DELIVERY & OPERATIONAL PLAN 2013/14

Funding the Future
Revenue Policy 2013-2014

Council has yet to endorse applying for a Special Rate Variation in 2013-2014. If Council does not endorse the application for a special rate variation, this revenue policy will be void and an updated policy will be presented to Council.

Funding the Future

Council's Long Term Financial Plan (LTFP) has been used to inform the decision making and establishment of priorities for Bega Valley 2013-2014. The LTFP is a source of direction for this plan and is informed by Council's Asset and Financial Sustainability Review in 2010, the Asset Management Strategy and Plans in 2011, and the Asset and Services review in 2012.

(Operational Plan) actions, budget priorities were assessed utilising the QBL Matrix outlined in the Resourcing Strategy. Staff and Councillors have considered the priorities and those included have been assessed against the priorities of the tiered plans.

How we will fund what we do - Annual budget development framework

The annual budget for 2013-2014 has been developed in the framework of Council's adopted financial strategy, long term financial plan and directions from the Asset and Financial Sustainability Review which are integrated in the Resourcing Strategy. The main factors influencing 2013-2014 are:

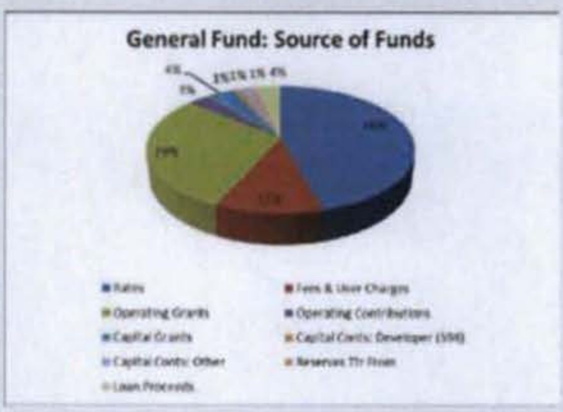
- decisions on service levels and asset standards
- energy costs greater than CPI
- hardening insurance market following national natural disasters
- rising emergency services levies greater than CPI
- outcome of flood damage grant applications
- rate pegging increase less than NSW award adjustments
- ability to attract and retain professional/technical staff and contractors
- new revenues from property leases, non-rating of council property, claw back of bank and merchant fees
- timing of review of development contribution and servicing plans, and subsequent new charges
- reduction of annual revotes

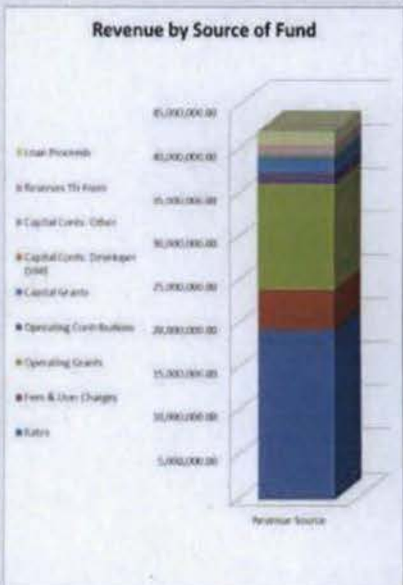
The LTFP is a companion document to the Delivery Plan and presents the financial estimates of income and expenditure for the period covered by Bega Valley 2011-2016.

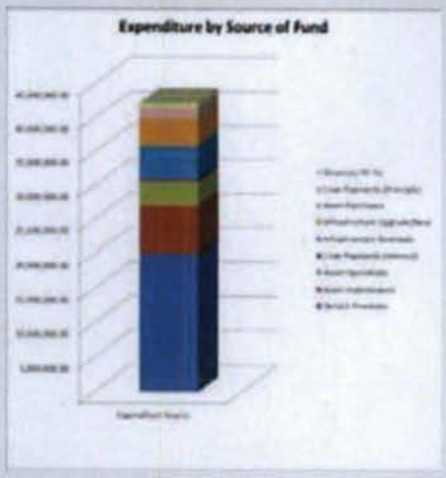
Assessing funding priorities

Following the development of the 20 year key directions, outcomes in Bega Valley 2030 and the strategic actions in Bega Valley 2011-2016 (Delivery Plan) and Bega Valley 2013-2014

- utilisation of cash reserves
- assignment of any surplus into asset renewal reserves







In 2012-2013 the Local Government Cost Index (LGCI) allowed for a 0.4% factor due to carbon tax. In 2013-2014 the LGCI is reduced by 0.1% to offset this previous increase. The LGCI in 2013-2014 has been set by IPART as 3.4% - being a calculated index of 3.7% less the above mentioned carbon offset (0.1%) and a mandated efficiency factor (0.2%).

Key budget items

The Budget 2013-2014 has been developed in a new structure and is an attachment to the Operational Plan. It identifies the funding source by function and special variations to rate income previously approved by the Minister for Local Government are linked to the function for which they were approved.

Key factors which have informed the budget development include:

- increasing funding towards renewal and upgrade programs in line with adopted asset management plans in the order of $6,000,000 in the 2013-2014 financial year.
- attracting Grants in the order of 32% ($12.8m) of Council's General fund revenue.
- keeping Councils reliance on rating revenues to less than 50% of total revenues.
- local government cost index increase of 3.4% raising $665,604
- a Special Variation application for an increase to Councils rate yield of 391,532.
- operational savings of approx. $1,000,000 in Councils operational expenditure.
- Funding for the renewal and upgrade of the Bega Town Hall, Merimbula Library Site, & SES depots.

In terms of indexation assumptions, the table below outlines the indexation estimates used:Assumption / Variable	Calculation Basis - Planned	Amount (existing)
Overall	Base date $2013	
Property Growth	Review Today	1.00%
Population Growth	Review Today	1.00%
Valuation/Property Growth	Past Trends	0.50%
CPI Indexation	This LTFP is shown in 2013 dollars. There is no indexation shown. However the LGCI will be used as indexation for BVSC.	
Local Government Cost Index (LGCI) – used for Rate Pegging	IPART have published their long term growth forecasts using a 3% LGCI.	

Rates Review

Council intends to apply for a Special Rate variation 508(A). A 508(A) special variation application is a multi-year price path option open to Councils with sound long term plans. Council intends to apply for 3 increases over the next three years as outlined below.

Special Rate Variation

The rate variations are a one-off % lift in total general rate income. If they expire, the value of a rate variation (including effect of rate pegs) is removed from the total rate income. Applications to IPART include the anticipated value of the rate peg, plus the amount above rate peg that is sought. For example, while Council may lodge an application for the proposed 2% above rate peg for collector roads, the application will cite an increase of 5.4%, including the announced rate peg at 3.4%.

IPART assesses council applications for special variations using criteria set by the NSW Government. The criteria are set out in guidelines provided by the Division of Local Government

There are two types of special variation applications s508(2) and s508A.

