Notice of Finance Committee Meeting

A Finance Committee Meeting will be held in the Ballina Shire Council Chambers, 40 Cherry Street, Ballina on **Wednesday 11 March 2015 commencing at 4.00 pm.**

Business

1. Apologies
2. Declarations of Interest
3. Deputations
4. Committee Reports

Paul Hickey
General Manager

Table of Contents

---

1. Apologies

2. Declarations of Interest

3. Deputations

4. Committee Reports

4.1 Ballina Byron Gateway Airport - Long Term Financial Plan

Delivery Program Commercial Services

Objective To provide an overview of the forward financial plan for the airport.

Background

The Ballina Byron Gateway Airport (BBGA) is operated as a stand-alone business. The long standing financial goal for the business is to ensure the service operates without being subsidised from other Council revenue sources.

This means there is currently no expectation that there will be a return on the capital invested in the business, even though there is some financial risk to the community in operating the BBGA.

The primary return to the community is through the economic benefits generated from the provision of a wide range of affordable local airline services, along with the availability of these services to the residents of the Ballina Shire and the Northern Rivers region.

In respect to the financial position of the BBGA, table one outlines the airport's financial performance in recent years.

Table One - Airport Operating Results – 2009/10 to 2014/15

Item	2010/11 Actual ($'000)	2011/12 Actual ($'000)	2012/13 Actual ($'000)	2013/14 Actual ($'000)	2014/15 Estimate ($'000)
Operating Revenues	2,728	3,483	4,005	4,618	4,862
Operating Expenses	3,088	3,553	4,056	4,329	4,354
Operating Surplus / (Deficit)	**(360)**	**(70)**	**(51)**	**289**	**508**
Add Back Depreciation	735	784	831	761	838
Cash Operating Surplus	**375**	**714**	**780**	**1,050**	**1,346**
Less: Loan Principal Repaid	236	249	532	839	846
Add: Capital Income – Grants	500	115	2,885	0	0
Add: Capital Income - Loans	0	0	7,300	4,648	725
Less: Capital Expenditure	497	732	5,787	4995	995
Less: Unexpended Loans	0	0	4,648	0	0
Net Cash Movement	**142**	**(152)**	**(2)**	**(136)**	**230**
Reserve Balance (Deficit)	(302)	(454)	(456)	(592)	(362)
Balance of Outstanding Loans	**3,477**	**3,228**	**9,996**	**9,157**	**9,037**

Revenues have been increasing at a rate in excess of operating expenses and this has resulted in a steady improvement in the operating result.

Whilst the operating result is improving, capital expenditure has been exceeding the available cash reserves, resulting in the reserve balance being increasingly overdrawn. This overdraft is then funded by an internal loan from Council's property reserves, which are also reaching low levels, as property and community infrastructure works are undertaken.

It is therefore important that this overdraft be repaid as early as possible.

Also, in recent years, the forecast operating result each year has typically been worse than forecast; i.e.

- for 2013/14 the forecast surplus was $480,000 with the actual surplus being $289,000
- for 2012/13 the forecast surplus was $169,000 with the actual result being a deficit of $51,000
- for 2011/12 the forecast surplus was $78,000 with the actual result being a deficit of $70,000.

This means it is essential that Council has sufficient funds in reserve to manage any material variations in the forecast results. The report that follows outlines the latest revision of the long term financial plan (LTFP) for the BBGA.

Key Issues

- Assumptions, financial position and performance

Information

The BBGA has gone through a period of strong growth with passenger numbers increasing and the services provided also expanding. Capital expenditure has been incurred on a variety of works including an upgrade of the terminal, extension of the apron and an overlay of the runway. The latest review of the LTFP is included as attachment one, which includes the following information:

- Page One – The actual and estimated operating results for the period from 2002/03 to 2024/25
- Page Two – The capital movements for the business relating to capital expenditure, sources of funding for that capital expenditure, the cash balances for the airport reserve and a summary of the loan debt, including annual principal and interest repayments, along with total asset values
- Pages Three and Four – Charts summarising the operating results and the debt ratio.

The operating results are summarised in table two as follows.

Table Two: Airport Financial Plan 2014/15 to 2024/25

Description	14/15 $'000	15/16 $'000	16/17 $'000	17/18 $'000	18/19 $'000	19/20 $'000	20/21 $'000	21/22 $'000	22/23 $'000	23/24 $'000	24/25 $'000
Operating Revenues	4,862	5,155	5,235	5,322	5,410	5,501	5,593	5,686	5,758	5,857	5,966
Operating Expense	4,354	4,718	4,792	4,866	4,940	5,018	5,094	5,174	5,261	5,389	5,542
Operating Result	**508**	**436**	**442**	**456**	**470**	**483**	**499**	**513**	**496**	**469**	**424**
Add Back Deprec	838	860	886	912	940	968	997	1,027	1,058	1,089	1,122
Cash Surplus	**1,346**	**1,296**	**1,328**	**1,369**	**1,410**	**1,451**	**1,496**	**1,540**	**1,554**	**1,558**	**1,546**
Loan Income	725	0	0	4,500	0	0	0	0	0	0	0
Loan Principal Paid	846	972	1,025	1,083	1,143	1,205	1,271	1,271	860	207	0
Capital Expenditure	995	75	77	4,580	82	85	87	90	492	1,095	1,098
Reserve Movement	**230**	**250**	**225**	**206**	**184**	**161**	**138**	**180**	**201**	**256**	**448**
Reserve Balance	**(362)**	**(113)**	**113**	**319**	**503**	**664**	**802**	**982**	**1,183**	**1,439**	**1,887**
Loan Debt Owing	9,037	8,066	7,040	5,957	4,814	3,609	2,338	1,068	207	0	0
Debt Ratio	28%	28%	28%	27%	27%	26%	26%	24%	16%	4%	0%

In respect to the operating results, points of interest are as follows.

- The number of flights and passengers continues to increase and it is assumed that this growth will continue through Jetstar providing increased services in 2015/16. The financial plan makes provision for an average of approximately 25 weekly flights from Jetstar in 2015/16, with an average occupancy of slightly less than 80%. The actual flights for Jetstar during the year are dependent on holidays and seasons, with some weeks having 28 or more flights and in quieter times flights reduce to 21 per week.

- Limited increases in flight numbers are included for the years after 2015/16 (i.e. increase by one each year). This represents a conservative estimate based on the recent growth in passenger numbers.

- The summary shows an increase of 8% in passenger numbers for 2015/16 as compared to 2014/15. The 2014/15 numbers are now trending above 430,000 and for 2015/16, the target figure is 470,000.

- For Virgin the LTFP assumes seven flights per week based on 70% capacity, and for Rex it is based on 14 flights per week at 45% occupancy. These figures reflect current passenger loads, with the Rex numbers having dropped in recent years.

- The income item for Lessee Contributions has increased to $100,000 for 2015/16 onwards. This represents increased recoupments from the new Airservices Australia Fire Station, along with existing tenants such as the café operator, towards operating expenses including electricity, rates and other charges. The electricity operating expense has also substantially increased with that increase largely offset by the additional income.

- Security income and expense are comparable to each other as the airlines make a contribution to the security infrastructure. As passenger numbers increase, so does the security income and expense.

- A number of operating expenses have been increased by more than CPI as there are concerns that the 2014/15 actual expenditure for a large number of items is trending well over budget.

The column titled “Actual – 28/02/15” represents actual costs for the 2014/15 financial year to the end of February 2015 and when many of these items are compared to the 2014/15 budget, the percentage expended is well above 67%, which is the actual number of months for the year to date (i.e. end of February equals eight months out of 12 for the full financial year). The column titled “% Budget” highlights the percentage comparison for actual to budget with many of those percentages higher than 67%.

The Airport Manager has advised that a large number of maintenance items have been completed and therefore expenditure should be minimal for the remainder of the year, however there remain concerns that recurrent expenses that cannot be delayed will result in some of these operating expenses exceeding budget. Due to these concerns the 2015/16 figures reflect more likely estimates.

- Electricity and lighting has increased substantially due to the new fire station.
- Promotions budget has increased substantially as Council must continue to actively promote the airport to sustain the current passenger numbers.
- A new item has been included for plant and equipment maintenance. This expenditure has traditionally been charged over a number of other line items and the creation of this new line item will improve the management of this expenditure.
- The forecast operating result for 2015/16 is now lower than that forecast for 2014/15 ($436,400 compared to $508,100) due to the higher than CPI increases in operating expenses. The concern, based on recent years, is that the $508,100 surplus forecast for 2014/15 figure will not be achieved.
- The debt ratio (loan interest and principal repayments as a percentage of revenue) is 28% in 2015/16. The Council benchmark, from an overall organisation perspective, for this ratio is less than 12%, so the business is leveraged well past normal levels.

In respect to capital movements (page two) very little is forecast in the way of capital expenditure for the next few years with a nominal allowance of $75,000, plus CPI, provided on a recurrent basis.

An allowance of $4.5m has been provided in 2017/18 for stage two of the terminal expansion with this expenditure being fully offset by a capital grant.

The assumption now with this project is that Council will secure funding from the State Government through the possible sale of the “poles and wires” revenues.

Previously it was proposed to fund the total terminal expansion (stages one and two - estimated at approximately $8m) through loan funds with the loan repayments being offset by additional fees paid by the airlines.

That option could possibly still occur, however the Airport Manager is confident that the "poles and wires" monies (assuming it does eventuate) is a realistic funding source for these works.

The Manager is pursuing other options for contributions from the airlines for infrastructure as part of Council's application to the NSW Regional Tourism Infrastructure Fund - Regional Airports Program and details on this application are as follows.

Regional Tourism Infrastructure Fund (RTIF) - Regional Airports Program

Under this program the State Government has allocated up to $50m for the development of regional airports to facilitate tourism growth. The guidelines for the RTIF state that it "will give priority to projects that benefit regional tourism destinations - demonstrated by overnight visitation, enhanced aviation outcomes, visitor expenditure and passenger movements".

With the Ballina – Byron Gateway Airport now being the second largest NSW regional airport (after Newcastle) and servicing the largest tourism region in NSW outside of Sydney, clearly Council is in a strong position to secure some of this funding.

Ballina is one of the 30 eligible airports for this funding and expressions of interest close on 31 March 2015 with the shortlisted projects to be announced by 31 May 2015.

The guidelines for this program are available at the following link

http://www.trade.nsw.gov.au/__data/assets/pdf_file/0004/65758/EOI_Regional_Airport.pdf

The Airport staff are in the process of compiling a comprehensive grant application with the key elements being:

- *Terminal expansion Project – Stage 1 – Approximately $5.5m*

This involves alterations and extensions to the existing building including external covered walkways, alterations to the airport road network (entry / exit), parking areas for the shuttle buses, taxis, passenger pick up and set down areas, overlay to the rental car parks, solar power, new café, new furniture and landscaping.

- *Apron overlay and taxiway alpha widening, including runway grooving – Approximately $2.4*

This represents apron and taxiway works to improve existing service levels and to extend the useful life of the existing infrastructure.

The final set of attachments to this report provides concept plans for the works and the Airport Manager will be attending this meeting to provide a presentation on the project plan.

At this stage these works have not been included in the LTFP as the preference is to leave the projects out and then hopefully include them in the final LTFP for 2015/16, which will be adopted at the June 2015 Ordinary monthly meeting. By that time we should know the outcomes of the RTIF grant application.

Reserve Balance

As per the earlier Table Two, and as per the capital movement attachment, the actual airport reserve balance is forecast to still be overdrawn by 30 June 2016 ($112,700 negative) and then return to the black in 2016/17 ($112,700 positive).

The reserve balance remains relatively low, considering the level of capital expenditure typically needed on the airport, for the majority of the forecast and this highlights the difficulty that Council will have in funding any other major capital works, unless grant funds are obtained.

This also highlights the importance of the lease evaluation process currently underway as that process will help Council determine its long term funding options for the airport.

Asset Value

The Asset Value table in the capital movement attachment identifies that the written down value of the infrastructure at the BBGA has increased from $18.957m in 2011/12 to an estimate of almost $30m for 2014/15.

This estimate excludes the value of the new fire station, which cost in excess of $12m, along with having firefighting equipment located on site to the value of around $4m.

The asset value table is important, as even though the airport cash reserve may be overdrawn, the actual value of the infrastructure, excluding the fire station is $30m. Once the fire station is included the capital value of the airport would be approaching $50m.

This is the real value of what is a community owned asset for the Ballina Shire, and it does reinforce what a success story the airport has been for the community, in that the Council, without applying any rate revenue, has built an asset with a value of around $50m.

Legal / Resource / Financial Implications

This report provides an overview of the finances of the Ballina – Byron Gateway Airport.

Options

This report is for information purposes in that it provides the latest review of the airport finances, along with information on Council’s application for the RTIF program.

The draft LTFP information will form part of Council’s draft Delivery Program and Operational Plan for 2015/16.

RECOMMENDATIONS

1. That Council notes the contents of this report on the update of the long term financial plan for the Ballina – Byron Gateway Airport.

2. That Council notes the details of the proposed expression of interest for funding under the State Government's Regional Tourism Infrastructure Fund for Regional Airports.

