

**ITEM PS – 23/04/18 - DELIVERY PROGRAM 2017/21 AND OPERATIONAL PLAN 2018/19****REPORT BY: EXECUTIVE MANAGER PEOPLE AND SERVICES / CFIO**

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**REFERENCE**

Min 17-194 Ordinary Meeting of Council 26 June 2017

**SUMMARY**

The Council's Combined Delivery Program 2017/18-2020/21, Draft Operational Plan 2018/19 and Draft Fees and Charges 2018/19 have been prepared and are included as an attachment for the consideration of Council to place on public exhibition.

The Delivery Program 2017/18-2020/21 was adopted at the Ordinary Meeting of Council held on 26 June 2017 by Council for its four year term of office.

The Draft Operational Plan 2018/19 details the operational (recurrent or annual) activities, capital works and new initiatives to be undertaken in the 2018/19 financial year. The Operational Plan implements the Delivery Program 2017-2021 and is provided to Council for endorsement to place on public exhibition.

**COMMENTARY****Background**

In October 2009, NSW Parliament passed the Local Government Amendment (Planning and Reporting) Bill 2009 requiring all NSW local Councils to develop a 4 year Delivery Program and annual Operational Plan as part of an overall Integrated Planning and Reporting Framework.

Lithgow City Council plays an important role in the community by undertaking a wide range of activities and works on behalf of residents and visitors. To inform the community of these planned activities and works, the Council prepares a combined four year Delivery Program and annual Operational Plan. The Plan provides details of how Council will fund planned activities and how Council will measure its performance.

Following a series of internal workshops with Councillors, the draft Operational Plan 2018/19 has been prepared and details Council's activities and Revenue Policy for 2018/19. It incorporates the strategies of the Community Strategic Plan 2030 for the year ahead, including those activities which are operational (recurrent or annual) activities or capital works and new initiatives to be undertaken.

An overview of some of the key features contained in the Council's combined Delivery Program 2017/18-2020/21 and Draft Operational Plan 2018/19 is provided below. The aim of the Plan is to provide a solid financial framework to ensure infrastructure and services can be provided to meet the requirements of residents and ratepayers within the means of the Council.

**General Rates**

In accordance with the Local Government Act 1993, the task of setting the annual rate peg is delegated to the Independent Pricing and Regulatory Authority (IPART).

In December 2017, IPART announced that the 2018/2019 Rate Peg Determination would be 2.3%. The rate pegging limit has been reflected in the Draft Operational Plan 2018/2019.

Land valuations as at 1 July 2016 will be applied for the 2018/2019 annual rate levy.

## **Fees and Charges**

For 2018/19, the Council has undertaken a thorough review of its fees and charges, utilising an improved methodology which includes:

- The convening of a Fees and Charges Working Party which met regularly from September 2017 to January 2018;
- The 2.3% rate peg being applied to all non-regulatory / non-legislated fees and charges and rounding to nearest 50c or \$;
- A conscious pricing exercise to identify the pricing principle / basis for fees and charges under Council's jurisdiction and to set appropriate pricing for 2018/19; and
- A review of GST being undertaken to ensure tax was correctly applied.

A full summary of the main changes to Fees and Charges for 2018/19 are included on pages 5-11 of the Draft Fees & Charges document included as an attachment to this report. New fees are identified throughout the schedule of Fees and Charges pp13-113. Regulatory / legislated fees and charges are applied on advice from relevant authorities.

## **Interest Income**

Interest income is an important source of revenue to fund services. The interest income earned on Council's investments is impacted by the average level of funds invested and the interest rates available. Whilst it is extremely difficult to forecast future interest rates, the 2018/19 budget allows for a modest increase in investment income of \$88,000.

## **Parking Special Rate**

The Parking Special Rate is levied on 150 CBD business properties within the designated area of Lithgow. This rate is to fund the maintenance of parking facilities within the designated area. Council will apply the ad valorem rate for 2018/19, 0.9539, to the valuations of applicable properties. This will generate income of \$254,768.

## **Current Special Rate Variation – Infrastructure Levy**

Council resolved in 2009 to apply to the Minister for Local Government for a special rate variation for infrastructure improvements in the local government area. The variation was approved for a 10 year period (ending on 30 June 2019). Funds raised by this special rate are being used to improve many of the local roads and community buildings.

Council continues to apply for grants to both the State and Federal Governments and for corporate sponsorship in addition to the special rate to progress improvements as quickly as possible.

The works funded by the Special Rate Variation are included in the combined Delivery Program 2017/18 – 2020/21 and Draft Operational Plan 2018/19 page 129.

