



KEMPSEY
Shire Council

GENERAL MANAGER'S REPORT

24th February 2009

GM1	2009/10 BUDGET AND LONG TERM FINANCIAL PLAN		
	FILE: 447	AVB	{Folio No. *}

SUMMARY:

To provide an overview of the financial implications of the draft 2009 / 10 Budget and Long Term Financial Plan

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DESCRIPTION:

Council has developed a Community Strategic Plan which is a 20 year vision into the future. The plan is the umbrella under which all other plans fit and the timetable for its review is the second year of each Council term. The next review should be undertaken in 2010. The integration of our forward planning is as follows:

- . The Community Strategic Plan has five goals covering ecological and economic sustainability – social cultural and community relations – infrastructure – relationships with government – and effectiveness, efficiency and accountability. Each goal is supported by strategies, actions and performance measures.
- . A ten year Financial Plan to fund the strategy programs of the Community Strategic Plan.
- . A Management Plan, which outlines what Council intends to achieve and how it will finance its activities in a given financial year. The Management Plan Reports on five principal activities that reflect the five goals of the Community Strategic Plan.
- . General Manager's Outcomes and Outputs for the year. There are five Outcomes negotiated with Council each year which are based on the five Community Strategic Plan goals. The Outputs relate to the issues identified under the five Principal Activities of the Management Plan. The performance measures in respect of the General Manager's and other staff Outputs are the performance measures in the Management Plan. These need to be adopted by Council to allow the Management Plan to be prepared [Appendix A – Page K1, part 2 – Page K11](#).
- . Directors and Managers have the same Outcomes as the General Manager with Outputs flowing from the General Manager's Outputs.

It is important that Council, when considering its budget for the year, is aware of the above linkages and provides programs and services consistent with the committees vision.

Other documents that need to be considered when setting priorities for the year are:

- . Elected Councillors Achievement List. Priorities set by the elected candidates at the September 2008 election have been identified and progress already achieved outlined. Do the current directions need to change? [Appendix B – Page K13, part 2 – Page K23](#)
- . The 2008 Community Survey

The first year of the 10 Year Financial Plan will be the annual budget for the 2009 / 10 year. In accordance with the wishes of Council in previous years no attempt has been made to present a balanced budget. The staff have included programs in the budget at a level that they believe are necessary to maintain the infrastructure and to forward plan. A General Rate increase of 3.5% has been provided for. As presented, the results of each of the funds is as follows:

General Fund	\$3,424,299 deficit
Domestic Waste	Balanced budget
Water	Balanced budget
Sewerage	Balanced Budget

In preparing the draft budget the following assumptions have been made:

Inflation	2%
Interest on Loans	5.4%
Interest on Investments	4%
Salary Increases	3%
On Cost Rate Indoor	48%
On Cost Rate Outdoor	50%

Significant reductions need to be made to the General Fund budget to produce a balanced budget. Domestic waste water and sewerage are self balancing but to do that they are recommending the following increases in charges:

Domestic Waste	Non Organics NIL Organics 25%
Water	8.6%
Sewerage	7%

Council needs to look at the total increase in rates and charges it is passing on to the ratepayer. If Council believes that the community cannot afford to pay the above increases, then those budgets should be reduced. A 1% increase in water charges (access and user) is \$65,000, in sewerage base charges is \$58,000 and in domestic waste is \$27,000.

Each year Council has difficulty balancing its budget, but the 2009 / 10 year will be more difficult than most due to the following:

ECONOMIC DOWNTURN

The Economic Downturn has had the following effects:

- . Interest on investment income has dropped. Interest rates are expected to be in the vicinity of 4% during the year and the amount of funds available to invest is reduced due to the spending of loan funds on projected works. The loss of investment income for the year is \$455,000.
- . Rate income projections provide for a number of new allotments to come on stream. Developers are not proceeding with subdivisions resulting in a loss of rate income estimated to be \$150,000 in the 2009 / 10 year.
- . It is estimated there will be reduced income from 149 Certificates \$21,850, Development Applications \$67,000, and Construction Certificates \$48,000.

