



Hawkesbury City Council

extraordinary  
meeting  
business  
paper

date of meeting: 21 April 2015

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](mailto: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**

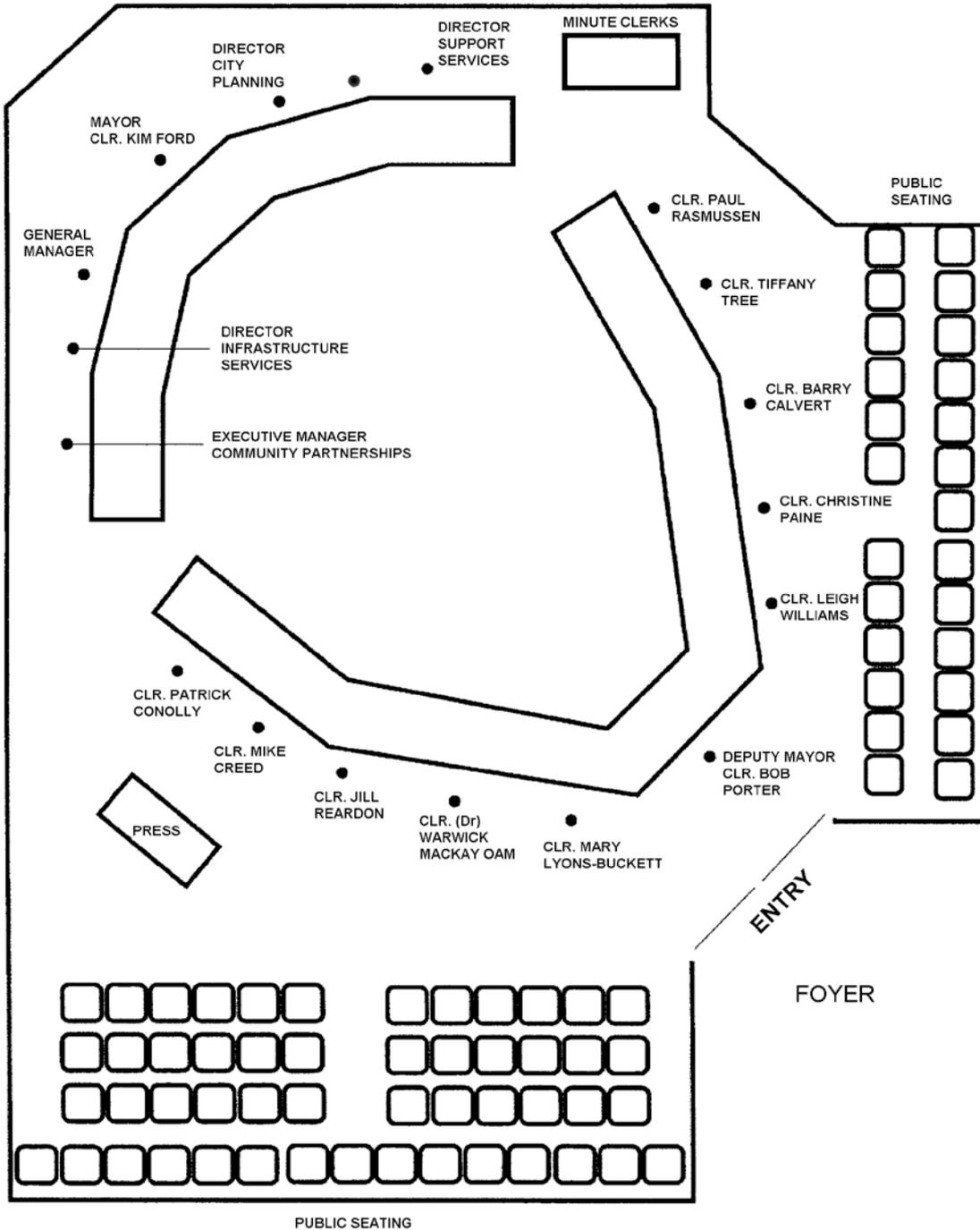
Business papers can be viewed online from noon on the Friday before the meeting on Council's website: <http://www.hawkesbury.nsw.gov.au>.

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





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**Reports for Determination**

**GENERAL MANAGER**

**Item: 56      GM - Draft Operational Plan 2015/2016 - (79351, 95496, 96332)**

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**REPORT:**

**Executive Summary**

The purpose of this report is to submit the Draft Operational Plan 2015/2016 for Council's consideration with a view to place the plan 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 1993 (the Act) and associated Guidelines issued by the then 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 is being implemented through, the Delivery Program 2013-2017. The Delivery Program 2013-2017 was adopted by Council at the Council meeting on 18 June 2013 and is focused on the delivery and achievement of the key goals of the CSP.

