

Fact Sheet 3: Options for funding Service Plus



What are the options for funding Service Plus?

Council has already made the shortfalls in Service Plus as small as possible through detailed asset and financial planning. We recently won the Federal Government's National Award for Local Government in Asset and Financial Management.

We have found reasonably reliable funding sources for 91% of the existing services and we've even found 54% of the funds for enhancements from things like grants, asset sales, developer contributions and earnings generated from new facilities. There are relatively few ways left to fund the remainder. **Effectively there's only two ways to fund the shortfalls in Service Plus:**

- **We can raise our most stable source of income – rates, or**
- **We can raise variable income – user charges, fines, grants and developer charges.**

The **feasibility** and **effectiveness** of these options can be summarised as follows:

Option:	Raising our variable sources of income – user charges, fines, grants, developer charges	
Feasibility:	In our financial planning we have already assumed rises in variable sources of income to the extent that we think reasonable and realistic. To expect raise them further will in Council's view border on the unrealistic and may even impose unfairly on some people.	
Relatively poor	The option also increases our dependency heavily on variable sources of income which will make services vulnerable during economic downturn. Nevertheless the option is open and there are some opportunities to raise a small number of user charges more than we have already done.	
Effectiveness:	Even if we do raise these variable sources of income further it is not possible to cover the entire funding shortfall on existing services by this means. For some examples of how high these income streams would have to be raised to cover the shortfall see below.	
Poor		
Option:	Raising our reliable sources of income – rates	
Feasibility:	In our financial planning we have assumed normal increases in rates. These are determined by the State Government and are generally set at about 0.5% above CPI.	
Good	But relatively speaking, rates are very low in Waverley. They are almost \$150 a year lower than the average rates paid by other Sydney residents. So there is some capacity to increase them without seriously impacting family budgets if we do it slowly.	
Effectiveness:	This option will provide a more reliable stream of income to sustain services than raising user charges.	
Good	It will also go some way toward addressing a serious problem Council is facing about our financial sustainability in the long term. Income from business and residential rates currently funds only 28% of our services. With its current structure of income and service costs Waverley Council cannot guarantee the continuity of a number of its current services beyond 2012. The option of raising rates slowly has significantly more capacity than other alternatives to fully fund the shortfalls in Service Plus .	

How much would rates need to rise to fully fund Service Plus?

The answer to this will vary widely depending on your land value.

For residents with an average land value of \$633,000 rates would need to rise each year, **year on year, for seven years** as shown below and then flatten off to the smaller normal rises approved annually by the State Government.

Funding Service Plus by Raising Rates	Total rate rises each year for seven years for the average household	
	Average rise in weekly rates	Average yearly rate rises
For Service Plus Component 1		
▪ To secure existing services	\$1.49	\$78
For All 12 Components of Service Plus		
▪ To add enhancements to services	\$2.46	\$128
For rejection of Service Plus		
▪ If services are reduced rates will nevertheless rise by	\$0.23	\$12

On a per component basis the rates increases for the average household to fund **Service Plus** would be:

Service Plus Component	What does this include?	How much have we already found?	Total rate rises each year for seven years for the average household	
			Average rise in weekly rates	Average yearly rate rises
1	Maintaining existing services	91%	\$1.49	\$78
2 & 3	More opportunities for recreation, health, wellbeing and artistic and cultural expression	68%	\$0.07	\$4
4, 5 & 6	More and safer access to public places, transport and vital services	56%	\$0.43	\$22
7	More cleaning and greening of all the spaces we share	73%	\$0.12	\$6
8 & 9	More inviting streetscapes and restful local neighbourhoods	39%	\$0.06	\$3
10 & 11	A more sustainable environment with protection from global warming and preservation of natural resources and ecosystems	12%	\$0.20	\$10
12	A more engaged connected and inspired community actively involved in decision making	23%	\$0.09	\$5
Total for all 12 components of Service Plus		86%	\$2.46	\$128

Important: These rises are **average rises for the average household**. Very few households actually conform to this average:

- **65% of households will pay less than the above figures.**
- **50% will pay significantly less. They will pay about half the above figures.**
- **35% will pay more than the above figures.**

All figures are total rises. They incorporate the rises that will normally be applied by the State Government. They are not additional to those rises.

How would other income need to increase to fund Service Plus?

The shortfall in funds for existing services – Component 1 of Service Plus – is \$125 million over the 12 years to 2022. That's an average shortfall of about \$10 million a year.

We could consider funding the shortfall for existing services by raising user charges as an alternative to raising rates. **The only non-rates source of operational income of sufficient value to noticeably reduce a \$10 million annual shortfall would be parking income** including:

- Parking fees for on-street parking on meters,
- Parking fees for off-street parking in public car parks,
- Fees for annual concessional beach parking permits for residents, and
- Increased parking fine numbers.

Some significantly smaller amounts can be raised by increased grants, contribution and sponsorships, and increased developer contributions. But these two are very unreliable and in any case they have already been included in our plans as assumed income.

Steady increases in all the above sources of income, except parking fines, are already factored into the financial plan. Otherwise the shortfalls would be much bigger than \$125 million. The following table shows how the main sources of alternative income – parking income – would need to be increased even further than we have already to find the \$10 million per annum necessary to fund **Service Plus** Component 1.

