

# Special Council Meeting Minutes

**9 May 2022**

## **Our Vision**

*A City which values its heritage, cultural diversity,  
sense of place and natural environment.*

*A progressive City which is prosperous, sustainable  
and socially cohesive, with a strong community spirit.*

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City of  
Norwood  
Payneham  
& St Peters

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**VENUE** Council Chambers, Norwood Town Hall

**HOUR** 7.00pm

**PRESENT**

**Council Members** Mayor Robert Bria  
Cr Kester Moorhouse  
Cr Garry Knoblauch  
Cr John Minney  
Cr Carlo Dottore  
Cr Kevin Duke  
Cr Mike Stock  
Cr Scott Sims  
Cr John Callisto

**Staff** Mario Barone (Chief Executive Officer)  
Peter Perilli (General Manager, Urban Services)  
Carlos Buzzetti (General Manager, Urban Planning & Environment)  
Lisa Mara (General Manager, Governance & Community Affairs)  
Sharon Perkins (General Manager, Corporate Services)  
Andrew Alderson (Financial Services Manager)  
Marina Fischetti (Executive Assistant, Urban Services)

**APOLOGIES** Cr Connie Granozio, Cr Sue Whittington, Cr Christel Mex, Cr Evonne Moore,  
Cr Fay Patterson

**ABSENT** Nil

**1. CONFIRMATION OF THE MINUTES OF THE COUNCIL MEETING HELD ON 2 MAY 2022**

*Cr Sims moved that the minutes of the Council meeting held on 2 May 2022 be taken as read and confirmed. Seconded by Cr Stock and carried unanimously.*

**2. STAFF REPORTS**

## 2.1 2022-2023 DRAFT ANNUAL BUSINESS PLAN AND BUDGET

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**REPORT AUTHOR:** General Manager, Corporate Services  
**GENERAL MANAGER:** Chief Executive Officer  
**CONTACT NUMBER:** 83664585  
**FILE REFERENCE:** qA83739/A383939  
**ATTACHMENTS:** A - D

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### PURPOSE OF REPORT

The purpose of this report is to provide for the Council's consideration and "in principle" endorsement, the Draft 2022-2023 Annual Business Plan, the Draft 2022-2023 Budget and the Draft Rating Policy for public consultation.

### BACKGROUND

Pursuant to the provisions contained in Chapters 8, 9 and 10 of the *Local Government Act 1999* (the Act), the Council is required to adopt for each Financial Year, an Annual Business Plan (ABP) and Budget (Draft Budget) after 31 May and except in a case involving extraordinary administrative difficulties before 15 August.

Part 2 of the Act, "*Annual Business Plans and Budgets*" requires the Council to consider its budget in conjunction with the Council's Annual Business Plan and adopt the Budget following adoption of the Annual Business Plan.

Pursuant to Section 123 (3) of the Act, before the Council adopts an Annual Business Plan, the Council must prepare a Draft ABP and make it available for public consultation.

At the Special Council meeting held on 13 April 2022, the Council considered the Draft 2022-2023 Budget, which incorporates the draft 2022-2023 Recurrent Budget and the Draft 2022-2023 Operating and Capital Projects Budget (Draft Budget), which projected an Operating Surplus of \$1.086 million based on a rate revenue increase of 6%, prior to the inclusion of the Operating results from Regional Subsidiaries.

### RELEVANT POLICIES & STRATEGIC DIRECTIONS

The Council's Long Term Strategic directions are outlined in *City Plan 2030 – Shaping our Future*. The Draft 2022-2023 Annual Business Plan and supporting Draft Budget, sets out the proposed services and programs and initiatives for the 2022-2023 Financial Year and explains how the Council intends to finance its continuing services, programs and initiatives which are to be undertaken during the financial year.

The Council's Long Term Financial Plan (LTFP), is a key document in the Councils Planning Framework. It is the primary financial management tool which links the Councils Strategic Plan, *City Plan 2030 – Shaping our Future*, Whole-of-Life Asset Management Plans, the Annual Business Plan and Budget.

Financial sustainability underpins the Council's Financial Goals and Outcomes, which are set out in the Long-term Financial Plan. In general terms, financial sustainability is ensuring that the Council has the financial resources to meet the long-term service and infrastructure needs of the community, without any sharp increases in rate revenue or cuts in service provision and standards.

The Draft 2022-2023 Annual Business Plan and Budget is developed on the basis of ensuring that it will assist in delivering on the Councils Long Term Strategic direction set out in the Councils Strategic Plan, *City Plan 2030 – Shaping our Future*, meets the Council's Asset Management principles set out in the respective *Infrastructure and Assets Management Plans* and financial objectives set out in the *LTFP*.

## **FINANCIAL AND BUDGET IMPLICATIONS**

The 'in-principle' adoption of the Draft 2022-2023 Budget, as presented (based on a 6% Rate Revenue increase inclusive of new development growth 0.5%), will result in an Operating Surplus of \$961,000 (2021-2022: Net Operating Surplus of \$471,000) and a Net Surplus (after Capital Income) of \$11.012 million (2021-2022: \$4.641 million).

It should be noted that the Draft 2022- Budget includes carried forwards of \$393,000 for 2021-2022 Operating Projects which are not anticipated to be completed by 30 June 2022 which will be funded from cash reserves. Taking Carry Forward Projects and net loss from Regional Subsidiaries into account, the projected underlying Operating Surplus for 2022-2023, based on a 6% revenue increase is \$1.515 million.

## **SOCIAL ISSUES**

Nil.

## **CULTURAL ISSUES**

Nil.

## **ENVIRONMENTAL ISSUES**

Nil.

## **RESOURCE ISSUES**

Nil.

## **RISK MANAGEMENT**

At the time of writing this report, the State Government is yet to hand down its 2022-2023 Budget. The Draft 2022-2023 Budget may be impacted upon by the decisions of the State Government.