KEMPSEY BATHS

Council, thanks to a benefactor, was able to install heating at the Kempsey Swimming Complex. The cost of running this system, together with the extended season, which will result in additional contract payments, will result in increased running costs at the pool in 2009 / 10 of \$74,376.

GREEN WASTE COLLECTION

Council is introducing the green waste collection from this year. The cost of the collection is estimated at \$618,000 plus education costs of \$62,688. This is partly funded by a reduction in tip charges, the need not to purchase and repair mobile bins and a reduction in the transfer to the tariff equalisation reserve. The rest will be funded by an increase in the domestic waste charge producing an additional income of \$320,000.

The real effect of introducing the green waste collection is the affect on general fund. Because the green waste is deposited at Cairncross, Council's tipping fees are reduced by \$300,000 which is partly offset by a reduction in operating costs of the tip of \$103,000. General fund is bearing the brunt of a \$200,000 loss. This can be rectified by increasing the disposal costs of the domestic waste service. This would have the affect of increasing the domestic waste charge by \$16 or 5.4%.

WORKERS COMPENSATION PREMIUM

The Worker's Compensation premium for 2009 / 10 is estimated to increase by \$187,000. This is due to the wages bill for the 2008 / 09 year increasing by \$700,000 to fund recent retirements and with a potentially large new claim.

To balance the 2009 / 10 budget, Council is going to have to give serious consideration to reducing or withdrawing from services or applying for a special rate variation.

Council has resolved that the following items be included in the 2009 / 10 budget.

- . Your Tutor On Line Homework
- . Grant Funds Officer
- . Membership of the National Seachange Taskforce
- . South West Rocks Surf Life Saving Club Country Surf Championships

All have been included. The National Seachange Taskforce is not a new expense as it has been allocated out of sundry administration expenses in previous years but is a separate line item in the 2009 / 10 budget.

Council does have in place a system of identifying suitable grants. The Library Service provides information to the Departments on grants available and the Departments themselves research traditional avenues. Both the Commonwealth and State Governments have websites outlining grants available.

Council does not apply for all grants that are available. Most grants require matching finance and there is little use applying for a grant unless funds for the match are available in the budget. If you do working funds are affected. Applying for all grants can mean resources are reallocated and non priority works get preference over priority works. The last Grants Officer Council employed used a lot of his energies informing community groups of funds available. Does Council wish to spend \$71,000 subsidising the community groups in this way? The addition of section 496A to the *Local Government Act 1993* in 2006 made by the *Local Government Amendment (Stormwater) Act 2005* enables councils to make and levy an annual charge for stormwater management services for each parcel of rateable land for which a stormwater management service is provided, with the exception of rateable land owned by the Crown and leased for private purposes under the *Housing Act 2001* or the *Aboriginal Housing Act 1997*. The charge is not subject to the Minister's rate restriction.

Section 496A states:

Making and levying of annual charges for stormwater management services

- 1) A Council may, in accordance with the regulations, make and levy an annual charge for the provision of stormwater management services for each parcel of rateable land for which the service is available.
- 2) Subsection (1) does not authorise or permit a council to make or levy an annual charge for the provision of stormwater management services for rateable land that is -
 - a) owned by the Crown; and
 - b) held under a lease for private purposes granted under the *Housing Act 2001* or the *Aboriginal Housing Act 1997*

Note: Section 555(1)(a) provides that land owned by the Crown is not rateable land unless it is held under a lease for a private purpose.

Recent changes to the *Local Government (General) Regulation 2005* made by the *Local Government (General) Amendment (Stormwater) Regulation 2006* prescribe the maximum amount that a council may charge for stormwater management services and provide for the information regarding stormwater management services that must be included in a council's draft management plan and annual report.

Clause 125A provides that:

- an annual charge for stormwater management services may only be levied on land categorised for rating purposes as residential or business;
- the charge cannot apply to vacant land;
- the charge cannot be levied on a parcel of land subject to a special rate or charge for which the primary purpose is to provide a stormwater management service;
- the charge cannot be levied by a council if it has received a special variation from the Minister for Local Government for which the primary purpose is to provide a stormwater management service;
- the charge cannot exceed the anticipated cost (if less than maximum charge) or the maximum charge (if anticipated cost greater than maximum charge)

The upper charge limit for urban residential land is \$25. Urban business land can be charged up to \$25 per 350m² of land area or part thereof. The charge for strata units is not to exceed the lower of the cost of providing the service or half of the residential upper limit, ie \$12.50.

