



DIRECTOR SHIRE SERVICES REPORT

24th February 2009

DSS1	DRAFT 2009 / 2010 BUDGET – SHIRE SERVICES
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SUMMARY:

Reporting on matters in the draft 2009 / 10 Budget relating to Shire Services Department

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DESCRIPTION:

The following report provides information on draft budget proposals for 2009 / 10 for various activities relating to the Shire Services Department.

Background

As detailed in the Core Asset Management Plan that was adopted by Council at its Ordinary Meeting of 15th January 2008, existing budgets provided for Transportation Infrastructure are severely under-funded for the following activities: Sealed Urban Roads, Sealed Rural Roads, Unsealed Rural Roads, Urban Roads Sealing, Rural Roads Sealing, Roads Rehabilitation, Gravel Resheeting, Bridge Maintenance, Footpath Maintenance and Kerb & Gutter Replacement.

This under-funding is evident with a consistent flow of requests for additional work to be performed by members of the community. In addition the recent Community Survey identified the maintenance of both rural and urban roads as being areas that Council needed to improve.

The draft budget figures proposed for FY09/10 have included modest increases in routine maintenance for sealed urban, sealed rural and unsealed rural roads; Urban and rural resealing and gravel re-sheeting. These proposed increases are discussed further in the section on local roads. The remainder of the proposed budget is generally been maintained at the levels contained within the 10 year long term budget, with the exception of; a considerable increase in expenditure for the replacement for four timber bridges under the Regional Road Timber Bridge Replacement Program; a major change to Domestic Waste Management and other related areas due to the introduction of a green waste service and the mixed solid waste collection being undertaken by a contractor; some increased expenditure levels in public baths due to the extended season and additional operational costs resulting from the heating of the Kempsey Pool and the inclusion of several Capital Works

proposals for Sporting Fields, with the Boyters Lane project representing the largest increase in expenditure. Other changes are generally minor and are discussed in more detail in the individual comments on each budgetary area.

The proposed increases to selected roads maintenance budgets may seem considerable for some individual line items, although it is stressed that these increased budget allocations fall well short of the funds required to maintain our transport infrastructure in a sustainable manner into the future.

The main increases proposed in the roads budget are in relation to resealing and gravel re-sheeting. The resealing of pavements maintains the integrity of the wearing surface of the road and protects the pavement. Adequate resealing is one of the most important activities to fully fund as this function extends the pavement life by protecting it from water ingress. This action provides the best long term use of additional funds and helps to address road failure, although several pavements have already deteriorated beyond the condition suitable for resealing and therefore necessitating reconstruction at a considerably higher cost. It is important to note that there is a serious backlog of unfunded works with liabilities that continue to grow with the limited funds that are currently available to maintain the Local Road Network. The gravel re-sheeting of roads replaces pavement material that is lost due to normal use and provides additional strength to the pavement. This results in a pavement that will perform at an enhanced level for a longer period between maintenance grades.

A budgetary allocation for the artificial opening of Killick Creek has not been included in the draft budget. Since the timing of the dredging works known as Strategy H for Killick Creek has not been confirmed, nor the success that these works will have in maintaining the creek mouth open, it may be prudent to include an allocation of \$50,000 for the conduct of such works.

Shire Services propose to carry out a review the level of service for all roads within the local government area. This process will involve a series of workshops with the ultimate adoption by Council giving a strategic direction for the maintenance of Council road network. This process will clearly define the estimated cost and budgetary allocations required for sustainable management the road network into the future.

A proposal was received by the Mayor suggesting that a loan of up to \$4 million be considered to increase the funds available for road maintenance. Whilst additional funds would be beneficial it is considered that it would be more prudent to wait until the review of the road network condition and levels of service are determined. In addition, the roads network needs an on-going annual increase in budgetary allocation as opposed to a large one off injection of funds to effectively manage the asset in a sustainable manner.

