



# Strategic & Corporate Committee

**Agenda:** *Strategic & Corporate Committee*

**Date:** *Monday 16 April 2007*

**Time:** 6.00pm

### **Outline of Meeting Protocol & Procedure:**

- The Chairperson will call the Meeting to order and ask the Committee/Staff to present apologies or late correspondence.
- The Chairperson will commence the Order of Business as shown in the Index to the Agenda.
- At the beginning of each item the Chairperson will ask whether a member(s) of the public wish to address the Committee.
- If person(s) wish to address the Committee, they are allowed four (4) minutes in which to do so. Please direct comments to the issues at hand.
- If there are persons representing both sides of a matter (eg applicant/objector), the person(s) against the recommendation speak first.
- At the conclusion of the allotted four (4) minutes, the speaker resumes his/her seat and takes no further part in the debate unless specifically called to do so by the Chairperson.
- If there is more than one (1) person wishing to address the Committee from the same side of the debate, the Chairperson will request that where possible a spokesperson be nominated to represent the parties.
- The Chairperson has the discretion whether to continue to accept speakers from the floor.
- After considering any submissions the Committee will debate the matter (if necessary), and arrive at a recommendation (R items which proceed to Full Council) or a resolution (D items for which the Committee has delegated authority).

### **Recommendation only to the Full Council (“R” Items):**

Note: This Committee to function on the basis of referral with considerations to encompass functions and responsibilities from any other Committee.

### **Principal Considerations:**

- Municipal Strategy
- Objectives Setting
- Policies and Codes Development
- Corporate Management
- Corporate Planning
- Woollahra Planning
- Community Services

### **Committee Membership:**

- All Councillors

### **Quorum:**

- The quorum for a committee meeting is 8 Councillors.

# WOOLLAHRA MUNICIPAL COUNCIL

## Notice of Meeting

10 April 2007

To: The Mayor, Councillor Keri Huxley, ex-officio  
Councillors Anthony Boskovitz  
John Comino  
Claudia Cullen  
Christopher Dawson  
Marcus Ehrlich  
Tanya Excell  
Wilhelmina Gardner  
Julian Martin  
Andrew Petrie  
Geoff Rundle  
Isabelle Shapiro  
David Shoebridge  
Fiona Sinclair King  
John Walker

Dear Councillors

### **Strategic & Corporate Committee Meeting – 16 April 2007**

In accordance with the provisions of the Local Government Act 1993, I request your attendance at a Meeting of the Council's **Strategic and Corporate Committee** to be held in the **Committee Room, 536 New South Head Road, Double Bay, on Monday 16 April 2007 at 6.00pm.**

Gary James  
General Manager

# **Additional Information Relating to Committee Matters**

**Site Inspection**

**Other Matters**

## Meeting Agenda

<b>Item</b>	<b>Subject</b>	<b>Pages</b>
1	Leave of Absence and Apologies	
2	Late Correspondence	
3	Declarations of Interest	

### **Items to be Submitted to the Council for Decision with Recommendations from this Committee**

R1	2007/2008 Draft Budget – 331G 2007/2008	1
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**Item No:** R1 Recommendation to Council  
**Subject:** **2007/2008 DRAFT BUDGET**  
**Author:** Don Johnston, Manager Finance  
Michelle Phair, Team Leader Financial Services  
**File No:** 331G 2007/2008  
**Reason for Report:** To:  
A) refer a report considered by the Corporate & Works Committee on 19 March to the Strategic & Corporate Committee and to provide a summary of that report; and  
B) seek a determination of how recent initiatives will be funded to allow the preparation of a draft budget for inclusion in the draft Management Plan.

**Recommendation:**

1. That a Draft 2007/2008 Budget be prepared incorporating:
  - \$250,000 allocation from funds currently held by the Waverly Woollahra Process Plant, noting that the proceeds from the sale and any interest thereon will be held in reserve
  - An allocation of interest earned from the Cosmopolitan Centre commercial arrangements being reserved to service the loan raised for streetscape improvement works in Double Bay
2. That Council apply for a special variation of 6.35% above the permissible increase, incorporating an additional provision for Wharves, Jetties and Baths, noting that the current Environmental Levy lapses on 30 June 2007 and the effective increase in rates will be 1.92% above the permissible increase
3. That the funding for the Watsons Bay Baths reconstruction project be further considered in light of the determination of Council's special variation application and Council's resolution of 12 March 2007.
4. That the draft budget, pending the determination of recommendations 1 & 2, be included in the draft Management Plan.

