CITY OF PALMERSTON

Minutes of Council Meeting
held in Council Chambers
Civic Plaza, Palmerston
on Tuesday 21 February 2017 at 6.30pm.

Mayor Ian Abbott
Chair

Any member of Council who may have a conflict of interest, or a possible conflict of interest in regard to any item of business to be discussed at a Council meeting or a Committee meeting should declare that conflict of interest to enable Council to manage the conflict and resolve it in accordance with its obligations under the Local Government Act and its policies regarding the same.

Audio Disclaimer
An audio recording of this meeting is being made for minute taking purposes as authorised by City of Palmerston Policy MEE3 Recording of Meetings, available on Council's Website.

Acknowledgement of Traditional Ownership
I respectfully acknowledge the past and present Traditional Custodians of this land on which we are meeting, the Larrakia people. It is a privilege to be standing on Larrakia country.

1 PRESENT

Elected Members:	His Worship the Mayor Ian Abbott (Chair) Alderman Athina Pascoe-Bell Alderman Andrew Byrne Alderman Paul Bunker Alderman Sue McKinnon
Staff:	Ricki Bruhn, Chief Executive Officer Ben Dornier, Director of Corporate and Community Services Mark Spangler, Director of Technical Services Maxie Smith, Acting Finance Manager Gary Boyle, Major Projects Officer Alyce Breed, Minute Secretary
Gallery:	Lauren Roberts, NT News Tony Tapsell, CEO LGANT Damian Ryan, President LGANT & Mayor Alice Springs Town Council 1 member of the public

2 APOLOGIES

Deputy Mayor Shutt – Leave of Absence

ACCEPTANCE OF APOLOGIES AND LEAVE OF ABSENCE

Moved: Alderman McKinnon
Seconded: Alderman Pascoe-Bell

THAT the Leave of Absence received from Deputy Mayor Shutt be received and granted.

CARRIED 8/2460 – 21/02/2017

3 CONFIRMATION OF MINUTES

Moved: Alderman Pascoe-Bell
Seconded: Alderman McKinnon

1. THAT the minutes of the Council Meeting held Tuesday, 7 February 2017 pages 8920 to 8932, be confirmed.

2. THAT the Confidential minutes of the Council Meeting held Tuesday, 7 February 2017 pages 280 to 282, be confirmed.

CARRIED 8/2461 – 21/02/2017

4 MAYOR'S REPORT M8-35

Moved: Alderman McKinnon
Seconded: Alderman Pascoe-Bell

1. THAT Council receives Report Number M8-35.

2. THAT Council note Mayor Abbott's leave of absence from 12-17 April 2017 both days inclusive.

CARRIED 8/2462 – 21/02/2017

5 REPORT OF DELEGATES

Nil.

6 QUESTIONS (WITHOUT DEBATE) FOR WHICH NOTICE HAS BEEN GIVEN

6.1 Archer Landfill Rehabilitation

In response to the Question raised by Alderman Pascoe-Bell "Please inform the Council on how you propose the additional expenditure is dealt with, given that it is more than 50% of the original value."

The Chief Executive Officer provided the following response:

"In the budget for 2016/2017, council allocated an amount of $2.445m for works associated with the Stage 1 Rehabilitation of the Archer Landfill site. On 11 July 2016, council awarded a lump sum contract for Stage 1 of the Archer Landfill Rehabilitation to Aldebaran Contracting for the lump sum of $1,174,938.73 (GST exclusive). Also, included in the contract was an additional provisional sum of $96,800 for materials which has been enacted.

To date, staff have approved of contract variations totalling $117,266. While staff have estimated the total cost of works related to the Stage 1 Rehabilitation works to be up to $1.8m in 2016/2017, the actual current cost on the Aldebaran Contract to date is $1.389m which includes an increase of 9.2% on the original contract value being for variations approved by staff.

All expenditures to date have been costed to the project budget and it is proposed that any further expenditures this year will also be costed to the project budget with the total cost of the works to be appropriated from the Waste Management Reserve as approved by Council in the 2016/2017 budget.

It is anticipated the estimated budget saving of $650,000 on this project will be returned to the Waste Management Reserve to be used on future stages of the landfill rehabilitation."

6.2 Seniors Centre

In response to the Questions raised by Alderman Pascoe-Bell "Please identify in this year's budget where an allocation has been made to put towards a Seniors Centre" and "Please identify the Council decision to allocate or set aside funds towards a Seniors Centre in next year's budget."

The Chief Executive Officer provided the following responses:

"*In the current 2016/2017 budget there is no allocation to be put towards a Seniors Centre*."

And

"*At this point in time, there has been no council decision to allocate or set aside funds to put towards a Seniors Centre in next year's 2017/2018 budget.*"

In response to the Question raised by Alderman Pascoe-Bell addressed to the Mayor "Have you advised representatives from either the Palmerston and Rural Seniors Committee or the Palmerston 50+ Club that Council has allocated a budget for a new Seniors Centre and if so, under whose authority was this commitment made?"

The Mayor provided the following response:

"*I have not.*"

In response to the Question raised by Alderman Pascoe-Bell addressed to Alderman Bunker "Have you advised representatives from either the Palmerston and Rural Seniors Committee or the Palmerston 50+ Club that Council has allocated a budget for a new Seniors Centre and if so, under whose authority was this commitment made?"

Alderman Bunker provided the following response:

"*Obviously, this question is based on mis-information and a lack of correct information similar to other questions that have been asked here tonight. It's fairly straight forward if you look in the budget there is no allocation that has been made by Council, the same as if you speak to the Rural Seniors committee and the 50's + club which I have, which none of them seem to know about any commitment that has been made by Council. Again, today I spoke to them. They are concerned that their committees are being mentioned in questions that they have no knowledge about and I think rightfully so. And if you want to know whether I've spoken to any of these people on these committees, I guess I have and I don't know where the $1.2M comes into because I've actually been talking about $2M. And ever since we put forward an application which this Council has done, to the NT Government for the funding for $2m I would like to see Council, and obviously this is not a Council position, I would like to see Council matching whatever NT Government if NT Government give us anything, in order to facilitate building a seniors centre and that's been my belief all along. I don't know why we are being questioned about whether or not we've spoken to constituents because I would've thought that that's our job and yes I have been speaking to constituents and yes I have been talking about money because it takes money to build these things. And have any commitments been made and if so under whose authority, well there's no resolution from Council to do anything so no commitments have been made but obviously I have the right to go out and talk to constituents and I have the right to put forward what my visions for Palmerston are and what the different groups and community groups that are in Palmerston and what my vision is for them and its well known amongst this Council that the seniors group is one of those groups that I'm passionate about. I want to* *see Council do something in order to facilitate building a centre that they've been lobbying Council for, I believe well before my time on Council so I'm sorry if I've been doing my job. Thank you.*"

In response to the Question raised by Alderman Pascoe-Bell addressed to Alderman Byrne "Have you advised representatives from either the Palmerston and Rural Seniors Committee or the Palmerston 50+ Club that Council has allocated a budget for a new Seniors Centre and if so, under whose authority was this commitment made?"

Alderman Byrne provided the following response:

"*In order to answer this question, I think it's also important that Council looks at the history behind the question. In my opinion, during and even before joining Council, pretty much in any development stance that Alderman Pascoe-Bell has been against, there's always group components that come into play. The first is that there's been always talk of unethical behaviour or attacks on Council employees, often with disregard of the facts or half-truths spoken about situations and then there's always the good old accusation we'll trot out of financial mismanagement, and we'll wrap that all up in a lack of proof. So, this is the history so if we look at the Boulevard, Goyder Square for example Alderman Pascoe-Bell is quite openly against that. Even on the Facebook page she manages there were comments along the lines that Bunker and Byrne are driving people towards their businesses or Palmerston doesn't have the money, rates will need to be put up, it's a white elephant no one's using it when the facts are that we had $30M in the bank, the majority of which was in infrastructure reserves. The last three years no rate rises for probably 30% of the population, Palmerston over the last 12months most popular markets, Flic Nics, Breakfast in the Park, local businesses doing face painting, yoga and heaps of other events. So, financial mismanagement we are actually spending the reserves on what they were created for, infrastructure. We spend infrastructure reserves on infrastructure. What a surprise. So, no proof forthcoming there so let's move onto the next anti-development stance which is the sale of blocks that we've had. There was unethical behaviours hinted at where Alderman Bunker and myself were seen with a developer in a café in the middle of Palmerston. Facts were that the process of that was placed in the minutes, we followed the Local Government Act to the letter. The tenders were opened, not the tenders but the offers were opened in a sealed room, no one had any idea. Where's the proof of that, now, alright we'll move onto this. Now we've got the same three things here, I believe is happening again with the proposed seniors centre. Unethical behaviour, hints at a small group of Elected Members and allegations to local MLA's, senior groups and no names are mentioned. So how do we proceed. We'll just ask all Elected Members have you done something wrong, the inference being a small group of us have. Disregarding the facts, everyone knows that Elected Members met with senior's groups, I've mentioned that in conversations with Anne Brown, I've mentioned meetings at the HUB, I've mentioned with Alderman Shutt, Alderman Bunker, Alderman McKinnon was away at the time, we certainly spoke to Alderman McKinnon, and the seniors spoke to them. We encouraged the seniors to lobby the Mayor and local MLA's. I have said that I will try to fight to get some money in this year's budget towards it so that it can be ear-marked for a senior's centre. They know that that hasn't been a promise, but definitely I'm in public support of this. I also believe that the CEO sent out to Elected Members a wish list that what we could put on that wish list, I would imagine what was on there would come into the budget deliberations. Financial mismanagement, once again this questions that are going there, we've even got the NT News here tonight, so saying what's happened its, you don't directly say it but its, the imputation is that we are doing something wrong by talking to the Seniors or someone here has promised $1.2M, no proof. And once again this is all wrapped up in a big lack of proof. There's unnamed parties, unnamed Elected Members and I believe if the Alderman had proof that anyone here had done anything illegal or against the Local Government Act, she would have put a complaint in. So once again I just think it's a vexatious question designed to cast shade on people.*"

In response to the Question raised by Alderman Pascoe-Bell addressed to Alderman McKinnon "Have you advised representatives from either the Palmerston and Rural Seniors Committee or the Palmerston 50+ Club that Council has allocated a budget for a new Seniors Centre and if so, under whose authority was this commitment made?"

Alderman McKinnon provided the following response:

"*I guess my first answer, or my quickest answer would say in relation to have I advised representatives from either the Palmerston Rural Seniors Committee or Palmerston 50s + club that Council had delegated a budget for a new senior's centre and if so under whose authority was this commitment made, I have not done so. I further say, and I note this will just be taken in the minutes as a verbal response, I've taken the utmost care in the way that I manage my role as the Chair of the Seniors and Rural, sorry Palmerston and Rural Seniors Committee or advisory group. In fact I've made sure that the Director of Corporate and Community Services has attended the meetings this year particularly, to make sure that correct information is provided to the Seniors or any alderman attending the group so that there is no misinformation around. So that's my feedback, thank you.*"

7 QUESTIONS (WITHOUT DEBATE) FOR WHICH NOTICE HAS NOT BEEN GIVEN

Nil.

8 PETITIONS

Nil.

9 DEPUTATIONS/PRESENTATIONS

Nil.

10 CONSIDERATION OF MOTIONS FOR WHICH NOTICE HAS BEEN GIVEN

Nil.

11 COMMITTEE RECOMMENDATIONS

11.1 Governance and Organisation

Nil.

11.2 Economic Development and Infrastructure

Nil.

11.3 Community, Culture and Environment

Nil.

11.4 Risk Management and Audit

Moved: Alderman Pascoe-Bell
Seconded: Alderman Byrne

THAT the minutes from the Risk Management and Audit Committee meeting held on 8 February 2017, be received and noted.

CARRIED 8/2463 – 21/02/2017

11.4.1 Development of Enterprise Risk Management System RMA/0095

Moved: Alderman Pascoe-Bell
Seconded: Alderman Byrne

THAT Council notes the Risk Management Framework Software is fit for purpose and encourages its further implementation.

CARRIED 8/2464 – 21/02/2017

12 INFORMATION AGENDA

12.1 Items for Exclusion

12.3.2 Goyder Square – Shade, Colour and Vibrancy 8/1087

12.2 Receipt of Information Reports

Moved: Alderman Byrne
Seconded: Alderman Bunker

THAT the information items contained within the Information Agenda, excluding Item 12.3.2 be received.

CARRIED 8/2465 – 21/02/2017

12.3.2 Goyder Square – Shade, Colour and Vibrancy 8/1087

Moved: Alderman McKinnon
Seconded:

THAT Council receives Report Number 8/1087.

MOTION LAPSED FOR WANT OF A SECONDER

13 DEBATE AGENDA

13.1 Officer Reports

13.1.1 Proposed Permanent Closure of a Section of the Hillson Street Road Reserve 8/1086

Moved: Alderman Bunker
Seconded: Alderman Pascoe-Bell

1. THAT Council receives Report Number 8/1086.
2. THAT Council approve the permanent closure of a section of the Hillson Street road reserve near the intersection with Palmerston circuit and adjacent to Lot 10024.
3. THAT Council approve the road closure be undertaken as required under the *Local Government Act* and the *Local Government (Administration) Regulations*, including seeking the consent of the Minister responsible for the administration of the *Local Government Act*.

CARRIED 8/2466 – 21/02/2017

13.1.2 Proposal for the Construction of a 2-Coat Sealed Carpark on Lot 4273 8/1088

Moved: Alderman Bunker
Seconded: Alderman Pascoe-Bell

1. THAT Council receives Report Number 8/1088.

CARRIED 8/2467 – 21/02/2017

13.1.3 Marlow Lagoon Reserve Capital Works 8/1089

Moved: Alderman Byrne
Seconded: Alderman Bunker

1. THAT Council receives Report Number 8/1089.

CARRIED 8/2468 – 21/02/2017

Moved: Alderman Pascoe-Bell
Seconded: Alderman McKinnon

2. THAT all proposed works at Marlow Lagoon Recreation Area detailed in Report Number 8/1089 be referred to the 10 Year Capital Works Program Workshop.

CARRIED 8/2469 – 21/02/2017

13.1.4 Proposal for Developing Water Sensitive Urban Design (WSUD) Guidelines 8/1090

Moved: Alderman Bunker
Seconded: Alderman Pascoe-Bell

1. THAT Council receives Report Number 8/1090.

CARRIED 8/2470 – 21/02/2017

Moved: Alderman Bunker
Seconded: Alderman Byrne

2. THAT Council resolves to develop Water Sensitive Urban Design (WSUD) Guidelines for the City of Palmerston.

CARRIED 8/2471 – 21/02/2017

13.1.5 Financial Report for the Month of January 2017 8/1092

Moved: Alderman Byrne
Seconded: Alderman Pascoe-Bell

THAT Council receives Report Number 8/1092.

CARRIED 8/2472 – 21/02/2017

13.1.6 Clean Up Australia Day 2017 8/1093

Moved: Alderman Pascoe-Bell
Seconded: Alderman McKinnon

1. THAT Council receives Report Number 8/1093.

2. THAT Council approve participation in Clean Up Australia Day 2017.

CARRIED 8/2473 – 21/02/2017

Moved: Alderman Byrne
Seconded: Alderman McKinnon

3. THAT Council endorses the new access road to Archer Waste Transfer Station as the site for Clean Up Australia Day 2017.

CARRIED 8/2474 – 21/02/2017

13.1.7 Sponsorship – Athletics Northern Territory Inc. 8/1094

Moved: Alderman McKinnon
Seconded: Alderman Bunker

1. THAT Council receives Report Number 8/1094.

2. THAT Council approve $10,000 sponsorship for the 2017 Athletics Northern Territory Cazalys City of Palmerston Fun Run/Walk.

CARRIED 8/2475 – 21/02/2017

13.1.8 Library Closure - Stocktake 8/1095

Moved: Alderman Pascoe-Bell
Seconded: Alderman Byrne

1. That Council receives Report Number 8/1095.

2. That City of Palmerston Library Close for Stocktake on Thursday 20 April 2017 and re-open on Saturday 22 April 2017.

3. That the City of Palmerston Library advertise the dates of the closure.

CARRIED 8/2476 – 21/02/2017

13.1.9 Related Party Disclosure Requirements 8/1098

Moved: Alderman McKinnon
Seconded: Alderman Pascoe-Bell

THAT Council receives Report Number 8/1098.

CARRIED 8/2477 – 21/02/2017

13.1.10 Application for a new "Store" Liquor Licence – Zuccoli IGA Fresh – Lot 13208, Zuccoli Parade, Zuccoli 8/1101

Moved: Alderman Bunker
Seconded: Alderman Pascoe-Bell

1. THAT Council receives Report Number 8/1101.

CARRIED 8/2478 – 21/02/2017

Moved: Alderman McKinnon
Seconded: Mayor Abbott

2. THAT Council endorses Attachment A to Report Number 8/1101.

MOTION LOST

14 CORRESPONDENCE

Nil.

15 RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE

Nil.

16 PUBLIC QUESTION TIME

Nil.

17 OTHER BUSINESS

Nil.

18 CONFIDENTIAL REPORTS

ADJOURNMENT

Moved: Alderman Byrne
Seconded: Alderman Bunker

THAT the meeting be adjourned for approximately 30 minutes.

CARRIED 8/2479 – 21/02/2017

The meeting adjourned at 7:51pm.

RECONVENED

Moved: Alderman Pascoe-Bell
Seconded: Alderman McKinnon

THAT the meeting be reconvened.

CARRIED 8/2480 – 21/02/2016

The meeting reconvened at 8:22pm.

Moved: Alderman Bunker
Seconded: Alderman Pascoe-Bell

18.1 Power to Sell Land – Assessment 109480 8/1096

1. THAT pursuant to Section 65 of the Local Government Act, Council orders that the public be excluded from the meeting with the exception of the Chief Executive Officer, Director of Corporate and Community Services, Director of Technical Services, Major Projects Officer, Acting Finance Manager and Minute Secretary on the basis that Council considers it necessary and appropriate to act in a manner closed to the public in order to receive, discuss and consider the report and associated documents in relation to confidential agenda item 18.1 Power to Sell Land – Assessment 109480 and that Council is satisfied that the meeting should be conducted in a place open to the public is outweighed in relation to the matter because receiving, considering and discussing the report and associated documentation involves:

(b) information about the personal circumstances of a resident or ratepayer;

This item is considered confidential pursuant to Regulation 8 (b) of the Local Government (Administration) Regulations.

2. THAT Council orders that the minutes from the Confidential Council meeting held on 21 February 2017, in relation to confidential item number 18.1 Power to Sell Land – Assessment 109480, the report and associated documents remain confidential and not available for public inspection for a period of 12 months from the date of this meeting or a lesser period as determined by the Chief Executive Officer.

18.2 Power to Sell Land – Assessments 100498, 100821, 102240 and 103882 8/1097

1. THAT pursuant to Section 65 of the Local Government Act, Council orders that the public be excluded from the meeting with the exception of the Chief Executive Officer, Director of Corporate and Community Services, Director of Technical Services, Major Projects Officer, Acting Finance Manager and Minute Secretary on the basis that Council considers it necessary and appropriate to act in a manner closed to the public in order to receive, discuss and consider the report and associated documents in relation to confidential agenda item 18.2 Power to Sell Land – Assessments 100498, 100821, 102240 and 103882 and that Council is satisfied that the meeting should be conducted in a place open to the public is outweighed in relation to the matter because receiving, considering and discussing the report and associated documentation involves:

(b) information about the personal circumstances of a resident or ratepayer;

This item is considered confidential pursuant to Regulation 8 (b) of the Local Government (Administration) Regulations.

2. THAT Council orders that the minutes from the Confidential Council meeting held on 21 February 2017, in relation to confidential item number 18.2 Power to Sell Land – Assessments

18.2 Power to Sell Land – Assessments 100498, 100821, 102240 and 103882 (continued) 8/1097

100498, 100821, 102240 and 103882, the report and associated documents remain confidential and not available for public inspection for a period of 12 months from the date of this meeting or a lesser period as determined by the Chief Executive Officer.

