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## **1. Acknowledgement to Country**

Shellharbour City Council acknowledges the Traditional Owners and Custodians of the Land on which we are meeting and pays its respects to Elders past and present.

### **Webcasting**

#### **Administrator's Comment**

The public gallery should note that Council records and webcasts its Council Meetings live to enhance the accessibility of Council Meetings to the broader Shellharbour City Community.

Council Meetings can now be viewed live via webcast, downloaded from Council's website for later viewing, or purchased from Council for viewing on a computer.

At the appropriate time during the meeting pre registered or invited members of the gallery may Address the Council at which time their image, comments or submissions will be broadcast live and recorded.

Council accepts no responsibility for any defamatory or offensive statements.

Please ensure that mobile phones and other electronic devices are turned off or are in silent mode for the duration of the meeting.

## **2. Confirmation of Minutes**

### **2.1 Ordinary Meeting 10 May 2011**

That the Minutes of the Ordinary Council Meeting held on 10 May 2011 as circulated be taken as read and confirmed as a correct record of proceedings.

### **2.3 Extraordinary Meeting 10 May 2011**

That the Minutes of the Extraordinary Council Meeting held on 10 May 2011 as circulated be taken as read and confirmed as a correct record of proceedings.

## **3. Apologies / Leave of Absence**

- 4. Confidential Business (Committee of the Whole)**
- 5. Pecuniary Interest and Conflict of Interest Declarations**
- 6. Condolences**
- 7. Addresses to Council**
- 8. Adjournment – Consideration of Addresses to Council (only to be taken where deemed to be required by the Council and determined by Resolution of the Council)**
- 9. Administrator’s Statements / Reports / Presentations**
- 10. Councillors' Reports (not applicable at this time)**
- 11. Administrator’s Minutes**
- 12. Reports**

## **12.1 General Manager's Office**

### **12.1.1 Review of Management Plan as at 31 March 2011 (9502095)**

To the Administrator

**Division: General Manager's Division**

**Department: Corporate Planning**

**Manager:** Michael Willis - General Manager

**Author:** Peter Masterson - Group Manager, Corporate Planning

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## **Summary**

To consider the quarter ended 31 March 2011 achievements set by the Management Plan adopted by Council on 24 June 2010. The report should be considered in conjunction with the Quarterly Financial Report.

## **Background**

The Local Government Act requires councils to develop a Management Plan each year, to indicate, for each of its principal activities:

- What are its objectives;
- How it intends to achieve those objectives;
- How it will assess its performance in striving to meet those objectives;

And then

- To review its planned activities for the year, and to do so within two months of the close of each quarter.

The Plan Council is currently working under was prepared in the months leading up to May 2010 and adopted on 24 June 2010 after public exhibition.

This report is prepared in consultation with Management Plan Responsible Officers. The attached Executive Summary report provides more information about each Management Plan area.

This report provides some commentary about individual highlights of the quarter ended 31 March 2011 for the program areas of Environment, Community, Economy and Council Organisation:

## **Environment**

The Environment Key Area includes Council Activities that focus on Environmental Management, Waste Management, Development Approvals, Land Use Planning Strategies including S94/Community Infrastructure and Drainage and Flooding.

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For the quarter under review, 8 environmental education activities were held with 55 people participating. Activities included bush restoration works, bush walks, the production of an educational resource about local birds, Eucalypt identification workshops, sustainable food production workshops, and building backyard biodiversity workshops. The installation of Shellharbour Boat Harbour Gross Pollutant Trap was finalised. Waste Education activities were carried out during the quarter including "Clean Up Australia Day" with 214 people participating locally.

Unfortunately there has been a steady increase in illegal dumping activities in the local government area. Proactive patrols of "hot spots" are being made by Council Rangers and a strategic plan to address littering and dumping is being developed. Council is participating in discussions with Southern Council's Group regarding addressing the problem of illegal dumping on a regional basis. A new weighbridge and gatehouse was installed at the Dunmore Waste and Recycling Depot and opened to the public in February, which will provide improved access to the resource recovery area.

In the Development Approvals area, 128 Development Applications were received and 142 Development Applications were determined. The median development approval time is 24 days with 88% of all application determined within 40 days.

Significantly higher levels of activity were reported in the compliance area with an increase in infringement notices issued in the areas of parking, disabled parking and other local regulation enforcements.

A conditional Section 65 Certificate for the Draft Shellharbour Local Environmental Plan (LEP) was issued and reported to Council on 22 February 2011. Council resolved to defer the report and as such the public exhibition of the Draft Shellharbour LEP was also deferred. It is anticipated that a Section 65 Certificate will be issued next quarter to allow commencement of public exhibition. A draft Employment Lands Strategy and a Draft Housing Strategy were completed during the quarter under review with these strategies being finalised through the Draft Shellharbour LEP process.

A significant storm event occurred on the 21 March resulting in flash flooding throughout the local government area with a significant amount of flood debris requiring removal from creeks and waterways. During this event Council's Customer Services Department assisted a very high volume of customers experiencing problems as a result of this storm. A review of our response to this event was carried out and a number of changes made to effect improvements for the future.

## **Community**

The Community Key Activity includes a wide range of activities and services in areas such as community services, recreation, libraries and road safety.

Council continues to support local capacity building initiatives through projects such as the Illawarra Food and Biodiversity Project, a part of which is aimed at raising awareness of local food security issues. In March the local Community Development

Support Expenditure Scheme developed a set of local funding priorities for the upcoming funding year to assist with applications for funding. The Cultural Mapping Report has been received and has suggested the need to establish a broader Cultural Development Strategy.

Council's Youth Services Team hosted their Annual Youth Arts Exhibition as a part of Youth Week. The event showcased a variety of art works by local young artists and was well attended by the broader community.

Council's Aboriginal Community Liaison Officer facilitated or participated in over 30 meetings in the quarter under review including the Illawarra Aboriginal Community Based Working Group Culture and Heritage Cluster meetings, the Illawarra Aboriginal Community Justice Group and the Koori Shellharbour Driving Instructor Social Enterprise Project. Council is also developing an Aboriginal Employment Strategy following extensive consultation with relevant stakeholders. This strategy has been endorsed by the Aboriginal Advisory Committee.

The construction of the Shellharbour Village Exhibition Space has commenced and staff have been preparing conditions of use and booking systems to ensure the space is available to a wide range of exhibitors.

Building on the Open Space, Recreation and Community Facilities Needs Study, which was adopted in 2010, Council has commenced preparation of a Community Infrastructure Plan which will be used as a basis for a new Developer Contributions Plan and also contribute towards Council's Integrated Planning and Reporting System.

A major highlight this quarter was the completion of the Elliot Lake Bridge Shareway which provides a link between Warilla Beach and Shellharbour North Beach cycle paths. This bridge was funded under the Federal Government Economic Stimulus package NSW State Government Funds and Council Funds. At present we are making plans for the formal opening of the bridge A new amenities building is also now available for use at Headland Parade at Barrack Point.

As previously reported, a significant storm event, resulting in flash flooding, occurred on 21 March 2011 with all emergency agencies responding under difficult circumstances, in particular the State Emergency Service who responded to 382 tasks during this event.

The Shellharbour Foreshore Improvement Works were completed during the quarter with landscaping and stabilisation treatments being finalised at Bardsley Park and Grey Park.

## **Economy**

The Economy Key Area includes activities relating to infrastructure, Illawarra Regional Airport, Tourism, Shell Cove and other Council business activities. With respect to infrastructure, particularly our road assets, significant increases for requests for maintenance have occurred due to the storm event mentioned earlier in this report.

Illawarra Regional Airport hosted the annual "Wings Over Illawarra" event on the 27 February 2011. The event was well attended by local residents and visitors and successfully promoted the Airport, the region and aviation. Similarly the 2011 Oztag State Cup (Juniors and Seniors) was held at Myimbarr Community Park, attracting over 3,000 competitors and visitors to the area.

Council's Tourism Manager and Economic Development Manager arranged a visit to Shellharbour of peak Tourism Industry bodies in March and was successful in that it raised the profile of Shellharbour as a Tourism destination. This visit has already generated leads from businesses investigating investment in Shellharbour. Information was also provided from attendees at this visit that will inform Tourism Shellharbour's Strategic Plan.

At Shell Cove, local employment continues to be maintained at a high level so as to support the long term objective of the Shell Cove Project generating increased levels of local employment. Council Management are currently investigating options for bridging finance so as to allow the calling of tenders for the boatharbour construction to occur at the earliest date.