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**Executive Summary**

Preliminary draft operating and capital budgets for 2007/2008 have been prepared. Council's total operating expenditure is \$55m, including depreciation, and total capital expenditure is a further \$17m. The operating budget has incorporated recent Council initiatives including additional strategic planning resources and the graffiti removal program. Aside from these initiatives the operating budget generally continues to provide the same services and service levels as previous years. The capital budget includes a \$6.5m streetscapes improvements program endorsed by Council.

In response to the Council's policy position of growing the amount of capital funding available from the operating budget by at least the same amount as the rate increase, some \$4.3m has been provided, an increase of 2% over the current year. At this stage a 3% rate increase has been provided for. The report highlights the impacts on the operating budget and demonstrates that, in light of these impacts, this is not unreasonable.

One of the key issues for the 2007/2008 budget is the inclusion of recent Council initiatives. Council has resolved to fund a \$6.525m streetscapes improvement program from a 10 year loan and to include funding for the upgrade of Watsons Bay Baths. The financial impact of these decisions is:

	Financial Impact
• Streetscapes Improvements (Loan repayments for \$6.525m loan)	\$940,000 p.a.
• Watsons Bay Baths Upgrade	\$1,580,000

A more recent recommendation to Council from the Corporate & Works Committee has a potential impact on the draft budget. This recommendation, relating to the internet web cast of Council meetings, requires consideration of:

• Capital Costs (system setup and equipment, cabling, training and sound system upgrade)	\$90,000
• Recurrent Costs (hosting and staffing costs)	\$30,000 p.a.

We also have the impression that there may be a need to provide for business centre economic development. This will potentially require a quite significant allocation of funds. At this stage Council has not committed to a course of action, nor has any potential contribution from the beneficiaries been considered, therefore a budget provision has not been made.

A number of funding options are discussed in the report and recommendations made. An additional option has also been identified in the form of a review of the capital budget. The options are:

	Funds Available
• Review of the operating budget (services and service levels) <i>Recommendation: No change</i>	
• Review of the capital budget (defer or delete projects) <i>Recommendation: No change</i>	
• Waverley/Woollahra Process Plant (WWPP) sale proceeds <i>Recommendation: Reserved for future expenditure</i>	\$8,500,000
• Cosmopolitan Centre payment <i>Recommendation: Reserved for future expenditure</i>	\$6,100,000
• Interest on WWPP sale proceeds <i>Recommendation: Reserved for future expenditure</i>	\$586,500
• Interest on Cosmopolitan Centre payment <i>Recommendation: Reserved for repayment of loan related to works in Double Bay</i>	\$420,900
• One off WWPP operating funds cash distribution <i>Recommendation: Reserved for loan repayments</i>	\$250,000
• Increased Special Variation Application <i>Recommendation: Make an increased application</i>	\$500,000

Summaries of the operating budget are provided later in the report. The preliminary draft operating budget generally continues to provide the same services and service levels as previous years but also provides for increased strategic planning resources and the graffiti removal program as initiated by Council. While no change to the operating budget is recommended, it is at Council's discretion to reallocate resources within the operating budget and or review services or service levels to free up additional capital funding. To facilitate such a review the Internal Budget Working Document has been recirculated with the business papers. It is our view that providing more capital funding from the operating budget can only be achieved by a reduction in services or service levels.

There is also an opportunity to review the preliminary draft capital budget. The deferral or deletion of projects in the capital budget will reduce the call on funding from the operating budget freeing up funding for loan repayments. The projects proposed in the preliminary draft capital budget are considered to be of the highest priority and, as such, no change is recommended.

The recommended course of action to fund the year one loan repayments associated with the streetscapes improvements program is to reserve the interest to be earned on the Cosmopolitan Centre repayment and the one off WWPP cash distribution. This is an interim measure. A longer term funding model, provided later in the report, relies on new revenue streams from Double Bay, the release of current capital budget provisions for streetscapes projects and section 94A contributions to fund the loan repayments.

When considering the funding options, it is also important to note that some \$205k remains unallocated in the budget. The operating budget has \$4.318m available while the capital budget only requires \$4.113m at this stage.

In total, this strategy would provide the following funding for the repayment of loans:

	<b>\$'000</b>
Unallocated capital funding	205
WWPP Cash distribution	250
Interest on Cosmopolitan Centre commercial arrangements	421
	<b>876</b>

The actual amount required for loan repayments in 2007/2008 will depend on the timing of the works and the associated drawdown of loan funds. This level of available funding will be sufficient to cover the year 1 loan repayment requirements.

