ITEM NO: **6**

SUBJECT: **PROPOSED FINANCIAL STRATEGIES FOR THE COUNCIL'S LONG TERM FINANCIAL PLAN (LTFP)**

FILE NO: F07614 - 12/174775

Delivery Program Link
Principal Activity: Civic Leadership - Providing Good Government
Service: Financial Management
Project: Develop long term financial model and strategy development

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Recommendations:

1. *That the Council endorse the financial strategies outlined in this report for inclusion within the Council's Long Term Financial Plan (LTFP) including:*
   - *Strategy 1- Avoid shocks;*
   - *Strategy 2 - Balance the budget;*
   - *Strategy 3 - Manage debt responsibly;*
   - *Strategy 4 - Increase income;*
   - *Strategy 5 - Adjust services so that we are living responsibly within our means; and*
   - *Strategy 6 – Advocacy and partnerships that support achievement of the LTFP.*

2. *That a report comes back to the Council by Quarter 3 of 2012-2013 recommending the adoption of the Council's Long Term Financial Plan in anticipation of its public exhibition in Quarter 4 of 2012-2013 and its final adoption in June 2013.*

Report by Group Manager Integrated Planning & Finance:

Reason for report
The purpose of this report is to seek endorsement of the proposed financial strategies to be included in the update of the Council's 10 year Long Term Financial Plan. These strategies incorporate our latest financial, asset, workforce and service management planning knowledge and provide the means for the Council to achieve financial sustainability in the longer term. Work on the Long Term Financial Plan has shown that the Council has reached a critical point in its financial capacity and it is now essential that we change the current financial policy settings and transition to a period of "consolidation". The proposed strategies support and guide this transition.

Endorsement of the proposed strategies will support the platform from which the Council will engage with the community on the proposed continuation of the existing s508(2) special variation to rates for infrastructure (November and December 2012) and on the update of our Resourcing Strategy and Community Strategic Plan (November 2012 through to early March 2013). The financial strategies presented have been considered by Councillors at a Briefing on the 9th of October 2012 and at a strategic workshop on the 24th of November 2012 and are summarised in this report.

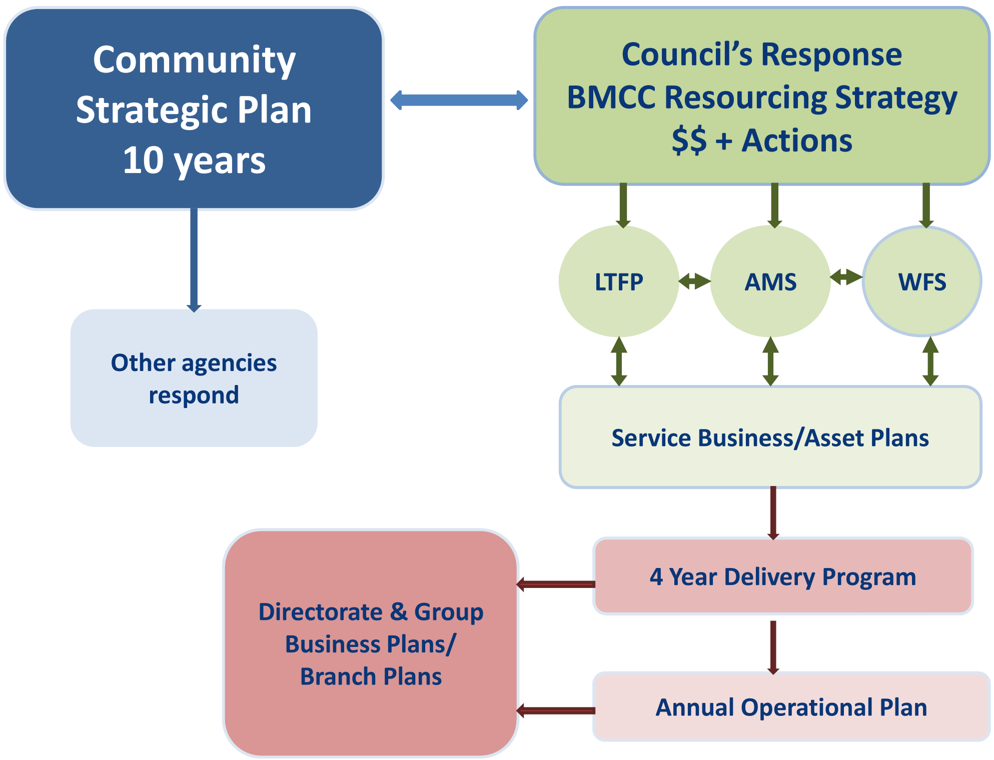
It is relevant to read this business paper in conjunction with Item 8, Ordinary Meeting 6 November 2012 "Proposed Application to IPART to continue Special Variation to Rates expiring June 2013", as it further articulates the need for the proposed financial strategies outlined in this report. Should the Council decide to proceed with seeking continuation of the current Special Variation to rates then it will be necessary to have adopted the updated Long Term Financial Plan including the strategies outlined in this report in early March to support the application.

