

General Manager's Report No. GM24/17



Subject: 2018-21 Financial Strategy

Folder No: F2006/00588

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Introduction

During the review of the Randwick City Plan, the development of the 2018-21 Delivery Program, the launch of the Mayor's Digital Strategy, and following recent Commonwealth Government initiatives, Council has identified projects and programs that, combined, require resourcing on a scale that is significantly larger than in the past.

Resourcing requirements have been identified to fund Council's new obligations under those Commonwealth initiatives including obligations associated with protecting crowded places from terrorism.

These projects and programs include:

- implementation of anti-terrorism obligations outlined in the document released by the Commonwealth Government titled *Australia's Strategy for Protecting Crowded Places from Terrorism* (**Attachment 1**);
- implementation of Council's Digital Strategy which will enhance the way Council does business with customers by adopting new technologies, work practices and breaking free of traditional thinking;
- delivering on a list of Future Major Projects totalling almost \$150 million over the next seven years (**Attachment 2**) incorporating recently identified projects as well as increases in scale and scope of projects previously identified under Council's Buildings for our Community program.

Issues

Protecting Crowded Places from Terrorism

Earlier this year the Commonwealth Government published *Australia's Strategy for Protecting Crowded Places from Terrorism*. The document states that local government plays a key role in the safety and wellbeing of Australian communities, including helping protect crowded places from terrorism.

The document also states that given local governments are often responsible for managing civic spaces, public activities etc., **"This means they have the same role and responsibilities as other owners and operators of crowded places, including a duty of care to develop, implement, and regularly test protective security measures."** See page 7 of *Australia's Strategy for Protecting Crowded Places from Terrorism* as attached.

The document also refers to the role that local government plays in designing and approving public spaces. In that they are in a unique position to consider and creatively apply protective security during the early stages of crowded place design. And in doing so the disruptive effect of the public's enjoyment of public spaces can be minimised.

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The release of this document, particularly the duty of care requirements contained within it in relation to Local Government, now places a clear obligation on Randwick City Council to deliver appropriate protection measures for crowded places.

Randwick City Council will advocate for reimbursement by the Federal Government for the expenditure it incurs implementing its anti-terrorism obligations.

ICT Digital Strategy

At the Ordinary Meeting of Council on 10th October 2017, the Council resolved a Mayoral Minute to commence development of a comprehensive, customer-focused, Digital Strategy (MM30/17, Mayor Shurey).

Council is enhancing the way we do business with our customers by adopting new technologies, work practices and new ideas in responding to our customers' needs. We will endeavour to make our services available to our customers at any time, on any device using digital technologies should they choose.

Our new Information and Communications Technology (ICT) Digital Strategy outlines how we plan to use digital technologies to improve our service delivery.

The strategy centres around five outcomes which are to provide:

- better services;
- better communication;
- better value;
- more security; and
- more efficiency.

Through the strategy we will investigate smart city intelligent technologies such as sensors to alert us when litter bins at our popular sites require emptying, and real time travel data for residents to evaluate the effect on them by proposed developments.

We will implement technologies and work with other agencies to help keep our community safe. We plan to expand our surveillance camera system into more public areas to manage potential risks from crime and terrorism.

So that we remain connected to our community and to better understand its needs, we will expand our use of collaborative communications such as social media.

Future Major Projects

Over the past decade Randwick City Council has been very successful when measured against the benchmarks of the local government industry financial performance indicators and asset management indicators. The financial strategies that Council has implemented over this period have not only enabled Council to achieve these great results but have also enabled Council to deliver excellent levels of service to the community and provide outstanding new and upgraded facilities across the city.

The projects that Council currently has in planning, plus recently identified priority projects, total almost \$150 million dollars, with the scale of some of those projects being the largest ever undertaken by Randwick City. Some of the projects that are on that list include buildings from the Buildings for our Community (BFOC) program that have changed significantly in size and scale from the initial BFOC plan. An example of this is the Gymnasium and Indoor Sports Centre at Heffron Park which will now be the largest capital project ever undertaken by the Council. The original funding identified for the yet to be delivered BFOC projects exists in Councils reserves and will also be utilised to deliver these projects.

Funding Options

To ensure that Randwick City Council continues to be financially sustainable, continue to be successful against industry benchmarks, implement necessary anti-terrorism obligations, commence the implementation of the Digital Strategy and deliver the listed Future Major Projects a new funding model is needed in Councils financial strategy.

Below are three funding options that are available to Council to implement. One of those options includes loan funding. Randwick City Council has not utilised loan funding since 2001. In a 2014 review of the financial sustainability of New South Wales local government sector, T-Corp (NSW Treasury Corporation) recommended the increased use of loan funding by councils. It stated that loan funding is underutilised by some councils and that it can be an efficient way of enhancing intergenerational equity and improving asset quality.

Funding Option 1

Apply the rate peg set by IPART which was 1.8% and 1.5% in the 2016/17 and 2017/18 financial years respectively. As of 20th November 2017, IPART had not released the rate peg for the 2018/19 financial year however they have advised the NSW Office of Local Government that it anticipates that the rate peg will not exceed 2.50%.

This funding option would have financial sustainability implications when factoring in maintaining service levels and maintaining satisfactory condition of Councils infrastructure. This funding option would severely impact Councils ability to fund and complete any of the Future Major Projects not only in the 2018-21 period but also over the next 15 years.