In 2008/2009 we may still be in transition to the full loan repayments, not having drawn down the full \$6.525m. There is the possibility a further allocation of interest to loan repayments may be required in this year while from 2009/2010 the funding strategy outlined above should have come into effect.

In regard to Watsons Bay Baths it is recommended that Council incorporate an additional provision for Wharves, Jetties and Baths into its special variation application and use part of this additional funding to repay a loan to fund the upgrade project.

Potential sources of funding in regard to the web cast of Council meetings have not been explored at this stage given the recommendation from the Corporate & Works Committee is yet to be considered by Council. There are service level implications for even this modest inclusion in the budget.

--- End of Executive Summary ---

## Summaries of the Preliminary Draft Operating and Capital Budgets

### Operating Budget

A detailed preliminary draft operating budget has been circulated with this report. The report to the Corporate & Works Committee highlighted a number of impacts on expenditure in the budget. Overall, expenditure has increased by 4.8% over the original 2006/2007 budget. The major increases in expenditure include:

	<b>Increase in expenditure 06/07 to 07/08</b>
• Employee costs	
○ Salaries & wages / superannuation / ELE <small>(including additional Strategic Planning resources)</small>	694,000
○ Workers' Compensation Premium <small>(funded from Insurance Reserve)</small>	93,000
• Infrastructure Asset Management consultants <small>(offset by grant funding)</small>	181,000
• Graffiti Removal Program	130,000
• Fuel	100,000
• Street lighting charges	83,000
• Fire Brigade contribution	82,000

The budget also includes increased revenue from a number of sources, most significantly the anticipation of a 3% permissible rate increase. The overall increase in revenue is 6%. The major increases in income include:

	<b>Increase in revenue 06/07 to 07/08</b>
• General Rates	738,000
• Interest on Investments	270,000
• Infringements	235,000
• Development Application Fees	160,000
• Work Zone Charges	120,000
• Property Leases & Licences	112,000
• Compliance Levy	110,000

We have taken the view that there will be a continuation of the current higher level of development activity. This has an impact on not only DA fees but other related fees and charges. In regard to interest on investments we are forecasting higher returns based on our move to professional investment advisors, although we have taken a reasonably conservative position on forecast returns.

The operating budget has been summarised by Division below:

	<b>05/06</b>	<b>06/07</b>	<b>06/07</b>	<b>07/08 Draft</b>
	<b>Actuals</b>	<b>Original Budget</b>	<b>Current Forecast</b>	<b>Budget</b>
<b>Community Services</b>				
Expenditure	4,540,527	4,689,701	4,785,789	4,807,400
Income	-1,201,384	-1,204,641	-1,267,772	-1,271,357
	<u>3,339,143</u>	<u>3,485,060</u>	<u>3,518,017</u>	<u>3,536,043</u>
<b>Corporate Services</b>				
Expenditure	13,887,917	15,892,420	16,529,361	16,433,618
Income	-28,912,841	-31,570,955	-32,139,090	-32,819,447
	<u>-15,024,924</u>	<u>-15,678,535</u>	<u>-15,609,729</u>	<u>-16,385,829</u>
<b>Technical Services</b>				
Expenditure	32,100,086	31,975,574	32,867,512	33,899,857
Income	-18,115,880	-17,537,465	-18,193,510	-18,502,980
	<u>13,984,206</u>	<u>14,438,109</u>	<u>14,674,002</u>	<u>15,396,877</u>
<b>Planning and Development</b>				
Expenditure	7,546,983	7,900,749	8,016,328	8,203,648
Income	-6,175,146	-6,299,690	-6,527,240	-6,923,300
	<u>1,371,837</u>	<u>1,601,059</u>	<u>1,489,088</u>	<u>1,280,348</u>
<b>General Manager</b>				
Expenditure	383,183	437,324	466,168	461,078
Income	-7,124	-8,338	-8,338	-10,092
	<u>376,059</u>	<u>428,986</u>	<u>457,830</u>	<u>450,986</u>

The preliminary draft operating budget, as presented, does not include:

- Loan repayments for the streetscapes improvements program
- Business centre economic development
- Recurrent costs of web casting Council meetings
- Additional interest on investment arising from WWPP and Cosmopolitan Centre payments
- One off WWPP cash distribution
- Additional special variation application funding

