GLEN INNES SEVERN COUNCIL

Attachment G

Staff Speeches from Community Consultation Forums

Attachment G

Thank you Hein. Today I am going to talk briefly about:

- ✓ Council's Integrated Planning Reporting Framework and LTFP
- ✓ How this reporting has highlighted the significant backlog of infrastructure renewals that is facing almost all rural Councils in NSW
- ✓ The revised decrease of almost $900k in Grant funding from the Commonwealth Govt
- ✓ The three suggestions Council is proposing to address these shortfalls (one of which is applying for a Special Rates Variation)
- ✓ What will happen if a SRV is not approved
- ✓ Where you can go for further information

- Council has been reviewing its LTFP (which covers a period of 10 years)
- It is part of the Integrated Planning and Reporting Framework introduced in 2009
    - All councils in NSW have been required to implement this new framework
    - It has moved the focus away from an annual basis to having a longer term / strategic view
    - LTFP shows if Council can afford want the Community have requested in their Community Strategic Plan

- This new reporting has highlighted the significant backlog of infrastructure renewals that is facing almost all rural Councils in NSW. It has been a big shock across the industry – that most Councils are in a poor and deteriorating position.
    - In our Local Government Area we can see this with our roads, streets and bridges
    - It has occurred because Councils are not "cash funding their depreciation"
    - Depreciation recognises the deterioration of an entity's assets in a particular year
    - Councils need to be spending this same amount of money on renewals to maintain our assets – this will stop a backlog of asset renewal occurring
    - Our annual depreciation is about $4.8M – Council needs to spend this same amount annually on capital renewal – which it is currently not. Note this is separate to creating new assets
    - $4.8M is a lot of money, but not when you compare it to the current replacement cost of our assets which is around $362M it is not
    - The shortfall in annual expenditure on roads and bridges is in the order of $1.5M every year – which has led to Council accumulating a $15.6M backlog in the renewal of roads alone.
    - This issue is facing almost all NSW Councils
    - With our current revenue streams Council is unable to make significant headway with this problem we face

- The other major issue that Council is faced with is the decrease of almost $900k in Grant Funding from the last LTFP that was prepared.
  - We like many other rural Councils rely heavily on funding from the Commonwealth government for a large portion of our income.
  - The most significant grant that Council receives is the Financial Assistance Grant from the Commonwealth Government, approx $3.6M per year.
  - At the time of setting the last LTFP we were advised that this grant would increase in 2014/15 in the order of $867k per annum.
  - The NSW Treasury Corporation (or TCorp as we often refer to them - who are the Finance Team of Government) were appointed to review the financial sustainability of all Councils in NSW concluded in their report about Council in March 2012 that this increase in funding was reasonable
  - This is no longer going to materialise and therefore Council must source additional revenue to maintain our infrastructure or, we will continue to see deterioration in the infrastructure condition, in particular roads, bridges and footpaths.
  - The NSW Grant Commission are encouraging Councils across NSW to investigate alternatives of revenue raising – including a SRV

- In an attempt to find the money for these shortfalls, there are three (3) suggestions:
  1. The first being that Council itself try to save $650k in internally efficiencies. Therefore, Council has been reviewing its services and processes resulting in operational savings, such as:
     - Reviewing vehicle log books which has resulted in a reduction of light fleet vehicles
     - Selling properties that are not operationally necessary – hence we no longer have to keep up their maintenance and they are not contributed to the renewal backlog and Council will gain on the interest from the sale proceeds and have additional rate revenue
     - We have implemented stricter budget controls and tightened spend delegations.
     - Council is always looking at ways for Continuous Improvement

All savings are being reallocated internally to road works.

Please take note though that of the more than 70 services that Council provides, there are very few that it can opt of all together.

2. The second suggestion Council is proposing is to apply for a SRV (an increase above the annual rate peg)
   - There have been approximately 100 applications from 152 Councils in NSW for rate increases in the last four years – demonstrating that many other councils are in a similar position to us
   - Tenterfield, Gwydir, Guyra, Armidale and Liverpool Plains applying this year
   - The proposal would see an increase of 10% (plus the 2.3% rate pegging) for residential rates in 2014/15
   - Farmland rates in our region are significantly below the average of surrounding councils. To bring these up to the regional average the proposal suggests a 10% (plus rate pegging) increase for each of the next three years for Farmland rates.

