

AGENDA

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Acknowledgement to Country

Shellharbour City Council acknowledges the Traditional Owners and Custodians of the Land on which we are meeting.

1. Apologies / Leave of Absence

2. Pecuniary Interest

Note: Councillors who declare a Pecuniary Interest at the Council Meeting are also required to complete a Pecuniary Interest Declaration form.

3. General Manager's Office

3.1 Draft Management Plan 2008-2011 (8910264)

To the Mayor and Councillors

Division: General Manager's Division

Department: Executive Office

Manager: Peter O'Rourke – Acting General Manager

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Corporate Planning

Summary

The purpose of this report is to present to Council the Draft Management Plan, including the budget and revenue policy. The report recommends that Council adopt these documents and place them on public exhibition for the required statutory period of 28 days.

Recommendation

1. That Council adopt:-

- The Management Plan
- The Strategic Plan
- The Budget (Operational, Balance Sheet, Capital Works & Asset Maintenance/Replacement Program)
- The Revenue Policy
- The Fees and Charges
- The Statutory New Items totalling \$95,000
- The Essential New Items totalling \$467,760

And that this be advertised for at least 28 days commencing Monday 19th May 2008 and closing 4.30p.m. Monday 16th June 2008 in accordance with s.405 of the Local Government Act.

This will result in a budget surplus of \$17,642.

2. That this budget results in the following Rates and Charges:-

- a. For the residential rate category, a base rate of 25% (\$233.81) and ad-valorem component of 0.33951 cents in the dollar on the base date

1/7/2006 land value of all rateable residential land determined to be in this category, in the local government area.

- b. For the business rate category, an ad-valorem rate of 0.71915 cents in the dollar on the base date 1/7/2006 land value of all rateable land determined to be in the business category general, in the local government area.
- c. For the business category, sub category non-urban, an ad-valorem rate of 0.26825 cents in the dollar on the base date 1/7/2006 land value of all rateable land determined to be in this category, in the local government area.
- d. For the farmland category, an ad-valorem rate of 0.27492 cents in the dollar on the base date 1/7/2006 land value of all rateable land determined to be in this category, in the local government area.
- e. A Domestic Waste Service Charge of:
 - \$242.00 per annum per 240 litre bin per fortnightly service
 - \$190.00 per annum per 120/140 litre bin per fortnightly service
 - \$ 57.00 per available service (vacant land)
- f. A Business Waste Service Charge of:
 - \$250.00 per annum per fortnightly service (garbage, recycling & green waste)
 - \$205.00 per annum per fortnightly service (garbage only)
 - \$ 65.00 per annum per fortnightly service (recycling only)
 - \$240.00 per annum per fortnightly service (garbage and recycling only)
 - \$115.00 per annum per fortnightly service (two recycling bins only)
- g. A Stormwater Management Service Charge of:
 - i) \$25.00 per residential assessment per annum
 - ii) \$12.50 per residential strata unit per annum
 - iii) \$25.00 per 350m² (or part thereof) per business assessment per annum capped at a maximum charge of \$150
 - iv) Business Strata Lots – pro rata per unit of business calculation per annum
- h. That the rate of interest by which overdue rates be increased for the year be 10 percent per annum, or any other percentage as permitted by the Minister.
- i. Further that Council notes that rate yields and rates in the dollar (\$) may be subject to slight variation for any land values added to Council's rate base prior to final adoption.

3. That the amount of new loan borrowing application be \$1,400,000 with \$1,400,000 to be borrowed if required from recognised banking institutions or government authorities and secured by a mortgage over Council's consolidated fund income and that this loan be utilised for capital works at the Shellharbour Beachside Tourist Park.

Background

In setting its management plan and budget, Council is planning and communicating its proposed activities and services that it seeks to provide to the community, particularly for the next financial year.

The management plan report that was presented last year presented achievements that have been the aim of the Council's vision over the last 25 years. It detailed a summary of what had been achieved over the long term and was a good record of the major prominent achievements that make up Shellharbour City today.

This report will present to Council and the community the management plan and budget. It will be the last budget of the term of the current Council and has been prepared with the due diligence required by such an exercise.

Shellharbour City Council is fast approaching a key milestone in its history – its 150th anniversary. If you took a step back in time to 1859 you would see a vastly different local landscape than that which has been created as of today. Our local government area has undergone a rapid transformation in the last thirty years to become a thriving city of many different characteristics, with an emerging and vibrant economy of its own and currently home to a little over 65,000 people.

Indeed, we have lived up to the vision statement that was created some 10 years ago:

A sustainable city: communities living in harmony, balancing nature's beauty with quality rural and urban environments.