#### Capital Budget

The preliminary draft 2007/2008 capital budget has also been circulated with this report. Since being circulated to the Corporate & Works Committee on 19 March, Council has received notification of a \$270,000 grant for irrigation works at Christison Park. This has been incorporated into the preliminary draft budget. The preliminary draft budget, along with the previous two years original budgets, is summarised below:

	<b>05/06 Original Budget \$'000</b>	<b>06/07 Original Budget \$'000</b>	<b>07/08 Draft Budget \$'000</b>
Environmental & Infrastructure Levy Works	2,672	4,464	4,205
Stormwater Drainage	0	0	600
Public Open Space	563	1,261	970
Public Infrastructure Upgrade	3,945	1,295	7,468
Property	509	702	455
Operating Capital	3,748	3,532	3,253
	11,437	11,254	16,951

Points to note in the preliminary draft capital budget are:

- Continued focus on the infrastructure renewal strategy and an environmental works program, subject to favourable consideration of Council's special variation application
- Separation of stormwater drainage works from the levy funded programs, funded by the introduction of a stormwater management charge
- Reduction in the size of the Public Open Space program arising from a revised forecast of section 94A contributions
- Inclusion of the \$6.525m streetscapes improvements program endorsed by Council

It is important to note that, while the full streetscapes improvements program has been incorporated into the budget, it will not all be delivered in one financial year. Subject to the adoption of the budget, parts of this program will be rolled forward into 2008/2009 for completion. The inclusion of the full program is important at this stage to focus on the funding of the ongoing loan repayments.

The current capital budget does not at this stage include provision for:

- Upgrade of Watsons Bay baths
- Capital costs associated with web casting Council meetings

Again it is important to note an issue regarding the timing of works. A provision has been made in the preliminary draft capital budget for the design development and approvals phase of the Watsons Bay baths project. The construction phase of the project would, at the earliest, commence late in the 2007/2008 financial year.

Funding for preliminary draft 2007/2008 capital budget, and the two prior years, comprises:

	<b>05/06 Original Budget \$'000</b>	<b>06/07 Original Budget \$'000</b>	<b>07/08 Draft Budget \$'000</b>
<i>Funding:</i>			
Operating Budget	4,193	4,239	4,318 *
Loans	3,430	0	6,525
Grants / Contributions	304	616	1,009
Section 94A	0	1,000	644
Section 94	543	45	0
Stormwater Management Charge	0	0	450
Special Levies	1,010	2,523	2,604
Sales	1,445	1,154	1,060
Reserves	512	1,677	547
	11,437	11,254	17,156

\* The draft 07/08 operating budget generates \$4.318m, of this \$4.113m is currently required for capital funding. The remaining \$205k is unallocated.

Funding available for capital is \$4.318m while the preliminary draft capital budget requires \$4.113m, leaving \$205k currently unallocated. Special Levies of \$2.604m does not currently include the proposed additional special variation of \$500k for Wharves, Jetties and Baths.

## **Report to the Corporate & Works Committee (Item R2) 19 March 2007**

### **Background:**

The constraints and opportunities associated with developing Council's operating budget each year have been highlighted in previous reports. This Council, through a process of expenditure containment and income growth, has been able to increase the capital funding available from the operating budget from \$1.5m in 2002/2003 to \$4.2m in 2006/2007. In setting last years budget strategy the Council established a policy position of increasing the annual amount of capital funding available from the operating budget by at least the amount of the permissible rate increase.

In November 2004 Council adopted an Infrastructure Asset Management Strategy which quantified the need for increased expenditure on Infrastructure Asset Renewal. Since adopting this strategy Council has sought special variations from the Department of Local Government to provide funding to increase Council's then level of expenditure of \$1.4m to the optimum expenditure of approximately \$3.9m per year. Council was partially successful last year in introducing an Infrastructure Levy although not in the form proposed. In addition to the levy, the budget envisages introducing a Stormwater Management charge to fund stormwater related works.

Following the Minister's decision which retained the current environmental levy for its final year the Council resolved to apply for a special variation for 2007/2008 to continue the level of funding required to put its infrastructure funding strategy in place.

