

Ordinary Meeting

Meeting Date: Tuesday, 22 May, 2018

Location: Council Chambers, City Administrative Building, Bridge Road, Nowra

Time: 5.00pm

Membership (Quorum - 7)

All Councillors

Addendum Agenda

Reports

CL18.123	Draft Integrated Strategic Plan Chapters 3 to 6 (Financials; Budget 2018/19; Fees, Charges and Rentals; Resourcing Strategy) - Public Exhibition	1
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CL18.123 Draft Integrated Strategic Plan Chapters 3 to 6 (Financials; Budget 2018/19; Fees, Charges and Rentals; Resourcing Strategy) - Public Exhibition

HPERM Ref: D18/162619

Group: Finance Corporate & Community Services Group
Section: Finance

Attachments:

1. Chapter 3 - Financials (under separate cover) ➡
2. Chapter 4 - Fees and Charges (under separate cover) ➡
3. Chapter 4 - Attachment A Schedule of Fees & Charges (under separate cover) ➡
4. Chapter 5 - Budget and Capital Works (under separate cover) ➡
5. Chapter 6 - Resourcing Strategy (under separate cover) ➡

Purpose / Summary

The draft financials, budget and resourcing strategy for 2018/19 is presented to Council for consideration. The draft budget has been prepared after a number of Councillor briefing sessions and contains information provided to Council at the briefing sessions.

As part of Council's Revenue Policy, a list of Fees and Charges is required to be prepared and placed on public exhibition along with the other components of the Draft Delivery Program and Operational Plan.

Recommendation

That Council:

1. Includes the presented Chapter 3 Operation Plan – Financials as part of Council's Draft Delivery Program and Operational Plan for public exhibition, for a period of 28 days
2. Includes the presented Chapter 4 Operational Plan – Fees and Charges Information, as part of Council's Draft Delivery Program and Operational Plan for public exhibition, for a period of 28 days
3. Includes the presented Chapter 5 Operation Plan - Budget as part of Council's Draft Delivery Program and Operational Plan for public exhibition, for a period of 28 days
4. Includes the updated Chapter 6 Resourcing Strategy as part of Council's Draft Delivery Program and Operational Plan for public exhibition, for a period of 28 days

Options

1. Council resolve to place the Draft Integrated Strategic Plan Chapters 3 to 6 (Financials; Budget 2018/19; Fees, Charges and Rentals; Resourcing Strategy), as presented, on public exhibition for 28 days

Implications: Nil.

2. Council recommend amendments to be made to one or more of the draft Chapters and resolve to place the amended drafts on exhibition for 28 days

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Implications: Amendments to be included in time to advertise. There is a very limited timeframe in which Council must meet the requirements of the Office of Local Government. Any delay in publishing the document will result in Council not meeting the requirements set for it by the State Government.

3. Council not place the draft Chapters, as presented, on exhibition

Implications: Re-work required; may not make the required advertising period. There is a very limited timeframe in which Council must meet the requirements of the Office of Local Government. Any delay in publishing the document will result in Council not meeting the requirements set for it by the State Government.

Background

Budget Assumptions

The preparation of the Draft Budget and Long Term Financial Plan is based on the following assumptions:

Consumer Price Index (CPI)	2.5%
Road and bridge construction index	1.65%
Population growth	0.6% pa
Number of assessable properties	+0.6% pa
Rate increases	Retention of the 13.2% special variation for 2017/18 as a permanent increase, followed by increases of 5% in 2018/19, 2019/20 and 2020/21, and 2.5% (assumed rate peg 2.5%) thereafter
Financial Assistance Grant	CPI
Other recurrent government grants	+2.0% pa
Interest on investments	2.8%
Employee costs	2.5% award increase
On-costs	38.9%
Salary savings	Target of \$233,900 in the 2018/19 budget; escalated over the forward years in line with projected award increases
Road maintenance	2.4%
Materials and contracts	1.5%
Electricity costs	Increase of 10% in 2018/19 and in 2019/20 (due to a new contract) with a 5% increase in the following years
Borrowings repayment schedule	
General	10 years
Water and sewer	15-20 years
Interest expense for new loans	4.0%
Other expenses	1.5%

General Fund

The baseline budget, excluding the impact of the Special Rate Variation that has been determined by IPART, contains salary savings and a below CPI increase to materials and contracts expense. Given the salary escalator required under the Local Government State Award 2017, the budget assumes downward pressure on full-time equivalents.