- S508(2) application – a one off increase to general rate income for a specific purpose that may be for a set time or a permanent increase
- S 508A application – a multiyear series of increases (for up to seven years) which may be for a set period or permanent.

Bega Valley Shire Council s508A special variation proposal

As outlined in Council's adopted LTFP, AMPs and Bega Valley 2013 (Operational Plan) and reported to Council, the following model is proposed:

1. New 2% one-off permanent increase above the 3.4% rate peg in 2014, for renewal of collector roads (defined below). This variation will raise the general rate yield by an estimated $400,000 in 2014 and then be indexed by LGCI on an ongoing capacity. Total increase 5.4%.
2. Retained 2.4% one-off permanent increase above rate pegging in 2015 to retain the expiring recreation and access approval, with the options to use this amount for debt servicing or for annual project works in line with the LTFP for recreation asset renewals (defined below). This variation will retain the general rate yield at an estimated $507,000 and then be indexed by LGCI on an ongoing capacity.
3. New 2% one-off permanent increase above rate pegging in 2016 for infrastructure renewal for public domain areas and buildings (defined below). This variation will raise the general rate yield by an estimated $440,000 and then be indexed by LGCI on an ongoing capacity.

Bega Valley Shire Council s508A special variation proposal

As outlined in Council's adopted LTFP and Bega Valley 2013 (Operational Plan) the following model is proposed:

1. New 2% one off ongoing increase above LGCI (rate pegging) in 2014 for transport renewal of collector roads (defined below). This variation will raise the general rate yield by an estimated $400,000 in 2014 and then be indexed by LGCI on an ongoing capacity.
2. Retained 2.4% one-off ongoing increase above LGCI (rate pegging) in 2015 to retain the expiring recreation and access approval with the options to use this amount for debt servicing or for annual project works in line with the LTFP for sportsground asset renewals and upgrades. This variation will retain the general rate yield at an estimated $507,000 and then be indexed by LGCI on an ongoing capacity.
3. New 2% one-off ongoing increase above LGCI (rate pegging) in 2016 for infrastructure renewal for public domain areas and buildings (defined below). This variation will raise the general rate yield by an estimated $440,000 and then be indexed by LGCI on an ongoing capacity.

Collector roads, recreation assets and public domain and public buildings

Collector Roads

Managed, maintained and funded by Council and can be both urban (Auckland Street, Monaro Street, Wallaga Street) and rural (Dr George Mountain Road, Upper Brogo Road, Burragate Road). They have the following functional characteristics:

- Link higher order roads
- Link population or activity centres
- Usually part of a loop road
- Carries significant through traffic
- Can be critical access
- Carries significant traffic
- Supports economic development

There are 20.77km of sealed collector roads in the urban areas of the Shire and in the rural area 87.95 km of sealed and 65.14 or unsealed collector roads.

The Transport Asset Management Plan covers in detail the priorities, assessment and adopted program for these critical assets. Attached is a graphic depiction of the impact of the program that can be achieved with the special variation program.

Recreation and sporting assets

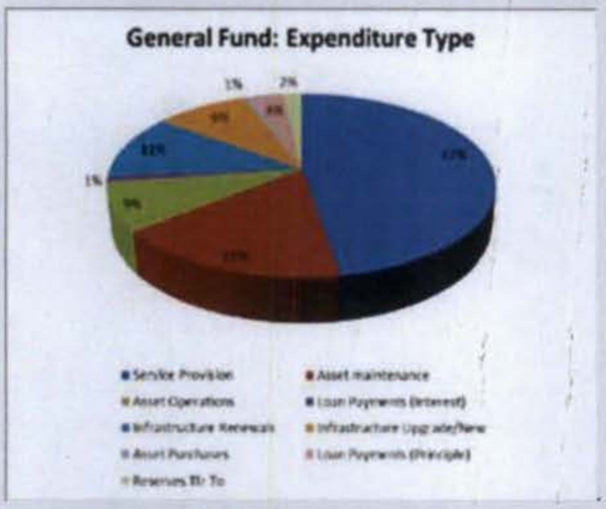
The Recreation Asset Management Plan covers in detail the priorities, assessment and adopted program for these critical assets.

Buildings

The Building Asset Management Plan covers in detail the priorities, assessment and adopted program for these critical assets.

Budget Statement

The 2013-2014 Budget has been based on the second year of the ten year Long Term Financial Plan, amended from that adopted in 2011 following the 'asset and financial sustainability review'. The Budget has relied upon a LGCI factor 3.4% as issued by IPART to index revenues and expenditures.



The Budget has an impact on the local economy. As the second largest employer in the shire, Council pays approx. $17m in wages to its 320 staff. While only a quarter of those staff are directly funded by rates, the balance of staff secure state and federal grants for service contracts or capital projects, or provide services for a fee such as child care or development applications, or collect charges following regulatory work to protect public health, buildings or the environment for example. In other words, of the $19m collected each year in general rates, only $5m wages is applied to the $23m spent on asset operations, maintenance, renewals and upgrades.

Around $23m is paid to local or regional contractors or suppliers for services, materials or projects – the balance of which are paid to state or national suppliers under state contracts. Again, much of the annual expenditure of Council remains in the Shire or region, as those suppliers to council and their staff in turn spend locally.

Put another way, of the $20m collected as rates and annual charges, over $40m (including wages) is spent in the shire or region. And the efforts of staff seeking and securing grants and contributions of approx. $20m for operational and capital purposes, not only pays their wages of $24m, but injects a further $16m into the local economy for contracts and materials.

The organisation support/backroom support costs of $5m as a proportion of operational expenditure of $60m at 8%, is better than the industry benchmark of 12%.

Charging Philosophy

In accordance with S.404 (1) of the Local Government Act 1993, Council provides the following details of its revenue policy that also incorporates the basis upon which the rates and charges will be made.

Rates and charges represent the process whereby Council recovers the cost of providing its services for land within the Shire boundaries. In general, Council follows a user pay philosophy towards the provision of services.

In the case of water, sewer and garbage services, price increases reflect the cost of providing these services. With ordinary land rates, the rate increases must remain below the limits set by the Minister for Local Government, unless the Minister approves a special variation to general income.

The rates and charges levied by the Council are a debt that is applied to the land and this debt becomes the responsibility of the current owner of the land. Any arrears that may not have been discharged by previous owners can also become the responsibility of the current owner.

The rates and charges set out in this revenue policy are designed to provide the net source of funds after allowing for loans, contributions and government grants for the programs and initiatives identified in this 2013-2014 Operational Plan. The detailed outline of the income and expenditure of the Council is set out in the 2013-2014 Budget (Attachment 1). A detailed listing of Fees and Charges is provided in Attachment 2.

In the 2013-2014 financial period, Council proposes a loan-borrowing program for the year of $5,000,000.

More information on Council's proposed loan borrowings program is available later in this document.

Goods and Services Tax (GST)

Ordinary rates, special rates, water charges, sewerage charges, stormwater charges and waste management charges are exempt from GST because of a determination by the Federal Treasurer. The majority of Council fees as advertised in the schedule of fees accompanying the operational plan are subject to GST and accordingly the charges reflect a 10% GST component.

