

REPORT
CM/7.4/22.04

Subject: Draft Delivery Program 2022-2026, Operational Plan 2022-2023 including Budget and Pricing Policy, Fees and Charges - Exhibition

TRIM No: SF21/5734

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Director: Richard Sheridan, Interim Director, Finance and Governance

RECOMMENDATION:

That:

1. Council publicly exhibits for 28 days:
 - (a) The draft Delivery Program 2022–2026 (Waverley 2026) and the draft Operational Plan 2022–2023 (Waverley 2023), including the Budget and Statement of Revenue Policy, attached to the report (Attachments 1 and 2).
 - (b) The proposed Rating Structure for 2022–23 contained on page 69 of the draft Operational Plan 2022–23 together with the proposed Pricing Policy and Schedule of Fees and Charges 2022–23. In accordance with sections 497, 516, 518, 529(2)(d), 534, 535 and 548(3) of the *Local Government Act* (the Act), it is proposed that the following rates and charges be set for every parcel of rateable land within the local government area for the period 1 July 2022 to 30 June 2023:
 - (i) An ordinary rate of 0.116114 cents in the dollar subject to a minimum rate in accordance with section 548(3) of the Act per assessment on all rateable land categorised Residential in accordance with section 516 of the Act and subcategorised Ordinary in accordance with section 529(2)(b) of the Act.
 - (ii) An ordinary rate of 0.541561 cents in the dollar on all rateable land categorised Business in accordance with section 518 of the Act and subcategorised Ordinary in accordance with section 529 (2)(d) of the Act.
 - (iii) An ordinary rate of 0.894755 cents in the dollar on all rateable land categorised Business in accordance with section 518 of the Act and subcategorised Bondi Junction in accordance with section 529(2)(d) of the Act
 - (c) The draft Pricing Policy, Fees and Charges 2022–23 attached to the report (Attachment 4).
 - (d) The proposed Domestic Waste Management Service Charge being set at \$594.40 per service per annum for the financial year 2022-23 in accordance with section 496 of the Act.
 - (e) The proposed Stormwater Management Service Charge contained on page 72 of the draft Operational Plan 2022–23 in accordance with section 496A of the Act for the financial year

2022–23 as follows:

Stormwater Management Service Charge		
Category	Unit	Fee or Charge
Residential property	per property	25.00
Residential strata property	per property	12.50
Business property	per 350 m2 (or part thereof)	25.00
Business strata property	per 350 m2 (or part thereof) levied equally to strata unit entitlement with a minimum of \$5	25.00

2. Receives and notes the detailed funding sources for the draft 2022–23 capital work program projects attached to the report (Attachment 3).
3. Authorises the General Manager to apply to the Independent Pricing and Regulatory Tribunal for a permanent single-year special variation of 2.5%, which is \$816,298 for 2022–23 (ASV) under section 508(2) of the *Local Government Act*, noting that:
 - (a) The purpose is to bring the rate cap in line with this year’s CPI (Attachment 5) as communicated in 2021 through the consultation process of the annual budget and Long Term Financial Plan.
 - (b) Council requires these funds to keep delivering the services in the Operational Plan and maintain an operating performance ratio of 0.02%.
4. Authorises the General Manager to make any necessary editorial and content changes to the draft Delivery Program 2022–2026, Operational Plan 2022–2023, including the Budget and Pricing Policy Fees and Charges 2022–2023, for public exhibition to give effect to Council’s resolution.
5. Officers prepare a report to Council following the exhibition period.

1. Executive Summary

This report is seeking Council approval to place the draft Delivery Program 2022-2026 (Waverley 2026), Operational Plan 2022-2023 (Waverley 2023), including the Budget, Statement of Revenue Policy, Stormwater Management Service Charge and proposed Pricing Policy and Schedule of Fees and Charges 2022-23 on public exhibition for the period 20 April 2022 to 18 May 2022. A further report will be presented to the Council which reports on any public submissions received and sets out any proposed changes in response to these submissions, before the final adoption of these documents.

2. Introduction/Background

All NSW councils are required to facilitate the development of a Community Strategic Plan (with a minimum 10-year outlook) along with a Delivery Program (based around the four-year term of the Council) and an Operational Plan (which looks at yearly activities to be undertaken). These plans are informed by a Resourcing Strategy that is made up of a Long Term Financial Plan, a Strategic Asset Management Plan, and a Workforce Plan.