Councils cannot levy a charge that exceeds the anticipated cost of providing a stormwater management service to a property subject to the charge. This means that Councils must determine the cost of providing such a service before introducing the charge. For example, Councils budgeted stormwater drainage expenditure excluding depreciation for 2009 / 10 is \$496,307 and if the number of properties eligible to be charged was 12,000 then the cost of service would be \$41 per lot. The maximum charge of \$25 does not exceed the cost of service so Council could levy a stormwater charge of \$25.

It is difficult to directly link all stormwater management services back to the individual properties levied. To overcome this problem Council can choose to take a global approach in providing stormwater management services rather than on a catchment by catchment basis. However, in doing so Councils still need to ensure equitable distribution of stormwater management services over time.

A Council cannot raise the stormwater management service charge if the Council has in place a special variation approved primarily for stormwater management activities that would apply for the period when the service charge is proposed. If a Council has received a special variation that includes a stormwater component the Council will be required to determine whether the stormwater component was

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incidental or primary to the overall purpose of the application. This is to prevent the perception of double charging.

Council has an Environmental Levy and some of the works undertaken as part of the program have been drainage works. If Council is to levy a stormwater charge it will need to ensure that drainage works do not form part of the Environmental Levy program or is only incidental to the program. Many Councils took the opportunity to levy the stormwater charge in the 2007 / 08 year including Coffs Harbour City Council, Port Macquarie-Hastings and Greater Taree City Council.

If Council was to impose the levy it is estimated that approximately \$300,000 could be raised. If Council introduces the charge it will not relieve General Fund but will allow essential drainage works to be undertaken a lot sooner.

In General Fund the major new works or increases in expenditure in the budget and financed from revenue are:

Page	Item	2008 / 09	2009 / 10	Difference
6	Road Maintenance	2,063,300	2,463,000	339,700
6	Resealing	606,000	900,000	294,000
6	Gravel Resheeting	927,000	1,200,000	273,000
12	Crescent Head Drainage Study	-	100,000	100,000
17	Street Lighting Retrofit	-	50,000	50,000
20	Quarry Plans	-	11,000	11,000
23	Kempsey Pool Maintenance and Contract Management	129,385	203,761	74,376
23	Baths Asset Management	39,800	62,750	22,950
25	Baths Asset Program	130,500	210,950	80,450
27	Footpath Cleaning Programs	-	30,000	30,000
33	SES Capital	-	5,000	5,000
43	Riverside Park Footpath	-	52,800	52,800
47	Sporting Field Assets	-	96,510	96,510
54	Coastal Weed Control	-	5,000	5,000
61	Strategic Planning Programs	7,200	182,500	110,500
70	Tourism Information Assets	1,450	6,500	5,050
77	Employment Overheads	1,830,000	2,047,000	217,000
78	Fuel Systems Monitoring	-	45,000	45,000
79	Purchasing Assets	13,000	24,000	11,000
81	Councillor Laptops	-	10,000	10,000
83	Public Liability Insurance	570,000	623,900	53,900
89	Action on Ageing Implementation	-	5,000	5,000
89	Youth Week	4,000	11,000	7,000
89	Grants Officer	-	71,000	71,000
89	Graffiti Busters	-	26,400	26,400
94	Co-operative Library Resources	67,110	78,460	11,350
95	Your Tutor	-	7,500	7,500
95	Marketing Library Events	-	5,000	5,000
95	Library Assets	10,500	16,000	5,500
97	Homes for Aged Asset	22,000	31,250	9,250

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	Management			
101	Public Hall Maintenance	26,000	40,000	14,000
101	Plans of Management Halls	-	20,000	20,000
117	Saleyards Environmental Works	-	15,000	15,000
129	Internal Audit	30,000	45,000	15,000
				2,129,236

