

NSW LOCAL INFRASTRUCTURE RENEWAL SCHEME

GUIDELINES – Round Two

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1. INTRODUCTION

On 26 March 2007, the Local Government and Planning Ministers' Council endorsed the National Frameworks for Local Government Financial Sustainability. The National Frameworks address three key areas:

- asset planning and management;
- financial planning and reporting; and
- criteria for assessing financial sustainability.

The National Frameworks promote prudent, transparent and accountable financial management by local governments. They also seek to encourage a strategic approach by local government to meet current and emerging challenges.

The National Frameworks have informed the development of the asset management and long-term financial planning components of the Integrated Planning and Reporting (IP&R) framework, which was introduced in October 2009. The IP&R framework has been developed to improve local councils' long term community planning and asset management, as well as to streamline reporting to the community. It aims to improve the sustainability of local communities by encouraging councils, residents, NSW Government agencies and other community organisations to work together on long-term plans to achieve community outcomes.

The NSW Government has recognised that investment in infrastructure is needed across NSW, and as part of its *NSW 2021 State Plan*, the Government has committed to increase expenditure on critical infrastructure.

To achieve this, the NSW Government has committed to implementing a Local Infrastructure Backlog Policy which comprises the following elements:

- An audit of each council's local infrastructure backlog to provide better information on investment needs, which is being undertaken by the Division of Local Government (DLG);
- A Local Infrastructure Renewal Scheme (LIRS) to provide the opportunity for councils to access interest subsidies for the purpose of funding legitimate infrastructure backlogs; and
- Setting up a system for financial assessment and benchmarking of councils' finances including gearing levels and investment strategies.

2. WHAT IS THE LOCAL INFRASTRUCTURE RENEWAL SCHEME?

The LIRS provides an interest subsidy to assist those councils with legitimate infrastructure backlogs to cover the cost of borrowing. The subsidy aims to provide an incentive to councils to make greater use of debt funding to accelerate investment in infrastructure backlogs and augment funding options already available to councils.

The LIRS is being administered by the DLG.

Round one of the scheme resulted in 86 projects by 64 councils being approved. Round two of the scheme is now open.

All loans subsidised by the LIRS will be subject to specific conditions of LIRS support (see section 6).

This document provides guidance for LIRS applicants on:

- eligibility requirements and assessment criteria for evaluating applications;

- the process for submission of applications and the information required;
- conditions under which LIRS support will be provided to successful applicants; and
- contact details and other miscellaneous information which may be useful to applicants.

The Government announced in the 2012/13 Budget the following scheme design changes in the LIRS, which will apply for round two:

1. The interest subsidy rate for all new projects is reduced from 4% to 3%.
2. An additional \$30 million, with priority given to an additional eligibility criterion of infrastructure to enable new housing. The new criterion is discussed in more detail in section 3.2.2 and section 4.1.2 of this Guideline.

3. ELIGIBILITY REQUIREMENTS

3.1. Who can apply

Any local council in NSW which meets the eligibility requirements in this section and agrees to the conditions of LIRS assistance in section 6 of this Guideline is eligible to apply.

Two or more councils who wish to apply for LIRS assistance to implement a single or group of projects/programs located across council boundaries may do so, provided that each council submits its own separate application and the required documentation in support of that application. Each council must meet the eligibility requirements, assessment criteria and accept the conditions of LIRS assistance (including each participating council contracting a separate loan to cover its share of project/program cost).

A council may submit an application (and may be eligible to receive a LIRS subsidy) for a maximum of two separate projects/programs. In this case, each project/program will be assessed as a separate application, but the Assessment Panel will take into consideration the council's capacity to service debt on the two projects/programs.

For this reason, if a council is submitting applications for two projects/programs the council should clearly identify in each application the name and estimated cost of the two projects/programs for which council is submitting an application and council's long term financial plan must clearly identify the impact of both projects/programs on its repayment capacity and financial situation.

3.2. Eligible projects/programs

The projects/programs for which a council proposes to incur borrowings to be subsidised under the LIRS should be identified as part of council's infrastructure backlog or should enable the provision of new housing.

3.2.1. Backlog Projects

The borrowing to be subsidised under the LIRS should be incurred for the purpose of funding specific new works, upgrades, or renewal of infrastructure of the council that meets a core purpose of local government and is intended for community use – e.g. roads, community halls, libraries, parks, sports grounds (subject to the exclusions listed below).

Some types of infrastructure projects/programs will not be eligible for LIRS assistance. For example:

- Disparate projects that comprise an entire program for infrastructure that serves different functional purposes – e.g., projects that are listed as part of an annual works program for general asset maintenance or asset rehabilitation.
- Projects/programs which do not provide assets to meet an infrastructure backlog in a core service delivery area of local government responsibility to the community (e.g. council premises).
- Projects/programs which largely result in commercial profits to private parties (e.g. construction of a retail shopping centre).
- Information and Communications Technology (ICT) (e.g. purchase of computers for council offices). However, ICT that is to be purchased as an integral part of an infrastructure system to address an infrastructure backlog may qualify (e.g. computer monitoring systems for a dam or a local road network).
- Infrastructure works already in progress as at the date of publication of these Guidelines, including those funded by existing debt.

Projects/programs which are for private benefit and which will cover costs through a revenue stream (e.g. an auditorium or entertainment centre to be funded through fully costed user charges) may be considered, provided that all of the following conditions are met:

- (a) community benefit rather than exclusive private commercial profit is the overriding objective of the project/program;
- (b) the project/program is a component of a larger construction program of other facilities that comply with the eligibility requirements in this section, and the wider program is to be funded by the proposed borrowing;
- (c) the project/program has previously been subject to community consultation as part of the development approvals process and/or the implementation process for the IP&R framework; and
- (d) project/program documentation and preparation is sufficiently advanced to enable the merits of it to be assessed and ranked against other proposals in accordance with the assessment criteria.

3.2.2. Projects for new housing

A project that is not identified as part of a council's infrastructure backlog, but which is clearly demonstrated to facilitate the provision of new housing in a specified site, will be considered eligible in round two of the scheme. For purposes of determining eligibility under this Guideline, 'new housing' is defined as new private dwellings which may comprise self-standing houses, flats or apartments that are used primarily for residential purposes.