### **Council Organisation**

During the quarter under review, significant effort was made on preparing and completing work to support the Integrated Planning and Reporting Project, including a State Agency consultation forum that was held on 31 March 2011. Very positive comments were made about the Draft Community Strategic Plan at this forum.

Council investments continue to perform strongly with an investment return of 1.87% achieved for the quarter exceeding the target of 1.25% and the benchmark of 1.15%.

Major community events including the Australia Day Breakfast by the Lake and Wings Over Illawarra, Seniors Week, and Youth Week were held during the quarter.

In order to take advantage of cost savings and operational savings, Council has taken the first steps to move its general lines of insurance to the Westpool/United Independent Pools during the quarter.

The new Enterprise Content Management System (Records Management) upgrade was completed earlier this year with 430 staff trained in the this new software during the period under review. A new online mapping system was enabled on the 28 February 2011 to provide an enhanced service to our external customers

### **Consultations**

#### **Internal**

The Executive Summary Report is compiled after all Management Plan Responsible Officers have provided an assessment and update of their items. The quarterly report is an excellent document, providing a summary of the quarter's activities and demonstrates better usage of the Management Plan by Managers.



**External**

There have not been any external consultations associated with the preparation of this report.

**Political Donations Disclosure**

Not Applicable

**Recommendation**

**That the Management Plan Review for the Quarter ended 31 March 2011 be received, noted and endorsed.**

Approved for Council's consideration: \_\_\_\_\_



**Attachments**

- 1.Executive Summary - Quarter ended 31 March 2011 (issued under separate cover)

**12.1.2 March 2011 Quarter Budget Review (9501050)**

To the Administrator

**Division: General Manager's Division**

**Department: Financial Services**

**Manager:** Michael Willis - General Manager

**Author:** Peggy Macquire - Management Accountant; Paul Henderson - Manager Financial Services

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**Summary**

The purpose of this report is to re-examine Council's current year's budget, focussing on the revised estimates as at 31 March 2011. A new surplus or deficit position is then calculated, based on the projections made for income and expenditure estimates over the remaining budget year.

The original budget for 2010/11 as adopted by Council in June 2010, was an unrestricted cash surplus for the year of \$12,994.

The revised projected unrestricted cash position as at 30 September 2010 improved to a surplus of \$104,631.

The revised projected unrestricted cash position as at 31 December 2010 improved to a surplus of \$208,282, for the budget year ending 30 June 2011.

The new projection as at 31 March 2011 is an unrestricted cash surplus of \$615,265 for the budget year ending 30 June 2011, an improvement of \$406,983 since the 31 December 2010 projection.

The main adjustment made at this review is for the continuing strong performance of Council's investment portfolio. The recommendation of this report however proposes to restrict the amount of the adjustment for utilisation in future budgets when investment returns received are less than what has been estimated.

The major contributors to the improvement in the unrestricted cash surplus position this quarter have been the additional tip income at the Dunmore Waste Depot, the additional Shell Cove administration fees income over the budget projection due to increased land sales, and salary savings as a result of delays in re-filling some vacant positions.

Offsetting the positive adjustments has been additional budget allocations to The Links Shell Cove Golf Course, and an increase in the Workers Compensation Insurance budget.

A detailed list of budget adjustments is provided later in this report.

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After the recent announcement confirming the holding of local government elections in September this year for this Council area, planning has commenced to identify options for the location of the future Council Chamber and Public Gallery. This will involve adjustments to be made to the current budget to cover costs associated with this requirement. At this stage it is expected a report will be included at the next Council meeting in June identifying the direction Council proposes to take and amending the budget accordingly.

## **Background**

Council is required to perform a quarterly budget review at the close of each quarter. The Local Government (Financial Management) Regulation states that this review must be done and reported to Council within two months of the close of each quarter. Quarterly Reviews are designed to provide information on a Council's financial health as the budget year progresses, including the provision of projections for the remainder of the year. They also require the responsible accounting officer to provide their opinion on whether the financial position of Council is satisfactory, when considering the original estimates of income and expenditure. If this position is not satisfactory, recommendations to remedy this position must be detailed in the report.

Financial Services staff have interviewed budget responsible officers and adjustments to their budgets have been made where necessary. The objective for administration of Council's budget is for each budget responsible officer to stay within their total budget allocation, and quite often a responsible officer will transfer an expenditure vote from one budget area to another so as to be able to respond to immediate operational needs without impacting on the overall budget bottom line.

There can be many reasons for transfers by responsible officers; seasonality can be a determining factor in many budget areas. For example, when there is a very dry summer, the allocation for mowing parks and sportsfields will be under expended but the parks and gardens staff will carry out additional other maintenance, possibly including watering. The maintenance budget allocation will then require more resources, hence a transfer from mowing to maintenance is necessary and is made. Generally, these types of transfers will not be specifically referred to in this report.

New item variations to Council's budget can sometimes occur beyond Council's control and these will be specifically referred to in this report.

When setting or revising the budget, we take into account the various funding sources that can attach to a particular project or job. The main funding sources that Council has at its disposal are:-

1. General Revenues (Rates, Fees and Charges, Untied Grants)
2. Loans - (Appropriate for Capital or income generating projects only)
3. Specific Purpose Grants
4. Section 94 Contributions
5. Other Developer Contributions
6. Council's own accumulated funds from previous year's operations

In considering these funding sources, we must take into account any funds that are restricted. Our bottom line projections are then adjusted to ensure that operations are not inappropriately or illegally subsidised from a restricted funding source. Examples of restricted funds are:-

1. Section 94 Contributions - contributions paid to Council by Developers as a requirement of S.94 of the Environmental Planning & Assessment Act and held as a restricted asset to be spent strictly in accordance with the Section 94 Contributions Management Plan.
2. Domestic Waste Income - funds raised from the Domestic Waste Service levy, which can only be expended on provision of a domestic waste service.

Fiscally responsible and competent Councils like Shellharbour, also pay close attention in the budget review process, to the accumulation of appropriate levels of funding from operations, tempering the desire to spend on services now, with the understanding of Council's need for long term financial stability and infrastructure provision.

The final budget projection has therefore been adjusted for movements in funding sources and restricted assets, as well as carried over items and new items, to give an adjusted cash result projection for the year.

## **Considerations**

### **Financial/resources implications**

#### **Budget Adjustments Required for New Items:**

Our operational budget is formatted on the four key areas identified for Council's strategic planning framework (Community, Environment, Economy and Governance). This budget contains our day to day expenditure. We should note that all income is recorded in the operational budget even if that income will be used to fund expenditure of a capital nature.

Our Capital Works expenditure budget contains only expenditure relating to the purchase or construction of assets by Council.

Major "New Item" variances in this year's budget are detailed as follows: (NB: brackets refer to a saving or additional income). The adjustments are categorised into key activities for operational items whilst capital projects are listed by job description.

#### **OPERATIONAL BUDGET**

<b>1</b>	<b>Waste Management</b>	<b>(\$80,000)</b>
	<b>Waste Depot (Tip) Fees - (\$150,000)</b>	

It is recommended that this income estimate be

increased by a further \$150,000 at this review. This follows on from the adjustment of \$200,000 made at the September review for this item. Income has been higher than anticipated as a result of increased disposal of construction and demolition (C&D) waste due to some recovery in the construction industry. Also, there has been a requirement to accept clean fill (VENM) for bund walls as part of the new waste cell construction. It is recommended that the income be increased by \$150,000.

**Waste / Recycling Depot Routine Operations - Contractors - \$90,000**

Mattresses and e-waste (discarded computers and televisions) received at Dunmore Waste Depot are sent to a contractor for recycling and resource recovery. Council recovers these costs through a fee charged to the deliverer. The number of recycled mattresses and e-waste received has exceeded the original budget estimate and the budget allocation to cover the additional costs needs to be increased by \$90,000. This is funded 40% (\$36,000) from the Domestic Waste Management Restriction and 60% (\$54,000) from General Revenue. The additional costs are matched by additional income that goes to general income for the Waste Depot.

**Waste / Recycling Depot Transfer Station - Wages Permanent Employees - (\$10,000)**

There is a saving of \$10,000 in labour costs within the Transfer Station due to a restructuring of this operation. Plant resources are now shared between this area and the Green Waste (Domestic) processing area.

40% of this projected reduction in expenses will be retained in the Domestic Waste Restriction and 60% will reduce general expenses.

**Waste / Recycling Depot Survey Site - Contractors - (\$10,000)**

A saving of \$10,000 has been identified at the Tip in relation to survey services.

40% of this projected reduction in expenses will be retained in the Domestic Waste Restriction and 60% will reduce general expenses.