The Draft Operational Plan 2015/2016, 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 third 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 2015/2016.

This report recommends that the information contained within this document is received and that the Draft Operational Plan 2015/2016 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, 23 June 2015 to consider any public submissions received in respect of the Draft Operational Plan 2015/2016, the adoption of the plan and to make and fix rates and charges for the year ended 30 June 2016.

Also within the scope of this report is an overview of Council's financial sustainability, in particular in light of the State Government's mandated requirements of the 'Fit for the Future' submission required to be submitted by 30 June this year. The 'Fit for the Future' submission will entail Council demonstrating the ability to remain financially sustainable by being able to fund asset renewal as and when required, as well as being in a position to be able to address the backlog of works that has progressively accumulated over past years due to ongoing underspending on Council's assets.

**Consultation**

It is proposed that the Draft Operational Plan 2015/2016 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, 23 June 2015 to consider the submissions received and adopt the Draft Operational Plan 2015/2016 as well as setting rates and charges for the year ending 30 June 2016. 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. Integrated Planning and Reporting Framework**

I am pleased to submit the Draft Operational Plan 2015/2016 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 has 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 12 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.

### **2. Challenges**

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.

The Draft Operational Plan 2015/2016 was constructed on the basis of maintaining current service levels, the retention of Council's existing assets portfolio, Council's direction as provided through adopted Strategies, Plans and Resolutions and in line with the community's expectations provided in the Community Survey.

The preparation of the Draft Operational Plan 2015/2016, even more so than previous years, was particularly difficult due to various factors outside Council's control limiting Council's ability to raise revenue required to sustain existing service levels, as well as limited ability to supplement this revenue with Reserve funding.

Managing the diverse and growing expectations of the community, with Council's capacity to deliver within its limited financial scope, has not only been a challenging task but has also highlighted the requirement and the urgency for Council to consider all available options with regard to future Operational Plans for the Hawkesbury LGA. These options are discussed later in this report.

The fundamental structural issue underpinning Council's on-going financial sustainability challenge is the fact that on-going revenue available for Council is simply not sufficient to fund the expenditure required to be undertaken to provide Council's wide range of services and maintain its infrastructure assets to a satisfactory and safe standard and meeting all legislative requirements.

The preparation of the Operational Plan is a lengthy and complex process involving significant business knowledge input by Management across Council, and many hours of discussions and strategy development by Council's Executive Team. This thorough process is necessary to ensure that the limited funding available is allocated appropriately across the various services to ensure continuation of current service levels, appropriate management of risk and ultimately the maximum allocation of funds towards infrastructure works.

### ***Economic and Legislative Constraints***

Whilst each year the specific allocation of funds and estimates for each respective service is reviewed to reflect changing service delivery models or the combination thereof, changing community needs, technology savings, efficiencies and the like, it is important to highlight a few of the major hurdles impacting the overall budget before even starting to review each Service and the associated resource requirements.

On the one hand the Operational Plan includes an overall increase in rating revenue for 2015/2016 of 2.4% on the current year, or in monetary terms, approximately \$0.7M. This positive input to the budget is more than offset by decreasing revenue. Interest earned on Council's investment portfolio being estimated to be \$0.15M less than the estimate for the current financial year and income from the Financial Assistance Grant being estimated to be \$0.14M less than the amount budgeted for the current year. The latter reflects the freeze as announced by the Federal Government in recent months. In addition to these reductions in income, on the expenditure side, the Plan includes increases in employee costs of \$0.8M.

In summary, just based on these four items alone, the construction of the Budget started with a net backwards position of \$0.4M. This was the starting position before taking into account all other cost escalations.

### ***'Fit for the Future' – Council's Infrastructure Assets***

In addition to the above challenges, as in previous years, but with a heightened level of urgency, the main issue focused on during the development of the Draft Operational Plan 2015/2016 was expenditure on Council's infrastructure assets. As detailed in other reports to Council regarding the matter, Council's on-going sustainability in its current form, that is, being 'Fit for the Future' is measured in terms of the state of its assets and the expenditure incurred thereon. In light of Council's on-going shortfall between income and expenditure required while continuing existing service levels, directing more funds towards Council's assets has again been a challenge. In fact, expenditure on assets, over the last few years, and for 2015/2016, has continued to decline in real terms.

Going forward, and assuming a balanced budget position continues to be developed, based on Council's current revenue base, expenditure on infrastructure assets will need to be decreased in actual terms. This is in direct conflict with what a financially sustainable and soundly financially managed council is expected to and should do.

