Policy & Strategy

Minute Number: **23/10/2013**

Council Meeting Date:
Report Number: FC330210

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ITEM: <#> **PO1646**
SUBJECT:
FC330210 - Funding Strategy – Infrastructure Asset Renewal

DIVISION REQUIRED: No

FILE NUMBER: 138-179-2

BLACKTOWN CITY 2030 Vision

Strategy: A growing city supported by infrastructure

Councillor Comment:

SUMMARY OF REPORT:

1. Council adopted its revised Integrated Planning and Reporting (IP&R) framework documents on 26 June 2013. This included the revised Community Strategic Plan, *Blacktown City 2030,* the Delivery Program 2013-2017, Operational Plan 2013/2014 and the Resourcing Strategy for Blacktown City 2030 which comprises the Long Term Financial Plan (LTFP) 2013-2023, Asset Management Strategy 2013-2023 and Workforce Management Plan 2013-2017.

2. *Blacktown City 2030*includes a "Trigger Project" titled "Asset Management and Renewal", which focuses on the maintenance and renewal of existing infrastructure through long term financial planning based on asset renewal modelling.

3. Council's adopted Operational Plan 2013/2014 has the following 2 action items to assist with Council achieving the objectives of the Asset Management and Renewal Trigger Project:

   - "A Growing City Supported by Infrastructure", Focus Area 8, Goal 8.1, Action 8.1.1 – *Investigate available long term funding options to address Council's Infrastructure Asset Renewal requirements.*
   - "A Leading City" strategy, Focus Area 4, Goal 4.1, Action 4.1.3 – *Investigate and report back to Council alternative funding options to help address Council's future asset management requirements.*

4. This report contains an overview of the City's current and future asset renewal funding requirements, and provides for Council's consideration alternative funding options to meet the objectives of the Asset Management and Renewal Trigger Project.

5. Attachments to this report are:

   Attachment 1 - Asset Management and Renewal Trigger Project
   Attachment 2 - Summary of the Impact on rates if Council applied for a rate increase

REPORT:

Introduction

1. A major challenge confronting the NSW Local Government sector is the need to increase the amount of funding allocated to the maintenance and renewal of existing infrastructure. This has been highlighted in a number of studies such as the 2006 Local Government and Shires Association's Independent Inquiry into the Financial Sustainability of NSW Local Government and more recently the 2013 report released by NSW Treasury Corporation (TCorp) in regard to Financial Sustainability of all NSW councils. The TCorp review identified an infrastructure renewal backlog of $7.2 billion for all NSW councils.

2. These studies have identified the need for NSW councils to significantly increase funding for the renewal of existing infrastructure. They have further identified that if funding is not increased in the immediate term, then the infrastructure renewal backlog will continue to increase at a level which in the future may become too great to address without serious ramifications on service delivery.

3. For Council, the infrastructure renewal backlog as at 30 June 2013 is $68.3 million. Council is custodian of infrastructure, property, plant and equipment assets that have a value of approximately $2.8 billion. Without adequate funding, effective maintenance and renewal of these assets to maximise their potential life cannot be achieved. Council's adopted Resourcing Strategy, which includes the Asset Management Strategy 2013-2023, provides detailed information in regard to the renewal requirements for Council's infrastructure assets. The Asset Management Strategy is supported by individual Asset Management Plans for each key asset class.

4. In preparing Council's Asset Management Strategy, detailed long term modelling has been undertaken on Council's infrastructure network. This modelling highlights the need for increased levels of Asset Management Funding for asset renewal and maintenance of Council's infrastructure asset base.

5. This report provides for Council's consideration various funding options to address Council's long term asset renewal funding requirements.

6. **Integrated Planning and Reporting Requirements**

   The introduction of the Integrated Planning and Reporting (IP&R) requirements for NSW Local Government has increased the focus on addressing the asset management challenge, as recognised by recent studies including those of TCorp and the Independent Local Government Review Panel. Under the IP&R Guidelines, it is a requirement that long term strategic planning by councils for community needs must be supported by a Resourcing Strategy that includes integrated financial, asset and workforce plans.

7. Council adopted its revised IP&R Framework documents on 26 June 2013. Council's Community Strategic Plan – *Blacktown City 2030,* includes a 'Trigger Project' titled 'Asset Management and Renewal'. The focus of this trigger project is to address the asset management funding issue. A copy of the trigger project is provided in **Attachment 1** to this report.

8. The Resourcing Strategy for *Blacktown City 2030*includes the Asset Management Strategy 2013-2023, which is a high level document, prepared in accordance with the *Australian Infrastructure Financial Management Guidelines* issued by the Institute of Public Works Engineering Australia (IPWEA) for asset management. It establishes a framework to guide the planning, construction, maintenance and operation of essential infrastructure. The strategy includes detailed life cycle modelling which identifies the funding requirements to maintain service levels to the community and this is closely integrated with the Long Term Financial Plan 2013-2023 (LTFP).

9. **Asset Management Strategy**

   Council's adopted Asset Management Strategy 2013-2023 builds on Council's existing asset management policy and established management practices. The strategy provides detailed lifecycle modelling which identifies the funding requirements to maintain service levels at the standard expected by the community. This modelling is underpinned by Council's comprehensive asset management database and incorporates the most recent information based on regular inspections of all key assets.

10. This approach to asset management involves the application of 10 year modelling of maintenance and renewal requirements based on condition assessments, statistical analysis of historical asset investment, existing asset conditions, together with the prioritisation of new or upgraded services. This process is incorporated in the preparation of the proposed annual Works Improvement Program and ensures a longer term focus towards the consideration of works required in future years.

11. In preparing the Resourcing Strategy as part of *Blacktown City 2030,*specific attention was focussed on the integration between the Asset Management Strategy 2013-2023 and the Long Term Financial Plan 2013-2023, so that over a 10 year planning period a robust financial model allows informed decision making on the appropriate level of investment in assets and services.