**2 Building and Site Inspections (\$109,000)****Compliance Control - Wages Permanent Employees (\$109,000)**

Salary savings have been achieved in Compliance Control through delays in re-filling vacant positions.

**3 Emergency Services \$12,483****NSW Rural Fire Service Contribution**

When formulating the original budget, it was estimated that Council's contribution to the NSW Rural Fire Service would be \$154,500. Council however received notification in January that the contribution will be \$166,983, an additional budget of \$12,483. The circular from the NSW Rural Fire Service explained that the adjusted allocation was the result of an error that occurred with the disbursement for Volunteer and State-wide Services.

**4 Financial Services (\$554,000)****Financial Services – Interest on Investments - (\$515,000)**

Council's investment portfolio has performed very strongly again in the third quarter of this financial year. A return of 1.87% was achieved in comparison to the cash rate benchmark of 1.15% for the three months ending March 2011. The return for the financial year to date as at the end of April was 6.77% with two months remaining.

Council's medium and long term managed funds have contributed heavily to this return as a result of the continuing recovery in most of the major world economies from the Global Financial Crisis. The short term component of the portfolio, which is comprised of term deposits, has also returned numbers well above cash rate benchmarks this quarter.

A further adjustment of \$515,000 is recommended at this review. Including this adjustment, additional income totalling \$865,000 has now been added at the three quarterly reviews to date this budget year

for Interest on Investments.

As part of the recommendation of this report, it is proposed to internally restrict the \$515,000 estimate adjustment for utilisation in future budgets, when Council's estimate for the year will not be achieved due to unforeseen circumstances eg Global Financial Crisis. This will help "smooth" out fluctuations which can occur in this area. More details on this proposal are contained in the Responsible Accounting Officer's comments section later in this report.

If the recommendation is approved, this adjustment will not impact on Council's unrestricted cash position.

**Financial Services - Wages Permanent Employees (\$20,000), Adviser Service Fee (\$4,000), Consultants (\$15,000)**

Savings have been identified in the wages, adviser service fee and consultants areas of the Financial Services budget.

**5 Section 94 (\$245,000)**

**Section 94 Interest on Investments - (\$110,000)**

The estimate for Interest on Investments income earned on Section 94 contributions needs to be increased at this review. See comments in the Financial Services - Interest on Investments section for further details.

As the interest earned from Section 94 contributions must be restricted and spent in accordance with Council's Section 94 Contributions Management Plan, this budget adjustment does not have an impact on Council's unrestricted cash position.

**Section 94 Consultants - (\$135,000)**

The Section 94 consultants budget allocation is to be reduced by \$135,000. This allocation is for the purposes of engaging a consultant to carry out a comprehensive Section 94 Review. These funds will not be spent this financial year. As this is funded from Section 94 contributions, this budget adjustment does not have an impact on Council's

unrestricted cash position.

**6 Street Lighting (\$10,000)**

**Local Roads Lighting Maintenance - (\$10,000)**

It is recommended that the Street Lighting maintenance / improvements budget be reduced by \$10,000. This budget allocation will not be spent as a result of Integral Energy's new capital funding arrangements.

**7 Shell Cove (145,000)**

The original budget for the Shell Cove Administration Fees was \$275,000. As at 9 May 2011, Council received \$415,449 in Shell Cove Administration Fees. It is recommended that the budget for Administration Fees be increased by \$145,000 to \$420,000 as a result of increased land sales over what was originally estimated at Shell Cove.

**8 Administration \$21,360**

**Legal Expenses - \$90,000**

This adjustment is recommended to allow for additional legal expenditure on industrial related matters, planning, development and governance issues.

**Admin & Governance - (\$29,640)**

Savings have been identified in the Admin and Governance area, primarily in the conveyancing and wages area.

**Corporate Printing and Stationery - (\$4,000)**

Savings of \$4,000 have been identified in the Corporate Printing and Stationery area.

**Records Management - (\$15,000)**

Savings have been achieved in Records Management - \$10,000 in wages and \$5,000 in postage.



**Webmaster / Internal Website Maintenance Office - Other Revenue - (\$20,000)**

Council's Website Analyst / Programmer finalised a Web Development Project which was funded by a \$20,000 RTA grant and the budget has to be amended accordingly.

**9 Customer Services (\$35,000)****Customer Services Admin - Wages Permanent Employees (\$35,000)**

Salary savings have been achieved in the Customer Services Admin area through delays in re-filling vacant positions.

**10 Risk Management \$48,069****Workers Compensation Insurance - \$109,000**

The actual workers compensation cost for this financial year is \$1,088,240. This is \$109,000 above the budgeted figure. Reasons for this result include:

- Three psychological injury claims were under dispute and not resolved prior to 31 December
- One claim was finalised on 2 January 2011
- One claim with an estimate of \$130,000 remains unresolved and is subject to litigation
- One claim was settled on 25 February 2011
- The three claims mentioned above added \$260,000 to the total claims cost and represent a significant percentage of claims costs
- An additional factor adversely impacting premium was the increase in wages of \$2.4M when combined with claims experience.

**Insurance Excess - (\$30,000)**

Costs incurred in the below excess budget for general insurance, arising from any additional motor, property or liability claims excesses or settlements, have been stringently managed this budget year resulting in reductions in below excess claims costs. It is estimated that Council's Insurance Excess budget can be reduced by \$30,000.

**Risk Management – (\$30,931)**

Council has received a Claims Experience Discount (CED) reimbursement of \$19,931. An additional Performance Bonus of \$11,000 is expected. The budget can be amended accordingly.

**11 The Links Shell Cove Golf Course \$108,526****The Links - Golf Course - (\$24,312)**

There have been some savings achieved at The Links Golf Course, primarily in the materials budget allocation. This is a result of a stock build up as a result of previous forward purchases of materials for the course.

**The Links - Admin / Bar / Pro Shop / Building Maintenance / Cleaning - \$132,838**

Adjustments need to be made in this review to both expenditure and income estimates for the Administration, Bar and Pro Shop functions for The Links facility.

There have been a number of small adjustments in the Administration budget totalling \$1,562.

An additional budget allocation of \$6,749 is required for the Bar operation. The projection has been adjusted to include additional employment agency costs with delays experienced in the finalization of employment agreements. Council's Organisational Development Department is currently following up on this issue.

The Pro Shop expects a decrease in its sales revenue of \$74,802 from current estimates. This adjustment primarily relates to the substantial drop in green fee income. This can be explained due to a number of factors including the forced closure of the course for a approximately a week after the floods in late March, an industry wide downturn in golf course utilisation and an incorrect assessment when compiling the original budget for this item. On the expenses side, an adjustment of \$29,933 is required across a number of areas including employment agency costs for the bar operation.

Adjustments totalling \$19,792 are also required for the Building Maintenance and Cleaning functions for The Links facility. The additional budget allocation mainly relates to a new automatic door which was purchased for the front entry of the building, general repairs to the air conditioner and data cabling rectification.

**12 Information Technology (\$137,368)**

**New Photocopiers / Plan Printer - Lease Expenses \$23,302**

An additional budget allocation of \$23,302 is required for lease expenses due to the rental extension on contracts.

**Information Technology Routine Operations - (\$158,670)**

Budget savings have been achieved during the current budget period as a result of changing technology, reduced service costs and efficiency gains. Budget savings have been achieved in a number of areas in Information Technology, particularly on Computer Hardware Maintenance (\$50,200), Computer Software (\$30,000) and Computer Software Maintenance (\$85,910). An additional budget allocation of \$9,862 is required against contractors to pay for an I.T. Technician on the Help Desk. There have also been small miscellaneous adjustments totalling a saving of (\$2,422).

It is proposed that \$140,000 of these savings be restricted, to be used in the 2011/12 budget to fund the second of Council's three year software licence agreement with Microsoft. The remainder will go towards improving Council's unrestricted cash position.

**Network Communications - (\$2,000)**

This allocation funds communications between network sites. A saving of \$2,000 has been identified in Network Services.

**13 Telecommunications (\$85,600)**

**Corporate Telephones - (\$80,000)**

A saving of \$80,000 has been identified in the Corporate Telephones area as a result of the change in service provider. Exact numbers were said to be affected by usage patterns and were not possible to accurately predict in advance. Savings in 2010/11 are now more apparent.

**Corporate Telephones - Southern Phone Company Dividend - (\$5,600)**

Shellharbour Council is a shareholder in the Southern Phone Company Limited, a local government-owned telecommunications provider. There are 41 councils which hold two shares each in Southern Phone, purchased for \$1 each. Southern Phone is an unlisted Public Company.

