
Bega Valley Shire Council: achieving sustainable infrastructure, services and finances

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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 Bega Valley Shire Council (BVSC) and other sources (e.g. ABS, NSW Health, etc).
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- Infrastructure Spending
- Services Spending
- Interest Payments

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



Summary

- Council has \$1.1 billion of infrastructure assets, two thirds of which are civic (e.g. roads, bridges, storm water drains, waste, etc) and the rest, water, sewerage and recycled water assets (W&S).
- The backlog of unsatisfactory infrastructure is \$5 million in civic (0.7% of assets) and \$15m (4%) in W&S.
- Council's existing under-investment in capital infrastructure would increase the backlog to \$112 million in civic and \$129 million in W&S by 2030.

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Summary

- That would result in the share of infrastructure in an unsatisfactory condition rising to 15% in civic and 36% in W&S by 2030.
- Existing underspending on infrastructure renewal to prevent the backlogs growing is \$3.6 million a year in civic and \$7.9 million in W&S.
- This report focuses on the civic side of Council (i.e. general operations), because W&S is sustainable if its planned annual charges are increased in real terms by 2.5% instead of 2.0%.

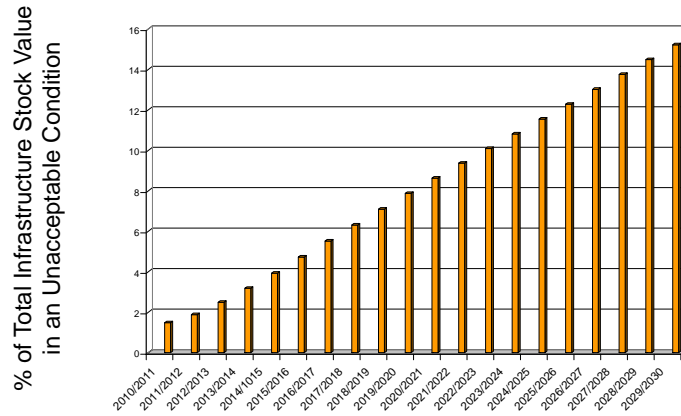
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Council's Infrastructure

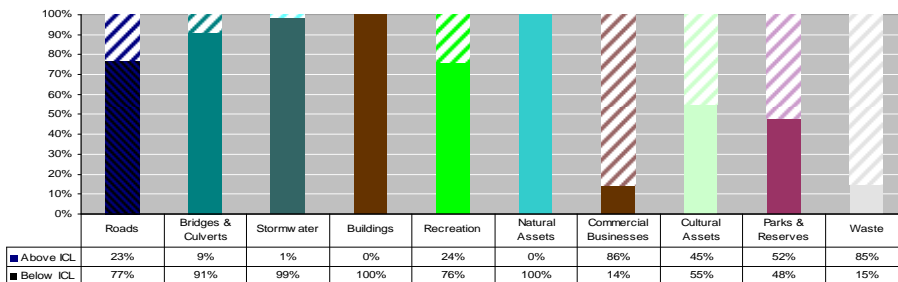
Civic Infrastructure Backlog Ratio under Existing Council Policy



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Council's Infrastructure

Proportion of each Civic Asset Group by Volume in an Unacceptable Condition after 20 years under Existing Policy



ICL = Intervention Condition Level, which represents the agreed condition degradation grade (e.g. 7 out of 10) above which an asset is meant to be renewed.

Summary

- Council also faces growing demands for operating services such as garbage collection, library operations, building approvals and repairs and maintenance of storm water drains, parks, swimming pools, community centres, etc.
- Over the past five years BVSC has had a moderate growth in services spending (+5.3% per annum), but a slow growth in capital and maintenance expenditure (4.1% per annum).

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Summary

- Council's planned annual infrastructure spending beyond 2009/10 falls \$4.2 million short of what is necessary to stop the civic infrastructure backlog of \$5.0 million growing bigger.

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Summary

- 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

- Existing Spending Policy would see:
 - The civic infrastructure backlog grow from about 1% of assets to 8% in 2019/20 and 15% in 2029/30 because assets were not adequately renewed; and
 - Ordinary services expand in real terms at 1.7% per annum over the next decade; just over one and a half times faster than expected population growth of 1.1% per annum. Other demand pressures come from an ageing population, rising pensioner concessions and increased tourist numbers.

Summary

- Under Existing Policy, Council's annual operating surplus (at today's prices) of \$0.2 million in 2009/10 would increase to \$0.4 million by 2019/20. This would be caused by Council's operating expenses growing slightly slower than its operating revenues.
- The operating surplus as a proportion of Council's own source revenues would rise from 0.5% to 1.1% in ten years time period. This would still be short of the 2.5 - 7.5% range necessary for securing Council's financial sustainability.

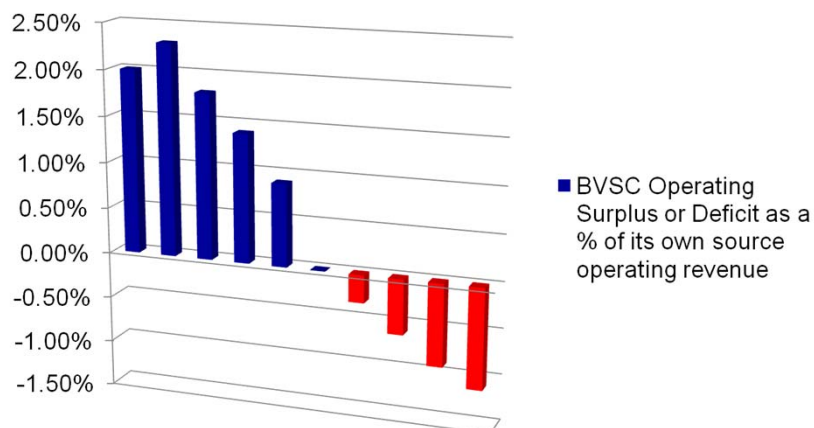
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Summary

BVSC's Operating Surplus Ratio under Existing Council Policy



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Summary

- The Restrained Spending Scenario assumes that:
 - Required infrastructure rehabilitation, renewals and maintenance are fully funded, infrastructure stock is frozen, and
 - The real annual growth in services per property is halved from 0.6% under existing policy to 0.3% over each of the next 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 is affordable under existing revenue policy*, but would allow no further infrastructure expansion to accommodate population growth.

* Actually, fees and user charges growth would be lower in the Restrained scenario than under Existing Policy because the cost recovery ratio is assumed to stay constant and there is less services spending to fund.

Summary

- The Preferred Spending Scenario assumed that:
 - Necessary infrastructure rehabilitation, renewals and maintenance were fully funded while infrastructure stock and services provision grew as planned under Existing policy.
- This scenario was not financially sustainable with existing revenue policy. It would also require a more ambitious revenue policy to work.

Summary

- The Responsive Spending Scenario assumed that:
 - Required infrastructure rehabilitation, renewals and maintenance were fully funded and both the infrastructure stock and the services level each grow in line with expected population growth (1.1% per annum).
- This scenario was not financially sustainable under existing revenue policy, but would be so under the ambitious revenue scenario.

Summary

- It is clear that each of the above alternative spending scenarios has problems:
 - Existing Policy would result in a large infrastructure backlog and an insufficient operating surplus,
 - The Restrained Scenario would require infrastructure expansion ceasing despite strong population growth,
 - Both the Responsive and Preferred Scenario would result in unsustainable operating deficits,
 - Only an ambitious revenue option would make the Responsive and Preferred scenarios financially work.

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 2019/20:
 - A sustainable debt ratio (41%) and a modest annual budget surplus (2.5%);
 - A modest infrastructure backlog ratio of 2%;
 - Infrastructure stock expansion of \$33.2 million (+5.2%) compared with existing Council plans of \$16.1 million (-7.5%).

Summary

- However, a Responsible scenario would require:
 - Rates revenue in total to increase by 2.2% (an average of 1.0% per property rated) per annum above CPI inflation;
 - Fees and charges to rise by 2.6% (an average of 1.4% per property rated) per annum above CPI inflation; and
 - Service spending limited to an increase of 1.3% (an average of 0.9% per property rated) over CPI inflation each year.
- Note that CPI inflation is forecast at 3% (the upper limit of the RBA's target range).

Summary

- The Responsible scenario over the next ten years would require revenue from rates, fees and charges to grow 0.5% faster each year than under Existing policy. It would also require services spending to grow 0.4% slower each year than under Existing policy.

Summary

- These policy measures might be mitigated by pursuing extra income or savings from:
 - Exploiting commercial opportunities (e.g. leasing property, joint ventures, PPPs);
 - Further operational efficiencies (e.g. streamlining work processes, applying new IT, reducing overheads etc) indentified in the 2006 operational review.
 - Rationalising non-core services (e.g. services given a lower priority in community surveys); and
 - Selling surplus or low priority assets (e.g. land, buildings, plant and equipment)

Summary

- Council has still to estimate the extra revenue or saving achievable from adopting such measures. Progress in implementing the 2006 Operational Review is one reason the Responsible strategy is not too different to Existing policy.
- The contribution of existing volunteers and community partnerships in maintaining and operating community assets should also be recognised. This should continue with appropriate governance arrangements.

Summary

- Unless the State or Federal Government come to the rescue with increased capital grants then increases in rates, fees and charges in excess of normal price inflation are unavoidable if Council is to achieve a modest budget surplus and avoid a large infrastructure backlog in future.

Summary

- Under the Responsible scenario, Council would take on an extra \$18.4 million of debt by 2019/20 and still have a net financial liabilities to operating revenue ratio of only 41%; well short of the 80% ceiling advised by the LGI for a council like Bega.
- These increased borrowings would be used to overcome the infrastructure backlog, renew assets that are coming to the end of their useful life and expand the infrastructure stock in line with Council plans. Without extra borrowings much higher rates, fees and charges would be needed.

Summary

- An Inflation Index Linked Bond might be the most cost effective way to raise new debt under the Responsible scenario. Council should examine the relative merits of this option.

Summary

- It is recommended that Bega Valley Shire Council consult with its community on the most appropriate financial strategy for addressing its budget and infrastructure challenges.
- Council should then develop a rolling 10-year Financial Plan based on a revised version of the Responsible Scenario that takes account of community feedback. The Plan should aim to:
 - Rehabilitate required infrastructure whose condition has fallen below an acceptable standard (i.e. the 'backlog');

Continued....

Summary

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 as informed by Council's asset strategy and demographic projections;
- ❑ Identify those core services that would be quarantined from any cost cuts to help fund infrastructure rehabilitation and renewal;
- ❑ Fund these initiatives through adequate revenue measures, operational savings, re-ordering spending priorities, asset leases or disposals and extra borrowings;

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Summary

Continued....

- ❑ Fund infrastructure maintenance and renewals from operating revenue and rehabilitation and enhancements from budget surpluses, capital revenues and borrowings in accordance with Council's 'narrowing the gap' strategy.
- ❑ Ensure that the outcome by year 10 complies with sustainable financial targets (e.g. the LGI recommended minimum surplus ratio and maximum debt ratio).
- ❑ Borrow sufficiently between now and 2019/20 to help fund infrastructure renewal under the Responsible Scenario. Consider issuing inflation indexed bonds.

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Summary

- Note that any infrastructure strategy needs to be informed by the findings of this sustainability review, namely:
 - Infrastructure condition, renewal and capacity needs,
 - Rationalising and optimising existing assets,
 - Properly size, site and schedule new assets,
 - Prioritise assets on the basis of:
 - Asset condition, age, load, local geography,
 - Risks such as climate change, and
 - Demographic changes.

Definitions

- Explanation of main terms, concepts and acronyms 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

- **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)
- **Maintenance**: the cost of upkeep and repair to an asset so it does not deteriorate prematurely
- **Backlog**: the cost of rehabilitating an asset to a recognised minimum standard of service
- **Rehabilitation**: the cost of overcoming an asset backlog
- **Renewal**: the cost of restoring an asset to its original service capacity using current standards and technology
- **Enhancement**: the cost of expanding an asset beyond its original service capacity

Definitions

- Net Financial Liabilities: total debt and other financial liabilities (e.g. accounts payable) less financial assets (e.g. accounts receivable, cash and securities) not categorised as restricted.
- Operating Surplus/ (Deficit): extent to which Council's annual operating revenue exceeds (falls short of) its operating expense excluding big one-off expenses such as asset write downs or expenses funded from previous year grants.
- Own Revenue Raising: Council revenues raised from rates, annual charges, fees and user charges collected annually. Excludes grants received from governments.

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Definitions

- Services Expenditure: Council's annual operating expenditure excluding interest expenses, asset maintenance costs and asset depreciation provisions.
- Capital Expenditure: Council's annual expenditure on physical assets including land, structures, buildings, plant and equipment, furniture and fittings.
- Nominal Increase or Growth: the annual percentage rise of something (e.g. economic output, rates, services expenditure) before its been stripped of price inflation.
- Real Increase or Growth: the annual percentage rise of something (e.g. fees and charges) excluding inflation.

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Definitions

- **Existing Spending Policy:** assumes Council's infrastructure renewals spending, planned infrastructure enhancements, consequential maintenance and services spending continue on a no-policy change basis.
- **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 2019/20.

Definitions

- **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.
- **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*.

* BVSC's population is projected to grow by 0.8% per annum (2009/10-2019/20).

Definitions

- **Responsible Spending Scenario**: strives for an acceptable compromise between Council's obligations to achieve financial sustainability, prevent an infrastructure crisis, preserve essential public services and keep rates, fees and charges affordable.

It assumes that by the tenth year:

- Council's net financial liabilities ratio won't exceed 80% and its operating surplus ratio will be at least 2.5%;
 - The infrastructure backlog ratio will not exceed 2%;
 - Infrastructure stock will expand by half the population growth;
 - Operating services will expand in line with population growth;
 - Average fees and user charges revenue per property will have grown in real terms by no more than 2% per annum.
- It should be noted that the **Responsible Scenario recommended for Bega** is well within these parameters.

Definitions

Indeed responsible surplus, debt and infrastructure backlog outcomes could be achieved over the next decade by:

- A cap on real growth of services spending of 1.3% a year (i.e. +0.1% per property or +0.2% per resident).
 - A cap on real expansion of infrastructure stock of 0.5% per annum (about half population growth of 1.1% a year).
 - Real increases in total rates, fees and charges revenue of 2.3% a year (equivalent to an average annual rise of 1.2% per property rated),
- **Existing Revenue Policy**: assumes Council's current revenue policies and plans remain in place.

Definitions

- Ambitious Revenue Option: assumes cost recovery for user and developer charges matches the best effort of peer councils within five years while rates are increased sufficiently to achieve the low end of the Council's operating surplus target range (i.e. 2.5%) by the end of a decade assuming Council adopts its Preferred Spending Scenario.
- LGI: Local Government Inquiry, *Are Councils Sustainable?*, LGSA, May 2006.

Council's Profile

- What are the key features of Bega Council?



Council's Profile - Key Features

- BVSC is a large rural shire of 6,280 km² on the far south coast of NSW. Its major urban centres are Bermagui, Bega, Merimbula and Eden (see map on next chart).
- Its long coastal strip caters largely for tourists and retirees, whereas its mountainous inland is rich dairy and grazing country dominated by National Park and State Forrest.
- The shire was recently named under the National Landscapes program as Australia's Wilderness Coast.
- It has a large and growing tourist industry.

Council's Profile - Key Features

- It has a population of 33,000 with a larger Australian born and older age profile (especially over 70) than the rest of NSW.
- Its share of disabled persons is also high.
- It is suffering a dramatic loss of youth aged 18-30.
- A lack of public transport poses challenges.
- Council's role has changed significantly in recent times.
- The shires gross product is \$1.5 billion per annum with product per worker about 86% that of NSW as a whole.
- Its share of agriculture, forestry, fishing, tourism and retail trade is higher than the rest of the state.

Council's Profile - Key Features

- Less than 3% of the region is urban and commercial.
- Slightly more than half is used for primary industry.
- National parks, wilderness and environmental areas make up the rest.