Our planning is underpinned by four key areas:- Environment, Community, Economy and Council organisation.

In order to attain the goal of achieving our vision statement we have adopted several strategies. These are:-

- To have Shellharbour City as the best possible place to live today by continuing our annual works, services and regulatory programs with a special emphasis on infrastructure maintenance to ensure the City's future is exciting and sustainable.
- To plan for the best possible city in the future, not only being centred upon Council's Section 94 development program, but also to ensure that we have a vibrant economy and the continued development of our major sporting facilities.
- To encourage and support the best commercial and retail precinct in the Illawarra located at Shellharbour City Centre through private sector investment in the city
- To make sure that our city has a cultural heart and is supportive of cultural facilities and events.

- To ensure that Council has developed policies and strategies to enable all residents to have equitable access to facilities, services and opportunities and that a social network exists to assist our residents.

In preparing this budget, one has to strike a balance between affordability and what is required to progress the needs of the city in each of the four key areas of our management plan. It is easy to fall into the trap of thinking that providing for a local government area is purely about the provision and maintenance of basic infrastructure. Today local government is involved in creating social capital and infrastructure, protecting and enhancing the environment for current and future generations, providing the necessary plans, policies and support for a thriving local economy. However, the institution of government and the processes that allow good governance to occur are also key issues for the effective management of any organisation. Competing demands for resources must be balanced and be used both efficiently and effectively to achieve key results. It is the Council's responsibility to set the budget and the responsibility of the staff to implement the programs contained in that budget. The management plan provides the parameters for review and measurement of progress.

The Council in its term has achieved the following financial results in terms of movement in available cash reserves for that particular financial year:

- 2003/04 \$4,477,000 unrestricted cash deficit (\$3.55 million of this deficit was attributable to the pay out of Council's loan portfolio) – note: Council term commenced in April 2004
- 2004/05 \$30,000 unrestricted cash deficit
- 2005/06 \$694,000 unrestricted cash deficit
- 2006/07 \$705,000 unrestricted cash deficit
- 2007/08 \$892,000 projected deficit at December Quarter Budget Review

Over \$33M in capital works and acquisitions have occurred during the term of this Council, including:

- Improvements to Shellharbour Village Streetscape
- Improvements to Oak Flats Streetscape
- Improvements to the stormwater network funded through the stormwater management charge
- Numerous road work projects and improvement to traffic facilities
- Extension to Council's cycleway network
- Major improvements to drainage at Princes Highway Albion Rail
- Light Aviation Industry Cluster at Illawarra Regional Airport which was opened by the then Prime Minister the Hon. John Howard
- Construction of the Myimbarr Wetlands, which were officially opened by the Premier of NSW, the Hon. Morris Iemma, M.P.
- Establishment and construction of Myimbarr sports fields and amenities
- Finalisation of Lake Illawarra Entrance works
- Completion and hand over of Shellharbour Links Golf Course
- Establishment of internet Mapping System

- Participation and achievement of several milestones in ICLEI environmental initiatives
- Hosting of State Surf Life Saving Championships
- Finalisation of Shellharbour City Memorial
- Reconstruction of main north/south runway at Illawarra Regional Airport which was awarded the IPWEA award for the best local government public works project
- Establishment of QantasLink RPT flights to Melbourne from Illawarra Regional Airport
- Installation of security fencing and measures at Illawarra Regional Airport
- Dredging operations established at sand mine which has become a profitable operation for council
- Establishment and development of the Economic Gardening program which has to date created at least 50 new jobs and received national and international recognition
- Shellharbour Small Business Network meetings have gone from strength to strength and are a major part of the local small business community
- Completion of the Shell Cove Community Centre
- Completion of the Warilla Community Centre
- The eDA project that was a finalist in the national "e-Government" awards.
- Successful special variation program for asset maintenance
- The establishment of i.d. Profile and Atlas demographic information linked to Council's website
- Activities to mark the 40th anniversary of the 1967 referendum
- Council winning a contract to prepare Wingecarribee Shire's payroll.
- Two very successful open days held at Illawarra Regional Airport

The compilation of Council's Management Plan, which includes the budget, is one of the most important tasks carried out by any local government authority. It details how the Council intends to provide the services and facilities for its community and must be compiled in a financially responsible manner so as to achieve the wishes and aspirations of our community but at the same time retain the Council's financial sustainability over the short, medium and long term.

The process of compiling our 2008/09 budget commenced in November last year. Our process scrutinises current expenditure allocations assigned to our various budget responsible officers to carry out the functions allocated to them as a part of their duties. There is no blanket C.P.I. indexation but allowances are made for cost increases in certain areas that are deemed to be unavoidable. Revenues are calculated on the basis of past history and conservative assumptions regarding future activity. Major Council plans such as the Section 94 Contributions Management Plan and the Capital Works Program are factored into the budget as well.

