

# Special Council Meeting Minutes

**17 April 2019**

## **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

Page No.

1.	CONFIRMATION OF THE MINUTES OF THE SPECIAL COUNCIL MEETING HELD ON 10 APRIL 2019 .....	1
2.	STAFF REPORTS .....	1
2.2	ERA WATER <i>[This Item was dealt with out of sequence]</i> .....	2
2.1	2019-2020 OPERATING AND CAPITAL PROJECTS BUDGET .....	7
2.2	ERA WATER <i>[This Item was dealt with out of sequence - refer to Page 2 for the Minutes relating to this Item]</i> .....	18
3.	CONFIDENTIAL REPORTS .....	19
3.1	TENDER .....	20
4.	CLOSURE .....	21

**VENUE** Council Chambers, Norwood Town Hall

**HOUR** 7.00pm

**PRESENT**

**Council Members** Mayor Robert Bria  
Cr Kester Moorhouse  
Cr Evonne Moore  
Cr Garry Knoblauch  
Cr John Minney  
Cr Carlo Dottore  
Cr Kevin Duke  
Cr Mike Stock  
Cr Scott Sims  
Cr Fay Patterson  
Cr Sue Whittington  
Cr John Callisto  
Cr Christel Mex

**Staff** Mario Barone (Chief Executive Officer)  
Carlos Buzzetti (General Manager, Urban Planning & Environment)  
Sharon Perkins (General Manager, Corporate Services)  
Andrew Alderson (Financial Services Manager)  
Keke Michalos (Manager, Economic Development & Strategic Projects)  
Richard Wunderlich (Projects Manager)  
Paul Mercorella (Acting Manager, City Assets)  
Tina Zullo (Administration Officer, Governance & Community Affairs)

**APOLOGIES** Cr Connie Granzio

**ABSENT** Nil

**1. CONFIRMATION OF THE MINUTES OF THE SPECIAL COUNCIL MEETING HELD ON 10 APRIL 2019**

*Cr Minney moved that the minutes of the Special Council meeting held on 10 April 2019 be taken as read and confirmed. Seconded by Cr Sims and carried.*

**2. STAFF REPORTS**

*Cr Moore moved:*

*That Item 2.2 be brought forward for consideration.*

*Seconded by Cr Minney and carried.*

## 2.2 ERA WATER

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**REPORT AUTHOR:** Chief Executive Officer  
**GENERAL MANAGER:** Not Applicable  
**CONTACT NUMBER:** 8366 4539  
**FILE REFERENCE:** S/02454 S/04201  
**ATTACHMENTS:** A - B

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### PURPOSE OF REPORT

The purpose of this report is to advise the Council of the decision which has been made by the City of Burnside regarding the request from ERA Water to increase its borrowing limit and to recommend to the Council a strategy to address the situation which has been created by this decision.

### BACKGROUND

As Elected Members will recall, at its meeting held on 1 April 2019, the Council considered a report regarding a request from ERA Water to approve additional bore capacity, to commence sale of water to external customers in 2020 and to increase ERA Water's borrowing limit by \$2.3 million.

Following consideration of the Board's request (which included financial analysis undertaken by BRM Holdich), the Council resolved the following:

1. *That the email from the Board of ERA Water dated 8 March 2019 and the letter from BRM Holdich dated 12 February 2019, be received and noted.*
2. *That the Board of ERA Water be advised that following consideration of advice which has been received from the Board, the Council approves the following:*
  - *increasing the capacity of the bore (ie. an additional bore) to achieve the original design capacity of the Scheme; and*
  - *subject to availability, sale of water to external customers to commence in 2020.*
3. *That the debt limit of ERA Water be increased by up to \$2.3 million and that approval is given for the additional funds of up to \$2.3 million, to be borrowed from the Local Government Finance Authority.*
4. *That having considered the funding options as provided in the letter from BRM Holdich dated 12 February 2019, the Council requests the Board of ERA Water, to explore the possibility of third party investment or divestment (sale) as soon as practicable and that the Council be kept apprised of this process.*

A copy of the report (and Minutes relating to this Item) is contained in **Attachment A**.

A copy of the letter dated 4 April 2019 from the Council's Chief Executive Officer to the General Manager of ERA Water, advising of the Council's decision is contained in **Attachment B**.

As set out in the report which was considered by the Council on 1 April 2019, the Town of Walkerville considered this matter at its meeting held on 18 March 2019 and resolved the following:

1. *That Council receive and note the information presented by ERA Water Board appearing as Attachments A, B, C, D, E, F, G, H and the Boards recommendations contained therein.*
2. *That Council having considered the information presented by ERA Water Board (Attachment D) in relation to the system capacity and the financial evaluation of options, accepts the Board's recommendation to:*
  - *additional bore capacity be provided to achieve the original design capacity of the water harvesting and aquifer storage and recovery scheme.*

3. *That Council endorses the recommendations from ERA Water Board (Attachment A) that:*
  - *the historical approach of using debt by borrowing from the Local Government Financing Authority be used to meet ERA Water's funding requirements; and*
  - *Council provide ERA Water with authority to increase the debt limit by \$2.3 million.*
4. *That Council having considered the information presented by ERA Water Board and BRM Holdich (Attachments A – H), request that the Board further explore the 'third party investment or purchase' option and report back to Councils.*

The Council has been advised that the City of Burnside considered this matter at its meeting held on 9 April 2019 and resolved the following:

