

Special Council Meeting Minutes

17 April 2018

Our Vision

*A City which values its heritage, cultural diversity,
sense of place and natural environment.*

*A progressive City which is prosperous, sustainable
and socially cohesive, with a strong community spirit.*

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City of
Norwood
Payneham
& St Peters

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VENUE Council Chambers, Norwood Town Hall

HOUR 8.08pm

PRESENT

Council Members Mayor Robert Bria
Cr Lucy Marcuccitti
Cr Christel Mex
Cr Connie Granozio
Cr Kevin Shepherdson
Cr Mike Stock
Cr Carlo Dottore
Cr Kevin Duke
Cr Evonne Moore
Cr John Frogley
Cr Garry Knoblauch
Cr John Minney
Cr Sue Whittington
Cr Paul Wormald

Staff Mario Barone (Chief Executive Officer)
Peter Perilli (General Manager, Urban Services)
Carlos Buzzetti (General Manager, Urban Planning & Environment)
Sharon Perkins (General Manager, Corporate Services)
Andrew Alderson (Financial Services Manager)
Tina Zullo (Administration Officer, Governance & Community Affairs)

APOLOGIES Nil

ABSENT Nil

1. CONFIRMATION OF THE MINUTES OF THE SPECIAL COUNCIL MEETING HELD ON 9 APRIL 2018

Cr Stock moved that the minutes of the Special Council meeting held on 9 April 2018 be taken as read and confirmed. Seconded by Cr Minney and carried.

2. STAFF REPORTS

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2.1 2017-2018 OPERATING AND CAPITAL PROJECTS BUDGET

REPORT AUTHOR: Financial Services Manager
GENERAL MANAGER: General Manager, Corporate Services
CONTACT NUMBER: 83664585
FILE REFERENCE: S/5042
ATTACHMENTS: A - B

PURPOSE OF REPORT

The purpose of this report is to provide for the Council's consideration and "in principle" endorsement, the Operating and Capital Projects Budget components of the Draft 2018-2019 Budget (the Draft Budget).

BACKGROUND

Pursuant to the provisions contained in Chapters 8, 9 and 10 of the *Local Government Act 1999 (the Act)*, the Council is required to adopt for each financial year, an Annual Business Plan (ABP) and Budget, after 31 May and before 31 August.

Part 2 of the Act, "Annual Business Plans and Budgets", requires the Council to consider its budget in conjunction with the Council's Annual Business Plan and adopt it following adoption of the Annual Business Plan.

Pursuant to Section 123 (3) of the Act, before the Council adopts an Annual Business Plan, the Council must prepare a draft Annual Business Plan and make it available for public consultation.

At the Special Meeting held on 9 April 2018, the Council endorsed 'in principle', the Draft 2018-2019 Recurrent Budget, which projected an Operating Surplus of \$1.594 million, on a full accrual basis, prior to factoring into account any increase in Rate Revenue and Operating Projects.

RELEVANT POLICIES & STRATEGIC DIRECTIONS

The Council's Long Term Strategic direction is outlined in the *City Plan 2030 – Shaping our Future*. The Draft 2018-2019 Annual Business Plan and supporting Draft 2018-2019 Budget, sets out the proposed services and programs for the 2018-2019 Financial Year and explains how the Council intends to finance its continuing services and projects which are to be undertaken during the year.

The Council's Long Term Financial Plan (LTFP), is a key document in the Councils Planning Framework. It is the primary financial management tool which links the Councils Strategic Plan, *City Plan 2030 – Shaping our Future*, Whole-of-Life Assets Management Plans and the Annual Business Plan and Budget.

In determining the services and projects which are to be proposed to be provided or delivered in 2018-2019, the Council must to ensure that they will assist in delivering on its Long Term Strategic directions and financial objective set out in the LTFP.

FINANCIAL AND BUDGET IMPLICATIONS

The 'in-principle' adoption of the Draft Budget as presented in this report, (prior to any Rate Revenue increases) will deliver an Operating Surplus of \$0.938 million and a Net Surplus (after capital income) of \$6.370 million.

It should be noted that the Draft Budget Operating Surplus includes \$0.260 million from the Roads-to-Recovery Grant Funding Program. The Council receives funding annually from the Federal Government under the Roads-to-Recovery Program to perform works over and above the Councils existing Civil Infrastructure Capital Works Program. The Roads-to-Recovery funding will be utilised to undertake the construction of concrete spoon drains and the reseal of four (4) laneways.