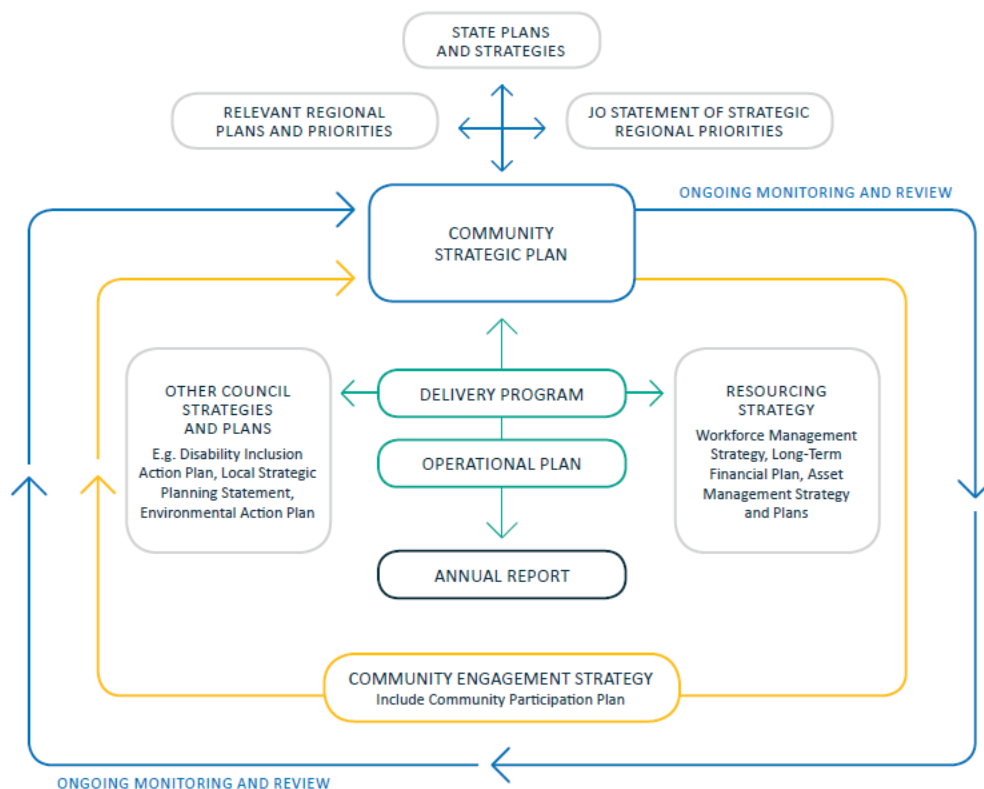


Figure 1. The Integrated Planning and Reporting (IP&R) Framework.

The Integrated Planning and Reporting (IP&R) Framework consists of an inter-related hierarchy of plans which aims to ensure a more sustainable local government sector. Waverley Council has in place a hierarchy of integrated plans consisting of a Community Strategic Plan (Waverley 2032, Waverley Community Strategic Plan 2022–2032), a Delivery Program (Waverley 2026, Delivery Program 2022–26) and an Operational Plan (Waverley 2023, Operational Plan 2022-2023).

The IP&R framework requires councils to constantly review their plans to ensure they remain relevant and in-tune with changing community needs. Section 402(3) of the *Local Government Act* requires that:

‘Following an ordinary election of councillors, the council must review the community strategic plan before the 30 June following the election. The council may endorse the existing plan, endorse amendments to the existing plan or develop and endorse a new community strategic plan, as appropriate to ensure that the area has a community strategic plan covering at least the next 10 years.’

With the delayed local government elections due to the COVID-19 pandemic, the time available to engage the community was limited. To address this issue, Council presented a Community Engagement Plan with options for engagement to the outgoing Council in June and September 2021. Council engaged the community from July 2021 to February 2022 to understand the community vision and priorities for Waverley Community Strategic Plan 2022-2032 (Waverley 2032).

Each newly elected Council must develop a new Delivery Program that will run for their term in office. The Delivery Program must draw upon the broad directions and strategies defined in the Community Strategic Plan and set out the specific Waverley Council strategies and activities (services and projects) it will undertake during its term to help the community move closer to attaining its long-term vision and aspirations. The draft Delivery Program 2022-26 (Waverley 2026) sets out the strategies and deliverables Council will need to deliver in the first four years of the 10-year draft Waverley Community Strategic Plan 2022-2032 (Waverley 2032).

Every year the Council is also required to develop an Operational Plan (which is a sub-plan of the Delivery Program) setting out the specific activities (services and projects) it will undertake in that year. Operational Plan 2022-23 (Waverley 2023) sets out the key activities (deliverables), actions, budget and performance measures Council will employ during the 2022-23 financial year. The Operational Plan includes the Statement of Revenue Policy which sets out Council's rating policy. The Operational Plan includes Stormwater Management Service charge and the Statement of Revenue Policy which sets out Council's rating policy. Accompanying this plan is the proposed Pricing Policy and Schedule of Fees and Charges 2022-23 which sets out the fees and charges Council is proposing to levy over the coming financial year.

3. Relevant Council Resolutions

Nil.