The Draft 2022-2023 Budget as presented in this report, is based on the following assumptions:

- State Government Charges, which are set by Legislation, are yet to be indexed;
- no further increase in the Solid Waste Levy beyond the current fee of \$146 per tonnes; and
- no new fees and charges will be introduced.

Any adjustments to the draft Budget arising from State Budget will be incorporated when the details become available.

As part of the 2022-2023 Federal Budget, the Federal Government advanced 75% of the 2022-2023 Financial Assistances Grants to the Council in April 2022. The cash advance is aimed at providing Councils immediate access to funds to help manage the cumulative impacts of floods and the COVID-19 pandemic. While this decision implies that the Council will only receive one (1) quarter of the Financial Assistance Grant in 2022-2023, past practice indicates that advance payments will continue, as such the Draft Budget has been prepared on the assumption that the equivalent of four (4) quarterly payments will be received. However, if the past practice of advancing Financial Assistance Grants does not continue, the Council will be at risk of being unable to deliver its budgeted Operating Surplus. If the Federal Government does not advance Financial Assistance Grants payments from the 2023-2024 funding allocation, the Operating Surplus will be reduced by \$1.071 million, with a corresponding increase in the cash deficit of \$1.071 million. Since the commencement of advancing Financial Assistance Grant Funding in 2008 (in response Global Financial Crisis), with the exception of the 2015-2016 financial year, the Federal Government has made advance payments, however it is considered unlikely that the advance of three (3) quarters will continue and that the advance payments will return to two (2) quarters, which if this does eventuate, the Operating surplus will be reduced by \$435,000 and the cash deficit will increase by the corresponding amount.

Should the assumptions and other decisions upon which the Draft 2022-2023 Budget is based, not eventuate, there is a possibility that the Council will not be in a position to deliver its proposed budgeted Operating result.

Notwithstanding this, the preparation of the Draft 2022-2023 Annual Business Plan and Budget has been prepared to ensure that the Council meets its legislative responsibilities in accordance with the requirements of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*.

## COVID-19 IMPLICATIONS

The focus in developing the Draft 2022-2023 Annual Business Plan and Budget, has been on ensuring that the Council maintains the service standards for its existing range of services which are aimed at supporting the delivery of the Strategic Objectives outlined in the Councils' Strategic Management Plan *CityPlan 2030*. As such, the Draft Budget has been prepared on the premise that the programs, services and activities that were suspended or cancelled over the last two (2) years will be delivered.

The Draft Budget does not provide for the continuation of COVID-19 financial relief, as provided in the previous two (2) financial years. The Council's *Financial Hardship Policy* provides options for ratepayers with respect to the payment of rates.

## CONSULTATION

- **Elected Members**

Elected Members have been involved throughout the Budget preparation process and have considered the various components of the Draft Annual Business Plan & Budget and made decisions as appropriate.

- **Community**

The community through community consultation process on the Annual Business Plan will have input into the final form of the Draft Budget, which is scheduled from Monday 9 May 2022 through to 1 June 2022.

- **Staff**

The review of the Operating Expenditure and Special Projects and the Draft Annual Business Plan process has been completed with the involvement of the Chief Executive Officer, General Managers and the various Responsible Officers.

- **Other Agencies**

Nil.

## DISCUSSION

As the State continues the economic recovery from the COVID-19 pandemic, in developing the Draft 2022-2023 Annual Business Plan and Budget, the focus has been on ensuring that the Council maintains the service standards for its existing range of services which are aimed at supporting the delivery of the Strategic Objectives outlined in the Councils' Strategic Management Plan *CityPlan 2030* and that those services receive appropriate funding. The Draft 2022-2023 Annual Business Plan and Budget also reflects the principles set out in the *Infrastructure & Asset Management Plans* and the *2021-2031 Long Term Financial Plan*.

The draft Budget reflects decisions which have assumed that the restrictions which were in place during 2021-2022 have been relaxed, with the provision of services, programs and activities being delivered in a post COVID-19 safe manner.

The Draft Annual Business Plan & Budget supports the economic recovery by continuing its commitment to a number of large-scale infrastructure projects, which were commenced in 2021-2022, with the aim to be delivered this financial year.

The key driver is to ensure that the Annual Business Plan and Budget priorities not only contribute to the Council's broader strategic objectives, but also the Council's long term financial objective of managing its financial resources in a sustainable and equitable manner and to this end the 2022-2023 Budget should remain focused on the future to ensure that the Council's emerging and continuing priorities are appropriately resourced.

The draft Annual Business Plan and Budget as contained in **Attachment B** reflects the new service initiatives and programs, the Whole-of Life asset renewal programs which is reflected in the Councils *Asset Management Plans*, the continuation of major infrastructure projects, which commenced in 2021-2022, as the Councils response to supporting the local economy as it recovers from the COVID-19 pandemic and the Draft Budget, adjusted for the net loss from the Council's Regional Subsidiaries, that was endorsed "in principle" by the Council at its meeting held on 13 April 2022.

### Budget Overview

Table 1 below sets out the proposed Operating Surplus of \$961,000, based on a Recurrent Operating Surplus of \$2.662 million, an Operating Deficit relating to Operating Projects (including 2020-2021 Carry Forwards) of \$1.343 million and an additional \$357,000 for additional finance costs associated with borrowings which are required to deliver the strategic projects included within the draft Capital Projects Budget. It should be noted that the Operating Deficit relating to 2022-2023 Operating Projects, incorporates \$362,298 from the Federal Government Roads-to-Recovery Program. While this funding will be utilised to fund a Capital Project, this funding is required to be included when determining the Council's Operating Surplus.