Background
Integrated Planning & Reporting Framework
The Integrated Planning and Reporting (IP&R) framework provides a mechanism for the Council and the community to have important discussions about service levels and funding priorities and how to plan in partnership for a sustainable future.

IP&R requires the Council to have a long term Resourcing Strategy pursuant to Section 403 of the Local Government Act 1993, for the provision of the resources required to implement the community's needs as established by the Council's Community Strategic Plan – *Sustainable Blue Mountains 2025.* The Resourcing Strategy includes a Long Term Financial Plan, an Asset Management Strategy supported by Asset Management Plans and a Workforce Strategy. The relationship between all these plans and how they inform the delivery of services to the community are set out in Diagram 1 below.

The IP&R therefore underpins decisions on the revenue required by the Council to meet the community needs, and in particular, the various additional financial strategies the Council requires to meet those needs.

Diagram 1: Integrated Planning & Reporting framework
(LTFP = Long Term Financial Plan; AMS = Asset Management Strategy; WFS = Workforce Strategy)



Under Integrated Planning legislation the new Council is required to update its 10 year Long Term Financial Plan (LTFP) and adopt it as part of its Resourcing Strategy by 30 June 2013.

Purpose of the Long Term Financial Plan
The IP&R Guidelines set out the requirements of an LTFP. These are to:
- Establish greater transparency and accountability of the Council to the community;
- Provide an opportunity for early identification of financial issues and any likely impacts in the longer term;
- Provide a mechanism to:
  - o solve financial problems as a whole
  - o see how various plans fit together
  - o understand the impact of some decisions on other plans or strategies;
- Provide a means to measure the Council's success in implementing strategies; and
- Confirm that the Council can remain financially sustainable in the longer term.

Therefore the LTFP determines and illustrates the Council's financial capacity to optimally meet our community's affordable service level preferences as outlined in *Sustainable Blue Mountains 2025* and the associated financial implications of the Council decisions and endorsed financial strategies.

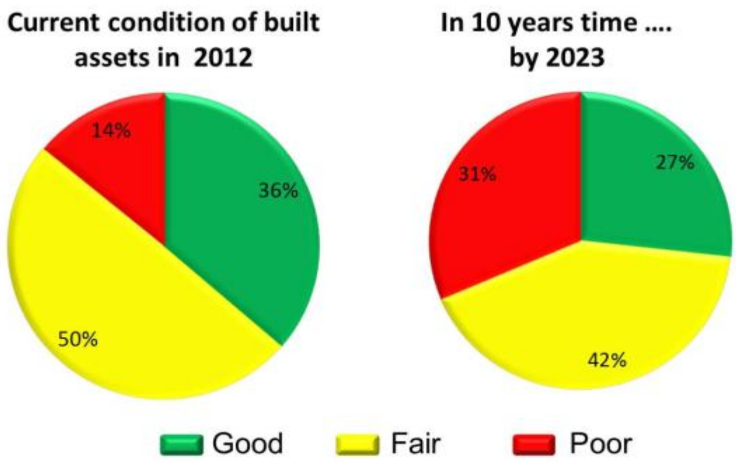
Financial and Asset Funding Challenges of the Council
Many NSW councils, including Blue Mountains Council, are currently experiencing significant financial and asset funding challenges exacerbated by:
- Constrained rate revenue because of 35 years of the NSW State Government imposed rate pegging which limits the amount by which councils can increase their rate income in any given year irrespective of the amount that costs have actually increased by. As a result NSW councils have the lowest rates in Australia. For example, for 2013-2014 the Council predicts that it will be allowed to increase its rates by 2.7% however it predicts that material costs will rise by 5%, fuel by 6% and electricity by 11%; and
- Significant additional cost burdens from the continual shifting of responsibilities for service provision from the Federal and NSW State Governments to local government, without corresponding funding. In 2010-2011 the impact of cost shifting on Blue Mountains Council was $7.5 million in additional expenditure requirements.

