

General Manager's Report

General Manager's No: 1
Subject: 2007/2008 DRAFT BUDGET
Author: Gary James, General Manager
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File No: 331G 2007/2008
Reason for Report: To respond to the recommendation from the Strategic & Corporate Committee meeting on 16 April 2007

Recommendation:

1. That a Draft 2007/2008 Budget be prepared incorporating:
 - \$466,680 for loan repayments associated with the streetscapes improvements program;
 - \$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;
 - \$68,113 reserved in the 2006/2007 budget be allocated to fund the 2007/2008 Holdsworth Street Community Centre operational funding subsidy and, consequently, \$68,113 be reserved for future loan repayments;
 - \$70,000 additional interest on investments and, consequently, \$70,000 be reserved for future loan repayments; and
 - \$11,180 from the reserve for future loan repayments to fund 2007/2008 loan repayments
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 subject to the Watsons Bay Baths reconstruction project being included in Council's Environmental and Infrastructure Renewal Program.
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 Watsons Bay Baths reconstruction project be submitted to the Assets Working Party meeting to be held on 8 May 2007 for consideration.
5. That the savings options identified by Directors, together with the Internal Budget Working Documents, be referred to a working party meeting with a view to identifying \$411,000 in savings to take effect in the 2008/2009 budget

Committee of the Whole:

Council may wish to move into Committee of the Whole to discuss this item. If that is the case, the following procedural motion will need to be moved:

That Council resolve into a Committee of the Whole to discuss the 2007/2008 Budget.

At the conclusion of the discussion in Committee of the Whole a procedural motion will need to be passed to resolve back into full Council.

Background:

A preliminary draft 2007/2008 budget was considered by the Strategic & Corporate Committee on 16 April 2007. The recommendation from that Committee to Council is:

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*
 - *no allocation of interest earned from the Cosmopolitan Centre commercial arrangements*
 - *the General Manager to prepare a report on options to fund an amount equal to the interest earned from the Cosmopolitan Centre commercial arrangements from the Operating Budget.*
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 subject to the Watsons Bay Baths reconstruction project being included in Council's Environmental and Infrastructure Renewal Program.*
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 Watsons Bay Baths reconstruction project be submitted to the Assets Working Party meeting to be held on 8 May 2007 for consideration.*

This report responds to dot point 3 of part 1 of the recommendation by providing a list of services, projects and activities that Council may wish to review. The report is set out in the following format:

- Options to cut \$421,000 from the operating budget
- Funding loan repayments in 2007/2008
 - Strategic and Corporate Committee proposal for funding
 - Holdsworth Street Community Centre changes
 - Interest on investments changes
 - Woollahra Seniors centre funding request
 - Timing of drawdown of loan repayments
 - Revised loan funding proposal
- Funding Loan Repayments – 2008/2009
- Conclusion

Options to cut \$421,000 from the Operating Budget

The recommendation from the Strategic & Corporate Committee requires the identification of cuts in the operating budget equivalent to the amount of interest earned from the Cosmopolitan centre payment, that is \$421,000.

The proposal to allocate this interest to loan repayments was part of an interim funding solution to the year 2009/2010. The cuts identified below are generally recurrent in nature. If these cuts are made, consideration will need to be given to whether the cut will be restored to the budget in 2009/2010 as the longer term funding strategy comes into effect. It also needs to be noted that some of the cuts carry with them potential redundancies to deliver the budget cut.

Each of the Directors has provided a list of operating budget cuts for consideration by Council with a view to cutting \$421,000 from the budget.

The list provides a reference to the internal budget Working Documents. This will provide access to the consequences of the potential cut in the operating budget.

Cut	Amount of Cut	Reference – Internal Working Papers
Technical Services		
Reduce administration staff (1 FTE) to maintain basic records and administration tasks but reduce support correspondence and website support	\$55,000	Page 3
Defer completion of reviews currently underway of Woollahra Municipality Resident Parking Scheme and Traffic & Transport Strategy.	\$35,000	Page 11
Reduce bush regeneration team by one quarter (2 FTE) to continue maintenance but effectively cease primary clearing.	\$108,000	Page 74
Defer negotiation of proposed collective agreement in Parks and Street Trees with productivity payments for additional tasks and reduced absenteeism.	\$55,700	Pages 58,70,74
Corporate Services		
Delete external consulting assistance for organisational improvement projects for General Manager	\$30,000	Page 103
Delete Body & Soul program for staff	\$12,000	Page 107
Forego membership of Local Government and Shires Associations	\$28,000	Page 112
Forego membership of SSROC	\$23,000	Page 113
Forego membership of Sydney Coastal Councils	\$12,000	Page 113
Delete conference expenses for Councillors	\$11,400	Page 113
Delete course and seminar expenses for Councillors	\$2,500	Page 114
Reduce staff in Records (0.4 FTE)	\$21,600	Page 121
Reduce external assistance for maintenance of accounting system	\$16,000	Page 126
Reduce corporate training for staff	\$20,000	Page 132
Decommission old computer servers taking historic data off line	\$20,000	Page 136

