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Submission:

Wyong Shire Council has stated that it requires an additional $130m in order to bring its General Fund assets up to a condition deemed satisfactory and has decided to apply for this Special Rates Variation ("SRV") in order to raise this additional revenue.

In this submission, I provide an explanation that shows that Council could meet its obligation to fund the asset maintenance backlog of $130m whilst only increasing rates by as little as 5.5%p.a. over the next seven years and certainly that no more than 6%p.a. would be required to meet this stated requirement.

Therefore if an SRV is granted by IPART, it does not need to be any greater than 6%p.a.

This paper is produced using the following assumptions:-

1. That the $130 millions is actually required and that more rigorous prioritisation could not further reduce this sum.

2.. That this money could not be obtained by the reduction or deferral of future unnecessary capital expenditure for example the proposed Arts Centre.

3. That further cost savings in councils day to day operations could not fund this maintenance shortfall.

Background

During community consultation for the SRV, Council has presented a number of options to the community with associated outcomes. These options were progressively amended downwards as the community anger became apparent to the council. These options can be summarised as follows but were never presented to the community as a complete or comprehensive package:

• Scenario 1 – Base Case**:** 3.4% in 2013/14 and assumed as 3% for subsequent years, a cumulative increase of 23.47% over seven years.

• Scenario 2 - 9.5% Special Variation**:** An increase of 9.5% per year for seven years resulting in an accumulated increase of 88.76% over the same period.

• Scenario 3 – 6.9% Special Variation**:** An increase of 6.9% per year for seven years resulting in an accumulated increase of 59.53% over the same period.

• Original Scenario 3 – 12% Special Variation**:** This was the original case presented to the community An increase of 12% per year for seven years resulting in an accumulated increase of 123.47% over the same period.

The original scenario 3 was left out of the second phase of community consultations due to the community reaction, and ultimately replaced with the 6.9% option following a Mayoral Minute during a Council meeting. Please be aware that this alternative was announced less than 48 hours before the deadline for community submissions on the SRV and little if any opportunity was given to the community for comment. The Mayor had put forward the compromise 6.9% option after taking on board the community's loud and very clear feedback during community consultation that the 9.5% Special Variation was just not affordable.

The total General Rates revenue over the next seven years under each scenario, would be:

• Scenario 1 – Base Case**:** Total general rates of $458,075,000.

• Scenario 2 - 9.5% Special Variation**:** Total general rates of $591,469,000 resulting in additional revenue of $133,394,000 when compared to Scenario 1

• Scenario 3 – 6.9% Special Variation**:** Total general rates of $533,233,000 resulting in additional revenue of $75,157,000 when compared to Scenario 1.

• Original Scenario 3 – 12% Special Variation**:** Total general rates of $653,303,000 resulting in additional revenue of $195,228,000 when compared to Scenario 1.

This explains Council's push for Scenario 2 during the second phase of community consultations as the additional revenue generated is roughly the same as the $130m required for the asset maintenance backlog.

The Additional Revenue Is Forever

The problem with the analysis above, as presented by the Wyong Council, is that it does not allow for any addition revenue that will be received after year seven, if a Special Variation is granted. The council has been less than forthcoming with the community about the long term continuance of this increased level of rates and most if not all people do not understand that this level of rates achieved after the seven years of special increase will be maintained and then subject to the normal CPI increase which is currently 3.4%.

As stated above, the cumulative increase in General Rates over the seven year period is projected to be 23.47% under the Base Case rate, and 59.53% under the 6.9% Special Variation. This means that from year eight, the annual increases would revert back to about 3%pa approximately. It does not mean that there would be an adjustment to bring the 59.53% cumulative increase which occurs under the 6.9% Special Variation back down to the 23.47% level which would have occurred under the Base Case. This has been a source of confusion during the community consultation process and was never properly explained by the council during any of the consultative processes.

The consequence of not having an adjustment at the end of year seven to bring the cumulative level back to the 23.47% Base Case level is that, although the SRV is only in operation for seven years, when compared to Scenario 1, there will be additional revenue generated in all future years after year seven as a result of the application of the SRV. Under the proposed 6.9% special variation, the additional revenue that the council would receive each year would be $24.47million, and this would also be subject to the rate pegging uplift factor for all future years. This would provide a substantial windfall for the council, a matter that they are not unaware of, but this fact does not feature in any council literature presented to the public. .

