



ESSENTIAL SERVICES COMMISSION
Local Government

Higher cap – Application cover sheet (2016/17)

Council name, contact person and phone number:

Ballarat City Council, Contact:-Glenn Kallio , Ph: 03 53205 511

Base Average Rate (\$): (e.g. \$1,800)

\$1,718

Proposed increase for 2016-17: (e.g. 5%, \$4,000,000)

Proposed increase in Average Rate (%)	1.2%
Proposed increase in prescribed rate revenue (\$)	\$1,033,322

Summary of the key reason(s) for the application: (Please limit response to two pages)

Proposed rate cap variation is in two parts:

1. Required funding to assist in closing Council's infrastructure renewal gap 0.53%
2. Additional funding to assist in the recalculation of Council's DCP scheme 0.67%

Total requested increase in the rate cap: 1.2%

1. Core Infrastructure Spending - Additional Funding Required \$448,000 (0.53% rate increase)

In 2006 Council created a vision for the City of Ballarat entitled *Blueprint Ballarat*. This work recognised Ballarat's deficiency in funding essential capital projects to address what was an increasing infrastructure renewal gap.

While over the past 10 years, Council's rate base has increased by an average 5.5%pa, the asset base has increased an average of 7.5% pa, from \$850 million to \$1.6 billion, creating ongoing pressure to find savings from operations to maintain our assets.

Through the mechanisms of Blueprint Ballarat; the 'Ballarat Image' engagement process; and successive Council plans, Council has consistently consulted with the community on our long term financial strategy. The central theme supporting our long term financial strategy has been that the normal operations of Council would remain within CPI rate increase parameters, whilst funding for major projects and infrastructure needs would be paid by rate increases over and above of the CPI rate. This approach has been broadly supported by the community.

Over the last 5 years, Council has recognised the growing infrastructure renewal gap and has elevated the importance of this objective in the Council Plan. Given that the Council Plan is a key guide for the Long Term Financial Strategy (LTFS), the provision of additional funding for core capital works (infrastructure renewal funding) has always been a central theme of the LTFS. Over the past decade, Council has adhered closely to its 20 year LTFS, continually increasing funding within its capital works program for essential infrastructure works by reallocating savings achieved through efficiencies gained within the general operations to help close Council's infrastructure renewal gap.

Though Council has been increasing funding for asset renewal and maintenance, recent reports to

Council on the state of its assets clearly show further funding is required to ensure that they continue to perform for the community.

Whilst Council has made significant reductions in the proposed operational costs for the 2016/17 financial year to bring the budget with the rate cap required by the State, further reductions in infrastructure renewal funding will result in Council's failure to meet the requirements of asset maintenance and renewal. Rate Capping will result in Council being unable to meet the recurrent operational costs of delivering services to the community while also maintaining assets as identified and committed to within the various strategic and legislative documents previously identified. An increase in the rate cap is therefore required to continue the investment in rehabilitating, renewing and maintaining core infrastructure for the community.

2. Developers Contribution Scheme Additional Funding Required \$585,000 (0.67% rate increase)

As part of the 2015/16 budget, Council set down a 20 year borrowing and funding strategy to allow for the introduction of the Ballarat West Developers Contribution Scheme (DCP). These financial obligations have been built into the 20 year LTFS.

The introduction of this scheme has been budgeted to cost Council \$46 million over the next 20 years, with the majority of that funding required in the first 8 years. The resultant impact on the LTFS was to move from reducing debt over the short to medium term, and to move to a sustainable 20-year debt strategy allowing financial capacity to deliver upon the DCP obligations. These works include 'early-infrastructure' community projects required to ensure healthy and prosperous communities, and appropriately cater for present and future growth of the municipality.

While we have planned for the impact of this DCP on our finances, we were also aware, given that this was our first DCP scheme, that a contingency component may also be required. We can now quantify the contingency requirements contemplated during the financial planning process. Indexation of the DCP has required that Council fund an additional \$585,000 in the 2016/17 financial year; while also cash flowing at the same time a delay in DCP income in the 2015/16 year of approximately \$3 million. The readjustment of rate revenue for the next 20 years has seen Council's borrowing capacity significantly reduced as a result of this. The burden to Council of delivering upon the DCP commitment means that Council no longer has the capacity to fund deviations from existing cash flows. This has a significant impact upon Council's ability to absorb further the impact of rate Capping upon financial operations.