12. As demonstrated in the Resourcing Strategy, the challenge for Council is to determine how to address the required level of investment in asset renewal and subsequently the additional funding requirements to meet these asset renewal requirements. This involves consideration of the various funding options available. It is noted that Council's Operational Plan 2013/2014 contains an action in which alternative funding options to address Council's future Asset Management requirements be reported to Council in October 2013. The information contained in this report addresses this action.

13. **Council's Current Asset Renewal Funding**

    Council has had for many years an established discipline of adopting prudent budgets and effective financial management. From this approach it has been able to progressively increase the funding allocated to asset renewal, whilst continuing to address the expectations of an expanding City. This has been achieved within the constraints of rate pegging, the impacts of cost shifting and other external factors such as the global financial crisis and increases in the costs of materials, fuel and energy.

14. Council currently provides funding in its annual budget of $10.85 million towards asset renewal.   In response to the need to increase funding allocated towards asset renewal, Council has, over the past few years, allocated additional one-off funding for this purpose. Listed below is a summary of additional funding allocated by Council towards asset renewal:

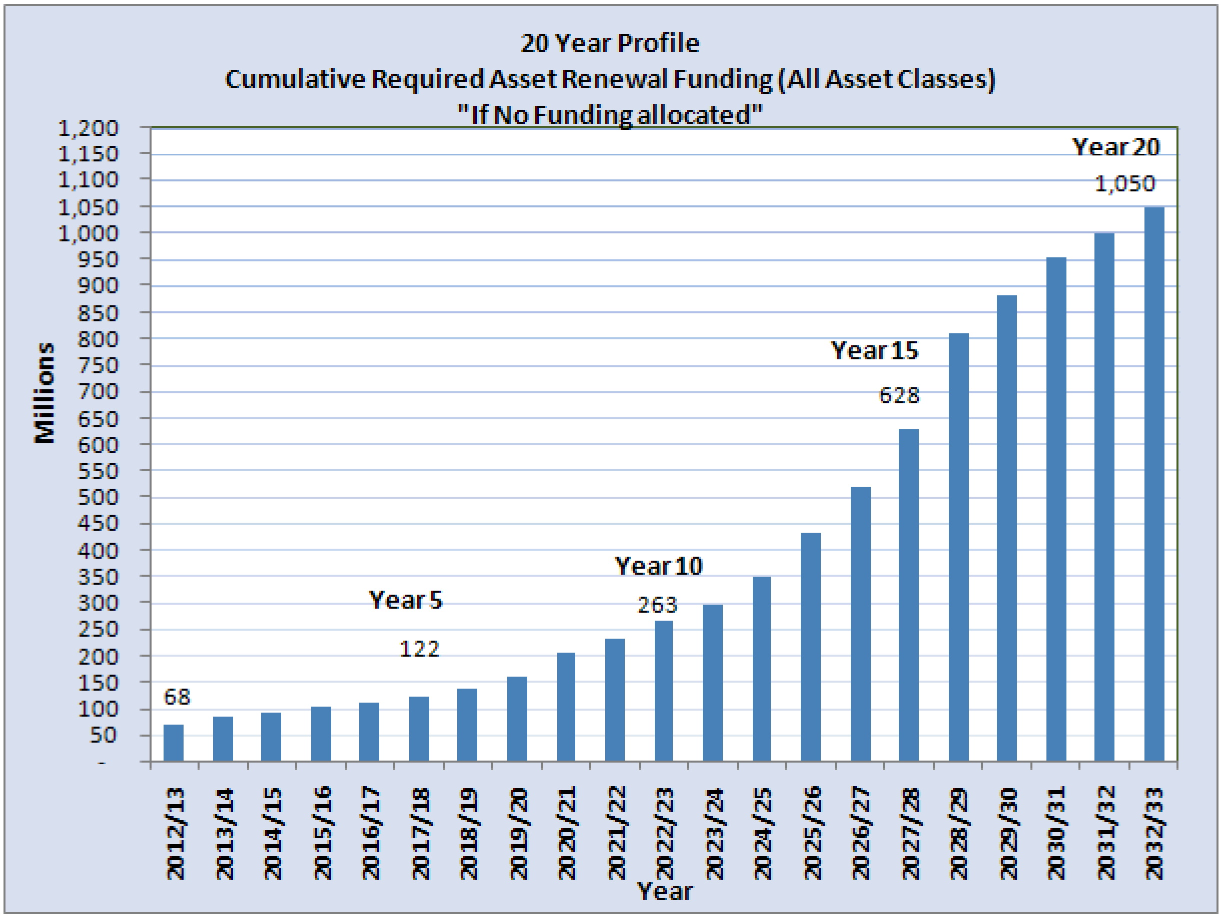
    - 2010/2011 Year End Review - $5.487 million
    - 2011/2012 Year End Review - $5.853 million
    - 2012/2013 Year End Review - $3.402 million allocated to the Asset Renewal Reserve.
    - December 2012 Quarterly Review, Council established a new Asset Renewal Reserve with initial funding of $3.07 million. In adopting the 2013/2014 WIP, the one-off funding in this reserve was allocated towards funding asset renewal projects.
    - 2013/2014 budget - savings of $1 million from the revised pensioner rebate scheme allocated to the Asset Renewal Reserve.

15. **Future Funding Challenges**

    As detailed in the Councillor Induction workshops held in late 2012, Council is faced with the significant challenge of funding the current and future asset renewal requirements of the City. The presentations provided at those workshops demonstrated the current state of Council's infrastructure assets and forecast a renewal profile for Council's major asset classes being Roads, Buildings, Drainage and Open Space.

