



ANNUAL BUDGET GUIDELINES & SETTINGS

- COUNCILLORS



Annual Budgets are the financial mechanism used to confirm the allocation of resources required to deliver Council's Annual Operational Plan: the annual instalment of Council's 4-year Delivery Program.



as at December 2018

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Penrith City Council Annual Budget Guidelines

Introduction

Each year, Council is required to prepare a budget for the upcoming financial year as part of the development of the Operational Plan. Annual Budgets are the financial mechanism used to confirm the allocation of resources required to deliver Council's annual Operational Plan: the annual instalment of Council's 4-year Delivery Program.

Statutory Requirements

In January 2010 a new Integrated Planning and Reporting framework (as a set of Guidelines) was introduced. The Framework was developed as part of the Local Government Reform Program and included changes to the Local Government Act 1993 to improve Councils' long-term community, financial, and asset planning. These reforms replaced the former Management Plan, Social Plan and Annual Reporting requirements with an integrated framework, consisting of a hierarchy of documents including a long-term Community Strategic Plan, a four-year Delivery Program, an annual Operational Plan and a long term Resourcing Strategy (which includes a long-term financial plan, a workforce management plan and an asset management plan for Council).

Supporting the Delivery Program is the annual Operational Plan which details the individual service activities that will be undertaken each year to achieve the commitments made in Council's Delivery Program in response to the Community Strategic Plan. The Annual Budget is a crucial component of the Operational Plan.

In developing the Annual Budget, Council is required to comply with two important pieces of legislation, that is, the Local Government Act 1993 and the Local Government (General) Regulation 2005.

Section 405, Local Government Act 1993 details the following requirements for the Operational Plan:

- A Council must have a plan (its "Operational Plan") that is adopted before the beginning of each year and details the activities to be engaged in by the Council during the year as part of the Delivery Program covering that year.
- An Operational Plan must include a statement of the Council's revenue policy for the year covered by the Operational Plan. The Statement of Revenue Policy must include the Statements and particulars required by the regulations.
- A Council must prepare a draft Operational Plan and give public notice of the draft indicating that submissions may be made to the Council at any time during the period (not less than 28 days) that the draft is to be on public exhibition. The Council must publicly exhibit the draft Operational Plan in accordance with the notice.
- During the period of public exhibition, the Council must have for inspection at its office (and at such other places as it may determine) a map that shows those parts of its area to which each category and sub-category of the ordinary rate and each special rate included in the draft Operational Plan applies.
- In deciding on the final Operational Plan to be adopted, a Council must consider any submissions that have been made concerning the draft plan.
- The Council must post a copy of its Operational Plan on the Council's website within 28 days after the Plan is adopted.

As part of the Operational Plan, Clause 201 of the LG Regulation states that a statement of Council's Revenue Policy be produced each year including:

- Estimated income and expenditure
- Ordinary rates and special rates
- Proposed fees and charges
- Council's proposed pricing methodology
- Proposed borrowings.

The statement with respect to an ordinary or special rate proposed to be levied must include:

- the ad valorem amount (the amount in the dollar) of the rate,
- whether the rate is to have a base amount and, if so:
 - the amount in dollars of the base amount; and
 - the percentage, in conformity with section 500 of the Act, of the total amount payable by the levying of the rate, or, in the case of the rate, the rate for the category or sub-category concerned of the ordinary rate, that the levying of the base amount will produce.
- the estimated yield of the rate,
- in the case of a special rate—the purpose for which the rate is to be levied,
- the categories or sub-categories of land in respect of which the Council proposes to levy the rate.

The statement with respect to each proposed fee and charge must include:

- the amount or rate per unit of the charge,
- the differing amounts for the charge, if relevant,
- the minimum amount or amounts of the charge, if relevant,
- the estimated yield of the charge.

Clause 203 of the LG Regulation goes on to state that the budget review statements and a revision of estimates must be reported to Council within two months after the end of each quarter (except the June quarter).

Furthermore, Section 416, Local Government Act 1993 requires that Council's financial reports for a year must be prepared and audited within the period of 4 months after the end of that year.

Financial Principles and Performance Objectives

Generally, Council's Financial Management objectives are based on the following principles:

- Monitoring a long term financial strategy to assist in planning decisions
- A consistent approach to managing Council's financial performance to preserve a sound financial position
- Incorporate planning for future year commitments, liabilities and contingencies
- Establish appropriate asset replacement and renewal programs for both community and operational assets
- Establish an equitable pricing policy to support the various community services undertaken by Council
- Optimise and efficiently utilise loans in meeting Council's service requirements.

These objectives are managed within the following parameters noted below:

- Working Capital balance greater than \$2m
- Unrestricted Current Ratio (adjusted for internal loans) greater than 1.25:1
- Unrestricted available cash greater than \$0
- Debt Service Ratio greater than 2 times

These objectives are aimed at ensuring that the Annual Budget process incorporates agreed parameters, and when developing Council's Annual Budget these financial targets are to be considered. The parameters are used to guide Council's decision-making processes, in terms of expansion and investment, while managing existing recurrent costs.

Annual Budget Process

Introduction

Council's established practice has been to use the current year's budget as a base for the following year's budget, after removing non-recurrent projects, and taking into consideration the decisions of Council during the year that have an impact on the new budget. According to established practice, the initial or 'base budget' provided to Council and the organisation by Financial Services will include:

- Necessary provisions for the staff establishment, statutory and external commitments, with any identified adjustments
- Existing services assumed to remain at present levels
- Provisions, such as works programs and project funding, which reflect previous Council funding decisions and policy settings (for example, to continue or increase funding for the roads or footpath programs etc).

In accordance with Council policy the initial budget is prepared each year on the basis of continuing existing service levels. Changes requested by Managers are reviewed to determine if the item is a required cost change or a service level change. Service level changes require a resource allocation request (RAR) and specific endorsement by Council. Further information on the RAR process may be found later in this document. Cost changes, such as Local Government Cost Index (LGCI) increases, or award increases associated with delivering the same program, form part of the base.

Annual Budget Preparation

In preparing Council's Annual Budget all existing obligations/liabilities are accounted for prior to allocating Council's General Revenue for other planned purposes.

As a guideline when preparing the Annual Budget, the following process is followed:

1. Non-discretionary costs and charges will be estimated based on historical and predicted trends, and management and external advice.
2. Employee costs will be estimated based on estimated award increase and approved full-time equivalent (FTE) staff numbers. Continuation of the same extent of service provision will form the base to which Council directives for increased or amended service will be added, in order to determine costs.
3. Funding which has a particular purpose, such as grants or s7.11 contributions, will be directed towards that purpose.
4. Established replacement and renewal programs will be continued in accordance with the relevant Council resolutions.
5. All Special Rate Variation funded initiatives will be reported including detailed programs for each element as part of the draft budget development process.

6. Rating will be estimated based on approved SRV and including a component for estimated growth. Other general revenues will be estimated based on historical and predicted trends and management advice.
7. Fees will be calculated in accordance with existing principles, which link each individual fee to a particular pricing mechanism. Income will be estimated from the fee.
8. A first Draft Budget is developed which then forms the starting point for Council to determine its budget.
9. Further analysis and discussion of any unallocated revenue will take place to consider potential new requirements from Council's strategy, Resource Allocation Requests (RAR), major projects, organisation resourcing, debt management, Council reserves and available funds.

Annual Operational Plan Timetable

Date	Action or Requirement
November – February	<ul style="list-style-type: none"> • Draft Operational Plan and Annual Budget preparation
March	1st Council Operational Plan Workshop: <ul style="list-style-type: none"> • Confirmation that the initial Draft Plan and Budget reflects Council's program and policy directions
April	2nd Council Operational Plan Workshop: <ul style="list-style-type: none"> • Follow up from Council's directions given at the first Workshop • RAR bids considered • Revised draft of Operational Plan and determination of priorities
May/June	Draft Operational Plan to Council <ul style="list-style-type: none"> • 28 Day exhibition period follows
June	Final Operational Plan to Council for adoption <ul style="list-style-type: none"> • All submissions reviewed with responses provided to Council.