4. Discussion

In accordance with section 406 of the *Local Government Act*, the Office of Local Government (OLG) has published Guidelines and a Handbook to support the administration of integrated planning and reporting. The draft Delivery Program 2022-26 (Waverley 2026) and Operational Plan 2022-23 (Waverley 2023) including the Budget, proposed Pricing Policy, Fees and Charges 2022-23 have been developed in accordance with the OLG Guidelines and Manual.

Delivery Program 2022-2026 (Waverley 2026) (Attachment 1)

The Delivery Program is intended to be a four-year program adopted by each newly elected Council in the first year following an election. The Delivery Program 2022-2026 is the fourth Delivery Program that Council has developed.

The IPR Handbook requires that all the strategies identified in the Community Strategic Plan be carried through to the Delivery Program and expanded into actions. In our Delivery Program we have called these actions four-year actions—that is what we are going to deliver to meet the requirements of the strategies outlined in the Community Strategic Plan.

Both the Delivery Program and Operational Plan are required to allocate responsibility and to include measures of effectiveness – in the case of the Delivery Program they should preferably be outcome based, while in the Operational Plan they are likely to be output based. As far as possible, our Delivery Program includes outcome measures for the deliverables identified.

The Delivery Program also needs to include a budget forecast. Reporting on progress with the Delivery Program is required at least half yearly. However, budget reporting will still be provided quarterly. In summary, the Delivery Program includes the strategies identified in the Community Strategic Plan, it expands these strategies into four-year actions and allocates responsibility for these. It also includes measures of effectiveness and budget information for the four-year period.

Operational Plan 2022-2023 (Waverley 2023) including Budget and Statement of Revenue Policy (Attachment 2)

The Operational Plan has a one-year time frame. The OLG suggests that the Operational Plan be defined as a sub-plan of the Delivery Program that spells out the 'actions' to be undertaken in a particular year.

The IPR manual also requires that actions identified in the Delivery Program be carried through to the Operational Plan. Our Operational Plan carries forward the four-year actions from our Delivery Program and includes the action required to 'deliver' on what we said we would. The Operational Plan is also required to include a budget for the year as well as our revenue policy. This includes our rating information as well as our pricing policy, fees and charges.

2022–23 Budget (Attachment 3)

The past two years have been challenging with the COVID-19 crisis, Council faces unprecedented financial, safety, health, and operational challenges. The critical assumption we are making regarding the COVID-19 virus is that with the high vaccination rates, people are increasingly learning to live with the virus, and the economy will come back strongly in 2022-23 with no further lockdowns. Therefore in 2022-23, Council will place a focus on the COVID-19 recovery and establish a financial recovery plan to ensure long term financial sustainability. It should be noted in Table 1 that Council has run large shortfall over the last two financial years and our plan is to return to surplus this year.

The objective of the Council's draft budget is to fund the delivery of the community and Council's objectives, priorities, and aspirations within the constraints of Council's limited financial resources. Our priorities are to continue to provide quality services to our community, assist in the economic recovery of the community from the COVID pandemic, and deliver the Community Strategic Plan's (CSP) aspirations and goals. This budget assumes the continued COVID-19 effect in 2022-23 and allows for a 25% reduction in the COVID impacted business income for a period of three months.

Meeting community and council's demands with constrained resource is the major financial sustainability challenge currently facing Council now and in the coming years.

Council will continue applying strong financial disciplines and strategies so as to ensure Council continues to remain financially sustainable in the long term. These strategies include:

- Examining costs of operations and more efficient and sustainable ways to deliver services.
- Delivering operating surpluses through prudent budgeting so as to fund infrastructure capital works in accordance with Strategic Asset Management Plan (SAMP6).
- Looking for ways to maximise revenues within legal, affordability and Council policy constraints.

The draft 2022-23 Budget has incorporated all components of Council's services and activities:

- Operational services.
- Environmental Action Plan.
- Plant replacement program.
- Capital works program including the facility building renewal/upgrade program.

Council will continue its transformative change by focusing on modernisation and tech-enabled operational improvements by implementing the ICT strategy program and simultaneously delivering quality services to the community and supporting local businesses recover from the COVID-19 crisis.

It is proposed that Council will spend \$119.17m of operation expenses, an increase of \$1.29m (1.1%) is proposed on the 2021-22 current approved budget. Whilst the corresponding operating income is expected to be \$141.20m, an increase of \$8.68m (6.6%) on the 2021-22 current approved budget.

An operating surplus before depreciation expense is projected at \$22.03m to be available for capital spending. Operating surplus after depreciation is projected at \$0.03m with an estimated depreciation expense of \$22.00m.

An expected capital works program expense totalling \$30.33m is funded from operating surplus, capital income and reserves fund.

Table 1. Comparison of current budget with draft 2022–23 budget and prior two-year actuals.