The proposed budgets have been developed on the basis of a CPI based increase in Fleet Charges. A considerable increase in fleet charges was forecast prior to the global economic crisis, although with the subsequent reduction in fuel costs, the anticipated increases due to fleet charge increases have not been included. Should this situation change either a corresponding variation in budgetary allocation would be required or a

commensurate reduction in services levels would need to be accepted by the community.

The current draft budget includes income and expenditure for the projects submitted by Council for the Commonwealth Local Community Infrastructure Program. Whilst these projects have not been approved as at the preparation of this report a condition of the grants is that the works are completed with full expenditure by 30th September 2009. To achieve this requirement it will be necessary to progress these works in the current financial year.

Regional Roads (Page 5)

The anticipated funding for Regional Roads for 2009 / 10 consists of a Block Grant of \$1,273,450 and an Ex 3x3 Program allocation of \$122,000, giving a total funding allocation of \$1,395,450.

This will result in a nett grant in the amount of \$1,271,500 in expenditure for Regional Roads. It is planned to continue with a program developed that concentrates on the maintenance of the existing sealed pavement and shoulder rehabilitation as implemented last year. This action will result in an improved performance in the existing road pavement into the future.

It should be noted though that these roads have a similar funding gap to that of our local roads. These roads are maintained by use of the Regional Roads Block Grant. Council is the roads authority for these roads and the Block Grant is a contribution to the maintenance of these roads. Consequently Council may need to consider the allocation of some funds to supplement the Block Grant or pursue increased funding levels through the State Government for the maintenance of these roads.

Local Roads (Page 6)

The proposed budgetary allocations for routine and periodic maintenance for road pavements have been increased. These increases partly offset increases in material costs that have been experienced that are greater than the CPI movement and partly close the gap in the funding shortfall for resealing and gravel re-sheeting works. It is stressed though that the increase of \$126,000 for urban road resealing, \$150,000 for rural road resealing and \$266,700 for gravel road re-sheeting is not adequate to fully fund the road network in a sustainable manner in the longer term. It is proposed to review the service levels of the entire road network over the next twelve months. This review will determine road segments to be maintained and the adopted level of service for each segment. Given this information it will be possible to determine the long term sustainable funding requirements and refine the Core Asset Management Plan.

The remainder of the budget is in accordance with the long term budget with the exception of a proposed increase for works associated with the Kempsey Town Centre Master Plan. Projects that were included in the long term budget that were funded from Land Sales have been deferred.

The current Roads to Recovery program comes to an end on the 30th June this year

Bridges (Page 9)

The proposed budget for bridges includes substantial increases for the construction of the four bridges that are programmed for replacement under the Regional Road Timber Bridge Replacement Program. The contracts for the construction of these bridges are currently being finalised after Council resolved to award the contracts at the Council meeting on 16th December 2008. At this stage the designs for road approaches to the new bridges are being finalised prior to seeking quotes for this work. The final costs for the completion of these works may vary after quotes for the approach roads are confirmed and a report will be submitted to Council at the future date if a change to the budget allocation for these bridges is required.

The proposed budget for the maintenance of timber bridges on local roads is in accordance with the long term budget. Council needs to consider that a considerable number of bridges on the local road network are in poor condition and some changes to priorities may be required to maintain bridges to an acceptable standard.

Stormwater Drainage (Page 12)

The proposed budgetary allocations for Stormwater Drainage have been maintained at the same level as the long term budget, with the exception of an additional line item at a budgeted amount of \$100,000 to develop a drainage strategy for Crescent Head. This strategy would consider localised flooding in the CBD area and water quality devices for discharge to Killick Creek. The provision of additional funds to provide the infrastructure identified in this strategy would need to be considered in future budgets.

A consultant has been engaged to undertake a drainage study for West Kempsey Catchment (Tozer Street) utilising funds allocated in previous years. A forward budget provision will be required to implement the required works. When the strategy is completed the forward budget projections to implement the required works will be presented to Council and included in future budgets for consideration.