18.3 Lot 9542 Update 8/1099

1. THAT pursuant to Section 65 of the Local Government Act, Council orders that the public be excluded from the meeting with the exception of the Chief Executive Officer, Director of Corporate and Community Services, Director of Technical Services, Major Projects Officer, Acting Finance Manager and Minute Secretary on the basis that Council considers it necessary and appropriate to act in a manner closed to the public in order to receive, discuss and consider the report and associated documents in relation to confidential agenda item 18.3 Lot 9542 Update and that Council is satisfied that the meeting should be conducted in a place open to the public is outweighed in relation to the matter because receiving, considering and discussing the report and associated documentation involves:

(c) information that would, if publicly disclosed, be likely to:

(i) cause commercial prejudice to, or confer an unfair commercial advantage on, any person; or

This item is considered confidential pursuant to Regulation 8 (c)(i) of the Local Government (Administration) Regulations.

2. THAT Council orders that the minutes from the Confidential Council meeting held on 21 February 2017, in relation to confidential item number 18.3 Lot 9542 Update, the report and associated documents remain confidential and not available for public inspection for a period of 12 months from the date of this meeting or a lesser period as determined by the Chief Executive Officer.

18.4 Communications Plan 8/1100

1. THAT pursuant to Section 65 of the Local Government Act, Council orders that the public be excluded from the meeting with the exception of the Chief Executive Officer, Director of Corporate and Community Services, Director of Technical Services, Major Projects Officer, Acting Finance Manager and Minute Secretary on the basis that Council considers it necessary and appropriate to act in a manner closed to the public in order to receive, discuss and consider the report and associated documents in relation to confidential agenda item 18.4 Communications Plan and that Council is satisfied that the meeting should be conducted in a place open to the public is outweighed in relation to the matter because receiving, considering and discussing the report and associated documentation involves:

(c) information that would, if publicly disclosed, be likely to:

(i) cause commercial prejudice to, or confer an unfair commercial advantage on, any person; or

18.4 Communications Plan (continued) **8/1100**

This item is considered confidential pursuant to Regulation 8 (c)(i) of the Local Government (Administration) Regulations.

2. THAT Council orders that the minutes from the Confidential Council meeting held on 21 February 2017, in relation to confidential item number 18.4 Communications Plan, the report and associated documents remain confidential and not available for public inspection for a period of 12 months from the date of this meeting or a lesser period as determined by the Chief Executive Officer.

18.5 Closure of the Archer Landfill Site **8/1102**

1. THAT pursuant to Section 65 of the Local Government Act, Council orders that the public be excluded from the meeting with the exception of the Chief Executive Officer, Director of Corporate and Community Services, Director of Technical Services, Major Projects Officer, Acting Finance Manager and Minute Secretary on the basis that Council considers it necessary and appropriate to act in a manner closed to the public in order to receive, discuss and consider the report and associated documents in relation to confidential agenda item 18.5 Closure of the Archer Landfill Site and that Council is satisfied that the meeting should be conducted in a place open to the public is outweighed in relation to the matter because receiving, considering and discussing the report and associated documentation involves:

(c) information that would, if publicly disclosed, be likely to:

(iv) prejudice the interests of the council or some other person;

This item is considered confidential pursuant to Regulation 8 (c)(iv) of the Local Government (Administration) Regulations.

2. THAT Council orders that the minutes from the Confidential Council meeting held on 21 February 2017, in relation to confidential item number 18.5 Closure of the Archer Landfill Site the report and associated documents remain confidential and not available for public inspection for a period of 12 months from the date of this meeting or a lesser period as determined by the Chief Executive Officer.

18.6 Question (without debate) for which notice has been given – Alderman Pascoe-Bell

1. THAT pursuant to Section 65 of the Local Government Act, Council orders that the public be excluded from the meeting with the exception of the Chief Executive Officer, Director of Corporate and Community Services, Director of Technical Services, Major Projects Officer, Acting Finance Manager and Minute Secretary on the basis that Council considers it necessary and appropriate to act in a manner closed to the public in order to receive, discuss and consider the question in relation to confidential agenda item 18.6 Question (without debate) for which notice has been given – Alderman Pascoe-Bell and that Council is satisfied that the meeting should be conducted in a place open to the public is outweighed in relation to the matter because receiving, considering and discussing the question involves:

18.6 Question (without debate) for which notice has been given – Alderman Pascoe-Bell (continued)

(c) information that would, if publicly disclosed, be likely to:

(i) cause commercial prejudice to, or confer an unfair commercial advantage on, any person

This item is considered confidential pursuant to Regulation 8 (c)(i) of the Local Government (Administration) Regulations.

2. THAT Council orders that the minutes from the Confidential Council meeting held on 21 February 2017, in relation to confidential item number 18.6 Question (without debate) for which notice has been given – Alderman Pascoe-Bell remain confidential and not available for public inspection for a period of 12 months from the date of this meeting or a lesser period as determined by the Chief Executive Officer.

18.7 Berrimah Farm (Northcrest) – Provision of Municipal Services 8/1103

1. THAT pursuant to Section 65 of the Local Government Act, Council orders that the public be excluded from the meeting with the exception of the Chief Executive Officer, Director of Corporate and Community Services, Director of Technical Services, Major Projects Officer, Acting Finance Manager and Minute Secretary on the basis that Council considers it necessary and appropriate to act in a manner closed to the public in order to receive, discuss and consider the report and associated documents in relation to confidential agenda item 18.7 Berrimah Farm (Northcrest) – Provision of Municipal Services and that Council is satisfied that the meeting should be conducted in a place open to the public is outweighed in relation to the matter because receiving, considering and discussing the report and associated documentation involves:

(c) information that would, if publicly disclosed, be likely to:

(iv) prejudice the interests of the council or some other person;

This item is considered confidential pursuant to Regulation 8 (c)(iv) of the Local Government (Administration) Regulations.

2. THAT Council orders that the minutes from the Confidential Council meeting held on 21 February 2017, in relation to confidential item number 18.7 Berrimah Farm (Northcrest) – Provision of Municipal Services the report and associated documents remain confidential and not available for public inspection for a period of 12 months from the date of this meeting or a lesser period as determined by the Chief Executive Officer.

18.8 Archer Landfill Rehabilitation Stage 1 – Construction Contract Variations 8/1104

1. THAT pursuant to Section 65 of the Local Government Act, Council orders that the public be excluded from the meeting with the exception of the Chief Executive Officer, Director of Corporate and Community Services, Director of Technical Services, Major Projects Officer, Acting Finance Manager and Minute Secretary on the basis that Council considers it

18.8 Archer Landfill Rehabilitation Stage 1 – Construction Contract Variations (continued) 8/1104

necessary and appropriate to act in a manner closed to the public in order to receive, discuss and consider the question in relation to confidential agenda item 18.8 Archer Landfill Rehabilitation Stage 1 – Construction Variation Variations and that Council is satisfied that the meeting should be conducted in a place open to the public is outweighed in relation to the matter because receiving, considering and discussing the question involves:

(c) information that would, if publicly disclosed, be likely to:

(i) cause commercial prejudice to, or confer an unfair commercial advantage on, any person

This item is considered confidential pursuant to Regulation 8 (c)(i) of the Local Government (Administration) Regulations.

2. THAT Council orders that the minutes from the Confidential Council meeting held on 21 February 2017, in relation to confidential item number 18.8 Archer Landfill Rehabilitation Stage 1 – Construction Contract Variations remain confidential and not available for public inspection for a period of 3 years from the date of this meeting or a lesser period as determined by the Chief Executive Officer.

CARRIED 8/2481 – 21/02/2017

The meeting moved into the Confidential Session at 8:22pm.

18.9 Moving decisions from the Confidential Session into the Open Session

4.1 Power to Sell Land – Assessment 109480 8/1096

1. THAT Council receives Report Number 8/1096.
2. THAT Council approves the recommended process of power of sale of land for non-payment of rates for Assessment 109480.
3. THAT the Mayor and Chief Executive Officer be authorised to sign and seal all documentation in relation to the sale of land for non-payment of rates for the above-mentioned properties.
4. THAT the resolutions only come back to the open session.

4.2 Power to Sell Land – Assessments 100498, 100821, 102240 and 103882 8/1097

1. THAT Council receives Report Number 8/1097.

2. THAT Council approves the recommended process of power of sale of land for non-payment of rates for Assessment 100498.

3. THAT Council approves the recommended process of power of sale of land for non-payment of rates for Assessment 100821.

4. THAT Council approves the recommended process of power of sale of land for non-payment of rates for Assessment 102240.

5. THAT Council approves the recommended process of power of sale of land for non-payment of rates for Assessment 103882.

6. THAT the Mayor and Chief Executive Officer be authorised to sign and seal all documentation in relation to the sale of land for non-payment of rates for the above-mentioned properties.

7. THAT the resolutions only come back into the open session.

19 CLOSURE

Meeting closed at 9.55pm

CITY OF PALMERSTON

Minutes of Confidential Council Meeting
held in Council Chambers, Civic Plaza, Palmerston
on Tuesday, 13 January 2015 at 8:05pm

RELEASED TO THE PUBLIC RECORD

1. PRESENT

Elected Members:	His Worship the Mayor Ian Abbott (Chair) Deputy Mayor Heather Malone Alderman Paul Bunker Alderman Andrew Byrne Alderman Seranna Shutt
Staff:	Ricki Bruhn, Chief Executive Officer Ben Dornier, Director of Corporate and Community Services Mark Spangler, Director of Technical Services Caroline Hocking, Minute Secretary

2. APOLOGIES

Alderman McKinnon – Apology
Alderman Carter – Apology

ACCEPTANCE OF APOLOGIES AND LEAVE OF ABSENCE

Moved: Deputy Mayor Malone
Seconded: Alderman Shutt

THAT the apologies received from Alderman McKinnon and Alderman Carter be received and granted.

CARRIED 8/1384–13/01/2015

3. DEPUTATIONS / PRESENTATIONS

Nil

4. OFFICER REPORTS

4.1 Funding Options for Future Capital Works 8/0613

Moved: Alderman Byrne
Seconded: Deputy Mayor Malone

1. THAT Council receives Report Number 8/0613.

CARRIED 8/1385–13/01/2015

Moved: Alderman Shutt
Seconded:

2. THAT Council Borrowing Policy FIN20 be referred to the Governance and Organisation Committee for review;

MOTION LAPSED FOR THE WANT OF A SECONDER

Moved: Alderman Bunker
Seconded: Deputy Mayor Malone

3. THAT the Chief Executive Officer be delegated authority to commence an open tender process for The Boulevard Redevelopment Stage 2 and the Goyder Square Redevelopment Stage 2 once design work is finalised.

4. THAT Council seeks to complete The Boulevard Redevelopment Stage 2 and Goyder Square Redevelopment Stage 2 projects during the 2015 calendar year;

CARRIED 8/1386–13/01/2015

Moved: Alderman Bunker
Seconded: Alderman Byrne

5. THAT the method of funding required to complete The Boulevard Redevelopment Stage 2 and the Goyder Square Redevelopment Stage 2 be determined following the outcome of funding submissions lodged and in conjunction with the preparation of the 2015/2016 budget.

CARRIED 8/1387–13/01/2015

Moved: Alderman Bunker
Seconded: Alderman Byrne

6. THAT the resolutions only be released to the Public Record.

CARRIED 8/1388–13/01/2015

5. MOVE TO OPEN

Moved: Alderman Byrne
Seconded: Deputy Mayor Malone

THAT the Council move into the open session.

CARRIED 8/1389–13/01/2015

The meeting moved to the Open Session at 8:30pm

CONFIRMED AT MEETING TO BE HELD 3 FEBRUARY 2015

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(Chair)

ITEM NO. **17.1** **Funding Options for Future Capital Works**

FROM: **Chief Executive Officer**
REPORT NUMBER: **8/0613**
MEETING DATE: **13 January 2015**

Municipal Plan:

4. Governance & Organisation

4.1 Responsibility

We are committed to corporate and social responsibility, the sustainability of Council assets and services, and the effective planning and reporting of Council performance to the community

Summary:

To provide Council with details of both committed and proposed capital works in the Central Business District and the impact these projects will have on Council's Long Term Financial Plan.

Background:

At the council meeting held on 9 December 2014, the following motion was carried:-

- *THAT officers provide a report to Council detailing the impact of both committed and proposed capital works in the Central Business District on the Long Term Financial Plan.*

For this report to be meaningful, I have used the 2013/2014 Annual Financial Statements as a starting point, then taking into account the most recent budget review for 2014/2015 which was adopted at the council meeting on 18 November 2014. This latest budget review includes capital projects (and their budget allocations) carried forward from the 2013/2014 financial year.

In terms of overall committed capital works, these can best be summarised as those works which have been approved by Council through the budget process. A detailed listing of these projects are mentioned later in this report, including specific CBD related projects.

The City of Palmerston (along with the majority of NT Councils), has historically used a combination of surplus operating income and Cash Reserves to fund its capital works program. To be more specific, the City of Palmerston has opted not to consider external loan borrowings to fund its purchase of new Assets or the renewal / replacement of existing Assets.

Over the last 6 years, Council has also generated significant income from land asset sales, which combined with significant cash surpluses on its annual budgets, has seen the balance of its cash reserves increase rapidly. This is reflected in our cash reserves balances as reported in our Annual Financial Statements:-

-	30th June 2009	$10,287,841
-	30th June 2010	$20,897,069
-	30th June 2011	$25,971,243
-	30th June 2012	$31,973,875
-	30th June 2013	$31,417,711
-	30th June 2014	$33,052,100

As Council's capital works program has been funded from a combination of surplus operating income and cash reserves, it is important to look back at the actual spend on capital works as reported in our Annual Financial Statements:-

-	30th June 2009	$ 1,473,817
-	30th June 2010	$ 3,205,404
-	30th June 2011	$ 5,045,742
-	30th June 2012	$ 4,226,419
-	30th June 2013	$ 2,034,401
-	30th June 2014	$ 2,714,888
-	Average over last 6 years	$ 3,116,779

This would indicate an annual capital works budget of around $3m can be achieved without any significant reduction to our cash reserves.

For the 2014/2015 financial year, Council's budget contains $14.74m in capital works, this has been subsequently increased by a further $3.97m (projects carried forward from 2013/2014) for a total capital works budget of $18.71m.

General:

This report has been written to provide a broad overview of council's finances and capital works program and does not seek to provide future financial projections balanced down to the last dollar.

As mentioned above, the balance of our cash reserves as at 30th June 2014 was $33m. The adopted budget for 2014/2015 included $14.74m in capital works which included:-

-	The Boulevard Reconstruction – Stage 1	$ 3,500,000
-	Yarrawonga Road Reconstruction – contribution	$ 2,500,000
-	Birripa Court Unit Development – part	$ 3,594,200
-	Archer Waste Management Facility	$ 1,402,000
-	Goyder Square Design & Planning	$ 400,000
-	Building Assets	$ 319,000
-	Yarrawonga Road North – Construction	$ 176,200
-	Reseal Program	$ 690,000
-	Bakewell School Crossing (Forrest Parade)	$ 300,000
-	LATM School Safety Assessment Upgrades	$ 400,000
-	Parks & Reserves	$ 636,000
-	Other Capital Works	$ 818,650
-	TOTAL	$14,736,050

In addition to this, the capital projects which were carried forward from the 2013/2014 financial year included:-

-	Birripa Court Unit Development – part	$ 2,040,578
-	Big Screen TV	$ 300,000
-	Durack Heights Community Centre	$ 750,000
-	The Boulevard – rollover of funds	$ 253,373
-	Yarrawonga Road North – part	$ 200,000
-	Lakeview Boulevard	$ 161,618
-	Other minor capital projects	$ 263,998
-	TOTAL	$ 3,969,567

The first budget review for 2014/2015 adopted by Council indicated that to fund the $18.7m in capital works, this would result in the reserve fund balances decreasing from $33m to $15.5m. This is on the assumption that Council continues to fund all capital works from cash reserves. A copy of the budget review statement which was presented to the council meeting held on 18 November 2014 is provided at **Attachment A**. It should also be noted that the construction of the Birripa Court unit complex represents a shift in investment methodology from cash deposits to real estate. The estimated value of the complex ($7m) could be added to the balance of the cash reserves as it represents a saleable asset in the future.

It should also be noted that it is unlikely that the full list of projects mentioned above will be completed by 30 June 2015. Therefore I expect our reserve fund balances to be >$20m at the end of the financial year (excluding the value of the Birripa Court unit complex).

I believe Council also needs to revisit its Borrowing Policy to enable it to have greater flexibility over the items which is seeks to fund through loan borrowings in the future. Currently the policy includes *"City of Palmerston will only borrow money for the purpose of procurement of an income generating asset".* A copy of the existing FIN20 Borrowing Policy is provided at **Attachment B**.

There are many capital items mentioned above which could be considered for funding via a loan borrowing, these include:-

- Yarrawonga Road Reconstruction
- The Boulevard Reconstruction
- Archer Waste Management Facility
- Durack Heights Community Centre

Generally any capital project which provides a long-term benefit to the community and is funded by loan borrowings effectively means the ratepayers who receive the benefit of the project contribute to its funding through their council rates.

The City of Palmerston is in an exceptionally strong position to consider funding a portion of its capital works through loan borrowings, this is due to:-

a) The Council currently being debt free;
b) Current interest rates being at historical lows;
c) Rateable capital growth from new assessments around 5% - 6% which is likely to continue for some time.

The current Borrowing Policy provides for a ‘Debt Service Ratio’ which places a limit on loan borrowings by creating a cap on loan principal and interest repayments as a percentage of revenue from continuing operations. The maximum percentage is currently 5% and based on the budgeted operating income of $25.6m for 2014/2015, this would limit annual repayments of loan principal and interest to $1.28m. By way of an example, if Council agreed to borrow $10m to fund capital works at an interest rate of 6% over a 10 year period, this would result in monthly repayments of $111,021 per month or $1.33m per annum – just over the 5% cap of $1.28m.

Although used sparingly in the Northern Territory, the use of debt is widespread in most councils across Australia. I have attached a recent publication *‘Debt is not a dirty word – Role and use of debt in local government’* to provide Elected Members with information on how debt is used by local government to purchase new works and to renew and replace existing infrastructure. This is provided at **Attachment C.**

The Report to this point has centred on “committed” capital works across council including specific CBD projects. Since the adoption of the 2014/2015 budget, council has agreed to a series of variations for the Goyder Square Design & Planning consultancy which has increased this budget from $400,000 to $650,000. These adjustments will be considered as part of the next budget review.

In terms of future commitments to CBD projects, Council passed the following motion at a Special Meeting of Council held on 20 November 2014:-

- THAT Council conditionally commit a minimum of $2m in capital funding to the Goyder Square Stage 2 project in the 2015/2016 Financial Year to allow the National Stronger Regions grant application to be submitted;

- THAT should Council’s application to the National Stronger Regions Fund for the Stage 2 development of Goyder Square be successful, that Council, in consultation with the NT Government, provide the balance of funding to complete the project.

At the Council Meeting held on 9 December 2014, Council passed the following motion:-

- THAT Council set the construction cost target at $4.5m (excluding GST), excluding contingency for the Goyder Square (Stage 2) project.

As the cost target of $4.5m does not include any contingency, it is considered a budget allocation of $5m will be required to complete this project.

In terms of The Boulevard Reconstruction Stage 2, staff has prepared an initial estimate (largely based on actual costings from Stage 1) which indicates a total project cost of $4.75m (this includes a 10% contingency, but does not include costs associated with the installation of traffic signals on Roystonea Avenue). As a matter of interest, the length of Stage 1 works measured 165 metres and Stage 2 will be 320 metres. It is reasonable therefore to also consider a budget allocation of $5m for this project.

In terms of funding applications submitted by Council to assist with meeting the estimated cost of $10m for these two projects, the following submissions have been made:-

- Australian Government – Department of Infrastructure and Regional Development *"National Stronger Regions Fund".* An application for $2m funding assistance was forwarded in November 2014 with successful projects to be announced in May 2015;

- NT Government – A detailed submission was forwarded to the Chief Minister and Deputy Chief Minister in late December 2014 requesting a financial contribution of $6m towards these two projects. A copy of this submission was also forwarded to Palmerston MLA's and the Member for Solomon. A copy of this submission is provided at **Attachment D**.

- NT Government – Details of these two CBD projects and an additional seven other infrastructure projects have been entered into the NT Government's "Building our Territory" website for funding consideration. This is the fund which has been established from part of the proceeds from the sale of TIO.

The NT Budget is generally adopted in mid-May and I would encourage Elected Members to lobby key MLA's to gain their support (hopefully financial) for the completion of these two key CBD projects.

The worst case scenario for council is if all requests for funding are unsuccessful and council is faced with meeting the full cost of $10m to complete these projects. Whilst there is still financial capacity in Council's Reserve Funds to meet the cost of these two projects, it would severely deplete our cash reserves and our ability to maintain sufficient funds in our Operating Bank Account in the lead up to our first rates instalment due date in 2016 which is late September.