**TABLE 1: 2022-2023 PROPOSED STATEMENT OF COMPREHENSIVE INCOME**

	Recurrent Operating 2022-2023	Carry Forwards 2022-2023	Operating Projects 2022-2023	Capital Projects 2022-2023	Proposed 2022-2023
	\$	\$	\$	\$	\$
<b>INCOME</b>					
Rates	39,973,082	-	-	-	39,973,082
Statutory charges	2,006,750	-	-	-	2,006,750
User charges	3,737,711	-	-	-	3,737,711
Grants, subsidies and contributions	2,515,869	-	492,298	-	3,008,167
Investment income	45,500	-	-	-	45,500
Other income	517,740	-	-	-	517,740
Net loss joint ventures & associates	15,444	-	-	-	15,444
<b>Total Income</b>	<b>48,812,096</b>	<b>-</b>	<b>492,298</b>	<b>-</b>	<b>49,304,394</b>
<b>EXPENSES</b>					
Employee costs	15,974,750	-	108,000	-	16,082,750
Materials, contracts & other expenses	18,326,188	393,238	1,334,000	-	20,089,426
Finance costs	515,000	-	-	357,424	872,424
Depreciation & amortisation	11,158,733	-	-	-	11,158,733
Net loss Joint Ventures & Associates	175,360	-	-	-	175,360
<b>Total Expenses</b>	<b>46,150,031</b>	<b>393,238</b>	<b>1,442,000</b>	<b>357,424</b>	<b>48,342,693</b>
<b>OPERATING SURPLUS / (DEFICIT)</b>	<b>2,662,064</b>	<b>(393,238)</b>	<b>(949,702)</b>	<b>(357,424)</b>	<b>961,701</b>
Net gain (loss) on disposal or revaluation of assets	-	-	-	25,000	25,000
Amounts specifically for new or upgraded assets	-	-	-	10,024,823	10,024,823
<b>NET SURPLUS (DEFICIT)</b>	<b>2,662,065</b>	<b>(393,238)</b>	<b>(949,702)</b>	<b>9,692,399</b>	<b>11,011,524</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
Change in revaluation surplus- infrastructure, property, plant & equipment	-	-	-	2,000,000	2,000,000
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>2,662,065</b>	<b>(393,238)</b>	<b>(949,702)</b>	<b>11,692,399</b>	<b>13,011,524</b>

It should be noted that at the time of writing this report, the Council is yet to receive the draft budget from the Highbury Landfill Authority. The Council is required to report the Council's share of the Regional Subsidiaries operating results and while this will have an impact on the Council's reported Operating Result, this is a non-cash transaction that does not have an impact on the Council's cash position. The underlying Operating Surplus (adjusted for Regional Subsidiaries) is \$1.122 million.

The Draft Budget, set out in Table 1, incorporates a funding allocation for service initiatives (Operating Projects) to the value of \$1.835 million (inclusive of projects which commenced in 2021-2022 however they will not be completed by 30 June 2022). Operating Project expenditure is offset by income of \$130,000 resulting in a net cost to the Council of \$1.705 million. As Elected Members are aware, Roads-to-Recovery Funding, which is required to be accounted for as operating income, is utilised to fund the Civil Infrastructure Renewal Program.

The proposed Operating Projects for 2022-2023 have been broken down into a number of categories as detailed in Table 2:

**TABLE 2: OPERATING PROJECT CATEGORIES**

Operating Project Category	2022-2023 Proposed Operating Projects \$	2021-2022 Carry Forward Operating Projects \$	Grant Funding \$	Net Cost \$
Proposed New Projects arising from				
• Proposals submitted by Elected Members	36,000	-	-	36,000
• Events & Awards	218,000	-	-	218,000
• Traffic Management Initiatives	381,000	-	115,000	266,000
• Environmental Initiatives	52,000	13,000	-	65,000
• Council Operational Plans <i>Tree Strategy, Emission Reduction, Open Space &amp; Playground Strategy etc.</i>	170,000	208,870	-	378,870
• Corporate & Governance	375,000	68,794	15,000	428,794
• Other	210,000	102,574	-	312,574
<b>Total Operating Projects Expenditure</b>	<b>1,442,000</b>	<b>429,238</b>	<b>130,000</b>	<b>1,705,238</b>

### Budgeted Capital Projects

At the Special Council Meeting held on 13 April 2022, the Council resolved to endorse "in-principle", a Draft Capital Budget, which incorporates Capital Projects to the value of \$52.2 million, inclusive of the expenditure required to finalise the 2021-2022 Capital Projects (\$11.6 million) which are not anticipated or planned to be completed by 30 June 2022 and staff costs of \$1.280 million which are capitalised and included in the final asset cost. The Draft Capital Budget expenditure is offset by Capital Funding which incorporates Grant and Other Revenues to the value of \$10.4 million (inclusive of Roads to Recovery funding), which will result in a net cost to the Council of \$41.8 million, which will be funded via cash borrowings, depreciation (via Rate revenue) or cash reserves.

The endorsed Capital Projects for 2022-2023 have been broken down into a number of categories as detailed in Table 3 below:



**TABLE 3: CAPITAL PROJECT CATEGORIES**

Capital Project category	2022-2023 Proposed Capital Projects \$	2021-2022 Carry Forward	2022-2023 Grant Funding and Other Revenues \$'000	2022-2023 Net Cost \$'000
Whole-of-Life Capital Works Program				
* Road Resealing	4,591,018	-	532,298	4,058,720
* Footpath Reconstruction	897,338	-	-	897,338
* Kerb Reconstruction	1,779,290	-	-	1,779,290
* Stormwater Drainage Program	7,584,205	1,950,000	3,635,823	5,898,382
Other Infrastructure Asset Renewal	2,196,000	520,000	18,000	2,698,000
Major Projects				
* Linear Park Path Upgrade				
- Commenced in 2021-2022				
- Total Project cost of \$2.975 million.	825,918	1,945,000	1,350,000	1,420,918
- Grant Funding of \$1.350 million				
* St Peters Street Streetscape				
- Commenced in 2021-2022				
- Total Project cost of \$4.5million.	2,376,042	700,000	200,000	2,876,042
- Grant Funding of \$1.470million				
* The Parade Master Plan	1,172,000	889,000	-	2,061,000
* Burchell Reserve Upgrade				
- Commenced in 2021-2022				
- Total Project cost of \$3.2 million	994,000	2,026,000	420,000	2,600,000
- Grant Funding of \$420,000				
* Dunstan Adventure Playground Redevelopment				
- Commenced in 2021-2022	900,000	-	450,000	450,000
- Total Project cost of \$1 million				
- Grant Funding of \$450,000				
* Payneham Swimming Centre				
- Commenced in 2021-2022				
- Total Project cost of \$24 million	14,000,000	2,500,000	2,800,000	13,700,000
- Grant Funding of \$5.6 million				
* Cruickshank Reserve Facility Upgrade	889,000	-	889,000	-
Quadrennial Art Project	112,000	146,762	-	258,762
Non-Infrastructure Renewal	348,000	-	117,000	231,000
New IT Projects	174,400	-	-	174,400
Minor projects carried forward	-	1,396,645	-	1,403,645
Capitalisation of Salaries (existing staff)	1,280,124	-	-	1,280,124
<b>Total Capital Projects Expenditure</b>	<b>40,119,335</b>	<b>12,073,407</b>	<b>10,412,121</b>	<b>41,780,621</b>

On a full accrual basis, the capital expenditure will not affect the operating result before capital revenues, except through future years' depreciation and financing costs on any associated loan borrowings. Grant income which has been received and which relates to Capital Projects, will however, be included as Capital Income within the Budgeted Income Statement, after the Operating Surplus/ (Deficit) as required by the Model Financial Statements prescribed by the Local Government Act 1999.

Details of the Capital and Operating Projects endorsed as part of the Draft 2022-2023 Annual Business Plan and Budget is contained in *Appendix One: Key Initiatives & Projects* of **Attachment B**.

Financial sustainability underpins the Council's Financial Goals and Outcomes which are set out in the Councils LTFFP. In general terms, financial sustainability is ensuring that the Council has the financial resources to meet the long-term service and infrastructure needs of the community, without any large rate revenue increases or cuts in service provision and/or standards.

From an operational perspective, financial sustainability is being able to manage the balance between keeping rate revenues increases to a minimum, maintaining existing service standards and expenditure on appropriate new services and necessary major capital investments and initiatives.

To be truly financially sustainable, the Council needs to generate sufficient cash flow from its recurrent operations to meet existing principal loan repayments, spending on renewal works, while having the future financial capacity (i.e. cash reserves to meet future loan servicing) to undertake new investments in the Councils Infrastructure, services and activities. While the Draft Budget, as contained in **Attachment A**, is reporting a cash surplus from operating activities, the proposed renewal expenditure on existing civil infrastructure and stormwater drainage assets is in excess of the depreciation charge and the Draft Budget is reporting a cash deficit of \$1.548 million.

Pursuant to Section 123 (10) (b) of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*, Part 2 Financial Accountability, the budget is required to contain:

- a budgeted income statement, balance sheet, statement of changes in equity and statement of cash flows, presented in a manner consistent with the Model Financial Statements; and
- a statement as to whether projected operating income is sufficient to meet projected operating expenses for the relevant financial year; and
- a summary of operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances; and
- estimates with regard to the Council's Operating Surplus ratio, Asset Sustainability ratio and Net Financial Liabilities ratio presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

The Financial Statements contained in **Attachment A**, are presented as prescribed in the Model Financial Statements and are based on a 6% increase in rate revenue. The Financial Statements also provide comparisons with the 2021-2022 Forecast and the Audited Financial Statements for the past three (3) years. Together, these Statements provide a complete picture of the Councils budgeted financial position for the 2022-2023 Financial year.

The Financial Statements will be updated following the Council's decision on the various components of the budget, if the proposed outcome is varied.

### **Borrowings**

The Council must manage its indebtedness to ensure its liabilities and associated costs are met without impinging on the Councils financial sustainability. To monitor its performance in the use of debt, the Council uses the Net Financial Liabilities Ratio and the Debt Servicing Ratio. Net Financial Liabilities Ratio measures the extent of what is owed by the Council less any liquid assets (i.e. cash or receivables) of the Council, are met by its operating revenue.

Net financial liabilities is a broader and more appropriate measure of indebtedness than the level of borrowings, because it includes items such as employee long-service leave entitlements and other amounts payable in future as well as taking account of a Council's cash holdings and invested monies.

The target set in the Long-term Financial Plan is for the Net Financial Liabilities to be less than or equal to 75% of operating revenues.

To fund the proposed net capital expenditure (inclusive of carry forwards) \$51.6 million, the Council will be required to borrow in the order of \$31.2 million to fund the program and achieve a minor cash surplus. The significant increase in borrowings will result in a Net Financial Liabilities ratio of 86.7% which is in-excess of the financial target set in the Long-term Financial Plan. Given the significant increase in borrowings and the future capital expenditure set out in the Council's *Infrastructure and Asset Management Plans* and the *Long-term Financial Plan*, the Council will continue to exceed the financial target set for Net Financial Liabilities over the life of the current Long-term Financial Plan, with the Net Financial Liabilities projected to exceed 100% by the 2026-2027 financial year.

While the ideal is that the Net Financial Liabilities ratio not exceed 100% of operating income, subject to the Council's ability to service its financial obligations, the indebtedness can exceed 100% in order to provide additional services to its community through acquisition of additional assets, however the extension of the Net Financial Liabilities greater than 100%, together with an increasing Debt Servicing Ratio for an extended period of time, is not the desired result. As such the Council does need to be aware that sustained levels of new capital investment, together with associated borrowings, will impact on the Council's ability to maintain its financial sustainability into the future.

