Greater Taree City Council:
achieving sustainable infrastructure, services and finances

Professor Percy Allan AM
Research Director

Sydney
21.1.2009

Copyright Warning

- *Review Today* (*RT*) and its partners (*GHD and TreEnt*) respect the intellectual property of others so request that all readers of our reports do the same.
- Our reports are protected by copyright law, so may not be reproduced, distributed, displayed, published, performed or broadcast by anyone other than the Local Council to which they apply without the prior written permission of *Review Today*.
- Any such use of the materials is strictly prohibited unless expressly authorised by the Copyright Act 1968 (C'th). Infringements will be prosecuted to the full extent of the law.
- Anyone with information about breaches of copyright or wishing to request use of information in our reports should contact gaussen@reviewtoday.com.au.

Terms of Reference

- The purpose of this report is to:
  - Assess the state of existing Council infrastructure.
  - Estimate the cost of fixing existing infrastructure and renewing it in future.
  - Compare the cost of infrastructure and services under existing Council policy with that of alternative scenarios that fully rehabilitate, renew and maintain infrastructure.
  - Explore whether current revenue policy or a more ambitious option would be able to fund these alternative spending scenarios within responsible fiscal limits.
  - Suggest possible other measures (e.g. productivity improvements) that might assist in this task.

Disclaimer

- This report is based on the findings of technical reports by *GHD* and *TreEnt* commissioned by *Review Today*.
- These technical reports are in turn based on data and information furnished by Greater Taree City Council (GTCC) and other sources (e.g. ABS, NSW Dept. of Planning).
- All parties to the Review Today research consortium have taken due care and diligence in arriving at their findings and conclusions, which are based on an analysis of GTCC data using proprietary methodologies owned and applied by each party.
- The GTCC has vouched that its data is accurate and reliable. It has not been the remit of Review Today or its partners to audit the veracity of that data.

Contents

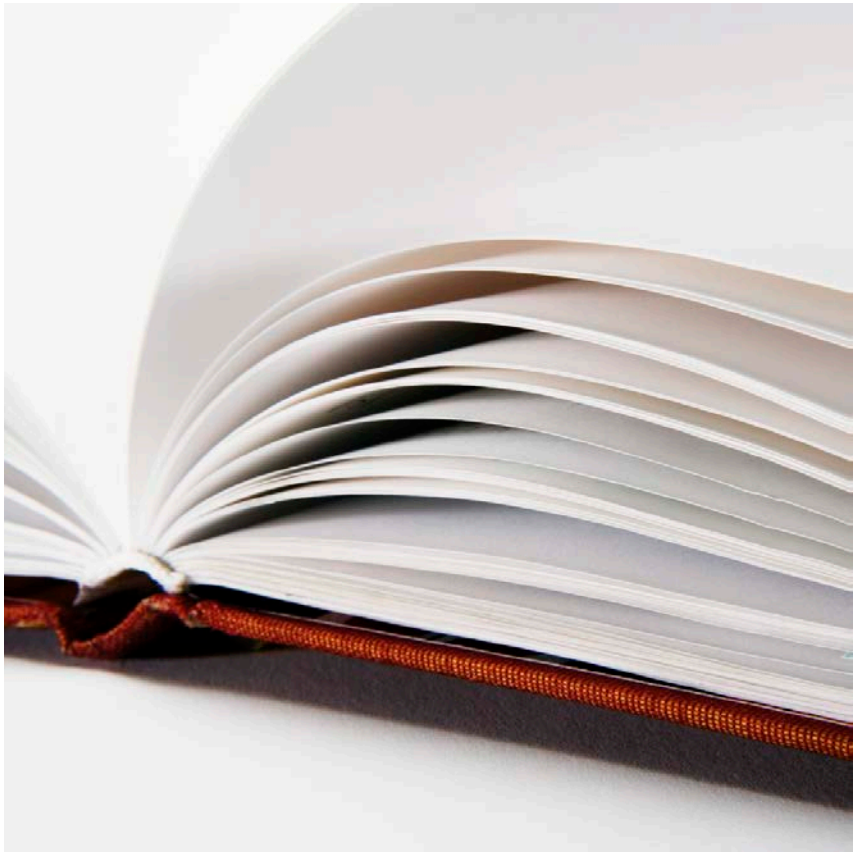
- Summary
- Conclusion
- Definitions
- Council's Profile
- Council's Finances
- Infrastructure Spending
- Services Spending
- Interest Payments

Continued…….

Contents

- Total Spending
- Financial Goalposts
- Fiscal Options
- Proposed Strategy
- Conclusion
- Other Measures
- Next Step

Note: Except for ratios all projections in this report are in 2008/09 dollars

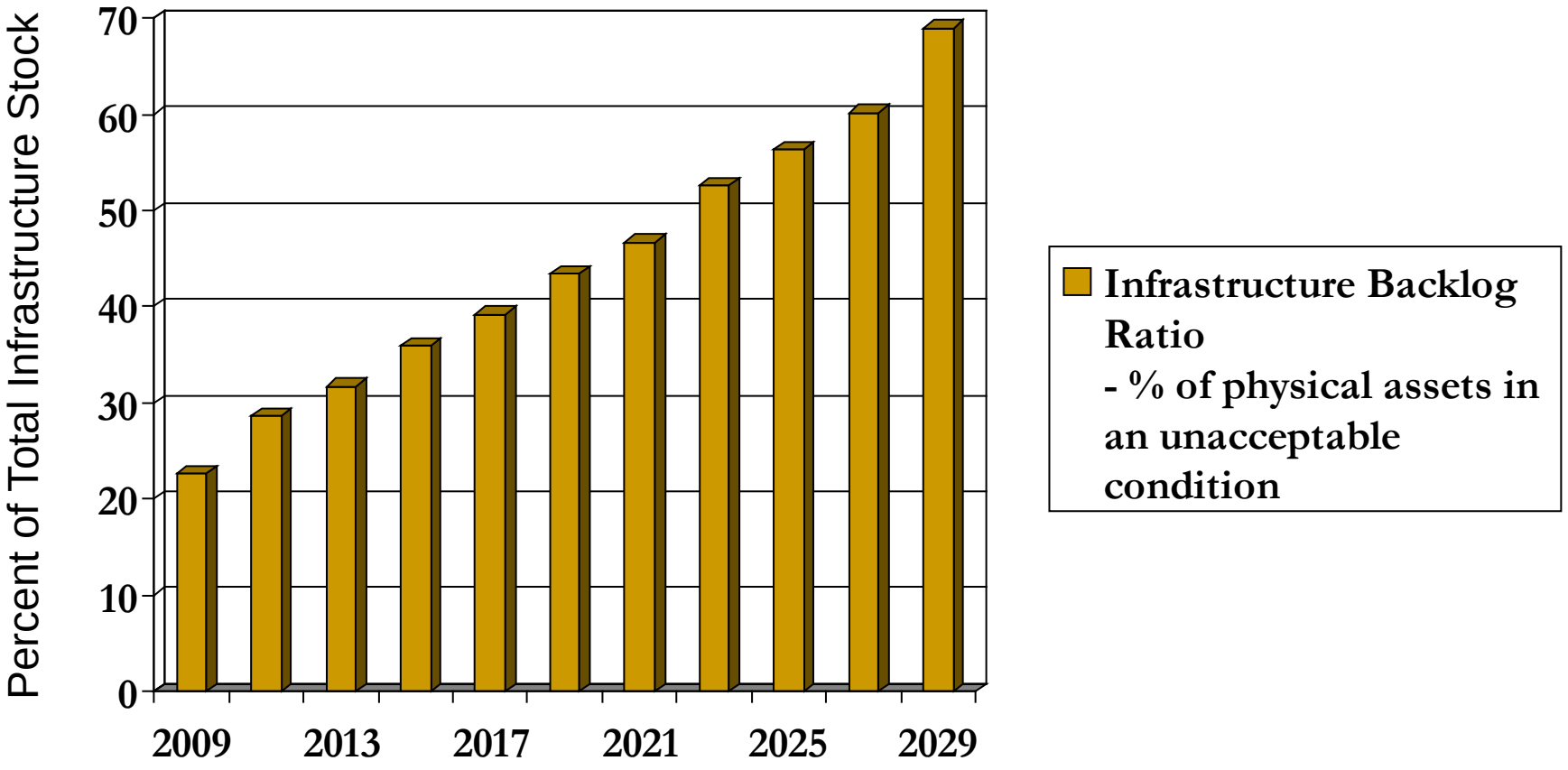


Summary

- GTCC has a $148 million infrastructure backlog and under-invests in infrastructure rehabilitation, renewal and maintenance by $20 million a year. If this gap continues the Council will have an infrastructure backlog of $422 million by 2027/28; equal to almost 70% of its physical assets.
- GTCC also runs an operating deficit in excess of $3.3 million a year. This equates to 10.3% of its own-source operating revenue.
- To be sustainable its infrastructure backlog ratio should be no more than 2% and its operating result should be a surplus of at least 2.5%.

Summary

Greater Taree's Future Infrastructure Backlog under Existing Policy



Summary

- The infrastructure crisis developed over the last 50 years.
- Contributing factors were:
  - a large infrastructure stock relative to population ($15,300 of roads and other assets per resident)
  - significant under-spending on infrastructure renewal
  - average rates below other urban regional coastal councils
  - operating services growing ahead of operating income in part due to state cost shifting

Summary

- Greater Taree is not alone in being financially unsustainable (see next chart).
- Most regional coastal councils are unsustainable, though Greater Taree's challenge is more pressing than others.

Summary

FiscalStar's Sustainability Grading of the 100 Largest Local Councils in NSW

Type of Council	Sustainable	Vulnerable	Unsustainable
Inner- Metropolitan	11	3	5
Outer-Metropolitan	10	4	8
Regional Coastal Urban	3	4	11
Regional Inland Urban	6	5	6
Regional Rural	13	3	5
Total	43	19	35

* Excluding Botany Bay, Gwydir and Wellington which do not publish their statutory financial reports in full on their websites

Summary

- Notwithstanding the growing infrastructure crisis the Existing Spending Policy would still see:
  - Ordinary services increase by 3.7% per annum which is almost five times faster than the annual rate of population growth.
  - Fees and charges still rise by 6.8% per annum (3.7% over and above the CPI inflation).
  - A continued large operating deficit in future because of a high growth in services spending and a shortage of revenue.

Summary

- To solve these dilemmas three possible spending scenarios are developed initially as alternatives to Council's Existing Policy. They are the:
  - Preferred Scenario;
  - Responsive Scenario; and
  - Restrained Scenario.
- The funding requirements of each scenario are tested using two possible revenue raising options:
  - Existing Policy; and an
  - Ambitious Option

Summary

- The Restrained Spending Scenario assumes that:
  - Required infrastructure rehabilitation over 10 years, renewals and maintenance are fully funded, infrastructure stock is frozen, and the level of services is cut over ten years to achieve an operating surplus of 2.5% of Council's own-source operating revenue (the minimum recommended by the LGI).
- This scenario results in financial liabilities reaching an unsustainable 517% of operating revenue. Also it would see a 61% cut to services that would be socially unacceptable.

Summary

- The Preferred Spending Scenario assumes that:
  - Required infrastructure rehabilitation over 5 years, renewals and maintenance are fully funded, infrastructure stock is expanded as planned and the the services level grows in line with expected population growth of 0.8% per annum in future.

Summary

- The Responsive Spending Scenario assumes that:
  - Required infrastructure rehabilitation over 5 years, renewals and maintenance are fully funded and both the infrastructure stock and the services level each grow in line with expected population growth of 0.8 per annum.

Summary

- The Preferred and Responsive Spending scenarios would result in huge operating deficit ratios in excess of 56% after ten years. This is not financially sustainable.
- These scenarios if combined with an ambitious revenue option would require real increases in rates, fees and charges in excess of 10.7% per annum (7.5% above inflation rate) for each of the next ten years.

Summary

- The Preferred and Responsive spending scenarios if combined with an ambitious revenue option would also result in the net financial liabilities ratio increasing from 33% to 401% over this period, which is clearly unsustainable.

Summary

- It is clear that the above spending scenarios even if bolstered by an ambitious revenue option are unacceptable because they involve:
  - Too big a cut to services (Restrained Scenario)
  - Too big an increase in rates, fees and charges (Preferred and Responsive Scenarios),
  - Too big an operating deficit (Preferred and Responsive Scenarios), or
  - Too big an increase in net financial liabilities (All of the above scenarios).

Summary

- *What other spending scenario and revenue option would achieve an acceptable and responsible compromise between the objectives of:*
  - *Ensuring fiscal sustainability,*
  - *Fixing infrastructure,*
  - *Preserving essential services, and*
  - *Keeping increases in rates, fees and charges affordable?*

Summary

- *Review Today* has attempted to develop such a scenario (tagged the Responsible scenario) that would achieve the following results by 2028/29:
  - A sustainable net financial liabilities ratio (80%) and a modest annual budget surplus (2.5%);
  - A modest infrastructure backlog ratio of 2%;
  - No infrastructure expansion since 2009/10; and
  - Real increases in rates, fees and charges per property averaging 3.1% per annum since 2008/09.

Summary

- Yet, a Responsible scenario would still require:
  - Rates revenue to increase by 4.9% (or 3.4% per property) per annum above CPI inflation;
  - Fees and charges to rise by 3.1% (or 1.7% per property) per annum above CPI inflation; and
  - Service spending to be held constant (but fall 1.4% per property) relative to CPI inflation each year.
  - Net debt (NFL) growing from $14 million now to $124 million (2021/22) before falling to $63 million (2028/29).
- Note that CPI inflation is forecast at 3% (the upper end of the RBA's 2-3% target range).

Summary

- These policy measures could be mitigated by obtaining extra income or savings from:
  - Exploiting commercial opportunities (e.g. leasing property, joint ventures, PPPs);
  - Increasing operational efficiencies (e.g. streamlining work processes, adopting new IT, reducing corporate overheads if possible);
  - Rationalising non-core services (e.g. services given a lower priority in community surveys); and
  - Selling or closing under-utilised assets (e.g. land, local roads, buildings, plant and equipment)

Summary

- Council has not estimated the extra revenue or savings that might be achievable from adopting such measures.
- But even if the State or Federal Government gave Council an extra $6 million a year in operating grants, the increases in rates necessary under the Responsible scenario would be reduced by only 1% per annum (from 8% to 7% after inflation).

Summary

- Under the Responsible scenario, Council could afford to raise its net financial liabilities from $13.7 million in 2008/09 to $63 million by 2028/29 and still keep its debt ratio within responsible bounds.
- These increased borrowings would be used to rehabilitate and renew assets, thereby avoiding the backlog of impaired infrastructure growing to almost 70% of all physical assets as will happen under Existing Policy.

Summary

- An Inflation Index Linked Bond might be a cost effective way to raise new debt under the Responsible scenario.

Summary

- The main questions about the Responsible scenario are whether:
  - the required 3.4% real hike in rates revenue per property for each of the next 20 years is politically feasible?
  - a real cut in services spending of 1.4% per property each year for that period could be offset by productivity savings?
  - the Minister would agree to a borrowing program that lifted the net financial liabilities ratio to 197% before it fell to 80%?

Continued…..

Summary

- the community is prepared to undertake these measures in order to reduce the infrastructure backlog from 23% to 2%?

If not the proportion of infrastructure in an unsatisfactory condition is likely to escalate from 23% to 43% by 2018/19 and to 69% by 2028/29.

Conclusion

- GTCC is one of the least financially sustainable large to medium sized councils in NSW since it has a large operating deficit (equal to 10% of its own source operating revenue) and a very large backlog of impaired infrastructure (worth 23% of the replacement cost of its physical assets).

Conclusion

- Contributing factors to this outcome have been:
  - average rates below other urban regional coastal councils
  - a large infrastructure stock relative to population ($15,600 of roads and other physical assets per resident)
  - significant under-spending on infrastructure renewal
  - operating services growing faster that operating income

Conclusion

- If urgent action is not taken the infrastructure crisis will get much worse – 43% of infrastructure will be impaired in ten years and 69% in twenty years.
- This crisis is so big it will take 20 years to fix. If over two thirds of local infrastructure is allowed to disintegrate, Greater Taree could become one of the most depressed regions in Australia.
- The longer Council takes to act the more painful it will be for the community in future.

Conclusion

- There is no easy solution to this infrastructure crisis. The least painful of a range of policy alternatives explored still involves a real 3.1% increase in rates, fees and charges per property for each of the next twenty years. After annual inflation of say 3% this amounts to an annual increase in such levies of 6.2% per property.

Conclusion

- This would ensure that by 2028/29 Greater Taree had an infrastructure backlog of only 2% instead of 69%. By then the Council's net financial liabilities should be no more than 80% of operating revenues, the maximum advisable for a council with its circumstances.
- Overcoming this crisis will require strong Council leadership and a Minister and community prepared to save Greater Taree from economic and social decline caused by failing local infrastructure.

Conclusion

- It is recommended that Greater Taree City Council consult with its community on the most appropriate financial strategy for addressing its budget and infrastructure challenges.
- Council should then develop a rolling 20-year Community Strategic Plan, Asset Management Plan and Financial Plan based on a revised version of the Responsible Scenario that takes account of community feedback.

Continued….

Conclusion

- These Plans should aim to:
  - Rehabilitate required infrastructure whose condition has fallen below an acceptable standard (i.e. the ‘backlog’);
  - Renew required infrastructure when it falls below agreed minimum standards in future;
  - Adopt fit-for-purpose infrastructure to cope with residential and business growth;
  - Identify those core services that would be quarantined from any cost cuts to help fund infrastructure rehabilitation and renewal;

Continued….

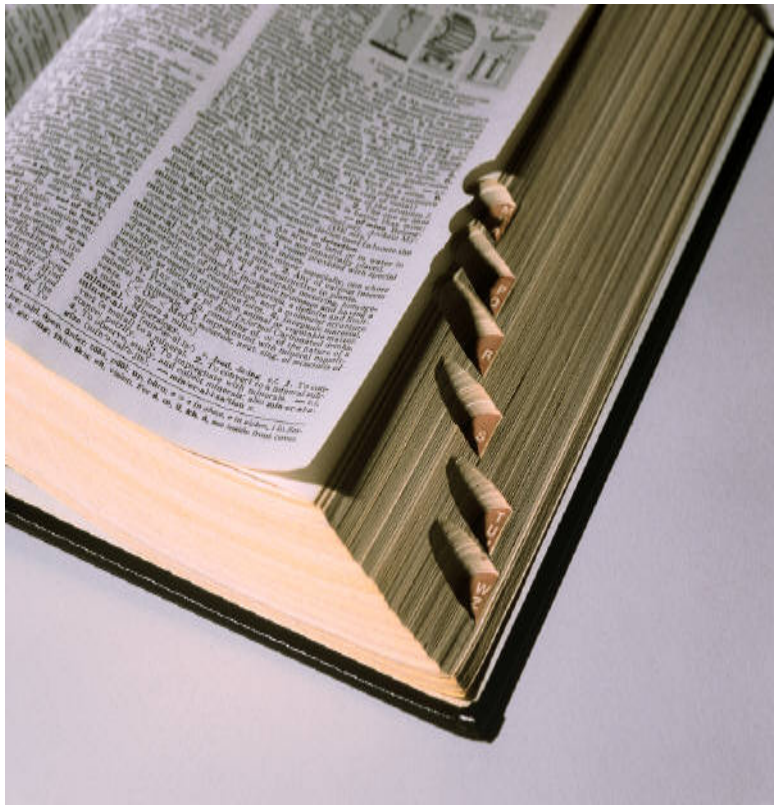
Conclusion

Continued….

- Fund these initiatives through adequate revenue measures, operational savings, re-ordering spending priorities, asset leases or disposals and extra borrowings;
- Ensure that the outcome by year 20 complies with sustainable financial targets (e.g. the LGI recommended minimum surplus ratio and maximum net liabilities ratio).
- Borrow sufficiently between now and 2028/29 to help fund infrastructure renewal under the Responsible Scenario.
- Consider various options including an inflation index linked bond to raise such debt.

Definitions

- Explanation of main terms and concepts used in this presentation



Definitions

- Sustainable: When a council's policy settings achieve responsible financial, service and infrastructure outcomes for the long-term without having to increase rates, fees and charges by a significant amount above annual CPI increases.
- Solvent: When a council is able to pay its bills, debts and other financial liabilities when they fall due.
- Infrastructure: Council's physical (i.e. non-financial) assets excluding land
- Asset Group: a group of infrastructure assets that serve a particular purpose (e.g. culture)

Definitions

- Maintenance: upkeep and repair to an asset so it does not deteriorate prematurely
- Backlog: the quantum of physical assets whose condition has fallen below an acceptable minimum standard of service
- Rehabilitation: overcoming an asset backlog
- Renewal: restoring an asset to its original service capacity using current standards and technology
- Enhancement: expanding an asset beyond its original service capacity

Definitions

- Service: non-infrastructure services such as town planning, building applications, waste management, street cleaning, food inspections, beach patrols, noxious weed eradication, youth services, environmental protection, library services, managing art galleries and swimming pools, promoting tourism and development.
- Existing Spending Policy: assumes Council's infrastructure renewals spending, planned infrastructure enhancements, consequential maintenance and services spending continue on a no-policy change basis.

Definitions

- Restrained Spending Scenario: assumes Council overcomes its infrastructure backlog within 10 years and renews its assets when necessary, but that it freezes its asset stock and cuts its services by enough to achieve a minimum 2.5% budget surplus (the low end of the financially sustainable target range) by 2018/19.
- Preferred Spending Scenario: assumes Council overcomes its infrastructure backlog within 5 years, renews its assets when necessary, expands its total assets in accordance with its existing enhancement plans and increases its services in line with existing policy.

Definitions

- Responsive Spending Scenario: assumes Council overcomes its infrastructure backlog within 5 years, renews assets when necessary and expands its total assets and services in real terms by its projected population growth of 0.8% per annum.
- Responsible Spending Scenario: this strives for a compromise between Council's obligations to achieve:
  - financial sustainability,
  - prevent an infrastructure crisis,
  - preserve essential public services; and
  - keep rates, fees and charges affordable.

Continued……..

Definitions

- The Responsible Scenario after 20 years results in:
  - The infrastructure backlog ratio not exceeding 2%;
  - Council's net financial liabilities ratio not exceeding 80% and its operating surplus ratio being at least 2.5%;
  - Total services spending per resident contracting by 17.3% (i.e. 0.8% per annum) in real terms.
  - Averages rates per property rising by 95% (i.e. 3.4% per annum) in real terms.
  - Average fees and charges revenue per resident increasing by 40% (i.e. 1.7% per annum) in real terms.

Definitions

- Existing Revenue Policy: assumes Council's current revenue policies and plans remain in place.
- Ambitious Revenue Option: assumes the Council's rating and cost recovery effort will match the highest of any NSW coastal urban regional council and if necessary be increased further to achieve a 2.5% operating surplus by 2018/19.

Council's Profile

- What are the key features of Greater Taree City Council ?

Council's Profile - Key Features

- GTCC is located in the Manning Valley region of the Mid North Coast of NSW and occupies an area of 3,752 km².
- Its major cities are Taree and Wingham, which are located near the mid and upper reaches of the Manning River. Other significant towns are Cundletown (near Taree), Harrington (at at the northern mouth of the river) and Old Bar, Diamond Beach & Black Head (on the coast south of the river mouth).
- The area is defined by a green undulating valley with the only double delta river system in Australia. Its pristine forests have some of the tallest trees in the state. It also has beautiful beaches and several historic towns. Only 0.7% of the area is urbanised.

Council's Profile - Key Features

- Its resident population of almost 48,000 puts it on par with other urban regional medium sized councils such as Albury, Cessnock, Clarence Valley and Wingecarribee.
- Compared with the rest of NSW, GTCC's residents are more Australian born (88% versus 68%), older (48% versus 38% are over 44 years of age) and mainly work in health and community services, retail trade, education manufacturing and on the land (58% versus 34%).
- It has 9 Councillors (reduced from 12 previously) and a Mayor (Paul Hogan), elected from a single constituency.
- It is administered by a General Manager (Gerard Jose) with the help of four senior managers and 254 other managers and staff (measured on a FTE basis, but excluding seasonal staff).

Council's Profile - Key Features

- GTCC's total operating expenditure in 2007/08 was $44.0 million.
- In addition it invested $11.8 million that year on acquiring physical assets such as property, plant and equipment.
- Since 2002/03 its population has grown by an average annual rate of 0.9%, which is fractionally higher than NSW (0.8%).
- It is projecting a population growth of 0.8% per annum over the next ten years, which is on par with that of NSW, but below that of the mid-north coast as a whole (almost 1.0%).
- Its future annual real economic growth (excluding inflation) is forecast by *RT* as 2.5%, the same as for the state.

Council's Profile - Services

- GTCC's main services by order of spending in 2007/08 were:
  - **Engineering – Infrastructure,** including roads, bridges, footpaths, drainage, kerbs and gutters, parking, bus shelters, street lighting, parks and recreation: **$16.3m**
  - **Engineering – Other,** including fleet mgt, trades services, investigation and design work, traffic mgt, stormwater, flood-plain and coastal mgt, landcare, etc: **$$7.4M**
  - **Governance and Corporate Services,** including general, financial, asset and other administration, revenue collection, councillors, civic functions: **$7.5M**
  - **Community Development and Health,** including community, youth and aboriginal services, food and fire control, library, gallery and cemeteries, noxious weeds: **$5.1M**
  - **Waste Management,** including domestic waste management services, other waste, sanitation and garbage: **$3.6M**
  - **Planning and Building**, including town planning, land information services, building and development control, land use planning, heritage projects: **$3.5M**
  - **Economic Development, Tourism**, including area, tourism and industrial promotion and other business undertakings. **$0.6M**

  Total service spending: $44.0M

Council's Profile - Infrastructure

- GTCC's major asset groups (at either historical cost or fair value):
  - Roads, bridges, footpaths $334.4M (HC)
  - Bulk earthworks $113.0M (HC)
  - Buildings $81.4.0M (FV)
  - Stormwater assets $80.4M (HC)
  - Other structures $18.2M (HC)
  - Works in progress $2.5M (HC)
  - Plant and equipment $10.0M (FV)
  - Office equipment $5.1M (FV)
  - Furniture and fittings $1.4M (FV)
  - Other assets $3,9M (HC)
    (e.g. library books, heritage collections)
  - Operational land $7.6M (FV)
  - Community land $149.6M (HC)
  - Landfill remediation $3.3M HC)

  Total assets **$810.8M** (note this is a mix of HC and FV)

Council's Profile - Public Opinion

- Council has not undertaken a community opinion survey.

Council's Profile - Income

- GTCC's 2007/08 income was mainly from:
  - Rates and annual charges (e.g. garbage, stormwater): $20.7M
  - User charges and fees (e.g. waste tip, DAs, swim pool): $3.9M
  - Investment income (e.g. interest): $1.9M
  - C/w & State capital grants and subsidies: $8.5M
  - RTA and other contributions: $3.2M
  - Other revenues (e.g. sales, leases & fines): $1.3M

  Subtotal - operating revenues: $39.5M

  - C/w & State capital grants and subsidies: $1.5M
  - Developer, RTA and other contributions: $4.1M
  - Net proceeds from asset sales: $1.2M

  Subtotal - capital revenues: $6.8M

  Total operating and capital revenues: $46.3M

Council's Profile - Income

- GTCC's rating structure in 2007/08 was as follows:
  - Residential: 20,361 households paid an average rate of $610.
  - Commercial: 1,230 businesses paid an average rate of $2,195.
  - Farming: 1,535 farms paid an average rate of $1,010.

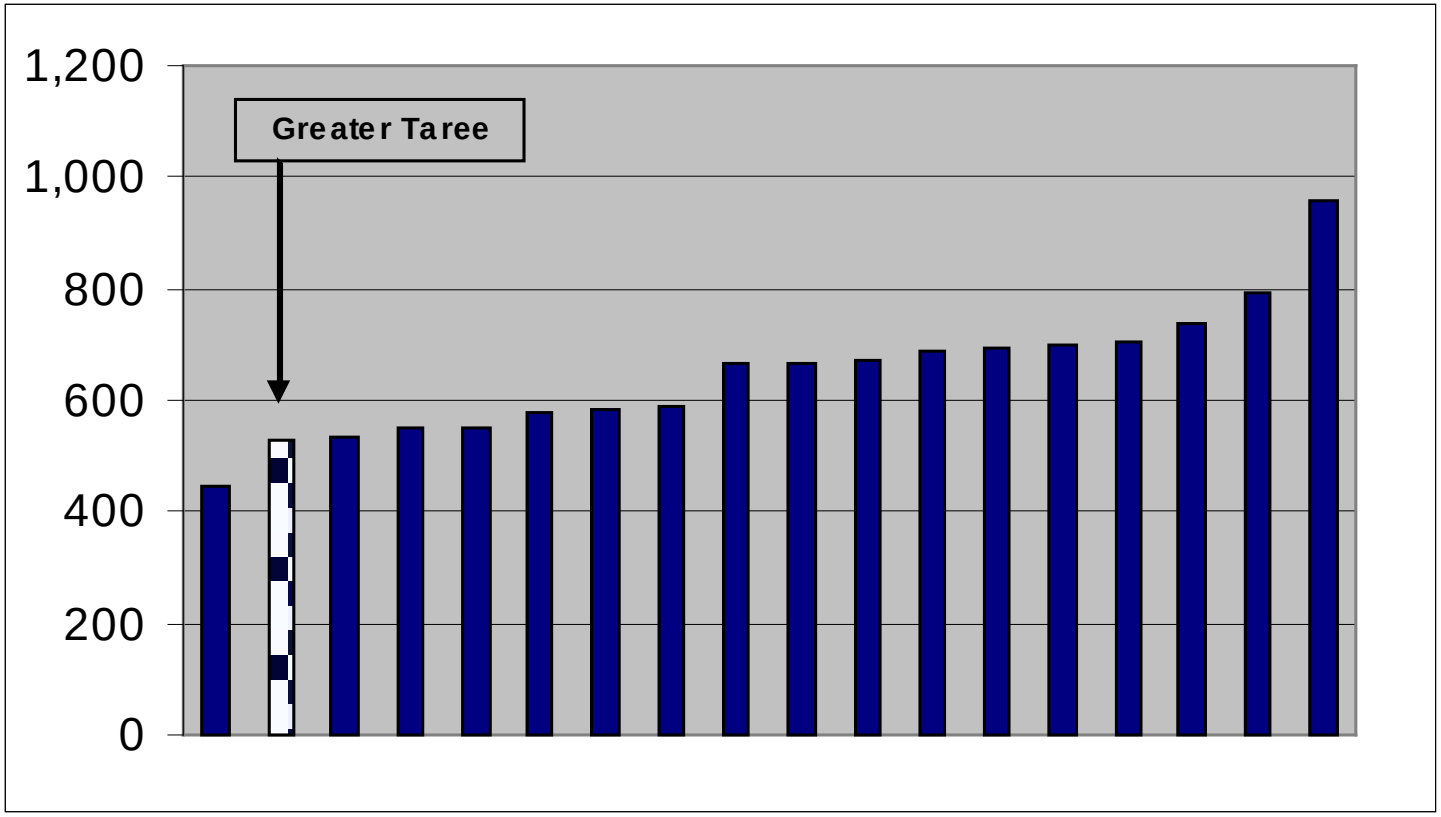
Council's Profile – Income

- Greater Taree's revenue raising efforts compared with that of other medium sized regional councils in 2005/06 were as follows:
  - Its average residential rate was 17% below the average of NSW coastal urban regional councils in NSW.
  - Its average business rate was 18% below the average of its peers.
  - Its fees and charges (excluding water and sewerage) cost recovery ratio* was 8 percentage points below the average of its peers.