### 3. The Impact of Balancing the Budget on Council's Financial Sustainability

As in previous years, a 'Balanced Budget' is being submitted for consideration by Council. As also highlighted over the last few years, balancing the budget year on year has had, and will continue to have, an impact on Council's financial on-going sustainability. The state of Council's infrastructure and the level of maintenance and asset renewal works, in addition to the continually increasing Infrastructure Backlog of works, is the basis of the State Government's assessment of Council's financial sustainability, or in other words, Council's ability to continue to exist in its current form by being 'Fit for the Future'.

A 'Balanced Budget' means expenditure budgeted for is fully covered by income and other funding sources budgeted to be available.

Council has limited control on the income it can generate. The major source of income, being rates, is capped by rate-pegging, a number of fees are statutory or somewhat controlled, and where there is any level of discretion, a balance between cost-recovery for Council and affordability by users, plays a major role.

Given restrictions on the income side, the process of 'balancing' the budget is mostly based on a reduction in the budget for expenditure.

Over the last few years Management has been focusing on maximising funds available to be spent on Council's roads, parks, buildings and other infrastructure. This has been through a combination of cost-efficiencies, review of processes, best value for money procurement and some level of service level review with regards to non-infrastructure services. However, these on-going efforts are not sufficient to counteract the structural issue of overall expenditure requirements exceeding the overall income available. As annual budgets have generally been based on retaining existing service levels, such as for example retaining opening hours of facilities and allowing for funding Council Plans and Resolutions, expenditure on infrastructure assets is by default limited to what is left.

Consequently the balancing of the budget has been increasingly achieved at the cost of under expenditure on Council's assets.

Council's assets have over the years continued to deteriorate as a result of ongoing underspending on maintenance and renewal. This deterioration has now reached a stage where it is visible to the community and is compromising compliance and safety, hence exposing Council to increased risk and potential liability.

Balancing the budget has over the last few years, and more significantly for 2015/2016, also involved the utilisation of Discretionary Reserves. The continuous depletion of these Reserves has resulted in those Reserves now being at a bare minimum level, leaving no buffer for unexpected events.

### 4. Draft Operational Plan

The Draft Operational Plan 2015/2016 details the actions, including associated resources that will be required during the 2015/2016 financial year, being the third year of the adopted Delivery Program, to continue to deliver Activities identified in the Delivery Program.

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

The Draft Operational Plan 2015/2016 - 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 2015/2016 outlines the Delivery Program Activities with associated Actions proposed to be delivered in 2015/2016. 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.

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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 Theme:
  - Revitalisation Strategy – Activity 2.1 - \$27K
  - Civic & Community Events – Activities 1.1, 3.2, 3.3 and 50.8 - \$243K
  - Road Safety Programs – Activity 10.1 - \$162K
- Caring for the Environment Theme:
  - Clean Up Australia Day – Activity 23.2 - \$7K
  - Waste Education Program – Activity 17.1- \$141K
  - Domestic & Commercial Waste – Activity 19.2 - \$11.3M
  - Bush Care Officer Program – Activity 22.4 - \$104K
- Linking the Hawkesbury Theme:
  - Kerb, Gutter & Drainage Works – Activity 28.5 - \$1.3M
  - Bridge Replacement Program – Activity 28.4 - \$1.5M
  - Roads & Footpaths – Activity 28.2, 28.3, 28.7- \$7.8M
- Supporting Business and Local Jobs Theme:
  - Scholarships & Traineeships – Activities 38.2 & 39.1 - \$139K
  - Tourism Services - Activities 33.1, 33.2 & 35.1 - \$362K
  - Economic Development Strategy (implementation) – Activity 41.1 - \$10K
- Shaping our Future Together Theme:
  - Contribution to Sports Council – Activity 50.6 - \$1M
  - Emergency Services – Activity 47.6 - \$1.4M
  - Community Engagement – Activities 53.1, 55.1 and 54.1 - \$133K

Also included in the Draft Operational Plan 2015/2016 are the following recent Council resolutions:

- Past Australians of the Year Luncheon
- Interpretive Signage - \$29K
- Sponsorship of Blues & Roots Festival - \$30K
- Bowen Mountain Evacuation Route – Stage 2 - \$235K

### ***Estimated Income and Expenditure***

The estimated Income and Expenditure for 2015/2016 has been based on a combination of index factors as follows:

- Rate Pegging - 2.4%
- Income CPI – 2.8%
- Interest Rates - 3%
- Cost Escalation Estimate - 2.6% or applicable contract increases
- Employee Costs – 2.7% based on the expected Award increase