Recent decisions of Council have resulted in the adoption of a series of business centre improvements at an estimated net cost of \$6.525m. There is a further detailed report to be considered by the Corporate & Works Committee on these works which comprise:

Double Bay:	
Paving reinstatement following EA works	1,377,000
Paving repairs	1,078,000
Goldman/Gumtree Lanes, multi-function (banner) poles, decorative lighting, landscape and gateway treatments, signage & street furniture	2,000,000
Other Business Centres	2,070,000
	<b>\$6,525,000</b>

Council has resolved to fund these works by a loan repayable over 10 years. Consideration will need to be given to funding the repayment of this loan in the 2007/2008 and future years' budgets.

The Council has also considered a proposal to upgrade Watsons Bay Baths at a cost of some \$1.6m. At its meeting on 12 March 2007, the Council resolved that the funding of this project is to be a matter of consideration when Council considers the use of the funds from the Waverley Woollahra Process Plant sale.

We also have the impression that there may be a need to provide for business centre economic development. This will potentially require a quite significant allocation of funds. At this stage Council has not committed to a course of action, nor has any potential contribution from the beneficiaries been considered, therefore a budget provision has not been made.

We have provided below a brief overview of the preliminary draft 2007/2008 operating and capital budgets and discuss options for funding the above initiatives.

### **Discussion:**

#### Summary of Preliminary Draft 2007/2008 Operating Budget

The preliminary draft budget presented in the Internal Budget Working Documents (circulated with this report) is summarised below. The Income Statement shows an increase in revenue of 6% and an increase in expenditure of 4.8% over the current year's original budget.

Within this preliminary draft budget there are number of increases beyond the councils control, or are directly offset by increased revenue, or are the result of a Council resolution. If these increases are excluded the increase in the remainder of the budget is 1.5%. If inflation is considered at 3%, there is a real reduction in these other operating areas of about 1.5%.

**ANNEXURE 1** illustrates how the controllable increase in expenditure for 2007/2008 has been constrained to just 1.5%, providing details of expenditure increases beyond council's control and those offset by increased revenue, which make a significant contribution to the overall 4.8% increase.

07/08 Draft Budget  
INCOME STATEMENT

	05/06 Actuals	06/07 Original Budget	06/07 Current Forecast	07/08 Draft Budget	Variance to Original	%	Variance to Forecast	%
<b>OPERATING REVENUES</b>								
Rates & Annual Charges	30,945,302	33,439,504	33,587,509	35,016,587	1,577,083	4.7	1,429,078	4.3
Fees & Charges	4,530,497	4,671,858	4,927,460	5,022,944	351,086	7.5	95,484	1.9
Interest	1,486,870	1,311,000	1,391,000	1,570,000	259,000	19.8	179,000	12.9
Operating Grants & Cont'ns	2,803,320	2,580,080	2,911,261	2,721,202	141,122	5.5	-190,059	-6.5
Other Revenues	10,838,259	9,918,510	10,525,775	10,701,007	782,497	7.9	175,232	1.7
	50,604,249	51,920,952	53,343,005	55,031,740	3,110,788	6.0	1,688,735	3.2
<b>OPERATING EXPENSES</b>								
Employee Costs	23,723,439	25,140,133	25,166,431	25,927,086	786,953	3.1	760,655	3.0
Materials & Contracts	10,099,361	9,281,436	10,572,173	10,239,824	958,388	10.3	-332,349	-3.1
Borrowing Costs	1,612	193,808	193,808	178,219	-15,589	-8.0	-15,589	-8.0
Depreciation	8,713,872	8,504,184	8,504,184	8,907,684	403,500	4.7	403,500	4.7
Other Expenses	9,026,569	9,706,472	9,861,528	10,103,032	396,560	4.1	241,504	2.4
	51,564,854	52,826,033	54,298,124	55,355,845	2,529,812	4.8	1,057,721	1.9
<b>CAPITAL REVENUES</b>								
Capital Grants & Cont'ns	925,273	1,369,000	1,710,053	1,485,000	116,000	8.5	-225,053	-13.2
Net Gain / (Loss) on Sale of Assets	-316,430	-204,815	-175,431	-311,970	-107,155	52.3	-136,539	77.8
<b>CHANGE IN NET ASSETS</b>	<b>-351,763</b>	<b>259,104</b>	<b>579,503</b>	<b>848,925</b>	<b>589,821</b>		<b>269,422</b>	

At this stage we have budgeted for a 3% permissible rate increase. Obviously it will be some time before we learn what the actual permissible increase will be. The draft 2007/2008 operating budget generates \$4.318m for capital funding in addition to the \$3.7m from the proposed Environmental & Infrastructure Levy, Stormwater Management Charge and section 94A contributions which are reserved for capital expenditure from the operating budget. This is a 2% increase over funds available in the 2006/2007 budget which is not unreasonable in light of the impacts on the budget highlighted above.