Operating Budgets

In preparing Council's Operational Budgets, the following general principles are applied:

Non-Discretionary Costs

1. Loan Repayments

In accordance with terms and conditions of each loan agreement, all repayments (principal and interest) are to be accounted for as per repayment schedules agreed to by Council in prior borrowing programs. While repayments for current existing loans are known, possible changes to interest rates will have an impact on future loans and need to be considered as part of the budget preparation. Having fallen gradually since 2009, interest rates have been at record low levels for some time now resulting in substantial budget savings for the 2018-19 annual borrowing program. It is anticipated that the 2019-20 program will also be negotiated at favourably low rates as interest rates are expected to move only marginally, if at all, during 2019-20. As there are over \$2m of existing loans due for renewal between June 2019 and June 2020, there will be an opportunity for renegotiation at substantially lower rates than when the loans were originally drawn down.

Some loans are funded from sources outside of the general fund budget, including loans funded by the Property Development Reserve, Developer Contributions and other sources.

In addition, the NSW Government committed funding in 2012, 2013 and 2014 to assist Councils meet the cost of borrowing to fund renewal of existing assets. The Local Infrastructure Renewal Scheme (LIRS) provided Councils with a subsidy in interest costs to increase the affordability of loans to fund relevant projects. In each of the three years, Council was successful with its applications, receiving a subsidy for the interest costs associated with its 2012 and 2013 Asset Renewal Established Areas Strategy (AREAS) loans, the \$4.2m City Centres Renewal and Improvement Program (CCRIP) loan, and the \$5.7m loan to fund the \$7m accelerated CBD Drainage Program. The total of the interest-only subsidies to be received over the life of the 10 year loans is over \$2m.

2. Electricity Supply (General and Street Lighting)

There are 2 main streams of electricity supply:

2.1. Buildings:

- 2.1.1. Major Sites (generally > 100 MWh p.a.) - Electricity for Council's major sites is provided by Origin Energy. 10% of electricity provided to Council by Origin is green power and is subject to a separate contract. Both contracts for electricity were arranged through a Local Government Procurement (LGP) tender. The contracts originally expired on 31st December 2018.

Due to the amount of changes in the electricity market and uncertainty in energy policy Local Government Procurement has negotiated the extension on the current contract to 31st December 2019. This brings into alignment all electricity contract end dates.

The forecasted change in electricity rates is large and for the second half of 2018/19 is a 120% increase across all rates. The impact will be approximately 98% increase in final charges across the organisation. The increase in rates is indicative of the complexity of the market and the reason for LGP to hold moving into a formalised 3-year contract until rates are more favourable.

- 2.1.2. Minor Sites - The current contract is with Origin Energy was arranged via LGP and this contract will expire on 31 December 2019. 10% of electricity provided to Council by Origin is green power and is subject to a separate contract. The minor sites contract includes a fixed discount of 26%, however this only covers the charges for electricity and not network charges.

Within the contract there are set rate increases and taking these into account along with expected network charges price increases. It is expected there will be a 7% increase in 2018-19. Given the changes to large sites it will be expected a similar increase will occur for minor sites in the 2019-20 budget.

2.2. Street Lighting:

There are 2 main components of street lighting costs:

- 2.2.1. Supply of Electricity (ERM Power Retail) – The current contract provider for street lighting power is ERM Power Retail. The contract originally expired on the 31st December 2018 and was tendered under Local Government Procurement. As per the same reasons for the major and minor sites electricity, an extension on the contract was granted to 31 December 2019.

On 1 January 2019 there will be a price increase of approximately 53%. This is due to the rapidly changing commodity market and the original contract was negotiated over three years ago, many changes in rates have occurred since then. These rates are reflective of the current market and have a heavy discount applied due to being under an LGP contract with multiple Councils.

The contract extension rates for all types of electricity are reflective of the current market. It should be noted the LGP contracts are an aggregate of over 40 Councils to achieve these bulk rates and are the most cost effective option for Council at this point.

- 2.2.2. Asset maintenance service charges (currently Endeavour Energy) – The Asset Maintenance and Service Charges represents the largest component of street lighting expenditure accounting for approximately 48% of costs. These charges are not subject to competition and are not contestable and therefore they are not limited in price increases by existing contracts. At this stage the rates have not changed and will not have any detrimental impact to the 2018-19 budget. Maintenance service charges will be reviewed in July 2019 by Endeavour Energy and it is expected that these will fall due to the lower maintenance requirements of LED Street Lighting technology. However, this is not until July 2019 and so will not have an impact until the 2019-20 budget.

3. Telephone and Data

There are 3 main service streams to consider as part of the budget development process and guidance is provided each year by ICT when setting budgets for these costs:

A contract was entered into with Telstra for Fixed Line and Mobile Phones and also Internet Services in 2015, this has been extended for another year until October 2019. It is not expected that there will be any increases in costs for these services with the following exception. There will be increases in the cost of mobile data usage with the introduction of mobility services such as Field Services Management.

4. Insurance

Each year premium estimates are provided by the Risk & Audit Team for the following items:

- Property (ISR)
- Motor Vehicle & Plant (MV)
- Public Liability and Professional Indemnity (PL/PI)
- Councillors, Directors & Officers (CD&O)
- Crime & Fidelity Guarantee (FID)

As a member of CivicRisk Mutual and CivicRisk West, the premium estimates are based on actuary calculations of previous year's claims experience, asset portfolios, rates and waste income and operating expenditure. The premiums are funded by the Insurance Reserve and similarly any savings are returned to this Reserve.

Salaries & Wages

The salaries and wages budget is calculated using the approved organisational staff structure and includes estimates for overtime, allowances and casual staff costs. An assumption is included in the salaries and wages calculation that staff will take four weeks' annual leave per year. If a staff member takes less than the assumed four weeks then the budget will be overspent, and if they take more than four weeks it will be underspent. Generally annual leave costs will balance out overall across the organisation.

As part of the salaries and wages budget process managers are required to allocate staff time to the services within their departments.

1. Award Increase

A new Local Government (State) award commenced 1 July 2017 which outlines wage movements for local government employees over the following three years. The provisions of this award include the following:

- 2.35% increase with a minimum payment of \$20.40 per week from 1 July 2017
- 2.5% increase with a minimum payment of \$21.80 per week from 1 July 2018
- 2.5% increase with a minimum payment of \$22.30 per week from 1 July 2019

These increases will be factored into calculations for employee costs in the development of Annual Budgets and the Long Term Financial Plan.

2. Salary System

Council's salary system provides staff with the opportunity to advance through the system via a skills and knowledge and performance based assessment. As with the current year, a provision of 1.8% will be made for 2019-20 to allow for staff to progress through the salary system. The employee cost budget continues to allow for Council's Employee Performance Planning and Review system, which provides the potential for employees to receive a 1% bonus based on performance.

3. Employee On-costs

An on-cost rate representing the associated costs of employing and maintaining the necessary provisions is added to the base calculation of 48.2 weeks' salary (365 days / 7 less 4 weeks' annual leave).

This on-costed 48.2-week salary budget appears in Departmental budgets under employee costs and is proportionally allocated to services as advised by Managers during the budget process. The on-cost rates are available for the next financial year in February each year.

As an indication for 2019-20 the employee on-cost rates for 2018-19 are as follows:

On-Cost component	Indoor Staff	Outdoor Staff
Superannuation	12.35%	13.74%
Workers Compensation	1.41%	1.61%
ELE Provision:		
▪ Annual Leave	8.33%	9.52%
▪ LSL	2.71%	3.10%
▪ Gratuity	0.39%	0.44%
▪ Untaken Sick Leave	4.17%	2.38%
▪ Maternity Leave	0.44%	
Sick Leave Taken		4.76%
Public Holidays		4.76%
Training		1.43%
Other non-charged time		2.38%
Outdoor Allowances		0.84%
Clothing & Safety Equipment		0.84%
Wet Weather Allowance		0.95%
On-Cost Rate	29.80%	46.75%

4. Resignation and Retirement

Council's ELE reserve is used to provide a buffer for resignation and retirement payments each year. The number of staff who may leave Council during a given year is difficult to predict, so the budget each year includes funding for average levels of retirements and separations. A detailed review of retirement and resignation predictions is carried out as part of developing the draft budget to ensure that the Reserve contains adequate funding.

Council policy is to maintain an amount of at least 20%, averaged over three years, of leave entitlements (excluding annual leave) in the Employee Leave Entitlements (ELE) Reserve. The balance of the ELE Reserve as at 30 June 2018 was 21.3% (\$5.7m) of entitlements. Council has endorsed that all salary savings identified throughout 2018-19 will be maintained in the provision for the payment of leave entitlements and remaining funds at year end will be transferred to the ELE Reserve.

