



Hawkesbury City Council

extraordinary
meeting
business
paper

date of meeting: 15 April 2014
location: council chambers
time: 6:30 p.m.



mission
statement

***“To create opportunities
for a variety of work
and lifestyle choices
in a healthy, natural
environment”***

How Council Operates

Hawkesbury City Council supports and encourages the involvement and participation of local residents in issues that affect the City.

The 12 Councillors who represent Hawkesbury City Council are elected at Local Government elections, held every four years. Voting at these elections is compulsory for residents who are aged 18 years and over and who reside permanently in the City.

Ordinary Meetings of Council are generally held on the second Tuesday of each month (except January), and the last Tuesday of each month (except December), meeting dates are listed on Council's website. The meetings start at 6:30pm and are scheduled to conclude by 11pm. These meetings are open to the public.

When an Extraordinary Meeting of Council is held, it will usually also be held on a Tuesday and start at 6:30pm. These meetings are also open to the public.

Meeting Procedure

The Mayor is Chairperson of the meeting.

The business paper contains the agenda and information on the items to be dealt with at the meeting. Matters before the Council will be dealt with by an exception process. This involves Councillors advising the General Manager by 3pm on the day of the meeting, of those items they wish to discuss. A list of items for discussion will be displayed at the meeting for the public to view.

At the appropriate stage of the meeting, the Chairperson will move for all those items which have not been listed for discussion (or have registered speakers from the public) to be adopted on block. The meeting then will proceed to deal with each item listed for discussion and decision.

Public Participation

Members of the public can register to speak on any items in the business paper other than the Confirmation of Minutes; Mayoral Minutes; Responses to Questions from Previous Meeting; Notices of Motion (including Rescission Motions); Mayoral Elections; Deputy Mayoral Elections; Committee Elections and Annual Committee Reports. To register, you must lodge an application form with Council prior to 3pm on the day of the meeting. The application form is available on Council's website, from the Customer Service Unit or by contacting the Manager - Corporate Services and Governance on (02) 4560 4444 or by email at council@hawkesbury.nsw.gov.au.

The Mayor will invite registered persons to address the Council when the relevant item is being considered. Speakers have a maximum of three minutes to present their views. The Code of Meeting Practice allows for three speakers 'For' a recommendation (i.e. in support), and three speakers 'Against' a recommendation (i.e. in opposition).

Speakers representing an organisation or group must provide written consent from the identified organisation or group (to speak on its behalf) when registering to speak, specifically by way of letter to the General Manager within the registration timeframe.

All speakers must state their name, organisation if applicable (after producing written authorisation from that organisation) and their interest in the matter before speaking.

Voting

The motion for each item listed for discussion will be displayed for Councillors and public viewing, if it is different to the recommendation in the Business Paper. The Chair will then ask the Councillors to vote, generally by a show of hands or voices. Depending on the vote, a motion will be Carried (passed) or Lost.

Planning Decision

Under Section 375A of the Local Government Act 1993, voting for all Planning decisions must be recorded individually. Hence, the Chairperson will ask Councillors to vote with their electronic controls on planning items and the result will be displayed on a board located above the Minute Clerk. This will enable the names of those Councillors voting For or Against the motion to be recorded in the minutes of the meeting and subsequently included in the required register. This electronic voting system was an innovation in Australian Local Government pioneered by Hawkesbury City Council.

Business Papers

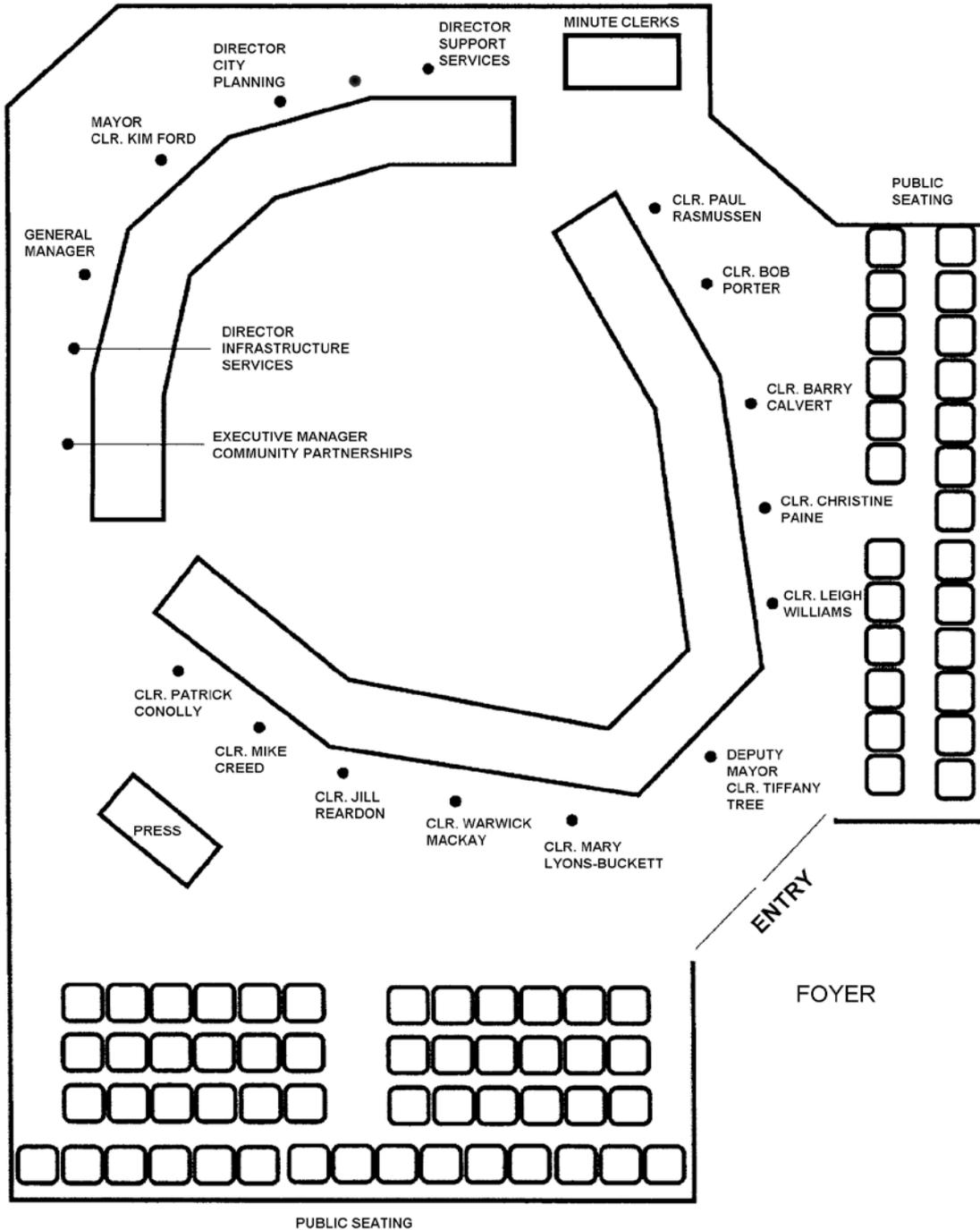
Business papers can be viewed online from noon on the Friday before the meeting on Council's website: <http://www.hawkesbury.nsw.gov.au>

