Hawkesbury City Council

extraordinary meeting business paper

date of meeting: 23 April 2013
location: council chambers
time: 6:30 p.m.

m i s s i o n
s t a t e m e n t

"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 11:00pm. 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 3:00pm 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 request to speak about an item raised in the business paper at the Council meeting. You must register to speak at a Council meeting. To register you must lodge an application form with Council prior to 3:00pm on the day of the meeting. The application form is available on the Council's website, from the Customer Service Unit and by contacting the Manager - Corporate Services and Governance on (02) 4560 4426 or by email at council@hawkesbury.nsw.gov.au.

The Mayor will invite registered persons to address the Council when the item is being considered. Speakers have a maximum of five minutes to present their views. The Code of Meeting Practice allows for three speakers on the Proponent side (i.e. in support) and three for the Respondent side (i.e. in objection). If there are a large number of speakers for one item, speakers will be asked to organise for three representatives to address the Council for either the Proponent or Respondent side (six speakers in total).

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

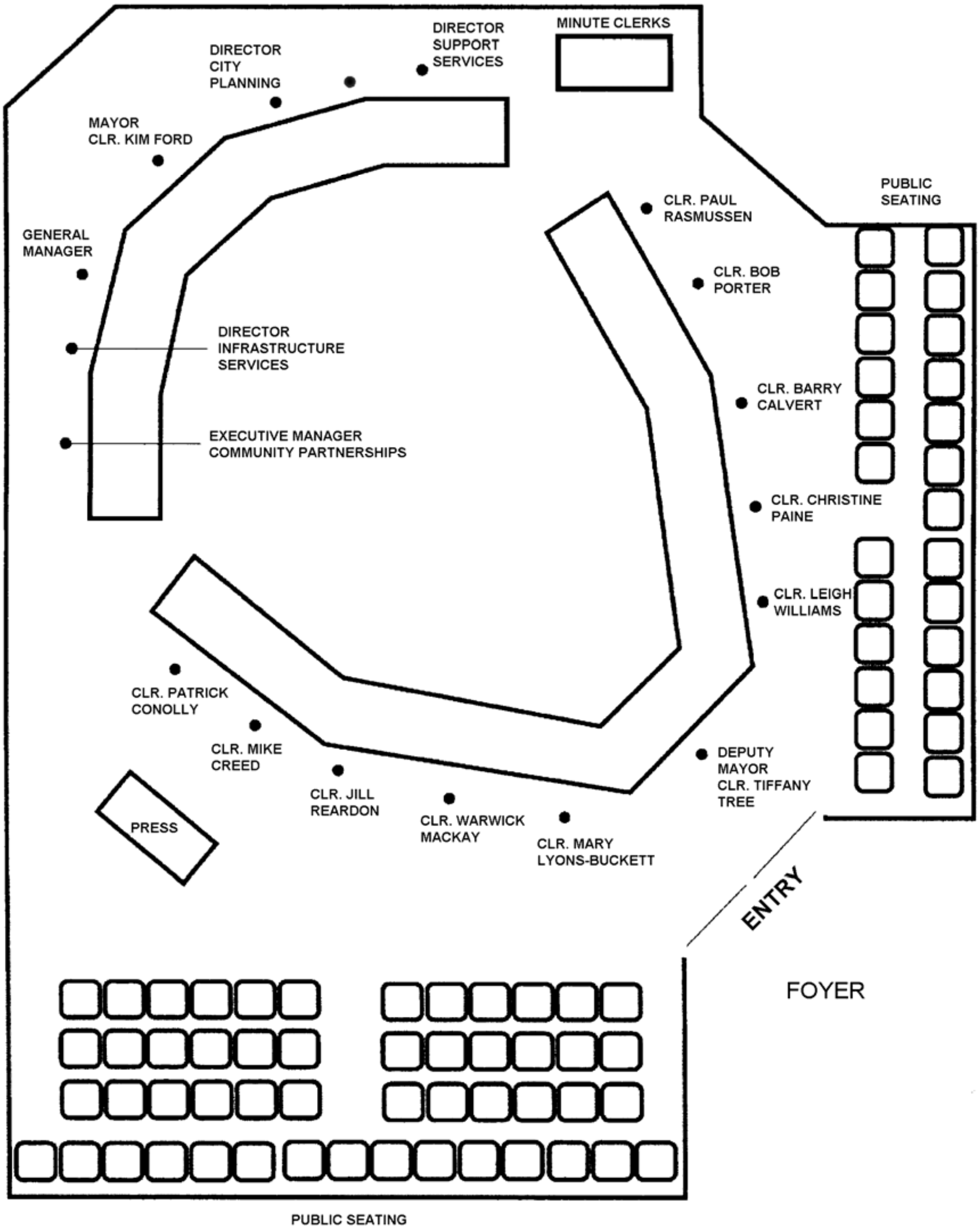
Business papers can be viewed online from noon on the Friday before the meeting on Council's website: http://www.hawkesbury.nsw.gov.au

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 4426.

Hawkesbury City Council



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AGENDA

- **WELCOME / EXPLANATIONS / PRAYER**
- **APOLOGIES**
- **DECLARATION OF INTERESTS**
- **SECTION 4 - Reports for Determination**

General Manager

EXTRAORDINARY MEETING

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SECTION 4 - Reports for Determination

GENERAL MANAGER

Item: 64 **GM - Draft Delivery Program 2013-2017 and Draft Operational Plan 2013/2014 - (79351, 95496, 96332)**

REPORT:

Executive Summary

The purpose of this report is to submit the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014 for Council's consideration. These documents have 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).

