
Governance and Administration Matters - 27 April 2021

ITEM 7.3 2021/22 Draft Operational Plan, Budget and Schedule of Fees and Charges

AUTHOR City Future

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 2018-22 Delivery Program sets out the principal services Council will undertake, priorities, service commitments, transformative actions and measures for the period 2018 to 2022. It was first adopted in June 2018 and a revised version adopted in February 2021; and
- The Operational Plan 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 2021/22 Operational Plan, including the draft 2021/22 Budget (and accompanying financial statements), and the draft 2021/22 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 2020/21, which continues to impact Council's operations.

Separately, the report also reflects the proposed changes to Council's rating structure resulting from the NSW Government's rates harmonisation legislation. Whilst the relevant Parliamentary Bill has not been determined, Council has – for the purposes of exhibiting its Operational Plan - included the likely impact/changes suggested by the NSW Government.

RECOMMENDATION That -

1. In accordance with Section 405 of the *Local Government Act 1993*, the draft Operational Plan 2021/22, including the draft 2021/22 Budget and draft 2021/22 Schedule of Fees and Charges, be placed on public exhibition.
2. Council notes that the NSW Government has released a Draft Bill – Local Government Amendment (Rates) Bill 2021 – which would amend the legislation to allow merged councils to gradually harmonise their former council rate structures over a period of four years – expected to be determined in May 2021.
3. Council notes its earlier decision regarding its *Approach to Rates Harmonisation* for both former Council rating structures, as outlined in the report.
4. The proposed Rating and Annual Charges for 2021/22 as outlined in Annexures F and G (forming part of Attachment A to this report) be exhibited. The proposal is based on the following:
 - (i) Council's ordinary and special (CBD Infrastructure Improvement) rates for 2021/22 making provision for an ad valorem structure and an increase to Council's general income equivalent to the percentage of 2.0%, as specified by the Independent Pricing and Regulatory Tribunal (IPART).
 - (ii) A Minimum Ordinary Residential Rate of \$728.18 in respect of each separate parcel of rateable land in the City categorised as Residential land – subject to approval by the Office of Local Government.
 - (iii) A Minimum Ordinary Business Rate of \$794.27 for each parcel of rateable land in the City categorised as Business – subject to approval by the Office of Local Government.
 - (iv) Council note its earlier decision regarding *Establishing Business Sub-Categories*, as outlined in the report.
 - (v) Annual charges from Domestic Waste collection be set at \$580.00 for all Residential properties and Business properties in the former City of Canterbury.
 - (vi) 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'.
 - (vii) 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

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

ATTACHMENTS

[Click here for attachment](#)

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- A. 2021/22 Draft Operational Plan, Budget and Schedule of Fees and Charges

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 2021/22 financial year.

Considerable financial impacts have been felt during 2020/21 due to recent environmental and COVID-19 health emergencies, 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 2021/22. Actual and projected income and expenditure will continue to be reviewed and adjusted as we work through the existing and future challenges.

A Draft Local Government Amendment Bill 2021 has been introduced by the State Government, whereby merged councils would be allowed to gradually harmonise their former council rating structures, rather than needing to complete the process by 1 July 2021, as is currently required. Whilst the Government has yet to finalise the matter - as a precaution - Council has included the option in its draft Operational Plan to ensure it complies with relevant legislation, as required.

COMMUNITY IMPACT

The draft Operational Plan details the projects, activities and finances to implement in 2021/22 to align to the 2018-22 Delivery Program. The Operational Plan is a pivotal integrated planning document which ensures 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 needs during 2021/22.

DETAILED INFORMATION

Draft Operational Plan 2021/22

Under the *Local Government Act 1993*, 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 have predicted the past year, and the impact the COVID-19 pandemic continues to have on the way we deliver services and facilities to our community. Although Council will review all longer-term plans following the 2021 local government elections, Council must prepare a 2021/22 budget that copes with the current and challenging times.