Hard copies of the business paper can be viewed at Council's Administration Building and Libraries after 12 noon on the Friday before the meeting, and electronic copies are available on CD to the public after 12 noon from Council's Customer Service Unit. The business paper can also be viewed on the public computers in the foyer of Council's Administration Building.

Further Information

A guide to Council Meetings is available on the Council's website. If you require further information about meetings of Council, please contact the Manager, Corporate Services and Governance on, telephone (02) 4560 4444.

Hawkesbury City Council



EXTRAORDINARY MEETING

Table of Contents

Meeting Date: 15 April 2014

AGENDA

- **WELCOME**

Acknowledgement of Indigenous Heritage

- **APOLOGIES AND LEAVE OF ABSENCE**

- **DECLARATION OF INTERESTS**

- **Reports for Determination**

General Manager

EXTRAORDINARY MEETING

Table of Contents

Meeting Date: 15 April 2014

TABLE OF CONTENTS

ITEM	SUBJECT	PAGE
	Reports for Determination	3
	GENERAL MANAGER	3
Item 74:	GM - Draft Operational Plan 2014/2015 - (79351, 95496, 96332)	3

Reports for Determination

GENERAL MANAGER

Item 74: GM - Draft Operational Plan 2014/2015 - (79351, 95496, 96332)

REPORT:

Executive Summary

The purpose of this report is to submit the Draft Operational Plan 2014/2015 for Council to adopt to place on public exhibition. This document has been prepared in accordance with the requirements of Parts 1 and 2 of Chapter 13 of the Local Government Act (the Act) and associated Guidelines issued by the Division of Local Government (DLG).

The Hawkesbury Community Strategic Plan (CSP) 2013 – 2032 was adopted by Council on 9 April 2013 and forms the basis of, and will be implemented through the Delivery Program 2013 - 2017 that is focused on achieving key goals of the CSP. The Delivery Program 2013-2017 was adopted by Council at the Council meeting on 18 June 2013.

The Draft Operational Plan 2014/2015, which sets out the actions for implementing the relevant parts of the Delivery Program, is divided into two parts. Part 1 consists of the Activities to be delivered in the second year of the Delivery Program and the Estimated Income and Expenditure to support these Activities. Part 2 consists of the Statement of Revenue Policy and Fees and Charges proposed for 2014/2015.

This report recommends that the information contained within this document is received and that the Draft Operational Plan 2014/2015 be adopted for public exhibition purposes and be advertised in accordance with the requirements of the Act. The report also recommends that an Extra-Ordinary Meeting of Council be held on Tuesday, 17 June 2014 to consider any public submissions received in respect of the Draft Operational Plan 2014/2015, the adoption of this document and to make and fix rates and charges for the year ended 30 June 2015.

Consultation

It is proposed that the Draft Operational Plan 2014/2015 be placed on public exhibition for the minimum 28 day period. Following this period a summation of any submissions received will be presented to an Extra-Ordinary Council Meeting to be held on Tuesday, 17 June 2014 to consider the submissions received and adopt the Draft Operational Plan 2014/2015 as well as setting rates and charges for the year ending 30 June 2015. A council must adopt its Operational Plan by 30 June each year and set its rates for a financial year by 31 July of that year.

Background

1. Introduction

I am pleased to submit the Draft Operational Plan 2014/2015 for Council's consideration.

The Integrated Planning and Reporting Legislative regime consists of a hierarchy of plans that guide the operations of Council over at least the four year term of Council. This hierarchy starts with the highest document, the CSP (minimum outlook of 10 years), then the Delivery Program (principal activities over the next four years or the term of the current Council), Operational Plan (annual actions and budget) and a Resourcing Strategy for implementing the Delivery Program and Operational Plan. All these plans must be integrated with clear links from the CSP to the annual actions and budget allocations.

The CSP has an outlook of 20 years and sets the Directions for Council and Community actions that are focused on five Themes. The CSP must be reviewed by an incoming Council by June following the Council election. The CSP, adopted by Council on 9 April 2013, was a review of the 2009 CSP that was subject to significant public consultation. The CSP must also show clear links to the current State Strategies relevant at the time.

The Delivery Program contains the principal activities that are intended to be pursued over the next four years and generally aligns with the current Council election term. These principal activities are directly linked to the Themes and Strategies contained in the CSP.