1. *That the Report be received.*
2. *That Council receives and notes the information presented by the ERA Water Board appearing as attachments A, B, C, D, E, F, G, H, and the Board's recommendations contained therein.*
3. *That Council engages an independent advisory body (high level firm) to conduct an independent Financial/Strategic/Technical review of the long term sustainability and value of the ERA Water project (up to a budget of \$50k).*
4. *That the terms of reference for the review be drafted and agreed by Cr Hughes, Cr Piggott and the CEO.*
5. *That the review be presented to Council during June 2019.*
6. *That Council approves the necessary funding for ERA Water to continue operations until 30 June 2019, based on the ERA Water FY 2019 monthly cash-flow forecast. This funding does not include provision for the drilling of further bores.*

In light of this decision, it is clear that the three (3) Constituent Councils have been unable to reach unanimous agreement in respect to the request which the Councils have received from ERA Water and as such, ERA Water cannot fund and construct an additional bore, cannot fund and construct the necessary connections which are required to commence the sale of water and importantly, cannot increase its borrowing limit by up to \$2.3 million.

The concerns and consequences of the City of Burnside's decision have been documented in a letter from the Independent Chairperson of ERA Water, which was sent from ERA Water to all of the Elected Members of the Constituent Councils.

In order to progress to a resolution of the issues which now faces ERA Water as a result of the decision which has been made by the City of Burnside and to secure the funding of ERA Water's operations until 30 June 2019, at its meeting held on 15 April 2019, the Town of Walkerville resolved the following:

*That Walkerville Council supports Item 6 (only) of the 9 April 2019, City of Burnside resolution that it will fund ERA Water in order to continue operations until 30 June 2019, based on the ERA Water Financial Year 2019 monthly cash-flow forecast. It being noted that this funding does not include provision for the drilling of further bores.*

In making the above resolution, it is understood that the Town of Walkerville's resolution which was made at its meeting held on 18 March 2019, still stands and that the resolution made at its meeting held on 15 April 2019 (as set out above), is seeking to allow ERA Water to continue to operate until 30 June 2019, whilst the current situation with the City of Burnside is resolved.

As such, this report has been prepared with the aim of this Council making a similar resolution to that which has been made by the Town of Walkerville, as well as formally requesting the City of Burnside to provide clarification in respect to Parts 3 and 6 of its resolution.

## RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

## FINANCIAL AND BUDGET IMPLICATIONS

The Council is a Member of ERA Water, together with the City of Burnside and the Town of Walkerville and has an equal equity in the Subsidiary. Any debt, liabilities and assets incurred by the Subsidiary become the debts, liabilities and assets of the Constituent Councils.

## EXTERNAL ECONOMIC IMPLICATIONS

Not Applicable.

## SOCIAL ISSUES

Not Applicable.

## CULTURAL ISSUES

Not Applicable.

## ENVIRONMENTAL ISSUES

Not Applicable.

## RESOURCE ISSUES

## RISK MANAGEMENT

Given the decision which has been made by the City of Burnside, ERA Water and by implication the Constituent Councils, face significant risks and the Project itself may now be at risk.

The Constituent Councils are aware of the risks associated with this Project and have appointed a Board to manage these risks. In this instance, the Board has reviewed the financial projections and have put forward an appropriate course of action and a set of recommendations. As the Constituent Councils have been unable to reach a unanimous agreement on the recommendations put forward by ERA Water, it is incumbent on the Constituent Councils to work through the issues which have been caused by the City of Burnside's decision and ensure that the Project is successful.

If the situation is left unresolved there may be significant risks for the Project and the Constituent Councils.

## CONSULTATION

- **Elected Members**  
Cr Minney is the Council's appointee to the Board of ERA Water and this matter has been discussed with Cr Minney.
- **Community**  
Not applicable.
- **Staff**  
Nil
- **Other Agencies**  
Not Applicable.

## **DISCUSSION**

In respect to the resolution which has been made by the City of Burnside, it appears that the Council is seeking to review the whole project, including the value of the Project.

Its reasons for doing so are unclear. As such, as a Constituent Council, it would be appropriate and prudent to formally request clarification from the City of Burnside in respect to what it is seeking to achieve through this review and its reasons for determining to commission this review at this stage in the life cycle of the Project and particularly in light of the work which has already been undertaken by the ERA Water Board.

In respect to Part 6 of the City of Burnside's resolution, whilst it is clear that it is only approving funding until 30 June 2019, it is understood from various communications and discussions that have taken place, the "approved funding" only relates to funding of the operations. To this end, in respect to any contractual arrangements which are required to run the operations of ERA Water and continue with the commissioning of the Project, it is unclear how these will now be organised, as it may not be possible in some situations, to enter into short term contracts.

In respect to the funding, Part 6 of the City of Burnside's resolutions is unclear in respect to whether the City of Burnside itself will cash fund all of the required funds to 30 June 2019 or whether it is simply funding its portion (ie. one third) and in doing so, expect the Town of Walkerville and the City of Norwood Payneham & St Peters to jointly cash fund their respective proportions (ie. one third each) or whether the resolution authorises ERA Water to borrow the required funds.

In this respect, it should be noted that both the Town of Walkerville and this Council authorised ERA Water to borrow the required funds (up to \$2.3 million as requested by ERA Water). As such, the Town of Walkerville and this Council did not approve cash funding of the shortfall.

