

AGENDA

- 1. Apologies / Leave of Absence2
- 2. Pecuniary Interest2
- 3. General Manager's Division2
 - 3.1 Draft Management Plan 2009-2012 (9105950).....2

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

3. General Manager's Division

3.1 Draft Management Plan 2009-2012 (9105950)

To the General Manager

Division: General Manager's Division

Department: Executive Offices

Manager: Brian Weir – General Manager

Author: Paul Henderson – Manager, Financial Services, Peter Masterson – Group Manager 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 \$55,500 (net)
- The Essential New Items totalling \$198,000 (net)

And that this be advertised for at least 28 days commencing Saturday 23rd May 2009 and closing 4.30p.m. Monday 22nd June 2009 in accordance with s.405 of the Local Government Act.

This will result in a budget deficit of \$4,004.

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

- a. For the residential rate category, a base rate of 30% (\$289.19) and ad-valorem component of 0.32924 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 0.74809 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 0.27764 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 0.30262 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:
 - \$259.00 per annum per 240 litre bin per fortnightly service
 - \$205.00 per annum per 120/140 litre bin per fortnightly service
 - \$ 60.00 per available service (vacant land)
 - \$371.00 per annum charge for a weekly service for special needs households (conditions apply)
- f. A Business Waste Service Charge of:
 - \$267.00 per annum per fortnightly service (garbage, recycling & green waste)
 - \$218.00 per annum per fortnightly service (garbage only)
 - \$ 65.00 per annum per fortnightly service (recycling only)
 - \$257.00 per annum per fortnightly service (garbage and recycling only)
 - \$ 80.00 per annum per fortnightly service (green waste only)
 - \$120.00 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 9 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 Council's voluntary Pensioner rebate be restricted to those pensioners registered with Council and eligible for the rebate in 2008/2009, as at 30 June 2009 and that no further pensioners be included in Council's voluntary rebate scheme after 30 June 2009.
 4. 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.
 5. That the existing Works and Sportsfields ward fund balances plus all future allocations, be categorised and distributed on a city wide priority basis.
 6. That a copy of each written public submission received by Council on the draft Management Plan, be referred to the Administrator.

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.

Council's vision statement is

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 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 the 2009/10 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 Forward 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.

After the compilation of all items of expenditure and income to be included in the 2009/10 budget, including the draft Forward Capital Works Program which was reported to Council last December, Council's available cash position was already in deficit by an amount of just under \$1 million before the consideration of any new items of funding. Budget officers were advised of the situation Council was facing and were directed to review their proposed budget allocations to identify possible areas where expenditure allocations could be reduced or income items increased for the 2009/10 budget year. This exercise coincided with the substantial review of the 2008/09 budget to "rein in" the projected 30 June 2009 deficit.

After further extensive reviews of budgets by staff, a list of proposed savings was compiled. The objective of these savings was to assist in finalising a budget, which would allow for a small amount of statutory and essential new items of funding to be included, but in doing so, still commencing the new financial year with a budget close to being balanced. Savings that have been put forward are spread across the whole organisation including capital works reductions, salary savings via deferral of the re-filling of vacant positions and the redistribution of workloads, reductions in the voluntary financial assistance we provide to our pensioners as well as other external organisations and cut backs in some services provided to the community. Further details of these budget savings, including their impacts, are outlined later in this report.

The difficulties encountered in the preparation of the 2009/10 budget primarily can be attributed to the current global financial crisis. This crisis, which has been described as the worst since the Great Depression, commenced with the sub-prime credit crisis in the United States in late 2007. The sub-prime crisis was sparked by poor lending practices, which led to a surge in United States home loan defaults. These defaults saw nervous lenders reassessing the risk of borrowers. Credit became difficult to access and the cost of debt rose resulting in a global credit crunch. Excessive debt combined with large drops in asset values saw numerous international financial institutions taken over or completely failing. With the failure of these institutions, investor confidence collapsed, banks ceased lending to each other resulting in the cost to borrow soaring and stock markets melted. Most world economies are now in recession with negative economic growth figures and rising unemployment levels. While stimulus packages introduced to limit the severity of the recessions have provided some relief, most economies are still recording negative growth figures.