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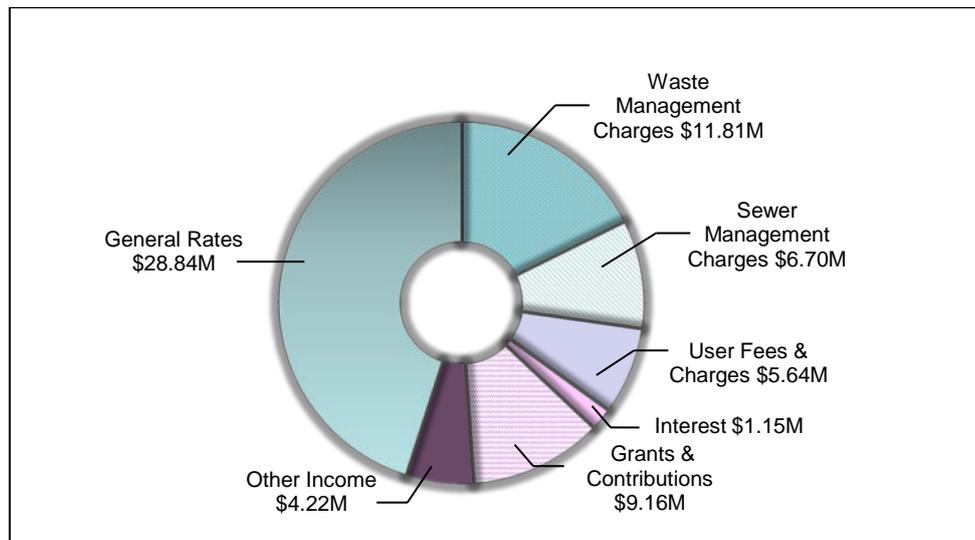
### ***Income***

Income including revenue raised through 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 2015/2016.

For 2015/2016, a total income of \$67.5M has been budgeted for. It is to be noted that \$21M of this amount relates to specific programs and is therefore restricted to those programs.

Chart 1 shows the various sources of revenue and amounts budgeted for 2015/2016.

### **Chart 1 – Sources of Income**



### ***Rates and Annual Charges***

As shown in Chart 1 above Council's main revenue source is General Rates, which for 2015/2016, net of rebates is \$28.84M, representing 43% of the total estimated revenue. Rating income, has been increased by the rate-pegging limit for 2015/2016 of 2.4%.

Council will raise a further \$18.5M (27%) in Annual Charges, (Waste Charges, Sewer and Sullage) which are 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 \$9.86M, which is 15% of the estimated income. This estimates income includes:

- Lease and Rental Income \$2.1M
- Development Applications and Subdivision Fees \$786K
- Animal Management \$774K
- Gate Takings at Waste Management Facility \$720K
- Parking Patrol \$636K
- Building Inspections and Construction Certificates \$606K
- Septic Tanks Inspection & Permits \$381K
- S.149 and S.603 Certificates \$381K
- Cemetery Income \$226K
- Vary LEP Applications \$160K

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Income generated through these fees is impacted by the level of the fee and usage rate. In estimating the level of income from these sources the applicable fees, current trend and expected trend are all taken into account.

### *Grants and Contributions*

Approximately \$9.1M or 14% of the 2015/2016 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 are:

- Financial Assistance Grant - \$4.3M
- Roads to Recovery Grant - \$1.6M
- RMS Regional Roads Grants - \$1.2M
- Bush Fire Prevention – RFS Grant - \$341K
- Library Grants - \$200K

Council receives Financial Assistance Grants from the Federal Government. Due to fluctuations in the amounts from year to year, and the announced freeze on the total amount paid to local government, the budgeted amount for 2015/2016 has been reduced by 3%, or \$140K on the amount budgeted for in the current year.

### *Interest Income*

A further \$1.15M (1.7%) is estimated to be received through interest earned on Council's investment portfolio and interest charges on overdue amounts.

Council's estimated interest earnings are based on the amount of cash held for investment and expected return to Council. Interest for 2015/2016 has been budgeted at 3% 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 \$900K. 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.

It is to be noted that, the majority of the invested funds is restricted to specific programs and cannot be spent on anything else. The remaining unrestricted amounts are required to be called upon to pay bills, and cannot therefore be spent on actions not included in the budget for the year.