Ordinary rates

Ordinary rates are applied to properties based on independent valuations supplied to the Council on all rateable properties within the Shire boundaries by the Land and Property Information NSW. The valuations used in the 2013-2014 rating period have a base date of 1 July 2012.

Structure of the ordinary rate

The rating provisions of the Local Government Act 1993 allow Councils to base their ordinary rates either on a system of minimum rates or base rates. Bega Valley Shire Council has chosen to employ the system of base rates as a means of levying rates on all properties throughout the Shire. Both scenarios outlined above use these provisions. In accordance with S.497 of the Local Government Act 1993 the structure of the Ordinary Rate must comprise:

- a base amount (i.e. fixed charge required by statute to be no more than 50% of the total amount of the rate)
- an ad valorem component (i.e. a rate levied on the unimproved land value).

Ordinary base rate

Council has chosen to apply a system of base amounts in an attempt to overcome community concerns over the inequity of the rate burden of a rate levied solely on land values. The uniform base charge reflects that some of the benefits derived by ratepayers from the provision of Council works and services are shared equally by the community.

The philosophy behind the base charges is that the base amount should apply to all properties and the total income from the charge should approximate the general administration costs of the Council together with the cost of common services available to each property within the Council area.

Ad valorem rate

Council has adopted a system of ad valorem rates that will apply to each property valuation to develop a variable charge on each rate notice. The ad valorem charge is multiplied by the land valuation supplied by the NSW Department of Lands to determine the ad valorem charge.

Whilst Council has chosen to apply a system of base rates, the overriding characteristic of NSW local government rating is that the rate assessment will be primarily and predominantly determined via the ad valorem method. The ad valorem amount of the rate is to be levied on the unimproved land value of all rateable land within each rating category on the rates notice.

Local Government Index Increase

Council was advised in December 2012 that IPART had determined that the Local Government Index (formerly known as rate pegging increase) for 2013-2014 was 3.4%, including a -0.1% offset for previous carbon tax allowances, and a -0.2% productivity saving . Council resolved to apply this index to the 2013-2014 budget and the resultant yield is approx $665,604.

Rating Model 2013-2014

The table below sets out the General Rates for 2013-2014. Table 1 shows the rates with a successful special variation application, as well as the rates with an unsuccessful special variation application. Once Council has made a determination as to whether or not to apply for the Special Variation the relative table will be removed.

Table 1

Rates with 2% SV plus LGCI (3.4%)						
Category	Ad valorem Amount¢ in dollar	Base rate $	Base Rate %	No. of ass	Rate yield $	Yield%
Residential	0.003770	426.65	44.85	17,304	16,460,978	80.71
Farmland	0.003770	426.65	23.34	998	1,828,040	8.96
Business	0.007059	426.65	17.31	855	2,106,993	10.33
Mining	0.007059	426.65	0.00	0	0	0
Total					20,396,011	

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OPERATIONAL PLAN

Community Strategic Plan

Strategic Action (2011-2016): LO 5.1.2 Comprehensively review fees and charges and implement four year regime of approaching full cost recovery.

Operational Action (2012-2013)	*Responsible Section*	*Performance Indicators*
Undertake program to identify the full cost of services delivered, prioritise and program all services where costing is required	All sections managing fees and charges	50% of non statutory fees and charges across Council are approaching full cost recovery

Strategic Action (2011-2016): LO5.1.3 Council to seek additional and enhanced funding through a centrally coordinated and strategic approach.

Operational Action (2012-2013)	*Responsible Section*	*Performance Indicators*
Establish strategic funding resource and agree approach to sourcing, securing, allocating and reporting on funding secured.	Organisation Support/Human Resources	Estimated return on investment No. of funding applications made
Develop Special Variation case to consult with community as detailed in the Long Term Financial Plan (LTFP)	Finance Community and Relationships	

Outcome LO5.2 Rates are set at appropriate levels; rate income is capable of meeting needs of the organisation as per the adopted long term financial plan; however, income from grants, commercial and regulatory functions is increased.

Strategic Action (2011-2016): LO5.2.1 Develop Asset Management Financial Reporting system; implement E-Services (payment and enquiry of Rates, Water, etc)

Operational Action (2012-2013)	*Responsible Section*	*Performance Indicators*
Integrate financial system to enable asset based cost capture	Finance	Financial system designed and in operational by June 2013

Strategic Action (2011-2016): LO 5.2.2 Implement Contract management system including register administration, processes and procedures.

Operational Action (2012-2013)	*Responsible Section*	*Performance Indicators*
Contract management system will be developed and implemented by June 2013	Finance	

Strategic Action (2011-2016): LO5.2.3 Develop In-house conveyancing capacity.

Operational Action (2012-2013)	*Responsible Section*	*Performance Indicators*
Develop and implement in house conveyancing	Executive	Conveyancing legal costs reduced

Strategic Action (2011-2016): LO 5.2.4 Develop revenue source from the leases of car parks and airspace.

Operational Action (2012-2013)	*Responsible Section*	*Performance Indicators*
Present to market results of car parks and air space register in accordance with land and investment strategy	Finance	

either on a system of minimum rates or base rates. Bega Valley Shire Council has chosen to employ the system of base rates as a means of levying rates on all properties throughout the Shire. Both scenarios outlined above use these provisions. In accordance with S.497 of the Local Government Act 1993 the structure of the Ordinary Rate must comprise:

- a base amount (i.e. fixed charge required by statute to be no more than 50% of the total amount of the rate)
- an ad valorem component (i.e. a rate levied on the unimproved land value).

Ordinary base rate

Council has chosen to apply a system of base amounts in an attempt to overcome community concerns over the inequity of the rate burden of a rate levied solely on land values. The uniform base charge reflects that some of the benefits derived by ratepayers from the provision of Council works and services are shared equally by the community.

The philosophy behind the base charges is that the base amount should apply to all properties and the total income from the charge should approximate the general administration costs of the Council together with the cost of common services available to each property within the Council area.

Ad valorem rate

Council has adopted a system of ad valorem rates that will apply to each property valuation to develop a variable charge on each rate notice. The ad valorem charge is multiplied by the land valuation supplied by the NSW Department of Lands to determine the ad valorem charge.

Whilst Council has chosen to apply a system of base rates, the overriding characteristic of NSW local government rating is that the rate assessment will be primarily and predominantly determined via the ad valorem method. The ad valorem amount of the rate is to be levied on the unimproved land value of all rateable land within each rating category on the rates notice.

Local Government Index Increase

Council was advised in December 2011 that IPART had determined that the Local Government Index (formerly known as rate pegging increase) for 2012-2013 was 3.6%, including a 0.4% allowance for carbon tax impacts (fundamentally on energy/fuel costs), and a -0.2% productivity saving . Council resolved to apply this index to the 2012-2013 budget and the resultant yield is approx $737,000.