It should also be remembered that these two projects are being identified in isolation from the balance of the 2015/2016 draft budget with these budget deliberations to commence shortly.

It is expected that the design work for The Boulevard and Goyder Square Stage 2 will be completed by mid-February and should Council seek to have these projects completed during the dry season, it will need to commence an open tender selection process once final designs are available from the consultants.

As Council has committed over $1m towards the design costs for these two projects and the initial stages of the projects have already been largely completed, I would recommend that these two projects be completed as a priority. The completion of these two projects will support the imminent building activity which is likely to occur along The Boulevard over the next three years.

Once these projects are completed, the private sector will 'take the lead' on CBD and surrounding areas development including projects such as:-

- Gateway Shopping Centre;
- Palmerston Hotel (Maluka)
- Maluka Mixed Use Development;
- Palmerston Boulevard Development (Super Block);
- Council High Rise Building (next to Library)
- NT Government Site (adjacent to Quest)

There are also several large projects which council will need to give consideration to funding in the future including:-

- Development of the Archer Waste Recovery Centre;
- Civic Centre Roof Replacement - $1.9m estimate
- Baban Place Stormwater Drainage Upgrade - $2.5m estimate;
- Archer Landfill Site closure costs - $4.5m estimate;
- Multi storey carpark;
- Swimming Pool;
- Relocation of depot and dog pound;
- Redevelopment of the Yarrawonga Depot site

Council also has considerable land assets that could be considered for development or sale in the future.

The current level of capital expenditure within council's budget is not sustainable into the future unless additional income is generated from grants, asset sales, loan borrowings or increased rate revenue.

With the current lease on the car park adjacent to the 'super block', set to expire in 2017 the development of a multi-level car parking facility in the CBD will become a priority to continue the development of the CBD.

Financial Implications:

Goyder Square Redevelopment Stage 2 - $5m
The Boulevard Redevelopment Stage 2 - $5m

Legislation / Policy:

Borrowing Policy FIN 20

RECOMMENDATION

1. THAT Council receives Report Number 8/0613.

2. THAT Council Borrowing Policy FIN20 be referred to the Governance and Organisation Committee for review;

3. THAT the Chief Executive Officer be delegated authority to commence an open tender process for The Boulevard Redevelopment Stage 2 and the Goyder Square Redevelopment Stage 2 once design work is finalised.

4. THAT Council seeks to complete The Boulevard Redevelopment Stage 2 and Goyder Square Redevelopment Stage 2 projects during the 2015 calendar year;

5. THAT the method of funding required to complete The Boulevard Redevelopment Stage 2 and the Goyder Square Redevelopment Stage 2 be determined following the outcome of funding submissions lodged and in conjunction with the preparation of the 2015/2016 budget.

6. THAT the resolutions only be released to the Public Record.

Recommending Officer: Ricki Bruhn, Chief Executive Officer

Any queries on this report may be directed to Ricki Bruhn, Chief Executive Officer on telephone (08) 8935 9902 or email ricki.bruhn@palmerston.nt.gov.au.

Schedule of Attachments:

Attachment A	Budget Review Statement presented to council meeting on 18 November 2014;
Attachment B	Council Borrowing Policy FIN20;
Attachment C	Debt is not a dirty word – Role and use of debt in local government;
Attachment D	Funding submission forwarded to the NT Government dated 24 December 2014

ATTACHMENT A

STATEMENT OF COMPREHENSIVE INCOME

		YTD Balance	Original Budget 2015	1st Review Increase/ (Decrease)	Reviewed Budget
Operating Income	Rates	21,153,342	22,105,952	(240,808)	21,865,144
	Statutory charges	430,801	733,056	58,100	791,156
	User charges	59,289	98,500	391,849	490,349
	Grants, subsidies and contributions	999,675	1,267,188	1,222,642	2,489,830
	Investment income	477,157	1,299,949	(385,349)	914,600
	Other income	66,860	84,413	32,335	116,748
	Total Operating Income	**23,187,125**	**25,589,059**	**1,078,769**	**26,667,828**
Capital Income	Asset Income	9,091	-	-	-
	Grants received	-	347,977	(347,977)	-
	Developer Contributions	231,174	200,000	200,000	400,000
	Total Operating Income	**240,265**	**547,977**	**(147,977)**	**400,000**
	TOTAL INCOME	**23,427,390**	**26,137,036**	**930,792**	**27,067,828**
Operating Expenses	Employee costs	1,835,670	6,492,417	(162,680)	6,329,737
	Professional Services	574,090	1,246,140	249,830	1,495,970
	Insurance	227,567	434,314	-	434,314
	Utilities	608,821	2,124,640	-	2,124,640
	Materials & Contractors	2,847,544	12,124,693	(139,856)	11,984,837
	Depreciation, amortisation & impairmt	2,279,599	6,838,796	-	6,838,796
	Elected Members Allowances	75,200	284,816	-	284,816
	Other Expenses	1,041,484	2,951,223	264,312	3,215,535
	Total Operating Expenses	**9,489,974**	**32,497,038**	**211,606**	**32,708,644**
Capital Works	Land Purchase	-	-	-	-
	Asset Purchase	51,995	185,000	3,151,150	3,336,150
	Asset Upgrade	1,118,758	14,551,050	818,417	15,369,467
	Total Capital Works	**1,170,753**	**14,736,050**	**3,969,567**	**18,705,617**
	TOTAL EXPENSES	**10,660,726**	**47,233,088**	**4,181,173**	**51,414,261**
	OPERATING SURPLUS / (DEFICIT)	**12,766,663**	**(21,096,052)**	**(3,250,381)**	**(24,346,433)**
	Less Depreciation	**(2,279,599)**	**(6,838,796)**	**-**	**(6,838,796)**
	Reserve Movements		**(14,257,256)**	**(3,250,381)**	**(17,507,637)**
	Transfer TO Reseves		(200,000)	(820,850)	(1,020,850)
	Transfer FROM Reserves		14,457,256	4,071,231	18,528,487
	NET OPERATING SURPLUS / (DEFICIT)		**-**	**-**	**-**

STATEMENT OF RESERVES

	Opening Balance	Original Budget 2015	1st Review Increase/ (Decrease)	Reviewed Budget	Balance at the EOY 2015
OTHER RESERVES					
Election Expenses	150,000	-	-	-	150,000
Disaster Recovery	500,000	-	-	-	500,000
Strategic Initiatives	500,000	-	-	-	500,000
Unexpended Grants	378,517	(50,000)	(158,664)	(208,664)	169,854
Unexpended Capital Works	3,912,567	-	(3,912,567)	(3,912,567)	-
Property	5,001,375	(3,594,200)	124,170	(3,470,030)	1,531,345
Plant & Equipment	1,291,451	(175,000)	31,043	(143,958)	1,147,494
Infrastructure	17,284,880	(10,638,056)	465,638	(10,172,419)	7,112,461
Developer Funds In Lieu Of Construction	3,925,967	200,000	200,000	400,000	4,325,967
Community Grants	107,343	-	-	-	107,343
Total Reserves	**33,052,100**	**(14,257,256)**	**(3,250,381)**	**(17,507,637)**	**15,544,463**

Name:	FIN20 Borrowing Policy		
Type:	Council Policy		
Owner:	Chief Executive Officer		
Responsible Officer:	Finance Manager		
Approval Date:	16/07/2013	Next Review Date:	1/09/2014

1 Purpose

This policy has been developed to assist Elected Members and City of Palmerston officers with the understanding of the parameters and considerations required by Council in the decision to borrow funds to ensure the sound management of cash flow and future debt of the City of Palmerston.

2 Principles

City of Palmerston is committed to operating in a financially sustainable manner under the adopted and maintained Long-Term Financial Plan. This policy establishes a decision framework to ensure that funds are available to support approved plans and projects, whilst interest rate and other risks are acknowledged and responsibly managed.

3 Definitions

For the purposes of this Policy, the following definitions apply:

Term	Definition
Borrowings	Any form of financial accommodation for example, an overdraft, a loan, hire purchase or instalment purchase agreement and the present value of future payments under a finance lease.

4 Policy Statement

4.1 Borrowing Purposes

City of Palmerston has a responsibility to ratepayers to employ the funds raised from borrowings in an efficient and productive manner. Adequate repayment of outstanding debt shall be spread equitably over time to be carried between present and future ratepayers.

Debt is not a productive or equitable use of City of Palmerston resources when used as a substitute for current revenue in maintaining or replacing the existing level of asset infrastructure, or for covering, whether directly or indirectly, the cost of interest on debt. City of Palmerston will only borrow money for the purpose of procurement of an income generating asset. Surplus funds that become available shall be utilised to reduce the term of existing loans where suitable.

Where City of Palmerston raises funds through borrowings, the funds will only be used for the purpose for which the loan was raised. If a borrowing is undertaken and the final cost is less than the total approved loan amount, resulting in unexpended loan funds, City of Palmerston shall not draw any further funds for any other purpose from that loan.

4.2 Borrowing Considerations

The following factors will be considered before City of Palmerston is making an allowance for borrowings:

- Items that shall be funded through borrowings will be identified in the Municipal and Long-Term Financial Plan supported by the appropriate Annual Budget ensuring long-term financial sustainability of City of Palmerston. This condition may be waived where an emergency or urgent matter requires borrowings and those borrowings complied with all other policy conditions.
- Borrowings will be taken up with appropriate financial institutions and funds will be obtained on a competitive basis having regard for minimising the net interest costs associated under consideration of risks (e.g. liquidity risks and investment credit risks).
- The structure, terms and repayment of any proposed borrowings will be analysed to result in significant interest savings.
- The impact and alternatives to borrowings, including alternative sources of revenue (e.g. special rates and charges), will be identified.
- Where the borrowings are for commercial purposes City of Palmerston will analyse whether the return on the investment can service the debt redemption, including consideration of community service obligations.
- City of Palmerston will identify the affordability of proposals having regard to the long-term financial sustainability (including consideration of the cost of capital and the impact of the proposal on City of Palmerston's Net Financial Liabilities and Interest Cover ratios) and the ability of City of Palmerston to meet the proposed debt servicing obligations.

4.3 Borrowing Conditions

4.3.1 <u>Type and source of borrowing</u>

- Borrowings will only be in Australian dollars
- Borrowings will be sourced at the most competitive rate from sources available under legislation with an appropriate financial credit rating. Financial institutions need to be APRA listed.

4.3.2 <u>Debt term</u>

- Maximum term for all loans will be set at a level commensurate with the expected length of time a benefit would be derived from the resulting asset and evaluated on a case by case basis but not exceeding twenty years.
- Small borrowings (<$3 million) will have a maximum term of ten years with consideration given to whether required funds can be sourced from existing cash reserves or through alternative income sources.
- Borrowings will be repaid over the physical life of the asset purchased as determined with ATO depreciation guidelines. Where the borrowings have not been repaid when the asset is sold, City of Palmerston will first apply the proceeds of the sale to the repayment of the loan source.
- Repayment of debt as quickly as possible and frequency of repayment at least bi-annually or more frequently subject to overall budgetary constraints, maximising efficiency and interest savings.
- City of Palmerston will review, at least annually, its forward projections for cash reserves, borrowings and major capital funding.

4.3.3 <u>Ratios</u>

- City of Palmerston selected the Net Financial Liabilities Ratio and the Debt Service Ratio as the key indicators of City of Palmerston's ability to sustain its level of debt.
- The Net Financial Liabilities Ratio shows the net financial liabilities (total liabilities less current assets) as percentage of total operating income. The ratio should not exceed the maximum of -50%.

- The Debt Service Ratio illustrates the debt service charges (loan principal and interest payments) as percentage of revenue from continuing operations (excluding capital items, specific purpose grants and contributions). The ratio should not exceed the maximum of 5%.

4.4 Approval for Borrowing

4.4.1 Overdraft

Under Section 123 Local Government Act. NT the Minister's approval is not required for an advance on overdraft if:

(a) The term of the advance does not exceed two months; and
(b) The amount of the advance does not exceed 2% of the council's total revenue income for the last financial year for which the council has an audited financial statement.

4.4.2 Minor Transaction

Under Section 123 Local Government Act. NT the Minister's approval is not required for a transaction classified as a minor transaction under guidelines issued by the Minister.
Under the guidelines City of Palmerston is a Schedule 1 council and a minor transaction therefore is an amount of $200,000 or less. This is a total amount inclusive of all borrowings that have not been approved by the Minster and includes overdraft facilities, financial leases, secured or unsecured loans, bank overdrafts, lines of credit or any other credit facility (including all credit card transactions).

4.4.3 Minister's Approval

All borrowings, other than the above mentioned (4.4.1 and 4.4.2), require Minister's approval under Section 122, 123, 124 and 125 Local Government Act. NT.
Minister's approval for borrowings is given only after consultation with the Treasurer. City of Palmerston may, with the Minister's approval, give security for a borrowing in the nature of a mortgage or charge over property. The Minster will consult with the Treasurer and will not approve a security over property, if in the Minister's opinion, it is essential that the property be retained in the ownership of the council.

4.4.4 Seeking Approval from Minister for Local Government

To seek approval for borrowings, City of Palmerston should forward a letter requesting to borrow money, including a business case, to the Minster for Local Government.
The letter needs to be accompanied with a detailed business case including, but not limited to:

- Details of the procurement including the assessment of its various options to fund the procurement.
- Forward cash estimates for at least three years and detailing the capacity and ability to service borrowing.
- A report on the current financial position and financial performance against its revenue and expenditure budget.
- Council minutes approving the procurement, approving the intention to borrow and approving the CEO to secure a loan.
- Planned financial agreements indicating the intended term of the borrowing, type of the principal and interest repayments, total cost of borrowing and conditions attaching to any securitisation. This information needs to be supported by a finance proposal from a lending institution.

4.5 Reporting Requirements

The Chief Executive Officer will provide Council on a monthly basis a report detailing the following:

- Total borrowings
- Debt Service Ratio
- Net Financial Liabilities Ratio

And for each loan:

- The purpose for which the loan was received
- Security provided for the loan
- The financial institution making the loan
- The type of loan
- The original loan amount
- Payments made in the reporting period
- The current outstanding balance on the loan
- The current interest rate
- Any default on the term of the loan

For financial management purposes debt will be carried in the accounts in accordance with City of Palmerston's major functions with the ability to individually identify the loans.

5 Associated Documents

5.1 City of Palmerston Fraud Protection Plan Policy
5.2 City of Palmerston Financial Management Policy
5.3 City of Palmerston Computer based Accounting Policy
5.4 City of Palmerston Internal Controls Policy
5.5 City of Palmerston Purchasing and Procurement Policy
5.6 City of Palmerston Delegation
5.7 City of Palmerston Investments Policy
5.8 City of Palmerston Reserve Policy

6 References and Related Legislation

6.1 Northern Territory Local Government Act
6.2 Northern Territory Local Government (Administration) Regulations
6.3 Northern Territory Local Government (Accounting) Regulations
6.4 Australian Accounting Standards
6.5 Ministerial Guidelines

DEBT IS NOT A DIRTY WORD

Role and use of debt in local government

Prepared by John Comrie
with support and project management assistance by
Institute of Public Works Engineering Australasia

February 2014

IPWEA
INSTITUTE OF PUBLIC WORKS
ENGINEERING AUSTRALASIA

ACELG
Australian Centre of Excellence
for Local Government

ACKNOWLEDGEMENTS

Some of the content of this paper has been reproduced with the kind permission of the South Australian Local Government Association from its *Financial Sustainability Information Paper 15, Treasury Management*.

ACELG would like to thank the following persons and organisations that have who provided research information and served as a reference group in the preparation of this paper. It is stressed that the views expressed in the paper are those of the author and not necessarily those of members of the reference group.

The reference group included the following:

- Giovina D'Alessandro, Department of Local Government, Northern Territory
- Mark Glasson, Department of Local Government and Communities, Western Australia
- Mark Grant, Local Government Victoria, Department of Planning and Community Development
- Sue Grau, Local Government Association of Tasmania
- Own Harvey-Beavis, Municipal Association of Victoria
- Shaun McBride, Local Government New South Wales
- Paul Schollum, Western Australian Local Government Association
- Brian Sharp, Department of Local Government Community Recovery and Resilience, Queensland
- Andrew Wardlaw, Burnie City Council, representing Local Government Managers Australia
- John Wright, Local Government Association of South Australia
- Local Government Association of Queensland.

ABOUT THE AUTHOR

This paper was prepared by John Comrie. John is a former council Chief Executive Officer and Executive Director of the Local Government Association of South Australia (LGASA) and the South Australian Government's Office for State/Local Government Relations. He has written much of the guidance material produced by the LGASA to assist councils to improve their financial sustainability strategies and performance. He also wrote the *Long-term Financial Planning Practice Note* published by the Australian Centre of Excellence for Local Government (ACELG) and the Institute of Public Works Engineering Australasia (IPWEA) and co-authored IPWEA's *Australian Infrastructure Financial Management Guidelines*. Earlier this year he wrote ACELG's '*In Our Hands, Strengthening Local Government Revenue for the 21st Century'* Working Paper.

ABOUT ACELG

ACELG is a unique consortium of universities and professional bodies that have a strong commitment to the advancement of local government. The consortium is led by the University of Technology Sydney's Centre for Local Government, and includes the University of Canberra, the Australia and New Zealand School of Government, Local Government Managers Australia and the Institute of Public Works Engineering Australia. In addition, the Centre works with program partners to provide support in specialist areas and extend the Centre's national reach. These include Charles Darwin University and Edith Cowan University. **www.acelg.org.au**

ABOUT IPWEA

The Institute of Public Works Engineering Australasia (IPWEA) is the professional organisation providing services and advocacy for those involved in delivering public works and engineering services to the community, both in Australia and New Zealand. IPWEA provides global leadership in infrastructure asset management and financial planning through its publications, education and training initiatives. **www.ipwea.org**

ABOUT LGMA

Local Government Managers Australia (LGMA) is the leading professional association representing managers and aspiring managers in local government throughout Australia and the Asia-Pacific. Its purpose is to promote excellence through the advancement of local government management. **www.lgma.org.au**

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Executive summary

The local government sector in all Australian jurisdictions has extraordinarily low levels of debt relative to the security and the level of its income base and the nature of its service responsibilities. On average councils have more money in the bank than they have debt. It is important to note however that what is true on average is not necessarily so for all or even most councils. The levels of borrowings (debt) and lendings (cash and other financial assets) are for example likely to vary significantly between individual councils.

Local government service provision is asset-intensive and local government infrastructure assets have on average long (but not infinite) useful lives. In such circumstances and unless a large share of the cost of the initial provision of infrastructure assets was financed by others (for example through grants from other governments and developer contributions) it is impossible over time for a council to finance the acquisition of new assets, while at the same time financing warranted asset renewal, without significant reliance on debt unless service recipients are charged excessively relative to the cost of services they enjoy. Under-use of debt will therefore result in inter-generational inequity in service provision and charging decisions, and/or an inability to accommodate needs and preferences for new capital works and asset renewal.

Previous studies have found that local governments are debt averse. Many (but not all) councils are likely to better serve their communities by making greater use of debt. For example many councils perceive that they have large asset renewal backlogs. If this is true it must be because councils don’t think they can responsibly afford to address these problems. This may well be true in some instances but not generally. Many councils have considerable capacity to deal with urgent asset renewal needs if they were willing and permitted to make greater use of debt.

The way debt is structured when it is raised (typically at a fixed interest rate with specified repayments required at regular intervals) often generates unnecessary cashflow pressures, greater vulnerability to interest rate changes, and higher net interest costs for councils. These sub-optimal financing and treasury management practices are not entirely the making of the local government sector. Current local government debt-related attitudes and practices are often encouraged in guidelines and requirements specified by jurisdictional authorities. In many cases these instructions reflect approaches that were commonly advocated in the cash accounting era. They are inconsistent with today’s local government operating environment with its emphasis in all jurisdictions on financially sustainable revenue-raising and service level decision-making guided by the use of long-term financial planning data based on accrual accounting techniques.

It is simply not possible for many councils to make significant improvement in their financial, asset management and service delivery performance without greater and better use of debt. If local governments are to make these improvements then changes in guidance and controls regarding borrowings will be required in most jurisdictions. Jurisdictional governments will also need to assist councils in explaining to their communities why, for a well-managed council, debt should not be viewed as a dirty word.