Following the elections in September 2012, Council was required to review the Community Strategic Plan (CSP) which was first adopted in 2009. The reviewed CSP 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 Draft Operational Plan 2013/2014, which sets out the actions for implementing the relevant parts of the Draft Delivery Program, is divided into two parts. Part 1 consists of the Activities to be delivered in the first year of the Delivery Program and the Revenue Policy. Part 2 consists of the Draft Estimated Income and Expenditure for 2013/2014 to support Council's Activities and specific programs identified for 2013/2014.

The report recommends that the information contained within this document is received and that the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014 be adopted for 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, 18 June 2013 to consider any public submissions received in respect of the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014, consider the adoption of these documents and to make and fix rates and charges for the year ended 30 June 2014.

Consultation

Subject to the Council adopting the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014, after making any amendments it may consider appropriate at this meeting, it is proposed that it will be placed on public exhibition from Thursday, 2 May 2013 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, 18 June 2013 to consider the submissions received and adopt the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014 as well as setting rates and charges for the year ending 30 June 2014. A council must adopt its Operational Plan by 30 June and set its rates for a financial year by 31 July of that year.

Background

1. Introduction

I am pleased to submit the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014 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 Community Strategic Plan (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 Hawkesbury 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 Hawkesbury 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 Program also contains financial estimates for each of the Themes of the CSP to indicate, at an aggregated level, the intended expenditure on each of these themes.

The Operational Plan contains the actions and activities that are intended to be undertaken over the next 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 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 Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014, specifically the Estimated Income and Expenditure 2013/2014, was particularly difficult taking into consideration the increase in costs, 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 2013/2014 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 a considerable 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.

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 and capital expenditures. 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.

Actions already in place to address the concerns highlighted above, as well as recommendations for actions to be considered over the coming years, are detailed later in the report.

3. Delivery Program and Operational Plan

As indicated at the commencement of this report, following the September 2012 Council elections, in line with legislative requirements, Council was required to review the Hawkesbury Community Strategic Plan (CSP) that was first adopted in 2009 following extensive public consultation and input.

The 2013 CSP review comprised a Councillor and senior staff weekend workshop in November 2012, several staff workshops and a public exhibition period where community input was invited on the Draft document. The revised CSP also takes into account community views as expressed through community surveys and resulting findings and recommendations.

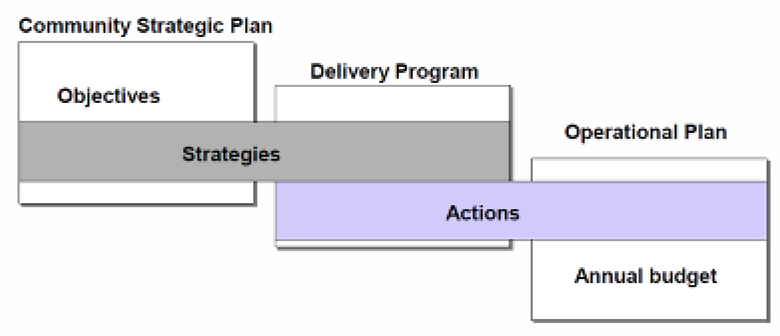
The Draft CSP was subsequently adopted by Council at the meeting of 9 April 2013.

The CSP will be delivered through the four year Delivery Program developed for this Council's term through identified Principal Activities. Each theme in the CSP has been allocated resources through the Budget process.

The actions to be delivered in the 2013/2014 financial year, and associated resource requirements, are detailed in the Draft Operational Plan 2013/2014, including the Revenue Policy and the Estimated Income and Expenditure for the year.

The Draft Delivery Program and Operational Plan have detailed the actions required to be undertaken to implement the directions provided within the CSP. All actions are consistent and linked throughout from CSP to the Delivery Program and the Operational Plan for 2013/2014.

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



The Operational Plan consists of two parts:

Part 1 comprises the following elements for 2013/2014:

- Projects, Programs and Activities
- General Rates
- Annual Charges
- User Fees
- Pricing Methodology
- Borrowings

Part 2 consists of the following elements for 2013/2014:

- Operational Budget
- Operating Income
- Operating Expenditure
- Capital Works
- Infrastructure Renewal Program

4. Draft Operational Plan – Part 1

The Draft Operational Plan 2013/2014 - Part 1 sets out the projects, programs and activities, the rating structure for the financial year, the annual charges that will apply and details user fees and charges proposed for the year. The pricing of applicable fees and charges is based on the principals of the National Competition Policy.

Projects, Program and Activities

This part of the Draft Operational Plan outlines the Draft Delivery Program activities with associated actions proposed to be delivered in 2013/2014. These actions are funded to the extent possible, within the Estimated Income and Expenditure component of the Draft Operational Plan - Part 2. 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.

Some examples of actions contained within budget line items are:

- Master Plans — Actions 2.1 and 2.2 on page 3 of Draft Operation Plan - Part 1 are funded through budget line item 2407 - Consultancy Fees on page 6 of Draft Operational Plan - Part 2.

- River Estuary Study — Action 15.7 on page 7 of Draft Operational Plan - Part 1 is funded through budget line item 2407 - Consultancy Fees on page 6 of Draft Operational Plan - Part 2.
- "Hawkesbury" Brand — Action 34.2 on page 14 of Draft Operational Plan - Part 1 is funded through budget line item 2510 - Local Economic Development Program on page 41 of Draft Operational Plan - Part 2
- Hawkesbury River County Council — Action 50.4 on page 20 of Draft Operational Plan - Part 1 is funded through budget line item 2405 - Contribution to Outside Bodies on page 74 of Draft Operational Plan - Part 2.
- Hawkesbury Sports Council — Action 50.6 on page 20 of Draft Operational Plan - Part 1 is funded through budget line item 2457 - Contribution to HSC on page 74 and Item 4815 - Sports Council on page 82 of Draft Operational Plan - Part 2.