Projects that are defined as 'enabling infrastructure' will be eligible for assistance, but projects that are defined as 'follow on infrastructure' will not be eligible.

In relation to this additional criterion, enabling and follow on infrastructure are defined as follows:

- **Enabling infrastructure** is defined as infrastructure which is the applicant council's responsibility to provide, and which is essential for new housing development to occur. For LIRS purposes 'enabling infrastructure' means roads; stormwater; and (for some councils) water supply and sewerage.

- **Follow on infrastructure** is defined as infrastructure that is required to service development, but is not essential up front and can be provided once development is complete. This includes infrastructure such as emergency services, education, recreation and health facilities.

3.3. Minimum cost of projects/programs

Preference will be given to projects/programs or groups of projects/programs with a total cost of at least \$1 million.

This amount may comprise, for example:

- a single project/program (e.g. a park, a library, a single road segment);
- a group of different but related projects (e.g. redevelopment of community facilities clustered in a single location);
- a group of projects of a similar nature that can be packaged as a single program (e.g. small road projects in different sites within the local government area which require major periodic renewal).

For the purposes of these Guidelines, “minimum cost” means the total gross cost of a specified project or program as defined in section 3.2. An amount that is calculated as a lump sum ‘gap’ – for instance, the difference between a total gross cost of a general annual works program and other available funding sources – will not be considered to meet the minimum cost requirement.

For small councils, projects/programs with a total cost of less than \$1 million may still be considered on a case-by-case basis, provided they comply with other eligibility requirements and the essential and desirable assessment criteria.

The \$1 million minimum on a project/program may be equal to or greater than the proposed loan amount, depending on whether council proposes to use other funding sources (e.g. internally generated funds, grants from the Commonwealth or other parties).

3.4. Acceptance of LIRS funding conditions

Successful applicants will be required to enter a LIRS agreement with the NSW Government and in doing so will have to accept the conditions set out in section 6.

4. ESSENTIAL CRITERIA

4.1. Project/program is for legitimate infrastructure backlog works OR enables the provision of new housing

As mentioned in the eligible projects/programs section of these Guidelines, projects must either address a legitimate infrastructure backlog or enable the provision of new housing. The first essential criterion is therefore split into two sections and the applicant council is to choose, which category the project falls into.

4.1.1. Legitimate infrastructure backlog

It is important that the council explains where the project/program ranks in relation to its other infrastructure backlog priorities and provides evidence demonstrating that the proposed backlog infrastructure project/program will directly meet service needs in the local government area, unless the project relates to the enabling of new housing (in which case section 4.1.2 of this Guideline applies). For instance, reference should be made to strategic planning or development approval documents, documents prepared for the IP&R framework, profiles and projections of economic activities in the area and how the project/program will deliver services consistent with the council's plans.

This should include council's condition assessment of the assets included in the proposed infrastructure backlog project/program. Asset management planning and asset condition assessments should be completed consistent with the requirements set out in section 3.4 of the *Planning and Reporting Manual for local government in NSW 2010*.

To assist in determining whether projects/programs meet this criterion, the Assessment Panel may consult with other agencies (e.g., Department of Planning and Infrastructure; Department of Trade, Industry and Regional Infrastructure Services, Department of Finance and Services) or other parties as required.

4.1.2. Projects that enable new housing

Projects that are not for legitimate infrastructure backlog works as required in section 4.1.1 will be considered eligible for LIRS assistance only if they enable new housing, subject to compliance with other eligibility requirements and the other four Essential Criteria for assessment.

Where an applicant council proposes a project to enable new housing, all of the following must be demonstrated in the application documentation:

1. the project will provide infrastructure services in a clearly identified site. The project may be for new residential development, or it may benefit both new developments and the existing population; and
2. the project is for the provision of 'enabling infrastructure' as defined in section 3.2.2 of these Guidelines; and
3. the enabling infrastructure is the responsibility of the council applying for LIRS assistance. In local government areas where the enabling infrastructure is the responsibility of other entities, the project will not be eligible for LIRS assistance (eg, trunk stormwater management infrastructure in parts of the Rouse Hill Development Area is provided by Sydney Water); and

4. the new housing development is in a sufficiently advanced stage of preparation. At the minimum, the land should be already zoned for residential development and council should be able to demonstrate that there is intent to develop the site.

LIRS applications for new housing projects will be subject to all other Essential Assessment Criteria in section 4 and Desirable Criteria in section 5 of these Guidelines.

4.2. Accelerated infrastructure investment

The council must demonstrate how the LIRS subsidy will accelerate the provision of infrastructure in its area and support the council's Resourcing Strategy under the IP&R framework. Applications must show evidence that insufficient 'internal' council funds are available for the infrastructure project/program.

4.3. Project/program delivery timeframe

It is not necessary for an applicant to have competitively tendered the project/program, or completed all detailed project/program development work, or obtained final loan financing at the closing date for applications.

However, an applicant will be expected to adequately demonstrate and document its intentions in its submissions at the application closing date, provide a realistic indication of its project/program delivery timetable, and provide evidence of indicative terms of the loan proposed to be subsidised. An applicant council should be able to demonstrate that it has the necessary resources, project/program management expertise and administrative capacity to deliver the project/program and maintain the asset once it is complete.

4.4. Project Program Preparedness

Support will only be provided to subsidise borrowings for projects/programs that are in a reasonably advanced stage of preparation. For example, applicants may wish to provide evidence:

- that appropriate project/program preparation (e.g. project/program cost-benefit analysis, project/program scoping, options studies, design and other relevant work) has been or is being undertaken;
- that the LIRS subsidy will help to accelerate the delivery of the infrastructure project/program;
- of the council's procurement strategy for the project/program;
- from the detailed business case documentation prepared for the project/program; and
- that the council has considered other relevant factors affecting project/program preparedness, and is doing the necessary work to address these.

4.4.1. Project/program commencement

Applicants must provide evidence that project/program construction will commence within 12 months after the date of signing of the LIRS Agreement. It may be possible to extend this deadline by another six months, but only upon a council demonstrating due cause and meeting certain other conditions (see section 12.1).