Council Budget Statement - \$'000	22/23 Draft Budget	2021/22 Current Approved Budget	20/21 Actuals	18/19 Actuals	\$ change on 21/22 Current Approved Budget	% change on 21/22 Current Approved Budget
Operating Revenue						
Grants Subsidies & Contributions - Operational	5,561	5,555	6,068	5,033	7	0.1%
Investment Income	956	859	1,780	4,927	97	11.3%
Other Revenues	19,971	15,658	18,026	17,859	4,313	27.5%
Rates & Annual Charges	68,855	67,507	65,978	62,224	1,348	2.0%
User Charges	45,855	42,939	38,845	41,888	2,916	6.8%
Total Operating Revenue	141,198	132,518	130,697	131,931	8,680	6.6%
Operating Expense						
Borrowing Expenses	(53)	(65)	(75)	(90)	12	(19.0%)
Employee Costs	(71,355)	(70,238)	(68,440)	(64,059)	(1,118)	1.6%
Materials & Contracts	(24,508)	(24,912)	(23,139)	(23,383)	405	(1.6%)
Operating Expenses	(22,135)	(21,509)	(20,922)	(21,349)	(626)	2.9%
Rates & Annual Charges	(1,123)	(1,160)	(1,124)	(1,109)	37	(3.2%)
Total Operating Expense	(119,175)	(117,885)	(113,699)	(109,990)	(1,290)	1.1%
Operating Surplus (incl. Depreciation)	26	(7,365)	(4,142)	1,578	7,391	(100.3%)
Operating Surplus (ex. Depreciation)	22,023	14,633	16,998	21,941	7,391	50.5%
Capital Income						
Grants Subsidies & Contributions - Capital	13,009	31,715	18,240	9,411	(18,707)	(59.0%)
Net gains from the disposal of assets	1,307	587	359	992	720	122.6%
Total Capital Income	14,316	32,303	18,599	10,404	(17,987)	(55.7%)
Capital Expense						
Capital Purchases	(6,386)	(2,110)	(1,931)	(5,861)	(4,276)	202.7%
Capital Works Program	(30,333)	(69,964)	(56,748)	(18,927)	39,631	(56.6%)
Total Capital Expense	(36,719)	(72,074)	(58,680)	(24,788)	35,355	(49.1%)
Net Capital Income/(Expense)	(22,403)	(39,771)	(40,081)	(14,385)	17,368	(43.7%)
Loan Repayment	(460)	(447)	(435)	(412)	(12)	2.8%
Total Net Revenue/(Expense)	(839)	(25,586)	(23,518)	7,145	24,746	(96.7%)
Reserve transfer (to)/from	839	25,590	23,517	(7,130)	(24,750)	(96.7%)
Net Budget Surplus/(Deficit)	(0)	4	(0)	15	(4)	(100.0%)

The following figures outlined where Council’s income comes from and how Council allocate expenses:

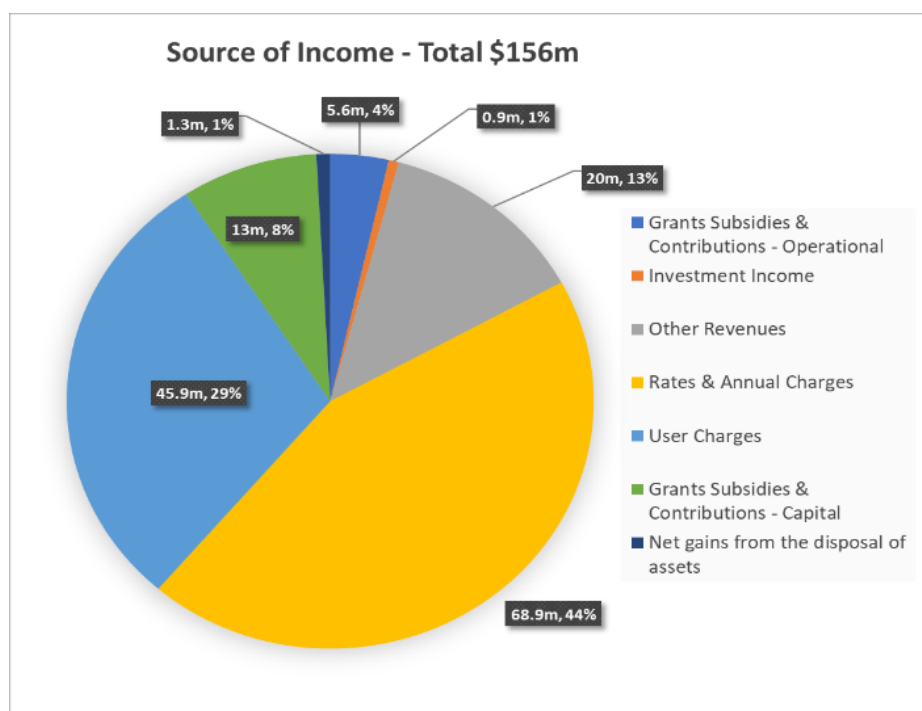


Figure 1. Sources of income

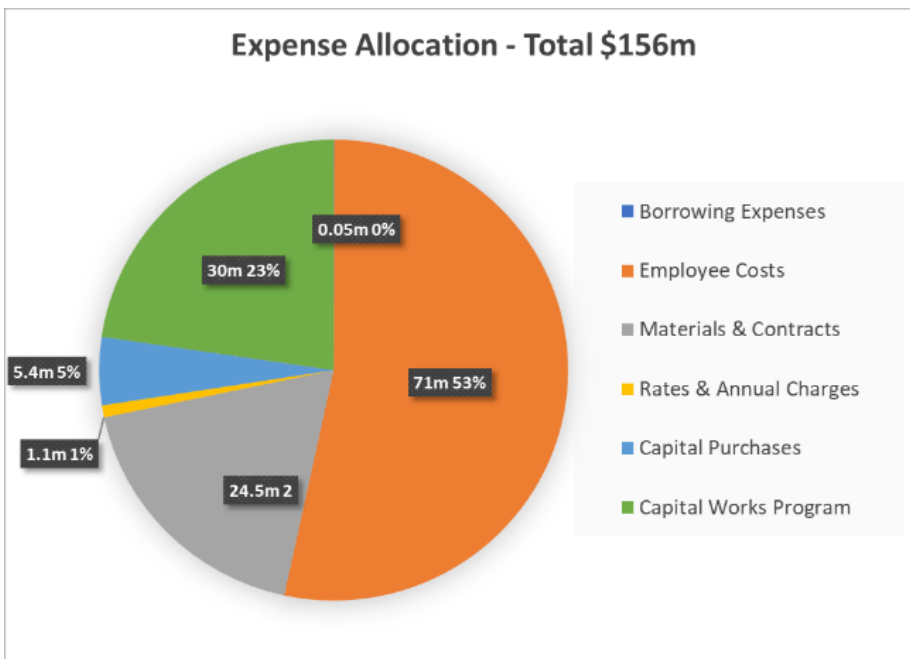


Figure 2. Expense allocations.

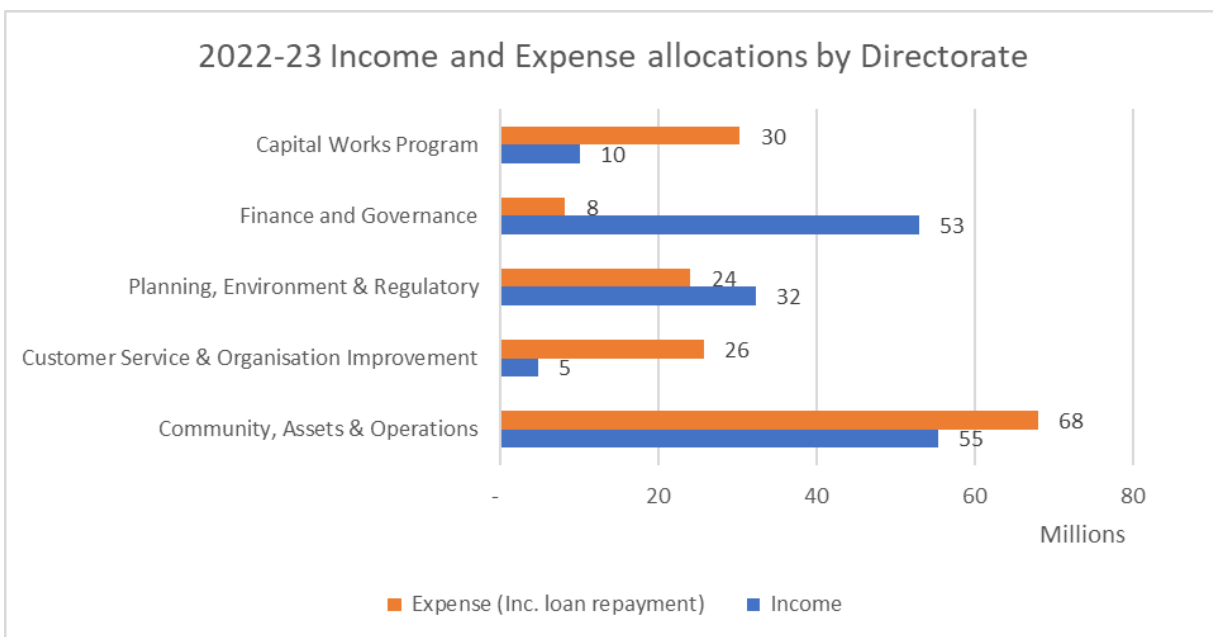


Figure 3. 2022-23 Income and expense allocations.