General Rates 2013/2014

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. 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 2013/2014 year it is proposed to apply the rate-pegging increase of 3.4% 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 million, which is approximately an additional $1 million 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 being used for the first time in July 2012, and will be used again for the year commencing July 2013. The next revaluation will occur towards the end of 2015.

At the ordinary meeting of 11 December 2012, Council considered a report regarding the rating structure for 2013/2014. At that meeting, Council resolved as follows:

> *"That the following rating structure for 2013/2014 be approved for incorporation in the Council's Draft 2013/2014 Operational Plan:*
>
> *1. Each of the rating categories/sub-categories raise the following approximate proportion of Notional Yield:*

Rating Category/Sub-Category	
Residential	65%
Residential – Rural Residential	20%
Business	10%
Farmland	5%

> *2. The following three sub-categories be established within the Business Category:*
>
> *(a) Business Area 1 – Business rated properties in Richmond, Windsor, Vineyard and Mulgrave*
> *(b) Business Area 2 – Business rated properties in North Richmond and South Windsor*

(c) *Business Area Other – All other Business rated properties.*

3. *A Base rate of 50% be applied across all rate categories and sub-categories excluding the Farmland Category which will continue with a Minimum Rate."*

The rating component of the Draft Operational Plan 2013/2014 has been prepared in accordance with the above resolution. The main changes relating to the proposed structure constitutes a change in the distribution of the rates burden between categories and sub-categories, the introduction of a Base Amount for the Residential Category and the establishment of Business sub-categories.

Table 1 below provides a snapshot of the rating structure proposed for 2013/2014, and shows the impact of the redistribution of the Notional Yield.

Table 1

Category / Sub-Category	No of properties	Land Value 2011 Valuations	% Total 2011 Valuations	% Notional Yield (Current)	% Notional Yield (Proposed)	Change in Yield from Category $
Residential	18,338	$4,610,595,160	56.49%	57.01%	65%	+ $2,237,619
Rural Residential	4,275	$2,298,831,000	28.17%	28.08%	20%	- $2,262,824
Business	1,515	$715,846,891	8.77%	9.78%	10%	+ $61,612
Farmland	624	$536,381,700	6.57%	5.13%	5%	-$36,407
TOTAL	**24,752**	**$8,161,654,751**	**100%**	**100%**	**100%**	**Nil**

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, as shown in Table 2.

Table 2

Category / Sub-Category	% Notional Yield Proposed	Minimum Rate	Base Amount	Ad Valorem Rate in $	Average Rates per property
Residential	65%	-	$495	0.197937	$992.48
Rural Residential	20%	-	$650	0.122771	$1,309.11
Business (all sub-categories)	10%	-	$904	0.199898	$1,848.53
Farmland	5%	$501	-	0.260774	$2,244.52

Council may levy up to 50% of its rating income (notional yield) within a category or sub-category by way of a Base Amount. If Council has resolved that a Base Amount applies to a category or sub-category, the applicable base amount is applied equally to all properties within the category or sub-category. After applying the Base Amount to a property, the remainder of ordinary rate applicable to that property is levied through the application of the relevant Ad Valorem rate (rate in the dollar) to the land value of that property.

Section 536 of the Act stipulates the criteria that are relevant in determining the Base Amount. In determining the proportion of rating income to be levied through a Base Amount for the respective relevant categories and sub-categories, Council has had regard to the extent to which projected Ad Valorem rates on individual properties do not reflect the cost of providing necessary services and facilities and the degree of congruity and homogeneity between the values of properties that would be subject to the rate and their spread throughout the area. For the relevant categories and sub-categories, a rate that is wholly an Ad Valorem rate would result in an uneven distribution of the rate burden because a comparatively high proportion of assessments would bear a comparatively low share of the total rate burden.

Taking into account these factors, Council resolved to levy rates from the Residential and Business categories, and Rural Residential sub-category on the basis of the highest proportion of the rating income (notional yield) allowed to be levied through a Base Amount, this being approximately 50%, applicable to the respective category or sub-category.

The Base Amount is applicable equally to all properties within a category or sub-category and is the base amount payable before applying the ad valorem portion, which is applying a rate in the dollar to the land value. For 2013/2014, a Base Amount will apply to the Residential category, the Rural Residential sub-category and all Business sub-categories.

In the case of the Farmland category, a Minimum Rate applies which means that as a minimum the Minimum Rate will be payable even if the application of the Ad Valorem rate results in a lesser amount.

Annual Charges

In addition to General Rates, Annual Charges for the Domestic Waste Services and Sewerage or Sullage services are applicable. Table 3 shows the increases or decreases applicable to the 2013/2014 annual charges.

Table 3

Annual Charge	%Change
Domestic Waste	+ 9%
Green Waste Service (new charge)	$60/annum/service (where available) (pro rata $45)
Commercial Waste	+ 20%
Sewerage	+ 2.5%
Residential Sullage	+ 8.9%
Commercial Sullage (inside sewerage area)	-49%
Commercial Sullage (outside sewerage area)	-54%

Domestic Waste Management and Commercial Waste Collection

The Domestic Waste Management Service for 2013/2014 includes the applicable bin service, the recycling bin service, the kerbside collection service, and the green waste service (proposed to be introduced as from 30 September 2013).