The project/program timetable must nominate the approximate target month and year of project/program commencement. 'Project/program commencement' will be defined with specific reference to commitments in the construction contract between the council

and the contractor, or the typical definition of this term in most construction contracts. Courses of action in the event of failure to meet the 12-month deadline will be specified in the LIRS Agreement (see section 10).

4.4.2. Project/program completion

Applicants must provide evidence that the project/program construction is expected to be completed in accordance with the construction timetable submitted with the application, subject to allowance in the timetable for reasonable grace or cure periods.

The project/program timetable must nominate the approximate target month and year of project/program completion. 'Project/program completion' will be defined with specific reference to the construction contract between the council and the contractor, or the typical definition of this term in most construction contracts.

It is expected that projects/programs supported by the LIRS will not require multiple staging. However, where the applicant intends to fund a multi-stage program, the stage that is funded by the LIRS must:

- (a) have a clear completion date for an identifiable infrastructure asset that can start being used by the community once construction is completed;
- (b) have a nominated completion date that is within the period of loan repayment; and
- (c) meet the conditions for LIRS support in section 6.

4.4.3. Project/program finance

Information regarding the availability of internal council funds (e.g. from future general rates income or special rate variations) for the project/program will be taken into account during the assessment of applications. All other sources of funding such as grants or other government subsidies must be declared.

Applicants should demonstrate their capacity to service the proposed LIRS loan. TCorp will also undertake a financial assessment (refer to section 6.1).

For example, applicants may wish to provide:

- initial (pre-tender) project/program cost estimates;
- copies of relevant council decisions to implement the project/program and fund it with borrowings;
- the quality of available cost estimates (e.g. the assumptions and basis for the estimate, whether it is reliable and reasonable, extent of quantity surveying and engineering cost estimation work completed);
- if available, the results of preliminary cost-benefit analysis and financial appraisal work undertaken – e.g. projected cash flows, financing assumptions such as indicative loan size and loan repayments;
- the relevant excerpts from Council's TCorp Assessment Report and other evidence to demonstrate that the applicant will be able to afford the LIRS loan, and
- other relevant information, including from any business case prepared for the project/program.

Applicants must include information on any significant developments after the TCorp assessment was completed which will affect debt servicing capacity (eg, any new borrowings).

4.5. Commitment to delivering affordable and sustainable infrastructure projects/programs

Council must submit its relevant Asset Management Plan and its Long-Term Financial Plan with the proposed project/program resourcing commitments clearly identified as evidence of the affordability of the loan.

The Division's Integrated Planning and Reporting Manual and Long-Term Financial Planning Guidelines set out the requirements for the development of a Long-Term Financial Plan that will provide evidence that the proposed infrastructure investment is affordable and sustainable.

Councils should use the guidance provided on performance measures, modelling and the use of sensitivity analysis to make clear in their application that the proposed projects/programs will not impact negatively on the council's long-term sustainability.

Note: If necessary, the full TCorp Financial Assessment and Benchmarking Report for each council will be submitted to the Assessment Panel to inform its assessment of the application.

5. DESIRABLE CRITERIA

5.1. Consistency with State and Regional planning

The council should identify whether a project/program is consistent with State Government and regional planning and/or integrated with State Government infrastructure projects. Where successful service delivery depends on integration of the asset with State infrastructure, proof should be provided that the necessary State infrastructure is already available. For example, priority may be given to local road works that feed into a regional network if there is sufficient capacity in the regional network.

5.2. Duration of loan

Generally, greater financial risks tend to be associated with longer loan terms. Depending on outcomes, take-up and loan terms of projects/programs in the first round of applications, the Assessment Panel may give higher priority to projects/programs having shorter loan terms.

5.3. Consideration of previous LIRS assistance

In the event that LIRS funding requirements for applications (that meet all of the eligibility requirements in section 3 and essential criteria in section 4 of these guidelines) exceed available budget funding, applicants who did not receive LIRS assistance in round one may be given higher priority over councils who successfully obtained LIRS assistance in previous rounds.

6. CONDITIONS OF LIRS ASSISTANCE

6.1. Financial assessment and benchmarking by TCorp

6.1.1. Generic TCorp Assessment

By the closing date for applications in Round two of the LIRS, all councils are expected to have undergone a financial assessment and benchmarking by NSW Treasury Corporation (TCorp) (Attachment 1 provides a sample of the contents of the TCorp Financial Assessment and Benchmarking Report).

The purpose of the assessment is to assist councils' asset acquisition and investment management strategies, including providing advice on their capacity to utilise debt when appropriate.

The external financial assessment is intended to be a general review of the applicant's overall finances and financial prospects, but not a review of the acceptability or viability of the specific project/program that is the subject of the LIRS application – this is a matter for the council to determine.

However, the financial assessment can advise whether the council has the capacity to borrow in order to meet its infrastructure backlog, and should be used to confirm the impact of any proposed borrowings on the council's finances.

The financial assessment report will be available to the council for its own general financial planning purposes. However, the independent financial assessment is not a credit rating report.

The due diligence or investigations required to assess an applicant's capacity to repay the specific loan will remain the responsibility of the lender.

6.1.2. Additional TCorp Advice on applications beyond the first round

The Assessment Panel will obtain TCorp advice on the applicant's capacity to repay the loan for which an applicant seeks LIRS assistance in the round. The TCorp advice will include an assessment of the impact of the proposed loan on the applicant's financial ratios and long term fiscal position based on latest available financial data, and other relevant information on significant developments after the original TCorp assessment was completed which will affect debt servicing capacity. Council may be required to meet the cost of this additional assessment. Where a proposed project/program is to be jointly implemented by two or more councils, TCorp will consider the fiscal position for each participating council separately.

6.2. Loan to be subsidised must be obtained from a third party lender

Council's loan that is to be subsidised by the LIRS must be negotiated and obtained directly from a third party lender. As evidence of this, the application must include, at the minimum, an indicative Bank Term Sheet from the lender as at the application closing date.

During the evaluation period (i.e. between the application closing date and 1st March 2013), a council will be expected to provide:

1. an updated Bank Term Sheet which is as close to final as possible, and
2. a Loan Repayment Schedule.