Rating Model 2012/13

The table below sets out the General Rates for 2012.

Table 1

Category	Ad valorem Amount¢ in dollar	Base rate $	Base Rate %	No. of ass	Rate yield $	Yield%
Residential	0.003352	404.32	44.85	17,279	15,577,018	80.71
Farmland	0.003352	404.32	23.21	993	1,729,873	8.96
Business	0.006055	404.32	17.34	855	1,993,848	10.33
Mining	0.006055	404.32	0.00	0	0	0
Total					19,300,739	

Future special rate variation

Subject to consideration and implementation of Councils Long Term Financial Plan and taking into account any unforeseen expenses, Council may consider a long-term rate pricing path which may include future Special Variation Applications. These are scheduled for a 2% variation to general rate income in 2013 and 2015 for asset renewals, and the retention of the special variation for sports and recreation infrastructure renewals, expiring in 2014.

Revenue Policy

Public land assembly

Assembling council-owned public land to facilitate development interest or sale with proceeds used to

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Community Strategic Plan

To ensure that financial viability Council must sometimes make difficult decisions in order to ensure its long term survival. Council must be clear in its communication with ratepayers and others in the community about what it can and can't provide with its limited income in both services and standards of infrastructure and maintenance.

Council's ability to attract grant funding plays a vital role across the Shire. With the number of grant provider increasing, and the complexity of most grant application and acquittal processes also increasing, Council must resource this function adequately.

In the 2009 Community Survey, Bega Valley Shire residents were asked to consider how Council should fund investment in its four key areas of community, economy, environment and infrastructure. Twenty seven (27) % of respondents said Council should seek additional grants, thirteen (13) % said Council should make better use of its existing resources, eight (8) % said Council should increases rates and six (6) % said Council should seek additional funding from State or Commonwealth governments. Around three (3) % of respondents suggested each of the following as possible strategies private enterprise/local business contributions, cut Council administration costs, community events and fundraisers, and develop/sell land. Finally, less than two (2) % each said Council should promote tourism or borrow money.

An **Operational Examination** undertaken in 2006 reviewed functions, structures, assets and finances, the outcome of which led to operational savings that: has held council finances to the point that infrastructure degradation in the main, has not been as extreme as some other councils; debt is and can be managed; cost recoveries from income from service fees and grants has improved to be amongst the highest proportionately compared to similar councils; and employment costs as a percentage of operating expenses, continues to fall.

An **Asset and Financial Sustainability Review** with Professor Percy Allan and 'Review Today' was subsequently commissioned by Council in 2010 to:

- Assess the state of existing Council infrastructure.
- Estimate the cost of fixing existing infrastructure and renewing it in future.
- Compare the cost of infrastructure and services under existing Council practice with that of alternative scenarios that fully rehabilitate, renew and maintain infrastructure.
- Explore whether current revenue policy or a more ambitious option would be able to fund these alternative spending scenarios within responsible fiscal limits. Suggest possible other measures (eg productivity improvements) that might assist in this task.

That Report recommended a Responsible Spending Scenario that strives for an acceptable compromise between Council's obligations to achieve financial sustainability, prevent an infrastructure crisis, preserve essential public services and keep rates, fees and charges affordable.

The Report indicated a number of 'levers' that may be adjusted, based on community feedback, to achieve sustainability over a longer or shorter term. They include extent of revenue raising (such as rates, fees and development contributions), service cutting or quarantining, debt raising, or acceptable asset standards or levels or service.

The report also recommended the basis upon Council developing its Financial Plan. The Plan should aim to:

- Rehabilitate required infrastructure whose condition has fallen below an acceptable standard (ie the 'backlog');
- Renew required infrastructure when it falls below agreed minimum standards in future;
- Expand the total infrastructure stock by enough to cope with residential and business growth as informed by Council's asset strategy and demographic projections;
- Identify those core services that would be quarantined from any cost cuts to help fund infrastructure rehabilitation and renewal;
- Fund these initiatives through adequate revenue measures, operational savings, re-ordering spending priorities, asset leases or disposals and extra borrowings;
- Fund infrastructure maintenance and renewals from operating revenue and rehabilitation and enhancements from budget surpluses, capital revenues and borrowings in accordance with Council's 'narrowing the gap' strategy.
- Ensure that the outcome by year 10 complies with sustainable financial targets (eg the LGI recommended minimum surplus ratio and maximum debt ratio).
- Borrow sufficiently between now and 2019/20 to help fund infrastructure renewal

"We have so man talented people here trying to bring progress but they are not supported by funding bodies and government!! "
Joannalogue, Bega Valley Views 2030

KEY DIRECTIONS By 2030 in the Bega Valley Shire:	OUTCOMES	KEY RESULT AREAS	COUNCIL ROLE	OTHER PARTICIPANTS
LO5 Council effectively manages its **assets, finances, resources and service delivery**	LO5.1 Council is financially sustainable and services and facilities meet community need while minimising transfer of costs to ratepayers. LO5.2 Rates are set at appropriate levels; rate income is capable of meeting needs of the organisation as per the adopted long term financial plan; however, income from grants, commercial and regulatory functions is increased. LO5.3 Services provided are delivered in an economically and efficient way. LO5.4 Council has an integrated enterprise risk management approach.	Services are provided as per the service review adopted in 2012. Infrastructure maintenance backlog is capped at 2%. Opportunities exist for contracting or outsourcing of services and equipment. Increase in income from commercial, regulatory, fee and grant activities. Progressive move to Group 4 rating averages. Realise returns (via dividend) from water and sewer activities, real estate and leases, commercial and development activities. Most cost effective means of service delivery implemented. Enterprise risk management processes are imbedded in all Council operations.	Leader Provider	Community
LO6 Council is an **employer** of choice, promoting a safe, healthy and innovative working environment	LO6.1 Council's organisational culture encourages integrity, responsiveness and innovation. LO6.2 Council attracts, retains and develops a skilled workforce that meets the needs of the organisation. LO6.3 Council provides a safe, healthy working environment and takes a pro-active approach to all WHS matters	Bega Valley Shire Council is identified as an Employer of choice within the community. Workers compensation premium is contained. No work related deaths or serious injuries.	Leader Provider	
LO7 Council creates **strong partnerships** between all levels of government and their agencies, community groups and business	LO7.1 Council articulates its role (leader, advocator, partner, facilitator, regulator, promoter, provider) to agencies and the community as appropriate to the activity. LO7.2 Council has partnerships with government agencies and other parties to address priority issues.	Partners with community groups and utility providers to facilitate renewable energy supply and reduce asset operating cost. Partners with government agencies as appropriate to achieve joint progress towards desirable Shire goals (e.g. health, highways) Consolidates partnerships with community groups in managing and maintaining community recreation, and cultural assets.	Facilitator , Partner Provider	Partners in business and community State and Federal agencies