The company's Board has declared a dividend of \$150,000. That is triple the \$50,000 paid for each of the last three years. The dividend is paid to a formula where 20% is split equally among all 41 shareholders and 80% is paid according to the amount of business generated in the council's area.

The dividend paid to Shellharbour Council this year is \$5,600.29.

**14 Plant & Fleet Management (\$74,000)**

**Plant Running Expenses - Wages Permanent Employee - (\$50,000), Insurance - \$6,000, Fuel & Oil - (\$30,000),**

Savings have been achieved in the wages and fuel areas for plant and fleet management. An additional budget allocation of \$6,000 is required for insurance.

**15 Operations and Services (\$15,000)**

**Operations and Services Management Admin - Training and Education - (\$15,000)**

It is estimated that there will be a saving of \$15,000 in this area for 2010/11.

**16 Engineering Forward Planning (\$50,000)**

**Design Routine Operations - Wages Permanent Employees - (\$50,000)**

Salary savings have been achieved in the Design Department through delays in re-filling vacant positions.

**CAPITAL WORKS BUDGET**

**17 Croom Stormwater Reuse Infrastructure (\$341,703)**

Tender documentation and specifications have been completed. Council is currently waiting on approval from the grant provider (NSW Environment Trust) to proceed with the project.

**18 Oakey Creek Gross Pollutant Trap (\$4,222)**

It is proposed to allocate the Council savings from the Oakey Creek GPT to the Stormwater restriction, for reallocation in 2011/12.

**19 Village Green Sand Filter (\$47,000)**

It is proposed to defer this project to a future financial year in order to accelerate water quality projects within the Lake Illawarra catchment area. The objective of this is to balance our financial position with the L.I.A. The \$47,000 budget is to be allocated back into the Stormwater program.

**20 Shellharbour War Memorial Park Gross Pollutant Trap (\$385,351)**

Tender documentation is currently being reviewed for this project. The tender process was delayed due to the delivery of competing higher priority grant funded projects.

**21 Shellharbour Boat Harbour Stormwater Treatment Device (\$29,271)**

It is proposed to allocate savings from the Shellharbour Boat Harbour Stormwater Treatment Device to the Stormwater restriction, for reallocation in the 2011/12.

**22 Rough Mower for The Links Golf Course \$45,000**

The recently appointed Golf Course Superintendent has been reviewing maintenance and course

development practices with the view to improving visual amenity, reducing maintenance costs and reducing the level of difficulty for average standard golfers. These initiatives are primarily designed to attract more players to the course and improve golf revenue.

It is proposed that where fairways are too narrow they be widened and, more importantly, that the long grass rough along the fairways be shortened to allow the course to be more appealing to players.

The appropriate equipment to carry out this work is a TORO 6700 that is specifically designed to mow golf course rough, as distinct from fairways or greens where different design mowers are used to provide the required finish.

Council's 2010/11 plant replacement program has been completed and a saving of approximately \$50K has been identified. It is recommended that \$45k of these monies be used for the purchase of the rough mower.

**23 Albion Oval Touch Football Fields - Lighting (\$41,559)**

These Section 94 funds were allocated to match funding sought under a grant application. Unfortunately Council was unsuccessful with this application and as such are unable to proceed with the project this financial year.

This adjustment does not impact on Council's unrestricted cash position.

**24 Albion Park and Albion Park Rail Sports Field Lighting and Upgrade (\$152,011)**

This project was to be completed in conjunction with the above project (item 23). However as Council was unsuccessful in securing grant funds, neither project was commenced.

This adjustment does not impact on Council's unrestricted cash bottom line.

**25 Lake Illawarra Foreshore Stage 1 - Pur Pur Bay (\$24,550)**

These Section 94 funds can only be used for construction. They represent only a part of the total funding required for the project. The additional funding has not been secured and as a result, Council has not been able to proceed with the project.

This adjustment does not impact on Council's unrestricted cash bottom line.

**Budget Summary**

The following summary details the "sources and applications" of budget funds, incorporating all the changes recommended and made in this review. It is necessary to give very careful consideration to items that have funding attached or that must be held as "restricted" for a particular purpose. It is only by allowing for these adjustments that an accurate result can be determined. Each item in this table is footnoted with an appropriate reference for further information.

Operating Budget as at 31/03/2011 (1)	(6,313,606)	
Capital Budget as at 31/3/2011 (2)	<u>19,929,244</u>	<b>13,615,638</b>
<b>Less</b>		
Non-Cash Items (3)	11,544,000	
Loans (4)	1,351,000	
Restricted Assets (5)	6,593,342	
S94 funded items (6)	<u>1,450,653</u>	<b>20,938,995</b>
<b>Add</b>		
Section 94 Operating Surplus (7)	3,433,875	
Domestic Waste Surplus (8)	818,577	
Community Transport (9)	(246,856)	
60/40 Split Entrepreneurial Fund (10)	<u>2,702,496</u>	<b>6,708,092</b>
<b>Projected June 30 2011 Surplus as at 31 March 2011 (with all new items)</b>		<b><u>(\$615,265)</u></b>

**(1) Operating Budget Result**

Please see the Operating Budget that is circulated separately to this report. This budget details all items of income and expenditure that will appear in Council's Operating Statement.

**(2) *Balance Sheet & Capital Works Budget***

Please see the Balance Sheet & Capital Works Budget that is circulated separately to this report. This budget details items to be acquired or constructed by Council that are of a capital nature and will ultimately be included on Council's Asset Register. The total of expenditure is found at the foot of the Revised Budget column.

**(3) *Non-Cash Items***

The Operating Budget contains a number of non-cash items that must be deducted when setting its cash budget for the year according to the Local Government Act. There is an amount of \$12M that reflects Council's annual depreciation charge. It must be recognised that depreciation is a non-cash item, as it is merely an entry in Council's accounts that reflects the cost of the use of an asset over its useful life. Also included is an amount of \$1.2M to reflect the book value of assets sold. Other non-cash items include an amount for assets contributed by developers, an amount for fair value adjustments on investment property and an amount for the Waste Depot / Sandmine Remediation.

**(4) *Loans***

It is necessary to identify any works that use a loan borrowing to fund their cost. These items are contained in both the Operating Budget and the Capital Works Budget.

The \$1,351,000 amount listed under loans in the above financial table represents the new item included in the 2008/09 budget for stage 1 of the redevelopment works at the Shellharbour Beachside Tourist Park. This loan is funded by the Department of Lands at a low interest rate under the Caravan Parks Improvement Scheme. Repayment of this loan will be financed from increased revenue streams at the Caravan Park. It should be noted that this loan has not yet been drawn down. The project is currently delayed, pending completion of a heritage study.

**(5) *Restricted Cash Assets***

Restricted Cash Assets are made up of unexpended grants or reserves from previous years that Council has identified that make up part of its total cash at bank. The fact that these funds must only be used for a particular purpose makes them "restricted". Items being funded from "restricted cash" must be deducted from the total budget in order to work towards obtaining a budget for "new" cash required. Projects that use funding from Restricted Cash Assets can affect all budget areas depending upon the timing of the payment of grants and their actual expenditure.

**(6) *"Section 94" funded items***

These are items that are being constructed in accordance with Council's Section 94 Contributions Management Plan. These items, like loans and restricted assets, are funded and must be deducted to work towards calculating an actual result.



**(7) Section 94 Operating Surplus**

This item is the total projected income from Section 94 less Council's annual budgeted expenditure in maintaining and administering the Section 94 Contributions Management Plan. This surplus is irrelevant for our cash budgeting purposes as Council cannot subsidise its operations from S94 income. Section 94 income can only be spent in accordance with the S94 Contributions Management Plan and as such any surplus from Section 94 must be properly identified and accounted for in determining Council's budget requirements.

**(8) Domestic Waste Surplus**

Similar to the situation with S94, the State Government has determined that Councils cannot subsidise or be subsidised by their Domestic Waste Services. This adjustment takes into account all income from the domestic waste collection charge and deducts all expenditure also attributable to this service.

**(9) Community Transport**

Council has a policy where any profits made from the Community Transport program are held as restricted cash for future bus replacement. This item details the amount that is expected to be transferred to fund bus replacement. As such the surplus must be added back to arrive at the actual result.

**(10) 60/40 Entrepreneurial Fund**

The "60/40 Entrepreneurial Fund" has reflected a Council Policy whereby the proceeds of land sales are split 60% for the further development of entrepreneurial activities and 40% to fund Council's commitment to facilities contained in the Section 94 Contributions Management Plan.