The Bank Term Sheet should not be confused with the Loan Repayment Schedule. These are two inter-related but separate documents. One document does not substitute for the other, and both must be submitted with your LIRS application. Failure to do so will result in a non-compliant application.

Please note that a close to final bank term sheet must have been submitted by no later than 1st March 2013. All applications without a bank term sheet after that date will be disregarded by the assessment panel.

To assist Council, further explanation of the required Bank Term Sheet and Loan Repayment Schedule are provided in Appendix 3.

The required information will include:

- (a) the amount and term of the loan;
- (b) a repayment schedule showing loan drawdown dates and amounts of principal and interest payments over the life of the loan; and closing balances at the end of each repayment period; and
- (c) other relevant loan arrangements (e.g. capitalisation of interest at intervals over the life of the loan; any fees to be included in the principal etc).

This updated Bank Term Sheet will be appended to, and will form part of, the LIRS Agreement between the council and the NSW Government.

6.3. No NSW Government guarantee

The NSW Government will not guarantee any part of borrowings or other financial obligations of councils who access support under the LIRS. The NSW Government will not:

- (a) be party to any council discussions or negotiations with prospective providers of finance;
- (b) endorse any finance agreement that a council may enter into with its lender/s; or
- (c) be a party to the loan agreement.

Financial assessment and benchmarking by TCorp, or any formal or informal consultations by the NSW Government regarding debt facilities or any other financial arrangements of lenders with councils, do not constitute an implicit or explicit NSW Government guarantee on councils' financial or non-financial obligations incurred under the LIRS, or on the projects/programs proposed by councils to be subsidised by the LIRS.

6.4. DLG legislative requirements

Councils are required to comply with any legislative requirements that may apply to a project/program. For example if a proposed project/program meets the criteria for a Capital Expenditure Review, then council must meet the requirements which are set out in DLG Circular to Councils 10/34.

6.5. One LIRS contribution only

Applicants will be eligible for one LIRS subsidy contribution per project/program. However, a council may submit an application (and may be eligible to receive a LIRS subsidy) for a maximum of two separate projects/programs, in each application round. Each project/program should be lodged as a separate application which will be separately assessed. For purposes of determining the maximum number of projects/program for which any council is eligible for a subsidy, a project/program to be implemented by two or more councils will count as a single project/program for each participating council.

6.6. Allowable purpose and allowable expenses

The LIRS interest subsidy will be made available only for the specific purpose of offsetting the interest cost for loans from third party lenders for the allowable purposes.

Refinancing of existing loans (as at the date of public release of this Guideline) will not be eligible for LIRS support.

Proceeds of the loan are not to be applied towards costs of administration, travel, licensing, salaries or other activities or recurrent costs that are the responsibility of the applicant. However, a maximum of 10% of the total loan amount supported by the LIRS can be spent on specialist advice or design and permit costs (for example, engineering or planning).

Councils will be responsible for all ongoing costs and the management of assets procured with LIRS support.

6.7. Deadline for council and lender to agree on loan terms

The deadline for council and the third party lender to achieve in principle agreement on loan terms will be set so as to be consistent with the timetable for contract close, financial close and project/program delivery, and in no case will extend beyond the project/program commencement date.

6.8. Loan duration to be no longer than 10 years

All loans subsidised by the LIRS must have a loan term no longer than ten years from the date of signing of the LIRS Agreement. In any case, all LIRS funding will terminate on or before 30 June 2025.

Loans to councils for new asset acquisition purposes would typically be expected to have a range of five to ten years, although shorter loan durations are also possible.

6.9. LIRS subsidy to be fixed at commencement of LIRS agreement

The NSW Government will provide an interest subsidy on the loans contracted by successful applicants with their lender. The dollar amount of the subsidy for a given project/program will be fixed in the LIRS Agreement and will be calculated based on:

- (a) the rate of LIRS subsidy; and
- (b) the loan amount and term of each application as contained in the updated Bank Term Sheet that is made available by council to the DLG 14 days before the date that successful applicants are to be announced.

There will be no adjustment to this subsidy amount over the life of the LIRS Agreement, except as provided in the terms of that Agreement (e.g. in relation to events of default

and other triggers in the Loan Agreement between the council and the lender, unusual circumstances or variations permitted by the Agreement).

The NSW Government's liability will be limited solely to the amount of the interest subsidy that is specified in the LIRS Agreement with the council.

6.10. Councils accept all risk apart from LIRS subsidy in LIRS agreement

Councils are to take full risk on:

- interest rate or other financial risk on any liabilities in excess of the agreed amount of the State subsidy as specified in the LIRS Agreement; on the other hand, council will retain the benefits of any upside interest rate risk between the signing of the LIRS Agreement and the final approved Loan Agreement;
- interest rate or other financial risk on any liabilities for any period exceeding the term of the loan for which the subsidy is provided under the LIRS Agreement;
- in the event that a council wishes to refinance the loan (beyond the period of the original loan term for which LIRS support was provided), all costs and financial risks associated with such refinancing, including the full interest cost of the refinancing; and
- any non-financial (e.g. construction or project management or contractual) risks that result in the project/program being delayed and/or which may consequently generate unplanned financing costs or other financial risks for the project/program.

6.11. LIRS subsidy will be paid on a reimbursement basis

Once the lending institution has disbursed the proceeds of the loan to a council, the council will be expected to make interest payments directly to the lending institution that is based on the full interest rate in accordance with the final Loan Agreement between those two parties, which will incorporate the final approved loan terms.

The DLG is responsible for administering the reimbursement of the council for the amount of the subsidy and at the frequencies included in the LIRS Agreement, provided no events of default or other unusual circumstances arise (for which separate provision will be made in the LIRS Agreement) and until the total amount of the subsidy is fully paid to the council.

6.12. Submission of final approved Loan Agreement and Bank Term Sheet

After selection as a successful applicant and signing of the LIRS Agreement, a council will be expected to negotiate and sign the final Loan Agreement with its lender ("financial close"). Once financial close is achieved, successful applicants will be required to submit a certified copy of the final Loan Agreement and final approved Bank Term Sheet.