5. Superannuation

The minimum level of superannuation for employees who are not members of the Local Government Superannuation Scheme (LGSS) Defined Benefit Scheme (DBS) will be 9.5% of wages in 2019-20. The next increase in the planned phased increases to the Superannuation Guarantee Levy is in 2021-22 when the levy will increase to 10%, eventually increasing to 12% by 2025-26.

Council currently has 69 employees covered by the DBS which requires members to contribute a percentage of their salary to superannuation. This percentage is reviewed and varied by employees on an annual basis. Council's contribution is calculated based on the percentages nominated by employees. An increase in the percentages nominated by employees will result in an increase in superannuation costs for Council.

The DBS remains negatively impacted from the Global Financial Crisis (GFC). Council has been required to make increased contributions to the fund to make up for the deficits and liabilities of the fund as a result of the GFC. LGSS have since revised the methodology for calculation of the additional contribution, which is no longer only based on the individual contributions of employees but also includes a flat annual contribution. The amount will be reviewed on an annual basis, with amended figures applying from 1 July each year. It is expected that this additional contribution will be required for the next couple of years.

6. Workers Compensation

Claims history has a significant impact on Worker's Compensation costs. In recent years Council has implemented a program of OH&S and Injury Management (OHSIM) that reduced workplace injury through proactive injury management.

The volatility of the premiums under the traditional Workers Compensation Model was one of the reasons that Council endorsed a move to the "Burning Cost" model for Workers Compensation insurance commencing in 2010-11. Under the "Burning Cost" model only actual claims costs form part of the premium calculation.

Participation in WorkCover's Burning Cost Scheme provides additional incentive and reward for improvements in safety and injury management as it delivers significant monetary savings if current claims history is maintained or improved. The Workers Compensation Reserve is currently estimated to have a closing balance of \$3.4m as at 30 June 2019.

Indexation

The Local Government Cost Index (LGCI) is a measure of movements in the unit costs incurred by NSW Councils for ordinary activities funded from general rate revenue. The LGCI is designed to measure how much the price of a fixed 'basket' of inputs acquired by Councils in a given period compares with the price of the same set of inputs in the base period. The LGCI is calculated by IPART and is usually discounted for a productivity factor. The LGCI was announced as 2.7% for 2019-20 with no discounting for a productivity factor.

The LGCI does not directly measure Councils' total level costs. It is a composite index that combines changes in a number of input price indexes over time. The LGCI is similar to the Consumer Price Index (CPI) in this respect. The CPI does not measure household costs directly, but measures changes in prices of various goods and services over time.

There are a number of Council services which have the LGCI or other indexation applied as part of the budgeting process either through Council decisions or as a result of the service specification process. The LGCI and other indexation will be reviewed annually.

1. Indexation applied to:

- Annual subsidies for the Penrith Cricket Club and Nepean District Cricket Club, , and PPVA
- Materials budgets for City Presentation, City Assets, and Facilities (Including Roads & Drainage, Plant, Depot, Building Operations, Public Toilets, and Street Sweeping)
- Unit rates as listed below under “Other Indexation” for Public Domain Maintenance to be increased by LGCI as per PRC Meeting Service Specifications report 16 Oct 2006
- Unit rates listed below under “Other Indexation” for Drainage Maintenance to be increased by LGCI as per PRC Meeting Service Specifications report 14 Aug 2006
- Road Resealing/Resheeting – included in this project is an annual amount increased by LGCI that is funded from the Waste Reserve and is used to provide funds for the maintenance of roads due to their usage by waste collection services
- Corporate Training
- Civic Events
- International Links project
- Councillor expenses (telephone, mobile phone, and stationery) and Council Catering
- Contributions to Authorities (increased by CPI or indexation advised)
- Transfers to PST & Election Reserves
- Urgent Traffic Facilities and Traffic and Transport Facilities program (CPI with first year 2012-13).
- SRV Funding of Park and Building asset renewal programs, City Centre improvement program and AREAS programs.

2. Other indexation

Maintenance and Operations of new buildings is indexed at 2.5% of construction cost, and then LGCI is applied annually in future years.

- Maintenance and Operations for new civic works assets:
 - Road pavement maintenance - \$2,434.21 per km p.a.
 - Kerb & Gutter maintenance - \$334.61 per km p.a.
 - Path paving and cycleway maintenance - \$360.68 per km p.a.
 - Signage maintenance - \$43.88 per sign p.a.
 - Linemarking - \$560.89 per km p.a.
 - Guardrail maintenance - \$27.43 per km p.a.
 - Street Furniture - \$41.14 per item p.a.
 - Street Lighting Charges - \$3,247.13 per km p.a.
 - Street Sweeping - \$836.55 per km p.a.
 - Litter Patrol - \$726.84 per km p.a.
 - Bus Shelters - \$4,566.72 per site p.a.
 - Skate Parks - \$24,890.70 per site p.a.
 - Car Parks - \$6,575.81 per site p.a.
 - Drainage pits and headwalls - \$24.41 each
 - Gross Pollutant Traps - \$3,730.18 each
 - Pipeline - \$174.16 per km
 - Pit Litter baskets - \$157.71 each

- Maintenance of new parks:
 - \$0.76 per m² of broad open space
 - \$1.78 per m² of Pocket and Local Parks
 - \$2.74 per m² of Playing Fields
 - \$3.34 per m² of Wetlands
 - \$4,936.73 per playground
 - \$0.12 per m² Road mowing
 - \$0.21 per m² Landscaping

Replacement & Renewal Programs

Council currently has a number of continuing multi-year programs in place. These programs include:

- Routine plant and vehicle replacement
- Buildings asset renewal (partly SRV funded)
- Roads program (partly SRV funded)
- Drainage program
- Shared Pathways program
- Computer replacement program
- Library Resources
- Public domain maintenance (partly SRV funded)
- Established areas revitalisation (SRV funded)
- Parks Asset Renewal Program
- Public Amenity Replacement Program (10 years)
- Stormwater Management Service Charge programs
- City Centre Renewal and Improvement

Capital Budgets

- S7.11 projects
- Recurrent capital projects
- ICT Infrastructure projects
- Grant/Reserve/Contribution Funded projects
- Council approved project allocation of general revenue

Specific Purpose Funding

Development Contributions (Section 7.11)

Council receives development contributions through section 7.11 of the EP&A Act (previously known as *section 94*) and Voluntary Planning Agreements (VPAs), in order to provide new infrastructure to meet the needs of additional development. Council currently has 10 active Contributions Plans applying across the City and has entered into 13 VPAs with developers for the delivery of local infrastructure.

Council has little control over when the income is received under each Contributions Plan, as this is linked to the rate at which development occurs. Council may only spend the accumulated contributions on the amenities and services specified within the relevant Contributions Plan and in accordance with the delivery timeframes identified.

NSW Government directions on Contributions planning

In late 2016, the NSW Department of Planning and Environment (DP&E) exhibited a draft Practice Note, draft Planning Circular and draft Ministerial Direction to assist parties in the preparation of Planning Agreements, support certainty in the planning system and improve the transparency of the process.

The draft Practice Note has still not been brought into effect and the existing Planning Agreement guidelines have not changed.

Should the Practice Note be implemented as exhibited, Council will be required to prepare a VPA Policy. This will achieve greater transparency, consistency, efficiency and certainty for Council, the community and developers, and enable Council to better respond to the increasing number and complexity of VPA's received.

It is not anticipated that these changes will affect Council's ability to fund or expend infrastructure contributions, but bring greater transparency to how they are negotiated.

Review of Council's Development Contributions Framework

It is timely our Contributions Plans are reviewed to ensure infrastructure is aligned with expected growth. The purpose of the review is to:

- Implement a best practice system
- Ensure streamlined and transparent processes
- Provide innovative solutions
- Deliver the required infrastructure for growth

It is anticipated that Council may implement a new or revised Development Contributions framework and potentially include alternative approaches, although this will not affect current Contributions Plans and Council's ability to collect contributions under these Plans, until the new framework is in place.

Anticipated income

Continued high levels of residential development will result in increased income under existing Contributions Plans will permit further repayment of the Cultural Facilities, WELL Precinct Contributions Plans and Local and District Open Space Contributions Plans.