Shellharbour Council and its community unfortunately have also not been immune from this crisis. The current 2008/09 budget is projected to finish the year in deficit by approximately \$1 million, with adjustments directly caused by the global financial crisis totalling \$2.58 million. This will again have significant effects on our accumulated general reserves.

Last year's budget report alluded to the erosion of these available reserves in recent years. From 2003/04 to 2007/08, a total of \$7.6 million was spent from these unrestricted monies, a reduction of 57%. This trend obviously could not continue over the long term or Council would become financially unsustainable.

The global financial crisis has continued to have major impacts when setting the estimates for next year's budget. Expected income from interest on investments has been reduced by \$1,050k compared to the estimate in the original 2008/09 budget. This is due to the low interest rate climate currently in place to help stimulate the economy. In recent years returns of in excess of 6% have been factored in budget estimates, however Council's investment advisors have suggested an amount between 3 and 4% is more realistic for 2009/10.

Superannuation schemes have also been greatly affected by the global financial crisis. With funds held being invested in various domestic and global financial markets, super schemes have incurred large losses in recent times. This has led to all NSW Councils being advised of a change to the employer contribution obligations for the Local Government Superannuation Retirement Scheme. Basically it requires Councils from 1 July 2009 to contribute at double the rate of what scheme members are entitled to at retirement, so scheme contribution balances can be replenished. The additional cost to Council for 2009/10 is just over \$700k.

Expected administration fee income from land sales as part of the Shell Cove development are again projected to be slow over the 2009/10 year. The slow property market can be partially linked to the financial crisis, which has seen investor confidence collapse around the world. The estimate for this income item has decreased by \$132k from the 2008/09 original budget figure. The property market in Shellharbour has slowed considerably over the last 2-3 years.

These three items alone have absorbed approximately \$1.88 million of funds, which would normally be available for consideration of new items of funding.

The recommendation in this report is for a budget deficit of \$4,004 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 vitally in need of funding, Council cannot keep operating large budget deficits and therefore they cannot be recommended for funding.

Consultations

Internal

Administrator
Directors
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.

As mentioned earlier in this report, regrettably some areas of funding have had to be reduced in the recommended 2009/10 budget to allow for the inclusion of "statutory" and "essential" prioritised new item allocations, whilst still maintaining a balanced budget. Making such "cuts" to Council's operational budget is always going to have some impact on the community, however in identifying the areas below, the main objective was to spread the reductions across all areas of our operations to minimise these impacts. The following reductions have been made in Council's draft operational budget for 2009/10.

Budget Reductions

Swimming Pools – A reduction in costs of \$100,000 has been identified in this area. It is proposed to delay the opening dates for both Albion Park and Warilla swimming pools by 8 weeks. It also proposed to bring forward the closing dates for both facilities by 3 weeks.

Parkland Mowing – The estimate for this item is to be reduced by \$80,000 through decreasing the service level associated with the mowing of some of the city's larger open space reserves. No change is proposed for the mowing service levels for sportsfields and neighbourhood parks.

Beach Maintenance – Maintenance work will be limited to essential repairs to eliminate hazards on walkways and adjacent fencing. The saving in this item is \$15,000.

Street Cleaning – A saving of \$15,000 is proposed through increasing the cycle between sweeps of residential streets.

Rural Roads Maintenance – A number of Council's rural roads have been sealed under grant funded programs in recent years. With the reduced grading requirements, a saving of \$30,000 can be achieved in this area for 2009/10.

Waste Depot Casual Staffing – Due to the current downturn in the quantity of waste being received at the Dunmore Waste Depot, a reduction of \$30,000 in casual staff estimates can be accommodated through less litter control and landscape maintenance at this facility.