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Council's Profile - Key Features

- The Shire's natural and human assets include:
 - 220 km of coastline
 - 120 named beaches
 - 25 estuaries
 - 6 towns
 - 11 villages
 - 23% of residents live in rural areas
 - 500 volunteers
 - 75 committees

Council's Profile - Key Features

■ Council's civic assets include:

- 8 Swimming pools
- 4 libraries and a modified mobile service
- 1 mobile pre school service and 3 children's services
- 1 regional gallery
- 1,422 km local roads
- 277 bridges (67 timber)
- 268 km of kerbs & gutters
- 78 km of footpaths
- 62 public toilets
- 13 cemeteries
- 17 halls
- 10 sportsgrounds
- 100 parks and reserves

Council's Profile - Key Features

■ Council water and sewerage assets include:

- 5 water supply systems
- 3 dams
- 400km of water mains
- 3 weirs
- 11 bores
- 30 storage reservoirs
- 11 effluent reuse systems
- 10 sewer treatment plants
- 300km of sewer mains
- 70 sewer pump stations
- 5,000 manholes

Council's Profile - Key Features

- BVSC's resident population of over 33,000 puts it on par with other smaller medium sized regional urban councils like Byron, Great Lakes, Kempsey, Griffith and Goulburn.
- It has 9 Councillors (including the Mayor, Tony Allen) elected from a single constituency.
- It is administered by a General Manager (Peter Tegart) with the help of 4 senior managers and 317 equivalent full-time staff (including temporaries and trainees).
- In 2009/10 BVSC's total operating 'services' expenditure (including W&S, but excluding interest, maintenance and depreciation) was \$29.4 million.

Council's Profile - Key Features

- In addition Council spent \$36.1 million on acquiring and maintaining infrastructure, land, property, plant and equipment and \$2.4 million on debt interest payments.
- Since 2004/05 the Shire's population has grown by an average of 1.2% per annum.
- Population growth is expected to average 1.1% a year in future. This is fractionally above the 1.0% per annum officially forecast for NSW as a whole*.

* Source: NSW Health, Technical Paper - NSW Health Population Projection Series 1, 2009/10, June 2009/10 (Amended Version), page 9.

Council's Profile - Key Features

- Bega's future annual real economic growth (excluding inflation) is forecast at 2.1% which is comparable to that for the state as a whole*.
- Its future nominal economic growth (including annual inflation of 3%) is forecast at 5.2% per annum; also similar to that for NSW*.

* Source: Review Today Pty Ltd, Economic Forecasts for BegaLGA and for NSW, Dec 2009/10.

Council's Profile - Key Features

Economic Performance 2004/05 - 2009/10

Economic Indicator	NSW	Bega
Population Growth Rate	1.4% per annum	1.2% per annum
CPI Rate	2.8% per annum	2.8% per annum
Gross State Product (GSP) Price Deflator Rate	3.1% per annum	3.1% per annum
Real Economic Growth Rate	2.2% per annum	2.0% per annum
Nominal Economic Growth Rate	5.4% per annum	5.2% per annum
Productivity per Capita Growth Rate	0.8% per annum	0.8% per annum

Council's Profile - Key Features

Economic Projections 2009/10 - 2019/20

Economic Indicator	NSW	Bega
Population Growth Rate	1.0% per annum	1.1% per annum
CPI Rate	3.0% per annum	3.0% per annum
Gross State Product (GSP) Price Deflator Rate	3.0% per annum	3.0% per annum
Real Economic Growth Rate	3.0% per annum	3.1% per annum
Nominal Economic Growth Rate	6.1% per annum	6.2% per annum
Productivity per Capita Growth Rate	2.0% per annum	2.0% per annum

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Council's Profile - Operating Expenditure

- BVSC's operating expenditure by functions in 2009/10 was:
 - **Water and sewerage services: \$21.0M**
 - **Transport and communication**, including operation and maintenance of roads, parking areas, footpaths and street lighting: **\$11.2M**
 - **Recreation and culture**, including operation and maintenance of parks and gardens, public libraries, sports grounds, swimming pools and public halls: **\$4.3M**
 - **Community services and education** including child care, youth services, and aged and disabled services and special events: **\$3.3M**
 - **Housing and community amenities**, including town planning, building approvals, street cleaning, public cemeteries and buildings: **\$2.7M**

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Council's Profile – Operating Expenditure

- Continued...
 - **Economic affairs**, including tourism area and industrial promotion and land development: **\$2.0M**
 - **Public order and safety**, including State Fire Service Levy road safety and bicycle programs, contributions to fire services and building compliance programs: **\$1.9M**
 - **Other services** (e.g. food inspections): **\$1.5M**
 - **Environment** services (e.g. weeds, waste, drainage): **\$8.6M**
 - **Administration** including council meetings, corporate support, engineering indoor staff, works depot running costs and plant and equipment: **\$4.4M**
 - **Other**: **\$0.5M**

Total Operating Expenditure: \$64.2M

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Council's Profile - Physical Assets

BVSC's Physical Assets	2009/10 \$ Million*
■ Roads, earthworks, footpaths, kerbs, etc	488
■ Water & sewerage	356
■ Bridges and culverts	163
■ Stormwater	33
■ Recreation, parks and reserves	27
■ Buildings	16
■ Commercial businesses	14
■ Waste	13
■ Cultural	10
Total Physical Assets*	1120

* Based on replacement or original cost (exc. depreciation). Excludes land, plant, equipment, furniture and fittings. Source: GHD Report , Fig 1.

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Council's Profile - Public Opinion

- A Council opinion survey in 2009 found that residents wanted more attention given to public toilets, youth services and facilities, and responsiveness to community requests.

Lower Priority, Higher Satisfaction	Higher Priority, Higher Satisfaction
Dog and cat control; parks and recreation grounds; child services; and European heritage values & buildings.	Clean creek and waterways; bushfire protection; services and facilities for seniors; and water and sewerage services.
Lower Priority, Lower Satisfaction	Higher Priority, Lower Satisfaction
Unsealed road maintenance; style of residential and rural development; kerbing and guttering; and town centres' presentation and appearance.	Public toilets adequacy, appearance, cleanliness and maintenance; youth services and facilities; and council responsiveness to community requests.

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Council's Profile - Income

- BVSC's 2009/10 income was mainly from:
 - Rates and annual charges (e.g. sewerage, water, waste, drainage): \$35.4M
 - User charges and fees (e.g. airport, sale yards, swimming pools, sporting fields): \$14.6M
 - C/w & State grants: \$12.3M
 - Other revenues (e.g. interest, insurance claims, fines): \$2.8M
 - Subtotal - operating revenues: \$65.1M*
 - C/w & State grants: \$7.7 M
 - Developer and other contributions: \$2.0M
 - Other (e.g. asset sale proceeds): Nil
 - Subtotal - capital revenues: \$9.7M*

Total operating and capital revenues: \$74.8M

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Council's Profile - Income

- BVSC's rating structure in 2009/10 was as follows:
 - Residential: 16,942 households paid an average rate of \$775.
 - Farming: 978 farms paid an average rate of \$1,517
 - Commercial: 898 businesses paid an average rate of \$1,536

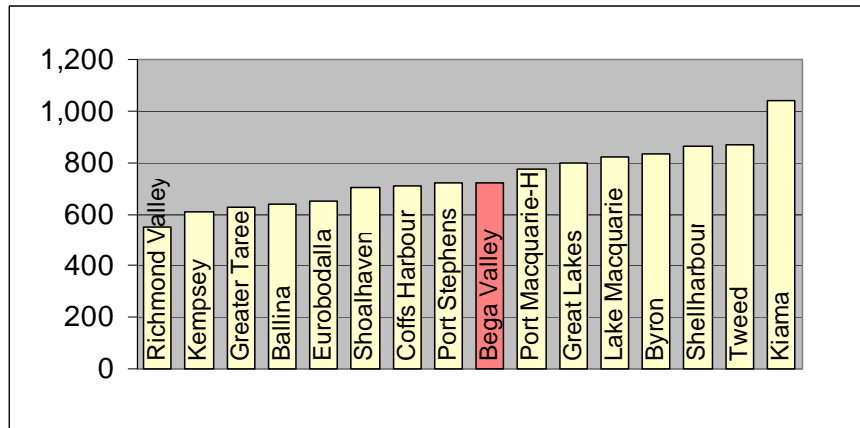
Council's Income

- BVSC's revenue raising efforts compared with that of other medium sized coastal regional councils in 2008/09 were as follows:
 - Its average residential rate was 3% below the average of its peers.
 - Its average business rate was 30% below that of others in its grouping.
 - Its fees and charges (excluding water and sewerage) cost recovery ratio* was 30% above its peers.

* See TreEnt's Report, pages 36 to 38 for an explanation of this ratio.

Council's Profile – Income

Average Residential Rates - BVSC compared with NSW Coastal Urban Regional Councils, \$ per assessment, 2008/09

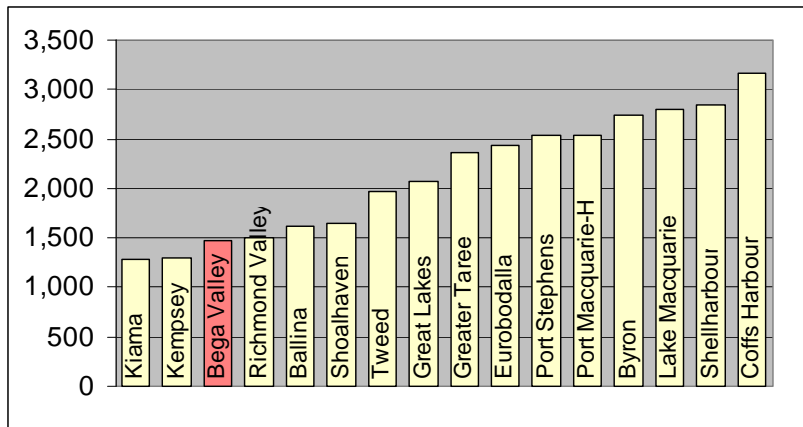


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Council's Profile – Income

Average Business Rates – BVSC compared with NSW Coastal Urban Regional Councils, \$ per assessment, 2008/09

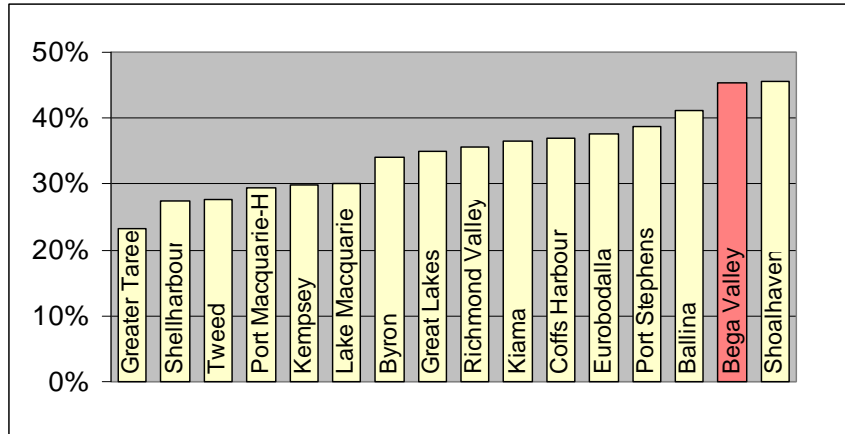


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Council's Profile – Income

Fees and Charges (excluding water and sewerage) Cost Recovery Ratio – BVSC compared with NSW Coastal Regional Councils, 2008/09



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Council's Profile - Growth

- Over the past five years (2004/05–2009/10) BVSC's:
 - Operating revenue[^] has grown by **10.5%** per annum.
 - The highest average annual increases in operating revenue were for user charges (19.7%), sewerage services (19.5%) domestic waste management (+16.4%), specific purpose grants (+9.2%) and rates (+9.0%).
 - The lowest average yearly increases were net asset sales proceeds (minus 166%), pensioner subsidies (1.6%), water supply (2.0%), interest received (5.5%), other revenues (6.0%) and fees (6.6%).
 - These figures compare with annual price inflation of 2.8% and annual economic growth (including inflation) of 5.2% for Bega*.

[^] Operating revenue here excludes certain capital grants recorded above the line.

* Note that annual real economic growth (excluding inflation) for Bega was 2.0%, slightly lower than NSW's 2.2%. Both the nominal and real economic growth rates are estimates by Review Today. The annual inflation rate is based on the Sydney CPI.

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Council's Profile - Expenses

- BVSC's average services expenditure* (excluding W&S) in 2008/09 (the latest year for which comparative DLG data is available) was higher than that of most other medium sized urban regional councils.

* Services expenditure is defined as total operating expenditure less asset maintenance, asset depreciation and interest payments.

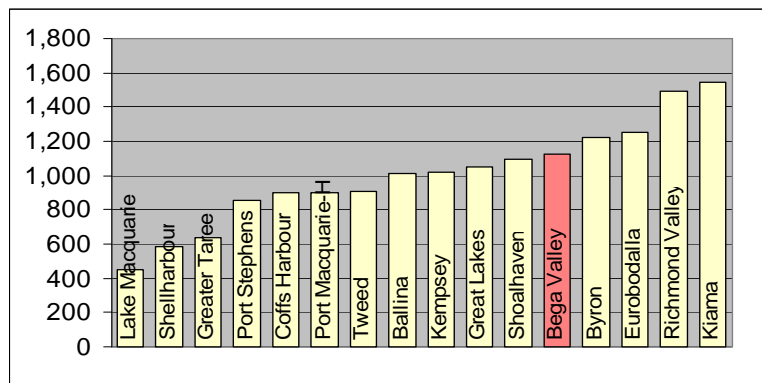
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Council Profile – Expenses

Average Services Expenditure (excluding water and sewerage) – BVSC compared with NSW Coastal Urban Regional Councils, \$ per capita, 2008/09



* Services Expenditure = Operating expenditure minus maintenance, depreciation and interest

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Council's Profile - Growth

- Over the past five years (2004/05–2009/10) BVSC's:
 - Operating expenses have grown by 7.8% per annum, but excluding debt charges, depreciation and maintenance, spending on operating services has risen by 5.3% a year.
 - According to other council data, the strongest average annual rates of growth were in community services and education (19.5%), sewerage services (+14.4%) and public order and safety (11.9%).
 - Housing and community amenities (-17.9%), Health (-10.0%) and economic affairs (-4.8%) and administration (2.0%) were laggards.
 - By contrast annual price inflation was 2.8% and annual economic growth (including inflation) was 5.2% for Bega*.
 - The DLG changed the functional classification of expenditure in 2009/10 distorting some of the above percentage changes.

* Note that annual real economic growth (excluding inflation) for Bega was 2.0%. Both the nominal and real economic growth rates are estimates by Review Today. The annual inflation rate is based on the Sydney CPI.

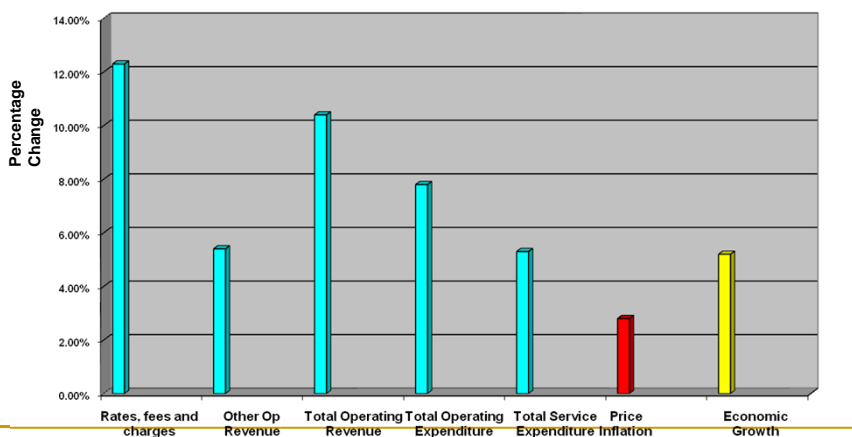
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Council's Profile - Growth

Annual Growth Rates of BVSC's Operating Revenues and Spending compared with Annual Increases in the Sydney CPI and Bega's Economy at current prices, 2004/05– 2009/10



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Council's Profile - Growth

- Over the past five years (2004/05–2009/10) BVSC's:
 - Capital revenues¹ have fallen by an average of 0.4% a year². Capital grants have risen by 6.2% per annum, but developer contributions fell 13.2% a year.
 - Capital spending has decreased by 1.5% annually. Combined with maintenance of physical assets which rose by 13.7% a year, total spending on physical assets rose by 4.1% per annum.
 - These figures compare with annual price inflation of 2.8% and annual economic growth (including inflation) of 5.2% for Bega³.