In addition, the Draft Budget includes carry forward Operating Project expenditure of \$0.148m for approved projects which are not anticipated to be completed by 30 June 2018. This expenditure, together with the Roads-to-Recovery Grant funding, will be excluded when determining the required Rate Revenue increase.

While the Roads-to-Recovery funding will be utilised to fund a Capital Project (s), in line with the requirements of the Model Financial Statements, if the Council is itself entitled to determine the purpose or the project on which the amount is spent (i.e. the funding is un-tied), then it is classified as Grants, Subsidies and Contributions and the funding is to be included when determining the Council's Operating Surplus.

SOCIAL ISSUES

Nil.

CULTURAL ISSUES

Nil.

ENVIRONMENTAL ISSUES

Nil.

RESOURCE ISSUES

Nil.

RISK MANAGEMENT

There are a number of risk management issues arising from this issue and as such it is important that the budget is prepared and adopted in accordance with the relevant statutory requirements. To this end, the Draft 2018-2019 Budget has been prepared in accordance with the relevant statutory requirements.

CONSULTATION

- **Elected Members**
Elected Members have been involved throughout the preparation of the Budget and have considered the various components of the Draft Budget and made decisions as appropriate.
- **Community**
Through the process of consultation on the Draft 2018-2019 Annual Business Plan, the community will have the opportunity to provide input into the Draft 2018-2019 Budget.
- **Staff**
The review of the Operating Expenditure and Special Projects has been completed with the involvement of the Chief Executive Officer, General Managers and the various Responsible Officers.
- **Other Agencies**
Not Applicable.

DISCUSSION

Budgeted Recurrent Operating Position

The Draft Budget is prepared in two stages, with Stage One being the preparation and consideration of the Recurrent Budget and Stage Two being the preparation and consideration of the Operating and Capital Projects Budget.

At the Special Meeting held on 9 April 2018, the Council endorsed 'in principle', the Draft 2018-2019 Recurrent Budget, which projected an Operating Surplus of \$1.594 million, on a full accrual basis, prior to factoring into account any increase in Rate Revenue and Operating Projects. It should be noted that the Draft 2018-2019 Recurrent Budget endorsed 'in principle' on 9 April 2018, does not include any allowance for the potential increase in the disposal costs which are associated with the import ban on contaminated recyclables and the Share of Joint Ventures & Associates. In addition, the interest cost included within the Draft 2018-2019 Recurrent Budget is based on new borrowings of \$2.5 million.

A review of the interest expense in light of the proposed 2018-2019 Capital Budget has been undertaken and the budget estimate included within the Recurrent Budget will need to be increased for additional borrowings required for the Norwood Oval Clubrooms & Members Facilities and Women's Facilities. Due to the timing of the project, the borrowings will be required to be taken out in the first half of the year of the 2018-2019 Financial year, and as such the interest expense in the recurrent budget will be increased by \$150,000.

The value of borrowings and associated interest expense included within the Recurrent Budget is based on the assumption that the Council is successful in securing all of proposed Capital Grant Funding detailed in the proposed Capital Budget.

2018-2019 Budgeted Operating Projects

The Draft Budget, as presented, incorporates Operating Projects to the value of \$0.619 million exclusive of 2017-2018 carry forwards. The LTFP contains provision for Operating Projects (exclusive of carry forwards) with a net cost of \$0.960 million. The variance to the LTFP is attributed to the proposed 2018-2019 Operating Projects Budget not incorporating a funding allocation for Building Maintenance and Painting Program. It should be noted that the recurrent budget includes funding for compliance based maintenance (ie test and tagging).

The proposed Operating Projects for 2018-2019 Budget have been broken down into a number of categories as detailed in Table 1 below:

TABLE 1: OPERATING PROJECT CATEGORIES

Operating Project Category	2018-2019 Proposed Operating Projects	2018-2019 LTFP Operating Projects	Variance Fav/(unfav)
Council Building Maintenance and Painting Program	\$0.000m	\$0.239m	\$0.239m
New Operating Projects	\$0.618m	\$0.721m	\$0.103m
Total Operating Projects Expenditure	\$0.618m	\$0.960m	\$0.342m
Carried Forward Projects	\$0.149m	-	(\$0.149m)
Total Operating Projects Expenditure (including carry forward)	\$0.767m	\$0.960m	\$0.193m

In addition to the new Operating Projects, there are a number of Operating Projects that were adopted as part of the 2017-2018 Budget, that are not anticipated to be completed by 30 June 2018. The Operating projects carried forward to be completed during the 2018-2019 Financial year, will be funded by cash reserves.