Financial close may be expected to occur after the signing of the LIRS Agreement. Therefore, the final loan documentation will not be used for eligibility or application assessment purposes, but for post-implementation review of the LIRS.

Failure to submit a copy of the final approved Loan Agreement and Bank Term Sheet after financial close will be grounds for withholding payment of the LIRS subsidy until it is submitted to the DLG.

7. SUBMISSION OF APPLICATIONS

The DLG will develop a LIRS website to allow online applications for the scheme. Applicants will need to provide the following information as part of the application:

- (a) name and address of local council and that council's Australian Business Number (ABN);
- (b) contact details for the General Manager as well as an authorised person from the local council, who will act as the nominated contact for the LIRS application and from whom more information or clarification about the application can be sought, if required;
- (c) the State electorate that the project will be located within;
- (d) the relevant excerpts from the Asset Management Plan and Long-Term Financial Plan (please do not send the entire documents) with the proposed project/program resourcing commitments clearly identified as evidence of the affordability of the loan;
- (e) profile of the proposed project/program – including details of the nature, location, type, scale of infrastructure project/program; the target beneficiaries; whether the project/program is being done jointly with other councils;
- (f) estimates of capital cost, and comments about the content and quality of these estimates; this may include quotes from suitably qualified contractor/s or design consultants to support the project/program cost cited in the application;
- (g) estimates of project/program cost financing (including from sources other than the proposed loan, if applicable);
- (h) a project/program budget detailing costs relating to the LIRS project/program – including sources and uses of funds for the project/program and estimates of (unsubsidised) interest cost and LIRS subsidy, at least on an annual basis;
- (i) a short project summary and community benefit statement for use in communication and promotion, should the project be successful.
- (j) an indicative Bank Term Sheet including the amount proposed to be borrowed (if this is different from the capital cost estimates provided); interest rate; loan term; particulars of assets or other security provided by the council to cover the loan; excel spreadsheets showing the calculation of periodic interest payments (to enable calculation of LIRS subsidy payments); and any other relevant details about the proposed loan;
- (k) copies of council Minutes showing prior council approval to proceed with the project/program or capital expenditure, and (if decided separately) to incur a loan to fund the project/program; and
- (l) all other documentation demonstrating the applicant's compliance with the eligibility requirements and essential and desirable criteria.

Note: For single projects/programs to be undertaken by multiple councils, each participating council must lodge a separate application.

8. LODGING APPLICATIONS

Applications must be received by close of business (5.00pm) on Monday, 31 December 2012. The applications must be completed online on the LIRS section of the DLG website at www.dlg.nsw.gov.au.

Applicants who need help with their application can contact the DLG Coordinator Infrastructure on phone 4428 4133 or email lirs@dlg.nsw.gov.au or via post:

Coordinator Infrastructure
 Local Infrastructure Renewal Scheme
 Division of Local Government
 Department of Premier & Cabinet
 Locked Bag 3015
 Nowra NSW 2541

Applications that are not received by the closing date for any reason or due to oversight by any party involved in the application process will not be assessed. Only the following materials will be accepted by DLG after the closing date:

1. Additional information on bank documentation as specified in section 7(j) of this Guideline, or project information required in order to complete the application;
2. Specific information requested by the Technical Panel or the Assessment Panel in aid of the assessment, or any information submitted by an applicant in response to a Request for Clarification.

SUMMARY OF KEY DATES

Item	Date
Online applications open	1 November 2012
Application closing date	31 December 2012
Latest date to submit close to final bank term sheet	1 March 2013
Announcement of successful applicants	At the earliest, mid May 2013 – but may be extended if many requests for clarification (RFC) are required. Specific date to be announced by the Minister.
Signing of LIRS Agreement	Maximum 30 days after council receipt of LIRS Funding Agreement.

9. ASSESSMENT OF APPLICATIONS

9.1. Stages of the assessment process

After the closing date, applications will be assessed in three stages:

Stage 1. Assessment by Technical Panel against the eligibility requirements and essential criteria in section 3 and 4 of this Guide.

The Technical Panel will assess and rank applications against the eligibility requirements in section 3, the essential criteria in section 4 and (if necessary) the desirable criteria in section 5 of this Guideline.

Applications found to be ineligible, or whose documentation is incomplete at the closing date and are deemed unlikely to be completed within the assessment period, may not be assessed.

In order to facilitate the assessment, the Technical Panel may issue Requests for Clarification to any applicant in accordance with section 9.2 of this Guideline. Failure to respond to a Request for Clarification (RFC) will be interpreted to mean that the applicant has no further information to provide, and the application will be assessed on that basis.

Stage 2. Assessment Panel review

The Technical Panel will submit its assessment of applications for consideration by the Assessment Panel. The Assessment Panel will determine those applications that satisfy the eligibility requirements and essential criteria. These applications should then progress to the TCorp financial assessment and benchmarking process if that has not already been undertaken.

At this stage, the Assessment Panel may also instruct the Technical Panel to issue further RFC's to assist in the Assessment Panel's deliberations.

Stage 3. Assessment Panel final decision

The Assessment Panel has the option of instructing the Technical Panel to undertake another round of evaluation and ranking of applications - including as a result of applicants' responses to RFCs, or against the desirable criteria in section 5 of this Guideline. The Assessment Panel may also undertake further deliberations as required in order to make its final decisions on eligible Round two applications.

Note: Where a project/program is jointly undertaken by two or more councils, each participating council will be individually evaluated against the eligibility requirements and assessment criteria just like any other single applicant.

9.2. Requests for clarification or additional documentation

To help ensure that assessment outcomes are based on information that is as accurate and up-to-date as possible, the assessment process will include Requests for Clarification (RFCs). At any stage, the Technical Panel and/or the Assessment Panel may seek clarification about any aspect of a council's application, and will issue an RFC in writing to the applicant. This could include requests for additional documentation if there are gaps in the initial submissions.

The applicant will be expected to provide a response in writing, or a copy of any additional documentation requested by the Technical Panel or the Assessment Panel, within a specified number of days. The responses will be considered in the final evaluation and ranking of applications by the Assessment Panel.