1. Capital revenues include all capital grants including those treated as operating revenue as well as developer contributions, other contributions and other capital receipts.
2. If cash flow generated by depreciation provisions and asset sales proceeds are included total capital funding growth was still only 2.5% per annum over this period.
3. Note that annual real economic growth (excluding inflation) for Bega was 2.0%. Both the nominal and real economic growth rates are estimates by Review Today. The annual inflation rate is based on the Sydney CPI.

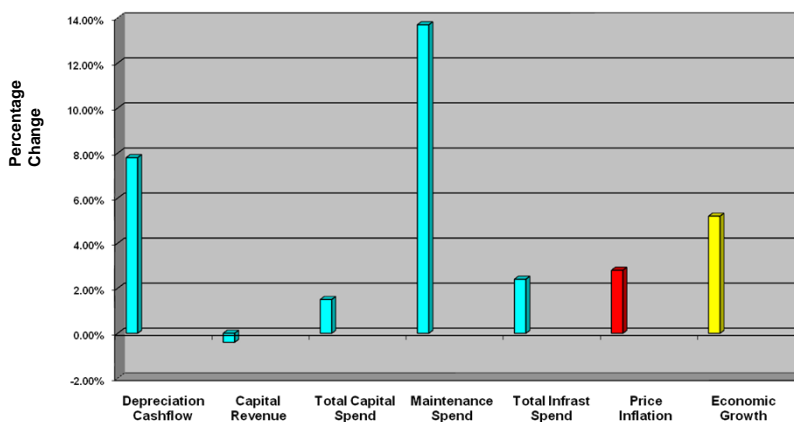
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Council's Profile - Growth

Annual Growth Rates of BVSC's Capital Revenues and Spending compared with Annual Increases in the Sydney CPI and Bega's Economy at current prices, 2004/05– 2009/10

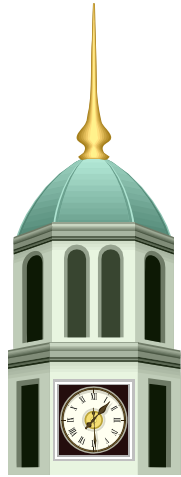


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Sustainability Analysis



- The rest of this report focuses on the civic side of Council (i.e. general operations).
- That's because our research found that Water & Sewerage was financially sustainable if its planned annual charges are increased in real terms by 2.7% instead of 2.0%.

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Sustainability Analysis



- Note that our recommendations for increases in charges to fund Water & Sewerage asset upgrades (see GHD and TreEnt reports for details) should be able to be accommodated within Council's strategic business plan endorsed by the State Government.

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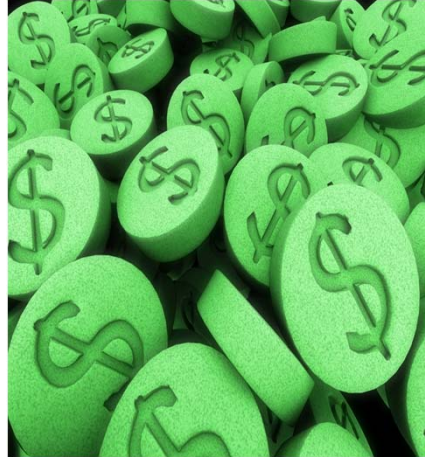
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Council's Finances

- What is the state of Council's finances?

Note: This section focuses on Council's general operations (excluding water and sewerage).



Council's Finances - Overview

- BVSC has a strong balance sheet (i.e. debt and other financial liabilities are well below a modest range and its interest cover ratio* is much higher than it need be).
- If BVSC 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).

* The interest cover is calculated by dividing Council's operating surplus (before interest and depreciation are deducted) by interest expenses. It measures Council's ability to meet its debt charges.

Council's Finances - Balance Sheet

Council's Balance Sheet 30th June 2010	\$M	Floor Target	Ceiling Target
Net debt and other financial liabilities	2.0		
Divided by			
Operating revenue (exc. capital transfers, etc)	42.0		
Equals			
Net financial liabilities ratio	4.8%	40%	80%
Operating surplus before interest and depreciation	8.9	N.A.	N.A.
Divided by			
Interest expense	0.7		
Equals			
Interest cover ratio (times x)	12.9x	3.0x	5.0x

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Council's Finances - Overview

- BVSC's operating account (after excluding certain capital grants) was in deficit by \$0.2 million in 2009/10, which was not a satisfactory result.
- According to the LGI, a council should have a minimum operating surplus of 2.5% of own-source operating revenue. BVSC had a deficit ratio of 0.5% in 2009/10.
- Achieving a healthy operating surplus would ensure that a fair share of the cost of infrastructure enhancement (i.e. expansion) is paid for by existing residents rather than the total cost being passed on to future generations.

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Council's Finances - Operating Account

Council's Operating Account 2009/10	\$M	Floor Target	Ceiling Target
Operating revenue (excluding capital grants)	42.0		
Less			
Operating expenses (including net interest and asset depreciation expenses)	42.2		
Equals			
Operating surplus / (deficit)	(0.2)	N.A.	N.A.
Divided by			
Own-source operating revenue	30.1		
Equals			
Operating surplus/ (deficit) ratio (%)	(0.5%)	2.5%	7.5%

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Council's Finances – Overview

- BVSC's capital account ran a surplus of \$1.7 million in 2009/10.
- If the operating deficit of \$0.5 million is subtracted from the capital surplus of \$1.7 million, Council's overall fiscal surplus equals \$1.5 million.
- Having an overall fiscal surplus does not make sense given that Council already has adequate cash reserves and needs to spend more on capital works to close its large infrastructure renewals gap.
- Indeed Council should be running a modest capital deficit so that future generations bear some of the costs of infrastructure expansion from which they will benefit.

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Council's Finances - Capital Account

Council's Capital Account 2009/10	\$M	Floor Target	Ceiling Target
Capital revenue (inc enhancement and untied capital grants, developer and other contributions, asset sales and depreciation provision)	15.7		
Less			
Capital expenditure	14.0		
Equals			
Capital surplus / (deficit) \$M	1.7	N.A.	N.A.

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Council's Finances – Principles

- Good financial management principles dictate that Council should fund:
 1. All running costs including infrastructure maintenance, depreciation and interest expenses from operating revenues. Merit and collective services should be funded from taxes, fines and regulatory fees (e.g. rates) and personal or property services from user charges.
 2. All infrastructure rehabilitation and renewals from asset depreciation cash provisions in the operating account.
 3. All infrastructure enhancements from a combination of operating surpluses, capital revenues and borrowings.

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Sustainability Analysis

- What questions are asked in a financial sustainability analysis?

Note: This section deals with only Councils general operations (excluding water and sewerage).



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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?*



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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?*



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Sustainability Analysis



- Our sustainability analysis assumes constant 2009/10 prices. In other words no price inflation.
- This assumption is relaxed later on when we turn to financial ratio analysis.

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Sustainability Analysis

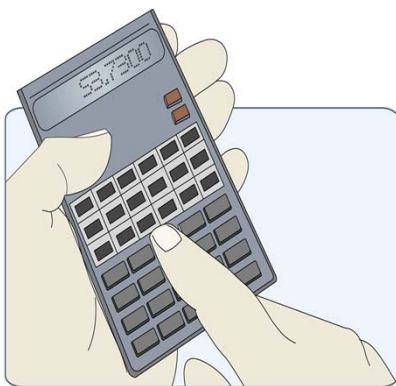
- To do a Council sustainability analysis we must first:
 - Check the condition of its existing infrastructure.
 - Calculate the cost of:
 - Rehabilitating infrastructure that has failed (the “backlog”);
 - Renewing infrastructure when its due for replacement,
 - Enhancing (i.e. expanding) infrastructure to serve a growing community and changing demographics (e.g. ageing population),
 - 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.

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Sustainability Analysis



- Total Council spending under existing and alternative policies is the sum of:
 - Backlog rehabilitation +
 - Future renewals +
 - Future enhancements +
 - Consequential maintenance +*Equals*

 - **Total Infrastructure spending***Plus*
 - Total Services spending +
 - Total Debt Charges*Equals*

 - **Total Council Spending**

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Infrastructure

- Infrastructure includes physical assets such as:
 - Roads (inc. footpaths, culverts) and Bridges
 - Storm Water assets (inc. underground pipes)
 - Buildings (e.g. community centres and libraries)
 - Recreational assets (e.g. parks & sports grounds)
 - Natural assets (inc. trees)
 - Commercial assets (e.g. airport, waste land fills)



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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. new service or expansion of existing capacity) 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.

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Infrastructure – Condition

- As assets age the outlay on consequential maintenance increases disproportionately
 - For example a road requires very little maintenance, when first built, but gradually wear, tear and potholes occur that require increased maintenance outlays. As the road ages repairs become more frequent.
- Rehabilitation or renewals undertaken at the right condition state significantly reduce the overall life-cycle cost of an asset
 - Remember the old adage – a stitch in time saves nine. This is also true for asset maintenance. (Continued....)

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Infrastructure – Condition

- For instance a sprayed seal applied to a road pavement at the right time we will stop excessive water penetration and thereby keep the cost of a reseal to say \$5/sq m. If this was deferred major repairs would be required prior to reseal raising the rehabilitation cost to between \$10/sq m and \$25/sq m. In the meantime the increased consequential maintenance would provide only short-term benefits.
- Patches on patches on patches are unsustainable and are a waste of valuable resources in two ways – the assets has very little, if any residual value and band-aid style treatment is futile.

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Infrastructure - Condition

- For a typical asset:
 - 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 certain standard, its condition must be improved. This is often done by increasing its maintenance (i.e. refurbishing it).
 - Eventually the cost to maintain the asset will exceed the benefit of keeping it in service so the asset must be replaced (i.e. completely renewed).

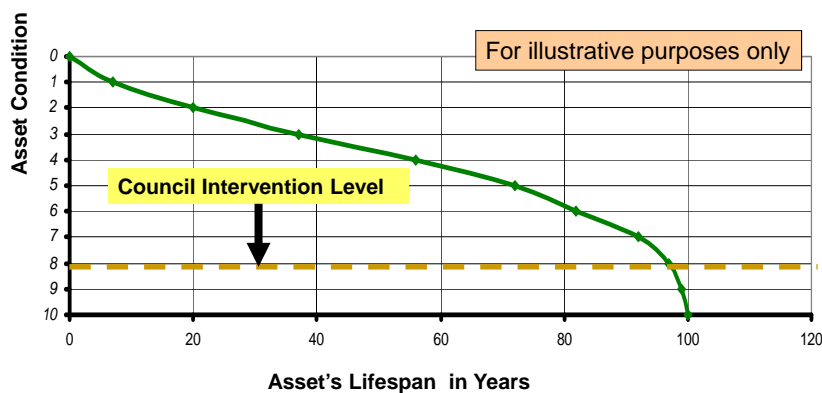
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Infrastructure - Condition

Hypothetical Asset Degradation Curve for a Concrete Road Kerb showing the Condition Rating at which BVSC would Intervene to Refurbish or Renew the Asset.



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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.

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Infrastructure - Condition

- The next six charts show:
 - The condition rating at which BVSC intervenes to renew a physical asset averages between 7.4 and 8.2 for its all asset groups and ranges between 7.0 and 9.0 within the Roads group.
 - Based on condition ratings, 59.4% of infrastructure is in good to excellent condition, 34.9% in fair condition and 5.7% in poor to very poor condition.
 - Asset groups with over 2% infrastructure in an unacceptable condition include Commercial businesses (5.5%), Recreation (2.9%), Bridges and Culverts (2.8%), Buildings (2.7%) and Waste (2.5%).
 - 'Unacceptable' means an asset's condition has deteriorated below the rating score at which it should have been renewed.

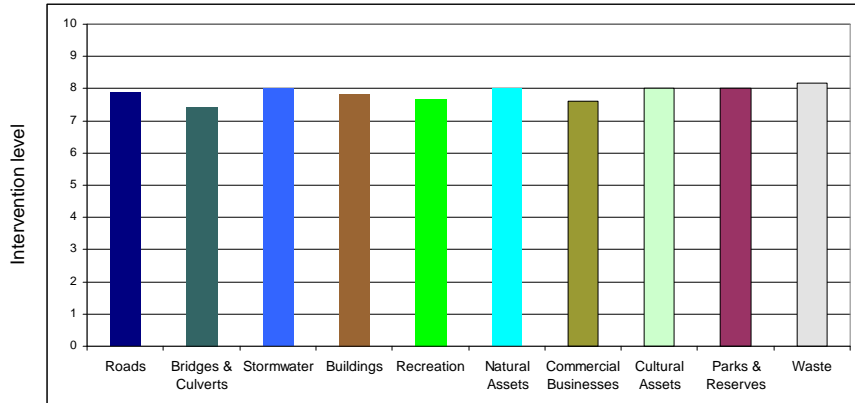
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Infrastructure - Condition

Council's Average Renewal Intervention Level for each Asset Group

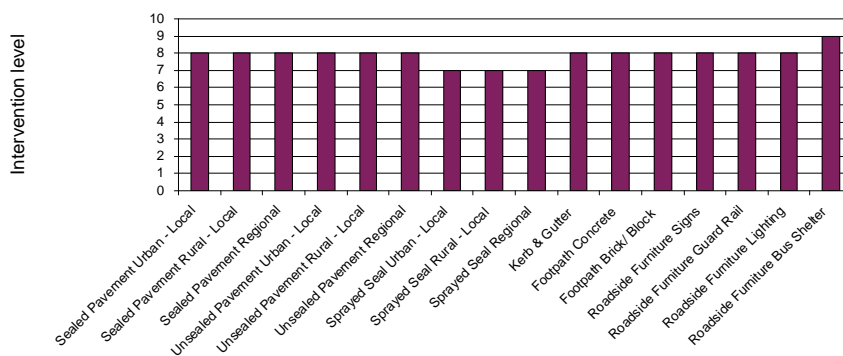


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Infrastructure - Condition

Council's Renewal Intervention Level for each Asset Set within the Roads Group



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Infrastructure - Condition

- Proportion of Total Infrastructure by Volume within each Condition Rating

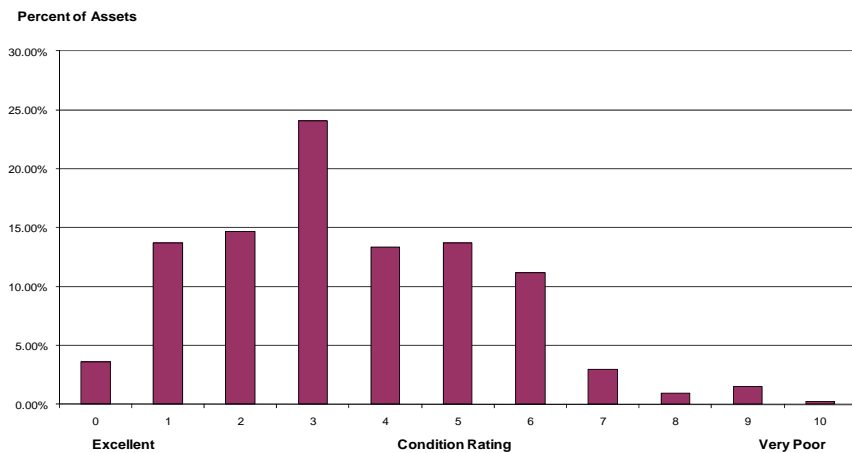
Condition		Split %
0	Excellent	11.88
1	Very Good	5.05
2	Very Good	9.74
3	Good	15.21
4	Good	17.51
5	Fair	25.98
6	Fair	8.93
7	Poor	3.14
8	Poor	2.45
9	Very Poor	0.10
10	Very Poor	0.01

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Infrastructure - Condition

- Proportion of Total Infrastructure by Volume within each Condition Rating



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Infrastructure - Condition

- The proportion of each major asset group by volume that is currently in an unacceptable condition*

Asset Group	Unacceptable
Roads	1.56%
Bridges & Culverts	2.79%
Stormwater	0.67%
Buildings	2.66%
Recreation	2.93%
Natural Assets	0.00%
Commercial Businesses	5.38%
Cultural Assets	1.81%
Parks & Reserves	0.94%
Waste	2.47%

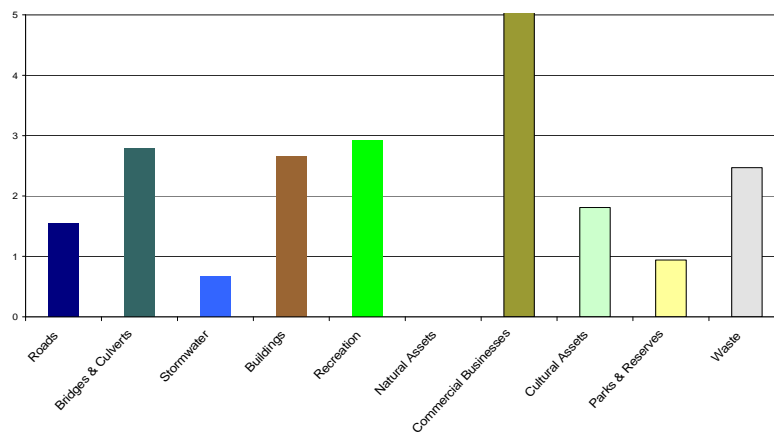
*An unacceptable condition is when an asset has degraded below its intervention level.