A relaxation on constraints on borrowing by councils could theoretically encourage excessive spending on projects and services that are unaffordable or sub-optimal. These risks will not materialise in practice if councils base revenue-raising and expenditure decisions on well-developed and financially sustainable strategic, asset management and long-term financial plans. In local government, debt levels should not be *'as low as possible'* in an absolute sense but should instead be as low as possible relative to what is needed by a council in order to provide affordable, preferred service levels on an ongoing basis whilst maintaining inter-generationally-equitable rating and charging decisions.

Many people are likely to be uncomfortable with the idea of local governments taking on more debt and changing their traditional borrowing and treasury management practices despite the objective merits of doing so. For change to occur it will be necessary to tread carefully in order to build confidence and understanding. As a first step it is suggested that representatives of jurisdictional local government associations and local government regulatory agencies and national local government peak bodies meet to explore the merit of collaborative activity to consider reforms to promote better use of debt by local governments.

The conclusions and suggestions made in this paper are necessarily general. They are likely to be applicable to a greater or lesser extent to the circumstances of most councils, and particularly to those that generate most of their revenue from sources they control and from secure, ongoing sources of grants. Some of the findings and proposals may be less relevant, or irrelevant, to councils that are unable to markedly control their long-term financial destiny predominantly through their own efforts.

1 Introduction

Numerous reports over the past decade have highlighted the typical low levels of debt of local governments in all jurisdictions throughout the nation.[1] These reports have often claimed that many councils have the capacity to better serve their communities by making more extensive use of debt.

Local governments are by far the most 'asset intensive' sphere of government in Australia.[2] A high proportion of the operating costs they incur are associated with initially providing and then operating, maintaining and renewing long-lived infrastructure assets.[3] The local government sector widely believes, and various reports have suggested, that many councils are significantly under-spending on warranted asset renewal. Many councils also perceive that they have inadequate capacity to invest in additional infrastructure needed to expand and upgrade services and/or accommodate growth.

This paper will argue that two prime causes of many councils' financial challenges are their aversion to greater use of debt and problematic debt repayment arrangements. In fairness, this aversion to debt and sub-optimal repayment arrangements are often encouraged by legislative frameworks and instructions developed at the jurisdictional level that direct and guide local government decisions and practices.

Much of the infrastructure from which local government services are provided is long-lived but it doesn't last forever. A council's optimal outlay levels to renew and replace assets and augment infrastructure stocks can vary considerably over time. This paper will show that it is likely to be impossible in these circumstances for councils to meet infrastructure outlay needs and treat different generations of ratepayers equitably (in terms of services provided relative to rates and charges levied) without extensive use of debt.

In the sections that follow the reasons for the often inadequate and inappropriate use of debt by councils are explored. Also discussed are strategies that could help councils make more effective use of debt to the advantage of ratepayers and service recipients on an ongoing basis.

> *"two prime causes of many councils' financial challenges are their aversion to greater use of debt and problematic debt repayment arrangements"*

[1] See for example Ernst & Young's findings (2012, p.31) and their reference to findings of other reports (p.28). See also Department of Regional Australia, Local Government, Arts and Sport (2010, p.17-18).

[2] For example, research undertaken by the Local Government Association of South Australia suggests that SA councils have approximately three times as many assets relative to income as the SA Government, and that the SA Government has about three times as many assets relative to income as the Commonwealth. There is no reason to believe local governments elsewhere would be less asset-intensive.

[3] Depreciation alone represented 20% of total local government GFS expenses in 2010/11. See Comrie Table 1.

2 Financial fundamentals

Analysis, commentary and arguments made in this paper are based on the application of accrual accounting concepts and generally accepted local government financial strategies. Some critical terms and concepts used in this paper are outlined below.

2.1 Definitions

i). This paper will refer to loans as 'borrowings' and monies held on deposit with financial institutions as 'lendings' in accordance with Government Finance Statistics (GFS) conventions.[4] A borrowing provides a borrower with cash but it is important to recognise that this is not income. A borrowing creates an asset (cash) and a liability (an obligation for repayment). Interest incurred on outstanding borrowings is an expense but repayment of the borrowing itself (the 'principal') in full or in part is not. Principal repayments simply result in a reduction in assets (cash) and liabilities.

ii). The terms 'financing' and 'funding' are often used interchangeably but in this paper and commonly in public finance literature the two terms have different meanings. 'Funding' refers to the raising of revenue (for example in a local government context through rates, user charges, grants, subsidies and contributions). 'Financing' describes how payment for an outlay is accommodated. This could for example be through an entity utilising its financial assets (e.g. cash held in a bank account) or by an arrangement to use another entity's funds (e.g. by raising a borrowing). While 'financing' and 'funding' are different functions they are interrelated. For example, where total outlays in a particular year cannot be met from revenue in that year, some outlays may be financed by raising a borrowing but the servicing of the borrowing will need to be funded from revenue over a period of time. Thus, decisions regarding raising borrowings are not funding strategies – they are financing strategies.

2.2 Concept

i). A borrowing, whilst not income per se, does allow timing mismatches between income and expenditure outlays to be overcome. It allows income to be harmonised and balanced with expenditure over time. This is effectively what happens when a first home buyer takes out a mortgage to finance the purchase of a dwelling.

2.3 Aim

i). It is these days broadly accepted that councils should strive to achieve small accrual accounting operating surpluses on average over time.[5] This is encouraged, for example, through guidelines and regulatory frameworks in all Australian jurisdictions.

[4] GFS is a reporting format used to enable standardised financial reporting by governments in Australia.

[5] Throughout this paper the term 'operating surplus' is used to mean the difference between accrual accounting operating income and expenses exclusive of capital revenue. Capital revenue is widely defined to include grants specifically for capital works and physical assets gifted to local governments and it is that definition that is applied in this paper. How big a surplus could be and still be considered small is debatable. It is widely accepted though in a local government context that an operating surplus of up to 10% of operating revenue would generally be reasonable. For example, Queensland Department of Local Government, Community Recovery and Resilience (p.16) recommends an operating surplus of between 0% and 10%.

2.4 Consequences of achieving / not achieving aim

i). If a local government is able to achieve a small operating surplus on average over time it will effectively generate funds which are approximately sufficient to offset consumption (i.e. depreciation) of existing assets. On average and over time it should therefore also have approximately sufficient capacity to accommodate asset renewal requirements without the need to raise additional borrowings. Unless it generated large ongoing operating surpluses over time, it would still need to raise additional borrowings as a consequence of the purchase of additional assets or the replacement of assets with ones that deliver a higher level of service.

ii). If a local government was generating large ongoing operating surpluses this may call into question the inter-generational equity of its taxing, pricing and service level decisions.[6] Effectively, in such scenarios ratepayers and service recipients will during times of surplus have paid more than the costs associated with service provision.

iii). If a local government has on average, over time:
   a) not achieved at least a small operating surplus and
   b) not raised additional borrowings as a consequence of the need to finance the acquisition of additional/upgraded assets,

   then it will not have the capacity on average over time to be able to fully finance asset renewal needs without raising additional borrowings.

iv). If a local government raises borrowings as a consequence of the need to finance the acquisition of assets, and thereafter on average over the life of the assets achieves a small operating surplus, it will generate sufficient financial assets to repay these borrowings over the useful life of the assets. However it will probably not (depending on the extent of the average operating surplus) be able to do this and also finance subsequent renewal of those assets without raising further borrowings.

v). If a local government raises borrowings as a consequence of the need to finance the acquisition of assets, and thereafter on average over the life of the assets achieves a small operating surplus, it will generate sufficient financial assets to repay these borrowings over the useful life of the assets but will probably not (depending on the extent of the average operating surplus) be able to repay these borrowings over a materially shorter period.

2.5 Summary

Any well-managed organisation;

i). that is dependent on a large investment in infrastructure assets to deliver its service objectives

ii). that needs to be mindful of intergenerational equity in generating revenue to offset service costs and

iii). that has to fund initial provision of a large share of its asset base from service recipients (as opposed to funding it from capital contributions from others),

[6] Inter-generational inequity occurs when ratepayers and service recipients are over-charged relative to the cost of service provision during one period of years and (potentially a substantially different aggregate mix of) ratepayers and users are under-charged relative to cost in other periods of years.

is probably justified in having a considerable level of borrowings. This is particularly so if the organisation needs to provide (and finance) additions and enhancements to its stock of infrastructure assets over time. An infrastructure intensive organisation that prefers to keep debt levels very low is likely to under-invest in new additional infrastructure and/or asset renewal relative to what its operating income stream would allow.

> *"An infrastructure intensive organisation that prefers to keep debt levels very low is likely to under-invest in new additional infrastructure and/or asset renewal relative to what its operating income stream would allow"*

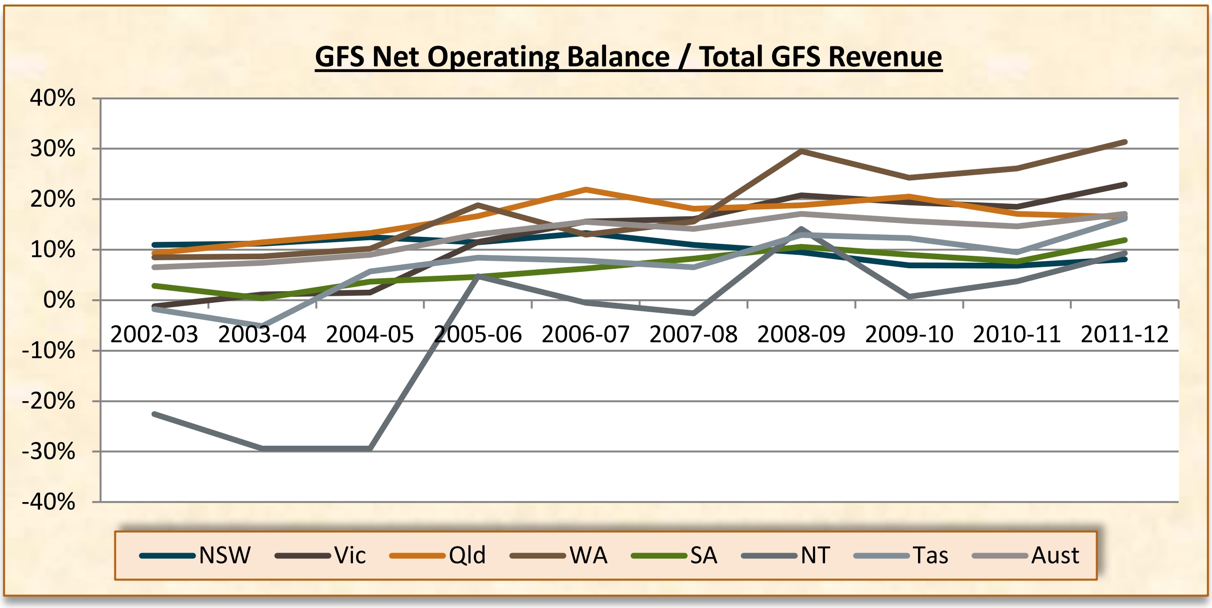
3 Review of local government debt and financial performance

In 2007 all Australian jurisdictions committed to nationally consistent 'frameworks on local government asset and financial management', developed by the then Local Government and Planning Ministers' Council. In 2009, the ministerial council agreed to enhance the frameworks with the support of Commonwealth funding.[7] These decisions were prompted by the Australian Local Government Association's National Financial Sustainability Inquiry (conducted by PricewaterhouseCoopers), and by similar preceding inquiries undertaken in most jurisdictions and other related reports.[8] The national frameworks and Commonwealth funding through its Local Government Reform Fund, together with the findings of the various jurisdictional financial inquiries have in all jurisdictions been catalysts for legislative reforms and support programs aimed at enhancing local government asset management and financial planning and decision-making processes and outcomes.

Many councils are now achieving, or at least progressing towards, achievement of satisfactory operating results. This is highlighted in Graph 1 below. This graph shows nationally and by jurisdiction over time the local government sector's GFS revenue less expenses, all expressed as percentages of revenue.

[7] See Local Government and Planning Ministers' Council.
[8] See for example the Productivity Commission's Assessing Local Government Revenue Raising Capacity Research Report.

Figure 1: Local government sector GFS revenue less expenses all as percentage of revenue



Source: ABS 5512 General Government Local

Key observation:

- In all jurisdictions:
  - There has been an upward trend in GFS revenue relative to GFS expenses over time.
  - GFS revenue now exceeds GFS expenses.

It is important to note that revenue in Graph 1 includes capital revenue. If this amount could be excluded the above would closely reflect the collective operating result of the local government sector expressed as a percentage of total operating revenue. Capital revenue may represent in the order of 20% of total revenue, although this amount will vary over time and between jurisdictions. Nevertheless even discounting for this variation it is reasonable to assume that in many jurisdictions many councils are achieving operating surpluses, or at least do not have significant operating deficits.[9]

It also needs to be emphasised that the results portrayed in Figure 1 and other graphs in this section represent average performances across the local government sector (by jurisdiction or Australia-wide). Some (and perhaps many) councils will undoubtedly have better results than the average and others will have worse-than-average results. These variations will counter-balance each other.[10]

Figure 2 below shows the local government sector's gross interest expenses as a percentage of total GFS expenses nationally and by jurisdiction over time.

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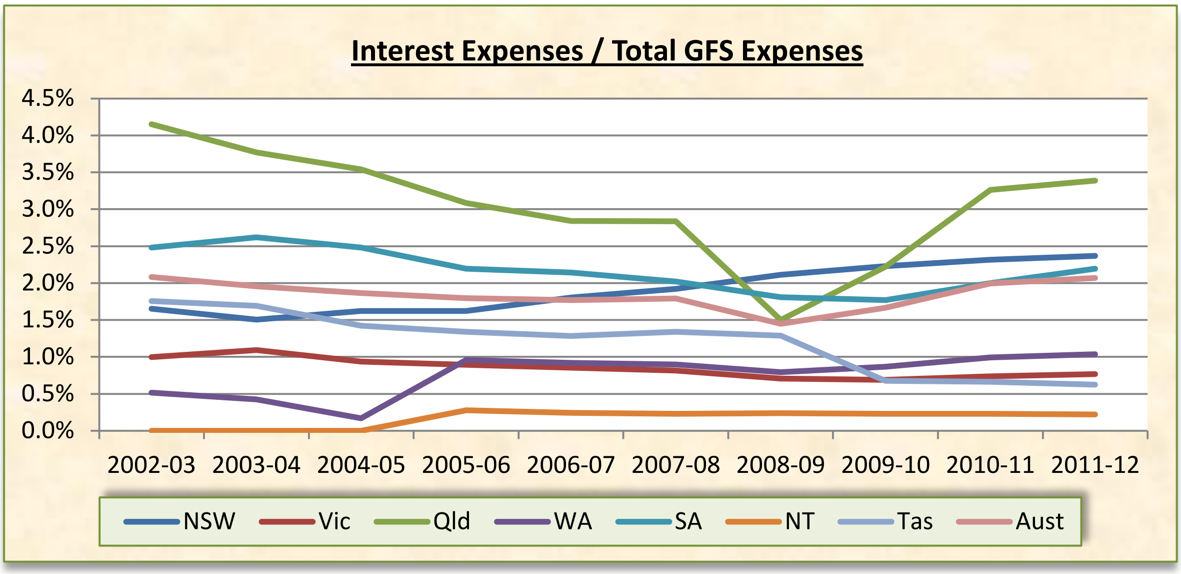
[9] ABS 5512 does not separately identify the capital revenue component of total GFS revenue. Capital revenue is included in, and likely to be the majority of, the amount shown as 'Other' in that publication.

[10] Information on the financial performance of individual councils is not publicly available except in each council's annual reports. It is the author's view from his general knowledge of the financial performance of local governments in all jurisdictions that the observations made regarding the sector's performance are generally applicable to many (but not all) councils.

Figure 2: Local government sector interest expense as percentage of total GFS expenses



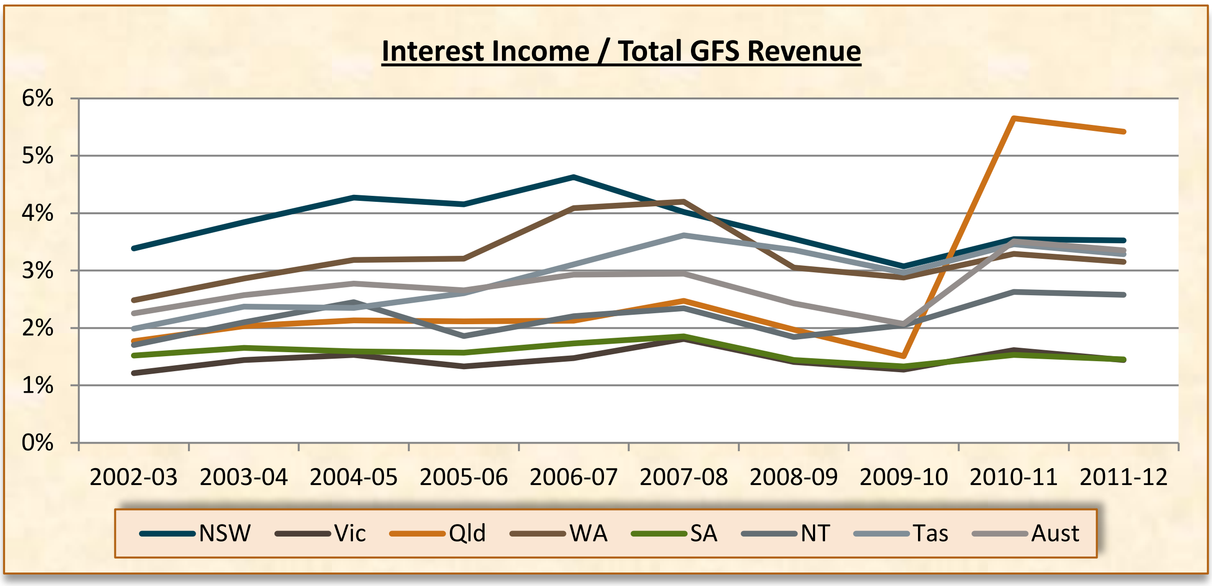
Source: ABS 5512 General Government Local

Key observation:

- Interest expenses represent only a very small share of total expenses of the local government sectors in all jurisdictions (on average 2.1% in 2011/12).

Any discussion of debt levels in local government needs also to have regard to the extent of local governments' financial assets (cash at bank, monies invested for short and longer periods etc.). As will be discussed in more detail elsewhere in the paper, local governments often have substantial financial assets. Figure 3 below shows interest income as a percentage of revenue nationally and by jurisdiction over time.

Figure 3: Local government sector interest income as percentage of revenue



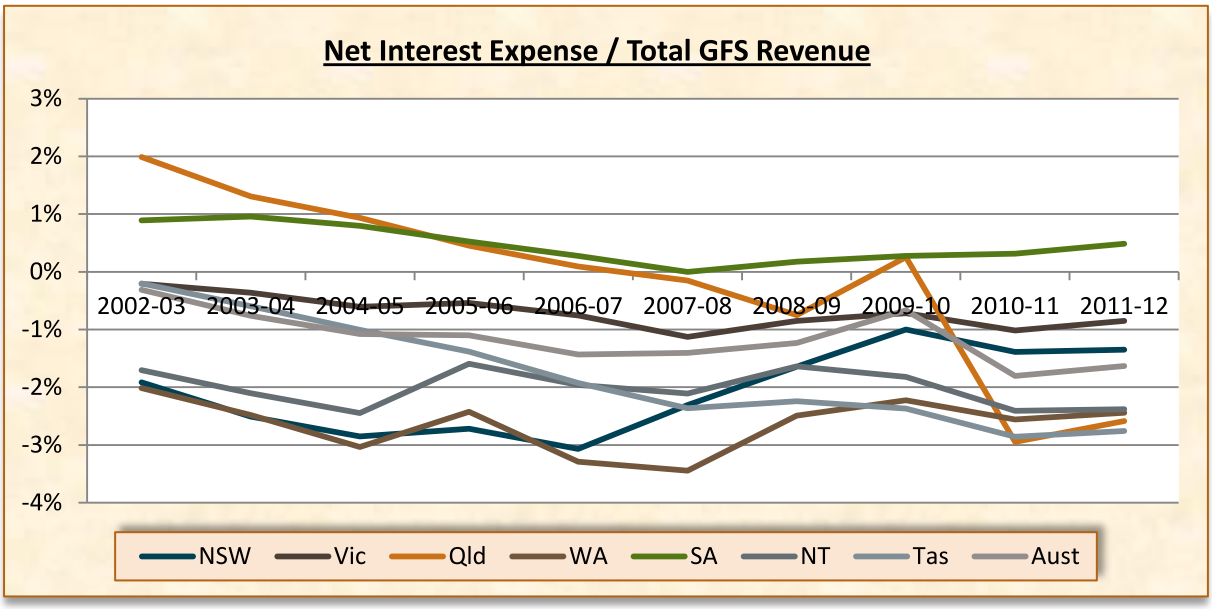
Source: ABS 5512 General Government Local

Key observation:

- The level of income from interest relative to total GFS revenue:
  - has remained relatively stable in most jurisdictions over time.
  - varies significantly between jurisdictions. In part this is likely to reflect a legislated requirement in some jurisdictions to retain monies received for some specific future purposes until expended and differences in local government responsibilities (in particular for water supply) between jurisdictions.