The Operational Plan contains the actions and activities that are intended to be undertaken over the following twelve months. These actions are again directly linked to the CSP via the Strategies and principal activities listed in the Delivery Program. The Operational Plan also contains the annual budget and the Council's Statement of Revenue Policy for the next twelve months.

The Resourcing Strategy sits behind these documents and outlines the resources (Long Term Financial Plan, Asset Management and Human Resources) required for the implementation of the CSP and Delivery Program activities.

The Integrated Planning and Reporting Legislation requires the above documents to be directly linked, show links to (and be consistent with) the State Strategies and sets the timeframes for the review and adoption of the above. The Legislation also requires quarterly financial reporting, six monthly reporting of the progress of implementing the Delivery Program and Operational Plan, an annual report of all the above and also an end of Council election term report indicating the progress of the Council in implementing the Delivery Program. All these reports are considered at a publically available Council Meeting.

The preparation of the Draft Operational Plan 2014/2015, specifically the allocation of funding was particularly difficult taking into consideration the increase in costs, competing priorities, limited resources and the limits placed on revenue by way of rate-pegging and statutory limits on fees and charges. Managing the diverse and growing expectations of the community, with Council's capacity to deliver within its limited financial scope, continues to be a challenging task.

2. Strategic Issues

Over many years now, and increasingly so since the introduction of the Local Government Act 1993, all councils in New South Wales have had to address the issue of becoming involved in the delivery of a wider range of services. This has largely been required to be achieved without corresponding growth in available resources to provide these services as well as meeting the increasing expectation of the communities they serve.

Examples of these increasing roles are the provision of community services; planning controls and requirements; and many environmental issues. At the same time the State and Federal Governments have withdrawn from or reduced funding for many services, leaving local government to provide the additional funding.

Whilst expenditure for 2014/2015 has been reduced in line with income and reserve levels expected to be available in the year, hence resulting in a balanced budget for the year, this on-going annual cost constraint has an impact on Council's assets and its ability to maintain existing service levels in the future, and ultimately places Council at risk of not being financially sustainable.

Council's on-going financial sustainability is a matter of concern and arises from a "structural" shortfall in funding. This is a result of Council's restricted ability to respond to cost increases and exposure to higher risks. The restriction on revenue generation, through rate-pegging, the impact of cost shifting, and input cost increases significantly impacts Council's financial sustainability in light of it being required to deliver services to and maintain infrastructure for a large area with a dispersed population. Combined with this, Council has serious revenue raising limitations due to a small rating base and development challenges.

EXTRAORDINARY MEETING

Meeting Date: 15 April 2014

Through sound asset management and financial planning and taking appropriate action to address areas of concern, Council needs to be in a position where it has sufficient funding to address its infrastructure backlog, replace assets at the rate they are depreciating, maintain or improve service levels and have the capacity to react to financial shocks.

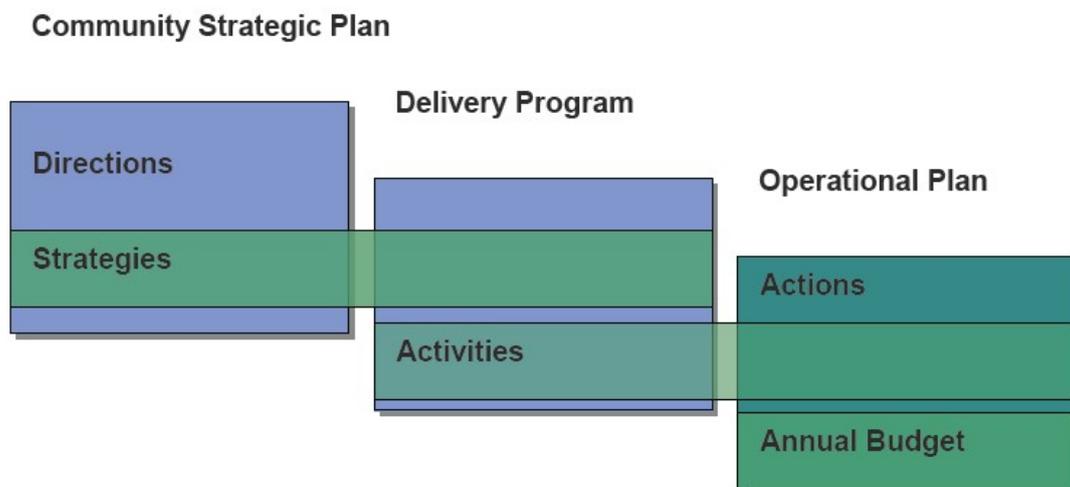
Council needs to ensure that it develops a financial position that also enables it to take advantage of opportunities that arise from time to time such as strategic land acquisitions and planned major infrastructure improvements and also take advantage of development opportunities that enable Council to supplement, on an ongoing basis, its revenue base independent of rate income. Without a sound financial base, it is not possible to respond positively to such opportunities.

Therefore, Council needs to be vigilant in respect of its expenditure as divergence from its planned path together with the impact of rate-pegging failing to match inflationary pressures all impact upon the Council's financial base.

3. Draft Operational Plan

The Draft Operational Plan 2014/2015 details the Actions, including associated resources that will be taken during 2014/2015 financial year, being the second year of the adopted Delivery Program, to continue to deliver Activities identified in the Delivery Program.

The following diagram demonstrates the inter-relationships and cascading order of the CSP, Delivery Program and the annual Operational Plan.



Draft Operational Plan – Part 1 - Projects, Program and Activities and Estimated Income and Expenditure

The Draft Operational Plan 2014/2015 - Part 1 sets out the projects, programs and activities for the financial year and the estimated income and expenditure associated with each of the five CSP Themes.