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Infrastructure - Condition

Proportion of each Asset Group by Volume in an Unacceptable Condition



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Infrastructure - Backlog

- \$36.1 million of assets (5.7%) are in a poor to very poor condition (rate 7 or above on GHD's 10 point scale).
- \$5.0 million of assets by value (0.7%) are in need of urgent renewal. They are in:
 - Roads: \$2.4 million
 - Recreational Areas: \$0.9 million
 - Bridges and Culverts: \$0.7 million
 - Commercial Business: \$0.5 million
 - Cultural Assets: \$0.2million
 - Waste Facilities: \$0.2million
 - Buildings: <\$0.1 million
 - Parks and Reserves: <\$0.1m

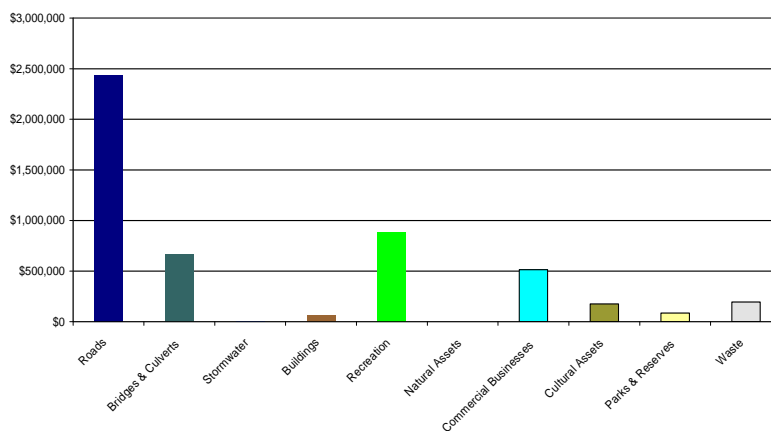
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Infrastructure - Backlog

Value of each Asset Group in an Unacceptable Condition
(expressed in constant 2009/10 prices)



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Infrastructure - Backlog

- Unless the Council closes its infrastructure renewal gap (i.e. the \$4.2 million shortfall between actual and required spending on renewing infrastructure), its infrastructure backlog (i.e. the proportion of assets whose condition has fallen below their agreed intervention levels) will grow from \$5 million (0.8% of total assets) in 2009/10 to \$112 million (15%) in 2030.
- The asset groups facing the largest backlogs are Commercial Businesses, Waste Facilities, Parks and Reserves, Recreation Areas and Roads.

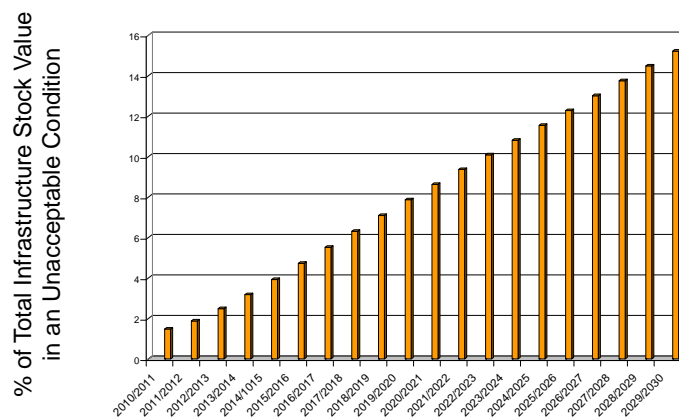
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Council's Infrastructure

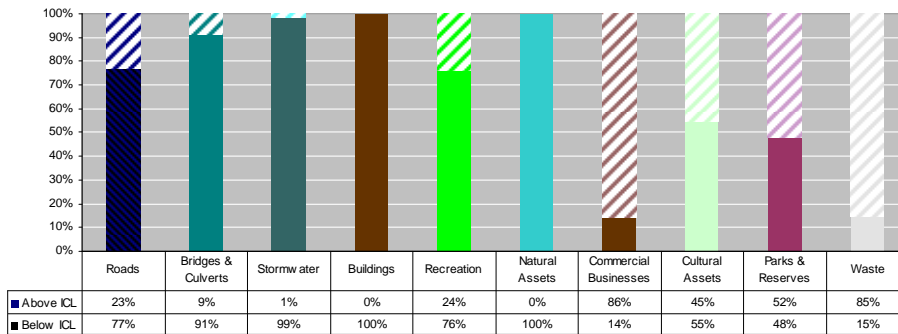
Civic Infrastructure Backlog Ratio under Existing Council Policy



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Infrastructure - Condition

Proportion of each Asset Group by Volume in an Unacceptable Condition after 20 years under Existing Policy



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Infrastructure - Rehabilitation

■ Required Rehabilitation

- If the infrastructure backlog of \$5.0 million was restored over 5 years the annual rehabilitation expenditure might take the form shown in the next chart.
- The period taken to rehabilitate assets could be extended to 10 years so as to reduce borrowings needed in any one year, but there would be increased risks associated with delaying such work.
- Expressed as an average spend over the next ten years rehabilitation comes to \$0.5 million per annum.

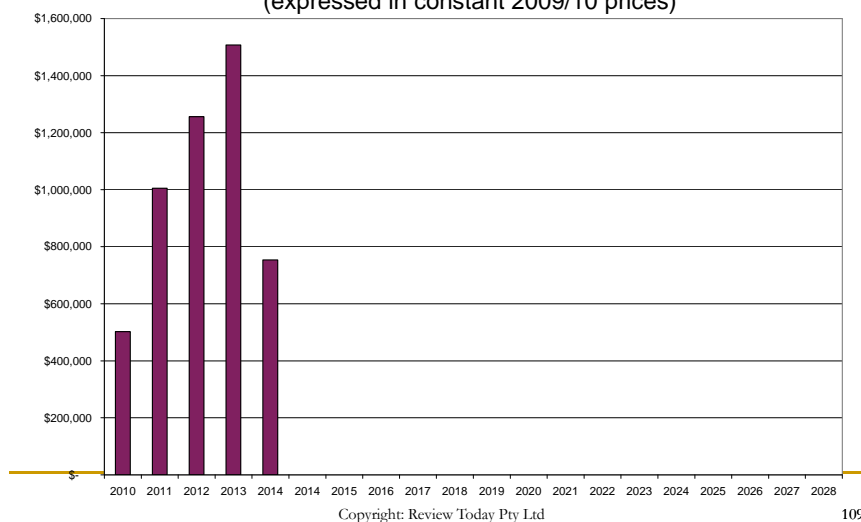
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Infrastructure - Rehabilitation

Infrastructure Backlog Recovery over a 5 Year Period
(expressed in constant 2009/10 prices)



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Infrastructure - Renewal

■ Required Renewals

- Council needs to spend \$246 million on infrastructure renewals over the next 20 years to stop its present renewals backlog from expanding.
- Renewals need to average \$11.3 million per annum over the next decade alone.

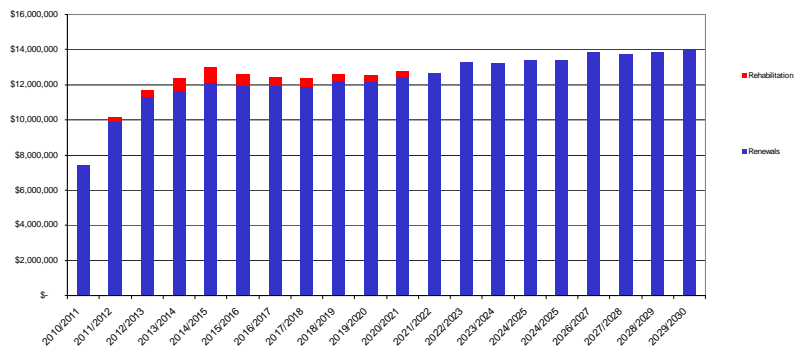
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Infrastructure - Renewal

Required Infrastructure Rehabilitation and Renewal Spending
(expressed in constant 2009/10 prices)



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Infrastructure - Renewal

■ Existing Policy

- The Council presently plans to spend about \$7.6 million per annum over the next decade on infrastructure renewals.
- Yet its renewals spending should average \$11.3 million per annum if the backlog of dilapidated infrastructure is not to grow.
- As can be seen in the following chart, infrastructure renewal (including rehabilitation) will fall short of what is required to ensure that infrastructure is safe and sound by \$4.2 million per annum up to 2019/20.

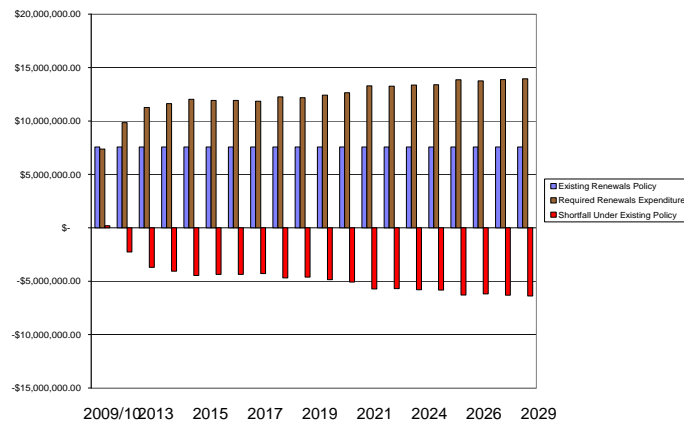
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Infrastructure - Renewal

Infrastructure Renewal Spending Under Existing Policy versus Required Renewal Spending* (expressed in constant 2009/10 prices)



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

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Infrastructure - Renewals

■ Existing Policy

- Should the Council's current infrastructure renewals and maintenance policy continue the infrastructure backlog by 2030 would be \$112 million.
- This would be \$107 million higher than at present.
- Most of the future backlog would be in:
 - Roads assets: \$72 million,
 - Commercial Businesses: \$12 million
 - Recreation Areas: \$6 million
 - Parks and Reserves \$5 million
 - Cultural Assets: \$4 million
 - Bridges and Culverts: \$3 million,

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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.
- As a general rule an established local government area should expand its infrastructure stock by at least half its population growth rate. In BVSC's case that requires annual infrastructure enhancement of \$3.2 million or more.

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Infrastructure - Enhancement

- *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 proceeds at around \$1.6 million per annum – one quarter the rate of resident growth,
 - A Responsive scenario (which would expand infrastructure stock in step with projected population growth), and
 - A Restrained scenario (which would put a freeze on further physical asset enhancements).

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Infrastructure - Enhancement

■ Existing (and Preferred) Policy

- Council intends to spend an average of \$1.6 million per annum on enhancing infrastructure* between 2009/10 and 2019/20.
- Council's existing projection for infrastructure enhancement spending is also the one it prefers. It is shown in the next chart.
- There are no specific projects assumed in these estimates which is why budgeted spending looks smooth rather than lumpy.

* Infrastructure enhancements exclude public works undertaken by private developers in lieu of paying developer charges, though the future maintenance costs of such works are included under Council's projected maintenance expenses.

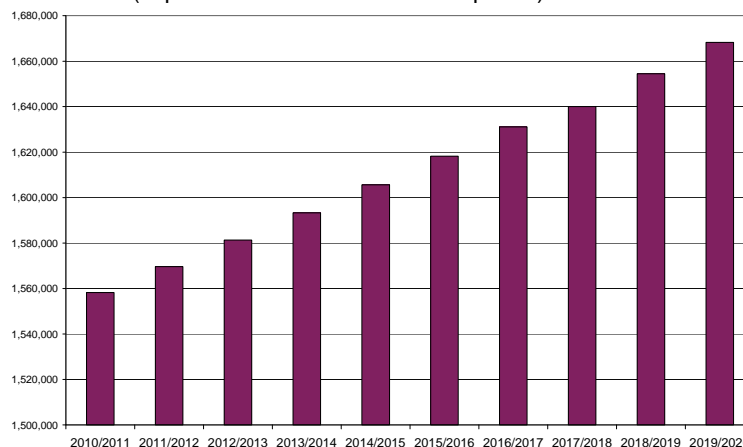
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Infrastructure - Enhancement

Infrastructure Enhancements under Existing Policy and Preferred Scenario
(expressed in constant 2009/10 prices)



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Infrastructure - Enhancement

■ Responsive Scenario

- An alternative approach is to tie the expansion of infrastructure stock to population growth (projected by Council to average 1.1% per annum in future).
- Annual infrastructure enhancement over the next decade would average \$8.2* million instead of \$1.6 million under Existing Policy.

* This figure is \$1.2m above population growth because it includes bulk earthworks which are not population driven.

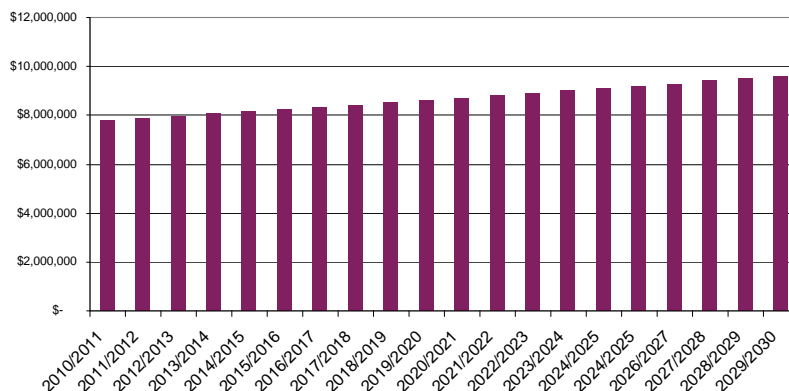
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Infrastructure - Enhancement

Infrastructure Enhancements under Responsive Scenario
(expressed in constant 2009/10 prices)



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Infrastructure - Enhancement

■ **Restrained Scenario**

- Those who want to keep rates and charges to a minimum may be content to fix the infrastructure backlog and renew assets as they fall due, but put a freeze on any further expansion of the total infrastructure stock.
- While this would alleviate cost pressures, it could put a strain on existing facilities as local population and economic activity continued to expand.

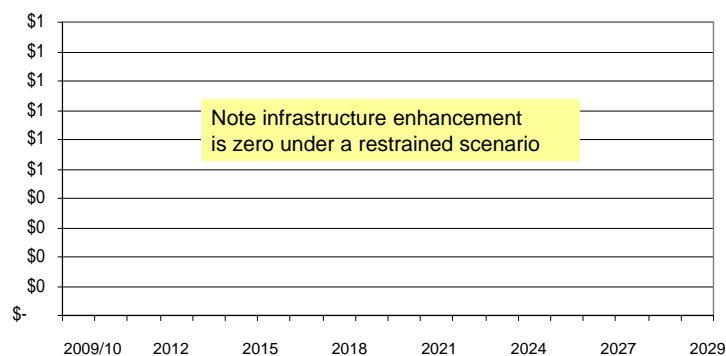
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Infrastructure - Enhancement

Infrastructure Enhancements under Restrained Scenario
(expressed in constant 2009/10 prices)



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Infrastructure - Enhancement

■ Existing (and Preferred) Policy versus Responsive Scenario

- A Responsive enhancement spending policy would exceed Existing spending enhancements by an average of \$6.6 million per annum over the next ten years.
- As previously mentioned, a Responsive scenario is where total infrastructure stock is enhanced in step with Bega's projected average population growth of 1.1% per annum.