Applicants' responses to RFCs must be addressed to the DLG LIRS e-mail address lirs@dlg.nsw.gov.au. Depending on the subject of the RFC, applicants may be requested to simultaneously copy their RFC response to a specific member of the Technical Panel. As required, separate contact details for the relevant Technical Panel member(s) will be provided to applicants when the RFC is issued.

9.3. Assessment criteria

In the first instance, the Assessment Panel will evaluate applications with reference to the essential criteria in section 4 of this Guideline. The Assessment Panel will have the option of giving more favourable consideration to applications if, in addition to meeting the essential criteria, they also meet the desirable criteria in section 5.

Budget funding allocations for the LIRS have been set for a limited period of time commencing in 2011/12. In the event that the aggregate of LIRS subsidies sought for all applications meeting the essential criteria would, if granted, result in:

- (a) all of the allocated budget funding being used up in the rounds to date, or
- (b) total LIRS subsidy funding requirements exceeding the total budget allocation to date,

then the Assessment Panel will do a second review of applications that initially met the essential criteria based on systematic application of the desirable criteria, to further refine the ranking of these applications.

In any application round, after applying the essential and desirable criteria, the Assessment Panel may repeat its review of applications as many times as necessary, based on other prioritisation criteria or processes (e.g. awarding only partial subsidies, or setting pre-conditions before some applicants can access the subsidy). The Assessment Panel will ensure that these additional criteria and processes are appropriately documented and communicated to applicants.

9.4. Outcomes of the Assessment Process

The target date for announcement of successful applicants by the Assessment Panel will be determined after the Technical Panel assessment has commenced and the Assessment Panel is able to form a clearer view on the quantity and quality of applications received.

At the earliest, it may be possible for successful applicants to be announced in May 2013, but this may be extended should a significant number of RFCs be necessary.

Projects/programs selected for assistance may not receive the full requested subsidy, and LIRS assistance may be made subject to specific conditions to be determined by the Assessment Panel.

Under no circumstances will any LIRS subsidy be approved or endorsed for:

1. Loan amounts that are not supported by an indicative Bank Term Sheet or other relevant bank documentation submitted with a council's application. In case a loan amount stated in a council's application form exceeds the loan amount stated in the indicative Bank Term Sheet, the LIRS subsidy will be calculated based on the latter.

2. Loans that are non-compliant with these LIRS Guidelines in the first instance (eg, loans for projects that do not meet eligibility requirements in section 3 of these Guidelines, or loans which do not comply with the funding conditions in section 6).

All recommendations to the Chief Executive of the DLG by the Assessment Panel will be final, and the Panel will not enter into negotiations or disputes with unsuccessful applicants.

9.5. Notification to applicants

After the application closing date, applicants will receive notification via email to confirm that their application has been received. Applicants may be contacted during the assessment process for further information or clarification about their application.

Applicants will be advised of the outcomes of the assessment process through letters to all applicants, which will provide the following information:

- (a) whether or not the application for assistance has been approved, and other possible outcomes of the assessment process including any conditions placed on the approval of the application (if applicable); and
- (b) where the Assessment Panel has applied other additional criteria or processes (apart from the essential and desirable criteria listed in this Guideline) in order to ration available LIRS budget funding, a description of those additional criteria or processes.

Given the possible large number of applications, feedback on applications may not be given to individual councils apart from the final notification to successful and unsuccessful applicants. A list of successful applicants and project/program summaries will be published on a LIRS webpage on the DLG website.

10. LIRS FUNDING AGREEMENT

Successful applicants will be required to sign a LIRS Funding Agreement with the NSW Government, stipulating obligations of the applicant and the conditions under which LIRS assistance is given.

These terms are summarised in section 6 of this Guideline. Where a proposed project/program is to be implemented by two or more councils, each participating council will sign a LIRS Agreement for its own loan. In these cases the LIRS Agreement may contain clauses uniquely tailored to the particular joint project/program arrangements.

The LIRS Agreement will also contain provisions regarding other matters, including (but not limited to) events of default, monitoring and reporting requirements, and miscellaneous provisions. Other clauses in the Agreement will include:

- Confidentiality - The DLG use the information supplied to assess an application for LIRS assistance. Information on funded projects/programs may be used for promotional purposes. Subject to the provisions of the Government Information (Public Access) Act 2009, the DLG will endeavour to treat confidentially any sensitive personal and confidential information that is provided in an application.
- Insurances and indemnity - The applicant will be required to hold broad form public liability insurance (a minimum limit of \$20 million is expected) and, where applicable, professional indemnity insurance and workers' compensation insurance. The applicant will be required to indemnify the DLG for all losses and/or damage arising from the project/program.
- Tax liabilities - Goods and Services Tax (GST) applies to payments made under the LIRS, if the recipient is registered for GST. It is recommended that applicants seek

11. TIMEFRAME FOR SIGNING LIRS FUNDING AGREEMENT

A successful applicant is expected to sign a LIRS Funding Agreement within 30 days from the date that the DLG sends the Agreement to the applicant.

The 30 days allow for final clarifications between council and the Assessment Panel on the content of the Agreement. If, notwithstanding these consultations, a successful applicant fails to sign the LIRS Agreement within the deadline, the offer of LIRS assistance will automatically lapse and the budget allocation will be able to be reallocated to other projects/programs.

12. IMPLEMENTATION AND MONITORING

Successful applicants will be required to comply with the following commitments:

12.1. Project/program commencement

Failure of a successful applicant to commence project/program construction within 12 months after the date of signing of the LIRS Agreement may result in the LIRS subsidy to that applicant being withdrawn, and the budget allocation for this subsidy being reallocated to other projects/programs. (See section 4.4.1 for a definition of 'project/program commencement'.) If construction does not commence within this deadline, the applicant will be placed on notice and requested to explain the reasons for the delay.

An extension over the 12-month limit of no more than six (6) months will be possible, but only upon council:

- (a) demonstrating due cause;
- (b) providing evidence that council is taking specific measures to remedy the delay; and
- (c) submitting an amended project/program delivery schedule to the satisfaction of the Assessment Panel.

The maximum 18-month limit on project/program commencement is to avoid the 'banking' of successful applications for indefinite periods, and to help ensure timely and efficient take-up of LIRS funding as provided for in the NSW Budget.

