

MEMORANDUM

To: All Councillors

From: Roy Newsome – Group Manager Corporate Services

Date: Wednesday 5 November 2014

Subject: Supplementary Report
Item 4. Special Rating Variation (SRV, Application Including Updated Information relating to Council's Infrastructure Assets).
Council Meeting Agenda – 11 November 2014

Dear Councillors

This supplementary information is provided in respect of Item 4 – Special Rating Variation (SRV) Application including updated information relating to Council's Infrastructure Assets, for Council's meeting on Tuesday 11 November 2014.

At Council's meeting on Tuesday 28 October 2014, Council considered this matter and resolved as follows;

- (a) *That Council defer this Item for consideration at the next Council Meeting on 11 November 2014.*
- (b) *That the Acting General Manager provide a supplementary report to Council detailing:*
 - *savings already identified and incorporated into the Four Year Delivery Plan;*
 - *revenue enhancements identified, commenced and incorporated into the Four Year Delivery Plan;*
 - *further savings identified yet to be incorporated into the Four Year Delivery Plan;*
 - *forthcoming revenue producing projects, estimated time frames for delivery of the proposed projects and estimated budget outcomes from these projects; and*
 - *details of the community consultation outcomes.*

Overview

The City of Ryde has continuously worked in gaining 'best value' outcomes for the City of Ryde community and this has been demonstrated by;

- Council's financial position being rated 'sound' with a 'negative' outlook by TCorp. The City of Ryde was in the top 23% of Councils in NSW.
- Council's sound financial position has been reinforced by Council's independent auditor, PWC.
- However, the City of Ryde has demonstrated it has a \$10 million annual funding shortfall for the ongoing renewal and maintenance of Council's existing infrastructure assets. This has been confirmed by an independent assessment undertaken by Jeff Roorda and Associates.

- PWC and Jeff Roorda & Associates have confirmed that Council requires this additional funding to enable Council to renew and maintain its infrastructure assets over their useful life.
- The City of Ryde last received a variation above the rate peg set by the Minister of Local Government in 1996/1997, noting that most surrounding Councils have had at least 1, if not multiple, increases above the rate peg in the last 4 years.
- If Council supports an application to IPART for an SRV, the recommended 7% (including 3% rate peg) increase for each of the next four (4) years, will result in an average ratepayer paying an additional \$64.00 (or \$1.23 per week) in 2014/2015. Over the 4 years, the average ratepayer will see their rates increase from approximately \$1,000 per annum (excluding domestic waste and stormwater charge) to \$1,294 by 2018/2019.
- As detailed in previous reports to Council and in this advice, the City of Ryde has taken actions to ensure its operations are efficient and competitive, ensured it addresses its financial sustainability by seeking an SRV to address the current annual funding shortfall for asset renewal and maintenance and proactively working to increase revenue from other sources, mainly through its investment property portfolio in the medium to long term.

Supplementary Information

The following information demonstrates that the City of Ryde in the years 2011/2012 to 2013/2014 has achieved further reductions in expenses and additional revenue. However, these positive results have not been sufficient to address Council's annual funding shortfall of \$10 million for the renewal and maintenance of Council's infrastructure assets. The funding shortfall will be addressed if the SRV proposal is supported.

In accordance with the Council's resolution on 28 October 2014, the following information is provided;

1. Savings Already Identified and Incorporated into Council's current Delivery Plan

As a result of market testing, either in collaboration with other Councils or by calling public Expressions of Interest or Tenders, the City of Ryde has achieved positive outcomes in reducing costs in core operational areas. This has been an active and ongoing initiative to achieve best value outcomes for the City of Ryde community.

To highlight the recent savings achieved, the following details are provided in comparing the actual costs incurred by Council in 2011/2012 to the amount incurred in 2013/2014.