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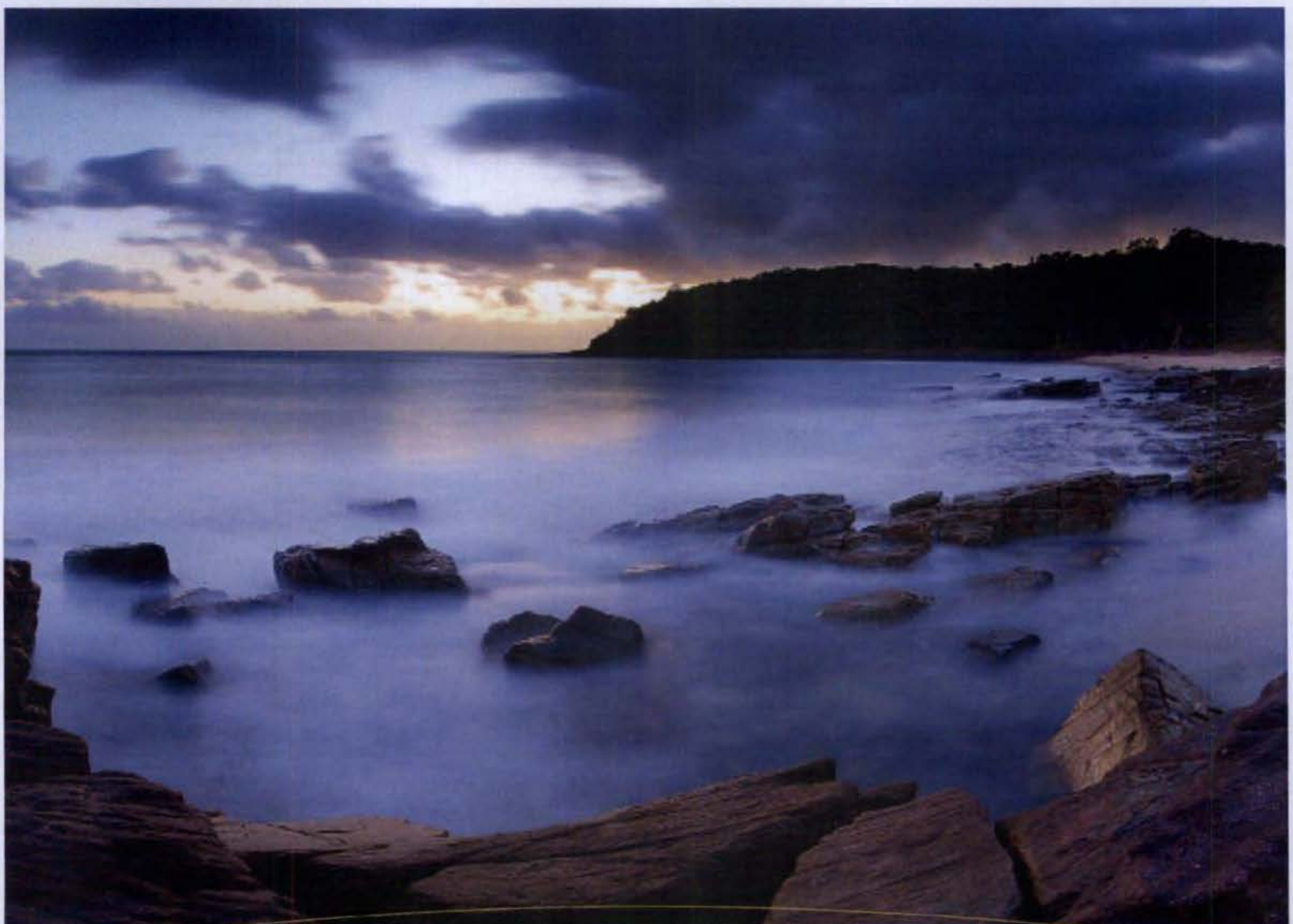


RESOURCING STRATEGY

Community Strategic Plan

The Financial Plan will be reviewed each year to monitor progress against the Responsible Scenario and other goalposts, and monitor the status of development activity, Council land development returns and crown reserve income, whose revenues may be utilised to support expanded services or service debt borrowed to fund new or upgraded facilities. The review may cause deferring, downsizing or deleting enhanced infrastructure or new non-infrastructure projects, if demand (development activity and population growth and mix) slow markedly or government grants and loan interest rates change significantly.

Principles

The following principles were adopted in the 2009 Financial Strategy:

- raise debt in accord with policy, serviced by new revenues including lease, caravan parks returns, user charges, development contributions, special rate variations, dividends
- establish new s94 contribution and s94A levy plans, and planning agreements, differentiating new infrastructure and facilities required through subdivision growth (s94), from upgraded or renewed infrastructure and facilities required through development (s94A)
- *expand land development and leasing activities of council surplus lands* and real estate
- nurture community partnerships to build and/or maintain facilities on council land, or manage those facilities
- 'narrow the gap' of financing: maintenance and operations of infrastructure, operations of facilities, competitive functions and grant services
  - to narrow the gap between rate/annual charge revenues and asset maintenance and renewal:
    - revise asset standards, levels of service and technologies
    - increase rates to category average
    - increase access charges to recover fixed costs
  - to narrow the gap between utility operating costs (water, sewer, waste):
    - revise asset standards, levels of service and technologies
    - increase usage charges
  - to narrow the gap between regulatory and competitive services:
    - revise non-statutory fees to fully recover costs
  - to narrow the gap between grant and contract funded services:
    - incorporate full attributed costs in grant submissions and contracts
    - accept services and projects that are fully grant funded
- *annually revise development and economic activity* through Economic Modeller software and Land Monitor, pooling first and/or second year

receipts from development contribution and levies to apply to debt or projects from the second/third budget year

Those principles were refined through the adoption of the 2011 *Responsible Scenario,* so that the surplus, debt and asset backlog targets could be achieved.

That *Scenario* assumes that by the tenth year:

- Council's net financial liabilities ratio won't exceed 80% by raising debt and
- its operating surplus ratio will be at least 2.5%;
- The infrastructure backlog ratio will not exceed 2%;
- Infrastructure stock will expand by half the population growth;
- Operating services will expand in line with population growth;
- Average fees and user charges revenue per property will have grown in real terms by no more than 2% per annum.