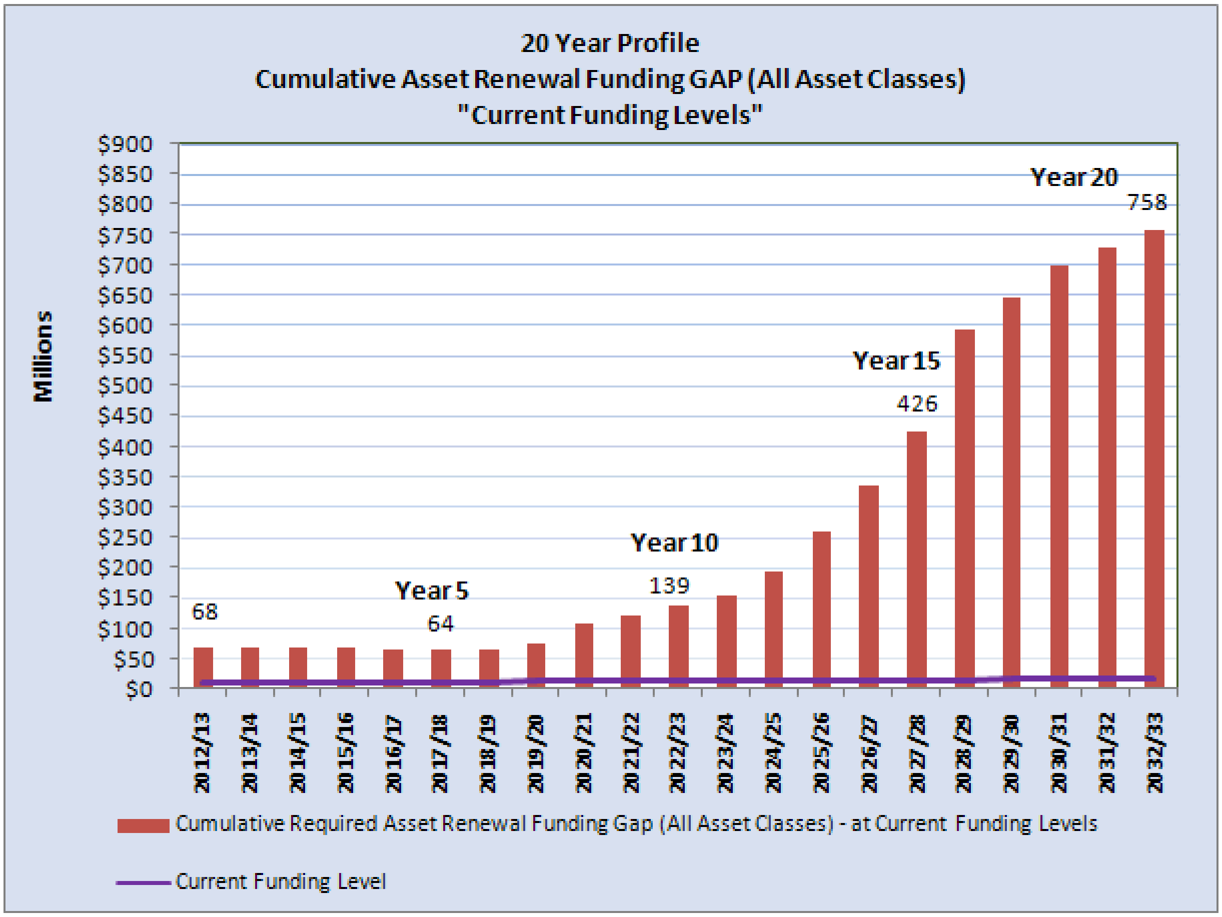
16. The following graph is a summary of the future 20 year cumulative asset renewal requirements forecast for the City based on detailed asset modelling from Council's Asset Management system.

17. This modelling is based on existing service levels as defined in the Asset Management Plans, and reflects projected expenditure at those points at which renewal works are necessary to maximise the service life of existing assets whilst minimising the costs to do so.



18. As shown above, the outstanding asset renewal backlog as at 30 June 2013 was $68 million. In cumulative terms, if Council did not, in the future, allocate any funding towards asset renewal, then in 10 years time the asset renewal funding backlog would total $263 million, and in 20 years time $1.050 billion. The above graph demonstrates that Council's asset renewal funding requirements do not increase by a linear amount on an annual basis. Rather, the level of funding required increases significantly in later years as the infrastructure assets from the older parts of the City reach the stage of their life cycle whereby more expensive renewal treatments are required. This means that in later years, Council will be confronted with much higher funding requirements than it does now, as the infrastructure for those areas of the city constructed in the 1980s will need to be renewed. For this reason, it is important that Council adequately addresses its current asset renewal requirements, so that it has a better basis to address future funding requirements.

