



GENERAL MANAGER'S REPORT TO WORKSHOP

23 March 2005

GM1 SERVICE PROVISION REVIEW FILE: * AVB

SUMMARY:

To provide information on services to enable Councillors to workshop in preparation for the 2005/06 Budget.



SCOPE OF THE WORKSHOP

Council has expressed the wish to increase the level of expenditure on roads. In the current climate of rate pegging where the Ministers allowable percentage does not cover cost increases this will be very difficult to achieve unless Council either applies for a special rate increase or makes some very difficult decisions regarding existing service provision.

In respect of services to be provided Council needs to determine:-

- What range of services it needs to provide over the next five (5) years
- What services it wishes to provide through its own workforce
- What services it believes should be outsourced

In respect of range of services Council is to provide, the market segment it is servicing requires examination. Is the income distribution of our resident such that they can afford rate increases and what sectors and age groups need the attention. Adult incomes in 2001 were:-

○ 2467	People earned below	\$5001
○ 8667	People earned between	\$ 5001 - \$16000
○ 4038	People earned between	\$16001 - \$25000
○ 2136	People earned between	\$25001 - \$35000
○ 1202	People earned between	\$35001 - \$50000
○ 811	People earned more than	\$50001

Council needs to be more than a roads, rates and rubbish Council and provide services for all age groups. Specific programs have been designed for youth, indigenous and the aged. Although Community Services is fundamentally the responsibility of Commonwealth and State Governments, Local Government though necessity is becoming increasingly involved. Our communities are affected by anti-social behaviour and our communities are certainly looking to Council to provide facilities to give youth social outlets. That will lessen any anti-social impacts.

We are becoming an ageing community. In 2004 Kempsey Shire had the 38th highest percentage of residents 65 years +. In the year 2022 it is estimated that we will have the 23rd highest percentage of population 65 years +. This will change the range of services that we provide in the future. There will be increased demand for library services, cultural facilities, modifications to sporting facilities, modifications to transport, modifications to road design etc and Council's income will decrease due to pensioner rebates.

A community survey has just recently been completed. The survey was undertaken by telephone and involved 300 residents selected at random by means of a computer based random selection process. When asked to rate their satisfaction in respect of sewerage supply, garbage services, sporting facilities, parks and gardens, water supply and community facilities and roads the respondents rated their level of satisfaction with all Council service/facilities as "satisfied" with the exception of roads where there was a significant level of dissatisfaction and the overall rating was "neutral".

Who Are The External Players

When examining services to be provided Council needs to take account of those sectors of our community that will be affected either by increasing service levels or by decreasing service levels. Those that are going to be affected adversely are going to protest and Councillors will be placed under pressure to restore service levels. It is unfortunate that residents that are not affected directly by change or who support change rarely publicly voice that support.

Generally speaking the players are: -

- Ratepayers – The majority of ratepayers may receive benefit from the reallocation of expenditure. If service levels are proposed to be increased through rate increases Council may not receive ratepayer support.

- Users of the Service – If a service is to be reduced or cancelled the users of that service are likely to protest strongly.
- Employees – If services are reduced or cancelled employees could be affected. Employees would need to be allocated alternate duties which would not save costs unless there was natural attrition or would need to be made redundant with a once only up front cost.
- Unions – Unions would be advocates for employees.

Legislative Framework

If Council wishes to increase its rates above the Ministers determination it needs to make application for a special variation.

There are three (3) different methods for applying for a special variation viz: -

- Application under Section 508 (2) for an increase in the 2005/06 year only or having the new base rate created by the 2005/06 increase continued for a set number of years. At the end of the approved period the special increase for the 2005/06 year is deducted from general income to be raised in subsequent years.
- Application under Section 508 (2) for an increase in the 2005/06 year to be continued indefinitely.
- Application under Section 508 (A) for increases in rates over a maximum seven (7) year period. The percentage increases need not be the same each year but are accumulated from year to year resulting in Council receiving a substantial increase in its rate base.

A Department of Local Government circular 05/04 outlining the different methods is attached [\(Appendix A\)](#)

It should be noted that the Department considers the enhancement of Local Government services as an appropriate reason for applying for a special variation. However, Council will be required to demonstrate that broad community support has been received for its initiatives and that adequate communication and consultation of these initiatives, including the impact upon its ratepayers has been carried out.