Income has also been reduced in a number of areas:

Page	Item	2008 / 09	2009 / 10	Difference
38	Landfill Facilities	1,739,603	1,485,302	254,301
65	Vehicles on Beaches	82,500	45,000	37,500
75	Interest on Investments	1,105,000	650,000	455,000
75	Rates			150,000
88	NAIDOC Week Grant	35,000		3,500
92	Art Gallery	8,000	4,200	3,800
63	Development Applications	200,000	180,000	20,000
				924,101

As mentioned earlier, ratepayers are only interested in the total rate bill. They are not concerned with the split up between funds. Both water and sewerage funds have large capital expenditures over the next few years that are going to increase rates in those areas significantly. It is estimated that a typical residential water bill will increase from \$495 in 2008 / 09 to \$819 in 2013 / 14 (5 years) an increase of 65.4% with the water fund debt service ratio increasing from 29.7% in 2008 / 09 to 54.3% in 2013 / 14. Similarly, a typical residential sewer access charge will increase from \$570 in 2008 / 09 to \$807 in 2013 / 14 an increase of 41.5%. The sewerage debt service ratio will increase from 28.6% in 2008 / 09 to 59.4% in 2013 / 14.

The debt service ratio for general fund will fluctuate between 14.54% and 7.83% over the next ten years. If Council takes up the suggestion to increase the domestic waste tipping fees, domestic waste charges will increase by a further 5.4% in 2009 / 10.

Council needs to look carefully at whether it wishes to impose these types of increases on its ratepayers. Decisions need to be made as to whether these capital expenditures need to be incurred at this time.

The employees leave entitlements balance has decreased due to payments to long serving employees in 2008 / 09. This had been planned for and the forward strategy of building this reserve to an acceptable level is on track. Details are outlined in the statement of reserves on page 130 of the budget document.

The Department of Local Government wrote to me in January as follows:

"A financial review was conducted on Kempsey Shire Council in April 2008. The review highlighted a number of financial pressures facing Council as a consequence of its financial position as at 30 June 2007.

The Department has reviewed Council's 2007 / 08 financial statements. While the Council has improved its financial position,

there are a number of other areas where Council's financial management might be enhanced.

Council might consider:

- . Further development of its draft 10 year Financial Plan with an emphasis on meaningful operating surpluses.
- . Fast tracking its Asset Management Plan and continuing to consult with the community regarding any additional funding required to maintain its infrastructure assets.
- . Increasing its Employee Leave Entitlements Provision to over 25%
- . Reducing its Debt Service Ratio to less than 10%
- . Conducting a physical examination to assess the condition of water and sewerage infrastructure assets to determine the remaining useful lives of the assets, which is critical to the depreciated replacement cost approach (refer auditor's report for 2007 / 09)."

Council needs to give consideration to those matters.

Council resolved that the revotes be presented to the budget meeting [Appendix C – Page K24](#). Works and services funded from rate revenue can be reallocated as can environmental levy works. Council needs to be assured that the revotes plus a full year program can be completed within the next financial year. If not new works should be omitted from the budget regardless of the method of finance other than grants.

Also attached is a list of estimated balances for Section 94 Funds [Appendix D – Page K30](#).

Once the Draft Budget is adopted, Council details need to be included in the Draft Management Plan which must be placed on exhibition for 28 days. If Council is to apply for a special rate increase, it is important that the Draft Management Plan be placed on exhibition as soon as possible as our application cannot be completed until proof of exhibitions and Councils consideration of submissions of the proposal have been forwarded to the Department of Local Government.

RECOMMENDATION IMPLICATIONS:

- ***Environmental***

The draft Long Term Plan provides for environmental programs to be undertaken by Council

- ***Social***

The Draft Budget provides for social programs to be undertaken by Council.

- ***Economic (Financial)***

Council needs to adopt a balanced budget.

- *Policy or Statutory*

Nil

RECOMMENDATION:

1. That Council adopt the outcomes/outputs for the 2009 / 10 year.
2. That the draft budget be amended to provide either a balanced or surplus budget.

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A V Burgess
GENERAL MANAGER