Details of the recommended Operating Projects to be included in the Draft Budget are contained in **Attachment A**.

Budgeted Capital Projects

The Draft Budget, as presented, incorporates Capital Projects to the value of \$29.492 million inclusive of 2017-2018 Carry Forwards of \$10.488 million with the major projects as set out below being carried forward:

- the Norwood Oval Clubrooms & Members Facilities and Women's Facilities;
- River Torrens Linear Park Path Upgrade Project; and
- Beulah Road Bicycle Boulevard Project.

This expenditure is offset by Capital Funding which incorporates Grant and other Revenues to the value of \$8.752 million, which result in a net cost to Council of \$20.740 million (exclusive of capitalised salaries). The LTFP contains provision for Capital Projects with a net cost of \$13.725 million. The proposed Capital Projects for 2018-2019 Budget have been broken down into a number of categories as detailed in Table 2 below:

TABLE 2: CAPITAL PROJECT CATEGORIES

Capital Project category	2018-2019 Proposed Capital Projects	2018-2019 LTFP Capital Projects	Variance Fav/(unfav)
Whole-of-Life Capital Works Program			
* Road Resealing	\$1.267m	\$1.845m	\$0.578m
* Footpath Reconstruction	\$0.811m	\$0.839m	\$0.028m
* Kerbing Reconstruction	\$0.765m	\$0.797m	\$0.032m
* Stormwater Drainage Program	\$4.100m	\$1.862m	(\$2.238m)
New Capital Projects	\$11.800m	\$6.018m	(\$5.782m)
Carry Forward Projects	\$10.488m	\$5.810m	(\$4.678m)
Total Capital Projects Expenditure	\$29.492m	\$17.171m	(\$12.321m)
Capital Funding	\$8.752m	\$3.446m	\$5.306m
Net Cost	\$20.740m	\$13.725m	(\$7.015m)

On a full accrual basis, the Capital Expenditure will not affect the Operating Result before Capital Revenues, except through future years' depreciation and financing costs with any associated loan borrowings. Grant income which is received relating to Capital Projects, however, is included as Capital Income within the Budgeted Statement of Comprehensive Income after the Operating Surplus/ (Deficit) as required by the Model Financial Statements prescribed by the *Local Government Act 1999*.

Details of the 2018-2019 Proposed Capital Projects are contained in **Attachment A**.

Attachment B contains the detailed Project Proposals for both the Operating and Capital Projects which have been included in the Draft Budget.

In developing the Draft 2018-2019 Projects Budget, consideration has been given to the appropriateness and merit of the each proposal. The assessment which has been undertaken takes into account the relevance to the Council's Strategic outcomes, the operational need and the available resources to undertake or manage the projects.

All funding submissions received have been presented to the Council for inclusion within the Draft Budget.

Borrowings

Proposed net capital expenditure, as detailed in **Attachment A**, is \$20.740 million (inclusive of Roads-to-Recovery project) and is proposed to be funded as follows:

- Use of depreciation recovered through rate revenue \$8.699 million
- Roads to Recovery Funding \$0.260 million
- Long Term Borrowings \$6.500 million
- Existing Cash Reserves \$5.200 million

Of the total borrowings of \$6.5 million, \$4.0 million relates to the Norwood Oval Clubrooms & Members Facilities and Women's Facilities. Due to the timing of the Norwood Oval Project, the borrowing will be required to be taken out in the first half of the 2018-2019 Financial year. To minimise the impact on the annual interest expense, the balance of the borrowings (\$2.5 million) will be taken out in the latter half of the 2018-2019 Financial Year. In determining the level of borrowings required to fund the capital program, consideration has been given to the cashflow requirements and to intergenerational equity between current and future users. Whilst these considerations have formed part of the budget model they will be reviewed and reconsidered before the decision to commit to any borrowings.

In addition, given the anticipated cash reserves, there is no expectation that the Council will be required to take out short term borrowings to cover periods of negative cash flow.