The granting of an SRV would have a huge financial impact on the community forcing some long term residents to sell their homes. It is only fair that the additional revenue resulting from an SRV being granted should be taken into account for a "reasonable period" going forward and not just for the seven years during which the SRV increases are in operation. Given that the additional revenue is being applied to meet the asset maintenance backlog, it would not be unreasonable to include the additional revenue generated over the renewed life of the assets, say the seven year SRV period plus an a further 10 or 15 years.

The concept of a depreciating asset is a standard business practice and should have been allowed for by successive councils, with the appropriate levels of refurbishment or replacement money set aside for this task or as an ongoing formalised maintenance programme. The fact that this was not done reflects poorly on previous councils and the current members of this council that participated in them.

Council Can Borrow Against Ongoing Additional Revenue Resulting From SRV

Council states in the SRV application that its capacity to borrow funds as an alternative option to address the asset backlog is limited due to liquidity issues and that this has been confirmed by the NSW Treasury Corporation (T-Corp) in November 2012. However, the statement in the T-Corp report is qualified – Council may be able to borrow if it is able to generate a new source of income. It would not be unreasonable to regard the additional revenue generated under a SRV as a new source of income.

Council's option to borrow does not need to be mutually exclusive with its option apply for a SRV. If an SRV is granted, the additional revenue generated could be applied to fully repay all interest and principal on a loan entered into to fund the entire asset backlog of $130m. Rather than seeking to raise sufficient additional revenue to fund the asset backlog of $130m over a seven year period, Council could look at how much additional revenue would be required to fully repay such a loan over the "reasonable period".

SRV Increases Do Not Need To Exceed 6%p.a. In Order To Fund the Asset Maintenance Backlog

If we assume an average loan interest rate of 9%pa and take the "reasonable period" to be the seven year SRV period plus an a further 10 years, actuarial calculations show that general rates would only need to be increased by 6%pa each year for the next seven years in order for a $130m asset maintenance backlog loan to be fully repaid by using only the additional revenue over the reasonable period.

If we take the "reasonable period" to be the seven year SRV period plus an a further 15 years, then general rates would only need to be increased by 5.5%pa each year for the next seven years in order for a $130m asset maintenance backlog loan to be fully repaid by using only the additional revenue over the reasonable period. However this option implies that the council can maintain a fiscal discipline that it has not been able to display in the past .

The cashflow projections demonstrating the sufficiency of the 5.5% SRV and the 6.0% SRV are attached. The difference between the two cases is that the $130m loan is repaid 5 years earlier if the SRV is 6.0% for seven years compared to 5.5% for seven years.

Another advantage of using the additional borrowings would be that the timing of the asset upgrades could be far more flexible and urgent cases could be prioritised and rectified more quickly.

Conclusion

During the community consultation process, Council has stated that the objective of the Special Rates Variation application is to allow Council to address the asset maintenance backlog. In order to achieve this objective, a 5.5%p.a. increase for seven years would be sufficient if Council is willing to enter into a 7 + 15 year loan. With a 7 + 10 year loan, the rate increase does not need to be any higher than 6.0% p.a. for seven years. In either case, the loan would be sufficient to meet the entire asset maintenance backlog and would be fully repaid using just the rates differential well within the life estimation of the given assets.

The fact that the council staff has readily proposed that $20 million could be prioritised out of the stated maintenance backlog indicates that further reductions in rate increases could be achieved by a more rigorous assessment. This has not been factored into these calculations, as the intention is to show that the given maintenance backlog of $130 million can be met with much less pain to the current rate payers than that proposed by Wyong Shire Council.

My preferred option, and clearly that of the community, is that council must tailor its spending to its current income and that a corresponding reduction in projected new works be factored into the calculation of the amount that council really needs to raise to maintain in a reasonable order its existing assets. This information has not been disclosed to the community and individual examples given have been presented in a highly emotive manner. In fact the whole exercise smacks as a grab for cash by a council that has mismanaged its long term community responsibilities.

Wyong Shire Council Proposed Special Rate Variation
Medium Term Projection Showing The Required Expenditure Funded By Borrowings
And The Borrowings Are Fully Repaid Using The General Rates Differential Generated Under A 5.5% SRV

Assumptions

Rate Pegging First Year	3.40%	[% p.a.]	Annual Expenditure Required Years 1 to 7	18,600	[$'000]
Rate Pegging Subsequent Years	3.00%	[% p.a.]	Current General Rates Subject To Annual Escalations	57,816	[$'000]
Alternative Option Rate Escalation Years 1 to 7	5.50%	[% p.a.]			
Alternative Option - Average Loan Interest Rate	9.00%	[% p.a.]			