Projects, Program and Activities

This part of the Draft Operational Plan 2014/2015 outlines the Delivery Program Activities with associated Actions proposed to be delivered in 2014/2015. These actions are funded to the extent possible, within the Estimated Income and Expenditure component of the Plan. As an action may be funded through various budget line items or conversely a budget line item may address multiple actions, a direct one for one link between an action and a budget line item may not always be possible.

EXTRAORDINARY MEETING

Meeting Date: 15 April 2014

Some examples of how actions relating to each of the CSP Themes are reflected in Council's proposed outputs and the allocated amounts are as follows:

- Looking after People and Place
 - Revitalisation Strategy - Activity 2.1 - \$60K
 - Successful Events - Activities 1.1 and 3.3 - \$71K
 - Buildings and Management Planning - Activity 8.1 - \$125K
- Caring for the Environment
 - Waste Education Program - Activity 17.1- \$87K
 - Energy Efficiency Program - Activity 20.3 - \$200K
 - Bush Care Officer Program - Activity 22.4 - \$102K
- Linking the Hawkesbury
 - Car Park Maintenance - Activity 28.8 - \$121K
 - Roads, Footpaths, Kerbs, Guttering and Drainage - Activity 28.2, 28.3, 28.5, 28.6, 28.7 - \$7.5M
 - Town and Village Cleaning Program - Activity 28.1 - \$865K
- Supporting Business and Local Jobs
 - Scholarships and Traineeships – Activities 38.2 and 39.1 - \$198K
 - Economic Development Strategy – Activity 41.1 - \$51K
 - Tourism – Activities 33.1, 33.2 and 35.1- \$287K
- Shaping our Future Together
 - Contribution to Hawkesbury Sports Council - Activity 50.6 - \$1M
 - Emergency Services - Activity 47.6 - \$198K
 - Companion Animal Shelter - Activity 50.5 - \$893K

Also included in the Draft Operational Plan 2014/2015 are recent Council resolutions:

- LED Street Lighting – \$133K
- Establishment of Economic Working Group
- Bowen Mountain Emergency Evacuation Route - \$80K
- Hawkesbury Indoor Stadium - Basketball Backboards - \$60K
- Enhanced Town and Village Cleaning Program - \$265K

Estimated Income and Expenditure

The estimated income and expenditure for 2014/2015 has been based on a combination of index factors as follows:

- Rate Pegging - 2.3%
- Income CPI - 3.0%
- Interest Rates - 3.5%
- Expenditure CPI - 2.8% or applicable contract increases
- Employee Costs - 3.25% based on the expected Award increase

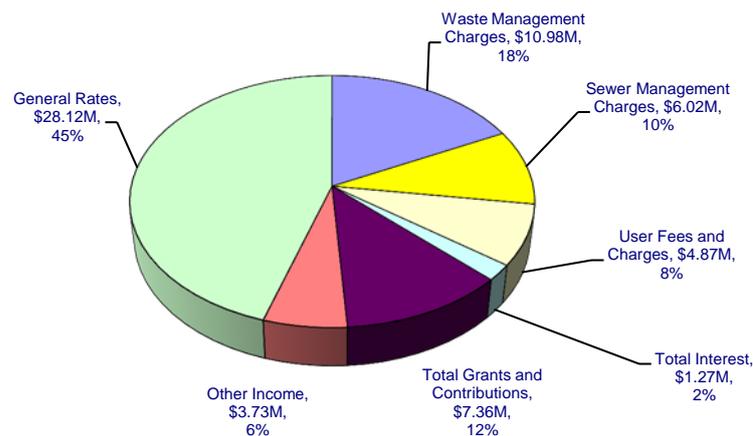
EXTRAORDINARY MEETING

Meeting Date: 15 April 2014

Operating Income

Operating Revenue including income from fees and charges for services, statutory fees, interest revenue and other income, has been increased with the applicable index and taking into consideration current and expected trends and the economic climate. Where possible, fees have been set at a full cost recovery level, including expected applicable increases for 2014/2015. Chart 1 shows the various sources of revenue available to Council.

Chart 1 – Sources of Income



Rates and Annual Charges

Council's main revenue source, rating income, has been increased by the rate-pegging limit for 2014/2015 of 2.3%. As shown in Chart 1 above Council's main revenue source is General Rates, which for 2014/2015, net of rebates is \$28.12M, representing 45% of the total estimated revenue.

Council will also levy in the order of \$17M in Annual Charges, net of rebates which are in the majority restricted to be utilised to fund the program to which they relate.

User fees and charges and other income

Income from user fees and charges and other income is estimated at \$8.6M, which is 14% of the estimated income. This income includes:

- Development Applications and Construction Certificates - \$742K
- Section 149 Certificates - \$164K
- Cemetery Income - \$188K
- Animal Management - \$692K
- Septic Tanks Inspection and Permits - \$307K
- Property Income - \$1.95M
- Parking Patrol - \$620K
- RFS Reimbursement - \$ 234K
- Sundry Income - \$182K
- Regulatory Fines and Penalties - \$100K

Grants and Contributions

Approximately \$7M or 12% of the 2014/2015 revenue will be achieved through Grants and Contributions. With regard to grants, a conservative approach is taken whereby known ongoing grants are budgeted for, and matching funding for applications in progress is provided where relevant. Targeted applications are ongoing and if funding is secured through the financial year, it is reflected in Quarterly Budget Reviews.

EXTRAORDINARY MEETING

Meeting Date: 15 April 2014

Major Operating and Capital Grants included are:

- Financial Assistance Grant - \$4.5M
- RMS Regional Roads Grants - \$902K
- Bush Fire Prevention – RFS Grant - \$341K
- Library and Community Grants - \$400K

Council receives Financial Assistance Grants from the Federal Government. Due to fluctuations in the amounts from year to year, the budgeted amount for 2014/2015 has been maintained at the same level as that of the current year. The Roads to Recovery Program funding received in previous years has been announced, but as amounts available have not been advised as yet, no amount has been allocated for this Program.