In the 2022–23 capital works program, officers propose to invest \$30.33 million in the renewal and enhanced upgrade of infrastructure assets. The following figures show where we invest the money in and how it will be funded. Refer to Attachment 3 (capital works program section) for detailed project and funding sources.

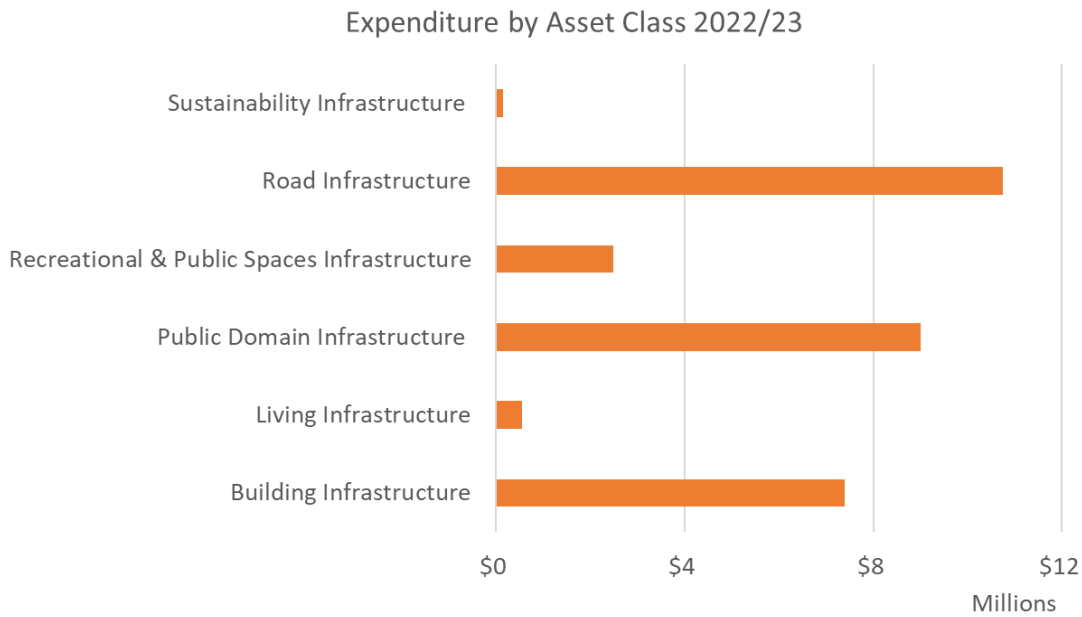


Figure 4. Capital expenditure by asset class

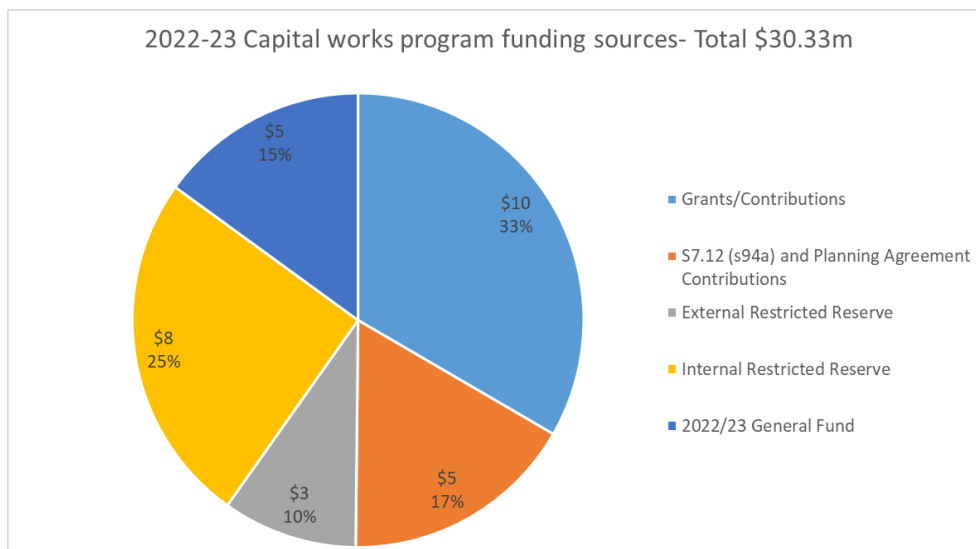


Figure 5. Capital works program funding sources

The 2022-23 budget income from operational and capital are estimated to be \$155.51 million, which will be applied to funding the \$156.31 million expenditure programs, with the remaining funding gap of \$0.8 million to be funded from the reserves fund. Refer to Attachment 3 for further detail of the 2022–23 budget.