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 2013. 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 Domestic 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 2013/2014 and future years is the increases in Section 88 Waste Levies imposed by the Office of Environment and Heritage. For 2013/2014, the Levy will increase by 13.12%, to $105.20 per tonne, an increase of $12.20 per tonne. Further substantial increases are expected in future years. Taking into consideration current and projected Reserve balances over the coming 10 years, at this stage there is no requirement to pass on the full increase of the Levy on to ratepayers. The proposed increase of 9% is therefore considered adequate at this time.

At the Ordinary Meeting on 9 April 2013, Council considered a report regarding the provision of Containerised Garden Organics Collection and Processing Service and, resolved, in part, that:

> *"The Draft Operational Plan 2013/2014 for exhibition purposes be prepared on the basis of a Garden Organics charge of $60 per service per annum, plus GST if applicable, being included in the Domestic Waste Charge for those properties receiving the service, with the first year of service pro rata to reflect the proposed 30 September 2013 commencement of the service."*

In line with the above resolution, for 2013/2014, an additional charge of $45 (plus GST if applicable), being a pro-rata charge based on a $60 (plus GST if applicable) annual charge, is proposed to apply for properties where the green waste service is available.

The proposed increase for the Commercial Waste charge of 20% is based on increases proposed by private commercial waste disposal businesses.

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 2013/2014 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 2.5% for the 2013/2014 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 2013/2014 process, the sullage current and projected reserve balances have been assessed and has resulted in the proposed increase of 8.9% 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. 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).

A concession is also 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. The total concession has traditionally been in excess of this, with the additional amount being fully funded by Council. An additional amount, based on 50% of the applicable service charge is proposed to be provided for 2013/2014. Council funds the difference between the total concession and the mandatory concession less the reimbursement, which for 2013/2014 will be $244 per property.

Major Fees and Charges

Also contained within Part 1 of the Draft Operational Plan 2013/2014 are details on user fees and charges proposed for next financial year. Council supplements income received through General Rates and Annual Charges, through income generated through user fees, which for 2013/2014 is estimated at $4.57 million. The level of income from fees and charges is dependant on the level of activity and the pricing structure adopted by Council. Table 4 shows revenue raised through some selected major user fees.

Table 4

Fee	2012/2013 Original Budget	2013/2014 Draft Budget	% Inc /Dec
Construction Certificates	$374,000	$250,700	- 33%
Development Applications	$434,700	$449,000	+ 3.3%
S149 Certificates	$131,000	$136,300	+ 4.1%
Animal Management	$521,442	$549,182	+ 5.4%
Parking Patrol	$450,000	$400,000	- 11.2%
Pool Income	$154,712	$162,162	+ 4.9%
Cemeteries	$178,486	$180,764	+ 1.3%
Septic Tanks Inspection & Permits	$244,205	$253,440	+ 3.8%
Total major selected Fees	**$2,488,545**	**$2,381,548**	**- 4.3%**

4. Borrowings

Included in the estimated income and expenditure for 2013/2014 is financial provisions relating to the Local Infrastructure Renewal Scheme Borrowing Program, (LIRS).

In March 2013, Council entered into a Loan Agreement with the Commonwealth Bank for a loan of $5.26M, over ten years, fixed at an interest rate of 5.82%. Under the Scheme, Council will receive an interest subsidy payment of 4%.

The funds will be utilised to fund a Timber Bridge Replacement Program over the next two years, with $2.65M planned to be spent in 2013/2014.

5. Operational Plan - Part 2 – Estimated Income and Expenditure

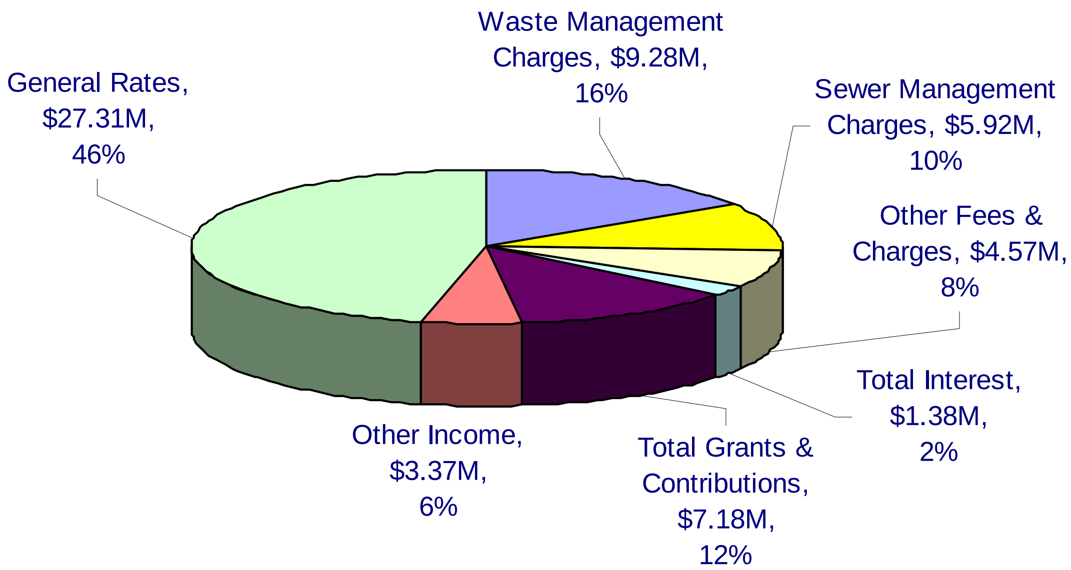
The estimated income and expenditure for 2013/2014 have been based on a combination of index factors as follows:

- Rate Pegging 3.4%
- Income CPI 3.3%
- Interest Rates 4%
- Expenditure CPI 3% or applicable contract increases
- Employee Costs 3.25% based on the Award increase

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 2013/2014, mostly CPI. Chart 1 shows the various sources of revenue available to Council.