Interest Income

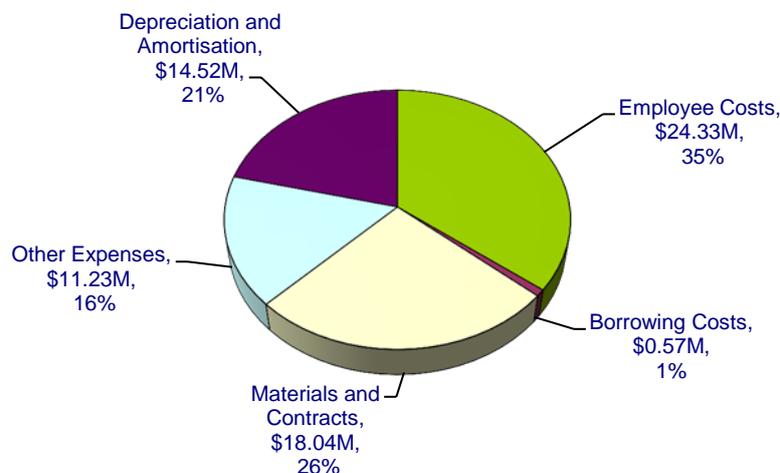
A further \$1.27M (2%) is estimated to be received through interest earned on Council's investment portfolio and interest charges on overdues.

Council's estimated interest earnings are based on the amount of cash held for investment and expected return to Council. Interest for 2014/2015 has been budgeted at 3.5% in line with recent trends. All of Council's investments are in term deposits, resulting in a portfolio with no exposure to capital loss. The budgeted rate is estimated to generate in the order of \$1.05M. Amounts held in investments are fully allocated to fund the Operational Plan Actions, including capital works. Timing differences between the receipt of income and payment of expenses provide the opportunity to invest funds until they are required and earn interest thereon. A prudent approach is taken when investing funds, to ensure maximum returns are obtained whilst maintaining the liquidity requirements in line with Council's Investment Policy. Council also takes into consideration advice provided by Council's Independent Investment Advisor, who was first appointed in 2008.

Operating Expenditure

Council incurs a range of operating expenses in delivering its programs. The main operating cost elements are Employee Costs, Material and Contracts, Borrowing Costs, Other Expenses and Depreciation. As shown in Chart 2, in excess of 60% of operating expenses is comprised of Employee Costs and Materials and Contracts. A range of Other Expenses such as utilities costs are also incurred.

Chart 2 – Operating Expenditure



EXTRAORDINARY MEETING

Meeting Date: 15 April 2014

Employee Costs

The estimated employee costs for 2014/2015 is \$24.33M. The estimated cost includes an allowance for an expected Award increase of 3.25%, salary system increments, superannuation of 9.5% and proposed new positions. It is to be noted that \$4.6M included in the budgeted amount for employee costs reflect a redirection from other expenditure areas to better reflect the nature of costs going into activities and to bring budgets more in line with financial reporting requirements.

Three new staff resources are being proposed and are included in the budget for 2014/2015. Justification and the budgeted amounts for each of the proposed positions are provided below:

- Customer Service Officer - \$56K. The resource is required to streamline administration processes and enable field staff to focus on their core activities.
- Technical Services Officer (Building Services) - \$58K – An internal resource to replace currently outsourced electrical and data-line services as a more cost effective way to provide these services. Funding required for this position has been reallocated from Materials and Contracts.
- Graduate Engineer- \$76K - Resource required within the Sewer Services Section as a result of increased legislative requirements for wastewater system. Funding is available from within the Sewerage Reserve.

Materials and Contracts

Council supplements its internal staff resources with external contractors, consultants and professional services. The costs of these external services, and the costs of materials used to deliver services is represented by the Material and Contracts amount, which for 2014/2015 is budgeted at \$18.04M. This estimate is based on what is required to at least maintain existing service levels.

These include costs such as contractors, consultancies, legal expenses, audit fees, plant running costs, as well as contract and material costs incurred to maintain Council's infrastructure.

Other Expenses

In addition to the above costs, Council also incurs a range of Other Expenses, estimated at \$11.23M for 2014/2015. These expenses include utility costs (\$1.4M), insurance (\$1.3M), street lighting (\$730K), corporate IT expenses (\$795K), and Section 356 expenditure (\$91K). Also included is \$255K for Members' fees and contributions to outside bodies including \$2.9M for Section 88 Waste Levy, \$726K for the operational contribution payable to the Hawkesbury Sports Council and \$1.1M for Emergency Services.

Depreciation

For 2014/2015, it is estimated that the annual Depreciation cost will be in the order of \$14.5M. The Depreciation cost represents the rate of consumption cost of assets.

This cost has an impact on Council's Operating Result, which is the basis used when assessing a council's ability to remain sustainable. To remain sustainable, Council would need to be in a position to replace or renew its assets at the same rate as they are consumed.

Operating Result

Taking into account the above estimated income and expenditure, operating expenses exceed income from continuing operations, resulting in an operating deficit of \$6.7M. This includes the impact of the unfunded component of depreciation. The Operating Result is an indicator of Council's sustainability, that is, its ability to address the rate of deterioration of its assets whilst continuing to deliver existing or enhanced services at the current or improved service level.

EXTRAORDINARY MEETING

Meeting Date: 15 April 2014

Adding the proposed capital expenditure, and taking into account capital proceeds, capital grants and contributions, reserve funding and removing the impact of depreciation, resulting in a 'Balanced' budget being submitted for Council's consideration.

Capital Works

Another challenge encountered in the budgeting process has been ensuring sufficient funding for adequate asset management. Council's infrastructure, comprising an extensive road network, parklands, community buildings, and sewerage networks, needs to be adequately funded in line with a sound asset management approach.