Funding requests for new programs and services or shortages in funding allocated for existing programs and services are compiled in a new items list (included as an attachment to this report). Each request is assigned a funding priority following assessment in conjunction with our strategic plan, past IRIS surveys and Council's legal, statutory and operational commitments.

Staff face the challenge of resourcing and implementing these programs. Resourcing is a major issue, not only on a financial basis but also in key staffing areas. Council has low staffing levels compared to neighbouring Councils and Councils of a similar size. This combined with shortages in key professional disciplines such as engineering, planning and accounting may make it difficult to deliver future programs. The skills shortage that Australia faces is a significant issue and Council must do all it can do to position itself so that it has a good reputation and has employment policies and practices that establishes us as an employer of choice.

After the initial compilation of all items of expenditure and income to be included in the 2008/09 budget, including the draft Forward Capital Works Program which Councillors approved last November, Council's available cash position was already in deficit by a small amount before the consideration of any new items of funding. Accounting staff were asked to identify possible areas where expenditure allocations could be reduced for the one budget year and consult with the respective budget officers regarding the possibility and effect of such reductions. Some of the savings identified were associated with slight decreases in existing recurrent allocations in areas across the whole of the organisation. The majority of the savings however in terms of monetary amounts were obtained through the deferral of some of the programs originally listed in the draft Forward Capital Works Program. Further details about these items are included later in this report.

As I have alluded to in previous budget reports, Council's limited available funding for New Item consideration is primarily due to factors out of Council's control. The contribution to the NSW State Government for the running of the Local Government elections in September is expected to cost Council in the vicinity of \$370,000. This once in four-year expense has soaked up a considerable amount of funding that would normally be applied to the funding of recommended new items.

The other major contributor to the limited amount of available funds is in relation to expected superannuation costs in 2008/09. Council was originally advised in 2000/01 that matching employer superannuation contributions were not required until further notice for the Local Government Superannuation Retirement Scheme. This was due to an excess of funds being available within the scheme as a result of above expected investment returns obtained over a number of years by the scheme. This resulted in initial savings of approximately \$675,000. This contribution holiday remained in place until the 2005/06-budget year when the world investment markets started to slow and returns in that financial year decreased substantially. The matching contributions required by Council were reinstated back to a 50% rate. With the recent volatility in the world investment markets, which some analysts have described as the biggest financial crisis since the Great Depression, the Local Government Superannuation Scheme has advised Council that employer contributions for the retirement fund will be phased back in at its full 100% rate from 01 July 2008. This will result in Council paying an additional \$350,000 in superannuation costs because of this particular change with overall super costs for all employees increasing by \$425,000 above the current 2007/08-budget estimate.

Council has also had to include an amount of \$123,000 in next year's budget estimates for its contribution to the State Government's NSW Rural Fire Service Control Centre site costs; an additional \$102,000 for anticipated street lighting costs and a reduction of the income estimate for Development Application fees by \$150,000 reflecting the slow economic conditions currently being experienced throughout NSW.

The total of the above factors, which has reduced the funding available for the consideration of new items, is in excess of \$1 million.

The recommendation in this report is for a budget surplus of \$17,642 after the funding of all new items prioritised in the statutory and essential categories. Whilst I believe a large number of important new items listed under other categories are worthy of funding, Council cannot keep operating budget deficits.

Consultations

Internal

Directors
Councillors
All Budget Responsible Officers

External

The Draft Management Plan and Budget will be exhibited for a period of not less than 28 days.

Considerations

Financial/resources implications

1. Budget Format

i. Operational budget (Green)

These documents detail all of Council's recurrent operating expenditure and income. They also contain any income that relates to items in either the balance sheet or capital works budgets (i.e. capital grants and contributions). One document is formatted in the four key areas of Council's Management Plan, whilst the other is in the same format as Council's Income Statement, which is produced in our Annual Financial Reports.

ii Balance Sheet Budget (Blue)

The Balance Sheet Budget details items of expenditure that relate to the acquisition of an asset or capital expenditure that will extend the life of an existing asset.

iii Capital Works Budget (Pink)

The Capital Works Budget contains all items in the draft Forward Capital Works Program and draft Forward Stormwater Service Charge Program as discussed with individual

Councillors and reported to Council in November 2007. The Capital Works Budget also contains other items of a capital nature such as an annual allocation for airport runway maintenance and capital works at the Dunmore Waste Depot etc.

There is also an "untied" allocation of \$180,000, to match any Government grants received during the budget year.