The 'narrowing the gap' principle of the Financial Strategy sat well with the *Asset and Financial Sustainability Review* report. It is proposed the long term pricing path in the Financial Plan incorporate the following approach:

1. Rates and annual charges (general, waste), and access charges (water and sewer), less non-infrastructure special rate variations/service levies (library, lifeguards, tourism etc), to recover:
    - asset maintenance and operations (cleaning, power, water etc)
    - debt servicing (P&I)
    - infrastructure renewals
2. Fees and user charges, financial assistance grant, government operating grants, and special rate variations for services, to recover:
    - service provision
3. Depreciation (assuming current level of service), to reflect:
    - infrastructure rehabilitation
    - infrastructure renewals, and
    - asset replacement reserve utilised to hold depreciation balance
4. Capital grants, development contributions and dividends, to recover:
    - infrastructure enhancements
5. Dividends to apply to general fund urban infrastructure enhancements or services only, or rebates on development contributions applying to

approved community infrastructure projects (ie where water and sewer supplied)

6. Debt raised for infrastructure enhancements, to be serviced by new revenue sources (eg development levy, dividend, special rate levy)

7. Water and sewer access charges to progressively move to recover:

    - debt servicing (P&I) and governance
    - infrastructure rehabilitation, without comprising W&S best practice rules (currently 25/75 access/usage split);

8. Water and sewer usage charges will recover:

    - operating costs
    - asset maintenance

Seed funding for community projects and events will be provided for infrastructure projects supported by policy and asset plans, while volunteer effort will be accounted in the maintenance and management of community infrastructure and facilities.

Following the Asset and Services Review in 2011/12, Council revised the principles contained in the 'Responsible Scenario' LTFP, and amended the ten year LTFP premised on the following:

- ✓ base date 2010/11 audited financial accounts
- ✓ forecasts in $2011/12
- ✓ set on actual services delivered in 2010/11, updated by adjustments to scale of some services that were subject to growth in demand or fully funded contracts (eg aged care and children's services) as presented to councillor workshops
- ✓ extraction of Plant and Waste functions from General Fund into separate accounting Funds
- ✓ raising debt of $16m paid down as principal and interest over 10 years, noting one source of 'new' revenues (caravan park returns) initially intended to service debt was reassigned to asset renewals (at $300k/yr), as the caravan parks were returned to LPMA
- ✓ utilising accumulated revotes and reserves in accord with grant, contract, policy or loan requirements and, where appropriate, amending those polices and uses
- ✓ adoption of new s94 and s94A development contribution plans, with increased contributions pooled for first year
- ✓ attribution of organisation support costs to Functions, and distribution of governance costs between Funds (*under refinement*)
- ✓ inclusion of growth in rates base (est 0.5%pa)
- ✓ renewals schedule adopted with AMPs and major projects (including asset upgrades) as supported by councillors at workshops

- ✓ sale of surplus operational parcels of land
- ✓ conservative assumption that real estate developments in CBDs are cost neutral, but deliver community returns such as new or replacement facilities or public domain
- ✓ placement of annual surpluses into asset cash reserves, and through their accumulation, in turn buffering increases in rate variations and potential reduction of volunteer support in maintaining and managing community assets
- ✓ optional utilisation of dividends from water and sewer operational (up to 50%) surpluses for urban works, servicing debt or subsidising headworks for community infrastructure projects
- ✓ provision for a 20 year forecast, as the asset renewals were spread over 20 years

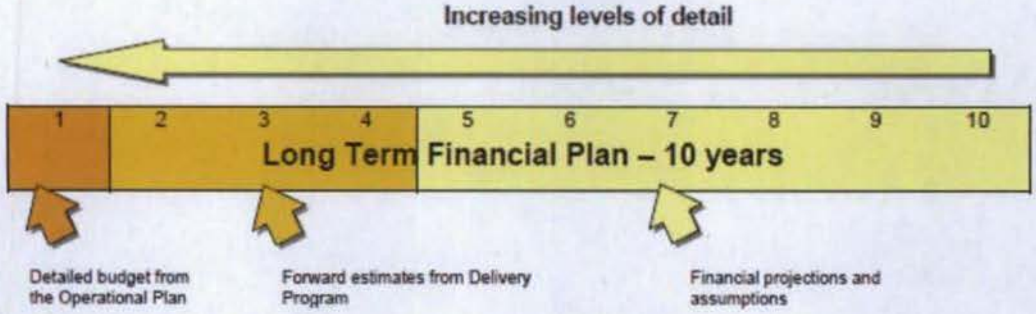
As a result, instead of general rates increasing 2.2% above CPI each year; Water and Sewer charges increasing 2.6% above CPI each year; and raising interest only borrowings to $18m, as recommended by Review Today, the revised LTFP proposes:

- ≈ two special general rate variations of 2% above LGCI in 2013/14 and 2015/16 for infrastructure renewal, and retention of the recreation special variation that expires in 2014/15 for recreation renewal,
- ≈ water, waste and sewer charges retained at CPI/LGCI only, subject to councillors decision on options for water filtration plants, sewerage extensions and waste AMP
- ≈ less borrowings of $11.5m peaking at $16m, paid as principal and interest over 10 years

For further information, go to link at www.begavalley.nsw.gov.au

Financial Plan

The level of detail contained in the Financial Plan is illustrated below:



The Financial Plan is designed as a 'top-down' approach, where the goalposts and levers adapted from the Responsible Scenario following the independent Asset and Financial Sustainability Review, form the financial projections and assumptions:

Goalpost	Floor Target	Ceiling Target	Current
Operating surplus ratio	2.5%	7.5%	4.4%
Net financial liabilities	40%	80%	15%
Infrastructure backlog	0%	2%	1%
Interest cover ratio	3x	5x	10x
External financing ratio	25%	50%	0%
Annual renewals gap ratio	-10%	10%	68%

The Responsible Scenario 2011 anticipated the following results by 2019/20:

- A sustainable debt ratio (41%)
- A modest annual budget surplus (2.5%);
- A modest infrastructure backlog ratio (2%)

The Responsible scenario recommended:

- Rates revenue in total to increase by 2.2% (an average of 1.0% per property rated) per annum above CPI inflation;
- Fees and charges to rise by 2.6% (an average of 1.4% per property rated) per annum above CPI inflation; and
- Service spending limited to an increase of 1.3% (an average of 0.9% per property rated) over CPI inflation each year

Revised Financial Plan

The LTFP was revised in 2012, and targets retained. As a result, instead of general rates increasing 2.2% above CPI each year; Water and Sewer charges increasing 2.6% above CPI each year; and raising interest only borrowings to $18m as recommended by Review Today, the revised LTFP proposes:

- two special general rate variations of 2% above LGCI in 2013/14 and 2015/16 for infrastructure renewal, and retention of the recreation special variation that expires in 2014/15 for recreation renewal,
- water, waste and sewer charges retained at CPI/LGCI only, subject to decision on options for water filtration plants, sewerage extensions, and waste AMP
- less new borrowings to $12m, paid as principal and interest
- service spending above CPI at half the rate of population growth (0.5%pa)
- productivity savings of 1%pa

The targets or 'goalposts' of the Responsible Scenario remain in place, however the Levers have changed with the revised LTFP.

