
Governance and Administration Matters - 28 April 2020

ITEM 7.2 **2020/21 Draft Operational Plan, Budget and Schedule of Fees and Charges**

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PURPOSE AND BACKGROUND

The NSW Integrated Planning and Reporting requirements (*Local Government Act 1993* S402-406) include the need for Council to develop a Delivery Program and supporting annual operational plans. Together, these documents represent Council's response as an organisation to the 10 year community strategic plan for the City – *CBCity 2028*:

- The 2018-21 Delivery Program sets out the principal services Council will undertake, priorities, service commitments, transformative actions and measures for the period 2018 to 2021. It was adopted in June 2018; and
- The Operational Plan, which outlines the financial resources to be allocated and the projects to be completed in that financial year. It includes a breakdown of Council's operating budgets and planned expenditure, as well as other financial information, and Council's Revenue Policy, Pricing Policy and Schedule of Fees and Charges. Operational Plans are prepared annually and, following a minimum 28 day exhibition period, are usually required to be adopted by Council prior to 1 July each year.

The aim of both documents is to maintain and improve services, deliver on infrastructure needs, and provide a tangible contribution to *CBCity 2028*.

ISSUE

This report seeks Council's endorsement to exhibit the draft 2020/21 Operational Plan, including the draft 2020/21 Budget (and accompanying financial statements), and the draft 2020/21 Schedule of Fees and Charges. It has been developed as Council and the community cope with the impact of the environmental and health emergencies during 2019/20, which have altered Council's ability to provide services and facilities in the present, and to fund and provide for future operations.

RECOMMENDATION That -

1. In accordance with Section 405 of the *Local Government Act 1993*, the draft Operational Plan 2020/21, including the draft 2020/21 Budget and draft 2020/21 Schedule of Fees and Charges, be placed on public exhibition.
2. The proposed Rating and Annual Charges for 2020/21 as outlined in Annexures F and G (forming part of Attachment A to this report) be adopted. The proposal is based on the following:

- (a) For areas covered by the former City of Bankstown
- (i) Council's ordinary and special (CBD Infrastructure Improvement) rates for 2020/21 making provision for an ad valorem structure and an increase to Council's general income equivalent to the percentage of 2.6%, as specified by the Independent Pricing and Regulatory Tribunal (IPART).
 - (ii) A Minimum Ordinary Residential Rate of \$636.80 in respect of each separate parcel of rateable land in the City categorised as Residential land.
 - (iii) A Minimum Ordinary Business Rate of \$778.70 for each parcel of rateable land in the City categorised as Business.
 - (iv) Annual charges from Domestic Waste collection be set at \$565.00 for all Residential properties.
 - (v) The maximum mandatory pensioner rebate of \$250.00 per annum. In addition Council continue to provide a further voluntary rebate, which equates to \$40.00 per annum in accordance with Council's 'Rates and Charges Debt Recovery and Hardship Assistance Policy'.
 - (vi) Annual Charges for Stormwater Management Services as follows:
 - **Residential Properties**
 - Annual Residential Charge of \$25.00 per property.
 - Annual Residential Strata Charge of \$12.50 per property.
 - **Business Properties**
 - Annual Charge of \$25.00 per property plus an additional \$25.00 for each 350 square metres or part of 350 square metres by which the area of the parcel of land exceeds 350 square metres.
 - **Mixed Development**
 - Adopt the dominant Rating category as applied to the parcel of land as determined by the Valuer General and apply to each relevant property.
 - In the event that a mixed development is 50% residential and 50% business, Council will apply a residential charge.
 - **Exemptions**

In addition to the exemptions stipulated in the *Local Government Act 1993* and the *Local Government (General) Regulation 2005*, the following exemptions will also apply in managing the service:

- Council-owned land;
 - Bowling and Golf Clubs - where the dominant use is open space;
 - Properties zoned:
 - Open space 6(a);
 - Private Recreation 6(b); and
 - Rural
- (vii) A maximum rate of interest on overdue rates and charges as specified by the Minister for Local Government.
- (b) For areas covered by the former City of Canterbury
- (i) Council's ordinary rates for 2020/21 making provision for an ad valorem structure and an increase to Council's general income equivalent to the percentage of 2.6%, as specified by the Independent Pricing & Regulatory Tribunal (IPART).
 - (ii) A Minimum Ordinary Residential Rate of \$713.90 in respect of each separate parcel of rateable land in the City categorised as Residential land.
 - (iii) A Minimum Ordinary Business Rate of \$713.90 for each parcel of rateable land in the City categorised as Business.
 - (iv) Annual charges from Domestic Waste collection be set at \$530.00 for all Residential and Business properties.
 - (v) The maximum mandatory pensioner rebate of \$250.00 per annum. In addition Council to provide a further voluntary rebate, which equates to \$40.00 per annum in accordance with Council's 'Rates and Charges Debt Recovery and Hardship Assistance Policy'.
 - (vi) Annual Charges for Stormwater Management Services as follows:
 - **Residential Properties**
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 - **Mixed Development**
 - Adopt the dominant Rating category as applied to the parcel of land as determined by the Valuer General and apply to each relevant property.