For the 2014/2015 financial year, it is proposed to undertake Capital Works amounting to \$19.9M, and a further \$1.57M under the Infrastructure Renewal Program.

The proposed expenditure is focused on renewal or replacement of existing assets, with new or enhancement works being limited to those projects funded by Section 94 and/or Section 94A developer contribution plans. Council has a significant infrastructure backlog, and as demonstrated above, Council already faces a challenge to maintain the existing asset base, and as such adding to this base would impact negatively on Council's ability to remain sustainable.

The 2014/2015 capital works program includes \$4.4M for Roadworks, \$410K for Parks and \$785K for Buildings. Details of the works can be found in Part 1 of the Draft Operational Plan and include the following works:

Roadworks

- Racecourse Rd, Clarendon
- Scheyville Road, Scheyville
- Ivy Avenue, McGraths Hill
- Cycleway Construction
- Road Rehabilitation - Various
- Kerbs, Gutters and Drainage - Various
- East Kurrajong Rd, East Kurrajong
- Bridge Replacement Program

Parks

- Sports Council Capital Contribution
- Richmond Park Lighting
- Columbarium, Wilberforce Cemetery

Buildings

- Safety Upgrades
- Sewer Connections
- Energy Efficiency Program

Other

- Waste Management Facility
- Library Resources
- Sewerage Infrastructure
- Information Technology
- Plant and Fleet

Infrastructure Renewal Program

In addition to the Capital Works above, Council will also be undertaking additional infrastructure renewal works through the Infrastructure Renewal Program. This Program represents the additional rates revenue generated through the special rate rise of 2007/2008 and is aimed at providing additional funding for infrastructure renewal across Council's roads, parks and buildings. The proposed amount of \$1.57M, being \$936K for Roadworks, \$480K for Parks and \$161K for Buildings works represents the full allocation of the special rate rise of 2007/2008 above Minister's increase indexed by rate-pegging.

Draft Operational Plan – Part 2 – Statement of Revenue Policy and Fees and Charges

The Draft Operational Plan 2014/2015 - Part 2 sets out the rating structure for the financial year, the annual charges that will apply and details user fees and charges proposed for the year.

General Rates 2014/2015

Council's current rating structure provides for three different types of ordinary rates: residential, farmland and business. The residential category includes a rural residential sub-category and the business category includes three sub-categories based on defined business areas. The rate type applicable to a particular property is determined on the basis of the property's rating categorisation. All properties are categorised in accordance with the provisions set out in the *Local Government Act 1993*.

Council levies general land rates on properties in its Local Government Area (LGA) predominantly based on an ad valorem basis. This means that rates applicable to each property are determined by reference to the latest land value provided by the NSW Valuer General, multiplied by the rate in the dollar set by Council for the year.

For the 2014/2015 year it is proposed to apply the rate-pegging increase of 2.3% as determined by the Independent Pricing Regulatory Tribunal. The application of the rate pegging increase to the current rating revenue, known as the Notional Yield, will generate approximately \$28.8M, which is approximately an additional \$775K on the current year.

The rates applicable to each property are based on land valuations as determined by NSW Valuer General. The NSW Valuer General revalued properties in the LGA in 2011, with those values first being used for the year commencing July 2012. The next revaluation will occur towards the end of 2014.

The proposed structure comprises of a Base Amount and Ad Valorem rating method for the Residential, Rural Residential and Business Categories, and an Ad Valorem with a Minimum Rate for the Farmland Category.

Tables 1 and 2 below provides a snapshot of the rating structure proposed for 2014/2015.

EXTRAORDINARY MEETING**Meeting Date:** 15 April 2014**Table 1**

Category / Sub-Category	No of properties	Land Value 2011 Valuations	Total 2011 Valuations	Notional Yield (%)	Notional Yield (\$)
Residential	18,542	\$4,671,709,377	57%	65%	\$18,707,456
Rural Residential	4,278	\$2,288,697,000	29%	20%	\$5,756,140
Business Area 1	754	\$356,176,731	4%	5%	\$1,431,224
Business Area 2	328	\$161,954,401	2%	2%	\$637,049
Business Area Other	436	\$197,314,759	2%	3%	\$809,796
Farmland	624	\$533,643,700	6%	5%	\$1,439,035
TOTAL	24,962	\$8,209,495,968	100%	100%	\$28,780,700

Table 2

Category / Sub-Category	% Notional Yield	Minimum Rate	Base Amount	Ad Valorem Rate in \$	Average Rates per property
Residential	65%	-	\$500	0.201991	\$1008.92
Rural Residential	20%	-	\$665	0.127202	\$1,345.52
Business (all sub-categories)	10%	-	\$925	0.206014	\$1,895.96
Farmland	5%	\$512	-	0.272314	\$2,306.15

Annual Charges

In addition to General Rates, Annual Charges for the Waste Services and Sewerage or Sullage services are applicable. Increases applicable for 2014/2015 are as follows:

- Waste Management Charges + 6.46%
- Sewer Management Charges + 3%
- Sullage Charges + 5.98%

Domestic Waste Management and Commercial Waste Collection

The Domestic Waste Management Service for 2014/2015 includes the applicable bin service, the recycling bin service, the kerbside collection service, and, if applicable, the green waste service.

The Minister has not specified a percentage in terms of Section 507 of the Act by which the amount of the annual charges for domestic waste management services may be varied for the year commencing July 2014. This has the effect that no ministerial limitation is placed on variations to the charge. However, the amount of the charge remains subject to Section 504(3) of the Act and councils need to review their waste management operations in order to determine the appropriate current and future costs to be included as part of the reasonable cost determination.

Council currently provides the Waste Service through a combination of internal resources and contractors. The Hawkesbury Waste Management Facility is used as the disposal site for waste collected. The major impact on the cost of providing this service in 2014/2015 and future years is the increases in Section 88 Waste Levies imposed by the Office of Environment and Heritage. Taking into account all costs incurred to provide the waste service, including the Section 88 Waste Levy increase of \$12.89 per tonne, an increase in the annual charges for the waste service of 6.46% is required.