For Blue Mountains Council there are also the additional financial impacts of the following:
- Responsibilities for service provision to a large number of dispersed settlements located over an extensive geographic area with associated higher service provision costs and the need for a significant degree of duplication of services and facilities such as pools, libraries, community centres, halls, RFS buildings, public toilets, parks and sports fields to ensure reasonable access of such services by the majority of the community;
- Resident expectations for high levels of service as the City is located adjacent to the Sydney metropolitan area;
- Additional expenses due to the Council managing the responsibility for emergency management in an area prone to costly natural disasters including bushfires and storms;
- Additional expenses due to the area being located within a World Heritage National Park which requires costly measures to reduce impacts of settlement on the natural environment;
- Additional expenses due to the area being a major tourism destination; and
- Limited opportunity for additional rate revenue from population growth because of the area's natural geography and the City's location within a World Heritage National Park.

The majority of the services that the Council provides to the community are supported by a significant portfolio of assets and facilities which is estimated to have a total value of $1.2 billion. These assets are typically long-lived, however as they age, they require additional maintenance to preserve preferred service levels. At a particular point in time it is necessary and cost effective that these assets be maintained, renewed or upgraded.

Based on the Council's current capacity to fund asset renewal and maintenance, the Asset Management Strategy estimates that 14% of assets are in poor condition. By 2023, this is projected to increase to 31% (refer Chart 1 below). The Council's funding shortfall required to adequately maintain and renew assets (excluding new and upgrade works) is estimated to be in the order of $131 million over the next ten years.

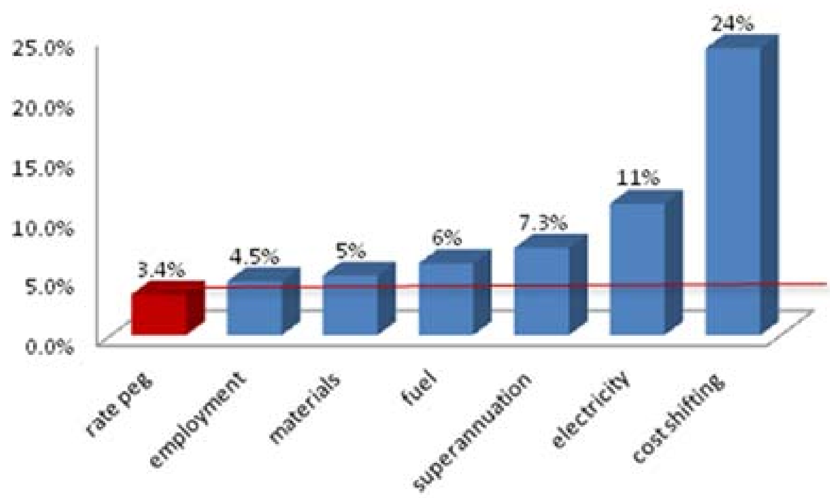
Chart 1: Projection of Assets at poor condition



In addition to the asset funding shortfall, every year the Council also needs to find between $1 million to $2 million, in order to balance its annual cash budget (which excludes non-cash items like depreciation). This is because costs for the Council rise faster than increases in revenue, as highlighted in the Chart 2 below. The Council balances the cash budget each year while generally maintaining existing levels of service. This is achieved by implementing significant continuous business improvement initiatives to ensure the Council can deliver services within the available revenue. However, this results in less money being available each year for maintaining and renewing assets.

While the Council needs to continue to balance its annual cash budget it cannot continue to neglect the asset maintenance and renewal funding requirements of our $1.2 billion portfolio of assets and facilities as we have done in the past.

Chart 2: Service cost increases greater than annual rate peg



*Cost shifting percentage is based on 4 year average and includes Council's contribution to NSW State Government emergency management services

The Council's LTFP is required to incorporate strategies to ensure that it can fund future asset maintenance and renewal requirements in accordance with the level identified as affordable by the Council's Asset Management Plans and also ensure that the Council continues to balance its annual cash budget and annual operating result.

Strategies for Addressing Financial and Asset Challenges
In considering the likely revenue that will be available to meet the community's long term objectives, a Long Term Financial Plan should address the capacity for rating, fees and charges, grants and subsidies, borrowings and cash reserves. In preparing the Council's LTFP and making a judgement on the community's capacity and willingness to pay rates, the Council has firstly considered:

- Separate or specific rates and charges;
- The potential to reduce the reliance on rates through increased revenues from other sources e.g. fees and charges, grants;
- The potential growth/decline in rating revenues from changing demographics and industry makeup;
- The possible need to increase reliance on rating due to the reduction of revenues from other sources e.g. a decline in grants or subsidies;
- The projected impact of the rate peg;
- Opportunities for a special variation to general income; and
- The Council's current rating policy and likely changes to that policy in the future.