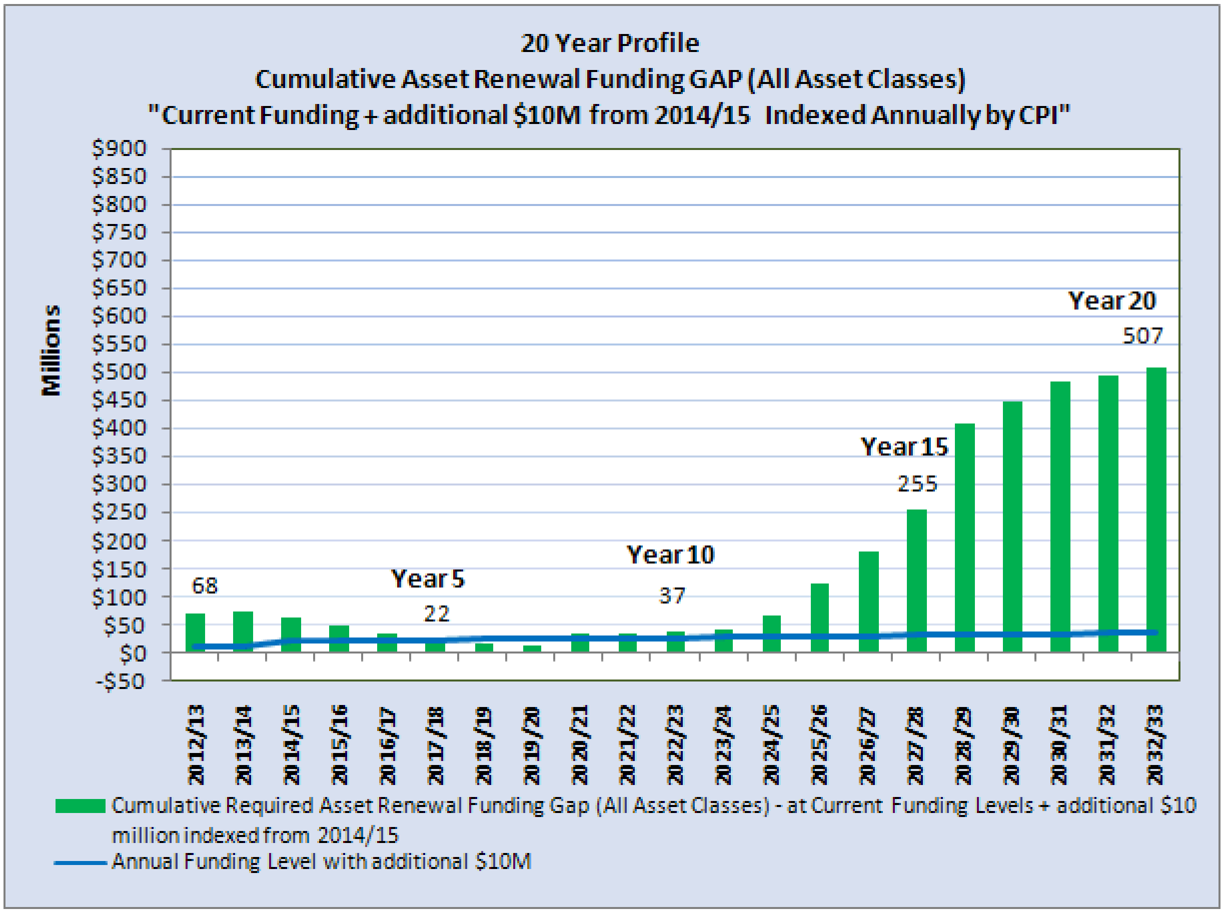
19. Council currently allocates approximately $10.85 million annually towards asset renewal projects in the WIP. The following graph demonstrates, on a cumulative basis, the forecast asset renewal funding backlog over the next 20 years, based on the current level of funding of $10.85 million being indexed annually by an assumed CPI of 3%.



20. As shown above, if the current level of funding for asset renewal is sustained, the outstanding asset renewal backlog in cumulative terms in 10 years time is forecast to be $139 million and $758 million in 20 years time.

21. Council officers have modelled various scenarios regarding funding allocated towards asset renewal. This financial modelling has clearly shown that the sooner Council increases annual renewal funding then the lower the long term expenditure required for renewal. **Based on the modelling it is recommended that the annual funding for asset renewal be increased by $10 million.** It is noted that this amount is higher than the amount of $8.15 million advised at the Councillor workshop in November 2012. The increase is primarily due to the inclusion in the asset renewal modelling of Council's infrastructure at aquatic centres and the Blacktown International Sportspark.

22. If Council were to increase the annual funding allocation for asset renewal projects by $10 million p.a, the future asset renewal funding backlog is not eliminated over the next 20 years, however it is forecast that it would be reduced over the next 10 years to a more manageable level. The following graph shows the affect on the cumulative asset renewal funding backlog after increasing the annual asset renewal funding by $10 million p.a, with this amount being indexed annually by an assumed CPI of 3%.



23. As shown above, if the additional funding of $10 million is provided annually for asset renewal from the 2014/2015 financial year, the outstanding asset renewal backlog in cumulative terms in 10 years time is forecast to be $37 million and $507 million in 20 years time.

24. **FUNDING OPTIONS**

Provided below are a number of alternative options to increase the amount of funding allocated towards asset renewal. These are as follows:

- Increasing fees and charges
- Increase grant funding for asset renewal purposes
- Review the level and provision of Council services
- Debt funding by the use of external loans
- Increasing the proportion of funding in the Works Improvement Program (WIP) allocated towards asset renewal
- Permanent allocation of future savings achieved from the revised Voluntary Pensioner Rebate Scheme
- Increasing rates income by a special rates variation.

Each of these options are discussed in more detail below:

y. Increasing User Charges and Fees:

i. Council's user charges and fees account for approximately 9% of Council's overall operating revenues. For the 2012/2013 financial year they totalled $21.94 million. They are the third highest revenue category after rates, and grants and contributions.

ii. Fees and charges comprise 2 broad categories; **regulated** and **discretionary fees**.

iii. **Regulated fees** are fees which are fixed by legislation. That is, Council must charge a fee as set by legislation. For the 2012/2013 financial year, income from regulated fees totalled $6.18 million, which was approximately 28% of Council's total user charges and fees income.

iv. Typical fees in this category are items such as Development Application fees and Construction Certificate fees. As Council cannot increase these fees above the legislated amount, only by increases in demand for these services can total revenue from these fees increase.

v. **Discretionary fees** are fees which are not subject to external regulation. That is, Council can determine what amount it wishes to charge. These fees include child care fees, income from hall hire and fees for the use of Council's Aquatic centres and health and fitness centres. In 2012/2013, the income received from the non-regulated user charges and fees totalled $15.648 million, approximately 72% of the total user charges and fees income. Child care fees, which for 2012/2013 totalled $6.6 million, represents the largest proportion of this category.

vi. On an annual basis these fees and charges are subject to review and benchmarking against external fees where applicable as part of the annual review of the Goods and Services Pricing Schedule (GSPS). Each year most user fees and charges are increased by a level commensurate with CPI to offset increases in the costs of providing these services. In reviewing the GSPS each year and determining the appropriate increase to be applied, consideration is given to the reasonableness of the increase in the fee, current market conditions, the cost drivers for the facility or service the fee relates to and the elasticity of the fee and the impact any increase will have on demand.

vii. Generally these fees and charges are quite price elastic, which means they are quite sensitive to increases in price. That is, increases in the fees can result in a commensurate decrease in utilisation to the point if a fee is increased too much, overall income may fall.

