

Appendix 3 – Overview of the Application

Challenges of Growth and Change

Blacktown is the largest and one of the fastest growing local government areas in NSW. Its population is currently approximately 320,000, the highest of all NSW councils. Over the past 30 years Blacktown has experienced sustained high levels of growth, with current population growth of around 7,000 new residents each year. Over the next 25 years Council's population is projected to reach 500,000.

In line with this continued growth the value of Council's infrastructure has increased significantly. The total value of Council infrastructure is in excess of \$2.8 billion, which includes over 1,200km of roads, 840 parks and reserves, and 360 buildings. The adequate funding of the maintenance and renewal of its infrastructure is a critical challenge for Council.

With a history of prudent financial management Council's current financial position is sound. However, Council's long term planning has shown that without an increase to its revenue base it will not be able to adequately address future challenges such as increasing funding for the renewal of existing infrastructure, and continuing to meet rising community expectations.

Blacktown City Council has an established focus on long term planning. It was one of the first NSW councils to implement its Integrated Planning and Reporting (IP&R) framework in 2010. This framework has been underpinned by significant amount of asset management planning and analysis. This work has highlighted that if Council does not increase funding for asset renewal its infrastructure renewal backlog will begin to escalate rapidly and may become too great to address without serious ramifications on service delivery.

Blacktown City is characterised by a mixture of long-established suburbs, older housing estates with a large component of social housing and the advent of the North West Growth Centre of metropolitan Sydney, the majority of which is within Blacktown's Local Government Area.

The legacy of social housing estates in older areas of the City, where infrastructure and services were originally not of a standard now considered acceptable, leaves Council with a challenge to ensure an equitable distribution of all its services to current standards. Council continues to collaborate with the State Government on the provision of essential services and opportunities in these areas.

The rapid rate of growth currently experienced in the North West Sector requires significant investment to provide services that do not currently exist. These services are planned to support the incoming community and typically provided by developers through land subdivision or funded by developer contributions. Until recently the collection of the developer contributions required to provide essential infrastructure was not guaranteed and (as discussed in **Section 3**) Council expects to have to commit considerable financial resources in coming years to forward-funding the provision of services.

Funding Strategy for Infrastructure Asset Renewal

Council proposes to meet the majority of its service challenges over the next 10 years within its existing means. The proposed special variation relates only to increasing investment in infrastructure asset renewal.

This is a major challenge for the NSW Local Government sector and has been reported in numerous studies. These have included 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) and the 2013 report of the Independent Local Government Review Panel.

Council has given careful consideration to the various options to address the need to increase funding for asset renewal. Its preferred strategy is to apply to IPART a Special Rate Variation to commence in the 2014/15 financial year. This application is made under section 508A of the Act and is as follows:

- Total 2014/2015 rates income to increase by 6.7%, comprising a rate pegging limit of 2.3% plus a Special Rate Variation of 4.4%.
- Total 2015/2016 rates income to increase by 5.11%, comprising an assumed rate pegging limit of 3% plus a Special Rate Variation of 2.11%.

The proposed increase to rates will be retained permanently in Council's rate base and will be fully allocated to infrastructure renewal. In addition, Council will further increase asset renewal funding as shown in the table below:

Source of Funding	2014/2015	2015/2016
Total Additional Rates income	\$5,557,000	\$8,455,000
Additional asset renewal funding from efficiency savings to be achieved from 2014/15	\$1,000,000	\$1,000,000
Reallocation of funding from Council's Infrastructure Sinking Fund	\$2,000,000	\$2,000,000
Total Additional Funding allocated to Asset Renewal Works	\$8,557,000	\$11,455,000

Section 3.2 of Council's submission details the various funding options Council has considered, and provides reasoning as to why the above strategy is considered the most appropriate mechanism for Council, particularly in the context of the current and future financial challenges confronting Council, which are outlined in **Section 3.3**.

Council considers its record of sound financial management (which is discussed in **Section 3.3**), its demonstrated success in cost containment (covered in **Section 7**) and the depth of its asset and strategic planning (refer **Sections 2, 3.1 and 6**) substantiate Council's application.