Secondly, the financial strategies within LTFP provide direction and guidance for Councillors, the Council's management and to the community on the achievement of improved long term financial sustainability. In developing the strategies to solve the Council's financial problems the Council has taken into account a number of strategic guiding principles including, but not limited to, the following:

- Achieving and maintaining operating surpluses;
- Maintaining a fair and equitable rating structure;
- Continuous improvement in the Council's financial position;
- Progressively increasing funding for asset maintenance and renewal;
- The Council's reliance on debt and the long term impact of debt funding;
- Maintaining and sometimes improving service level standards; and
- Being business-like and achieving full cost recovery for services where possible.

The strategies developed to address the Council's financial challenges over the next 10 to 20 years were outlined to Councillors previously at the Strategic Task Force session held on 9 October 2012. These strategies are:

Strategy 1	Avoiding shocks through sound financial and asset management planning;
Strategy 2	Balancing the annual budget (both the annual cash budget as well as the annual operating result including depreciation);
Strategy 3	Reducing debt given the Council has reached its prudent borrowing limit;
Strategy 4	Increasing income through a range of methods including special variations to rates, commercial activities and other revenue initiatives;
Strategy 5	Implementing ongoing and targeted service reviews and engaging community on affordable and acceptable levels of service, given that the Council must live within its means and manage risks responsibly; and
Strategy 6	Increasing advocacy and partnerships with other levels of government to ensure a fair share of funding for the City, particularly given our unique characteristics and challenges.

Strategy 1 - Avoid Shocks

As the LTFP assesses revenue capacity and cost projections and provides an opportunity for early identification of financial issues and longer term impacts, it assists the Council to make strategic decisions with the long term challenges in mind and with the aim of minimising unexpected events. This will be achieved by proactively using the LTFP to manage and smooth any known increases in costs or decreases in revenue to ensure the Council's continuing capacity to deliver services and facilities to the community at an affordable and acceptable level.

For example, the LTFP identifies innovations and efficiencies in its early years in order to build contingencies and surpluses to meet projected financial challenges such as superannuation cost increases and growing asset renewal and maintenance requirements. For example, such initiatives include the Property Investment and Disposal Program (PDIP), Heavy Plant refurbishment and reductions, Major Capital Projects re-design and re-phasing, Lower Mountains sealing program, Katoomba Waste Management Facility and the new workers compensation insurance model.

Strategy 2 - Balance the Budget

An indication of the financial sustainability of a business is its ability to balance both the annual cash budget as well as the annual operating result. However, as costs for the Council have been rising faster than revenue for many years, the Council has focused its efforts on balancing its annual cash budget at the expense of the annual operating result (which includes depreciation and excludes capital grants). This has seriously impacted the Council's ability to fund maintenance and renewal of assets which would otherwise reduce the depreciation of the assets and therefore reduce any operating deficit.

a) Annual Cash budget

As costs are greater than revenue every year by $1 million to $2 million, balancing the annual cash budget requires a combination of either reducing expenditure or increasing revenues. Each year the Council maximises income where achievable however this is limited because of rate pegging, limited growth opportunities and issues of affordability and equity which prevents significant increases to fees and charges. Each year the Council also constrains expenditure growth. However this involves either reducing funding for asset renewal and maintenance or the Council absorbing additional responsibilities and increased costs through productivity efficiencies and continuous business improvements.

An example of the Council constraining expenditure growth is the savings achieved through continuous improvement initiatives between 2005 and 2010. This has saved $3.8 million on a recurrent basis and $3.6 million on a one off basis, making a total of $7.4 million in savings. Without these savings, the Council would not have been able to balance its annual cash budget for those years.

Since 2010, efficiency and productivity savings are in the order of $4.5 million. Without these savings, the Council would also not been able to balance its cash budget for these years.

While the annual cash budget must be balanced each year, it is unsustainable for the Council to continue this practice of expenditure containment without significant further deterioration in asset condition and the direct, and indirect reduction in levels of service to the community.