12.2. Variations in project/program design, timetable or deliverables

Should successful councils wish to vary the proposed design, scope, timetable or deliverables of the project/program after the LIRS Agreement has been signed, those councils will be required to provide details of these changes in writing to the Assessment Panel – if possible even before the project/program changes have been approved and/or implemented.

This requirement will apply, whether or not these project/program variations substantially alter the LIRS subsidy payment schedule.

Should the project/program changes result in significant changes to any of the major loan parameters, with consequent changes to scheduled interest payments by council

and LIRS interest subsidy payments by the NSW Government, the council will be required to submit the following to the Assessment Panel:

- (a) details of the specific project/program changes and any detailed revisions in project/program delivery timetable;
- (b) amended project/program cash flows and amended financial modelling spreadsheets; and
- (c) evidence that the council still has the capacity to manage the revised project/program, particularly if the revisions entail expansion in project/program scope or complexity.

12.3. Periodic reporting

Financial and non-financial reporting requirements will be detailed in the LIRS Agreement. During the construction stage of the project/program, councils will be required to provide quarterly reports on project/program status and financial flows (expenditure and funding sources, e.g. drawdowns on the LIRS-subsidised loan).

Statements of Expenditure on the project/program will be part of the project's/program's monitoring and reporting requirements and may be subject to audit.

Reports on loan drawdowns and interest and principal repayments will continue to be required over the life of the loan in line with the LIRS Agreement.

12.4. Project/program completion

On completion of the project/program, a council will be required to submit to the DLG a Final Report which should include:

- (a) evidence of project/program completion (as defined in section 4.3.3);
- (b) a Statement of Expenditure which includes amounts actually spent on the project/program; the final amount of borrowing incurred, the total interest expense actually paid by the council, and the total amount of LIRS subsidy received by the council; and
- (c) an Acquittal Certificate which must be signed by the General Manager and the responsible accounting officer.

13. FUTURE ROUNDS

The Government will review the cost and LIRS program outcomes of the first round of applications, and may make adjustments in future rounds. The Government's decisions regarding the operation and funding of subsequent rounds will be made in the context of decisions for the annual State Budget for each of the following years.

The Assessment Panel and the DLG will ensure that the assessment process is conducted so as to ensure that:

- (a) successful determinations in the first round are limited, if that is necessary to ensure that some of the funding provided for the scheme is available for subsequent rounds;
- (b) no one council receives an excessive share of the scheme's total funding; and
- (c) LIRS subsidy expenditure remains within budget funding limits over the forward estimates period.

In the event of any amendments to scheme design authorised by the Government between application rounds, the changes are to be publicly announced to councils in the form of addenda to this Guideline for Applicants. Any amendments will apply to future application rounds, and will not apply to LIRS Agreements previously signed.

ATTACHMENT 1 - SAMPLE OUTLINE – NSW TREASURY CORPORATION - FINANCIAL ASSESSMENT AND BENCHMARKING REPORT

Name of Council

Section 1 Executive Summary

Section 2 Introduction

2.1: Purpose of Report

2.2: Scope and Methodology

2.3: Overview of the Local Government Area

2.4: LIRS Application

Section 3 Review of Financial Performance and Position

3.1: Revenue

3.2: Expenses

3.3: Operating Results

3.4: Financial Management Indicators

3.5: Statement of Cashflows

3.6: Capital Expenditure

3.7: Specific Risks to Council

Section 4 Review of Financial Forecasts

4.1: Operating Results

4.2: Financial Management Indicators

4.3: Capital Expenditure

4.4: Financial Model Assumption Review

4.5: Borrowing Capacity

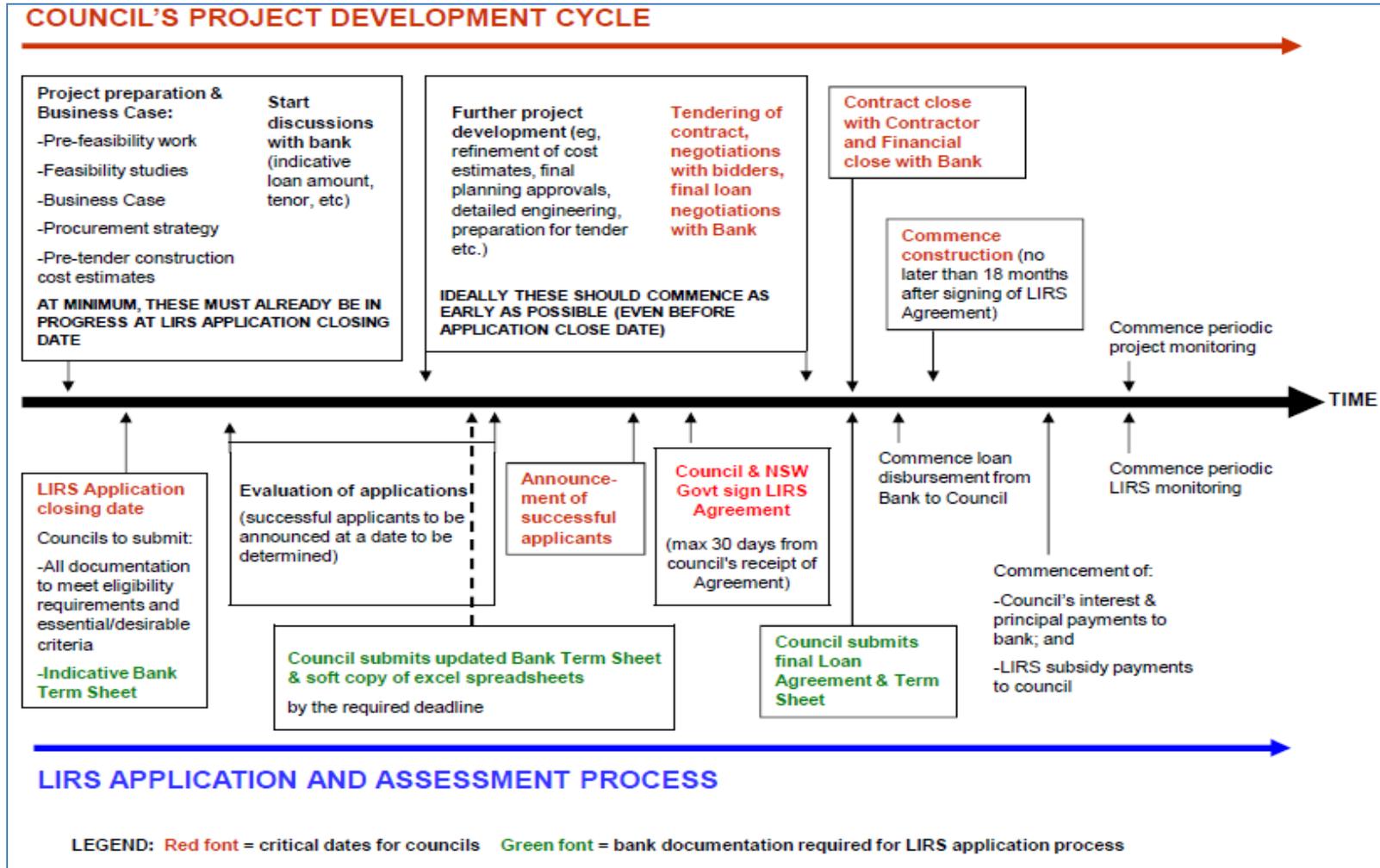
Section 5 Benchmarking and Comparisons with Other Councils