### Rates Modelling

The Council's LTFP is based on a series of financial outcomes, with one being Rate Stability, with the overall objective being that "*annual rate collections are fair and equitable for our residents and ratepayers with the aim to keep rate revenue increases stable over the medium term*". The LTFP has set the target of Rate Revenue increases to be between 3% and 6% each year.

Whist Rate Stability is a key objective which requires annual rate collections to be fair and equitable, it also requires that increases in Rate Revenue be stable over the medium term. To ensure this objective is met, the Council must make decisions in respect to rate revenue (or decreases in expenditure) with the future in mind, as any significant decrease in rate revenue in one year may result in sharp rate revenue increases in the future.

Rate revenue increases need to be reflective of the service level increase to ensure that the Council remains financially sustainable. In considering the increase in service level, the Council needs to take into account not only the increase in operating programs and services but also the increase in service level that emanates from past and proposed capital investment.

Through the adoption of the LTFP, the Council has endorsed the following principle in determining annual rate revenue increase:

- a Rate Revenue indexation factor, to fund the cost increases in normal operations; plus
- an indexation factor resulting from new assessments; plus
- an indexation factor to account for the future renewal and servicing costs of major capital works.

Applying the endorsed principle, the rate revenue increase should be 7.1%, comprising:

- a Rate Revenue indexation factor of 5.1% (based on March CPI);
- new assessment growth of 0.5%; and
- an indexation factor to account for the future renewal and servicing costs of major capital works of 1.5%.

However, the LTFP sets a maximum rate revenue increase of 6%. In line with the Council's decision, the Rating Strategy, as detailed in Table 4, is based on the Draft Budget, which endorsed "in principle" by the Council based on a Rate Revenue increase of 6%. Rates modelling based on alternative Rate Revenue Increases is contained in **Attachment C**.

The rate modelling information which forms part of the Draft Annual Business Plan and Budget for public consultation is based on valuations at 13 April 2022, with the rate-in-the-dollar declared by the Council will be based on valuations for the week ended 18 June 2022.

**TABLE 4: RATING STRATEGY**

	<b>2021-2022</b>	<b>2022-2023</b>
<b>Proposed Rate Revenue Increases</b>	<b>4.35%</b>	<b>6%</b>
		<b>\$'000</b>
Gross General Rate Revenue ( <b>\$'000</b> )	\$37,239	39,569
Net Increase on Previous Year ( <b>\$'000</b> )	\$1,566	2,240
<b>Operating Surplus/(Deficit) after rate revenue increases (\$'000)</b>	<b>471</b>	<b>961</b>
<b>Residential Rate</b>		
Average Rate	\$1,563	\$1,679
Average Rate Difference	\$54	\$116
Increase from previous year	3.57%	7.44%
<b>Rate-in-the-Dollar</b>	<b>0.002278</b>	<b>0.001939</b>
Change from previous year	1.98%	(14.9%)
<b>Commercial Rate</b>		
Average Rate (inclusive of new development)	\$2,649	\$2,515
Average Rate Difference	\$53	(\$133)
Increase from previous year	2.02%	(5.07%)
<b>Rate-in-the-Dollar</b>	<b>0.0027332</b>	<b>0.002327</b>
Change from previous year	1.98%	(14.9%)
<b>Minimum Rate</b>	<b>\$1,068</b>	<b>\$1,132</b>
<b>Percentage of Assessments on Minimum Rate</b>	<b>29.8%</b>	<b>32.85%</b>

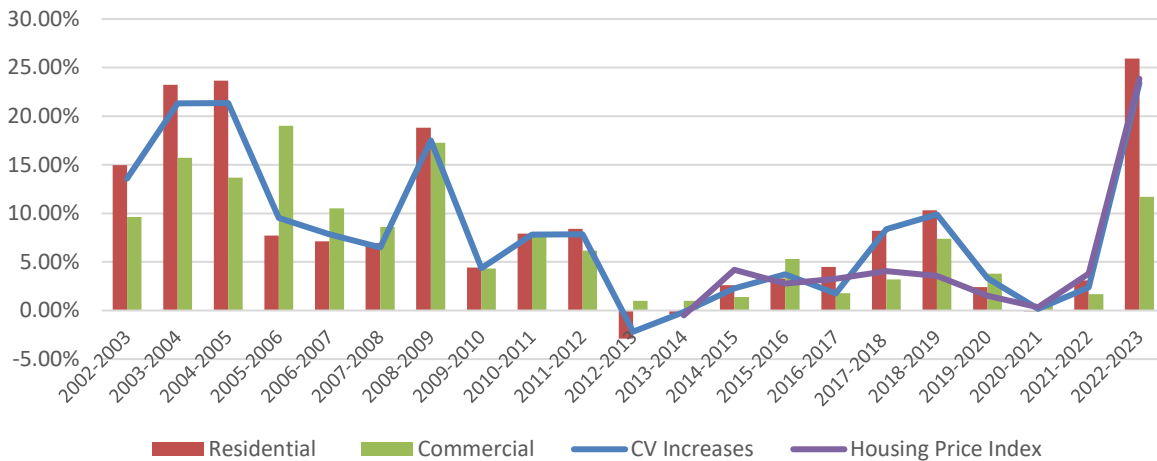
The average rate has traditionally been calculated by obtaining the average property value and multiplying it by the rate-in-the dollar.

The increase in the average residential rate is affected by three (3) items:

- growth associated with new property development;
- the change in the residential proportion of the overall total valuation amount; and
- the proposed increase in rate revenue.

For 2022-2023, the Capital Values have increased (as advised by the Valuer-General) across the City of Norwood, Payneham & St Peters by 23.4%, which is predominately driven by the increase in the Capital Value of residential properties by 27.2%. The Capital Value increase for commercial properties is 11.7%. As detailed in the figure 1 below, the variation in the Capital value movement between the Residential and Commercial land uses, is unprecedented. The impact of the difference in the movement of capital values, has resulted in a residential rate increase in excess of the overall rate revenue increase of 6%, due a 1.9% (\$707,000) increase in the rates revenue being collected from the residential sector.