Parks & Gardens Casual Staffing – Reduction in this item of \$20,000 can be found through restricting the use of casual staff to replace permanent staff during periods of leave.

Kerb & Gutter Maintenance, Footpath Maintenance and Heavy Patching – It is proposed to reduce the recurrent budgets for these areas by \$100,000. Some of this work will be funded from Council's Asset Maintenance and Replacement program. The impact will be a reduction in the amount of asset improvement work being carried out next year, which will consequently increase the amounts required to be spent to bring these assets up to a satisfactory standard.

Salary Savings – An amount of \$220,000 has been taken out of salary estimates for 2009/10 with the objective of making up these savings through initially re-filling key vacancies only and the redistribution of workloads when staff are on leave.

Financial Assistance – An extensive review has been conducted on the financial assistance Council provides to external organisations. An amount of \$63,125 has been taken out of this area to assist in maintaining a balanced budget for 2009/10.

Pension Rebate – Under the Local Government Act all NSW Councils are required to provide a mandatory annual pension rebate of \$250 per year. Of this total, 55% is government funded with the balance being met by Councils. A small number of NSW Councils including Shellharbour also provide a voluntary rebate on top of the \$250 to assist pensioners further with their rate obligations. It is proposed to cut back Council's voluntary pension rate rebate from \$90 to \$60 per annum, to achieve a saving of \$150,000.

Recent information received from other NSW Councils shows that of the 104 responses, only 21 Councils have some form of voluntary rebate in place. Of these 21 Councils, a quarter provide a benefit of less than \$25, with a significant number of other Councils having certain conditions tied to the payment. These conditions include being a resident for certain number of years, having a "sunset clause" attached where the payment is made to pensioners who were eligible before a certain date, and a requirement that pensioners must be under the retirement age.

A reduction in the voluntary pension rebate from \$90 to \$60 will result in Shellharbour still having one of the more generous pensioner rebate policies in NSW based on total rebates paid per pensioner. The \$90 voluntary rebate currently costs Council approximately \$450,000 a year. This is in addition to Council's obligation to fund 45% of the mandatory \$250 rebate, which equates to approximately \$560,000 annually. When combined, Council is allocating out of its budget over \$1 million each year in rebates to pensioners for their rates.

Council has gone against the trend by maintaining, and indeed since 2004 doubling the voluntary rebate. The recommended \$60 rebate is still \$15 in excess of the 2004 rebate level.

Council will also take steps necessary for the containment of future voluntary rebate costs, by not extending the voluntary rebate to "new" pensioners who first qualify for the State funded rate rebate after 30 June 2009.

The above listed reductions in Council's operational budget result in a total saving of \$823,125.

Shell Cove Maintenance Levy

An annual levy of \$66.80 is charged to residents of Shell Cove to fund the costs associated with the additional landscape maintenance work carried out in the area. This extra landscape maintenance, which residents who purchase directly from Council are made aware of before the purchase of their property, is in addition to the standard level of maintenance applied across the City.

Any income raised from this levy, which isn't spent in a particular year, is "restricted" in Council's accounts. This means it is reserved for the special purpose for which it was collected.

It is proposed to not levy residents in 2009/10 as there are sufficient funds in the "restriction" to fund next year's program.

As these funds are "restricted", this item has no impact on Council's "unrestricted" or general purpose cash position for 2009/10.

Information Technology Upgrade

An amount of \$300,000 has been included in the 2009/10 operational budget representing the repayment of unrestricted reserves associated with the upgrade of Council's Information Technology suite.

The majority of Council's computer technology is at least five years old and requires replacement. Council has in recent years minimised information technology costs by buying out expired leases to get as much service as possible, as cheaply as possible, from existing equipment. The hardware and operating systems upgrade planned for 2008/09 has been postponed due to the economic downturn and will be minimised in this budget, to provide only equipment and services essential to operations in 2009/10. A more substantial investment will be required in 2010/11. This budget provides for equipment and services valued at around \$900,000 (included in capital works budget), to be borrowed from unrestricted funds at an appropriate interest rate and repaid by three instalments of \$300,000 plus interest over the next three budgets.