As we move into the 2021/22 financial year, Council is getting "back on track" and "back to basics", providing the services and infrastructure that support the most essential needs of our community at a time where they have adapted to a life closer to home. As our world slowly opens up again and life returns to a new normal, Council services will continue to do the same.

In 2021/22 Council will commit to spending \$359.4 million on services and facilities, and to deliver a \$57.5 million capital program which provides for \$20.8 million in road and transport improvements, \$1.8 million on footpaths and boardwalks, \$5.3 million in town centres, \$12.2 million on parks and sporting facilities, \$4.3 million on community building upgrades, and \$3.4 million on water quality improvement. During 2021/22, the community can expect to see:

- a new community space in Hurlstone Park;
- a new splash park in Greenacre;
- a new playspace in Parry Park, Punchbowl Park, and Peace Park;
- field reconstruction at Earlwood Oval and Walshaw Park, a new athletics track at Kelso Park North, and a new synthetic playing surface at Padstow Park;
- designs for a new community centre in Thurina Park and Griffith Park;
- scoping and designs for a new Sustainable Resource Recovery Facility at Kelso Park and a Towards Net Zero emissions plan;
- a new signature event for the City and a Village Festivals Grants Program;
- road resurfacing in Haldon Street, Lakemba and the Appian Way, Bankstown;
- Smart initiatives like Smart parking in Marion Street, the Activated Data Roadmap, and SafeTV school crossings;
- initiatives from a Night Time Economy Action Plan; and
- town centre upgrades and master plans, and neighbourhood scale streetscape works at Revesby and Greenacre.

Financial Management Strategy

Council's Financial Management Strategy (FMS) and Long Term Financial Plan, sets out the parameters which look to respond to the ongoing challenges to long term financial sustainability, and manage liabilities for future generations.

Despite the loss of a Special Rate Variation (SRV) generating income of around \$5.1 million for capital purposes (Infrastructure and Renewal Levy - specifically for the former Canterbury Council area only), and the financial impact of the global coronavirus pandemic, Council's current financial position is considered sound from a cashflow perspective and able to support the ongoing management of Councils operations.

Council's broader financial position continues to reflect a Net Result of negative \$4.4M. 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 \$35.6M (negative \$33.8M in 2020/21).

Council's long-term financial plan supports the decisions Council has taken to address these challenges, including applying to IPART for a Special Rate Variation, and importantly developing a path to ensure we remain financially sustainable including:

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

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

Council will await the outcome of its SRV application to IPART (expected to be determined throughout May 2021) and inform Council in due course.

That said, Council continues its 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.

Recent relaxing of COVID-19 virus restrictions has assisted in reducing the virus's impact on Council's operations. Assuming current restrictions remain or improve it is forecast that the COVID-19 virus impact for 2021/22 will be significantly reduced compared to 2020/21.

In responding to the crisis, Council has reflected a number of community initiatives and support packages to assist throughout the pandemic. Council has forecast the likely impact will result in reduced income of \$3.1M in 2021/22 (\$11.4M in 2020/21).

Council estimates that the total financial impact of the pandemic on Council's operations is estimated to be around \$21M. The impact has come at the expense of replacing infrastructure assets throughout the local government area.

More broadly, Council's FMS 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.

Council's FMS includes measures to tackle and absorb the broader economic environment and ensure that it is 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 identified a significant funding imbalance/gap in its ability to continue funding its operational costs and long-term asset management requirements.

As indicated above, Council's long-term financial plan supports the decisions Council has taken to address these challenges, including applying to IPART for a Special Rate Variation, and importantly developing a path to ensure we remain financially sustainable.

Financial Framework and Objectives

Council's financial approach provides the required framework for managing objectives and financial decision making. This focuses on ensuring that the financial parameters, principles and objectives applied in developing the budget continue 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.

Whilst Council has an SRV application lodged with IPART, it has not reflected any changes and/or pre-empted the decision. This will be further reviewed, once IPART make its determination.