* See TreEnt' Report, pages 31 to 33 for an explanation of this ratio.

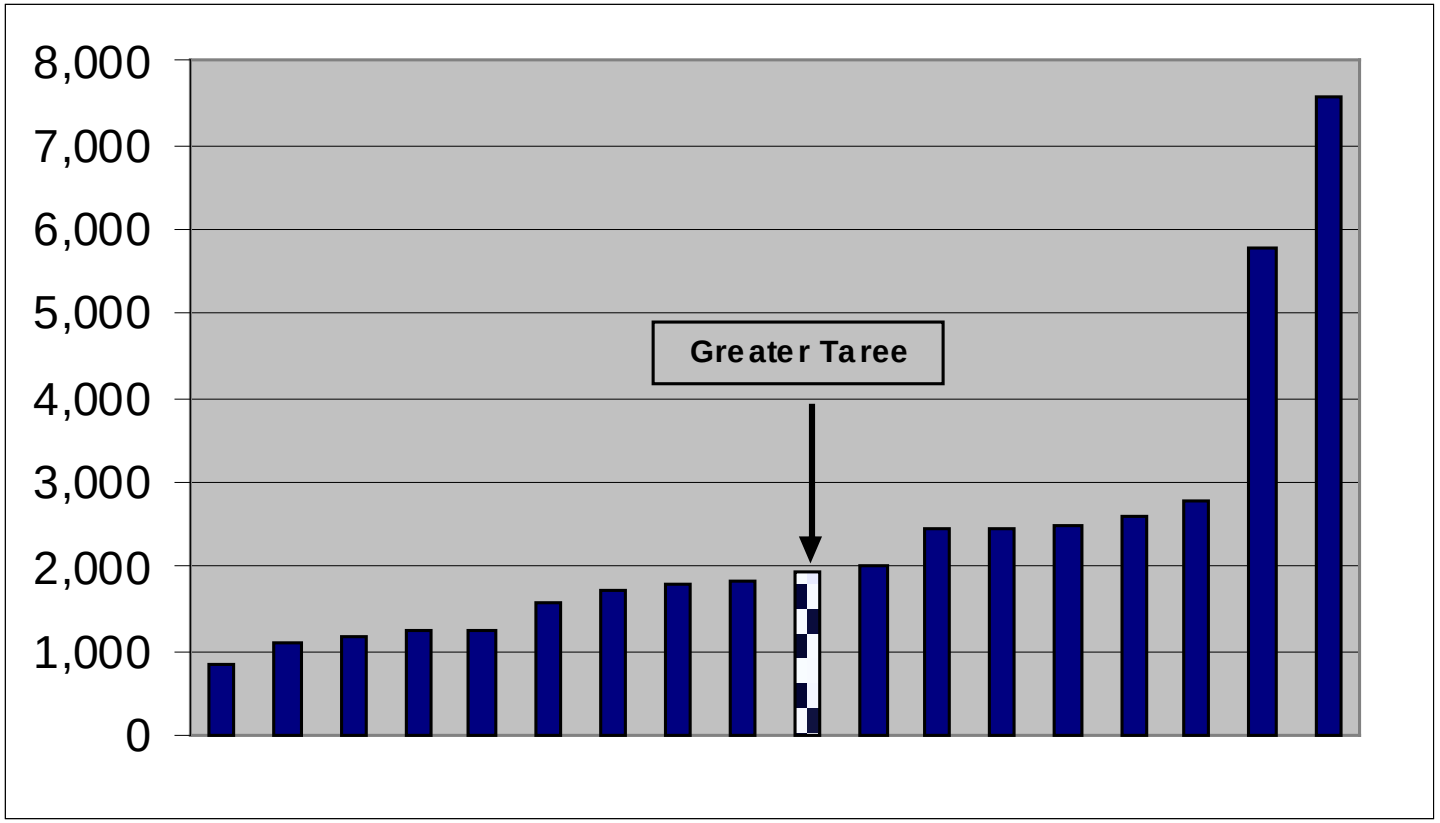
Council's Profile - Income

Average Residential Rates Per Property - GTCCC compared with NSW Coastal Urban Regional Councils, $ per assessment, 2005/06



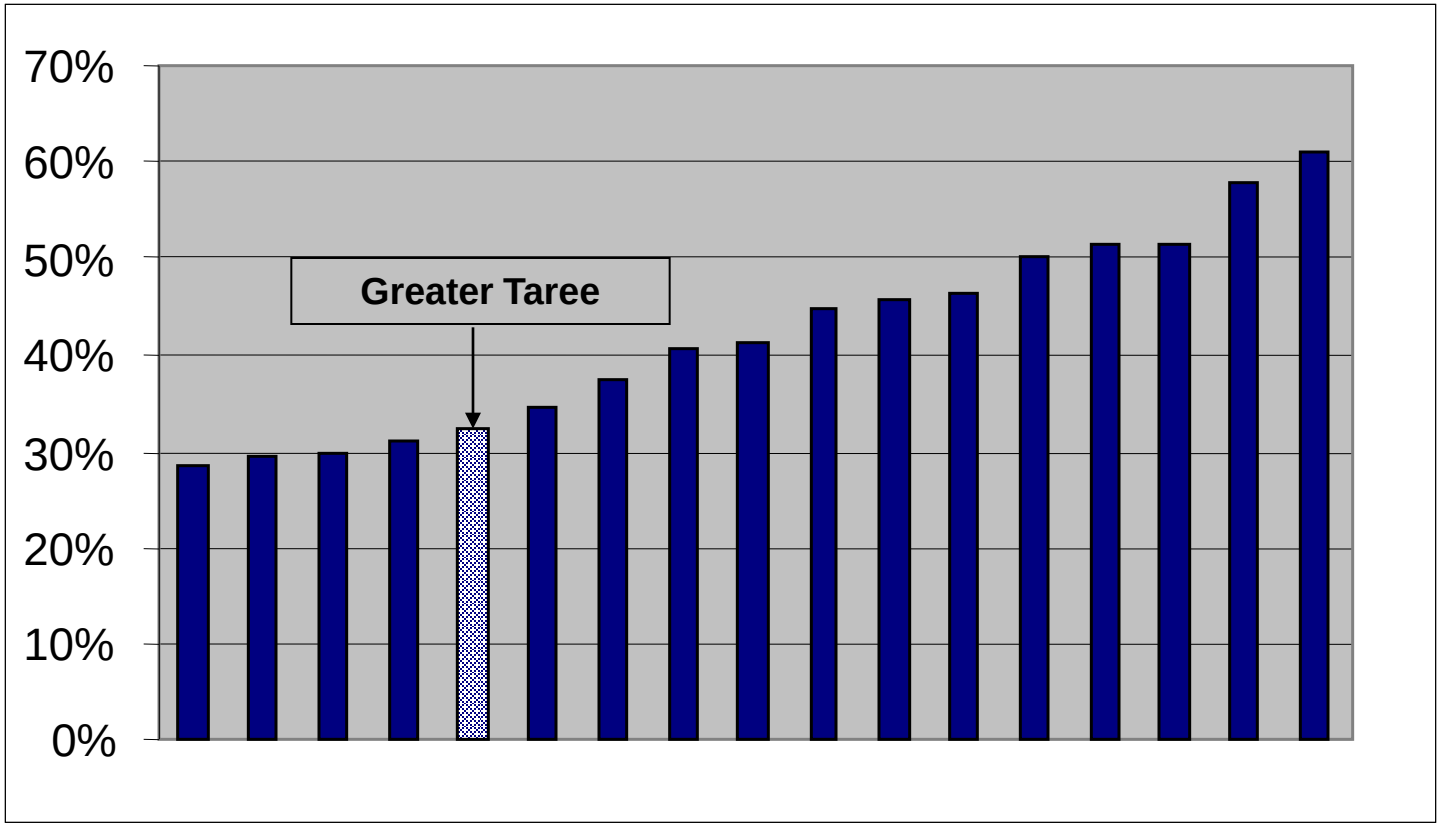
Council's Profile - Income

Average Business Rates – GTCCC compared with NSW Coastal Urban Regional Councils, $ per assessment, 2005/06



Council's Profile - Income

Fees and Charges (excluding water and sewerage) Cost Recovery Ratio – GTCC compared with NSW Coastal Urban Regional Councils, 2005/06



Council's Profile - Growth

- Over the past five years (2002/03–2007/08) GTCC's:
  - Operating revenue grew by 5.2% per annum, revenues from user charges and fees up by 15.1%, government grants up by 4.4% and other contributions and revenues up by 9.3% per annum.
  - These figures compare with annual price inflation of 2.7% and annual economic growth (including inflation) of 4.7% for Greater Taree*.

* Note over the last five years annual real economic growth (excluding inflation) for Greater Taree was about 1.9%, the same as for NSW. Both the nominal and real economic growth rates are estimates by Review Today. The annual inflation rate is based on the Sydney CPI.

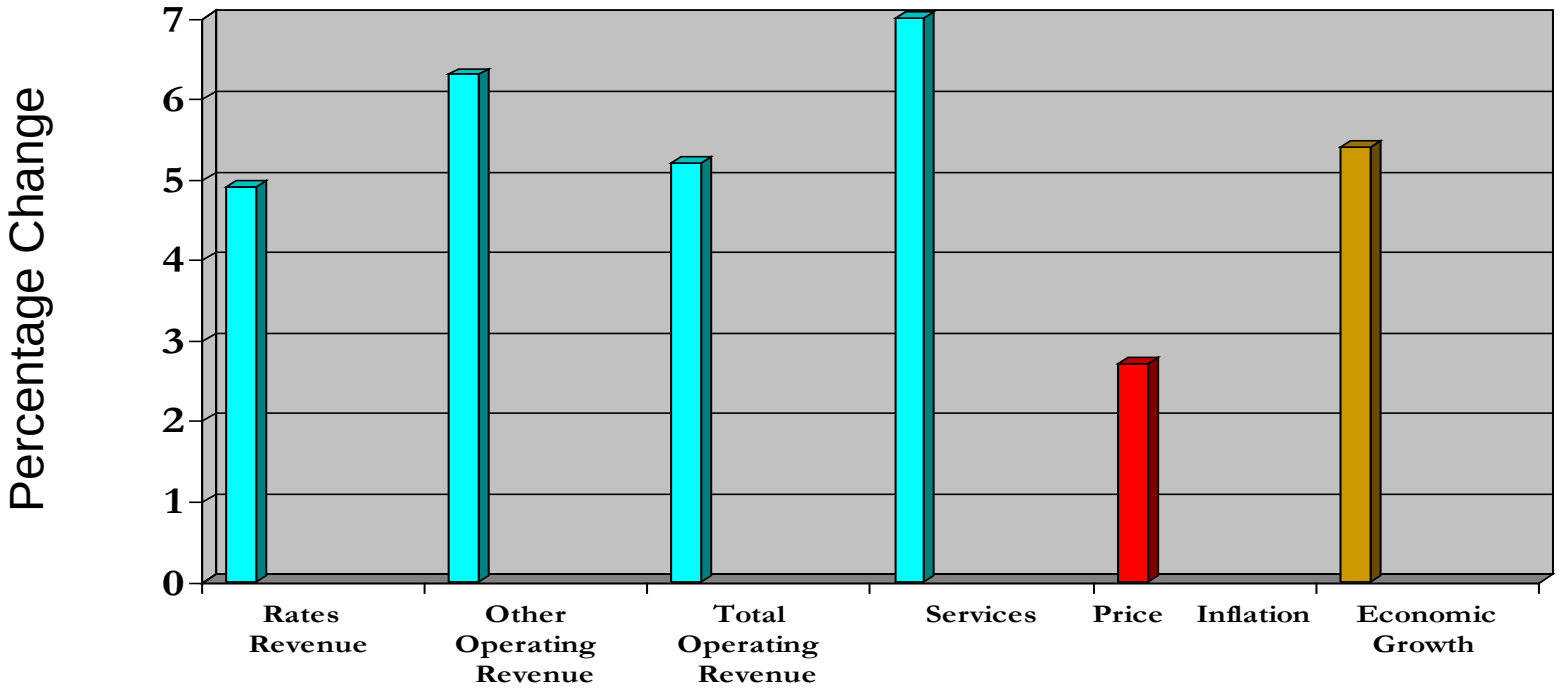
Council's Profile - Growth

- Over the past five years (2002/03–2007/08) GTCC's:
  - Operating expenses grew by 5.6% per annum, but excluding net debt charges, depreciation and maintenance, spending on services rose by 7.0% a year.
  - By contrast annual price inflation was 2.7% and annual economic growth (including inflation) was 5.4% for Greater Taree*.
  - Stripped of inflation, annual real growth in services was 4.2%, which after allowing for population growth was a real rise per capita of 3.3% a year.

* Note that annual real economic growth (excluding inflation) for Greater Taree was 2.6% compared only 1.9% for NSW. Both the nominal and real economic growth rates are estimates by Review Today. The annual inflation rate is based on the Sydney CPI.

Council's Profile – Growth

Annual Growth Rates of GTCC's Operating Revenues and Spending compared with Annual Increases in the Sydney CPI and GTCC's Economy at current prices, 2002/03– 2007/08



Council's Profile – Growth

- Since 2002/03 the areas of fasted annual expenditure growth have been:
  - Health + 18.7%
  - Community services and education + 13.5%
  - Housing and community amenities + 13.3%
  - Public order and safety + 12.6%
  - Mining, manufacturing and construction + 12.0%
  - Recreation and culture + 10.3%

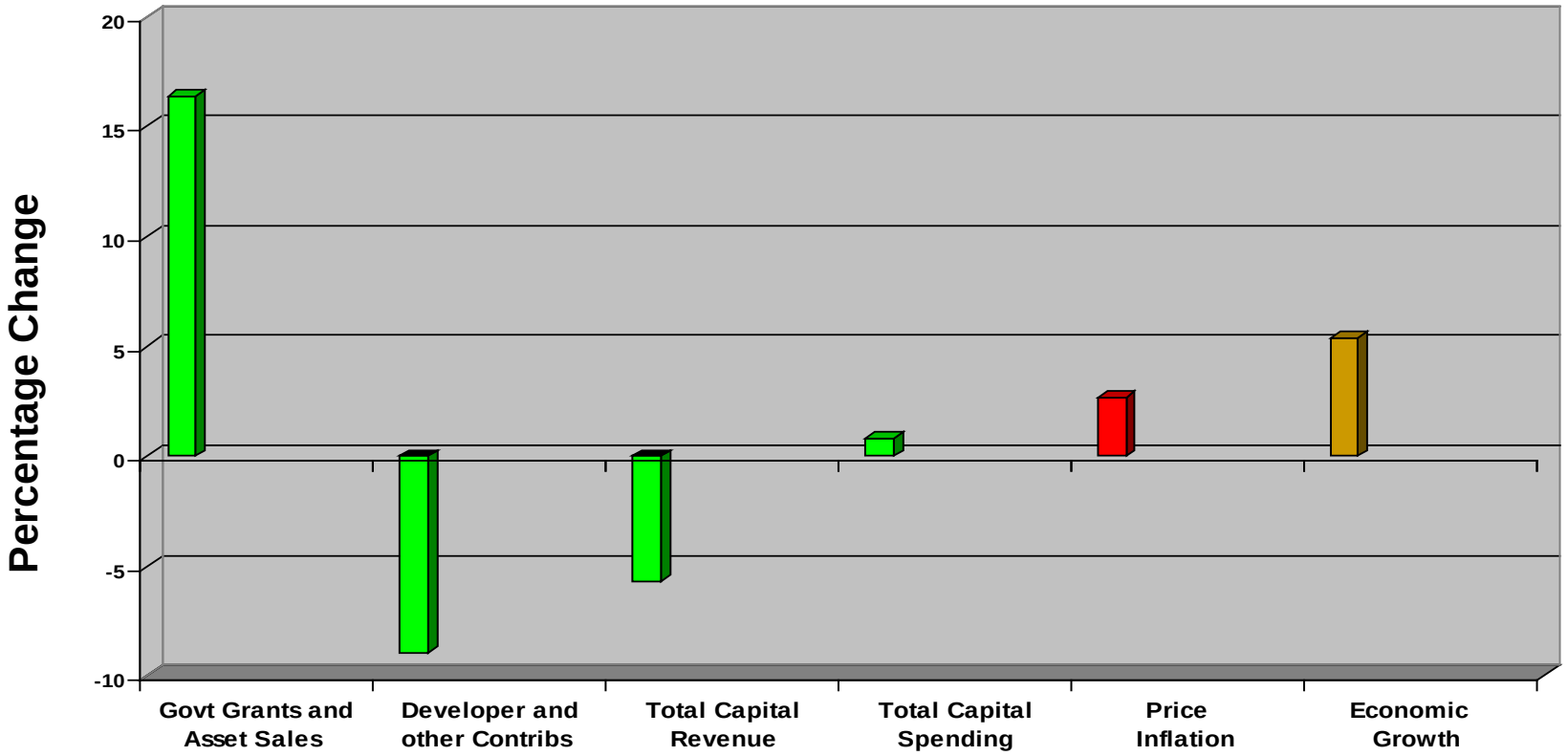
Council's Profile - Growth

- Over the past five years (2002/03–2007/08) GTCC's:
  - Capital revenues have fallen by a hefty 5.7% a year, which after inflation is a real drop of 8.6% per annum. A sharp fall in developer and other contributions was not offset by strong growth in capital grants and asset sale proceeds.
  - Capital spending grew by only 0.8% annually, which represented a real reduction of 1.9% a year. Total infrastructure spending is not known since maintenance spending is not available for 2002/03.
  - These figures compare with annual price inflation of 2.7% and annual economic growth (including inflation) of 5.4% for Greater Taree*.

* Note that annual real economic growth (excluding inflation) for Greater Taree was 2.6% compared only 1.6% for NSW. Both the nominal and real economic growth rates are estimates by Review Today. The annual inflation rate is based on the Sydney CPI.

Council's Profile – Growth

Annual Growth Rates of GTCC's Capital Revenues and Spending compared with Annual Increases in the Sydney CPI and Greater Taree' Economy at current prices, 2002/03– 2007/08



Council's Finances

- What is the state of Council's finances?

Council's Finances - Overview

- GTCC has a very strong balance sheet (i.e. low debt and other financial liabilities).
- As a result GTCC has low interest payments.
- If GTCC increased its income it could afford to borrow more for infrastructure works without exceeding the responsible debt limit prescribed by the Local Government Inquiry (LGI).

Council's Finances - Balance Sheet

Balance Sheet	Council 30.6.08	Floor Target	Ceiling Target
Net debt	9.261		
Plus			
Other financial liabilities	4.4		
Equals			
Net financial liabilities	**13.6**	N.A.	N.A.
Divided by			
Operating revenue (exc. capital transfers, etc)	39.1		
Equals			
Net financial liabilities ratio	**34.9%**	**40%**	**80%**
Operating surplus before interest and depreciation	**9.3**	N.A.	N.A.
Divided by			
Interest expense	1.6		
Equals			
Interest cover ratio	**5.9**	**3.0**	**4.0**

Council's Finances – Overview

- GTCC's operating account (after excluding capital grants) is in deficit by about $3.0M.
- The deficit ratio has shrunk from 30% in 2002/03 to 10.2% now.
- According to the LGI a council should have a minimum operating surplus ratio of 2.5%.
- Such an operating surplus would ensure that a fair share of the cost of infrastructure enhancement (i.e. expansion) was paid for by existing residents rather than the total cost being passed on to future generations.

Council's Finances - Operating Account

Operating Account	Council 30th June 2008	Floor Target	Ceiling Target
Operating revenue (excluding capital revenue)	39.1		
Less			
Operating expenses (including net interest and asset depreciation expenses)	42.1		
Equals			
Operating surplus / (deficit)	**-3.0**	N.A.	N.A.
Divided by			
Own-source operating revenue	29.6		
Equals			
Operating surplus/ (deficit) ratio	**-10.2%**	**2.5%**	**7.5%**

Council's Finances – Overview

- GTCC's capital account runs a deficit of about $1.4M.
- 13% of its infrastructure enhancements (i.e. expansion) is funded by borrowings.
- This rate of borrowing is below the 25%-50% target band recommended by the LGI.

Council's Finances - Capital Account

$M

Capital Account	Council 30th June 2008	Floor Target	Ceiling Target
Capital revenue (including capital grants and contributions)	16.0		
Less			
Capital expenditures	17.4		
Equals			
Capital surplus / (deficit)	**-1.4**	N.A.	N.A.

Sustainability Analysis

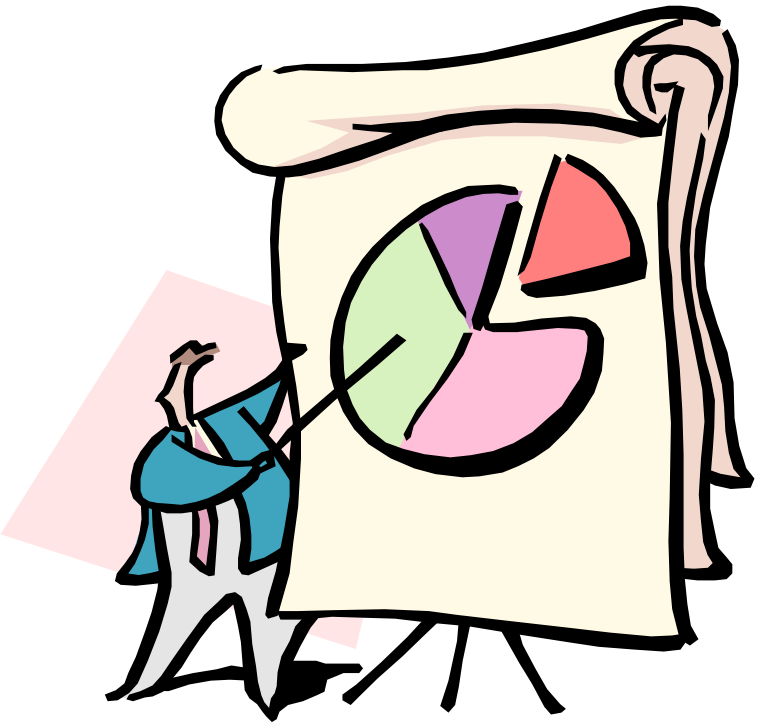
- What questions are asked in a financial sustainability analysis?

Sustainability Analysis

- *Will Council's existing policies meet its infrastructure and service needs?*
- *If not what is required to fix its infrastructure and preserve its services and facilities to serve a growing community?*

Sustainability Analysis

- *Are such alternative spending scenarios affordable within prudent fiscal limits?*
- *If not, what could be done to boost revenue, achieve efficiencies, or reorder spending priorities to make Council sustainable?*



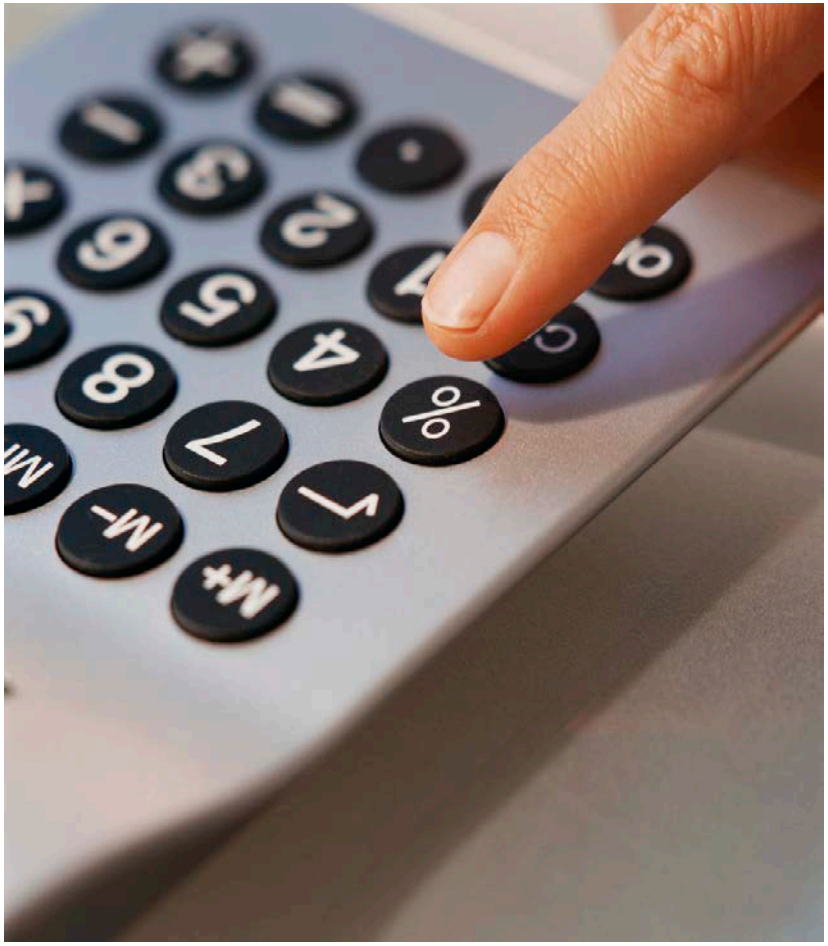
Sustainability Analysis

- The following sustainability analysis initially assumes constant 2008/09 prices. In other words no price inflation.
- This assumption is relaxed later on when we turn to financial ratio analysis.

Sustainability Analysis

- To do a Council sustainability analysis we must first:
  - Check the condition of its existing infrastructure.
  - Calculate the cost of:
    - Rehabilitating infrastructure that has failed (the “backlog”);
    - Renewing infrastructure when its due for replacement,
    - Enhancing (i.e. expanding) infrastructure to serve a growing community,
    - Maintaining infrastructure during its entire lifecycle;
    - Expanding ordinary services to meet community growth;
    - Paying debt charges on any borrowings used to fund infrastructure and service improvements; and
    - Total spending associated with all of the above transactions.

Sustainability Analysis



- Hence total Council spending under existing and alternative policies is arrived by summing:
  - Backlog rehabilitation +
  - Future renewals +
  - Future enhancements +
  - Consequential maintenance +

Equals

  - **Total Infrastructure spending**

Plus

  - Total Services spending +
  - Total Debt Charges

Equals

  - **Total Council Spending**

Infrastructure

- Infrastructure includes all physical assets such as:
  - Roads (inc. footpaths, guard rails and lighting)
  - Storm Water assets (inc. underground pipes)
  - Buildings & Structures (inc. bridges and sea walls)
  - Recreational assets (inc. parks & sports grounds)
  - Natural assets (inc. trees)

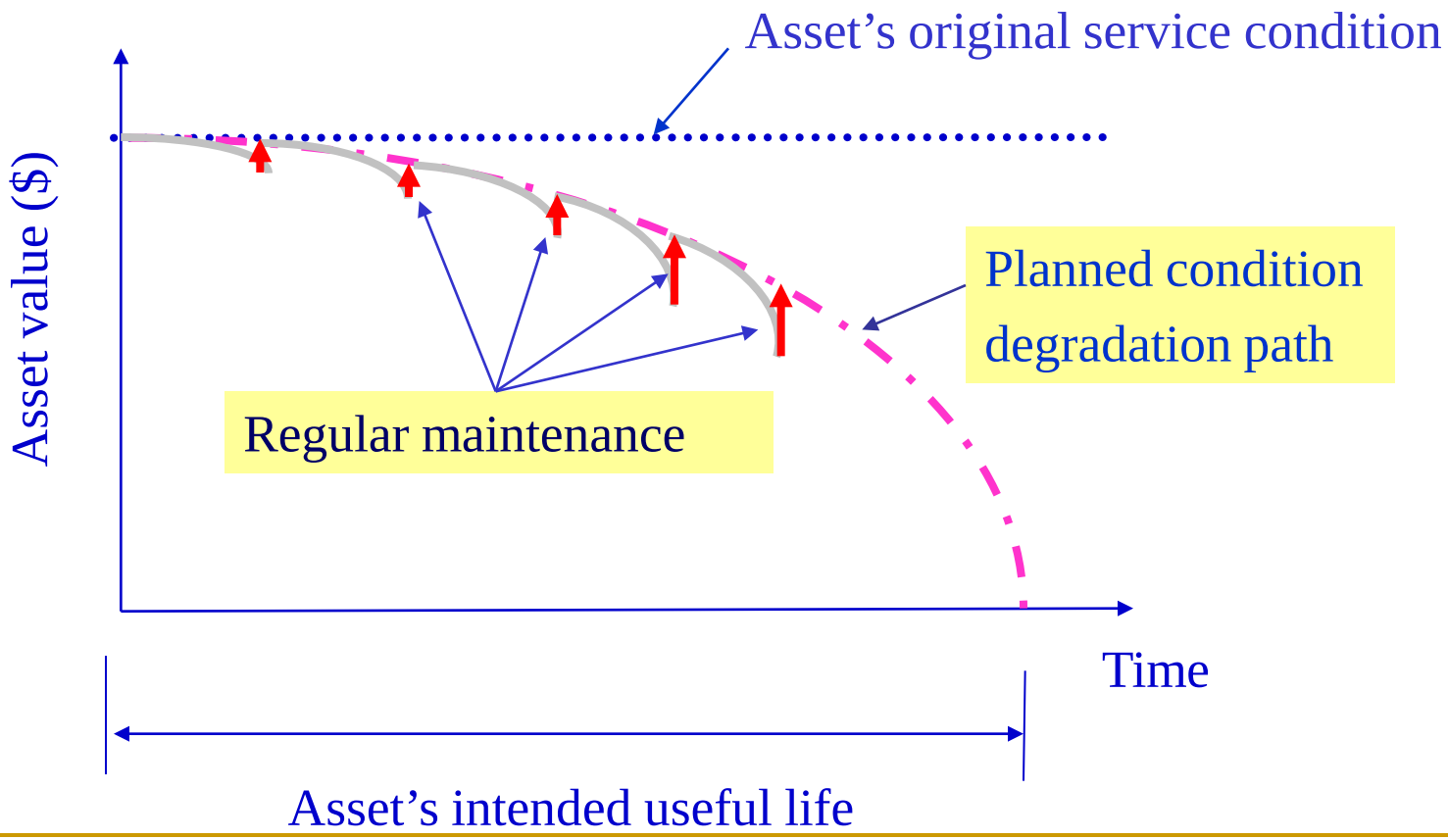
Infrastructure - Condition

- Infrastructure needs to be:
  - **Maintained** (i.e. routine repairs);
  - **Renewed** (i.e. refurbished or replaced) when it deteriorates to an unacceptable standard;
  - **Rehabilitated** (i.e. undertake backlog maintenance or renewals); and
  - **Enhanced** (i.e. expanded beyond its original capacity/ service level) when it can no longer keep up with community demands.
- Example for a local road:
  - **Maintained** - Potholes are regularly repaired;
  - **Renewed or Rehabilitated** - Surface is renewed when its condition deteriorates to an agreed intervention level (Renewal) or if it's been neglected for a long time (Rehabilitation); and
  - **Enhanced** - Capacity may be expanded by adding extra driving lanes when traffic becomes congested.