Overview of Budget Position

Table 3 sets out the Draft Operating Surplus, prior to the incorporation of Rate Revenue increases. The Council's Operating Surplus/Deficit position before Capital Income is determined by combining the Draft 2018-2019 Recurrent Budget and Operating Projects Budget. Capital Income is defined as grants and subsidies received to fund specified Capital Projects, gains and losses on disposal of assets or direct contributions of physical assets.

The Draft Operating Surplus of \$0.938 million is based on a Recurrent Operating Surplus of \$1.594 million, an Operating Deficit related to 2018-2019 Operating Projects of \$0.506 million (inclusive of Roads to Recovery Funding of \$0.260 million).

TABLE 3: 2018-2019 PROPOSED BUDGETED INCOME STATEMENT (BEFORE RATE REVENUE INCREASES)

	Recurrent Operating 2018-2019	Operating Projects 2018-2019	Capital Projects 2018-2019	Proposed 2018-2019
	\$	\$	\$	\$
INCOME				
Rates	33,900,068	-	-	33,900,068
Statutory charges	1,730,000	-	-	1,730,000
User charges	3,609,636	-	-	3,609,636
Grants, subsidies and contributions*	2,430,302	260,837	-	2,691,139
Investment income	119,344	-	-	119,344
Other income	743,511	-	-	743,511
Total Income	42,532,861	260,837	-	42,793,698
EXPENSES				
Employee costs	15,338,029	-	-	15,338,029
Materials, contracts & other expenses	16,019,621	766,828	-	16,786,449
Finance costs	881,326	-	150,000	1,031,326
Depreciation, amortisation & impairment	8,699,443	-	-	8,699,443
Total Expenses	40,938,419	766,828	150,000	41,855,247
OPERATING SURPLUS / (DEFICIT) (prior to Rate Revenue Increase)	1,594,442	(505,991)	(150,000)	938,451
Net gain (loss) on disposal or revaluation of assets	-	-	20,000	20,000
Amounts specifically for new or upgraded assets	-	-	5,411,619	5,411,619
Net Surplus/(Deficit) (prior to Rate Revenue Increase)	1,594,442	(618,828)	5,431,619	6,370,070

The Operating Deficit set out in Table 3 above, excludes the share of the budgeted loss/gain from the Council's Regional Subsidiaries. A request has been made that the Regional Subsidiaries provide details of their respective budgeted Operating Surplus/Deficit however, at the time of writing this report, not all of the Council's Regional Subsidiaries have completed their respective draft budgets.

Rating Strategy

For the 2018-2019 Financial year, current information from the Valuer-General, indicates strong growth in capital values across the all land uses. The Residential sector, has again recorded strong growth, with a Capital Value increase of 9.3% on 2017-2018. New residential development accounts for 1.2% of this growth. For the Commercial Sector, the Capital Value increase is 7.4%, with new Commercial development accounting for 1.39% of this growth.

Despite the growth in residential property during 2017-2018 being significantly higher than the increases being experienced over the last few years, as illustrated in Figure 1 below, over time, the average growth for both the Residential and Commercial Sectors are in line with each other, at around 6%.

FIGURE 1: CAPITAL VALUE INCREASE 2006-2007 TO 2018-2019



For the same period, the impact of the Council's Rating Policy is illustrated in Figure 2 below.

FIGURE 2: RATING POLICY 2006-2007 TO 2018-2019



The Council's Long Term Financial Plan, sets out the Councils Financial Goal, which is to be a *City which delivers on our Strategic Outcomes by managing our financial resources in a sustainable and equitable manner*. To achieve this, a number of Financial Outcomes and financial targets were established, one being Rate Stability. The Council has defined Rate Stability to mean *Annual rate collections are fair and equitable for our residents and ratepayers with the aim to keep rate revenue increases stable over the medium term*. For the previous Council Term, which concluded in October 2014, the average rate increase for the four (4) year term, was 5.36%, which was within the target range, (albeit it at the upper limit) set out in the Council's LTFP. For the same period, the average residential rate increase was 5%, with the average Commercial Rate increase being 5.6%.

Assuming a rate revenue increase of 2.5% for the 2018-2019 Financial year, for the current term of Council, the average rate revenue increase is 2.31%, which is within the target rate, contained in the endorsed Long Term Financial Plan, which was adopted by the Council on 2 April 2018. For the same period, the average residential rate increase was 1.73%, with the average Commercial Rate increase being 0.44%.