Year Number		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
Year		2012 / 13	2013 / 14	2014 / 15	2015 / 16	2016 / 17	2017 / 18	2018 / 19	2019 / 20	2020 / 21	2021 / 22	2022 / 23	2023 / 24	2024 / 25	2025 / 26	2026 / 27	2027 / 28	2028 / 29	2029 / 30	2030 / 31	2031 / 32	2032 / 33	2033 / 34	2034 / 35
General Rates Escalation																								
Option 1 - Maintain Current Pegging																								
Assumed Increase On Previous Year	[% p.a.]		3.40%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
General Rates	[$'000]	57,816	59,782	61,575	63,422	65,325	67,285	69,303	71,383	73,524	75,730	78,002	80,342	82,752	85,234	87,792	90,425	93,138	95,932	98,810	101,774	104,828	107,972	111,212
Alternative Option - Increase Rate Escalation To 5.50% p.a. For 7 Years																								
Assumed Increase On Previous Year	[% p.a.]		5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
General Rates	[$'000]	57,816	60,996	64,351	67,890	71,624	75,563	79,719	84,104	86,627	89,226	91,902	94,659	97,499	100,424	103,437	106,540	109,736	113,028	116,419	119,912	123,509	127,214	131,031
General Rates Differential (5.5% SRV - Option 1)																								
Annual General Rates Differential	[$'000]		1,214	2,775	4,467	6,299	8,278	10,416	12,721	13,103	13,496	13,901	14,318	14,747	15,190	15,645	16,115	16,598	17,096	17,609	18,137	18,682	19,242	19,819
Cumulative General Rates Differential	[$'000]		1,214	3,990	8,457	14,756	23,034	33,450	46,171	59,274	72,770	86,671	100,988	115,736	130,926	146,571	162,686	179,284	196,380	213,990	232,127	250,808	270,050	289,870
Funding Of Asset Maintenance Backlog Using Borrowing To Be Repaid By Applying The General Rates Differential																								
Expenditure Is Funded By Borrowings Which Are Fully Repaid Using The General Rates Differential																								
Expenditure	[$'000]		18,600	18,600	18,600	18,600	18,600	18,600	18,600	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening Loan Balance	[$'000]		-	18,223	36,524	54,781	72,850	90,565	107,737	124,149	122,220	119,724	116,598	112,774	108,176	102,722	96,322	88,876	80,276	70,405	59,132	46,317	31,804	15,424
Amount Borrowed To Fund Expenditure	[$'000]		18,600	18,600	18,600	18,600	18,600	18,600	18,600	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Loan Balance Throughout The Year	[$'000]		9,300	27,523	45,824	64,081	82,150	99,865	117,037	124,149	122,220	119,724	116,598	112,774	108,176	102,722	96,322	88,876	80,276	70,405	59,132	46,317	31,804	15,424
Loan Interest Rate	[% p.a.]		9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Interest Payable	[$'000]		837	2,477	4,124	5,767	7,393	8,988	10,533	11,173	11,000	10,775	10,494	10,150	9,736	9,245	8,669	7,999	7,225	6,336	5,322	4,169	2,862	1,388
Loan Principal Repayment	[$'000]		377	298	343	531	885	1,428	2,188	1,929	2,496	3,126	3,824	4,598	5,454	6,400	7,446	8,599	9,871	11,273	12,815	14,513	16,380	15,424
Total Loan Repayment	[$'000]		1,214	2,775	4,467	6,299	8,278	10,416	12,721	13,103	13,496	13,901	14,318	14,747	15,190	15,645	16,115	16,598	17,096	17,609	18,137	18,682	19,242	16,812
Closing Loan Balance	[$'000]		18,223	36,524	54,781	72,850	90,565	107,737	124,149	122,220	119,724	116,598	112,774	108,176	102,722	96,322	88,876	80,276	70,405	59,132	46,317	31,804	15,424	-
Surplus / (Shortfall) Of Alternative Differential Over Debt Repayment	[$'000]		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,007
Cumulative Expenditure Funded	[$'000]		18,600	37,200	55,800	74,400	93,000	111,600	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200
Cumulative Surplus / (Shortfall)	[$'000]		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,007