Any Section 94 projects identified in Council's Section 94 Contributions Management Plan implementation timetable for 2008/09, are also included in the Capital Works Budget.

As I mentioned earlier in this report, some areas of funding have been reduced in the recommended 2008/09 budget to allow for the inclusion of "statutory" and "essential" prioritised new item allocations, whilst still operating with a balanced budget. Shellharbour and Oak Flats streetscape projects, which were included in the original draft forward capital works program, have been deferred in relation to any new funding in 2008/09. A total amount of \$390,000 was previously listed for these two items. Any unspent monies as at the end of the current budget year for these two on-going programs, will be carried forward to next year's budget.

Ward works and sportsfields expenditure funding has also been deferred in the 2008/09 capital works budget as part of the recommendation of this report, with any unspent monies carrying forward into the new budget year. A one-off saving of \$144,000 has been gained with the deferral of these ward allocations.

Engineering Forward Planning comments on Forward Capital Works Program

In previous years, a series of meetings were held with Ward Councillors to discuss priorities for the Capital Works Program relating to the specific Wards. The 2008/09 Capital Works Program is the second year where the program has been prepared on a city-wide basis in accordance with Council's previous resolution when adopting the 2006/2007 budget. Accordingly, a Councillor Briefing was held late in 2007 for all Councillors to discuss the proposed City-Wide Capital Works program.

This briefing is the basis for determining a three year Forward Program for Capital Works in accordance with Department of Local Government requirements to provide financial planning and guide investigation, survey and design as well as project planning within the Operations Division.

The 2008/2009 Program is based on the briefing with Councillors and is committed subject to Council's ratification. Commitment to these works is formally required to allow survey and design activities to proceed as soon as possible. This detailed work is required to not only ensure the Works & Services section 'knows what to do' but also to verify the budget estimate for each job as these figures are subject to variation once detailed quantities are obtained via the design process. If required, separate reports to the Council will be presented to provide supplementary funding for specific nominated projects.

Projects within the Capital Works Program were drawn from a detailed list of future works along with items identified during the Councillor Briefing, and other issues raised by staff and residents.

The overall public impact is positive through the increased provision of civil works.

iv Asset Maintenance & Replacement Program (Pale Yellow)

The Asset Maintenance & Replacement Program contains all the works identified by Council's Conquest Asset Management system for this third year of the program. The funding for these works have been sourced via the approval Council gained in 2006/07 to increase its rating income 5.9% above the ratepegging limit. This additional funding is set aside each year to address the industry wide issue of ageing infrastructure. The total amount of the program is adjusted each year in line with the increase in rating income Council resolves to include in its operational budget. The total allocation for the 2008/09 program is \$1.34 million, which is an increase of 3.2% (ratepegging limit) from the 2007/08 program.

The program for 2008/09 includes significant allocations for Council's buildings, roads, drainage, sportsfields and kerb and gutter assets.

2. Budget Assumptions

Below is a summary of assumptions and major variations which have been taken into account in the compilation of the 2008/09 budget:-

- A 3.2% increase for general rates and charges has been factored into the budget, which is the maximum permitted by the Minister for Local Government.
- A 3.5% increase in salaries and wages to cover the annual award increase along with any movements by employees through Council's salary system.
- Internally funded Capital Works and Balance Sheet budget programs.
- Expenditure allocation of \$360,000 to cover the anticipated costs of the Local Government elections in September.
- Additional compulsory superannuation expenses of \$425,000 mainly due to the conclusion as at 30 June 2007 of the 50% employer superannuation contribution "holiday" for the Local Government Retirement Scheme.
- Anticipated reduction in Development Application fee income of \$150,000 mainly associated with the slowing economic conditions.
- Council's \$123,000 contribution towards the NSW Rural Fire Service Control Centre site costs.
- Expected increase in street lighting charges of \$102,000.

The draft 2008/09 budget contains financial assistance to the following organisations:-

• Landcare	\$ 10,500
• Minnamurra Estuary Management Committee	\$ 2,000
• Greenpeace	\$ 125
• Sportsmans Assistance Fund	\$ 10,000

• Warilla Information & Neighbourhood Centre	\$ 12,000
• Illawarra Academy of Sport	\$ 10,000
• The Illawarra ITEC Ltd	\$ 500
• Tourism Shellharbour	\$150,000
• Life Education	\$ 4,500
• Donations Working Party	\$ 20,000
• Australian Aerial Patrol	\$ 13,000
• Roo Theatre Marketing Grant	\$ 5,000
• Roo Theatre Maintenance	\$ 3,000
• Environmental Projects Support	\$ 10,000
• Local Community Festivals	\$ 3,000
• Illawarra Children's Services	\$ 2,000
• Wollongong Rollerhawks	\$ 3,000
• Film Illawarra	\$ 6,500
• Southern Stars	\$ 10,000
• Illawarra Tourism	\$ 3,000
• Illawarra Business Chamber	\$ 7,000
• Illawarra Pipe Band	\$ 2,600

3. Fees & Charges/Revenue Policy

The Revenue Policy and the Draft Fees and Charges Schedule are attached under separate cover.