Chart 1 – Sources of Income



Council's main revenue source, rating income, has been increased by the rate-pegging limit for 2013/2014 of 3.4%. Details on rating income were provided earlier in this report. As shown in Chart 1 above Council's main revenue source is General Rates, which for 2013/2014, net of rebates is $27.3 million. This is 46% of the estimated revenue.

Council will levy in the order of $15.2M in Annual Charges, which are in the majority restricted to be utilised to fund the program to which they relate. Details on these charges were also provided earlier in the report.

Income from user fees and charges comprises 8% of the estimated income. Details on income derived from selected major fees were provided earlier in the report.

A further $1.38 million (2%) is estimated to be received through interest earned on Council's investments and interest charges on over dues, and 6% estimated to be derived through other income.

Grants and Contributions

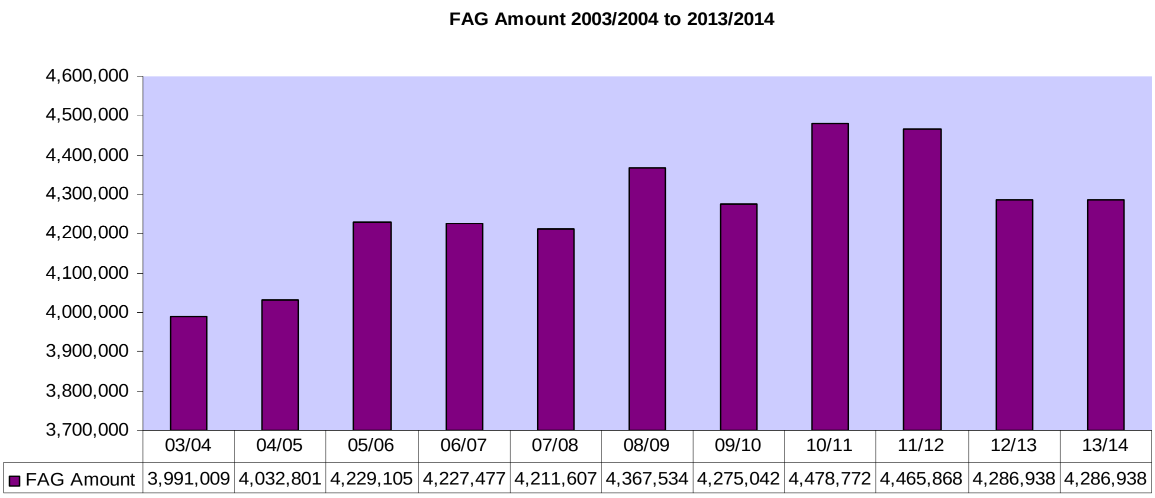
Approximately $7 million or 12% of the 2013/2014 revenue will be achieved through Grants and Contributions. With regard to grants, a conservative approach is taken whereby known ongoing grants are budgeted for, and matching funding for applications in progress is provided where relevant. Targeted applications are ongoing and if funding is secured through the financial year, it is reflected in Quarterly Budget Reviews.

Major Operating and Capital Grants included in 2013/2014 Draft Operational Plan are:

- RMS Regional Roads Grants $886K
- RMS Cycleways Grant $ 50K
- Bush Fire Prevention – RFS Grant $233K
- Library and Cultural Grants $275K
- Various Community Grants $ 88K
- Road Safety Grant $ 43K

Council receives Financial Assistance Grants from the Federal Government. Chart 2 outlines the Financial Assistance Grants received by Council from 2003/2004 to 2012/2013. Due to the unknown nature and extent of movement in the FAG the amount budgeted to be received in 2013/2014 is the same as that allocated to Council in 2012/2013, which is also shown in Chart 2.

Chart 2 – Financial Assistance Grant



Interest

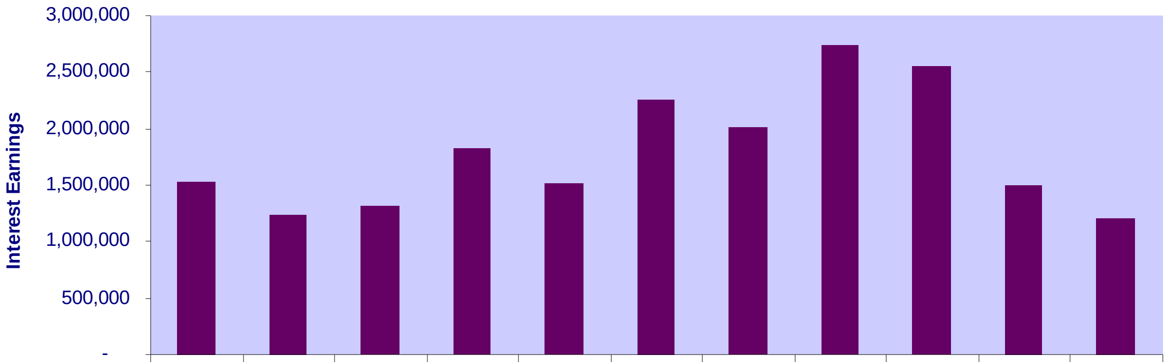
Council's interest earnings are based on the amount of cash held for investment and expected return to Council. Interest earned on the investment portfolio for 2013/2014 has been budgeted at 4% in line with recent trends. All Council's investments are in term deposits, resulting in a portfolio with no exposure to capital loss. The budgeted rate is estimated to generate in the order of $1.2 million, which as can be seen in Chart 3, is less than previous years.