As part of the solution to the borrowing capacity of Council and subsequent reductions in future cash flows, Council will be required to bring forward proposed borrowings from 2017/18 to 2016/17, and a funding gap of the \$585,000 remains. While borrowing to cover this shortfall was considered as an option, this will be a short-term fix, requiring a consequential increase in rates to fund the additional interest charges.

Should an increase in rates be denied, Council will have to consider delaying the provision of infrastructure in Ballarat West, which would, in turn, slow growth and negatively impact upon construction jobs.

+ Please attach evidence of council sign-off/approval of application.



Higher cap – Application (2016/17)

CRITERION ONE — PROPOSED HIGHER CAP

An application must specify a proposed higher cap for each specified financial year.¹⁶

The Ballarat City Council is requesting an increase in the rate cap by 1.2%, bringing the total rate increase for the 2016/17 financial year to 3.7%

The components of the requested increase of 1.2% are:

1. Required funding to assist in closing Council's infrastructure renewal gap 0.53%
The additional amount required to be raised to remain in line with Council's long term financial strategy is \$448,000
2. Additional funding to assist in the funding of Council's DCP scheme 0.67%
Following the reindexing of Council's developers contribution scheme an additional amount of \$585,000 is required to be funded in 2016/17.

Calculation of base rate and required increase.

Base Rate

No Assess.	Rate Type	Rate in \$	Calculation
43,195	Residential Improved	0.004350	56,233,364
1,901	Residential Vacant	0.004350	1,766,526
2,143	Commercial Improved	0.010760	16,868,895
54	Commercial Vacant	0.010760	269,038
1,136	Industrial Improved	0.011180	7,246,455
344	Industrial Vacant	0.011180	894,132
789	Farm	0.003045	1,615,608
62	Recreational 1	0.003045	189,848
6	Recreational 2	0.011180	199,985
611	Rural Residential	0.003914	1,050,930
50,241			86,334,781
			1,718

2.5%		3.7%	
Proposed Rate in \$	Calculation	Proposed Rate in \$	Calculation
0.004459	57,642,430	0.004511	58,314,645
0.004459	1,810,790	0.004511	1,831,908
0.011029	17,290,618	0.011158	17,492,856
0.011029	275,764	0.011158	278,989
0.011460	7,427,941	0.011594	7,514,794
0.011460	916,525	0.011594	927,242
0.003121	1,655,932	0.003158	1,675,564
0.003121	194,586	0.003158	196,893
0.011460	204,994	0.011594	207,391
0.004012	1,077,243	0.004059	1,089,863
	88,496,823		89,530,144
	1,761		

Additional funding for Infrastructure	448,000	0.53%
Additional funding for DCP	585,000	0.67%
	1,033,000	1.20%

CRITERION TWO — REASONS

The reason(s) for which the council seeks the higher cap.¹⁷

As mentioned in “Criteria one” there are two parts to the Ballarat City Council's application for a rate cap variation. The first relates to infrastructure funding, second relates to Council Developers Contribution Scheme.

Infrastructure Funding

In preparation of the 2005/06 budget Council commissioned an analysis of the municipality's infrastructure needs. This analysis highlighted that insufficient funding was being provided to renew infrastructure and the gap was widening each year.

Council adopted a philosophy that the operational costs moving forward would be linked to CPI, and that all additional rate monies would be redirected to major capital projects and combatting the growing infrastructure renewal gap.

This Council's Long Term Financial Strategy was based around a cpi of 3% with infrastructure renewal spending to be set at a minimum 4% increase in funds each year.

A number of reports have been presented to Council regarding required infrastructure spending. Each of these reports, has highlighted that additional spending is required.

With the introduction of the 2.5% rate cap, Council has modified its financial strategy to reflect a change in cpi and a reduction in the base rate increase of 5.5% to 2.5%.

In order to achieve this, Council has made significant expenditure cuts and has relied on its cashflow to achieve these aims. The cashflow of Council does not allow for future increases in infrastructure renewal above cpi unless additional revenue can be achieved.