## **Section 94A Levy Contributions**

Council has undertaken a review of its Development Contributions Framework and has proceeded with the introduction of a Section 94A Levy Plan that will apply across the LGA.

The proposed S94A Works Program are summarised in the Operational Plan 2018/19 page 130. The summary identifies the Section 94A Levy Contribution portion only for each project.

## **Waste Charges**

For 2018/19, it is proposed that there will be no general increase in 2017/18 Waste charges for residential and business properties.

A report presented to the March Council meeting provided details of a potential waste charge increase resulting from China's recycling ban policy. The Council resolved to "note the need to apply a special waste

charge of approximately \$32 in the 2018/2019 financial year depending on whether government funding eventuates" (Minute No. 18-62). At this stage, a special rate charge has not been included in the draft 2018/19 waste charges.

<b>Waste Charges</b>		
Type of Service	Charge (\$) (GST ex)	Estimated Yield (\$) (GST ex)
Residential	431.81	3,650,738
Business	431.81	273,552
Non Rateable	431.81	54,840
Unoccupied Urban	176.11	85,413
Rural	113.54	269,658
<b>Total Estimated Yield</b>		<b>4,334,200</b>

### Stormwater Charges

It is proposed that the following stormwater charges will be levied on all residential and business properties within identified urban areas (except those which are vacant land) and remain unchanged from the 2017/2018 stormwater charges. Income raised from the stormwater charge is allocated to both capital and recurrent projects relating to new or additional stormwater management services.

<b>Stormwater Charges</b>		
Type	Charge (\$)	Estimated Yield (\$)
Residential	25.00	155,825
Strata Unit (Residential)	12.50	1,625
Business	25.00 per <del>350sq</del> metres (\$1,500 Cap)	86,825
<b>Total Estimated Yield</b>		<b>244,275</b>

### Grant Funding and Corporate Sponsorship

The Council will continue to apply for funding from the State and Federal Government and other sources. The Council prepares business cases prior to applying for funding. Many grants require the Council to contribute matching funds which depletes the Council's resources. Business cases take into account the whole-of-life cycle costs relating to funding applications for new assets, for example, maintenance and future renewal expenses. Business cases are only approved if recurrent and renewal costs can be covered.

In 2018/19, key projects to be funded by capital grants and contributions include:

- \$1.165M – CBD Revitalisation
- \$1.048M – Adventure Playground
- \$1.1M – Roads to Recovery (operational grant)
- \$1M – Lithgow Resource Recovery (waste transfer station)
- \$776K – Union Theatre Dressing Rooms
- \$2M – Cullen Bullen Sewerage Upgrade (project commencement)

In cases where grant funding has not yet been formally approved, projects may only proceed once grant funding is confirmed.

### Best Practice Water and Sewer Pricing

The Council is committed to the ongoing implementation of the Water NSW Guidelines for Best Practice Management of Water Supply and Sewerage.

The 2018/19 water pricing structure ensures that the Lithgow local government area maintains water charges in compliance with the Best Practice Guidelines, that is, a minimum of 75% of residential income from usage and 25% of revenue from access charges.

As stated in the Water and Wastewater issues report which was presented to the March Council meeting (Minute No. 18-75), a complete review of water and wastewater access and usage charges will be conducted as part of preparation of the 2019/20 Operational Plan.

### **Sewerage Charges**

Over recent years Council has spent approximately \$43 million on the upgrade of the Lithgow, Wallerawang and Portland Sewerage Treatment Plants. Work is planned to commence on both the Cullen Bullen Sewerage Scheme and the West Bowenfels Sewerage Scheme, to which Council has allocated \$10 million in the 2018/2019 budget.

Council has reviewed the sewerage access and usage charges and has decided to increase residential and business access and business usage charges by 2.3% from the 2017/2018 year.

The sewerage usage charges will be levied to all properties using Council's reticulated sewerage system.

<b>Sewerage Charges</b>		
<b>Sewerage Access Charge</b>		
Type	Charge (\$)	Estimated Yield (\$)
Residential	936.00	6,727,961
Less write-off pension rebate		(168,246)
Business (main size):		
200mm	1,212.26	727
100mm	1,212.26	24,815
50mm	1,065.97	65,344
20mm	805.10	287,461
<b>Total Estimated Yield</b>		<b>6,938,062</b>
<b>Sewerage Business Usage Charges</b>		
Type	Charge (\$)	
Business (most commonly 95% of water usage)	1.74	

### **Water Charges**

The residential or business water availability charge will be levied on all rateable and non-rateable properties which are connected to or within 225 metres of Council's reticulated water supply system. Water usage charges will be levied to all properties using Council's reticulated water supply system (charges rounded to nearest dollar).