viii. User charges and fees are also subject to external market forces not controllable by Council. Development applications are strongly influenced by the level of property development activity and therefore can have a very positive or very negative impact on Council's income.

ix. While opportunities will continuously be investigated for Council to implement new user charges and fees, and the GSPS will continue to be reviewed annually in order to optimise the prices of existing user charges and fees, it is not considered practical to increase user charges and fees to substantially fund an additional $10 million towards asset renewal. To do this would necessitate an increase in fees of approximately 64%, which assumes there would be no reduction in demand. In practice, if such an increase in fees was undertaken, actual demand levels would most likely drop. It is noted that in relation to Council's largest discretionary fee category, child care fees, these fees have increased on average in excess of CPI over the past 3 years, 5.63% (2011/2012), 6.6% (2012/2013) and 4.11% (2013/2014).

z. Debt funding and the use of external loans:

i. Council has been debt free since 1999. Since that time, Council has allocated the amount previously used to pay debt towards the Infrastructure Sinking Fund (ISF) which is an internally restricted cash reserve used to fund major infrastructure throughout the City. It has also helped forward fund essential works in new release areas.

ii. For the 2010/2011 financial year, only 15 of the 152 councils in NSW were debt free. The debt service ratio for the councils with external borrowings varied from 0.01% to 51.29%. This ratio is outlined further below.

iii. An important factor that needs to be considered in regard to debt is to ascertain the councils ability to fund future loan repayments.

iv. There are two key industry indicators (ratios) generally used to calculate a council's borrowing capacity. These are the "Debt Service Ratio" and the "Debt Service Coverage Ratio".

v. The **Debt Service Ratio** is a ratio used by the Division of Local Government (DLG) to assess the cost of loan repayments against the discretionary revenue of a council. It is calculated by dividing the net annual debt service cost (principal and interest) by the total operating income excluding Special Purpose Grants.

vi. The benchmark set by the DLG for this ratio is 10% or less. That is, annual loan repayment costs should be no more than 10% of the overall operating income (excluding Special Purpose Grants).

vii. Based on this benchmark Council could borrow up to approximately $165 million. This is based on an industry standard 10 year loan at an interest rate of 6%. The annual loan repayment for a loan portfolio of $165 million would be approximately $22.4 million, over the life of the loan the total interest cost would be $59 million.

viii. The **Debt Service Coverage Ratio** is a ratio used by TCorp as part of its assessment of the financial sustainability of NSW councils. It assesses the cash available to service debt by dividing the overall operating surplus (before interest, tax, depreciation and amortisation) by the value of annual loan repayments.

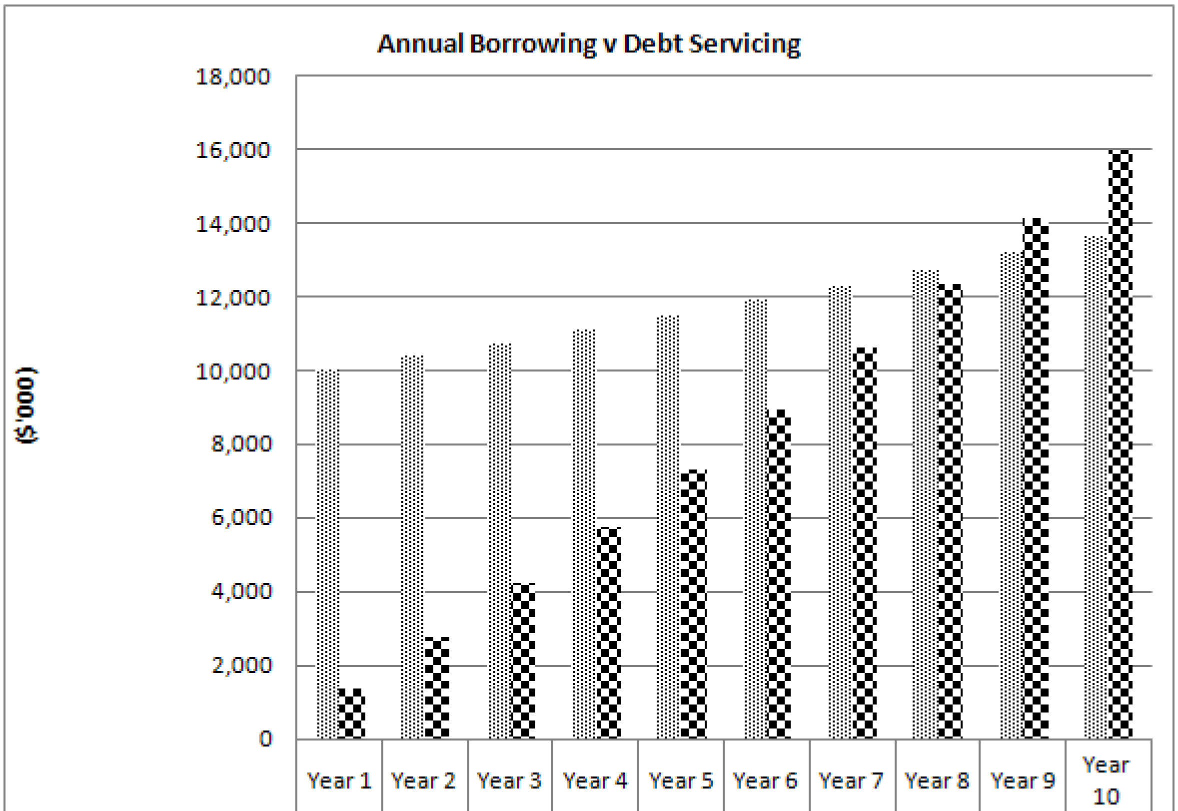
ix. The benchmark for this ratio is 2 or greater. That is, a council's operating result (excluding interest, tax, depreciation and amortisation expenses) should be at least double the amount expended annually on loan repayments (principal and interest). For example, if a council had an annual loan repayment of $10 million, then in order to meet this benchmark, it would need to achieve an operating surplus (excluding interest, tax, depreciation and amortisation expenses) of $20 million or more.