Local infrastructure will continue to be delivered through VPAs for areas such as Glenmore Park, Sydney Science Park and Jordan Springs/Central Precinct. Works funded under the VPAs include parks, traffic and transport facilities, drainage and community centres. With the high levels of new development occurring in the City, it is also likely that proposals for new VPAs will arise, particularly for any large scale residential development.

All new VPAs are reported to Council for consideration.

2016-17 Special Rate Variation (including Renewal of Areas)

In 2015 Penrith was deemed 'Fit for the Future' by IPART providing an independent validation of the strategies currently in place and also the strategies proposed for the future. Council's submission to IPART included the 2016-17 Special Rate Variation (SRV) and the continuation of AREAS. This SRV is one important element of a broader suite of Council strategies and actions, many which have commenced implementation including reform of our financial structures and

commitment to the continuous pursuit of productivity. The approach being taken is considered measured and complements the other management initiatives that reduce overheads. The SRV will ensure we can provide the necessary infrastructure, continue to maintain our assets and services in line with our community's expectations and growth of the City.

The 2016-17 SRV of 9.09% in 2016-17, 5.0% in 2017-18, 5.2% in 2018-19 and 5.4% in 2019-20 (incorporating the renewal of AREAS) includes allocations for the following strategies:

1. Asset management, renewal and backlog
2. Realignment of service costs
3. Increased investment to drive productivity initiatives
4. Major Projects and Regional City infrastructure
5. Building capacity to respond to emerging priorities

The rate increases and programs of works to be funded from the 2016-17 SRV are shown in the table below:

	2016-17	2017-18	2018-19	2019-20	Ongoing
Requested increase	9.09%	5.00%	5.20%	5.40%	LGCI
Renewal of Areas					
Public Domain	\$1,223,150	\$1,252,506	\$1,282,566	\$1,313,347	\$1,344,868
Graffiti Removal	\$263,650	\$269,978	\$276,457	\$283,092	\$289,886
Urban Design	\$177,053	\$181,302	\$185,654	\$190,109	\$194,672
Neighbourhood Renewal	\$566,347	\$579,939	\$593,858	\$608,110	\$622,705
Building Renewal	\$680,534	\$696,867	\$713,592	\$730,718	\$748,255
Road Resealing/Resheeting	\$1,688,835	\$1,729,367	\$1,770,872	\$1,813,373	\$1,856,894
	\$4,599,569	\$4,709,959	\$4,822,998	\$4,938,750	\$5,057,280
Additional SRV					
Building Asset Renewal			\$4,000,000	\$4,000,000	\$4,000,000
Replace PDR contribution to BAR	\$650,000	\$650,000	\$650,000	\$650,000	\$650,000
Impact of s7.11 changes - loan servicing		\$361,000	\$361,000	\$991,000	\$991,000
Subsidised Rental (funding)	\$737,200	\$737,200	\$737,200	\$737,200	\$737,200
Funeral Parlour Loan	\$384,000	\$384,000	\$384,000	\$384,000	\$384,000
Parking Reserve	\$815,000	\$815,000	\$815,000	\$815,000	\$815,000
Increase to ICT base	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
Major Projects Reserve			\$1,500,000	\$1,500,000	\$1,500,000
Design cost Allowance	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
RAR bids (once off)	\$450,000	\$450,000	\$450,000	\$450,000	\$450,000
RAR bids (ongoing staff)		\$106,000	\$218,000	\$337,000	\$463,000
Operational Savings	-\$1,000,000	-\$1,000,000	-\$1,000,000	-\$1,000,000	-\$1,000,000
Multi Deck Car park - Loan		\$1,530,900	\$2,568,000	\$2,568,000	\$2,568,000
Budget Surplus					\$500,000
	\$2,436,200	\$4,434,100	\$11,083,200	\$11,832,200	\$12,458,200
Total Increased Budget	\$7,035,769	\$9,144,059	\$15,906,198	\$16,770,950	\$17,515,480
<i>NB: Property Development Dividend \$1.8m from 2021-22</i>					

Stormwater Management Service Charge

In July 2012 Council replaced stormwater funding from an expiring Special Rate Variation, with a new annual charge for urban properties. The introduction of a Stormwater Management Service Charge (SMSC) ensures that programs are provided to deliver a wide range of stormwater management initiatives essential to the health of the catchment and responding to community expectations.

Whilst the maximum charge for urban businesses is capped by legislation at \$25.00 per 350 square metres of land area, Council's levy for businesses is presently set at \$22.80 per 350 square metres. When it was introduced, the SMSC contributed by business properties was capped to match the level of revenue paid by businesses for the stormwater components prior to the Special Rate Variation expiring.

The charge for urban residential properties is set at the maximum amount of \$12.50 for residential strata properties and \$25.00 for no-strata residential properties.

Rural properties and vacant properties are exempt from the SMSC. Pensioners are given a rebate equal to the SMSC, so are effectively exempt also.

The table below shows the number of properties subject to the proposed annual SMSC, and an estimate of the revenue to be generated.

2019-20 Estimated Stormwater Management Service Charge Revenue

Stormwater Category	Annual Charge	No. of Properties	2019-20 Total Revenue
Urban Residential			
Residential	\$25.00	44,528	\$1,113,000
Residential (Strata)	\$12.50	11,193	\$140,000
Residential (Pensioner)	\$25.00*	8,100	-
Residential (Strata - Pensioner)	\$12.50*	1,100	-
Urban Business			
Business	\$22.80 plus an additional \$22.80 for each 350 square metres or part of 350 square metres by which the area of parcel of land exceeds 350 square metres	3,055	\$822,000
Total Revenue			\$2,075,000

*Council's Policy has provided a 100% rebate for eligible pensioners.

Fees & Charges

General Policy

Under section 405(2) of the LGA Council is required to include in its Operational Plan a statement of Council's Revenue Policy. Council's Fees & Charges document complies with this requirement, listing each fee and related pricing structure for each of Council's services.

The pricing structures currently used are:

Pricing Structure	Pricing Application
Direct Cost Recovery Pricing *	Includes the recovery of salary, salary on-costs, and materials directly attributable to the provision of the good or service.
Full Cost Recovery Pricing *	Includes all costs, direct and indirect, incurred in providing the good or service. Indirect costs include a proportion of shared costs (or overheads) which include supply and information technology; the recording and processing of financial information, correspondence, payroll, and personnel data; together with professional management of these systems and costs associated with providing shared buildings and equipment.
External Cost	Price is determined by external parties carrying out the relevant works.
Subsidised (Partial Cost) Pricing	Council only recovers a portion of costs. New services, services located in areas of need within the City, and services from which benefits accrue to the City's community as a whole, are often subsidised. Services described as Community Service Obligations are included.
Rate of Return Pricing	Prices are set to recover an excess over costs that may then be directed to capital improvements/development of similar facilities.
Reference Pricing	Involves the identification of like or similar services in the community followed by the adoption of similar prices to those charged by such services.
Statutory Pricing	Prices are set to comply with statutory legislation.
* Costs are generally recovered through charging methods such as flat fee, period of use, time of use or frequency of use.	

As part of the Annual Budget process managers review their Department's fees and charges and where required recommend revised fee amounts, new fees or the removal of existing fees, for their services. This review process may involve applying an appropriate index or may extend to a full costing or community benefit exercise. The extent of the review is determined by the degree of change that has occurred over the previous year. Where services remain unchanged the fee applicable will normally increase a small amount to reflect the impact of inflation (or wage rises) on the cost of providing the service. For services that are subsidised the level of subsidy will remain to ensure that the original intent adopted by Council is maintained.

The following factors are to be considered by Managers in the setting of proposed fees and charges:

- Cost of the service or operation
- Other revenue sources which may fund the service
- Laws and Regulations
- Ability of the persons/group using the service to pay
- Benefit to the community (possible subsidy)
- Benchmarking with others providing similar services.

Annual reviews of fees and charges may be as simple as applying an appropriate index, or may extend to a full costing or community benefit exercise.

Council may also choose to retain fees and charges at the same level, taking into account such issues as social factors, community benefit, ability of the user to pay, and the comparative fees charged by others (benchmarking).

Rating Revenue

From 2011-12 onwards the responsibility for determining and announcing the rate peg has been transferred from the Minister for Local Government to IPART. Under this new regime IPART developed a Local Government Cost Index (LGCI). This index, less a productivity coefficient, now forms the annual rate peg announced in December each year for the following financial year. Council may decide how this total is shared between business, residential, and farmland sectors. IPART announced the 2019-20 Rate peg as 2.7% on 11 September 2018. However Penrith City Council has an approved four year Special Rate Variation from 2016-17 to 2019-20 and so the rate increase in 2019-20 will be 5.4% irrespective of the rate peg.