**FIGURE 1: MOVEMENT IN CAPITAL VALUE - RESIDENTIAL V COMMERCIAL**



For the 2022-2023 financial year, the “average residential property” is valued at \$866,00, compared to the 2021-2022 “average residential property” value of \$686,000, an increase of 26.2%. Given the increase in property values, the Council is budgeting for a decrease in the rate-in-the-dollar of 14.9%, which for the “average residential property” results in a decrease of \$294 per annum, however with the increase in rates payable resulting from the 26.2% increase in capital value, being \$404 per annum increase, the net increase in rates payable for properties which have experienced a 26.2% increase in capital values, is \$116 or 7.4%.

While the rate modelling, as presented in the report is based on the ‘average residential property’, due to commencement of the second transitional stage of the *Statutes Amendment (Local Government Review) Act 2021*, pursuant to Regulation 6 (ec) of the *Local Government (Financial Management Regulations) 2011*, the Council is now required to include in the Annual Business Plan a *statement on the average change in the expected rates for the financial year (expressed as a whole number of dollars) for each land use category declared, as a permissible differentiating factor, compared to the expected rates for each category for the previous financial year as set out in the annual business plan for that previous financial year as opposed to the change in the rate for the ‘average residential property’.*

Applying the new methodology, the Average Rate for Residential Land use is \$1,793; which is an increase of \$144 per annum or 8.7% on 2021-2022. The Average Rate for each land use is detailed in Table 5 below.

Going forward, the impact of the valuation growth, either through a general valuation increase or new development, is excluded from the determination of the average rate increase, however the rate increase does take into account the increase in assessment (i.e. new properties). As such, the average rate increase will closer reflect the endorsed rate revenue increase, adjusted for the change in the number of assessments.

Valuation growth, will however, continue to influence the distribution of the rate revenue collected across the different land uses and Capital Value will continue to be used to distribute the rate burden across property owners.

**TABLE 5: AVERAGE RATE PER LAND USE**

Land Use	2022-2023			2021-2022			Average Rate	
	Revenue (net of rebates)	Revenue %	Average Rate	Revenue (net of rebates)	Revenue %	Average Rate	Increase Decrease	% change
Residential	31,098,817	80.61%	1,793	28,551,709	78.61%	1,649	144	8.7%
Exempt -Residential	466,678	1.21%	9,929	547,264	1.51%	11,169	-1,239	(11.10%)
Commercial	5,858,510	15.19%	2,626	6,092,723	16.77%	2,732	-106	(3.89%)
Industrial	317,199	0.82%	2,218	345,086	0.95%	2,348	-129	(5.51%)
Vacant Land	519,721	1.35%	1,704	468,870	1.29%	1,717	-13	(0.78%)
Other	316,061	0.82%	3,633	313,048	0.86%	3,440	193	5.60%
Primary Production	1,679	0.00%	1,679	1,759	0.00%	1,759	-80	(4.55%)
<b>Total</b>	<b>38,578,665</b>		<b>1,914</b>	<b>36,320,459</b>		<b>1,807</b>	<b>107</b>	<b>5.9%</b>

For the Draft Annual Business Plan and Budget, as presented in this report, the Average Rate (across all properties) is \$1,914, an increase of \$107 or 5.9%. The Average Rate for the Residential Sector is \$1,793, an increase of \$144 or 8.7%. The Average Rate for the Non-Residential Sector is \$2,658, a decrease of \$125 or 7.6%.

The Average Rate for the Residential Sector is significantly higher than the rate increases that have been adopted in the past. To reduce the extent of the increase, the Council can either:

1. increase the non-residential differential rate, to counter the shift of the revenue burden from the residential sector. Given the economic impact, resulting from the COVID-19 pandemic, on the commercial sector over the last two years, an increase in the differential rate is not recommended; or
2. decrease the rate revenue increase. A one percent (1%) reduction in Rate revenue will result in a revenue loss of \$373,000 and without any operational savings or reduction in the Capital Projects Budget, will further increase the budgeted cash deficit. A one percent (1%) reduction in rate revenue will result in a Residential Average Rate of \$1,776 (7.7%), a reduction of \$17 (or 1.0%). Should the Council wish to reduce the rate revenue increase, to counter the revenue loss, it is recommended that the Council look to reduce both operating and capital expenditure.

The Council's Long Term Financial Plan, sets out the Councils Financial Goal, which is to be *a City which delivers on our Strategic Outcomes by managing our financial resources in a sustainable and equitable manner*. To achieve this, a number of Financial Outcomes and financial targets have been established, one being Rate Stability. The Council has defined Rate Stability to mean *Annual rate collections are fair and equitable for our residents and ratepayers with the aim to keep rate revenue increases stable over the medium term*.

Assuming a Rate Revenue increase of 6%, as proposed within the Draft Budget, the average rate revenue increase over the past 5 years is 3.55%, which is at the lower end of the Rate Revenue target, set out in the Councils Long Term Financial Plan. For the same period, applying the new methodology to report rate increases, the average residential rate increase is 3.65%, with the average commercial rate increase being 0.45%, with the overall average rate increase being 3 %.

As such, from a financial management perspective, the Council has clearly delivered on its financial objective.

## The Minimum Rate

Pursuant to S158 of the Act, the Council can fix the minimum rate payable. The purpose of fixing a minimum rate is to ensure that all property owners make a base level contribution to the costs of:

- administering the Council’s activities;
- the provision of the physical infrastructure that supports each property and is available for use by all ratepayers; and
- services provided that are available for use by all ratepayers (e.g. Libraries, parks and gardens).

The minimum rate is capped at 35% of the total number of properties.