In an attempt to ensure, at the very least, that ERA Water has sufficient funds to operate until 30 June 2019, as set out in the Background section of this report, the Town of Walkerville, at its meeting held on 15 April 2019, resolved to essentially support Part 6 of the City of Burnside's resolution.

Whilst such a resolution does not deal with seeking clarification from the City of Burnside of its resolution, nor indeed how the funding is to be arranged, it will at the very least ensure that the three (3) Constituent Councils have unanimously agreed to fund the operations of ERA Water to 30 June 2019.

It should be noted however, that in making this recommendation and this Council resolving accordingly, does not provide endorsement, either implicitly or explicitly, of the resolution which has been made by the City of Burnside.

## **OPTIONS**

The Council can choose to resolve as recommended, or it can choose to adopt another course of action as it sees fit.

Whilst there are dispute resolution clauses in the ERA Water Charter, the recommended course of action is to, in the first instance, seek to resolve the situation by pursuing dialogue with the City of Burnside, to clarify its intentions.

## **CONCLUSION**

The objectives of establishing ERA Water and indeed to undertake the Waterproofing Eastern Adelaide Project, was based on removing/lessening reliance on mains water for irrigation of parks and reserves and by doing so, avoid increasing costs which are charged by SA Water. In short, the objectives were (and remain) both environmental and financial.

The Project is not unique to the extent that many councils have similar schemes (ie. Salisbury, Light, Playford, Charles Sturt and Onkaparinga). These projects are generally long term projects and by nature of such projects, are complex, however, all of them have similar objectives.

In short, projects such as this are similar to new start-up businesses and require patience and confidence from the respective shareholders. The Board has handled the construction and commissioning of the Project in a prudent and responsible manner (on budget and on time) and has sourced advice from consultants who have skills and experience with such projects. Notwithstanding this, as with any project which is undertaken, there are risks and these risks need to be managed.

In this instance, the Board has reviewed the financial projections and has put forward an appropriate course of action and a set of recommendations for the Council's consideration.

In respect to risk, the low rainfall which occurred in 2018, could not have been predicted, however, the consequence is being managed well by the Board.

## **COMMENTS**

Nil

## **RECOMMENDATION**

1. That the City of Burnside be formally requested to provide clarification of the resolution made at its meeting held on 9 April 2019, particularly in respect to its reasons and motivation for commissioning an independent financial/strategic/technical review of ERA Water and how the necessary funding will be provided to ERA Water to meet its operational requirements to 30 June 2019.
  2. That in the interests of ensuring that ERA Water has sufficient funds to continue its operations to 30 June 2019, the Council supports Part 6 of the resolution made by the City of Burnside at its meeting held on 9 April 2019, namely the Council approves the necessary funding for ERA Water to continue its operations until 30 June 2019, based on the ERA Water 2019 Financial Year monthly cash-flow forecast and noting that this funding does not include provision for the drilling of additional bores.
  3. That Mayor Bria be authorised to make a Deputation, if it is considered appropriate and necessary, to the City of Burnside regarding the implications on ERA Water and the Constituent Councils as a result of the City of Burnside's resolution made at its meeting held on 9 April 2019.
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*Cr Minney moved:*

1. *That the City of Burnside be formally requested to provide clarification of the resolution made at its meeting held on 9 April 2019, particularly in respect to its reasons and motivation for commissioning an independent financial/strategic/technical review of ERA Water and how the necessary funding will be provided to ERA Water to meet its operational requirements to 30 June 2019.*
2. *That in the interests of ensuring that ERA Water has sufficient funds to continue its operations to 30 June 2019, the Council supports Part 6 of the resolution made by the City of Burnside at its meeting held on 9 April 2019, namely the Council approves the necessary funding for ERA Water to continue its operations until 30 June 2019, based on the ERA Water 2019 Financial Year monthly cash-flow forecast and noting that this funding does not include provision for the drilling of additional bores.*
3. *That Mayor Bria be authorised to make a Deputation, if it is considered appropriate and necessary, to the City of Burnside regarding the implications on ERA Water and the Constituent Councils as a result of the City of Burnside's resolution made at its meeting held on 9 April 2019.*

*Seconded by Cr Whittington and carried unanimously.*

## 2.1 2019-2020 OPERATING AND CAPITAL PROJECTS BUDGET

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**REPORT AUTHOR:** Financial Services Manager  
**GENERAL MANAGER:** General Manager, Corporate Services  
**CONTACT NUMBER:** 83664585  
**FILE REFERENCE:** S05563  
**ATTACHMENTS:** A - B

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### 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 2019-2020 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 10 April 2019, the Council endorsed 'in principle', the Draft 2019-2020 Recurrent Budget, which projected an Operating Surplus of \$1.007 million, on a full accrual basis, prior to taking 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 2019-2020 Annual Business Plan and supporting Draft 2019-2020 Budget, sets out the proposed services and programs for the 2019-2020 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 2019-2020, the Council must ensure that they will assist in delivering on its Long Term Strategic directions and financial objective set out in the LTFP and *City Plan 2030 – Shaping our Future*.

### FINANCIAL AND BUDGET IMPLICATIONS

The 'in-principle' endorsement of the Draft Budget as presented in this report, (prior to any Rate Revenue increases) will deliver an Operating Deficit of \$600,000 and a Net Surplus (after capital income) of \$6.392 million.