Attachment(s)

1. Long Term Financial Plan
2. Concept Plan for Airport Works

Ballina Byron Gateway Airport - Operating Result and Cash Flow Analysis - 2002/03 to 2024/25

Actual							Ledger	Description	Actual	Estimated												
2002/03	2004/05	2006/07	2008/09	2010/11	2012/13	2013/14	Account		28/02/15	2014/15	% Budget	2015/16	%	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
								OPERATING REVENUES														
	124%	20%	6%	6%	9%	11%		Passenger Numbers (Percentage Growth)		10%		8%		3%	3%	3%	3%	3%	3%	3%	0%	0%
82,577	**189,202**	**319,579**	**330,185**	**287,226**	**356,740**	**396,400**		**Passengers**	**415,535**	**436,600**		**471,200**		**486,200**	**501,200**	**515,200**	**530,200**	**545,200**	**559,200**	**574,200**	**574,200**	**574,200**
	94%	13%	(4%)	9%	7%	6%		**Landing Fees (Percentage Growth in Income)**		9%		0%		1%	1%	1%	1%	1%	1%	0%	0%	0%
818,900	1,075,400	1,453,700	1,299,600	1,299,300	1,931,200	2,057,000	26100.4101.0135	Passenger Charges	1,265,700	2,243,000	56%	2,251,000	0%	2,276,000	2,307,000	2,337,000	2,368,000	2,399,000	2,430,000	2,435,000	2,441,000	2,446,000
53,700	113,600	18,700	49,800	80,100	65,000	56,000	26100.4105.0135	Landing Fees Other	23,000	50,000	46%	50,000	0%	51,500	53,100	54,700	56,400	58,100	59,900	61,700	63,600	65,600
								Contributions														
0	0	0	0	0	3,600	63,500	26100.4117.0169	Lessee Contributions	29,700	24,000	124%	100,000	317%	103,000	106,100	109,300	112,600	116,000	119,500	123,100	126,800	130,700
0	0	0	0	0	138,600	259,700	26100.4120.0169	Contributions to Loan Interest NSW LIRS	63,900	235,600	27%	210,500	-11%	184,400	157,300	129,100	99,700	69,100	37,300	6,300	0	0
								Other Fees and Charges														
0	256,700	564,600	1,100,000	751,100	847,700	1,078,000	26100.4106.0135	Security Charges Jet Airlines	583,700	1,066,000	55%	1,272,000	19%	1,310,200	1,349,600	1,390,100	1,431,900	1,474,900	1,519,200	1,564,800	1,611,800	1,660,200
8,500	19,700	56,100	64,800	91,000	210,300	228,800	26100.4107.0135	Car Rental Franchises	181,100	286,000	63%	280,000	-2%	288,400	297,100	306,100	315,300	324,800	334,600	344,700	355,100	365,800
18,500	21,300	25,900	45,200	47,900	56,000	62,400	26100.4108.0135	Hanger Site Rentals	52,300	57,000	92%	57,000	0%	58,800	60,600	62,500	64,400	66,400	68,400	70,500	72,700	74,900
9,500	10,000	10,600	24,500	25,500	27,000	36,800	26100.4109.0135	Airport Fuel Site Rent	27,800	35,000	79%	35,000	0%	36,100	37,200	38,400	39,600	40,800	42,100	43,400	44,800	46,200
10,500	10,900	2,900	26,800	25,300	47,300	51,000	26100.4110.0135	Rental New Terminal Building	39,900	60,000	67%	60,000	0%	61,800	63,700	65,700	67,700	69,800	71,900	74,100	76,400	78,700
3,700	14,100	21,900	20,800	20,300	20,400	20,400	26100.4111.0135	Rental Old Terminal Building	19,400	25,000	78%	21,000	-16%	21,700	22,400	23,100	23,800	24,600	25,400	26,200	27,000	27,900
0	3,600	3,700	4,200	6,400	9,000	3,800	26100.4112.0135	Aviation Security Cards	3,200	2,500	128%	3,000	20%	3,100	3,200	3,300	3,400	3,600	3,800	4,000	4,200	4,400
0	0	76,100	175,900	238,600	363,000	414,900	26100.4113.0135	Airport Car Parking	295,300	525,000	56%	550,000	5%	566,500	583,500	601,100	619,200	637,800	657,000	676,800	697,200	718,200
0	0	1,500	0	0	56,000	65,400	26100.4116.0135	Advertising	47,500	70,000	68%	70,000	0%	72,100	74,300	76,600	78,900	81,300	83,800	86,400	89,000	91,700
0	0	14,000	67,500	112,800	118,000	119,000	26100.4115.0135	Airport Shuttle Bus Rents	89,600	160,000	56%	170,000	6%	175,100	180,400	185,900	191,500	197,300	203,300	209,400	215,700	222,200
0	0	12,000	20,200	20,800	23,200	29,100	26100.4115.0135	Airport Car Parking Fines	16,000	23,000	70%	25,000	9%	25,800	26,600	27,400	28,300	29,200	30,100	31,100	32,100	33,100
0	0	0	0	0	89,000	72,000	26100.4118.0190	Interest Earned	0	0	0%	0	0%	0	0	0	0	0	0	0	0	0
923,300	**1,525,300**	**2,261,700**	**2,899,300**	**2,719,100**	**4,005,300**	**4,617,800**		**Total Operating Revenues**	**2,737,900**	**4,662,100**	**56%**	**5,154,500**	**6%**	**5,234,500**	**5,322,100**	**5,410,300**	**5,500,700**	**5,592,700**	**5,686,300**	**5,757,500**	**5,857,400**	**5,965,600**
								OPERATING EXPENSES														
								Management														
9,800	3,100	80,400	168,900	356,600	436,000	425,600	35120.0300.0300	Salaries and Oncosts	302,100	443,000	68%	454,000	2%	467,600	481,600	496,000	510,900	526,200	542,000	558,300	575,000	592,300
1,300	(800)	4,400	7,400	13,300	17,000	18,900	35120.0328.0343	Conferences and Seminars	13,600	15,000	91%	20,000	33%	20,600	21,200	21,800	22,500	23,200	23,900	24,600	25,300	26,100
0	0	0	1,400	20,200	45,000	36,300	35120.0350.0401	Office Expenses	23,700	30,000	79%	35,000	17%	36,100	37,200	38,300	39,400	40,600	41,800	43,100	44,400	45,700
0	0	0	12,500	21,000	21,600	19,500	35120.0504.0347	Vehicle	13,400	20,100	67%	20,100	0%	20,700	21,300	21,900	22,600	23,300	24,000	24,700	25,400	26,200
								Buildings and Facilities - Maintenance														
39,200	49,500	89,300	129,700	142,600	121,100	117,100	35120.0425.0401	Cleaning Contracts	75,000	125,000	60%	125,000	0%	128,800	132,700	136,700	140,800	145,000	149,400	153,900	158,500	163,300
30,200	49,200	52,200	74,600	96,000	144,500	95,500	35120.0530.0401	Airport Buildings Maintenance and Repairs	66,300	75,000	88%	80,000	7%	82,400	84,900	87,400	90,000	92,700	95,500	98,400	101,400	104,400
17,000	22,200	46,400	33,800	44,900	40,700	56,700	35120.4128.0401	Airport Building Area, Roads and Services	25,100	30,000	84%	30,000	0%	30,900	31,800	32,800	33,800	34,800	35,800	36,900	38,000	39,100
								Operation Expenses														
0	0	0	0	0	0	143,100	35125.0300.0300	Reporting Officers	122,000	165,000	74%	185,000	12%	190,600	196,300	202,200	208,300	214,500	220,900	227,500	234,300	241,300
4,800	0	1,400	0	6,400	15,000	4,900	35125.0365.0422	Legal Fees	1,800	10,000	18%	10,000	0%	10,300	10,600	10,900	11,200	11,500	11,800	12,200	12,600	13,000
2,900	3,700	4,400	4,500	7,800	7,700	7,200	35125.0374.0640	Telephone Airport	4,500	8,000	56%	8,000	0%	8,200	8,400	8,700	9,000	9,300	9,600	9,900	10,200	10,500
36,300	40,000	36,000	19,800	40,000	76,600	89,300	35125.0377.0405	Consultancies	76,800	80,000	96%	70,000	-13%	72,100	74,300	76,500	78,800	81,200	83,600	86,100	88,700	91,400
0	0	0	0	1,500	4,200	5,200	35125.0380.0613	Bank Fees	3,900	5,000	78%	5,500	10%	5,700	5,900	6,100	6,300	6,500	6,700	6,900	7,100	7,300
6,500	8,800	11,000	18,900	22,800	23,000	21,900	35125.0410.0635	Insurance	41,000	46,000	89%	47,400	3%	48,800	50,300	51,800	53,400	55,000	56,700	58,400	60,200	62,000
11,300	11,600	10,000	31,100	31,700	28,600	31,000	35125.0415.0690	Rates	39,000	29,000	134%	35,000	21%	36,100	37,200	38,300	39,400	40,600	41,800	43,100	44,400	45,700
186,200	248,400	520,300	938,500	546,700	758,000	901,700	35125.0420.0401	Security in Departure Lounge	670,800	950,000	71%	1,132,000	19%	1,166,000	1,201,000	1,237,000	1,274,000	1,313,000	1,352,000	1,393,000	1,435,000	1,478,000
0	0	1,600	33,700	22,700	25,500	26,200	35125.0430.0401	Vermin and Pest Control	25,400	23,000	110%	10,000	-57%	10,300	10,600	10,900	11,200	11,500	11,800	12,200	12,600	13,000
0	2,400	5,600	6,700	5,100	10,600	6,400	35125.4130.0401	Aviation Security Card and Driving Charges	4,100	6,000	68%	9,000	50%	9,300	9,600	9,900	10,200	10,500	10,800	11,100	11,400	11,700
0	21,100	21,400	61,500	77,500	63,000	79,700	35125.4131.0401	Bird Control Strategy	39,900	75,000	53%	80,000	7%	82,400	84,900	87,400	90,000	92,700	95,500	98,400	101,400	104,400
0	0	0	2,300	4,100	500	100	35125.4132.0401	Drug and Alcohol Management	100	500	20%	500	0%	500	500	500	500	500	500	500	500	500
30,600	70,100	77,400	80,200	79,900	96,000	67,600	35125.4133.0401	Aircraft Movement Area	41,600	50,000	83%	50,000	0%	51,500	53,000	54,600	56,200	57,900	59,600	61,400	63,200	65,100
45,700	32,800	67,800	76,600	78,200	100,000	88,000	35125.4134.0401	Remainder Of Movement Area	73,800	68,000	109%	50,000	-26%	51,500	53,000	54,600	56,200	57,900	59,600	61,400	63,200	65,100
10,200	21,000	16,900	15,700	10,500	21,000	17,800	35125.4135.0401	Fencing and Security	11,700	20,000	59%	20,000	0%	20,600	21,200	21,800	22,500	23,200	23,900	24,600	25,300	26,100
1,000	1,000	9,300	2,900	1,300	5,000	6,900	35125.4136.0401	Approach Clearing	200	6,000	3%	6,000	0%	6,200	6,400	6,600	6,800	7,000	7,200	7,400	7,600	7,800
0	1,900	2,600	0	300	1,500	300	35125.4137.0401	Approach Survey	0	1,000	0%	1,000	0%	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
4,300	2,000	4,600	9,300	8,700	8,400	8,100	35125.4138.0300	Extraordinary Inspections	4,300	5,000	86%	6,000	20%	6,200	6,400	6,600	6,800	7,000	7,200	7,400	7,600	7,800
0	0	2,000	0	3,200	100	800	35125.4139.0300	Lighting Inspections	1,600	2,000	80%	2,500	25%	2,600	2,700	2,800	2,900	3,000	3,100	3,200	3,300	3,400
2,700	600	5,500	3,900	4,700	4,000	3,600	35125.4140.0401	Markers, Cones and Wind Indicators	1,500	5,000	30%	5,000	0%	5,200	5,400	5,600	5,800	6,000	6,200	6,400	6,600	6,800
200	100	300	1,600	2,700	2,600	8,400	35125.4141.0401	Service Charges	28,000	25,000	112%	25,000	0%	25,800	26,600	27,400	28,200	29,000	29,900	30,800	31,700	32,700
0	0	200	200	1,900	100	100	35125.4142.0401	Emergency Exercises	4,900	3,000	163%	8,000	167%	8,200	8,400	8,700	9,000	9,300	9,600	9,900	10,200	10,500
24,400	15,300	32,300	17,100	15,500	14,500	6,800	35125.4143.0401	Lighting Maintenance and Repairs	8,800	10,000	88%	10,000	0%	10,300	10,600	10,900	11,200	11,500	11,800	12,200	12,600	13,000
28,800	29,000	31,600	56,900	89,600	132,000	109,600	35125.4144.0647	Electricity and Lighting	84,500	120,000	70%	190,000	58%	195,700	201,600	207,600	213,800	220,200	226,800	233,600	240,600	247,800
0	0	8,000	0	200	2,100	2,200	35125.4145.0401	Emergency Generator	200	5,000	4%	5,000	0%	5,200	5,400	5,600	5,800	6,000	6,200	6,400	6,600	6,800
5,200	14,100	24,500	33,200	81,300	192,000	187,300	35125.4146.0401	Promotion	141,600	150,000	94%	200,000	33%	206,000	212,200	218,600	225,200	232,000	239,000	246,200	253,600	261,200
3,000	3,000	3,000	3,300	3,300	6,000	6,100	35125.4147.0639	Airport Owners Assoc Membership	6,200	7,500	83%	7,500	0%	7,700	7,900	8,100	8,300	8,500	8,800	9,100	9,400	9,700
0	100	200	200	200	500	600	35125.4148.0639	Aviation Publications	200	1,000	20%	1,000	0%	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
0	0	35,700	63,700	55,400	65,000	70,900	35125.4149.0401	Paid Car Parking	46,800	60,000	78%	65,000	8%	67,000	69,000	71,100	73,200	75,400	77,700	80,000	82,400	84,900
0	0	0	0	0	0	37,800	35125.4151.0401	RWP Procedures	0	0	0%	13,000	0%	13,400	13,800	14,200	14,600	15,000	15,500	16,000	16,500	17,000
0	0	0	0	6,100	7,000	5,000	35125.4152.0401	Airport Signs	2,000	10,000	20%	10,000	0%	10,300	10,600	10,900	11,200	11,500	11,800	12,200	12,600	13,000
0	0	0	0	9,100	6,000	6,100	35125.4155.0401	Airport Non Directional Beacon Maintenance	13,300	13,000	102%	0	-100%	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0		Plant and Equipment Maintenance	0	0	0%	30,000	0%	30,900	31,800	32,800	33,800	34,800	35,800	36,900	38,000	39,100
								Overheads and Debt Servicing														
129,500	134,800	88,000	176,000	213,000	280,000	294,000	35120.0980.0980	Overheads to Airport	201,300	302,000	67%	325,000	8%	334,800	344,800	355,100	365,800	376,800	388,100	399,700	411,700	424,100
95,600	59,000	41,800	109,500	217,000	423,600	554,100	35120.0435.0700	Interest On Loans Airport	241,200	517,400	47%	471,600	-9%	418,100	360,200	299,900	238,400	170,600	102,700	37,500	8,000	0
								Non-Cash														
167,200	165,000	270,500	271,000	735,000	830,000	760,600	35120.0680.0745	Depreciation - Airport	837,500	837,500	100%	860,000	3%	885,800	912,400	939,800	968,000	997,000	1,026,900	1,057,700	1,089,400	1,122,100
893,900	**1,009,000**	**1,606,600**	**2,466,600**	**3,078,000**	**4,056,000**	**4,329,000**		**Total Operating Expenses**	**3,299,700**	**4,354,000**	**76%**	**4,718,100**	**8%**	**4,792,400**	**4,865,700**	**4,940,400**	**5,018,000**	**5,094,200**	**5,173,500**	**5,261,200**	**5,388,500**	**5,541,900**
29,400	**516,300**	**655,100**	**432,700**	(358,900)	(50,700)	**288,800**		***Operating Result - Surplus / (Deficit)***	**(561,800)**	**508,100**		**436,400**	**-14%**	**442,100**	**456,400**	**469,900**	**482,700**	**498,500**	**512,800**	**496,300**	**468,900**	**423,700**
167,200	165,000	270,500	271,000	735,000	830,000	760,600		*Add Back Depreciation*	837,500	837,500		860,000	3%	885,800	912,400	939,800	968,000	997,000	1,026,900	1,057,700	1,089,400	1,122,100
196,600	**681,300**	**925,600**	**703,700**	**376,100**	**779,300**	**1,049,400**		***Cash Result - Surplus / (Deficit)***	**275,700**	**1,345,600**		**1,296,400**	**-4%**	**1,327,900**	**1,368,800**	**1,409,700**	**1,450,700**	**1,495,500**	**1,539,700**	**1,554,000**	**1,558,300**	**1,545,600**
								Capital Movements														
0	169,000	185,800	251,400	237,400	532,100	838,700		Less Loan Principal Repayments		845,500		971,700		1,025,200	1,083,100	1,143,400	1,204,900	1,270,800	1,270,600	860,300	207,200	0
196,600	512,600	927,800	703,600	142,000	247,200	210,700		Less Transfer to Reserves		500,100		324,700		302,700	285,700	266,300	245,800	224,700	269,100	693,700	1,351,100	1,545,800
0	636,500	826,800	1,356,500	0	789,900	347,500		Add Transfer from Reserves		270,000		75,000		77,300	79,600	82,000	84,500	87,000	89,600	492,300	1,095,100	1,098,000
0	0	1,000,000	2,800,000	500,000	4,996,700	4,647,700		Add Capital Funding		725,000		0		0	4,500,000	0	0	0	0	0	0	0
0	636,200	1,638,800	3,905,200	496,700	5,786,600	4,995,200		Less Capital Expenditure		995,000		75,000		77,300	4,579,600	82,000	84,500	87,000	89,600	492,300	1,095,100	1,098,000
0	**0**	**0**	**0**	**0**	**0**	**0**		***Cash Result after Capital Movements***		**0**		**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
292,200	**740,300**	**967,400**	**813,200**	**593,100**	**1,202,900**	**1,603,500**		***Earnings before Interest,Tax and Depreciation (EBITDA)***		**1,863,000**		**1,768,000**		**1,746,000**	**1,729,000**	**1,709,600**	**1,689,100**	**1,666,100**	**1,642,400**	**1,591,500**	**1,566,300**	**1,545,800**