Figure 4 below shows the differences between interest expense and interest income (i.e. net interest expense) as a percentage of revenue nationally and by jurisdiction over time.

Figure 4: Local government sector net interest expense as percentage of revenue



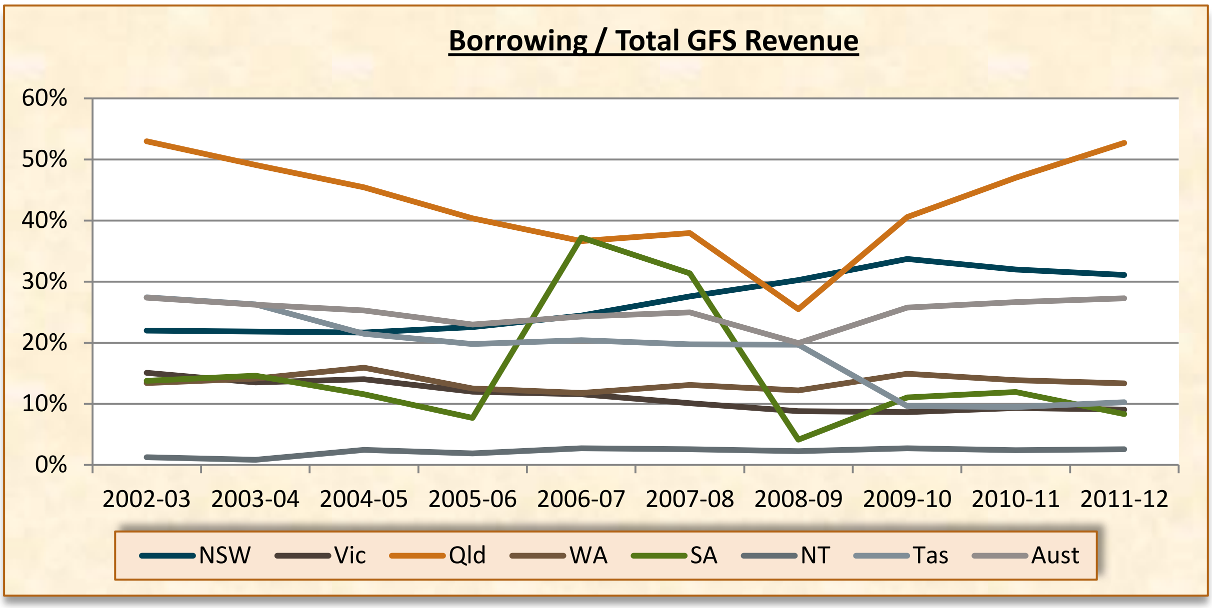
Source: ABS 5512 General Government Local

Key observation:

- Nationally, and in most jurisdictions throughout the past decade, councils on average have been generating more interest income than they have been incurring interest expenses.

The magnitude of interest expenses incurred is a function of both interest rates charged on debt and the amount of outstanding debt (borrowings). Figure 5 below shows local government sector outstanding borrowings at year end as a percentage of revenue nationally and by jurisdiction over time.

Figure 5: Local government sector borrowings as percentage of revenue



Source: ABS 5512 General Government Local

Key observations:

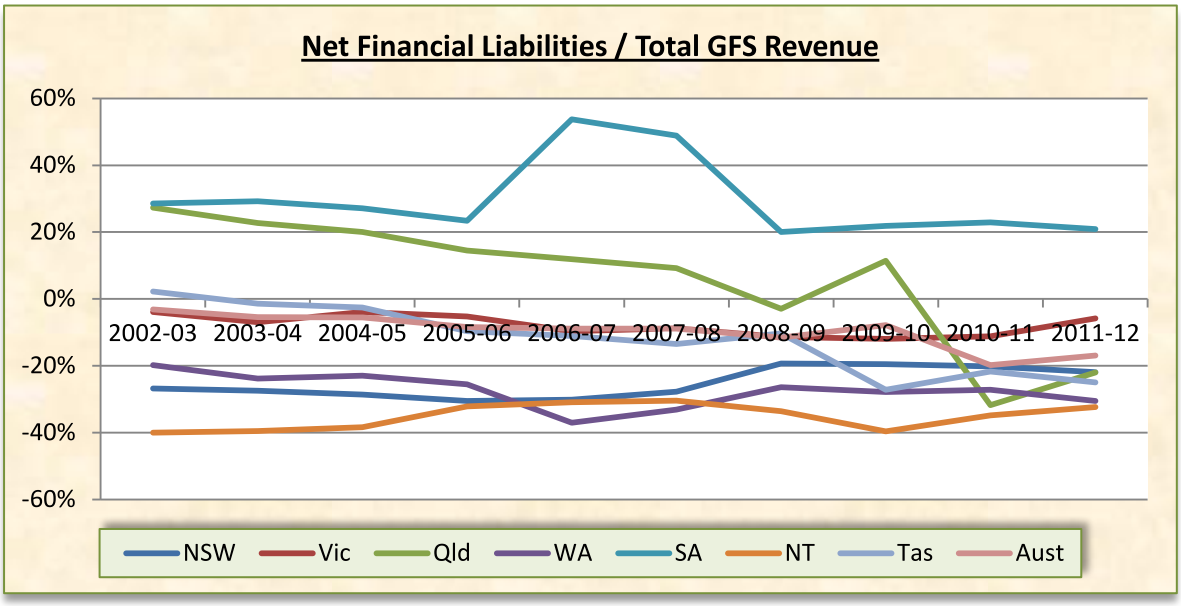
- Borrowings by local governments as a percentage of GFS revenue are very low on average in all jurisdictions. The national average as at 30 June 2012 was 27%. To put this in context it can be thought of as somewhat similar to a household with a $60,000 annual income having a mortgage of $16,200 and no other debt.[11]
- On average Queensland and New South Wales councils have higher levels of borrowings than elsewhere. This is probably primarily a reflection of the fact that the local government sectors in these jurisdictions have more extensive water supply responsibilities than elsewhere.

Borrowings are only one particular type of liability, and it is unwise to focus just on this one type. Local governments have other liabilities too (for example accounts payable and provisions for employee entitlements). As indicated above they also often have substantial financial assets that should be included when assessing net indebtedness. A metric commonly applied in the public sector that takes account of all the above factors is net financial liabilities. Net financial liabilities are total liabilities less financial assets. The Australian Infrastructure Financial Management Guidelines (Institute of Public Works Engineering Australasia (IPWEA) 2008) and Long-term Financial Planning Practice Note 6 (Australian Centre of Excellence for Local Government (ACELG) & IPWEA 2012) recommend that local governments set targets for net financial liabilities as a percentage of operating income (known as the net financial liabilities ratio) and publish projected and actual financial performance for this ratio in their budgets, long-term financial plans and annual reports. Most Australian jurisdictions now require or encourage their local governments to so report.

Figure 6 below shows the local government sector's net financial liabilities as a percentage of GFS revenue nationally and by jurisdiction over time.

[11] To take the analogy a step further, local governments on average had as at 30 June 2012 assets equivalent to 10 times their annual income. The local government 'household' could therefore for comparative purposes be thought of as owning a house worth $600,000. There are some differences of course. Most local government assets can't be sold but local governments' incomes are much more secure than those of householders, and financial institutions consider secure income to be more attractive collateral than a mortgage over a property.

Figure 6: Local government sector net financial liabilities ratio



Source: ABS 5512 General Government Local[12]

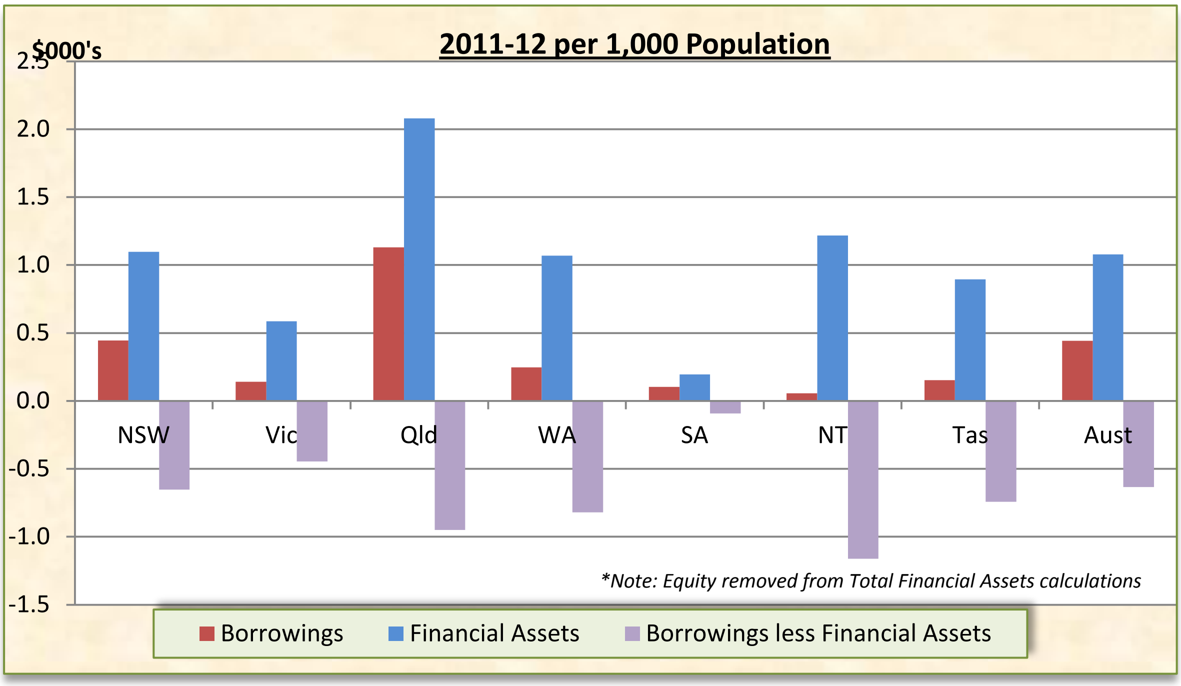
Key observations:

- The level of net financial liabilities of local governments is, on average in most jurisdictions, negative. That is, they have more financial assets than total liabilities.
- The net financial liabilities ratio of local governments has, on average in most jurisdictions, remained relatively stable over time.

Figure 4 indicates that councils collectively are generating more interest income than they are incurring interest expenses. Given that interest rates on borrowings must on average be higher than interest rates on lendings, it follows that councils collectively must have significantly more lendings than they do borrowings. Figure 7 below shows the stock of borrowings and financial assets and the net difference between these two amounts for the local government sector in each jurisdiction as at 30 June 2012 expressed per thousand of population.

[12] Data used to compile Graph 6 has been sourced from ABS balance sheet (i.e. Table 3) data for each jurisdiction. GFS financial assets include equity investments by entities. These amounts have been removed from the calculation of net financial liabilities in Graph 6.

Figure 7: Local government sector stock of borrowings, financial assets and net borrowings per '000 population



Source: ABS 5512 General Government Local and ABS 206084 (Sep 2012)[13]

Key observations:

- In all jurisdictions borrowings are less than financial assets.
- The stock of borrowings and financial assets and the net difference between these two amounts expressed relative to population varies significantly between jurisdictions.

It is intriguing that councils on average have more lendings than borrowings particularly given that many councils perceive they are unable to adequately finance warranted asset renewal works and interest rates on lendings are less than on borrowings.

Part of the answer could be that the performance of the sector on average can mask the circumstances of individual councils. It is no doubt true that there are some councils with modest levels of lendings and significant borrowings, and other councils have significant holdings of financial assets and very low levels of borrowing. However the author believes that there are likely to be more councils that have significant levels of borrowings that also have similar or greater levels of lendings.[14] This could be because of one or more of the following:

- Councils have traditionally had a poor understanding of sound treasury management practices.[15]
- Councils prefer to borrow for specific projects and at the same time build financial asset holdings for specific future purposes.
- Councils perceive it to be prudent and responsible to build holdings of financial assets.

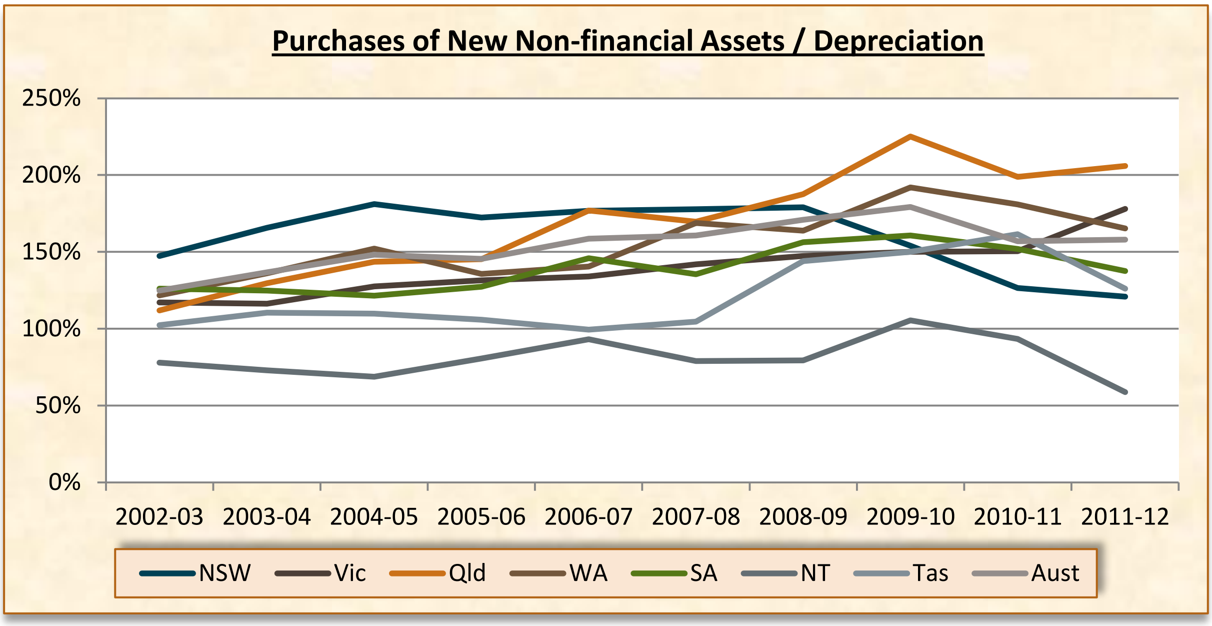
[13] Data used to compile Graph 7 has been sourced from ABS balance sheet data for each jurisdiction (i.e. Table 3). GFS financial assets include equity investments by entities. These amounts have been removed from the calculation of financial assets in Graph 7.
[14] The author, through his regular conduct on behalf of IPWEA of long-term financial planning training courses for local governments and other work, has had the opportunity to study the balance sheets of a reasonable sample of local governments in all jurisdictions.
[15] See Section 4 for a definition and discussion of treasury management.

- Interest earnings are an important ongoing income source for some councils. They are often reluctant to forfeit these earnings by spending their holdings of financial assets.
- The practices described above are encouraged by guidelines or required by instructions issued by advisory and regulatory bodies.
- At the end of each year councils have on average substantial carry-over works for which monies have been generated but not yet expended.

The above issues are explored more fully in subsequent sections of this paper.

There has been considerable focus over the past decade on local governments' asset management responsibilities. In many jurisdictions councils are now encouraged to monitor annual spending on asset renewal relative to annual rates of asset consumption. Figure 8 below shows the annual level of spending on physical asset acquisition relative to depreciation for the local government sector in each jurisdiction over time.

Figure 8: Local government sector purchases of physical assets as percentage of depreciation



Source: ABS 5512 General Government Local

Key observations:

- In almost all jurisdictions the level of annual spending on physical asset acquisition has consistently and significantly exceeded the rate of consumption of existing assets; that is the real value of the base of physical assets is growing over time.
- In most jurisdictions there has been an increase over time in the level of spending on physical asset acquisition relative to the rate of consumption of existing assets.

It needs to be noted that data upon which Graph 8 is based includes outlays for asset renewal, for new assets and for the upgrading of existing assets to higher levels of service. Figure 8 would be more meaningful if it was able to compare outlays on renewal of assets only with annual depreciation levels. Australian Bureau of Statistics (ABS) data does not break down spending on physical asset acquisition. Consequently it does not show spending on additional assets (including upgrading of existing assets) to provide higher service levels compared with spending on replacement or renewal of existing assets to maintain similar service levels. It is likely that a large share of capital spending on infrastructure is associated with new additional or upgraded assets (possibly 50% or more). Nevertheless if a council is acquiring new additional or upgraded assets rather than renewing older assets it presumably believes that such decisions best enhance the overall welfare of their communities (subject to the comment immediately below). In some cases investment in additional assets rather than in renewal of existing assets may be beyond a council's power to control. For example:

- Demands associated with development growth may have necessitated outlays on new infrastructure.
- Some new additional or upgraded asset acquisitions would have been funded by councils from capital revenues that would have been provided to councils specifically for these purposes.

From the results of a range of metrics the graphs presented above clearly illustrate that in all jurisdictions local governments on average (i.e. at least at a sector-wide level) have:

- Surprisingly low levels of debt relative to their levels of income and considering the nature of their service responsibilities.
- The costs associated with holding debt are clearly not on average a significant factor in any financial pressures councils may be facing.

It is particularly striking that on average local governments have more money invested in lendings than they have debt. It is likely therefore that for many individual councils, lendings exceed borrowings. It seems odd that this should be the case for a sphere of government that is very dependent on physical (i.e. non-financial) assets for service delivery and which often claims not to have the capacity to address identified asset renewal needs.

4 Local government debt management theory

This section provides a general overview of the principles relevant to management of debt in the context of the general operating environment of Australian local governments. Some of the concepts and situations described here have been simplified for purposes of brevity and to best meet the needs of a general audience. Operating circumstances vary between councils and legislation varies between jurisdictions. Councils should not rely on the proposals suggested in this section without consideration of their specific circumstances.

4.1 What is treasury management?

This paper frequently uses the term *'treasury management'*. Treasury management refers to the ways in which borrowings are raised and cash and investments are managed. Treasury management practices can have a significant effect on an entity's net interest costs and interest rate risk exposure.

"A council's treasury management strategy should aim to keep debt levels as low at any point in time as its annual budget and long-term financial plan and associated cash flow projections allow"

A council's treasury management strategy should aim to keep debt levels as low at any point in time as its annual budget and long-term financial plan and associated cash flow projections allow. [16]

4.2 Debt management practices need to reflect operating circumstances

As highlighted in Section 2, raising debt does not generate income. Additional debt does not allow a council to acquire things it could not otherwise afford. Debt is a financing option, not a funding one. It simply enables the borrower to accommodate timing mismatches between spending and income. If an entity's long-run income projections are less than its projected outlays, then raising more debt won't solve the problem. The additional interest expenses incurred will only make matters worse.[17]

The above is true for all entities whether they be individuals, businesses or governments. The appropriate extent of use of debt, and how debt should best be structured, will vary between entities depending on their operating environments and capacity to manage risk.

It might be appropriate for some first home buyers to borrow at fixed interest rates as they may have little capacity to accommodate a potential increase in interest rates. It might make sense for retirees living on modest incomes, or farmers whose future incomes are uncertain, to strive to minimise debt levels. It might be justifiable for a business to ensure it always has enough cash (current financial assets) to meet liabilities that will fall due in the near future (current liabilities). If it doesn't have money available and can't subsequently generate borrowings to meet liabilities when they fall due then its ongoing survival may be threatened.

[16] A model treasury management policy developed by the South Australian Local Government Association for consideration for adoption by SA councils is included as an appendix to LGA Financial Sustainability Information Paper 15 (Treasury Management).