This upgrade is considered essential for Council to maintain its business operations to an acceptable level of efficiency. Any decision to not replace vital, aging equipment will greatly increase the risk of equipment failure, which will in turn affect Council's ability to provide services.

City Referendum

The State Government's 2008 inquiry into Shellharbour City Council, recommended that the elected council be reduced in size. This was to reduce costs and improve the efficiency of operation of the elected body in making decisions and also to improve the distribution of funding and discernment of priorities across the City. Increasing the efficiency of operation of the elected Council, leads to substantial operational savings. A change of this type to the structure of the Council, is expected to require a referendum. If a referendum is mandated by the Department of Local Government, it will be conducted by the NSW Electoral Commission during 2009/2010 and paid for over two budget years, 2009/10 and 2010/11. An estimate of \$150,000 has been included in the 2009/10 budget.

Internal Audit

The Department of Local Government has been encouraging all Councils to develop an Internal Audit (I / A) function as part of the wider objective of embracing an Enterprise Risk Management philosophy, in strategic and operational planning as well as day to day operations. The department has developed and published guidelines for the establishment of I / A and these guidelines have been of value in the development of the concept. The 2009/10 budget provides an amount of \$60,000 for development of the I / A function at Shellharbour. These funds will be invested in the establishment of an Audit Committee, Charter, Programme and the performance of some tasks. The I / A function will be refined in future years. No decision has yet been finalised on whether the function will be performed by external consultants or a staff appointment.

Library Review

Council at its meeting on 29 January 2009, resolved that library expenditure be reviewed as part of the 2009/10 budget process, with a view to incrementally increasing our financial commitment, to ensure our library resources compare favourably with Councils of similar size.

Responding to the above resolution, an allocation of \$20,000 has been included in Council's operational budget for the preparation of a city wide strategic plan for libraries. In light of the issues experienced from the recent proposal to improve library services, a comprehensive review of Council's library service is essential. This review will ensure a quality assessment process is undertaken to evaluate services and to establish a strategy for future development and improvements of Council's library service. Consultants are required to assist staff in the preparation of a strategic plan.

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.

The following reductions have been made in Council's draft balance sheet budget for 2009/10.

Budget Reductions

Plant Replacement Program – Reduction in program of \$70,000 through the deferral of a plant item acquisition for one additional year.

iii Capital Works Budget (Pink)

The Capital Works Budget contains items in the draft Forward Capital Works and Stormwater Service Charge Programs, which was reported to Council in December 2008. The Capital Works Budget also contains other items of a capital nature.

Any Section 94 projects identified in Council's Section 94 Contributions Management Plan implementation timetable for 2009/10, have also been included in the Capital Works Budget.

Library Alterations

Council at its meeting on 29 January 2009, resolved that library expenditure be reviewed as part of the 2009/10 budget process, with a view to incrementally increasing our financial commitment, to ensure our library resources compare favourably with Councils of similar size.

Out of the above resolution, an allocation of \$20,000 has been included in Council's Capital Works Budget to provide signage and display furniture. The signage is required to make Warilla Branch Library more recognisable to passing traffic. The furniture is required to improve the presentation of resources such as books, CDs, DVDs, magazines and newspapers. The purpose of both these initiatives is to increase the utilisation of the library's services and the borrowing of resources.

Destination Albion Park

For many years now, Council has had plans for a streetscape improvement project at Albion Park. The Commonwealth Government announced the Regional and Local Capital Works Project late last year and Council decided to prepare and submit an application for a town centre revitalisation project. The project was called "Destination Albion Park". The project involves new street paving, planting of trees and placement of other street furniture, improvement to parks and creating better connectivity between parklands adjoining the Albion Park CBD.