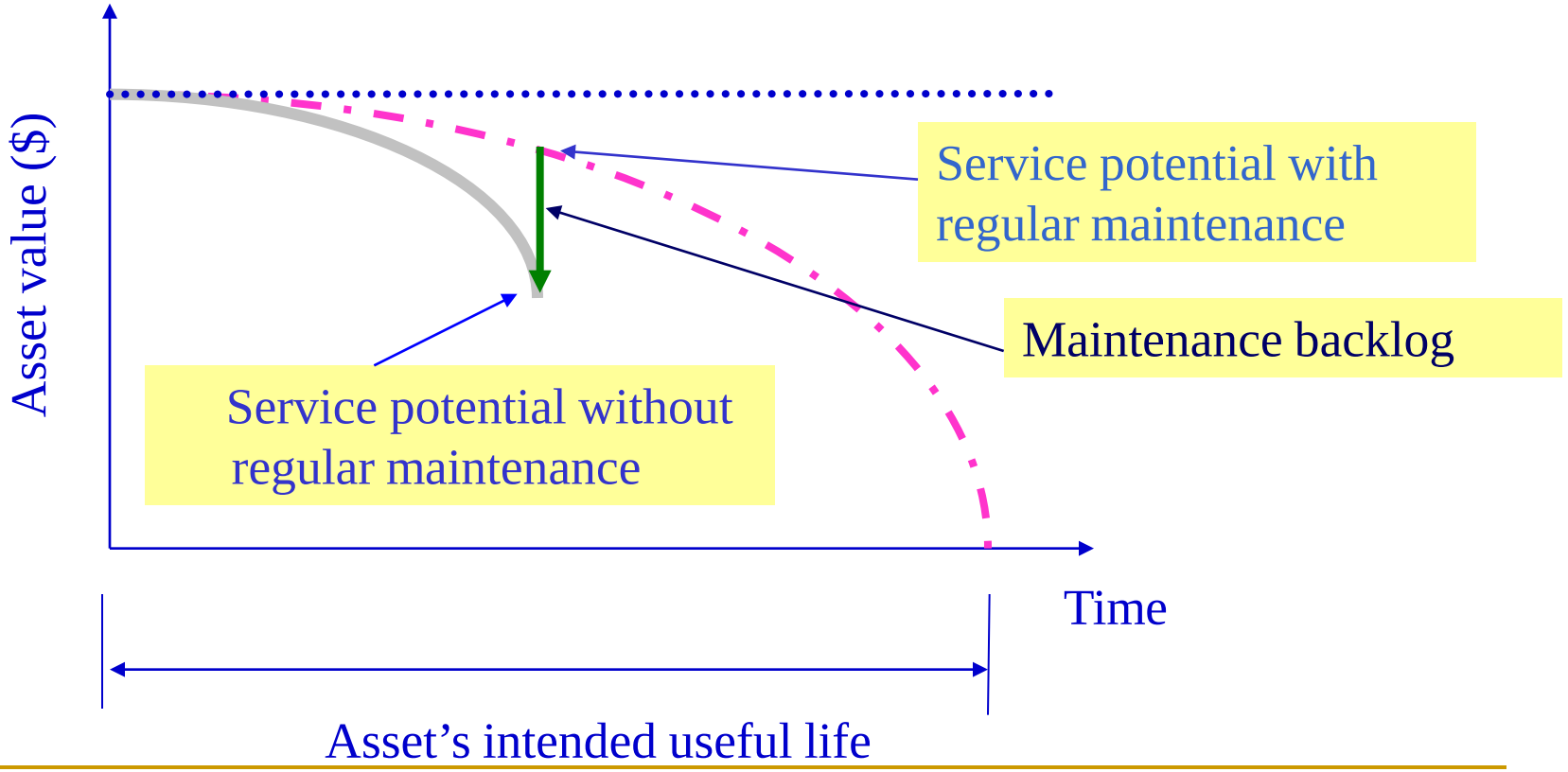
Infrastructure - Condition

- For a typical asset:
  - Its condition will degrade with age.
  - This degradation starts gradually and accelerates towards the end of the asset's life.
  - As the asset's condition degrades the level of service it provides also declines.
  - The cost to maintain the asset increases with time.
  - When the asset's service level falls below a satisfactory standard, the asset should be restored or renewed.
  - If this does not happen a maintenance or renewal backlog develops requiring asset rehabilitation.
  - Eventually the cost to maintain the asset will exceed the benefit of keeping it in service and the asset must be replaced.

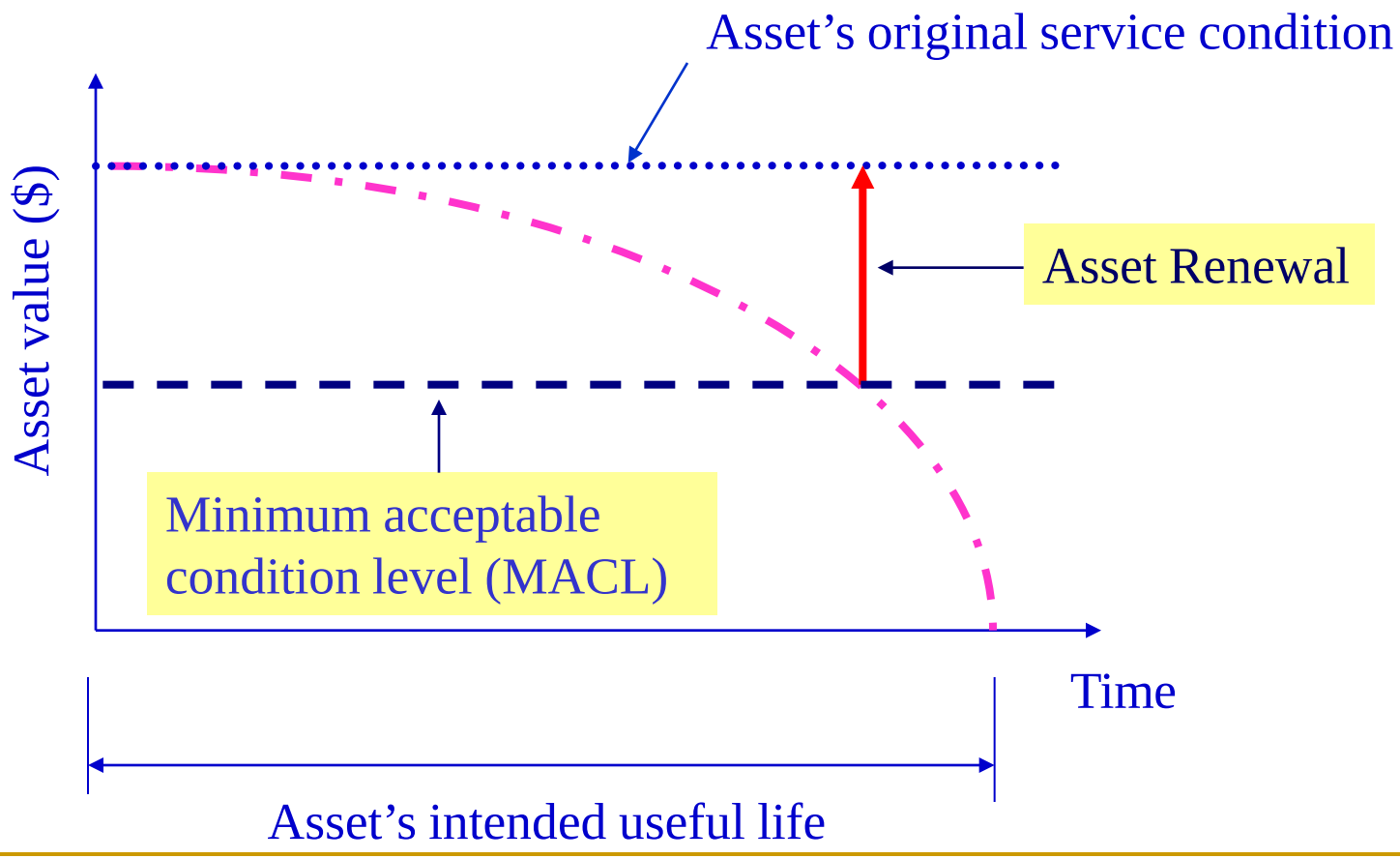
Regular Maintenance… restores an asset to its planned condition degradation path



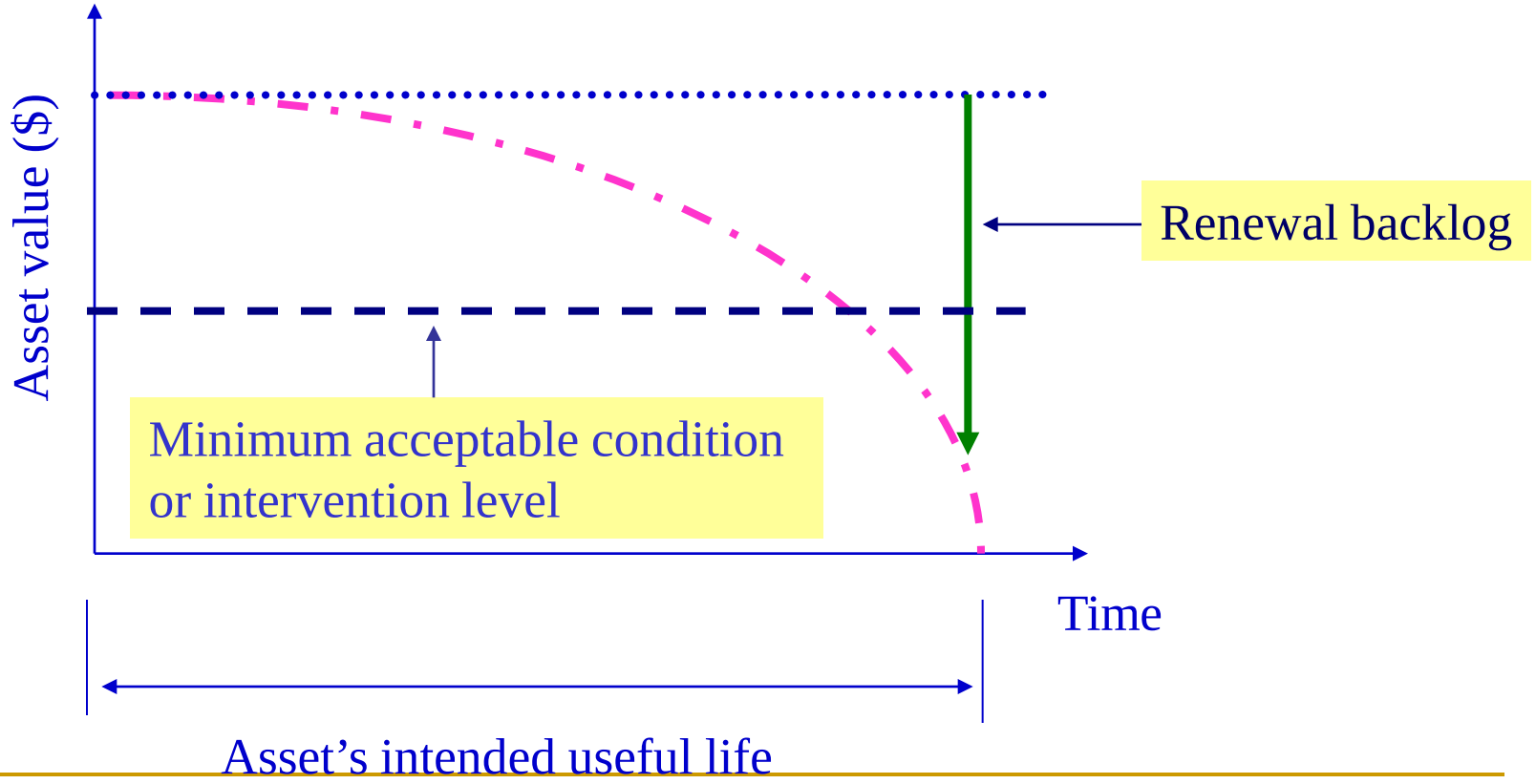
A Maintenance Backlog …develops when an asset has not been regularly maintained



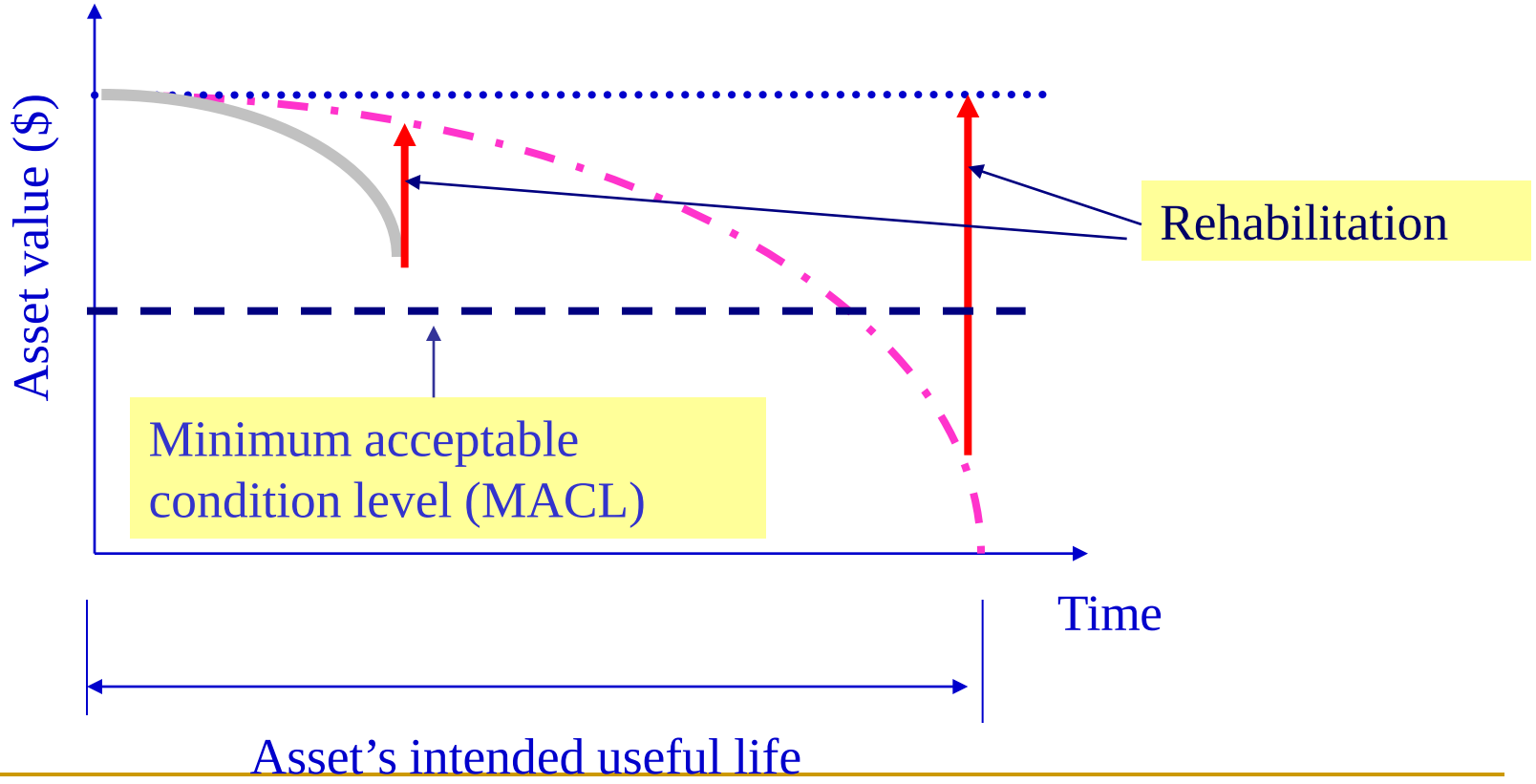
Asset Renewal….restores an assets service condition



An Asset Renewal Backlog…develops when an asset is not renewed when it reaches its intervention level



Asset Rehabilitation …is necessary when either a maintenance or renewal backlog occurs



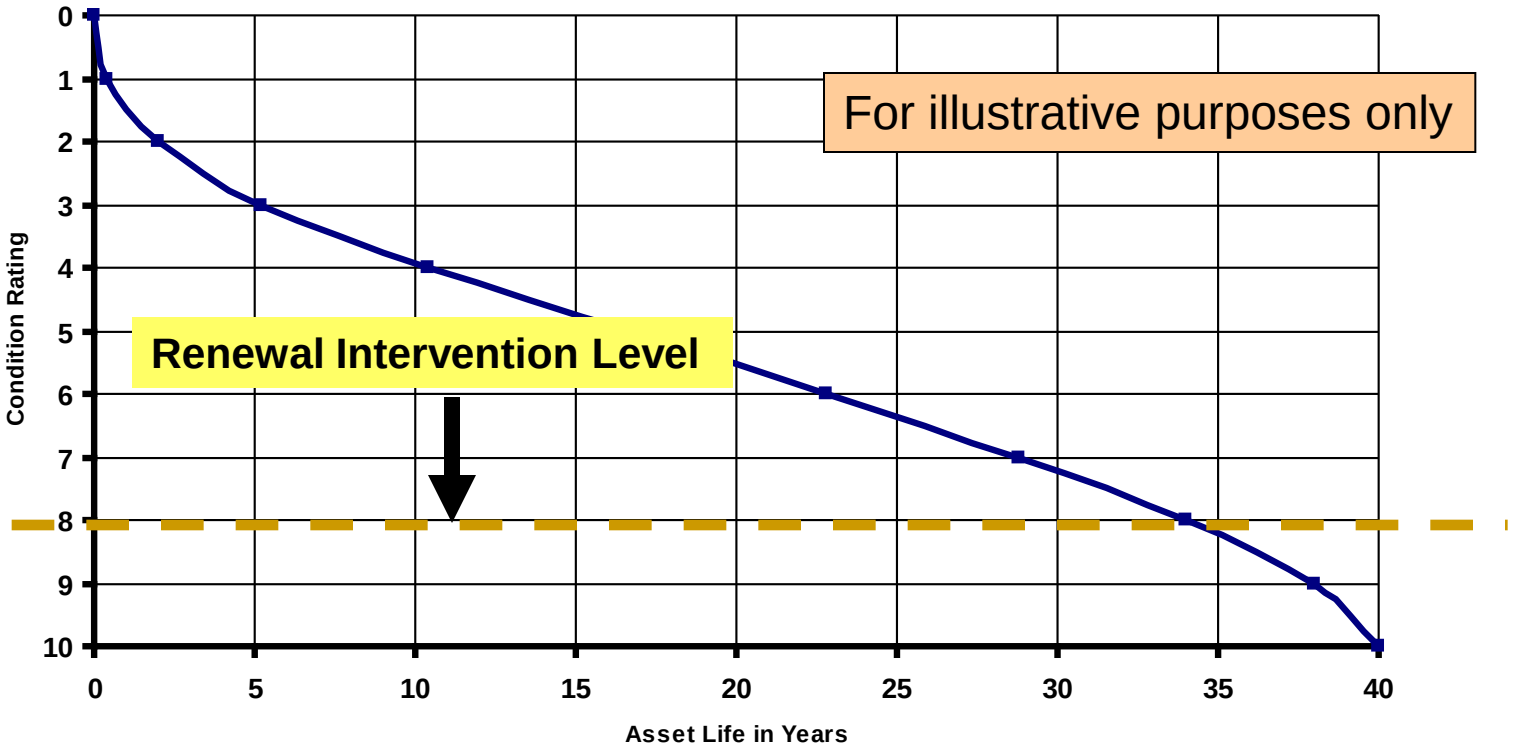
GTCC's Infrastructure – Condition

GHD's Asset Condition Ratings Scale

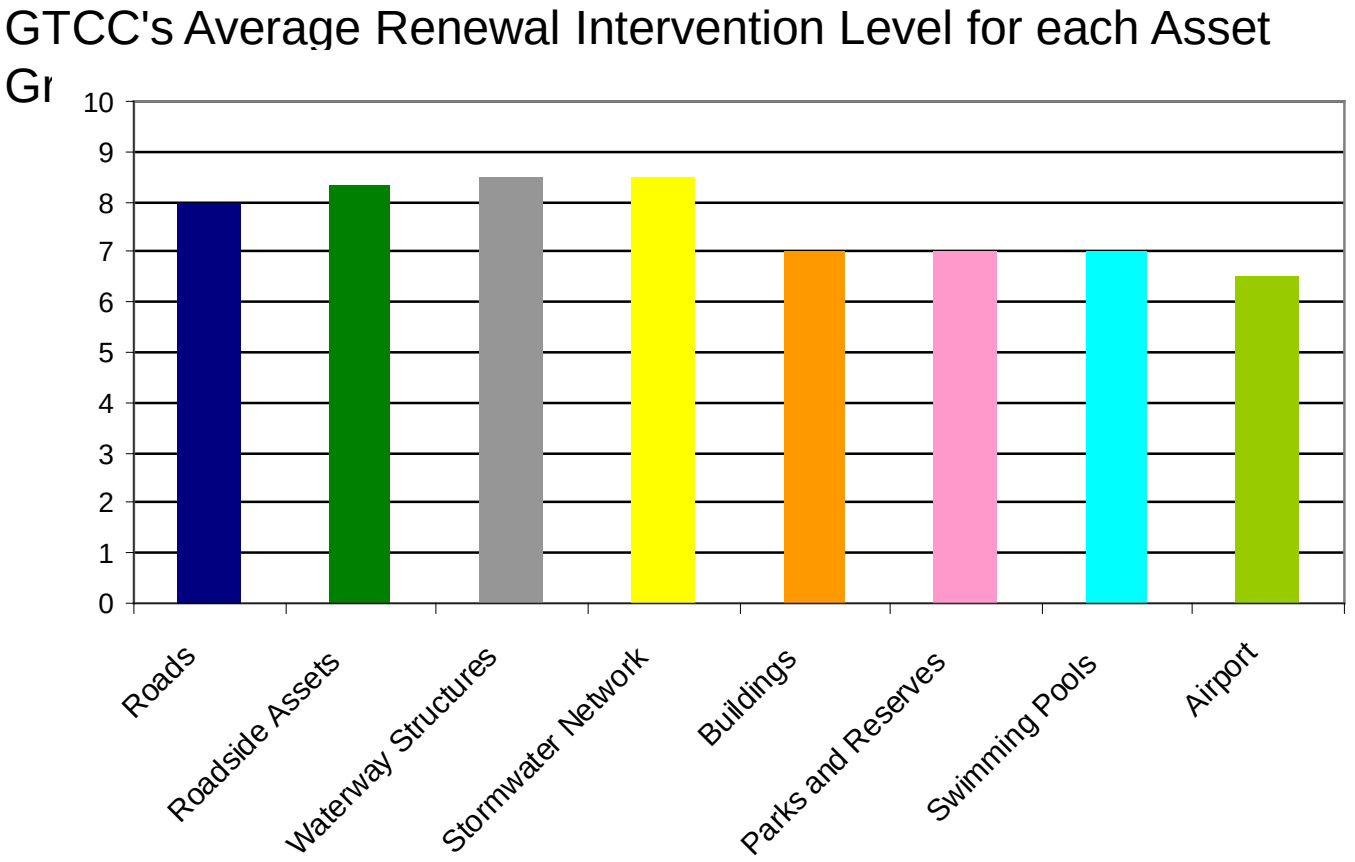
10	An asset that has failed is no longer serviceable and should not remain in service. There would be an extreme risk in leaving the asset in service.
9	An asset in extremely poor condition with severe serviceability problems and needing rehabilitation immediately. Could also be a risk to remain in service
8	An asset in very poor overall condition with serviceability now being heavily impacted upon by the poor condition. Maintenance cost would be very high and the asset would be at a point where it needed to be rehabilitated.
7	An asset in poor overall condition deterioration would be quite severe and would be starting to limit the serviceability of the asset. Maintenance cost would be high
6	An asset in Fair to poor overall condition. The condition deterioration would be quite obvious. Asset serviceability would now be affected and maintenance cost would be rising.
5	An asset in fair overall condition deterioration in condition would be obvious and there would be some serviceability loss.
4	An asset in good overall condition but with some obvious deterioration evident, serviceability would be impaired very slightly.
3	An asset in very good overall condition but with some early stages of deterioration evident, but the deterioration still minor in nature and causing no serviceability problems.
2	An asset in excellent overall condition. There would be only very slight condition decline but it would be obvious that the asset was no longer in new condition.
1	A near new asset with no visible signs of deterioration often moved to condition 1 based upon the time since construction rather than observed condition decline.
0	A new asset or an asset recently rehabilitated back to new condition.

Infrastructure - Condition

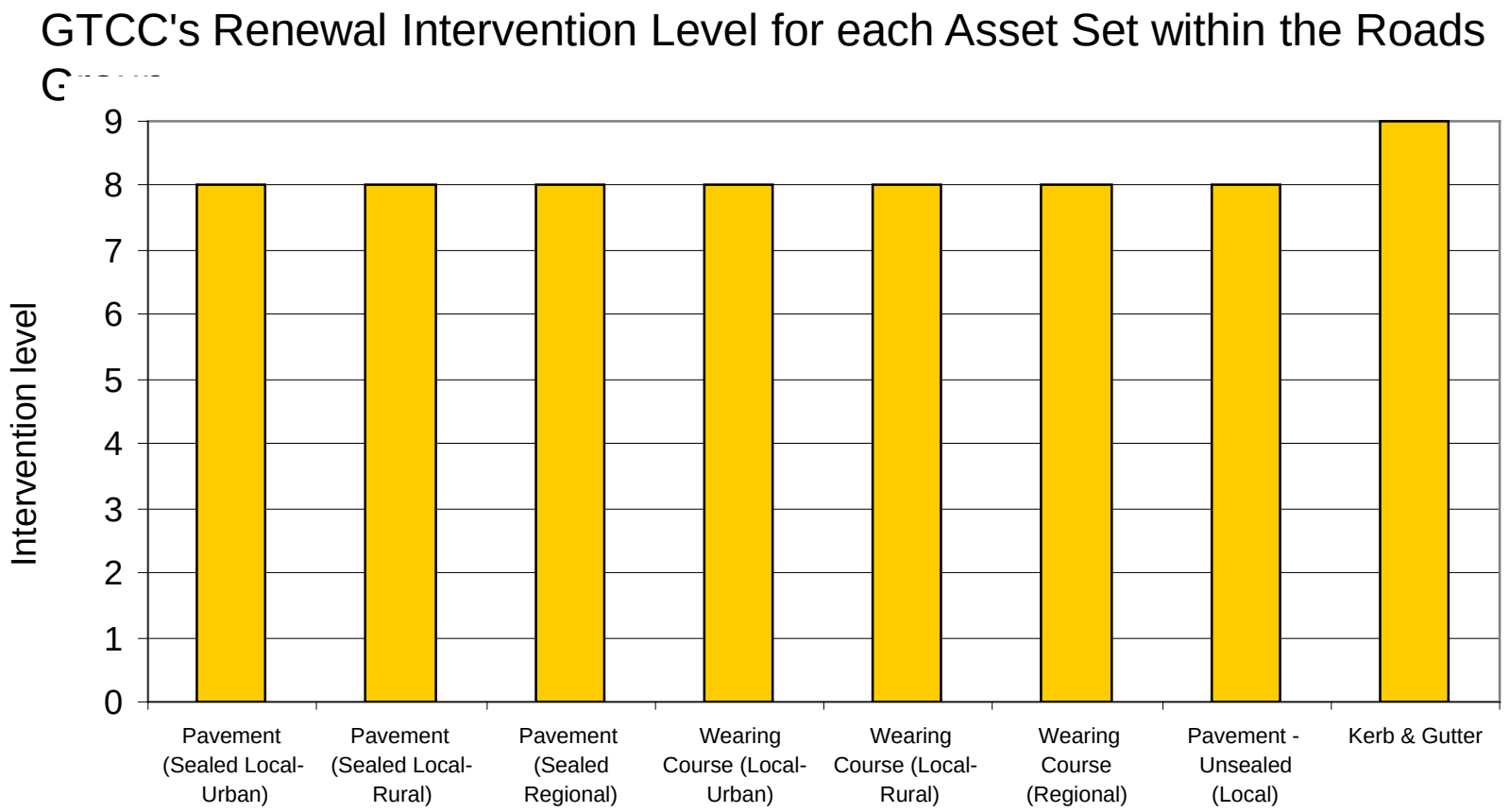
Hypothetical Asset Degradation Curve for a Sealed Road showing the Condition Rating at which GTCC would Intervene to Renew the Asset.