Footpaths and Cycleways (Page 14)

The proposed budgetary allocations for Footpaths and Cycleways have been maintained at the same level as the long term budget.

Council has recently received calls for improved cycleway facilities and it is proposed to revise the PAMP and develop a long term strategy for the provision of cycleways across the local government area. This will allow Council to proactively seek addition funds for the works identified. Generally grants of this nature require matching funds and Council will need to consider the allocation of matching funds in future years to deliver an effective program.

Car Parking (Page 16)

The proposed budgetary allocations for Car Parking have been maintained at the same level as the long term budget.

Street Lights (Page 17)

The proposed budgetary allocations for Street Lighting have been increased by \$25,000 to cover additional costs as advised for Street Light energy and ongoing maintenance. In addition a budgetary allocation of \$50,000 has proposed to retrofit with more energy efficient luminaries and this investment will help reduce are maintenance and energy costs.

Boat Ramps, Wharves and Jetties (Page 18)

The proposed budgetary allocations for Boat Ramps, Wharves and Jetties have been maintained at the same level as the long term budget.

The works proposed for Mattys Flat carpark in earlier years has still not been progressed. A grant application was submitted last year for this project and the outcome of this grant had not been announced at the time of preparing this report. The funds from previous years, which were loan funds have been carried forward and approval for a loan from the Department of Lands has been received for these works. Progression of this project is dependant on the success of the grant application.

A review of the current infrastructure of Boat Ramps, Wharves and Jetties is planned with recommendations to Council concerning the long term maintenance of this infrastructure later this calendar year.

Quarries & Gravel Pits (Page 20)

The proposed budgetary allocations for Quarries have been maintained at the same level as the long term budget. Proposals for Church Hill quarry have not been progressed due to staff shortages and it is proposed that these funds be carried forward to next financial year.

Ancillary Road Facilities (Page 21)

The proposed budgetary allocations for Ancillary Road facilities have been maintained at the same level as the long term budget. This principle activity covers routine maintenance for non pavement assets within the road reserve.

Public Baths (Page 23)

The proposed budgetary allocations for Public Baths have been increased to reflect an increase in chemical costs. This has resulted in a minor increase for all pools except Kempsey. The increase proposed for Kempsey is \$48,500 over the long term budget and this increase is as a result of the installation of the Heating, which has both extended the season and increased chemical use due to increased water temperature. In addition an increase in the contract management charges for the Kempsey Pool has been included in the budget. The provision made accords with the anticipated increase following discussions with the pool operator although this contract variation has not been finalised at this stage.

In addition several items were identified during the winter off season last year that either need replacement or maintenance that were not previously identified. These include replacement of pumps and refurbishment of the floor of the 50m pool, replacement of lane ropes and

purchase of pool covers for the 50m pool in Kempsey and the replacement of the concrete pool surrounds at Gladstone along with other minor work as identified in the budget at the other pools.

Council also needs to consider the need to upgrade the filtration, including the provision of separate balance tanks at Kempsey Pool to allow better use of the Heating in future budgets. The cost to implement this work is likely to be considerable.

Private Works (Page 26)

The proposed budgetary allocations for Private Works have been maintained at the same level as the long term budget.

Public Privies & Civic Maintenance (Page 27)

The proposed budgetary allocations for Public Privies & Civic Maintenance have been marginally increased to accord with current costs. This increase does not allow for an increase in the level of service. In addition provision has been made for the cleaning of the exposed aggregate footpaths within the Kempsey and South West Rocks CBD areas on an annual basis.

Flood Mitigation (Page 29)

The proposed budgetary allocations for Flood Mitigation have been maintained at the same level as the long term budget. The ultimate funding in this principle activity is subject to on-going grant funding and given the uncertainty of funding in this area from other levels of Government the budgets for this area may change.

Fire Control (Page 31)

The proposed budgetary allocations for Fire Control has been maintained at the same level as the long term budget and accords with the estimates as adopted by Council for the RFS.