3. The third suggestion is for Council to apply for a further subsidised interest loan under the State Government Local Infrastructure Renewal Scheme often referred to as the LIRS program - Erich will talk about this soon

- If SRV is not approved?
  - Council will have to reduce the services we currently provide to the Community. The community will need to decide what services are removed or reduced whether it be – one or both of the swimming pools, Tourism, Village landfills, Festivals and events, less frequent mowing, reduced road maintenance works, decreased opening hours of operations of facilities such as the pool and libraries.

- If you would like to read further information to gain more insight please go to Councils website:
  - Community flyer on the proposed special rates variation
  - Long Term Financial Plan documents with the various scenarios
  - Asset Management Plan regarding Transport
- It would also be appreciated if you could complete the 'Community Survey' in paper form or on the website and return to Council by the 7th February

To summarise:

- ✓ Our Council along with many other Councils in NSW has found itself in a difficult position
- ✓ The time has come that we must take action
- ✓ The Commonwealth and State Governments do not have money to give us
- ✓ Our Council needs to raise further revenue
- ✓ The only way to do this is via a Special Rate Variation
- ✓ If this is not approved current services will be dramatically reduced, some possibly ceased
- ✓ I firmly believe applying for a Special Rates Variation is the best decision for our Community make.

I will now pass you over to Eric Brown, our Manager of Finance.

Thank you Anna,

Good morning everyone and thank you once again for attending. My name is Eric Brown I am the Manager of Finance of the Glen Innes Severn Council. As indicated by Anna I will be explaining how LIRS fits into a Special Rate Variation and why in this particular case borrowing four million dollars is a sound financial decision.

The Special Rate Variation and LIRS are two elements of a more comprehensive Long Term Financial Plan to achieve sustainability, and improve asset conditions, for ratepayers in the Glen Innes Severn Council area. We are not simply relying on increasing rates, we are implementing a number of other cost saving initiatives to increase expenditure on roads and bridges. Unfortunately, with a recent review of bridges it is clear that we will also need to move work forward on a number of bridges or we will run the risk of more bridges becoming unserviceable or weight restricted such as the 9 mile Bridge.

A little bit more about the LIRS scheme. The LIRS, or Local Infrastructure Renewal, Scheme is a State Government Initiative to address the infrastructure backlog in the State of NSW. The LIRS scheme was started after a review of Local Government by the Treasury Corporation of NSW indicating that Local Councils had a significant infrastructure backlog, in fact more than $7billion. Which means, if you were to add up the cost of renewing assets such as roads bridges and buildings together you would need to spend over $7billion in NSW alone to bring assets up to a satisfactory standard.

The TCORP review also indicated that Councils in NSW had a healthy balance sheet position with a large number of assets and investments compared with a limited number of loans. Therefore, this review indicated that Councils were in the position to safely borrow a significant portion of the backlog.

The State Government put two and two together, and thereafter released this LIRS scheme largely to encourage Councils to borrow additional money to fund their infrastructure backlogs. In my opinion, this scheme is an admission from the State Government that they do not have the ability to fund the deficit in Local Government, nor the growing infrastructure backlog. The State Government is giving us a shovel for us to dig ourselves out.

How does it work. LIRS funding is very simple, Council applies to the State Government for an interest subsidy of three (3) percent. If successful, Council draws a loan from the bank at around five (5) percent and then with the three (3) percent subsidy pays around two (2) percent in interest. In

Council's long term financial plan a loan of four million dollars is proposed to be spent on bridges in a poor condition and Council proposes to draw this amount for a period of 10 years at a fixed interest rate.

So in one line. Council draws a four million dollar loan fixed over ten years at 2% to bring forward work on bridges in a poor condition.

I appreciate that borrowing is not generally the answer, you live off the money you have in the bank. However, in this particular case, it is cheaper to borrow money at two (2) percent and to retain Councils investments of approximately $14million at around 3.7% return (this year).

There are also other quite significant benefits which include;

1) We have historically low interest rates – fixed over ten years.
2) The State Government have proved that a deteriorated asset such as a road with pot holes is more expensive to maintain than paying for the interest on a new road. Therefore you pay more than the 2% interest on patching up the holes in the road.
3) The cost of constructing a bridge increases year on year by more than 2%. In fact the Building and Construction index in September 2012 increased by 5.6%. This should be compared with the 2.3% for 2014/15 Councils are allowed to raise their rates.
4) We are bringing forward assets, in particular bridges, which if they fail will cut rural communities. You can drive over a pothole, but a washed out or closed bridge is another matter altogether.
5) But most important of all, the loan is affordable to Council. Council's long Term Financial Plan indicates this but it will also be independently verified by the Treasury Corporation of NSW.