**General**

The updated unrestricted cash surplus projection is therefore an adjusted figure taking into consideration allowances for depreciation, items for which Council has funding and income items from which it cannot subsidise its general operations.

The original budget surplus as adopted by Council in June 2010 was \$12,994. The projected surplus as at 30 September 2010 was \$104,631. The projected surplus as at 31 December 2010 was \$208,282. Council now has a projected unrestricted cash surplus of \$615,265, after allowing for the various funding sources. This is an improvement of \$406,983 since the 31 December 2010 projection.

**Lake Illawarra Authority Debtor / Creditor Position**

The Lake Illawarra Program comprises work carried out on Lake Illawarra and its foreshores and is agreed to by the Lake Illawarra Authority (LIA), Wollongong City Council and Shellharbour City Council. Depending on the type of project, funding could come from one, two or all three organisations. To ensure an efficient delivery of

the program, one organisation is usually responsible for completing individual projects even though a number of organisations may fund them. Coupled with the fact that unforeseen circumstances may change the program throughout the year, Council or the LIA may contribute more or less to the program as agreed, resulting in the Council or the LIA owing the other the balance. This balance can usually be sorted out in the following years by one organisation contributing more to the program. Therefore there is no actual adjustment made to Council's current budget and cash position.

As at 31 March 2011, Shellharbour City Council's "works in kind" contribution to the Lake Illawarra Works Program was \$92,514.87 less than the LIA's "works in kind" contribution.

### **Statement by the Responsible Accounting Officer - General Manager**

This report reviews Council's financial position after three quarters of the budget year. A number of large adjustments have been made as part of this March budget review, some impacting on the unrestricted cash position in a positive way and some having a negative effect. A final projected surplus of \$615,265 has been made which represents a favourable turnaround of more than \$406,983 since the December budget review.

Two of the main favourable adjustments which have contributed to the increase in the surplus have been influenced by strong economic activity in their respective areas this budget year. Additional income above what was originally expected for the Tip has seen an adjustment of \$150,000 to the current estimate. An increase in construction and demolition activity resulting in additional waste received at the Tip, has been the primary reason for the adjustment. The other favourable adjustment is administration fee income Council receives on each piece of land sold in the Shell Cove project. An adjustment of \$145,000 has been recommended at this review.

The recommendation of this report includes a proposal to internally restrict the \$515,000 adjustment made at this review for interest on investments. When setting its original 2010/11 budget in May/June 2010, Council factored in an annual return of 5.5% on investments for the full budget year. This was 1% above the Reserve Bank's cash rate at the time. The financial year to date return up until the end of April 2011 was 6.77%, with two months of the year remaining.

All sections of Council's investment portfolio have performed extremely strongly again this year. Financial institutions are paying premiums on term deposit rates as they compete to attract funds. This has assisted Council with 58% of the portfolio invested in term deposits at the end of April 2011. The average yield on these deposits is approximately 6.75% for this low risk component of the portfolio. Medium term managed funds have been the standout performers this year with one fund returning 13.71% and the other 7.35% up until the end of April. The long term component has also exceeded all benchmarks returning 9.97% for the same period.

Whilst Council's investment portfolio has performed above all expectations since the end of the Global Financial Crisis (GFC), a negative return of 1.94% was

experienced during the height of the crisis in the 2009 financial year, combined with a poor return of 1.45% in 2008. This highlights the fluctuations that can occur in world financial markets from time to time. Council's investment policy and strategy documents ensures that a significant part of its portfolio is invested in low risk securities (eg term deposits), however the medium and longer term components are exposed to slightly greater risk securities to correlate with the longer maturity timeframes. This strategy is supported and recommended by Council's independent investment advisors.

The income gained from Council's investment portfolio plays a vital role in the compilation of the budget each year. Any significant fluctuations from the original estimate can have a major impact on the direction the organisation has to take in that particular year. To help "smooth" out these fluctuations, it is proposed as part of the recommendation of this report, to internally restrict the adjustment made at this review for interest on investments, with these funds being available for use if estimates aren't achieved in this area in future budgets, due to unforeseen events which impact on financial markets.

The Integrated Planning & Reporting documents which include the 2011/12 Budget have been reported to an Extraordinary Meeting of Council earlier this month and are now on public exhibition until 13 June. In compiling next year's budget a new policy direction has been taken with an emphasis on only applying operational or day to day revenue with day to day expenditures. Future capital expenditure allocations are only to be sourced from external funding including grants or section 94 contributions or loans and accumulated reserves.

Past budgets have seen operational revenues applied to capital works, which have resulted in additional assets being added to Council's existing asset base. Council is then required to find monies in its operating budget to maintain these new assets while at the same time an infrastructure funding gap has been growing on our existing assets. The new policy direction will see more funding allocated to maintain these existing assets with a more scrutinised approach taken before any new assets are constructed. The issue of increasing infrastructure funding gaps is an industry wide problem, however it is hoped that this change in policy direction will assist as Council attempts to address this issue.

As mentioned above, future funding of capital works may be sourced from accumulated reserves or loans. For these funding sources to be viable options, it is vital that Council has a sufficient balance of accumulated reserves it can draw upon if required. The consolidation of the current surplus identified at this review over the remaining period of this budget year is therefore imperative for future operations.

As mentioned in the summary section of this report, a report is expected to be presented to Council in June in relation to the location of the Council Chambers and Public Gallery for occupation by the newly elected Council from September 2011. Investigations are currently being undertaken and costings being sought for the most suitable area for the location of the Chambers and Public Gallery. This will require an adjustment to be made to the current budget to cover costs associated with this work.

Based upon the revised estimates of income and expenditure reported, the financial position of Council is satisfactory.

## **Consultations**

### **Internal**

Budget Responsible Officers including the General Manager, Directors and Managers.

### **External**

Nil

### **Political Donations Disclosure**

Not applicable.

## **Recommendation**

1. That Council adopt the March 2011 Quarter Budget Review with all new items as contained in this report resulting in a revised budget surplus for the year ended 30 June 2011, of \$615,265.
2. That an internal restriction be created for Interest on Investments, which is to be utilised in future budgets when income received is less than what Council has estimated; and that an amount of \$515,000 be allocated to this restriction as part of this budget review.

Approved for Council's consideration: \_\_\_\_\_



## **Attachments**

1. Operational Budget - issued under separate cover
2. Capital Budget - issued under separate cover
3. Income Statement for The Links - Shell Cove for the period 1 July 2010 - 31 March 2011

## Attachment 3 - Income Statement for The Links - Shell Cove 1 July 2010 - 31 March 2011

**Income Statement**  
**For the period of 1 July 2010 - 31 Mar 2011**  
**The Links - Shell Cove**



	Admin	Bar	Pro Shop	Golf Course	Total	**Budget
<b>Income from continuing operations</b>						
<b>Revenue:</b>						
Sundry Income	(2,803)	(33,011)	-	-	(35,814)	(64,873)
Sales	-	(748,878)	(257,720)	-	(1,006,598)	(1,323,598)
Membership	-	-	(151,568)	-	(151,568)	(220,000)
Cart Hire & Green Fees	-	-	(354,955)	-	(354,955)	(459,478)
Grants/Contributions	(9,916)	-	-	-	(9,916)	(13,516)
<b>Total income from continuing operations</b>	<b>(12,719)</b>	<b>(781,889)</b>	<b>(764,243)</b>	<b>-</b>	<b>(1,558,851)</b>	<b>(2,081,465)</b>
<b>Expenses from continuing operations</b>						
Employee benefits and on-costs	103,755	157,662	154,729	247,458	663,604	906,964
Materials and contracts	125,119	400,566	239,047	188,036	952,768	1,233,271
Other expenses	96,572	60,896	78,029	13,939	249,436	320,986
<b>Total expenses from continuing operations</b>	<b>325,446</b>	<b>619,124</b>	<b>471,805</b>	<b>449,433</b>	<b>1,865,808</b>	<b>2,461,221</b>
<b>Operating result from continuing operations (profit)/loss</b>	<b>312,727</b>	<b>(162,765)</b>	<b>(292,438)</b>	<b>449,433</b>	<b>306,957</b>	<b>379,756</b>

\*NB. The above Income Statement does not include non cash transactions eg. Depreciation

\*\*NB. The budget figures represent estimates sourced from the revised budget after the March Quarter Budget Review

**12.1.3 Monthly Investment Report (9500517)**

To the Administrator

**Division: General Manager's Division**

**Department: Executive Offices**

**Manager:** Michael Willis - General Manager

**Author:** Paul Henderson - Manager Financial Services

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**Summary**

The purpose of this report is to provide details to Council, of its current Investment Portfolio in terms of holdings and impacts of changes in market values since the last monthly report. The report also details investment performance against applicable benchmarks and confirms compliance of Council's investments with policy and legislative requirements.