Emergency Services (Page 33)

The proposed budgetary allocations for Emergency Services have been maintained at the same level as the long term budget. Changes in relation to the replacement of vehicles and construction of a Headquarters at Crescent Head that were recently discussed with the SES Regional Controller need to be incorporated in the draft budget.

Domestic Waste Management Page 35)

The proposed budget for Domestic Waste Management has undergone a complete revision due to the engagement of a contractor to perform the mixed solid waste collection service and the implementation of green waste collection service. This contract has a commencement date of 6th April 2009. In addition a waste Levy has been introduced by the State Government Department of Environment and Climate Change.

Other Waste Services (Page 37)

The proposed budget for Other Waste services has been reviewed to accord with the revised costs resulting from the changes to Domestic Waste Management operations and the introduction of a Waste Levy.

Landfill Facilities (Page 38)

The proposed budget for Landfill Facilities has been reviewed to accord with the revised costs resulting from the changes to Domestic Waste Management operations and the introduction of a Waste Levy. The tipping fees and operational cost components have been reduced due to an anticipated reduction in waste to landfill. This anticipated reduction is as a result of the introduction of the green waste collection service.

Street Sweeping (Page 41)

The proposed budget for Street Sweeping has been marginally increased to accord to current costs and the increase in waste disposal costs due to the introduction of the Waste Levy.

Parks Gardens & Reserves (Page 42)

The proposed budgetary allocation for Parks, Gardens and Reserves has been maintained at the same level as the long term budget for operational items. Capital items that were proposed to be funded from Land Sales have been deferred.

Sporting Fields & Facilities (Page 45)

The proposed budgetary allocation for Sporting Fields and Facilities has been maintained at the same level as the long term budget for operational items.

Several minor items of a capital nature that were requested by the Sports Clubs during the inspection of Sporting facilities in August 2008 have been included for consideration, along with three projects under the Local Community Infrastructure Program and the Boyters Lane Playing Field project.

The budget includes the provision of \$1,400,000 for the Boyters Lane project which consists of \$600,000 in loans, \$350,000 in S94 contributions, \$300,000 in grant funding and a \$150,000 community contribution. In addition Council has submitted a grant application under the Local Community Infrastructure Program (Strategic) for slightly in excess of \$2 million. The outcome of this grant application had not been announced at the time of preparing this report.

Horseshoe Bay Day Visitor Area (Page 49)

The proposed budgetary allocations for Horseshoe Bay have been maintained at the same level as the long term budget for operational items. Funding for Capital Works associated with the Horseshoe Bay Plan of Management that were in the long term budget with funding from Land Sales Reserve have been deferred

Other Passive Recreation (Page 51)

The proposed budgetary allocations for Other Passive Recreation have been maintained at the same level as the long term budget.

Beach Bathing (Page 53)

The proposed budgetary allocations for Beach Bathing have been maintained at the same level as the long term budget.

Noxious Weeds (Page 54)

The proposed budget for Noxious Weeds includes a proposed increase for the control of Environmental Weeds and Coastal Weeds of \$5,000 each. Whilst this will improve Council ability to control such weeds, it will only fully fund the treatment of high priority infestations.

Shire Services Management, Technical Services and Operations (Page 55, 56 and 57)

The draft budget for Shire Services Management, Technical Services and Operations have been varied to accord to the restructure proposal currently being progress for these areas.

MACLEAY WATER

The Macleay Water budget includes water management, water and sewer.

The nexus for proposed allocations in these budgets are listed below under General Comments.

There is a considerable change to the major capital projects listed in the water fund and to a lesser extent the sewer fund.

There has been an introduction of a Water Treatment Plant (WTP) and balance tank (replacing dams) at a preliminary estimate of \$4m. This work has been deemed necessary to overcome issues faced with the Crescent Head water supply scheme in recent months and resolve more sustainability to renewal backlog for the 9MI hypalon storage dam (roofing and relining). Whilst investigations are not yet complete, it has been acknowledged that a roofed balance tank presents an opportunity to make savings on the capital costs required for this water supply scheme. At present, there is a need to roof the open dams to improve water quality (including algae risks), there is a need to replace the lining on the hypalon Dam and there is a high likelihood that the Water Treatment Plant will require a balance tank. A balance tank suitably sized is likely to remove the backlog capital expenditure for the Dams. Confirmation will be available once investigations are further progressed.