Alternative source of income	Increase necessary to raise \$10 million per annum	Feasibility and Effectiveness
<ul style="list-style-type: none"> ▪ Parking fees for parking on-street at meters. 	<ul style="list-style-type: none"> ▪ Parking meter income would need to increase by at least 140% assuming no drop off in uptake of metered spaces. ▪ Hourly meter rates would need to almost triple. 	Feasibility – Poor Effectiveness – Poor Desirability – Poor
<ul style="list-style-type: none"> ▪ Parking fees for parking off-street in car parks. 	<ul style="list-style-type: none"> ▪ Off-street parking income would need to increase by 200% assuming no drop off in uptake of car park spaces. ▪ Hourly rates would need to almost quadruple. 	Feasibility – Poor Effectiveness – Poor Desirability – Poor
<ul style="list-style-type: none"> ▪ Fees for annual beach parking permits for residents. 	<ul style="list-style-type: none"> ▪ The current concessional rates for residents for annual Beach Parking Permits of \$100 would need to cease entirely and residents would need to pay the same as visitors to park at the beach. ▪ This would be unlikely to raise more than 20% of the required \$10 million. 	Feasibility – Poor Effectiveness – Poor Desirability – Medium
<ul style="list-style-type: none"> ▪ Increased parking fine numbers 	<ul style="list-style-type: none"> ▪ The number of parking fines has been dropping in the last two years. ▪ Financial projections assume they will stay steady. ▪ To meet a \$10 million target the number of fines issued annually would need to increase in number from 2012 by at least 140% or an extra 140,000 fines a year. 	Feasibility – Poor to Nil Effectiveness – Poor Desirability – Poor to Nil
<ul style="list-style-type: none"> ▪ Combination of all of the above 	<ul style="list-style-type: none"> ▪ Some combinations of the above would result in increased income for a time but they would have negative effects on the less well off and on businesses. ▪ They would also be very unreliable in the long term. 	Feasibility – Poor Effectiveness – Poor Desirability – Poor

If we wished to fund all components of **Service Plus** by these means we'd need to raise almost \$20 million a year. Clearly it is not feasible at all to raise this by alternative means.

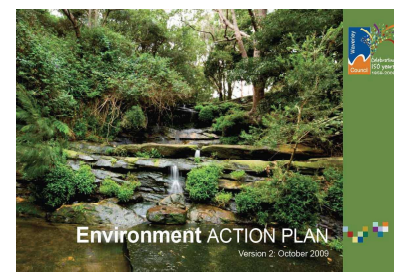
Could Service Plus be funded by asset sales?

Our financial plans already assume that large amounts of income will be raised from sales of poor performing assets and reinvestment in better ones. Extending this asset sale option further would be poor financial management. **It would not be sustainable to sell assets and then live off the raised capital until it is all gone.**

Could Service Plus be funded by efficiencies?

Waverley Council has taken care over several years to find alternative income and cost savings to reduce the burden of service provision for ratepayers and residents. We have also been quite innovative in financial planning with substantial benefit to the community. Despite these gains, the achieved and expected efficiencies will not be enough to offset all expected shortfalls on Service Plus. Examples of achieved efficiencies and strong financial performance include:

- By introducing greater focus on user pays we have **significantly reduced the extent to which ratepayers have to cross-subsidise users of services that they don't use themselves.**
- We have established **charging systems that** are progressive (rather than regressive) and which have the significant advantage of **discouraging sub-optimal consumption of very scarce resources including parking spots in commercial and beach areas.**
- **During the global financial crisis our invested funds were managed prudently and we achieved positive returns on the face value of the portfolio.** Independent financial advisers also have reported recently that Waverley Council's investments have **continued to achieve "solid outperformance of the UBS Bank Bill Index over the past 12 months"**.
- Various efficiency measures have enabled us to achieve **a real productivity gain of almost 10% in the last decade, despite our having to absorb significant external cost pressures, including substantial cost shifting from other levels of government.** This productivity gain is a remarkable achievement for a service industry which does not have access to economies of scale.
- Proof of significant efficiency is that independent reviews show that **Waverley Council is now absorbing more than \$6 million a year in costs shifted from other levels of government over the last decade. The fact is that if this cost shifting hadn't occurred Waverley Council wouldn't need the rate rise.**
- We have also been remarkably successful in achieving cost efficiencies through innovative asset and financial planning methodologies and best practice consultation with the community on the level of asset renewal they want. This has resulted in **an 84% reduction in the estimated cost of asset renewal over the next 12 years**, an achievement for which Council recently **won the 2010 National Award for Local Government in the category of Asset and Financial Management.** This is major microeconomic reform at its best in local government.
- We have completed comprehensive modelling of financial and environmental returns in terms of greenhouse gas emission reductions that may be achieved by both Council and the community from varying levels and types of investment in energy saving technology. This **ground breaking modelling has allowed us to pinpoint investment opportunities in our own buildings and right across the Waverley LGA in business and residential premises that will maximise emission reductions for the lowest possible cost and save money for both Council and the community in future energy bills.**



Success in all this has allowed the Council to put off rate rises for almost a decade. It also assures Council that it is asking ratepayers to consider paying neither more nor less than is *really* required for the sustainability of our services and assets.