2002/03	2004/05	2006/07	2008/09	2010/11	2012/13	2013/14	**Key Financial Indicators**	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
3%	34%	29%	15%	(13%)	(1%)	6%	Operating result as a percentage of income	10%	8%	8%	9%	9%	9%	9%	9%	9%	8%	7%
21%	45%	41%	24%	14%	19%	23%	Operating result as a percentage of income (ex deprec)	28%	25%	25%	26%	26%	26%	27%	27%	27%	27%	26%
10%	15%	10%	12%	17%	24%	30%	Debt Ratio	28%	28%	28%	27%	27%	26%	26%	24%	16%	4%	0%
5%	5%	10%	16%	22%	25%	24%	Non-standard income as a percentage of income	26%	25%	25%	25%	26%	26%	26%	27%	27%	28%	28%
6%	8%	14%	18%	19%	25%	25%	Non-standard income as a percentage of expenses	29%	27%	27%	28%	28%	29%	29%	29%	30%	30%	30%
7%	9%	17%	20%	25%	32%	31%	Non-standard income as a percentage of expenses (ex dep)	35%	33%	34%	34%	35%	35%	36%	37%	37%	38%	38%

Ballina Byron Gateway Airport - Capital Movements - 2002/03 to 2024/25

Airport - Capital Expenditure Summary

Asset Description	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Ballina Airport												
Apron Extension		110,000									1,000,000	1,000,000
Car Park / Entrance Road												
Car Park / Shade Structures (Loan Funded)		725,000										
CCTV												
Drainage Works	9,400											
Electronic Gate												
Fence to Airside	48,600	60,000										
Fire Fighting Infrastructure (contribution etc)		50,000										
Hardstand	215,600											
Land Acquisition												
Landside Terminal Awning												
Lease Area - Stage One	11,900											
Long Term Car Park												
Miscellaneous Infrastructure			75,000	77,300	79,600	82,000	84,500	87,000	89,600	92,300	95,100	98,000
Obstacle Tower Lennox Head	98,900											
Overlay to Rental Car Park												
PAPI / PAALC										400,000		
Pedestrian Crossing												
Runway Lighting												
Runway Upgrade	4,511,200											
Storage Containers	11,600	20,000										
Storage Shed	88,000											
Terminal Renovation - Stage Two		30,000			4,500,000							
Toilets to Departure Lounge												
Total	**4,995,200**	**995,000**	**75,000**	**77,300**	**4,579,600**	**82,000**	**84,500**	**87,000**	**89,600**	**492,300**	**1,095,100**	**1,098,000**

Asset Description	Funding Sources 2013/14 Grants	Funding Sources 2013/14 Loans	Funding Sources 2013/14 Reserves	Funding Sources 2014/15 Grants	Funding Sources 2014/15 Loans	Funding Sources 2014/15 Reserves	Funding Sources 2015/16 Grants	Funding Sources 2015/16 Loans	Funding Sources 2015/16 Reserves	Funding Sources 2016/17 Grants	Funding Sources 2016/17 Loans	Funding Sources 2016/17 Reserves	Funding Sources 2017/18 Grants	Funding Sources 2017/18 Loans	Funding Sources 2017/18 Reserves
Ballina Airport															
Apron Extension			0			110,000			0			0			0
Car Park / Entrance Road			0			0			0			0			0
Car Park / Shade Structures (Loan Funded)			0		725,000	0			0			0			0
CCTV			0			0			0			0			0
Drainage Works			9,400			0			0			0			0
Electronic Gate			0			0			0			0			0
Fence to Airside			48,600			60,000			0			0			0
Fire Fighting Infrastructure (contribution etc)			0			50,000			0			0			0
Hardstand			215,600			0			0			0			0
Land Acquisition			0			0			0			0			0
Landside Terminal Awning			0			0			0			0			0
Lease Area - Stage One			11,900			0			0			0			0
Long Term Car Park			0			0			0			0			0
Miscellaneous Infrastructure			0			0			75,000			77,300			79,600
Obstacle Tower Lennox Head		99,800	(900)			0			0			0			0
Overlay to Rental Car Park			0			0			0			0			0
PAPI / PAALC			0			0			0			0			0
Pedestrian Crossing			0			0			0			0			0
Runway Lighting			0			0			0			0			0
Runway Upgrade		4,511,200	0			0			0			0			0
Storage Containers			11,600			20,000			0			0			0
Storage Shed		36,700	51,300			0			0			0			0
Terminal Renovation - Stage Two			0			30,000			0			0	4,500,000		0
Toilets to Departure Lounge			0			0			0			0			0
Total	**0**	**4,647,700**	**347,500**	**0**	**725,000**	**270,000**	**0**	**0**	**75,000**	**0**	**0**	**77,300**	**4,500,000**	**0**	**79,600**

Source of Capital Funding	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Capital Grants and Contributions	1,155,600	2,344,400	0	0	0	0	4,500,000	0	0	0	0	0	0	0
Loan Funds	0	2,652,300	4,647,700	725,000	0	0	0	0	0	0	0	0	0	0
Reserves	76,300	789,900	347,500	270,000	75,000	77,300	79,600	82,000	84,500	87,000	89,600	492,300	1,095,100	1,098,000
Total	**1,231,900**	**5,786,600**	**4,995,200**	**995,000**	**75,000**	**77,300**	**4,579,600**	**82,000**	**84,500**	**87,000**	**89,600**	**492,300**	**1,095,100**	**1,098,000**

Cash and Reserve Balances	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Opening Balance	**239,600**	**87,000**	**(455,700)**	**(592,500)**	**(362,400)**	**(112,700)**	**112,700**	**318,800**	**503,100**	**664,400**	**802,100**	**981,600**	**1,183,000**	**1,439,000**
Movement	(152,600)	(542,700)	(136,800)	230,100	249,700	225,400	206,100	184,300	161,300	137,700	179,500	201,400	256,000	447,800
Closing Balance	**87,000**	**(455,700)**	**(592,500)**	**(362,400)**	**(112,700)**	**112,700**	**318,800**	**503,100**	**664,400**	**802,100**	**981,600**	**1,183,000**	**1,439,000**	**1,886,800**
Dissection of Total Cash														
Council Reserve Balance	(454,400)	(455,700)	(592,500)	(362,400)	(112,700)	112,700	318,800	503,100	664,400	802,100	981,600	1,183,000	1,439,000	1,886,800
Unexpended Grant Funds	541,400	0	0	0	0	0	0	0	0	0	0	0	0	0
Unexpended Loan Funds	0	4,647,700	0	0	0	0	0	0	0	0	0	0	0	0
Total Cash Held	**87,000**	**4,192,000**	**(592,500)**	**(362,400)**	**(112,700)**	**112,700**	**318,800**	**503,100**	**664,400**	**802,100**	**981,600**	**1,183,000**	**1,439,000**	**1,886,800**

Loan Summary	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Loan Principal	250,600	532,100	838,700	845,500	971,700	1,025,200	1,083,100	1,143,400	1,204,900	1,270,800	1,270,600	860,300	207,200	0
Loan Interest	234,700	416,400	554,100	517,400	471,600	418,100	360,200	299,900	238,400	170,600	102,700	37,500	8,000	0
Total	**485,300**	**948,500**	**1,392,800**	**1,362,900**	**1,443,300**	**1,443,300**	**1,443,300**	**1,443,300**	**1,443,300**	**1,441,400**	**1,373,300**	**897,800**	**215,200**	**0**
Total Principal Outstanding - 30 June	**3,228,500**	**9,996,400**	**9,157,700**	**9,037,200**	**8,065,500**	**7,040,300**	**5,957,200**	**4,813,800**	**3,608,900**	**2,338,100**	**1,067,500**	**207,200**	**0**	**0**

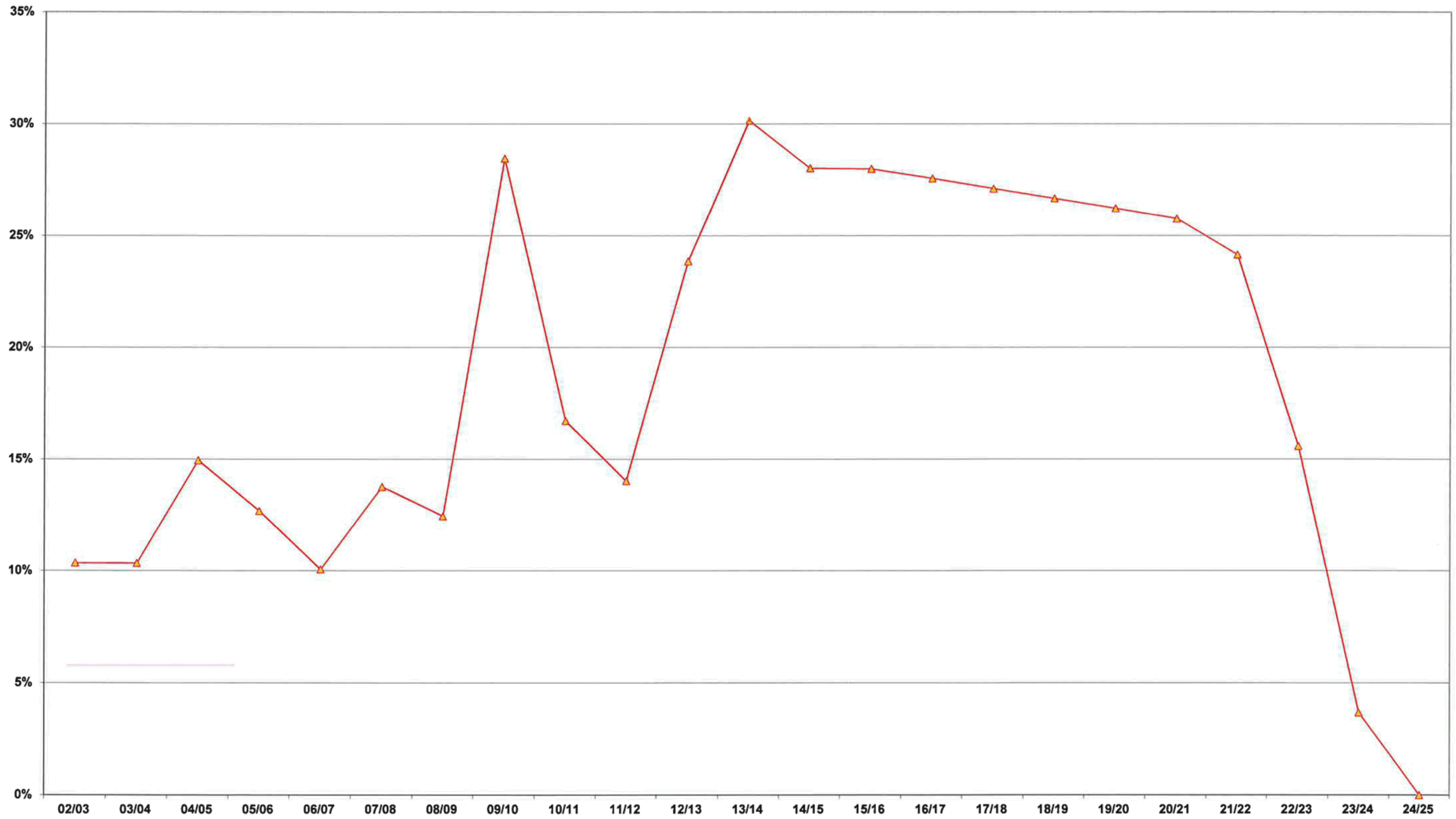
Asset Value as Per Special Schedules	Actual ($'000)			Estimated ($'000)										
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Written Down Value	**18,957**	**26,440**	**29,505**	**29,663**	**28,878**	**28,069**	**31,736**	**30,878**	**29,995**	**29,085**	**28,148**	**27,582**	**27,588**	**27,564**