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Council's current electricity contract ends at the end of 2018 and increases have been factored into the budget according to the best estimates available for the second half of 2018/19 and the first half of 2019/20.

A total of 89 operational budget bids and 54 capital budget bids were received from staff to support expanded or new projects to better support how Council serves the community. Operational bids relating mostly to staffing were added to the additional resource requirements resulting from the workforce planning exercise that was the subject of a Councillor Briefing in 2017. Because of lack of funds, the bids were prioritised after extensive consultation and peer review by Section Managers and Group Directors. The remaining 11 staff bids, that were otherwise unfunded, were contingent on the success of the Special Variation application (the \$1M component for additional operations) and were prioritised after extensive consultation and peer review by Section Managers and Group Directors. Only two other critical operational bids relating to software hosting and maintenance were funded (\$0.7M).

Of the capital bids, only three have been identified for inclusion in 2018/19, subject to the availability of funding:

1. Replacement of the environmental management system at the Nowra Arts Centre which is at the end of its useful life (\$585K – part grant funded)
2. Construction of the seawall revetment at South Mollymook (\$3.4M over 2 years)
3. Additional funding required to implement Council's new corporate business system (\$2M)

There is an expectation of some movement in the way other capital projects may be funded once the Contributions Plan is finalised so that these three may be accommodated in the Capital Works Program. Further detail regarding this will be reported to council following public exhibition.

The resultant Operating Result for 2018/19, excluding capital grants, is a deficit of \$2,888K. When capital grants are included, the net operating result is a surplus of \$11,600K. The cash flow result for unrestricted general fund is nil.

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Net Operating Result	11,600	14,143	11,127
Net Operating Result excluding Capital Grants and Contributions	-2,888	-1,134	4,717
Net Unrestricted General Fund Cash Movement	0	0	213

Part of the SRV additional funds are for maintenance spending in the following areas:

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Roads	600	615	630
Building and Facilities	200	205	210
Parks	200	205	210
Total	1,000	1,025	1,050

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Council Resolutions - General Fund

At a Councillor Briefing on 17 May 2018, the following Council Resolutions were identified as priorities for funding in 2018/19:

Minute	Title	Amount
Min18.301	Hyams Beach traffic management	\$150,000
MIN18.314	Additional funding support for RFS at Broughton Vale / Berry	\$400,000
MIN17.1067	Aboriginal Bushcare Regenerators x 2	\$50,000
MIN18.227 / MIN18.228	Extend funding for CBD Revitalisation Committee to end with current term of Council	\$500,000
MIN18.319	Voluntary rebate of \$10 for eligible pensioners	\$120,000
MIN18.22	Environmental Health Australia NSW State Conference 2018	\$6,700
	Animal Shelter Operations	\$300,000
		\$1,526,700

It is proposed that the resolutions are funded in the following way:

- Communication Towers reserve – the renewal program for the towers has been determined and excess funds have been identified in the 2018/19 financial year of \$500K.
- Strategic Projects reserve has been used to fund \$500K of the Milton Croquet, allowing the general funds to be used on the CBD Committee.
- The Land Decontamination Reserve has been used to fund an internal loan for the Berry RFS site works (\$400K) with repayments in the future from unrestricted general funds.
- Growth in rates has been increased to cover the additional pensioner rebate. Subject to Council's decision in respect of the way forward with the RFS site, the funding source could be used to fund the alternate strategy outlined in the Addendum Paper presented by Director, Assets & Works.
- Councillors determined that the Environmental Health Conference be funded from the tourism budget.

It was also identified at the Councillor Briefing that the following Council Resolutions be noted as priority items for consideration/inclusion in future budgets, unless funding becomes available sooner from grants, Developer Contributions Plan Review or as part of Council's Quarterly Budget Reviews:

Minute	Title	Amount
MIN17.797	Hoarding & Domestic Squalor	\$50,000
Min18.204	Warden Head Lighthouse Ulladulla co-contribution	\$75,000
Min18.92	Old Erowal Bay - Playground, BBQ Area & Amenities	\$100,000
MIN17.739	LP406 - Falls Ck / Woollamia Deferred areas planning proposal	\$400,000
Min18.290	Huskisson Traffic Control - roundabout intersection Owen/Sydney/Tomerong Streets	\$800,000
Min18.202	Grants / Research Officer	\$100,000
Min18.295	Drain Maintenance - The Park Drive Sanctuary Point	\$30,000
MIN18.296	Artie Smith Oval - development of detailed designs	\$200,000
Min18.111	SCARP - Athletics Facility	\$300,000
Min18.303	Public Toilets Tomerong	unknown
		\$2,055,000

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Following are details of other key components of the Draft Budget for 2018/19.