Cut	Amount of Cut	Reference – Internal Working Papers
Don't renew software maintenance agreements	\$61,000	Page 136
Reduce Woollahra News to once per 2 months in lieu of once per month	\$18,000	Page 149
Planning & Development		
Reduce administrative support in Planning & Development (2 positions)	\$75,000	Page 151
Not increase staff in Strategic Planning by one position as currently budgeted	\$75,500	Page 155
Reduce one Urban Design Planner position	\$85,000	Page 161
Reduce Assessment Officers by 1 position in Development Control	\$70,000	Page 164
Community Services		
Discontinue Community Grants Program	\$50,000	Page 183
Youth activities discontinued, including Youth Week, Parenting workshops	\$8,500	Page 188
Close Watsons Bay Library (includes 0.3 FTE staff)	\$28,600	Page 194
Discontinue cultural activities and events	\$42,300	Page 194
	\$964,100	

In some areas a 10% phase is not practical. Instead, if cuts are to be delivered, holistic changes are required. As an alternative to cherry picking from the diverse list of cuts above the following wholesale service cuts could be considered.

Activity	Cut
Reduce Civil Works roads, footpaths, kerb and gutter maintenance staff from two proactive (area) teams to one proactive team, retain response team to continue response to customer requests, pot-hole repairs and pit cleaning, but reduced scheduled road and footpath maintenance (5 FTE)	\$400,000
Reduce Depot & Waste Services street cleaning staff by one quarter, retain sufficient staff to continue clean-up services, litter bin services and daily business centre cleaning but less frequent residential street cleaning (4 FTE)	\$390,000
Reduce Parks & Street Trees trees maintenance from one proactive team and one response team to response team only, to continue response to customer requests, but reduced scheduled tree maintenance (4 FTE)	\$350,000
Terminate graffiti removal service contract to return to removal of graffiti on Council properties only	\$130,000

Activity	Cut
Discontinue services to Seniors. Includes:	\$151,000
• Activities – healthy ageing, bus trips etc	\$51,500
• Services – referral service, centre based meals (3.3 FTE)	\$99,500

I do not recommend any of the cuts set out in the two tables above. All of the cuts listed above share the same priority as the remainder of the budget and should not be considered in isolation from the whole budget.

Funding Loan Repayments – 2007/2008

1. Strategic & Corporate Committee proposal for funding

The 2007/2008 preliminary draft budget includes a \$6.525m streetscapes improvements program funded from loans. The loan repayments for a loan of this size, over 10 years, are \$940,000 per annum. In the report to the Strategic & Corporate Committee it was noted that the full program of works would probably not be delivered in 2007/2008 and that the actual loan repayments required for 2007/2008 would be determined by the timing of the loan drawdowns over the course of the year.

The funding proposal submitted to the Strategic & Corporate Committee on 16 April 2007 included:

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

The Committee resolved not to allocate the \$421,000 in interest to fund loan repayments.

Since the Strategic & Corporate Committee meeting three further items have arisen and we have reviewed in detail the drawdown of loan repayments:

2. Holdsworth Street Community Centre changes

At the Corporate & Works Committee meeting last week, a recommendation was made to this Council meeting regarding the allocation of \$99,113 of unspent operational funding provided to the Holdsworth Street Community Centre in 2005/2006. It was recommended, in part:

- B. That Council reserve \$88,113 of unspent operational funding provided to Holdsworth Community Centre in 2005/2006 to the operational budget for 2007/2008 and allocate \$11,000 of unspent funding to priority access works at the facility in 2007.*
- E. Providing the cost is less than \$20,000 that a portion of the unspent funds be used for the provision of a downstairs toilet*

The effect of this recommendation is to provide at least \$68,113 of reserve funding for the 2007/2008 operating budget. This will be allocated to partly fund the 2007/2008 operational funding subsidy for the Holdsworth Street Community Centre. In turn, this will free up \$68,113 in the operating budget. It is recommended that these funds be reserved for loan repayments.

3. Interest on Investments changes

It has also become apparent that two major projects will not be completed in 2006/2007. These projects are the Rose Bay Promenade and Fiveways, Paddington. Between them, these projects have about \$4m set aside for them. The current forecast of interest on investments in the 2007/2008 draft budget assumes that these projects were going to be substantially completed by 30 June this year. Having this additional funding in the investment base for the first part of the new financial year will increase interest earnings. This is now anticipated to add some \$70,000 to interest on investments although this will vary depending on how the Fiveways project progresses. It is recommended that these funds be reserved for loan repayments.

4. Woollahra Seniors Centre request for funding

Council has received a funding request from Woollahra Seniors Centre for \$99,000 in 2007/08, \$34,000 above the subsidy provided in previous years. The additional \$34,000 has not been included in the draft budget, consistent with the constraints on the operating budget and acknowledging that there may be alternative funding sources available.