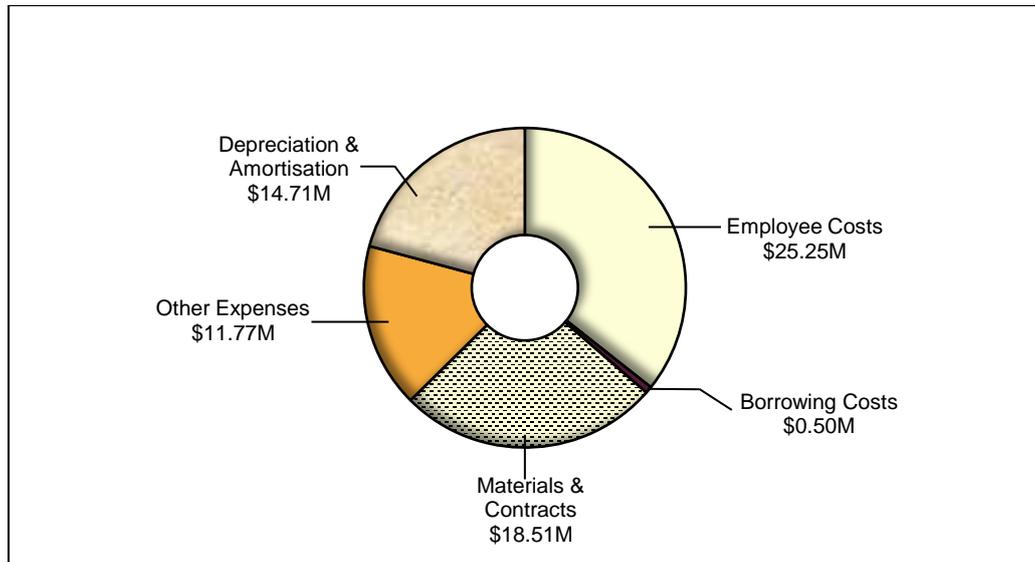
### ***Operating Expenditure***

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.

For 2015/2016, a total operating expenditure of \$70.7M has been budgeted for.

Chart 2 shows the categories of expenses and amounts budgeted for 2015/2016.

Chart 2 – Operating Expenditure



#### *Employee Costs*

Services to the community and works are delivered through a combination of Council staff and contractors. With the majority of activities being resourced internally, employee costs of \$25.25M constitute 36% of the total expenditure. This amount relates to staff fixing roads, mowing the parks, collecting our garbage, collecting stray animals, ensuring compliance etc. Council staff also serve the ratepayers through the Customer Service Centre, development application processing, etc. Administration staff is required to support other requirements such as financial management, legislative reporting, processes such as Council meetings and to manage contracts.

Employee costs estimated for 2015/2016 are based on the current staff establishment plus three new proposed positions. The Budget for Employee Costs has been based on an Award increase of 2.7%, equating to \$0.8M, Superannuation of 9.5% and the proposed new positions.

Three new staff resources are being proposed and are included in the budget for 2015/2016. Justification and the budgeted amounts for each of the proposed positions are provided below:

- Specialist Duty Officer - \$79K - Resource required to provide more consistent development services customer contact and to enable senior staff to focus on the processing of development applications and subdivisions.
- Asset Management Structure - \$120K – Review to be conducted to determine the optimal structure and location of asset services to ensure adequate asset management. This vote is to provide for additional resources, which will be determined as part of the review.
- Temporary Parks Planner- \$36K - Temporary part time position to update Parks' Plans of Management in lieu of engaging consultants.

#### *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 2015/2016 is budgeted at \$18.51M or 26% of operating costs.

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.

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This estimate is based on what is required to at least maintain existing service levels for services the community can see, but have reduced in real terms in relation to expenditure on Council's Infrastructure assets, the full impact of which may not be completely visible yet.

### *Other Expenses*

In addition to the above costs, Council also incurs a range of Other Expenses, estimated at \$11.77M or 17% for 2015/2016. These expenses include utility costs including street lighting (\$2.1M), insurance (\$1.3M), corporate IT expenses (\$825K), and Section 356 financial assistance expenditure (\$92K). Also included is \$261K for Members' fees, and contributions to outside bodies including \$3.2M for the Section 88 Waste Levy, \$762K for the operational contribution payable to the Hawkesbury Sports Council and \$1.3M for Emergency Services.

### *Depreciation*

For 2015/2016, it is estimated that the annual Depreciation cost will be in the order of \$14.7M. The Depreciation cost represents the cost of consumption of Council's assets.

Depreciation is a real cost and should be funded. Each year, expenditure on Assets should equal Depreciation. This would ensure that assets do not deteriorate and thereby become a backlog. Council currently does not have the funds to do this.

As detailed earlier, balancing the budget each year involves reducing expenditure in line with revenue available. This has progressively resulted in expenditure on assets declining in real terms year on year.