- In the event that a mixed development is 50% residential and 50% business, Council will apply a residential charge.

- **Exemptions**

In addition to the exemptions stipulated in the *Local Government Act 1993* and the *Local Government (General) Regulation 2005*, the following exemptions will also apply in managing the service:

- Council-owned land;
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- Properties zoned:
 - Open space 6(a);
 - Private Recreation 6(b); and
 - Rural

(vii) A maximum rate of interest on overdue rates and charges as specified by the Minister for Local Government.

3. A further report be submitted to Council at the conclusion of the exhibition period.

ATTACHMENTS [Click here for attachment](#)

A. Draft Operational Plan 2020/21

POLICY IMPACT

The draft Operational Plan has been prepared in accordance with the Local Government Integrated Planning and Reporting Framework.

FINANCIAL IMPACT

The draft Operational Plan sets out Council's draft Revenue Policy, Budget and Schedule of Fees and Charges for the 2020/21 financial year. Considerable financial impacts have been felt during 2019/20 due to severe bushfire and other weather events and the COVID-19 health emergency, and these impacts will continue to be felt as we enter the new financial year. The current and estimated financial effects are reflected in budget considerations for income and expenditure in 2020/21. Actual and projected income and expenditure will continue to be reviewed and adjusted as we work through the existing and future challenges.

COMMUNITY IMPACT

The draft Operational Plan details the projects, activities and finances to implement in 2020/21 to align to the 2018-21 Delivery Program. The Operational Plan is a pivotal integrated planning document which ensure that Council continues to focus the priorities identified by the community and that resources are properly allocated to address them.

The budget has been premised on providing as many business-as-usual services and facilities as possible, and with the need to be flexible and sensitive to changing community and staff needs during 2020/21.

DETAILED INFORMATION

Draft Operational Plan 2020/21

Under the Local Government Act, councils are required to develop a hierarchy of plans known as the Integrated Planning and Reporting (IPR) Framework. This Framework requires councils to draw their various plans together and to understand how they interact.

While Council's hierarchy of integrated planning documents focus on short- and long-term issues facing the City, no amount of preplanning could predict the current circumstances faced by Council staff in delivering services and facilities to our community as a result of the COVID-19 pandemic. Council will review all longer-term plans following the 2021 local government elections, but must adopt an annual budget that copes with the current and challenging times.

While all levels of government strive to deal with the current health emergency of COVID-19, it is imperative that local government continues to operate and deliver local services and facilities. As we enter the 2020/21 financial year, CBCity will focus on delivering essential services like waste collection, street cleaning, parks maintenance, roads maintenance, development services, regulation and compliance, and Meals on Wheels at current or increased levels. Other council services and facilities like leisure and aquatics, libraries, community centres, sport and recreation programs, will become more available when the safety of community and staff are not compromised.

The draft 2020/21 Operational Plan provides for a \$342.5 million operating budget, with a \$73.8 million capital program. Of the capital works program, \$54.9 million will be spent on replacing and/ or restoring ageing infrastructure throughout the City and the balance on priority initiatives. The capital works program provides for:

- playground upgrades at Parry Park, Flinders Slopes, Playford Park, Northcote Reserve and Harold Reserve;
- Canterbury Road underpass;
- regional road reconstruction of Chapel Road, Bankstown and stage one of road rehabilitation works at Haldon Street, Lakemba;
- bridge widening works at Hector and Wolumba Streets, Chester Hill;
- continued implementation of the Smart City Road Map;
- a night-time economy strategy and buy local campaign;
- a City Events and Activation Strategy including a new signature event for the City;
- a new community space in Hurlstone Park, an outdoor learning centre at Ewen Park and design for a community centre at Thurina Park;
- detailed designs for the upgrade of Canterbury Leisure and Aquatic Centre and concept designs for the upgrade of Max Parker Leisure and Aquatic Centre;
- a new synthetic field surface at Rudd Park;
- reconstruction of playing surface at Kelso Park South;
- upgrade of court surfaces at Roger Bowman Tennis Courts;
- restoring the ponds at Wiley Park;
- illegal dumping initiatives;
- preparing a Bankstown Place Strategy and Campsie town centre masterplan;
- implementing the Local Strategic Planning Statement – Connective City 2036; and
- continued advocacy for improved planning outcomes for the City.

These are some of our major commitments for 2020/21, for now. Council will strive for a business-as-usual environment, and will continue to monitor, review and reassess these to ensure that, when required, funds and resources are channelled where they can best meet community needs.