x. Using this indicator, Council has a calculated capacity to borrow up to $125 million. For this amount of debt the annual loan repayment would be approximately $17 million, over the life of the loan the total interest cost would be $7 million.

xi. Both the “Debt Service Ratio” and the “Debt Service Coverage Ratio” are purely mathematical calculations. They do not take into account whether a council is able to actually fund, within its current adjusted budget the required loan repayments. For example, if Council was to borrow $125 million at an interest rate of 6% over a 10 year period, the annual loan repayment would be approximately $17 million. Without any increase in its revenue base, Council would need to identify savings of $17 million to fund the annual loan repayments.

xii. The use of debt funding can provide funding immediately for infrastructure renewal. However, there is a longer term impact attributable to the cost of interest charged. For example, if Council borrowed $10 million at 6% over a 10 year term, it would repay a total interest amount of $3.6 million.

xiii. As shown in the graph below, if Council borrowed $10 million annually indexed by a CPI of 3% per annum to fund asset renewal works, the annual loan repayments would increase each year to a point whereby in the 9th year Council's actual loan repayment would be higher than the amount it has borrowed. That is, at the end of the 10 year period, Council would have borrowed $117 million, with an outstanding loan liability of $62 million remaining. During this 10 year period a total of $83 million in loan repayments would have been paid, consisting of $55 million in principal repayments and $28 million in interest borrowing costs.



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Annual Borrowings ($'000):	10,000	10,350	10,712	11,087	11,475	11,877	12,293	12,723	13,168	13,629
Annual Debt Servicing ($'000):	1,359	2,765	4,220	5,727	7,286	8,900	10,570	12,298	14,087	15,939

xiv. It is noted that Council could borrow the amount as shown in the above table, and not exceed either the DLG or TCorp indicator outlined previously. However, without either increases in revenue, or reductions in cost, or a combination of both, Council would not have the ability to over the longer term service this level of debt in the future. Furthermore, if Council was to borrow this amount, then it would leave Council with a very limited capacity to borrow for other purposes, such as significant upgrade works such as traffic improvements or the construction of a new administration building.

xv. It is noted that the NSW Government is currently providing $100 million over six years through the Local Infrastructure Renewal Scheme (LIRS). The LIRS provides an interest subsidy to assist councils with infrastructure backlogs to cover the cost of borrowing. The LIRS is administered by the DLG and aims to provide an incentive to councils to utilise debt funding to accelerate investment in infrastructure backlogs. Eligible capital projects which will be considered under the scheme are those which are identified as part of a council's infrastructure asset renewal backlog or projects which will enable the provision of new housing.

xvi. The current round of the LIRS will provide councils with a 3% interest subsidy on external loans taken out to undertake eligible capital projects. Meaning if Council were to borrow at 6%, it would receive a 3% subsidy, therefore reducing the interest cost over the life of the loan to 3%.

xvii. The current round of the LIRS is the third round of funding provided by the NSW Government as part of the scheme. It is uncertain as to whether future rounds of funding will be made available. To date, Council has not sought funding as part of the LIRS due to its debt free status, however should future rounds of LIRS funding be made available and if Council were to consider utilising debt funding in the future for the purpose of asset renewal, Council may be eligible for an interest subsidy on external loans sourced as part of the scheme.

aa. Increased funding from grants:

i. Grants and contributions in the 2012/2013 financial year equalled $180.74 million which accounts for 47% of Council's annual revenue. Of this amount, $39.78 million (22%) comprised grants and $140.96 million (78%) contributions. The level of operating and capital grants and contributions is subject to external influences and can vary each year. Grants are either:

- General Purpose, which are to be used across delivery of Council services; or
- Specific Purpose, which must be used to fund specific works and or activities.

xxviii. Council officers actively ensure that grant revenues are maximised. The majority of grants received are for current programs. However, whilst there may be, from time to time, specific one-off grant programs, these are usually for new works or services and not for asset renewal. Further, grant funding is largely reliant on other levels of government which have their own financial constraints. Therefore, it is more appropriate for Council to maximise its own source revenue, as it is not considered a viable long term solution to increase the levels of dependence on grants and contributions to the level required to fund the asset renewal funding backlog.

Reduce the cost of existing works and services:

i. Council can consider reviewing, and potentially changing, the level of funding allocated to the provision of works and services. This could be done as part of reviewing current services in terms of the level of service provided, fees charged by Council for the service and potentially whether some existing services are still required. Such reviews can consider aspects such as strategic priority, movements in net cost and whether other service providers can provide a similar service. In this report this process is termed “Service Reviews”.

ii. The conduct of service reviews can offer opportunities to achieve efficiency improvements and thereby reduce cost. They can also encourage a council to more actively consider service provision levels in line with changing demographics, community expectations and financial constraints.

iii. Service reviews will continue to be conducted on existing Council services. It is however, unlikely that any efficiency improvements as a consequence of these reviews will yield sufficient savings of the magnitude required to solve Council’s asset renewal funding gap. To achieve the quantum of saving required to fund additional asset renewal, Council would most likely need to consider the deletion of, or significant service rationalisation of, one or more whole services.

iv. It is noted in this regard that Council is presently undertaking reviews of several major services. These reviews, which are at varying stages of Council consideration, include examinations of Aquatic Centres, Community Events and Child Care. A review of Community Buildings is being considered to commence in coming months.

v. Given that Blacktown continues to be an expanding City and will continue to be so over the next 25 years, the prospect of reviewing services to identify opportunities to reduce costs may not be the most viable long term strategy for Council to fully meet the asset renewal funding shortfall. Rather, it would be more appropriate that service reviews are conducted as a rolling program to identify efficiencies and productivity improvements on an ongoing basis. This would aim to achieve controlled growth of existing resources whilst allowing for the expansion of existing or new services which are required to enable the City to grow and meet the demands of the community as they evolve in the future.

vi. In keeping with the suggested approach to service reviews, an action was included in the present Operational Plan 2013/2014 to *“Undertake ongoing Better Practice Review program to progressively identify and implement business and service improvements”.* It is intended that the key findings of reviews which are undertaken in this program, including the opportunity for efficiencies and cost savings, will be assessed by Executive and progressively brought to Council for consideration.