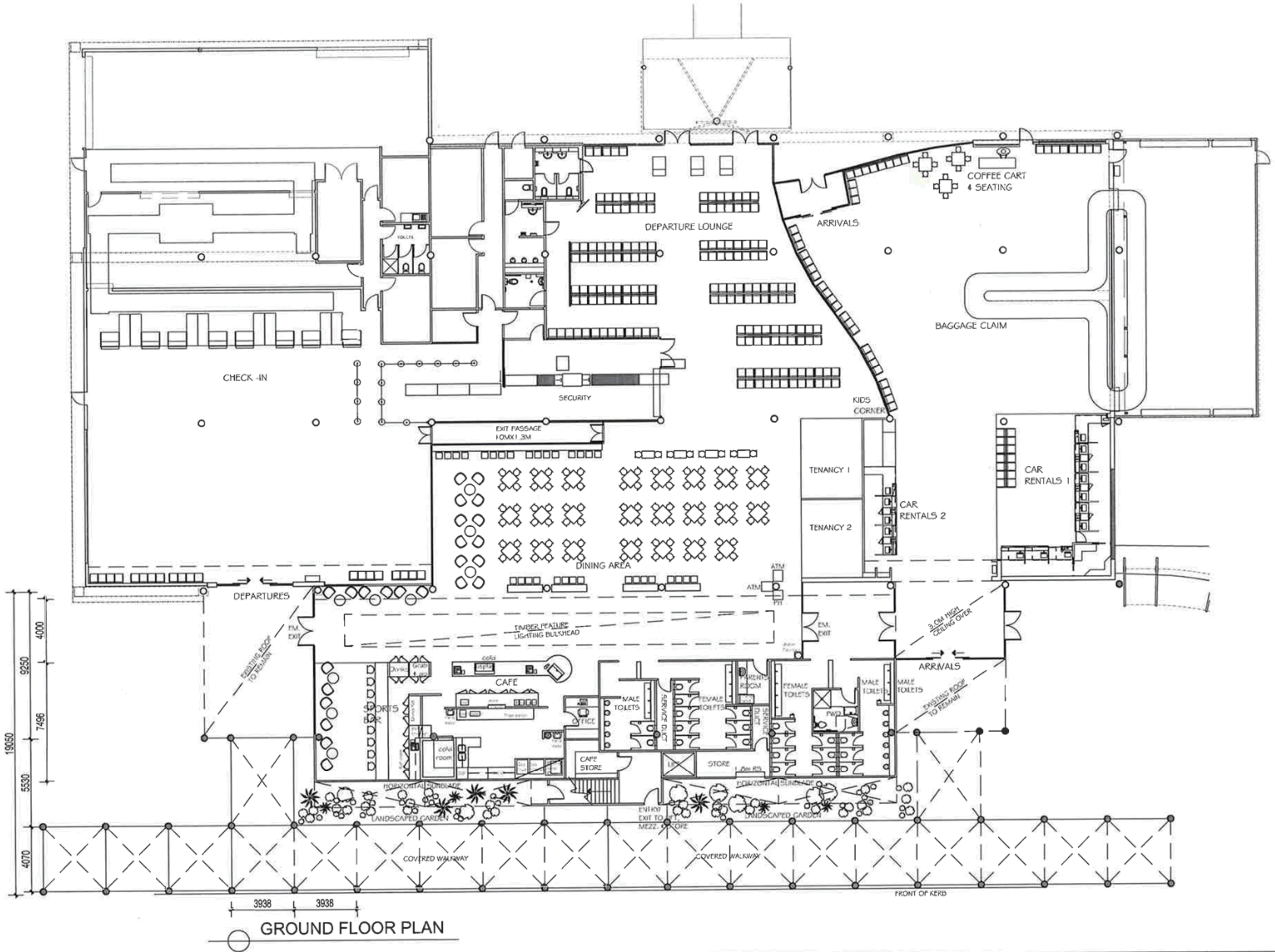
Loan Repayment Dissection	2011/2012 PRINCIPAL	2011/2012 INTEREST	2012/2013 PRINCIPAL	2012/2013 INTEREST	2013/2014 PRINCIPAL	2013/2014 INTEREST	2014/2015 PRINCIPAL	2014/2015 INTEREST	2015/2016 PRINCIPAL	2015/2016 INTEREST	2016/17 PRINCIPAL	2016/17 INTEREST
Airport	48,269	54,554	46,791	56,032	50,790	52,033	54,607	48,216	58,464	44,359	62,989	39,834
Airport	166,670	145,782	166,670	134,364	166,670	122,931	131,492	83,782	137,890	77,384	145,275	69,999
Airport	35,692	34,333	38,315	31,709	40,864	29,161	44,006	26,018	47,000	23,000	50,000	20,000
Airport - LIRS			280,300	194,300	580,420	350,000	615,383	333,850	648,346	300,887	683,933	265,300
Airport - Car Park / Shade Covers								25,500	80,000	26,000	83,000	23,000
Airport - Terminal												
	250,631	**234,669**	**532,076**	**416,405**	**838,744**	**554,125**	**845,488**	**517,366**	**971,700**	**471,630**	**1,025,197**	**418,133**

Loan Repayment Dissection	2017/2018 PRINCIPAL	2017/2018 INTEREST	2018/2019 PRINCIPAL	2018/2019 INTEREST	2019/2020 PRINCIPAL	2019/2020 INTEREST	2020/21 PRINCIPAL	2020/21 INTEREST	2021/2022 PRINCIPAL	2021/2022 INTEREST	2022/2023 PRINCIPAL	2022/2023 INTEREST	2023/2024 PRINCIPAL	2023/2024 INTEREST	2024/2025 PRINCIPAL	2024/2025 INTEREST
Airport	67,737	35,087	72,664	30,160	78,492	24,331	84,227	18,597	90,574	12,243	97,045	5,779				
Airport	152,808	62,466	160,491	54,783	169,300	45,975	177,963	37,311	187,228	28,047	196,975	18,299	207,229	8,046		
Airport	55,000	15,000	60,000	10,000	63,000	7,000	66,100	2,000	0	0						
Airport - LIRS	721,549	227,684	761,234	188,000	802,141	147,092	847,522	101,711	893,831	55,402	465,310	9,466				
Airport - Car Park / Shade Covers	86,000	20,000	89,000	17,000	92,000	14,000	95,000	11,000	99,000	7,000	101,000	4,000	0	0	0	0
Airport - Terminal		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	1,083,094	**360,237**	**1,143,389**	**299,943**	**1,204,933**	**238,398**	**1,270,812**	**170,619**	**1,270,633**	**102,692**	**860,330**	**37,544**	**207,229**	**8,046**	**0**	**0**


Ballina Byron Gateway Airport - Operating Income and Expense Analysis - 2002/03 to 2024/25
40%
30%
20%
10%
0%
-10%
-20%
02/03
03/04
04/05
05/06
06/07
07/08
08/09
09/10
10/11
11/12
12/13
13/14
14/15
15/16
16/17
17/18
18/19
19/20
20/21
21/22
22/23
23/24
24/25
Operating result as a percentage of income
Non-standard income as a percentage of income
Non-standard income as a percentage of expenses

Ballina Byron Gateway Airport - Debt Ratio - 2002/03 to 2024/25



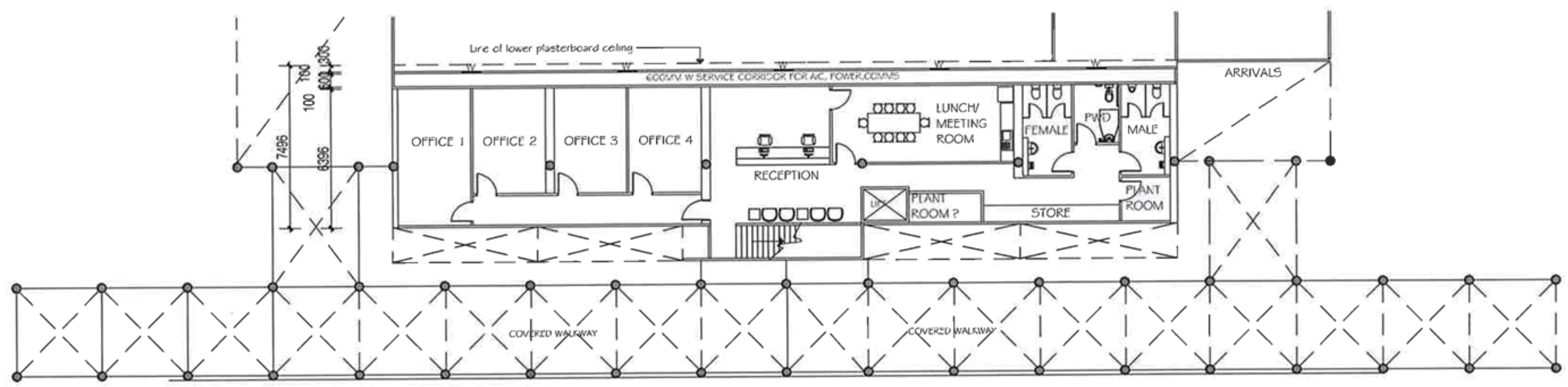


NOTE:
1. All dimensions are to be checked on site prior to construction.
2. All construction to comply with BCA, council DCP's and requirements of relevant authorities.
3. Drawings will remain copy right of Denise Napier C

ballina shire council

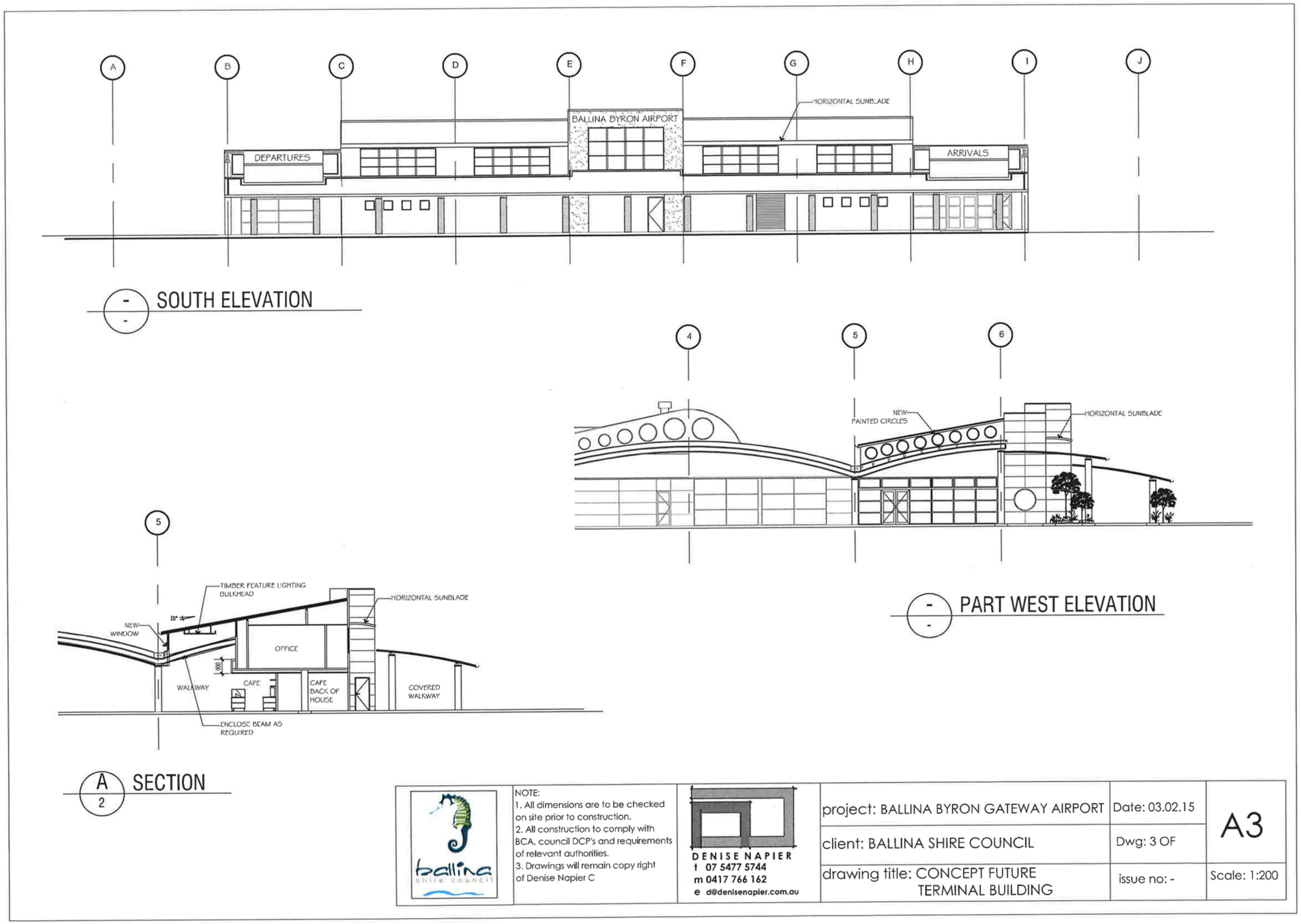
DENISE NAPIER
t 07 5477 5744
m 0417 766 162
e d@denisenapier.com.au

project: BALLINA BYRON GATEWAY AIRPORT	Date: 03.02.15	A3
client: BALLINA SHIRE COUNCIL	Dwg: 1 OF	
drawing title: CONCEPT FUTURE TERMINAL BUILDING	issue no: -	Scale: 1:250

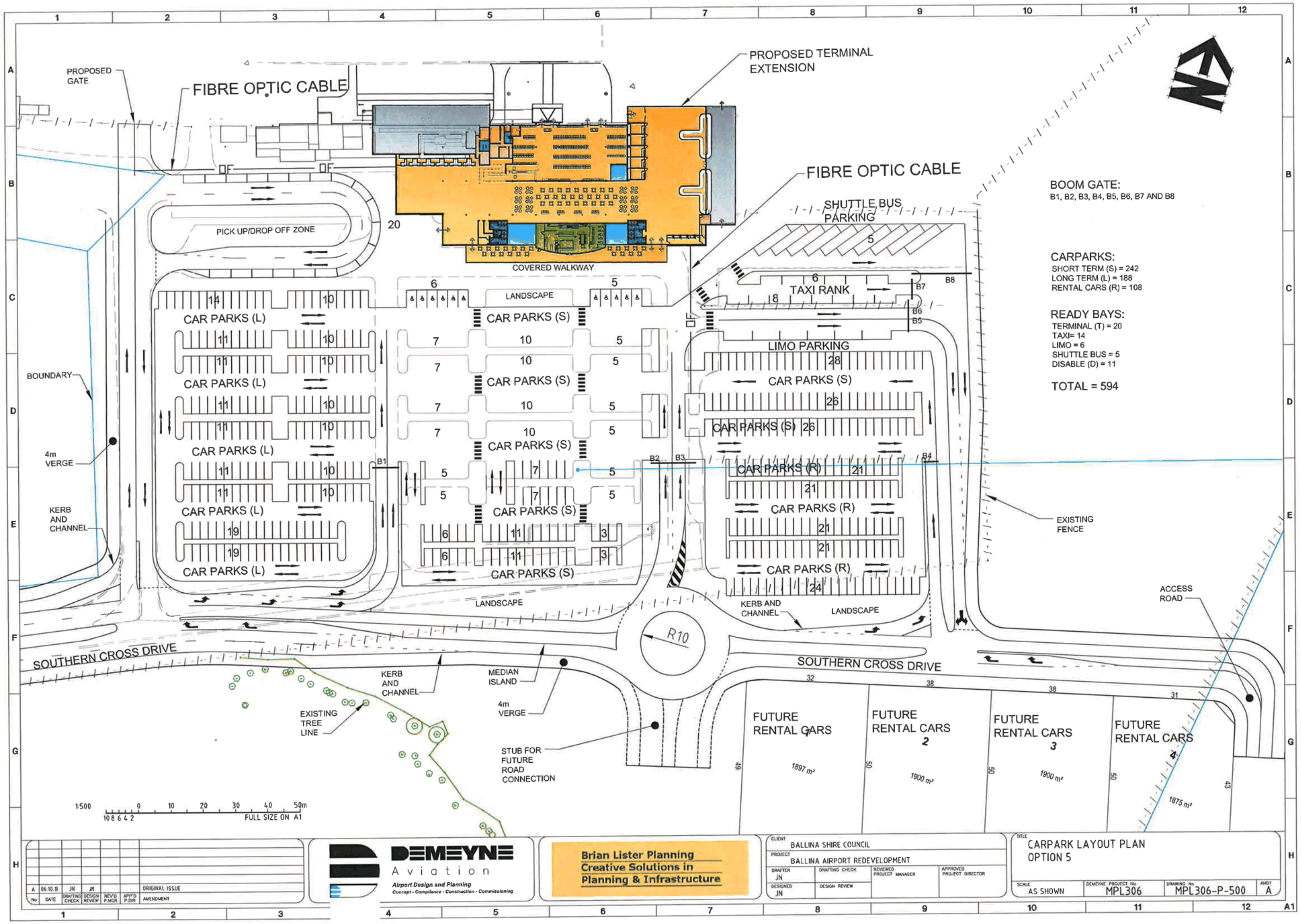


FIRST FLOOR PLAN

ballina shire council	NOTE: 1. All dimensions are to be checked on site prior to construction. 2. All construction to comply with BCA, council DCP's and requirements of relevant authorities. 3. Drawings will remain copy right of Denise Napier C	DENISE NAPIER t 07 5477 5744 m 0417 766 162 e d@denisenapier.com.au	project: BALLINA BYRON GATEWAY AIRPORT	Date: 03.02.15	A3
			client: BALLINA SHIRE COUNCIL	Dwg: 2 OF	
			drawing title: CONCEPT FUTURE TERMINAL BUILDING	issue no: -	Scale: 1:250