- Reduction in materials and other contracts from \$1.54 million to \$1.32 million in 2013/2014, which represents a \$320K reduction (19.5%).
- Reduction in printing, distribution and photocopying costs from \$0.73 million in 2011/2012 to \$0.56 million in 2013/2014, a \$0.16 million reduction (22.5%).
- Reduction in IT maintenance costs, from \$0.70 million in 2011/2012 to \$0.61 million in 2013/2014, a \$0.09 million reduction (12.9%).
- Reduction in telecommunication costs from \$0.17 million in 2011/2012 to \$0.15 million, a \$0.02 million reduction (11.6%), noting costs rose to \$0.20 million in 2012/2013.

The above reductions are trends and have been incorporated in Council's current 2014/2018 Delivery Plan and the 2014/2024 Long Term Financial Plan.

In addition to the above reductions, there has also been a review of Council's organisation structure which has resulted in a number of key positions being held and not replaced. The information relating to these reductions is detailed later in this advice under 'Item 3 – Further Savings Identified and yet to be incorporated into the Delivery Plan'.

Council at its meeting on 22 April 2014, requested its Auditor PWC to undertake an independent and high level benchmarking review of Council's financial position and key performance indicators. As a result of this review and as detailed in their report, PWC advised that the City of Ryde was very competitive in all expenditure indicators against the Councils compared and stated that the City of Ryde's focus should be on increasing revenue and not reducing expenditure.

State Government Contributions

While the above reductions have been achieved over the last 3 years, at the same time Council has had to contend with increases in State Government contributions, rising from \$8.05 million in 2011/2012 to \$10.10 million in 2013/2014 (a 25.34% increase).

The details of Council's contributions for 2013/2014 are as follows;

	\$m
Contributions – Department of Planning	0.24
Contributions – Fire Control	1.52
Contributions – SES Emergency	0.14
Infringement Processing Fees	0.51
Motor Vehicle Registrations	0.17
Street Lighting	2.19
Utilities – Water	0.44
Land Valuations	0.19
Waste Development Tax	3.03
Workers Compensation Insurance	1.67
Total	<u>\$10.10</u>

2. Revenue Enhancements incorporated into Council's current Delivery Plan

Revenue from fees and charges have increased from \$2.77 million in 2011/2012 to \$4.10 million in 2013/2014, an increase of \$1.33 million (48%).

This increase reflects growth in development activity and usage levels in addition to increases in fees. Key areas that have contributed to this result are;

- Development related fees increasing from \$1.26 million in 2011/2012 to \$1.60 million in 2013/2014, an increase of \$0.34 million (26.9%).
- Other fees increasing from \$1.5 million in 2011/2012 to \$2.50 million, an increase of \$1 million (66%). The main areas that have contributed to this result included increases in the environmental enforcement levy, various regulatory fees, increase in certificates issued, various application fees for inspections and regulation fees including work zone fees and permits.
- Increases in Council's Investment rental property income from \$0.23 million in 2011/2012 to \$0.36 million, an increase of \$0.13 million (56.5%).
- Increases in regulated parking from \$3.94 million in 2011/2012 to \$5.87 million in 2013/2014, an increase of \$1.93 million (48.9%).

Revenue Reduction - Interest on Investments Income

A key reduction in Council's revenue that has impacted Council's overall financial position has been the reduction in Council's total revenue received from Interest on Investments. This reduction has been due to the significant impact of the global financial crisis that commenced in July 2007 and the consequent reductions in interest rates. Australia's official interest rate still remains at a record low of 2.5%.

This has resulted in Council's general revenue from Interest on Investments reducing from \$4.48 million in 2011/2012 to \$2.11 million in 2013/2014, a reduction of \$2.37 million (52.9%). This result has been achieved even with Council averaging a return on Investments of 1.5% above the standard benchmarks.

3. Further Savings Identified and yet to be Incorporated into the Delivery plan

Throughout 2013/2014, Council's staff undertook a number of initiatives in reducing Council's operational costs, whilst having minimal impact on the quality and range of services provided to the community.

Council's result for 2013/2014 was improved by approximately \$8 million, with savings in the areas of salaries and wages (\$2 million), regulatory and other income (\$3.8 million), other expenses (\$1 million) and Capital Projects (\$1 million).

