Council's Proposed Accelerated Infrastructure Program

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History

When I first came to Kapunda around 33 years ago, I was appalled by the large number of unsealed roads and the lack of proper storm water, kerbs and gutters in the town. When I asked the reason for this, I was told that in earlier days, Council's priority was to have the lowest rates possible, and consequently opportunities for upgrades using grant money with some financial input from Council were often not taken up. Similar infrastructure deficiencies also exist in other towns in the Council area.

Whatever the reason, Kapunda and some other towns have been left with an "infrastructure debt" that successive councils have struggled to overcome. In recent times, also there has been considerable cost shifting from Government to local councils without any additional funds other than rates, placing greater pressure on Council's resources.

The Problem

Consequently, Council has struggled to upgrade infrastructure and maintain existing roads and other infrastructure to the expected standard. A few years ago, Government required councils to develop detailed Infrastructure and Asset Management Plans that accurately outlined the expected life of roads and other infrastructure and the cost of renewal. This took a few years of very hard work to finalise, but Council now has a very good picture of all its assets and infrastructure, those which need upgrading to an acceptable standard, and the timing and cost of renewals.

This plan quantified the size and nature of the problem and revealed that within its current income, it would take Council more than 30 years to upgrade roads and other infrastructure to an acceptable standard and that there was an annual shortfall on what could be spent to replace worn out infrastructure.

The Opportunity

A few years ago, Council applied for a $20 m Federal Grant to set up a water re-use scheme. It was successful in obtaining $10.7 m and proceeded with the scheme as a public-private partnership. At the eleventh hour, the private partner pulled out, and an alternative had to be quickly found. Due to a great deal of urgent effort, a scheme, The Gawler River Water Re-use Scheme (GRWRS) was established with Seppeltsfield Wines and approved by the Federal Government. The major benefits of this scheme are:

- Reduces Murray River demand by at least 800 Ml (Commonwealth Government condition for the grant).
- Supplies harvested water to the Barossa Grape growing area with the opportunity to expand the amount (e.g. by harvesting Roseworthy town expansion stormwater).
- Council took out an $11m loan to fund its part of the cost. The interest on this loan and the operating cost of the scheme is fully funded by a separate rate applied only to Seppeltsfield Wines land, so there is negligible financial risk to Council. In addition, there is an annual operating surplus to Council of between $450,000 and $1.178m (mean $908,000). The surplus may vary from year to year depending on the annual rainfall. This surplus is available to Council to spend.
- The scheme can be taken out by the operator after 6 or 10 years netting Council a $10.4 m profit.

The proposed solution - The Government accelerated infrastructure scheme.

At the end of last year the SA Government announced the State-Local Government Infrastructure Partnership, designed to encourage councils to bring infrastructure projects forward and create jobs to coincide with the closure of local manufacturing by Holden. In this scheme, The Government offers $1 for every $4 spent by a Council on approved projects, and Councils may borrow funds from the Local Government Finance Authority at 0.5% below the going rate to fund their share. Projects must be completed within two years.

In December 2016 Council resolved to apply for a $15 m project. If successful, it would receive a $3m grant and borrow $12m at the reduced interest rate. Interest and repayment of this amount would be funded entirely from the income from the GRWRS and would not be funded by Council rate revenue. A draft program has been prepared, to be finalised by the end of January 2017, which proposes the sealing of most unsealed town roads, $3m of stormwater works and an extensive footpath paving program. It will also allow Council to increase the funds spent on renewing roads to approximately the annual amount recommended in the Infrastructure and Asset Management Plan. The State-Local Government Infrastructure Partnership will be seeking formal applications in February 2017, with decisions regarding successful projects announced soon thereafter. Following the December 2016 resolution, Council intends to apply as soon as the funding program applications are open so that, if successful, it can commence as soon as possible.

Council has also prepared a plan that will enable it to deliver the program within the required time and in an efficient and cost effective manner.

Thus, if Council is successful with its funding application, it will be able to rectify the "infrastructure debt" in two years instead of 30 plus, *and at no additional cost to ratepayers.*

Council Borrowings

There is often confusion about Council borrowings. Council has an Audit Committee chaired by local government finance expert John Comrie, which monitors and advises Council on financial matters. Part of this oversight includes advising Council on loans policy. Borrowings can be classified as good or bad. Bad loans are those that fund general operations. Council has no borrowings of this kind. Good borrowings are those that fund infrastructure, particularly those of economic benefit to a region.

The extent to which a Council can engage in good borrowing is determined by its capacity to pay and the benefit obtained by the borrowing. Council has borrowed some funds, repaid out of general revenue, for certain infrastructure projects. For example, expensive projects where part of the funds come from a grant and Council must match this amount are often funded in this way. Projects like the upgrade of Hancock/Kidman Roads, Perry Rd/East Tce and the replacement of Orchard Bridge are the kinds of projects that would be beyond Council's ability to fund without grant assistance, and need to be done when the opportunity arises. The total amount of loans of this nature is relatively small and Council is on track to reduce it to near zero in a few years.

Loans such as the $11 m for the GRWRS and the proposed $12m for the accelerated infrastructure project are in a different category because the repayment of these is totally from external funding sources, in this case protected by a separate rate (only applied to the scheme partner's land) to minimise risk. Council from time to time also takes out loans on behalf of community groups to secure a worthwhile community project, where the loan is entirely repaid by the group, which receives a lower interest rate by this method. A $400,000 loan, which is part of the Bowling Club project, is an example of such a loan.

Conclusion

If our application is successful, by using the funds generated by the GRWRS and the State-Local Government Infrastructure Partnership, Council will be able to address in two years an infrastructure deficiency that would otherwise take more than 30 years, all with absolutely zero rating impact.

Or as our CEO jokingly put it, by combining these two projects we will be turning water into wine into roads using (as far as impact on ratepayers is concerned) FOOTA (Funds out of thin air).

Note: The November 2016 Council Agenda provides more detail on these two schemes.