While no-one fully understands the long-term impact of the health and environmental emergencies that the world experienced in 2019/20, we at CBCity continue to be and flexible and compassionate in responding to community needs; and vigilant in providing the local services and facilities.

Financial Management

Whilst Council's current financial position is considered sound, Council's broader financial position continues to reflect a Net Result of negative \$0.1M. Once adjusted for one-off capital grants and contributions (which establishes/provides the true result of managing our day-to-day operations), Council's net result further declines to negative \$33.2M.

As noted in previous Quarterly Reports, whilst the negative net result does not present any immediate financial concerns, it does convey Council's inability to adequately fund (in the long term):

- the replacement of our infrastructure assets (Depreciation Expense);
- pressure to both align and/or increase service levels across the local government area;
- exponential increases in non-discretionary costs, such as the emergency services levy, local government election costs and waste levies; and
- recoup the loss of rating revenue to fund services/capital (ie. former Canterbury Council Special Rate Variation - \$5.1M per annum).

Council's long term financial plan demonstrates that we must look to address the imbalance and importantly develop a path which ensure we remain financially sustainable.

Council has an ongoing commitment to refining/reviewing our cost-base, particularly through ongoing efficiency improvements throughout our operations, to ensure that we are making every effort to deal with the pressures, as noted above.

In addition to the above, the recent developments of the COVID-19 virus have greatly affected many of Councils operations. In responding to the crisis, Council has implemented a number of initiatives and support packages to assist our community throughout the pandemic. The total financial impact of the pandemic on Council's operations is estimated to be around \$18M (2020/21 impact - \$12M). Further details are outlined in the report.

Council's Financial Management Strategy addresses Council's long term financial sustainability challenges including our commitment to slow expense-growth, adequately fund the maintenance and renewal of infrastructure, and manage our liabilities for future generations.

Our strategy includes measures to tackle and absorb the broader economic environment and ensure we are ready to respond to issues, such as:

- Harmonising services and revenue funding across the local government area;

- The expected growth in housing and its impact on our service and infrastructure needs;
- Revitalising and re-investing in our CBD, town centres, libraries and recreational facilities;
- Enforcement of required regulatory and compliance standards expected of our community;
- Preserving our fragile natural environment;
- Building confidence in our City by identifying relevant opportunities to support our local economy and attract investment; and
- Taking a positive and leading role in responding to the reforms set out by the NSW Government.

Notwithstanding the above, fundamentally Council has a significant funding imbalance/gap in its ability to continue funding its operational costs and long term asset management requirements.

Whilst the subject of a more detailed discussion with Councillors in the future, Council's long term financial plan suggests that Council requires a further \$30M per annum to adequately meet its ageing asset renewal obligations. This of course does not include any additional funding for new initiatives.

Whilst explained further on in the report, by way of summary, Council's funding shortfall is best explained as follows:

Summary of Required/Restored Funding

Amount to Recover – one off adjustment	\$M
COVID 19 Adjustment	17.9
Former Canterbury SRV – previous years	10.2
Total Amount to Recover	28.1

Recurrent Annual Funding Shortfall	\$M
Former Canterbury SRV – annual	5.0
Asset Renewal Funding – annual	25.0
Total Recurrent Annual Funding Shortfall	30.0

In addition to the recurrent shortfall of funding of \$30M, Council would also need to consider the need to recover lost income of around \$28M, due to loss in former Canterbury SRV funding and the impact of the COVID-19 crisis.

As indicated, this will be the subject of a further discussion with Councillors in determining how best to address its long term financial planning requirements.

Financial Framework and Objectives

Council's financial approach provides the required framework for managing its objectives and financial decision making. This focuses on continuing to ensure that the financial parameters, principles and objectives applied in developing the budget to achieve a balance between financial stability, sustainability, asset maintenance, construction and the provision of services to our community.

The principal financial objectives are to:

- provide adequate investment in recurrent operational and asset replacement programs/projects;
- incorporate all necessary governance and administrative costs required in delivering Council's objectives;
- manage cash restrictions based on agreed policies and statutory requirements;
- meet the cost of accrued liabilities such as loan repayments and employee entitlements as they fall due; and
- maintain a sound financial position.

Council's financial goals continue to include:

- maintaining an adequate level of unrestricted working funds and liquidity levels to preserve our sound financial position;
- increasing non-rates revenue through investing in income generating activities, effective pricing and property management;
- providing affordable services through productivity and efficiency improvements which will also include a continued assessment of core/non-core services being provided to the community; and
- achieving an optimum balance in satisfying our financial objectives and other planned activity outcomes.

The budget is premised on a number of elements, including:

- no increase in rates above that approved by the Independent Pricing and Regulatory Tribunal (IPART);
- unless known, the growth in other revenues and operational costs be increased to reflect Council's pricing principles outlined in the Long Term Financial Plan;
- not relying on recurrent loan borrowing programs for asset replacement purposes;
- redirecting savings in debt servicing costs towards asset replacement purposes; and
- maintaining strategic indicators and cash restrictions at acceptable levels.