**Background**

Financial Services staff monitor Council's cash flow on a daily basis, with surplus funds being invested in accordance with Council's Investment Policy, the Local Government Act, Local Government (General) Regulation and the Ministerial Investment Order.

Subject to these constraints, Council's objective when investing funds, is to obtain the most favourable rate of interest, whilst taking into consideration the risks and security associated with the investment and ensuring that Council's liquidity requirements are also being met. To assist with this process, Council communicates with our independent investment advisors (CPG Research & Advisory) before any investment is made. Close attention is paid to Council's Investment Policy and Strategy documents.

Section 212 of the Local Government (General) Regulation 2005, requires Council's Responsible Accounting Officer (at SCC - the General Manager) to provide a report to Council, detailing all investments held at the end of each month. The report must also indicate whether the investments made, have been in accordance with the Act, the regulations and Council's adopted Investment Policy.

Council invests its surplus funds on the best available advice, to maximise interest returns. Any additional interest income achieved through the placement of investments, results in extra funds being available for expenditure in our City.

The monthly return for April was 0.50%, or when annualised approximately 6.0%. All sections of Council's investment portfolio performed strongly in April apart from the Long Term Growth managed fund. Poor performance in Australian equities for the month primarily resulted in this fund experiencing a flat return in April.

**Consultations**

**Internal**

Group Manager Corporate Services

**External**

CPG Research & Advisory

**Political Donations Disclosure**

Not applicable.

**Recommendation**

**That Council receive and note the attached Investment Portfolio reports, as at 30 April 2011.**

Approved for Council's consideration: \_\_\_\_\_



**Attachments**

1. Council's Investment Portfolio as at 30 April 2011

Attachment 1 - Investment Portfolio Report as at 30 April 2011



Shellharbour City Council Investment Report by Investment Strategy as at 30 April 2011

The table below shows the actual performance of Council's investment portfolio. It is provided as required by the Local Govt. (General) Reg 2005 (Cl 212).

Portfolio Holdings	Credit Rating	Valuation (\$m)	Allocation (%)	1 Month (%)	3 Months (%)	6 Months (%)	RYTD (%)	1 Year (%)	2 Years (%)	5 Years (%)	Maturity	Returns Profile	
<b>Income Investments</b>													
UBS Cash Management Trust	AAA	0.38	0.71	0.30	0.92	1.87	-	-	-	-	-	T	Income
ANZ Premium Business Cash Management	AA	3.01	5.67	0.47	1.33	2.70	4.47	5.29	4.84	5.29	-	T	Income
TCorp Hour Glass Cash Facility	Unrated	0.24	0.46	0.39	1.15	2.32	3.46	4.58	3.96	4.56	-	T	Income
<b>11am Official Cash Rate (Benchmark)</b>													
<b>Term Deposits</b>													
NAB @ 6.30% to 11 June 2011	AA	2.12	3.99	0.50	1.50	3.08	5.22	-	-	-	-	11/06/11	Income
NAB @ 6.30% to 15 June 2011	AA	2.09	3.94	0.50	1.50	3.08	5.22	-	-	-	-	15/06/11	Income
AMP @ 6.31% to 2 September 2011	A	1.00	1.88	0.50	1.50	3.08	-	-	-	-	-	02/09/11	Income
AMP @ 6.31% to 5 September 2011	A	1.00	1.88	0.50	1.50	3.08	-	-	-	-	-	06/09/11	Income
AMP @ 6.31% to 6 September 2011	A	1.00	1.88	0.50	1.50	3.08	-	-	-	-	-	06/09/11	Income
St George @ 6.38% to 01 October 2011	AA	2.12	4.00	0.51	1.52	3.11	-	-	-	-	-	06/10/11	Income
The Rock Building Society 6.50% 6 October 2011	BBB-	1.00	1.88	0.52	1.55	-	-	-	-	-	-	06/10/11	Income
Investec @ 7.46% to 11 October 2011	BBB	2.50	4.71	0.59	1.77	3.63	6.18	7.46	7.46	-	-	11/10/11	Income
Investec @ 7.53% to 11 October 2011	BBB	0.95	1.79	0.60	1.79	3.67	6.23	7.53	7.53	-	-	11/10/11	Income
ADCU @ 6.60% to 12 December 2011	Unrated	1.00	3.77	0.52	1.55	-	-	-	-	-	-	12/12/11	Income
ANZ Bank @ 6.50% to 14 December 2011	AA	2.00	3.77	0.52	1.55	-	-	-	-	-	-	14/12/11	Income
Rabobank @ 6.60% to 22 March 2012	AAA	1.00	1.88	0.53	-	-	-	-	-	-	-	22/03/12	Income
Rural Bank @ 6.83% to 29 October 2012	BBB+	1.09	2.05	0.54	1.62	3.33	-	-	-	-	-	29/10/12	Income
Suncorp @ 7.40% to 19 August 2013	BBB+	3.50	6.59	0.59	1.76	3.60	-	-	-	-	-	19/08/13	Income
Credit Union Australia @ 6.92% to 24 February	A+	2.00	3.77	0.55	1.64	-	-	-	-	-	-	24/02/14	Income
NAB Flexi Deposit to 27 August 2015	AAA	3.50	6.59	0.51	1.52	3.13	-	-	-	-	-	27/08/15	Income
Rabobank @ 7.15% to 21 March 2016	AAA	2.00	3.77	0.57	-	-	-	-	-	-	-	21/03/16	Income
<b>Managed Funds</b>													
Macquarie Income Plus	Unrated	4.04	7.61	0.85	2.30	4.59	8.26	8.30	11.02	7.10	T + 2	Income	
BlackRock Care & Maintenance	Unrated	3.19	6.01	0.83	3.25	4.78	14.65	9.85	20.69	-	Till Maturity	Income	
<b>Senior Floating Rate Notes</b>													
Royal Bank of Scotland @ 3m BBSW + 0.90%	A+	1.40	2.64	0.47	1.41	2.89	4.84	5.79	-	-	-	10/06/2011	Income
Royal Bank of Scotland @ 3m BBSW + 1.95%	A+	1.50	2.83	0.55	-	-	-	-	-	-	-	27/08/2013	Income
Lloyds @ 3m BBSW + 2.20%	A+	2.60	4.90	0.56	-	-	-	-	-	-	-	01/10/2014	Income
<b>Income Investment Return</b>													
				<b>0.57</b>	<b>1.74</b>	<b>3.44</b>	<b>6.38</b>	<b>6.80</b>	<b>8.75</b>	<b>4.75</b>			
<b>Growth Investments</b>													
TCorp Long Term Growth Fund	Unrated	5.85	11.02	-0.01	1.10	4.07	9.96	5.44	12.13	1.04	T + 5	Growth	
<b>Net Median Diversified Growth Manager (Benchmark)</b>													
				<b>-0.09</b>	<b>2.57</b>	<b>5.25</b>	<b>9.58</b>	<b>3.58</b>	<b>13.66</b>	<b>0.31</b>			
<b>Growth Investment Return</b>													
				<b>-0.01</b>	<b>1.10</b>	<b>4.07</b>	<b>9.96</b>	<b>5.44</b>	<b>12.13</b>	<b>1.04</b>			
<b>Total Shellharbour City Council Portfolio</b>													
		<b>53.08</b>	<b>100.00</b>	<b>0.50</b>	<b>1.87</b>	<b>2.98</b>	<b>6.77</b>	<b>6.54</b>	<b>9.13</b>	<b>4.26</b>			

\* Returns are calculated using a daily time weighted methodology. The performance figures are net of all fees.  
 \* Council's unrestricted cash balance as at 01 July 2010 was \$3,926 million, plus the March Quarter Budget Review surplus of \$0.615 million, (report to this meeting) leaving a current unrestricted cash balance of \$4.541 million which is earmarked for the ongoing budget, as part of Council's financial management strategy.

I certify that the above investments have been made in accordance with the Local Government Act, the regulations and the Councils Investment Policy.