Infrastructure - Condition



Infrastructure - Condition

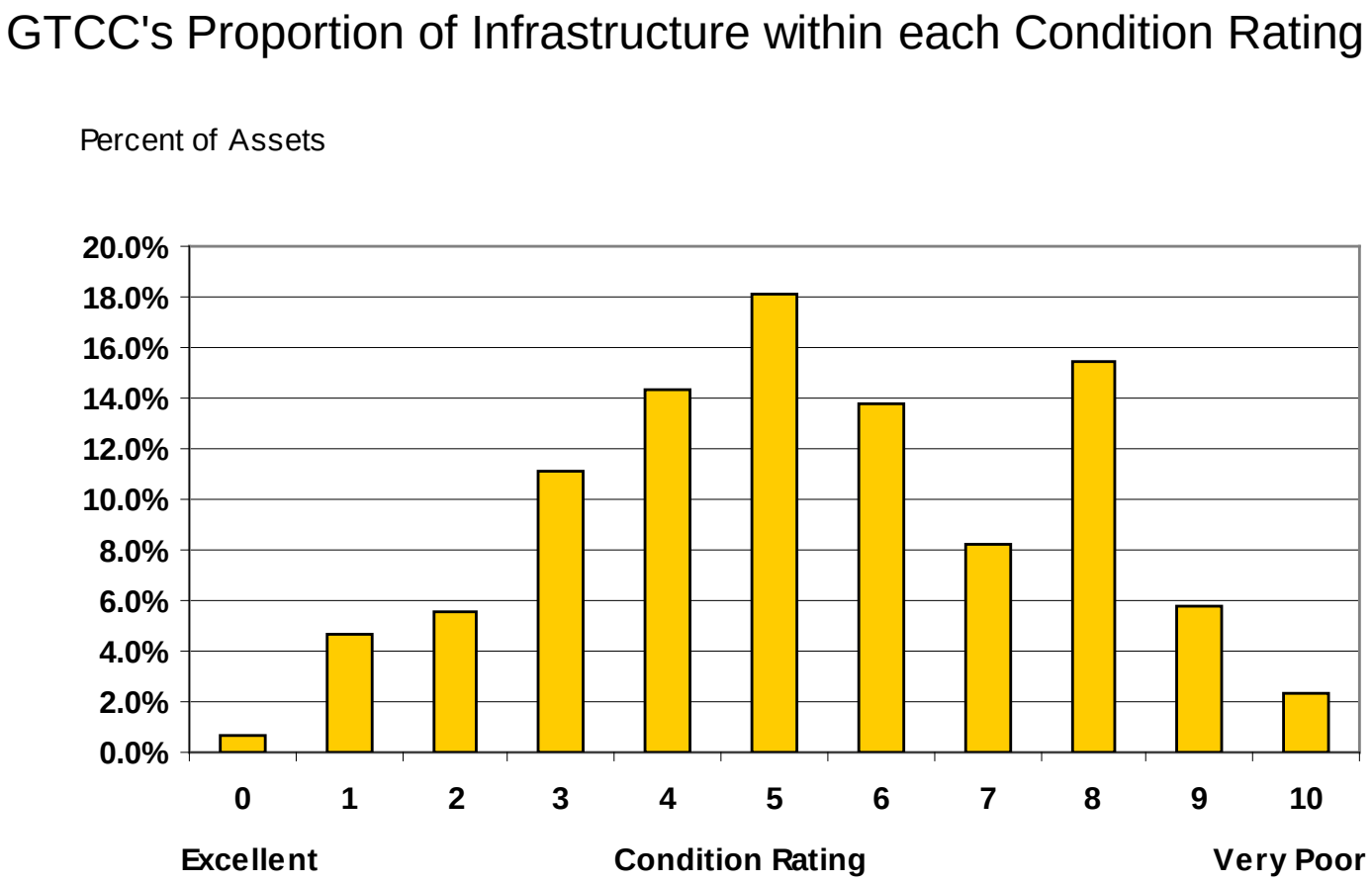


Infrastructure - Condition

- The present condition of GTCC's overall infrastructure is as follows:

Condition		Split
0	Excellent	0.6%
1	Very Good	4.7%
2	Very Good	5.6%
3	Good	11.1%
4	Good	14.3%
5	Fair	18.1%
6	Fair	13.8%
7	Poor	8.2%
8	Poor	15.4%
9	Very Poor	5.8%
10	Very Poor	2.3%

Infrastructure – Condition



Infrastructure – Condition

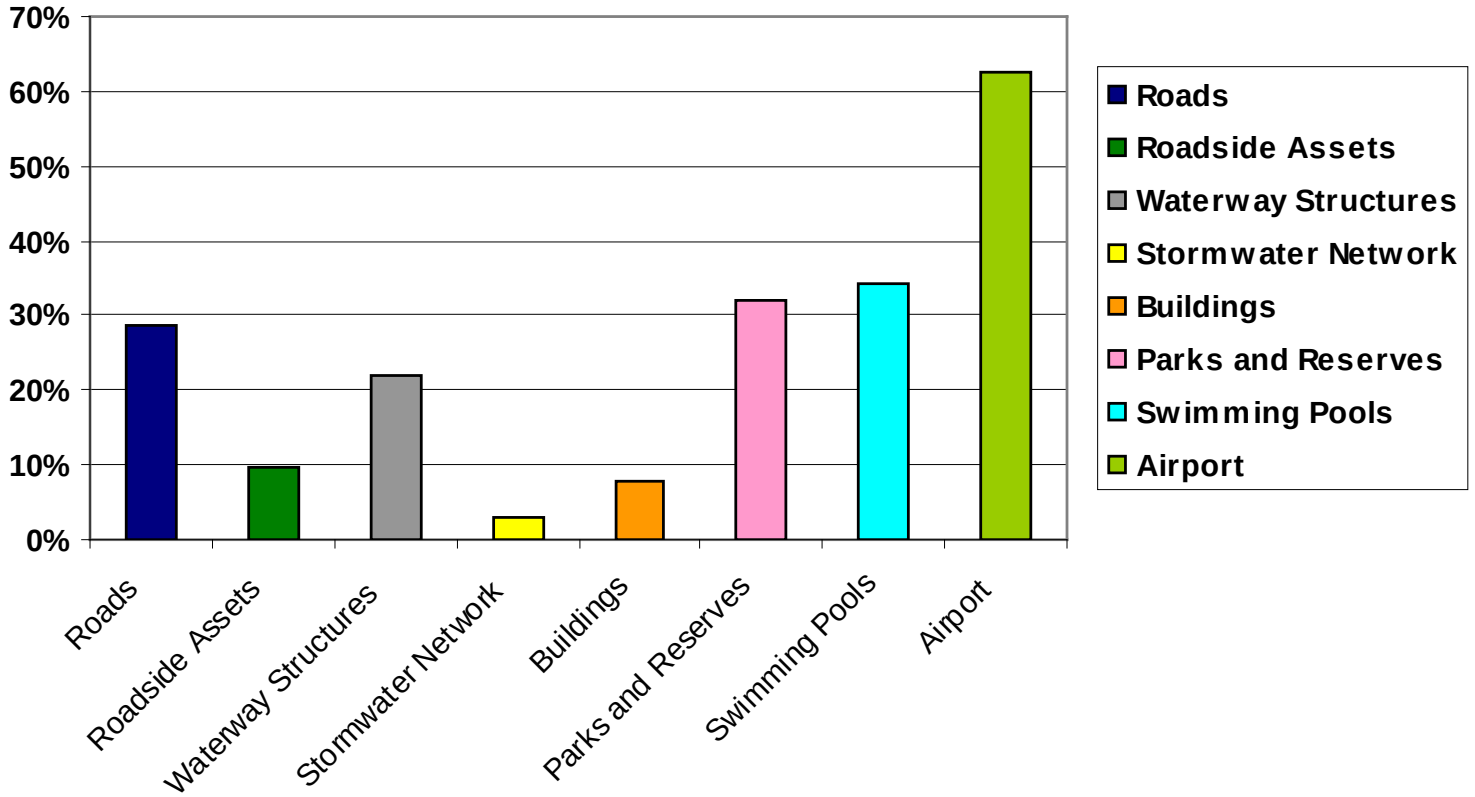
- The share of each major asset group that is currently in an unacceptable condition* is:

Asset Group	Unacceptable
Roads	28.7%
Roadside Assets	9.5%
Waterway Structures	21.9%
Stormwater Network	3.0%
Buildings	7.8%
Parks and Reserves	31.9%
Swimming Pools	34.4%
Airport	62.5%

*An unacceptable condition is when an asset is at or has degraded below its intervention level.

Infrastructure - Condition

Proportion of each GTCC Asset Group in an unacceptable condition*

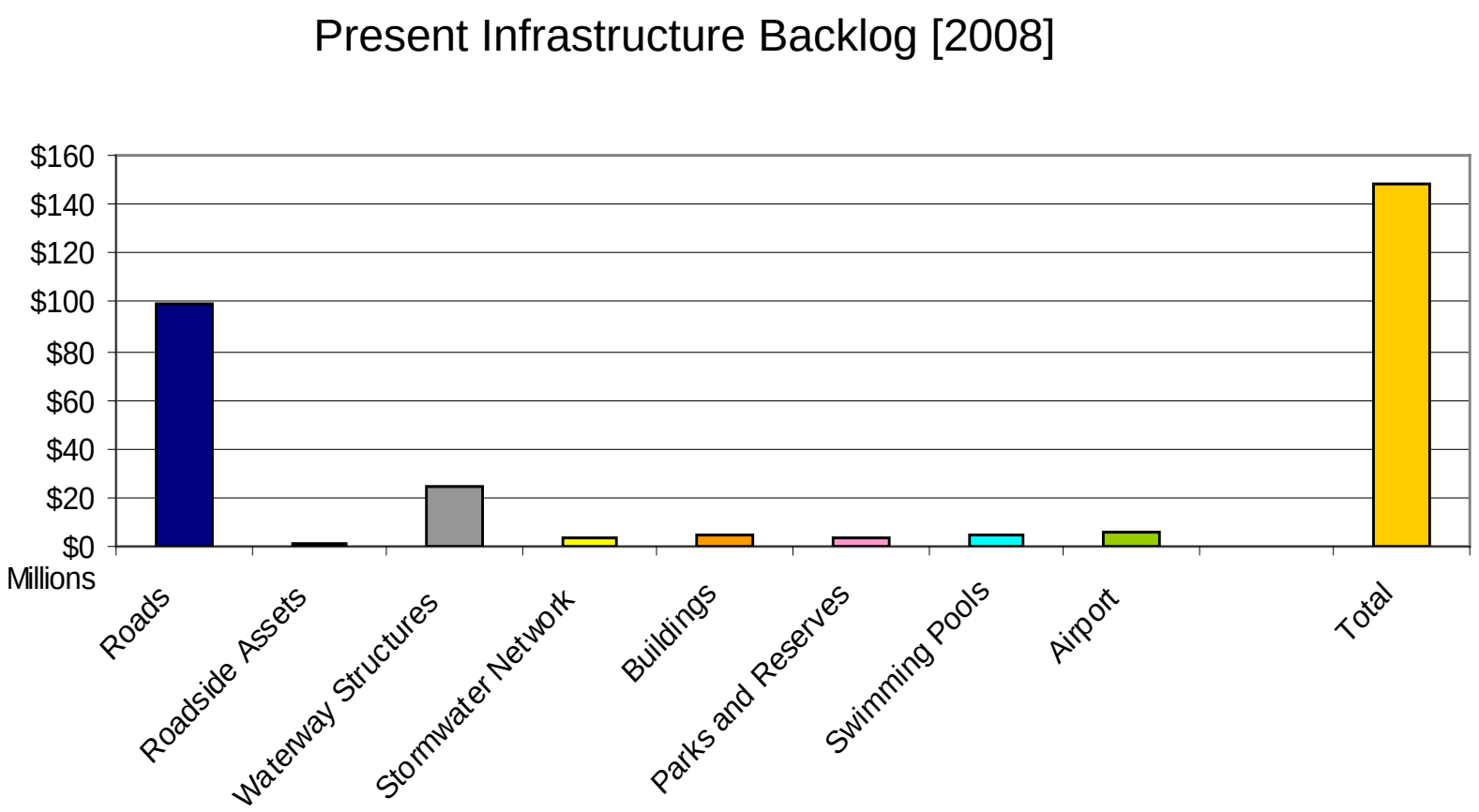


*An unacceptable condition is when an asset is at or has degraded below its intervention level.

Infrastructure - Backlog

- Many of GTCC's public assets are reaching the end of their economic life.
- Many infrastructure assets have already fallen below an acceptable standard and require renewal.
- The estimated cost to recover this infrastructure backlog is **$148.2M,** attributable as follows:
  - Roads ($98.9M),
  - Waterway Structures ($25.0M),
  - Buildings ($5.0M),
  - Swimming Pools ($4.8M)
  - Stormwater Assets ($3.6M),
  - Parks and Reserves ($3.6M),
  - Airport ($5.9M)
  - Roadside Assets ($1.4M),

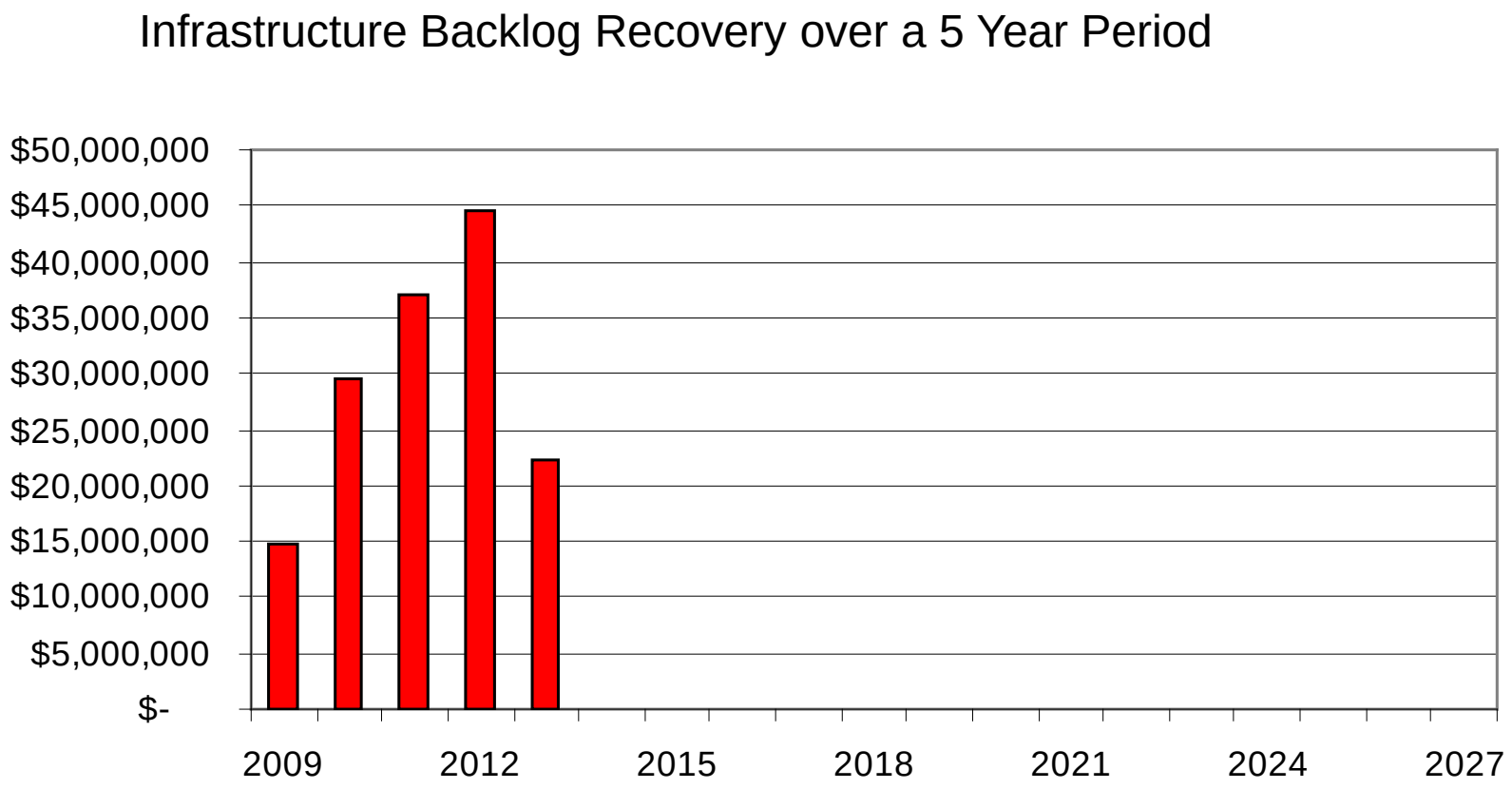
Infrastructure - Backlog



Infrastructure – Rehabilitation

- **Required Rehabilitation**
  - If this infrastructure backlog of $148.2 million was restored over 5 years the annual rehabilitation expenditure might take the form shown in the next chart.
  - This is average annual spend of $29.6million.

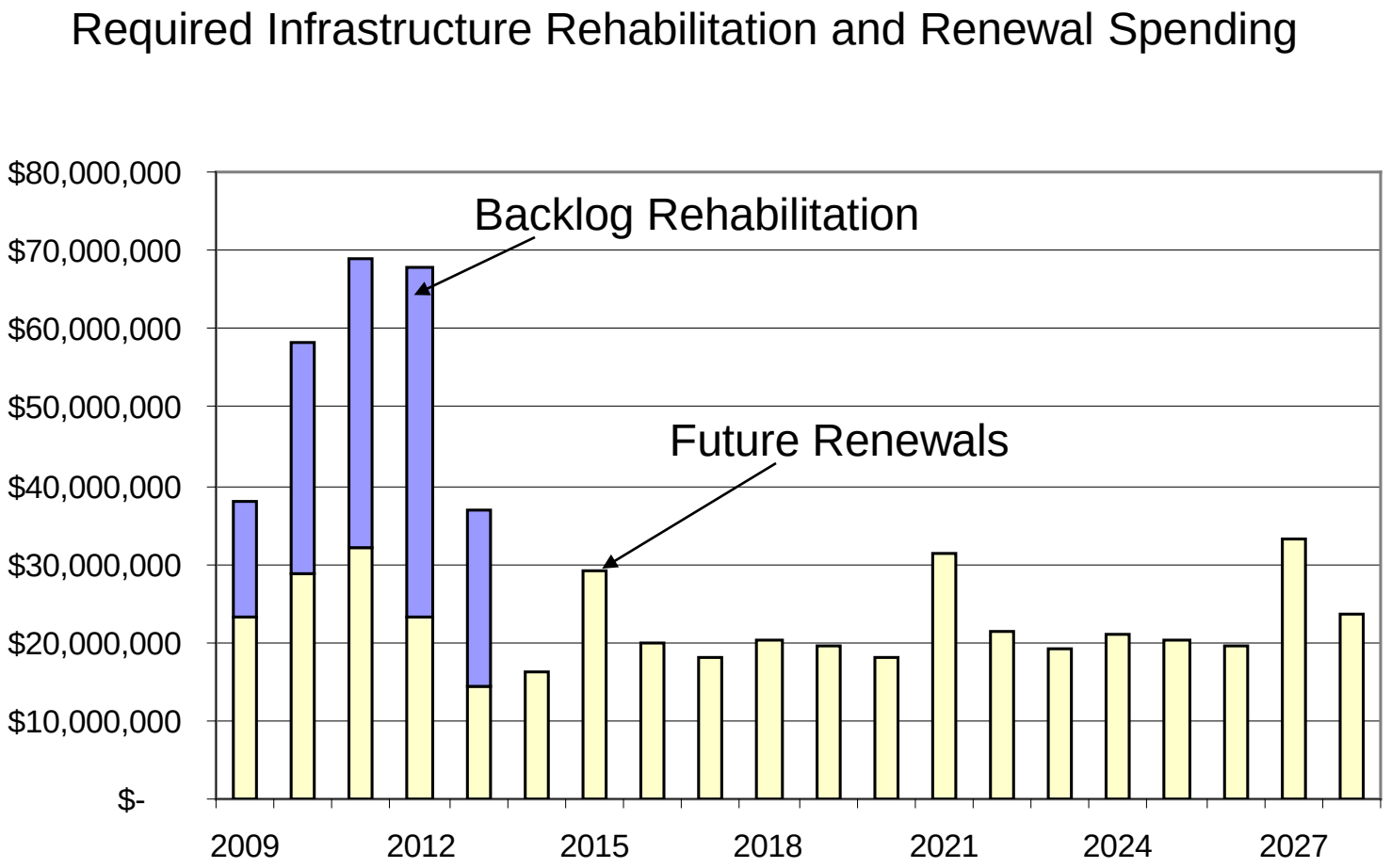
Infrastructure – Rehabilitation



Infrastructure - Renewal

- **Required Renewals**
  - A further $452 million needs to be invested in infrastructure renewals over the next 20 years if infrastructure is to be kept to the minimum standards sought by Council.
  - Renewals averages $22.6 million per annum.

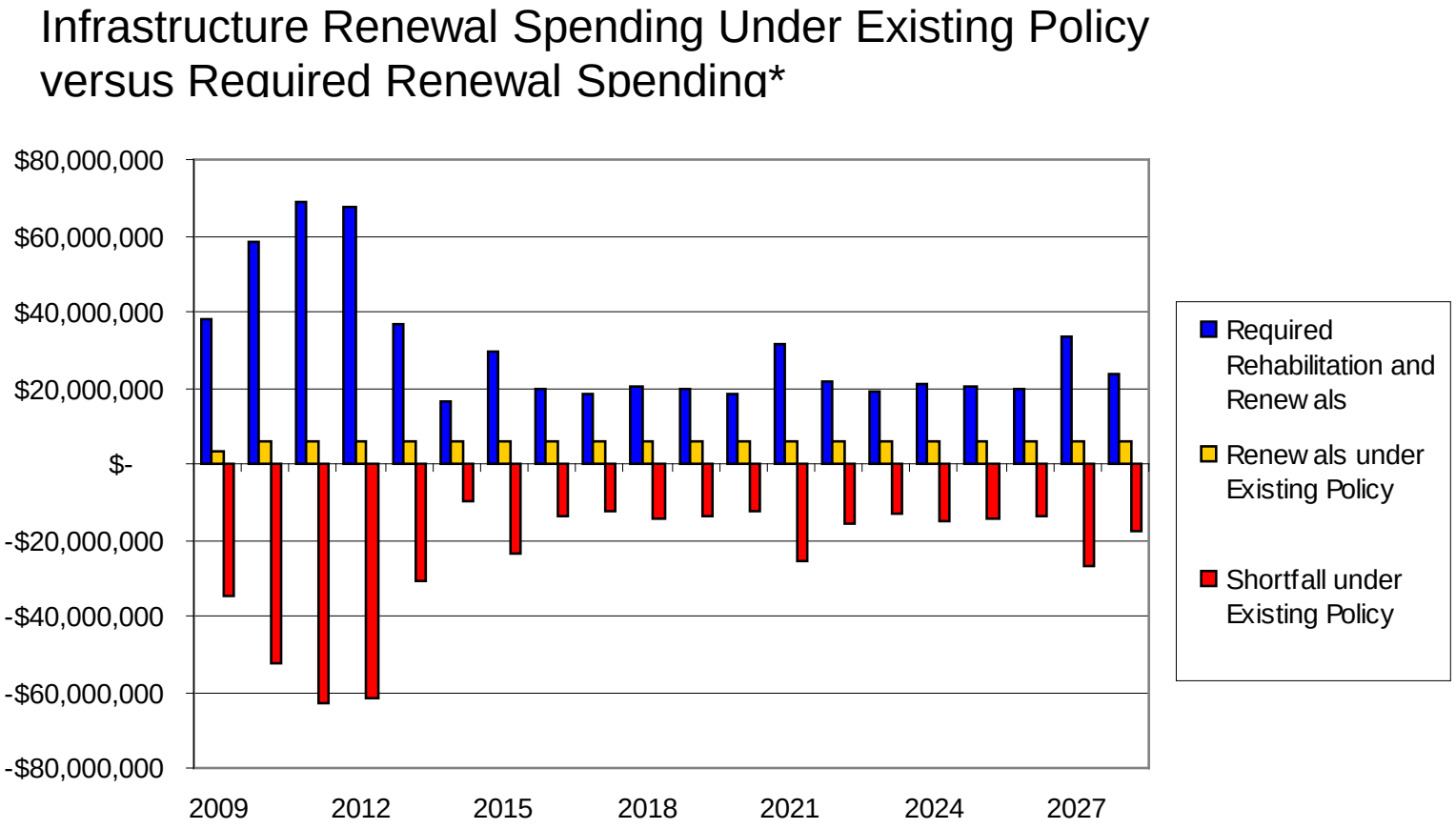
Infrastructure - Renewal



Infrastructure - Renewal

- **Existing Policy**
  - The Council spends about $5.8 million per annum on infrastructure renewals.
  - In future its renewals spending should average $22.6 million per annum if the backlog of dilapidated infrastructure is not to grow.
  - As can be seen in the following chart planned infrastructure renewal (including rehabilitation) falls far short of what is required to ensure that infrastructure is safe and sound.

Infrastructure - Renewal



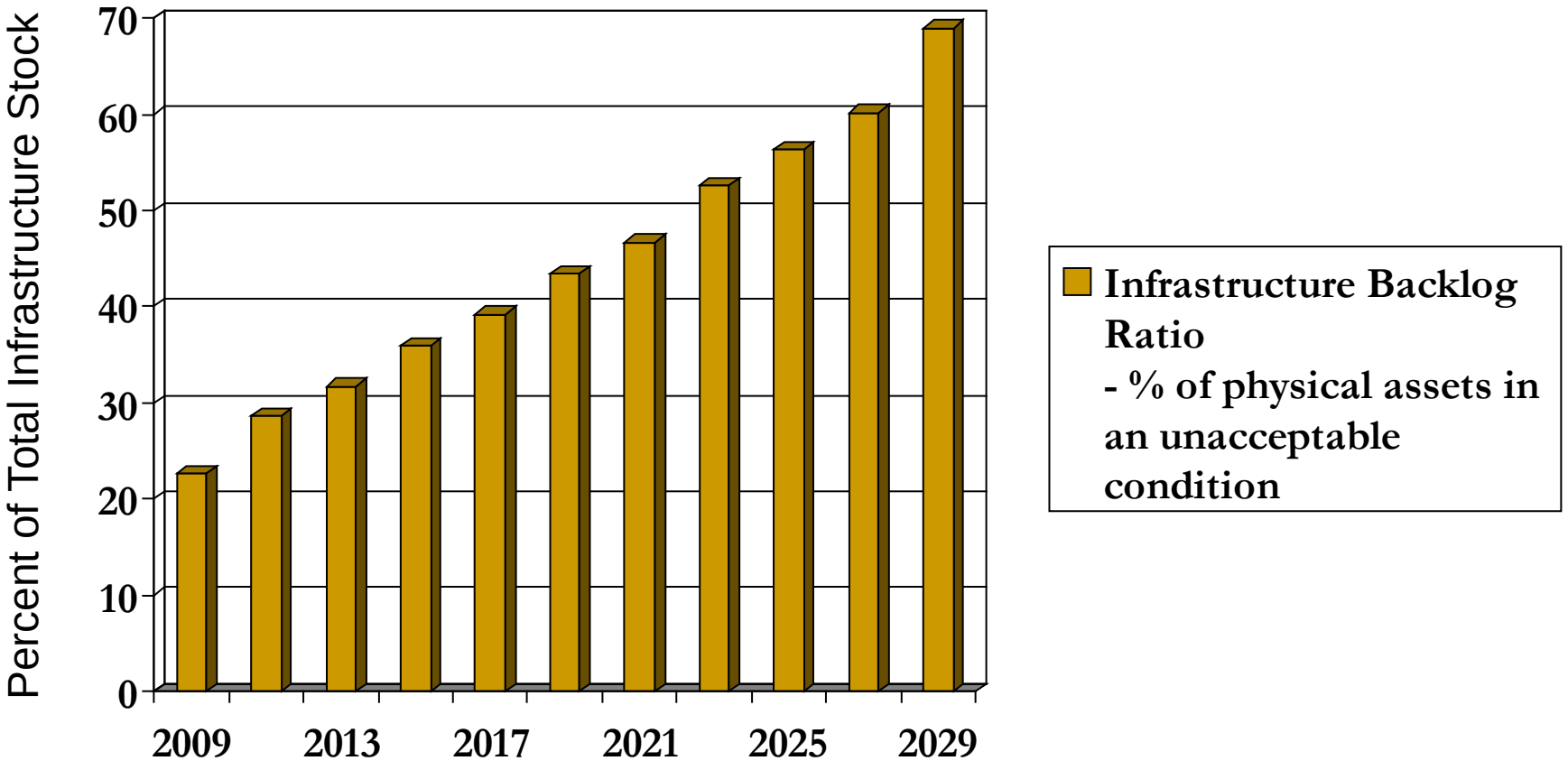
* Note that renewal spending in this chart also includes rehabilitation spending

Infrastructure - Renewal

- **Existing Policy**
  - Should the Council's current infrastructure renewals and maintenance policy continue the following outcomes could be expected.
  - The future infrastructure backlog by 2028 would be of the order of $422 million; meaning 69% of Council's assets would be in an unsatisfactory condition.
  - This would be $274 million higher than at present.
  - Most of the future backlog would be in:
    - Roads assets ($158M),
    - Stormwater drainage ($96m),
    - Waterway structures ($82m), and
    - Buildings ($57M).

Infrastructure - Renewal Backlog

Greater Taree's Future Infrastructure Backlog under Existing Policy



Infrastructure - Enhancement

- Besides rehabilitating and renewing existing infrastructure, Council must also expand the capacity of its infrastructure assets to meet the demands of new residents and businesses moving into the area.
- Expanding the capacity of the Council's physical assets (e.g. widen a two lane road to a four lane one or building an additional community centre) is called infrastructure enhancement. It results in the growth of the total infrastructure stock.

Infrastructure - Enhancement

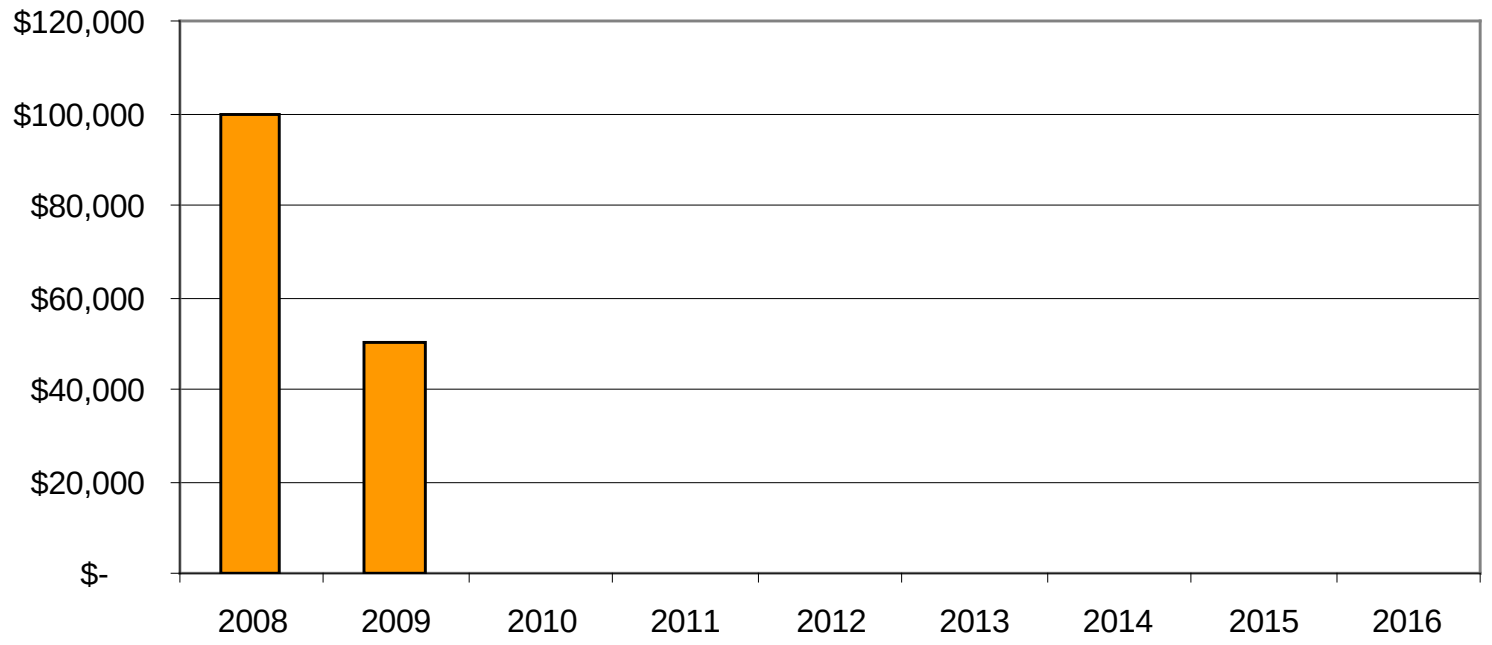
- There is no “right level” of infrastructure enhancement (i.e. additions to existing infrastructure stock).
- *Review Today* has recognised three possible approaches to infrastructure capacity.
- They are:
  - Council’s Existing policy (which is also its Preferred scenario) assumes that existing enhancement plans proceed,
  - A Responsive scenario (which would expand infrastructure stock in step with projected population growth), and
  - A Restrained scenario (which would put a freeze on enhancements).

Infrastructure - Enhancement

- **Existing (and Preferred) Policy**
  - Council intends spending $150,000 on enlarging swimming pool facilities over the two years to 2009/10, but has no other infrastructure enhancements planned thereafter.