While some of the results achieved in 2013/2014 should be viewed as a one off result, Council is on track to deliver the estimated ongoing annual efficiency saving of \$2.5 million, made up as follows;

<u>Reduction in Expenses</u>	<u>\$m</u>
Salaries and Wages	1.500
Other expenses	0.447
Subtotal	1.947
<u>Additional Revenue</u>	
Advertising Sign Income	0.400
Increase of 5% in general fees and charges 2015/2016	0.120
Increase in rent / community licences	0.060
Subtotal	0.580
Total	<u>\$2.527</u>

As at 30 June 2014, and as a result of holding and not replacing key positions, Council has exceeded its original estimate of \$1.5 million by achieving salary savings of \$1.8 million, comprising the following positions that have been deleted, noting 1 position remains on hold, pending the appointment of the new General Manger. As a result, the positions held are now proposed to be deleted from Council's staff establishment in the upcoming September 2014 Quarterly Review;

Positions Deleted (will be brought to account as part of the September 2014 Quarterly Review)

General Manager's Office 2
Executive Manager – Resourcing Strategy
Coordinator – Internal Communications

Corporate Services 2
SUM – Customer Services and Governance
Coordinator - Corporate Planning & Analysis

Environment and Planning 4
SUM – Health and Building
Environment Monitoring Officer
City Landscape Architect
Assessing Officer – Building Surveyor

Community Life 2
Library Assistant
Access and Equity Coordinator

Public Works 4
SUM – Infrastructure Integration
Team Manager – Public Spaces
Assets Coordinator
Team Leader Fabrications

Sub total 14

The estimated savings from the above positions are \$1.6 million.

Positions held (pending review by the new General Manager)

Community Life 1
Group Manager – Community Life

Sub total 15

With the vacant Group Manager Community Life position, the projected salary savings are estimated at \$1.8 million per annum.

Other positions to be deleted (by 31 December 2015)

A further 8 (eight) positions have been targeted to be deleted by the end of 2015, which will bring the total positions cut to 22 and potentially 23, with the total projected salary savings increasing to approximately \$2.5 million. It should be noted that this is higher than the original forecast. This will result in Council's current Staff Establishment of 486.54 being reduced to 463.54, which will be less than Council's Staff Establishment in 2009/2010 which was 463.92.

The other key point to reinforce is that with the reductions in staff (detailed above), there will be impacts on Council's service delivery, however with the positions targeted, it is believed that this will be minimal and able to be managed effectively.

Other Expenses – Reduction of \$0.447 million (will be brought to account as part of the September 2014 Quarterly Review)

Other expenses from Council's Base Budget totalling \$0.447 million are due to be delivered as part of Council's \$2.5 million in efficiency savings.

It is proposed to bring these reductions ahead of schedule by making these budget reductions in the September 2014 Quarterly Review, as on-going savings, as detailed below;

Additional Reduced Expenditure Items	\$m
Reduction in staff programs (Health & Well Being Program)	0.030
Reduction in Events Budget	0.060
Reduction in Community Development Budget	0.047
City View Savings (Communications & Media)	0.120
Reduction in Telecommunication Costs	0.050
Reduction in IT contracts	0.050
Delete Country Council Budget	0.020
Delete insurance rebates paid to Reserve	0.070
Total	<u>0.447</u>

4. Forthcoming Revenue Producing Projects

- As part of the \$2.5 million efficiency saving, it is proposed for Council to raise an additional \$0.4 million from advertising signs income. This is currently being investigated for a proposed planning proposal to be developed. This matter is due to be considered by Council in February 2015.
- Council has also initiated a number of revenue producing projects as a result of the adoption of Council's Investment Property Portfolio.