Council manages its investments in accordance with Council's Investment Policy which was adopted by Council in June 2012. Council has a conservative investment strategy, with its total investment portfolio being bank deposits and on-call accounts. As at 28 February 2013, 83% of the portfolio is currently invested with 1st Tier Institutions, with the remaining 17% being invested with 2nd Tier Institutions. The latter are limited to $0.25 million per institution and are protected by the Financial Claims Scheme.

Council adopts a prudent approach 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.

In April 2013, the Reserve Bank maintained official interest rates at a cash rate of 3.00%. The impact of economic conditions and unforeseen events is difficult to predict, therefore at this stage, it is deemed prudent to maintain interest revenue at a conservative level. Chart 3 shows past trend and projections for interest earnings.

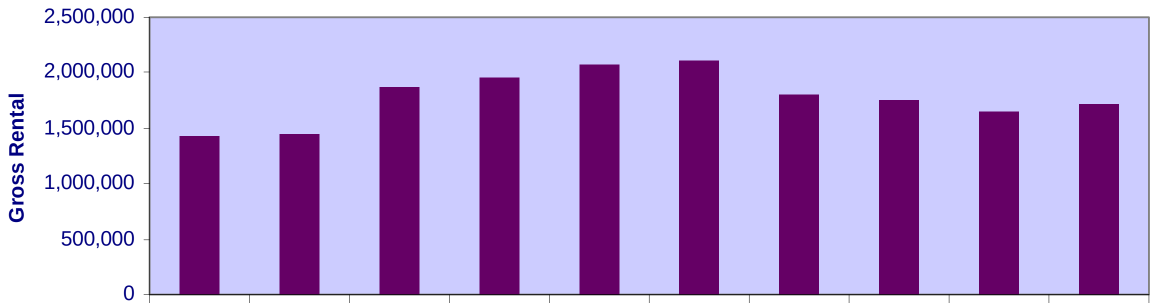
Chart 3 – Interest Earnings



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13 OB	13/14 DB
Series1	1,536,958	1,233,184	1,307,188	1,818,526	1,518,524	2,263,195	2,003,350	2,732,933	2,545,470	1,500,000	1,200,000

Other income generated by Council includes rental income relating to its diverse and extensive property portfolio. Council currently has numerous properties available for lease, which continue to provide a vital source of income for Council. It is anticipated that Council will receive in excess of $1.7million gross rental in 2013/2014. Chart 4 shows the levels of gross rental Council has received from 2004/2005 to 2011/2012 and the budgeted amounts for 2012/2013 and 2013/2014:

Chart 4 – Rental Income



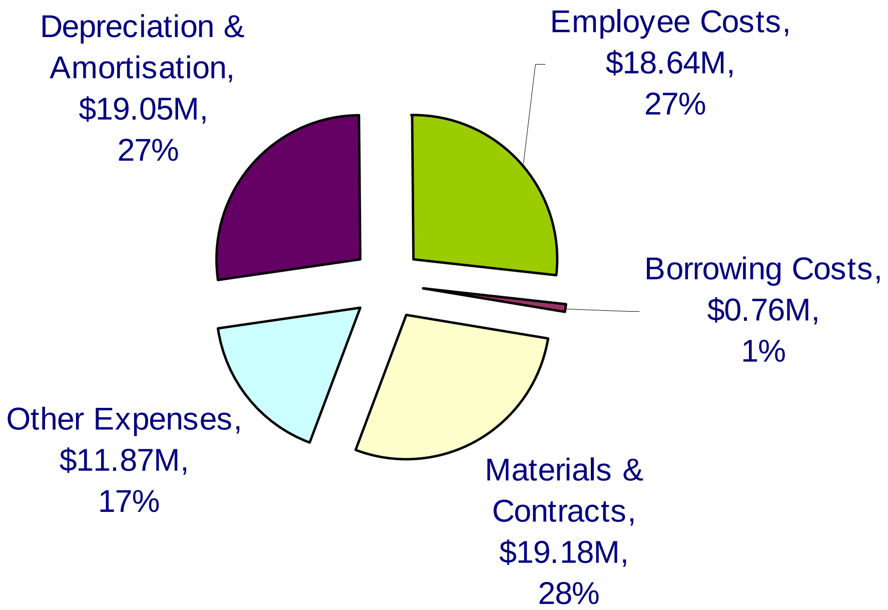
	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13 OB	13/14 DB
Series1	1,432,460	1,451,019	1,865,796	1,949,121	2,077,275	2,114,331	1,810,141	1,744,087	1,650,000	1,713,971

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 5, in excess of 50% of operating expenses is comprised of Employee Costs and Materials and Contracts. A range of Other Expenses such as utilities costs are also incurred.

Another important cost which is relevant to Council's financial position is the Depreciation cost which for 2013/2014, is estimated at $19 million.

Chart 5 – Operating Expenditure



Employee Costs

The estimated employee costs for 2013/2014 is $18.6 million. The estimated cost includes an allowance for the Award increases of 3.25%, salary system increments, superannuation of 9.25% and proposed new positions.

As part of resourcing the Delivery Program in delivering services to the community, five new staff resources have been requested by different areas across Council. These requests have been prioritised and the proposed new positions shown here are presented for Council's consideration.

Position	Directorate	Approximate Cost 2013/2014	Comment
Administration Officer – Building Control	City Planning	$54,152	Resource required to provide administrative support to Building Surveyors, including the implementation of new mandatory inspections.
Senior Building Surveyor	City Planning	$82,914	Resource required to deliver the mandatory swimming pool inspections and to address the increase workload due to rezoning and planning proposals. Position funded through revenue from inspections.
Trainee – Customer Service	City Planning	$16,000	Resource required to assist with staffing the Customer Service Unit.

