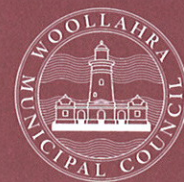


Council Ref: 331.G 2011/12
Your Ref:

Woollahra
Municipal
Council



ABN 32 218 483 245

Redleaf Council Chambers
536 New South Head Road
Double Bay NSW 2028

Correspondence to

General Manager

PO Box 61

Double Bay NSW 1360

DX 3607 Double Bay

records@woollahra.nsw.gov.au

www.woollahra.nsw.gov.au

Telephone: 61 2 9391 7000

Facsimile: 61 2 9391 7044

25 March 2011



Ms Alison Milne
Director - Local Government
The Independent Pricing & Regulatory Tribunal
Level 17, 1 Market St
SYDNEY NSW 2000

Dear Ms Milne

Section 580A Special Rate Variation Application

I refer to my letter dated 28 January 2011 notifying the Independent Pricing and Regulatory Tribunal (IPART) of Woollahra Municipal Council's intention to apply for a Section 508A Special Rate Variation for 2011/12.

I now write to formally lodge Council's Application in accordance with Section 8.2 of the *Guidelines for the preparation of an application for a special rate variation to general income in 2011/12* issued by the Division of Local Government in December 2010.

Council's Application consists of the following documents which have been provided both in electronic form and hard copy:

1. Section 508A Special Variation Application Form – Part A
2. Section 508A Special Variation Application Form – Part B
3. Section 508A Special Variation Application – Annexures A to W
4. Public Private Partnership - Woolworths Ltd (**Confidential Addendum to this application**)

Overview of Council's Application

As advised in my previous letter, there are two components to Woollahra Council's Special Rate Variation Application.

Component 1

Woollahra Council has in place an existing Environmental and Infrastructure Renewal Levy, resulting from two Section 508(2) Special Rate Variations approved by the Minister for Local Government in 2006/07 and 2007/08 respectively. Both of these Special Rate Variations were approved for initial five year periods with a view to renewal at the end of



2011/12 and 2012/13 respectively. The existing Environmental and Infrastructure Renewal Levy was established in response to Council's initial 20 Year Asset Management Strategy and has been supporting Five Year rolling capital works programs for the renewal of critical Environmental and Infrastructure assets. The combined value of the Environmental and Infrastructure Renewal levy for 2010/11 is \$3.5 million.

Component 1 of Council's Application seeks approval of a prudent financial strategy that retains the Environmental and Infrastructure Renewal Levy in Council's general revenue base on an on-going basis to continue the delivery of Council's comprehensive Asset Management Plans. These Plans have recently been updated in accordance with the Integrated Planning and Reporting Framework. A comprehensive list of the environmental and infrastructure renewal works proposed for completion over the next five years, and funded from the Levy, is provided in Annexure E to Council's Application. Council will continue to prepare rolling five years renewal programs into the future.

Non-approval of this component of Council's application will result in a reduction in Council's annual general revenue of \$1.74 million in 2011/12, following the cessation of the first of the existing Special Rate Variations on 30 June 2011, and further \$1.93 million reduction for 2012/13 when the second of the existing Special Rate Variations ceases on 30 June in 2012. The consequential reduction of \$3.67 million in revenue (indexed) annually will have a devastating impact of Council's ability to deliver its Asset Management Plans.

Component 2

The second component of Council's Section 508A Special Rate Variation application seeks to restore into Council's annual general revenue, a proportion of the funds that have been eroded from Council's budget in recent years through extraordinary increases in the NSW State Government's mandatory Emergency Management Contribution imposed on Local Government. These increases have significantly impacted on Council's ability to meet the rising cost of essential works and services.

As explained in detail in Council's Application, under the NSW State Government's land value based methodology for apportioning Local Government's share of the Emergency Management budget across Councils, Woollahra Council pays a disproportionately high contribution than similar sized councils due to the very high land values in the Woollahra Local Government Area.

Compounding this problem for Council is that rate pegging legislation has prevented Council from passing these extraordinary increases in the Emergency Management Contribution through to ratepayers. Consequently, Council has been forced to absorb these increases into its prior year budgets through productivity savings and efficiency initiative.