The Revenue Policy details Council's pricing policy with respect to the provision of goods and services. It creates a framework within which responsible pricing decisions can be made. The full costs of providing goods and services will be identified, and will be used along with factors such as existing and potential markets, community service obligations, public interest and community benefit in determining the revenue structure for the provision of any given good or service.

The Fees and Charges document shows the new fee for the forthcoming financial year, as well as what the fee currently is, for comparative purposes. This has been done to display where our fees have increased or decreased.

4. Rating Structure

Council's current rating structure is as follows:-

Residential	25% Base Rate and Ad-Valorem Component
Business	Ad-Valorem only
Farmland	Ad Valorem only
Non Urban	Ad Valorem only

This structure has remained the same since Council first adopted a base rate structure in 1993.

The overriding principle of Local Government rating is "the amount a ratepayer pays is primarily and predominantly determined by an *ad valorem* method". That is, the rates are calculated according to the land value of their property multiplied by a rate in the dollar determined by Council.

The objectives of rating are:-

- To provide a system of local taxation based on rates levied on a property, which is simple, fair, broadly uniform and which promotes local accountability.
- To permit the use of particular rates for the provision of specific services or facilities.
- To provide that Councils will annually justify to their community their proposed revenue raising decisions in an open manner.
- To allow reasonable flexibility in the administration of the local taxation and charging regime.
- To reinforce accountability and responsibility for local revenue raising to the local community to provide for councils to set their own fees and charges for services.

The application of a base rate in any category of rate makes the calculation of the rate less dependent on the valuation applied to the property. In other words, if a base rate is applied the higher valued properties rates will decrease and the lower valued properties will increase.

If the base rate component is increased, then the lower valued properties will pay a higher burden of Council rates.

The structure of the rates that was originally set in 1993 has served the city well to date.

A base rate in the residential category takes into account the necessity to evenly spread the burden of rates for common services over all ratepayers, with the balance of rates calculated on the valuation component.

In 1989, the Council at the time made a decision not to take the full permissible accumulated rates increase, which had not been taken up over previous years. This loss has then carried forward to subsequent rating years and becomes larger as the compounding of the rate base and interest takes effect.

For each 1% of the rate pegging increase that we do not take up we forgo approximately \$248,000 of income. In view of ever increasing costs and the demand for services, any decision to not take the full rates increase as prescribed by the Minister for Local Government (3.2%) cannot be justified or supported.

5. New items

The total of new items requested by Councillors and staff is included as an attachment to this report. These items have been assessed in conjunction with the Strategic Plan, IRIS Survey and Council's legal, statutory and operational commitments.

The requests from staff have been categorised into priorities. The total requests from Council staff only are as follows:

Statutory	\$ 95,000
Essential	\$ 467,760
Priority 1	\$1,988,022
Priority 2	\$ 171,300
Priority 3	<u>\$ 291,252</u>
Total	<u>\$3,013,334</u>

I sought responses from Councillors in regard to possible new items. These requests have also been included in the new items attachment.

The recommendation to this report includes the funding of all statutory and essential new items. The net total of these two new item categories is \$562,760, resulting in \$2,450,574 of staff new item requests not being recommended for funding. It is strongly recommended that Councillors closely read the new items attachment so as to gain an appreciation of all the items requested.

A request has been received from Shellharbour Tourism for a \$100,000 increase to their existing recurrent budget allocation of \$150,000. The additional funds would see the following projects undertaken; five year Strategic Plan developed, continuation of public relations activity, nautical tourism campaigns and the Sydney short break campaign to promote visitation in the shoulder and off-peak seasons. Alternatively, a \$50,000 increase would see the five year strategic plan developed.

6. Unexpended Items 2007 – 2008 Budget

There will be some items in the current financial year that will need to be carried over into the next budget period. There are various reasons for this including RTA works being allocated to Council which traditionally occurs in the last quarter of the budget year, other government grant funding where acceptance of the funds requires work to commence before the end of the budget year and the requirement of approvals from government authorities for some capital works which can cause delays with their implementation.