That's said, Council's budget is largely 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 any savings in debt servicing costs towards asset replacement purposes; and
- an objective to maintain strategic indicators and cash restrictions at acceptable levels.

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 ongoing impact of the COVID-19 pandemic.

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 concludes on 30 June 2021.

The NSW Government requires all merged councils to implement a new aligned rating system by 1 July, 2021.

That said, a Draft Local Government Amendment Bill 2021 has been introduced by the State

Government, whereby merged councils would be allowed to gradually harmonise their former council rating structures, rather than needing to complete the process by 1 July 2021 as is currently required.

This amendment has not yet passed through the State Government so as a precaution Council has included a further rating option in its draft Operational Plan to replicate the proposed/likely outcome of gradually harmonising rates over a 4 year period.

All rating options proposed include:

- Incorporating a permissible rate increase of 2.0%, as determined/set by the IPART;
- reduced income (specifically for the former Canterbury Council area only) by \$5.2 million as a result of the Special Rate Variation (SRV) ending on 30 June 2019; 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 \$3.8M.

Establishing Business Sub-Categories

Separately, Council will also establish sub-categories for the business rating category. The sub-categories are based on the parameters and/or hierarchy of commercial and industrial zones, as adopted in our Local Strategic Planning Statement.

This was previously endorsed by Council at its Extraordinary Meeting in February 2021.

On this basis, Business Sub-Categories will be established along the following framework:

Business Sub-Categories

Rating Sub-Category	LSPS Hierarchy
Business – Commercial Large	Major Shopping Centres (Bankstown / Roselands)
Business – Commercial General	Bankstown CBD, Campsie, Local Centres
Business – Industrial Large	Business Parks, Major Industrial Areas
Business – Industrial General	All Other Industrial Areas
Business – Ordinary	Village, Small & Neighbourhood Centres

Each Business throughout the local government area will be identified and/or linked to a sub-category, though the differentiation in rates set for each sub-category will not be determined until Council sets/formulates its 2022/23 Rates Yield – including implementing any adjustments as a result of the SRV - if approved.

Approach to Rates Harmonisation

As indicated, earlier, Council is awaiting the NSW Government's decision regarding harmonisation rates across the local government area.

Councillors will recall that Council did in fact consider this matter at its Extraordinary Meeting in February 2021 and determined the following:

- **Preferred Approach**

Council's preferred approach to harmonisation its former Council rates structure is based over a five year period as outlined below:

Preferred Option - Based on Legislation Changing to Allow Gradual Harmonisation (Assume 5-Years)

	2021/22 Year 1	2022/23 Year 2	2023/24 Year 3	2024/25 Year 4	2025/26 Year 5
Harmonisation Process					
Minimum Rate – Residential	\$ 728.18	-	-	-	-
Minimum Rate - Business	\$794.27	-	-	-	-
Ordinary Residential	Adjust for impact of Minimum Rate	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART
Ordinary Business	Adjust for impact of Minimum Rate	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART

- **Harmonisation Over 4 Years – As Per Draft Bill**

If the Draft Bill, which proposes a harmonisation period of four years were to be agreed to by the NSW Parliament – then a summary of Council's approach to harmonisation would be s follows:

Based on Legislation Changing to Allow Gradual Harmonisation Over 4 Years

	2021/22 Year 1	2022/23 Year 2	2023/24 Year 3	2024/25 Year 4	2025/26 Year 5
Harmonisation Process					
Minimum Rate – Residential	\$ 728.18	-	-	-	-
Minimum Rate - Business	\$794.27	-	-	-	-
Ordinary Residential	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	-
Ordinary Business	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	-

Naturally, if the Government were to determine any other harmonisation period, then Council would apply it as specified by legislation, commencing 1 July 2021.