Council's Investment Property Portfolio comprises the following properties;

- 2 Dickson Avenue, West Ryde
- 1A Station Road, West Ryde
- 8 Chatham Road, West Ryde
- 202 Rowe Street, Eastwood
- 226 Victoria Road, Gladesville
- 7 Anthony Road, West Ryde Car Park site, West Ryde
- Herring Road Air Space Rights
- 7 Coulter Street, Coulter St Car Park, Gladesville
- 6-12 Glen Street, Glen Street Car Park, Eastwood
- 2 Pittwater Road, John Wilson Car Park, Gladesville
- 150 Coxs Road, Cox Rd Car Park, North Ryde
- 33-35 Blaxland Road, Argyle Centre, Ryde
- 19-21 Church Street and 16 Devlin Street, Ryde
- 1 Constitution Road, Operations Centre, Ryde

- 743-747 Victoria Road, Ryde
- 53-71 Rowe Street, Eastwood
- 6 Reserve Street, West Ryde

From the above list, the key properties that are currently being activated for development are;

- 6 Reserve Street, West Ryde
- 743-747 Victoria Road, Ryde
- 33-35 Blaxland Road, Argyle Centre, Ryde
- 7 Anthony Road, West Ryde

The following is a high level summary in respect of the development projects listed above.

It should be noted that the annual rental returns will not be available for general purposes, until the costs of the development are fully repaid. Further, the details of these proposals are still being finalised and will be formerly reported to Council in the near future.

6 Reserve Street, West Ryde

Construction of 2 x 3 bedroom and 1 x 4 bedroom townhouses

	\$m
Building costs	1.10
Professional fees / Escalation	0.15
Lane Value	1.01
Total Development Costs	<u>2.26</u>
End Value of Development	2.43
Indicative Yield if Gross Rental Per Annum	0.12
Projected return on investment	5.34%

743-747 Victoria Road, Ryde

Construction of 21 x 1 bedroom and 22 x 2 bedroom apartments, plus commercial/retail

	\$m
Estimated Development Costs	13.40
Estimated Value on Completion	23.40
Projected Annual Rental	1.20
Projected Return on Investment	9.76%

33-35 Blaxland Road, Argyle Centre, Ryde

Construction of 11 x 1 bedroom and 12 x 2 bedroom apartments and 5 key worker, plus commercial/retail

	\$m
Estimated Development Costs	13.59
Estimated Value on Completion	25.35
Projected Annual Rental	1.00
Projected Return on Investment	7.39%

7 Anthony Road, West Ryde

Construction of 6 x 3 bedroom and 1 x 4 bedroom apartments/townhouses

	\$m
Estimated Development Costs	3.65
Estimated Value on Completion	5.63
Projected Annual Rental	0.27
Projected Return on Investment	7.76%

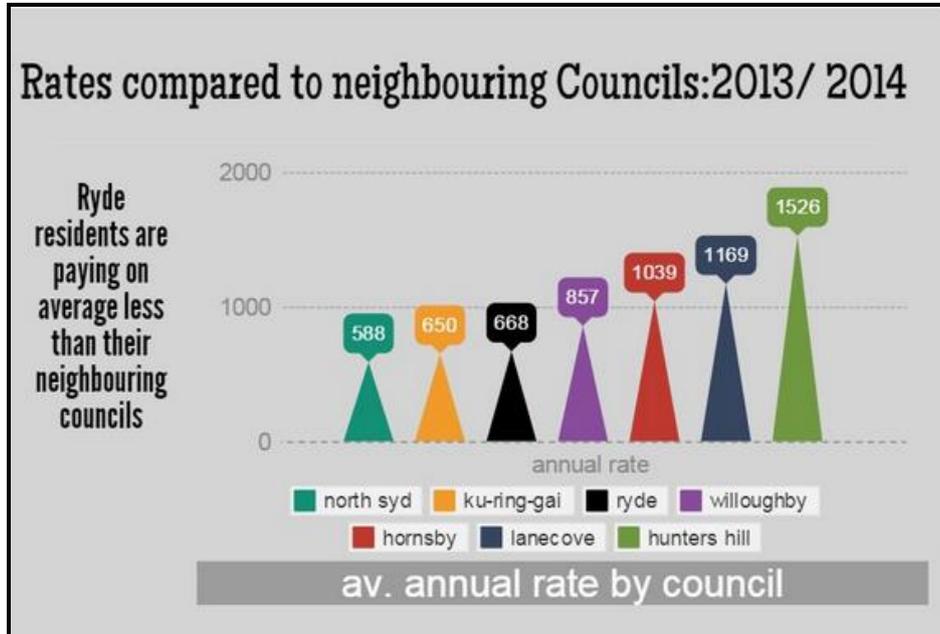
Based on the projections detailed above, Council will realise additional rental income of approximately \$2.59 million once all the developments are completed. However, it will be required for the additional revenue from each of the developments to be initially utilised in paying for the cost of the development and holding charges of the properties. Therefore, it is anticipated that this additional revenue would not be available for at least 10 years, which is the timeframe that is expected that a large proportion of the developments would be repaid. Also, once completed, the developments will provide Council with an estimated increased asset value of approximately \$23 million.