The carry over from one financial year to the next is purely a matter of construction program timing. It is important for Councillors to note that all projects have been previously approved by Council and are being funded as originally intended. All allocations for jobs to be carried over which are funded from general revenue will be restricted as at 30 June 2008 and brought into the 2008/09 budget as a restricted asset at the September Quarter Budget Review, once the 2007/08 financial year is closed and final project balances determined. This ensures that the year-end result for this year is

not positively inflated due to these unexpended carry over works. When the jobs are revoted next year there will also be no effect to the bottom line with the funding coming from restricted assets. These projects carried over are usually undertaken in the first quarter of the new financial year.

Therefore, additional funds are not being sought when the works are carried over in the 2008/09 budget year and the inclusion of these projects will not be detrimental to Council's overall financial position at the end of 2009.

At this point in time it is difficult to predict the required funds to be carried over with what I would consider the necessary level of accuracy. These will be advised when the budget is again reported to Council following the statutory exhibition period.

7. Summary

Operating Budget	(4,812,055)	
Balance Sheet Budget	3,001,087	
Capital Works Budget	10,832,633	
Asset Maintenance & Replacement Program	1,335,116	<u>10,356,781</u>
<i>Less</i>		
Non Cash items	5,933,000	
Section 94 funded items	8,237,440	
Restricted Assets	(722,449)	
Loan Funded Items	0	<u>13,447,991</u>
<i>Add</i>		
Section 94 surplus	2,095,968	
Land Sale (60:40 policy)	(715,000)	
Domestic Waste Surplus	916,047	
Community Transport Surplus	213,793	<u>2,510,808</u>
Surplus before new items		(580,402)
Recommended New Items		562,760
Surplus		(17,642)

8. Section 94

Council has adopted a Section 94 Contributions Management Plan. This plan details the community facilities to be provided over the next 12 years that are to be funded by both the development industry (S94 contributions) and Council. As well as having to meet a part of the construction cost, Council is also responsible for the operational and maintenance costs of these assets.

The seventh review of this plan was commenced in the latter part of 2007. This review was interrupted by the changes being proposed to the NSW Planning System. Initially the changes proposed had major ramifications to citywide facilities contained in our current plan. It now appears that these changes will not be as far reaching as first proposed, nevertheless they will still significantly affect Shellharbour's plan.

Our current section 94 contributions management plan sees Council with \$87.7M worth of facilities to be implemented by the year 2018, of which Council is committed to fund \$24.2M, the balance being funded by developers contributions.

The management of Section 94 matters will require significant attention from staff in the next six months prior to reporting to Council.

Council should note that Section 94 funds are restricted funds and are not able to be "borrowed" by Council for other purposes.

9. Loans

Council has not had a new borrowing program for several years. In essence we have had an "internal loan" program whereby funds that were traditionally allocated to debt servicing are now funding our capital works program.

For several years Council funded its capital works program through an annual loan allocation. This practice ceased some years ago and it would be less than desirable for Council to re-establish the practice of debt funding a recurrent program.

The use of loans for government expenditure has declined in recent years, as governments became increasingly more concerned at the management of their liabilities. There are varying arguments for the use of borrowings to finance capital expenditure. Principles of intergenerational equity argue that financing large-scale capital works from borrowings is appropriate, as those who get the benefit of such assets pay for them. Other schools of thought suggest that an asset should only be financed from borrowings if it generates sufficient cash flow to meet the loan repayments.

This Council does not have a policy to be debt free. Debt is only one of the many options available to finance the provision of public infrastructure and Council should not limit its options in this regard. However Council must be mindful that it is facing the delivery of several large projects in its Section 94 plan and that at a future point in time it may be necessary to either fund these projects from a future loan, the rationalisation of major assets, or both.

We must also never lose sight of the fact that loans are required to be repaid and have a direct impact upon future operational budgets and future services.

As part of the recommendation in this report Council is seeking to fund major improvements to the Shellharbour Beachside Tourist Park. We are proposing to apply for a low interest loan and a grant from the Department of Lands to the value of \$1,351,000. Loans are provided at an indicative interest rate of 5% for income producing assets and 3.5% for non-income producing assets. It should be noted that any principal and interest repayments will be funded from the Crown Reserve restriction and therefore will not impact on Council's available cash position. Further details of this item are contained in the new items attachment.

10. Strategic Financial Management

Any Council that sets an annual budget without reference to its long-term sustainability is not paying due heed to its responsibilities to its community. The budget is a detailed annual plan as to how the Council will use its financial resources to provide services and works for the betterment of its community.

Major challenges lie ahead in the continual quest to meet the demands of urban growth and the expectations of our community. Discipline and resolve have achieved much in the past and will continue to be required so that the community's major expectations can be realised.