[17] Unless of course the raising of the borrowing enabled the financing of a strategy (e.g. purchase of an asset) that will lead to higher levels of future income or lower levels of future expenses.

In several important respects, local governments differ from the individuals/entities in the examples above. In most cases local governments have a high degree of certainty regarding their future income projections (far more so than other spheres of government in Australia) and they have taxing powers that (generally) give them the capacity to raise more money if they need to.[18] These factors tend to suggest that the extent of use of debt and the way borrowings are best structured by councils may not necessarily be the same as what is appropriate for many other classes of entity.

There is no specific amount of debt that is right for a council. Whether it has too much debt, or whether it can afford more, depends on:

- its community's needs for services
- the council's existing and projected future level of operating costs relative to revenue and
- the council's willingness and capacity to raise additional revenue if required.

A soundly based long-term financial plan can help a council to make decisions about affordable and appropriate levels of debt. A council with high debt levels may be more financially sustainable than one with low levels of debt. The reality is that some well-managed councils will need more debt than others at particular times. To pay for its infrastructure requirements a council with a peak in development activity and expenditure needs associated with rapid growth is likely to need to borrow more than a mature council with little growth, just as a first home buyer is likely to need to borrow more than someone who purchased their home many years ago.

> *"A soundly based long-term financial plan can help a council to make decisions about affordable and appropriate levels of debt"*

Generally, a council with an operating deficit has a correspondingly reduced capacity to raise additional debt (since interest costs will add to its operating deficit and therefore further jeopardise financial sustainability). However, additional debt may be justifiable where the council is committed to reducing other expenses or is willing and able to progressively increase its revenues over time.

4.3 Margin between borrowing and lending interest rates

At any given time interest rates charged on borrowings must necessarily be higher than the rates that can be earned on a lending with similar terms and levels of risk. If the average difference was, say 1.5% per annum, then a council which was planning to borrow, but had cash and investments of at least equivalent value, would be better off (by 1.5% per annum of the outstanding balance of the borrowing) if it utilised its own financial assets to avoid or defer such a borrowing.

In theory a council that had no debt and no outstanding immediate asset renewal needs could still justifiably have large holdings of financial assets. In practice though, this scenario is likely to be the exception for most councils in most periods.[19]

[18] This is of course less so in the case of councils where 'own source' revenue represents only a small share of ongoing operating revenue. Also, NSW councils need to obtain approval from the NSW Independent Pricing and Regulatory Tribunal to increase rates beyond the annual rate pegging specified increase.

[19] A council could for example be holding financial assets because it is legally required to do so. Councils in some jurisdictions are required to hold developer contributions in the form of financial assets until the funds are outlaid on infrastructure consistent with the purpose the monies were received. A council may also have material carry-over commitments from one period to the next, but if this occurred on an ongoing basis it is likely to imply that its budget planning/project management processes warrant reviewing. Also a council could be consistently generating more revenue than it is incurring expenses for each year and may therefore be accumulating

4.4 When to borrow and liquidity needs

The uncertainty associated with revenue projections in the business world means that lenders, shareholders and boards of management place considerable emphasis on the financial liquidity (available cash) of private firms. A commonly utilised financial indicator in the private sector is the 'current ratio' (the ratio of current assets to current liabilities). Such concepts and ratios are generally likely to be of little if any relevance in local government contexts given that most councils have highly reliable income streams. This is particularly so when:

- legislation does not constrain the raising of additional borrowings or decisions by councils to raise higher levels of annual revenue and
- councils have ready access to a wide range of borrowing providers and/or competitively priced borrowing products.

If a council can raise more revenue and increase borrowings when and if it needs to, then its liquidity needs are likely to be very different to those of an entity that does not have such certainty. In these circumstances it would make little sense for a council to maintain high levels of liquidity if available funds could instead be used to cost-effectively reduce liabilities (even temporarily). A council faced with this scenario would be better off if it had negligible cash and investments at most times and raised additional funds, through borrowings, only when required to do so due to cash flow needs. It could readily achieve this by having in place arrangements that would enable it to draw down available approved borrowings at short notice and repay all or part of the outstanding balance as soon as circumstances permitted.

A rational person would pay off credit card debt in full if possible (and thereby avoid interest charges) rather than only make the required minimum monthly payment and keep money in the bank (either for a rainy day or for a specific future purpose). Councils should operate in the same manner. There is no point in councils borrowing money in situations where they already have sufficient cash and liquid investments available to meet immediately foreseeable needs.

In general, it is nearly always more cost effective for a council to meet expenditure needs by first using any surplus cash and investments currently available (even if these are surplus only for a short term) before undertaking a new borrowing. This is the case even if using existing funds only defers the need to borrow for a short period of time. Councils should only borrow when they have insufficient cash and liquid investments to carry out approved activities and services and pay for them at the required time.

4.5 Interest rate risk exposure

Future interest rate movements up or down (particularly over the medium and longer-term) are always uncertain and a council's exposure to interest rate risks cannot be eliminated. However, interest rate risk can be, and should be, managed.

A council is exposed to interest rate risk whenever it borrows, or lends money, regardless of whether the interest rates are fixed or variable.

additional financial asset holdings. If this were so, however, it would invite questions regarding charging levels relative to service levels. Finally a council may have charging levels in balance with service-level long-run costs but be experiencing a trough in annual asset renewal needs. This is possible but in most instances is unlikely to endure over a long period. In fact, most councils claim that they have asset renewal backlogs.

Locking into a long-term fixed interest rate borrowing, for example, effectively means that a council is taking a gamble that variable interest rates over the period of the borrowing will be higher than the fixed rate negotiated. If a council takes out a fixed interest rate loan and interest rates on average fall over the duration of the loan, then the council will be worse off than it would have been in if it had taken out a variable interest rate loan. Such a council might not have been intending to gamble on interest rate movements, or it may not realise that it is doing so, but choosing a fixed interest rate borrowing does not obviate risk. It removes only one risk – the risk from higher average variable interest rates for the term of the loan.

"interest rate risk can be, and should be, managed"

It is common for councils to raise long-term borrowings with fixed interest rates. It is also common for lendings to be taken out over shorter terms, irrespective of whether the interest rates are variable or fixed. In these circumstances a council would be adversely affected if interest rates fell. It would not benefit from a fall in the cost of its borrowings and it would suffer from a fall in the interest earned on its lendings. Of course interest rates could rise, and if so the council would realise a gain, but in either case it would be exposed to more interest rate risk than if it had no lendings and a correspondingly smaller level of borrowings. Exposure to interest rate risk can therefore be reduced by using available monies to repay borrowings where this is possible.

Even when lendings are used to reduce outstanding borrowings, interest rate risk can be further reduced by having a mix of both fixed and variable interest rate borrowings. In this way a council can reduce its risk exposure to interest rate movements up or down. However, having a higher percentage of variable rate borrowings has the potential to be more cost-effective, and many councils may consider it worthwhile to take this additional risk (see 4.6 below). In setting its mix of fixed and variable interest rate borrowings a council therefore needs to weigh up factors such as cost effectiveness, risk management criteria and flexibility.

4.6 Fixed versus variable interest rate borrowings

Interest rates may be fixed for the full term of a borrowing or they may be reviewed in the light of market conditions at set points during this term. Interest rates on variable rate borrowings can vary continually. On average over time, fixed interest rate borrowings are usually slightly more expensive than variable rate ones because of the certainty they offer the borrower. Fixed interest rates effectively reflect the market's expectations of likely variable interest rates over the borrowing period plus a margin for the interest rate risk uncertainty borne by the lender.

Fixed interest rate borrowings do not normally allow early repayment of the outstanding principal without invoking penalties. For example, if market interest rates have fallen since the borrowing was raised then the lender will wish to be compensated for the margin above current market rates that it would have otherwise earned during the remaining period of the borrowing on the outstanding balance. If interest rates have risen since the borrowing was raised then there is unlikely to be any benefit in early repayment.

Variable interest rate borrowings often allow early repayment of the outstanding balance (in full or in part) and the subsequent redrawing of any amount repaid in excess of the permissible maximum allowable outstanding balance. Given that there is usually a significant margin between borrowing and lending rates, it follows that councils can realise savings by structuring their portfolios of borrowings so that cash inflows that are surplus to short-term needs can be used in the first instance to reduce the level of outstanding borrowings that would otherwise be necessary. This means repaying borrowings wherever, and as soon as, surplus (even short-term) cash flows allow. This is more readily and effectively achievable with variable interest rate borrowings.

Many long-term borrowing products provide for interest rates to be regularly reset (for example every 3 to 6 months) and they also allow (but do not require) a proportion of the outstanding principal to be repaid at these times. Such products would appear to be particularly suitable for councils wishing to gain an exposure to variable interest rate borrowings.

Councils can generate savings by using monies that would otherwise have been invested to instead reduce outstanding borrowings. The amount of these savings is likely to be far more than enough to offset the interest rate risks associated with having a large proportion of a council's debt portfolios at variable interest rates (including by long-term borrowings where the interest rate is reset at short intervals).

4.7 Lendings

Interest rates offered on medium/longer term investments are often slightly higher than for short-term investments, but the difference is not usually significant compared with the difference between borrowing rates and investment rates. For this reason it is important that a council ensures that funds are not locked up in long-term lendings when they could potentially be used to cost-effectively defer the need to raise a new borrowing, or to reduce the level of a council's existing borrowings.

"In setting its mix of fixed and variable interest rate borrowings a council therefore needs to weigh up factors such as cost effectiveness, risk management criteria and flexibility"

5 Legislative frameworks

The obligations and processes councils must follow when proposing to raise a borrowing vary between jurisdictions. The reports by both the Productivity Commission and Ernst & Young include information highlighting the differing conditions associated with borrowing by local governments in different jurisdictions.

In jurisdictions other than South Australia, Victoria and Western Australia, councils require (or can be required to seek) the approval of the responsible minister in order to borrow monies.[20]

Many years ago, there were restrictions imposed by the Australian Loan Council on the amount, term, type and source of public sector borrowings. These constraints no longer exist. The Australian Loan Council still exists and, in practice, consists of Commonwealth, state and territory treasurers. It is understood that data on the estimated net borrowing requirement of local government sectors each year is assembled by state and territory treasuries and included in overall data for each jurisdiction submitted to the Australian Loan Council. These arrangements operate on a voluntary basis and emphasise transparency of public sector financing, rather than imposing borrowing limits on jurisdictions. The arrangements are designed mainly to inform financial markets of the probable use of public sector borrowings in the ensuing year.

Typically in jurisdictions where ministerial approval to borrow is required, borrowings can only be raised to finance the acquisition of assets, the nature of which must be specified. The exception is Queensland where councils are allowed to borrow for purposes of raising necessary working capital.

The sources from where councils may access borrowings vary between jurisdictions:

- In New South Wales and Victoria local governments do not have access to borrowings through a state guaranteed centralised financing authority.
- In other jurisdictions local governments have access to borrowings through a state guaranteed financing authority and can also access funds from other lenders (Qld, SA, NT, Tasmania and WA).

Only in Tasmania is there a specific limit on borrowings. Technically in Tasmania the limit is applied indirectly by limiting the level of repayments. However guidance material on borrowing limits also exists in most jurisdictions.[21] For example:

- New South Wales councils are required to report debt servicing and liquidity ratios and they are published in the Division of Local Government's annual local government 'comparative information' publication.[22] Technically the 'liquidity ratio' applied is titled the 'unrestricted current ratio' and is defined as 'current assets less all current external restrictions expressed as a ratio of current liabilities less current specific purpose liabilities'. A ratio of 1.5 or better is recommended. The debt servicing ratio is defined as net debt servicing costs (including debt

[20] There are no restrictions on council borrowings applied in NSW at present, although legislation allows the responsible minister to impose such restrictions. In Western Australia the treasurer may give a direction in writing to a local government with respect to the exercise its borrowing power, either generally or in relation to a particular proposed borrowing. In the Northern Territory councils may, without ministerial approval, borrow up to either $50,000 or $200,000 depending on their size.

[21] Tasmanian councils' aggregate borrowings are limited to an amount such that repayments (principal and interest) do not exceed 30% of general revenue (net of specific purpose grants).

[22] See for example NSW Division of Local Government 2012. The Division of Local Government has advised that whether councils will in future be required to report on their debt servicing ratios is currently under review.

redemptions and sinking fund transfers) as a percentage of income from continuing operations. The Division of Local Government suggests that a ratio of more than 20% could be a concern but acknowledges that councils with high growth may warrant a higher ratio.

- In Victoria the Victorian Auditor-General's Office (VAGO) publishes councils' performances against various financial indicator statistics. It considers councils to be exposed to high risk if they have liquidity ratios of less than 1.0, or indebtedness ratios of more than 60%.[23]
- In Queensland, councils are encouraged to maintain net financial liabilities ratios not greater than 60%.[24]
- In South Australia, the South Australian Local Government Association has issued guidelines recommending that councils set net financial liabilities ratio limits of between 0% and 100% but stresses that a well-managed council with specific needs associated with, for example significant growth or the need to finance infrastructure with revenue streams (e.g. water supply and wastewater services), could potentially comfortably manage with a higher ceiling.[25]
- In Western Australia councils are encouraged to maintain a debt service coverage ratio of greater than 2.0. However, the preferred standard is a ratio of greater than 5.0.[26]
- In Tasmania the Auditor-General has established a benchmark net financial liabilities ratio for local governments of between 0% and 50%.[27]
- In the Northern Territory the responsible minister has issued guidelines that require councils to have a policy with regard to borrowing before any borrowing takes place.

[23]. VAGO (Victorian Auditor General Office) defines 'liquidity ratio' as current assets relative to current liabilities' and 'indebtedness ratio' as non-current liabilities as a percentage of own source revenue.

[24] Queensland Department of Local Government, Community Recovery and Resilience.

[25] Local Government Association of South Australia, *Financial Sustainability Information Paper 9.*

[26] Western Australia's Department of Local Government defines the 'debt service cover ratio' as the annual operating surplus before interest and depreciation divided by annual debt service payments (both principal and interest). In addition the Western Australian Treasury Corporation guidelines recommend a debt service ratio of less than 10% and a net debt (gross debt less cash assets) to operating revenue ratio of less than 60%.

[27] Tasmanian Audit Office.

6 Local government debt management practices

6.1 Why don't councils make greater use of debt?

It is probably difficult for business owners, homebuyers and anyone else who has ever needed to use debt, to understand why local governments make so little use of debt. Is it perhaps because councils haven't highlighted sufficiently the asset intensive nature of their service level responsibilities, the lumpiness of their annual capital expenditure needs, the predictability of their income streams and the risks of inter-generationally inequitable rating and charging from not making extensive use of debt?

"many councils are reluctant to make greater use of debt and in fact strive to minimise debt levels"

Perhaps prior to the introduction of accrual accounting and the development of asset management and long-term financial plans, councils themselves did not fully appreciate the above factors and the likely need therefore to make effective use of debt? Even now when these factors should be more clearly apparent many councils are reluctant to make greater use of debt and in fact strive to minimise debt levels.

PricewaterhouseCoopers (p.83) talk about an 'aversion to using debt' in local government and suggest this is *'due to the lack of knowledge and understanding regarding commercially acceptable levels and applications of debt'*. Ernst & Young (p.32) describe the 'fear of debt' as a key barrier to optimal use of debt financing in local government. It suggests that under-utilisation of debt is likely to result in an under-investment in local infrastructure. The New South Wales Treasury Corporation in its recent assessment of the financial sustainability of the New South Wales local government sector concluded that *'Debt is underutilised and there are opportunities for it to be structured in a more cost effective manner'* (p.63).

It would be prudent for an individual or business that is uncertain of their future expenditure needs or income levels to be very cautious about raising additional borrowings. These days most councils should not be in that position but understandably, even with better information, it does take time for attitudes to change.

"Another … reason why councils have not traditionally made greater use of debt is that they have explicitly or implicitly been discouraged from so doing"

Another related and arguably more important reason why councils have not traditionally made greater use of debt is that they have explicitly or implicitly been discouraged from so doing by technical and political advice, or they have been constrained by formal legislative obligations.

There is now a requirement or strong encouragement in all jurisdictions for councils to base financial decision-making on accrual accounting information and to have regard to medium to longer term financial projections that are based on service level preferences and asset renewal needs. This should progressively help councils to better understand their capacity to carry more debt.

Nevertheless, if councils' attitudes and practices regarding the use of debt are to change technical requirements and guidance material in many jurisdictions will also need to be revised. Often this material is inconsistent with the theory discussed in Section 4 and instead still reflects the widely accepted approach of the former era of one-year planning horizons and financial decision-making based on cash accounting information.

For example some jurisdictions still:

- require or encourage:
  - councils to raise separate borrowings for particular and specific capital works projects and that such borrowings be:
    - long-term for long-lived assets
    - structured on a credit-foncier basis
    - at fixed interest rates for the term of the borrowing
  - a focus on liquidity, a requirement that is more relevant in commercial business environments that face much greater uncertainty regarding future revenue flows and ready access to borrowings. As such, some jurisdictions therefore encourage excessive holdings of lendings, with resulting higher net interest costs and interest rate risk exposures for councils
  - councils to put aside monies to meet future anticipated liabilities or expenditure proposals even though these same councils may have outstanding borrowings and the councils could reduce interest expenses and interest rate risks by changing their practices.
- place limits on or judge the acceptability of debt levels on a financial indicator called the 'debt servicing ratio'. This ratio was commonly used as a benchmark to assess local government debt levels in many jurisdictions in the cash accounting era. It measures either annual interest or annual interest and principal repayments as a percentage of either rate revenue or total operating revenue. It is far less meaningful in the context of councils' operating environments than the 'net financial liabilities ratio'. When applied using annual interest and principal repayments as the numerator (as is more common) the debt servicing ratio undermines a focus on accrual accounting information.[28] Furthermore its calculated result when the numerator is based on both interest and principal repayments is highly dependent on the duration of the borrowings and their required pattern of repayment. For example, a council can reduce its ratio by electing to take out its borrowings over a longer term.

Controls and guidance materials that are currently in place in the various jurisdictions have presumably been established with the intention of reducing the risk exposure of councils from excessive or inappropriate use of debt. However, inappropriate controls and guidance adds to councils' costs and creates or leaves them exposed to other risks. For example some existing guidance and requirements encourage councils to:

- focus on some aspects of their activity rather than on overall performance
- maintain a short-term cash accounting focus rather than concentrating on their medium to longer term underlying operating result (and therefore their ongoing financial sustainability)

[28] Under accrual accounting principal repayments have no impact on the income statement. They are not an expense. They simply reduce the value of assets (cash) and liabilities (borrowings) as recorded in the balance sheet.

- prefer asset renewal backlogs to accumulate rather than raise borrowings if this would be necessary to address these needs
- inappropriately chase high rates of return (with an associated increase in risk) for their substantial holdings of lendings rather than use this money to pay down debt.

Key illustrative examples of borrowing practices that are inappropriate but common in local government are the raising of individual borrowings for individual specific purposes and the taking out of borrowings on a credit foncier basis.[29] These practices are discussed below.

6.2 Borrowing for specific purposes

Many councils have traditionally engaged in single-purpose borrowing to finance a particular project or activity, regardless of their current holdings of lendings or their future cash flow projections.

There is only ever one reason why an entity should borrow money – and that is because it needs the cash![30]

Even when councils have undertaken borrowings to finance specific assets, it may be more fruitful for them to think of those borrowings as simply part of the mix of sources from which their total stock of assets were financed. This will enable them to manage all outstanding borrowings in a holistic way and it will assist councils to simply focus on minimising interest costs. It is misleading to link the cost of borrowings to the acquisition of some assets and not to others. Such an approach in is arbitrary and illusory and serves no worthwhile purpose. In fact, it is distracting. Councils need to manage their total expenses, their total assets and their total liabilities.

The above is true irrespective of whether some assets have an associated income stream or not. This includes situations in which councils wish to reflect the costs of necessary borrowings against income from acquired assets. All asset acquisitions financed by a council have an opportunity cost of capital regardless of whether acquisition was financed from existing financial assets (in this case there will be a loss of interest income) or by borrowings. Where it is important for pricing and charging purposes, or when it is necessary to otherwise know the ‘full’ cost of a service provided by an asset, a standard notional cost of capital should be recognised. Whether a borrowing is raised and how it is structured is always a treasury management decision and only a treasury management decision. The asset acquisition decision needs to include consideration of affordability matters but not how any financing needs are best accommodated. The investment (that is, the asset acquisition) decision and the financing decision are separate and independent.