As such, from a financial management perspective, the Council has been delivering on its financial objective. Based on the Rates Modelling which has been undertaken to date, the potential impact of rate increases are detailed in Table 4 below.

TABLE 4: RATING STRATEGY

Proposed Rate Revenue Increases	2018-2019				
	1.1%	1.75%	2.0%	2.25%	2.5%
	\$'000	\$'000	\$'000	\$'000	\$'000
Net General Rate Revenue	\$32,714	\$32,918	\$32,999	\$33,080	\$33,161
Net Increase on 2017-2018	361	566	647	728	809
<i>Rate Revenue Increase</i>	0	205	286	367	448
<i>New Development</i>	361	361	361	361	361
Operating Surplus/(Deficit) after rate revenue increases *	1,187	1,392	1,473	1,554	1,634
Residential Rate					
Average Rate (inclusive of new development) (\$)	1,445	1,456	1,461	1,466	1,469
Average Rate Difference (\$)	(9)	2	6	11	15
Increase from previous year (%)	(0.61%)	0.14%	0.44%	0.75%	1.0%
Rate-in-the-Dollar	0.002212	0.0022284	0.002235	0.002417	0.002248
Commercial Rate					
Average Rate (inclusive of new development) (\$)	2,460	2,479	2,486	2,494	2,500
Average Rate Difference (\$)	(37)	(18)	(11)	(4)	3
Increase from previous year (%)	(1.47%)	(0.73%)	(0.44%)	(0.14%)	0.12%
Rate-in-the-Dollar	0.0026541	0.0026741	0.002682	0.0026899	0.002697
Minimum Rate	968	975	977	979	982

* Excludes Roads to Recovery Grant Funding and 2017-2018 Carried Forward Operating Projects Budget

In the context of the proposed Rating Strategy for the 2018-2019 Financial year, the Council must consider the financial impact of the decisions that are made today on the future financial sustainability of the Council. The proposed Rating Strategy will be presented to the Council for consideration at the Council meeting scheduled on 23 April 2017.

OPTIONS

Elected Members can either endorse the Draft Budget as presented in this report or choose to vary the Draft Budget by either:

- reducing Operating Projects; and/or
- increasing or decreasing non-rate revenue; or
- revisiting recurrent operating expenditure.

CONCLUSION

The Draft Budget, as presented within this report, will deliver an Operating Surplus prior to Rate Revenue increase of \$0.938 million which is in line the budget target as set by the Council at its meeting held on 15 January 2018.

In determining the continuing services and new initiatives for the 2018-2019 Financial Year, the Council must ensure that it can deliver on its Long Term Strategic direction and financial objective as set out in the Long Term Financial Plan.

COMMENTS

If Elected Members have any questions or require clarification in relation to specific budget items, and/or any issues discussed in this report, do not hesitate to contact the General Manager, Corporate Services, Sharon Perkins on 8366 4585 prior to the meeting.

RECOMMENDATION

1. That the Proposed Operating and Capital Projects, as set out in Attachment A, be endorsed "in principle" and incorporated into the Draft 2018-2019 Budget.
 2. The Council notes that a report on the adoption of the Draft 2018-2019 Budget, which will include the 2018-2019 Rating Strategy, will be prepared for the Council's consideration.
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Cr Frogley left the meeting at 8.10pm.
Cr Marcuccitti left the meeting at 8.10pm.
Cr Minney left the meeting at 8.10pm.
Cr Frogley returned to the meeting at 8.11pm.
Cr Marcuccitti returned to the meeting at 8.11pm.
Cr Minney returned to the meeting at 8.12pm.
Cr Dottore left the meeting at 9.00pm.
Cr Dottore returned to the meeting at 9.02pm.

Cr Minney moved:

1. *That the Proposed Operating and Capital Projects, as set out in Attachment A, be endorsed "in principle" and incorporated into the Draft 2018-2019 Budget.*
2. *The Council notes that a report on the adoption of the Draft 2018-2019 Budget, which will include the 2018-2019 Rating Strategy, will be prepared for the Council's consideration.*

Seconded by Dottore and carried.

3. CLOSURE

There being no further business, the Mayor declared the meeting closed at 9.17pm.

Mayor Robert Bria

Minutes Confirmed on _____
(date)