Community Consultation Outcomes – SRV Proposal

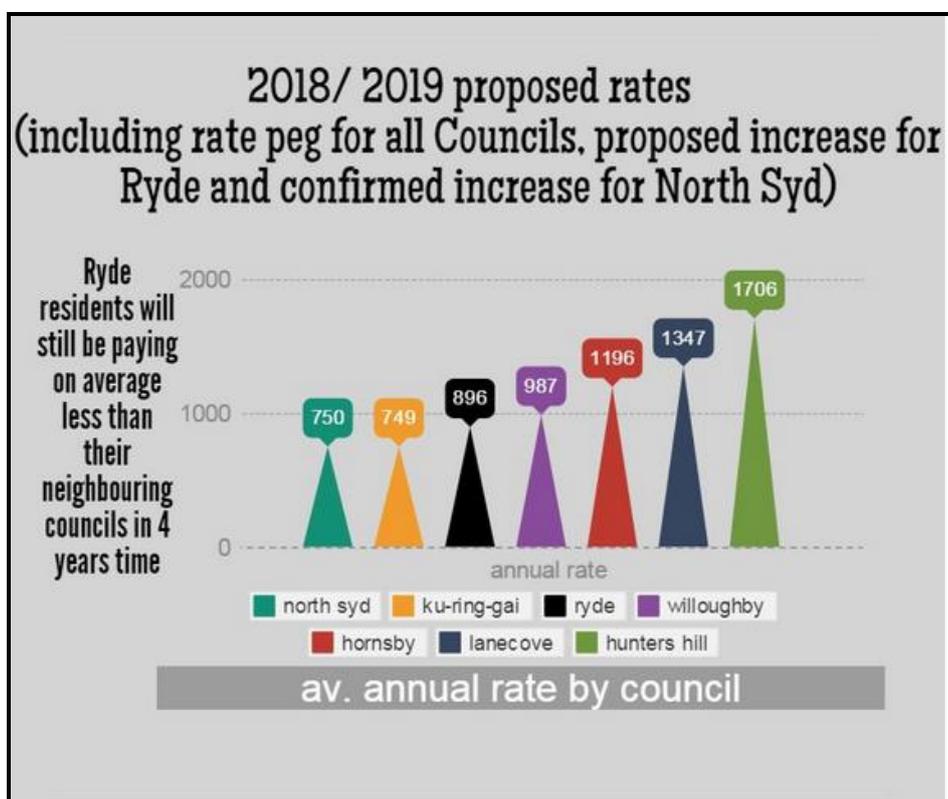
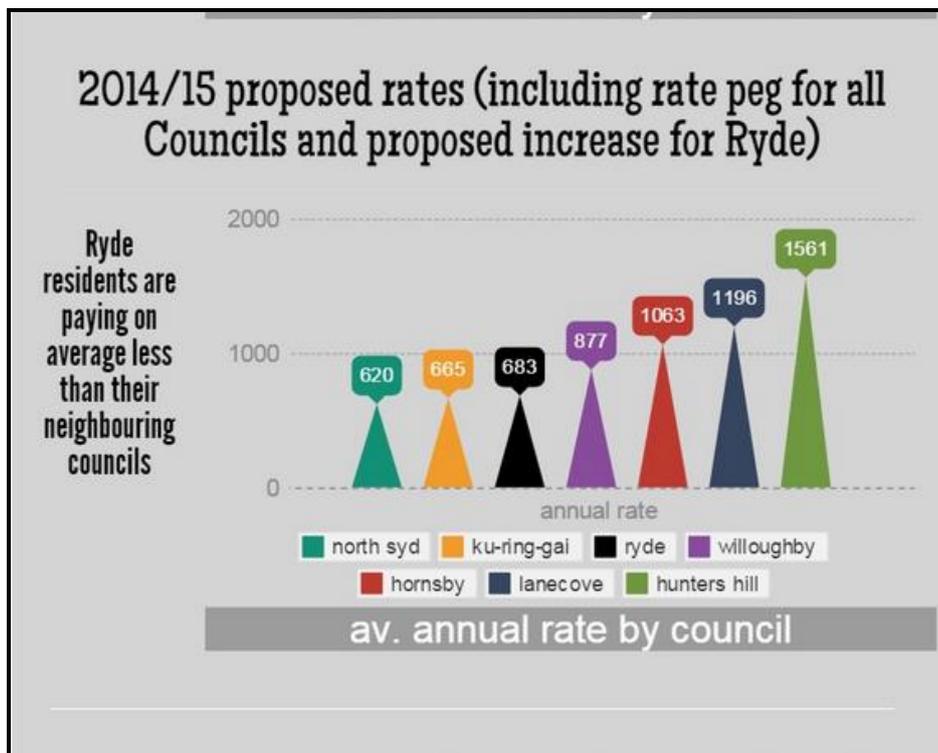
As detailed in the report to Council, an extensive community engagement process was implemented in gaining the community's feedback on the SRV Proposal.