A B C D E F G H I J
HORIZONTAL SUNBLADE
BALLINA BYRON AIRPORT
DEPARTURES
ARRIVALS
SOUTH ELEVATION
4 5 6
NEW PAINTED CIRCLES
HORIZONTAL SUNBLADE
PART WEST ELEVATION
5
TIMBER FEATURE LIGHTING BULKHEAD
HORIZONTAL SUNBLADE
NEW WINDOW
OFFICE
WALKWAY
CAFE
CAFE BACK OF HOUSE
COVERED WALKWAY
ENCLOSE BEAM AS REQUIRED
A 2 SECTION
ballina shire council
NOTE:
1. All dimensions are to be checked on site prior to construction.
2. All construction to comply with BCA, council DCP's and requirements of relevant authorities.
3. Drawings will remain copy right of Denise Napier C
DENISE NAPIER
t 07 5477 5744
m 0417 766 162
e d@denisenapier.com.au
project: BALLINA BYRON GATEWAY AIRPORT
client: BALLINA SHIRE COUNCIL
drawing title: CONCEPT FUTURE TERMINAL BUILDING
Date: 03.02.15
Dwg: 3 OF
issue no: -
A3
Scale: 1:200


PROPOSED TERMINAL EXTENSION
FIBRE OPTIC CABLE
PROPOSED GATE
SHUTTLE BUS PARKING
TAXI RANK
LIMO PARKING
PICK UP/DROP OFF ZONE
COVERED WALKWAY
LANDSCAPE
CAR PARKS (L)
CAR PARKS (S)
CAR PARKS (R)
BOUNDARY
4m VERGE
KERB AND CHANNEL
EXISTING FENCE
ACCESS ROAD
SOUTHERN CROSS DRIVE
R10
MEDIAN ISLAND
EXISTING TREE LINE
STUB FOR FUTURE ROAD CONNECTION
FUTURE RENTAL CARS
FUTURE RENTAL CARS 2
FUTURE RENTAL CARS 3
FUTURE RENTAL CARS 4
BOOM GATE:
B1, B2, B3, B4, B5, B6, B7 AND B8
CARPARKS:
SHORT TERM (S) = 242
LONG TERM (L) = 188
RENTAL CARS (R) = 108
READY BAYS:
TERMINAL (T) = 20
TAXI= 14
LIMO = 6
SHUTTLE BUS = 5
DISABLE (D) = 11
TOTAL = 594
1:500
FULL SIZE ON A1
DEMEYNE Aviation
Airport Design and Planning
Brian Lister Planning
Creative Solutions in Planning & Infrastructure
BALLINA SHIRE COUNCIL
BALLINA AIRPORT REDEVELOPMENT
CARPARK LAYOUT PLAN OPTION 5
AS SHOWN
MPL306
MPL306-P-500
A
ORIGINAL ISSUE

4.2 Rating Structure 2015/16 - New Land Valuations

Delivery Program	Financial Management
Objective	To provide information regarding new 2014 base date land valuations and to consider the ordinary rating structure for the 2015/16 rating year

Background

The following report consists of two main sections.

The first section provides information regarding the new 2014 land valuations supplied by the Valuer General (VG), that are to be used for the 2015/16 rating year onwards. This section includes comparisons to the previous 2011 base date land valuations we have been using for ordinary rating purposes for the last three years and considers the impact of any land valuation fluctuations on our current rating structure.

The second section provides a proposed rating structure for the 2015/16 rating year, based upon the same structure used to levy ordinary rates in the 2014/15 rating year.

Key Issues

- Land valuation movements between the 2011 and 2014 base dates
- Impact of new 2014 land valuations on the current rating structure
- Rating structure for the 2015/16 rating year

Information

Section One – New 2014 Base Date Land Valuations

The Valuer General (VG) provides Council with updated unimproved land valuations (i.e. the values don't consider any development on the property), for all properties within the Shire every three years. They are used to calculate a portion of a property's ordinary rate when multiplied by a rate in the dollar. The other part of the ordinary rate, under our current rating structure, is a flat amount known as the base amount. More information is provided later in this report regarding rate calculations.

The VG supplies updated land valuations every three years to enable Council to equitably redistribute the rate burden in accordance with the ability to pay principle.

Council's total annual ordinary rate revenue is restricted by legislation and as a result, new land values do not result in an increase or decrease in total rate revenue.

In order for Council to decide upon a fair and equitable rating structure, the two principles of rating need to be considered:

- **Ability to pay principle** – This method assumes there is a relationship between land values and the ability to pay rates

- **The benefit principle** – This is essentially a "user pays" principle

The mix between the rate in the dollar applied to the property's land valuation (ability to pay principle) and the base amount (benefit principle), is determined by Council after consideration of certain restrictions contained in the Local Government Act 1993 (LGA).

New 2014 Base Date Land Valuations – Comparisons to 2011

The following land valuation information provides comparisons between all land valuations within our Shire (i.e. includes rateable and non rateable land such as schools, churches, public reserves etc).

Historical comparisons shown in Table One list land values at the point in time they were originally received from the VG.

To ensure consistent and realistic comparisons, the remainder of this report makes comparisons using 2011 and 2014 land valuations currently on hand as many changes have occurred since the 2011 valuations were received three years ago. These changes are primarily caused by property growth (i.e subdivisions) and changes to individual valuations (e.g. valuation objection adjustments). This means that all current properties will have a 2014 and 2011 base date land valuation.

Table One: History of Valuer General Revaluations - Total Land Values

Land Value Base Date (1 July)	Total Land Valuations ($)	Land Valuation Change (%)	Properties	Properties Change (%)	Average LV per Property ($)	Average LV Change (%)
2014	5,196,410,931	-4.45%	14,814	2.23%	350,777	-6.54%
2011	5,438,581,840	0.75%	14,491	2.21%	375,308	-1.43%
2008	5,398,146,560	11.72%	14,178	1.71%	380,741	9.84%
2005	4,831,846,180	79.72%	13,940	2.87%	346,617	74.70%
2002	2,688,605,130	63.65%	13,551	3.78%	198,406	57.68%
1999	1,642,898,463	N/A	13,057	N/A	125,825	N/A

There were minimal land valuation fluctuations the last time we received and analysed new land valuations.

Overview of New Land Values by Valuer General's Office

On 25 February 2015, the District Valuer with Land and Property NSW (LPI) presented Council with an overview of new land values. Also present was the LPI Team Leader based at Coffs Harbour and the contract valuer engaged by LPI NSW to provide Ballina district valuations.

An **overview of the process of valuing land** was presented. The most important aspects being:

- Property sales are the most important factor in determining a land value. Other factors such as planning instrument changes also affect valuations.

- The mass valuation process is utilised. This process groups similar properties together in components. There are about 50 different components within Ballina.

- Representative properties within each component are benchmarked (reviewed annually) against comprehensively analysed sales data and applied to the whole component.

- A rigorous verification review process is undertaken. Reviews are based on risk with properties such as shopping centres, highly valued properties, large land parcels ear marked for subdivision potential etc reviewed annually.

  Other land types such as commercial, rural, industrial and heritage land is reviewed every three years with one-third of these reviewed annually. Open space and residential land is verified every six years with at least one-sixth of these reviewed annually.

  Around 10,500 properties have been individually reviewed between 2001 and 2014 – a significant review percentage (even though the same property may have been reviewed multiple times) in comparison to our current total of 14,814 properties.

- Several further quality assurance processes are undertaken to ensure the quality of land values.

Commentary was also provided specifically about **changes to our new 2014 land valuations** in comparison to 2011 valuations. This commentary covers all anomalies recognised by Council staff following the undertaking of an internal comparative analysis. The changes of note include;

- **Overall (5% decrease)** – The approximate average decreases experienced by main property types (see below) are reflective of market conditions and is consistent with changes experienced across coastal areas of the state.

  - Residential -4%
  - Commercial -12%
  - Industrial -9%
  - Rural -3%

Other general market conditions have affected the valuations, such as banks tightening borrowing conditions following the GFC, which has affected larger capital projects.

- **Residential** – Overall a slight average decrease (-4%).

  - **Skennars Head** properties without a view have experienced a significant average decrease (-18%). This is reflective of the market. The valuer’s opinion being the lack of service proximity and the aging of the subdivision has seen the market values fall

- **Wardell** properties have experienced a decrease (-11%) primarily due to development requirements for flood prone land
- **Ballina Island** experienced a slight increase (1%) due to an increase in demand for land close to shops and services
- An increased demand has been noticed for density development sites within **Ballina, Wollongbar and Alstonville**
- **Residue subdivision lots** (i.e. land ear marked for subdivision potential or land left over for future development in the case of a staged subdivision) have experienced a significant decrease due to large capital borrowings becoming difficult to obtain, together with an increase in development costs.

- **Commercial** – Overall an average decrease (-12%). This is a consistent trend across all areas of the Shire. Caused due to poor market sentiment and economic conditions.

- **Industrial** – Overall an average decrease (-9%) across the Shire.

  - Land near the airport has decreased by around (-7%), with other industrial land decreasing by between (-11% and -14%).
  - There are a number of vacant industrial units.
  - The market has strengthened since 2013.

- **Rural and Protection** – Overall an average decrease of (-3%) for rural land and (-5%) for protection land.

  - **Sugar cane land** along the Richmond River has experienced moderate increases (10% to 20%) due to strong commodity prices. Some properties have changed to **macadamia** production which has increased the value of the land.
  - The **rural residential** market has improved recently and led to a recovery of values since 2013.
  - Rural land **home sites in the northern area** of the shire are influenced by the Byron Bay market.

Internal Review of Land Valuations

A comprehensive internal review of our new 2014 land valuations was also undertaken. The findings of the internal review were consistent with the VG conclusions.

As a result of our significant internal analysis, together with explanation and justification of perceived anomalies provided by the VG, there seems to be no reason to question the equity of our new 2014 land valuations.

Implications for our new 2014 base date rateable land valuations on our current rating structure are outlined within section two of this report.

Comparative Data – 2014 to 2011 Land Valuations

The following tables contain more specific comparative data based on rating categorisation between the previous 2011 base date land valuations used for rating purposes between 2012/13 and 2014/15, and the new 2014 base date valuations to be used for the next three rating years, commencing from 2015/16.

The data correlates with internal and VG findings mentioned earlier.

Table Two: Movement of Total Land Values within Rating Categories

Rating Category	Assessment or Property Count	2014 LV	2011 LV	2011 to 2014 LV Change ($)	2011 to 2014 LV Change (%)
Residential	12,359	3,852,145,750	4,026,612,350	-174,466,600	-4.33%
Business	917	465,689,510	523,177,760	-57,488,250	-10.99%
Farmland	1,052	687,529,700	701,162,100	-13,632,400	-1.94%
Mining	0	0	0	0	0.00%
Non Rateable	486	191,045,971	222,666,250	-31,620,279	-14.20%
TOTAL	**14,814**	**5,196,410,931**	**5,473,618,460**	**-277,207,529**	**-5.06%**
RATEABLE	**14,328**	**5,005,364,960**	**5,250,952,210**	**-245,587,250**	**-4.68%**

Assuming Council's rating structure remains unchanged and ignoring any increases to total revenue, the 4.68% decrease in rateable land valuations to be used from the 2015/16 rating year provides the approximate benchmark as to whether or not individual properties will accept a greater or lesser share of the ordinary rate burden.

The table shows a decrease of 5.06% between 2011 and 2014 total land valuations on hand. It also shows that business category properties have decreased significantly more than the Shire average. Residential and farmland categorised properties have experienced a small decrease on average.

The percentage movement between rating categories and its impact on the rating structure is explained in the 2015/16 rating structure section of this report.

