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Director Local Government
Essential Services Commission
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By Email: localgovernment@esc.vic.gov.au

RE: Feedback on Arup's growth study report

Thank you for the opportunity to provide a submission to Arup's Growth Study Report.

Council felt that Arup provided Council with the opportunity to provide input into their data gathering and understanding of growth areas infrastructure planning and developer contribution management.

However, Council feels that a number of knowledge gaps have not been adequately covered within the report, especially cash, debt and treasury management and also an understanding of the change in total assets year on year for growth Councils.

Should you wish to discuss any details of this submission please contact Mr Daryl Whitfort, Director Corporate Services on (03) 9205 2777.

Yours Sincerely

DOMENIC ISOLA
CHIEF EXECUTIVE OFFICER

OFFICER SUBMISSION TO

Arup's Growth Study Report

ARE THERE ANY GAPS OR WEAKNESSES IN ARUP'S FINDINGS?

In responding to Arup's findings, Council would encourage the Commission to gain a more thorough understanding of the impact of growth has on infrastructure funding and the overall financial position of Councils, part B of the Terms of Reference.

In particular, the Report would be enhanced though a discussion and analysis on the level of Cash balances within growth Councils and the use of treasury management and Debt in conjunction with the budgeted level of Capital works.

Separately, the report would have also been enhanced by a description of the total assets of growth Councils and the level, nature and funding of additional infrastructure assets that occur year on year. Such an understanding would have been able to consider the funding levels of infrastructure provided as Local, Regional, DCP and Capital Works. Further, this would have generated a clearer understanding of the operating costs related to the review, approval and delivery supervision of new growth infrastructure.

These two points have been further expanded upon in response to the following questions proposed by Arup in assessing higher cap applications.

ARE THE QUESTIONS PROPOSED BY ARUP TO ASSIST THE COMMISSION IN ASSESSING HIGHER CAP APPLICATIONS RELEVANT AND REASONABLE?

Overall, Council believes that the use of questions is an appropriate tool and would be of assistance for Councils to guide and frame their higher cap applications due to growth pressures. Further and beyond the individual comments concerning each question below, Council would recommend the Commission use a risk based structured assessment, similar to that of the VAGO indicators (Green - low risk, Amber – medium risk, Red – high risk) with appropriate tolerances. For example, Growth Rate could be measured with tolerances of <2.5%, 2.6 – 5.0%, >5.0% across these three risk levels.

1. What is the forecast rate of growth in your municipality over the next four years?
Council agrees that the relevance of this question is as stated in Table ES1, where "we expect that population growth greater than 3% per annum may present challenges to staying within the rate cap". Further Council agrees that 3% does inherently feel like a tipping point as to a speed of growth that is manageable. Council feels well placed to be able to understand this as the 10 years up until 30 June 2015, Council's growth rate was between 2.6 to 2.8% and over the last two years this has increased to 4.2% and 5%.

Another consideration within this question is - how is growth measured and at what point is a growth Council just that? Council would suggest that long-term growth rates equal to or above the national growth rate of 2 – 2.5% is an appropriate level to describe a Council as a growth Council. In terms of measurement, Council would suggest that both population and rateable properties are considered. By considering rateable properties rather than households, the growth in businesses and vacant land will also be included. Council currently uses an equal weighting of the change in population and rateable properties when calculating and forecasting its growth levels.

This question should also consider growth rates for the last four years as well as forward four years due to the time lag of DCP and Capital infrastructure provision compared to both the timing of residential occupation and the collection of funds

2. What percentage of your expenditure is related to the delivery of new infrastructure for (a) capital works and (b) salary for staff in primarily asset management and delivery functions?

This question requires greater clarity in the first instance. The answer would obliviously depend on the definition of expenditure. Many Councils will include staff costs related to Capital Works (part a of this question) within the Capital Works program expenses and would therefore need to separate and include these to generate the percentage. Also, it is not clear whether the definition of expenditure would include depreciation, which would clearly change the resulting percentage, both from a response and a relative level, due to the differences that exist in depreciation rates between Councils.

It may be inherent within this question, however Council would suggest that this question needs to explicitly include expenses relation to Strategic Planning, Statutory Planning and Subdivision supervision and approval. The wording of the question could be interpreted as only applying to new infrastructure that is delivered by Council.

Council however does not agree with the comment "it is inconclusive that there are additional costs associated with service provision" (section 2.1). In particular growth councils have a significant level of resourcing in terms of subdivision review, approval and supervision of both civil and landscape works. Again in terms of interpretation, these functions should be included as service provision even though these functions are not provided directly to citizens of Council, however impact the liveability of the precinct under development. Hume City Council employs the following staff in the following areas solely related to the management and development of Growth areas:

- Subdivisions (Civil and Landscape) 20.0 EFT
- Statutory Planning 7.0
- Parks & Open Space 3.0
- Strategic Planning 5.6

- Capital Works Delivery 12.6
- Capital Works Growth Infrastructure Planning 2.0

Compared to non-growth Councils, this level of resourcing for these functions will be significantly higher.

In 2016/17 Council recorded $183.9m in new assets comprised of contributed assets $114.2m and capital works $69.7m. To put this in context of this question, Council recorded operating expenses of $178.7m.

Developer Contributed assets are provided at three levels; firstly the local subdivision level and include local roads, underground drainage, footpaths, street lighting, the land under these assets, local "neighbourhood" level parks including the land and improvements. The second level of assets is provided under the Developer Contribution Plans (DCP's) (and also since 1 July 2016 Infrastructure Contribution Plans). The third level of infrastructure – is regional in scale, however Councils are not able to apportion infrastructure funding across municipal boundaries, for examples a Library or Aquatic Centre.