Section 6 Conclusion and Recommendations

Appendix A - Historical Financial Information Tables

Appendix B - Glossary

ATTACHMENT 2 - INDICATIVE PROJECT/PROGRAM AND LIRS FUNDING TIMELINE



ATTACHMENT 3: BANK DOCUMENTATION REQUIRED IN SUPPORT OF LIRS APPLICATION

This appendix provides more details about the expected contents of two documents that council must submit as part of its LIRS application:

1. Bank Term Sheet, and
2. Loan Repayment Schedule

Both of these documents must be submitted under cover of formal correspondence from the bank, which clearly shows the bank letterhead and signature of an authorised bank officer.

1. BANK TERM SHEET AND INDICATIVE LOAN FUNDING LETTER SIGNED BY THE BANK

Please submit a copy of an indicative Bank Term Sheet containing the proposed terms of the loan.

It is understood that at the time that council submits its LIRS application, this Bank Term Sheet is only indicative and is provided on a 'no commitment' basis, and is submitted only for purposes of assessing council's financial preparedness to incur the loan for which a LIRS subsidy is sought. Submission of an indicative Bank Term Sheet does not represent a contractual commitment to proceed with this particular loan, by either the council or the bank whose name and logo appear on the correspondence. It is understood that final loan terms will be confirmed closer to the date of project commencement.

If at the closing date the council is unable to provide a Bank Term Sheet with the information detailed below and council has only obtained a preliminary interest rate quote from the bank (eg, by letter or e-mail), please submit this document (clearly identifying the bank) as evidence that council has actually commenced consultation with a bank. If council submits only a preliminary bank quote at the closing date for submissions, council must obtain and submit **by 1 March 2013** the two indicative documents listed in this Appendix.

For purposes of compliance with this submission requirement, a Bank Term Sheet would be expected to typically include the following provisions (some details may vary depending on the bank):

1.1 TERMS OF THE LOAN:

- (a) The amount of finance offered by the bank
- (b) Type of facility – eg, Fixed rate? Variable rate? Mixed?
- (c) Term of facility - number of years
- (d) Approximate estimated date for funding to commence - month, year
- (e) Interest rate
- (f) Repayments - principal, interest
- (g) Frequency of repayment – monthly? Quarterly? Semi-annually?
- (h) Variations in reference rates – if the loan is a variable rate loan
- (i) If relevant, any capitalisation of interest and the frequency with which the interest is capitalised (say, every 4th quarter)
- (j) Government fees and taxes

- (k) Early repayment, prepayment and break costs payable by the borrower

It is possible that the bank may provide to council, two or more loan options (eg, different interest rates or different loan tenor). If so, please provide a copy of the bank's correspondence identifying those options. Council must indicate to us the preferred option, otherwise the Assessment Panel will be unable to estimate the cost of the LIRS subsidy for the project. **If council does not state its preferred or likely option, it is possible that consideration of the application may be deferred.**

1.2 OTHER GENERAL TERMS AND CONDITIONS OF THE LOAN:

- (a) Security for the loan to be provided by the borrower
- (b) Assignment of the bank's rights
- (c) Conditions precedent required by the bank – eg, conditions that the borrower must comply with before the loan can be activated or the loan funds paid to the borrower.
- (d) Undertakings by the borrower
- (e) Representations and warranties
- (f) Events of default – what they are, and the consequences for the bank and the borrower if these events occur
- (g) Provision for any variations in terms and conditions over the duration of the loan
- (h) Confidentiality of information
- (i) Other?

2. DETAILED LOAN REPAYMENT SCHEDULE PREPARED OR REVIEWED BY YOUR BANK

Consistent with the loan terms in section 1.1 above, please submit a detailed Loan Repayment Schedule showing the repayment dates; and the principal payment, interest payment, total P&I repayment amount, outstanding balance and cumulative interest on each repayment date. Please note that this schedule must be prepared or reviewed and signed off by the bank, and that bank's letterhead must be visible on the document or spreadsheet. **It is not sufficient for this schedule to be calculated only by the applicant.**

It is unnecessary for council to calculate the LIRS subsidy payment for purposes of the submission. However, if council wishes to calculate the subsidy for its own records, please ensure that it calculates first each interest payment based on the gross interest rate (say, 7.5%) in each repayment period. The dollar value of the LIRS subsidy in that period is then calculated by multiplying the \$ interest payment (BEFORE deducting the subsidy) by the percentage of the LIRS subsidy rate to the gross interest rate of the loan (in this example, 4%/7.5%, or 53.33%). If council calculates the LIRS subsidy by applying only the net interest rate of 3.5% to derive the loan repayment schedule, it could underestimate the interest payments that it will need to make to the bank in any period because the LIRS subsidy payments are to be repaid to successful applicants on a reimbursement basis (see section 6 of LIRS Guidelines).