### *Borrowing Costs*

\$500K is included in the 2015/2016 Operational Plan for borrowing costs mainly relating to funds borrowed under the Local Infrastructure Renewal Scheme Loan to fund the Timber Bridge Replacement Program currently in progress.

### **Capital Works**

Another challenge encountered in the budgeting process has been ensuring sufficient funding for adequate asset management. As detailed earlier in the report, Council's infrastructure, comprising of an extensive road network, parklands, community buildings, and sewerage networks, needs to be adequately funded in line with a sound asset management approach as reflected in the relevant 'Fit for the Future' benchmarks that Council currently does not meet.

For the 2015/2016 financial year, it is proposed to undertake Capital Works amounting to \$12.9M, of which \$1.61M is funded under the Infrastructure Renewal Program.

The proposed expenditure is focused on renewal or replacement of existing assets, including some energy or efficiency savings works. Council has a significant infrastructure backlog, and as outlined earlier, 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 2015/2016 capital works program includes \$7M for Roadworks, \$957K for Parks and \$694K for Buildings. Details of the works can be found in Part 1 of the Draft Operational Plan and include the following works:

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### *Roadworks*

- Bridge Replacement Program
- Cycleways
- Some Guardrails
- Road Shoulder Renewal
- Resheeting and Grading of Unsealed Roads
- Kerb & Gutter & Drainage Works
- Road Rehabilitation Works

### *Parks*

- Sports Council Capital Contribution
- Mc Quade Park
- Governor Phillip Park
- Macquarie Park
- Playground Equipment
- Playground Shelters
- Parks Furniture

### *Buildings*

- Amenities Upgrades
- Security Upgrades
- Community Building Works
- Energy Efficiency Works

### *Other*

- Library Resources
- Sewerage Infrastructure
- Information Technology
- Plant and Fleet
- Furniture and Fittings and other Structures

### ***Infrastructure Renewal Program***

Included in the Capital Works above, are works funded 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 combined amount of \$1.6M, represents the full allocation of the special rate rise of 2007/2008 above the Minister's increase indexed by rate-pegging.

It is to be noted that whilst back in 2007/2008 and the following few years the additional income generated through the special rate variation approved at the time enabled additional infrastructure works to slow down the deterioration trend, this additional revenue, whilst applied specifically to infrastructure works is progressively having a somewhat reduced impact on addressing Council's shortfall in infrastructure spending due to the overall decline in infrastructure funding in real terms.

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

The Draft Operational Plan 2015/2016 - 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.

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**General Rates 2015/2016**

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 Act.

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 2015/2016 year it is proposed to apply the rate-pegging increase of 2.4% 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 \$29M.

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 2014, with those values first being used for the year commencing July 2015.

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 below provides a snapshot of the rating structure proposed for 2015/2016.

**Table 1**

Category / Sub-Category	No. of Properties	% Notional Yield Proposed	Notional Yield	Minimum Rate	Base Amount	Ad Valorem Rate in \$	Average Rates per property
Residential	18,671	65%	\$19.2M	-	\$510	0.196079	\$1,051
Rural Residential	4,289	20%	\$5.9M	-	\$685	0.127755	\$1,375
Business (all sub-categories)	1,494	10%	\$2.9M	-	\$950	0.222358	\$1,974
Farmland	605	5%	\$1.5M	\$524	-	0.285618	\$2,437

**Annual Charges**

In addition to General Rates, Annual Charges for the Waste Services and Sewerage or Sullage services are applicable. The increases for these charges generally reflect the cost of delivering the respective programs and the necessary funding to be maintained for future asset renewal. Management regularly reviews these programs and the long term strategic direction to ensure these services are delivered in the most cost-effective way.

Increases applicable for 2015/2016 are as follows:

- Waste Management Charges 9.97%
- Sewer Management Charges 10.75%
- Sullage Charges 11.98%

*Domestic Waste Management and Commercial Waste Collection*

The Domestic Waste Management Service for 2015/2016 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 2015. 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 2015/2016 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 11.08% or \$13.40 per tonne, an increase in the annual charges for the waste service of 9.97% is required.

*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 2015/2016 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 10.75% for the 2015/2016 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.

Sullage Charges reflect cost-recovery of the cost to provide the service. With the reduction in properties on sullage in recent years, without a corresponding decrease in contract costs, the charge per property needs to be increased to cover costs. The utilisation of Council's Sullage service is not mandatory and ratepayers have the choice to go to a private operator, which based on some research, charge higher fees than Council.

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 11.98% being required to ensure sufficient funds are available to fund the program.