The guidelines for applications made under Section 508 (2) include the following: -

- The Council must include within its draft Management Plan a statement of its intentions to apply for a special variation and reasons for the increase.

- ❑ Public notification of the draft Management Plan inviting submissions must also include a clear indication of Councils intention to seek a special variation and the level of the variation sought as a percentage increase of general income.
- ❑ Councils must provide two (2) scenarios of proposed Rates and Charges for the 2005/06 rating year in their Statement Of Revenue Policy. The first should be the rating structure that will be adopted if the special variation is approved, and the second should demonstrate what the rating structure will be if the application is not approved.
- ❑ A Council must consider conducting a public meeting or meetings to discuss the proposal and any other submissions contained in the draft Management Plan.

Options

Council would like to increase its expenditure on roads by \$1 million. The draft five year Financial Budget currently being prepared would indicate a deficit of approximately \$1.2m for the 2005/06 year. This means that Council needs to reallocate or reduce expenditure in the vicinity of \$2.2m to provide the required road expenditure and balance the budget. It should be noted road expenditure increases amounting to \$452,020 are already included in the proposed 2005/06 budget which is well above CPI.

Additional pressures have been placed on the 2005/06 budget as Council has to once again pay the employer contribution to superannuation, workers compensation premiums are expected to double due to the severity of claims that we currently have and the Local Government salaries and wages award has imposed a 4% increase in employee costs for 2005/06. Some relief has been given by Local Government Super in that they will be phasing in the employer contribution to superannuation over a two (2) year period resulting in the need to provide only 50% of the contribution in 2005/06. The above three (3) issues affect the General Fund budget in 2005/06 as follows: -

Superannuation	\$ 278,000
Workers Compensation	\$ 471,500
Salaries and Wages	<u>\$ 508,000</u>
	\$1,257,500

Staff have been negotiating workers compensation estimates with our insurers in an endeavour to reduce the workers compensation premium. We are awaiting their advice as to actual premium for the 2005/06 year.

1. Reduce 2005/06 Budget Allocations

Major variations funded from rate revenue included in the 2005/06 budget that Council should consider are:-

Item	2004/05 Allocation	2005/06 Bid	Difference
Road Maintenance	1,637,794	1,853,314	215,520
Resealing Pavement	435,000	540,000	105,000
Strengthening	425,000	333,000	91,500
 Gravel Resheeting	 770,000	 810,000	 <u>40,000</u>
			452,020

It should be noted that in 2004/05 Council, when considering the revotes, voted an additional \$400,000 for road maintenance in addition to the 2004/05 allocation shown above.

Item	2004/05 Allocation	2005/06 Bid	Difference
Town Improvement	380,750	404,000	23,250
Bridges Capital Trial Bay & Back Greek	Nil	120,000	120,000
Stormwater Quality devices	Nil	10,000	10,000
Cycleways (Kemp Street) Car parking	10,000	65,000	55,000
Asset Management (Stuart Street)	Nil	15,000	15,000
Baths Capital Programs	Nil	55,000	55,000
South Kempsey Park Graffiti	Nil	3,000	3,000
Community Building Maint. & Capital	45,500	83,000	37,500
Emergency Risk Management Study	Nil	40,000	40,000
Rubbish Tip Site Upgrade	20,000	40,000	20,000
SWR Tip Site Upgrade	Nil	10,000	10,000
Horticultural			

Capital Exp Sporting Field	30,000	64,000	34,000
Capital Cemetery	5,000	54,000	49,000
Capital Cemetery	24,500	80,000	55,500
Maintenance Strategic Plans	159,000	220,000	61,000
Economic Development Projects	65,000	225,000	160,000
Additional Town Planner	40,000	100,000	60,000
Archives Program	Nil	60,360	60,360
Computer Equipment	Nil	10,000	10,000
General Fund Fleet Purchases	106,000	181,000	75,000
Goolawah Reserve	546,500	809,891	263,391
Marketing	Nil	3,000	3,000
Airport Maintenance	20,100	53,800	33,700

Saleyards improvements of \$1m Dollars have been referred to the 2005/06 budget with future loan repayments of \$105,000. Although this will not affect the 2005/06 budget as the loan would not be taken up until late in the year it will affect budgets from 2006/07

2. Sale of Surplus Land

Council has the opportunity to sell land that is surplus to our current and future needs. Sale of unmade roads is stalled at present due to the Department of Land 's interpretations under the Roads Act that parts of roads that are not maintained are unconstructed roads and therefore any proceeds from sale should revert to the crown.