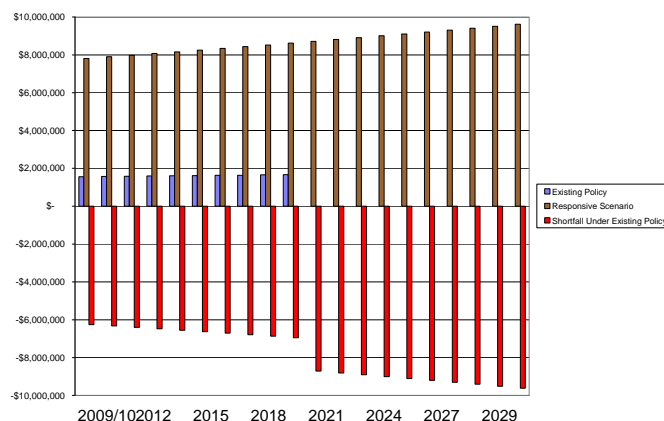
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Infrastructure - Enhancements

Infrastructure Enhancement Excess or Shortfall - Existing and Preferred Policy versus Responsive Scenario (expressed in constant 2009/10 prices)



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Infrastructure - Enhancement

■ Existing (and Preferred) Policy versus Restrained Scenario

- Under Existing policy (which also happens to be the Preferred scenario) proposed enhancements would exceed the Restrained scenario by an average of \$1.6 million per annum over the next decade and then match the Restrained scenario thereafter as no new infrastructure expansion is planned beyond that point.

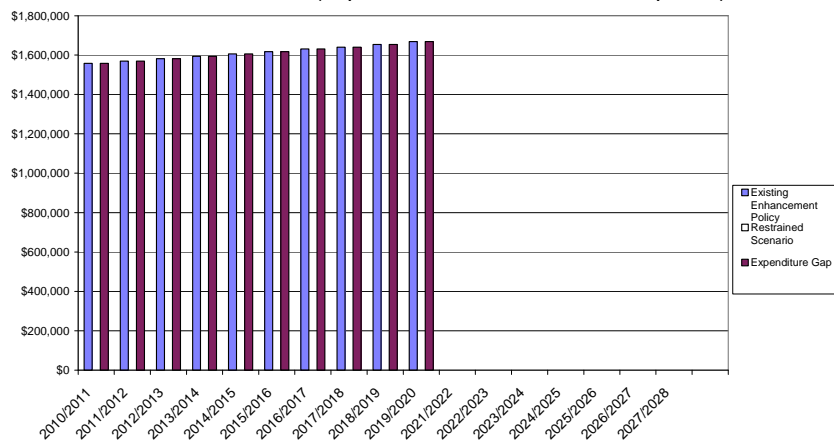
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Infrastructure - Enhancement

Infrastructure Enhancement Excess - Existing and Preferred Policy versus Restrained Scenario (expressed in constant 2009/10 prices)



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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 \$6.1 million over the next ten years. The next chart projects the required maintenance over a longer period.

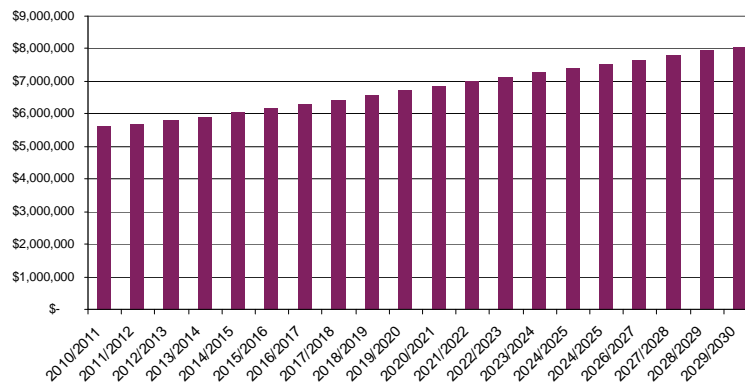
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Infrastructure - Maintenance

Required Infrastructure Maintenance Spending under Existing Policy
(expressed in constant 2009/10 prices)



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Infrastructure - Maintenance

■ Existing Policy versus Required Maintenance

- Because Council's Existing policy is projected to under-spend on future renewals, its average maintenance bill over the next ten years will be \$0.3 million per annum higher than required under the Preferred scenario.
- The next chart shows the higher maintenance bill required for the next twenty years under Existing policy compared with the Preferred scenario in which infrastructure renewals backlog would be almost eliminated by 2013/14.

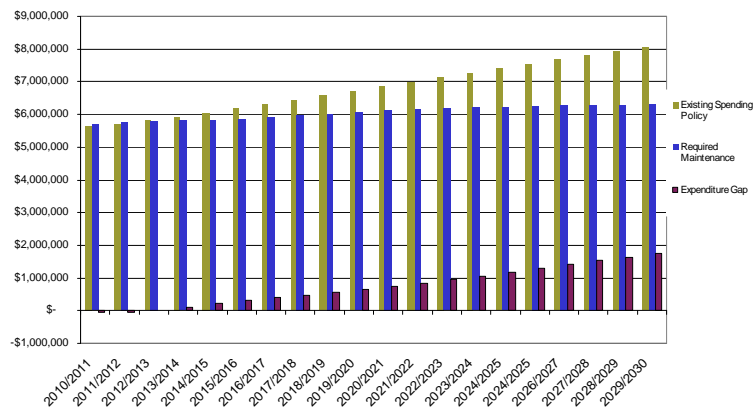
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Infrastructure - Maintenance

Infrastructure Maintenance under Existing Policy versus Required Infrastructure Maintenance Spending (expressed in constant 2009/10 prices)



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Infrastructure - Maintenance

■ Alternative Scenarios' Maintenance Requirements

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

- Existing policy - \$6.1 million
- Preferred scenario - \$5.9 million
- Restrained scenario - \$5.9 million
- Responsive scenario - \$5.8 million

Note that Council's existing policy will result in an excessive outlay on maintenance. Other scenarios will result in higher renewal costs, lower maintenance costs and better asset conditions overall.

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?*

* Note that total infrastructure spending excludes bulk earthworks, land, plant, equipment, furniture and fittings. These items are included under 'Acquisitions of non-infrastructure assets' in our scenario tables.

Infrastructure - Total Spend

■ Existing Policy

- Under Existing policy Council's total infrastructure spending* would average \$15.3 million per annum over the next 10 years.
- The pattern of spending for the next 20 years is shown in the following chart.
- Note that under Existing policy there is no provision for rehabilitation of backlog infrastructure. Indeed rehabilitation was not recognised hitherto.

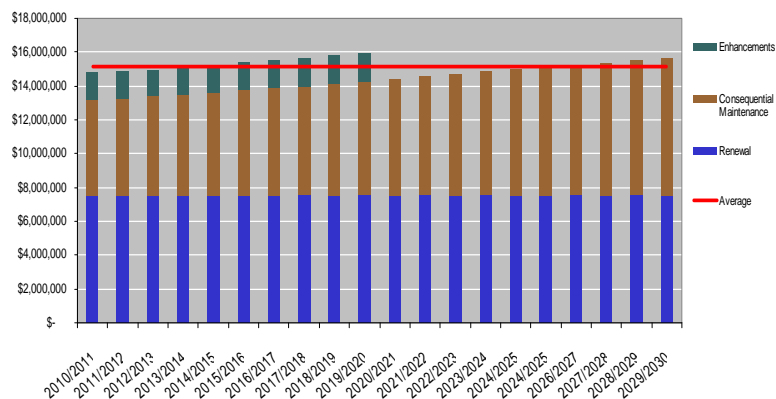
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Infrastructure - Total Spend

Total Infrastructure Spending under Existing Policy
(expressed in constant 2009/10 prices)



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Infrastructure - Total Spend

■ Preferred Scenario

- Under this scenario BVSC's infrastructure spending would average \$19.2 million per annum over the next 10 years.
- The spending trend for the next 20 years is depicted in the following chart.

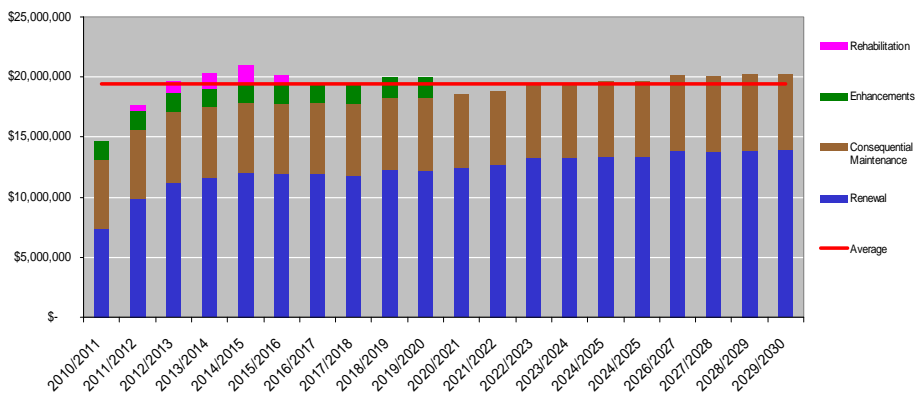
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Infrastructure - Total Spend

Total Infrastructure Spending under Preferred Scenario
(expressed in constant 2009/10 prices)



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Infrastructure - Total Spend

■ Responsive Scenario

- Under this scenario BVSC's infrastructure spending would average \$26.3 million per annum over the next 10 years.
- The pattern of spending over the next 20 years is illustrated in the following chart.

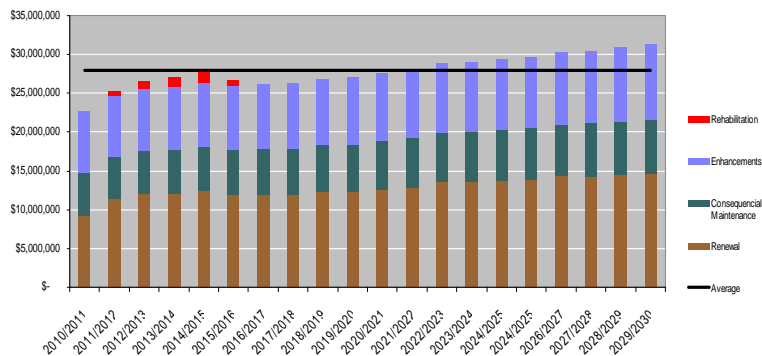
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Infrastructure - Total Spend

Total Infrastructure Spending under Responsive Scenario
(expressed in constant 2009/10 prices)



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Infrastructure - Total Spend

■ Restrained Scenario

- Under this scenario BVSC's total infrastructure spending would average \$17.6 million per annum over the next 10 years.
- The spending involved over the next 20 years is depicted in the following chart.
- Note that no enhancements are provided for under this scenario.

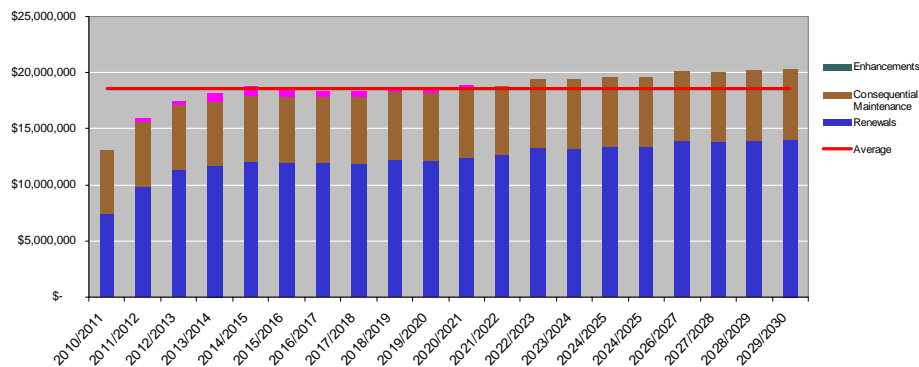
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Infrastructure - Total Spend

Total Infrastructure Spending under Restrained Scenario
(expressed in constant 2009/10 prices)



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Infrastructure - Total Spend

- How does total infrastructure spending under the Existing policy outcome stack up against these three distinct scenarios?

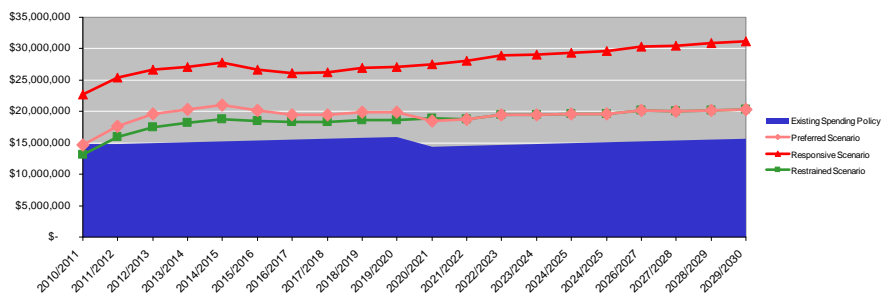
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Infrastructure - Total Spend

Comparison of Existing Policy versus Alternative Scenarios (expressed in constant 2009/10 prices)



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Infrastructure - Total Spend

■ Existing Policy versus Preferred Scenario

- Under current policy, Council proposes to spend on average \$15.3 million per annum on renewals, maintenance and enhancement of infrastructure (excluding land acquisitions) over the next 10 years.
- Total infrastructure spending under Existing policy would fall short of that under the Preferred infrastructure scenario by an average of \$3.9 million per annum over the next ten years.
- The next chart shows the shortfall over the next two decades on total infrastructure spending.

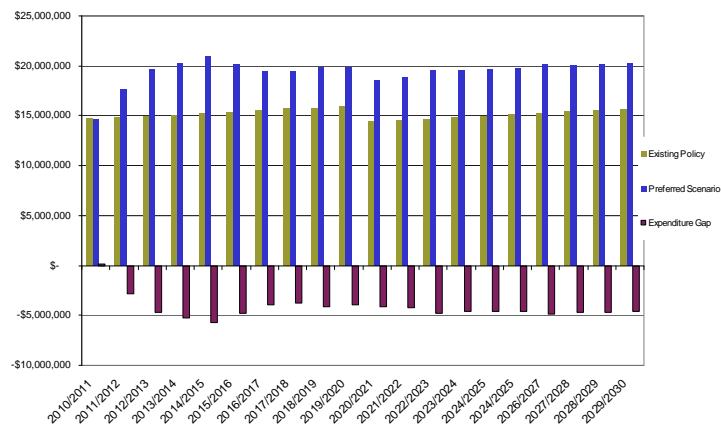
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Infrastructure - Total Spend

Total Infrastructure Spending Shortfall - Existing Policy versus Preferred Scenario (expressed in constant 2009/10 prices)



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Infrastructure - Total Spend

- **Existing Policy versus Responsive Scenario**
 - Existing policy infrastructure spending would fall short of a Responsive infrastructure scenario by an average of \$11.0 million per annum over the next ten years.
 - The next chart shows the picture over the next two decades.

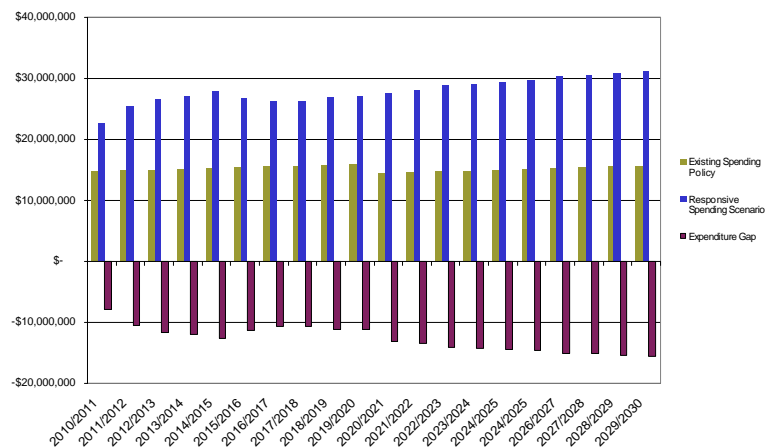
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Infrastructure - Total Spend

Total Infrastructure Spending Shortfall -Existing Policy versus Responsive Scenario (expressed in constant 2009/10 prices)



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Infrastructure - Total Spend

■ Existing Policy versus Restrained Scenario

- Existing policy infrastructure spending would fall short of the Restrained spending scenario by an average of \$2.3 million per annum up to 2019/20.