Council currently applies a rate structure in which rate assessments are based on property valuations (ad valorem) with a minimum amount. This means that rates are based on the land value of the property as determined by the NSW Valuer-General. Every three years Council receives updated valuations for all properties in the Local Government Area with the most recent valuation taking effect for rating purposes on 1 July 2016.

Council charges rates on three types of land categories:

- a. Residential
- b. Farmland
- c. Business – with the following sub-categories
 - i. Penrith CBD
 - ii. St Mary's Town Centre

Basically, the maximum rate revenue is calculated by:

- a. Taking last year's revenue and adding an inflation adjustment announced by IPART (previously by the Minister);
- b. Adding rates on new properties created by subdivision, and on new strata-titles.

Council's current rating structure is based on a capacity to pay principle using the land value as a means to determine individual rates. However, due to sharp increases in rates for rural property owners as a result of the special revaluation for the now deferred Fire & Emergency Services Levy, the rate structure is presently being reviewed to see if any rating structures are available to deliver more equitable rates for our rural areas. A previous review in 2017-18 did not identify a more equitable structure than the current, however Council resolved to conduct another review in 2018-19 to see if there were any further alternatives for the rates structure in 2019-20.

Review of Local Government Rating System

Following Destination 2036, the NSW Government appointed a four-person taskforce to review the Local Government Act 1993 and the City of Sydney Act 1988. The taskforce looked at ways to modernise the legislation, to ensure that it would meet the future needs of Councils and communities. The Taskforce completed its work in late 2013 and its final report and recommendations were exhibited for public comment in early 2014.

The NSW Government delivered its response to the recommendations of the Independent Panel and Acts Taskforce in September 2014, with the launch of the Fit for the Future package. One of the recommendations of the Panel was to review the Local Government rating system. In December 2015 the NSW Government directed the Independent Pricing and Regulatory Tribunal (IPART) to review the rating legislation component of the NSW Local Government Act 1993. In April 2016 IPART released an Issues Paper in relation to the review and called for submissions from Councils and other stakeholders. Penrith City Council submitted a response to the Issues Paper in May 2016.

On 22 August 2016 IPART released their draft report to the NSW Government outlining their recommendations for changing the rating legislation. The report addressed some of the main concerns raised by Council, particularly in relation to recommending the removal of some rate exemptions and removing Council subsidised pensioner concessions. Penrith City Council made a submission on the due date of 14 October 2016 after presenting to Council at the Policy Review Committee meeting on 10 May 2016.

IPART have indicated that rates per household would not increase, on average, in real terms as a result of their recommendations. Proposed changes appear to have addressed the major concerns of most Councils, particularly around the ability to capture income growth from new strata developments, the removal of the requirement for Councils to subsidise pensioner rebates (as is the case in all other states), and the expanding of the rates base by removing some exemptions from rates.

A final report to the Minister for Local Government was delivered by IPART in December 2016, however no further timeframe has been provided as to when, if any, of the recommended changes will be implemented.

Fire & Emergency Service Levy (FESL)

Local governments across NSW were to be involved in the Fire & Emergency Services Levy (FESL) to fund the community's fire and emergency services from 1 July 2017 to bring NSW in line with all other mainland States. Local Councils were to collect the levy across all ratepayers in their area via the Rates Notices and then forward the funds on to the State Government.

The FESL was deferred in May 2017, before its planned introduction in July 2017. The deferment was announced by the NSW Premier, and was done due to final modelling by the State Government showing that business owners would suffer higher increases than expected, so the Levy was deferred indefinitely.

In July 2017, the NSW Government announced a NSW Legislative Council inquiry into the FESL and called for submissions from stakeholders to be submitted by 26 November 2017. A public enquiry was held in August 2018 but no time-frame has been released as to when any findings of the Inquiry will be released or if/when the NSW Government will act on any recommendations of the Inquiry. As such it would appear unlikely that the FESL will be introduced in 2019-20.

Domestic Waste Charge

Residential properties, including vacant land, in the Penrith City Council area are required to be charged for the provision of a domestic waste management service under the Local Government Act 1993. Council provides a sustainable domestic waste service to maximise potential for

diversion of waste from landfill that results in high value resource recovery. All residents benefit from this service program as it minimises the State Waste Levy which targets landfill disposal.

Landfilled waste carries a State Levy, which increases by CPI each year. The 2018-19 levy is \$141.20 per tonne. In Penrith City, Waste Levy impacts are significantly lower than other Councils due to the Food and Garden Organics Resource Recovery Program. Services are provided to all residential properties including those with difficult and restricted access.

On 25 October 2018, Councils received notification of a change in regulation for application of Mixed Waste Organic Output (MWOO) Material from the EPA. This change means that the product generated from a Mixed Waste Processing Facility, is no longer able to be applied to land as a soil amendment. As such, MWOO is required to be landfilled.

The impact of this change is less great on Penrith Council in comparison to other Councils due to the Food Organics and Garden Organics (FOGO) collection and composting service and with the expansion of the FOGO to all single unit dwellings across the City on 1 July 2019, this impact is lessened again. EPA representatives have met with Council and collected information on how Penrith will be impacted and will develop a support package for affected stakeholders.

Council is currently negotiating a Refund Sharing Agreement with Visy Recycling for a share in the value of eligible containers collected in the kerbside recycling service. These negotiations are continuing to progress at the time of writing this report. In parallel, Council is in negotiations for a short term contract for processing of recyclables.

Council adopted a Waste Avoidance and Resource Recovery Strategy (WARR Strategy) in September 2017 which builds on Council's previous vision and successes, and reflects community consultation and waste audit results.

The WARR Strategy provides direction for the preparation of tenders for new contracts. The Strategy provides for the collection and processing of a variety of waste streams with each stream being sent to an appropriate recycling, composting, and processing facility, with only residuals being sent to landfill.

Contracts for domestic waste collection and domestic waste processing and disposal expire in July 2019. Council resolved to take up the Collection Services tender by Suez, Parts A, (waste C(food and garden organics) and D(clean up) of the Processing and Disposal tenders and negotiate Part B (Recycling Processing) and Part E (Effluent Collection and Processing) at the Ordinary Meeting of 25 June 2018.

A communications and engagement plan is being developed to support residents. The 2019-20 budget will be a transition into the new 10 year contract period and will include a variety of new components which were not included in the contract including customer service resources, education and communications and contamination management functions.

Current services include a 3-bin waste collection service for organics, recyclables and residual waste in the urban areas of the City and a 2-bin recycling and residual waste collection service to non-urban properties and properties with multi-unit dwellings. The new contract will see the 3-bin waste collection service extend to all single-unit dwelling properties and some properties that can operate in a similar manner. All multi-unit dwellings which cannot accommodate a 3-bin service will be transitioned to a collect and return service. Preparations have already commenced for both service transitions with the Senior Waste Planning Officer and Resource Recovery Field Team engaging with affected property owners, residents and Strata with some properties having already taken up the new services.

To accommodate the diversity in households across the community, there will continue to be flexibility in service. However, in line with the Strategy and Council's direction, the number of options will be limited to 5 main services to reduce confusion. For those residents who do not wish to participate in resource recovery, the full cost of their service is charged so as not to penalise the Penrith community who are contributing to sustainable practice.

The Domestic Waste function is required to be self-funding. All waste charges are calculated to cover the cost of domestic waste collection services, landfill, waste processing costs, education, communications, provision for future planning and new technologies and all other associated services. A proportion of the waste levy paid by Council is returned annually via the Waste Less Recycle More Initiative non-contestable funds (provided that Council satisfies the criteria set by the State Government).

Non-Domestic Waste

Council's new waste contracts will cover all Council Managed Waste including:

- Effluent (for properties without access to sewer)
- Public Space (encompassing street litter bins and parks bins)
- Civic Services (for Council owned and affiliated properties)
- Commercial Services

An annual charge (subsidised) for effluent removal services applies to each residential occupancy with a single or shared pump out septic tank system. An annual charge (subsidised) for a fortnightly collection service may apply to single residential occupancies on separate parcels of land subject to Council's Guidelines for Effluent Removal Services. Additional pump-out services are subject to an additional charge. There are currently 31 residential properties provided with effluent removal services.