In order to gain an understanding of Council's current financial position it is necessary to look back through past results. This will give an indication of the goals that we have been trying to achieve with Council's financial position over a ten-year period. These goals have been closely aligned to the objectives of our Strategic Plan and our Section 94 Management Plan.

Debt

In 1993 the balance of Council's outstanding loans was \$11.1M. It was in that budget year that Council had applied for, and received an 11% rates increase. Our rate base was very low as a cumulative consequence of not taking rates increases over a number of years in the late 1970's and early 1980's, primarily due to the economic downturn in the region.

A high level of debt taken up to fund much needed infrastructure in the 80s, coupled with a low rate base, made the task of completing a workable operational budget impossible without radical cuts to daily services. Part of the strategy to win the then Minister's support for our proposal was to display financial responsibility and as a part of that budget the "60:40 policy" was adopted. For many years prior to that, Council had relied upon the sale of real estate to fund the shortfall in recurrent operations. This was clearly not sustainable in the long term. The "60:40 policy" set out that any real estate asset sales were excised from Council's general revenue and held as a restricted asset – 60% towards future income generating commercial activities and 40% towards the retirement of debt (now allocated to S94 projects). Such a policy, which Council had rigidly adhered

to for over a decade, has enabled Council to fund new commercial activities whilst also reducing Council's level of debt.

This budget has been again compiled on the basis of no external loan borrowings supporting the capital works program. At the inception of the debt reduction program, it was always Council's intent to fund our annual capital works program from the savings generated from reduced debt servicing costs. It is pleasing to see that we have again been able to achieve this goal.

It is important to realise that Council only has limited financial resources and revenue raising ability and it must be mindful of the future commitments that we have made to the community especially with Council's Section 94 Plan and implementation program which will peak over the next five years with a number of major projects to be developed and a large funding gap for council to meet.

Having recognised that our city is at a critical stage of its development we need to maintain strategies and discipline which will allow us to:-

- Maintain and restore our assets, particularly in the older areas
- Meet our commitments to the Section 94 Management Plan
- Recognise our other physical, social, environmental and economic commitments and have them prioritised, planned, scheduled and funded
- Capitalise on even better use of technology already purchased, in order to manage with stable staff resources
- Maintain our financial viability – we cannot afford to mortgage our future.

A consistent and planned approach has served the city well in the recent past and is what our city needs. As has been demonstrated earlier, the long-term plan with respect to debt reduction is providing positive benefits.

As stated earlier, a limited amount of loan funds to be obtained at a low interest rate, have been included in the new items. The improvements to the caravan park will generate additional income that will service the loan and provide an additional financial return.

Restricted/Unrestricted Funds

An important part of understanding the finances of a local authority is to recognise that there is a limit to the availability of funds to be allocated by Council for discretionary spending. Some funds are nominated as restricted: in other words they can only be utilised for the purposes for which they were collected. Tied specific purpose grants and Section 94 contributions collected from developers are good examples. Similarly Council needs a pool of unrestricted funds from which it must operate its usual cash flow requirements. At present the level of our unrestricted funds, together with our future commitments, makes the adoption of a balanced budget a vitally important financial position to take.

11. Management Plan

As Council recognises, budgets on their own are not enough. They have to be strategically applied if the community is to gain best value.

Considerable effort has been put in by Council's Managers and Directors to ensure that the Management Plan and Budget are in accordance with Council's Strategic Plan. The Strategic Plan remains the framework within which the management plan is developed.

Much work has been put into refining the activities of the management plan and also the key performance indicators contained therein.

12. Forward Financial Plan

In making an assessment of the financial futures of the organisation, there are many issues to be considered. How we provide for our community in terms of both physical and social infrastructure and services, and the finances of the organisation are interlinked. We need to strike a balance between what is appropriate to provide in terms of service levels and affordability. We must continue to maintain what we currently have as well as provide for future projects.

The forward financial plan is a series of yearly budgets through to the 2017/2018 financial year.

These budgets are based on our 2008 – 2009 budget and compiled using a series of assumptions regarding costs and activities. The biggest driver of change through the years of this plan is the implementation of the Section 94 Contributions Management Plan.

This plan gives a good indication as the affordability of our actions over a longer-term time frame.

This plan is indeed an evolutionary document and for it to be an effective tool it must be continually revised in view of Council policy, the local government industry in which we operate, and our local, regional and national economies.

Legal & policy implications

The *Local Government Act* requires:-

402. During each year, a Council must prepare a draft management plan with respect to:

- (a) the council's activities for the next 3 years; and
- (b) the council's revenue policy for the next year.

Further to section 402, section 403 prescribes what the content of the management plan should be.

