



CITY OF HOBART

AGENDA

SPECIAL FINANCE COMMITTEE MEETING **(OPEN PORTION OF THE MEETING)**

MONDAY 23 MAY 2016

AT 4.45 PM

THE MISSION

Our mission is to ensure good governance of our capital City.

THE VALUES

The Council is:

about people

We value people – our community, our customers and colleagues.

professional

We take pride in our work.

enterprising

We look for ways to create value.

responsive

We're accessible and focused on service.

inclusive

We respect diversity in people and ideas.

making a difference

We recognise that everything we do shapes Hobart's future.

HOBART 2025 VISION

In 2025 Hobart will be a city that:

- Offers opportunities for all ages and a city for life
 - Is recognised for its natural beauty and quality of environment
 - Is well governed at a regional and community level
 - Achieves good quality development and urban management
 - Is highly accessible through efficient transport options
 - Builds strong and healthy communities through diversity, participation and empathy
 - Is dynamic, vibrant and culturally expressive
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**SPECIAL FINANCE COMMITTEE AGENDA
(OPEN PORTION OF THE MEETING)
23/5/2016**

TABLE OF CONTENTS

- 1. INDICATIONS OF PECUNIARY AND CONFLICTS OF INTEREST**
- 2. TASWATER EXTERNAL FUNDING PROPOSAL – FILE REF: 41-50-17**

**BUSINESS LISTED ON THE AGENDA IS TO BE CONDUCTED IN THE ORDER
IN WHICH IT IS SET OUT UNLESS THE COMMITTEE BY SIMPLE MAJORITY
DETERMINES OTHERWISE**

I, Nicholas David Heath, General Manager of the Hobart City Council, hereby certify that:

1. In accordance with Section 65 of the Local Government Act 1993, the reports in this agenda have been prepared by persons who have the qualifications or the experience necessary to give such advice, information or recommendations included therein.
2. No interests have been notified, pursuant to Section 55(1) of the Local Government Act 1993, other than those that have been advised to the Council.



N.D. HEATH
GENERAL MANAGER

SPECIAL FINANCE COMMITTEE AGENDA (OPEN)

Committee Members

Cocker (Chairman)
Deputy Lord Mayor Christie
Zucco

Ruzicka

Sexton

Aldermen

Lord Mayor Hickey

Briscoe

Burnet

Thomas

Reynolds

Denison

Harvey

Special Finance Committee (Open Portion of the Meeting) - Monday, 23 May 2016 at 4.45 pm in the Lady Osborne Room.

PRESENT:

APOLOGIES:

LEAVE OF ABSENCE:

CO-OPTION OF COMMITTEE MEMBERS IN THE EVENT OF A VACANCY

Where a vacancy may exist from time to time on the Committee, the Local Government Act 1993 provides that the Council Committees may fill such a vacancy.

1. INDICATIONS OF PECUNIARY AND CONFLICTS OF INTEREST

In accordance with Part 2 Regulation 8 (7) of the Local Government (Meeting Procedures) Regulations 2015, the chairman of a meeting is to request Aldermen to indicate whether they have, or are likely to have, a pecuniary interest in any item on the agenda.

In addition, in accordance with the Council's resolution of 14 April 2008, Aldermen are requested to indicate any conflicts of interest in accordance with the Aldermanic Code of Conduct adopted by the Council on 27 August 2007.

Accordingly, Aldermen are requested to advise of pecuniary or conflicts of interest they may have in respect to any matter appearing on the agenda, or any supplementary item to the agenda, which the committee has resolved to deal with, in accordance with Part 2 Regulation 8 (6) of the Local Government (Meeting Procedures) Regulations 2015.

**SPECIAL FINANCE COMMITTEE AGENDA
(OPEN PORTION OF THE MEETING)
23/05/2016**

2. TASWATER EXTERNAL FUNDING PROPOSAL – FILE REF: 41-50-17

7x's

Report of the Director Financial Services of 17 May 2016 and attachment.

DELEGATION: Council

TO : Finance Committee

FROM : Director Financial Services

DATE : 17 May, 2016

SUBJECT : **TASWATER EXTERNAL FUNDING PROPOSAL**

FILE : 41-50-17 DS:PG

1. INTRODUCTION

- 1.1. The purpose of this report is to seek Council endorsement on a proposal from TasWater to extend the moratorium on increases in distributions to owner Councils for a further seven years.

2. BACKGROUND

- 2.1. At the General Meeting of Owners' Representatives of TasWater on May 2016 it was proposed that the Owners' Representatives give consideration to the following motion:

That Owner Councils agree to a moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from the State and Federal Governments to make grants totalling no less than \$400M over a ten year period.