The proposed infrastructure spending for the 2016/17 year (in net terms) is \$29,290,584, without an increase in the rate cap, infrastructure spending is forecast to be set at the rate cap level thus reducing infrastructure spend to \$28,843,216, a reduction of \$447,368.

Developers Contribution Scheme

As part of the 2015/16 budget, Council implemented a Developers Contribution Scheme (DCP) for the expansion of Ballarat West.

Though the scheme has contributions attributed to it, these contributions leave a shortfall in funding of approximately \$40 million over the life of the scheme. In order to deliver the essential infrastructure works required as part of the DCP, the net cost of the majority of the works occurs in the next 10 years whilst the income occurs in the second half of the scheme.

Due to the funding shortfall, Council embarked on a borrowing strategy over the next 20 years in order to fund the essential works. When the subsequent contributions are received, these will be offset against the borrowings.

As part of the budget preparation for the 2016/17 financial year, the DCP was required to be indexed to ensure all costs are accurate within Council's Long Term Financial Strategy.

The indexation of the DCP resulted in additional costs over the life of the scheme. Those costs in future years can be accommodated within Council's borrowing strategy and long term cash flows.

The issue facing Council is that the cost in the 2016/17 year, as a result of the indexation, has been the requirement to fund an additional \$585,000 for the scheme. Due to the requirement to reduce expenditure levels to cater for the operational cap of 2.5%, and the limited time to review all services and levels (this will be completed over the coming 12 months) the cashflow of Council has been severely restricted, thus Council being unable to fund the additional \$585,000 within current parameters without raising additional revenue.

This situation has been made worse by the fact that expected DCP revenue of approximately \$4 million due in 2015/16 has been delayed and will not be received until future years. Council has no other funding options available to fund the additional DCP requirements combined with the reduced operational funding required under the rate cap.

CRITERION THREE — ENGAGEMENT

How the views of the ratepayers and the community have been taken into account in proposing the higher cap.¹⁸

As a result of the relatively short time frames given to request a rate cap variation Council has not had the ability to commence a new community consultation program in relation to this variation application.

Council is relying on the community consultation process undertaken each year in relation to the Council plan, yearly budget documents and the Long Term Financial Plan. In each of the years of this Council term it has been highlighted that part of the rate increase requested each year of the community has been to raise additional funds to increase funding levels for essential capital projects and necessary infrastructure works. In these documents it has been stated that funding would increase each year by 4%. Any savings achieved through efficiency gains would be directed to the capital works program to increase funding levels for infrastructure works.

In each of these years the budget documents were put out for public submission for a minimum of 28 days. In each of the years, commentary given by Councillors in the media in relation to the proposed budget clearly stated Council's continued commitment to allocating additional funding to resource the infrastructure renewal gap.

Please refer to the response to criteria 6 for the documents which went on public display for comment.

CRITERION FOUR — VALUE AND EFFICIENCY

How the higher cap is an efficient use of council resources and represents value for money.²¹

Infrastructure Funding

Not providing for appropriate levels of funding to renew infrastructure over the full life cycle will cause the asset to have a shorter life span thus costing the community to replace the infrastructure on a more frequent basis.

Numerous studies from all levels of government have all come to the same conclusion that insufficient levels of funding for renewal of infrastructure will come at a greater cost to the community over the full life cycle of the asset.

Developers Contribution Scheme

Council has a legal obligation to provide the required works under the DCP. Council has three options open to it in relation to the additional funding required to deliver the DCP works:

- 1 Reduce further funding from Council's services to provide the additional funds to cater for the \$585,000 required to complete the CDP works scheduled in 2016/17.
- 2 Delay works in the DCP to future years when Council's cashflow permits. The negative impact of this is that this will slow down the growth of the municipality.
- 3 Raise additional revenue to match the additional expenses required.

CRITERION FIVE — TRADE-OFFS AND ALTERNATIVE FUNDING OPTIONS

What consideration has been given to reprioritising proposed expenditures and pursuing alternative funding options and why those funding options are not adequate.²³

The first step taken in the preparation of the 2016/17 budget and long term financial strategy was to examine all funding options open to Council.

The issue facing Council has been the decrease in other funding sources for the 2016/17 financial year. An example has been the continuing of the freezing of the general purpose grants (Victorian Grants Commission). The freezing of the indexation of this grants will cost the City of Ballarat approximately \$350k in the next financial year. This is on top of the funding freeze for the 2015/16 financial year. Council has been finding efficiencies for a number of years to cater for the loss in revenue from government grants.