The Income Statement also indicates an increase in revenues of 6%. We are anticipating some increases in a number of revenue streams including:

- Development Application fees
- Compliance Levy
- Work Zone charges
- Interest on Investments
- Infringements
- Property Leases & Licences

We have taken the view that there will be a continuation of the current higher level of development activity. This has an impact on not only DA fees but other related fees and charges. In regard to Interest on Investments we are forecasting higher returns based on our move to professional investment advisors, although we have taken a reasonably conservative position on forecast returns.

The preliminary draft operating budget does not anticipate any increases in services or service levels other than the council initiatives listed above. Indeed, the operating budget as it stands provides minimum resources to ensure efficient utilisation of staff. Given the level of constraint required to achieve the capital funding policy target, there is little if any discretionary expenditure.

Before a final draft operating budget can be completed, guidance is required from the Council in regard to funding the initiatives outlined in the introduction section of this report. A discussion of options in this regard follows.

### Initiatives

There are a number of initiatives which are presently not included in the 2007/2008 draft budget as they require funding consideration.

The initiatives include:

	Financial Impact
• Streetscapes Improvements (Loan repayments for \$6.525m loan)	\$940,000 p.a.
• Watson's Bay Baths	\$1,580,000

While the full financial impact of these initiatives may not be felt in the first year due to timing of their commencement, the full impact will certainly be felt in years 2 to 10 and must be considered at this time so we are confident in our capacity to fund the projects.

### Funding Options

The available funding options are:

	Funds Available
• Review of the operating budget <i>Recommendation: No change</i>	
• Waverley/Woollahra Process Plant (WWPP) Sale Proceeds <i>Recommendation: Reserved for future expenditure</i>	\$8,500,000
• Cosmopolitan Centre payment <i>Recommendation: Reserved for future expenditure</i>	\$6,100,000
• Interest on WWPP sale proceeds (\$8.5m @ 6.9%) <i>Recommendation: Reserved for future expenditure</i>	\$586,500
• Interest on Cosmopolitan Centre payment (\$6.1m @ 6.9%) <i>Recommendation: Reserved for repayment of loan related to works in Double Bay</i>	\$420,900
• One off WWPP operating funds cash distribution (estimated) <i>Recommendation: Reserved for loan repayments</i>	\$250,000

### Discussion on funding options

*Review of the operating budget:*

In preparing its budget Council is faced with allocating limited resources to competing demands for day-to-day services and to the renewal and upgrade of its infrastructure and other assets. As noted previously, the 2007/2008 operating budget has little if any discretionary expenditure and hence does not present any opportunities for funding of initiatives without impacting on services or service levels. In December 2005 Council was provided with an Internal Budget Working Document detailing by each cost centre the Management Plan objectives together with statistical information and a discussion of expenditure Phase Up / Phase Down options. The Internal Budget Working Document has been updated for 2007/2008 and has been circulated separately to the business paper. The working document demonstrates the constraints and issues faced when preparing the operating budget and the Phase Up / Phase Down discussion illustrates that further reduction of the operating budget will result in a deterioration of Council services.

*Capital Proceeds:*

In considering a report on the WWPP Council has previously resolved, in part:

- B. That Woollahra's portion of the funds be reserved until the Council determines how the funds are to be allocated.*

More recently, in regard to Watsons Bay baths, Council has resolved, in part:

- C. That subject to Item F, an amount of \$1.58 million be included in the draft 2007/2008 Capital Budget for consideration by Council for the upgrading of Watsons Bay Baths.*
- F. That the funding of the capital cost be a matter of consideration when the Council considers the use of the funds from the Waverley Woollahra Process Plant sale.*

There is an opportunity to fund the new initiatives from the proceeds of WWPP and Cosmopolitan Centre. We strongly recommend against this approach. It is considered more appropriate that the use of these funds be considered in light of the outcomes of the Asset Study and an overall review of Council's property holdings. It may well be a better investment of these funds if they were used to acquire an income generating asset.

On this basis the utilisation of these funds is not recommended.