Infrastructure and Service Planning

Council has continued to strengthen and refine its asset management planning and systems over the past decade, in line with the development of national guidelines and the requirements of IP&R. The development of Council's Asset Management Strategy 2013-2023 included a review by expert consultants which provided a 'Maturity Audit' of Council's asset management practices and provided assurance that Council's systems met or exceeded core maturity benchmarks in most areas and in some instances were industry-leading.

Council's forecasting for infrastructure asset renewal clearly establishes that the need for an increased investment is of \$10 million per annum (in current terms) over the coming 10 year

planning timeframe. Beyond the 10 year horizon (as shown in **Section 3.3**), the need escalates due to the ageing of assets, particularly roads in older suburbs.

Therefore, Council has concluded that this is the responsible time for increased investment, while the quantum involved for both Council and the community is still modest and achievable. Due to the constraints on Local Government revenue and the rising expectations of the community for services, it would require significant reductions in the range and level of other services to reallocate the full amount of the required infrastructure renewal investment. This is not Council's (or indeed, the community's) preferred strategy and there is little evidence that such cuts would be favoured by the community.

As detailed in **Section 3.2**, the net cost of provision of major Council services has risen substantially above the rate pegging limit in the past 10 years, mainly due to the general rise in community expectations for what these services provide. Some key examples include:

- Aquatic and Leisure Centres 20% net increase in costs (over rate peg)
- Child Care 40% net increase
- Libraries 7% net increase

Community Consultation

Council has undertaken extensive community consultation (**Section 4.1**) which has appropriately demonstrated community awareness of the proposal, the opportunity to make comment and have views considered and a reasonable degree of community support or acceptance of the special variation.

On balance, the degree of opposition which was expressed to the special variation was moderate. Many of the submissions in response to the community consultation (summarised in **Section 4.3** and provided in more detail in **Appendix 27**) focused on issues which Council can mitigate or which were partly extraneous to the current decision.

The detailed analysis in **Section 5** demonstrates how the proposed rate increase will have a very modest increase on the majority of ratepayers.

The proposed rate rise will see Council's rates remaining comparable with other Western Sydney councils.

10 Year Strategy for Asset and Financial Sustainability

Taking into account all of the key factors which are discussed above, Council has determined that the responsible and prudent course is to make this application for a special variation for the purpose of increased funding of infrastructure asset renewal.

Blacktown City Council has never previously exceeded, in cumulative terms, the allowed rate pegging limit. The increase now proposed has been indicated by a rigorous process of financial and analysis and asset management planning, articulated in Council's Integrated Planning and Reporting documents, as shown in **Section 2** and **Section 3.1.3** and documented in the Appendices.

In keeping with the principles of IP&R, the proposed special variation represents an aligned 10 year strategy for asset and financial sustainability. By making a relatively small increase in its rates at this point, Council will avoid the need for a much larger increase later in this planning cycle, or for significant and unacceptable reductions in its other services. Council

would avoid the need for such measures which has been seen in other councils which have waited too long before taking the necessary revenue measures.

The overall funding strategy includes not just an increase in rate revenue but a commitment to further operational efficiencies and a reallocation of some capital works expenditure.

Other options such as the use of borrowing have been considered. However, the analysis of this shows (as discussed in **Section 3.2**) that within 5 years, the cost of the required level of debt for recurrent expenditure would in fact become unmanageable and lead to the need for a rate increase. Council has previously experienced the debilitating effects of debt, and notes that more affordable mechanisms, such as LIRS, do not currently provide certainty to Local Government.

In this context, while the proposed special variation does not provide a permanent solution to the infrastructure challenges with which Blacktown City Council will be faced, it does represent a responsible component of a robust and effective 10 year strategy for sustainability.

In summary, Council has given careful consideration to the need to increase funding for infrastructure asset renewal, and how this can be best achieved in line with its other challenges and priorities. It has tried to consider not just the present challenges but also future challenges, so that future generations do not pay the price for inaction now.