Rates

The rate peg set by IPART for the 2018/19 financial year is 2.3% based on the increase in the Local Government Cost Index for the year to September 2017.

In February 2018, Council submitted a Special Rate Variation application to IPART. On 15 May 2018, IPART approved Council's application in full; that is:

- Maintaining the 13.2% from the 2017/18 SRV as a permanent increase and an additional 5% in 2018/19 (includes the announced rate peg of 2.3%)
- 5.0% in 2019/20 (includes estimated rate peg of 2.5%)
- 5.0% in 2020/21 (includes estimated rate peg of 2.5%)

The additional revenue will be used to improve Council's financial sustainability, reduce its infrastructure backlog, reduce its operating deficit and fund asset renewal and maintenance. As indicated last year, part of the SRV will be applied to the owners of properties in the Verons Small Lot Estate to repay the loan for infrastructure construction.

A summary of where the additional revenue is to be allocated is show below:

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Funding current operations (cash deficit)	4,653	4,332	3,027
Verons loan repayments	149	149	149
Additional maintenance	1,000	1,025	1,050
Additional operations	1,000	2,050	2,101
Additional capital	2,414	3,715	7,140
Total	9,216	11,271	13,467

	Increases in maintenance spend	Increased asset spend
2018/19	1,000	2,414
2019/20	1,025	3,714
2020/21	1,051	7,140
2021/22	1,077	9,586
2022/23	1,104	10,689
2023/24	1,131	10,510
2024/25	1,160	10,670
2025/26	1,189	10,935
2026/27	1,218	11,642
2027/28	1,249	12,113

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There is also a continuation of the Special Rate Variation of 4.6% from 2014/2015. The following projects are included in the draft budget, funded from these Special Rates:

Description	2018/19 Budget
St Anns St, Nowra	\$600,000
Larmer Ave, Sanctuary Point	\$800,000
The Lake Circuit, Culburra	\$381,196
Murramarang Road, Bawley Point	\$500,000
Local Road Resurface Renewal	\$280,000
Total	\$2,561,196

With the SRV, Council's rating structure for 2018/19 is expected to be:

Category	Sub-Category	No of Assessments	Land Value	Ad Valorem (c in \$)	Base Rate Amount	Base Rate %age	Yield Base Rate	Yield Ad Valorem	Total Rate Yield (\$)
Residential	Ordinary	53,324	\$14,309,065,540	0.22801	\$611	49.97%	\$32,580,988	\$32,626,100	\$65,207,088
	Non-Urban	1,000	\$27,060,410	0.23151	\$47	42.86%	\$47,000	\$62,648	\$109,648
Farmland	Ordinary	743	\$692,547,700	0.19805	\$611	24.87%	\$453,973	\$1,371,591	\$1,825,564
	Dairy Farmers	127	\$162,393,000	0.10073	\$611	32.17%	\$77,697	\$163,578	\$241,175
Business	Ordinary	168	\$2,252,450	0.33235			\$0	\$7,483	\$7,483
	Commercial/Industrial	1,720	\$772,843,000	0.31998	\$611	29.82%	\$1,050,920	\$2,472,944	\$3,523,864
	Nowra	363	\$168,843,000	0.69876	\$611	15.82%	\$221,793	\$1,179,807	\$1,401,600
		57,445	\$16,135,004,538				\$32,432,271	\$37,884,152	\$72,316,423

The expected increase in the average residential rate for 2018/19 from the SRV is \$59 with average increase for farmland and business rates of \$118 and \$102 respectively.

Fees and Charges

A summary of changes to proposed Fees and Charges for 2018/19 was presented to Councillors at the Councillor Briefing held on 22 February 2018 and included:

- A list of proposed new fees and charges, including those that may replace previous fees or charges.
- A list of fees and charges where there has been a decrease or increase above 5%

The fees and charges presented as Attachments 2 & 3 have been updated to reflect the current adopted fees of Council.

