the IPART rate peg (1.5 then 2% per annum) added to general fund rates. According to the Draft Long Term Financial Plan 2016-2026 (Draft DLFP) budgets, Council's net cash from operations will be static for ten years. Receipts from general rates are also understated because real increases will be gained from several thousand new rate payers from approved developments.

CONCLUSION

Council has a responsibility to use accurate financial figures. I am convinced that if the Draft LTFP n general fund base case was revised to address the understatement of revenues and inconsistent accounting for the $38 million asset funding gap in year 2016/17, a significantly better set of financial forecasts and plans would result for Council and ratepayers. Council's ongoing financial position is much better than the mistaken forecasts and plans suggest.

Thank you for your consideration.