Targets	**Levers (revised LTFP)**
Infrastructure backlog < 2%	General rates increase 2% above CPI in 2 years for asset renewals, plus retention of existing increase for recreation renewals
Nett Financial Liability ratio < 80%	Water, Sewer and Waste charges increase in line with CPI each year
Operating surplus ratio > 2.5%;	General fees and charges increase 2.6% above CPI each year over 10 years
Rates coverage @ 50%	Raise borrowings to $16m over 10 years, principal and interest
Debt service ratio < 10%	Enhance infrastructure @ half population growth (0.5%pa)
Asset ratio > 100%	Grow non-infrastructure services @ population growth (0.5%pa)
	Grants grow in real terms only, but increases above CPI matched by growth in services attributed to those grants

General Fund

The revised LTFP spreadsheet is in 2012/13 base dollars, rather than the 2009/10 base used by Review Today and uses growth in rate base and population only. Annual budgets will draw on the relevant LTFP financial year and add LGCI indexation for expenses (discounted by productivity where appropriate), or above LGCI where appropriate, such as fees revenues.

The LTFP document indicates that while the early years draw on existing cash reserves, revotes and accumulated development contributions, where permitted by the new contribution plans, the annual results will cause transfers to and from cash (primarily asset replacement) reserves. Similarly, the annual balance of underspent renewals will be placed in the asset replacement reserves for assignment in accord with the AMPs. The first year of additional contributions received from the new s94/94A plan will be pooled.

For 2012-2030, the General Operating LTFP provides for asset maintenance and operational expenditure of $111m; non-infrastructure and support service expenditure of $208m; and debt servicing expenditure of $18m; while the Capital LTFP provides for asset renewals of $114m and asset upgrades of $28m. Transfers between cash reserves, including asset replacement reserves, narrows across that period to $6.8m

From 2010/11, around $2m shifts from services into asset maintenance and renewals in accord with the recommendations of Review Today, without the annual sequence of rate rises above LGCI. Fees and charges are still proposed to rise, to raise around $150k/year above CPI.

By 2022/23, the average annual 'goalposts' of 2.5% operating surplus (being surplus of revenues above operating expenses); nett financial liabilities of 41% (being total debt as % operating revenues); and infrastructure backlog of 2%, can be achieved.

These increased borrowings would be used to overcome the infrastructure backlog, renew assets that are coming to the end of their useful life and expand the infrastructure stock in line with Council plans. Without extra borrowings, much higher rates, fees and charges would be needed.

Council has adopted a position of recognising that debt is required to renew and upgrade infrastructure, under the inter-generational equity principle. Due in part to the spread of renewals over 20, rather than 10 years, the General Fund debt peaks at around $18m, on a 10 year P&I term. The retirement of debt allows more funds to be placed into cash funded renewals in latter years of the LTFP.

Water, sewer and waste debt is expected to fall significantly. If Councils service profiles remain consistent with today's service profile, then the LTFP shows that no further debt is required in any of these funds. Water and Waste funds will have nil debt and the Sewer fund will see its debt balances reduce from $22m in 2013 to approx

$11.25m in 2023. Those Funds are sustainable under the pricing path recommended – ie LGCI annual increases.

Council's previous debt practice was to borrow $1m/year for renewals or capital works over 10 years. That practice has enabled much debt to be retired from 2010, assisting the application of those former loan payments to new borrowings or cash funding renewals in the next 10 years.

The policy is for principal and interest to be serviced by new revenue sources, such as rate special variation, development contributions/levy, dividends, asset sales or leases, primarily on a 10 year terms but for larger assets, matched to asset life (ie 20 years).

General Fund budgets may alter should Council be successful with the loan subsidy applications to the Local Infrastructure Renewal Scheme (LIRS), which may bring forward the town hall, roads and depot projects borrowings, and together with the airport runway project, generate over $300k annual savings for the ten year term loans.

The Land Investment Strategy (LIS) was adopted in 2011 by Council, awaiting in part the outcome of new CLEP decisions in terms of zoning, controls and classification. Beyond utilising the proceeds of sale of the Zingel Place property received in 2010/11, surplus properties identified in the LIS will progressively be sold for financial and/or community return.

Cash reserves are held for statutory (such as ELE), or incomplete projects (such as grant/loan funded) purposes. Council has taken the position to place annual surpluses into asset replacement reserves.

Unspent reserves, revotes and development contributions form much of the initial injections into renewals until debt is taken up, which is then to be serviced in part by the proposed two special rate variations. Unspent renewals or upgrades allocations in any year is placed in the asset replacement reserves.

Interest on investment returns have been calculated on the average annual cash reserve balances.

Special rate levies above the Local Government Index (LGI) for specific periods and purposes, such as infrastructure rehabilitation, will be separately accounted and reported. Each year IPART (the Independent Pricing and Regulatory Tribunal) sets a maximum percentage amount that councils can increase their rates (known as the local government index LGI, or formerly as the rate peg amount). Councils can then assess whether this amount is enough to maintain services and infrastructure, or they can get feedback from their community about their willingness to pay more for specific services or infrastructure and then apply for a rise above the LGI for this purpose. This is known as a Special Rate Variation. LGI increases on special variations granted for fixed terms for infrastructure, will be placed in an asset reserve.

The longer term pricing/rates path will be further developed over 2013 for application to IPART in the term of the new Council. Two special variations are proposed in 2014 and 2016 of 2% each, as well as the retention of the recreation levy in 2015..

Other costs increase at a scale greater than provided by the LGI. Those include energy, insurance and levies paid to state government such as rural fire service and SES. Where possible, those costs are absorbed into operations by adjustment to service levels or facility operations or though on cost attributions.

Council is seeking the RFS, fire brigade and SES contributions made from council rates to the NSW government, to be enumerated on rate notices as an 'emergency services levy'.

The revised LTFP lists the financial performance indicators or goalposts proposed by Review Today (Operating Surplus ratio, nett Financial Liability ratio, asset backlog ratio), adds those required by DLG (rates coverage ratio, debt service ratio, asset renewals ratio), and the proposed Productivity ratio - all sets will feature in annual reports.

Attachment 6 summarises the General Fund Financial Plan and key indicators, followed by a table comparing the Responsible Scenario 2011 to the revised Financial Plan 2012.

Your Place

Our Place

Great Place

Bega Valley Shire Council




Bega Valley
2011 - 2016

Liveable Place | Enterprising Place | Sustainable Place | Accessible Place | Leading Organisation

DELIVERY PLAN

Community Strategic Plan

Funding and Measuring

Funding the Future

Council's Long Term Financial Plan (LTFP) has been used to inform the decision making and establishment of priorities for **Bega Valley 2011-2016**. The LTFP is a key source of direction for this plan and is informed by Council's Asset and Financial Sustainability Review and Asset Management Strategy and Plans.

The LTFP is a key companion document to this Delivery Program and presents the financial estimates of income and expenditure for the period covered by **Bega Valley 2011-2016** which is refined in more detail in the 2011-12 budget.

Measuring Success

To monitor success or track progress towards achieving those ambitions, a suite of indicators and measures have been established.

Indicators will track trends or trigger responses in the way Council manages infrastructure, services or organisation support. Many of the indicators are designed to inform 'measures of success' reflecting high-level community outcomes to be reported each year with the annual report or thresholds to trigger management responses.