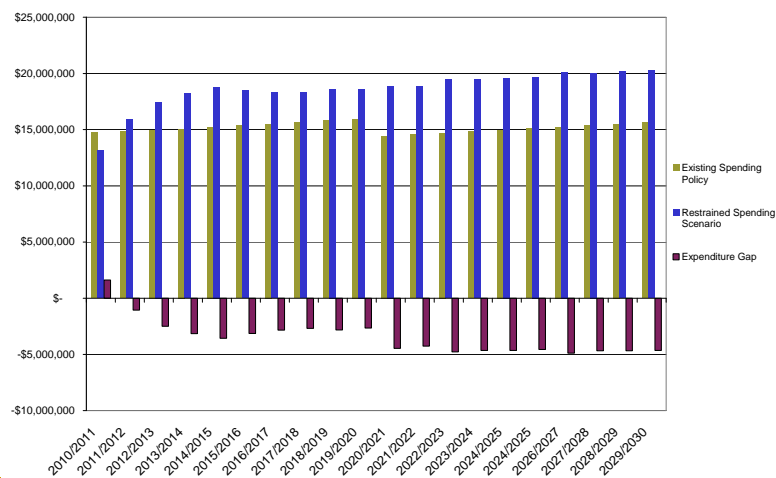
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Infrastructure - Total Spend

Total Infrastructure Spending Shortfall - Existing Policy versus Restrained Scenario (expressed in constant 2009/10 prices)



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Services

- Besides fixing its infrastructure, BVSC 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.



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Services

- **Existing Policy and Preferred Scenario**
 - Under Existing policy Council would increase present services spending by 1.7% per annum over the next decade.
 - This would result in services growing 55% faster than population growth of 1.1% a year. This can be justified in terms of rising community standards and expectations. These figures are in real terms (i.e. exclude price inflation).
 - Annual services spending would average \$28.8 million over the next decade.

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Services

■ Responsive Scenario

- This supposes services expenditure (excluding inflation) grows by the expected population growth rate (1.1% per annum) over the next decade.
- Services spending would average \$27.8 million a year over that period.

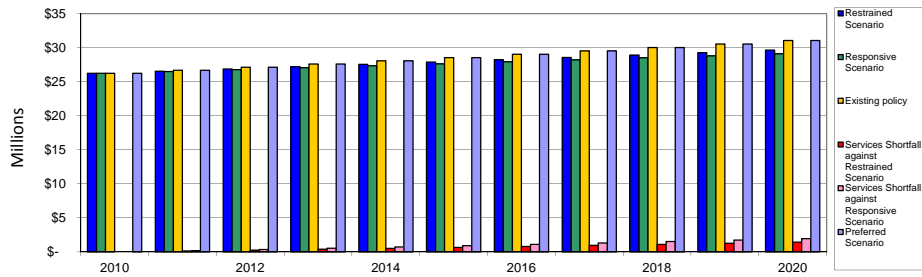
Services

■ Restrained Scenario

- This assumes services expenditure (excluding inflation) is restrained sufficiently to achieve a minimum 2.5% operating surplus by the end of the decade. This would require existing services spending to grow by 1.2% per annum which is a fraction higher than expected population growth of 1.1%.
- Annual services spending under this scenario would average \$28.1 million over the next decade compared with \$26.2 million in 2009/10. All figures are expressed in 2009/10 dollars.

Services

Services Spending Shortfall – Existing Spending Policy versus Alternative Services Spending Scenarios (expressed in constant 2010 prices)



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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.

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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 \$1.8 million under the Preferred scenario, \$1.9 million under the Responsive scenario, \$0.5 million under the Restrained scenario versus \$0.4 million under Existing policy.
- Note that under the Restrained scenario the annual interest bill after rising would fall to \$0.1 million by 2019/20. By contrast for the other scenarios it would rise to between \$3.0 million and \$3.2 million.
- We have assumed an average debt maturity of 20 years whereas Council works on 10 years.

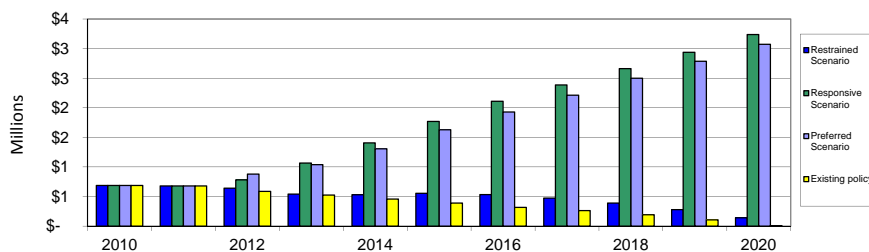
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Interest Payments

Interest Payments under Existing Spending Policy versus Alternative Spending Scenarios (expressed in constant 2010 prices)



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Total Spending

- Adding together infrastructure (including maintenance), services and interest expenses gives total spending.



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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.
- 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.

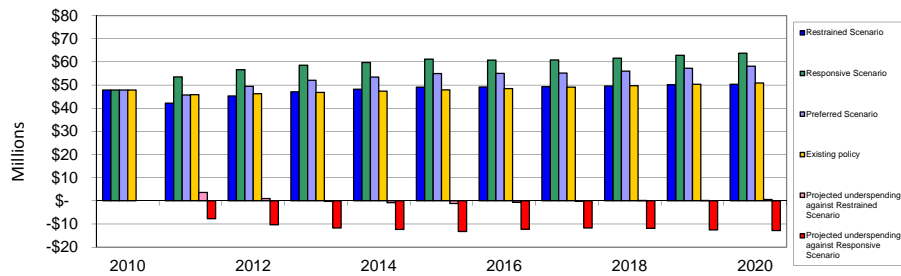
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Total Spending

Total Spending Shortfall – Existing Spending Policy versus Alternative Total Spending Scenarios (expressed in constant 2010 prices)



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Total Spending

- Note that over the period 2009/10 to 2019/20, total spending rises from \$47.8m to \$50.9m under Existing policy, \$58.1m under the Preferred scenario, \$63.7m under the Responsive scenario and \$50.3m under the Restrained scenario.
- The average annual increase in total spending over this period (without inflation) would be:
 - Existing policy: 0.6%
 - Preferred scenario : 2.0%
 - Responsive scenario: 2.9%
 - Restrained scenario: 0.5%

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Financial Goalposts

- 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 BVSC's own circumstances (i.e. a medium sized coastal regional council with a predominantly urban settlement).



Financial Goalposts

LGI Fiscal Goalposts adjusted for BVSC's special circumstances.

Goalpost	Floor Target	Ceiling Target
Operating surplus ratio	2.5%	7.5%
Net financial liabilities ratio	40%	80%
Infrastructure backlog ratio	0%	2%
Interest cover ratio	3x	5x
External financing ratio	25%	50%
Annual renewals gap ratio	-10%	10%

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Financial Goalposts

- To assess how BVSC'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 limit of the Reserve Bank of Australia's target range



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Financial Goalposts

- The next chart shows that without new revenue measures, only the Restrained scenario would produce a sustainable operating surplus of 2.5% of own source revenue by 2019/20.
- Existing policy would result in an operating deficit of 1.1% by 2019/20.
- With the Responsive scenario the deficit in ten years time would be an unsustainable 8.2%.
- With the Preferred spending scenario the operating deficit would reach a dangerous 10.0% by that time.

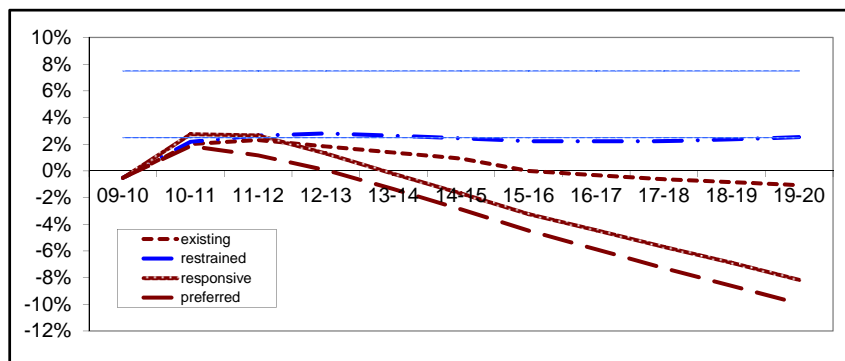
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Financial Goalposts

Operating Surplus Ratios under Existing Spending Policy versus Alternative Spending Scenarios



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Financial Goalposts

- Council's present net financial liabilities are 5% of total operating revenues. The LGI recommended NFL ratio for a council such as BVSC is 40% to 80%.
- Existing spending and revenue policy would cause net financial liabilities to be eliminated by 2011/12 and net financial assets to build up to 21% of operating revenue by 2019/20. This treasury windfall would be at the expense of the infrastructure backlog deteriorating from under 1% to 8% over the period.
- The net financial liabilities ratio under the Preferred and Responsive spending scenarios would hit 85% and 92% respectively by 2019/20. With the Restrained scenario net financial assets of 18% would be generated by then.

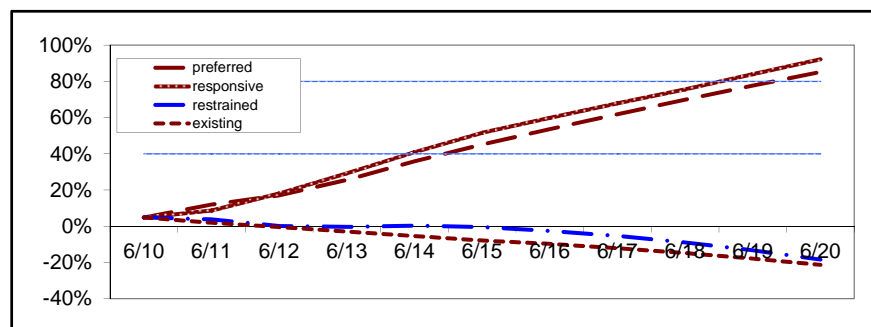
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Financial Goalposts

Net Financial Liabilities Ratios under Existing Policy versus Alternative Spending Scenarios



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Financial Goalposts

- The main conclusion from the analysis so far is that without revenue increases only the Restrained spending scenario would make the Council financially sustainable by 2019/20.
- The Restrained scenario would attain a budget surplus of 2.5%, build net financial assets equal to 18% of revenue by that date and prevent the infrastructure backlog growing beyond 2%.
- But it would halve acquisitions of non-infrastructure assets, freeze infrastructure expansion and constrain services growth to little more than population growth.

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Financial Goalposts

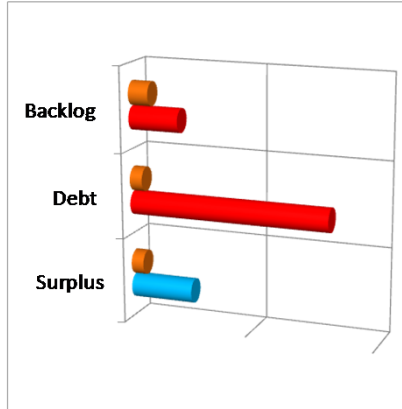
- Under Existing policy, BVSC would gradually slip into deficit and experience a growing infrastructure backlog that would eventually imperil its finances and possibly expose it to litigation.
- The chart shows the Council's operating deficit (or surplus) on the vertical scale and its broad liabilities ratio (i.e. the sum of its net financial liabilities and infrastructure backlog expressed as a ratio of its total operating revenue) on the horizontal scale.

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Financial Goalposts

Council's Present Financial Condition – 2009/10

- In 2009/10 BVSC's infrastructure backlog ratio of 1% was within the 2% tolerable limit, its net financial liabilities ratio of 5% was well within the 80% upper limit, but its budget deficit ratio of 0.5% breached the min. surplus target of 2.5%.
- Council's sustainability is vulnerable.

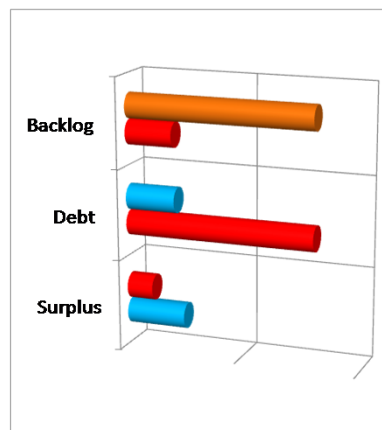


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Financial Goalposts

Council's Financial Future under Existing Policy - 2019/20

- By 2019/20 BVSC's infrastructure backlog ratio of 8% will far exceed the 2% upper limit, its net financial assets ratio of 21% will be excessive to its needs and its budget deficit ratio of 1.1% will defy the min. surplus ratio of 2.5%.
- Council's sustainability will have deteriorated.



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Fiscal Options

- Under Existing policy BVSC's broad liabilities ratio* will rise from 17% to 104% by 2020, but this will mask a 114 percentage point blow out in its infrastructure backlog (from 12% of operating revenue to 126%).
- Also the Council's budgeted surpluses for the next few years will have turned to deficits by then.



* This ratio is its net financial liabilities plus infrastructure backlog divided by its total operating revenue.

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Fiscal Options

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



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Fiscal Options

■ Existing Revenue Policy

- Rates and annual charges revenue is projected to rise in real terms by an average 1.6% per annum (0.4% rise per property) over the next decade.
- The share of infrastructure enhancements costs recovered from developer charges is expected to rise to and stay around 40% from 2009/10.

Fiscal Options

■ Existing Revenue Policy (continued)

- The proportion of own purpose expenses recovered by fees and user charges stays around 43% from 2009/10.
- This results in an average annual real increase in fees and charges of:
 - 2.2% (1.0% per property) under Existing policy and the Preferred scenario,
 - 1.8% (0.7% per property) under the Responsive scenario, and
 - 1.6% (0.5% per property) under the Restrained Scenario.

Fiscal Options

■ Ambitious Revenue Option

- This is an alternative option to Existing revenue policy.
- The Ambitious revenue option assumes that cost recovery by fees & charges and developer charges matches that of the highest charging regional coastal council within five years.
- It also assumes that rates are increased sufficiently to achieve the low end of the desirable operating surplus target range (i.e. 2.5%) by the end of a decade under whatever spending scenario is chosen.

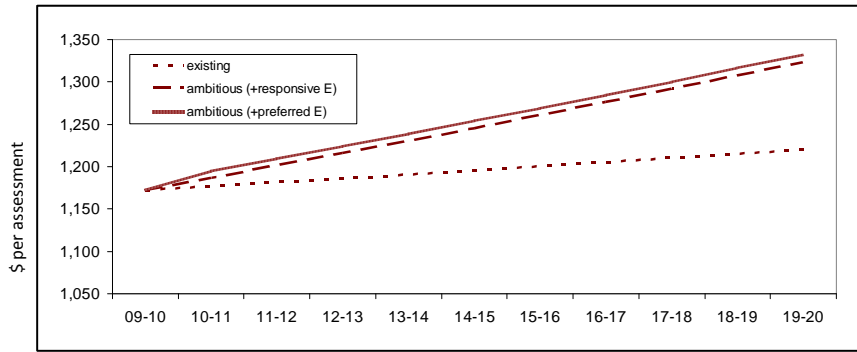
Fiscal Options

■ Ambitious Revenue Option (under Preferred scenario)

- Over the next decade rates revenue would increase in real terms by a yearly average of 2.5% (1.3% per property) if spending reflected the preferred scenario.
- Over the same period the real annual rise in fees and charges revenue would be 2.7% (+ 1.6% per property) as the cost recovery ratio for fees and charges rose from 43.4% to 45% from 2010/11.
- The cost recovery ratio for developer charges would immediately increase from 5% to 55% boosting developer contributions from \$0.3m to \$0.9m per annum.