There has also been a reintroduction of the Water Treatment Plant at Steuart McIntyre Dam at a preliminary estimate cost of \$45m. This is considerable increase on an estimate of \$20m several years ago. A detailed analysis may identify a lower capital cost. This is the best information available at present, utilising information from similar work being completed in the northern portions of NSW. A Water Treatment

Plant would enable more consistent use of the Steuart McIntyre Dam and efficient operation of the Kempsey Water Supply Scheme.

It may be possible to temporarily defer the Water Treatment Plant at Steuart McIntyre Dam to enable the results of improved land management within the borefields to be incorporated in the more detailed analysis of costs. It is of concern that this deferral will be reflected in further capital cost escalations, would require upfront design of the WTP to more accurately estimate costs and would require expenditure estimated at \$2m to complete this work.

There is also the option of during the temporary deferral, completing the previously identified investigations into creating air curtain barriers around the intake tower to limit algae access to the Tower. If possible and sustainable, this air curtain barrier would potentially provide a further reduction in the Water Treatment Plant capital costs. Currently available innovation funding (Federal) may be accessible and partnering consultants are now capacity built to enable such research. Without a successful grant application, it is estimated such investigations would require funding of approximately \$3m and may substantially reduce the Water Treatment Plant capital costs.

The introduction of the Crescent Head WTP and balance tank and the Steuart McIntyre Dam WTP projects has produced a considerable expenditure hump and corresponding need to remit this expenditure with increased revenue. The expenditure hump is in the 2010 / 11 and 2011 / 12 financial years. A smooth pricing path for water account increases is likely to result in an increase in water accounts each year of approximately 8%, however this analysis is yet to be confirmed. The following are options that could assist in reducing this impact and require a preference direction from Council before the detailed analysis can be completed.

- Stage the Crescent Head project over two financial years (\$0.5m 2009 / 10, \$3.5m 2010 / 11)
- Defer the \$45m Steuart McIntyre Dam WTP project for 2 years whilst analysing the changed borefield management performance, investigating air curtaining viability for the Intake Tower and completing the WTP design. This means \$2.5m for each of 2009 / 10 & 2010 / 11, then \$20m for each of 2011 / 12 & 2012 / 13. Negative risk: potential increased WTP costs by 2011 / 12, greater financial impact to customer typical bill; Positive Risk: reduced capital WTP expenditure determined by 2011 / 12, less financial impact to customer typical bill
- Remove the Steuart McIntyre Dam WTP project from the budget and incur
 - additional operational costs for this water supply scheme due to inefficiencies
 - the risk of this Dam being unavailable for drought requirements
 - intermittent Dam quality resulting in poor delivered water quality, reduced customer confidence and limited use of the Dam

It is of concern that the sewer fund's capital expenses indicate an overlap with the proposed West Kempsey Sewage Treatment Plant and the proposed Stuarts Point sewerage scheme. Work on alternatives for the

West Kempsey STP has been ongoing, as has been reported to Council, and has resulted in a need to defer the West Kempsey project. To ensure delivery without incurring additional staffing costs to project manage these major projects, one project will have to be deferred.

Deferral of either project is likely to pose risk to Council; for the West Kempsey project non-compliance risk, for the Stuarts Point project political risk. If the West Kempsey Sewage Treatment Plant replacement project is to be deferred, concurrence with DECC will be required to mitigate the non-compliance risks posed. Such a concurrence may be forthcoming, given the better environmental outcomes of the alternative delivery currently being investigated. Should the Stuarts Point sewerage project be deferred, there is high likelihood that considerable community concern will be raised, creating political risk to Council. There remains an opportunity to progress an alternative delivery path for the Stuarts Point project's infrastructure, as previously reported to Council in confidential reports, and this would require community acceptance.