- **Harmonisation by 1 July 2021 – As Per Current Legislation**

In the event that the Draft Bill were not to be accepted, then Council would be required to complete the harmonisation process by 1 July 2021. A summary of Council's approach to harmonisation and applying an SRV in this situation would be as follows:

Based on Legislation Not Changing and Harmonisation Being Implemented On 1 July 2021

	2021/22 Year 1	2022/23 Year 2	2023/24 Year 3	2024/25 Year 4	2025/26 Year 5
Harmonisation Process					
Minimum Rate – Residential	\$ 728.18	-	-	-	-
Minimum Rate - Business	\$794.27	-	-	-	-
Ordinary Residential	Full Harmonisation	-	-	-	-
Ordinary Business	Full Harmonisation	-	-	-	-

Minimum Rates

In accordance with the special guidelines for new councils applying to harmonise minimum rates on 1 July 2021, which were issued in November 2020, Council has applied to harmonise our minimum rate being the highest minimum ordinary rates from our former councils (plus the 2021/22 rate peg of 2%).

The Office of Local Government have advised that they will await the outcome of Councils SRV application to IPART, prior to finalising their minimum rate process for merged councils.

On this basis, the new harmonised minimum ordinary rates proposed to apply from 1 July 2021 are as follows:

- Ordinary Residential – Minimum - \$728.18
- Ordinary Business – Minimum - \$794.27

The new minimum ordinary rates proposed for 2021/22 are the same in both the IPART and OLG applications.

Special Rates – Bankstown CBD Town Centre

Council's special rate in respect of the Bankstown CBD Town Centre has similarly been increased by 2.0%. Any expenditure will reflect projects and priorities based within the CBD. If Council's SRV application were to be approved, then Council will discontinue to levy the current Bankstown CBD Special Improvement Rate from 1 July 2022.

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 people in receipt of 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 \$3.0 million in net terms for 2021/22, approximately \$0.8 million of which is Council's discretionary concession.

Domestic Waste Fee

Council, during 2020/21 harmonised its waste operations. The new service and contracts 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;
- restore relevant cash reserves (former Canterbury Council); and
- maintain adequate cash reserves for ongoing vehicle and bin replacement, including tip rehabilitation and deploying Council's waste strategy.

Having now harmonised its services, Council has also harmonised the annual Domestic Waste Management fee across the local government area and will be set at \$580 for 2021/22.

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 community, 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 I of the Financial Statements in Part 5 of this Operational Plan provides details of the Stormwater Levy funded projects for 2021/22.

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 2021/22 fees and charges by 2.0%, subject to rounding where required. Details of each charge are attached in Section 5 of this Operational Plan.

Loan Borrowings

Council's long-term Financial Management 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 the 2021/22 budget.

If the Special Rate Variation is approved by IPART funding will be available to service new loan borrowings for the implementation of Council's adopted Leisure and Aquatics Strategy. Specific timing of works, budgets and loan funding will be identified as part of future annual Operational Plans.

Council will need to complete final business cases, capital expenditure reviews, design documentation, and procurement process in order to deliver the strategy.

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, the budget includes a weighted average return of around 1.0% per annum.

Given official rates have fallen to all-time lows, Council is likely to see a rapid decline in interest income over future financial years. Its budgeted income over the medium-longer term has been revised to reflect the low interest rate environment. Yields on new investments are likely to be offered under 0.50% p.a. (for short-term) and between 0.75%-1.50% p.a. (for medium-longer term) investments, which may be the "norm" over upcoming financial years.

In total, Council expects its interest income to reduce by a further \$0.6M in 2021/22 on top of the forecast \$2.7M reduction in 2020/21.

Costing Parameters and Assumptions

Inflation

Inflation expectations are as per the Reserve Bank of Australia (RBA) target, which is a band set at a rate of between 2.0% and 3.0%. Inflation has been impacted by the COVID pandemic during 2020/21.

As a guide, Council's costs have been adjusted by 2.0% to accommodate and/or reflect relevant escalation in proposed budgets for the 2021/22 financial year, particularly those of a contractual nature.