2020/21 Planned Budget

Council's focus for the forthcoming financial year continues to be about balancing the provision of services, delivering on infrastructure and preserving/managing on our cash reserve position, whilst dealing with the current COVID-19 pandemic.

The COVID-19 crisis has certainly placed significant pressure on Council's operations, its management of cash flows and regrettably, reduced funding for capital works (infrastructure).

Whilst the financial impact of COVID is outlined in detail throughout the report, some of the broader and/or more pertinent issues impacting on the draft budget for the 2020/21 financial year are outlined below.

Financial Impact of COVID-19

- Council's income, particularly User Charges and Fees, for services such as aquatics, use of community halls and recreation facilities, trade waste, regulatory, child care for the year has reduced by around \$11.9M;
- Council's operations, has largely continued as normal as we continue to deliver our essential services to our community, and thereby has not resulted in any decreased costs;
- With the exception of some funding for child-care services, Council will not receive any Government funding and/or assistance to deal with the pandemic.
- In dealing with the financial impact, Council is required to draw upon its infrastructure cash reserves (\$18M in total over two (2) financial years) to balance its draft 2020/21 budget in funding the economic cost of the pandemic. Naturally, this will significantly impact and/or further erode our ongoing ability to manage our asset renewal requirements.

As is the case each year, the various broader economic elements, service expectations and revenue projections have been assessed in formulating Council's 2020/21 budget. The framework applied in setting Council's budget is as follows.

REVENUE POLICY

Where evident, revenue budgets have been adjusted to reflect known issues, while others are largely estimated around current year trends. Council has also incorporated a number of industry specific factors, where applicable (see below).

General Rates and Annual Charges

On the 29 March 2017, the NSW Parliament passed the Local Government Amendment (Rates – Merged Council Areas) Bill 2017 providing rate protection for residents of NSW Merged Councils. The Bill effectively froze rates on their current paths for a period of 4 years, an obligation which continues until 30 June 2020. This was subsequently revised by the Government to 30 June 2021.

Given this, Council is required to:

- Maintain both former Council's rate structure whereby rate assessments are based entirely upon property valuations (ad valorem) but with minimum rates applying where appropriate;
- Incorporate a permissible rate increase of 2.6%, as determined/set by the NSW Government;
- Reduce its income (specifically for the former Canterbury Council area only) by \$5.1M as a result of its SRV ending on 30 June 2019 (on average \$180/annum reduction for former Canterbury properties); and
- reflect an anticipated staged growth of around 750 dwellings throughout the year.

In total, Council's net increase in rating income is expected to be around \$5.0M. Councillors should note that Council will continue to allocate rating income raised from its remaining Special Rate Variation (Sustainability Levy) for the former City of Canterbury for the purposes of renewing assets within the former City of Canterbury area.

That said and in keeping with Council's commitment to assist those affected by the COVID-19 pandemic, Council's Rates and Hardship Policy and relevant Guidelines provides flexibility for those experiencing financial hardship.

As a result, Council's budget will reflect a reduction in interest income associated with the deferred payment of rates and annual charges.

Annexures F and G in the financial statements summarise the rate in the dollar and minimum charges for each category.

Minimum Rates

Proposed minimum rates reflect a 2.6% increase to that levied throughout 2019/20.

Special Rates – Bankstown CBD Town Centre

Council's special rate in respect of the Bankstown CBD Town Centre has similarly been increased by 2.6%. Any expenditure will reflect projects and priorities based within the CBD.

Pensioner Rates

Approximately 20,500 pensioner ratepayers qualify for Council's voluntary rate rebate and the State Government's mandatory rate rebate, which are granted to persons in receipt of the pensioner concession cards. The maximum mandatory rebate, which is 55% funded by the State, is \$250.00 per annum.

In accordance with Council's proposed rates and charges, debt recovery and Hardship Assistance Policy, an additional voluntary rebate which equates to \$40.00 per annum will be provided to all eligible pensioners. The total rebate will cost Council approximately \$2.2 million in net terms for 2020/21 of which approximately \$0.8 million is Council's discretionary concession.

Domestic Waste Fee

As Councillors would be aware, Council will be harmonising its waste operations, commencing February 2021. The new contracts will reflect increased/standardised service levels throughout the local government area, across all waste services.