Table Three: Movement of Total Land Values within Localities

Locality	Prp Count	2014 Land Valuations	2011 Land valuations	2011 to 2014 LV Change ($)	2011 to 2014 LV Change (%)
ALSTONVALE	157	61,254,620	60,057,620	1,197,000	1.99%
ALSTONVILLE	2,261	532,239,190	558,732,130	-26,492,940	-4.74%
BAGOTVILLE	32	9,516,000	9,795,000	-279,000	-2.85%
BALLINA	2,818	959,555,931	1,001,706,000	-42,150,069	-4.21%
BROKEN HEAD	17	12,422,770	13,901,770	-1,479,000	-10.64%
BROOKLET	110	63,481,020	62,614,320	866,700	1.38%
CABBAGE TREE ISLAND	4	1,255,620	1,253,820	1,800	0.14%

COOLGARDIE	49	17,973,000	18,257,000	-284,000	-1.56%
CUMBALUM	492	131,750,700	143,721,200	-11,970,500	-8.33%
DALWOOD	86	43,081,000	44,285,000	-1,204,000	-2.72%
EAST BALLINA	1,869	657,025,040	704,235,550	-47,210,510	-6.70%
EAST WARDELL	157	47,778,740	48,023,800	-245,060	-0.51%
EMPIRE VALE	105	34,309,040	37,533,240	-3,224,200	-8.59%
FERNLEIGH	105	45,898,700	45,509,200	389,500	0.86%
GOAT ISLAND	1	325,000	325,000	0	0.00%
KEITH HALL	62	22,960,000	27,020,000	-4,060,000	-15.03%
KNOCKROW	83	46,963,000	47,318,000	-355,000	-0.75%
LENNOX HEAD	2,190	1,095,574,680	1,159,692,980	-64,118,300	-5.53%
LYNWOOD	80	34,556,000	35,558,000	-1,002,000	-2.82%
MAROM CREEK	12	3,068,500	3,184,500	-116,000	-3.64%
MCLEANS RIDGES	37	18,989,000	19,869,000	-880,000	-4.43%
MEERSCHAUM VALE	137	42,558,000	43,990,500	-1,432,500	-3.26%
NEWRYBAR	215	132,707,400	130,429,800	2,277,600	1.75%
PATCHS BEACH	32	11,143,500	11,760,000	-616,500	-5.24%
PEARCES CREEK	39	15,090,000	14,135,000	955,000	6.76%
PIMLICO	141	52,630,400	52,256,500	373,900	0.72%
PIMLICO ISLAND	1	315,000	317,000	-2,000	-0.63%
ROUS	90	47,758,200	49,471,200	-1,713,000	-3.46%
ROUS MILL	80	34,709,000	34,954,000	-245,000	-0.70%
SKENNARS HEAD	318	133,936,800	161,302,700	-27,365,900	-16.97%
SOUTH BALLINA	18	6,205,000	6,596,500	-391,500	-5.93%
TEVEN	123	51,232,980	49,616,980	1,616,000	3.26%
TINTENBAR	307	126,053,240	130,089,740	-4,036,500	-3.10%
TUCKOMBIL	104	40,941,000	41,390,000	-449,000	-1.08%
URALBA	97	34,919,700	36,259,700	-1,340,000	-3.70%
WARDELL	322	72,899,200	80,665,500	-7,766,300	-9.63%
WEST BALLINA	1,038	313,634,660	325,843,710	-12,209,050	-3.75%
WOLLONGBAR	1,025	239,699,300	261,946,500	-22,247,200	-8.49%

The next table provides locality movements based on rating categories. The table drills down further than Table Three to show that within localities there have been differing land valuation movements between categories.

Table Four: Land Valuation Movements: Localities / Rating Categories

Locality + Rating Category	Property Count	2014 LV	2011 LV	2011 to 2014 LV Change ($)	2011 to 2014 LV Change (%)
ALSTONVALE Farmland	45	26,111,000	25,848,000	263,000	1.02%
ALSTONVALE Non Rateable	1	8,620	8,620	0	0.00%
ALSTONVALE Residential	111	35,135,000	34,201,000	934,000	2.73%
ALSTONVILLE Business	186	48,243,500	53,547,900	-5,304,400	-9.91%
ALSTONVILLE Farmland	89	60,738,000	63,965,000	-3,227,000	-5.04%

ALSTONVILLE Non Rateable	74	17,856,090	20,890,630	-3,034,540	-14.53%
ALSTONVILLE Residential	1,912	405,401,600	420,328,600	-14,927,000	-3.55%
BAGOTVILLE Business	1	465,000	515,000	-50,000	-9.71%
BAGOTVILLE Farmland	13	5,319,000	5,271,000	48,000	0.91%
BAGOTVILLE Residential	18	3,732,000	4,009,000	-277,000	-6.91%
BALLINA Business	483	266,431,620	299,353,520	-32,921,900	-11.00%
BALLINA Farmland	11	8,652,200	9,584,200	-932,000	-9.72%
BALLINA Non Rateable	121	71,019,171	85,813,540	-14,794,369	-17.24%
BALLINA Residential	2,203	613,452,940	606,954,740	6,498,200	1.07%
BROKEN HEAD Farmland	10	8,629,000	10,202,000	-1,573,000	-15.42%
BROKEN HEAD Residential	7	3,793,770	3,699,770	94,000	2.54%
BROOKLET Business	2	786,000	785,000	1,000	0.13%
BROOKLET Farmland	43	30,087,000	29,854,000	233,000	0.78%
BROOKLET Non Rateable	2	188,620	211,620	-23,000	-10.87%
BROOKLET Residential	63	32,419,400	31,763,700	655,700	2.06%
CABBAGE TREE ISLAND Farmland	1	507,000	429,000	78,000	18.18%
CABBAGE TREE ISLAND Non Rateable	1	40,000	41,200	-1,200	-2.91%
CABBAGE TREE ISLAND Residential	2	708,620	783,620	-75,000	-9.57%
COOLGARDIE Business	1	220,000	236,000	-16,000	-6.78%
COOLGARDIE Farmland	14	7,142,000	7,294,000	-152,000	-2.08%
COOLGARDIE Residential	34	10,611,000	10,727,000	-116,000	-1.08%
CUMBALUM Business	4	451,000	498,000	-47,000	-9.44%
CUMBALUM Farmland	17	11,107,000	12,089,000	-982,000	-8.12%
CUMBALUM Non Rateable	16	2,166,000	2,458,600	-292,600	-11.90%
CUMBALUM Residential	455	118,026,700	128,675,600	-10,648,900	-8.28%
DALWOOD Business	1	350,000	400,000	-50,000	-12.50%
DALWOOD Farmland	48	30,645,000	30,711,000	-66,000	-0.21%
DALWOOD Non Rateable	1	11,500	11,500	0	0.00%
DALWOOD Residential	36	12,074,500	13,162,500	-1,088,000	-8.27%
EAST BALLINA Business	16	14,091,850	17,005,300	-2,913,450	-17.13%
EAST BALLINA Non Rateable	75	18,814,990	21,893,050	-3,078,060	-14.06%
EAST BALLINA Residential	1,778	624,118,200	665,337,200	-41,219,000	-6.20%
EAST WARDELL Business	1	248,000	266,000	-18,000	-6.77%
EAST WARDELL Farmland	49	29,125,000	27,282,000	1,843,000	6.76%
EAST WARDELL Non Rateable	4	514,740	587,500	-72,760	-12.38%
EAST WARDELL Residential	103	17,891,000	19,888,300	-1,997,300	-10.04%

EMPIRE VALE Business	3	106,420	117,620	-11,200	-9.52%
EMPIRE VALE Farmland	32	17,635,000	15,660,000	1,975,000	12.61%
EMPIRE VALE Non Rateable	1	153,000	170,000	-17,000	-10.00%
EMPIRE VALE Residential	69	16,414,620	21,585,620	-5,171,000	-23.96%
FERNLEIGH Business	1	76,500	85,000	-8,500	-10.00%
FERNLEIGH Farmland	47	27,147,000	27,013,000	134,000	0.50%
FERNLEIGH Non Rateable	3	557,000	620,000	-63,000	-10.16%
FERNLEIGH Residential	54	18,118,200	17,791,200	327,000	1.84%
GOAT ISLAND Residential	1	325,000	325,000	0	0.00%
KEITH HALL Business	2	933,000	1,033,000	-100,000	-9.68%
KEITH HALL Farmland	17	11,301,000	13,067,000	-1,766,000	-13.51%
KEITH HALL Residential	43	10,726,000	12,920,000	-2,194,000	-16.98%
KNOCKROW Business	4	801,000	813,000	-12,000	-1.48%
KNOCKROW Farmland	29	23,530,000	24,316,000	-786,000	-3.23%
KNOCKROW Non Rateable	5	1,598,000	1,681,000	-83,000	-4.94%
KNOCKROW Residential	45	21,034,000	20,508,000	526,000	2.56%
LENNOX HEAD Business	35	53,643,400	60,292,700	-6,649,300	-11.03%
LENNOX HEAD Farmland	16	24,015,000	27,172,000	-3,157,000	-11.62%
LENNOX HEAD Non Rateable	70	32,301,280	36,273,280	-3,972,000	-10.95%
LENNOX HEAD Residential	2,069	985,615,000	1,035,955,000	-50,340,000	-4.86%
LYNWOOD Business	3	422,000	493,000	-71,000	-14.40%
LYNWOOD Farmland	35	20,248,000	20,137,000	111,000	0.55%
LYNWOOD Non Rateable	2	1,750,000	1,730,000	20,000	1.16%
LYNWOOD Residential	40	12,136,000	13,198,000	-1,062,000	-8.05%
MAROM CREEK Farmland	5	2,040,000	2,073,000	-33,000	-1.59%
MAROM CREEK Non Rateable	1	11,500	11,500	0	0.00%
MAROM CREEK Residential	6	1,017,000	1,100,000	-83,000	-7.55%
MCLEANS RIDGES Business	1	171,000	203,000	-32,000	-15.76%
MCLEANS RIDGES Farmland	23	13,800,000	14,008,000	-208,000	-1.48%
MCLEANS RIDGES Non Rateable	1	483,000	457,000	26,000	5.69%
MCLEANS RIDGES Residential	12	4,535,000	5,201,000	-666,000	-12.81%
MEERSCHAUM VALE Business	5	427,000	461,500	-34,500	-7.48%
MEERSCHAUM VALE Farmland	45	19,470,000	19,634,000	-164,000	-0.84%
MEERSCHAUM VALE Residential	87	22,661,000	23,895,000	-1,234,000	-5.16%
NEWRYBAR Business	9	1,594,400	1,720,400	-126,000	-7.32%
NEWRYBAR Farmland	70	50,899,000	51,965,400	-1,066,400	-2.05%

NEWRYBAR Non Rateable	5	2,541,000	2,588,000	-47,000	-1.82%
NEWRYBAR Residential	131	77,673,000	74,156,000	3,517,000	4.74%
PATCHS BEACH Business	1	37,500	46,000	-8,500	-18.48%
PATCHS BEACH Farmland	3	1,409,000	1,192,000	217,000	18.20%
PATCHS BEACH Non Rateable	1	170,000	170,000	0	0.00%
PATCHS BEACH Residential	27	9,527,000	10,352,000	-825,000	-7.97%
PEARCES CREEK Business	1	109,000	117,000	-8,000	-6.84%
PEARCES CREEK Farmland	17	8,722,000	8,518,000	204,000	2.39%
PEARCES CREEK Residential	21	6,259,000	5,500,000	759,000	13.80%
PIMLICO Business	4	602,400	665,200	-62,800	-9.44%
PIMLICO Farmland	32	24,784,000	21,056,000	3,728,000	17.71%
PIMLICO ISLAND Farmland	1	315,000	317,000	-2,000	-0.63%
PIMLICO Non Rateable	1	1,800,000	2,000,000	-200,000	-10.00%
PIMLICO Residential	104	25,444,000	28,535,300	-3,091,300	-10.83%
ROUS Business	2	102,200	102,200	0	0.00%
ROUS Farmland	50	34,069,000	34,557,000	-488,000	-1.41%
ROUS Non Rateable	3	629,000	687,000	-58,000	-8.44%
ROUS Residential	35	12,958,000	14,125,000	-1,167,000	-8.26%
ROUS MILL Business	2	329,000	355,000	-26,000	-7.32%
ROUS MILL Farmland	38	24,115,000	24,120,000	-5,000	-0.02%
ROUS MILL Non Rateable	1	186,000	200,000	-14,000	-7.00%
ROUS MILL Residential	39	10,079,000	10,279,000	-200,000	-1.95%
SKENNARS HEAD Business	5	4,020,800	4,578,700	-557,900	-12.18%
SKENNARS HEAD Farmland	6	20,171,000	22,213,000	-2,042,000	-9.19%
SKENNARS HEAD Non Rateable	8	4,509,000	5,674,000	-1,165,000	-20.53%
SKENNARS HEAD Residential	299	105,236,000	128,837,000	-23,601,000	-18.32%
SOUTH BALLINA Business	3	1,735,000	1,812,500	-77,500	-4.28%
SOUTH BALLINA Farmland	1	1,170,000	1,300,000	-130,000	-10.00%
SOUTH BALLINA Residential	14	3,300,000	3,484,000	-184,000	-5.28%
TEVEN Business	5	2,617,600	2,907,600	-290,000	-9.97%
TEVEN Farmland	52	28,880,000	27,221,000	1,659,000	6.09%
TEVEN Non Rateable	4	650,880	650,880	0	0.00%
TEVEN Residential	62	19,084,500	18,837,500	247,000	1.31%
TINTENBAR Business	10	2,077,620	2,003,620	74,000	3.69%
TINTENBAR Farmland	49	34,797,000	35,876,000	-1,079,000	-3.01%
TINTENBAR Non Rateable	12	4,178,120	4,423,620	-245,500	-5.55%
TINTENBAR Residential	236	85,000,500	87,786,500	-2,786,000	-3.17%
TUCKOMBIL Farmland	44	21,976,000	21,929,000	47,000	0.21%

TUCKOMBIL Residential	60	18,965,000	19,461,000	-496,000	-2.55%
URALBA Farmland	14	9,566,500	9,751,500	-185,000	-1.90%
URALBA Residential	83	25,353,200	26,508,200	-1,155,000	-4.36%
WARDELL Business	20	4,680,900	5,451,100	-770,200	-14.13%
WARDELL Farmland	30	14,100,000	14,474,000	-374,000	-2.58%
WARDELL Non Rateable	18	5,697,400	6,485,300	-787,900	-12.15%
WARDELL Residential	254	48,420,900	54,255,100	-5,834,200	-10.75%
WEST BALLINA Business	91	54,552,300	60,540,900	-5,988,600	-9.89%
WEST BALLINA Farmland	5	2,806,000	3,403,000	-597,000	-17.54%
WEST BALLINA Non Rateable	30	13,201,960	15,105,610	-1,903,650	-12.60%
WEST BALLINA Residential	912	243,074,400	246,794,200	-3,719,800	-1.51%
WOLLONGBAR Business	15	5,363,500	6,772,000	-1,408,500	-20.80%
WOLLONGBAR Farmland	51	32,502,000	37,660,000	-5,158,000	-13.70%
WOLLONGBAR Non Rateable	25	10,009,100	11,822,800	-1,813,700	-15.34%
WOLLONGBAR Residential	934	191,824,700	205,691,700	-13,867,000	-6.74%

The following Table Five lists the highest and lowest changes based on percentages for the street locations of properties (all rating categories included). It is important to also consider the number of properties relevant to each street location listed.