It should be noted that the Draft Budget Operating Surplus includes \$362,000 from the Roads-to-Recovery Grant Funding Program. In respect to this Program, the Council receives funding annually from the Federal Government under the Roads-to-Recovery Program to undertake works over and above the Councils existing Civil Infrastructure Capital Works Program. For 2019-2020, it is proposed that the Roads-to-Recovery funding will be utilised to undertake the re-construction of Chapel Street, Norwood.

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 must be included when determining the Council's Operating Surplus, however it should be noted that the Roads-to-Recovery Grant funding, will be excluded from the Operating Surplus when determining the required Rate Revenue increase.

In addition, the March Budget Update estimates that Operating Projects, with a net value of \$337,000, will not be completed by 30 June 2019 and will be carried forward to 2019-2020. The completion of these projects will be funded from cash reserves and not included in the draft Budget for the purpose of determining the Rate Revenue increase.

The Council also has an interest in a number of Regional Subsidiaries. These are referred to within the documents as Joint Ventures and while interests in Joint Ventures are a non-cash item, the value of the Council's ownership share of the respective budgeted Operating Results, must be included in the determination of the Council's Operating result. Based on preliminary information which has been received from the respective Regional Subsidiaries, the estimated Share of Joint Ventures is a deficit in the order of \$135,000, with the major contributor to this result being ERA Water. As the recognition of the interest in Joint Ventures is a non-cash item, the Council's share will not be included in the draft Budget for the purpose of determining the Rate Revenue increase. The underlying draft Operating Deficit, prior to an increase in rate revenue is \$490,000 and to achieve the targeted Operating Surplus as set out in the LTFFP, the rate revenue increase required, based on the endorsed Recurrent Budget and the Projects as presented in this report, is 4% or \$1.365 million or alternatively, a reduction in Recurrent and or Operating Project expenditure if the Council is seeking a Rate Revenue increase of less than 4%.

#### **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 2019-2020 Budget has been prepared in accordance with the relevant statutory requirements.

#### **CONSULTATION**

- **Elected Members**

Elected Members have been involved throughout the preparation of the Draft 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 2019-2020 Annual Business Plan, the community will have the opportunity to provide input into the Draft 2019-2020 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

### Recurrent Budget

As Elected Members are aware, 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. This report deals with Stage Two.

At the Special Meeting held on 10 April 2019, the Council endorsed 'in principle', the Draft 2019-2020 Recurrent Budget, which projected an Operating Surplus of \$1.001 million, on a full accrual basis, prior to factoring into account any increase in Rate Revenue and Operating Projects. It should be noted the interest cost included within the Draft 2019-2020 Recurrent Budget is based on new borrowings of \$2.5 million. The value of new borrowings will be reviewed upon the endorsement of the proposed 2019-2020 Capital Budget and the interest expense will be adjusted accordingly based on the funds required to be borrowed to finance the Capital expenditure program.

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.

### 2019-2020 Proposed Operating Projects

The Draft Budget, as presented, incorporates Operating Projects to the value of \$1.519 million exclusive of 2018-2019 carry forwards. The LTFP contains provision for Operating Projects (exclusive of carry forwards) with a net cost of \$1.061 million.

The proposed Operating Projects for 2019-2020 have been broken down into a number of categories as detailed in Table 1 below:

**TABLE 1: OPERATING PROJECT CATEGORIES**

Operating Project Category	2019-2020 Proposed Operating Projects \$'000	2019-2020 LTFP Operating Projects \$'000	Variance Fav/Unfav \$'000
Proposed New Projects arising from			
• Council resolutions	502	120	382
• Recurring Project approved in prior years	197	174	23
• Elected Member Proposals	50	-	50
• Council Administration, Policy and Council Plans	770	767	3
<b>Total Operating Projects Expenditure</b>	<b>1,519</b>	<b>1,061</b>	<b>458</b>

In addition to the new Operating Projects, there are a number of Operating Projects that were adopted as part of the 2018-2019 Budget, that are not anticipated to be completed by 30 June 2019. The Operating projects to be carried forward and completed during the 2019-2020 Financial year are valued at \$336,000 and 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 \$21.709 million inclusive of 2018-2019 carry forwards of \$11.9 million with the major projects carried forward being:

- the Norwood Oval Members Facilities, Clubrooms and Women's Facilities;
- Beulah Road Bicycle Boulevard Project;
- Payneham Memorial Main Pool refurbishment; and
- Payneham Oval Tennis Court Reconstruction.

This expenditure is offset by Capital Funding which incorporates grants and other revenues to the value of \$6.992 million, which result in a net cost to Council of \$14.716 million (exclusive of capitalised salaries, which are estimated to be in the order of \$650,000). The LTFP contains provision for Capital Projects with a net cost of \$15.268 million (exclusive of capitalised salaries). The proposed Capital Projects for 2019-2020 have been broken down into a number of categories as detailed in Table 2 below:

**TABLE 2: CAPITAL PROJECT CATEGORIES**

Capital Project category	2019-2020 Proposed Capital Projects \$'000	2019-2020 LTFP Capital Projects \$'000	Variance  Fav/Unfav  \$'000
Whole-of-Life Capital Works Program			
* Road Resealing	1,996	2,068	72
* Footpath Reconstruction	851	823	28
* Kerb Reconstruction	635	734	99
* Stormwater Drainage Program	2,813	2,057	756
Other Asset Renewal and existing Asset Upgrades	1,190	2,607	1,417
Elected Member Proposals	330	-	330
LTFP Projects *	1,637	5,650	4,013
Council Administration, Policy and Council Plans	1,994	1,492	502
Carry Forward Projects	10,263	-	10,263
<b>Total Capital Projects Expenditure</b>	<b>21,709</b>	<b>15,431</b>	<b>6,278</b>
<b>Capital Funding</b>	<b>6,992</b>	<b>163</b>	<b>6,829</b>
<b>Net Cost</b>	<b>14,717</b>	<b>15,268</b>	<b>551</b>

\* *The Long Term Financial Plan projects relate to the refurbishment of the main pool at the Payneham Memorial Swimming Centre including a new learner's pool, splash pad and water play components and the commencement of Magill Road Streetscape Upgrade Project. The proposed Budget for this line item represents the carry forward budget for the Payneham Memorial Swimming Centre main pool refurbishment.*

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*.

A summary of the 2019-2020 Proposed Capital Projects are contained in **Attachment A**.

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

In developing the Draft 2019-2020 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 which have been received have been presented to the Council for consideration for inclusion within the Draft Budget. The proposed Operating and Capital Projects Budget includes a number of proposals which have been submitted by Elected Members. Where the submission has been submitted by Elected Members, staff comments have been included within **Attachment A**.

## **Borrowings**

Proposed net capital expenditure, as detailed in **Attachment A**, is \$14.717 million (inclusive of Roads-to-Recovery project) is proposed to be funded as follows:

- Use of depreciation recovered through rate revenue	\$9.500 million
- Roads to Recovery Funding	\$0.362 million
- Long Term Borrowings	\$2.500 million
- Existing Cash Reserves	\$2.355 million

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 2019-2020 Financial Year. In determining the level of borrowings required to fund the capital program, consideration has been given to the cash flow requirements and to intergenerational equity between current and future users (that is, an asset is funded from loan borrowings which is paid off over the life of the asset rather than raising rate revenue to pay for the asset). 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 below 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 2019-2020 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 Deficit of \$600,000 is based on a Recurrent Operating Surplus of \$1.101 million, an Operating Deficit related to 2019-2020 Operating Projects of \$1.129 million (inclusive of Roads to Recovery Funding of \$0.260 million) and an Operating Deficit of \$572,000 from interest costs on new borrowings, Share of Joint Ventures and 2018-2019 Carried Forward Operating Projects. It should be noted that Operating Deficit from Joint Venture, the 2018-2019 Carried Forward Operating Projects and the Roads to Recovery Funding are excluded in determining the 2019-2020 Rate Revenue increase.

As such, based on the Recurrent Budget, which was endorsed "in principle" at the Special Council Meeting held on 10 April 2019 and the Operating Projects presented for consideration in this report, the underlying draft Operating Result on which the rate revenue increase will be based upon, is an Operating Deficit of \$490,000.