***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 \$333.24 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.

**5. State of Council's Infrastructure**

As detailed earlier in this report there is a cost to balancing the budget. The impact of continuously underspending on infrastructure assets in the past is now starting to become visible and based on current levels of expenditure will continue to deteriorate leaving future generations with the associated financial burden.

As referred to earlier in the report, for 2015/2016, similar to previous years, Council's operating costs including depreciation 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.

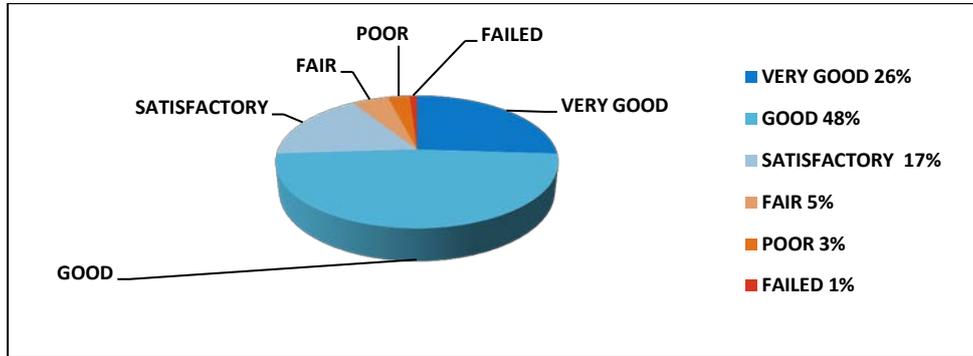
On the same basis as previous years, in order to achieve a balanced position it was necessary to reduce expenditure, mainly asset renewal and/or replacement expenditure in line with the level of revenue and reserve funding available. The practice of reducing asset renewal expenditure to an 'affordable' level rather than expending what is required, has an impact on the ongoing condition of infrastructure, future service levels and is jeopardising Council's financial sustainability and therefore the ability for the Hawkesbury LGA to continue to exist in its current form.

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.

To highlight Council's financial challenge in maintaining its infrastructure at the desired level, as shown in Chart 3 below, approximately 9% of Council's 700km sealed pavement is in 'fair to failed' condition, requiring rehabilitation. It is to be noted that this is more than double the proportion applicable this time last year.

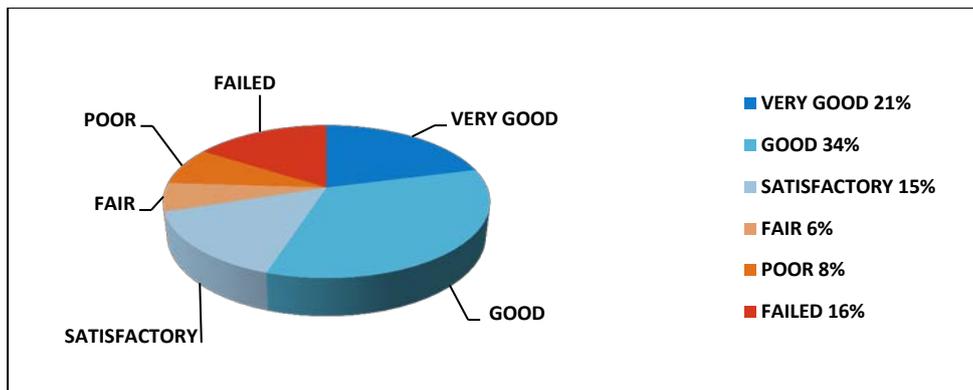
The estimated cost of bringing this proportion of roads up to satisfactory standard is in the order of \$45M, representing a significant backlog.

**Chart 3 – Sealed Road Pavement Condition – 2015**



Based on the current level of funding allocated to the maintenance of Council’s roads, the portion of Council’s sealed road pavement falling within the fair to failed condition will increase further up to 30% within the next five years as shown in Chart 4 below.

**Chart 4 – Sealed Road Pavement Condition - 2020**



It is further to be noted that as can also be seen in Chart 4, the condition of roads that are currently within the 'satisfactory to very good' condition category will also continue to deteriorate in the absence of an appropriate injection of funds.

The funding shortfall also applies to other assets, including unsealed roads. Council’s unsealed road network of 300kms should 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. Unsealed roads are the source of many complaints from road users who are bearing the costs in terms of damage to their vehicles and compromised safety.

Whilst some works are being undertaken in 2015/2016, as detailed in the Operational Plan (Part 1), these works are prioritised urgent works, renewals or required for legislative compliance purposes. There are no new works other than the upgrade of an amenities block funded by Section 94A, which is primarily a renewal of an out-dated facility. Various types of works are either not being undertaken at all, or are done at a much lower extent than that is required.