Employee Costs

Council's employee costs in the 2021/22 Budget include an award increase of 2.0%. Council's full time equivalent employee numbers (organisational structure) for the 2021/22 financial year is set at 1,473. An increase from 2020/21 of 16, mainly related to the Domestic Waste Service being brought in-house for former Canterbury Council residents.

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 \$75.5 million has been reflected in the 2021/22 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.

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 looks 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 2021/22 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 2021/22 Budget

Council's expected operating result for the 2021/22 financial year is:

Description	2021/22 Original \$M	2020/21 Original \$M	Difference \$M	COVID19 Impact \$M
Operating Revenue	355.1	344.5	10.6	(3.1)
Operating Expenditure	359.4	343.3	16.1	-
Operating Deficit (Including Capital Income)	(4.3)	1.2	(5.5)	(3.1)
Less Capital Grants and Contributions	31.2	35.0	(3.8)	-
Total Operating Result	(35.5)	(33.8)	(1.7)	(3.1)

The 2021/22 Budget is assessed against the 2020/21 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 \$35.5M, reducing by \$1.7M when compared to Council's 2021/22 Original Budget.

Once capital grants and contributions are added, Council's projected Operating Result for the year is expected to be negative \$4.3M. There is forecast to be \$3.1M impact to Council's income in 2021/22 related to 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 \$323.9 million, an increase of \$14.3 million (4.6%) to that originally planned for 2020/21. A break-up by income category is as follows:

Category	2021/22 Original \$M	2020/21 Original \$M	Variance \$M
Rates / Domestic	253.1	244.3	8.8
Charges /Fees	19.2	15.5	3.7
Interest	6.6	7.2	(0.6)
Grants - Operating	25.6	24.7	0.9
Other	19.3	17.8	1.5
Total	323.8	309.5	14.3

The variation of \$14.3 million, is a result of the following movements:

Component	Variance \$M
Rating Revenue	3.9
Domestic Waste	4.9
Other Fees and Revenues	1.5
Interest Income	(0.6)
User Fees & Charges	3.7
Operating Grants	0.9
Total	14.3

Revenue projections for 2021/22 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 six-month period in relation to the expected impact the COVID-19 pandemic will have on Councils services and operations totalling \$3.1M as summarised below;

Component	Variance \$M
Aquatics	(1.6)
Sports and Recreation	(1.3)
Other User Fees and Charges	(0.2)
Total	(3.1)

- Reflected the approved 2.0% 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 \$50 (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 \$0.6M, which is a reflection expected market conditions and the estimated level of cash on hand throughout the year.

In terms of specific purpose capital grants and contributions, Council expects to receive approximately \$31.2 million in funds for various capital outcomes throughout 2021/22.

A summary of those contributions is as follows:

Type	Amount \$M
Development Contributions	13.0
Roadworks/Traffic – Various	9.2
Town Centres	2.6
Open Space	6.3
Other	0.1
Total	31.2

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 \$359.4M, an increase of \$16.1 million (4.7%) to that adopted for 2020/21. A break-up of each operating expenditure category is as follows:

Category	2021/22 \$M	2020/21 \$M	Variance \$M
Employee Costs	152.3	146.9	5.4
Borrowing Cost Expense	0.1	0.5	(0.4)
Depreciation	75.5	74.3	1.2
Materials & Contract	90.2	84.1	6.1
Other Expenses	41.3	37.5	3.8
Total	359.4	343.3	16.1

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 November 2020 meeting to set Council's full time equivalent (FTE) employee numbers (organisational structure) for the 2020/21 financial year at 1,473. The 2021/22 establishment of 1,473 FTE is an increase of 16 FTE on the original budget for 2020/21. The new roles include positions in Children Services, Customer Service and City Assets, and the increase in employment costs will be mostly offset by a decrease in contractor expenditure budgets, grant income and capitalised labour costs.