It is important to note that Council's Special Rate Variation Application does not seek to recover the value of these extraordinary increases which have been absorbed into Council's prior year budgets. Rather, Council is simply seeking approval to pass through a higher proportion of the mandatory Emergency Management Contribution to ratepayers through a staged rate increase above the rate pegging limit over 2 years.

In 2010/11, the cumulative amount that has not been passed through to ratepayers has risen to \$869,000. Of this amount, Council is seeking to restore \$700,000 over 2 years through a modest 1.14% rate increase in 2011/12, to restore \$350,000, and a further 1.07% increase in 2012/13 to restore a further \$350,000. For the average ratepayer, the 1.14% increase for 2011/12 equates to approximately \$13.50 per annum.

Proposed increase:

The Special Rate Variation proposal described in my letter of 25 January 2011 represented a reasonably accurate calculation of the value of the S508A Variation to be sought for 2011/12. The Application was described in that letter as Council effectively seeking approval for 10% rate increases in both 2011/12, and 2012/13, with the net effect of the proposal on ratepayers for 2011/12 being a 1.1% increase above the permitted increase of 2.8%, or a 3.9% total increase in the average rates bill in 2011/12 compared with the average bill paid this current financial year.

It was further advised that assuming a further 2.8% permissible rate increase for 2012/13, the net effect on ratepayers for 2012/13 would be a similar 1.1% increase above the estimated rate pegging limit in the average rates bill in 2012/13 compared with the proposed average rate bill in 2011/12.

Having now finalised Council's financial modelling, and following receipt of confirmation from the Division of Local Government on the precise value of the existing Special Variation that is to cease at the end of 2010/11, the Special Variation Application seeks approval for a 9.82% increase for 2011/12 and a 10.41% increase for 2012/13.

As the Special Rate Variation primarily relates to the continuation of the existing Environmental and Infrastructure Renewal Levy, the net (effective) impact on ratepayers is minimal. The effective increases in Council's general income are 3.94% for 2011/12, or 1.14% above the rate pegging limit of 2.8%, and 4.07% for 2012/13, or 1.07% above the estimated rate pegging limit of 3%.

Detailed modelling in the Application demonstrates the impact of the proposed increases on all rating categories.

Independent Assessment – *Review Today Pty Ltd*:

Council has been assisted in the preparation of this Special Rate Variation Application by *Review Today Pty Ltd*, a specialist consultancy organisation that investigates and reports on the financial sustainability of local councils in the context of the growing infrastructure crisis highlighted by the independent Allan Inquiry into the financial sustainability of local government in NSW.

The Chairman of *Review Today* is Professor Percy Allan who chaired the 2005/06 independent inquiry titled "Are Councils Sustainable?" which examined the sustainability of NSW local government. Professor Allan had a major input into IPART's 2009 Revenue Framework for Local Government review in his *Review Today* capacity, and was consulted by IPART staff during and after this review regarding various aspects of the Review's findings.

Professor Allan is supported in this engagement with Council by his colleagues at *Review Today*, Bob Gaussen (Managing Director) and Alan Tregilgas (Principal Consultant).

Alan Tregilgas undertook the IPART role (Utilities Commission) in the Northern Territory for ten years and worked closely with IPART during the Utilities Commission's establishment phase. Mr Tregilgas is well credentialed to assess Council's debt and debt servicing capacity given his five years as a Director (Public Sector) with Standard and Poor's. Mr Tregilgas has also been a Senior Associate with Access Economics Pty Ltd since 1999.

Review Today have undertaken an independent review of Council's Asset Management Plans and long term financial modelling and provided expert advice and opinion in relation to the financial projections contained in detailed Annexures that support Council's Application. Council has greatly appreciated *Review Today's* expert advice in the preparation of the application and Professor Percy Allan, Bob Gaussen and Alan Tregilgas are available to assist Council in providing any further information or clarification that IPART may require during its assessment of Council's application.

Public Private Partnership with Woolworths Ltd – Impact on Long Term Financial Plan (Confidential Addendum to this Application)

Council has agreed in principle to enter into a Public Private Partnership (PPP) with Woolworths Ltd for the redevelopment of lands owned by both Council and Woolworths in and around Kiaora Lane in Double Bay, referred to as the Kiaora Lands Redevelopment.