The Taree office of the Department of Lands is prepared to recommend a compromise to the Minister but they have indicated that they would be looking at 50% of proceeds. I think this is far too high. Council can either submit an application to the Department, have the decision to retain the proceeds by the crown and then legally challenge that decision or have the Minister and the Department see reason. The Minister for Local Government is also the Minister for Lands. As this is a State wide issue I have referred the matter to the Local Government and Shires Associations for them to investigate. Although I believe that some compromise will be achieved it won't be soon enough to assist the 2005/06 Budget.

Council has already resolved to sell reserve land at Frederickton on the corner of Macleay Street and Cyrus Saul Circuit. The subdivision of the larger block on the southern side has been delayed due to RTA roadworks and the acquisition of part of the site by them. At this stage we are unable to agree on a purchase price. Council will be able to dispose of this land relatively quickly and use the proceeds to develop public recreation facilities in Frederickton such as a playground in Cyrus Saul, improvements to the sporting fields etc. Council will be considering a report on the review of DCP 10 Review of Open Space in South West Rocks shortly. There may be an opportunity to sell some reserves and use the proceeds for much needed recreation infrastructure.

3. Revoting of Expenditure from 2004/05

Attached is a Capital Works Progress Report ([Appendix B Part 1, Part 2 and Part 3](#)) I have highlighted with an **X** jobs that are falling behind schedule or I consider will not be completed this year. If works are not going to be completed this year this can allow jobs programmed for 2005/06 to be deferred. If deferred jobs are financed from revenue that revenue can be reallocated to roads maintenance.

4. 4 Shore Tourist Parks

Council is involved in large scale improvement works at the caravan parks designed to make them compliant and to make them more competitive. This has involved large scale borrowing (\$2.5m to 30 June 2005) with the loan repayments being funded from increased park revenues. I understand the need for the improvements and I also understand that when the loans are repaid there will be a substantial return to Council unless these improvements need upgrading or replacing at that time. However the large current repayments are denying Council an increased return on investment today. An increased investment return would allow general rate expenditure on crown reserves to be reduced allowing those funds to be deployed elsewhere.

In 2005/06 the works program once again provides for loan borrowings of \$572,000 even though at 28 February there is \$1,794,916 unspent from previous allocations.

Caravan parks along with saleyards, airport and property forms the property and marketing section of Council, which comprises one (1) person. That Manager is spending the greater majority of his time on caravan parks because of the amount of work involved. Little time is devoted to the other sections of the position resulting in the Director and myself getting involved in

these duties at the expense of organisational management duties. Council needs to give serious consideration to providing funds from caravan parks for the employment of a project co-ordinator. If large scale improvements are to be undertaken at the Saleyards, further co-ordination resources will need to be deployed.

5. 4 Shore Caravan Parks and Goolawah Reserve

Council is negotiating the extension of the current management contract to 30 June 2006. There needs to be an urgent investigation into what method or methods of management are to be introduced into the parks in future years. Some of the parks Grassy Head, Stuarts Point and Goolawah are operationally very marginal and a decision should be made as to whether Council wishes to continue operation or hand the parks back to the Department of Lands. In view of the intention to expend substantial sums on management plan implementation at Grassy Head and Stuarts Point this decision needs to be made urgently.

6. Tourism

Council spends approximately \$290,000 on Tourism information and promotional services. Council does have a role to play in promoting its area and receives indirect benefits through the employment and development it creates. However the major beneficiaries are the industry operators and those retailers where the tourism dollars are spent. Councils expenditure is in affect a large subsidy to the tourism operators and retailers. Steps have been taken to establish a tourism association for the Macleay Valley. The membership fees of the association will be used to contribute towards the operation of the Visitor Information Centres and for promotional services. Obviously the greater the number of members the greater the benefit will be for Council.