Water usage charges for each tier of the residential and business water usage charges have been increased by the 2.3% general rate peg. All water access charges have also been increased by 2.3%.

The 2017/18 financial year was the first year in which the tier structure was used for Business Usage Charges. Based on feedback received during the year, Tier 2 for business has been adjusted to >500 kl water usage. Based on historical data, approximately 80% of businesses use less than 500 kl of water per annum and will only pay Tier 1 usage charges.

<b>Water Charges</b>		
<b>Water Availability Charges</b>		
Type	Charge (\$)	Estimated Yield (\$)
Residential	189.26	1,472,782
Less write-off pension rebate		(171,076)
Business (main size):		
200mm	1,204.00	1,204
100mm	1,204.00	32,499
50mm	1,059.00	83,667
20mm	800.00	334,337
<b>Total Estimated Yield</b>		<b>1,753,413</b>
<b>Water Usage Charges - Residential</b>		
Kilolitres Used	Charge (\$)	
0 – 250 Residential	3.23 / kl	
250+ Residential	4.85 / kl	
<b>Water Usage Charges - Business</b>		
Kilolitres Used	Charge (\$)	
0 – 500 Business	3.23 / kl	
500+ Business	4.85 / kl	

### **Interest charges on outstanding property balances**

Interest to be charged on rate and charges arrears has been set by the Office Local Government at a maximum of 7.5% for 2018/19.

### **Capital projects and discretionary expenditure**

The draft Capital Works Program is summarised in the draft Operational Plan 2018/19 pages 125-126.

At the March Council meeting, it was resolved to “consider the construction of a footpath on Wolgan Road, Lidsdale subject to an assessment of current project priorities within the draft 2018/19 Operational Plan” (minute No. 18-63). The Lidsdale footpath project has not been included in draft Capital Works Program at this stage.

### **Proposed Borrowings**

There are two borrowings planned for new projects in 2018/2019. These will be for water and sewer projects. Council may draw down a loan for the Portland Sewerage Treatment Plant approved by Council for the 2015/16 budget; the amount required is \$3,800,000. The borrowings will be sought from lending institutions approved by the Office of the Local Government. The loans will be secured against future Council income.

Proposed Loan Borrowings			
	2018/19 \$	2019/20 \$	2020/21
Water Reservoirs Upgrade	2,500,000		
West Bowenfels Sewer Scheme	6,200,000		
Cullen Bullen Sewer Scheme		2,000,000	

### Proposed 2018/19 Service Reductions

The Council took a zero-based budgeting approach in developing the draft 2018/19 budget. The approach involved a systematic review of the actual cost of funding service programs. Historical costs were utilised as a reference guide. In addition, internal overhead allocations were thoroughly reviewed to ensure that they accurately reflected direct and indirect costs.

The first draft of the 2018/19 budget using the new approach resulted in a consolidated operating deficit (before capital) of (\$1.373M).

To reduce the operating deficit (before capital), the following action was taken:

- 10% reduction in operating service levels (e.g. maintenance) in Transport and Recreation;
- Postponement of non-essential operating programs;
- Up to 25% reduction in priority operating project budgets;
- Adjustments to the materials and contracts and other expenses budgets to truly reflect historical funding costs, as well as holding budgets to 2017/18 levels;
- Review of revenue budgets to maximise own source operating revenue (i.e. income excluding grants and contributions); and
- Exclusion of all business cases involving new appointments, with the exception of a contract Service Review Coordinator role.

As a result of the above actions, the 2018/19 draft budget operating deficit (before capital) has been reduced to (\$637K).

### Proposed Special Rate Variation

On 26 June 2017, the Council adopted the Long Term Financial Plan (LTFP) 2017-2026 (Minute No. 17-194) which is available for viewing on Council's website. The LTFP included "Scenario 3 – Sustainable Assets" which proposed the continuation of the existing Special Rate Variation (SRV) "when it ceases on the assumption that a new permanent SRV of the same amount will be applied for and approved" (LTFP - p25).

The purpose of the proposed SRV is to improve financial sustainability, to fund infrastructure renewals and to fund asset maintenance. The proposed SRV will enable the Council to meet all Fit for the Future ratios during the term of the LTFP.

The following are key considerations in the Council's decision to prepare a Special Rate Variation application:

- The Council has implemented a range of improvement initiatives to more accurately reflect the council's true financial position and to also demonstrate council's commitment to generate ongoing operational efficiencies;
- The Council is continuing to look for further improvements to reduce the reliance on extra rating revenue;
- The Council is committed to an extensive process to engage with the community to explain the reasons for seeking approval for an SRV. The community will be consulted in setting affordable levels of service, related asset planning, the impact of the SRV on rates and the alternative option to an SRV (i.e. further service reductions).