Now to put Council's financial position in simple terms; if I were to compare Council to the average person; after taking the $4million loan, if you were earning $60,000 per year you would have $900,000 in assets, such as a house, with a $38,000 mortgage and $34,000 in the bank.

This is a good position to be in, but where we as Council fall short is that we are not spending enough on maintaining that $900,000 house to ensure that it stays in a good condition.

So in summary, Council proposes to borrow $4million fixed over ten (10) years at 2% to bring forward bridges in a poor condition. Whether the borrowing is affordable will be confirmed independently by TCORP. In my opinion, borrowing this money is a sound financial decision.

Thank you for your time. I now hand over to Vanessa Menzies, Director of Infrastructure Services, who will discuss further the conditions of our assets and what impact the SRV and LIRS loan will have on their condition in the longer term.

We know that many of our roads and bridges have deteriorated so badly that we have no option but to completely rebuild them, but we don't have enough money to fix them.

Our historic budget for roads and bridges has been around $1m up to $1.5m, depending on grant funding.

We have approximately $1.1M in rebuild costs for roads that are in condition 5 which if nothing is done within the next few years, the roads will become almost unserviceable.

We should also be spending around $3.2M on roads in condition 4 that without significant renewal will deteriorate to condition 5.

Over $4m for roads in condition 3, that without significant maintenance over the next few years will deteriorate to condition 4.

That's 162 road and streets that need significant work, a total of 325 segments.

With the SRV, we will have an additional $600,000 every year. That's the equivalent of doubling the r2r grant that we get from the federal government. That will also mean new permanent jobs on the outdoor workforce.

With the additional funding, we will be able to repair and renew anywhere from an additional 10 to 30 road segments every year. DISCUSS GRAPHS By 2019, we will be starting to deal with the backlog, which means that the overall deterioration of our roads will be slowed down and in 10 years time the backlog will be starting to go down.

We also have 128 road and pedestrian bridges and large culverts.

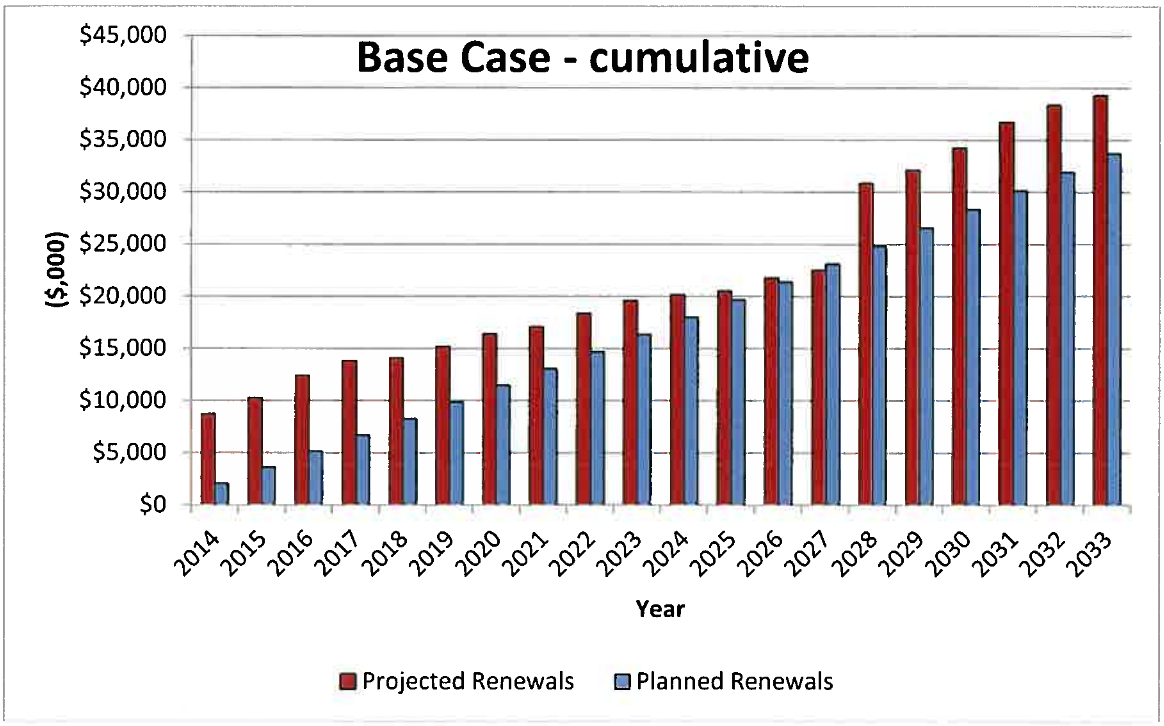
From the inspections of all our bridges and large culverts, we need to spend in the order of $4.5m to $4.7m over the next 10 years. This year, we will be spending about $240,000 from r2r grant funding on some major repair works.