In setting its fee, Council is required to:

- apply cost recovery principles in setting its fee, including the need to account for increasing non-discretionary state government costs, such tipping fees and levies;
- reflect the increased service levels costs;
- reflect required capital resourcing to accommodate the new service;
- restoring relevant cash reserves (former Canterbury Council); and
- maintaining adequate cash reserves for ongoing vehicle and bin replacement, including tip rehabilitation and deploying Council's waste strategy

In harmonising its services, Council will also look to gradually equate the annual fee across the local government area over a two (2) year period. Whilst the fee will be assessed on an annual basis, the fee is expected to be set on the following basis:

Description	2019/20	2020/21	2021/22
Former Bankstown – Charge	\$550	\$565	\$580
Former Bankstown - % Increase	-	2.6%	2.6%
Former Canterbury – Charge	\$485	\$530	\$580
Former Canterbury - % Increase	-	9.3%	9.3%

Councillors should also note that the fee/charge for the former Canterbury area was based on a particularly competitively priced contract entered into by the former Council, some eight years ago. Whilst well priced (and therefore resulting in a lower fee/charge for ratepayers), the contract has not delivered on Council's servicing expectations.

Separately, the former Council's fee/charge did not adequately provide for and/or recoup sufficient funding for its longer term obligations, including replacing assets, tip remediation/restoration costs and importantly pricing risk for a new contract. As a result, the inadequate amount/level of reserve funding now needs to be dealt with and/or corrected to ensure that Council can meet its ongoing servicing and legislative requirements.

Annexure E provides the financial details relating to the service.

Stormwater Levy

The City of Canterbury Bankstown is the principal authority responsible for the local management of stormwater. On behalf of the public, Council:

- maintains stormwater drainage pipes;
- implements essential flood mitigation measures to protect life, property and infrastructure;
- conserves the natural waterways of the City;
- harvests and reuses stormwater to reduce potable water use;
- protects water quality in our creeks and rivers by installing water sensitive urban design features and pollution control devices; and
- protects riparian bushland and other natural assets from the impacts of urban runoff.

In recognition of Councils' key role in stormwater management, the NSW Government made amendments to the *Local Government Act 1993* (amended October 2005) and the *Local Government (General) Regulation 2005* (amended April 2006) to allow councils the option of levying a stormwater management service charge.

The charge was introduced to help council to cover some or all of the costs of providing new or additional stormwater management services to eligible land, above and beyond those that council could provide with their own funds.

The implementation of the charge recognises that increasing urbanisation has resulted (and continues to result) in a significant increase in impervious surfaces and has significantly increased the volume of stormwater (and therefore pollutant loads) flowing into urban waterways and urban drainage systems. These pressures have increased the costs of stormwater management for local councils.

In accordance with Section 496A of the *Local Government Act 1993* and *Local Government (General) Regulation 2005*, Council has in place a Stormwater Charge on eligible properties within Canterbury-Bankstown. In managing the annual charge the following structure will be applied:

Residential Properties

Annual Residential Charge of \$25.00 per property.

Annual Residential Strata Charge of \$12.50 per property.

Business Properties

Annual Charge of \$25.00 per property plus an additional \$25 for each 350 square metres or part of 350 square metres by which the area of the parcel of land exceeds 350 square metres.

Mixed Development

Adopt the dominant Rating category as applied to the parcel of land as determined by the Valuer General and apply to each relevant property. In the event that a mixed development is 50% residential and 50% business, Council will apply a residential charge.

Exemptions

In addition to the exemptions stipulated in the *Local Government Act 1993* and the *Local Government (General) Regulation 2005*, the following exemptions will also apply in managing the service:

- Council-owned land;
- Bowling and Golf Clubs - where the dominant use is open space; and
- Properties zoned:
 - Open space 6(a);
 - Private Recreation 6(b); and
 - Rural.

Annexure H provides details of the Stormwater Levy funded projects for 2020/21.

Other Fees and Charges

The general principle being applied is that fees should reflect true costs less the amount Council is willing to subsidise as a community service obligation. In general, it is proposed to increase the 2020/21 fees and charges by 2.6%, subject to rounding where required. Details of each charge are attached in Section 5.

That said, relevant income fees and charges associated with the COVID-19 crisis will continue to be waived for a period of up to six (6) months.

Loan Borrowings

Council's long-term financial strategy reflects a budgeting model whereby General Fund Revenue is generated to maintain our infrastructure asset replacement program and that loans will only be acquired to support certain community self-funding initiatives that Council endorses.

At present, Council has not identified and/or planned for any such initiatives and as such does not propose to obtain any new borrowings as part of its 2020/21 budget.

Interest Income

Council will continue to carefully manage its investment portfolio having regard to prevailing market conditions, industry benchmarks and allowable investment opportunities, as they arise. Having regard to Council's current investments and market expectations, Council's budget includes a weighted average return of around 1.6% per annum.

In total, Council expects its interest income to reduce by around \$2.7M, which is attributable to both the revised market conditions and waiving of rating interest charges attributable to the COVID-19 crisis.

COSTING PARAMETERS AND ASSUMPTIONS

Inflation

Inflation expectations are as per the Reserve Bank of Australia (RBA) target, which is set at a rate of 1.8%.