The key outcomes to be highlighted are;

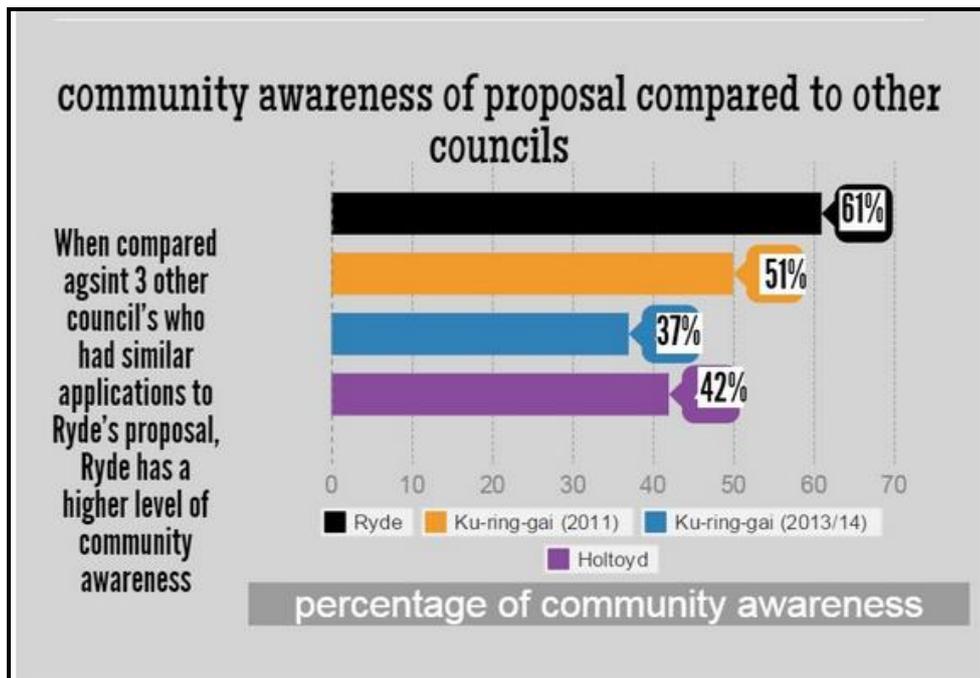
- The City of Ryde's residents are paying on average less than their neighbouring Councils.