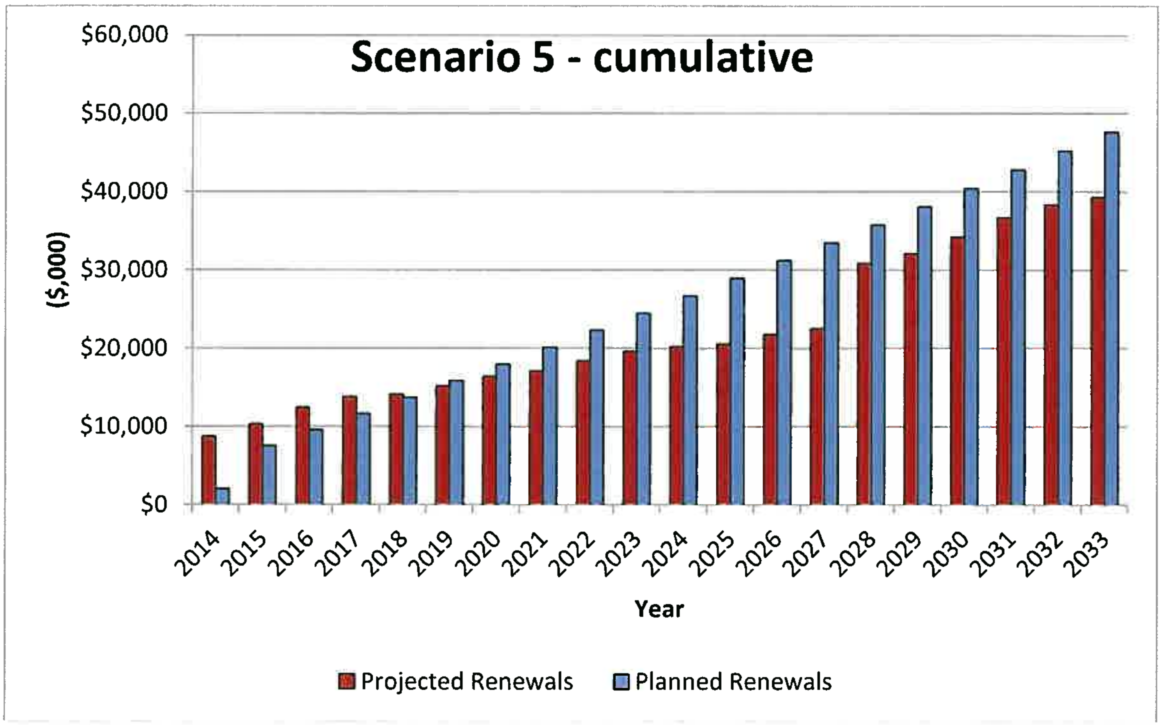
The $4m loan will enable us to bring forward most of the bridgework. This is important because of the 128 bridges, 100 have been rated as requiring some type of work within the next year and at least 8 of those include very significant rehabilitation or total replacement.

TCORP has proven that bringing forward capital works is more cost effective than maintaining assets in a poor condition. For this reason TCORP is encouraging councils to borrow under this scheme. TCORP will also do an independent assessment confirming that Council can afford to borrow this additional money.

Completing a number of bridge projects in one year should allow Council to obtain better value for money (through more competitive tendering).

Council will also apply for grant funding that assists in addressing the infrastructure backlog (for example the recently announced bridge programme).





7/7