As a guide, Council's costs, where required, have been adjusted by 1.8% to accommodate and/or reflect relevant escalation in proposed budgets for the 2020/21 financial year, particularly those of a contractual nature.

Employee Costs

Council's employee costs in the 2020/21 Budget include an estimated award increase of 2.5%. Council's full time equivalent employee numbers (organisational structure) for the 2020/21 financial year is set at 1,457. An increase from 2019/20 of 42, mainly related to the Domestic Waste Service being brought in-house for former Canterbury Council residents.

Separately, Councillors should note that Council's budget has also incorporated the relevant conditions associated with the Local Government Splinter Award, which will support the ongoing employment of staff during the COVID-19 crisis.

Depreciation Expense

Council's operating expenses include an amount for Depreciation Expense, a non-cash item which aims to broadly account for the level of use/consumption of assets on an annual basis. An amount of \$74M has been reflected in Council's 2020/21 Budget to reflect this cost. Council assesses depreciation annually as part of preparing and reviewing its Asset Management Strategy.

PRICING OF GOODS AND SERVICES (PRICING POLICY)

Council establishes its pricing levels through a range of factors, which are broadly dependent on the nature of the good or service being provided and the extent to which Council recognises an obligation to subsidise provision of the good or service. Council's Pricing Policy is subject to review on an annual basis or where appropriate, according to need. Where appropriate, Council will assess and apply a user pays model in setting its pricing based on the following provisions:

Cost of provision

The cost to Council of providing goods or services is a primary consideration when determining pricing. Council recognises that rational and relevant pricing decisions can only be made when there is a full understanding of the cost to Council and the community, of resourcing specific service areas.

Community Service Obligations

Council acknowledges that it has an obligation to provide some goods and services as a community service. As a result, Council accepts responsibility for at least partially funding these goods and services from other sources of revenue. This is reflected in varying degrees of pricing subsidy, dependant on the nature of the good or service being provided. Where it is not feasible to collect fees from private beneficiaries for a good or service, which provides a wider community benefit, full subsidy will be applied. Where cost-recovery can be achieved but Council recognises an obligation in terms of equity and social justice considerations, and the merit and well-being of the community, an appropriate level of subsidisation will be applied.

Private Benefit

Some goods and services provided by Council are not provided on the basis of wider community benefit, and are used by private beneficiaries. Goods or services of a commercial nature will be subject to commercially competitive pricing principles, which reflect market conditions and full cost recovery.

Where Council are engaged in providing any commercial/business operations, it will price such services at full cost recovery, to cover both the cost of capital and a commercial rate of return.

Council will look to generate an agreed positive return on assets so as to not reduce financial viability. Where required, Council will ensure compliance with 'competitive neutrality' provisions of the National Competition Policy and categorisation (i.e. category 1 or 2 business activity). Council has not identified any category 1 or 2 business activities for the 2020/21 budget.

Statutory Limitation

It is acknowledged that certain fees, charges and levies are set by legislation and Council has no control over pricing in these circumstances.

Planned 2020/21 Budget

The expected operating result for the 2020/21 financial year is:

	2020/21 \$M	2019/20 \$M	Variance \$M	COVID-19 Impact \$M
Operating Revenue	342.4	338.2	4.2	(11.9)
Operating Expenditure	342.5	329.6	12.9	-
Operating Deficit (Including Capital Income)	(0.1)	8.6	(8.7)	(11.9)
Less Capital Grants and Contributions	33.2	26.5	6.7	-
Operating Deficit	(33.2)	(17.9)	(15.3)	(11.9)

The 2020/21 Budget is assessed against the 2019/20 Original Budget given that it provides a comparable base to assess the broader movement between financial years.

Council's Net Operating Result before Capital Grants and Contributions is estimated to be negative \$33.2M, reducing by \$15.3M when compared to Council's 2019/20 Original Budget. Once capital grants and contributions are added, Council's projected Operating Result for the year is expected to be negative \$0.1M.

As Councillors will note the negative variance is largely attributable to the likely/estimated impact of the COVID-19 crisis.

A break-up of both the Revenue and Operating Budgets proposed for the forthcoming financial year is shown below.