Table Five: Highest and Lowest Movements – Streets

Street/Locality	No.t	2014 LV	2011 LV	2011 to 2014 LV Change ($)	2011 to 2014 LV Change (%)
McAndrews Lane PIMLICO	2	634,000	438,000	196,000	44.75%
Carrington Lane BALLINA	1	167,000	127,000	40,000	31.50%
Pacific Highway EAST WARDELL	15	5,421,240	4,324,400	1,096,840	25.36%
Carneys Lane EAST WARDELL	3	1,541,000	1,231,000	310,000	25.18%
Prosper Place BALLINA	10	2,357,000	1,884,000	473,000	25.11%
Tipperary Place BALLINA	10	2,432,000	1,948,000	484,000	24.85%
Purdies Lane EMPIRE VALE	3	1,687,000	1,370,000	317,000	23.14%
Owens Lane EAST WARDELL	7	2,612,000	2,195,000	417,000	19.00%
O'Keefes Lane EAST WARDELL	2	1,057,000	893,000	164,000	18.37%
Wellers Road TEVEN	2	1,342,000	1,134,000	208,000	18.34%
Church Lane EMPIRE VALE	3	919,620	778,620	141,000	18.11%
Whytes Lane East PIMLICO	1	323,000	274,000	49,000	17.88%
Kingfisher Place EAST BALLINA	6	1,539,000	1,320,000	219,000	16.59%
Danns Lane KEITH HALL	3	922,000	791,000	131,000	16.56%
Ronan Place WEST BALLINA	3	2,626,000	2,295,000	331,000	14.42%
Walshs Lane EAST WARDELL	3	1,266,000	1,109,000	157,000	14.16%
Elizabeth Street EAST BALLINA	7	2,719,000	2,387,000	332,000	13.91%

Aurora Place LENNOX HEAD	8	6,926,000	6,084,000	842,000	13.84%
Tweed Street BALLINA	7	3,688,000	3,272,000	416,000	12.71%
Meaneys Lane EAST WARDELL	6	2,222,000	1,981,000	241,000	12.17%
Midgen Flat Road NEWRYBAR	8	4,825,000	4,331,000	494,000	11.41%
Rayner Lane LENNOX HEAD	19	27,335,000	24,680,000	2,655,000	10.76%
Andrew Place LENNOX HEAD	13	5,648,000	5,106,000	542,000	10.61%
Jack Place LENNOX HEAD	6	4,164,000	3,769,000	395,000	10.48%
Dress Circle Drive LENNOX HEAD	55	43,604,000	39,659,000	3,945,000	9.95%
Houghlahans Creek Road PEARCES CREEK	24	10,205,000	9,295,000	910,000	9.79%
Sapphire Court LENNOX HEAD	13	7,370,000	6,713,000	657,000	9.79%
Willowbank Drive ALSTONVALE	31	9,762,000	8,899,000	863,000	9.70%
Kalbarri Place LENNOX HEAD	6	2,311,000	2,110,000	201,000	9.53%
Rutherford Street LENNOX HEAD	12	13,542,000	12,374,000	1,168,000	9.44%
Yuraygir Place LENNOX HEAD	5	1,882,000	1,725,000	157,000	9.10%
Lakefield Avenue LENNOX HEAD	22	8,357,400	7,666,300	691,100	9.01%
River Street BALLINA	170	82,440,280	96,866,880	-14,426,600	-14.89%
Cherry Street BALLINA	64	40,363,000	47,549,000	-7,186,000	-15.11%
Broadwater Place WEST BALLINA	4	1,871,000	2,205,000	-334,000	-15.15%
Dulcet Lane ALSTONVILLE	1	498,000	587,000	-89,000	-15.16%
Hogan Street BALLINA	4	1,639,000	1,932,000	-293,000	-15.17%
Wonga Way WOLLONGBAR	3	435,000	513,000	-78,000	-15.20%
Chesworth Lane WOLLONGBAR	12	5,153,000	6,079,000	-926,000	-15.23%
Sheather Street BALLINA	9	2,560,000	3,022,000	-462,000	-15.29%
Ridgeview Crescent LENNOX HEAD	19	5,603,000	6,615,000	-1,012,000	-15.30%
Sugarwharf Place LENNOX HEAD	10	2,906,000	3,438,000	-532,000	-15.47%
Clark Street BALLINA	12	4,488,000	5,311,000	-823,000	-15.50%
Tobin Close LENNOX HEAD	2	2,450,000	2,900,000	-450,000	-15.52%
Godfrey Place ALSTONVILLE	3	1,224,000	1,449,000	-225,000	-15.53%
Brighton Street EAST BALLINA	17	8,119,450	9,619,980	-1,500,530	-15.60%
Pine Street WARDELL	13	2,047,000	2,429,000	-382,000	-15.73%
Sunset Avenue WEST BALLINA	6	2,870,000	3,410,000	-540,000	-15.84%
Bayview Drive EAST BALLINA	68	23,237,100	27,616,000	-4,378,900	-15.86%
Smith Drive WEST BALLINA	23	8,042,000	9,561,000	-1,519,000	-15.89%
Fawcett Street BALLINA	7	8,430,500	10,045,500	-1,615,000	-16.08%
Killarney Crescent SKENNARS HEAD	65	34,116,000	40,705,000	-6,589,000	-16.19%
Grays Lane LYNWOOD	1	300,000	358,000	-58,000	-16.20%
Grandview Street EAST BALLINA	17	14,788,000	17,685,000	-2,897,000	-16.38%
Harbourview Street EAST BALLINA	8	5,969,800	7,148,600	-1,178,800	-16.49%
Hackett Lane BALLINA	3	3,197,000	3,833,000	-636,000	-16.59%
Wilson Street WARDELL	8	1,077,000	1,293,000	-216,000	-16.71%
Lindsay Crescent WARDELL	32	4,214,500	5,063,300	-848,800	-16.76%
Boundary Creek Road EAST WARDELL	7	4,034,000	4,876,000	-842,000	-17.27%
Rous Road LYNWOOD	1	372,000	450,000	-78,000	-17.33%
Manly Street EAST BALLINA	7	2,584,000	3,132,000	-548,000	-17.50%
Banksia Court EAST BALLINA	5	2,514,000	3,049,000	-535,000	-17.55%

Carrs Lane KEITH HALL	7	3,007,000	3,649,000	-642,000	-17.59%
Bagot Place BALLINA	5	1,300,000	1,578,000	-278,000	-17.62%
College Avenue SKENNARS HEAD	2	563,000	684,000	-121,000	-17.69%
King Street BALLINA	2	1,018,000	1,240,000	-222,000	-17.90%
McLeans Ridges Road WOLLONGBAR	9	2,946,000	3,615,000	-669,000	-18.51%
Mackney Lane LENNOX HEAD	2	558,000	686,000	-128,000	-18.66%
Park Street EAST BALLINA	4	1,463,270	1,799,000	-335,730	-18.66%
Kingsford Smith Drive BALLINA	1	405,000	498,000	-93,000	-18.67%
Kellie-Ann Crescent LENNOX HEAD	18	5,531,000	6,804,000	-1,273,000	-18.71%
South Ballina Beach Road KEITH HALL	7	2,279,000	2,806,000	-527,000	-18.78%
Regatta Avenue BALLINA	9	1,895,140	2,337,260	-442,120	-18.92%
Bellevue Avenue EAST BALLINA	17	7,112,000	8,775,000	-1,663,000	-18.95%
Hill Street EAST BALLINA	15	6,099,000	7,531,000	-1,432,000	-19.01%
Deadmans Creek Road CUMBALUM	6	2,418,000	2,995,000	-577,000	-19.27%
Sirius Place WEST BALLINA	7	4,152,000	5,151,000	-999,000	-19.39%
Chauvel Close SKENNARS HEAD	6	1,784,000	2,214,000	-430,000	-19.42%
Fox Lane BALLINA	1	805,000	1,000,000	-195,000	-19.50%
Susan Place SKENNARS HEAD	7	1,999,000	2,485,000	-486,000	-19.56%
Power Drive CUMBALUM	1	3,900,000	4,850,000	-950,000	-19.59%
King Lane BALLINA	5	2,334,000	2,921,000	-587,000	-20.10%
Lighthouse Parade EAST BALLINA	2	395,000	495,000	-100,000	-20.20%
Isabella Drive SKENNARS HEAD	29	8,869,000	11,119,000	-2,250,000	-20.24%
Kristen Close SKENNARS HEAD	4	1,504,000	1,898,000	-394,000	-20.76%
Bruxner Highway WOLLONGBAR	25	7,258,000	9,160,000	-1,902,000	-20.76%
Mayo Court SKENNARS HEAD	5	1,910,000	2,417,000	-507,000	-20.98%
Hutley Drive LENNOX HEAD	29	27,795,000	35,230,000	-7,435,000	-21.10%
Headlands Drive SKENNARS HEAD	34	9,030,000	11,458,000	-2,428,000	-21.19%
Kerry Court SKENNARS HEAD	7	2,490,000	3,160,000	-670,000	-21.20%
Carroll Avenue SKENNARS HEAD	18	4,648,000	5,908,000	-1,260,000	-21.33%
Waterford Parade SKENNARS HEAD	50	13,048,000	16,674,000	-3,626,000	-21.75%
Smith Street SKENNARS HEAD	3	760,000	972,000	-212,000	-21.81%
Lindendale Road WOLLONGBAR	23	9,847,000	12,632,000	-2,785,000	-22.05%
Verna Close SKENNARS HEAD	5	990,000	1,270,000	-280,000	-22.05%
Skennars Head Road LENNOX HEAD	3	3,116,000	4,030,000	-914,000	-22.68%
Riverbend Drive WEST BALLINA	2	3,169,000	4,110,000	-941,000	-22.90%
Range Street EAST BALLINA	5	1,572,000	2,062,000	-490,000	-23.76%
Redford Drive SKENNARS HEAD	15	5,777,000	7,639,000	-1,862,000	-24.37%
Empire Vale Road EMPIRE VALE	16	8,222,000	10,926,000	-2,704,000	-24.75%
Keith Hall Lane KEITH HALL	15	4,436,000	5,921,000	-1,485,000	-25.08%
Mitchell Close CUMBALUM	2	4,400,000	6,000,000	-1,600,000	-26.67%
Helen Court BALLINA	4	2,947,000	4,022,000	-1,075,000	-26.73%
Beryl Place LENNOX HEAD	35	8,739,600	11,986,800	-3,247,200	-27.09%
Elkhorn Parade BALLINA	10	4,268,000	5,855,000	-1,587,000	-27.11%
Park Lane LENNOX HEAD	3	6,427,000	8,914,000	-2,487,000	-27.90%
Condon Drive EAST BALLINA	2	2,271,000	3,165,000	-894,000	-28.25%

Short Street EAST BALLINA	10	4,628,000	6,540,000	-1,912,000	-29.24%
Bugden Lane ALSTONVILLE	1	59,500	85,000	-25,500	-30.00%
Boeing Avenue BALLINA	2	5,000,000	7,170,000	-2,170,000	-30.26%
Keith Hall Lane South KEITH HALL	4	2,627,000	3,834,000	-1,207,000	-31.48%
Elevation Drive SKENNARS HEAD	6	2,753,000	4,103,000	-1,350,000	-32.90%
Woodfield Crescent EAST BALLINA	11	3,871,000	5,838,000	-1,967,000	-33.69%
Thompson Crescent EAST BALLINA	13	2,871,000	4,545,000	-1,674,000	-36.83%
Toona Lane WOLLONGBAR	1	330,000	877,000	-547,000	-62.37%

Section Two – 2015/16 Rating Structure

Each year Council performs a notional calculation to obtain the total allowable general income for the following year. Included in this calculation is a percentage limit of variation from a previous year, known as the rate pegging limit.

The notional calculation method also provides Council with additional income to allow for additional service provision costs caused by growth. The growth calculation is based on property number changes and changes to land valuations of the same base date, from year to year. Council can also recover income lost in previous years (on a one off basis) for income lost as a result of valuation objections.

It is important to understand that new land valuations have no effect on the total allowable notional income yield calculation, as only current rating year land valuations are used in the calculation process.

There are a number of options Council can consider in respect to implementing its overall rating structure. Council can choose a base amount (current structure) or minimum rating structure, and can also choose to levy different rates for groups of properties categorised as residential, business, farmland or mining. Groups of properties can also be sub-categorised.

In respect to rating structures, the onus is on Council to adopt a fair and equitable structure that also complies with criteria outlined within the LGA. Ultimately it is the elected Council that determines the fairest and most equitable rating structure for its ratepayers.

As explained within section one of this report, the reason the VG provides new valuations every three years is to update the equitable distribution of rates based on the “ability to pay” principle. Council relies on the VG to determine how that part of the ordinary rate determined by land valuations is distributed. Fluctuations with the new 2014 base date land valuations will generally result in small changes to the rating burden between rateable properties.

Base Amount Rating Structure

Council has been using the base amount rating structure since 2005/06. This structure comprises two components that make up the total ordinary land rate a property pays being:

- The **base amount** is the fixed amount levied on each rateable property, or category of properties (i.e. residential, farmland and business). The base amount levied assumes that all properties benefit equally in respect of works and services provided by Council. Under the LGA, the base amount cannot generate more than 50% of the total rate income in each rating category.

- The balance of a property's ordinary rate within each category is then calculated by multiplying a **rate in the dollar by the property's land valuation**. The higher the land value, the more the property will pay.

The base amount rating structure tends to flatten out the rates payable by individual residential properties, as only half of the ordinary rate is determined by the property's land valuation. Council determined this to be the most equitable structure, as there is an underlying assumption that properties are benefiting equally from Council services.

Council has adopted a uniform base amount for all residential, business and farmland properties. The residential base amount derives just less than the maximum 50% which means that, because business and farmland category properties tend to have higher land valuations (and fewer properties) than the residential category, the base amount for business and farmland categories raises significantly less than the maximum 50% (for 2014/15, around 15% and 33% respectively).

As a result, the land valuation determines the majority of the total ordinary rate paid by business and farmland properties, which results in higher valued properties accepting a greater share of the rate burden.

The primary reason for implementing this strategy was to provide a more equitable distribution of the rate burden for business and farmland properties.

Unlike residential properties, business and farmland properties are generally income producing, so it could be argued that our rating structure recognises a correlation between the land valuation and the level of potential income able to be generated by the land (i.e. the "ability to pay" principle).

There are no changes proposed to be made to the current base amount rating structure in 2015/16.

Yield from Business Category to be 20% of the Total Yield

Due to Ballina having the lowest average rate for the business category of properties for similar sized councils, in 2006 Council resolved to increase the yield from business properties from 10% of the total rate yield to 20% over a period of five years (i.e. incrementally increase by 2% per annum).

This strategy was commenced in the 2006/07 rating year and in 2010/11, the yield from the business category had reached the desired 20%.

In all following rating years, Council decided to retain the 20% proportion of total income from the business category regardless of actual growth movements between rating categories from year to year.

Generally properties within the residential category cause the most growth, and if the total rate burden between rating categories was altered each year based on actual growth, the business category proportion would be slightly less than 20% of the total income generated.

As Council has supported this strategy for many years, it has again been included within the proposed 2015/16 rating structure.

Ordinary Rate Calculation Methodology

The following steps outline the current methodology used to set the base amount rating structure and ordinary rate.

It is intended to use the same methodology in the setting of 2015/16 ordinary rates.

1. Calculate the total notional income for 2014/15 and total notional income yield allowable for 2015/16. This entails using the base amount and rate in the dollar set in 2014/15 and applying it to the current properties and land valuations on hand (rather than those on hand when the 2014/15 rates were set in July 2014). This effectively creates a growth allowance to total allowable income for 2015/16. The rate pegging limit or special variation percentage is then applied to the calculated 2014/15 notional income. In addition to this, legislative adjustments such as income lost in previous years due to land value objections (one off adjustment) and previous year catch up/excess results are included.