Infrastructure - Enhancement

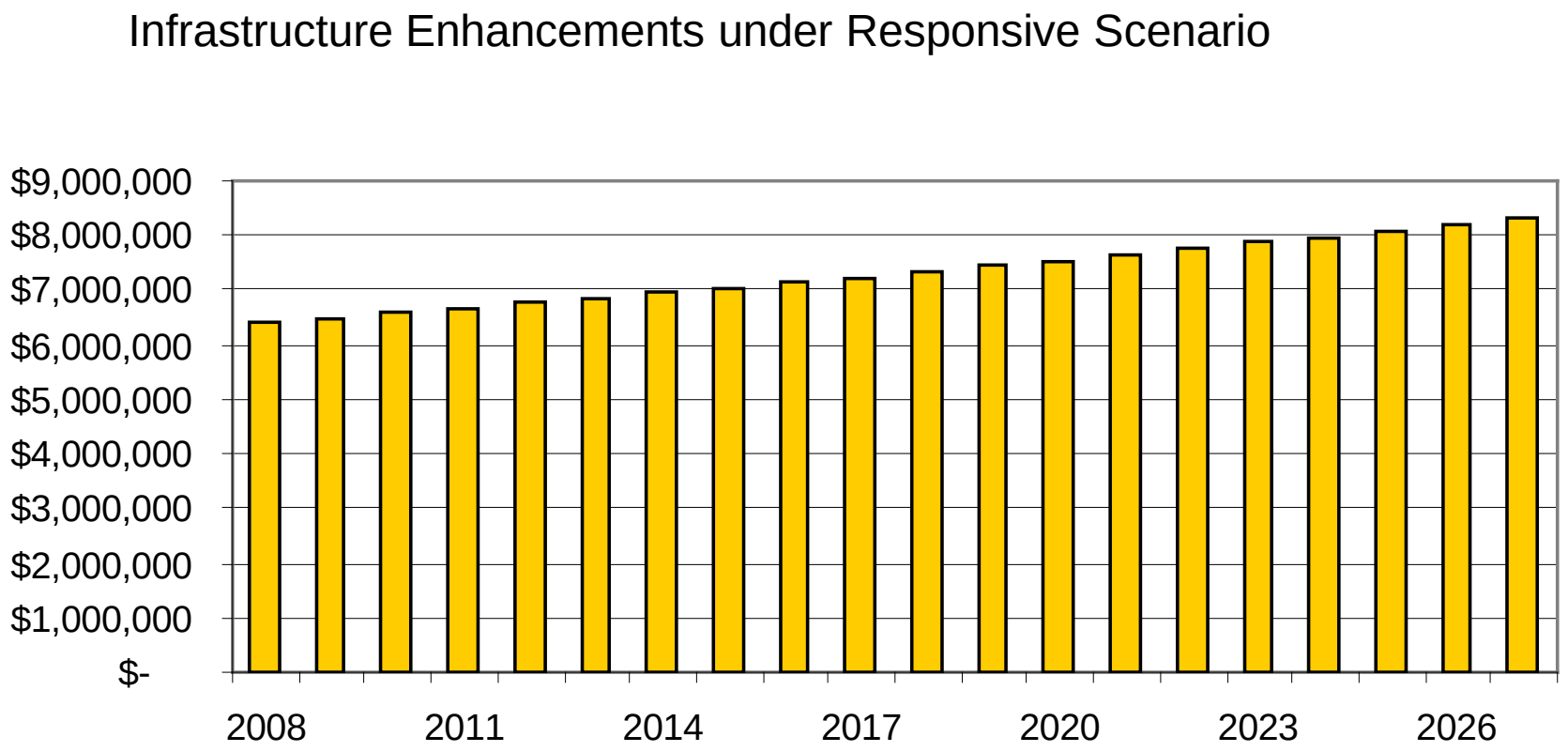
Infrastructure Enhancements under Existing Policy and Preferred Scenario



Infrastructure - Enhancement

- **Responsive Scenario**
  - An alternative approach is to tie the expansion of infrastructure stock to simply population growth (projected to average 0.8% per annum in future).
  - Annual infrastructure enhancement would average $7.3 million per annum under the Responsive scenario.

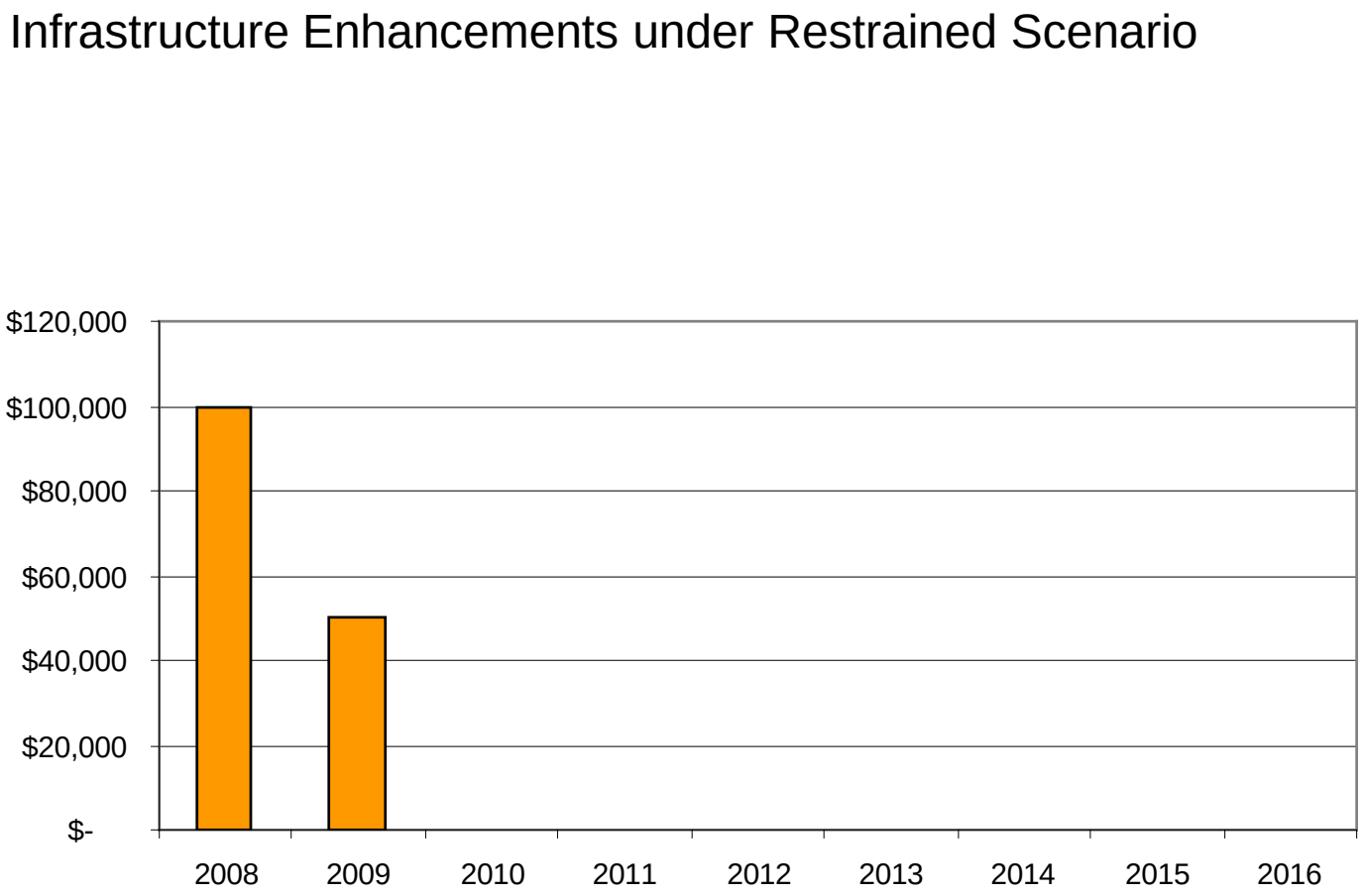
Infrastructure - Enhancement



Infrastructure - Enhancement

- **Restrained Scenario**
  - This scenario is the same as existing policy since it assumes a freeze on any further expansion of the total infrastructure stock.
  - Hopefully, GTCC's extensive infrastructure network if renewed as required would be sufficiently large to accommodate future population and economic growth without increasing the stock of physical assets.

Infrastructure - Enhancement

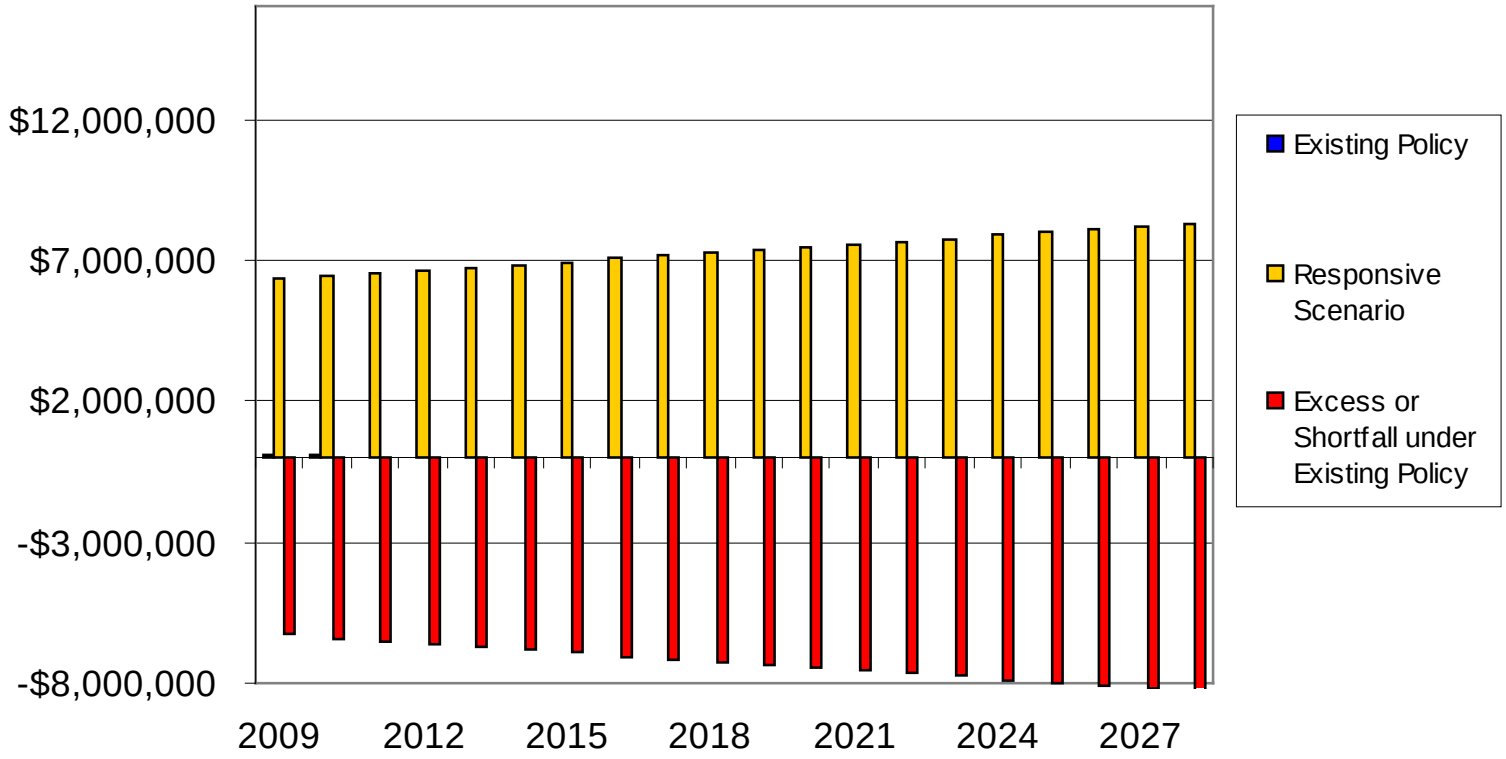


Infrastructure - Enhancement

- **Existing Policy versus Responsive Scenario**
  - The Responsive enhancement policy would exceed proposed enhancements by an average of $7.3 million per annum.
  - Note that the Preferred and Restrained policy scenarios also envisage enhancements no greater than presently planned (i.e. $150,000 over the next two years).
  - As previously mentioned, a Responsive scenario is where total infrastructure stock is enhanced in step with Greater Taree's projected average population growth of 0.8% per annum over the next two decades.

Infrastructure - Enhancements

Infrastructure Enhancement Excess or Shortfall -
Existing and Preferred Policy versus Responsive Scenario

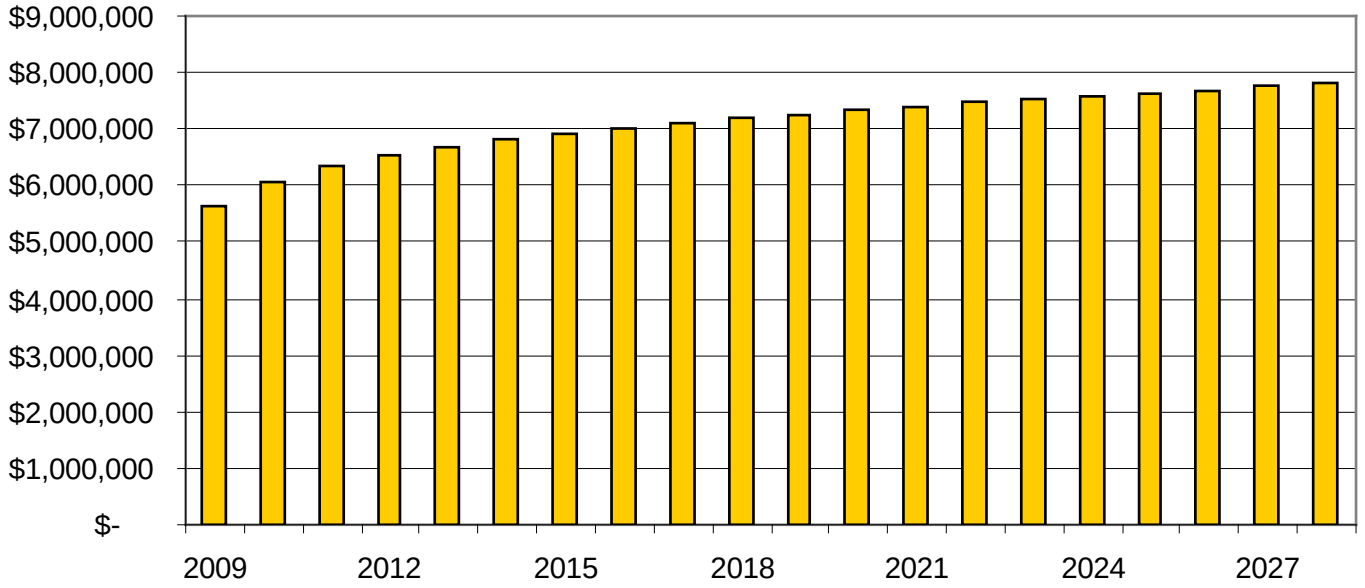


Infrastructure – Maintenance

- **Existing Policy Maintenance Spending**
  - The required infrastructure rehabilitation and renewal and the planned enhancements for each spending scenario imply a certain level of asset maintenance in each case if infrastructure is to remain at an acceptable standard.
  - With Existing policy this would average $7.1m million per annum in future.

Infrastructure - Maintenance

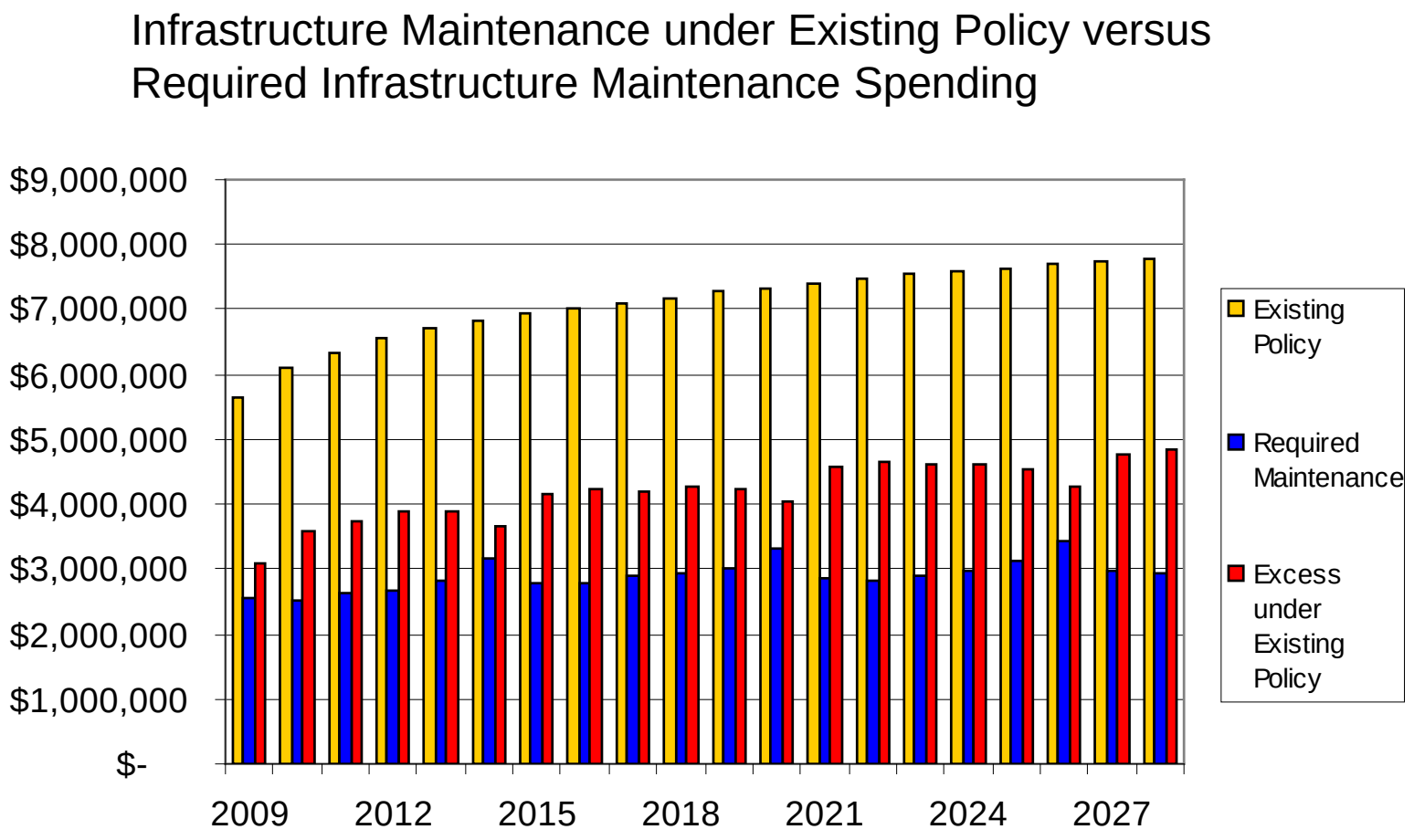
Required Infrastructure Maintenance Spending under Existing Policy



Infrastructure - Maintenance

- **Existing Policy versus Required Maintenance**
  - Because Council's Existing policy is projected to under-spend on backlog rehabilitation and future renewals, its average maintenance bill in future will be $4.2 million per annum higher than required under the Preferred scenario**.**
  - The next chart shows the excess maintenance required for the next twenty years under Existing policy.

Infrastructure - Maintenance



Infrastructure - Maintenance

- **Alternative Scenarios' Maintenance Requirements**

  For the alternative spending scenarios the required annual average maintenance costs for the next two decades would be as follows:

  - Preferred scenario - $2.9 million
  - Restrained scenario - $2.9 million
  - Responsive scenario - $4.2 million

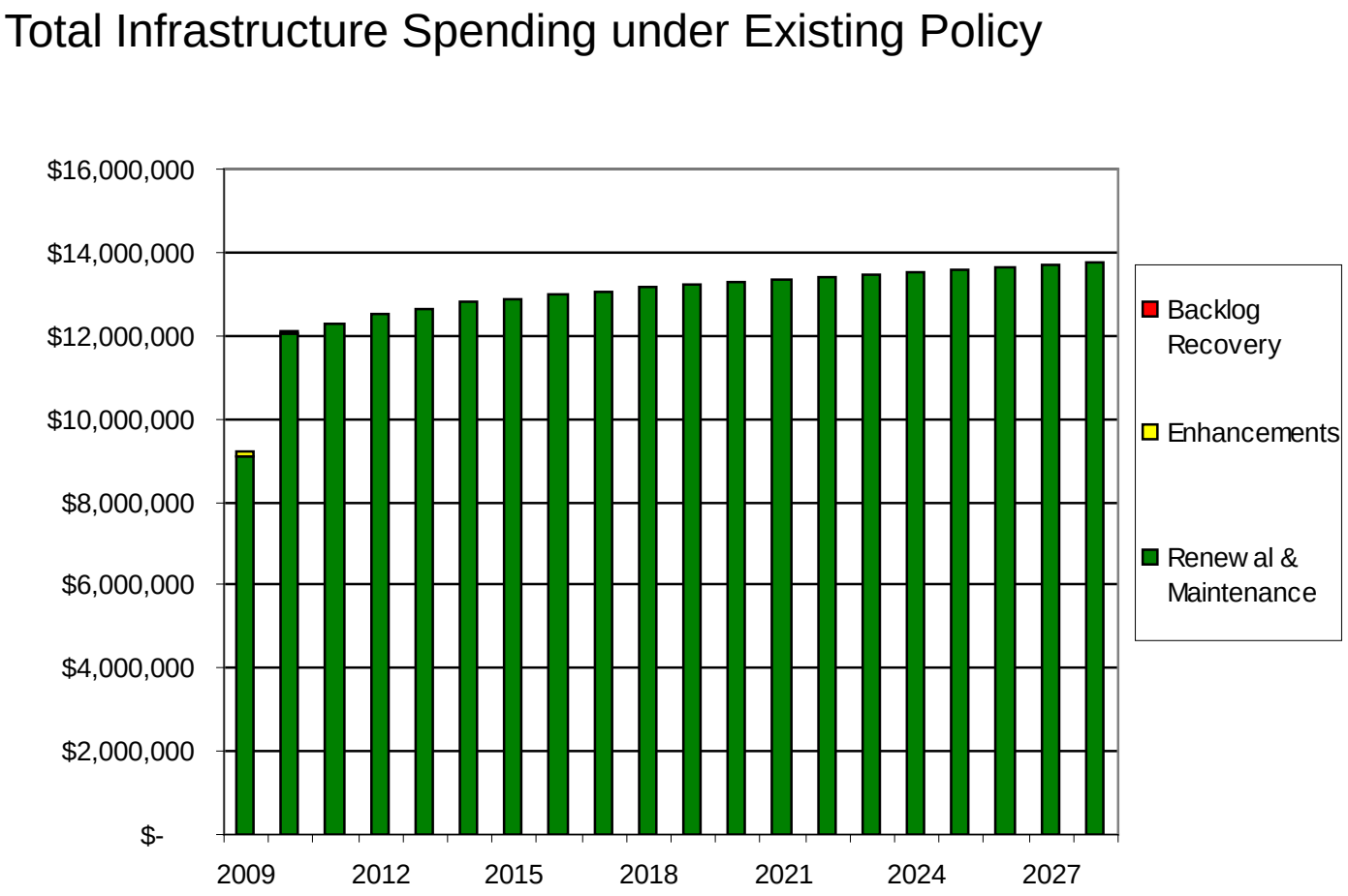
Infrastructure - Total Spend

- The sum of backlog infrastructure rehabilitation, required future renewals, possible enhancements and consequential maintenance equals total infrastructure spending.
- *What would total infrastructure spending look like under Existing policy and the Preferred, Responsive and Restrained scenarios?*

Infrastructure - Total Spend

- **Existing Policy**
  - Under Existing policy Council's total infrastructure spending (excluding land acquisitions) would average $12.9 million per annum over the next two decades.
  - The pattern of spending by year is shown in the following chart.
  - Note that under Existing policy there is no provision for rehabilitation of backlog infrastructure and only minimal allowance for further expansion of the infrastructure stock.

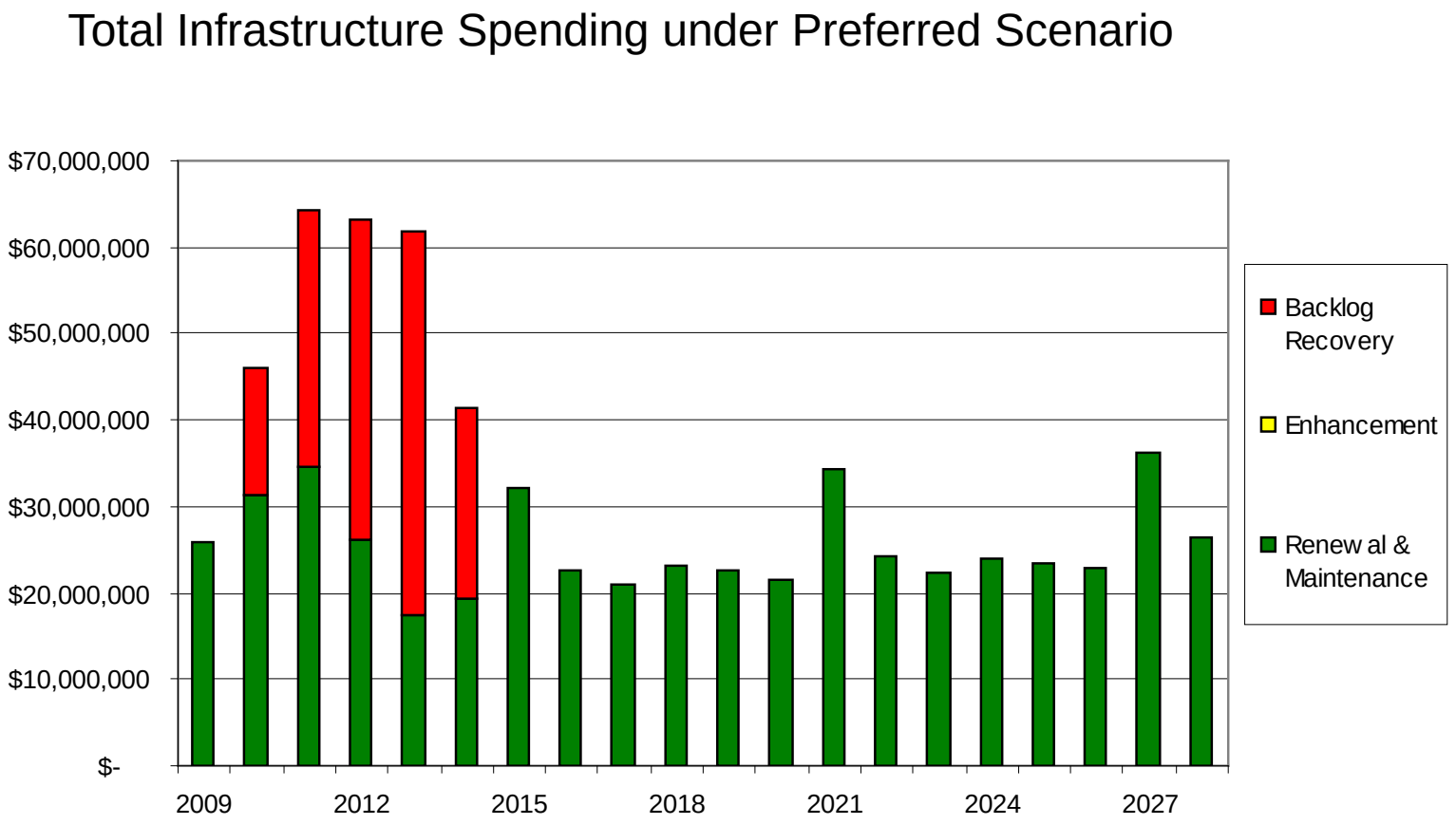
Infrastructure – Total Spend



Infrastructure - Total Spend

- **Preferred Scenario**
  - Under this scenario GTCC's total infrastructure spending would average $33.0 million per annum over the next 20 years.
  - The spending year by year is depicted in the following chart.

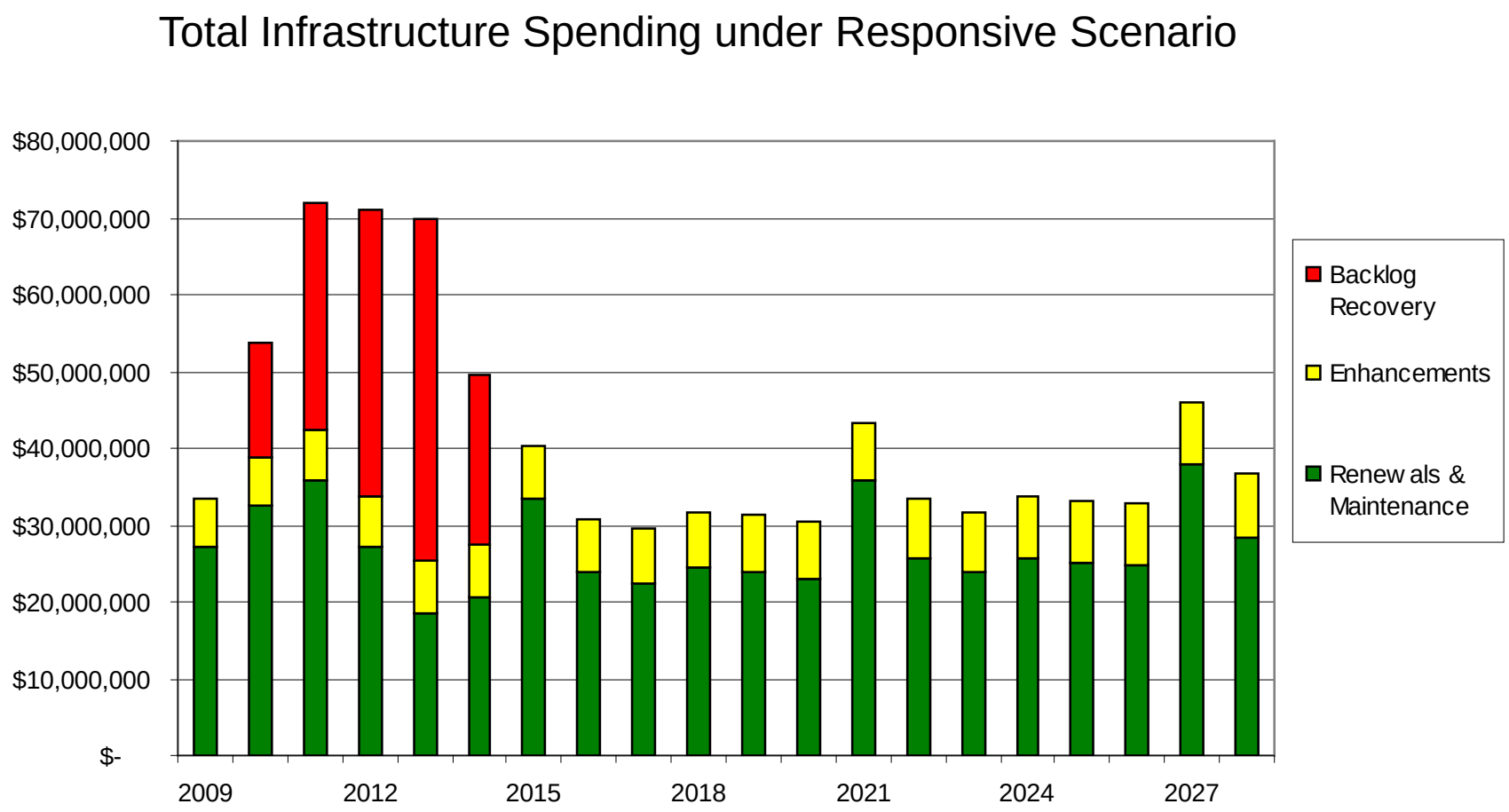
Infrastructure – Total Spend



Infrastructure - Total Spend

- **Responsive Scenario**
  - Under this scenario GTCC's total infrastructure spending would average $41.7 million per annum up to 2027/28.
  - The pattern of spending over that period is illustrated in the following chart.