Revenue Budget

Council's Revenue Budget (excluding capital grants and contributions) is expected to be \$309.3 million, a decrease of \$2.4 million (-0.8%) to that originally planned for 2019/20. A break-up by income category is as follows:

Category	2020/21 \$,000	2019/20 \$,000	Variance \$,000
Rates / Domestic	244,349	233,977	10,372
Charges / Fees	15,495	23,023	(7,528)
Interest	7,170	9,880	(2,710)
Grants / Contributions – Operating	24,423	23,874	549
Other	17,816	20,883	(3,067)
Total	309,253	311,637	(2,384)

The variation of negative \$2.4M, is a result of the following movements:

Component	Variance \$M
Rating Revenue	5.0
Domestic Waste	5.4
User Fees & Charges	(7.5)
Other Fees and Revenues	(3.1)
Interest Income	(2.7)
Operating Grants	0.5
Total	(2.4)

Revenue projections for 2020/21 have been set to reflect known elements and/or current year trends. An explanation of the major variations is as follows:

- Council has factored in a loss of income for a 6 month period in relation to the expected impact the COVID-19 pandemic will have on Councils services and operations totalling \$11.9M as summarised below;

Component	Variance \$M
Aquatics	(3.3)
Children's Services	(1.2)
Interest Income	(2.3)
Property Rentals	(1.9)
Sports and Recreation	(1.5)
Other User Fees & Charges	(1.7)
Total	(11.9)

- Reflected the approved 2.6% rate-pegging limit to its rating revenue budget and expected growth in properties throughout the local government area;
- Council's annual Domestic Waste Levy for residential properties will increase by \$15 (2.6%) for former Bankstown residents and \$45 (9.3%) for former Canterbury residents per annum which reflects a general increase in the cost of providing the service and the longer term costs associated with replacing plant, bins and rehabilitating various waste facilities – see Domestic Waste Fee section above for detailed explanation;
- Operating Grants, including the Financial Assistance Grant, are included where the grant has been confirmed and the level of funding can be reliably calculated, and additional grant funds will be reported during the year as part of the quarterly budget reviews; and
- Council's level of interest income is expected to decrease by \$2.7M, which is a reflection expected market conditions and the estimated level of cash on hand throughout the year; and

In terms of specific purpose capital grants and contributions, Council expects to receive approximately \$33.2M of funds for various capital outcomes throughout 2020/21. A summary of those contributions is as follows:

Type	Amount \$M
Development Contributions	13.0
Roadworks/Traffic – Various	14.3
Bridges	4.3
Buildings	1.2
Open Space	0.3
Other	0.1
Total	33.2

Council's Budgeted Income Statement, which outlines the various revenue categories is attached in Annexure A.

Operating Expenses (OPEX)

Council's proposed operating expenditure budget is analysed to ensure that allocations are comparable to current trends. Council's Operating Expenditure Budget is expected to be \$342.5M, an increase of \$12.8 million (3.9%) to that adopted for 2019/20. A break-up of each operating expenditure category is as follows:

Category	2020/21 \$,000	2019/20 \$,000	Variance \$,000
Employee Costs	146,919	139,632	7,287
Borrowing Cost Expense	470	470	0
Depreciation	74,311	67,306	7,005
Materials & Contract	83,687	84,401	(714)
Other Expenses	37,064	37,801	(737)
Total	342,451	329,610	12,841

A summary of the major variations by category is as follows.

Employee Costs

A comprehensive planning process has been carried out to ensure that the Employee Costs budget accurately reflects required resources in managing Council's operations.

Council resolved at the February meeting to set Council's full time equivalent (FTE) employee numbers (organisational structure) for the 2019/20 financial year at 1,415. The 2020/21 establishment of 1,457 FTE is an increase of 42 FTE based on Council endorsing the Canterbury residents Domestic Waste Service be brought in house. The new roles include positions in Waste, City Cleaning, Customer Service and Fleet units, and the increase in employment costs will be mostly offset by a decrease in expenditure budgets for contractor costs, tipping fees and other expenditures.

The budgeted increase in employee costs of \$7.3M is largely attributable to the Local Government Award Increase of 2.5% and its broader impact on employee entitlements (e.g. superannuation) as well as the costs associated with the new FTE positions.

Depreciation

Depreciation expense has been adjusted by \$7.0M as the 2019/20 original budget was completed prior to the finalisation of the infrastructure revaluations which provided amendments to infrastructure values and useful lives resulting in increased depreciation charges.

Material / Contracts and Other Expenses

Materials and Contracts and Other Expenses are expected to decrease by around \$1.5M or -1.2% when compared to Council's adopted 2019/20 budget.

The increase in Materials & Contracts and Other Expenses mainly relates to reduction in Tipping Fee costs and waste contract costs – moving service to in-house operations.

Council's current financial position, although considered sound, suggests that the impact of increasing non-discretionary costs (those largely imposed upon us by the State), will continue to grow at a rate far greater than planned inflation/CPI. This will have an ongoing impact on our longer term ability to absorb similar cost increases in the coming years and/or continue to preserve our current sound financial position.

Council's Budgeted Income Statement, which outlines the various OPEX categories is attached in Annexure A.

Capital Works (CAPEX)

Council continues to improve its approach to managing its infrastructure, with a rolling schedule of comprehensive condition assessments of infrastructure assets from year to year.