Accounting Officer: *[Signature]* Manager Financial Services: *[Signature]* Responsible Accounting Officer: *[Signature]* Updated: 11/05/2011



**12.1.4 The Links Shell Cove - Management (9504455)**

To the Administrator

**Division:** General Manager's Division

**Department:** Executive Offices

**Manager:** Michael Willis - General Manager

**Author:** Arthur Webster - Director Operations and Services

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**Summary**

This report has been produced in response to consistent concerns from sections of the community that The Links Shell Cove golf course and hotel is operating at a loss which is in effect being subsidised by the ratepayers. On the assumption that council subsidies are not acceptable, it therefore addresses this issue by taking a commercial investment perspective to produce a financial return to the Council as a means of addressing the current losses.

The facility is currently operated and managed by Shellharbour City Council and its staff. The facility has been operating at a financial loss and currently has an accrued debt comprising operational losses and asset improvement costs of \$1.6million. The annual financial turnover for the business has improved, however costs have also increased. The value of the asset has increased, however it is unlikely that, in the current environment, the current basis of operations would be reflected in the current book value. In other words, if (hypothetically) the Council were to put the entire operation on the market, it would not realise the current valuation of the asset. To put this in commercial terms, the Council is not achieving an appropriate return on this asset, and is subsidising its operations.

This report provides options and strategies to restore value to this very important Council asset, involving: the current basis of operation; leasing options; removing the current debt; address the ongoing losses and ultimately improving the commercial value of the asset to be closer to or at its book value.

**Background**

The Links Shell Cove golf course is a public facility that consists of an 18 hole Championship Golf Course and a Clubhouse containing a licensed hotel, restaurant, function room and pro-shop. It is located on 59.5 ha of land. The golf course, hotel and a 6936m<sup>2</sup> area identified as a further motel / convention centre site is zoned RE2 (private recreation golf course) on the proposed LEP 2011. The balance of the area is RS (low density residential)

Council has managed the facility since a lease with Shellharbour Links Pty Ltd was terminated in April 2008. This was an interim arrangement to maintain the continuous operation of the facility and to address the deteriorating condition of the golf course.

The course is now considered to be in satisfactory condition and it is appropriate that Council consider its position in relation to the future operation of the course and hotel.

### **A SUGGESTED STRATEGIC APPROACH**

While The Links may have a relatively low commercial value now, given the developing nature of the facility itself and the Shell Cove development in general, that value should be far higher in 5-10 years time. From a commercial perspective, we should therefore be pursuing strategies aimed at maximising that value, eliminating the current deficits, and give the Council options in the future to realise that value and applying any returns to other priorities. Taking a commercial perspective to an analysis of the Council's current operations at The Links will help ensure that we are very clear about what our longer term objectives are and then to drive our current plans and proposals toward them.

The following Golf Course Strategic Framework is suggested:

1. Retain ownership of the course, clubhouse, hotel and land for commercial expansion for the medium term

Obviously the returns from the current operations would not attract anything like its underlying value from a sale in the short term. Provided the right decisions are made now, the Council should be able to capitalise at some future date (if it chooses) from the sale of some or all of those assets, based on the development of the business in the next (say) 5-10 years.

2. Dispose of the residential land associated with the Golf Course to offset the accumulated losses.

This would eliminate the current debt of \$1.6million.

3. Issue EOI for a lease for the operation of the hotel operation, including the access to the licences for gaming machines.

A lease could be on a 5+5 years basis, and could include terms and conditions that would encourage investment by a leasee.

4. Retain responsibility for the operation of the Golf and Course operations (but include an option in the EOI for their management).

The Council would then pursue various efficiency strategies to lower the costs of operating both of these functions.

5. Develop a marketing strategy to secure a doubling of rounds played per annum (member, casual and tournament) within 5 years.

This would complement the cost reduction approach and improve revenue (some work done on this, but it needs to be more tightly drawn to a medium term objective to double the rounds played).

6. Position assets for potential sale in (say) 8-10 years time.

Operating assets with commercial value should be managed with a view to maximising their value by way of sale. That is, of course, quite different from actually offering them for sale.

Set out below are a number of options for the future operation of the facility, which should be considered in terms of the suggested strategic framework.

### **HOTEL / GOLF COURSE**

#### **Council Management - Hotel / Golf Course**

This is the current management arrangement, which has resulted in improved course presentation, book asset value, financial turnover and patronage. The initial strategy was to improve the golf course condition to attract membership and increase golf rounds played. The strategy for the hotel component of the business was to focus on customer service, improve catering and bar products and to respond to customer requests to attract patronage.

The cost of implementing the strategies has exceeded the income to date, despite the significant increase in turnover. While there is evidence that the operational deficit is reducing, these strategies must be developed further to provide a sustainable future. It is unlikely that this management arrangement will return a surplus within three years and the operation will be reliant on sponsorship or subsidy to maintain the current level of service.

In the budget period 2009/10 there was a loss of \$382,394 on the combined operation of the golf course and hotel.

The losses have been predominantly due to the operation of the golf course and recent financial improvement is partially due to the completion of cart paths to all areas of the course. This has lifted restrictions to the use of the carts when the course is affected by wet weather and increased the number of golf rounds played

#### **Lease of Hotel / Golf Course**

Initially Council leased the hotel / golf course and the outcome was unsatisfactory, which necessitated that Council take over the management of the operation. Substantial funds were expended to improve the course condition, which had deteriorated due to inadequate course maintenance.

It is unlikely that there would be commercial interest in operating the golf course component, as it would not provide a satisfactory financial return to a commercial operator in the short term. There are very few golf courses that are not heavily subsidised by a supporting business operation. Further, from Council's previous experience with the golf course operations, the risk to Council would be that maintenance expenditure would be reduced to improve the financial position at the expense of the course condition and asset value.

There is likely to be more commercial interest in leasing the hotel as a separate business than leasing the golf course and hotel.

**GOLF COURSE OPERATIONS****Maintenance and Improvements**

Maintenance and improvements to the course have been the basis for attracting players and establishing recognition of the golf course. The recent completion of the golf cart paths has provided a direct financial benefit through increased use of the course during wet conditions. The standard of course maintenance must be retained. The cost of Council staff maintaining the facility could be tested via competitive tender, although an independent quote for maintaining the course to the current standard exceeded the current maintenance budget.

**Increase Golf Revenue**

The objective of managing the golf club and course is to maintain a satisfactory standard of the course to attract customers and to generate income through customers to fund the operation of the course. Currently there is a substantial shortfall and a strategy is required to address this issue.

Based on current revenue and costs, a budget estimate for the management and operation of the golf course, which includes club membership administration, golf product sales and course maintenance, is a deficit of \$242,000. The course is well positioned to attract new membership and social players due to its location within a developing area and also due to the course gaining public recognition as a quality golf course.

The course has been promoted as an attraction for land sales at Shell Cove, however no sponsorship of the course is offered by the property developers.

Membership and golf fees are relatively low compared to equivalent courses in the region. There are opportunities to be investigated to increase the revenue stream. It is inevitable that subsidies will need to be provided to maintain the standard of the course. A subsidy may be provided through the hotel operations or directly through Council's budget process.

Based on the strategies set out at the commencement of this report, the following steps are recommended.

**Golf Operations:**

- Prepare a marketing plan with the objective of increasing the rounds of golf played by 10% per annum.
- Review the current fee structure inline with equivalent regional golf courses.
- Investigate sponsorship / advertising income opportunities.
- Allocate profits / rental from the hotel operations to subsidise golf course operation.

**HOTEL OPERATIONS**

This component of the operation is returning a small profit. Business growth is constrained by the building design, lack of facilities for customers who smoke, noise issues, limited floor space and inefficient air conditioning.

Council employees who work at the hotel must be covered under the Local Government Award. This award is not suited to the hotel industry.

There is opportunity to increase revenue through the utilisation of an existing option to purchase 10 gaming machines. While this may be an appropriate action for a private entity to undertake, it is not seen as an appropriate action for the Council to undertake.

Council may consider either selling or leasing the hotel component of the operation. The book value of the hotel and carpark is \$6.5million; however based on the current turnover it is very unlikely that a sale will return this amount.

Leasing the facility would provide the opportunity for the lessee to develop the business commercially, with Council benefitting from an upfront lease payment and a monthly rental over the lease period. Following the lease period, Council may be in a more favourable position to consider its opportunities.

If Council was to lease the hotel it would need to relocate its golf operations from the building. This would require the construction of a building to secure and service the golf carts. A golf shop or office would also be required to provide for management of the golf club and sales / services of golf products.

The existing golf shop in the hotel building may be available for leaseback as it would be beneficial for the hotel operator to maintain close association with the golf club members and players as they are current customers of the hotel. This option would reduce the relocation costs of this essential part of the golf operations.

In addition, the Council could invite submissions (as part of an EOI process) for the construction of accommodation facilities on Council owned land adjacent to the hotel site.