**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.

## EXTRAORDINARY MEETING

Meeting Date: 21 April 2015

Significant advances have been made during recent budgets to reduce operational costs and to direct rate revenue and operational savings towards funding 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
- Borrowing Programs

However, despite these continuous efforts, the on-going financial sustainability of Council requires substantial additional revenue to be available and/or expenditure reductions to occur over and above the outcome of the actions above.

In light of this and Council's need to demonstrate to the State Government that Council can achieve a sustainable financial position to enable it to continue to exist in its present form, specific actions have already commenced or are proposed for the coming years.

Council, in line with the 'Fit for the Future' recommendations has been working towards establishing a Regional Strategic Alliance with Blue Mountains and Penrith Councils. A specific report on this matter will be submitted to the next Council meeting on 28 April 2015. Included in the 2015/2016 Operational Plan is \$40K for seed funding for this Alliance.

As part of identifying savings and to ensure the delivery of Council's wide range of services in the most effective manner, it is proposed that Council and management would progressively review the current service delivery models for its services. Examples include but are not limited to looking at comparing the cost of delivering a service with Council's staff as opposed to contracting it out.

In addition, in order to ensure the maximum possible allocation of funds to infrastructure, it is proposed that a service level review is progressively undertaken over the next few years, in consultation with Council to assess and align services provided with community's requirements and Council's ability to fund.

It is also proposed that, in consultation with Council, Council's current asset portfolio is reviewed with the view to rationalise underutilised assets.

It is further proposed that to compliment the actions proposed above, a further Borrowings Program is considered to enable the acceleration of Infrastructure Works that the community will be able to see.

The Borrowings Program and future Budgets should to be supported by a Special Rate Variation process.

### **7. The Continuing Existence of the Hawkesbury LGA**

Over the last few years Council has been presented with a bottom line 'balanced' position. For 2015/2016, Council again is being presented with a 'Balanced Budget'. As detailed above, based on current income and expenditure Council may not be financially sustainable going forward if action is not taken to address the situation.

Whilst Council's sustainability may, in the past have been perceived as an issue for the distant future, it is critical for Council to note that Council's financial position is a current issue that needs to be dealt with.

In light of Council's requirement to demonstrate to the State Government that it is 'Fit for the Future' and can continue to exist in its current form, Council needs to consider an appropriate combination of strategies additional to ongoing actions already occurring as listed in Part 6 above.

A combination of appropriate strategies will ensure Council builds a sustainable, on-going financial position to address its infrastructure backlog, and increase its annual expenditure on asset maintenance and renewal.

These strategies will progressively address the funding gap, which if unattended to will continue to grow, increasing the risk to Council beyond what can be managed and also push the cost to the community and future generations.

Based on the existing level of funding, Council will no longer be able to sustain current service levels, its assets will continue to deteriorate beyond acceptable levels, Council Plans and Resolutions will not be able to be funded, services may have to cease and service levels will need to be reduced as soon as from 2016/2017, resulting in the community's expectations not being able to be met.

Whilst Council may wish to accept and manage these impacts, the more critical risk arising from Council not demonstrating it is 'Fit for the Future', is that the continuing existence of the Hawkesbury LGA in its current form may be placed at risk.

## **8. Appreciation**

The effort of all staff in preparing the Draft Operational Plan 2015/2016, 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.

## **9. Adoption of Budget for Year Ended 30 June 2016**

As mentioned earlier in this report, assuming Council finalises the Draft Operational Plan 2015/2016 at this Meeting, it is anticipated that advertising of the Draft Operational Plan 2015/2016, 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, 23 June 2015 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 2016.

## **Conformance to the Hawkesbury Community Strategic Plan**

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

- The 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 balanced set of decisions that integrate jobs, housing, infrastructure, heritage, and environment that incorporates sustainability principals.

and is also consistent with the nominated strategies in the CSP being:

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

## EXTRAORDINARY MEETING

Meeting Date: 21 April 2015

### Financial Implications

The adoption of the recommendation in this report will result in the Draft Operational Plan 2015/2016, 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 2015/2016.

### RECOMMENDATION:

That:

1. The General Manager's report regarding the Draft Operational Plan 2015/2016 be received.
2. The Draft Operational Plan 2015/2016 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, 23 June 2015 to consider any public submissions received in respect of the Draft Operational Plan 2015/2016 and to consider the adoption of these documents and to make and fix rates and charges for the year ended 30 June 2016.

### ATTACHMENTS:

AT - 1 Draft Operational Plan 2015/2016 (Parts 1 and 2) - (*Distributed under separate cover*).

oooO END OF REPORT Oooo



extraordinary  
meeting

end of  
business  
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