The Minimum Rate is recommended to be increased at \$1,132, which is in line with the 6% rate revenue increase. Table 6 below details the impact of the proposed rating strategy on the Minimum Rate.

**TABLE 6: IMPACT OF RATING STRATEGY ON MINIMUM RATE**

	2021-2022	2022-2023
<b><i>Proposed Rate Revenue Increase</i></b>	4.35%	<b>6.00%</b>
Minimum Rate	\$1,068	<b>\$1,132</b>
\$Difference from prior year	\$ 45	<b>\$ 64</b>
No. of assessments	6,003	<b>6,715</b>
% of assessments on Minimum Rate	29.93%	<b>32.83%</b>

As detailed in Table 5, the number of properties that are subject to the minimum rate is edging towards the maximum cap of 35% of the total number of properties. In the past, the percentage increase in the number of properties subject to the minimum rate has been between 0.1% and 0.6%. Given the extent of the increase for 2022-2023, the Council will need to be cognisant of this for future years.

## Rating Policy

A review of the Councils’ Rating Policy has been undertaken, with particular focus on the eligibility criteria for Rate Capping Rebates. Pursuant to Section 166(1)(l)(ii) of the Act, the Council grants a rebate of General Rates, subject to certain eligibility criteria, to the principal ratepayer of a residential assessment, where that property is the principal place of residence and that the increase in the rates levied is a result of a rapid change in the property value.

For eligible residential ratepayers, the increase in general rates (excluding the Regional Landscape Levy) will be capped at two (2) times the upper rate revenue increase target as set out in the LTFP or the rate revenue increase, whichever is the greater, subject to certain conditions.

The current eligibility criteria for the automatic rebate is any such increase in property value, in whole or part is not result of:

- (a) development greater than \$30,000 undertaken on the property, or
- (b) a change in land use for rating purposes on the date the Council declared its general rates; or
- (c) a change in the zoning of the land; or
- (d) a change in the ownership of the property since 1 January 2021.

For the 2022-2023, for eligible residential ratepayers, the increase in rates payable will be capped at 12%. Given the extent of the Capital Value increase for the residential properties it is estimated Rate Capping Rebates will be in the order of \$350,000.

## Draft Annual Business Plan

To fulfil the requirements of the Act and therefore provide citizens with the opportunity to review and comment on the Council's proposed activities for the 2022-2023 Financial Year and the proposed funding of those activities, the Draft Annual Business Plan has been prepared and is included in **Attachment B**.

The Draft Annual Business Plan incorporates all of the assumptions detailed within this report and for illustrative purposes only, has factored in an increase in rate revenue of 6%. Upon finalisation of the Draft Budget through its "endorsement in principle," the Draft Annual Business Plan will be made available for citizens from 16 May 2022. Submissions will be sought with interested citizens providing comments prior to or at the Public Meeting scheduled for 8 June 2022.

Following consideration of the submissions by the Council on 15 June 2022, the final 2022-2023 Annual Business Plan will be presented to the Council for adoption, followed by the 2022-2023 Annual Budget at the Council Meeting to be held on 4 July 2022.

It should be noted that pursuant to S123 (6a), should the Council amend the Annual Business Plan and Budget following public consultation, the Annual Business Plan must now include details, including the reasons, of the amendments made.

## OPTIONS

The Council can endorse the 2022-2023 Draft Annual Business Plan and Budget as presented in this report or can choose to amend 2022-2023 Draft Annual Business Plan and Budget by either:

- increasing or reducing Operating Projects; and/or
- increasing or decreasing rate revenue: and/or
- revisiting recurrent operating expenditure; or
- increasing or reducing the Capital Projects.

As previously advised, for the Council to decrease the Average Rate, the Council will need to endorse a rate revenue increase less than 6%. For each 1% reduction, the Council will reduce its cashflow by \$373,000, which without a corresponding reduction in the Operating Budget or Capital Budget will result in a reduction in the Budgeted Operating Surplus and an increase in the budgeted Cash Deficit. Given the recommendation from the Audit Committee, it is recommended that should the Council reduce the proposed Rate Revenue increase, that the loss in income be offset by operational savings and reductions in its Capital Projects Budget.

A review of both the Draft Operating Budget and the Draft Capital Budget has been undertaken by staff, with particular focus being on carry forward Operating and Capital projects and the Whole-of-Life Asset Management Works Programs. The impact of the proposed amendments on the Operating Surplus, Cash Position and the Average Rate are detailed in **Attachment D**.

## CONCLUSION

Through the adoption of the Long-term Financial Plan, the Council has committed to the attainment of Financial Sustainability. The development of the Annual Budget with reference to the financial targets and outcomes outlined in the LTFP will ensure that the Council continues to move in the right direction to achieve its ultimate goal of Financial Sustainability.

The 'in-principle' adoption of the Draft 2022-2023 Annual Business Plan and Budget as presented in **Attachment B**, will deliver an Operating Surplus of \$961,000 based on a 6% increase in Rate Revenue, however, the underlying Operating Result, which excludes 2022-2023 Operating Project carry forwards and the share of Regional Subsidiaries, for the provision of the Council's continuing services and programs and new initiatives, is an Operating Surplus of \$1.515 million.

Decisions regarding the rate increase will have future impacts on the Council's ability to deliver on the financial objectives and targets set out in its Long-term Financial Plan and while the Draft Budget as presented in this report is forecasting an Operating Surplus, the draft Budget, as presented is forecast to deliver a cash deficit of \$1.548 million.



Notwithstanding this, the 'in-principle' adoption of the Draft 2022-2023 Annual Business Plan and Budget, will contribute to the Council achieving its goals and objectives as set out in the suite of Strategic Planning documents.

## COMMENTS

If Elected Members have any questions or require clarification in relation to specific budget items, and/or any issues raised in this report, do not hesitate to contact the General Manager, Corporate Services, Sharon Perkins on 8366 4585, prior to the meeting.