Taking these into account, the funding now available in 2007/2008 for loan repayments is:

	\$'000
Unallocated capital funding	205
WWPP Cash distribution	250
Funds freed up from:	
HSCC operational subsidy	68
Interest on investments	70
	593

5. Timing of drawdown on loan repayments

To include an estimate for loan repayments in the 2007/2008 budget, a more detailed review and forecast of drawdown requirements has been made.

	Drawdown	07/08 Repayments
	\$'000	\$'000
November 2007	3,355	322
February 2008	2,220	133
June 2008	950	12
	<hr/> 6,525	<hr/> 467

6. Revised loan funding proposal

The revised forecast loan repayments in 2007/2008 are \$467,000. The funding available in 2007/2008 is now \$593,000 which would leave \$126,000 in reserve for loan repayments in 2008/2009.

This funding proposal provides an opportunity for Council to defer its consideration of the service cuts identified above. Instead, Council could refer the listed cuts, together with the Internal Budget Working Documents, to a working party meeting(s) with a view to identifying agreed cuts that can take effect in the 2008/2009 budget. This is the recommended approach.

Funding Loan Repayments – 2008/2009

The full \$940,000 in loan repayments will be made in 2008/2009.

From the 2007/2008 funding sources we can reasonably anticipate the continuation of having unallocated capital funding that would have previously be allocated to streetscapes projects. However, the WWPP cash distribution is a one off for 2007/2008.

Further funding will be available from the reserve for loan repayments if the recommended approach is adopted. In addition to the reserve funding it is anticipated that an ongoing revenue stream of \$200,000 will become available from the Cosmopolitan Centre on the basis that the car parking is scheduled for completion in June 2008. This revenue stream forms part of the longer term funding model already identified.

On this basis the funding available for 2008/2009 loan repayments is anticipated to be:

	\$'000
Unallocated capital funding	205
Car parking revenue	200
Loan Repayments Reserve	126
Shortfall in funding	409
	940

We would need to find \$409,000 in the 2008/2009 budget to fund the full \$940,000 in loan repayments. This is a similar amount to that identified in the Strategic & Corporate Committee's recommendation to Council tonight.

Rather than trying to deal with a round of cuts in the context of the 2007/2008 budget, there is an opportunity for us to work through not only the items identified by Directors above, but the rest of the Internal Budget Working Documents over the next 12 months with a view to having a plan in place for the 2008/2009 budget.

Conclusion:

To meet the terms of the recommendation of the Strategic & Corporate Committee the Directors have provided a list of service cuts from the Internal Budget Working Papers Document totalling \$1m for Council's consideration. The report also identifies holistic service level changes to the budget where a 10% phase down is not practical.

The report notes the funding available for loan repayments in 2007/2008 as submitted to the Strategic & Corporate Committee and that the Committee has recommended that a \$421,000 interest allocation not be made. Since this consideration, three matters have arisen. These matters free up \$138,113 in the budget, comprising, \$68,113 from the Holdsworth Street Centre operational subsidy and \$70,000 from additional interest on investments. It is recommended that the freed up funds be reserved for loan repayments.

Building on the information provided in earlier reports, this report quantifies the loan repayment requirements for both the 2007/2008 and 2008/2009 budgets in transition to the longer term funding model that has already been reported to Council which should come fully into effect in 2009/2010.

Loan repayments for 2007/2008 have been estimated to be \$467,000. The recommended funding for these repayments is:

	\$'000
Unallocated capital funding	205
WWPP Cash distribution	250
Loan Repayments Reserve	12
	467

This recommendation would defer the need to identify cuts in the operating budget for 2007/2008.

In 2008/2009 the full \$940,000 in loan repayments will be required. If the recommended approach is adopted the following funding is anticipated to be available in 2008/2009 to fund these repayments:

	\$'000
Unallocated capital funding	205
Car parking revenue	200
Loan Repayments Reserve	126
Shortfall in funding	409
	940

We would need to find \$409,000 in the 2008/2009 budget to fund the full \$940,000 in loan repayments.

Rather than consider cuts in the context of the 2007/2008 budget there is the opportunity to refer the cuts listed by Directors, and indeed the whole Internal Budget Working Papers Document, for consideration at a future working party meeting(s) with a view to identifying cuts to take effect in the 2008/2009 budget.

The allocation of resources in the annual budget, and the inherent reaffirmation of services and service levels is obviously an important decision for the Council. In recent years we have been improving efficiency and productivity and have been able to continue existing services and service levels. The preliminary draft operating budget is at such a level that further reduction can no longer be continued without specific policy decisions from the Council.

This report recommends a course of action that will provide Council with an opportunity to fully consider its services and service levels outside the current budget process and, therefore, without the associated time constraint. It is my strong preference to undertake this review in a working party

forum over the next 12 months and fully explore what will no doubt be a diversity of opinions amongst Councillors.

Don Johnston
Manager Finance

Gary James
General Manager

Annexures:

Nil.