It was recently announced that Council's Grant application was successful. The total project cost is \$3,330,000 with the grant from the Commonwealth being \$2,330,000. Council is required to commit \$1,330,000, and of this \$150,000 is "in kind". This leaves \$1,150,000 to be financed in cash. Council already has \$480,000 unspent on the Albion Park Streetscape, which leaves \$670,000, which may be funded from the 2009/2010 capital works program that has not yet been allocated or from a State Government contribution.

At present Council is awaiting the formal funding documentation from the Commonwealth Government. The acceptance of the grant funds and allocation of the Council component

of funding will be done when the budget and management plan are finally adopted (following public exhibition) or at a subsequent meeting.

This is an exciting project and will bring about many positive economic benefits to Albion Park, as well as making it a more pleasing place to be for residents, businesses and visitors.

Budget Reductions

As mentioned earlier in this report, some areas of funding have been reduced in the recommended 2009/10 budget to allow for the inclusion of "statutory" and "essential" prioritised new item allocations, whilst still maintaining a balanced budget.

The following changes have been made to the draft Forward Capital Works program reported to Council in December 2008.

Oak Flats Streetscape – Proposed allocation of \$185,000 has been reduced to zero. The Disabilities Services Advisory Committee has contributed \$40,000 toward the installation of an access ramp adjacent to the intersection of Central Avenue and Fisher Street. Upon completion of the access ramp, outstanding streetscape works will include paving upgrades and traffic calming measures along Central Avenue.

Shellharbour Streetscape - Proposed allocation of \$185,000 has been reduced to zero. An amount of \$27,500 has been allocated toward the construction of a roundabout at the intersection of Addison Street and Mary Street. Upon completion of the roundabout, outstanding streetscape works will include underground power installation and paving upgrades along Addison Street between Wentworth Street and Mary Street.

Calderwood Rd Widening – Proposed allocation of \$67,500 will now be funded via the Roads To Recovery Grant program.

River Oak Place Car Park Stage 1 – Proposed allocation of \$25,000 has been reduced to zero. Works completed along River Oak Place to date are sufficient to meet present car parking demand. Further works will be delivered at a later stage.

Grant Dependent, Staged Projects and Pre-Planning Investigations – Proposed allocation of \$677,500 reduced to \$412,500. Reduced funding will be allocated based on priorities.

Works and Sportsfields Ward Funding Allocations – Proposed allocation of \$144,000 has been reduced to zero. There is still current funding available from previous financial years allocations. Funding for works and sportsfields items could be made available from the Grant Dependent, Staged Projects & Pre-Planning Investigations allocation.

Grant Matching Funds - Proposed allocation of \$180,000 has been reduced to zero. Funding to match grants could be made available from the Grant Dependent, Staged Projects & Pre-Planning Investigations allocation.

Barrack Point Shared Use Path Funding – \$242,500 has been allocated to this item. The NSW Department of Planning has offered \$242,500 toward the construction of a shared use path between Headland Parade, Barrack Point and Bucknell Street, Warilla including a pedestrian / cycle bridge at Elliott Lake. The funding is offered to Council on a 'dollar for dollar' basis. A matching contribution of funds toward the project was required in order to accept the grant.

The above changes to the originally advertised draft Capital Works Budget results in budget savings of \$809,000.

Engineering Forward Planning comments on Forward Capital Works Program

The 2009/10 Capital Works Program has been prepared on a city wide basis in accordance with Council's previous resolution when adopting the 2006/2007 budget.

The three year Forward Program for Capital Works is also 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 and Services Division.

The 2009/2010 Program is 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 by staff and residents.

Ward Funds

Included as part of the recommendation to this report is for the existing balances remaining in the 2008/09 budget for Works and Sportsfields ward funds to be moved from their individual wards categorisation to a city wide categorisation. The same principle would apply for any future ward fund budget allocations. This process occurred with the Grant Matching ward funds in the 2006/07 budget.