As there are now no residential properties in the sewered area provided with an effluent removal service, there will not be a differential charge in the 2019-20 Fees & Charges for those properties that have access to sewerage compared to properties where the service is not provided.

The charge to residents using Council's sullage removal service was previously subsidised by the domestic waste management charge paid by all residential ratepayers. Due to a change to the Local Government Act Council was unable to continue this practice from 2004-05. A special rate variation of 1.32% was applied for and received to subsidise the cost of this service for those households not having access to sewerage services.

Each year funding for the sullage services is increased by the IPART rate increase, however as more households connect to the sewer the subsidy required will decrease. From 2007-08 it was agreed that Council would retain the current special rate variation and apply any surplus funds to environmental projects throughout the City with these funds to be retained in the Environment/Sullage Reserve. The draft 2019-20 budget includes funding of \$823,292 for a number of previously General Revenue funded projects from this Reserve where the projects have been identified as having an environmental basis.

Projects proposed to be funded from Reserve in the draft 2019-20 budget at this time are:

- Urgent Tree Removal- \$110,000
- Support of Bushcare Groups - \$30,000
- Waterways Maintenance - \$15,000
- Biodiversity Operational Budget - \$20,000
- Urban Drainage Maintenance/Embellishment - \$400,000
- Weekend Litter Removal - \$33,784
- On-Site Sewer Management - \$141,508
- RID Squad Contribution - \$73,000

Statutory Fees and Charges

Certain fees charged by Council are subject to direction through regulations and other State Government controls. Information from the various controlling authorities is requested as part of the Annual Budget process.

Interest on Investments

Council's portfolio is expected to average \$160m during 2019-20. Funds held in the portfolio will continue to be invested in the optimum mix of fixed and floating rate securities. Council's portfolio contains investments issued by banks comprising a mix of fixed and floating rates, tailored to meet Council's cash flow needs and comply with Council's prudent Investment Policy.

At this time the target rate of return on the portfolio is 2.25%. The conservative target reflects the trend of the Official Cash Rate which is currently at the record low level of 1.5% and is not expected to rise in the near future. Returns on short term bank deposits are averaging 2.6%, but overall the portfolio has continued to outperform the Bank Bill Swap Rate (BBSW) benchmark due to longer term deposits and Floating Rate Notes that return a good margin over the BBSW.

Borrowings

Council's borrowings are monitored by the Office of Local Government (OLG). Council advises the OLG of its Borrowing Program on an annual basis and Council's proposed borrowing program for 2019 is included in the 2018-19 Budget. In past years loans were obtained from various financial institutions and secured by a charge on Council's income, however June 2018 borrowings for new infrastructure were financed through the NSW Treasury Corporation Loan Facility. Council qualified for access to the Facility in 2016 by being assessed as Fit for the Future.

Council's revised Borrowing Strategy included reducing the annual Infrastructure Borrowing Program from \$3.2m to \$2.2m in 2015-16 and reduced thereafter to nil by 2020-21, it should be noted Council has achieved this goal with nil borrowings required from 2018-19, two years ahead of schedule. New borrowings for major infrastructure projects must be supported by a comprehensive business case. The annual borrowing program also includes the refinancing of existing loans due for renewal.

Council's debt service costs continue to be partly offset by interest subsidies from the NSW Local Infrastructure Renewal Scheme (LIRS). Council was successful in its applications for all 3 years of the LIRS between 2012 and 2014 and receives two subsidies for Asset Renewal Established Areas Strategy (AREAS) and one for each of the City Centres Renewal and Improvement Program and the CBD Drainage Program.

Financial Assistance Grant

A significant part of Council's annual revenue (\$10.98m, 4% in 2018-19 and \$10.87m in 2017-18) is derived from the Financial Assistance Grant. Local Government financial assistance grants are general purpose grants that are paid to local Councils under the provisions of the Commonwealth Local Government (Financial Assistance) Act 1995.

The grant to be received in 2018-19 consists of two components: (1) a General component (\$8.57m) and (2) a Roads component (\$2.41m). The calculation of the grant is an extremely complex exercise and Council has no control over many of the factors. In addition, each year an adjustment is required for the previous year's grants that takes into account variations in the actual CPI and population shares compared to the estimates used to determine that year's grants.

As part of the 2019-20 Annual Budget process, indexation of 2.0% has been applied to the previous year's actual grant, with the change to the roads component amount being reflected in the roads budget.

Reserves (funding)

An integral part of Council's financial capacity is the administration of funds held for specific purposes. Council holds these funds in reserves and differentiates them into External & Internal Restrictions. Each year as part of the Operational Plan development a review is undertaken of Reserves and their balances to determine the availability of funding opportunities.

External Restrictions

External Restrictions accounts have been established to control specific receipts and payments made by Council. These funds are tied in nature and carry specific conditions of use, which are managed throughout the budget process.

A summary of the major external restriction accounts are:

- **Unexpended Grants & Contributions:** Council receives various Grants and Contributions each year which are for specific purposes. The majority of these Grants and Contributions have conditions attached to their use. These reserves are individually monitored in Finance.
- **Section 7.11 Development Contributions:** Proceeds from Section 7.11 Development Contributions and applicable accrued interest is held in reserve and utilised in accordance with Council's Section 7.11 Plans.
- **Environmental/Sullage Reserve:** To maintain the subsidy relating to 2004-05 special rate rise an amount is transferred each year to the Sullage Reserve and inflated by the annual rate rise. It was determined that Council would retain the current special rate variation and re-direct any savings held in this reserve towards environmental enhancement projects across the city. Each year the Reserve is reviewed as part of the Operational Plan process to determine the capacity to fund projects that have identified environmental benefits and are in line with Council's strategic priorities.
- **Waste Reserve:** In accordance with the Local Government Act, Council is required to levy a Domestic Waste Management Charge to offset the reasonable cost of providing a waste service for the community. Part of the charge may include a provision for future asset replacement and tip rehabilitation works which is to be maintained in the reserve.

From time to time, there are other specific one-off funds received by Council, which are restricted until they are fully utilised.

Internal Restrictions

Internal Restrictions are aimed at supporting a self-funding strategy concept whereby agreed funds are transferred into each reserve and utilised for a specific purpose.

Council has established a number of reserves to ensure that funding is made available to meet Council's short-term and long-term liabilities, asset replacement programs and other agreed self-funding strategies.

The following are some of Council's internal restrictions:

- **Employee Leave Entitlements:** Council's ELE reserve is used to provide for unusual changes in termination payments each year. The number of staff who might leave is difficult to predict, and the budget each year includes funding for average levels of retirements. A detailed review of retirement and termination predictions is carried out as part of developing the draft budget, to ensure that the Reserve contains adequate funding. Council policy is to maintain an amount of at least 20%, averaged over three years, of leave entitlements (excluding annual leave) in the Employee Leave Entitlements (ELE) Reserve. The balance of the ELE Reserve as at 30 June 2018 was 21.3% (\$5.7m) of entitlements.