7. Boyters Lane Playing Fields

Council has purchased land in Boyters Lane for the development of playing fields. The purchase was financed from Section 94 funds. There is provision in the budget to spend \$240,000 from Section 94 funds and loan funds to develop the reserve. I question the necessity to develop this land. Gladstone oval is under utilised and could be a home ground for South West Rocks Teams. There is a large re-instated area at the South West Rocks Transfer Station that could be developed as a playing field and the South West Rocks School has two grassed areas that could be developed for junior sport if agreement could be made with the school. If alternatives could be developed the Boyters Lane land could be

sold with the money returning to Section 94 Funds and Section 94 funds used to improve the other sites.

8. Homes for The Aged

The Homes for The Aged run at a loss principally due to repayment of principal and interest on loans. If Council were to off-load the homes to a charitable organisational Council would still be responsible for these loan payments. However, the concept of off-loading to a charity is still worth pursuing as maintenance costs will increase with the age of the buildings. Disposal to the Kempsey Masonic Lodge could be beneficial if Council were to acquire the Lodge building in return.

9. Mayor's Christmas Party

The cost of providing the annual Christmas party is approximately \$12,000.

10. Fees and Charges

Fees and Charges are currently being reviewed for the 2005/06 year and will be available for consideration as part of the budget document. Every opportunity to increase user charges to market rates should be taken, to improve our levels of revenue.

11. Airport

Expressions of interest for use of Kempsey Airport closed recently and are currently being investigated. The development of an Airpark concept seems worth investigating. Currently the Airport is a licensed Airport which requires a high degree of maintenance and this is reflected in the 2005/06 figures. The likelihood of another commercial service to Kempsey is unlikely and Council should apply for deregistration of the Airport which will reduce the level of maintenance required.

If Airport land was to be sold Council could lose control of any future major developments for the Airport. The Airport lands could be leased but there would not be a large return. The land on the eastern side of Aldavilla Road should be sold. Council however may wish to take the gamble that there is little likelihood of any major development taking place at the Airport and sell the Airport lands, saving only enough for the runway and associated hanger infrastructure.

12. Tradewaste

A confidential Report from the Director Corporate Services is included in the confidential section of the business paper.

13. Streetsweeping

Residential streets are not being swept except for main arterials. Attached [\(Appendix C\)](#) is a schedule of current sweepings which would be difficult to reduce.

14. Swimming Pools

There are large costs involved in maintaining the village pools and the pools are poorly attended. Last year Council leased the Kempsey and Crescent Head pools for a three (3) year period and retained the South West Rocks and Gladstone pools under day labour until the end of this season. It is Council's intention to then have those pools under lease from the 2005/06 season.

Leasing doesn't save us any money and is only transferring operational responsibility from Council to private operators. If Council wishes to exercise any other options other than leasing in respect of South West Rocks and Gladstone pools now is the time to make the decision. In 2005/06 it is estimated that the net cost of operating the pools, excluding management service costs, loan repayments, depreciation and rate costs is \$129,200. If Council were to close the pools, savings in this vicinity would be made.

An alternative to closing the pools would be to have the pools unmanned with patrons entering at their own risk or alternatively having a volunteer committee operate the pool at no cost to Council. The savings would be approximately \$84,000.

15. Sporting Fields

Attached [\(Appendix D Part 1, Part 2, Part 3 and Part 4\)](#) are previous reports dealing with the utilisation of sporting fields and the need to maximise usage to save resources.

Usage changes in many cases from year to year depending on the number of sides a club can field each year. The utilisation exercise needs to be repeated and Council needs to support the transfer of teams from one location to another to maximise usage and needs to support the concept that fields are not maintained by Council, if a team refuses to move or if fields are left unused. An alternative to leaving fields unmaintained is to offer to lease ovals to clubs for nominal amounts with the club maintaining the facility.

16. Recycling

It is proposed to introduce kerbside recycling in 2005/06. The estimated cost of providing the recycling service to those residents receiving a garbage service are: -

Establishment Costs	25,000
Collection Costs	234,000
Processing Costs	231,000
Marketing Promotion	10,000
Recycle Bins Loan \$500,000	
Repayments	36,689
Management Services	<u>32,405</u>
	\$569,094

The cost per residence to provide this service is \$60. This additional cost will affect ratepayer's ability to pay a General Rate increase.