Wyong Shire Council Proposed Special Rate Variation
Medium Term Projection Showing The Required Expenditure Funded By Borrowings
And The Borrowings Are Fully Repaid Using The General Rates Differential Generated Under A 6.0% SRV

Assumptions

Rate Pegging First Year	3.40%	[% p.a.]	Annual Expenditure Required Years 1 to 7	18,600	[$'000]
Rate Pegging Subsequent Years	3.00%	[% p.a.]	Current General Rates Subject To Annual Escalations	57,816	[$'000]
Alternative Option Rate Escalation Years 1 to 7	6.00%	[% p.a.]			
Alternative Option - Average Loan Interest Rate	9.00%	[% p.a.]			

	Year Number	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
	Year	2012 / 13	2013 / 14	2014 / 15	2015 / 16	2016 / 17	2017 / 18	2018 / 19	2019 / 20	2020 / 21	2021 / 22	2022 / 23	2023 / 24	2024 / 25	2025 / 26	2026 / 27	2027 / 28	2028 / 29	2029 / 30
General Rates Escalation																			
Option 1 - Maintain Current Pegging																			
Assumed Increase On Previous Year	[% p.a.]		3.40%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
General Rates	[$'000]	57,816	59,782	61,575	63,422	65,325	67,285	69,303	71,383	73,524	75,730	78,002	80,342	82,752	85,234	87,792	90,425	93,138	95,932
Alternative Option - Increase Rate Escalation To 6.00% p.a. For 7 Years																			
Assumed Increase On Previous Year	[% p.a.]		6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
General Rates	[$'000]	57,816	61,285	64,962	68,860	72,991	77,371	82,013	86,934	89,542	92,228	94,995	97,845	100,780	103,804	106,918	110,125	113,429	116,832
General Rates Differential (6.0% SRV - Option 1)																			
Annual General Rates Differential	[$'000]		1,503	3,387	5,437	7,666	10,086	12,710	15,551	16,018	16,498	16,993	17,503	18,028	18,569	19,126	19,700	20,291	20,900
Cumulative General Rates Differential	[$'000]		1,503	4,890	10,327	17,994	28,080	40,789	56,341	72,359	88,857	105,850	123,354	141,382	159,951	179,077	198,777	219,068	239,968
Funding Of Asset Maintenance Backlog Using Borrowing To Be Repaid By Applying The General Rates Differential																			
Expenditure Is Funded By Borrowings Which Are Fully Repaid Using The General Rates Differential																			
Expenditure	[$'000]		18,600	18,600	18,600	18,600	18,600	18,600	18,600	-	-	-	-	-	-	-	-	-	-
Opening Loan Balance	[$'000]		-	17,934	35,598	52,801	69,324	84,915	99,284	112,105	106,177	99,234	91,172	81,875	71,215	59,055	45,244	29,616	11,990
Amount Borrowed To Fund Expenditure	[$'000]		18,600	18,600	18,600	18,600	18,600	18,600	18,600	-	-	-	-	-	-	-	-	-	-
Average Loan Balance Throughout The Year	[$'000]		9,300	27,234	44,898	62,101	78,624	94,215	108,584	112,105	106,177	99,234	91,172	81,875	71,215	59,055	45,244	29,616	11,990
Loan Interest Rate	[% p.a.]		9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Interest Payable	[$'000]		837	2,451	4,041	5,589	7,076	8,479	9,773	10,089	9,556	8,931	8,205	7,369	6,409	5,315	4,072	2,665	1,079
Loan Principal Repayment	[$'000]		666	936	1,397	2,077	3,010	4,230	5,779	5,928	6,943	8,062	9,298	10,660	12,160	13,811	15,628	17,626	11,990
Total Loan Repayment	[$'000]		1,503	3,387	5,437	7,666	10,086	12,710	15,551	16,018	16,498	16,993	17,503	18,028	18,569	19,126	19,700	20,291	13,069
Closing Loan Balance	[$'000]		17,934	35,598	52,801	69,324	84,915	99,284	112,105	106,177	99,234	91,172	81,875	71,215	59,055	45,244	29,616	11,990	-
Surplus / (Shortfall) Of Alternative Differential Over Debt Repayment	[$'000]		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,830
Cumulative Expenditure Funded	[$'000]		18,600	37,200	55,800	74,400	93,000	111,600	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200	130,200
Cumulative Surplus / (Shortfall)	[$'000]		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,830