*Interest on Capital Proceeds:*

At this stage, the interest that will be earned on the proceeds above have not been factored into the operating budget. Based on discussions with our investment advisors, we are anticipating an average return of 6.9% over 2007/2008. At this rate of return, interest earnings on the capital proceeds will be:

• WWPP (\$8.5m @ 6.9%)	\$ 586,500
• Cosmopolitan Centre (\$6.1m @ 6.9%)	<u>\$ 420,900</u>
	\$1,007,400

There is clearly a strong nexus between the interest from the Cosmopolitan Centre payment and the Streetscapes improvements in Double Bay and the potential need to provide for business centre economic development. It would not be unreasonable to apply this interest to these projects. In a report to the Corporate and Works Committee in November 2006, it was noted that there will be new revenue streams from commercial arrangements coming available in 2009/2010 of around \$500k. This interest, together with a small allocation from the WWPP interest, could substitute for this new revenue in the short term. An allocation from the WWPP interest will not be required in 2007/2008 but this may be a consideration in future years.

It is recommended that we apply the interest on the capital proceeds to the repayment of loans in the interim as the new revenue streams from Double Bay come to fruition.

*Cash Proceeds:*

Ordinarily any cash distributions from the WWPP are taken up as interest in the operating budget. Given that the \$250,000 anticipated for 2007/2008 is quite significant, and indeed the last such distribution, it has been included for specific comment rather than simply being rolled into capital funding available from the operating budget.

It is recommended that this money be left in the operating budget 2007/2008 as a one off windfall, funding loan repayments in year 1.

#### Further Funding Option - Additional Special Variation application

Council has resolved to make an application for a special variation to replace the lapsing Environmental Levy with a combined Environmental & Infrastructure Levy. This will result in a special variation percentage of 7.43%, including an estimated permissible increase of 3%. The effect of this special variation would be a nil increase above the permissible limit.

Last year, when making its application for a combined levy, Council's application included a \$500,000 provision for Wharves, Jetties and Baths Infrastructure. When the combined levy was not approved, and a reduced infrastructure renewal program was adopted, this provision was dropped from the program.

With the forthcoming application, this provision can be re-incorporated into the works program. Part of the additional funding could be applied to the repayment of a loan for the reconstruction of the Watsons Bay baths as an alternative to using the proceeds from the sale of the WWPP. Repayments on a \$1.6m loan would be in the order of \$230k per annum.

This approach would increase the application percentage from 7.43% to 9.35% and provide an additional \$2.5m over 5 years. If there were no specific project needs for wharves, jetties and baths infrastructure in any one year, the funds could be redirected to other classes of infrastructure such as seawalls, retaining walls or extending the now reduced environmental works program. The effect of this application on ratepayers would be an increase of 1.92% above the permissible increase.

It is recommended that Council extend its application for special variation to include a provision for wharves, jetties and baths infrastructure, noting that it will result in only a small increase in rates above the permissible limit.

#### Summary of Preliminary Draft 2007/2008 Capital Budget

The preliminary draft 2007/2008 capital budget is distributed separately. It includes the streetscapes improvements program endorsed by Council funded from loans. It does not however at this stage include provision for the upgrade of the Watsons Bay baths although there is a \$100k provision for design development and approvals over the next 12 months which accords with current resolutions.

While the preliminary draft 2007/2008 capital budget incorporates the total streetscapes improvements program, it will not be delivered in a single financial year. It is important however that in adopting the 2007/2008 draft budget we are conscious of the full impact of funding these works.

It was noted in the report on funding options for the Double Bay improvement works that the take up of section 94A contributions has been slower than originally anticipated. This has necessitated a review of the current years section 94A funded projects and has also influenced the number of projects incorporated into the draft 2007/2008 capital budget. A total of some \$644k in projects has been incorporated. Further projects have been identified for endorsement should additional contributions be received over the course of the year.

The draft capital budget anticipates our successful application for a special variation and provides for a combined Environmental and Infrastructure program funded by a special levy and Council's \$1.4m contribution. Also, as noted earlier in the report the budget provides for a separation of stormwater drainage projects to be funded by the introduction of a stormwater management charge.

Loan Repayment Funding

The annual repayments of a \$6.525m loan funding the streetscapes improvements projects total \$940k per annum. It needs to be noted that not all of this amount will be required in year 1, 2007/2008, depending on the timing of the drawdown(s) on the loan allocation. It will be required in years 2 onwards.