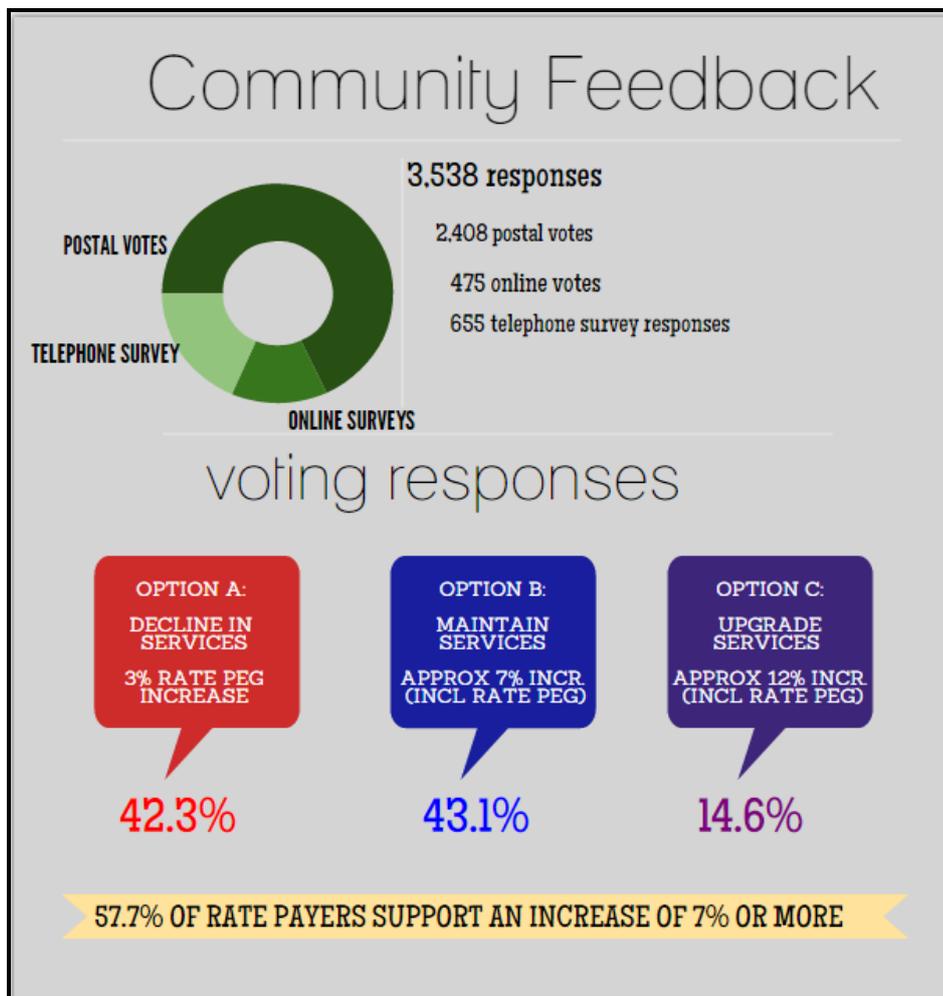
Allowing for the City of Ryde's proposed SRV increase, and indexing neighbouring Council's current rates by the rate peg, the City of Ryde ratepayers will still remain, on average, paying less than their neighbouring Councils. As detailed in the graphs below, the City of Ryde maintains this position both in 2014/2015 year through to 2018/2019 year.