Reprioritising the allocation of funding in the Works Improvement Program (WIP) and Infrastructure Sinking Fund (ISF)

i. Council’s Works Improvement Program (WIP) lists works projects by category and funding source. Council's Asset Management Plans are used as the basis for determining which projects are recommended for funding as part of Council's annual consideration of the WIP.

ii. The 2013/2014 WIP totals $41.126 million, of which $16.8 million is funded from the ISF, $8.6 million funded from general revenue and the balance funded from either grants, Section 94 contributions or other reserves. The ISF funding and general funding amounts allocated in the 2013/2014 WIP are used to fund approximately $10.85 million in asset renewal projects. The balance of this funding which totals approximately $14.65 million is utilised to fund other projects which are of either an upgrade or expansionary nature.

iii. In the future, Council may consider reallocating a higher proportion of the funding currently allocated to upgrade on expansionary projects to asset renewal works. However, in doing so would obviously minimise Council's ability to provide new and/or upgraded infrastructure, particularly in the older parts of the city which do not benefit from the significant Section 94 funding which flows to new release areas.

Increasing the rates base through a special rates variation:

i. Rates are Council's major source of funding. All NSW councils are limited to increasing their overall rates income by the applicable rate variation limit, which is commonly called the 'Rate Pegging' limit. Rate Pegging, which was introduced in 1977, is a process where the NSW State Government determines the maximum percentage by which council's can increase their annual rates income. Since the introduction of rate pegging in 1977 Council has not exceeded, in cumulative terms, the rate variation limit determined by the NSW State Government.

ii. Since 2011/2012, the Independent Pricing and Regulatory Tribunal (IPART) has been responsible for determining the rate pegging limit. In determining the rate pegging limit, IPART use an index called the Local Government Cost Index (LGCI). The LGCI measures the price movement from a representative 'basket' of inputs that are used to deliver local council services, in a similar way to that used by the Australian Bureau of Statistics (ABS) to measure the Consumer Price Index (CPI). The main components included in the LGCI are Employee Costs, Construction works (roads, drains, footpaths, kerbing, bridges), Buildings, Plant and Equipment and Electricity costs.

iii. In accordance with the Local Government Act 1993 (LGA), NSW councils can apply to increase their overall rates income above the rate pegging limit, through a process termed a Special Rate Variation (SRV) application. Originally, the NSW Minister for Local Government was responsible for determining special rate variations. In 2010, the Government delegated to IPART the responsibility for assessing and determining SRV applications. Councils may apply for a special rate variation in order to address infrastructure asset renewal backlogs, to undertake environmental works, to fund town improvements, to redevelop community and civic facilities and to maintain or improve existing service provision.

iv. Councils undertaking SRV applications must submit them to IPART for review and assessment. The council must show how its intention to apply for a SRV is in keeping with its overall Integrated Planning and Reporting Framework. That is, Council must show how the purpose for which additional rates income is sought is in keeping with the overall strategic direction identified in it's IP&R framework.

v. If a council's application is approved, IPART will determine the percentage by which the council may increase its general income, this percentage may differ from the amount which the council had applied for.

vi. In accordance with the Act, there are two main ways which councils may apply to vary rates by an amount in excess of the rate pegging limit determined by IPART. These are as follows:

- Under Section 508(2) a council may apply for either a single year percentage increase that remains permanently in the rate base, or for a single year percentage increase that remains in the rate base for a fixed period of years (after which the rate base must be reduced to reflect the rate peg limit).
- Under Section 508(A) a council may apply for successive annual percentage increases (for between 2 and 7 years), which would build to a cumulative percentage total and remain permanently in the rate base.

vii. It is important to note that, regardless of the form of increase sought by a council, IPART retains the discretion to grant all or part of the increase and to grant either a permanent increase or limit any increase to a fixed period.

IPART Requirements

IPART assesses SRV applications from councils based on criteria which include the following key considerations:

- The need for and purpose of the SRV is clearly articulated and identified through the council's IP&R documents, including the Delivery Program and Long Term Financial Plan (including a 'baseline' financial scenario and special variation scenario).
- Evidence that the community is aware of the need for and extent of a rate rise must be clearly spelt out in IP&R documentation and the council must demonstrate an appropriate variety of engagement methods to ensure opportunity for community awareness/input. The IP&R documentation should canvas alternatives to a rate rise, the impact of any rises upon the community and the council's consideration of the community's capacity and willingness to pay rates.
- The relevant IP&R documents must be approved and adopted by the council before the IPART application.
- The impact on affected ratepayers must be reasonable and affordable, having regard to the current rate levels, existing ratepayer base, capacity to pay and the proposed purpose of the variation.
- An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.

1. It is noted that Council's adopted IP&R documents, as discussed above, identify the importance of, and need to, resolve the asset renewal backlog. However, they do not specify the means by which Council may choose to address this matter. Therefore, should Council decide to pursue an SRV, it would be necessary to add more detailed funding and community engagement information to the adopted documents, in response to the IPART criteria. This process is outlined below.

2. Guidelines for the SRV process in 2013/2014 were released on 30 September 2013. In summary, should Council decide to pursue this process, the required steps to satisfy the Guidelines would include the following:

   - Initial discussion with IPART of possible SRV in order to scope requirements – advisable as soon as practicable.
   - Community engagement on Council's specific proposal and the implications for rate payers – extensive program of information and engagement to commence as soon as practicable and be reported back to Council in February 2014 (this is further discussed below).
   - Notification to IPART of Council's intention to submit an SRV application - required by 13 December 2013.
   - Exhibition of SRV-related information to be added to Council's IP&R documents (in order to satisfy the relevant IPART criterion) – to commence December 2013 (i.e. exhibition to be endorsed by Council before the end of 2013).
   - Council resolution to endorse SRV application – prior to submission to IPART (i.e. required in first round of Council reports in 2014).
   - SRV application submitted to IPART – 24 February 2014.