A long term funding strategy in this regard was reported to the Committee in November 2006. It comprised:

	<b>\$'000</b>
New revenue streams from commercial arrangements	500
Current annual capital budget allocations to streetscapes not required as a result of the improvement works	300
Section 94A contributions	150
	<b>950</b>

The new revenue streams are forecast to come online from 2009/2010. The \$300k capital allocation has largely been freed up in the preliminary draft budget. As it stands, the capital funding available is \$4.318m while the preliminary draft capital budget requires \$4.113, leaving \$205k currently unallocated. In regard to section 94A contributions, as the time lag is overcome, this allocation will be enabled.

In the short term the new revenue streams and section 94A contributions need to be covered from an alternate funding source. The recommended funding of the repayments for 2007/2008 is summarised below. Any amount not expended on loan repayments will be retained in reserve for future years' repayments.

	<b>\$'000</b>
Unallocated capital funding	205
WWPP Cash distribution	250
Interest on Cosmopolitan Centre commercial arrangements	421
	<b>876</b>

This level of available funding will be sufficient to cover the year 1 loan repayment requirements.

In 2008/2009 we may still be in transition to the full loan repayments, not having drawn down the full \$6.525m. There is the possibility of providing a further allocation of interest to loan repayments required in this year while from 2009/2010 the funding strategy outlined above should have come into effect.

Receiving the capital proceeds raises the possibility of an internal loan. Given that our forecast return on investments is greater than the current indicative borrowing rate for local government and, more importantly, that it is more than likely that Council will require the funds well within the 10 year loan term, this possibility has not been pursued further.

**Conclusion:**

A preliminary draft operating budget has been prepared which, at this stage, almost meets the policy position of increasing the level of capital funding by the anticipated rate increase. While this is the case there are some significant costs that need to be incorporated into the operating budget in regard to loan repayments for the streetscapes improvements program. At the same time there are substantial investment returns that also require incorporation.

The report discusses some options in regard to funding the loan repayments. These include a review of the operating budget. To facilitate this, a comprehensive Internal Working document has been prepared and circulated with this report. This document provides an indication of the impacts of phasing down and / or phasing up the various services provided from the operating budget.

The preferred method of funding the loan repayments required in 2007/2008 is to apply the interest earnings from the Cosmopolitan Centre capital payment (\$421k), the one off cash distribution from the WWPP (\$250k) and currently unallocated capital funding (\$205k). It is unlikely that the full amount of this allocation will be required in 2007/2008. Any unexpended amount would be reserved for future years' repayments.

The report also addresses the possibility of increasing Council's special variation application to re-incorporate a provision for wharves, jetties and baths into the Environmental & Infrastructure Works Program. Such an increase could provide an additional \$2.5m over 5 years and be an alternative source of funds for the Watsons Bay baths project. This has also been recommended.

At this stage it is proposed that a Draft 2007/2008 Budget be brought back to the Corporate & Works Committee at its next meeting taking, into consideration the recommendations arising from this report.

Michelle Phair  
Team Leader Financial Services

Don Johnston  
Manager Finance

Geoff Clarke  
Director Corporate Services

Gary James  
General Manager

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**Annexures:**

1. Operating Expenditure Analysis

**ANNEXURE 1**

**OPERATING EXPENDITURE ANALYSIS**

	<b>06/07 Original Budget</b>	<b>07/08 Draft Budget</b>	<b>% Increase</b>
Operating Expenditure (excluding Depreciation)	44,321,849	46,451,018	4.8%
Less Increased Expenditure:			
General Consultants Infrastructure Asset Management - offset by grant funding		-181,000	
Graffiti Removal Program - Council resolution		-130,000	
Fuel - impact of fuel prices		-100,000	
Street Lighting Charges - IPART decision		-83,000	
Fire Brigade Contribution - set by State Government		-82,000	
Infringement Processing Charges - offset by increased fines income		-54,000	
Advertising - Development Control new site sign requirements		-48,000	
General Contracts Recycling - funded by Domestic Waste Management charge		-37,000	
Stores Issue Domestic Waste - funded by Domestic Waste Management charge		-36,000	
File Retrieval - offset by File Retrieval charges		-34,000	
	44,321,849	45,666,018	3.0%
Add Reductions in Project Based Expenditure:			
Social Plan Update		25,000	
Double Bay Business Strategy		50,000	
Traffic Projects		19,000	
	44,321,849	45,760,018	3.2%
Less Increased Employee Costs			
Salaries & Wages / Superannuation / ELE		-693,953	
Workers Compensation Premium & State Cover Levy - funded from Insurance Reserve		-93,000	
	44,321,849	44,973,065	1.5%