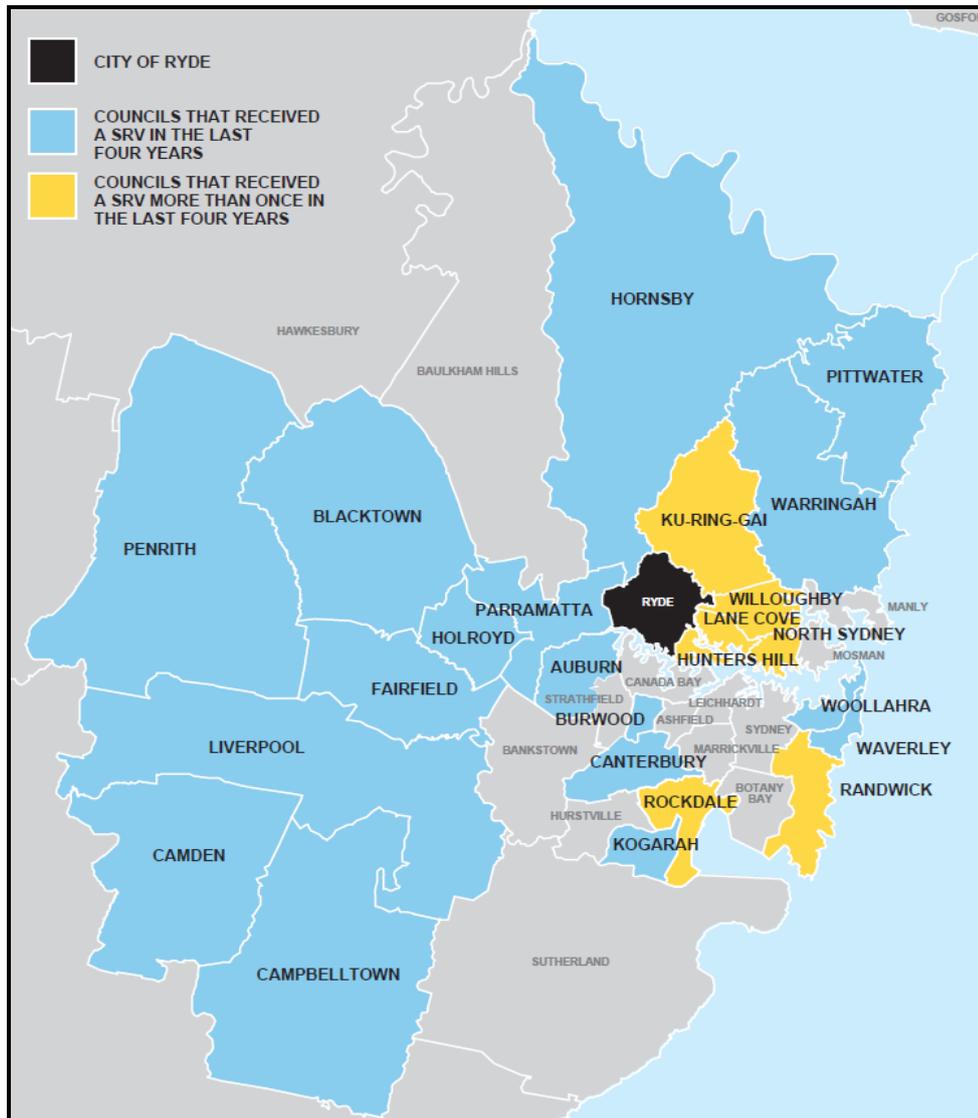
- The City of Ryde Community's awareness of the SRV proposal was the highest awareness rating when compared to 3 other Councils who have recently undertaken a similar SRV proposal.



- The City of Ryde gained a high 3,538 responses to the SRV proposal, that resulted in a positive 57.7% of rate payers supporting an increase of 7% or higher.



- To demonstrate the level of SRV approvals for neighbouring Councils in the last 4 (four) years, compared to no SRV approvals for the City of Ryde, the following diagram is provided.



The above supplementary information is provided to Council to assist it in its consideration of Item 4 - Special Rating Variation (SRV, Application Including Updated Information relating to Council's Infrastructure Assets) on Council's Agenda for 11 November 2014.

Regards

Roy Newsome
Group Manager – Corporate Services