In **Bega Valley 2030** Key Result Areas are nominated along with an outline of Council's role in achieving the outcome. In this Program, **Bega Valley 2011-2016**, the strategic actions are stated and Key Performance Indicators (KPI) are nominated, including the method that will be used to report against the KPI and the timeframe for the reporting.

Delivery program 2011-2016: outcomes	Strategic actions	Who is involved	Key performance indicators (kpi)	How / frequency (4 yrs, 1 yr, h, q)
Outcome LO4.3 *Performance management concepts are embedded in the organisational culture and routines/ processes understood by all staff.*	**LO 4.3.1** Internal executive, group, service and personnel performance reporting will be aligned to the IPR and will reinforce service delivery and customer Service.			

LO5 Resource Management

Outcome LO5.1 *Council is financially sustainable and services and facilities meet community need while minimising transfer of costs to ratepayers.*	**LO 5.1.1** Implement services review and agreed levels of service to achieve AFSR targets.	Council and executive management	Council rates revenue increased by 2.2% per annum above CPI inflation	DLG Comparative Indicators Report (1)
	LO 5.1.2 Comprehensively review fees and charges and implement four year regime of approaching full cost recovery.	Finance & Infrastructure Group	Service profile increased at CPI + 1.3 % annual growth	
	LO5.1.3 Council to seek additional and enhanced funding through a centrally coordinated and strategic approach	Property section	Fees and charges increased by 2.6% per annum above CPI	Financial Health Check (1)
Outcome LO5.2 *Rates are set at appropriate levels; rate income is capable of meeting needs of the organisation as per the adopted long term financial plan; however, income from grants, commercial and regulatory functions is increased.*	**LO5.2.1** Develop Asset Management Financial Reporting system; implement E-Services (payment and enquiry of Rates, Water, etc)	ICT staff and executive management	Sustainable debt ratio (41%) and a budget surplus of 2.5%	Governance Health Check (1)
	LO 5.2.2 Implement Contract management system including register administration, processes and procedures.	ICT staff and supplier ICT staff	100% achievement of statutory requirements	Statewide Insurance Audit (1)
	LO5.2.3 Develop In-house conveyancing capacity.	Organisation Support Executive management	Dividends paid to General Fund Online availability for client enquiry – DAs, property, complaint, application	
	LO 5.2.4 Develop revenue source from the leases of car parks and airspace.			
	LO 5.2.5 Realise dividend returns from water and sewer to general fund		Risk audit > 85% compliance Premium rebate > 5%	
	LO 5.2.6 Implement procurement best practice to ensure cost effective expenditure throughout Council			
Outcome LO5.3 *Services provided are delivered in an economically and efficient way.*	**LO 5.3.1** Develop and implement Information and Communications Technology Strategy including evaluating emerging technologies with regard to delivery services, review of ICT Disaster Plan, procurement and management.			

ANNUAL REPORT

Bega Valley Shire Council

2011/2012

special variation **report**

Application to Minister for Local Government for Special Variation

2007/2008

The 2007/08 operational plan implemented a special variation approved by the Minister for Local Government of 9.76%, raising an additional $720,572. These funds were targeted at infrastructure, continuing services in branch libraries, the regional gallery, tourism visitor information centres and the weeds program. This variation was approved on an ongoing basis.

	Program Budget amount offsets in 2007/08	Total Expenditure in 2009/10	Total Expenditure in 2010/11	Total expenditure 2011/12
Branch libraries	$150,000	$157,300	$164,384	$168,986
Regional Gallery	$100,000	$134,100	$109,589	$104,157
Tourism (incl VICs year 1 then tourism infrastructure)	$150,000	$126,980	$0	$65715
Weeds management	$320,572	$490,070	$351,312	361,149
Total	**$720,572**	**$908,450**	**$625,285**	**$700,007**

2008/09

The 2008/09 operational plan implemented a special variation approved by the Minister for Local Government of 9.33%, raising an additional $887,720. These funds were directed at infrastructure rehabilitation and provision of ocean lifeguards over the busy summer holiday season at beaches not serviced by a Surf Lifesaving Club, but still popular with visitors. This variation was approved on an ongoing basis.

	Program Budget amount offsets in 2007/08	Total Expenditure in 2009/10	Total Expenditure in 2010/11	Total expenditure 2011/12
Rural sealed road rehab program	$218,000	$295,370	$231,496	$237,978
Armco culvert rehabilitation	$100,000	Included above	$106,191	$109,164
Bridge rehabilitation	$100,000	$205,750	$106,191	$109,164
Footpath trip hazards	$7,000	$35,000	$7,433	$7,641
Recreation buildings and pools	$70,000	$94,300	$74,334	$76,415
Ocean lifeguards	$150,000	$147,565	$159,287	$156,450
Urban street construction	$200,000	$234,795	$212,382	$218,329
Kerb & guttering	$61,620	$104,400	$45,365	$46,635
TOTAL	**$906,620**	**$1,117,180**	**$942,679**	**$961,777**

2009/10

The Minister for Local Government approved a special variation of 3.01% above rate pegging for a total rate increase of 6.51%. The special variation to rates was approved for five years and is to be spent on sports and recreation infrastructure and accessibility of these facilities.

The total amount of the increase above rate pegging raised $450,000 in the first year. A General Sports and Recreation Committee has been established as a committee of Council. This group is working with Council to identify priority projects for this fund and has been focussed on using the Council contribution to leverage additional funds through grants, sponsorship and volunteer endeavour. The General Sports and Recreation Committee has now established a funding application and assessment cycle and will assess applications prior to recommendation to Council.

	Total Expenditure in 2009/10	Total Expenditure in 2010/11	Total Expenditure in 2011/12
Bega Recreation Ground George Brown Oval Pambula Sporting Complex Evans Park Cobargo Skate Park Towamba Oval Bemboka Sportsground Bermagui Sportsground George Griffin Oval Bega Candelo Tennis Club Pambula Panthers Wyndham Pony Club Ford Park Towamba Oval Pambula Sporting complex Bega Angledale Cricket Club	$0	$747,978	$474,627
Total	**$0**	**$747,978**	**$474,627**

2010/11

In 2010/11 Council was granted a Special Rate Variation of 6.35% by the Minister for Local Government, this represented a 2.95% increase above the 2009/10 general rate yield. The increase was for the 2010/11 financial year only. The impact of the proposed variation on residential ratepayers is significantly reduced due to the concluding of a rate increase of $553,000 granted for 10 years in 2000. Of the $583,000 raised by the rate variation, $250,000 was raised from the business sector for tourism development and $333,000 was raised from all rateable properties and provided funds toward the redevelopment of Merimbula's antiquated jetty. Funds will also be allocated for further planning to refurbish the runway of the Merimbula Airport prior to releasing of the facility

	Total Expenditure in 2010/11	Total expenditure 2011/12
Tourism Development	$250,000	$0
Merimbula Jetty	$333,000	$0
Total	**$583,000**	**$0**