**TABLE 3: 2019-2020 DRAFT INCOME STATEMENT (BEFORE RATE REVENUE INCREASES)**

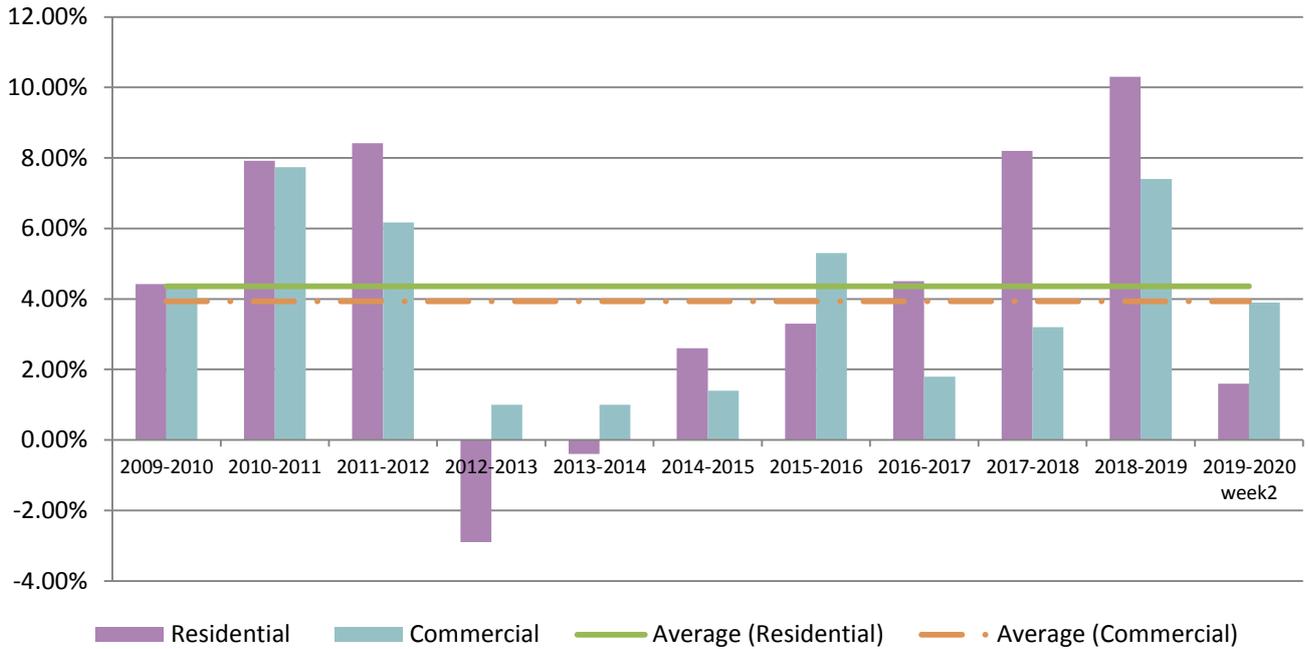
	Recurrent Operating 2019-2020	Operating Projects 2019-2020	Capital Projects 2019-2020	Carry Forwards & Joint Ventures	Proposed 2019-2020
	\$	\$	\$		\$
<b>INCOME</b>					
Rates	33,507,169	-	-	-	33,507,169
Statutory charges	1,738,000	-	-	-	1,738,000
User charges	3,860,377	-	-	-	3,860,377
Grants, subsidies and contributions*	2,301,517	390,000	-	-	2,691,517
Investment income	119,500	-	-	-	119,500
Other income	625,613	-	-	10,000	635,613
Share of Joint Venture Surplus	-	-	-	19,591	19,591
<b>Total Income</b>	<b>42,152,176</b>	<b>390,000</b>	<b>-</b>	<b>29,591</b>	<b>42,571,767</b>
<b>EXPENSES</b>					
Employee costs	15,590,338	138,000	-	65,000	15,793,338
Materials, contracts & other expenses	15,416,125	1,381,076	-	281,823	17,079,024
Finance costs	544,245	-	100,000	-	644,245
Depreciation, amortisation & impairment	9,500,000	-	-	-	9,500,000
Share of Joint Venture Deficit	-	-	-	154,791	154,791
<b>Total Expenses</b>	<b>41,050,708</b>	<b>1,519,076</b>	<b>100,000</b>	<b>501,614</b>	<b>43,171,398</b>
<b>OPERATING SURPLUS / (DEFICIT) (prior to Rate Revenue Increase)</b>	<b>1,101,468</b>	<b>(1,129,076)</b>	<b>(100,000)</b>	<b>(472,023)</b>	<b>(599,631)</b>
Net gain (loss) on disposal or revaluation of assets	-	-	59,000	-	<b>59,000</b>
Amounts specifically for new or upgraded assets	-	-	183,000	6,750,426	<b>6,933,426</b>
<b>Net Surplus/(Deficit) (prior to Rate Revenue Increase)</b>	<b>1,001,468</b>	<b>(1,129,076)</b>	<b>242,000</b>	<b>6,750,426</b>	<b>6,392,426</b>

### Rating Strategy

For the 2019-2020 Financial year, current information obtained from the Valuer-General indicates modest growth in capital values across all of the land use classes and minimal growth from new development, which is currently at 0.49% compared to new development growth of 1.73% being recorded in 2018-2019. Based on the valuation information received to date, the growth in the residential land use classification is very modest, with a Capital Value increase of 1.6% on 2018-2019 values. New residential development represents 0.18% of this growth. For the Commercial land use classification, the Capital Value increase is 3.9% (2018-2019: 7.4%), with new Commercial development accounting for 0.08% of this growth.

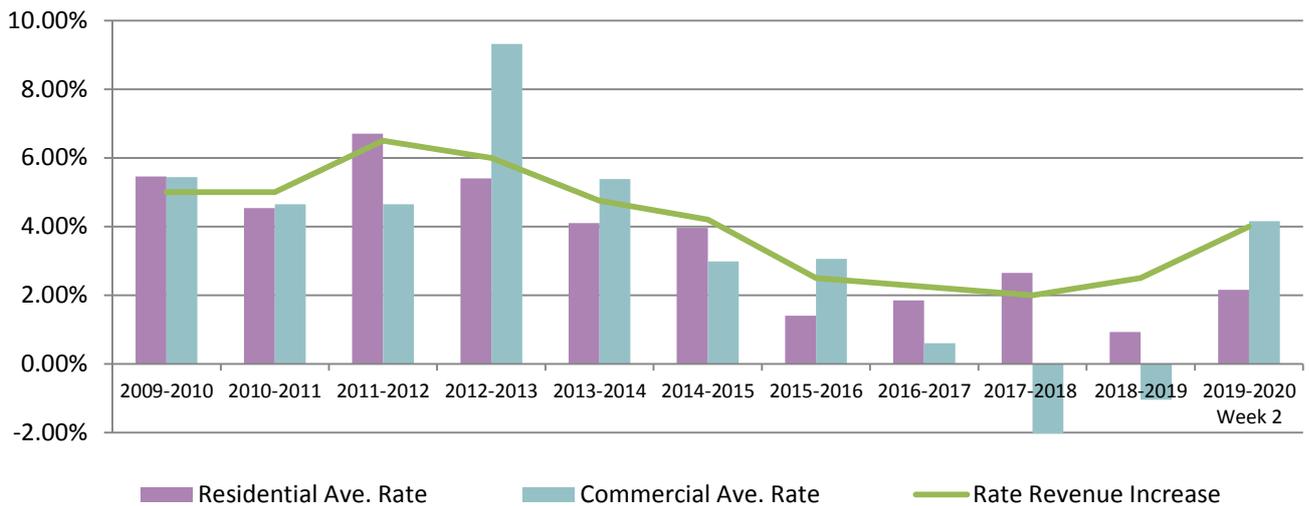
Despite the growth in residential property values in 2017-2018 and 2018-2019 being significantly higher than the increases being experienced over the last few years, as illustrated in Figure 1 below, over time, the average growth for both the Residential and Commercial Sectors are in line with each other, at around 4%.