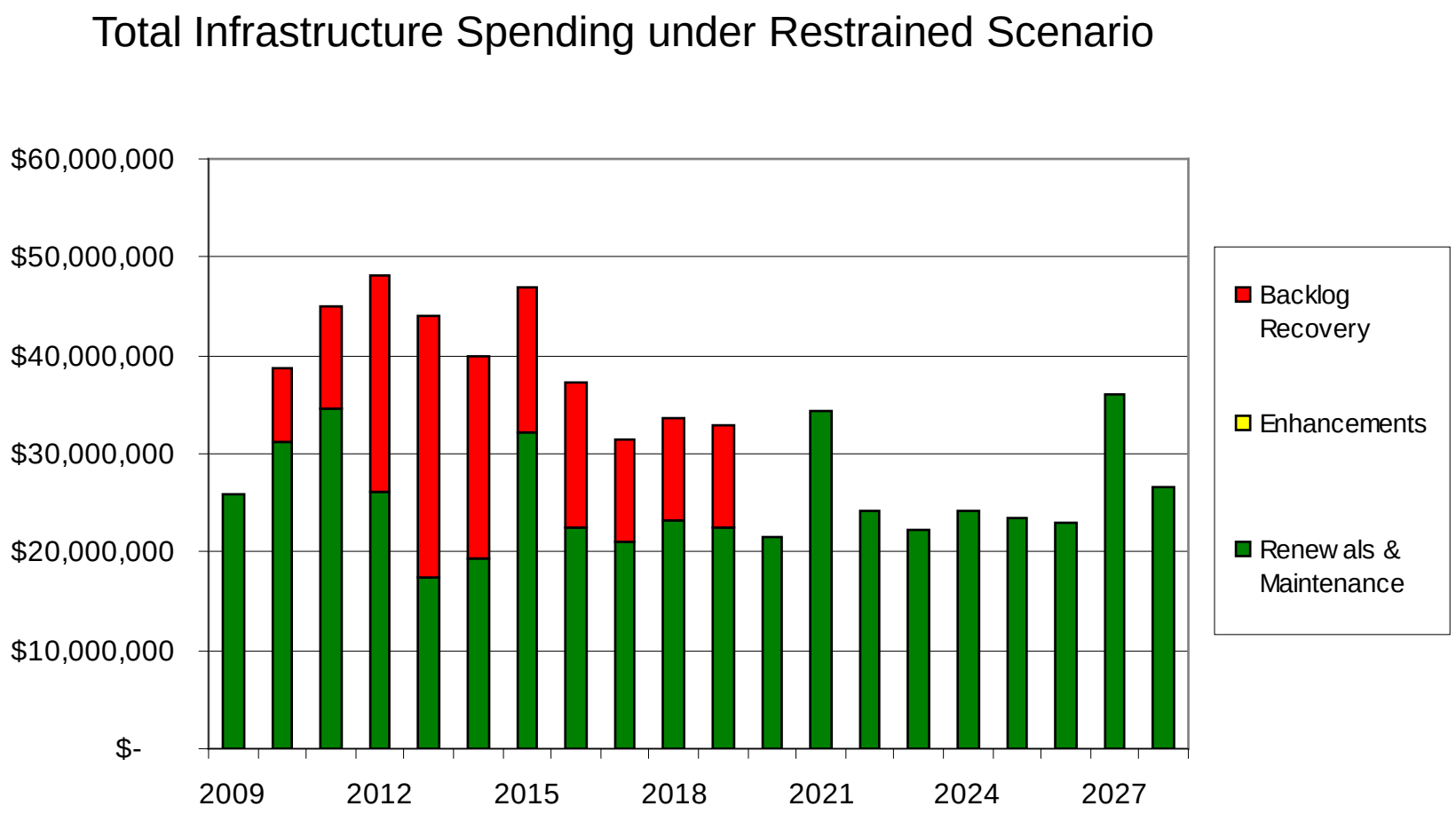
Infrastructure - Total Spend



Infrastructure - Total Spend

- **Restrained Scenario**
  - Under this scenario GTCC's total infrastructure spending would average $33.0 million per annum over the next 20 years.
  - Though the Restrained and Preferred scenarios have identical average total infrastructure spending per year, the patterns of their spending differ markedly as can be seen by comparing the charts on pages 107 and 111.

Infrastructure - Total Spend

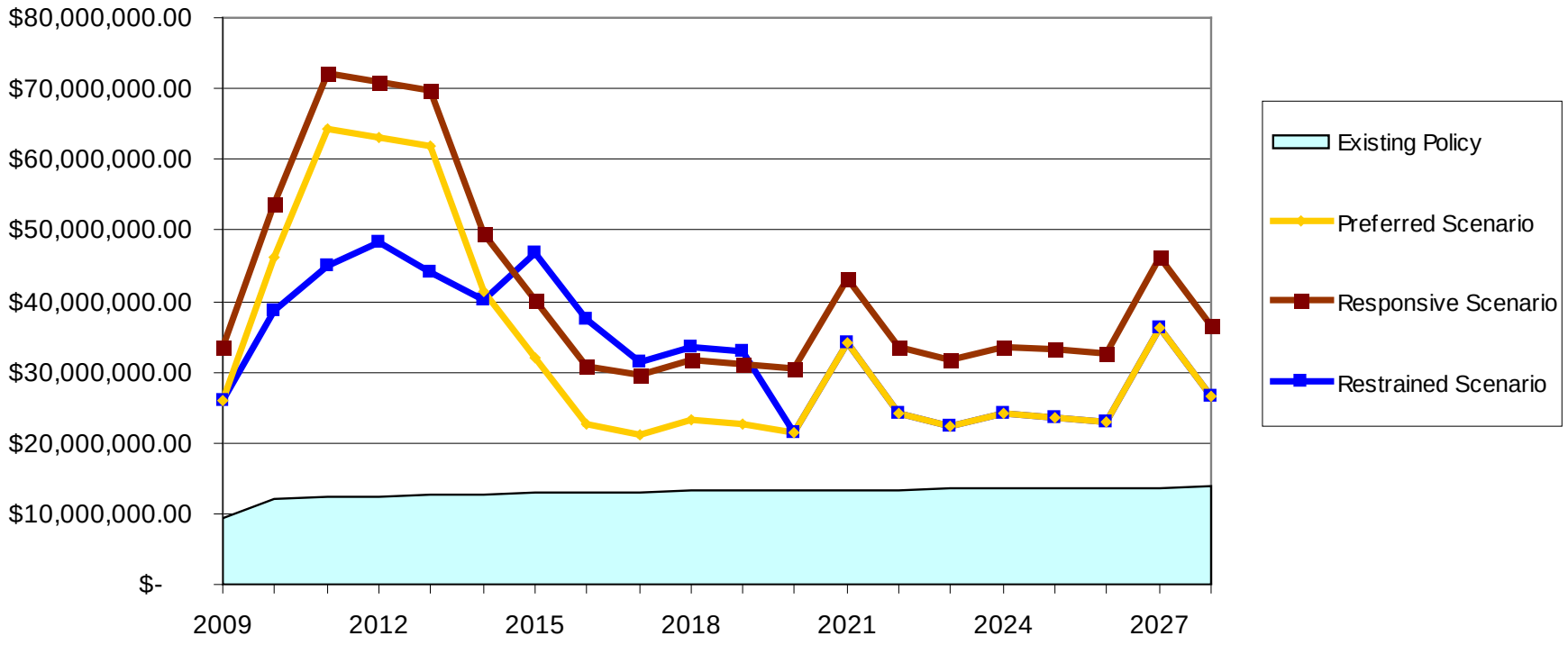


Infrastructure - Total Spend

- Existing Policy versus Alternative Scenarios.
  - The next chart shows how total infrastructure spending under the Existing policy outcome stacks up against the three alternative policy scenarios.

Infrastructure – Total Spending

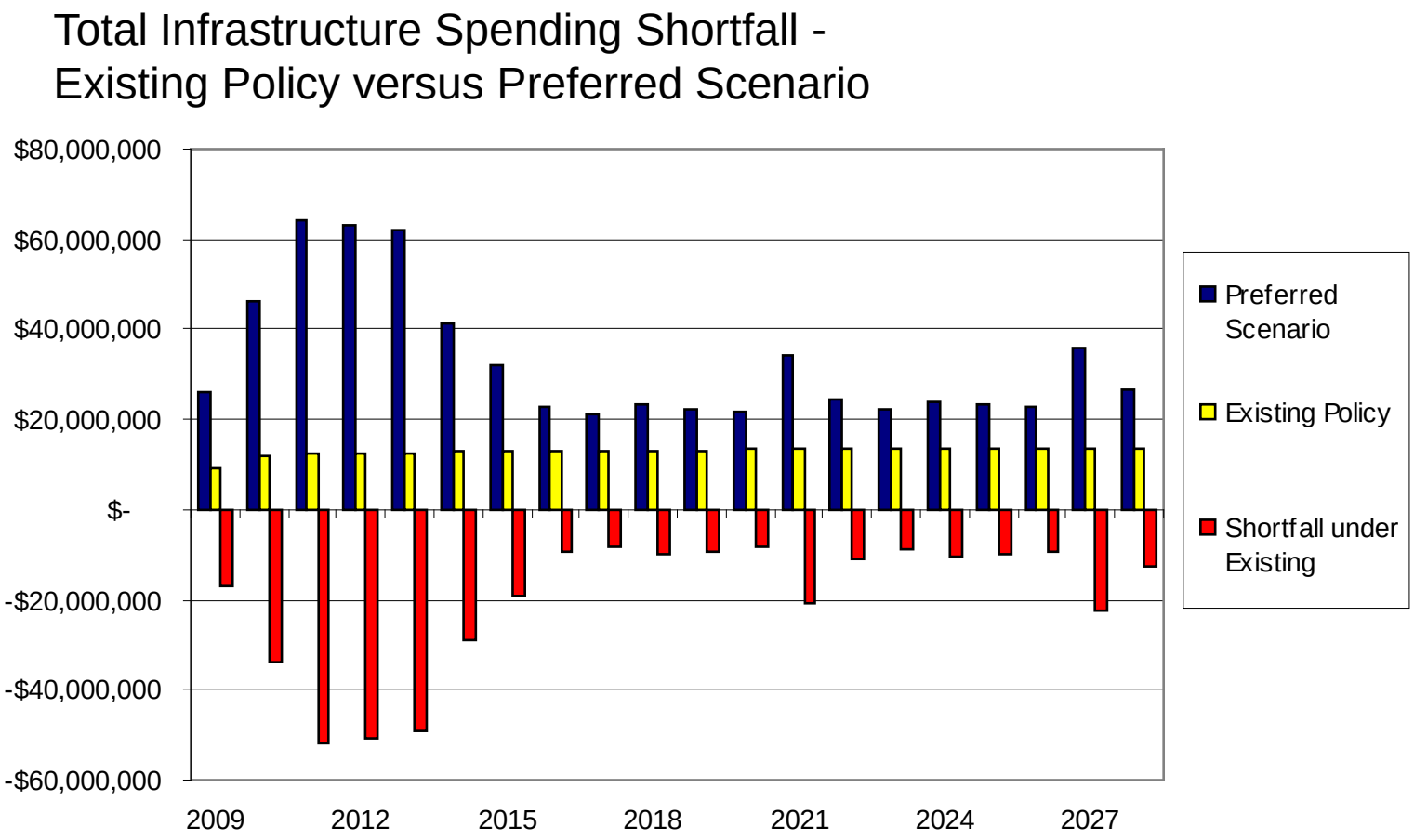
Comparison of Existing Policy versus Alternative Scenarios



Infrastructure - Total Spend

- **Existing Policy versus Preferred Scenario**
  - Under current policy, Council proposes to spend on average about $12.9 million per annum on renewals, maintenance and enhancement of infrastructure over the next 20 years.
  - Existing policy infrastructure spending would fall short of the Preferred infrastructure scenario by an average of $20.1 million per annum over that period.
  - The next chart shows how the $402 million shortfall would be distributed year by year.

Infrastructure – Total Spend

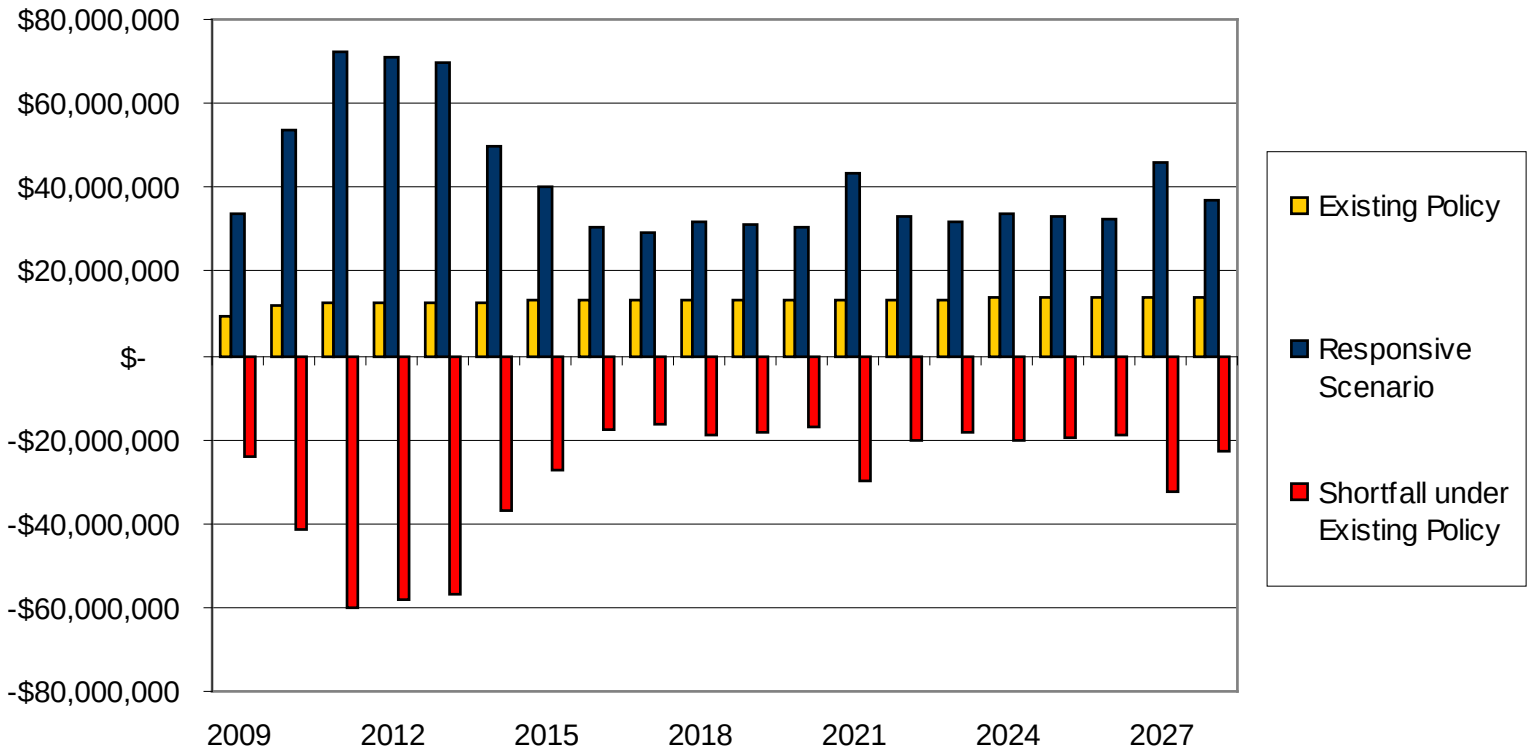


Infrastructure - Total Spend

- **Existing Policy versus Responsive Scenario**
  - Existing policy infrastructure spending would fall short of a Responsive infrastructure scenario by an average of $28.8 million a year in future. This shortfall would be concentrated in the first five years while the backlog was not being addressed.
  - The next chart shows the shortfall for each year over the next two decades.

Infrastructure - Total Spend

Total Infrastructure Spending Shortfall -
Existing Policy versus Responsive Scenario

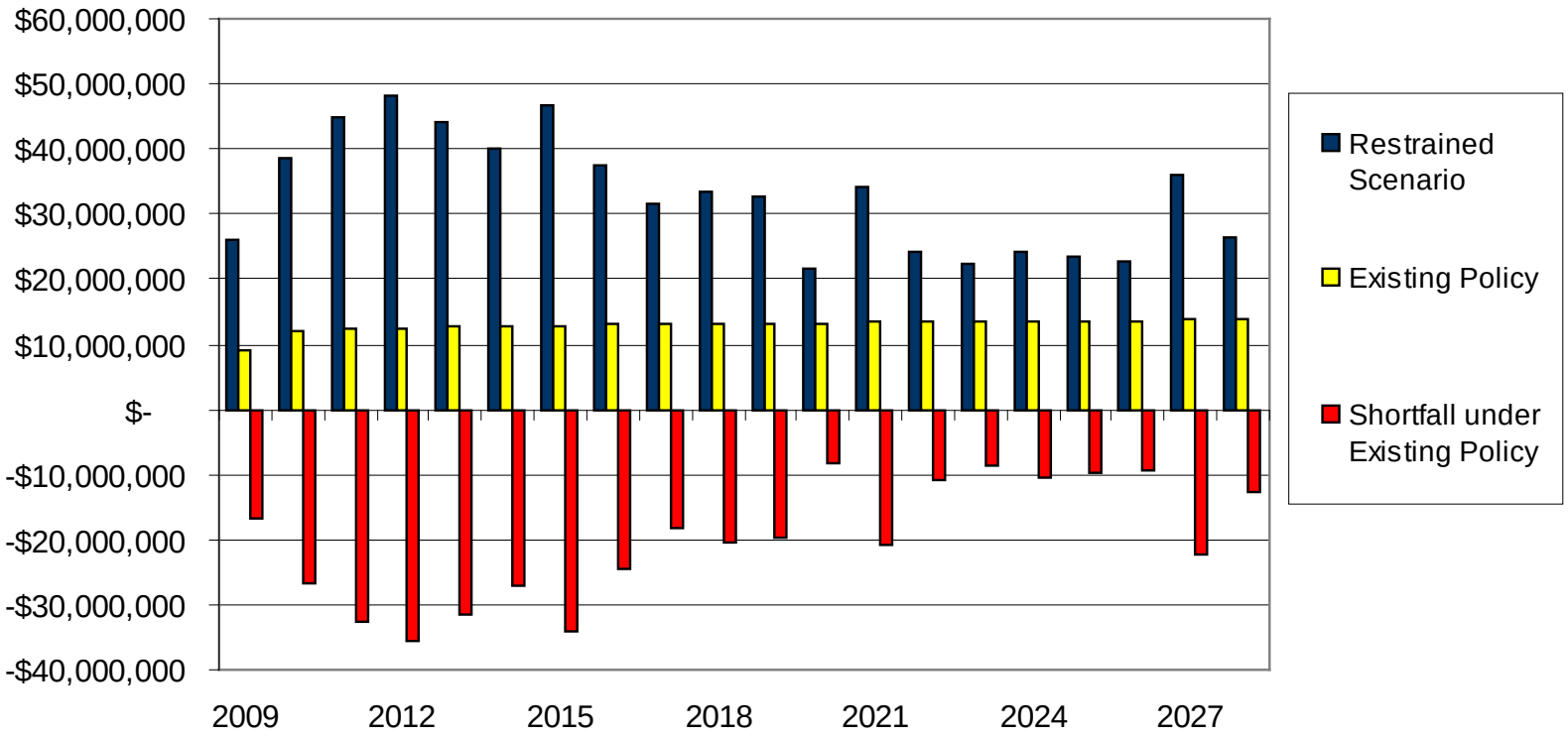


Infrastructure - Total Spend

- **Existing Policy versus Restrained Scenario**
  - Existing policy infrastructure spending would fall short of the Restrained spending scenario by an average of $20.1 million per annum up to 2027/28.
  - There would be a severe shortfall in the first eight years because of a neglect of backlog maintenance and renewal. Thereafter there would still be a gap especially on renewals.

Infrastructure - Total Spend

Total Infrastructure Spending Shortfall -
Existing Policy versus Restrained Scenario



Services

- Besides fixing its infrastructure, GTCC is also under pressure to improve and expand its normal services*.
- Here too the community has two distinct choices.

*Services spending is defined as operating expenditure excluding infrastructure maintenance, depreciation and interest payments on net debt.

Services

- **Existing Policy and Preferred Scenario**
  - Under Existing policy Council would increase present services spending by 3.7% per annum over the next decade. This would represent an increase per property of 2.2% per annum. These figures are in real terms (i.e. exclude price inflation).
  - Annual services spending would average $32.5 million a year over this period.

Services

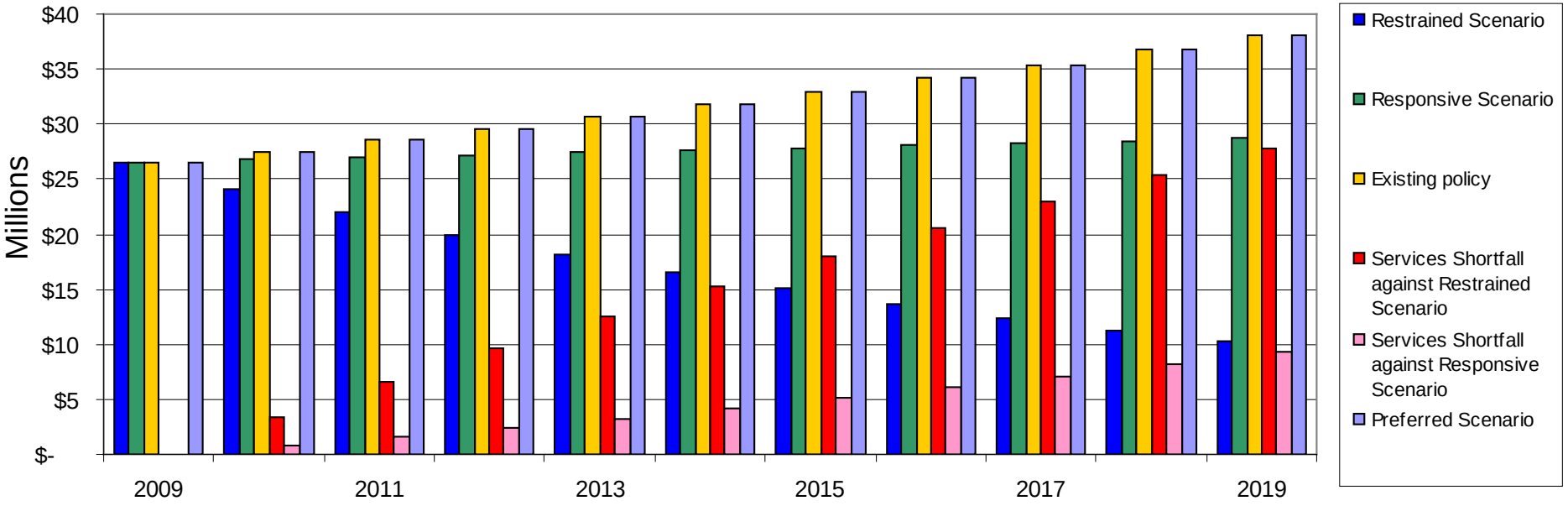
- **Responsive Scenario**
  - Under this scenario future services expenditure (excluding inflation) would be tied to the expected rate of growth of the population (0.8% per annum).
  - Services spending would average $27.7 million a year over the next decade.

Services

- **Restrained Scenario**
  - This assumes services expenditure (excluding inflation) is cut sufficiently to achieve a minimum 2.5% operating surplus by the end of the decade. This would require a cut in existing services spending of over 60%, which is unrealistic.
  - Annual services spending under this scenario would average only $16.3 million over the next decade compared with $26.5 million in 2008/09.

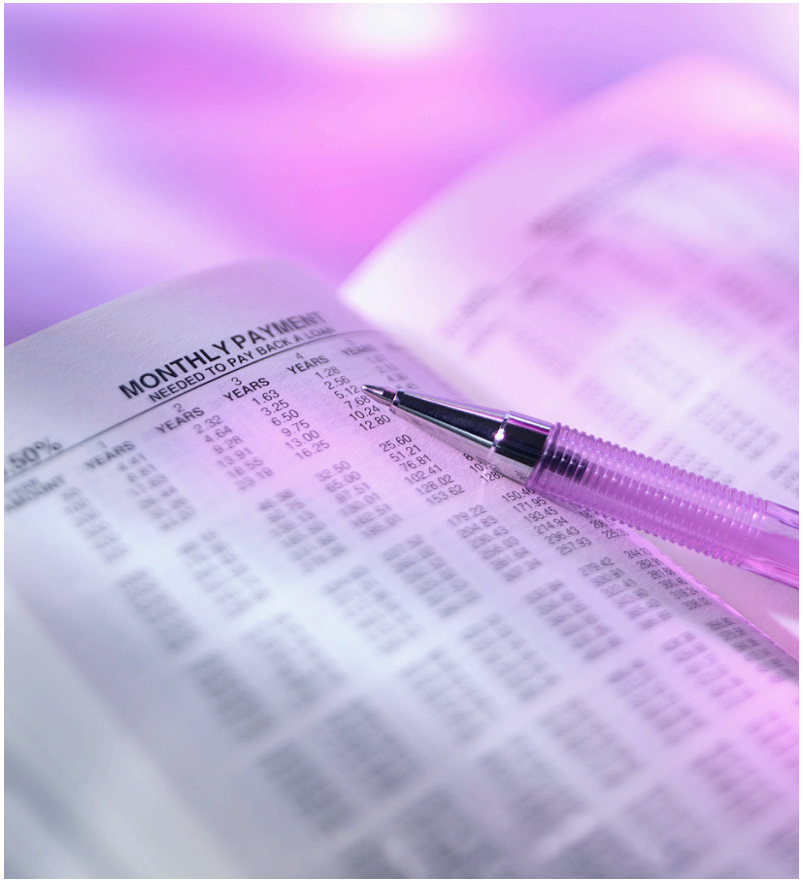
Services

Services Spending Shortfall –
Existing Spending Policy versus Alternative Services Spending Scenarios



Interest Payments

- Besides services, Council's operating expenditure must also take account of net interest payments on outstanding net debt.
- For purposes of scenario analysis a no-policy-change assumption is used for revenue policy*.

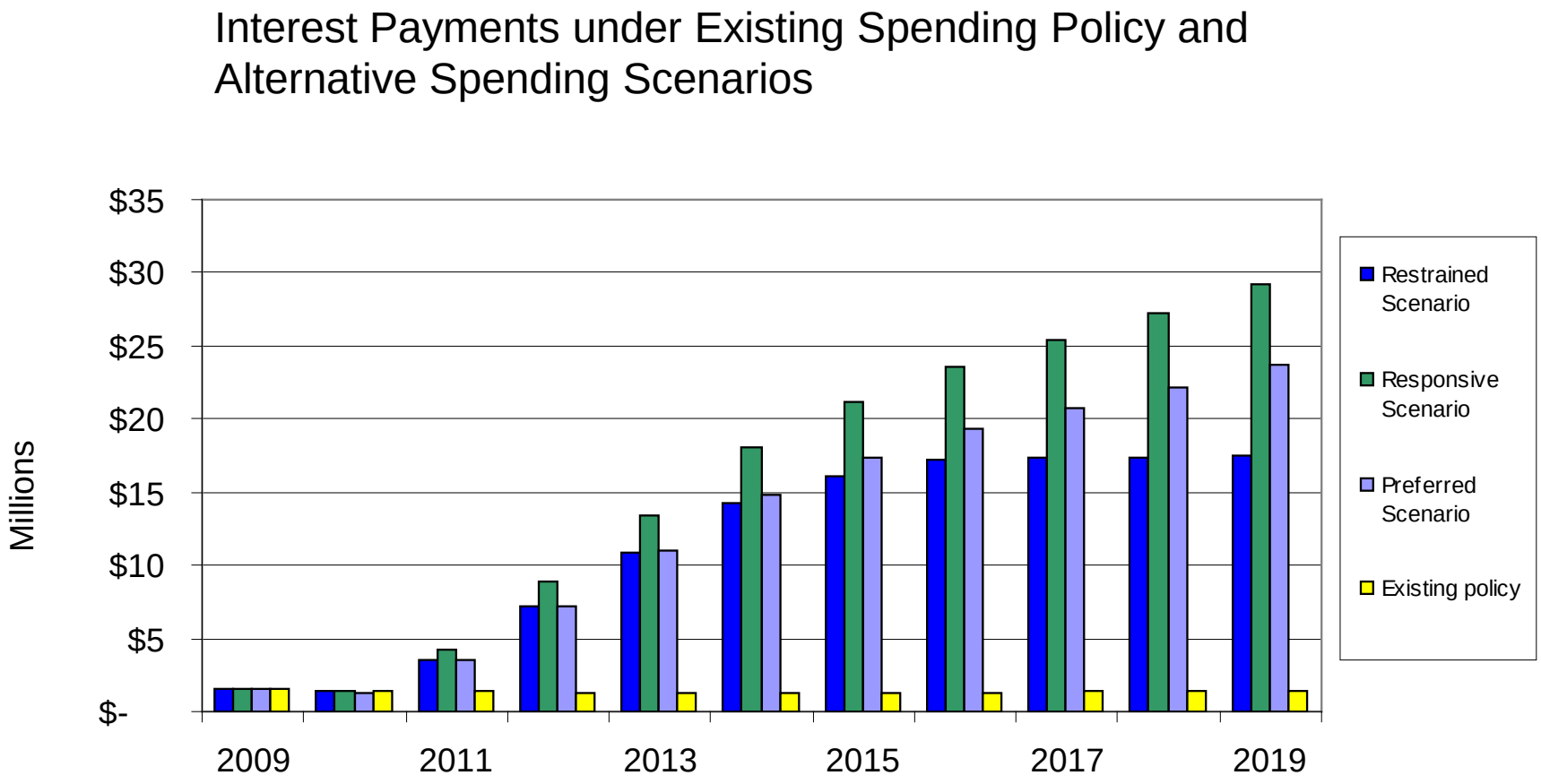


* This assumption is later relaxed to explore what revenue measures are needed to stop the Council's debt ratio rising above a responsible level.

Interest Payments

- As can be seen in the next chart if borrowings alone were used to fund any of the alternative scenarios the annual net interest payments over the next decade would average $1.4 million under existing policy, $14.1 million under the preferred scenario, $17.3 million under the responsive scenario and $12.3 million under the restrained scenario.
- Note that for each of the alternative scenarios the annual interest bill would rise each year reaching between $17.5 million (restrained scenario) and $29.2 million (responsive scenario) by 2018/19.