3. **Community Engagement**

   The first phase of a community engagement and communication plan on the need for increased asset renewal funding and the proposal to fund this primarily by way of a SRV, would need to commence before the end of 2013. Included in this phase would be a Community Survey which would have an emphasis on the infrastructure and asset management needs of the City and include specific questions on the funding options.

4. **IMPACT OF AN INCREASE IN RATES**

   In order to assess the impact of a rates increase on the ratepayer a number of different scenarios are provided below. These scenarios are based on Council applying for an additional increase above the approved rate variation limit. It is noted that whilst IPART has not yet announced the approved rate variation limit for 2013/2014, it is anticipated it will be in the range of 2.5% to 3%. Accordingly, this report is based on an assumed 2.75% rate variation limit. **Attachment 2** to this report also provides additional scenarios assessing the impact of a rates increase on the ratepayer.

5. Three alternative scenarios are modelled below, being a rate increase of 4%, 6% and 8% above the rate variation limit applied from the 2014/2015 financial year in full and continued permanently in the future. **It is noted that an additional increase of 8% provides the full funding of $10 million that is recommended be allocated to asset renewal.** Increases below 8% mean that Council would need to identify alternative funding options as well in order to achieve the recommended additional funding of $10 million. These options are as follows:

   - Increase Rates by 4% (additional $5 million) above Rate Pegging Limit
   - Increase Rates by 6% (additional $7.5 million) above Rate Pegging Limit
   - Increase Rates by 8% (additional $10 million) above Rate Pegging Limit

6. The following table provides a summary of the comparison of the annual impact on the Most Common and Average Residential Rates if rates were increased by 4%, 6% or 8% above an assumed rate pegging limit of 2.75%.

		Most Common Rates (2013/14 = $830)			Average Rates (2013/14 = $865.61)		
Additional Rate Increase	Additional Revenue	Annual Rate Peg Increase (2.75%)	Additional Annual Rate Variation Increase	Total Annual Increase	Annual Rate Peg Increase (2.75%)	Additional Annual Rate Variation Increase	Total Annual Increase
4%	$5,000,000	$22.83	$33.20	$56.03	$23.80	$34.62	$58.43
6%	$7,500,000	$22.83	$49.80	$72.63	$23.80	$51.94	$75.74
8%	$10,000,000	$22.83	$66.40	$89.23	$23.80	$69.25	$93.05

7. For Council, 73% of residential ratepayers are currently paying the minimum rate of $830.00. This means that for 73% of residential ratepayers, an increase of 8% above the assumed rate pegging limit of 2.75% in the 2014/2015 financial year would equate to an annual increase of $89.23 in their rates or an additional $1.72 per week in rates.

8. **Comparison With Other WSROC councils**

The table below provides a comparison of Council's Most Common and Average Residential Rate against the WSROC average residential rates excluding Blacktown for the 2013/2014 financial year and as projected for the 2014/2015 financial year. As shown in the table below the Most Common and Average Residential Rate for Council in 2013/2014 is less then the 2013/2014 WSROC average of $906.08. The 2014/2015 projections provide estimates of Council's Most Common and Average Residential Rates based on increasing rates by 4%, 6% and 8% above the assumed rate pegging limit of 2.75%. These projections estimate that if Council were to increase its rates by 6% or 8% above the rate pegging limit, Council's average residential rate will marginally exceed the projected 2014/2015 WSROC average residential rate, assuming the other WSROC councils only increase their rates in 2014/2015 by the assumed rate pegging limit of 2.75%.

	2013/2014	2014/2015			
		Rate Peg (2.75%)	Additional 4%	Additional 6%	Additional 8%
Est. WSROC Average Rates (Excl. Blacktown)	$906.08	$933.06			
Blacktown Most Common Rate	$830.00	$852.83	$886.03	$902.63	$919.23
Blacktown Average Rate	$865.61	$889.41	$924.04	$941.35	$958.66

9. **Conclusion**

As discussed in this report, Council is faced with a significant challenge of addressing the current and future asset renewal funding requirements. The detailed asset management modelling of the renewal profile for Council's infrastructure assets is forecasting a significant expenditure renewal profile over the next 10 to 20 years. Based on this modelling it is considered appropriate that Council's asset renewal funding allocation be increased by $10 million pa from 2014/2015.

10. This report has detailed a number of funding options for Council to consider, however given the quantum of additional funding required, the recommended option to Council as part of this report is to increase Council's rates revenue by $10 million through a Special Rate Variation of 8% above the rate pegging limit in 2014/2015.

11. Should Council determine to pursue the option of a special rate variation as its preferred funding strategy for asset renewal, an extensive program of community information and engagement would be required, in keeping with the IPART criteria outlined in this report. A Community Engagement Plan for this purpose will be implemented with the outcomes reported back for Council's consideration in early 2014.

12. One key step in the engagement program which could be pursued immediately would be the inclusion of appropriate information and questions in the Community Satisfaction Survey which Council has endorsed to be undertaken in coming weeks. Should this step be appropriate, details of the proposed questions would be further advised to Council prior to the commencement of the survey.

1. That the contents of Report FC330210 be received and noted.
2. That having regard for the options contained in this report, Council consider notifying IPART by 13 December 2013 of its intent to submit a Special Rate Variation application to increase rates above the rate pegging limit in 2014/2015 and that a Community Engagement Plan be developed and implemented in accordance with the Division of Local Government's Special Rate Variation guidelines and Council's Community Engagement Strategy, with the outcomes of the community engagement to be reported back for Council's consideration.

1. That the contents of Report FC330210 be received and noted.