17. Water Rates

The budget for water fund that has been prepared shows an increase in operational expenses of approximately \$192,000 not a large increase in an operating budget of \$5.4 million. The capital budget funded by rate revenue has increased by \$387,000. This amount is reflected in the following: -

Item	2004/05 Allocation	2005/06 Bid	Difference
Mains Replacement Program	540,000	690,000	150,000
Integrated Urban Water Management Strategy	30,000	100,000	70,000
Replace Piggy Back Services	50,000	110,000	60,000
Asbestos Management	Nil	50,000	50,000
Fit Out SWR Shed	Nil	18,000	18,000

The budget as prepared allows for an increase in rates and sales of 3.5%. Each reduction in expenditure of \$60,300 results in a 1% decrease in Rates and Charges. A reduction in Water Rates and charges will soften any increase in General Fund Residential Rates.

18. Sewerage Rates

K - 12

It is proposed to increase operational expenses in the Sewerage Fund by \$167,000. Capital expenditure funded through rate revenue has increased by \$240,000. Increased expenditure in capital works include:-

Item	2004/05 Allocation	2005/06 Bid	Difference
Crescent Head Sludge Lagoons Sludge Dewatering System Upgrade Soda Ash Tank CHSTW	Nil	100,000	100,000
	Nil	250,000	250,000
	Nil	30,000	30,000

The budget as prepared allows for a nil increase in Rates and Sales income. Each reduction in expenditure of \$50,000 results in a 1% decrease in Rates and Charges. A reduction in Sewerage Rates and Charges will soften any increase in General Fund Residential Rates.

Council is to introduce sewerage user-pays charges from the 2005/06 year. With the introduction of this system low water users such as residential properties should see a reduction in their rates while heavy water users are likely to experience an increase in rates. A detailed report is to be presented to the April meeting of Council.

To lessen the impact on Council's budget and on the industrial sector it is being suggested that the new system be phased in over three (3) years. It is estimated that if the user pays system was introduced immediately that residential and other sector Rates and Charges would reduce by \$272,000 or \$33.00 per assessment. This reduction would be offset by significant increases by a relatively few high water users. If the user-pays system was introduced over three (3) years then residential and other sector customers would have a reduction of \$91,000 per year or \$11.00 per assessment in the first year a further \$91,000 or \$11.00 per assessment in the second year (\$22.00 cumulative) and a further \$91,000 or \$11.00 per assessment in the third year (\$33.00 cumulative). The heavy water users would offset those savings over three (3) years.

Council needs to decide over what period of time it wishes to introduce sewerage user-pays.

19. Declare a Dividend for Water and Sewerage

Council can pay general fund a dividend out of the surpluses of water and sewerage. The dividend must not exceed 50% of the surplus and must not exceed the number of water supply or sewerage assessments at 30 June of the relevant year multiplied by \$30.00.

There are six (6) criteria, each of which must be complied with to qualify for a dividend payment. These are: -

1. Strategic Business Planning
2. Pricing and Developer Charges (including Liquid Trade Waste Approvals)
3. Demand Management
4. Drought Management
5. Performance Reporting
6. Integrated Water Cycle Management

To be eligible to make a dividend payment from a surplus, an LWU must: -

- Demonstrate compliance against the six (6) best-practice management criteria through an independent compliance audit report; and
- Obtain an unqualified financial audit report for its water supply and/pr sewerage business(es).
- Resolve in a Council meeting open to the public that it has achieved "substantial compliance" with each criterion in the guidelines.

20. Applying for a Special Rate Increase

Earlier in the report I have outlined the various application options. Option (2) Apply For An Increase In 2005/06 For Unlimited Duration, would be the preferred option. Option (3) Applying For Yearly Rate Increases That Accumulate Over The Period Of Time, could be an option in future years if you linked it to a reduction in sewerage rates. However, this option requires a lot of leadtime and the department has suggested in its circular that the application process could take between one and two years.

Each 1% applied for would result in an additional \$82,000 of rate revenue. Council will need to consult with its community in accordance with the guidelines outlined in the legislative framework section of this report. To do that the draft budget would need to be adopted by Council by 7 May at the latest.

REPORT IMPLICATIONS:

- ***Environmental***

Environmental programs are proposed to be undertaken during the 2005/06 year.

- *Social*

Social programs will be included in the budget to be funded.

- *Economic (Financial)*

The budget will provide for the finance required for the 2005/06 year and how that finance is to be raised.

- *Policy or Statutory*

Nil

- *General Managers or Directors Review*

Nil

RECOMMENDATION:

For Councils determination.

.....
A V Burgess
GENERAL MANAGER