**FIGURE 1: CAPITAL VALUE INCREASE 2009-2010 TO 2019-2020**



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

**FIGURE 2: RATING POLICY 2009-2010 TO 2019-2020**



The Council's Long Term Financial Plan, sets out the Council's 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*. The Council has set a target range of rate revenue increases of between 2% and 4%.

The Rates Modelling which has been undertaken to date is based on Week Two valuations. The potential impact of Rate Revenue increases are detailed in Table 4 below.

**TABLE 4: RATING STRATEGY**

Proposed Rate Revenue Increases	2019-2020						
	2.0%	2.25%	2.5%	2.75%	3.0%	3.5%	4.0%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
General Rate Revenue	34,812	34,897	34,982	35,068	35,153	35,324	35,495
Increase on 2018-2019	682	767	853	938	1,023	1,195	1,365
• Rate Revenue Increase	516	601	687	772	857	1,028	1,198
• New Development	166	166	166	166	166	166	166
<b>Operating Surplus/(Deficit) after rate revenue increases *</b>	<b>193</b>	<b>278</b>	<b>363</b>	<b>449</b>	<b>534</b>	<b>705</b>	<b>876</b>
<b>Residential Rate</b>							
Average Rate (\$) (inclusive of new development)	1,471	\$1,474	\$1,478	\$1,481	\$1,485	\$1,492	\$1,500
Average Rate Difference (\$)	3	6	10	13	17	24	32
Increase from previous year (%)	<b>0.20%</b>	<b>0.43%</b>	<b>0.68%</b>	<b>0.92%</b>	<b>1.17%</b>	<b>1.66%</b>	<b>2.15%</b>
Rate-in-the-Dollar	0.002204	0.002209	0.002215	0.002220	0.002226	0.002237	0.002247
<b>Commercial Rate</b>							
Average Rate (\$) (inclusive of new development)	2,524	2,530	2,537	2,543	2,549	2,561	2,574
Average Rate Difference (\$)	\$53	\$59	\$66	\$72	\$78	\$90	\$103
Increase from previous year (%)	2.16%	2.40%	2.65%	2.89%	3.15%	3.65%	4.15%
Rate-in-the-Dollar	0.002645	0.002651	0.002658	0.002664	0.002671	0.002684	0.002697
<b>Minimum Rate</b>	<b>1,001</b>	<b>1,004</b>	<b>1,006</b>	<b>1,009</b>	<b>1,011</b>	<b>1,016</b>	<b>1,021</b>

\* Excludes Roads to Recovery Grant Funding, 2018-2019 Carried Forward Operating Projects and Joint Ventures

In the context of the proposed Rating Strategy for the 2019-2020 Financial year, the Council must consider the financial impacts of the decisions that are made today on the future financial sustainability of the Council. The 2019-2020 Rating Strategy, which will be based on the endorsed Draft Budget, will be presented to the Council for consideration at the Council meeting scheduled on 6 May 2019.

## 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 underlying Operating Deficit prior to Rate Revenue increase of \$490,000 which is below the budget target of an Operating Surplus of \$964,000 as set by the Council at its meeting held on 21 January 2019.

In determining the continuing services and new initiatives for the 2019-2020 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.

To achieve the targeted Operating Surplus, the Council will require an increase in Rate Revenue of 4%, which is in excess of the target increase of 2.55%, which is set out in the LTFP. Should the Council set an increase in Rate Revenue in line with the LTFP, expenditure to the value of \$500,000 would be required to be removed from either the Recurrent Budget, the Operating Projects or a combination of both.

## 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 (as amended) be endorsed 'in principle' and incorporated into the Draft 2019-2020 Budget.
  2. The Council notes that a report on the adoption of the Draft 2019-2020 Budget, which includes the 2019-2020 Rating Strategy, will be prepared for the Council's consideration.
- 

Cr Moore left the meeting at 7.10pm.  
Cr Moore returned to the meeting at 7.11pm.

*Cr Moore moved:*

*That the installation of Roll-Over Kerbing on John Street, Payneham not be undertaken and that \$20,000 be allocated to undertake investigations of traffic management issues, pedestrian access and other urban design issues and the preparation of options for consideration in the 2020-2021 Budget.*

*Seconded by Cr Dottore and carried.*

*Cr Whittington moved:*

*That the existing Piano in the Norwood Concert Hall not be replaced and that funding (\$100,000) for a replacement piano be removed.*

*Seconded by Cr Sims and carried.*

Cr Minney left the meeting at 8.07pm.  
Cr Minney returned to the meeting at 8.10pm.

*Cr Whittington moved:*

*That funding for the Barry Skinner Reserve Project be reduced from \$65,000 to \$20,000 and that the scope of the Project involve the installation of signage only.*

*Seconded by Cr Callisto and carried.*

*Cr Moore moved:*

*That the Queensland Box Trees Interim Sweeping Program to sweep footpaths with Queensland Box Trees, commence from 1 January 2020 and that the Budget allocation be reduced accordingly.*

*Seconded by Cr Sims and lost.*

Cr Sims left the meeting at 8.35pm.  
Cr Sims returned to the meeting at 8.38pm.