Position	Directorate	Approximate Cost 2013/2014	Comment
Events Coordinator	General Manager	$64,577	Resource required to provide a more organised and professional approach to events coordination, with the aim of retaining existing events and potentially attract additional events to the area.
Trainee – Records / IT	Support Services	$16,000	Resource required to complement existing shared trainee between Records and IT. Partially funded through savings in Casuals costs.

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 2013/2014 is $19.2 million. This estimate includes an increase in CPI of 3% or in line with established contracts.

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 $11.9 million for 2013/2014. These expenses include utility costs ($1.5 million), insurance ($1.1 million), street lighting ($734K), Corporate IT expenses ($765K), and Section 356 expenditure ($90K). Also, the 2013/2014 estimates allow for $250K for Members' fees and contribution to outside bodies including $3 million for Section 88 Waste Levy, $707K for the operational contribution payable to Sports Council, $1 million for Emergency Services, and $50K to cover the estimate for the Hawkesbury Leisure Centres subsidy.

Depreciation

For 2013/2014, it is estimated that the annual Depreciation cost will be in the order of $19 million. The Depreciation cost represents the rate of consumption cost of assets.

As a result of all Council's assets now being reported at “Fair Value”, with Depreciation costs being calculated accordingly, the majority of councils have seen a spike in their Depreciation cost as this is now based on the true replacement cost of assets rather than the historical cost as was the case previously.

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 $10.45 million. 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.

Adding the proposed capital expenditure, and taking into account capital proceeds, capital grants and contributions, reserve funding and removing the impact of depreciation, a balanced bottom line results, resulting in a "Balanced" budget being submitted for Councils 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 financial year ending 30 June 2014, it is proposed to undertake Capital Works amounting to $11.2 million. This does not include expenditure in the Infrastructure Renewal Program, which is outlined later in this report.

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.

Capital Works proposed for next year include the following:

- Building Works, $972K, including:
  - Senior Citizens Centre - $200K
  - Smith Park Facilities - $150K
  - Data Centre Upgrade - $200K
  - Hawkesbury Leisure Centres - $111K
- Capital Works, $1.05 million, including:
  - Sports Council Contribution - $267K
  - Berger Road Lakeside - $287K
  - Macquarie Park - $139K
  - Governor Philip Park - $100K
- Roadworks Capital Works, $4.3 million, including:
  - Road Rehabilitation Various - $412K
  - Hermitage Road, Kurrajong Hills - $191K
  - Kurmond Road, Wilberforce - $120K
  - Bulga / Wollombi Road St Albans - $100K
  - Cycleways - $100K
  - Scheyville Road - $200K
  - Bridge Construction - $2.7M
- Accelerated Timber Bridge Replacement Program, $2.65 million, including:
  - Stannix Park Road Bridge
  - Upper Colo Bridge No.5
  - Upper Colo Bridge No.7
  - Upper Macdonald Bridge
  - West Portland Road Bridge
  - Wrights Creek Bridge
  - Upper Macdonald Bridge

The Timber Bridge Replacement Program undertaken under the Local Infrastructure Renewal will span over a period of two years. The total cost of the program is estimated to be $5.26 million, with $2.65 million expected to be delivered in 2013/2014. The acceleration of the timber bridge replacement program will result in future maintenance costs savings.

In addition to the above, Council will also be undertaking works relating to the following

- Plant and Fleet - $2.5 million
- Waste Management Facility - $1.5 million
- Sewerage Relining Program - $200K
- Library Resources - $334K
- Information Technology - $180K

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 $1.5 million, being $940K for Roadworks, $392K for Parks and $160K for Buildings works represents the full allocation of the special rate rise of 2007/2008 above Minister's increase indexed by rate-pegging.

6. 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 2013/2014, 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.

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

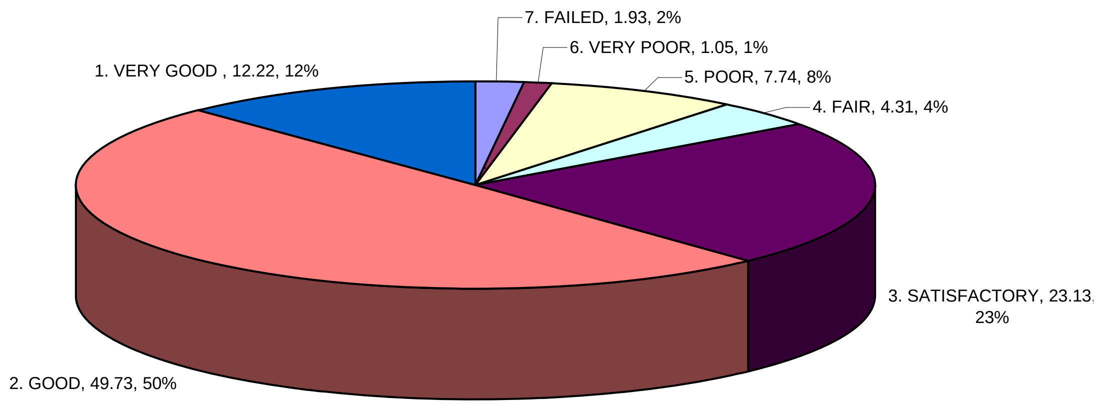
On the same basis as previous years, in order to achieve a balanced position it was necessary to reduce expenditure, mainly asset renewal and/or replacement expenditure in line with the level of revenue and reserve funding available. The practice of reducing asset renewal expenditure to an "affordable" 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 6 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 6 below, approximately 11% of Council's 637km sealed network is in 'poor to failed' condition, requiring progressive rehabilitation over the next 5 years (if not sooner). The estimated cost of this is in the order of $45 million, representing a significant backlog. Whilst additional funding may be attracted through grants, the current annual allocation for road rehabilitation of approximately $1.4 million is not sufficient.