The draft 2022-23 budget proposes the following:

- No new borrowing.
- Loan repayment (principal) of \$0.46 million.
- An outstanding loan balance as at 30 June 2023, is projected to be \$1.58 million.

In conclusion, the 2022–23 budget projects a total income to be \$155.51 million, and the total expense outlays, including loan repayment, are projected to be \$156.31 million. Funding of \$0.8 million is proposed to be drawn from reserves to fund the 2022-23 program. The operating surplus before depreciation is

forecasted at \$22.03 million, and the projected operating performance ratio of 0.02% meets the Fit for Future benchmark of greater than 0%. The budget has been developed to continue to implement the Community Strategic Plan and Delivery Program while assuming the negative impacts of COVID-19 will not be repeated in FY 2022–23. It provides for continued service delivery, capital program implementation and asset renewal to support and contribute to the economic recovery.

Special variation for 2.5% for 2022-23 to bring the rate cap in line with CPI

In March 2022, the Minister for Local Government announced a review of the IPART determination of the rate increase for the 22/23 financial year. For Waverley Council, the rate increase was only 0.7%. The local government sector, still recovering from COVID impacts and significant natural disasters across the state, were expecting the usual 1.5% to 2.5% annual increase. These projections underpinned Council's long term financial plan and annual budgets as a funding source to ensure financial sustainability, meeting OLG financial performance benchmarks, and balancing budgets. They also were communicated through the consultation process of the annual budget and LTFP and widely expected to be implemented as part of Council's operational funding model. The impact of the rate peg determination would be catastrophic for many Councils unable to meet their OLG financial performance standards. For Waverley, the loss would have equated to around \$500,000.

Following advocacy from the local government sector and LGNSW, the Minister agreed to undertake a review of the determination (refer OLG circular 22-03 Guidelines for Additional Special Variation for 22-23). As an interim fix to assist Council's meet their budget requirements for 2022/23, the Minister announced that Council's would be able to apply for up to 2.5% Additional Special Variation (ASV) to rates to offset the negative financial impact on their 22/23 budgets from the error in the IPART rate determination.

The council rates for 2022-23 are calculated based on the proposed 2.5% Rate Cap application subject to IPART's approval. In December 2021, IPART handed down a historic low 0.7% baseline rate peg for FY2022-23, set a 0.8% rate peg for Waverley after incorporating a 0.1% population growth factor.

On 8 March, due to significant pressure, the OLG acknowledged the 0.7% was not aligned to the current CPI and announced that councils could apply up to 2.5%. In reaching this one-off decision the rate peg has failed to consider the surging inflation, soaring fuel, other commodity prices, and a mandated wage award increase for staff.

The application of ASV is to correct an error in December 2021 rate cap decision the only way to do this is under the act is highlighted in Refer to OLG's circular Attachment 5. The purpose of this application is to make CPI is applied to rates and our cost is a fair and equitable way.

To achieve the OLG's financial sustainability operating performance benchmark of 0%, we need to apply for the single-year permanent 2.5% ASV instead of the 0.8% rate peg. Waverley Council 2021 Long Term Financial Plan (LTFP) has projected that rates would increase with CPI. Council consulted with the community In 2021 (LTFP 5.3) which identified the CPI increase in rates is required to achieve a 0% Operating Performance Ratio. It is noted that CPI has now increased from 1.75% to 2.5%, Council relies on CPI to maintain the performance ratio of >0%.

The following table illustrates the budgetary impact of the rate peg (0.8%) and the ASV (2.5%) in 2022-23:

Table 2. Budgetary impact of the rate peg and ASV.

2022-23 Budget	Rate peg	ASV (CPI rate cap)	variance
Council rates increase by	0.80%	2.50%	1.70%
Operating result	-\$ 790,596.00	\$ 25,702.00	\$ 816,298.00
Operating performance ratio	-0.57%	0.02%	0.59%
Budget result	-\$ 816,298.00	\$ -	\$ 816,298.00

The 2.5% application approval will positively impact approximately \$9.85m over the LTFP 6 period to 2032-33, therefore contributing to the Council’s longer-term financial sustainability. The council needs the single year permanent 2.5% ASV in order to restore the medium-term financials and meet the OLG operating performance ratio, as demonstrated in the following graph:

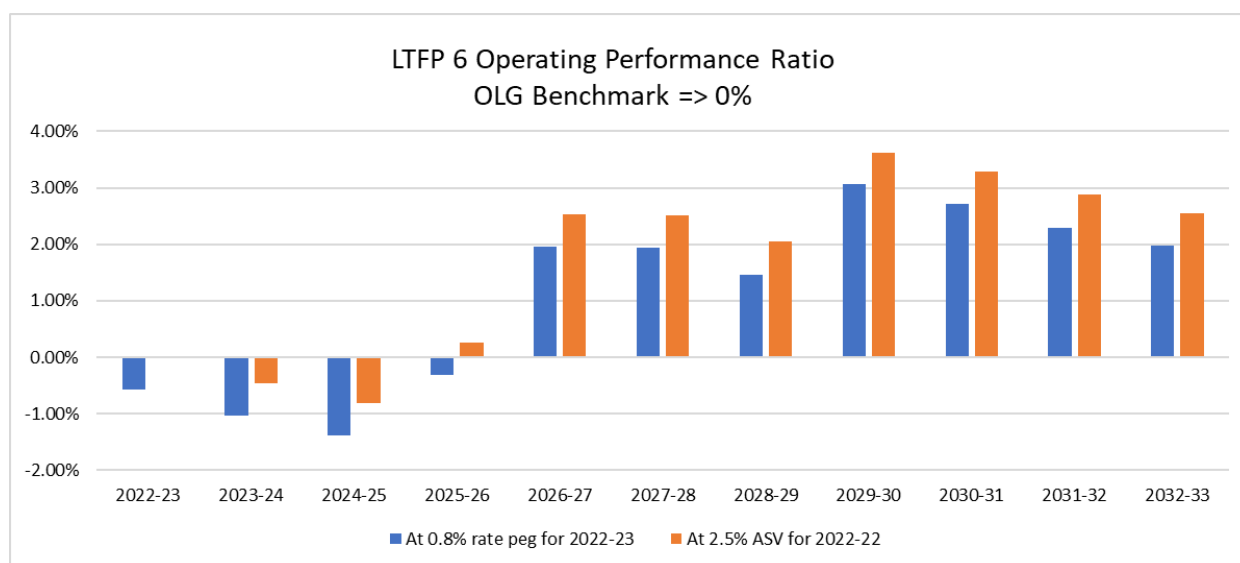


Figure 6. Long Term Financial Plan (LTFP 6) Operating Performance Ratio.

Without the 2.5% ASV, the Council has an average operating performance ratio of negative 1.36% over the next five years. It is well below OLG's benchmark of greater than 0%.

It recommends Council to apply for the single-year permanent 2.5% ASV application with IPART before the closing date of 29 April 2022.

Pricing Policy, Fees and Charges (Attachment 4)

Fees and charges proposed on the draft pricing policy are to be commenced from 1 July 2022.

Council rates and annual Charges

- The council rates are proposed at 2.5% rate cap application subjects to IPART’s approval.
- The Domestic Waste Service Annual Charge increases by \$6.4 (1.09%) to \$594.4 per service, in line with IPART’s recommended benchmark of 1.1% increase
- The Stormwater Management Service Annual Charge remains unchanged as per legislation.

Fee sets by legislation or subsidiary legislation

Legislative Fees to be increased as per the legislative fee structure from 1 July 2022.

Non-legislative fees

When considering the level of increases for non-legislative fee categories that range from free of charge to market price, council staff have considered the cost of service, rising inflation, the recommended IPART rate peg and domestic waste charge benchmark increases, Employment Award increases and supporting community in COVID-19 recovery.

5. Financial impact statement/Time frame/Consultation

Council is forecasting a balanced budget in 2022–23, subject to approval of ASV, in supporting the current services level and council's key strategic priorities. The activities and capital works projects in the Operational Plan is funded with a balanced budget.

Time frame

- Council meeting – 12 April 2022.
 - Council endorses the Integrated Planning and Reporting suite of documents for purposes of public exhibition.
- Public exhibition – Exhibition dates: 20 April 2022 to 18 May 2022.
 - The Integrated Planning and Reporting suite of documents is placed on public exhibition for a period of at least 28 days, as per statutory requirement.
- Council meeting – 21 June 2022.
 - Council adopts the Integrated Planning and Reporting suite of documents as required under the Integrated Planning and Reporting framework.

6. Conclusion

Before adopting the Delivery Program and Operational Plan, Council must place these documents on public exhibition for a statutory period of 28 days. This report is seeking Council approval to place the draft Delivery Program 2022-2026 (Waverley 2026) and draft Operational Plan 2022-2023 (Waverley 2023) including the budget, Statement of Revenue Policy and the proposed Pricing Policy, Fees and Charges 2022-2023 on public exhibition. The submission period is likely to close on 18 May 2022.

Once the submission date is closed a further report will be presented to the Council incorporating any public comment at its meeting in June 2022 where Council will be required to adopt the final plans. These documents will become effective on 1 July 2022.

7. Attachments

1. Draft Delivery Program 2022-2026 (Waverley 2026) (under separate cover)
2. Draft Operational Plan 2022-2023 (Waverley 2023) (under separate cover)
3. Draft 2022-23 Budget (under separate cover)
4. Draft Pricing Policy, Fees and Charges 2022-2023 (under separate cover)
5. OLG Guidelines for Additional Special Variation (ASV) process for 2022-23 (under separate cover) .