The PPP will make a direct contribution to the revitalisation of the Double Bay Commercial Centre and has been assessed as a significant project under the Division of Local Government's Public Private Partnership Guidelines. Council has received approval to proceed with the PPP from the Division of Local Government's Public Private Partnership Review Board.

Whilst broad commercial terms for the PPP have been agreed, negotiations are continuing between both parties in relation to the finalisation of the associated suite of complex legal documents that will comprise the PPP agreement. Whilst these negotiations continue, and prior to Council signing any legal documents, the commercial terms of the PPP remain 'Commercial-in-Confidence' and as such cannot be disclosed in any publicly available information, including Council's Special Rate Variation Application that will be accessible on IPART's website.

Consequently, all PPP transactions have not been incorporated into the long term financial plan that accompanies the publicly available Special Rate Variation Application. This long term financial plan does however include the anticipated dividend stream from Council's investment in the PPP.

A separate long term financial plan detailing all PPP transactions, including all forecast revenue, operating and capital expenditure, borrowings, and dividend streams to Council, has been prepared for IPART's reference and this is provided as a **Confidential Addendum** to the application.

Notwithstanding the confidential nature of the PPP commercial terms, *Review Today's* advice to Council was that inclusion of all PPP transactions would seriously distort the results of the financial analysis of the Special Rate Variation proposal and the associated ratio analysis. As such, only the dividend stream from Council's investment in the PPP has been included in the long term financial plan with all other operating statement and balance sheet items excluded. *Review Today's* advice was that this treatment is consistent with the Special Rate Variation Guidelines, and IPART's requirement that all projections be in relation to the 'general government' (or tax supported) sector. Self supporting commercial operations are to be excluded.

Community Consultation:

As outlined in the Application, as a Group 1 Council for the implementation of the Integrated Planning and Reporting Framework, Woollahra Council undertook extensive community consultation in respect of the development of its Community Strategic Plan, Delivery Program and current Operational Plan. The preparation of all of these documents was predicated on the basis of the renewal of the existing Environmental and Infrastructure Renewal Levy.

More specifically in relation to the Special Rate Variation, Council engaged a specialist research organisation to undertake a random sample telephone survey, at a statistically reliable 95% confidence level, to gain the level of community support for each of the two components of Special Rate Variation.

In summary, the results of the survey were 84% of residents in favour of continuing the Environmental and Infrastructure Levy (component 1) and 68% of residents in favour of the minor rate increase over 2 years to increase pass through a higher proportion of the Emergency Management Contribution to ratepayers.

Council considers these results demonstrate very strong community support for the Special Rate Variation.

Conclusion:

Achieving a favourable outcome from a Special Rate Variation in the terms outlined in this letter will allow Council to proceed with delivering on the Priorities already determined in its current Delivery Program. Approval of this two year Section 508A Special Rate Variation also aligns with the legislative requirements for a four year Delivery Program and the Division of Local Government's Guidelines regarding alignment of Special Rate Variations with a council's Delivery Program

Council is confident that it has satisfied all requirements of the Division of Local Government's requirements for successful Application and looks forward to receiving IPART's approval to proceed with what Council considers to be a prudent financial strategy.

Finally, should IPART require further information or clarification on any aspect of this Application, please contact me directly on 9391 7010.

Contact details:

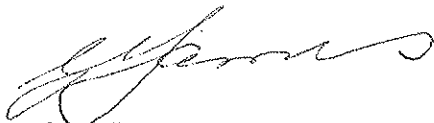
Contact details for the Special Rate Variation application are:

Gary James, General Manager
Email: gary.james@woollahra.nsw.gov.au
Ph: (02) 9391 7010

Stephen Dunshea, Director Corporate Services
Email: stephen.dunshea@woollahra.nsw.gov.au
Ph: (02) 9391 7014

Don Johnston, Manager Finance
Email: don.johnston@woollahra.nsw.gov.au
Ph: (02) 9391 7022

Yours sincerely



Gary James
General Manager

**Confidential Addendum: Public Private Partnership with Woolworths Ltd –
Impact on Long Term Financial Plan**