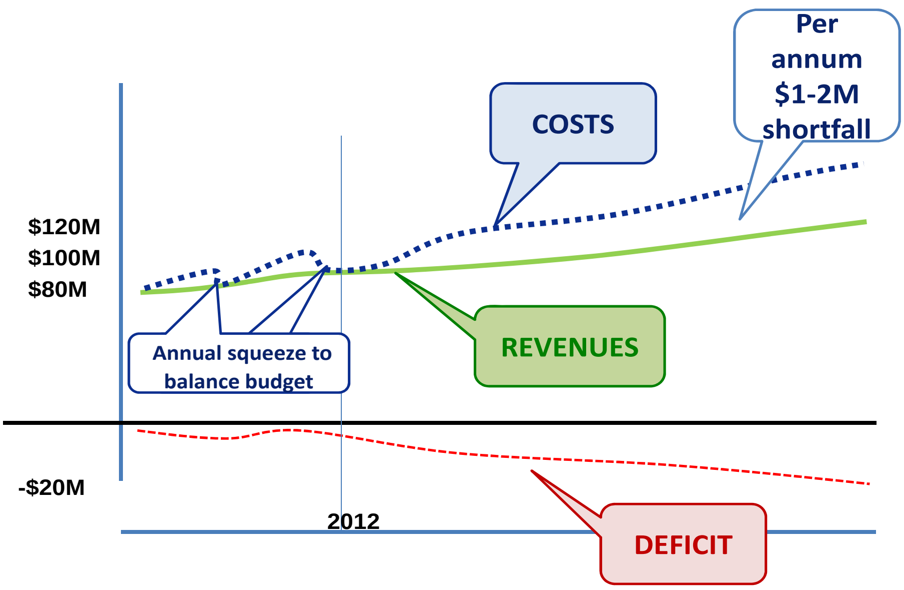
The Council's strategy is to continue to balance its annual budget through a combination of the strategies such as reducing debt, increasing revenue and adjusting of services as outlined below.

Annual Operating Result (including depreciation, excluding capital grants)
The Council's current annual operating result for 2011-2012 was a deficit of $13.3m which includes annual depreciation of $30m. The depreciation amount is high because the Council has a large portfolio of assets (currently valued at $1.2 billion) and it only has funds to renew its assets at 1% per year and maintain the assets at 2% per year, however it should be renewing at 3% and maintaining at 4% per year. As a result, the operating deficit is projected to rise over each year of the LTFP (refer Chart 3 below).

Depreciation is the main driver of the annual operating deficit result as the Council does not have the funds for renewal and maintenance to prevent deterioration in asset condition. The annual deficit result is a clear indication that the Council has a long term financial problem that it needs to monitor and address.

The Council's strategy is to balance the annual operating result within 10 to 20 years (including depreciation, excluding capital grants) and start to build operating surpluses. This will be achieved by implementing the strategies outlined below (i.e. reducing debt, increasing revenue and adjusting services). Balancing the annual operating result will allow the Council to reduce the annual deterioration of its assets and any operating surpluses will then be available to address future backlogs in asset maintenance and renewal.

Chart 3: Challenge of Costs rising faster than Revenue and of the Operating deficit



Strategy 3 - Manage Debt responsibly
Section 621 of the Local Government Act 1993 allows the Council to borrow at any time for any purpose allowed at a level determined by the Council through the approval of the Revenue Policy contained within the annual Operational Plan.

The Council has in past years used borrowings as a source of funding its asset management works program to satisfy community infrastructure needs and maintain our vibrant City. Borrowing to build, renew and upgrade community assets were a valid means of funding infrastructure since this funding strategy reduces the burden of funding long lived asset management works on current generations and increases the need for future generations to pay for the community assets that they have the benefits of. This concept is in accordance with the "intergenerational equity principle" that suggests it is fair for both current and future generations to pay for investments in assets which have long lives and will be used both now, and into the future.

However, the Council has reached its capacity to incur any further debt and it is timely that the Council transition to a period of consolidation where we change the current policy setting to one of minimising future debt and also reduce existing debt. The Council's current debt as at 30 June 2012 is $48 million and is projected to grow to $60 million by 30 June 2013. This debt requires the Council to pay interest repayments and principal of approximately $7 million per year to service this debt and this cost must be funded from Council's annual operational revenue. As noted above, this debt level is the result of the Council's current approach of funding the asset management works program and Major Projects through loans. At this current setting it is projected that debt will increase by $39 million over the next 10 years.

The need for the transition in our debt funding strategy is affirmed by the NSW State Government's Treasury Corporation (TCorp) in its assessment of the Council's long term financial sustainability, where TCorp stated the following:

"When analysing the financial capacity of the Council we believe Council will not be able to incorporate any further loan funding in addition to the already forecast loans".