6.3 The use of credit foncier borrowings

In the cash accounting era it was commonly accepted practice for councils to raise borrowings for specific purposes and credit foncier borrowings were widely considered to be the most appropriate form of borrowing on the grounds of intergenerational equity. Councils were encouraged to raise borrowings with long duration repayment periods for long-lived assets and shorter-term borrowings for assets with shorter expected useful lives.

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[29] Credit foncier loans generally are for long terms and require regular set repayments over the term of the borrowing. Repayments include both interest and principal repayment components. A large proportion of early repayments represent interest expenses but over time, as the outstanding balance of the borrowing decreases, principal repayments make up a progressively higher proportion of each repayment.

[30] More particularly the entity has a timing imbalance between the necessary or preferred affordable expenditure outlays and the income that will become available to pay for it, and the entity is prepared to accept the costs and risks of raising a borrowing to bridge this timing gap.

The regular repayments associated with credit foncier borrowings were effectively and if not explicitly, at least implicitly, treated as a surrogate for depreciation (depreciation being otherwise not formally recognised under cash accounting). This was so despite the fact that the principal repayments on borrowings may not have borne any close relationship with actual depreciation (for example the life of asset may have been much longer than the borrowing period).

Under accrual accounting, principal repayments are not treated as an expense. Intergenerational equity is achieved by accurately recognising all operating expenses (including depreciation) and pricing/taxing generally to offset them with operating revenue. Thus, where a council bases its revenue-raising and expenditure decisions on accrual accounting information, the fact that the borrowing may arise as a consequence of acquiring a long-lived asset is not a justification for the borrowing to be a long-term credit foncier one.

It would be rare for credit foncier loans raised by councils to be for terms longer than 20 years, yet often the assets that the loan was raised to pay for will have a much longer useful life. In such scenarios the annual associated depreciation expense (a non-cash expense) is likely to be considerably less than the annual cash outlay associated with the required loan repayments. As a result (and all other things being equal) a council that generates sufficient revenue to offset its operating expenses may find that this level of revenue is insufficient to accommodate the loan repayments and it will need to run down existing cash holdings (or raise other borrowings).[31] It is understandable that a council would wish to avoid such scenarios.

By focussing on cash flow information (rather than the accrual accounting operating result), a council may well incorrectly assume it cannot afford more debt when in fact the real problem is often that it is trying to extinguish a liability over a fixed period of time that is considerably less than the useful life of the asset (and the period over which it will provide benefits to service recipients). Repayment periods for borrowings should be based on treasury management considerations. The expected useful life of any assets acquired using the funds from a borrowing is irrelevant.

Some people find the long-term (and usually fixed interest rate) nature and progressive repayment of the outstanding balance of credit foncier borrowings appealing and believe that they promote financial discipline. While the use of credit foncier borrowings does ensure the repayment of an individual borrowing it does not necessarily ensure a reduction in a council's overall indebtedness. When existing borrowings are being repaid, while at the same time new borrowings are being raised, the overall value of outstanding borrowings may not vary significantly from year to year. In this case, in effect, the new borrowings would be largely offsetting regular principal repayments on the existing borrowings (although they would not have been explicitly intended for this purpose) because of the structure of the portfolio of borrowings.

6.4 The preference for borrowings at fixed rates of interest

Councils have often preferred to take out credit foncier borrowings with interest rates that are either fixed for the term of the borrowing or in the case of long-term borrowings fixed for substantial periods (e.g. reset every five years at prevailing market interest rates). In these

[31] This is unlikely to be true for a council holistically given modest debt levels relative to asset values but it could be so when evaluating the costs and revenues associated with a particular proposed project (for example a water supply scheme), particularly in the early years of the project's life. Over time inflation could be expected to reduce the real value of loan repayments relative to depreciation (as asset values on which depreciation is based would be adjusted over time to take account of changes in price levels and other factors).

circumstances the councils have been unable to make early repayment of loans (without evoking associated penalties). Even a council that has minimal cash available at the beginning and end of a year is likely to have significant cash holdings for particular periods during the year.[32] Savings could be made if any short-term cash surplus could be, even temporarily, applied to reduce outstanding borrowing balances.

One of the reasons councils like fixed interest rate forms of borrowing is the certainty they offer regarding repayments (and interest costs). A strategy which favours fixed interest rates may make sense for some households with high levels of debt relative to income, but most councils are not in similar circumstances.[33] An increase in interest rates is likely to have far less impact for councils than it would for households. One reason for this is that most councils have substantial lendings, and interest earned on lendings would also increase if interest rates rose.

Figure 4 indicates that on average, the interest income that councils generate is greater than the interest expenses they incur. This implies that if all borrowings and lendings were at variable rates then a rise in interest rates would on average benefit councils and a fall would adversely affect them.

Most councils are unlikely to have net interest expenses (interest expenses less interest income) that exceed 2% of total operating expenses.[34] If a council had net interest expenses of 2% of operating expenses and interest rates doubled, then its total operating expenses would only increase by 2%. People who remember the high interest rates of the late 1980s understandably fear the risk of variable interest rate debt. However, for various reasons most commentators and macroeconomists consider a return to such high interest rates most unlikely unless inflation and inflationary expectations were also very high.[35]

"councils are usually well placed to manage the risks associated with borrowings with variable interest rates"

Nominal interest rates always include a component to compensate lenders for the expected impact of inflation in eroding the real purchasing power of the money that is repaid compared with its value when lent. Generally, over the medium to longer term the prime reason interest rates are higher in some periods than in others has to do with differences in expectations about future rates of inflation. All other things being equal, if inflation is higher, interest rates will be too.

If inflation is high, other costs will also be rising (i.e. the other 98% of total operating costs in the preceding example would also be rising at a higher annual rate). Importantly, councils are generally able to offset inflationary impacts by setting higher increases in their rates and charges.

[32] In many cases revenue inflows (e.g. from rates and ongoing grant programs) are higher in the first half of a financial year than in the second half.
[33] Councils' incomes are more secure and if need be they are likely to be able to access additional borrowings or restructure existing borrowings.
[34] The proportion of such councils in South Australia in 2011/12 was 23% and analysis of Graphs 1, 4, 6 and 7 suggests that at least on average councils in other jurisdictions are likely to have lower net interest costs than South Australian councils as a share of operating expenses.
[35] The reasons for this include the greater integration of the globalised economy, higher levels of (particularly financial) deregulation and therefore flexibility in the Australian economy and higher levels of average household debt. A small increase in interest rates can produce demand and supply responses in the Australian economy now that would have required much larger changes in previous eras.

When all the above is taken into account it is apparent that councils are usually well placed to manage the risks associated with borrowings with variable interest rates.

"Councils should manage their finances holistically and in a strategically optimum way rather than practise 'shoebox accounting' whereby monies are earmarked for particular needs and therefore are not available for others"

6.5 Reserves and fund accounting

Fund accounting (also called 'shoebox' or 'cookie-jar' accounting) might be an effective (but nevertheless sub-optimal) strategy for some people who would otherwise struggle to manage their personal finances. But it should never be necessary for a council. Ratepayers are entitled to expect that their councils will manage finances well and that the legislative and guidance frameworks under which they operate support them in doing so.

Councils should manage their finances holistically and in a strategically optimum way rather than practise 'shoebox accounting' whereby monies are earmarked for particular needs and therefore are not available for others. All unrestricted revenues and investments should be applied to meet planned expenditure outlays and should extinguish borrowings wherever possible (even if only temporarily).

Data used for the preparation of Graph 7 indicates that local governments had $14 billion more financial assets than they had borrowings as at 30 June 2012 (and in fact holdings of financial assets have substantially exceeded the balance of outstanding borrowings in every year for at least the past ten).[36] The value of outstanding borrowings as at that same date was $10 billion.

There is no logical reason why most councils should maintain large holdings of financial assets. In circumstances where councils also have borrowings they could potentially have reduced both net interest costs and interest rate risk by using this money to instead avoid the need to raise such borrowings. In cases where, after doing this they would still have had financial assets, these could in many cases have been used to address asset renewal backlogs or otherwise address outstanding service level preferences (whilst ensuring service levels are financially sustainable over the longer term).

"A council should manage the financing and funding of future wants and needs through accrual accounting records and reports, including forward financial projections"

A council should manage the financing and funding of future wants and needs through accrual accounting records and reports, including forward financial projections and not by maintaining a multitude of different borrowings and savings accounts with financial institutions. Money might have been raised with a particular purpose in mind but if it is not needed for this purpose in the

[36] See ABS 5512, General Government Local Table 3.

immediate future it makes no sense to invest this in a lending whilst at the same time borrowing money for another project. Savings can be made by using the available monies to obviate or defer the need to borrow money.

When utilising money for one purpose now when it was generated for another future purpose, a council can, if it considers such a move to be warranted, structure accounting records to treat it as an ‘internal borrowing’. That is, a council can record a notional interest rate charge against the activity for which the monies were utilised and an interest return from the account that was the source of these funds. It still may be necessary for the council to subsequently take out a borrowing when the monies are required for the original purpose that they were raised for, but savings will still accrue in the meantime.

In some instances there are legislative requirements which stipulate that monies that were generated for a particular purpose cannot to be utilised for other purposes. For example, such legislation might prevent monies that were raised from a charge for waste or water services from being used for other activities. It may be reasonable that such monies are not used to *fund* other activities but there seems no logical reason why they shouldn’t be used to *finance* other activities (including paying down debt) until needed for their intended purpose. The money shouldn’t be put away in a ‘shoebox’ – there is simply no need. Accounting records can ensure public accountability and inform decision-making by clearly disclosing ‘internal borrowings’ between funds and applying notional interest ‘income’ and ‘charges’ as preferred.

In some jurisdictions councils were traditionally required to maintain sufficient holdings of financial assets to offset their recorded provision for employee long service leave liability. Councils sometimes also choose to do this even when not required. This practice:

- is simply unnecessary and achieves nothing
- attracts a cost penalty where such monies could have been applied to reduce the value of outstanding debt
- discourages reliance on accrual accounting information when assessing a council’s financial position.

Assume for example Councils A and B both have a provision for employee long service leave liability of $X. Assume also that Councils A and B are otherwise identical except that Council A has financial assets sufficient to offset this liability and Council B does not. All other things being equal Council A must therefore also have additional borrowings of $X. Council A and Council B are in exactly the same position except that Council A has additional financial assets of $X and an additional borrowing liability of $X, which means that it incurs higher net expenses.

6.6 The cost and availability of borrowings

Ernst & Young considered in some detail the availability and cost of borrowings to councils. It highlighted that in most jurisdictions (all bar NSW and Victoria) councils are able to access borrowings through a centralised financing authority established by the jurisdiction. Interest rates charged on borrowings to councils by these bodies are often lower than the rates available from banks and other commercial financial institutions because the institutions themselves are able to access funds more cheaply in the marketplace because of the repayment guarantee they offer lenders.

Ernst & Young considered that the cost of debt is a barrier to its greater use by councils. This is in part because people see the recorded interest cost associated with a borrowing but tend to disregard the implicit opportunity cost of using revenue and the interest income forgone by running down lendings.

It has been interesting to note the very strong response by councils in NSW to the Local Infrastructure Renewal Scheme recently established there. This scheme was initiated by the NSW Government to provide limited levels of concessional borrowings to NSW councils specifically for the purpose of financing asset renewal works. In the first round a capped amount of subsidy monies were made available to councils to enable them effectively to borrow from financial institutions at 4% below market interest rates. The scheme was fully subscribed, as was a second round offering a 3% subsidy. A third round is currently open. Well over half of all NSW councils have applied for borrowings through these arrangements. This implies that many councils believe they have a need to raise borrowings and are prepared to do so when such borrowing is sanctioned and they are provided with incentives to do so by the state government.

The availability of cheaper borrowings is likely to make some difference at the margin to the level of debt councils are willing to raise. There is no doubt that councils that are able to access financing through state supported central borrowing facilities are generally able to access borrowings at lower cost. As a result Ernst & Young recommend exploration of the development of a national local government financing authority.

Councils that can't currently access financing through state-supported central borrowing facilities can probably in many instances do more to reduce their borrowing costs. For example they are likely to be offered better rates in the marketplace if they structure their borrowings portfolio to raise fewer borrowings of higher value with less frequent repayment requirements instead of raising a multitude of small value borrowings that each requires regular repayments. In other words the borrowing and treasury management approaches advocated in this paper are likely to generate more competitive fee and interest rate offers from financial institutions in response to requests for borrowings from councils.

"Whether an investment was financed from savings or from borrowings is unlikely to make a material difference to the whole-of-life costs of service provision"

Regardless of the real cost of capital it needs to be borne in mind that this will in most instances reflect only a very small part of the total (or annualised) whole-of-life costs of service from assets. It is critical that councils have regard to whole-of-life costs when making infrastructure investment decisions. Whether an investment was financed from savings or from borrowings is unlikely to make a material difference to the whole-of-life costs of service provision.

It is important to recognise that Ernst & Young did not find any evidence to suggest that councils wanting to borrow have been unable to find lenders willing to accommodate their preferences. By world standards Australia's financial markets work well and prospective borrowers are able (subject to risk assessment considerations) to have their needs accommodated.

6.7 Debt and asset renewal backlogs

As stated previously a borrowing is not income and is not a substitute for income. The key to ongoing financial sustainability is ensuring that the range and level of services provided, having regard to their long-run cost of provision, are compatible with long-run income levels. If a council can do this then it should not fear using debt to whatever extent is necessary to offset timing imbalances between income inflows and expenditure outlay needs.

Because the cost of local governments' service provision is overwhelmingly associated with acquisition and management of long-lived infrastructure it is essential that their financial decisions take account not only of short-term considerations but longer-term ones too. A sound, simple but strategically focussed long-term financial plan can be invaluable if used to inform financial and service level decisions.

"it is likely that many councils, if committed to financially sustainable service levels and revenue raising, could make substantial inroads into their perceived asset renewal backlogs by making greater use of debt"

The raising of more debt, whether to address asset renewal backlogs or other service level preferences is unlikely to be the answer for councils that have significant operating deficits that are beyond their ability and or willingness to rein in over time. Nevertheless it is likely that many councils, if committed to financially sustainable service levels and revenue raising, could make substantial inroads into their perceived asset renewal backlogs by making greater use of debt.

For example the NSW Government's *Local Government Infrastructure Audit* report suggests that NSW councils would currently need to outlay $7.4 billion to bring existing infrastructure assets to satisfactory standards of service. It also indicates that total rate income of NSW councils in 2011/12 was $6.8 billion. Assume now that the real (adjusted of inflation) long-run cost of capital for councils is say 4% (it is unlikely to be higher and is currently less) and the only option for addressing the claimed renewal needs was to raise a commensurate amount of additional borrowings. It follows then that councils' annual operating costs would increase by about $0.3 billion per annum.[37] To service this level of debt would require on average a one-off increase in base net revenue of about 4.4%.[38]

If the NSW findings are typical and reliable, this suggests that many (but of course not all) councils are likely to be able to substantially address their backlog asset management needs by making greater use of debt without needing to generate significant additional revenue, and without materially impacting on their annual operating expenses.

[37] This analysis assumes annual maintenance costs would neither rise nor fall if backlogs were addressed. In reality they should fall. It also assumes that annual depreciation expenses would not change. This is reasonable. Infrastructure assets are generally valued and depreciated at replacement cost (of a modern equivalent asset) and hence renewal of an asset should have no material impact on annual depreciation expenses.

[38] This is an average and the figure would be higher for some councils and lower for others.

6.8 Risks associated with increased and better use of borrowings

In Section 6.1 it was suggested that existing legislative and guidance frameworks typically work to discourage greater and better use of debt by councils and that this may be done with the intention of reducing the risk exposure of councils from the irresponsible use of debt.

If councils were encouraged to make greater use of debt, then in the absence of other appropriate financial controls and guidance it is possible (even probable) that some councils would use debt excessively, for example to avoid otherwise necessary increases in rates and charges, or to finance:

i). additional works, projects and services that are in excess of long-run affordability and/or

ii). works, projects and services whose merits have not been as rigorously evaluated beforehand as might have occurred if service recipients and ratepayers were exposed to paying 'upfront' a large share of the project costs.

Requiring and supporting local governments to manage their overall finances responsibly is likely to offer better protection against the above risks without the drawbacks associated with discouraging the more effective use of debt per se. In all jurisdictions local governments now are required or strongly encouraged to prepare strategic asset management plans and long-term financial plans with a strong emphasis on financially sustainable decision-making. If further controls are warranted they would best be focussed on supporting the achievement by individual local governments of satisfactory underlying operating results on a rolling basis over the medium term. If councils' revenue and expenditure/service level decisions are based on achieving such an outcome then the risks associated with the excessive use of debt will not materialise.

7 Conclusions

In all jurisdictions the local government sector has extraordinarily low levels of debt relative to the typical asset-intensive nature of services provided and the relatively secure income streams of most councils. On average councils have more money in the bank than they have debt. It is important to note however that the levels of borrowings and lendings are likely to vary significantly between individual councils.

There seems little doubt that many local governments should be making greater use of debt, given that it is almost essential for councils to raise borrowings if they are to provide new additional infrastructure while maintaining intergenerationally equitable rating and charging outcomes. The outstanding asset renewal needs of councils are likely to be at least in part an outcome of their low levels of borrowings. In many instances it is unrealistic to expect that claimed asset renewal needs can be reasonably and effectively addressed without a change in attitudes towards borrowing.

Local governments are debt averse but they are encouraged to be so by the guidelines and requirements which in many jurisdictions discourage the greater use of debt.

Regulators, in discouraging local governments from borrowing excessively, and councils in their decisions and attitudes, are right in thinking that local governments should have as low a level of debt as possible. The mistake that is often being made is that this 'as low as possible' level should be determined, not in an absolute sense, but relative to what is needed by a council in order to maintain affordable, preferred service levels whilst ensuring intergenerationally equitable rating and charging decisions.

Often, when councils do borrow they incur significantly higher net interest costs (that is, interest expenses less interest income) and are exposed to considerably higher interest rate risk than is necessary. This occurs because of the way that they undertake their treasury management responsibilities.

These sub-optimal financial management practices are also not entirely of councils' own making; they often reflect practices advocated or mandated in instructions issued by jurisdictional governments. These guidelines and requirements are often inconsistent with the operating environments of councils. They are also inconsistent with the other guidelines that encourage a focus on accrual accounting financial results and a medium to longer-term planning horizon by councils in their financial decision-making. Thus, current guidance material often not only undermines sensible use of debt by local governments but also works against councils embracing long-term financial planning and accrual accounting information in financial and service level decision-making. The use of long-term financial planning and accrual accounting information is critical if councils are to achieve and maintain financial sustainability. Current instructions, guidelines and attitudes regarding the use of debt by local governments therefore serve to undermine attempts at financial sustainability improvement.

Councils need better guidance on the appropriate role and use of debt in order to help change their traditional attitudes to debt, and to help them change community perceptions regarding the appropriate use of borrowings by local governments. If such changes could be achieved then there is significant potential for local governments to increase their investment in new infrastructure where warranted and address asset renewal needs. Many (but not all) councils have the potential to do this without any material increase in revenue beyond that already planned.

8 Next steps

Some people are likely to find uncomfortable or disagree with the findings and conclusions of this paper. Even if there was general consensus with its content, it is by no means likely that changes in requirements and practices regarding the use of debt by local governments would quickly and widely follow. In order for change to occur, considerable work would need to be done to inform discussions and debate the issues with decision-makers. Many stakeholders are likely to have significant intuitive reservations about the greater use of debt by councils and about changes in traditional treasury management practices. A more fine-grained analysis of the circumstances and capacities of different categories of councils in each jurisdiction is also likely to be warranted to help inform decisions about the appropriateness of greater use of borrowings by individual councils. Increased borrowing is not the answer in all circumstances.

What is clear however is that reform in any one jurisdiction is likely to be easier to achieve if there are other jurisdictions also following a similar path.

As a first step it would be appropriate for representatives of jurisdictional local government associations, local government regulatory agencies and national local government peak bodies to meet to discuss the findings of this paper and to explore the merits of collaborative activity to change the commonly held attitudes and practices of councils regarding the use debt and treasury management.

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ENGINEERING AUSTRALASIA

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Palmerston NT 0830

Please address
all correspondence to:

Chief Executive Officer
PO Box 1
Palmerston NT 0831

ABN 42 050 176 900

Please include the following reference in all correspondence
ID: 250079
File: RB:ch

24 December 2014

Hon Adam Giles MLA
Chief Minister
GPO Box 3146
DARWIN NT 0801

Dear Chief Minister

RE: Palmerston City Centre Master Plan – NT Budget Funding Request for 2015/2016

I am writing to provide you with an update on the progress of the Palmerston City Centre Master Plan and to seek consideration from the NT Government to financially contribute towards two significant projects in 2015/2016.