- **Major Projects Reserve:** Council's Long-Term Financial Plan (LTFP) identified the need to establish a Major Projects Reserve to support investment in major Regional City Infrastructure as our City grows. This Reserve will provide capacity for Council to deliver or contribute towards the delivery of the infrastructure our City needs into the future and could include multi-deck carparks, community facilities, open space improvements, and sporting facilities.
- **Productivity Initiatives – Revolving Fund Reserve:** Council's continued commitment to productivity improvements and savings has been a key element that underpins the Financial Capacity Review and will help to deliver the aspirations for the City alongside the 2016-17 SRV. Investment in innovative technologies and systems will be key to achieving these productivity savings in the long term. An initial allocation of funds into the reserve in 2015-16 has ensured there is capacity to fund initiatives as they come forward with a view that the savings will repay the upfront investment to the reserve before then any further savings being returned to General Revenue.
- **Productivity Initiatives Reserve:** The financial strategies developed over the past two years rely not just on the 2016-17 SRV, but also on reform within the organisation's processes, systems, procedures, culture and structure. Reform in these areas has already commenced and will continue over the next few years. The organisation aims to match the funds from the 2016-17 SRV with savings from better ways of doing things, harnessing technology improvements, implementing new systems and reviewing service delivery. These savings will provide the capacity to continue to service our growing city ensuring the SRV funds are directed towards city shaping and future-proofing priorities.
- **Insurance Reserve:** Funds from this reserve may be applied to projects relating to the prudent management of Council's assets and risk management strategies. In addition, any savings on annual insurance premiums are transferred to this reserve to provide funding for possible future premium increases.
- **Revotes:** In accordance with Part 9 of the Local Government (General) Regulation (2005), all votes lapse at the end of each financial year, except for votes which relate to works, services, and/or facilities started or contracted to be provided. For such projects not completed as at 30 June of each year, the unspent budgeted funds are to be restricted and released as and when required in finalising the program/project.
- **Election:** Council Elections are conducted once every four years with the most recent election in September 2016. An estimated amount equivalent to one quarter of the expected cost is annually restricted and indexed each year then utilised in the year of the election. Funds are allocated annually to the reserve with estimates based on the actual cost of previous elections and any expected increase in costs.
- **Section 377 Committees:** Council currently has 14 Committees established whereby net proceeds/disbursements for each year are transferred to/from reserves with the balance available for future use.
- **Voted Works:** Council policy is that an amount of \$53,000 is allocated to each of the three Wards each year. These funds are normally applied to particular purposes of an urgent nature, in one or more of the Wards, by resolution of the Council. Voted Works also provides an opportunity to allow discretionary funding for the community and for items that arise unexpectedly during the year. It is Council policy that any unexpended amounts in Voted Works are carried over to the following year with the balance accumulating. The Voted Works reserves have a current budgeted closing balance for 2018-19 of \$654,324.
- **Plant & Motor Vehicle Replacement Reserves:** Funds from this reserve ensure that Council plant and vehicles are replaced at optimum intervals without making any additional demands on the budget. This adequacy of this Reserve is reviewed annually as part of the Budget development process.

- **Property Development Reserve:** Property development has been an important part of Council's financial strategy for many years. Funds received from property development activities are transferred to the Property Development Reserve. Property Development activities include:
 - The acquisition, development and disposal of properties to achieve a profitable return that ensures a consistent supply of funding for Council's use. Properties that are surplus to current requirements can be sold, contributing to Council's financial capacity.
 - Compulsory acquisition of private land to assist the implementation of planning schemes, including purchases for road widening, open space, drainage, car parking, neighbourhood centres and children's centres.
 - Acquisition of private property, while discretionary, when necessary to facilitate or encourage development. Council property developments can influence the form of future city developments.
- **Grant Funded Projects:** The reserve was established in 2003 to provide funds for grant applications where matching funding is required and is unable to be provided from within existing program budgets. Funds are allocated annually to the reserve and are restricted and utilised for programs or projects which satisfy both Council's and grant funding criteria.
- **Sustainability Revolving Fund:** The Sustainability Revolving Fund was established in 2003 as a complementary source of funding to support organisational projects and initiatives that foster sustainability across the quadruple bottom line, and the trialling and testing of innovative and new technologies. The Revolving Fund is a forward funding financial reserve. The balance of the reserve is maintained through payback of cost savings generated from sponsored projects to provide financial support for future sustainability initiatives.
- **ICT Reserve:** This Reserve (previously the Corporate Procedures & Systems Reserve) was established in 1997-98. The reserve's annual allocation is essentially the notional savings from the cancellation of annual leases for the then mainframe computer and PCs. From the 2012-13 budget the allocation to the reserve has been increased by CPI to recognise the additional costs associated with the maintenance of current corporate systems and computer infrastructure upgrades.
- **Car Parking/ Traffic Facilities:** Allocation of surplus revenue after all costs, including overheads, is reserved for future expenditure and/or directed to new or improved car parking infrastructure, traffic facilities in the CBD's and other initiatives that produce economic benefits to these centres.
- **Cemetery:** The net result of the Cemetery Operations, including employee costs, is transferred to/from the Cemetery Reserve at year end resulting in the cemetery operations being self-funded within the reserve. Funds held in the Cemetery Reserve are available for Cemetery Improvement Projects.

Entities Budgets

Council's Annual Budget incorporates budgets from its controlled entities with the impact on Council's surplus being the amount that each entity is subsidised.

The 2018-19 budget includes the following subsidies:

- Penrith Aquatic and Leisure Ltd – total of \$1.055m (2017-18 - \$1,055m)
- Penrith Performing and Visual Arts - total of \$2.127m (2017-18 - \$1.638m)
- Penrith Whitewater Stadium – Nil (2017-18- Nil)

Resource Allocation Process for 2019-20

The Resource Allocation Request (RAR) process was established to enable Service and Executive Managers to identify potential additional projects or resource needs that would be necessary to secure effective service delivery. These requests would need to be directly linked to an identified change in the work required to be undertaken by a service or supported by an identified improvement in service delivery to warrant consideration.

Each year a significant amount of General Revenue funding is applied to projects already committed by Council through established programs, policy decisions and funding to support grants and contributions. While much of this is in some sense 'tied' funding, there is nevertheless a significant ongoing commitment by Council to projects and programs which are, in effect, discretionary. As such, it is of course open to the Council to reassess these priorities at any time.

The RAR process focusses on the four year forecasted demand for the service and the established priorities of the 2017-21 Delivery Program. Requests should address opportunities to undertake priority work, highlight where the delivery of service is at risk due to changing workload, highlight long-term grant funded projects where funding may be reduced due to policy change or an opportunity to deliver more on a focus Community outcome.

The development of the SRV has incorporated an annual RAR budget of \$450,000 for once off funding for projects and an ongoing staff resource allocation of \$110,000. Not all requests are able to be met within any given period, those that are not approved are tracked and will be considered in future budget reviews if sufficient financial capacity is created.

Managers should identify any concerns around future service delivery based on current performance, anticipated impacts on future performance (growth in demand, loss of grant funding etc.) or opportunities which are unable to be accommodated within existing resources and discuss possible resource needs with their Executive Manager. Resource bids should be prepared with the assistance of the Corporate Planning team and the appropriate Human Resources Business Partner (HRBP) and Finance representative, and signed off by the Executive Manager.

All completed RAR will be considered by the Productivity Panel before being referred to the CFO. The Panel will be made up of the Managers of ICT, Workforce & Organisational Development, Financial Services, and Innovative Performance. The Panel will meet 2-4 times a year depending on the volume of requests. The role of the Panel is to vet the request to ensure that all elements of resource planning have been considered. Managers may attend the Panel meeting if they would like to. All validated requests will be referred to the CFO and remain on a list for future funding opportunities. This list will be reviewed and prioritised each quarter.

Annual Budget Documents

A summary of the Budget-related documents included in Council's Annual Operational Plan include:

- Budget, Revenue Policy and Commentary
- Funding Summary
- Financial Information (services)
- Reserve Movements
- Capital & Operating Projects
- Budgeted Statement of Financial Position
- Long Term Financial Plan & Assumptions (included in the Resource Strategy 2017-21 which is updated every 4 years, and reviewed annually as part of the Operational Plan process)

Long Term Financial Plan

As part of the Council Resourcing Strategy each Council must prepare a Long Term Financial Plan (LTFP) for a minimum of ten years which is to be updated at least annually as part of the development of the Annual Budget. The aim of the LTFP is to ensure that Council identifies financial issues at an early stage and reviews their effect on future activities. The LTFP must be reviewed in detail as part of the four yearly review of the Community Strategic Plan. The LTFP process involves four main elements:

- Planning Assumptions
- Revenue Forecasts
- Expenditure Forecasts
- Sensitivity Analysis.

The LTFP provides a key tool for the development and monitoring of Council's Financial Strategy. The LTFP outlines Council's capacity to manage assets and deliver services over the next ten years. Council has a responsibility to manage its resources and finances to ensure its long term sustainability. Recent actions by Council, including the 2016-17 SRV, has positioned the LTFP to demonstrate that Council has the capacity to manage its finances and deliver the services and programs identified in the Community Strategic Plan and Delivery Program.

Council's LTFP is based on a set of assumptions which generally relate to those elements that are most likely to affect the overall outcome of the model. Future years' forecasts are linked to the Operational Plan and provide a means of assessing the long-term financial implication of current year decisions. Assumptions made in the plan includes long term forecasts of:

- Rating Revenue
- Development Growth
- Investment Return
- Financial Assistance Grant
- Employee costs
- CPI or other agreed indexations
- Capital works and services programs
- Anticipated Loan programs
- Fees and Charges movements
- Changes identified through ongoing improvement and review of services

It is important to keep in mind when projecting budgets over such a long period that estimates can alter significantly when assumptions are reviewed, particularly when the variances apply to larger items such as employee costs or rating income. However, the LTFP remains an important planning tool and is regularly updated with current data to ensure its usefulness in providing information for Council's financial planning decisions.