The overlap of sewer fund major projects creates a capital expenditure hump that requires a corresponding increase in typical bills, over approximately five year period at between 6-9% per annum. It may be possible to reduce this increase and/or smooth the pricing path and the following options are proposed for Council's consideration.

- Defer West Kempsey Sewage Treatment Plant project whilst the considerable infiltration studies and rectification are undertaken and in that time firm up design and costs for the West Kempsey project alternatives. Investigatory allocation to complete this work exist
- Defer the Stuarts point sewerage project until after the completion of the West Kempsey project
- Deliver the Stuarts point sewerage project by the alternative path

General Comments

- Proposed operational and renewals expenditures were established from the results of the Asset Management Plan development, the known functional-based expenditures and the trending of expenditure over recent years. The functional-based expenditures have now been available for 6 consecutive quarters.
- Operational expenditures have not accounted for increased fleet hire rates at this point. It is of considerable concern that uncertainty with fleet hire rates and fuel may not have been adequately catered for in those budgets which will effectively be detrimental to the accuracy.
- Where currently being achieved, efficiencies have been incorporated in the proposed allocations, such as group purchasing and partnerships with other utilities.
- Proposed capital expenditures have been increased by CPI from the previous year and any available current data from recent contractual capital work conducted by either Macleay Water or other north coast water utilities.
- Water and sewer income has been adjusted to reflect the upcoming cycle into a wetter few years in comparison with the previous drought sequence. Where possible, tariff equalisation reserves have been bolstered. Also considered have been long-term weather predictions, the projected refinement of user-pays pricing, liquid trade waste approvals and water demand

management. Analysis to determine appropriate pricing path and typical residential bills is currently being undertaken.

- There is a real risk posed to Council in continuing with a rental charge to the water and sewer funds in the spirit of the s.611 charge. There is an allocation of \$360,000 in the water fund and \$62,500 in sewer. Continuing this charge (a rental charge for pipes within the road reserve) is in conflict with the DLG circulars distributed indicating the cessation of this charge for essential services (i.e. water and sewerage) based on the results of a High Court challenge. Given the current water reform process it would be prudent for Council to replace some of this charge with a dividend from the Water and Sewer business. There maximum allowable dividend and a dividend can only be paid once Department of Water and Energy (DWE) concurrence with Best Practice Guidelines is gained. It is felt that Macleay Water is now at a point where such concurrence can now be gained on the basis of achievements completed and existing Council resolutions to complete any outstanding matters. Confirmation will be sought from DWE on eligibility. The maximum dividend is currently being determined however will be heavily influenced by the pricing structure adopted. It is recommended that these portions are introduced and a subsequent equivalent reduction occurs in the rental charges to each fund.

The following are explanations on the proposed administration and capital project allocations within the water/sewer funds that might not be readily understood:

Water Management (Page 58)

The salaries vote reflects the technical administration staff required within Macleay Water. This vote has changed to reflect CPI and staff wage increases.

Water Supply (Page 153)

Demand management addresses particular retrofit programmes for targeted consumer groups. Example projects include are the Schools Waterwise Accreditation Programme, water efficient showers for various parks, dedicated water filling stations and the retrofit shower programme for Crescent Head.

Sewerage Supply (Page 157)

System licensing – this is the work required to be compliant with the new EPA reticulation licensing (this is in addition to the treatment plant licensing).

REPORT IMPLICATIONS:

- ***Environmental***

Various

- ***Social***

In order to meet the needs of the community, Council needs to ensure that the future replacement of infrastructure is funded.

- ***Economic (Financial)***

Amendments to items and activities referred to in the report will impact the 2009 / 10 Budget.

- *Policy or Statutory*

Nil

RECOMMENDATION:

That the report be considered in conjunction with the draft 2009 / 10 Budget.

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Bruce Morris
DIRECTOR SHIRE SERVICES