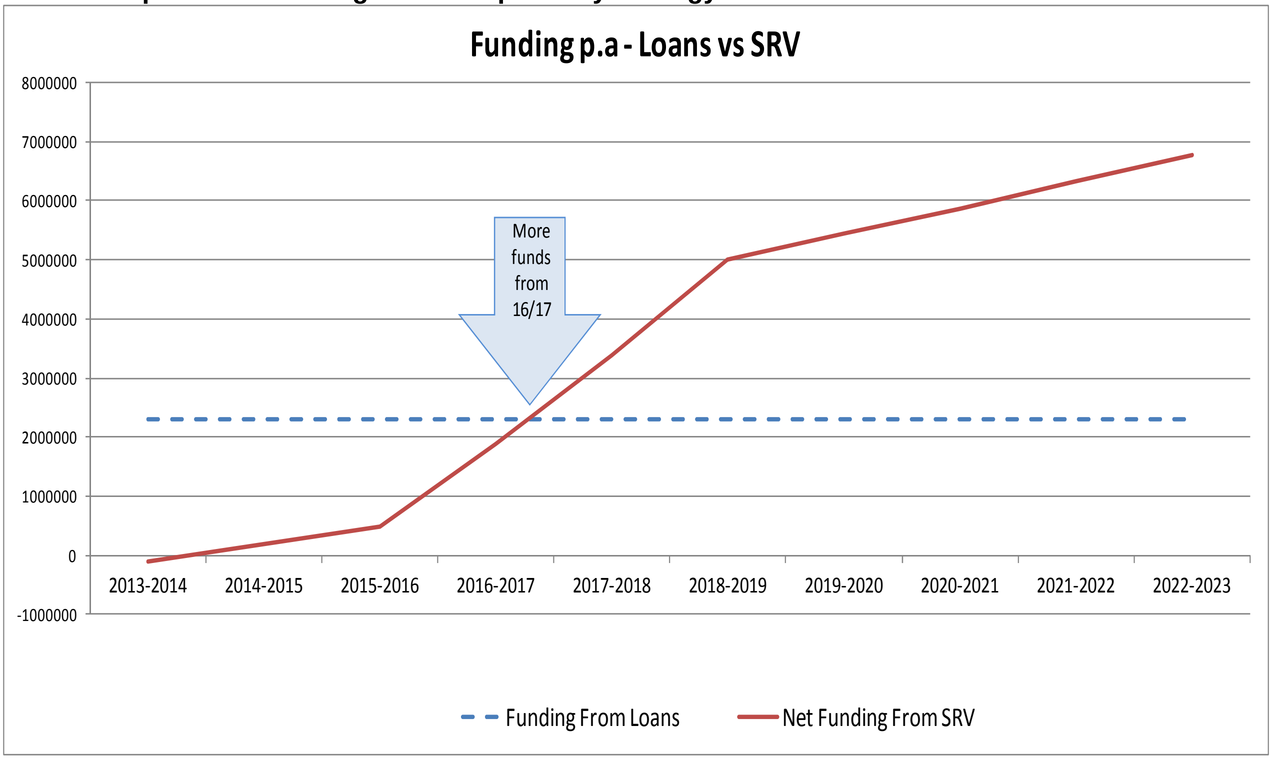
As the Council has essentially reached its debt capacity limit and now needs to consolidate and manage its debt position, the LTFP strongly recommends a financial strategy of replacing the current loan approach of $2.31 million per year to fund the asset management works program with funds from a special rates variation. Funding from the Special Variation (SV) will be similar to that planned for loans from 2013-2014 to 2015-2016.

There will be an initial reduction to the Council's asset management works program but over the longer term there will be significantly more funds available for needed asset renewal and maintenance (as depicted in Chart 4). The financial outcomes achieved from this debt reduction strategy include:

- Loan repayment savings of $12.7 million that will be directed to the capital works program;
- The net additional funding from the debt reduction / SV scenario is $35.2 million over 10 years, compared to the previous strategy of borrowing $2.31 million per annum. This is shown in Chart 4 below.
- Once the $2.31 million loans cease from 2013-2014, savings by 2022-2023 from the debt reduction strategy reach a break-even point where savings in loan repayments match the capital works funding that would otherwise be available from loans. After 2022-2023, the savings in ceasing the loans from 2013-2014 exceed the cost of servicing these loans.
- Replacing the $2.31 million annual loans with a special rate variation will enable more funds to be allocated after 2022-2023 to address the asset funding challenge and ensure financial sustainability. This is illustrated in Chart 4 below.

In managing Council's debt and positioning it to work for the Council, the LTFP also recommends the Council reduce existing debt liabilities through means like reviewing our existing loan interest rate terms and conditions through joint renegotiations through organisations like WSROC and where possible taking every opportunity to pay existing debt out early from any surplus operational funds where it is cost effective to do so.

Chart 4: Impact of the Manage Debt responsibly strategy



Strategy 4 - Increase income

This can be done through:

- Special Variation to Rates Applications;
- A review of the Council's Revenue Strategy; and
- Other revenue generating initiatives.