The budgeted increase in employee costs of \$5.4M is largely attributable to the Local Government Award Increase of 2.0% and its broader impact on employee entitlements (e.g. superannuation) as well as the costs associated with the new FTE positions. The budgeted employment costs also include the raising of the superannuation guarantee amount for employees from 9.5% to 10.0% for 2021/22.

Depreciation

Depreciation expense has increased by \$1.2M in 2021/22 to reflect capitalisation of new assets and 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 increase by around \$9.9 million or 8.6% when compared to Council's adopted 2020/21 budget. The increase in Other Expenses mainly relates to:

- Election costs \$2.3m (funded from councils dedicated reserves based on annual allocation to reserve);
- an increase in maintenance expenditure for Roads, Bridges, Footpaths and Stormwater of \$2.2 million – particularly given the ageing nature of certain infrastructure assets; and
- Other Expenses which include items such as utility costs, insurance costs, tipping fees, banking fees and other statutory levies (e.g. EPA levy). Increases in these expenses are largely of a non-discretionary nature.

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 of Part 4 of this Operational Plan.

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 2021/22 budget, the identified framework provides Council with a level of confidence in determining an effective approach to formulate its long-term planning.

In 2021/22, 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 will be dependent on the outcome of Council's special rate variation application to IPART. Without increasing its revenue base (Rates) Council's ability to fund depreciation will continue to erode/reduce.

Council's total expenditure on assets throughout 2021/22 (excluding any potential carryovers from the current financial year) is expected to be approximately \$57.5 million.

A break-up of expenditure is as follows:

Project Area	Amount \$M
Bridges	0.3
Buildings	4.3
Car parks	0.8
Drainage Conduits	2.4
Waste Management	1.7
Town Centres	5.3
Open Space	11.0
Park/Street Furniture	0.5
Park Lighting	0.5
Park Signs, Fences & Screens	0.2
Pathways and Boardwalks	1.8
Road Pavement	11.5
Traffic Management devices	8.0
Water Courses	0.1
Water Quality Devices	1.0
Operational Assets	8.1
TOTAL CAPEX	57.5

As in previous years, the 2021/22 Budget is well balanced with a strong focus on asset maintenance/replacement, complemented with priority initiatives. Of Council's capital budget, an amount of \$34.0 million will be spent on replacing and/or restoring ageing infrastructure throughout the City.

Annexure J and K summarise Council's capital works program for 2021/22.

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 \$311.9 million, a net increase of \$18.0 million.

With the planned capital program of \$57.5 million, asset replacement reserves are estimated to decrease by \$6.8 million during 2021/22.

A summary of restrictions made and used can be found in Annexure D of Part 4 of this Operational Plan.

Liquidity and Performance Indicators

Based on the proposed 2021/22 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 2021/22 financial year are expected to be as follows:

	Target	2021/22
Unrestricted Current Ratio	>150%	291%
Debt Service Ratio	<10%	0.0%
Unrestricted Cash	>\$0	\$3.7M

Based on all the cash movements noted above, Council's budget reflects a decrease in cash of \$5.0 million, which accounts for both internal and external restricted funds expected to be received and utilised throughout 2021/22.

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 Long Term Financial Plan) continue to meet and in some cases are estimated to exceed accepted industry levels.

Communication and Engagement

The draft 2021/22 Operational Plan (incorporating 2021/22 Budget and Schedule of Fees and Charges) will be exhibited for a minimum 28 days concluding on the 28 May 2021.

COVID-safe community engagement activities will be undertaken making full use of digital media, Council's website and the Haveyoursay online forum to promote the plan and increase awareness.

Submissions will be reported to Council in June 2021 with recommendations for any necessary changes.

CONCLUSION

Council's goal is to continue to maintain and improve services, deliver on infrastructure, and ensure long-term financial sustainability.

The projects and budget outlined in the draft 2021/22 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 changing needs and conditions; and
- focuses on best and safest community and staff outcomes.

The draft 2021/22 Operational Plan incorporating 2021/22 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 2021 following the conclusion of the exhibition period.