The Department of Local Government have previously indicated that they strongly support the proposal to move away from funding being allocated via wards to a city wide basis.

The main advantage with this proposal is any future funding requirements can be assessed solely on a priority basis rather than being tied to a particular ward. Some wards have been slower in allocating funds towards works and sportsfields areas in the past mainly due to Section 94 funding being available. As these funds are tied to new development, the allocation of funding tends to occur in the newer areas of our city often leaving unspent ward fund balances. The allocation of ward funds based on priority on a

city wide basis will allow for a more even and timely distribution of expenditure across the city.

iv Asset Maintenance & Replacement Program (Pale Yellow)

The Asset Maintenance & Replacement Program contains all the works identified by Council's Conquest Asset Management system. 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 2009/10 program is \$1.38 million, which is an increase of 3.5% (ratepegging limit) from the 2008/09 program.

2. Budget Assumptions

Below is a summary of assumptions and major variations which have been taken into account in the compilation of the 2009/10 budget:-

- A 3.5% increase for general rates and charges has been factored into the budget, which is the maximum permitted by the Minister for Local Government.
- A 3.2% increase in salary and wage estimates to cover the annual award increase along with any movements by employees through Council's salary system. (it should be noted that a \$220k amount has been subtracted from salary estimates as part of the budget reductions).
- Internally funded Capital Works and Balance Sheet budget programs.
- \$1,050k reduction in estimated Interest On Investment income compared to 2008/09 original budget.
- Increase in superannuation costs of \$715k primarily associated with changes to the Retirement Scheme employer contribution obligations.
- Decrease in unrestricted cash profit in Waste Depot Operations of \$250k.
- Additional \$340k in Financial Assistance Grants based on 2.5% increase.
- A \$300k amount for internal loan repayments associated with the purchase of equipment as part of the Information Technology Upgrade.
- \$150,000 has been included for Referendum costs associated with the possible change in structure of the elected council.

In previous budgets, Council has provided financial assistance to a range of community organisations. The current financial situation has forced a review of assistance arrangements.

The draft 2009/10 budget contains financial assistance to the following organisations:

• Sports Assistance Fund	\$ 10,000
• Warilla Information & Neighbourhood Centre	\$ 12,000
• Illawarra Academy of Sport	\$ 10,000
• Tourism Shellharbour	\$175,000
• Life Education	\$ 2,000

• Donations Working Party	\$ 10,000
• Australian Aerial Patrol	\$ 13,000
• Environmental Projects Support	\$ 10,000
• Illawarra Children's Services	\$ 1,000
• Wollongong Rollerhawks	\$ 3,000
• Southern Stars	\$ 5,000
• Illawarra Business Chamber	\$ 8,500
• Illawarra Pipe Band	\$ 2,600
• RYDA Contribution	\$ 8,440

3. Revenue Policy/Fees & Charges

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.

Community Centres & Halls

Some changes have been made to Community Centres and Halls with fees and charges to apply to all organisations and people using these facilities. There are a number of organisations that were granted free use of the facilities in the 2008/09 financial year. These organisations will be contacted and advised that they will need to apply to Council for the consideration of a donation to offset the applicable charge.

Swimming Pools

There are a number of proposed changes to the fees and charges for Council's swimming pools. These changes include the rationalisation of the types of entry passes into the heated pool and the establishment of a more consistent method of applying discounts for multiple entry passes.

In addition it is proposed to introduce charges for any group that requests the exclusive use of a facility. In previous years a similar charge has applied to all groups other than the swimming clubs. However, after reviewing the operational costs of the pools, in particular during times when exclusive use is required, it is considered reasonable to introduce fees to cover some of the operational costs.

4. Rating Structure

Council's rating structure up to and including 2008/09 has been 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.