The proposed SRV represents the continuation of the existing 4.77% SRV together with a further 4.23% to ensure Council becomes financially sustainable by meeting all of the Fit for the Future benchmarks by the end of the LTFP period. The impact of the proposed SRV on rates is summarised in the table below:

*Table 1: Proposed SRV Impact on Rates*

ANNUAL RATE INCREASE (%)	2019/20	2020/21	2020/22
Rate Peg (estimate)	2.5%	2.5%	2.5%
Additional Special Rate Variation	6.5%		
<b>Total Annual Increase</b>	<b>9.0%</b>	<b>2.5%</b>	<b>2.5%</b>
* Expiring Special Rate Variation	-4.77%		
<b>Net Impact on Rates</b>	<b>4.23%</b>	<b>2.5%</b>	<b>2.5%</b>

\* If there was no additional Special Rate Variation in 2019/20, ratepayers would experience a 4.77% decrease in rates, then the rate peg would be applied.

As detailed in the adopted LTFP, without an SRV the Council “is not able to generate an operating surplus nor achieve the Operating Performance Ratio. The backlog ratio has not improved significantly and does not achieve the target.” (LTFP Scenario 2 – p23). Operating costs are rising faster than the Council’s ability to generate operating revenue. The only alternative to an SRV application is to make further cuts to services to deliver a balanced operating result (before capital), consistent with Fit for the Future requirements.

### **Community Engagement**

The Combined Delivery Program 2017-2021 and Draft Operational Plan 2018-2019 is provided for Council’s consideration to place on public exhibition for a minimum period of 28 days. The closing date for public submissions will be Monday 21 May 2018. This will allow the document to be put to the Council for final adoption prior to 30 June 2018.

Should the Council endorse the Combined Delivery Program 2017/18 – 2020/21 and Draft Operational Plan 2018/19, a video of the community presentation providing information on the contents of the Draft Operational Plan will be uploaded to YouTube, linked to Councils website [www.haveoursay.lithgow.com](http://www.haveoursay.lithgow.com) and promoted through media and social media channels. A Community ‘Open House’ Session will also be held on Thursday 3 May between 11.30am and 2.30pm in the Cook Street Plaza (weather permitting) to enable members of the community to meet with Council Officers and Councillors to discuss the Draft 2018/19 Operational Plan. In the event of inclement weather, the ‘Open House’ session will be held in the Council Chambers.

### **POLICY IMPLICATIONS**

Nil arising from this report.

### **FINANCIAL IMPLICATIONS**

The financial implications of the combined Delivery Program 2017/18 – 2020/21 and Draft Operational Plan 2018/19 are detailed in the financial plans provided.

### **LEGAL IMPLICATIONS**

The Local Government Act 1993, Local Government Amendment (Planning and Reporting) Bill 2009 and Local Government (General) Regulation 2005 outlines requirements for the preparation, exhibition and adoption of the Integrated Planning and Reporting Framework. The Draft Delivery Program and Operational Plan must be exhibited for a minimum period of 28 days

### **ATTACHMENTS**

1. The combined Delivery Program 2017/18 – 2020/21 and Draft Operational Plan 2018/19
2. Draft Fees and Charges 2018/19

## RECOMMENDATION

### THAT

1. The combined Delivery Program 2017-2021 and Draft Operational Plan 2018/19 be placed on public exhibition for a minimum of 28 days. This will include the following documents:
  - a. The combined Delivery Program 2017– 2021 and Draft Operational Plan 2018/19.
  - b. Draft Fees and Charges 2018/19.
2. The closing date for submissions is Monday 21 May 2018.
3. Council confirm Long Term Financial Plan Scenario 3 as its preferred option for financial sustainability and notify the Independent Pricing and Regulatory Authority (IPART) of its intention to prepare an Application for a Special Variation based on the table below:

SRV Information	Proposed Application
Type of Special Rate Variation	Application under Section 508(2) of the NSW Local Government Act – being an increase in a single year.
Percentage increase	9% in 2019/20 (to replace the expiring 4.77% SRV in 2019/20).
Permanent or temporary increase	A permanent increase which is retained within the rate base.
Purpose of the Special Rate Variation	Primary purposes (based on IPART categories): <ul style="list-style-type: none"> <li>• Improvements in financial sustainability; and</li> <li>• Reductions in backlogs for asset maintenance and renewal.</li> </ul>

4. Council staff prepare an Application for a Special Rate Variation and submit the draft application for endorsement prior to the 2018/19 SRV deadline.