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 $1.9 million as compared to the proposed affordable budget allocation of $1.6 million.

Chart 6 – PCI of Sealed Road Network



Whilst Council's current road network is in the majority in a satisfactory to 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 $8.8 million. The current and proposed budget allocation is in the order of $1.2 million annually.

7. Financial Sustainability

Over the last few years Council has been presented with a bottom line "balanced" position. For 2013/2014, 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.

As part of their work for the Independent Review Panel, NSW Treasury Corporation (T Corp) has undertaken an assessment of the financial capacity and sustainability of all 152 Councils in NSW. The assessment was used to assess the financial capacity of councils to undertake additional borrowings in light of the LIRS borrowing program, and to measure councils against prudent benchmarks. The assessments have also been used to determine a Financial Sustainability Rating (FSR) and Outlook for each council. T Corp had advised that a combined report on all councils' FSR and Outlook will be issued mid April 2013. This report would enable Council to see where it sits compared to other councils. To date, the report has not been issued and as such no such comparison is possible at this stage.

Council's financial assessment was based on the "status quo" model within the Long Term Financial Plan; essentially representing future projections based on current revenue and required expenditure. Based on historical and forecast results, and compared against a set of relevant benchmarks, T Corp has allocated this Council a Financial Sustainability Rating of *Moderate* and an Outlook of *Negative*.

A council with a Moderate FSR is defined as a council that has:

- Adequate capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term.
- Record of reporting minor to moderate operating deficits but may also have recently reported a significant operating deficit.
- Likely to be able to address its operating deficits, manage unforseen financial shocks and any adverse changes in its business, with moderate revenue and/or expense adjustments. The expense adjustments are likely to result in a number of changes to the range of and/or quality of services offered.
- Capacity to manage core business risks is moderate

Benchmarks relating to financial flexibility and asset renewal works have been given a higher weighting as they represent Council's revenue raising capacity, its ability to sustain financial shocks and long term sustainability.

T Corp has provided seven levels of Financial Sustainability Ratings (FSR), being:

- Very Strong
- Strong
- Sound
- Moderate
- Weak
- Very Weak
- Distressed.

Whilst the short and medium term position is manageable, the Outlook allocated to Hawkesbury Council for is Negative. The Outlook is T Corp's assessment of the potential movement of the FSR within the next three years.

As defined by T Corp, a Negative Outlook prevails where as a result of a foreseeable event or circumstance occurring, there is the potential for deterioration in the local government's capacity to meet its financial commitments (short and/or long term) and resulting change in its rating. However, it does not necessarily indicate that a rating change may be forthcoming.

So essentially, a Negative outlook indicates the Council's FSR is more likely to deteriorate and is a sign of a general weakening in performance and sustainability.

In light of this assessment, Council's Negative Outlook is to be given serious consideration and it is recommended that appropriate action is taken by Council to improve this Outlook.

8. 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
- Funding from other sources

This strategy is not sustainable over the long term, without future reviews of affordable service levels requirements and future rate increases.

In general, current operational service levels are maintained in the Draft Operational Plan 2013/2014. However, the growing gap between available revenue generated by rate pegging and declining revenue streams as a result of reduced activity coupled with rising operating expenses continues to place pressure on the budget.

In line with T Corp's recommendations Council needs to address its funding shortfall if it is to remain financially sustainable. The recommendations 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.

9. Proposed Special Rates Variations in future years

In light of the information presented in this report it is proposed to recommend that Council considers special rates variations in the coming years. Increased revenue generated through special rates variations will ensure the current FSR and Outlook are addressed through the elimination of operating deficits, addressing the infrastructure backlog, maintaining service levels and ensuring Council has the capacity to react to financial shocks.

A report regarding the consideration of future special rate variations will be submitted to Council in the coming months.

10. Appreciation

The effort of all staff, in preparing the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014 is very much appreciated. 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. This has also been in the midst of significant work being undertaken to meet the Integrated Planning and Reporting reforms.

11. Adoption of Budget for Year Ended 30 June 2014

As mentioned earlier in this report, assuming Council finalises the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014 at this Meeting, it is anticipated that advertising of the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014, will commence for the minimum 28 day period from Thursday, 2 May 2013. 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 18 June 2013 to adopt the Delivery Program and Operational Plan, incorporating Council's Estimated Income and Expenditure and associated documents, and make and fix the rates and charges for the year ended 30 June 2014.

Conformance to Community Strategic Plan

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

- 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 (or is a 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 Delivery Program 2013-2017 and Draft Operational Plan 2013/2014, 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 2013/2014.

RECOMMENDATION:

That:

1. The General Manager's report regarding the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014 be received.

2. The Draft Delivery Program 2013 - 2017and Draft Operational Plan 2013/2014 be adopted for exhibition purposes and be advertised in accordance with Section 404 and 405 of the Local Government Act 1993.

3. An Extra-Ordinary Meeting of Council be held on Tuesday, 18 June 2013 to consider any public submissions received in respect of the Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014 and to consider the adoption of these documents and to make and fix rates and charges for the year ended 30 June 2014.

ATTACHMENTS:

AT - 1 Draft Delivery Program 2013 - 2017 and Draft Operational Plan 2013/2014 (Booklets 1 to 3) (*to be distributed under separate cover*).

oooO END OF REPORT Oooo

extraordinary meeting

end of business paper