- 2.2. There is currently a three year freeze on increases in TasWater distributions in place. This caps Owner Councils distributions at \$30M per annum for financial years 2016, 2017 and 2018 which gives the Hobart City Council an annual share of \$3.258M.
- 2.3. The increase in the freeze on distributions to the Owner Councils has been proposed by TasWater based on the estimated funding needed to bring water and sewerage infrastructure up to an acceptable standard over the next 10 years. It is estimated that this will require a spend of \$1.8bn.
- 2.3.1. TasWater can fund \$1.2bn of the total funding required and has proposed that the shortfall of \$600M be funded by:
- 2.3.1.1 TasWater finding further savings of \$10M pa or \$100M over 10 years.
 - 2.3.1.2 The State and Federal Governments contributing \$400M over the next 10 years.
 - 2.3.1.3 The current freeze on distributions to Owner Councils be extended for a further seven years.

- 2.4. It is TasWater's view that funding from the State and Federal Governments is unlikely to be forthcoming if they are unable to show that the Owner Councils are not prepared to share some of the financial burden.
- 2.5. The question being asked by TasWater of the Owner Councils is are they prepared to accept a reduction in projected distributions in order that TasWater has the opportunity to persuade State and Federal Governments to assist in funding the investment needed for upgrades to the state's water and sewerage infrastructure.
- 2.6. At the Owner Councils meeting on 12 May members requested further information about the implications for individual Councils. TasWater has provided an analysis on the implications for Hobart City Council which is available at **Attachment A**. The analysis is summarised below:
- The effect of extending the current freeze on distributions means that Owner Councils will have foregone \$82M. The effect for Hobart City Council will be that it forgoes \$8.864M over the 10 years while receiving \$32.580M of distributions over the same period.
- 2.7. It should be noted that the current freeze and the proposed extension will have no impact on the Council's Long-Term Financial Management Plan (LTFMP). The LTFMP does not assume any growth in TasWater distributions and assumes only the distribution of \$3.258M pa into perpetuity.
- 2.8. In other words, there will be no impact on the LTFMP, because it has been conservatively prepared with respect to distributions. However, the freeze will represent a real loss of income to the extent that distributions would be higher than proposed, and higher than the assumption in the LTFMP, except for the proposed freeze.

3. PROPOSAL

- 3.1. It is proposed that the Council agrees to extend the current freeze on distributions by a further seven years subject to the funds being used to upgrade the state's water and sewerage infrastructure.

4. STRATEGIC PLANNING IMPLICATIONS

- 4.1. Goal 5 – Governance is applicable in considering this report, particularly strategic objective:

“5.1 The organisation is relevant to the community and provides good governance and transparent decision-making”

5. FINANCIAL IMPLICATIONS

5.1. Funding Source(s)

5.1.1. Not applicable

5.2. Impact on Current Year Operating Result

There will be no impact on the current year operating result as the three year freeze on increases in distributions has already been factored into the LTFMP.

5.3. Impact on Future Years' Financial Result

5.3.1. There will be no impact on future years operating results as the LTFMP does not assume any growth in TasWater distributions into perpetuity. Any growth in distributions would be a windfall gain in the current LTFMP.

5.3.2. However, the freeze will represent a real loss of income to the extent that distributions would be higher than proposed, and higher than the assumption in the LTFMP, except for the proposed freeze.

5.4. Asset Related Implications

5.4.1. Not applicable.

6. DELEGATION

6.1. This matter is delegated to the Council.

7. CONSULTATION

7.1. General Manager, TasWater Board Chairman, other Owner Councils.

8. CONCLUSION

8.1. At the General Meeting of Owners' Representatives of TasWater on 12 May 2016 it was proposed that the Owners' Representatives give consideration to extending the freeze on increases in distributions for a further seven years to enable TasWater to pursue grants from State and Federal Governments to fund improved water and sewerage infrastructure.

8.2. All Owner Councils have been requested to consider the proposal as a matter of urgency so as to enable their Owners' Representative being in a position to vote on the matter at a special meeting of the Owners' Representatives Group on Thursday 9 June.

- 8.3. There is currently a three year freeze on increases in TasWater distributions in place. This caps Owner Councils distributions at \$30M per annum for financial years 2016, 2017 and 2018 which gives the Hobart City Council an annual share of \$3.258M.
- 8.4. An increase in the freeze on distributions for a further seven years has been proposed by TasWater based on the estimated funding needed to bring water and sewerage infrastructure up to an acceptable standard over the next 10 years, it is estimated that this will require a spend of \$1.8bn.
- 8.5. The effect of extending the current freeze for Council will be that it forgoes \$8.864M over the 10 years while receiving \$32.580M of distributions over the same period.
- 8.6. An extension of the freeze will have no impact on the Council's Long-Term Financial Management Plan (LTFMP). The LTFMP does not assume any growth in TasWater distributions and assumes only the distribution of \$3.258M pa into perpetuity. However, to the extent distributions would otherwise be higher except for the proposed extended freeze, this represents a real loss of income to Council.

9. RECOMMENDATION

That:

- 9.1. *The report DS:pg(document2) be received and noted.*
- 9.2. *The Council approves the request from TasWater to extend the moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from State and Federal Governments to make grants totalling \$400M over a ten year period to upgrade the state's water and sewerage infrastructure.*

As signatory to this report, I certify that, pursuant to Section 55(1) of the Local Government Act 1993, I hold no interest, as referred to in Section 49 of the Local Government Act 1993, in matters contained in this report.