403. (1) A draft management plan must contain the following statements with respect to the Council's activities to the period to which it relates:

- A statement of the principal activities that the council proposes to conduct
- A statement of the objectives and performance targets for each of its principal activities
- A statement of the means by which the Council proposes to achieve these targets
- A statement of the manner in which the Council proposes to assess its performance in respect of each of its principal activities
- Statements with respect to such other matters as may be prescribed by the regulations

403. (2) The statement of principal activities must include the following particulars:

- Capital works projects to be carried out by the Council
- Services to be provided by the council
- Asset replacement programs to be implemented by the Council
- Activities of a business or commercial nature to be undertaken by the Council
- Human resource activities (such as training programs) to be undertaken by the council
- Activities to properly manage, develop, protect, restore, enhance and conserve the environment in a manner that is consistent with and promotes the principles of ecologically sustainable development
- Activities in response to, and to address priorities identified in, the council's current comprehensive report as to the state of the environment and any other relevant reports
- Programs to be undertaken by the council to implement its equal employment opportunity management plan.

Section 404 further details the required contents of the draft management plan with respect to Council's revenue policy. Details are as follows:-

404. (1) A draft management plan must include the following statements with respect to Council's revenue policy for the next year, subject to the regulations:

- A statement containing a detailed estimate of the council's income and expenditure
- A statement with respect to each ordinary rate and each special rate proposed to be levied
- A statement with respect to each charge proposed to be levied
- A statement of the types of fees proposed to be charged by the council and the amounts of each such fee
- A statement of the Council's pricing policy with respect to the goods and services provided by it
- A statement of the amounts or rates proposed to be charged for the carrying out by the council of work on private land

- A statement of the amount of any proposed borrowings (other than internal borrowing), the sources from which they are proposed to be borrowed and the means by which they are proposed to be secured.
- Statements with respect to such other matters as may be prescribed by the legislation.

Section 404 (2) and (3) contain technical provisions with respect to rates and annual charges.

Section 404 (4) provides as follows:-

A draft management plan must include a statement containing a general estimate of the council's income and expenditure for the second and subsequent years for which the draft management plan is prepared

Section 404 (5) provides as follows:-

The statement of fees and the statement of pricing policy need not include information, which could confer a commercial advantage on a competitor of the council.

The Local Government Act 1993 also prescribes that the draft management plan must be advertised as follows:

- 405 (1) The Council must give public notice of its draft management plan after it is prepared.
- 405(2) The period of exhibition must be not less than 28 days.
- 405(3) The public notice must specify that submissions may be made to the council at any time during the period of public exhibition
- 405(4) The council must exhibit the draft management plan in accordance with this notice.
- 405(5) During the period of public exhibition, the Council must have for inspection at its office (and at such other places as it may determine) a map which shows those parts of its area to which each category and sub category of the ordinary rate and each special rate included in the draft management plan applies.

After the plan is advertised Council must then comply with s.406, which states:-

- 406(1) Before the end of each year, a Council must adopt a management plan for the following year after it has been prepared and exhibited in accordance with this part and any other matters it considers relevant.
- 406(2) In deciding on the final plan to be adopted, a Council must take into consideration any submissions that have been made concerning the draft management plan prepared and exhibited in accordance with this part.

Public/social impact

The draft management plan will be placed upon public exhibition on Monday 19th May 2008 with submissions closing by 4.30 p.m. on Monday 16th June 2008.

Options

1. That Council adopt the recommendations in this report.
2. That Council formulate an alternative recommendation.

Conclusions

This report details some of the tangible achievements that have been made for the benefit of the community, however in the course of the term of this council, several deficit budgets have occurred. Governance issues have been very costly and where opportunities exist to recover costs in this area, they should be pursued on behalf of the residents. These opportunities include making representations to the Local Government & Shires Associations as appropriate.

The management plan and the budget are our major business planning documents and provide detail as to our plans and services over the short term.

The Department of Local Government has proposed changes to the way Councils in NSW plan in their Integrated Planning and Reporting Proposals. If these changes become law, it will mean that an entirely new manner and format of presentation will be required in coming years.

Council has many challenges that it must meet in the next 5 years and it must preserve financial resources as much as possible by adopting a balanced budget.

In conclusion I commend the recommended budget to the council for adoption so that it can be placed upon public exhibition.



Approved for Council's consideration: _____

Attachments (attachments 1-9 under separate cover)

1. Draft Management Plan 2008-2011
2. Draft Strategic Plan 2008-2018
3. Draft Operational Budget
4. Draft Balance Sheet Budget
5. Draft Capital Works Budget

6. Draft Asset Maintenance/Replacement Program
7. Draft Revenue Policy 2008/2009
8. Draft Fees & Charges 2008/2009
9. Draft New Items for 2008/2009