**Hotel Business:**

- Call Expressions of Interest (EOI) to lease the hotel operations for a 5 + 5 years period or for a longer period subject to a suitable proposal for capital expenditure on the building.
- Prepare plans and estimates for the construction of a building to store / service the golf carts. Construction funding to be provided from the 'upfront' hotel lease payment.
- Allocate hotel rental income to subsidise golf course operations.
- Invite submissions (as part of an EOI process) for the construction of accommodation facilities on Council owned land adjacent to the hotel site.

**RETIREMENT OF GOLF COURSE DEBT**

The accrued financial losses from the golf course are \$1.6million. It has been previously documented that this debt would be serviced through the sale of Council land that adjoins the golf course which is currently zoned residential.

Six residential allotments are contained within Stage 6(F) of the Shell Cove development. This land should be developed and available for sale in 2012 with an expected return to Council of \$1.1million.

The adjoining Council owned land to the west and bounded by the quarry haul road and the hotel has potential to yield additional residential allotments. The residential development of this land is subject to noise impact created by traffic on the quarry haul road. An assessment of the potential yield will be dependent on an acoustic report and residential design to meet Council subdivision codes. The conservative estimated value of this undeveloped land is between \$500K and \$750K.

The combined value of the above land and the six allotments identified is \$1.6 - \$1.7million. Council's current debt from accrued losses and expenditure at the golf course is \$1.6million.

**Property Development:**

- Commission relevant studies and prepare a subdivision Development Application for the residential zoned land.
- Call EOI for the sale of the residential component of the land approved for subdivision.
- Allocate proceeds from the land sales to retire existing golf course debt.

**Consultations****Internal**

Group Manager Corporate Service  
Manager Financial Services  
Shell Cove Project Engineer  
Manager The Links Shell Cove  
Manager Property

**External**

Golf Industry Central Pty Ltd  
Mark Parker Pty Ltd  
Turn Point Golf Course Maintenance  
Stephan Consulting

**Political Donations Disclosure**

Not Applicable.

## **Recommendation**

### **That Council:**

- 1. Note and agree to the Golf Course Strategic Framework set out above in this report.**
- 2. Call Expressions of Interest for the lease of The Links Shell Cove hotel for a minimum of five years plus five years option.**
- 3. Manage and maintain the public golf course and progress the strategies identified in this report to improve the financial return from this operation.**
- 4. Allocate adequate reducing amounts of annual funding in its operational budget to meet the operational deficit until the facility becomes self-funded.**
- 5. Prepare a development application for the Council owned residential zoned land adjacent to the golf course in preparation for the sale of this Council asset.**
- 6. Allocate funds raised through the sale of residential land identified in this report to address the existing golf course debt.**

Approved for Council's consideration: \_\_\_\_\_



### **Attachments**

Nil

## 12.2 Operations & Services Division

### 12.2.1 Tender No. 2011/01 - Air Conditioning Upgrade, Administration Centre, Lamerton House (9505136)

To the General Manager

**Division:** Operations & Services Division  
**Department:** Customer & Environmental Services

**Manager:** Graham Standen - Group Manager Customer & Environmental Services  
**Author:** John Riggall - Project Manager

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## Summary

Tenders for the air conditioning upgrade at Council's Administration Centre, Lamerton House were advertised and closed on 27 April 2011.

The tenders were received in accordance with the *NSW Local Government Act & (General) Regulation 2005*.

Of the four tenders that were received, one tender was submitted a few minutes late and one tender was in time but supplemented by additional information provided after the closing time for tenders. The reason given by both these tenderers was that they had difficulty in obtaining information critical to their offers, from a key supplier, whose response was in their view, unreasonably slow.

In addition, during the tender evaluation process, some errors and omissions were identified in the technical specification provided by Council to the tenderers. These specifications were provided to Council by a contract air conditioning specialist, retained for that purpose. Should Council now award a contract based on the current technical specification, the errors and omissions may result in variations that will add significant costs to the contract and project.

It is considered to be in Council's best interests to now decline to accept any of these tenders. Instead, Council should review and amend the technical specification and invite fresh tenders. This action is in accord with provisions of *NSW Local Government Act & (General) Regulation 2005* and would seem to be the most appropriate option for Council to progress the matter.

## Background

At its meeting on 14 December 2010, Council considered a report on the Lamerton House Air Conditioning Maintenance and Repairs that detailed the work required for the air conditioning to be fully functional, at minimum cost. The report stated that the system has been failing on a regular basis for a number of years and a report by an



air conditioning consultant (GHD) identified problems with the system that need to be rectified urgently. Some funding had been allocated but it was recognised that additional funds would be required to carry out the essential work.

Council resolved (Min. 249):

- '1. That Council notes that additional funds will be required to complete the necessary works to enable the air conditioning system in Lamerton House to function at an acceptable level.
2. That these additional funds may be saved through budget savings or deferral of works identified in the 2010/11 Asset Repair Programme.
3. That if necessary, further funds may need to be included in the 2011/12 Asset Repair Programme or added as a new item in the 2011/12 budget.
4. That Council commence the tender process for the maintenance and modifications to the air conditioning system.'

Following this resolution, tender documents were prepared, based on the technical specification provided by a contract air conditioning specialist and a request for tenders was listed on the e-tender portal [www.tenderlink.com/shellharbour](http://www.tenderlink.com/shellharbour) on 1 April 2011 and advertised in the Illawarra Mercury on 2 April 2011 and the Sydney Morning Herald on 5 April 2011. The closing time for tender submissions was Wednesday 27 April 2011 at 2pm.

Four tenders were received, however one tender was submitted a few minutes late and one tender was in time but supplemented by additional information provided after the closing time for tenders. Both tenderers, who submitted late information, advised they had difficulty in obtaining information from a key supplier that was necessary to complete their pricing. Both also said they had allowed reasonable time for the information to be provided.

In addition, some errors and omissions were identified in the technical specification provided by Council to the tenderers and these may result in significant variations should Council award a contract based on the tender documentation.

The proposal to decline all tenders and invite fresh tenders complies with Clause 178 of the *Local Government (General) Regulation 2005*, which states:

'A council that decides not to accept any of the tenders for a proposed contract or receives no tenders for the proposed contract must, by resolution, do one of the following:

- (a) postpone or cancel the proposal for the contract,
- (b) invite, in accordance with clause 167, 168 or 169, fresh tenders based on the same or different details,
- (c) invite, in accordance with clause 168, fresh applications from persons interested in tendering for the proposed contract,

- (d) invite, in accordance with clause 169, fresh applications from persons interested in tendering for contracts of the same kind as the proposed contract,
- (e) enter into negotiations with any person (whether or not the person was a tenderer) with a view to entering into a contract in relation to the subject matter of the tender,
- (f) carry out the requirements of the proposed contract itself.'

It is considered to be in Council's best interests to review the technical specification and amend it accordingly and then call fresh tenders.

## **Consultations**

### **Internal**

Group Manager Corporate Services  
Group Manger Customer and Environmental Services  
Group Manager Works and Services  
Manager Property  
Manager Financial Services

### **External**

GHD, consultant  
Mitchell Morley, a Director of Inconsult, Council's internal audit provider

### **Political Donations Disclosure**

Nil

## **Recommendation**

**That Council, in accordance with clause 178 of the *Local Government (General) Regulation 2005*, decline to accept any of the tenders received for Tender No. 2011/01 Air Conditioning Upgrade, Administration Centre, Lamerton House and invite fresh tenders based on revised documentation.**



Approved for Council's consideration: \_\_\_\_\_

### **Attachments**

Nil

**12.3 Community Planning & Strategies Division**

Nil

**12.4 Shell Cove Business Division**

Nil

**13. Committee Recommendations**

**13.1 Recommendations from the Aboriginal Advisory Committee Meeting held 3 May 2011 recommended for adoption.**

That the Recommendations from the Aboriginal Advisory Committee Meeting held 3 May 2011 be adopted.

**13.2 Recommendations from the Traffic Committee Meeting held 4 May 2011 recommended for adoption.**

That the Recommendations from the Traffic Committee Meeting held 4 May 2011 be adopted.

**14. Items for Information**

Nil

**15. Notices of Rescission/Alteration Motions**

Nil

**16. Notices of Motion**

Nil

**17. Questions on Notice**

**18. Urgent Business**

**19. Committee of the Whole in Closed Session: Adjournment**

**20. Committee of the Whole: Consideration of Adoption of Decisions Reached in Closed Session**

**21. Consideration of Motions to Declassify Reports Considered in Closed Session**