(David Spinks)

DIRECTOR FINANCIAL SERVICES



13 May 2016

Lord Mayor Alderman Sue Hickey

Owner's Representative

Hobart City Council

GPO Box 503

Hobart TAS 7001

Dear Owner's Representative,

External Funding Proposal

I am writing to you following the General Meeting of Owners' Representatives of TasWater on 12 May 2016.

At that meeting it had been proposed that Owners' Representatives give consideration to the following motion:

That Owner Councils agree to a moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from the State and Federal Governments to make grants totalling no less than \$400M over a ten year period.

However, when it became apparent that the substantial majority of Councils had not had the opportunity to consider the proposal, it was determined that I write to all Councils asking them to consider the proposal as a matter of urgency with a view to their Owner's Representative being in a position to vote on the matter at a special meeting of Owners' Representatives Group to be held at 10.30 am on Thursday 9 June 2016 at the Windsor Community Precinct, 1 Windsor Drive, Riverside.

Please accept this letter as a Notice of Meeting under rule 6.3 of the TasWater Constitution. In setting this date we realise it may not be convenient for all Owners' Representatives, but Councils may appoint a proxy to attend on their behalf. A proxy form is enclosed for this purpose.

The big picture is TasWater estimate the funding needed to bring our water and sewerage infrastructure up to an acceptable standard over the next 10 years will require a spend of \$1.8bn.

TasWater can fund \$1.2bn and we have put together a proposal that the \$600M shortfall be funded by TasWater finding further savings of \$10M pa or \$100M, that the State and Federal



Governments contribute \$400M over the next 10 years and that the current freeze on distributions to Owner Councils be extended for a further seven years, which in effect means that Councils will have forgone \$82M.

It is TasWater's view that in the absence of Councils being prepared to share some of the financial pain with State and Federal Governments it is highly unlikely that we will be able to secure the additional funding needed to address the shortcomings in our infrastructure on a timely basis.

Members present at the General Meeting requested further information about the particular implications for individual Councils of this proposal. This information is enclosed.

The analysis demonstrates that, assuming a base case of a compounding tariff and distribution increase of 4.5%, your Council is in effect being asked to forgo \$8.864M in distributions over the ten year period, but you will still receive \$32.580M over the period.

It is worth noting that your Council has already foregone 48% of this amount in agreeing to the three year distribution freeze in response to the Economic Regulator's pricing determination, as agreed by the Owners' Representatives at the General Meeting on 22 April 2015.

At the end of the day it is a simple proposition: are Councils prepared to accept reduction in projected distributions in order that TasWater has the opportunity to seek to persuade the State and Federal Governments to assist us in funding the \$1.8bn investment in much needed upgrades to the state's water and sewerage infrastructure.

A question that has been asked is whether TasWater could itself fund a \$1.8bn capital program in the absence of the funding, \$482M that would come from the proposed moratorium of \$82M and the \$400M from the State and Federal Governments.

There are two key financial metrics that are relevant to this possibility, interest coverage and gearing.

Our modelling has been based on an aggregate tariff increase of 52% over the next 10 years. If TasWater were to take on the debt, in order to maintain the Board-endorsed minimum interest coverage of two times, the tariff increase over the next 10 years would increase by a further 26% to 78%.

Even if this level of tariff increases were considered acceptable, and they are not, the resulting level of gearing would unlikely be acceptable to Tascorp, and indeed the Board and Owner Councils.

In the event that you would like to discuss the proposal, please feel free to contact the writer by phone on 0418 120 163 or by email on miles.h@me.com.

Yours faithfully

A handwritten signature in black ink, appearing to read "Miles Hampton".

Miles Hampton

Board Chairman

TasWater 10 Year Distribution Scenarios

Council: Hobart

Distribution Percentage: 10.86%

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Total
Original Distribution Profile¹											
Total Distributions											
[A]	3,388	3,524	3,665	3,848	4,040	4,242	4,412	4,589	4,772	4,963	41,444
10 Year Freeze Distribution Profile²											
Total Distributions											
[B]	3,258	3,258	3,258	3,258	3,258	3,258	3,258	3,258	3,258	3,258	32,580
[B - A]	(130)	(266)	(407)	(590)	(782)	(984)	(1,154)	(1,331)	(1,514)	(1,705)	(8,864)

Notes:

1. Based upon the financial outcome under TasWater's submitted Price and Service Plan 2015 - 2018 (PSP2). Total distributions grow each year at the same rate as revenue, being 4% per annum for the period of PSP2 (FY16 - FY18), 5% per annum for the period of PSP3 (FY19 - FY21) and 4% per annum beyond PSP3 (FY22 onwards).
2. Based upon the financial outcome under the approved PSP2, and discussed with Owners Representatives at the General Meeting of Owners held on 12 May 2016.