There have been discussions with Council's Administrator on rating structures and the various options available. These discussions included analysis of models at varying base rate levels. The Administrator has indicated that he favours an increase in the base rate from 25 to 30% and this change has been included in the recommendation of this report.

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. A base rate in the residential category, which Shellharbour has had in place since 1993, 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. Therefore if a base rate is applied, the higher valued properties rates will decrease and the lower valued properties will increase. The recommendation in this report to increase the base rate to 30% does not change the amount Council collects as part of its rate levy, but changes the distribution of the rate levy, with the lower valued properties paying a higher burden of Council rates and the higher valued properties paying less.

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.

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 \$259,000 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 (3.5%) cannot be justified or supported.

The recommendation of this report including the movement of the base rate to 30% and the 3.5% increase in rating income in line with the ratepegging allowance, will result in the following base rate and rate in the dollar amounts.

<u>Category</u>	<u>Base Rate</u>	<u>Ad-Valorem Amount</u>
Residential	\$289.19	0.32924 cents in the \$
Business	n/a	0.74809 cents in the \$
Non – Urban	n/a	0.27764 cents in the \$
Farmland	n/a	0.30262 cents in the \$

5. New items

The total of new items requested by staff (plus one from previous resolution of Council) 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 net total requests are as follows:

Statutory	\$ 55,500
Essential	\$ 198,000
Priority 1	\$2,609,434
Priority 2	\$ 137,300
Priority 3	\$ 214,352
Council resolution	\$ 151,006
Total	<u>\$3,365,592</u>

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 \$253,500, resulting in \$3,112,092 of reasonable new item requests not being recommended for funding. It is suggested that the new items attachment is closely read to gain an appreciation of all the items requested, particularly the ones which aren't recommended for funding due to budget restraints.

Ron Costello Oval

One of the new items which isn't included for funding as part of the recommendation of this report is for a \$180,000 contribution from Council to assist with the construction of amenities and grandstand at Ron Costello Oval. Council resolved on 16 December 2008 to consider this request from the Shellharbour City Sharks in conjunction with the 2009/10 budget after the Sport & Recreation Working party reviewed the application in October 2008.

Council received funding from the NSW Department of Sport and Recreation many years ago to develop the Croom Regional Sporting Complex on the understanding that it would be the pinnacle of the city's sporting facilities. Council gave a commitment to the NSW Department of Sport and Recreation that the Croom complex was to be developed as the highest standard sporting facility in the city for the future.

It is not financially feasible, nor is it an acceptable utilisation of scarce resources, to have two or three grounds of equally high standard. There is a large number of sporting clubs/groups in the local government area demanding facilities and financial assistance and the Shellharbour Sharks is just one of these, albeit one with a very lengthy and proud history, operating at probably the highest level of competition of any sporting club in the city at present.

The 2009/10 budget includes a substantial amount of cuts in operations and services across the whole organisation. This includes having to make unpalatable decisions such as reducing the voluntary pension rebate and other financial assistance Council provides to some community based organisations. The allocation of this funding cannot be justified at this point in time.

6. Unexpended Items 2008 – 2009 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 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 2009 and brought into the 2009/10 budget as a restricted asset at the September Quarter Budget Review, once the 2008/09 financial year is closed and final project balances determined. This ensures that the year-end result for 2008/09 is not positively inflated due to these unexpended carry over works. When the jobs are revoted in 2009/10 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.

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	(506,932)	
Balance Sheet Budget	2,766,127	
Capital Works Budget	5,841,473	
Asset Maintenance & Replacement Program	1,381,845	9,482,513
<i>Less</i>		
Non Cash items	9,553,000	
Section 94 funded items	3,368,283	
Restricted Assets	481,397	
Loan Funded Items	0	13,402,680
<i>Add</i>		
Section 94 surplus	2,681,498	
Land Sale (60:40 policy)	0	
Domestic Waste Surplus	770,130	
Community Transport Surplus	219,043	3,670,671
Surplus before new items		(249,496)
Recommended New Items		253,500
Deficit		4,004

8. Section 94

Council has adopted a Section 94 Contributions Management Plan. This plan details the community facilities to be provided over the next 11 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 city wide 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.