Water and Sewer Charges

A report on the proposed water and sewer charges was presented at the Ordinary Meeting on 31 January 2017. Below is a summary of the charges:

CL18.123

Charge	2017/18	2018/19	% Change
Water Access	\$82.00	\$82.00	0.0%
Water Usage (NWC National Benchmark 200kL)	\$340.00	\$340.00	0.0%
Sewer Access	\$830.00	\$848.00	2.2%
Total Charges	\$1,252.00	\$1,270.00	1.4%

Loan Program

The draft General Fund Budget for 2018/19 includes loan funding of \$3.43 million for major capital works projects. Council's proposed General Fund Loan Program for the next four years is as follows:

Projects	2018/19	2019/20	2020/21
Shoal Memorial Gardens Seg 11	\$238,000		
Caravan Park Development	\$1,647,500	\$1,528,500	\$1,565,000
Bay and Basin Library		\$1,127,146	
Huskisson Town Centre Service Lanes	\$1,545,000	\$1,545,000	
Bomaderry Pool Rehabilitation			\$2,000,000
Sporting Fields - Planning Area 5			\$335,400
Waste Management			\$3,000,000
Total	\$3,430,500	\$4,200,646	\$6,900,400

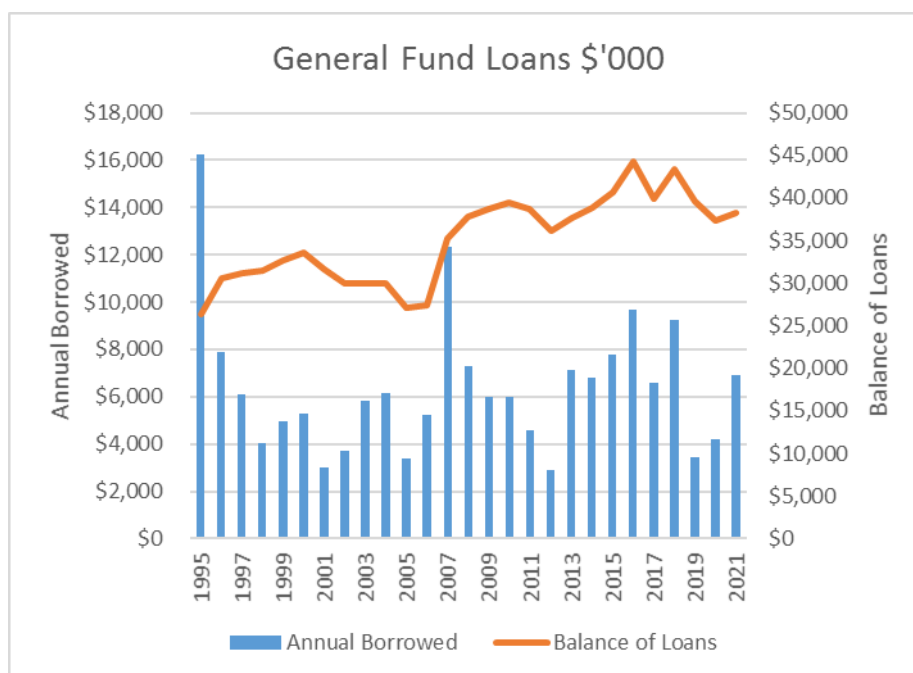
Council's projected loan repayments (principal and interest at 4%) for future years – including the above proposed borrowings (excluding Verons) are:

Fund	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
General	7,272	6,353	6,092
Water	0	0	0
Sewer	7,361	7,750	8,178
Total	14,633	14,103	14,270

With the increase in loan funding for the REMS1B project over this and next year, Council's Debt Service Ratio will be significantly impacted. This will be closely monitored and loans reforecast, where necessary.

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Total loan balances for General Fund are as below:



General Fund - Strategic Projects Reserve Strategy

It is proposed to transfer the whole of the dividend from Shoalhaven Water to the Strategic Project Reserve. Transfers to and from the Strategic Projects Reserve and the estimated balances are indicated below:

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Estimated Opening Balance	308	133	1,000
Transfers to Reserve	1,720	1,817	3,169
Transfers from Reserve	1,895	950	2,177
Closing Balance	133	1,000	1,992

The recurring transfers from the Reserve include the repayment of loans for the construction of Braidwood Road and a transfer to the Coastal Management and Infrastructure Reserve.

It should be further noted that, given the extensive capital works program for Shoalhaven Water's Sewer Fund, there will be no sewer dividend for three (3) years from 2017/18.