Interest Payments



Total Spending

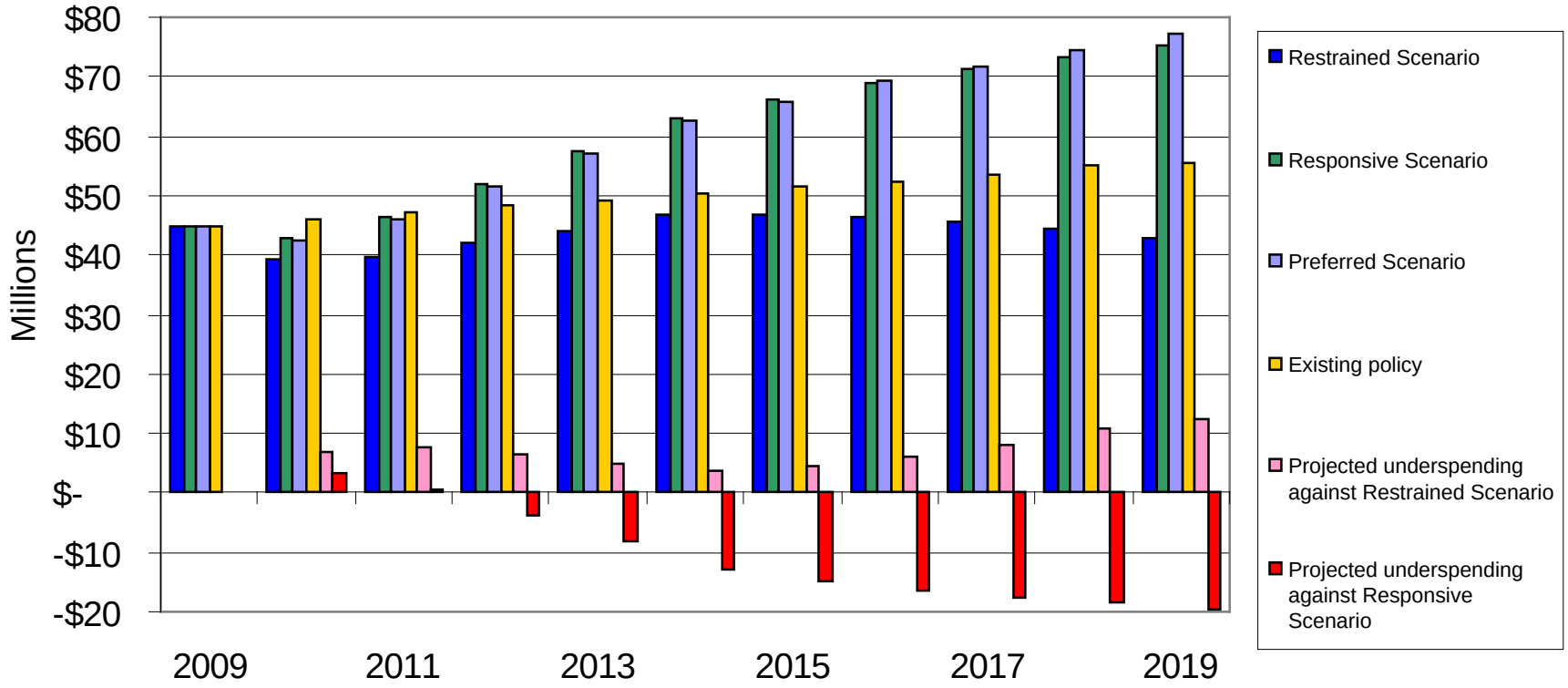
- Adding together infrastructure, services and interest expenses gives total spending.

Total Spending

- The next chart shows how future total spending on infrastructure and services under existing Council policy compares with that under the preferred, responsive and restrained infrastructure and services scenarios. The data incorporates annual price inflation of 3%.
- In each case interest payments have been also been included. They have been calculated on the basis that any funding shortfalls would be met by increasing debt rather than raising rates, charges, fees or other forms of revenue.

Total Spending

Total Expenditure Shortfall –
Existing Spending Policy versus Alternative Total Spending Scenarios



Total Spending

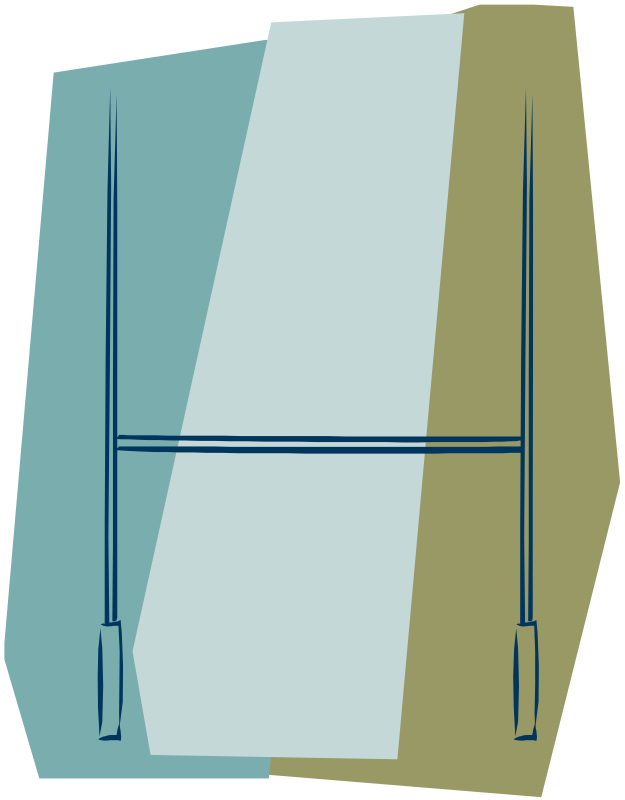
- Under Existing Policy total annual spending would increase from $45.0m in 2008/09 to $55.6m in 2018/19; an average annual spend of $50.9 million.
- Over this period such proposed spending would exceed that under the restrained scenario by an average of $7.1 million per annum.
- However, proposed spending would fall short of the preferred and responsive scenarios by an average of $10.9 million a year.

Total Spending

- So far we have assumed that achieving infrastructure requirements on the one hand and meeting service demands and interest obligations on the other would be funded by increasing debt rather than other fiscal measures (e.g. increased rates).
- *Is such an approach possible within responsible fiscal parameters?*

Financial Goalposts

- The Local Government Inquiry (LGI) recommended a set of broad financial goalposts for Councils to ensure that they are financially sustainable without sacrificing infrastructure.
- These goalposts have been refined to reflect GTCC's own circumstances (e.g. faster population growth than the rest of NSW).



Financial Goalposts

LGI Fiscal Goalposts adjusted for GTCC's special circumstances.

Goalpost	Floor Target	Ceiling Target
Net financial liabilities ratio	40%	80%
Interest cover ratio	3	4
Operating surplus ratio	3%	8%
Net borrowing ratio	25%	50%
Annual renewals gap ratio	-10%	10%
Infrastructure backlog ratio	0%	2%

Financial Goalposts

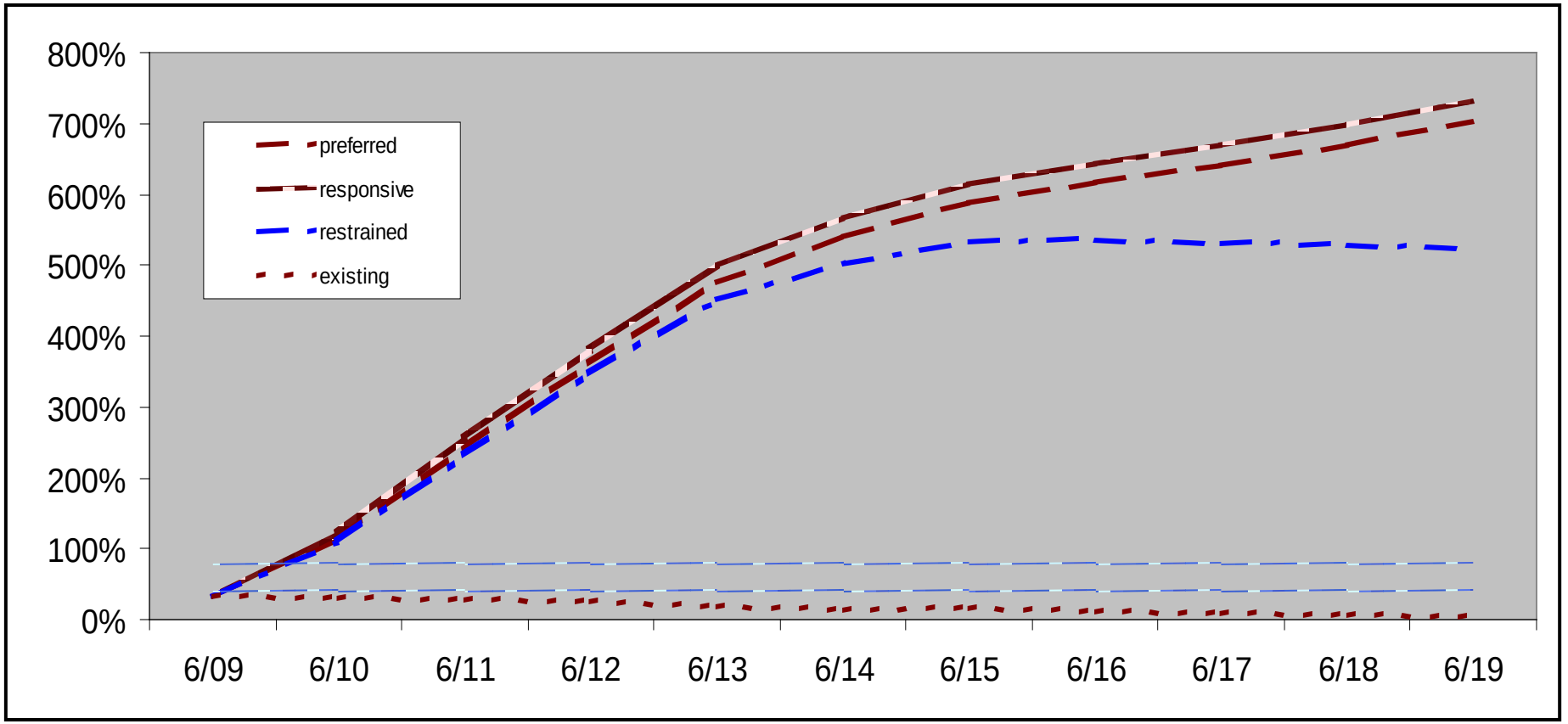
- To assess how GTCC's spending scenarios would impact on these fiscal targets it was necessary to convert them from constant to nominal prices using an annual CPI inflation forecast of 3%, which is the upper end of the Reserve Bank of Australia's target range

Financial Goalposts

- The existing spending policies would cause the net financial liabilities ratio to fall from 32.9% in 2008/09 to 21.0% by 2018/19, which would be well below the minimum of the target range of 40% to 80%.
- Without extra revenue measures the preferred spending scenario would see the net financial liabilities ratio blow out to 704% by 2108/19. Under the responsive scenario it would hit 798%.
- The restrained scenario also overshoots the 80% ceiling reaching 517% by the tenth year.

Financial Goalposts

Net Financial Liabilities Ratios for Existing Policy and Alternative Spending Scenarios

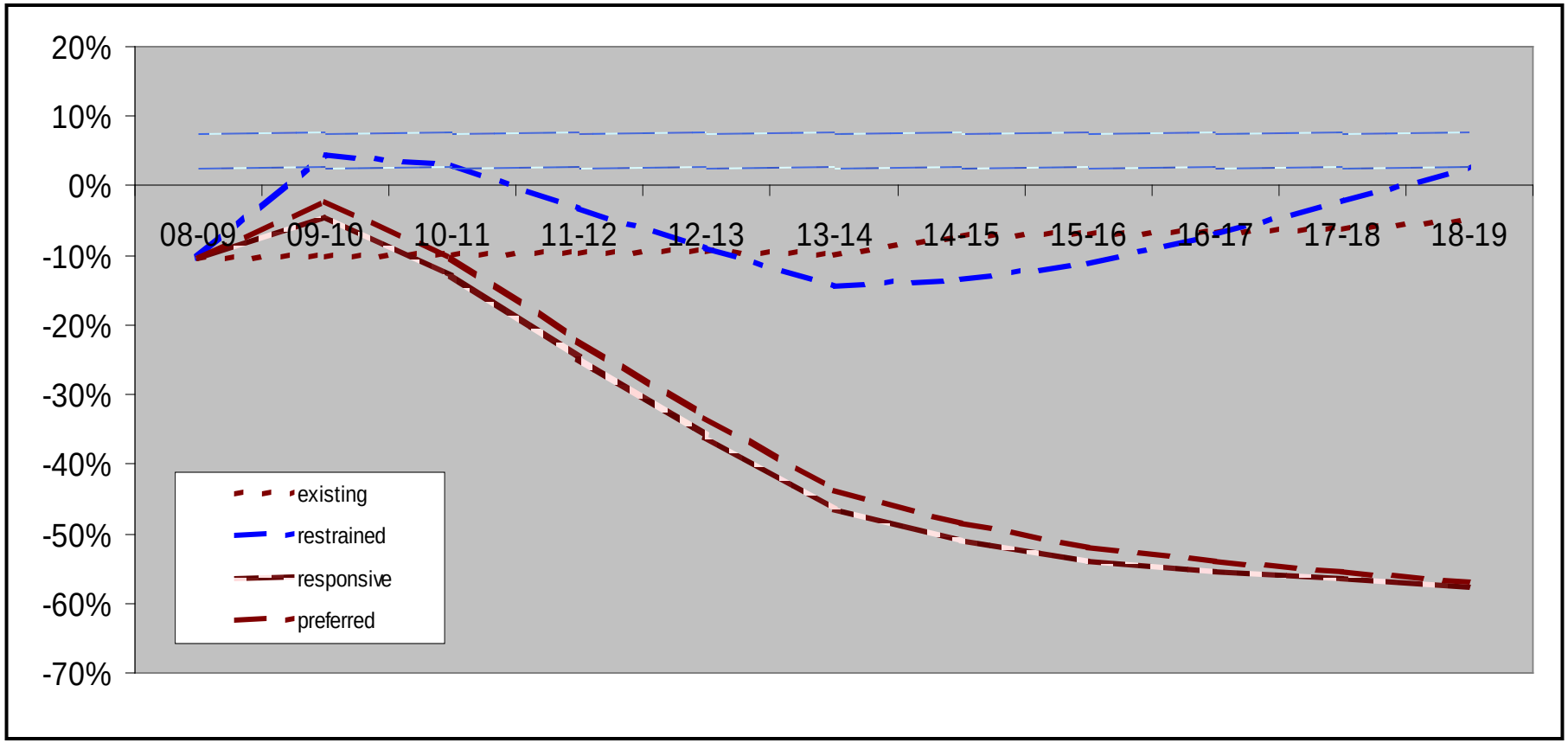


Financial Goalposts

- The next chart shows that without new revenue measures the preferred and responsive spending scenarios would increase the operating deficit to an unsustainable 56.5% and 60.3% respectively by 2018/19.
- With the restrained spending policy the Council's operating deficit would be extinguished by the tenth year, but at the expense cutting service spending by 61.3%.
- Under existing policy the operating deficit would fall from 10.3% to 6.9% by 2018/19, but this would be at the expense of allowing the infrastructure backlog to almost double from 22.7% to 43.4% of total physical assets.

Financial Goalposts

Operating Surplus Ratios for Existing Spending Policy and Alternative Spending Scenarios



Fiscal Options

- The previous charts show that GTCC faces huge blowouts in its operating deficit and debt ratios if it attempts to overcome its infrastructure problems without boosting its revenue and / or cutting its costs and services.

Fiscal Options

- Two revenue options are canvassed by the review:
  - The existing Council revenue policy, and
  - An ambitious revenue option.

Fiscal Options

- **Existing Revenue Policy**
  - Rates revenue rises in real terms by an average 3.4% per annum (1.9% rise per property) over the next decade.
  - The proportion of commercial service costs recovered by fees and charges rises from 35% to 40% until 2018/19.

Fiscal Options

- **Existing Revenue Policy** (continued)
  - This results in an average annual increase in fees and charges of 5.0% (3.6% per property) under Existing spending policy, 1.9% (0.5% per property) under the Responsive spending scenario and 4.8% (3.3% per property) under the Preferred scenario over the next decade.
  - The proportion of infrastructure enhancements costs recovered from developer charges would stay at about 50% in future.

Fiscal Options

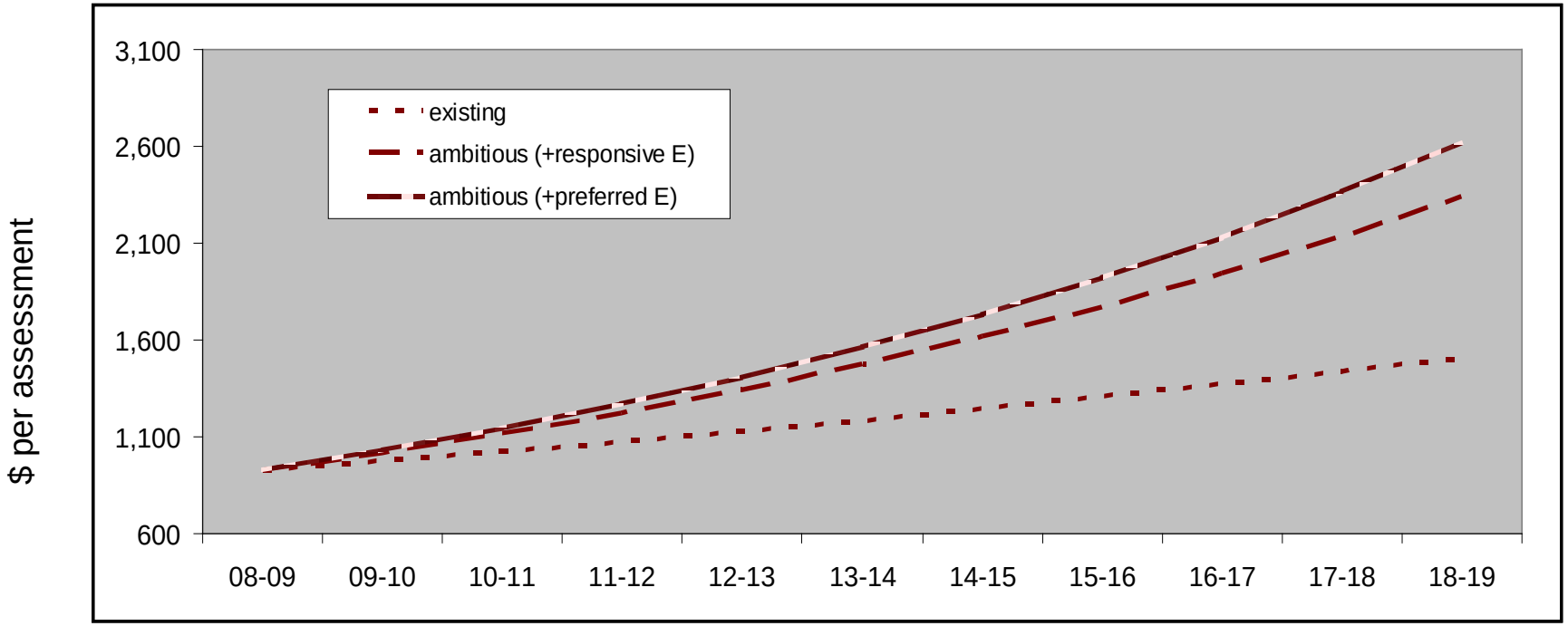
- **Ambitious Revenue Option**
  - Assumes that within a decade the Council's rating and cost recovery efforts rise to those of the highest rating and charging NSW coastal urban regional councils and if need be increase further to achieve at least a 2.5% operating surplus.

Fiscal Options

- **Ambitious Revenue Option**
  - Over the next decade rates revenue would increase in real terms by a yearly average of at least 8.0% (6.5% per property) for the preferred and responsive scenarios.
  - Over the same period the real annual rise in fees and charges revenue would average at least 5.5% (4.0% per property) for these scenarios.
  - During this time the cost recovery ratio for fees and charges would increase to 50% while that for developer charges would rise to 60%.

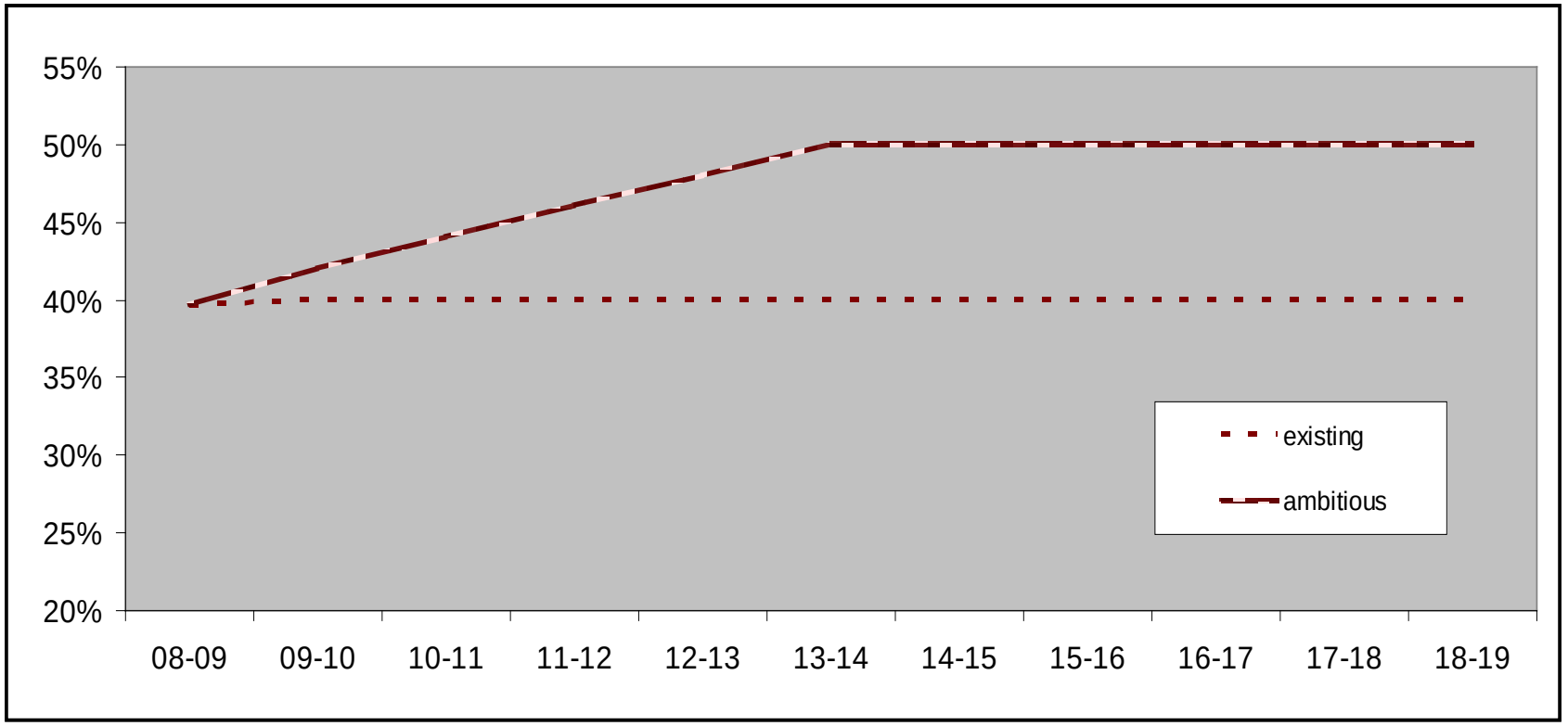
Fiscal Options

Average Residential Rates under Alternative Revenue Options for Existing Spending Policy (expressed in nominal terms)



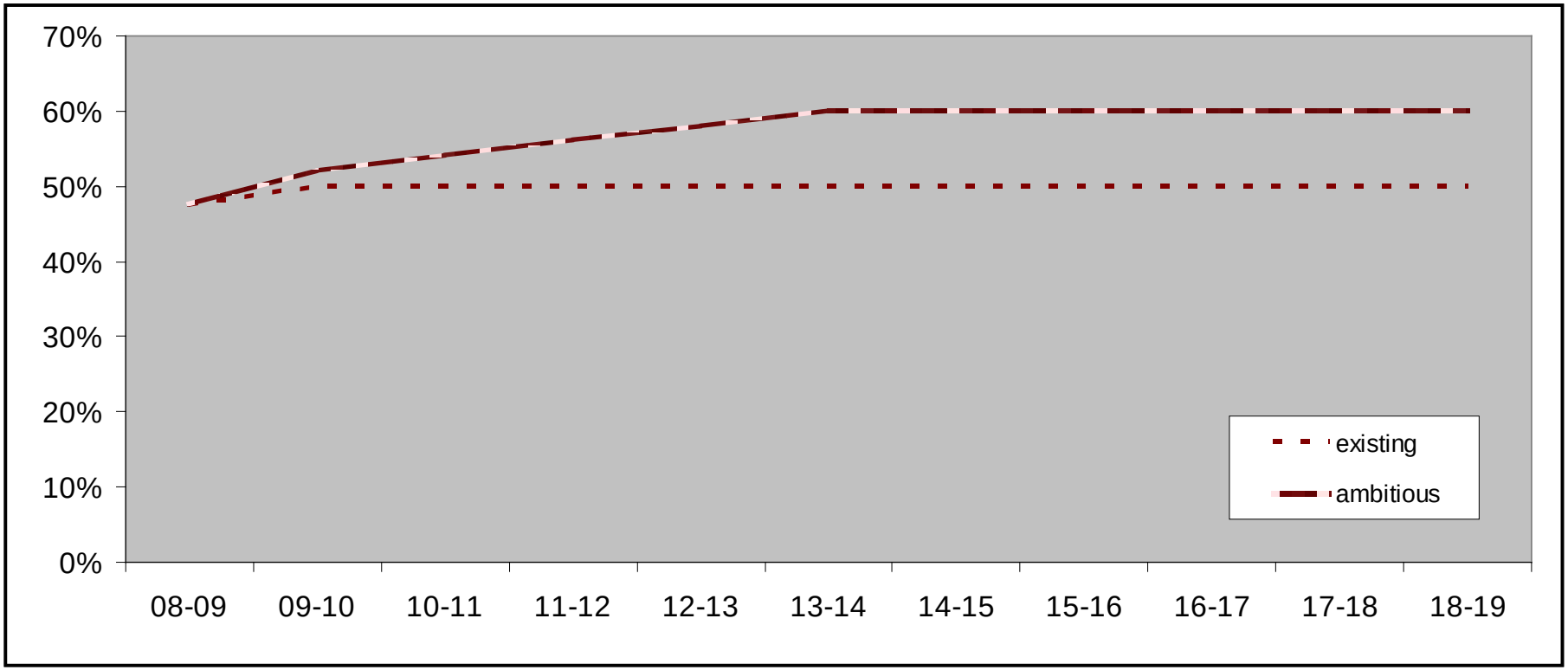
Fiscal Options

Fees and Charges Cost Recovery Ratio under Alternative Revenue Options



Fiscal Options

Developer Charges Cost Recovery Ratio under Alternative Revenue Options

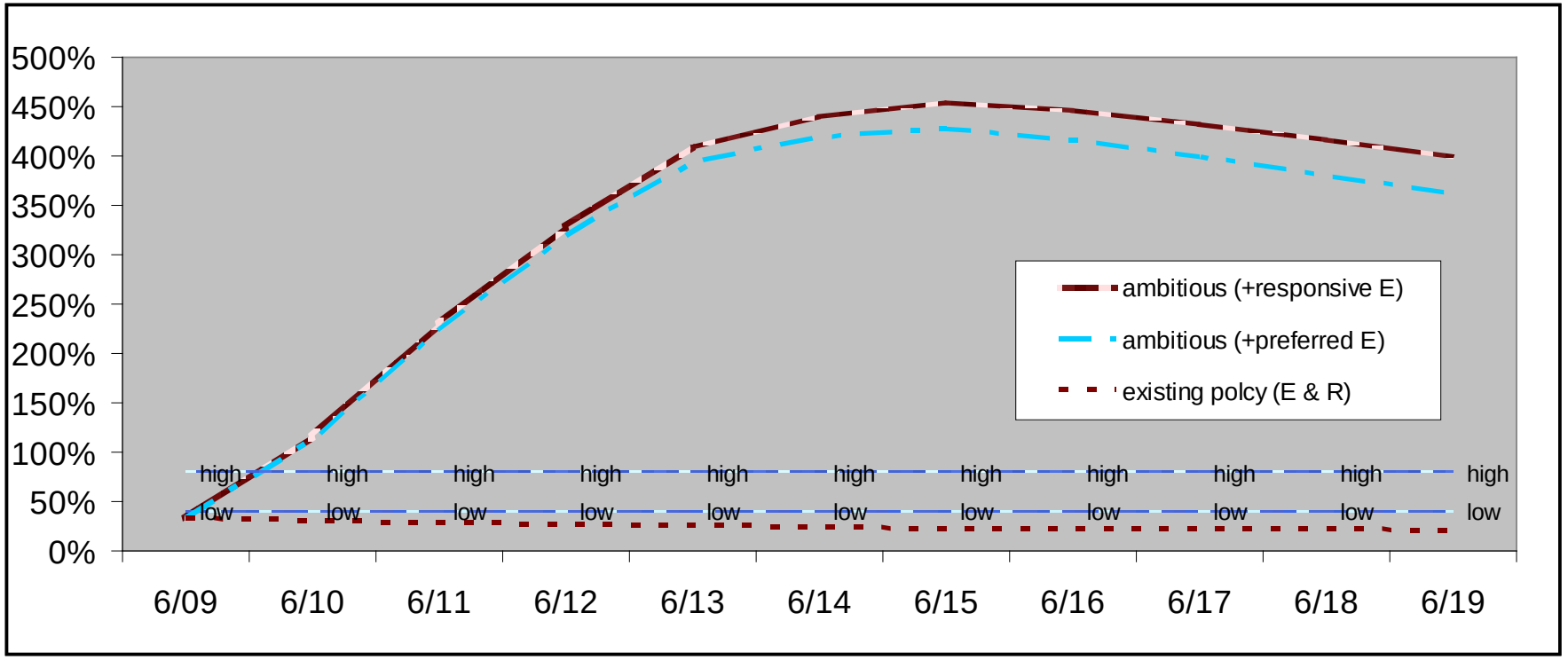


Fiscal Options

- *What would happen to GTCC's net financial liabilities ratio if it financed the alternative spending scenarios using the ambitious revenue option?*
- The Responsive and Preferred spending scenarios would cause the financial liabilities ratio to reach 360% and 401% respectively by 2018/19, still well in excess of the desirable limit of 80%.

Fiscal Options

Net Financial Liabilities Ratio under the Ambitious Revenue Option for the Existing and Responsive Spending Scenarios



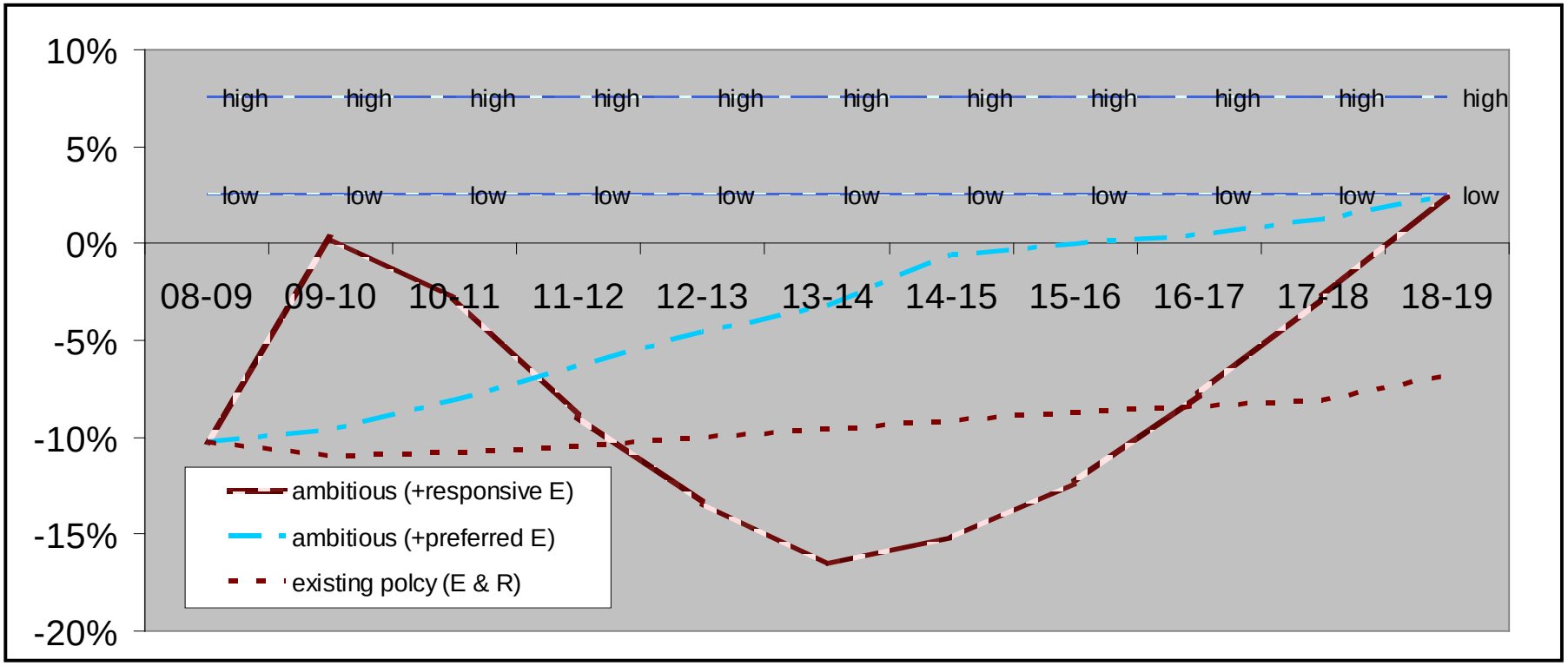
Fiscal Options

- *What would happen to GTCC's operating budget balance if it financed the alternative spending scenarios with the ambitious revenue option?*

- The Preferred and Responsive spending scenarios would result in the operating budget balance (expressed as a ratio of own-source operating revenue) moving from a deficit of 10.3% at present to a surplus of 2.5% (the floor of the target range) by the end of the decade.