*Cr Moore moved:*

*That the Nelson Street Artwork Paving Project (\$50,000) be deferred and re-considered as part of the 2020–2021 Budget.*

*Seconded by Cr Moorhouse and carried.*

*Cr Whittington moved:*

*That the Kent Town Interpretative Signage and Markers Project (\$25,000) be deferred and re-considered as part of the 2020–2021 Budget.*

*Seconded by Cr Moorhouse and carried unanimously.*

*Cr Whittington moved:*

*That the Art on Parade Project (\$25,000) not be funded.*

*Seconded by Cr Moore and carried.*

Cr Callisto left the meeting at 8.54pm.  
Cr Callisto returned to the meeting at 8.55pm.  
Cr Stock left the meeting at 9.04pm.  
Cr Stock returned to the meeting at 9.05pm.

*Cr Minney moved:*

*That the Emissions Reduction Plan (\$70,000) be deferred and re-considered as part of the 2020–2021 Budget.*

*Seconded Cr Patterson and carried unanimously.*

*Cr Moore moved:*

*That the scope of the Review of City Wide Cycling Plan Project be amended to exclude the Langman Grove/Wicks Avenue intersection component from the project scope.*

*The motion lapsed for want of a seconder.*

*Cr Stock moved:*

1. *That the proposed Operating and Capital Projects as set out in Attachment A and as amended as set out below:*
  - *the installation of Roll-Over Kerbing on John Street, Payneham not being undertaken and that \$20,000 be allocated to undertake investigations of traffic management issues, pedestrian access and other urban design issues and the preparation of options for consideration in the 2020-2021 Budget;*
  - *the existing piano in the Norwood Concert Hall not be replaced and that funding (\$100,000) for a replacement piano be removed;*
  - *funding for the Barry Skinner Reserve Project being reduced from \$65,000 to \$20,000 and the scope of the Project involve the installation of signage only;*
  - *the Nelson Street Artwork Paving Project (\$50,000) being deferred and re-considered as part of the 2020–2021 Budget;*
  - *the Kent Town Interpretative Signage and Markers Project (\$25,000) being deferred and re-considered as part of the 2020–2021 Budget;*
  - *the Art on Parade Project (\$25,000) not being funded; and*
  - *the Emissions Reduction Plan (\$70,000) being deferred and re-considered as part of the 2020–2021 Budget;*

*be endorsed ‘in principle’ and incorporated into the Draft 2019-2020 Budget.*
2. *The Council notes that a report on the adoption of the Draft 2019-2020 Budget, which includes the 2019-2020 Rating Strategy, will be prepared for the Council’s consideration.*

*Seconded by Cr Minney and carried unanimously.*

*[This Item was dealt with out of sequence – Refer to Page 2 for the Minutes relating to this Item]*

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**2.2 ERA WATER**

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*[This Item was dealt with out of sequence – Refer to Page 2 for the Minutes relating to this Item]*

**3. CONFIDENTIAL REPORTS**

### 3.1 TENDER

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#### RECOMMENDATION 1

That pursuant to Section 90(2) and (3) of the *Local Government Act 1999* the Council orders that the public, with the exception of the Council staff present, be excluded from the meeting on the basis that the Council will receive, discuss and consider:

(k) tenders for the supply of goods, the provision of services or the carrying out of works;

and that the Council is satisfied that, in principal, that the meeting should be conducted in a place open to the public, has been outweighed by the need to keep the receipt/discussion/consideration of the information confidential.

#### RECOMMENDATION 2

Under Section 91(7) and (9) of the *Local Government Act 1999* the Council orders that the report and discussion be kept confidential for a period not exceeding 12 months, after which time the order will be reviewed.

Under Section 91(7) and (9) of the *Local Government Act 1999* the Council orders that the minutes be kept confidential until the contract has been entered into by all parties to the contract.

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*Cr Minney moved:*

*That pursuant to Section 90(2) and (3) of the Local Government Act 1999 the Council orders that the public, with the exception of the Council staff present [Chief Executive Officer, General Manager, Corporate Services, General Manager, Urban Planning & Environment, Manager, Economic Development & Strategic Projects, Projects Manager, Acting Manager, City Assets and Administration Officer, Governance & Community Affairs], be excluded from the meeting on the basis that the Council will receive, discuss and consider:*

*(k) tenders for the supply of goods, the provision of services or the carrying out of works;*

*and that the Council is satisfied that, in principal, that the meeting should be conducted in a place open to the public, has been outweighed by the need to keep the receipt/discussion/consideration of the information confidential.*

*Seconded by Cr Knoblauch and carried.*

*Cr Minney moved:*

*Under Section 91(7) and (9) of the Local Government Act 1999 the Council orders that the report and discussion be kept confidential for a period not exceeding 12 months, after which time the order will be reviewed.*

*Under Section 91(7) and (9) of the Local Government Act 1999 the Council orders that the minutes be kept confidential until the contract has been entered into by all parties to the contract.*

*Seconded by Cr Patterson and carried unanimously.*

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**4. CLOSURE**

There being no further business, the Mayor declared the meeting closed at 9.35pm.

\_\_\_\_\_  
**Mayor Robert Bria**

**Minutes Confirmed on** \_\_\_\_\_  
(date)