Council is also facing the added burden of trying to raise additional revenue from fees. Statutory fees have not been indexed for a number of years which has continued to shift a greater burden of funding to the general rates. Other fees such as HACC fess are governed by the State, limiting the fee that can be charged which once again transfers the burden for the provision of the service to rates.

With user fees, this Council has had a strategy of increasing such fees in order to reduce the burden for the provision of funding for some services from general rates. This user pays principle does have limitations, if user pays was put in for all services then the cost would prohibit the user from being able to afford some of those services. Council also needs to be mindful of competitive neutrality principles. Thus balance between user pays and the subsidy from rates is required from Council.

Council's strategy over a number of years has reached a critical point whereby the fees charged seem to be at a critical point, any further increase in fees would reduce the volume of use therefore the total revenue from fees is not increasing at a corresponding rate. The projected fees for 2016/17 are indicating a loss in revenue of 1% compared to the forecast results for 2015/16.

The loss in revenue from user fees has resulted in tighter controls over expenditure. The overall parameter of the operational budget has been to ensure the operations would remain with the rate cap set in December 2015. All additional costs that occur in 2016/17 will be absorbed within the overall restraint of 2.5%. Some of the additional costs include:

• Election costs	\$480k
• Insurance costs	\$250k
• Freeze on VGC grant	\$350k
Total	\$1.080 million – approximately 1.3% rate increase

Due to the relatively short time frames to complete the 2016/17 budget, the ability to complete an in-depth review of all services was not able to be completed. This review will be carried out over the next 12 months. Financial modelling shows that the current package of services and levels cannot be maintained in the long term without a change in what and

how the organisation delivers into the future. It would be anticipated that a change to services will be made in the future.

As the delivery of appropriate levels of infrastructure funding is essential and the need to deliver the appropriate infrastructure associated with Council's DCP is an obligation there are no other options available to Council in the next 12 months.

The option to reprioritise capital works to find the required funding is not an option for Council in 2016/17. The capital budget was programmed to only fund the core infrastructure needs and to provide funding for the DCP. There are no other capital projects that have been included in the 2016/17 budget for which the timing of the delivery of those projects can be delayed in order to find the necessary funding that has been requested. The only option open to Council if the funding is not granted is to reduce infrastructure spending at the required levels.

CRITERION SIX — LONG-TERM PLANNING

That the assumptions and proposals in the application are consistent with those in the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget.²⁴

Since the 2005/06 budget, the Council of the day has been focussed on increased funding for capital works. It was identified a deficiency in community facilities along with the increasing asset renewal gap.

The current Council has continued that focus on infrastructure renewal stating that infrastructure funding would receive at least a 4% increase in funds each year. When savings could be achieved in the delivery of services to the community, those savings would be directed to capital works.

Following from asset reports to Council, a focus over the last three years has been the focus on facilities. Council has a number of facilities which require significant funding to improve them to appropriate levels after years of insufficient funding. The table below illustrates the increases in funding that has occurred for this type of infrastructure during the current Council term.

Year	Amount \$	Increase
2015/16	2,602,000	83%
2014/15	1,420,000	9%
2013/14	1,300,000	26%
2012/13	1,030,000	

In each of the budgets adopted by this Council it has been stated that one of the aims of the budget was to improve ageing infrastructure and to reduce the infrastructure renewal gap. In each of the budgets the strategic resource plan indicates the increased level of funding was budgeted for. Reference was made in the sections outlined below:

- 2013/14 Budget
 - Section 1 Introduction
 - Section 4 Link to Council Plan – “Growth & Development”
 - Section 5 Long Term Strategies
 - Section 6 Statutory Statements
- 2014/15 Budget
 - Document 1 - Mayors and CEO Message
 - Document 1 - Budget Parameters
 - Document 2 – Significant Influences
 - Document 3 – Growth & Development
 - Document 4 – SRP
 - Document 6 – Statutory Statements
- 2015/16 Budget
 - Doc 1 - Budget Summary
 - Doc 2 – Introduction
 - Doc 3 – Link to CP
 - Doc 4 – SRP
 - Doc 6 – Budgeted Statements