To provide some background on the history of the Master Plan, in 2011 the City of Palmerston identified that activity within its Central Business District had stagnated, this was despite the considerable residential growth in its developing suburbs.

The CBD at this point had the following characteristics:-

- A considerable amount of undeveloped land owned by both the NT Government and the City of Palmerston;
- Previous opportunistic and ad-hoc developments had resulted in irregular sized and shaped allotments which had contributed to a road structure that lacked planning and pedestrian friendliness;
- A sea of ground level car parking;
- Mainly single storey developments;
- No residential living / apartments within the CBD;
- No drivers to activate the CBD after the retail stores / commercial offices had closed.

Basically the land within the CBD had suffered through a lack of strategic planning, it was not being used to its full potential and this prompted Council to initiate the Palmerston City Centre 2030 Master Plan. The planning for this Master Plan commenced during 2011 and was adopted by Council in February 2012 following extensive consultation with developers, business owners and the general community.

At the time, Council approached the Henderson Labor Government to seek a financial contribution towards the development of the Master Plan, however nothing was forthcoming. The Master Plan was completed at a cost of $200,000 to the City of Palmerston.

This original Master Plan included an implementation schedule and following the Council elections in March 2012, the newly elected council embraced the Master Plan and moved quickly to commence the initial projects outlined in the Plan. These projects included:-

- Realignment of 'The Boulevard' to transform it into the Main Street within the CBD and to create a centre piece which compliments future multi-storey developments with frontages onto 'The Boulevard';
- The redevelopment of Goyder Square to create a "City Heart" square where the community can hold markets, community events and celebratory occasions.

The first stages of these developments have now been completed with planning and design work almost completed for Stage 2 of these projects to be commenced in next year's dry season.

During 2013, Council became aware of a number of development announcements in and around Palmerston which had the potential to impact on the Master Plan and the CBD, these included:-

- Fast tracking of land releases by the NT Government in Zuccoli;
- Rapid take-up of land releases in The Heights Durack and Johnston;
- A new site determined for the Palmerston Regional Hospital;
- Development approval for the Gateway Shopping Centre;
- Imminent development on the 'Super Block' site in the CBD;
- Proposed Woolworths development in Bakewell;
- The Land Development Corporation rezoning of Maluka Views for a substantial mixed-use development and the commencement of the $50m Palmerston Hotel;
- Rezoning of Berrimah Farm and the potential large-scale residential development in Holtze.

Council made the decision to review and enhance its Master Plan and engaged Roberts Day and Elton Consulting to:-

- Complete a review of the Master Plan;
- Complete a Traffic Assessment Study;
- Create the Palmerston City Centre Parking Strategy;
- Create the Palmerston City Centre Public Realm Great Streets Strategy;
- Draft proposed amendments to the Northern Territory Planning Scheme;
- Create Urban Design Guidelines;
- Create Building Design Guidelines;
- A revised Master Plan Implementation Strategy.

To assist in offsetting the cost of this work, Council made application through the Federal Government's 'Liveable Cities Program', however this was unsuccessful with the cost of $200,000 being met by Council. The City of Palmerston did not seek funding from the NT Government on this occasion.

The revised 'Palmerston City Centre Master Plan' and associated documents listed above are currently going through a public consultation process with submissions closing on Friday 23 January 2015. It is anticipated that Council will formally adopt the Master Plan and associated documents / strategies in February 2015. Council is also in the process of establishing a Palmerston City Centre Car Parking Advisory Group to guide Council in its future efforts to significantly improve car parking arrangements in the CBD.

I have included a copy of the 'Palmerston City Centre Master Plan' for your information so you can gain a feel for Council's vision of the Palmerston City Centre.

For the past three years the City of Palmerston has heavily invested in not only its Master Plan, but more importantly commencing the implementation of key projects to drive the Master Plan. Actual and committed expenditure incurred by the City of Palmerston to date includes:-

- Development of original Master Plan	$ 200,000
- Current review of Master Plan	$ 200,000
- Goyder Square Stage 1 – completed	$ 1,250,000
- Goyder Square Large Screen TV	$ 275,000
- The Boulevard Design Work	$ 450,000
- The Boulevard Stage 1 – almost completed	$ 3,500,000
- Goyder Square Design Work – Stages 2 & 3	$ 625,000
TOTAL	$ 6,500,000

The City of Palmerston is also supporting the NT Government's 'Real Housing for Growth' program with the construction of 15 units at Birripa Court Rosebery at a cost of $5.5m. These units are expected to be completed by May 2015. Council is also committed to the upgrading of Yarrawonga Road at a cost of $2.5m and the construction of the Durack Community Centre for $750,000.

These are key projects for Council and the community, however with design work almost completed for The Boulevard – Stage 2 and Goyder Square – Stage 2, Council is keen to position itself to enable these projects to be commenced at the start of the 2015 dry season. This will enable both of these key projects to be completed. From information provided by our Quantity Surveyors the costings for the two projects include:-

- Goyder Square – Stage 2	$ 5,000,000
- The Boulevard – Stage 2	$ 5,000,000
TOTAL	$10,000,000

The completion of The Boulevard will support the recently announced 'Boulevard Plaza' development on the NT Government owned super-block. Council is currently seeking Expressions of Interest from developers for the development of the council owned allotment between the Library and the Quest Apartments. I also understand that the NT Government will also be seeking to release its block on the other side of the Quest Apartments early in the New Year.

Given the potential scope of these building developments, the completion of both The Boulevard and Goyder Square projects are now priorities for the City of Palmerston. I have attached eleven concept drawings, which provide a series of images of how The Boulevard and Goyder Square will be redeveloped to create a visual amenity and CBD environment that all Palmerston residents would be proud of.

The City of Palmerston has recently submitted a funding application through the Federal Government's 'National Stronger Regions Fund' for $2m to assist with this CBD Revitalisation Project. It is expected successful projects will be announced in May 2015.

Council understands the NT Government has made land release in Palmerston a key priority with millions of dollars being allocated for subdivision head-works and road-works to accommodate future growth. However, these projects do not necessarily contribute towards the social infrastructure needs for existing residents in a growing city.

The previous Henderson Labor Government contributed significant funding into Palmerston to create the:-

- Palmerston Water Park;
- Elizabeth River Boat Ramp;
- Northline Oval redevelopment – AFL Football;
- Rugby League Facility Development – Rosebery;
- Tennis / Netball Court Development – Moulden;
- Soccer Facility Development – Driver

These are wonderful facilities, although the recurrent operating / maintenance costs are significant for both the NT Government and the sporting groups who operate from the facilities. A financial contribution from the NT Government towards the above two projects will not require any 'ongoing' funding as both The Boulevard and Goyder Square will be the responsibility of the City of Palmerston.

The City of Palmerston has taken the opportunity to advertise in the January edition of 'Territory Q' to showcase what is currently happening in the Palmerston CBD and to reinforce Council's vision. A copy of the story which will be included in the publication is attached for your information.

The year 2015 will be an exciting one for Palmerston with a number of major projects announced and several of these already commenced:-

- Gateway Shopping Centre	$300m
- Boulevard Plaza Mixed Use Development	$200m
- Palmerston Regional Hospital	$150m
- Tiger Brennan Drive Duplication	$105m
- Palmerston Hotel – Maluka	$ 50m

In addition to these projects, two new schools are being considered for Zuccoli, a new Woolworths at Bakewell and the commencement of the mixed use development at Maluka Views. Land release in Zuccoli and The Heights Durack continues to be strong and with the future development of Berrimah Farm and Holtze, it is an exciting time for everyone south of the Berrimah Line.

Council is seeking a contribution of $6m from the NT Government to assist in the completion of Goyder Square Stage 2 and The Boulevard Stage 2. Through partnering with the City of Palmerston to complete these key projects, it provides an opportunity for your Government to development critical infrastructure which will be available to all residents and visitors to Palmerston.

Council has been extremely resilient to this point in developing the plans and initiating the projects to commence the retrofitting of the CBD, however the cost of this work is considerable and without financial support from all levels of government these works will not be possible.

The City of Palmerston has been active in identifying projects through the "Building the Territory" initiative with six projects already being submitted through the website including this one. Of all the projects submitted, this would represent council's first priority.

The NT Government has previously shown its support for the implementation of City Centre Master Plans which help to drive economic, commercial and retail activity and I am sure you will agree the Palmerston City Centre Master Plan will drive the development of its CBD for many years to come.

I understand the NT Government will shortly commence drafting its 2015/2016 budget and I seek your consideration for this funding request to be included as part of your discussions.

Yours sincerely

Ricki Bruhn

Ricki Bruhn
Chief Executive Officer

Cc **Mr Nathan Barrett MLA Member for Blain**
Ms Lia Finocchiaro MLA Member for Drysdale
Ms Natasha Griggs MP Federal Member for Solomon

CITY OF PALMERSTON

Minutes of Confidential Council Meeting
held in Council Chambers, Civic Plaza, Palmerston
on Tuesday, 12 January 2016 at 8.18pm

RELEASED TO THE PUBLIC RECORD

1. PRESENT

Elected Members: Deputy Mayor Sue McKinnon (Chair)
Alderman Paul Bunker
Alderman Andrew Byrne
Alderman Geoff Carter
Alderman Seranna Shutt
Alderman Athina Pascoe-Bell

Staff: Ricki Bruhn, Chief Executive Officer
Jeetendra Dahal, Acting Director of Technical Services
Silke Reinhardt, Acting Director of Corporate Services
Jan Peters, Acting Director of Community Services
Emily Fanning, Minute Secretary

Gallery: Nil

2. APOLOGIES

Mayor Abbott – Leave of absence

ACCEPTANCE OF APOLOGIES AND LEAVE OF ABSENCE

Moved: Alderman Pascoe-Bell
Seconded: Alderman Shutt

THAT the leave of absence received from Mayor Abbott be received and granted.

CARRIED 8/1804–12/01/2016

3. DEPUTATIONS / PRESENTATIONS

Nil

4. OFFICER REPORTS

4.1 Application – Rates Concession for Assessment 103488 8/0804

Moved: Alderman Shutt
Seconded: Alderman Pascoe-Bell

1. THAT Council receives Report Number 8/0804.

2. THAT Council approves the remission of interest for the period 23 November 2015 to 30 June 2016 for assessment 103488 under the conditions of financial hardship policy FIN17.

3. THAT the Resolutions only come back into the Open Session.

4.1 Application – Rates Concession for Assessment 103488 (continued) **8/0804**

AMENDMENT

Moved: Alderman Byrne
Seconded: Alderman Bunker

1. THAT Council receives Report Number 8/0804.

2. THAT Council approves the remission of interest for the period 23 November 2015 to 30 June 2016 for assessment 103488 under the conditions of financial hardship policy FIN17.

3. THAT Council write to Somerville to advise that the request to waive instalments one and two was declined, however it is willing to approve the remission of interest for the period 23 November 2015 to 30 June 2016 for assessment 103488 under the conditions of financial hardship policy FIN17.

4. THAT the Resolutions only come back into the Open Session.

CARRIED 8/1805–12/01/2016

The amendment became the motion which was put and CARRIED

The Chief Executive Officer, Acting Director of Corporate Services, Acting Director of Community Services and Acting Director of Technical Services left the Council Chambers at 8.26pm.

4.2 Committee Recommendation – CEO Remuneration and CEO Performance Report CPA/0030

TO REMAIN CONFIDENTIAL AND NOT AVAILABLE FOR PUBLIC INSPECTION IN ACCORDANCE WITH COUNCIL RESOLUTION 8/1803 MINUTE BOOK PAGE 8398.

5. MOVE TO OPEN

Moved: Alderman Carter
Seconded: Alderman Shutt

THAT the Council move into the open session.

CARRIED 8/1807–12/01/2016

The meeting moved to the Open Session at 8.32pm

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(Chair)

ITEM NO. **18.1** **Application - Rates Concession for assessment 103488**

FROM: **Acting Director of Corporate Services**
REPORT NUMBER: **8/0804**
MEETING DATE: **12 January 2016**

Municipal Plan:

4. Governance & Organisation

4.1 Responsibility

We are committed to corporate and social responsibility, the sustainability of Council assets and services, and the effective planning and reporting of Council performance to the community

Summary:

Application for rates concession in the form of a part waiver of rates for instalment 1 and 2 for the 2015/2016 financial year (totalling $830) in regards to assessment 103488.

In line with policy FIN17, application for rates concession is required to be presented to council for consideration. Council is asked to consider the waiver of rates or remission of interest.

Background:

Somerville has lodged an application on the ratepayer's behalf for a rates concession on the grounds of hardship.

The recommending officer believes the ratepayer is experiencing short term financial hardship and does not support the waiver of rates, but supports the financial hardship concession of remission of interest from 23 November 2015 to end of financial year with an agreeable repayment plan.

The ratepayer has been unemployed for six months and has been utilising his savings but these have now been depleted and he has applied for Centrelink Newstart allowance. He currently does not have any income but the ratepayer hopes to secure employment within six months.

General:

The ratepayer has owned the property since 2014 and during this time rates instalments have been overdue but were paid by the end of the financial year. Somerville has advised that once the ratepayer has access to the Newstart allowance he may be able to pay $25 per fortnight.

Somerville has asked to waive the rates for the 1st and 2nd instalment 2015/16, a total amount of $830.

Should the ratepayer be offered the remission of interest instead, a payment plan of $25 per fortnight will be a prerequisite. If the fortnightly repayments default, one written warning will be sent. If the ratepayer fails a second time to maintain the pay agreement the interest will immediately be reinstated and the assessment will go back to debt collection.

Financial Implications:

The waiver of rates for instalment 1 and 2 would equate to $830. The interest and legal charges incurred for the period of 1 June 2015 up until todays date is $30.27 which may be remitted.

The interest remission calculated at 18% pa from 23 November 2015 until 30 June 2016 equates to approximately $118.

Policy Legislation:

Pursuant to the Local Government Act 2014.

Part 11.7 Interest on unpaid rates

163 Remission of interest

A council may remit interest wholly or in part.

Part 11.8 Rate concessions

164 Rate concessions

(1) A ***rate concession*** is one or more of the following:
   (a) a waiver in whole or part of rates or a component of rates;
   (b) a deferment in whole or part of an obligation to pay rates or a component of rates.
(2) A council may grant a rate concession unconditionally or on conditions determined by the council.
(3) If a council grants a conditional rate concession under this Part, and the ratepayer fails to comply with a condition, the council may by notice to the ratepayer:
   (a) withdraw the concession; and
   (b) require the ratepayer to pay an amount, on or before a date specified in the notice, to neutralise any benefit to the ratepayer of the rate concession.

165 Rate concession to alleviate financial hardship

(1) A council may grant a rate concession to alleviate financial hardship.
(2) A rate concession may be granted on application by a person who establishes to the council's satisfaction that the person will suffer financial hardship if the concession is not granted.

RECOMMENDATION

1. THAT Council receives Report Number 8/0804.

2. THAT Council approves the remission of interest for the period 23 November 2015 to 30 June 2016 for assessment 103488 under the conditions of financial hardship policy FIN17.

3. THAT the Resolutions only come back into the Open Session.

Recommending Officer: Silke Reinhardt, Acting Director of Corporate Services.

Any queries on this report may be directed to Silke Reinhardt, Acting Director of Corporate Services on telephone (08) 8935 9922 or email silke.reinhardt@palmerston.nt.gov.au.

Schedule of Attachments:

Nil

CITY OF PALMERSTON

Minutes of Confidential Council Meeting
held in Council Chambers, Civic Plaza, Palmerston
on Tuesday, 16 February 2016 at 7.21pm

RELEASED TO THE PUBLIC RECORD

1. PRESENT

Elected Members:
His Worship the Mayor Ian Abbott
Deputy Mayor Sue McKinnon
Alderman Paul Bunker
Alderman Andrew Byrne
Alderman Geoff Carter
Alderman Seranna Shutt
Alderman Athina Pascoe-Bell

Staff:
Ricki Bruhn, Chief Executive Officer
Mark Spangler, Director of Technical Services
Ben Dornier, Director of Corporate and Community Services
Emily Fanning, Minute Secretary

Gallery: Nil

2. APOLOGIES

Nil

3. DEPUTATIONS / PRESENTATIONS

Nil

4. OFFICER REPORTS

4.1 Financial Hardship Application – Assessment 102837 8/0819

Moved: Alderman Bunker
Seconded: Alderman Carter

1. THAT Council receives Report Number 8/0819.

2. THAT Council approves the remission of interest for the period 27 January 2016 to 30 June 2016 for assessment 102837 under financial hardship policy FIN17.

3. THAT Council approves a statutory charge to be placed on the assessment 102837.

4. THAT the Mayor and Chief Executive Officer be authorised to sign and seal all documentation relation to the statutory charge for assessment 102837, including discharge of statutory charges if full payment should occur.

5. THAT the resolutions only come back to the Open Session.

CARRIED 8/1842–16/02/2016

5. MOVE TO OPEN

Moved: Deputy Mayor McKinnon
Seconded: Alderman Pascoe-Bell

THAT the Council move into the open session.

CARRIED 8/1843–16/02/2016

The meeting moved to the Open Session at 7.25pm

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(Chair)

ITEM NO. 18.1 Financial Hardship Application – Assessment 102837

FROM: **Director of Corporate and Community Services**
REPORT NUMBER: **8/0819**
MEETING DATE: **16 February 2016**

Municipal Plan:

4. Governance & Organisation

4.1 Responsibility

4.1 We are committed to corporate and social responsibility, the sustainability of Council assets and services, and the effective planning and reporting of Council performance to the community

Summary:

Application for remission of interest for the 2015/2016 financial year in regards to assessment number 102837.

In line with policy FIN17, application for remission of interest is required to be presented to council for consideration.

Council is asked to approve the remission of interest and consider a registration of statutory charge.

Background:

The owners of assessment 102837 are restricted with income due to one owner being sick and the other owner providing care.

The ratepayers have contacted our office and have advised that they are committed to repaying their significant debt but hope that by being granted a rates concession for hardship they may reduce the principle of the debt. The current outstanding amount is $5,661.96.

General:

The ratepayers have owned the property since 2006 and since 2012 rates instalments have been overdue. The ratepayers previously had a successful application for financial hardship, but were unable to commit to the repayment plan. The owner has engaged a debt advising company and the Australian Financial Security Authority (AFSA) has accepted the application for insolvency. Council has received a debt agreement proposal from the AFSA and has not accepted the proposal. Rates are a secured debt and therefore are not covered under these proposals. Debtors are advised by the AFSA to seek an individual repayment plan for secured debts.

The owner has contacted council and has advised that with guidance of their financial adviser they can only afford to pay $46.15 per week paid fortnightly by direct debit. With the significant debt that the property has accrued this is not reducing the debt due to the penalty interest accruing and new rates being levied annually.
The owner has therefore requested for Council to consider a second financial hardship application and remission of interest.

Management believes that financial hardship is proven under the policy. As the owner has defaulted on several repayment plans in the past, Council has the option whilst accepting the concession application to place a statutory charge on the property.

With placing the statutory charge on the property council is securing the debt on the land and is able to recover rates quicker should the ratepayer default on payments in the future.

Financial Implications:

Interest remission calculated at 18% pa from 27 January 2016 until 30 June 2016 equates to approximately $430.

Policy Legislation:

Pursuant to Part 11.7 Section 163 of the Local Government Act.

Part 11.7 Interest on unpaid rates

163 Remission of interest
A council may remit interest wholly or in part.

RECOMMENDATION

1. THAT Council receives Report Number 8/0819.

2. THAT Council approves the remission of interest for the period 27 January 2016 to 30 June 2016 for assessment 102837 under financial hardship policy FIN17.

3. THAT Council approves a statutory charge to be placed on the assessment 102837.

4. THAT the Mayor and Chief Executive Officer be authorised to sign and seal all documentation relation to the statutory charge for assessment 102837, including discharge of statutory charges if full payment should occur.

5. THAT the resolutions only come back to the Open Session.

Recommending Officer: Ben Dornier, Director of Corporate & Community Services

Any queries on this report may be directed to Ben Dornier, Director of Corporate & Community Services on telephone (08) 8935 9971 or email ben.dornier@palmerston.nt.gov.au.

Schedule of Attachments:
Nil