<u>Proposed renewal of existing s508(2) Special Variation</u>

As a means of increasing income, the Council endorsed in a 6 November 2012 report that the Council engage with the community in November and December 2012 on the possible renewal of the existing special variation to rates for infrastructure on an ongoing basis. This involves making an application under Section 508(2) of the Local Government Act 1993 to continue the current 4.4% special variation in addition to the annual rate peg increase which is estimated at 2.7% on a permanent basis. The purpose for the continuation is to raise additional rate revenue to enable the Council to undertake required maintenance and renewal of built assets that it would otherwise not be able to afford.

Continuing this variation over a 10 year period would provide an additional $23 million for built asset funding. This would reduce the projected 10 year asset renewal and maintenance funding gap from $131 million to $108 million.

This funding from any continued variation, combined with the net additional funding from reducing debt would therefore be in the order of $35.7 million ($23 million special variation income plus $12.7 million loan repayments savings) over 10 years.

Over 20 years, the compounded savings from not continuing these borrowings is a further $35.8 million. By using these funds to reduce the asset funding gap, combined with other strategies, the Council estimates that the asset funding gap will be substantially addressed within 20 years.

Revenue Strategy and other revenue initiatives

It is prudent for the Council to maximise all current and future revenue streams to fulfil the community needs however this must be balanced against socio-economic realities and principles of fairness and affordability. The LTFP therefore proposes to review Council's revenue strategies which will develop financial strategies that articulate the goals and actions of each particular revenue stream so that the Council and community can be assured that revenue is maximised in an equitable and business-like manner.

The revenue strategy will incorporate (but not limited to) the following current and future income streams:

- Rates and levies
- Annual Charges including Domestic Waste Management charges
- Fees and charges
- Council's Property Disposal and Investment program
- Commercial Activity and "Business-like" services income
- Operational and Capital Grant Income
- Interest Income
- Other revenue generating initiatives

Any financial strategy to maximise revenue to assist the Council in meeting its long term strategic objectives will require consideration of impacts on the community and will require appropriate levels of general and / or targeted community consultation.

Strategy 5 – Adjusting Services and Service Levels so we are living within our means

The Council provides and maintains a very wide range of services and functions including local roads, bridges, public car parks, footpaths, libraries, aquatic facilities, sporting fields, parks and cultural facilities. One of the most important contributions the Council makes to our community is providing these services and infrastructure at an appropriate and affordable level.

This strategy involves implementing ongoing and targeted service reviews and engaging community on affordable and acceptable levels of service, given that the Council must live within its means and manage risks responsibly. Significant progress has been made through financial, asset and service planning work, in defining the level of "affordable service" currently and over the next 10 years given projected available revenue.

Chart 1 of this report highlights that currently 14% of our assets are in poor condition and in 10 years time that this is likely to deteriorate to 31% bases on revenue projections. This signals the need to identify and manage key risks and consequences and review current service provision levels and how funding is being allocated so as to ensure the Council is responsibly living within its means. For example service level adjustments will be required where there are insufficient resources to safely continue to operate or provide particular facilities or infrastructure.

As costs increase at a greater rate than our revenue funds and community needs alter, it is both fiscally responsible and appropriate for there to be a review and/or an adjustment to services to minimise costs and better target resources to priorities. To achieve this, the Council is proposing a strategy that requires an ongoing program of targeted service reviews in consultation with the community. Such reviews do not necessarily mean that services will be cut. As the Council through the IP&R process, will have discussions with the community about its needs and determine what the community values and is willing to pay for and this will guide the range and quality of services that the Council will provide. Any review of services and service levels will also take into consideration the changing and projected future demographics as well as the assessed needs of the community.

To inform the development of a more comprehensive engagement strategy with community on affordable and acceptable levels of service, in June 2012 a series of 5 pilot workshops were conducted with as cross section of 122 randomly selected residents. These workshops addressed the challenge of how can we achieve an affordable level of service provision for the Blue Mountains community into the future given our financial and asset management challenges.

It is proposed that in 2013-2014 the service review focus be on recreation and transport. In addition, there will be ongoing overall reviews of services as part of the annual business planning and budgeting process.

Strategy 6 – Advocacy and partnerships
As part of the Council's long term financial planning, it is important to consider the value of increasing advocacy and partnerships with State and Federal Government agencies as a means of ensuring a fairer and greater share of funding for the City, particularly given the characteristics and challenges of the Blue Mountains e.g. location adjacent to a world heritage national park and significant tourist destination.

Such advocacy can be achieved via our local members, through local government associations, through neighbouring council partnerships and through submissions to the various local government inquiries. The potential for additional revenue from this revenue strategy is quite significant and some successful examples include the $9.5 million Springwood Town Centre Federal Government grant funding and the Blue Mountains Cultural Centre public/private partnership.