3. What is your approach to asset management and delivery?

This question could be enhanced to consider how asset management practices are joined up with Service planning and should be broadened or re-framed to include the existing reporting that all Councils provide as part of the National Asset Management Framework (NAMF) that includes assessment against both Core and Advanced levels of Asset Management. Given this reporting provides scorecards against both levels, Council considers that this reporting would also suit the risk tolerance approach described above.

4. What alternative infrastructure delivery models have you considered?

Council does not consider this question to be relevant for the following reasons.

Whilst Partnerships, Joint provision and Temporary solutions have all been investigated and utilised by Council, the timing of an application for a higher cap in any particular year or period may or may not align with the ability of a Council to demonstrate a partnership, joint provision or temporary solution within the higher cap application period. Such an example is the common co-location of a Primary School, early-years Children's Centre and an active Sportive Reserve within a single development site. Whilst Council will always undertake joint planning with the Department of Education of the site, both the land purchase and School delivery are subject to State Budget inclusion and approval, and Council is yet to realise the situation of not delivering the DCP based infrastructure, being early-years Children's Centre and an active Sportive Reserve, ahead of the School infrastructure.

Further, whilst Infrastructure Contribution Plans commenced in 1 July 2016, DCP's are the current primary infrastructure provision document that will be delivered over the next 15 years. These documents not only describe the scope of the infrastructure and its cost, but also it's the level of funding contribution that Councils will receive and the expectation from Developers in providing those funds of the timely delivery of such infrastructure.

5. Have you made full use of the available income?

Council does not consider this question to be relevant for the following reasons.

The essence of submitting an application for a higher cap due to the pressure of growth will be due to the funding shortfall that exists with the delivery of the three types of growth infrastructure described at question 2 above. Any funding shortfall would include both operational costs and capital costs. Of the six Departments involved in the planning, approval, supervision and delivery of Growth areas infrastructure, only Subdivisions is able to charge fees to recoup costs.

Further, the essence of DCP's and ICP's is that they are contribution schemes and are not expected to fully fund infrastructure relevant to each growth Precinct. Council's current estimate (January 2015) of the existing approved Precinct Structure Plans (PSP's) is that developer contributions represent 85% of the required local and DCP level infrastructure funding, representing a shortfall of $47.7m out of an infrastructure requirement of $330.8m. In terms of Regional or higher order infrastructure requirements, for example aquatic centres; regional sports facilities; libraries; and civic facilities, in approved PSP's this shortfall is estimated at $208.9m out of $237.5m. However, Council expects that as two of these PSP's border two other growth area Councils that funding will be sought on a regional basis for some of these higher order infrastructure requirements.

All growth area Councils also make applications for both State and Federal grant programs such as the Growing Suburbs Fund; Sports Infrastructure; Early Years Children's Centre; and Living Libraries fund. However, when a Council is successful in receiving grant funds, it must then meet the delivery timing that the grant funding program requires and this can make it very difficult to consider alternative infrastructure provision models as considered in question 4.

6. What is your approach to debt? How much and what type of debt have you considered?

Council's approach to debt is that whilst rate capping is set to levels of CPI or close to and the cost of borrowing above this, even though interest rates are at their lowest level in many decades, that borrowing funds is not affordable. Further, Council currently has a cash balance as at 30 June 2017 of $157.6m. As a result, Council utilises these funds for infrastructure investment, as internal borrowings at the effective rate that it would otherwise invest surplus funds within term deposits. Council does not believe that it is good practice to borrow funds to effectively invest them into term deposits.

Further, Council believes that it is important for the Commission to have a full understanding of the reasons why Councils, and especially growth Councils, have the cash balances that they do. Within the sector, there has been some questioning of Councils balance sheet management and whether, beyond Fixed Assets, there are "lazy" assets. Council believes that such an interpretation fails to understand both the current and future obligations that exist, in the form of liabilities and development infrastructure reserves. As at 30 June 2017, Council had the following obligations that will be funded from the cash balance:

Development Reserves	$52.1m
Provisions for Landfill Rehabilitation, Employee Entitlements	$53.3m
Net Carry forward Capital Works	$30.5m
Development Trust Funds and Deposits	$6.3m
Grants in Advance (including VGC)	$7.6m
Other Reserves	$6.1m
Borrowings (Finance Leases)	$1.7m

As a result, the use of Debt will not reduce a funding shortfall in growth infrastructure and the question should be broadened to understand debt, cash, obligations and specific infrastructure funding shortfalls in combination.

7. Have you had a robust consultation process that sets out to the community the trade-offs between facilities/services, charges, rates and debt?

Council believes that this is a valid question for Councils to respond to as part of an application for a higher rate cap if the Council is not submitting the application as a result of a shortfall in funding for new growth infrastructure. Councils have a legal requirement under the Planning and Environment Act 1987 to ensure the delivery of PSP's and the associated DCP for each precinct and as a result it is too simplistic to consider that trade-off's for growth infrastructure can occur once a PSP has been approved by the Victorian Planning Authority.

Whilst the introduction of ICP's has increased the level of flexibility in the apportionment of funds to specific infrastructure items, it has shifted the priority of those funds to roads, bridges and intersections and allows a transfer of funds away from early-years children's centres and active sporting reserves. Whilst it is too soon to see evidence of this, this raises the likelihood that growth Councils will face larger funding shortfalls in the provision of early-years children's centres and active sporting reserves.