EXTRAORDINARY MEETING

Meeting Date: 15 April 2014

Sewerage Charges

In accordance with legislative requirements, Council maintains an externally restricted reserve for the Sewerage Management Program. All funds received through annual sewerage charges are quarantined to fund the on-going operational costs incurred in providing the service, the on-going network maintenance and renewal and major capital works planned for future years.

The required charge for 2014/2015 is based on ensuring sufficient funds are available to address all these costs, taking into account current reserve levels. Based on these projections, it is proposed that the sewerage charges are increased by 3% for the 2014/2015 financial year.

Sullage Charges

Council provides a sullage pump out service to properties that are not serviced by Sydney Water or Council's sewerage network and do not have on-site sewerage management facilities.

Council maintains an internally restricted reserve to fund its sullage program. All funds received in relation to sullage charges are quarantined to fund the operational costs of running the program, as well as providing for future rehabilitation works.

As part of the Draft Operational Plan process, the sullage current and projected reserve balances have been assessed and has resulted in the proposed increase of 5.98% being required to ensure sufficient funds are available to fund the program and associated future costs.

Rates and Charges Concessions

Concessions on rates and charges are available to eligible pensioners. Council has in excess of 3,100 pensioners who receive concessions on their annual rates and charges. Council also offers a number of rating concessions to pensioners over and above the mandatory concessions. No State Government subsidy is received against these additional concessions.

Ordinary Rates and Domestic Waste Management

The Act provides for pension rebates of up to 50% of the aggregated ordinary rates and domestic waste service charges, to a maximum of \$250. Council is reimbursed 55% of this concession by the State Government, and funds the remaining 45% (up to \$112.50 per property).

Sewerage Charge

A concession based on 50% of the applicable charge is available to eligible pensioners who are subject to the residential sewerage connection charge. The mandatory concession relating to the sewerage charges is \$87.50 of which the State Government provides a reimbursement to Council of 55% (\$48.13). This amount has remained unchanged since 1989. Council funds the remaining mandatory concession amount plus an additional amount to bring the total concession amount to \$300.89 per property.

Sullage Service

Council provides eligible pensioners with a pensioner concession based in 50% of the applicable sullage charge. The rebate is fully funded by Council.

4. Asset Management

Whilst a 'Balanced' budget is being presented, Council should note that there is a cost to balancing the budget.

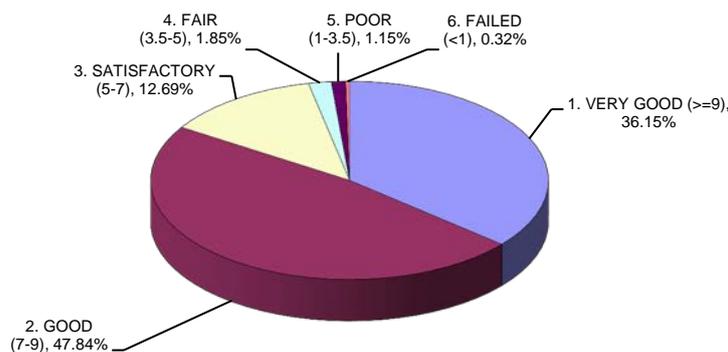
As referred to earlier in the report, for 2014/2015, similar to previous years, Council's operating costs are estimated to exceed income from continuing operations, resulting in a deficit operating result. This result demonstrates Council is not generating enough revenue to fund its operating costs incurred in running programs and is not in a position to address the rate of deterioration of its asset base in a timely manner.

On the same basis as previous years, in order to achieve a balanced position it was necessary to reduce expenditure, mainly asset renewal and/or replacement expenditure in line with the level of revenue and reserve funding available. The practice of reducing asset renewal expenditure to an “affordable” level rather than expending what is required, has an impact on the ongoing condition of infrastructure, future service levels and ultimately places Council’s financial sustainability at risk.

Insufficient asset renewal expenditure results in an increasing asset renewal gap or infrastructure backlog, with roads, parks and buildings continuing to deteriorate at a faster rate than being renewed. Unless “consumed” assets are renewed, assets will not perform their function at the required level and future generations will be left to fund the backlog.

Chart 3 represents the pavement condition index for the sealed road network as it stands at the time of preparing this report. To highlight Council’s financial challenge in maintaining its infrastructure at the desired level, as shown in Chart 3 below, approximately 5% of Council’s 700km sealed network is in ‘fair to failed’ condition, requiring progressive rehabilitation over the next five years (if not sooner). The estimated cost of this is in the order of \$45M, representing a significant backlog. Whilst additional funding may be attracted through grants, the current annual allocation for road rehabilitation of approximately \$1.4M is not sufficient.

Chart 3 – Sealed Road Pavement Condition



Another example of the funding shortfall relates to road reseals. Sealed roads need to be resealed every 10 years, that is, approximately 10% of the network should be resealed each year. This would come at a cost of \$1.9M per annum as compared to the proposed affordable budget allocation of \$1.6M for 2014/2015.

Whilst the majority of Council’s current road network is in a satisfactory to very good condition, continually under spending on asset renewal and maintenance results in a shift backwards in the condition of these assets over time, resulting in the percentage of the network within the fair to failed categories progressively increasing over time.

The funding shortfall also applies to other assets, including unsealed roads. Council’s unsealed road network of 300kms would ideally be re-sheeted with gravel annually at a cost of \$8.8M. The current and proposed budget allocation is in the order of \$1.2M annually.

After allocating funding to operational programs, the majority of remaining funds are directed to asset renewal.