## RECOMMENDATION

That subject to further consideration of the 2022-2023 Budget by the Council following the receipt and consideration of any public submissions in respect to the 2022-2023 Annual Business Plan:

- a) That a Rate Revenue increase, of \_\_%, be endorsed "in principle", subject to further consideration of the Budget by the Council following receipt and consideration of any submissions in respect of to the Annual Business Plan.
  - b) That an average residential rate of \$\_\_\_\_, an increase of \_\_%, be endorsed "in principle".
  - c) That an average commercial rate of \$\_\_\_\_, a decrease of \_\_% be endorsed "in principle".
  - d) That an average industrial rate of \$\_\_\_\_, a decrease of \_\_% be endorsed "in principle".
  - e) That an average vacant land rate of \$\_\_\_\_, a decrease of \_\_% be endorsed "in principle".
  - f) That an average other rate of \$\_\_\_\_, an increase of \_\_% be endorsed "in principle".
  - g) That an average primary production rate of \$\_\_\_\_, a decrease of \_\_\_%% be endorsed "in principle".
  - h) That rate cap on residential properties of two (2) times the rate revenue increase of \_\_% be adopted 'in principle' for the 2022-2023 Financial Year and be applied to all eligible assessments without the requirement for an application to be made and approved by the Council for the rebate.
  - i) That the Council endorses "in principle" Loan Borrowings for the 2022-2023 Financial Year up to a maximum of \$\_\_\_ million for the purposes of capital expenditure funding.
  - j) That the Draft 2022-2023 Annual Business Plan as contained within **Attachment B** be approved for release for public consultation subject to incorporation of any amendments which may be determined by the Council.
  - k) That the Chief Executive Officer be authorised to make editorial changes to the Draft 2022-2023 Annual Business Plan, as contained within **Attachment B**, prior to it being released for public consultation.
  - l) A further report in respect to the adoption of the Draft 2022-2023 Annual Business Plan and Budget is prepared for the Council's consideration.
-

### Short Term Suspension of Proceedings

At 7.01pm the Mayor, with the approval of two-thirds of the Elected Members present, suspended the meeting procedures pursuant to Regulation 20(1) of the *Local Government (Procedures at Meetings) Regulation 2013*, to enable a presentation to be provided by the General Manager, Corporate Services regarding the draft 2022-2023 Budget.

*Cr Sims moved:*

*That the suspension of meeting proceedings be for up to one (1) hour.*

*Seconded by Cr Minney and carried unanimously.*

### Resumption of Proceedings

The meeting resumed at 7.59pm.

*Cr Sims moved:*

*That the potential savings, as set out in Attachment D, be adopted by the Council with the exclusion of the following:*

- *Ehive- Cultural Heritage Collections Project - \$52,574.*

*Seconded by Cr Moorhouse and lost.*

### Division

*Cr Sims called for a division and the decision was set aside.*

*Those in favour: Cr Minney, Cr Stock, Cr Sims and Cr Moorhouse.*

*Those against: Cr Knoblauch, Cr Duke, Cr Dottore and Cr Callisto.*

*The Mayor used his casting vote against the motion and the motion was lost.*

*Cr Knoblauch moved:*

*That the potential savings, as set out in Attachment D, be adopted by the Council.*

*Seconded by Cr Callisto and carried unanimously.*

Cr Sims left the meeting at 8.13pm.

Cr Sims returned to the meeting at 8.15pm.

*Cr Knoblauch moved:*

*That the Payneham Road (LHS) (Briar Road to Shirley Avenue and Shirley Avenue to Ashleigh Avenue), as proposed in the 2022-2023 Footpath Renewal Program, not be included in the 2022-2023 Footpath Renewal Program.*

*Seconded by Cr Minney and carried unanimously.*

Cr Minney moved:

*That subject to further consideration of the 2022-2023 Budget by the Council following the receipt and consideration of any public submissions in respect to the 2022-2023 Annual Business Plan, a Rate Revenue increase of 6.0%, be endorsed "in principle".*

*Seconded by Cr Sims and carried.*

Cr Sims moved:

- a) *That an average residential rate of \$1,793, an increase of 8.7%, be endorsed "in principle".*
- b) *That an average commercial rate of \$2,626, a decrease of -3.89% be endorsed "in principle".*
- c) *That an average industrial rate of \$2,218, a decrease of -5.51% be endorsed "in principle".*
- d) *That an average vacant land rate of \$1,704, a decrease of -0.78% be endorsed "in principle".*
- e) *That an average other rate of \$3,633, an increase of 5.6 % be endorsed "in principle".*
- f) *That an average primary production rate of \$1,679, a decrease of -4.55% be endorsed "in principle".*
- g) *That rate cap on residential properties of two (2) times the rate revenue increase of 12% be adopted 'in principle' for the 2022-2023 Financial Year and be applied to all eligible assessments without the requirement for an application to be made and approved by the Council for the rebate.*
- h) *That the Council endorses "in principle" Loan Borrowings for the 2022-2023 Financial Year up to a maximum of \$30 million for the purposes of capital expenditure funding.*
- i) *That the Draft 2022-2023 Annual Business Plan as contained within **Attachment B** be approved for release for public consultation subject to incorporation of any amendments which may be determined by the Council.*
- j) *That the Chief Executive Officer be authorised to make editorial changes to the Draft 2022-2023 Annual Business Plan, as contained within **Attachment B**, prior to it being released for public consultation.*
- k) *A further report in respect to the adoption of the Draft 2022-2023 Annual Business Plan and Budget is prepared for the Council's consideration.*

*Seconded by Cr Minney and carried.*

**3. CLOSURE**

There being no further business, the Mayor declared the meeting closed at 8.46pm.

\_\_\_\_\_  
**Mayor Robert Bria**

**Minutes Confirmed on** \_\_\_\_\_  
(date)