Analysis of Capital Works Budgets

General Fund

Capital expenditure of \$63 million has been allocated in the Draft Budget for 2018/19. The total includes the following significant projects/programs:

- \$9.6 million for the Shoalhaven Indoor Sports Stadium
- \$6.3 million for Waste Management
- \$5.6 million for Local Road Repair Programs
- \$3.9 million for Local Road Reseal and Re-sheet

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In addition, a number of large projects are funded by expected Government Grants, as shown below:

Local Road Repair (Roads to Recovery)	\$1,315,819
Fire Stations (unallocated)	\$600,000
Footpaths	\$470,000
Regional Road Repair Program	\$330,000
Pedestrian Infrastructure Around Schools	\$270,000

The table below summarises the overall Capital Works Program:

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Buildings and Property	3,137	6,092	3,039
Commercial Undertakings	6,135	5,973	8,295
Community and Culture	527	538	549
Economic Development	4,390	3,370	1,270
Environmental Management	910	918	927
Fire Protection and Emergency Services	1,012	624	636
Internal Corporate Services	6,383	5,940	6,520
Land Use Planning	26	26	27
Open Space, Sport and Recreation	11,638	1,446	4,604
Regulatory Services	51	52	53
Roads and Transport	24,268	29,649	21,925
Waste and Recycling Program	4,640	2,550	8,295
Water and Sewer Services	18	8	459
Total	63,135	57,186	56,596

Specific details on what capital works are included in the budget can be found in the attachment: Chapter 5: Operational Plan – Budget & Capital Works

With the SRV, the following additional amounts will be spent on asset renewals from the additional revenue received:

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Roads	602	1,676	3,995
Building and Facilities	800	1,000	2,081
Sports Ground Upgrades	500	513	525
City Wide Streetscapes	513	525	538
Total	2,414	3,715	7,140

Shoalhaven Water – Water and Sewer Fund

The table below summarises the capital programs in the two funds.

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Shoalhaven Water – Water Fund

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Business Improvement	2,000	0	0
Chargeable Private Works	100	103	106
New Works (Asset Enhancement)	8,292	14,296	2,383
New Works Growth	1,405	4,208	4,238
Other Asset Purchases	1,698	2,009	1,591
Renewal / Replacement Works	3,340	5,217	5,819
Total	16,835	25,832	14,138

Shoalhaven Water – Sewer Fund

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Chargeable Private Works	100	103	106
New Works (Asset Enhancement)	31,866	4,635	1,114
New Works Growth	7,650	5,171	15,915
Other Asset Purchases	1,270	1,133	1,167
Renewal / Replacement Works	1,330	948	2,302
Total	42,216	11,989	20,604

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Shoalhaven Water Operating Budget

The Operating Results for the Water Fund are budgeted to be:

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Net Operating Result	2,421	1,964	2,356
Net Operating Result excluding Capital Grants and Contributions	1,421	964	1,356
Net Water Fund Cash and Investment Movement	-5,225	-14,444	-3,579

The Operating Results for the Sewer Fund are budgeted to be:

	2018/19 \$'000	2019/20 \$'000	2020/21 \$'000
Net Operating Result	11,077	10,720	11,759
Net Operating Result excluding Capital Grants and Contributions	9,577	9,220	10,259
Net Sewer Fund Cash and Investment Movement	-27,545	-2,696	-5,508

The full budget document from the Delivery Program and Operational Plan is attached. Any changes Council may wish to make to the budget that are not resolved tonight can be considered for inclusion in conjunction with submissions received during the public exhibition period.

Community Engagement

The community will have an opportunity to make submissions to Council as part of the consultation period during the months of May and June 2018. As part of this consultation phase, three Community Information Nights are scheduled to be held, firstly at the Nowra School of Arts on Tuesday 29 May 2018, Ulladulla Civic Centre on Thursday 31 May 2018 and the Vincentia Public Hall on Thursday 7 June 2018, all commencing at 7.00pm. All CCBs & Business Chambers have been notified of these meetings and the community will be notified through advertising over the next few weeks.

Financial Implications

Council's (one year) Operational Plan is a critical document that allocates funding towards works and services delivered by Council to its community to achieve the goals and objectives set in the Community Strategic Plan and Delivery Program.

Council's fees and charges make up a significant proportion of Council's total revenue. Ensuring that all fees and charges are set at the appropriate level is an important exercise to recover costs and ensure patronage of Council facilities.