5. Financial Sustainability

Over the last few years Council has been presented with a bottom line 'balanced' position. For 2014/2015, Council again is being presented with a Balanced Budget. As detailed above, based on current income and expenditure Council is at risk of not being financially sustainable in the longer term.

Council's on-going financial sustainability is a matter of concern and arises from a "structural" shortfall in funding as a result of Council's ability to respond to cost increases and exposure to higher risks. Council's finances are especially challenging due to the LGA being a large area with a dispersed population. These are additional difficulties to the impact of cost shifting and input cost increases.

Combined with this, Council has serious revenue raising limitations due to a small rating base and development challenges. Like other councils, rate-pegging significantly restricts Council's revenue raising capacity.

It is only when Council has a neutral Operating Result and is replacing its assets at the rate they are depreciating, whilst also delivering Council's services, it can be considered sustainable in the longer term. Council needs to be in a position where it has sufficient funding to address its infrastructure backlog, maintain or improve service levels and have the capacity to react to financial shocks.

6. Addressing the Challenge

Council's ongoing financial sustainability is a major objective when developing the Council's annual budget. At the same time, endeavours are made to continue to renew Council's infrastructure, maintain essential services and keep increases to ratepayers affordable.

Significant advances have been made during recent budgets to reduce operational costs and to direct rate revenue and operational savings towards funding future infrastructure works. Actions taken include:

- On-going process improvements
- Cost efficiencies through use of technology
- Best value for money procurement processes
- Partnerships
- Service Level Review
- Funding from other sources

Whilst borrowings have often been suggested as a solution to address Council's financial challenges, it is important to note that whilst borrowings provide the 'cash' required to create or improve an asset, a repayment liability is also created at the same time. It is a common misconception to view borrowings as a funding source, the same as rates income, or grant funding are viewed. Borrowings are not a funding source, but rather a financing source.

Unlike a funding source such as increased rates income or grant income, borrowings enable works to be done now, but at the cost of other works not being able to be done in the future as a result of the repayment liability created. However, there is scope for borrowings when there is a payback in the form of projected increased income or cost efficiencies resulting from the investment financed by borrowings. Such opportunities would be investigated accordingly.

In general, current operational service levels have as a minimum been maintained in the Draft Operational Plan 2014/2015, with some increase in service level in some areas including the Enhanced Town and Village Cleaning Program and Events. However, the growing gap between available revenue and rising operating expenses continues to place pressure on the budget.

Council needs to address its funding shortfall if it is to remain financially sustainable. The options specifically indicate that Council's revenue base needs to be addressed potentially through a special rate variation above the permissible rate-pegging increase. This is also supported by Council's Long Term Financial Plan which indicates that it will take a number of years, with rate increases over rate pegging, for Operating Deficits to be reduced and eventually eliminated, and hence ensuring sustainability. This will need to be addressed in the relatively short rather than longer term.

7. Appreciation

The effort of all staff in preparing the Draft Operational Plan 2014/2015, is very much appreciated and specific acknowledgement needs to be extended to the Director Support Services, Chief Financial Officer and Senior Management Accountant. It is also pleasing to see the co-operative approach by the Directors and Managers to bring down a 'balanced budget' with the objective of providing the works and services able to be provided by Council within existing financial restrictions as seen from a corporate viewpoint.

8. Adoption of Budget for Year Ended 30 June 2015

As mentioned earlier in this report, assuming Council finalises the Draft Operational Plan 2014/2015 at this Meeting, it is anticipated that advertising of the Draft Operational Plan 2014/2015, will commence shortly afterwards for the minimum 28 day period. During the exhibition period, any person may make a submission to Council.

Council will be able to hold an Extra-Ordinary Meeting of Council on Tuesday, 17 June 2014 to consider submissions received and to adopt the Operational Plan as amended, if appropriate, incorporating Council's Estimated Income and Expenditure and associated documents, and make and fix the rates and charges for the year ended 30 June 2015.

Conformance to Community Strategic Plan

The proposal is consistent with the Shaping Our Future Together Directions statements;

- That Council be financially sustainable to meet the current and future needs of the community based on a diversified income base, affordable and viable services.
- Have transparent, accountable and respected leadership and an engaged community.
- A balance set of decisions that integrate jobs, housing, infrastructure, heritage, and environment that incorporates sustainability principals.
- Be financially sustainable to meet the current and future needs of the community based on a diversified income base, affordable and viable services.

and is also consistent with the nominated strategies in the Community Strategic Plan being:

- Improve financial sustainability.
- Work with the community to determine affordable levels of service.
- Make decisions in ways that are transparent, fair, balanced and equitable supported by appropriate resource allocation.

Financial Implications

The adoption of the recommendation in this report will result in the Draft Operational Plan 2014/2015, including the Statement of Revenue Policy, as outlined in this report and detailed within the attachments, being placed on exhibition, and subject to Council resolutions arising and public submissions received, being adopted for the financial year 2014/2015.

EXTRAORDINARY MEETING

Meeting Date: 15 April 2014

RECOMMENDATION:

That:

1. The General Manager's report regarding the Draft Operational Plan 2014/2015 be received.
2. The Draft Operational Plan 2014/2015 be adopted for exhibition purposes and be advertised for a minimum of 28 days in accordance with Section 405 of the Local Government Act 1993.
3. An Extra-Ordinary Meeting of Council be held on Tuesday, 17 June 2014 to consider any public submissions received in respect of the Draft Operational Plan 2014/2015 and to consider the adoption of these documents and to make and fix rates and charges for the year ended 30 June 2015.

ATTACHMENTS:

AT - 1 Draft Operational Plan 2014/2015 (Parts 1 and 2) - (*Distributed under separate cover*).

oooO END OF REPORT Oooo



extraordinary
meeting

end of
business
paper

This business paper has been produced electronically to reduce costs, improve efficiency and reduce the use of paper. Internal control systems ensure it is an accurate reproduction of Council's official copy of the business paper.