This allows Council to clearly determine the extent of funding required to restore or rationalise certain assets within the City. Although the management and financial impact requires a long-term commitment well beyond the 2020/21 budget, the identified framework provides Council with a level of confidence in determining an effective approach to formulate its long term planning.

In terms of 2020/21, Council's focus will largely be to ensure the timely replacement / maintenance of existing assets throughout the Local Government Area.

As has been outlined above, Council's ability to maintain its ongoing funding for asset management purposes, based on current income trends is concerning. Without increasing its revenue base (Rates) Council's ability to fund depreciation will continue to erode. Graphically, the current trend is as follows:

Ability to Fund Depreciation - %



2020/21 Draft Annual Budget

Ability to Fund Depreciation - %



Based on current estimates (adjusted for a reduction due to COVID-19), Council has the capacity to fund depreciation of around 33% in 2020/21. This equates to an estimated funding shortfall of \$42M.

That said, Council will also be carefully considering its long term asset management requirements, particularly addressing its backlog and broader long term initiatives for the Local Government Area. Further details are contained within Councils Asset Management Strategy.

Council's total expenditure on assets throughout 2020/21 (excluding any potential carryovers from the current financial year) is expected to be approximately \$73.8 million.

A break-up of expenditure is as follows:

Project Area	Amount \$,000
Bridges	5,424
Buildings	14,442
Street Furniture	50
Car parks	550
Drainage Conduits	490
Waste Management	1,800
Town Centres	1,850
Kerb and Gutter	1,170
Irrigation	450
Open Space	12,330
Other Structures	70
Park Furniture	66
Park Lighting	1,235
Park Signs	287
Pathways and Boardwalks	1,187
Road Pavement	9,965
Traffic Management Devices	10,494
Water Courses	1,000

Water Quality Devices	500
Operational Assets	10,451
TOTAL CAPEX	73,812

As in previous years, the 2020/21 Budget is well balanced with a focus on asset maintenance/replacement, complemented with some minor priority initiatives.

Of Council's capital budget, an amount of \$54.9 million will be spent on replacing and/or restoring ageing infrastructure throughout the City.

Annexure I and J summarise Council's capital works program for 2020/21.

Cash Reserves

A large component of Council's capital works program is reliant on the use of dedicated Reserve funds, held to fund future projects and/or initiatives throughout the city and the prudent management of its liabilities.

In addition, Council's Development Contribution Reserves form an integral part of Council's capital works program.

In net terms, Council's level of Reserves, both those imposed by legislation or established by Council will total \$303.9 million, a net increase of \$6.0 million.

Notwithstanding a planned capital program of \$73.8 million, asset replacement reserves are estimated to increase by \$0.6 million during 2020/21. This equates to a reduction on prior year of \$11.9 million due to the COVID-19 Pandemic.

A summary of restrictions made and used can be found in Annexure D of Attachment A.

Liquidity and Performance Indicators

Based on the proposed 2020/21 Budget, Council's major financial indicators continue to meet accepted industry standards and convey a sound financial position.

Council's major financial indicators for the 2020/21 financial year are expected to be as follows:

Indicator	Target	2020/21
Unrestricted Current Ratio	>150%	302%
Debt Service Ratio	<10%	0.0%
Unrestricted Cash	>\$0	\$7.2M

Based on all the cash movements noted above, Council's budget reflects an increase in cash of \$6.3 million, which accounts for both internal and external restricted funds expected to be received and utilised throughout 2020/21.

Council will continue to maintain a sound level of liquidity and reserves to manage any foreseen fluctuations and/or uncertainties that may eventuate. This together with other measures are demonstrated by Council's financial indicators, which with the exception of the operating performance ratio (as highlighted in Council's new Long Term Financial Plan) continue to meet and in some cases are estimated to exceed accepted industry levels.

Communication and Engagement

The draft 2020/21 Operational Plan (incorporating 2020/21 Budget and Schedule of Fees and Charges) will be exhibited for a minimum 28 days. Community engagement activities will be significantly affected by the COVID-19 pandemic restrictions but full use will be made of digital media, Council's website and the haveyoursay online forum to promote the plan.

Submissions will be reported to Council in June 2020 with recommendations for any necessary changes.

CONCLUSION

Council's goal is to continue to maintain and improve services, delivering on infrastructure, and to deliver tangible benefits from the new Council structure. The projects and budget outlined in the draft 2020/21 Operational Plan:

- preserves Council's sound financial position;
- aims to balance community expectations in terms of operational and infrastructure outcomes;
- remains flexible in responding to the current COVID-19 pandemic; and
- focuses on best and safest community and staff outcomes.

The draft 2020/21 Operational Plan incorporating 2020/21 Budget and Schedule of Fees and Charges are submitted for Council's consideration and approval for its release for public exhibition and comment.

The draft Operational Plan will be submitted for adoption in June 2020 following the conclusion of the exhibition period.