Fiscal Options

Average Residential Rates under Alternative Revenue Options
(after adjusting for CPI inflation of 3% per annum)

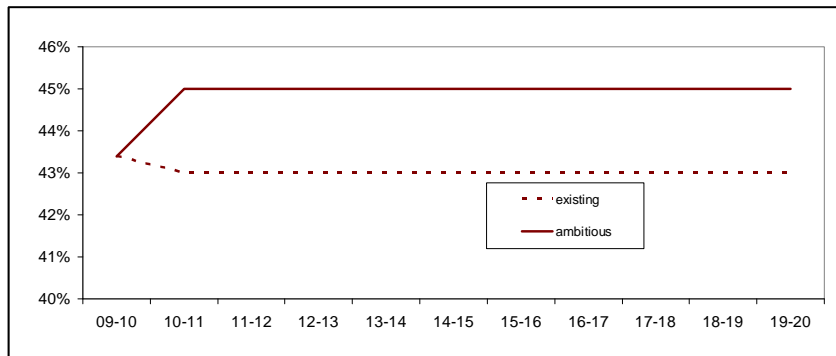


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Fiscal Options

Fees and Charges Cost Recovery Ratio under Alternative Revenue Options

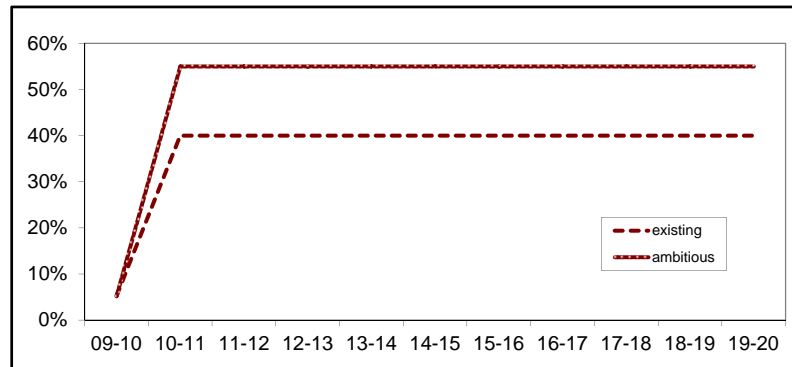


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Fiscal Options

Developer Charges Cost Recovery Ratio under Alternative Revenue Options



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Fiscal Options

- *What would happen to BVSC's operating budget balance if it financed the alternative spending scenarios with the ambitious revenue option?*
- By 2019/20, both the Preferred and Responsive spending scenarios would have a 2.5% surplus compared with the Existing revenue and spending policy which would have a 1% deficit.

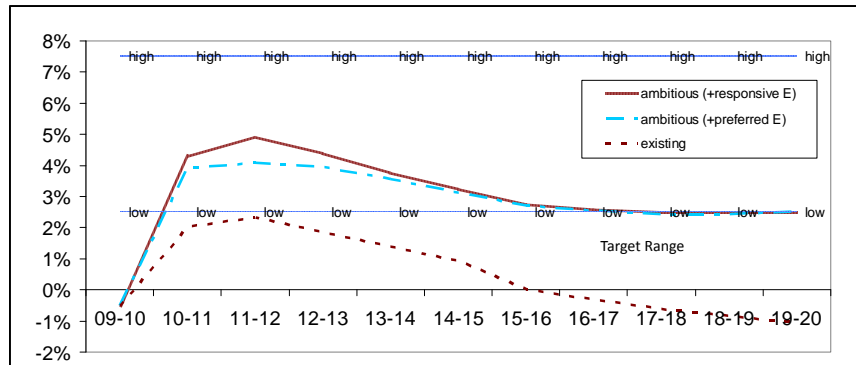
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Fiscal Options

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



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Fiscal Options

- *What would happen to BVSC's net financial liabilities ratio if it financed the alternative spending scenarios using the ambitious revenue option?*
- The Existing revenue and spending scenario would produce large and unnecessary financial asset reserves while not addressing the excessive infrastructure backlog.
- The Preferred and Responsive spending scenarios would result in the net financial liabilities ratio remaining well within the recommended maximum ceiling of 80%.

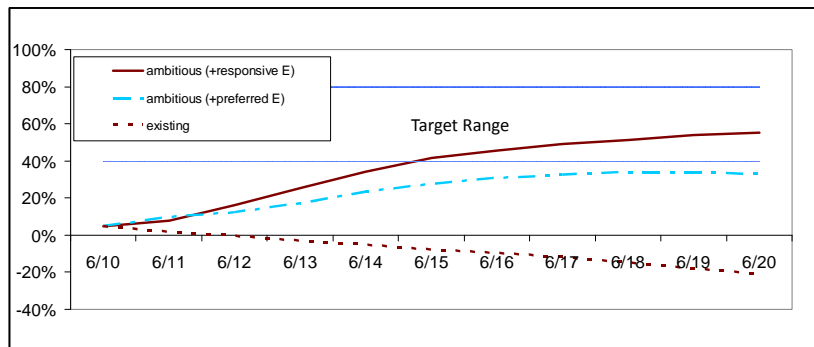
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Fiscal Options

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



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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.



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Fiscal Options



- The outcomes involve revenue rises and / or service level and infrastructure stock freezes that may be too painful for the community to accept.

- So the obvious question is.....

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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?*

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Proposed Plan

- *Review Today* has attempted to model such a Responsible scenario to achieve the following outcomes by the tenth year:
 - Council's net financial liabilities ratio won't exceed 41%, which is at the bottom of the LGI recommended range of 40-80%,
 - Council's operating surplus ratio will not fall below the recommended floor of 2.5% (versus a deficit of 0.5% in 2009/10),
 - Council services will have expanded by 1.3%; slightly higher than the expected rate of population growth,
 - Infrastructure stock will have grown by 0.5% a year which on GHD's advice should be sufficient for meeting resident growth,
 - Council's infrastructure backlog ratio will have been contained to 2% (instead of rising to 8% under Existing policy).

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Proposed Plan

- Note that the real average annual increase in:
 - Rates and annual charges per property would be 2.2% under the Responsible scenario instead of 1.6% under Existing policy.
 - Fees and charges per property would be 2.6% under the Responsible scenario instead of 2.2% under Existing policy.
 - Service expenditure per property would be 1.3% under the Responsible scenario instead of 1.7% under Existing policy.
- Essentially the Responsible scenario would:
 - Cap the infrastructure backlog at 2% in future,
 - Maintain a surplus of not less than 2.5% of own source operating revenue and keep the net financial liabilities ratio modest,
 - Slow the real annual growth in service expenditure from 1.7% under Existing policy to 1.3%. Nevertheless, this would still be higher than projected population growth of 1.1%.

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Proposed Plan

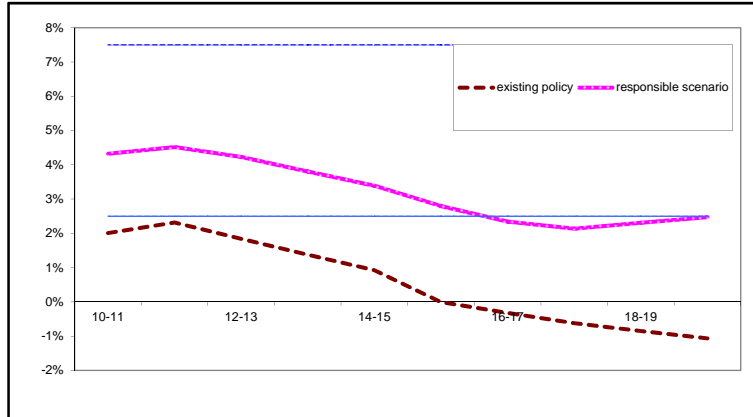
- The Responsible scenario essentially achieves a modest operating surplus and stops the proportion of unsound and unsafe local infrastructure increasing from about 1% now to 8% by 2019/20.
- It funds this by (a) increasing rates, fees and charges by 5.5%, and (b) reducing services spending by 4.2% compared with what would happen under Existing Council policy by 2019/20.

Proposed Plan

- The next set of charts compare the results of the Responsible scenario with those of Existing policy.
- Where dollar values or percentage increases are used they are either expressed in constant 2009/10 prices or in future prices after adjusting for 3% CPI inflation per annum.
- It should be stressed that the Responsible scenario is for illustrative purposes only. Its mix of revenue increases, services growth and infrastructure improvements could be changed provided the outcome was still fiscally sustainable.

Proposed Plan

Operating Surplus Ratio under Responsible Scenario versus Existing Policy

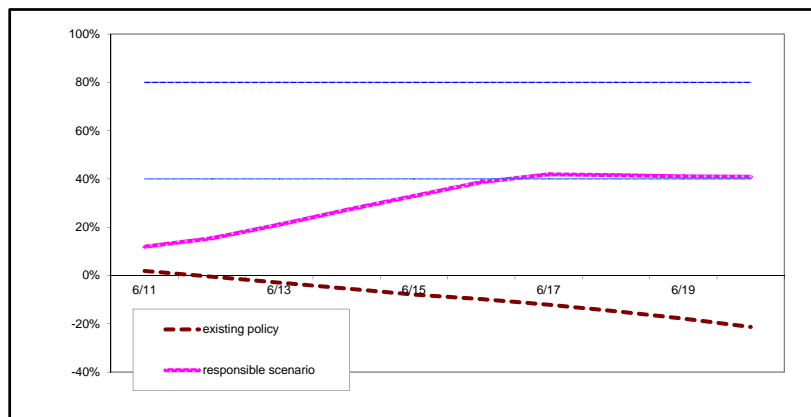


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Proposed Plan

Net Financial Liabilities Ratio under Responsible Scenario versus Existing Policy



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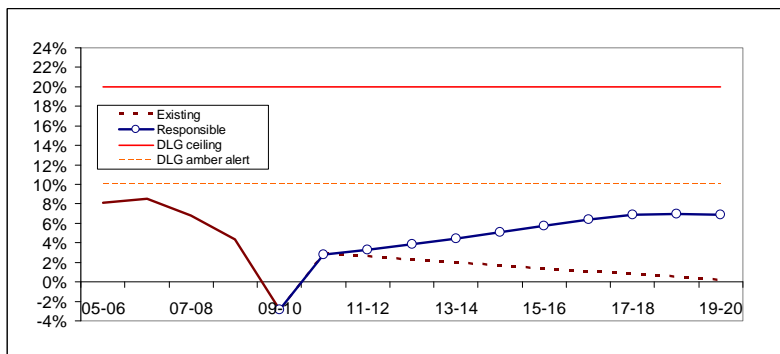
Proposed Plan

- Note that under the Responsible scenario, BVSC's debt services ratio for Council's general operations remains well below both the Department of Local Government's amber alert level of 10% and its red alert level of (now) 20% over the next decade.
- However, when Water & Sewerage operations are included, the BVSC's debt services ratio under the Responsible scenario from 2014/15 exceeds the amber alert, but still falls well short of the red alert level (see chart in Appendix to this report).
- The latest Special Rate Variation Guidelines issued by DLG (at page 21) says that "the DLG's benchmark range for the debt service ratio [is now] between 0 and 20%..."

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Proposed Plan

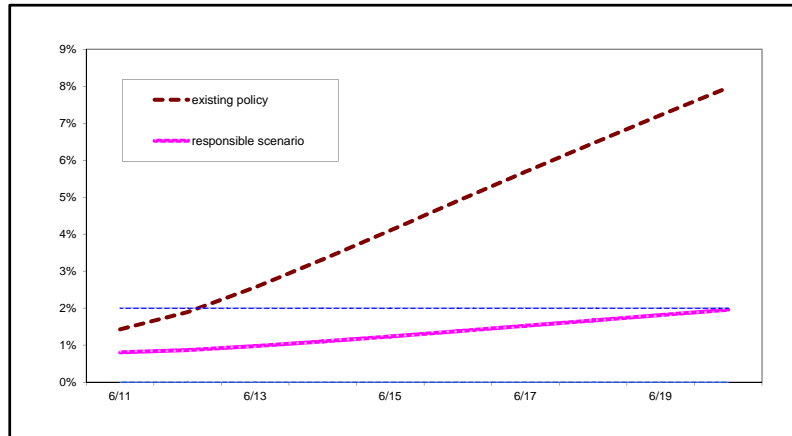
Debt Services Ratio for Responsible Scenario versus Existing Policy



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Proposed Plan

Infrastructure Backlog Ratio for Responsible Scenario versus Existing policy

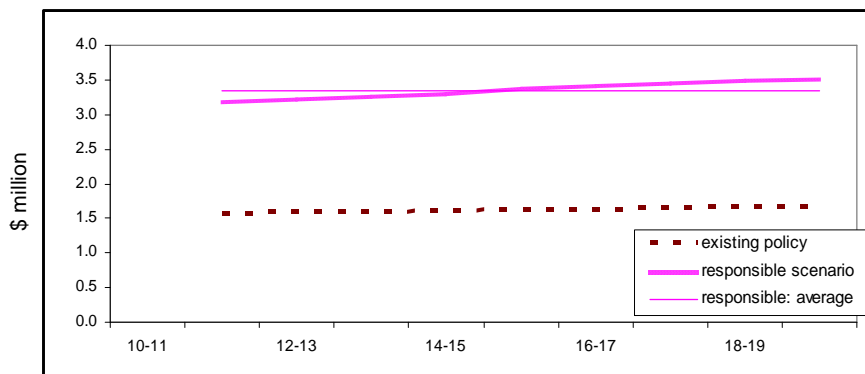


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Infrastructure Enhancement for Responsible Scenario versus Existing Policy
(expressed in constant 2009/10 prices)

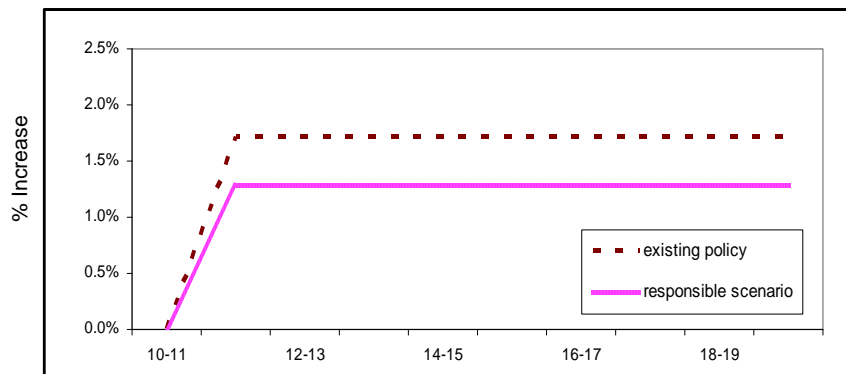


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Proposed Plan

Service Spending for Responsible Scenario versus Existing Policy
(expressed in constant 2009/10 prices)



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Proposed Plan

- The annual increase in revenue from rates, fees and charges under the Responsible scenario would be 0.6% higher than under Existing policy.
- After 10 years the combined revenue from rates, annual charges, fees and user charges ends up only 5.5% higher under the Responsible scenario than for Existing Policy.