Developing partnerships with other organisations and with the community and business sectors will also be a key focus.

Sustainability Assessment

Effects	Positive	Negative
Environmental	Maintaining and renewing the built environment of the City of Blue Mountains will contribute positive sustainability outcomes.	Nil
Social	The proposed program of works will enable the Council to respond to identified community needs and priorities for asset renewal and maintenance.	Nil
Economic	Additional funding directed to asset renewal and maintenance will contribute to positive economic outcomes for the City.	Nil
Governance	The recommendations of this report support the achievement of transparent and inclusive governance that addresses the financial sustainability imperatives of the organisation and the City.	Nil

Financial implications for the Council
The financial strategies presented in this report, including the continuation of the existing infrastructure variation, form the critical component of Council's plan for improving the Council's and the City of Blue Mountains' long term financial sustainability.

The key strategies noted in this report will need to be implemented over the next 10 years to address the identified asset funding shortfall. The size of the financial challenge faced by the City requires that the Council adopts a multipronged approach implemented all six proposed strategies simultaneously.

A key strategy detailed in this report with significant positive financial implications, is the proposal to stop borrowing $2.31 million each year for asset renewal and maintenance and to instead utilise income obtained from continuing the variation for this purpose. This will achieve additional savings of $12.7 million over ten years.

The net additional funding from reducing debt and continuing the expiring variation is $35.7 million over 10 years. This compares to total funding of only $23.1 million if borrowings continued.

The Long Term Financial Plan recommends that the savings from the debt reduction strategy, and the further revenue from the continued variation, be directed to asset maintenance and renewal.

Additional expenditure on required asset renewal and maintenance will prevent further deterioration of the Council's built assets and ensure that the Council is not at risk of more expensive rehabilitation works at a later stage once an asset has critically failed.

There are significant financial implications for the Council if the financial strategies and the proposed application to continue the existing special variation for infrastructure are not approved including reduced levels of service in the proposed variation funding areas.

Legal and risk management issues for the Council
There are significant legal and risk management issues for the Council if it continues to underfund the renewal and maintenance of its built assets. Without additional funding some assets will deteriorate to the level that they may be unsafe or not meet the necessary standards. Service adjustments to address this will then be required. Assets may need to be closed to ensure community well-being is not at risk. If the risks associated with particular assets are not responsibly managed, then the Council risks legal challenge for any injuries sustained by the community through using unsafe assets.

External consultation
This report has been informed by the results of the 2012 Community Survey and by the implementation of five Community Workshops in June 2012 involving a cross section of 122 randomly selected residents. These workshops addressed the issue of how best the Council could achieve an affordable and acceptable level of service into the future – including an explanation of our revenue streams, our financial challenges and whether participants were willing to pay more rates to achieve desired levels of service.

Conclusion
The Council is facing significant challenges in ensuring its ongoing financial sustainability. This is because its costs are rising at a faster rate than its ability to raise revenue due to a number of factors including 35 years of rate pegging, cost shifting from both the Federal and State Governments, limited growth and additional responsibilities associated with managing a City located in a World Heritage area prone to bushfires and other natural disasters.

While the Council has always balanced its annual budget and provided a wide range of services and facilities to its community at relatively high levels of community satisfaction, this is becoming increasingly difficult and has been made possible by the underfunding of renewal and maintenance of the City's assets.

The Council's draft Asset Management Plans show this significant underfunding equates to an asset funding gap of approximately $131 million over the next ten years excluding any new or upgrade asset works. The Plans also show that if the Council does not increase its funding for assets, by 2023 approximately 31% of the City's assets will be in poor condition.

The Council's ability to increase funding for assets is significantly impacted by the constraints on our revenue and the pending expiry of the current infrastructure special variation on 30 June 2013. This is due to the fact that on the variation's expiry the Council's total rates income will need to be reduced by $1.9M unless the Council applies to IPART to continue this variation.

Further, the report proposes that revenue from continued variation would replace funds currently being borrowed for asset maintenance and renewal because the Council has reached its viable borrowing limits. Over ten years, the savings from loan repayments and the revenue raised from the variation would total $35.7M. This additional revenue would be directed to a program of renewal and maintenance works based on risk assessment and community priority.

For these reasons, it is recommended that the Council progress the implementation of the financial strategies contained within this report and investigates with the community the continuation of the expiring special variation to rates for infrastructure in anticipation of a possible application to IPART. The additional revenue raised by each of these strategies will enable the Council to direct significant funds towards addressing its asset funding gap which is essential if the Council wishes to be financially sustainable into the future.

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Does this paper need to go to a briefing session OR have Ward Councillors been briefed?: Yes

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