Adopting a low IPART rate peg would inhibit Council's ability to implement the necessary anti-terrorism obligations required by the Federal Government. This funding option would also stifle the progression of Council Digital Strategy.

Funding Option 2

Apply to IPART for a Special Rate Variation of 3.52%. This will be applied using Councils existing rating structure.

The rate peg of 3.52% contained in this funding option was the result of modelling what Council required to maintain its existing service levels, maintain infrastructure to a satisfactory condition and maintain a capital works program in excess of 20% of its annual revenue.

This option would enable Council to complete its Future Major Projects over a 15 year period. However, due to size of the priority projects, this option would require Council to accumulate funds over multiple years. This would result in minimal capital expenditure in those years where the budget allocation was being transferred to a reserve for future use. Consequently, this funding option would impact Councils ability to complete any of the Future Major Projects in the 2018-21 period.

This option would allow Council to implement the necessary anti-terrorism obligations however funding these will take priority over the listed major capital works which will result in a delay in the funding and completion of those projects. This option would allow for delivery of the original scope of the outstanding BFOC projects and the implementation of Council's Digital Strategy, however this will need to be done on a smaller scale and over an extended period of time.

Funding Option 3

Apply to IPART for three year Special Rate Variation of 5.52% which comprises the 3.52% variation identified in Funding Option 2 plus 2.00% to ensure that the implementation of the anti-terrorism obligations, Council's Digital Strategy and listed Future Major Projects are funded and completed within a seven (7) year period.

This would be a difference of 3.02 % between the anticipated IPART rate peg of 2.50 % and Council's Special Rate Variation affecting residential properties of 5.52 %. Based on the average 2017/18 residential rate for Randwick City Council of \$1,159, the effect of Option 3 would be an approximate \$35.00 increase per year.

This option also proposes the creation of a Port Botany Business Rate, within the Randwick City Council rating structure, which will generate an additional 2.12% in rating revenue. This 2.12% would be included in the application to IPART for a Special Rate Variation.

This option also includes utilising loan funding to expedite the availability of funding for major projects which have a budget estimate greater than \$8 million. A potential \$27 million loan facility, with interest payable at 5% interest per annum, and repaid over a maximum 15 year period would require an annual repayment of \$2.6m.

The delivery of these projects within a seven year period aligns with Councillors expectations and would see these projects delivered over two terms of Council.

Special Rate Variation Application Timetable

IPART has informed Councils of the timetable for any Special Rate Variation applications for the 2018/19 financial year.

Councils are to notify IPART of their intention to apply for a Special Rate Variation by Friday 15th December 2017. Applications are due on Monday 12th February 2018 with determinations being announced in May 2018.

Relationship to City Plan

The relationship with the City Plan is as follows:

Outcome: 1. Leadership in Sustainability

Direction: 1.a Council has a long term vision based on sustainability.

1.b Council is a leader in the delivery of social, financial and operational activities

Financial impact statement

The choice of funding option to be utilised will determine the degree of the financial impact. Adopting a low IPART rate peg will have a detrimental impact on Council's financial sustainability. Funding Option 2 will impact Council's Infrastructure Renewal Ratio due to the years of minimal capital expenditure.

Funding Options 3 will provide the best opportunity for Council to not only fund its projects over a reasonable period of time, they will ensure that all industry benchmarks in relation to financial performance indicators are being achieved. The utilisation of loan funding in Options 3 will also see Randwick City Council achieve all seven (7) Fit for the Future indicators for the first time.

There is a difference of 3.02% between the anticipated IPART rate peg of 2.50% and Council's Special Rate Variation affecting residential properties of 5.52%. Based on

the average 2017/18 residential rate for Randwick City Council of \$1,159, the effect of Option 3 would be a \$35.00 increase per year.

Conclusion

Although Randwick City Council has been successful in the past, the size and scale of upcoming projects has resulted in the need for a different approach to Council's funding strategy to ensure that the past success continues.

The delivery of these projects within a seven year period aligns with Councillors expectations and would see these projects delivered over two terms of Council.

Recommendation

That:

- a) Randwick City Council commit to funding its obligations under the Federal Governments *"Australia's Strategy for Protecting Crowded Places from Terrorism"*;
- b) Council notes that the anticipated IPART 2018-19 rate peg will not exceed 2.50%;
- c) Council initiate community consultation regarding its intent to apply to IPART for a 3 Year Special Rate Variation of 3.52% to fund the existing service levels and required infrastructure renewals outlined in its 2018-21 Delivery Program;
- d) In addition to the 3.52% Special Rate Variation in c), Council initiate community consultation regarding its intent to apply for a three year 2.00% increase to fund its obligations under the Federal Governments *"Australia's Strategy for Protecting Crowded Places from Terrorism"*, Councils Digital Strategy and the listed Future Major Projects;
- e) Council create a Port Botany Business Rate category within its rating structure which is consistent with the rate applied to other properties in the adjoining Port Botany precinct;
- f) In addition to the Special Rate Variations listed in c) and d), Council initiate community consultation regarding its intent to apply for a one year Special Rate Variation of 2.12% that captures the additional revenue created by the implementation of the Port Botany business rate category;
- g) Subject to IPART's approval of Council's proposed special rate variation, borrow \$27,000,000 to expedite the funding and delivery of the anti-terrorism obligations, Digital Strategy and the listed Future Major Projects.
- h) Undertake a comprehensive community consultation and engagement program in accordance with Councils' Community Engagement Strategy from December 2017 to the end of January 2018.