Financial Capacity Review and Productivity Initiatives

The Financial Capacity Review facilitated an opportunity for management and the Finance and Economic Opportunities Working Party to develop and recommend a range of strategies and initiatives to structurally reform our budget and position ourselves for continued long term financial sustainability as a Regional City. It highlighted the challenge Council faces in achieving its aspirations, and meeting the community's expectations, if it continues to uphold the financial status quo. The continued reform of financial structures and the pursuit of productivity represent an integral step in delivering those aspirations.

In October 2015 Penrith was deemed *Fit for the Future* by IPART, providing an independent validation of Council's current and future strategies and a clear endorsement of the Financial Capacity Review. Our submission to IPART included a four year Special Rate Variation (SRV) commencing in 2016-17, including the continuation of Asset Renewal Established Areas Strategy (AREAS) SRV.

The 2016-17 SRV was not considered in isolation, but rather as one of a number of strategies that will work together to deliver the desired changes to our financial environment and meet the expectations of our Community. Although the SRV will be used to fund asset renewal and maintenance, address set backlogs, realign existing services, improve service levels and facilitate major projects it is not the only funding source. Initiatives will also be funded through productivity savings, growth in own source revenue, and rationalisation of assets, with the aim to achieve annual savings of \$10m by the 2019-20 budget.

The financial strategies developed over the past few years rely not just on the 2016-17 SRV, but also on reform within the organisation's processes, systems, procedures, culture, and structure. Council has targeted to match the funds from the 2016-17 SRV with savings from better ways of doing things, harnessing technology improvements, implementing new systems and reviewing service delivery. These savings will provide the capacity to continue to service our growing city ensuring the SRV funds are directed towards city shaping and future-proofing priorities.

Implementation of productivity initiatives to achieve these savings commenced in 2016-17, with the identified savings transferred to a new Reserve to provide funding to assist in the reform of Council's processes, systems, procedures, culture, and structure.

The development of the draft 2019-20 budget will incorporate annual savings already identified in prior years and will continue to focus on identifying areas where further productivity savings can be achieved.

IDENTIFIED SAVINGS SINCE 2016-17

	Achieved \$'000			Target \$'000
	2016-17	2017-18	2018-19	2019-20 Target
Included in SRV	883	905	927	951
Borrowings	25	54	120	276
Initiatives	2,427	4,190	4,811	6,393
TOTAL IDENTIFIED SAVINGS	3,334	5,149	5,857	7,620
Shortfall of \$10m savings	(6,666)	(4,851)	(4,143)	(2,380)

Major Projects

A number of projects have been identified through Council's planning process which due to their size, development time and funding requirements are deemed to be most appropriately considered through a longer term funding model. These projects are at various stages of development, investigation, design and/or construction and will be further considered and if Council so determines, advanced during the year and beyond. A Major Projects strategy and modelling will be used to facilitate and report the project definition, evaluation and end cost of other projects being considered.

Available funding opportunities will be examined to prioritise the completion of the project over a number of years. It is normally envisaged that the main funding sources for 'Major Projects' will be from grants, property development income, self-funding of projects through revenue and through the provision of available funds from the Capital Works Reserve and other relevant reserves.

Council's Long Term Financial Plan (LTFP) identified the need to establish a Major Projects Reserve to support investment in major Regional City Infrastructure as our City grows. This Reserve will provide capacity for Council to deliver or contribute towards the delivery of the infrastructure our City needs into the future and could include multi-deck carparks, community facilities, open space improvements, and sporting facilities. This Reserve was established in 2015-16 and currently has a balance of \$4.1m with potential to allocate a future surplus along with annual allocations of \$1.5m commencing from 2019-20.

Major Projects with proposed funding in 2019-20 include:

- City Centre Improvements Program
- Western Sydney Infrastructure Program - Local Roads Package (Round 2)
- Soper Place Multi-Deck Car Park
- Kingsway Expansion
- Gipps St Recreation Area planning
- Tench Reserve Boat Ramp
- Regatta Park / River Road realignment

Projects being planned, with delivery subject to funding applications include:

- Caddens Road WSIP LRP Round 3
- Dunheved Road Duplication (stages 1-4) WSIP LRP Round 3
- Tench Reserve Wharf Precinct
- Tench Reserve Jamison Road Node

Monthly Financial Update

In accordance with the Local Government Act and relevant Local Government (General) Regulation 2005 Council is required to establish and maintain a system of budgetary control that will enable Council's income and expenditure to be monitored each month and to be compared to the estimates.

The mechanism by which this requirement is achieved is the Monthly Financial Update to Managers and Executive Managers. This report includes a comparison of year-to-date budget to actual with commentary provided for all variances over \$200,000, and any variance less than 10% and greater than 15% (if greater than \$10,000).

Quarterly Reviews

At the end of each quarter a Budget Review is undertaken which represents the mechanism whereby Councillors and the community are informed of Council's progress against the Operational Plan Original Budget and the last Revised Budget. Variations to budget are identified and proposals made as part of the Review, including revotes where projects are not able to be completed in the current year. Council is presented with these proposals for budget variations and once approved Council's budget is adjusted to reflect these changes.

This Review process is carried out in accordance with Clause 203 of the Local Government (General) Regulation 2005 which specifies the following requirements:

- Not later than 2 months after the end of each quarter (except the June quarter), the Responsible Accounting Officer of a Council must prepare and submit to Council a Budget Review Statement that shows, by reference to the estimate of income and expenditure set out in the Statement of the Council's Revenue Policy included in the Operational Plan for the relevant year, a revised estimate of the income and expenditure for that year.
- A Budget Review Statement must include or be accompanied by:
 - a report as to whether or not the Responsible Accounting Officer believes that the Statement indicates that the Financial Position of the Council is satisfactory, having regard to the original estimate of income and expenditure; and
 - if that position is unsatisfactory, recommendations for remedial action.
- A Budget Review Statement must also include any information required by the Code of Accounting Practice and Financial Reporting to be included in such a Statement.

In relation to the June Quarterly review, the Regulations refer to the timeframe for the

preparation of the annual financial statements with section 416 of the Local Government Act 1993 stating that “a Council’s financial reports for a year must be prepared and audited within the period of 4 months after the end of that year.” However, at Penrith Council the Quarterly Review for June follows the same timeframe of reporting within 2 months after the end of the quarter that applies to all other quarters, with the Review presented to Council in August and Annual Statements presented in September.

In reviewing Council’s quarterly budget reports the Office of Local Government has provided minimum requirements for documents that must be included as part of the quarterly Budget Review process. These minimum requirements are included in the *Code of Accounting Practice and Financial Reporting* and form part of the legislative framework in accordance with clause 203 (3) of the *Regulations*. These documents are to be known collectively as the Quarterly Budget Review Statement (QBRS) and include:

- Statement by the Responsible Accounting Officer on Council’s financial position at the end of the year based on the information in the QBRS
- Budget Review Income and Expenses Statement
- Budget Review Capital Budget
- Budget Review Cash and Investment position
- Budget Review Key Performance Indicators
- Budget Review Contracts and Other Expenses



The diagram shows the relationship of the QBRS (orange arrows) to the Operational Plan within the Integrated Planning and Reporting Framework (black arrows).

Budget Variations

During the year variations to budget may also occur as a result of Council decisions. All Council reports involving budget variations or new budgets require a Financial Services Manager’s comment. Business Papers/Minutes are reviewed by Financial Services and any decisions relating to budgets are actioned with the appropriate adjustments being within the Financial Management Information System in the period in which the report was approved.

Revotes

All Annual Budgets for a current year are “Voted” by Council as part of the original budget process with variations to budget only occurring during Quarterly Reviews adopted by the Council, or Council decisions during the year. As part of the Quarterly Budget Review process, it may be determined that a “revote” of a reportable project is required. This revote request will form part of the Review information presented to Council for approval and represents a project that will not be able to be completed in the current year. Revotes requests predominantly relate to timing issues where original expectations have not been met. The Revote process allows Council to confirm that a budget that has been approved in the current year should be continued and carried over to the following year. Once a request for a revote has been adopted it will automatically be included in the preparation of the next year’s budget.