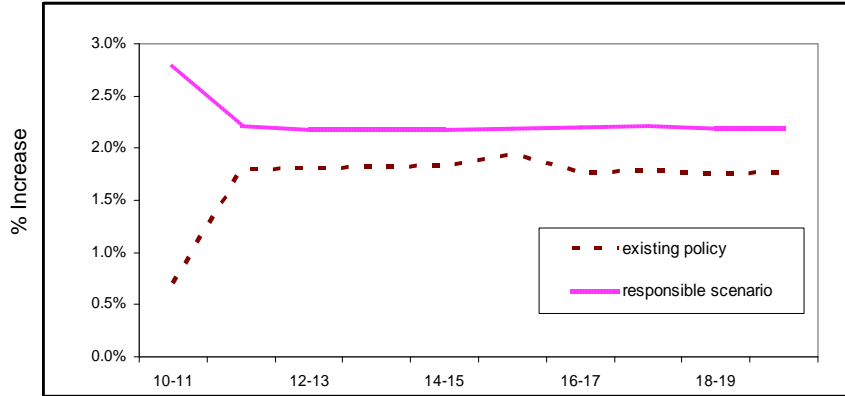
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Rates, Fees and Charges for Responsible Scenario versus Existing Policy
(expressed in constant 2009/10 prices)

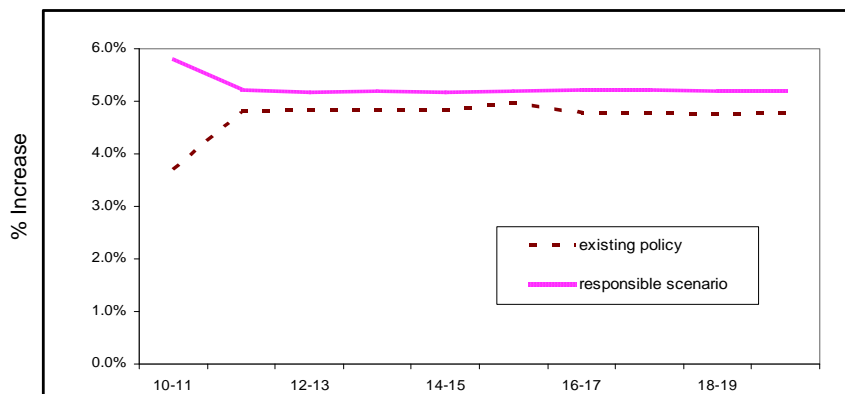


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Proposed Plan

Rates, Fees and Charges for Responsible Scenario versus Existing Policy
(after adjusting for CPI inflation of 3% per annum)



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Proposed Plan

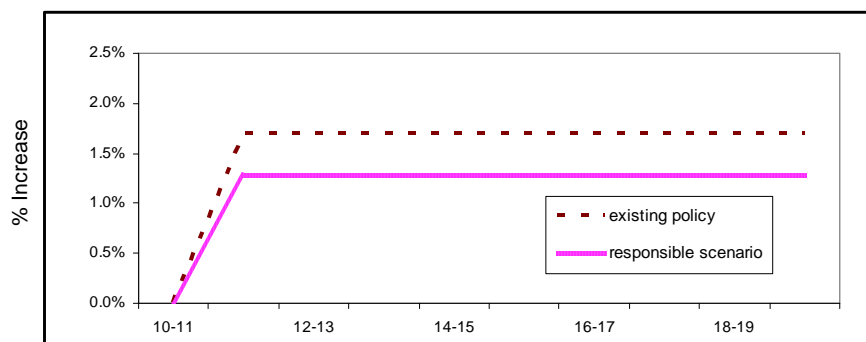
- Under the Responsible scenario the budget deficit and infrastructure backlog are addressed in part by using funds freed up from slowing annual services growth to 1.3% instead of the 1.7% envisaged under Existing policy.
- Diverting expenditure growth from services to infrastructure should not be too painful since annual services expansion of 1.3% would still be 0.2% than the rate of population growth.

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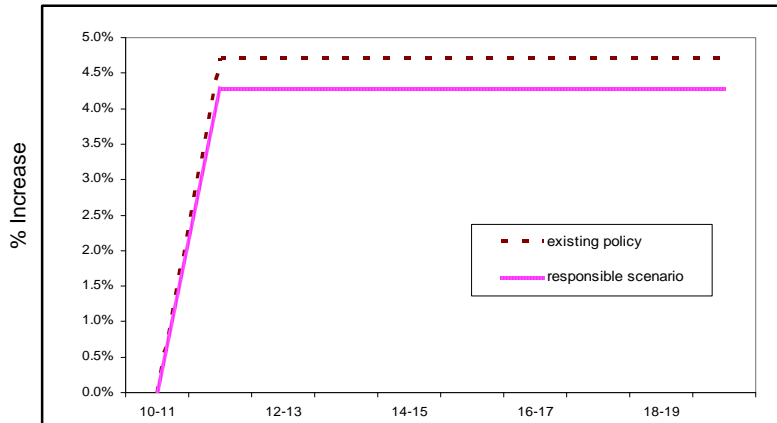
Service Spending for Responsible Scenario versus Existing Policy
(expressed in constant 2010 prices)



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Proposed Plan

Services Spending for Responsible Scenario versus Existing Policy
(after adjusting for CPI inflation of 3% per annum)



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Proposed Plan

- The Responsible scenario requires the following average changes in real terms (i.e. before providing for CPI inflation) in the next ten years:
 - Rates revenue to increase by 2.2% (or 1.0% per property) per annum;
 - Fees and charges revenue to increase by 2.6% (or 1.4% per property) per annum;
 - Developer contributions to increase by 12.7% (or 11.4% per property) per annum (from a very low base), and
 - Service spending growth capped at 1.3% (0.1% per property) per annum which would be slightly higher than population growth.

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Proposed Plan

- After providing for 3% CPI inflation (upper limit of RBA's target range) the nominal increases under the Responsible scenario would be:
 - Rates revenue to increase by 5.3% (or 4.0% per property) per annum;
 - Fees and charges revenue to increase by 5.7% (or 4.4% per property) per annum;
 - Developer contributions to increase by 16.1% (or 14.7% per property) per annum (from a very low base); and
 - Service spending to rise by 4.3% (or 3.1% per property) per annum.

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Conclusion

- It is clear from our analysis that Existing policy would result in a significant deterioration in the condition of local physical infrastructure and the Council's budgeted surpluses becoming deficits within seven years.
- Yet the annual increases in rates revenue under Existing policy would still be 1.6% above CPI inflation. And that for fees and user charges would still be 2.2% above price inflation.

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Conclusion

- ❑ The Preferred spending scenario would require rates revenue to rise by the same order as Existing policy, but cause the Council to have an operating deficit ratio of 10.0% and a net financial liabilities ratio of 85% by 2019/20.
- ❑ The Responsive spending scenario would see rates revenue increase by 1.6% and fees and charges revenue by 1.8% a year above CPI inflation, but also result in Council having excessive deficit and debt ratios.

Conclusion

- Both the Preferred and Responsive scenarios would not be financially sustainable.
- The Restrained spending scenario needs annual rises in both rates revenue and fees and charges revenue of 1.6% above CPI inflation and for services spending growth to be held at 1.2% per annum, just fractionally above population growth of 1.1%.
- This is an option the community should consider if it wants to keep rate rises as low as possible. However, its assumption of no infrastructure expansion and a halving of non-infrastructure asset growth might be unrealistic given the Shire's growing population and tourist visitors.

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 2009/10 and 2019/20;
 - The net financial liabilities ratio would rise from 5% to 41%, but this would be at the bottom of the 40% to 80% range recommended by the Local Government Inquiry.
 - The operating balance would move from a deficit of 0.5% to a surplus of 2.5% (the floor of the LGI desirable range) .
 - The infrastructure backlog ratio would grow from 1% to 2%; the tolerable limit suggested by the LGI.

Continued.....

Conclusion

- Under the Responsible scenario:
 - Average annual infrastructure expansion during the decade would be \$3.3 million which would be 13% less than proposed by Council, but should still be adequate to cope with population growth.
 - Additional infrastructure expansion would need increased revenue or debt funding. New assets should have regard to whole-of-life infrastructure costs and annual operating costs.
 - Services spending would grow in real terms by 1.3% (or 0.1% per property) which is slightly higher than population growth.
 - Combined revenue from rates, annual fees, ordinary fees and use charges revenue would increase in real terms by 2.3% per annum (or 1.1% per property) which is only modestly higher than under Existing policy (1.7% and 0.5% respectively).
 - Developer contributions revenue would rise in real terms by 12.7% per annum (or 11.4% per property) which is about double that under existing policy though its off a low base.

Conclusion

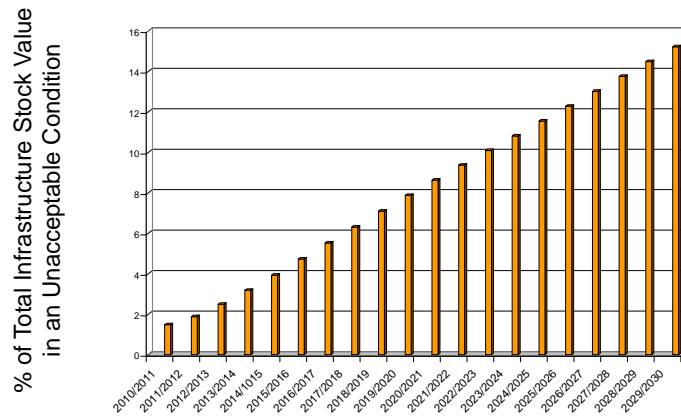
- The key political hurdles for the Responsible scenario are:
 - whether an annual real hike in rates revenue of 1.0% per property is acceptable, given that Existing policy envisages a real rise of 0.4% per annum?
 - whether the required annual increase in fees and user charges per property of 1.4% is possible, given that Existing policy plans an increase of 1.0% a year?
 - Whether limiting the real growth of operating service spending to 1.3% per annum (instead of the 1.7% a year planned under Existing policy) would meet resistance?

Conclusion

- If the answer to these questions is NO, then residents of Bega Valley should resign themselves to a future where:
 - The backlog of dilapidated local physical assets increases from \$5 million (about 1%) at present to \$112 million (about 15%) by 2029/30.
 - The BVSC operating balance as a ratio of own source revenues changes from a deficit of 0.5% in 2009/10 to 1.1% by 2019/20.
 - Council builds up unnecessary net financial assets while its budgetary and infrastructure conditions deteriorate.

Council's Infrastructure

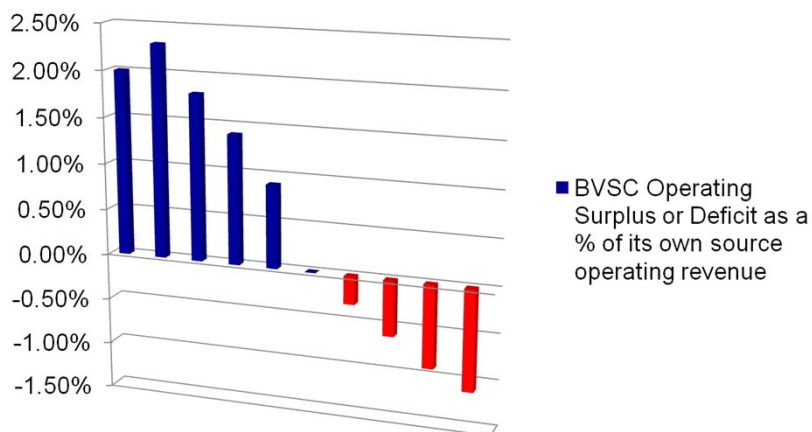
Civic Infrastructure Backlog Ratio under Existing Council Policy



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Conclusion

Operating Surplus Ratio under Existing Council Policy



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Conclusion

- Is Council prepared to undertake the Responsible Strategy to:
 - Cap its infrastructure backlog ratio at 2% in future?, and
 - Restore its operating surplus ratio to 2.5% within ten years?

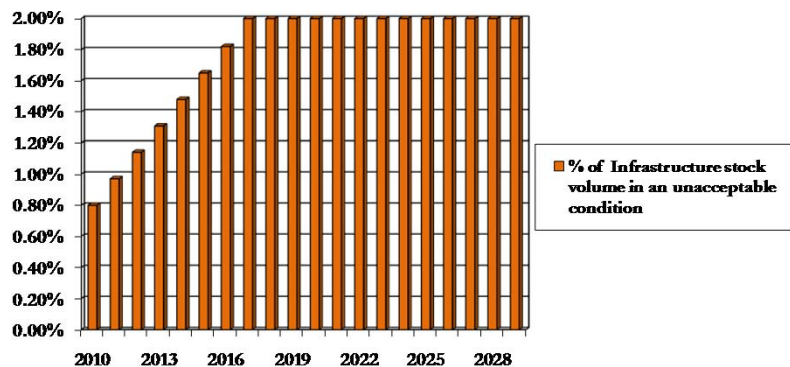
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Infrastructure Backlog Ratio under the Responsible Scenario
(% of total infrastructure stock by value in an unacceptable condition)



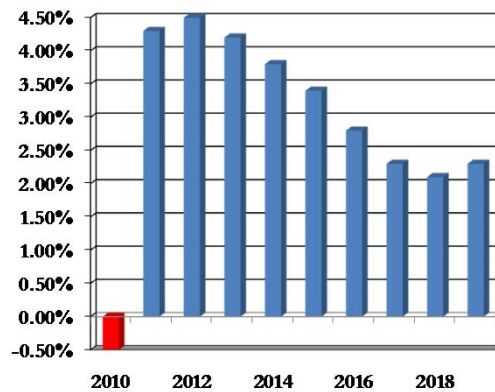
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Conclusion

Operating Surplus Ratio under the Responsible Scenario
(Operating balance as a % of own source revenue)



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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?*



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Other Measures

- Other possibilities include taking further action to:
 - Exploit commercial opportunities;
 - Increase operational efficiencies;
 - Rationalise non-core services;
 - Sell surplus assets; and
 - Obtain extra State or Commonwealth grants.



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Other Measures

- Pursuing 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 yet estimated the total revenues or savings that might come from such further measures.
- So far only the Commonwealth government has offered limited financial relief for local government, though the NSW Opposition is promising dollar for dollar assistance in subsidising debt charges arising from borrowings used for overcoming infrastructure backlogs.

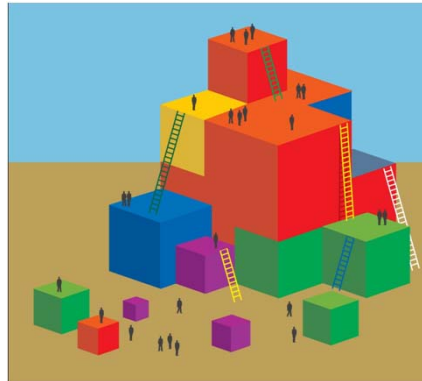
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Next Step

- What should Council do next?



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Next Step

- It is recommended that Bega Valley Shire Council consult with its community on the most appropriate financial approach for addressing its budget and infrastructure challenges.
- Council should then develop a rolling 10-year Financial Plan based on a revised version of the Responsible Scenario that takes account of community feedback. The Plan should aim to:
 - Rehabilitate required infrastructure whose condition has fallen below an acceptable standard (i.e. the 'backlog');

Continued....

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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 10 complies with sustainable financial targets (e.g. the recommended minimum surplus ratio and maximum debt ratio);
- ❑ Borrow sufficient funds between now and 2019/20 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.

Next Step

- Note that any physical asset strategy needs to be informed by the findings of this sustainability review, namely:
 - Infrastructure condition, renewal and capacity needs,
 - Rationalising and optimising existing assets,
 - Properly size, site and schedule new assets,
 - Prioritise assets on the basis of:
 - Asset condition, age, load, local geography,
 - Risks such as climate change, and
 - Demographic changes.

Next Step

- To achieve financial sustainability, Council should attempt to fund:
 1. All running costs including infrastructure maintenance, depreciation and interest expenses from operating revenues. Merit and collective services should be funded from taxes, fines and regulatory fees (e.g. rates) and personal or property services from user charges.
 2. All infrastructure rehabilitation and renewals from asset depreciation cash provisions in the operating account.
 3. All infrastructure enhancements from a combination of operating surpluses, capital revenues and borrowings.

Financial Sustainability Review

achieving sustainable infrastructure, services and finances

■ THE END



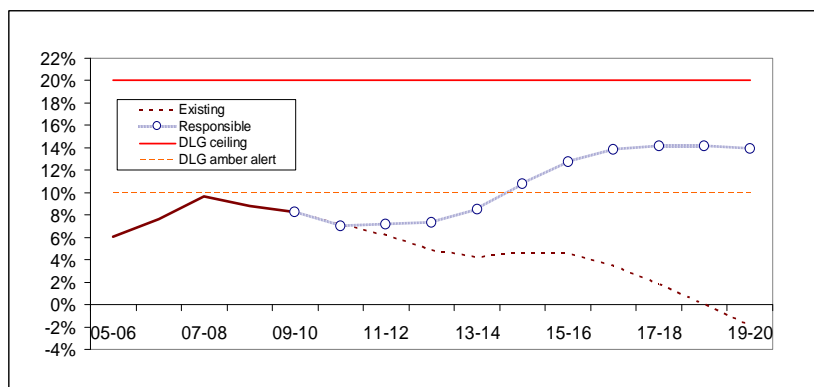
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Appendix

Debt Services Ratio for Responsible Scenario versus Existing Policy for all Council operations (inc Water & Sewerage)



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