Fiscal Options

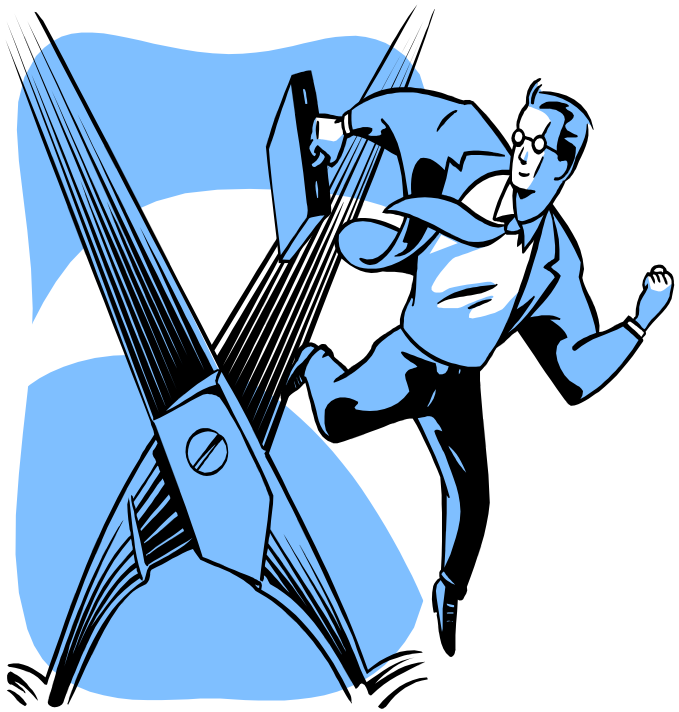
Operating Account Balance Ratio under the Ambitious Revenue Option for the Existing and Responsive Spending Scenarios



Fiscal Options

- So far we have explored a mix of alternative spending scenarios and revenue options aimed at achieving both the LGI fiscal goal posts and eliminating the infrastructure backlog.

Fiscal Options



- The downside of this approach is that it results in outcomes that require revenue rises or service cuts that may be too painful to be politically palatable.
- So the obvious question is…….

Proposed Plan

- *What spending scenario and revenue option would achieve the least painful compromise between the objectives of:*
  - *Achieving fiscal sustainability,*
  - *Fixing infrastructure,*
  - *Preserving essential services, and*
  - *Keeping increases in rates, fees and charges affordable?*

Proposed Plan

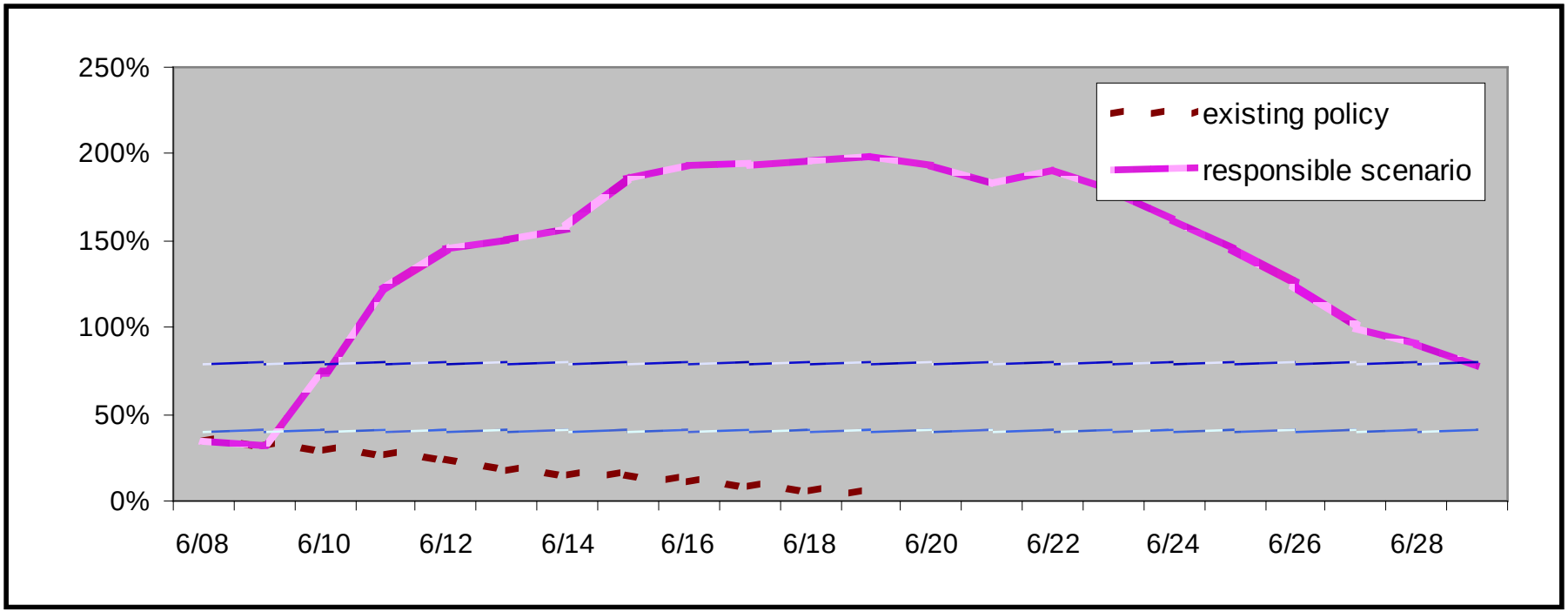
- *Review Today* has attempted to model such a Responsible scenario.
- It aims for the following outcomes by the twentieth year:
  - Council's net financial liabilities ratio won't exceed 80%;
  - Council's operating surplus ratio will be at least 2.5% compared with the present deficit ratio of 10.3%;
  - Council's existing modest infrastructure expansion plans will have been achieved;
  - Council's infrastructure backlog ratio will be reduced to 2.0% instead of increasing to 69% under existing policy.
  - Average rates, fees and charges revenue per property won't rise by more than 3.1% per annum in real terms.

Proposed Plan

- The next charts compare the results of the Responsible scenario with those of Existing policy.
- It should be stressed that the Responsible scenario is for illustrative purposes only. Its mix of revenue increases, service freezes and infrastructure improvements could be changed provided the outcome was still fiscally sustainable.

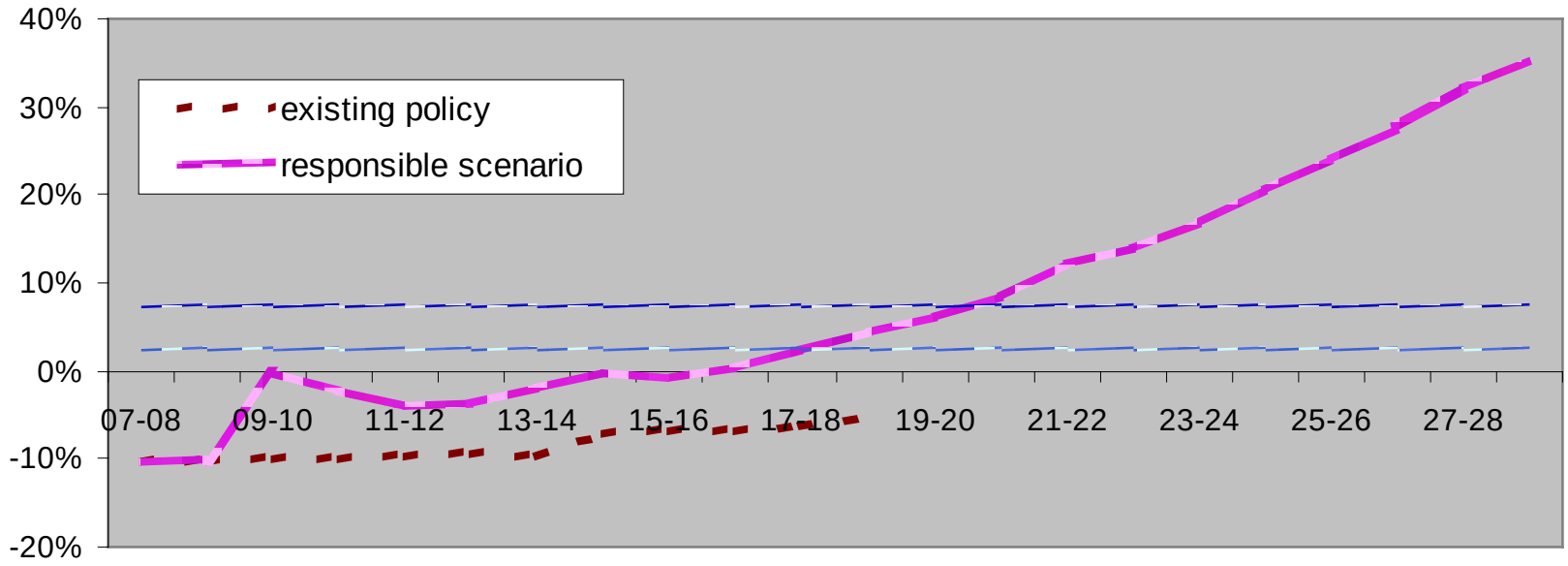
Proposed Plan

Net Financial Liabilities Ratio for Responsible Scenario versus Existing Policy



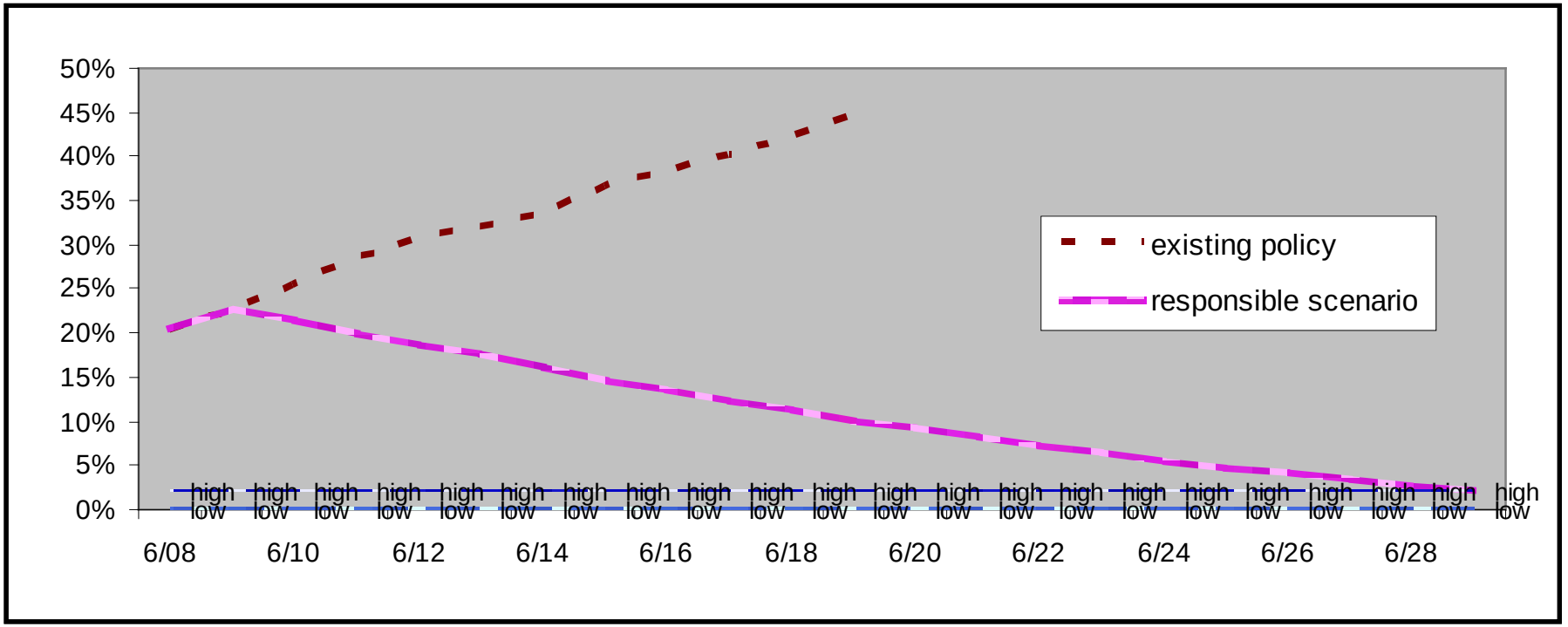
Proposed Plan

Operating Surplus Ratio for Responsible Scenario versus Existing Policy



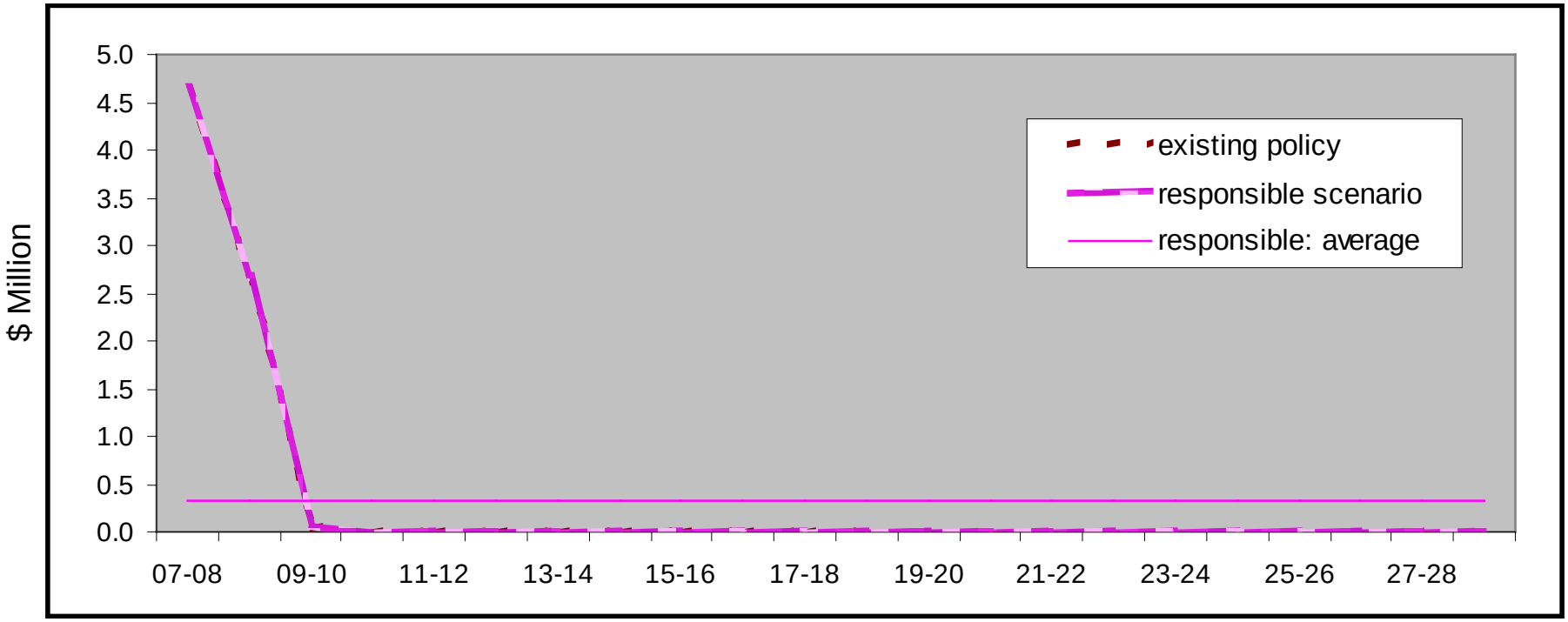
Proposed Plan

Infrastructure backlog ratio for Responsible Scenario versus Existing policy



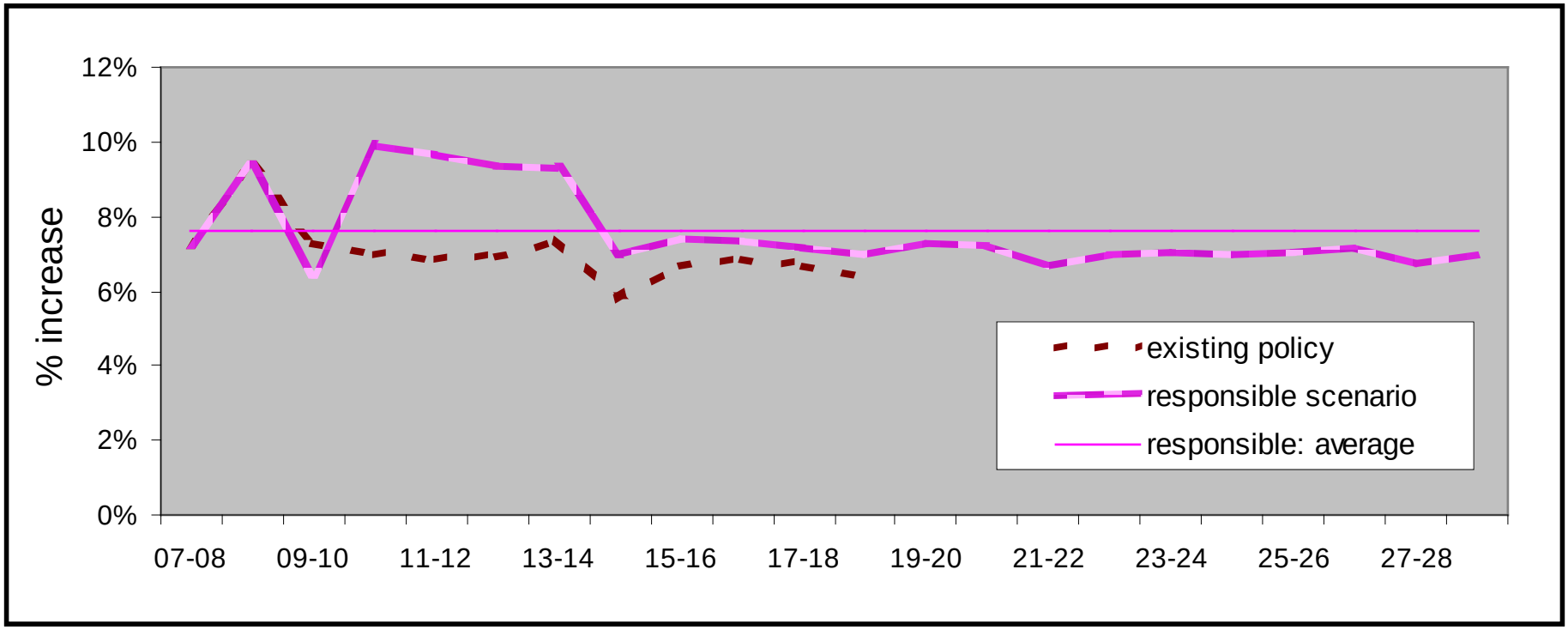
Proposed Plan

Infrastructure Enhancement for Responsible Scenario versus Existing Policy



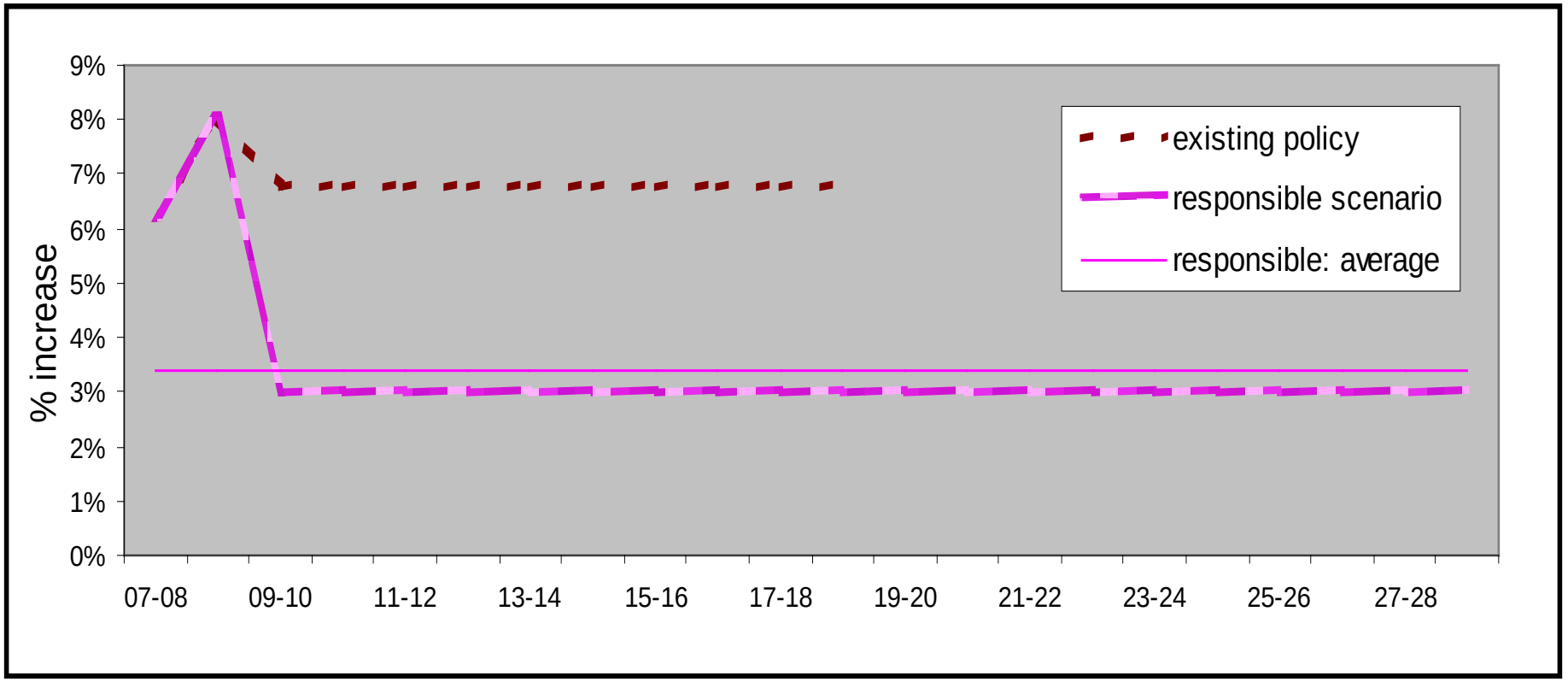
Proposed Plan

Rates, Fees and Charges for Responsible Scenario versus Existing Policy



Proposed Plan

Services Spending for Responsible Scenario versus Existing Policy



Proposed Plan

- However, such a scenario would require the following average changes in real terms (i.e. before providing for CPI inflation) in the next twenty years:
  - Rates revenue to increase by 4.9% (or 3.4% per property) per annum;
  - Fees and charges revenue to increase by 3.1% (or 1.7% per property) per annum;
  - Capital contributions are not significant, and
  - Service spending is frozen (or minus 1.4% per property per annum).

Proposed Plan

- After providing for 3% CPI inflation (the upper end of the RBA's target range) the nominal increases under the Responsible scenario would be:
  - Rates revenue to increase by 8.0% (or 6.5% per property) per annum;
  - Fees and charges revenue to increase by 6.2% (or 1.8% per property) per annum;
  - Service spending to rise by 3.0% (or 1.6% per property) per annum.

Conclusion

- It is clear from our analysis that GTCC's:
  - Existing policy would result in 69% of infrastructure being in backlog by 2028/29, but would still see annual increases in rates revenue by 6.5% and fees and charges revenue by 7.8% (after allowing for CPI inflation).
  - The Restrained spending scenario would require too big a cut in services (61%) over the next decade to be seriously considered.

Conclusion

- The Preferred spending scenario would require rates revenue to rise by 6.5% and fees and charges revenue by 7.9% (after CPI inflation) and result in net financial liabilities ratio of 704% by 2018/19.
- The Responsive spending scenario would require rates revenue to increase by 6.5% and fees and charges revenue by 5% (after CPI inflation) and result in a net financial liabilities ratio of 798% by 2018/19.
- Both these scenarios would not be acceptable to the Minister for Local Government.

Conclusion

- The Responsible spending scenario aims to achieve a compromise between fiscal, revenue, infrastructure and service responsibilities to the community.
- This scenario would produce the following results between 2008/09 and 2028/29;
  - The net financial liabilities ratio would rise from 32.9% to 197.4**%** before it fell to 80% (the ceiling of the LGI target range).
  - The operating account would go from a deficit of 10.3% to a surplus of 36% so as to cap the net liabilities ratio at 80%.
  - The infrastructure backlog ratio would shrink from 22.7% to 2%.

Continued……

Conclusion

- Under the Responsible scenario:
  - Average annual infrastructure expansion would cease after 2009/10 which is consistent with Council plans,
  - Services spending would be frozen at the current level in real terms (or fall by 1.4% per property per annum).
  - Rates, fees and charges revenue would increase in real terms by 4.6% per annum (or 3.0% per property)
  - Developer charges revenue would not be significant.

Conclusion

- The main questions about the Responsible scenario are whether:
  - the required 3.4% real hike in rates revenue per property for each of the next 20 years is politically feasible?
  - a real cut in services spending per property of 1.4% each year to 2028/29 could be offset by productivity savings?
  - the Minister would agree to a borrowing program that lifted the debt (NFL) ratio to almost 200% before it fell to 80%?
- Is Council prepared to undertake these measures in order to reduce the infrastructure backlog to 23% to 2%? If not it is likely to escalate to 43% by 2018/19 and 69% by 2028/29.

Other Measures

- So far only debt and conventional revenue measures have been considered for funding the proposed plan.
- *What other measures might be available to reduce the extent of rate rises proposed?*

Other Measures

- Other possibilities include:
  - Exploiting commercial opportunities;
  - Increasing operational efficiencies;
  - Rationalising non-core services;
  - Selling surplus assets; and
  - Obtaining extra State or Commonwealth grants.

Other Measures

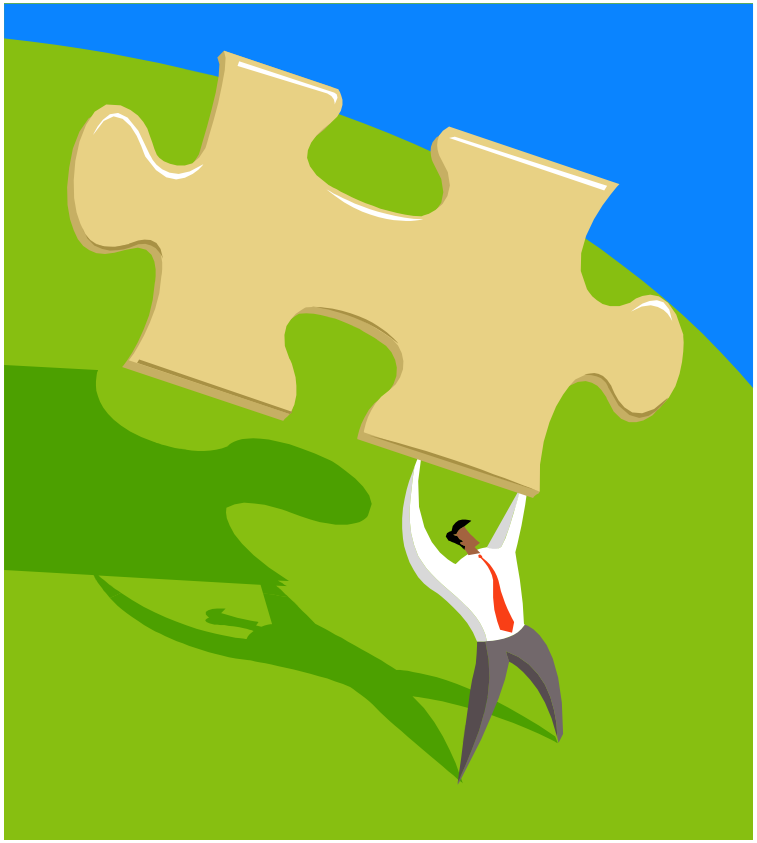
- Extra resources from commercial revenue, rationalisation of non-core service or infrastructure, administrative savings and government assistance would allow Council to reduce the extent of rate increases or avoid the trimming of services per property under the Responsible scenario.
- Council has not estimated what revenues or savings could be generated by such measures.
- Any additional assistance from the State and Commonwealth Governments is likely to be part of the reform of fiscal federalism negotiated by the Australian Local Government Association (ALGA).

Other Measures

- So far only the Commonwealth has promised financial relief for local government; a $300m infrastructure package to be shared by 700 councils Australia-wide.
- Even if GTCC could convince the state and/ or federal government to give it an extra $6 million per annum in operating grants this would reduce the annual increase in rates under the Responsible scenario by only 1% (from 8% to 7%).

Next Step

- What should Council do next?



Next Step

- It is recommended that Greater Taree City Council consult with its local community and the Dept. of Local Government on the most appropriate financial strategy for addressing its budget and infrastructure challenges.
- Council should then develop a rolling 20-year Financial Plan based on a revised version of the Responsible Scenario that takes account of DLG and community feedback. The Plan should aim to:
  - Rehabilitate required infrastructure whose condition has fallen below an acceptable standard (i.e. the 'backlog');

Next Step

Continued….

- Renew required infrastructure when it falls below agreed minimum standards in future;
- Expand the total infrastructure stock by enough to cope with residential and business growth;
- Identify core services that would be quarantined from any cost cuts to help fund infrastructure rehabilitation and renewal;
- Fund improved infrastructure through adequate revenue measures, operational savings, re-ordering spending priorities, asset leases or disposals and extra borrowings;

Continued….

Next Step

Continued….

- Ensure that the outcome by year 20 complies with sustainable financial targets (e.g. the recommended minimum surplus ratio and maximum debt ratio);
- Borrow sufficient funds between now and 2028/29 to help fund the rehabilitation, renewal and enhancement of infrastructure assumed by the Responsible scenario; and
- Explore whether an inflation index linked bond would be the most cost-effective way to borrow such money since the interest burden would be low to start with and then rise in line with price inflation thereafter.

Financial Sustainability Review

- **THE END**