Due to changes in the NSW planning system, the Section 94 Contributions Management Plan will now be known as the Community Infrastructure Plan. We are currently awaiting the regulations and guidelines to be able to progress the review of our future community infrastructure plan. In the interim period, developers continue to be levied under Council's adopted Section 94 Contributions Management Plan.

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 up to \$1,400,000. This project has not progressed beyond the planning stages in the 2008/2009 year and will be carried over for implementation in the 2009/2010 year. Consequently the requirement for the loan will also carry over to the 2009/2010 year.

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.

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 this budget. 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

The forward financial plan is a series of yearly budgets that extends over a ten-year time horizon, which is based upon the 2009/2010 budget. This year this plan has had a major re-write due to limitations of the old model and the need for a major review given the current economic and financial environment that we are operating in due to the global financial crisis.

The plan indicates an estimate of future costs and revenues and whilst will not replace the annual budget, is a good management tool to guide financial policy making and decisions that need to be made regarding the future finances of the Council. Such decisions will have a future impact upon the operations of the Council.

13. Integrated Planning and Reporting Project

The Department of Local Government has been consulting with local government councils about better planning and reporting systems. This project, known as the

Integrated Planning and Reporting Project has now been posted onto the Department of Local Government's website (www.dlq.nsw.gov.au) and the Department have now released for public comment the following documents:-

- Draft Local Government Amendment (Planning and Reporting) Bill 2009
- Draft Local Government (General) Amendment (Planning and Reporting) Regulation 2009
- Draft Planning and Reporting Guidelines for local government in NSW
- Draft Planning and Reporting Manual for local government in NSW.

The new requirements dispense with the current management plan process and replace it with:-

- Community Strategic Plan of at least 10 years duration
- A Delivery Program that must be of a four year duration
- A Resourcing Strategy that must be of a four year duration
- An Annual Operational plan

These documents must be also supported by a long-term financial plan, which would match the time horizon of the Community Strategic Plan.

Council's will be placed in group 1, group 2 or group 3 with the deadlines for completion being 31st March 2010, 31st March 2011 or 31st March 2012 respectively.

At this stage it is envisaged that Council will be in Group 2.

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 Saturday 23rd May 2009 with submissions closing by 4.30 p.m. on Monday 22nd June 2009.

Options

1. That Council adopt the recommendations in this report.

2. That Council formulate an alternative recommendation.

Conclusions

The preparation of the budget and management plan has been a complex task this year due to the turbulent nature of the financial environment, created by the global financial crisis. We are presented with shrinking revenues from investments and other property related income. Not only have we had to contend with this extraordinary situation, but also had to absorb significant cost increases including superannuation.

In order to present a financially responsible and sustainable budget we have had to cut services in many areas and have also had to take very unpalatable decisions such as reducing the voluntary pensioner rebate from \$90 to \$60, but also reduce the financial assistance that we provide to some community based organisations.

At the end of the day, Council cannot be all things to all people. Our resources are limited as well as our ability to raise additional revenue.

What we are experiencing at present is not unique to Shellharbour City Council but is being experienced by all levels of government in Australia and around the world.

I believe we have arrived at a budget that is responsible financially and still provides the community with a beneficial level of services and new facilities.

Approved for Council's consideration:



Attachments (attachments 1-9 under separate cover)

1. Draft Management Plan 2009-2012
2. Draft Strategic Plan 2009-2019
3. Draft Operational Budget
4. Draft Balance Sheet Budget
5. Draft Capital Works Budget
6. Draft Asset Maintenance/Replacement Program
7. Draft Revenue Policy 2009/2010
8. Draft Fees & Charges 2009/2010
9. Draft New Items for 2009/2010