2. Implement the current strategy adopted by Council to set the total business category income as 20% of the total allowable income. As reported earlier, Council may wish to consider allowing natural growth between rating categories from year to year to calculate the desired income from the business category. The natural growth in recent years has been +/- 1% of the 20% fixed percentage.

3. Take into account growth in assessments and land valuations between categories from the previous year to arrive at a percentage of total income required from the farmland and residential categories (business already set at 20% and currently no mining category properties).

4. Calculate the base amount (flat charge) for the residential category to be marginally less than 50% to conform to legislative requirements. This base amount is then utilised as the base amount for the business and farmland categories.

5. Calculate the rate in the dollar for each category, with the mining category to be set at the same rate as the business category.

Proposed 2015/16 Rating Structure

This section presents a proposed rating structure for 2015/16 based on the current structures, strategies and calculation methodologies described earlier in this report. Comparisons are also provided to previous years.

4.2 Rating Structure 2015/16 - New Land Valuations

IPART announced a rate pegging limit of 2.4% for the 2015/16 rating year however, Council has applied for a permanent special variation to allowable income of 5.41% in 2015/16 and 5.34% in 2016/17 to fund upgrades of the Ballina and Alstonville public swimming pools. IPART will advise the outcome of our application by 19 May 2015.

The following estimates are based on Council's application for a 5.41% increase in 2015/16 being successful. If unsuccessful, the 2015/16 estimates will be recalculated based on a 2.4% limit. The 3% difference equates to around $550,000 in income.

Table Six shows the adopted rating structures for 2013/14 and 2014/15. Table Seven details the proposed structure for 2015/16, which incorporates the proposed 5.41% special variation increase.

Even if Council's special variation application is successful, the figures in Table Six and Table Seven are in draft form only and will change slightly by the time they are adopted for 2015/16. This is because ratepayers may successfully object to their current valuations, and there will be variations due to growth in assessments and land valuations between now and when the 2015/16 rating structure is adopted by Council.

Table Six: 2013/14 and 2014/15 Rating Structures

Rate Category	2013/14		2014/15	
	Base Amount	Rate in Dollar	Base Amount	Rate in Dollar
Residential	420	0.161054	429	0.165306
Business	420	0.575440	429	0.604521
Farmland	420	0.130375	429	0.133971
Mining	N/A	N/A	429	0.604521

Table Seven: Proposed 2015/16 Rating Structure

Rating Category	5.41% Increase	
	Base Amount	Rate in Dollar
Residential	450	0.181039
Business	450	0.710141
Farmland	450	0.143762
Mining	450	0.710141

Table Eight details the income that will be generated for each rating category, the percentage of revenue each category derives and the average rate per category. The increase in total notional income between 2014/15 and 2015/16 equates to $989,827.

Table Eight: Proposed 2015/16 Income per Category (Cat.) at 5.41%

	2014/15				2015/16			
Rate Category	Income 2.3% Increase	Cat.% from base	Cat % of yield	Ave Rate	Income 5.41% increase	Cat % from base	Cat % of yield	Ave Rate
Residential	13,195,414	49.85	72.38	859	13,869,085	49.83	72.38	901
Business	3,646,177	14.74	20.00	2,869	3,832,117	14.95	20.00	2,961
Farmland	1,389,342	32.64	7.62	1,314	1,459,558	32.43	7.62	1,387
Mining	0	0	0.00	0.00	0.00	0.00	0.00	0.00
Total	**18,230,933**	**N/A**	**100.0**	**1,030**	**19,160,760**	**N/A**	**100.00**	**1,080**

The next three tables provide examples of the rates payable for a range of 2014 land valuations, based on the residential, business and farmland rating categories.

Remember that we will change from using 2011 base date land valuations to 2014 land valuations in 2015/16.

To provide more realistic comparative data, the 2015/16 ordinary rates listed are calculated using the 2014 land valuation shown in column three. However, the 2014/15 comparative ordinary rate calculation uses a land valuation adjusted up by the average land valuation decrease for that rating category.

For example, in the first row of the residential rates payable table, the 2015/16 rate payable is calculated on the 2014 land value of $50,000. The 2014/15 rate payable is based on a land value of $52,165 as the average residential land valuations decreased by 4.33% between 2011 and 2014.

The average rating category percentage decrease for residential (4.33%), business (10.99%) and farmland (1.94%) were applied in this regard.

Table Nine: Residential Rates Payable in 2015/16

(**2014/15 rate based on **4.33%** higher land valuation than listed)

2014 Land Value Range	Property Count	**2014 Land Valuation Used for Calculation	**2014/15 rate	2015/16 rate	Change ($)	Change (%)
0 to 99,999	1,836	50,000	515	541	25	4.91%
100,000 to 199,999	5,260	150,000	688	722	34	4.92%
200,000 to 299,999	4,411	250,000	860	903	42	4.93%
300,000 to 399,999	2,361	350,000	1,033	1,084	51	4.94%
400,000 to 499,999	676	450,000	1,205	1,265	60	4.94%
500,000 to 599,999	292	550,000	1,378	1,446	68	4.95%
600,000 to 699,999	180	650,000	1,550	1,627	77	4.95%
700,000 to 799,999	101	750,000	1,722	1,808	85	4.95%
800,000 to 899,999	96	850,000	1,895	1,989	94	4.95%
900,000 to 999,999	52	950,000	2,067	2,170	102	4.96%
1,000,000 to 1,499,999	86	1,250,000	2,585	2,713	128	4.96%
1,500,000 to 1,999,999	23	1,750,000	3,447	3,618	171	4.96%
2,000,000 to 2,999,999	9	2,500,000	4,741	4,976	235	4.97%
> 3,000,000	7	3,000,000	5,603	5,881	278	4.97%

4.2 Rating Structure 2015/16 - New Land Valuations

Table Ten: Business Rates Payable in 2015/16

(**2014/15 rate based on **10.99%** higher land valuation than listed)

2014 Land Value Range	Property Count	**2014 Land Valuation Used for Calculation	**2014/15 rate	2015/16 rate	Change ($)	Change (%)
0 to 99,999	356	50,000	764	805	41	5.31%
100,000 to 199,999	312	150,000	1,435	1,515	80	5.56%
200,000 to 299,999	165	250,000	2,106	2,225	119	5.65%
300,000 to 399,999	141	350,000	2,777	2,935	158	5.69%
400,000 to 499,999	107	450,000	3,448	3,646	197	5.72%
500,000 to 599,999	43	550,000	4,119	4,356	237	5.74%
600,000 to 699,999	31	650,000	4,790	5,066	276	5.76%
700,000 to 799,999	22	750,000	5,461	5,776	315	5.77%
800,000 to 899,999	13	850,000	6,132	6,486	354	5.77%
900,000 to 999,999	12	950,000	6,803	7,196	393	5.78%
1,000,000 to 1,499,999	46	1,250,000	8,816	9,327	511	5.79%
1,500,000 to 1,999,999	19	1,750,000	12,171	12,877	707	5.81%
2,000,000 to 2,999,999	16	2,500,000	17,203	18,204	1,001	5.82%
> 3,000,000	11	3,000,000	20,558	21,754	1,196	5.82%

Table Eleven: Farmland Rates Payable in 2015/16

(**2014/15 rate based on **1.94%** higher land valuation than listed)

Land Value Range	Property Count	**2014 Land Valuation Used for Calculation	**2014/15 rate	2015/16 rate	Change ($)	Change (%)
0 to 99,999	4	50,000	497	522	25	4.95%
100,000 to 199,999	2	150,000	634	666	32	5.02%
200,000 to 299,999	44	250,000	770	809	39	5.06%
300,000 to 399,999	196	350,000	907	953	46	5.09%
400,000 to 499,999	255	450,000	1,044	1,097	53	5.11%
500,000 to 599,999	166	550,000	1,180	1,241	61	5.13%
600,000 to 699,999	98	650,000	1,317	1,384	68	5.15%
700,000 to 799,999	79	750,000	1,453	1,528	75	5.16%
800,000 to 899,999	60	850,000	1,590	1,672	82	5.17%
900,000 to 999,999	36	950,000	1,726	1,816	89	5.17%
1,000,000 to 1,499,999	72	1,250,000	2,136	2,247	111	5.19%
1,500,000 to 1,999,999	17	1,750,000	2,819	2,966	147	5.21%

4.2 Rating Structure 2015/16 - New Land Valuations

Land Value Range	Property Count	**2014 Land Valuation Used for Calculation	**2014/15 rate	2015/16 rate	Change ($)	Change (%)
2,000,000 to 2,999,999	16	2,500,000	3,843	4,044	201	5.22%
> 3,000,000	7	3,000,000	4,526	4,763	237	5.23%

For **eligible pensioners**, the general concession (ie ordinary rates plus domestic waste charges) in accordance with the LGA is 50% of the general levy to a maximum of $250 per annum.

This maximum has remained unchanged for many years. All properties have paid greater than $500 per annum in ordinary rates and domestic waste charges for some time now and as a result, pensioners will meet the full cost of any increase.

For many years, Council has received a 55% reimbursement of pensioner concessions granted from the State Government (legislation has only ever provided for a 50% reimbursement). The Federal Government funded the additional 5% reimbursement however, ceased this contribution last year. The State Government still paid Council for 55% in 2014/15.

The current State Government has promised to continue to provide a 55% reimbursement for the next three annual claims (claims are made once a year in October).

In regard to our previous annual claim for reimbursement in October 2014, we provided a total of $1,443,000 in pensioner concessions for all rates and charges (i.e. ordinary rates, domestic waste charges, water and wastewater charges). Of this, the State Government provided a 55% reimbursement being $794,000.

If we were not provided with the the additional 5%, it would equate to $72,000 in lost revenue. For ordinary rates and domestic waste charge pensioner concessions only (i.e. excluding water and wastewater), the 5% reduction would result in a $45,000 loss to General Fund revenue.

Rating Multiple Occupancy Developments

The equity of rating has been debated for many years. Multiple occupancy properties or developments (MOD) are an example of a property type that has come under particular scrutiny as a perceived inequity. Examples of multiple occupancy developments include mobile home parks, gated villages, retirement villages, residential flat developments and rural properties that have multiple dwellings on site.

Strata units are not included because they are a separate legal land title and are separately rateable in accordance with relevant legislation. Lots within community plans and neighbourhood plans are also excluded as they are very similar to strata plans. The only difference is that multiple occupancy developments can be built on a single lot, which does result in perceived rating inequities outlined below.

In accordance with the current LGA and the Valuation of Land Act 1916 (VLA) legislation, the whole land area that a MOD comprises is valued and rated as a single rating assessment.

Even if the total land value reflects the number of internal sites, and was comparable for example, to a house, the MOD property attracts the same single base amount as the house (as they are both a single assessment for rating purposes).

Our 2014/15 base amount (flat amount) is $429 and the draft 2015/16 base amount is $450.

This is the primary reason why, if you divided the rates on a MOD by the number of sites within the development, and compare this to the rates a house site pays, the internal sites within the MOD pay much less (the more sites increases the difference).

The argument is that the MOD sites have exactly the same access to Council services as the house site so why is their ordinary rate contribution so different?

We acknowledge that rates are effectively an asset tax and that is why councils are forced to levy inclining rates on inclining individual property land valuations (the degree somewhat decided by individual councils). The idea being that there is a direct relationship between the value of land and a ratepayer's ability to pay rates. Using this rationale, maybe the MOD should pay a little less than a house.

It is important to understand that this is an equity issue and Council would not generate any additional total rate revenue if it were allowed to change its rating structure for MOD's (for example, if levying additional flat base amounts based on the number of internal sites). Any change to the rating structure would simply redistribute the rate burden as Council's allowable total rate revenue is capped by legislation.

An example of a MOD is Alstonville Retirement Village. This village is built on one of four lots within a community plan. The total ordinary rates payable in 2014/15 are approximately $12,500 which includes one base amount of $429.00. There are approximately 70 individual self-contained occupancies within the village. If you divide the total payable for the whole village by the number of individual sites, each site would pay approximately $178. Our average 2014/15 residential rate is $859 per assessment.

The rating of MOD's is a complex matter. The following points provide commentary of some of the complexities in regard to current legislative limitations.

- The Valuation of Land Act 1916 (VLA) does not permit the separate valuation (and therefore separate rating) of MOD's discussed within this report
- The Local Government (General) Regulation 2005 (LGR) requires retirement villages and serviced apartments to be rated as residential, and caravan/mobile home parks to be rated as business

- The Local Government Act 1993 (LGA) provides a rating exemption for public benevolent institutions or public charities. For example, Crowley Retirement Village in Cherry Street Ballina is exempt from paying any ordinary land rates
- The LGA states that only a single base amount can be applied to a single rating assessment, and the base amount must be the same for each property within a rating category or sub category. Base amounts can also only generate up to 50% of the total income generated within a category or sub category.
- Sub categorisation for residential land must be based on a centre of population, and for business be based on a centre of activity. This means it would be unlikely Council could sub categorise any similar MOD property types.

The above legislative restrictions mean that Council is currently unable to target any changes to the rating of MOD's such as:

- Levying multiple base amounts that are based on the number of internal self-contained occupancies or sites.
- Sub categorise MOD's based on the type of MOD (the basis of this to set a different base amount to other sub categories).

The State Government engaged "The Independent Local Government Review Panel" to review a range of issues affecting Local Government issues, and one of these was finance/rating legislation.

This Panel released its final report late 2014 and a review of the rating of multiple occupancies as well as rating exemptions was recommended.

The State Government is in the process of preparing a response to the Panel's findings however it is anticipated that this response may take some time.

There has been recent Councillor support to convene a workshop to deal with this matter however, it could also be argued that the best avenue for changing legislation lies with the possible State Government review.

Unless Council decides upon a different course of action, the intention is that rating staff will review the matter following the State Government response to the Independent Local Government Review Panel recommendations.

Legal / Resource / Financial Implications

It is important that Council adopt the most equitable and fairest rating structure within the limitations that exist within the legislation.

Rates are a very important component of a council's resource or revenue base. They provide a guaranteed income source and rate income can be used to finance essentially any service provided by a council.

Ballina Shire has been acknowledged as a low rating council, on a comparative basis to other councils, for many years. This strategy worked well when Council was generating substantial entrepreneurial revenues, held strong cash reserves and had a low debt service ratio. Council now faces limited cash reserves, debt that is at the maximum end of the benchmark and an economy that is making it difficult to generate a reasonable return on investments. This position increases the importance of the ordinary rate income.

Council has received approval for special variation increases above the rate pegging limit over the past ten years or so however, despite these increases that exceed rate pegging limits, Ballina Shire will, in many cases, remain below comparative councils and those councils still struggle to provide essential services even with a higher rate base.

Consultation

The rating structure will be placed on exhibition for public comment as part of the 2015/16 Operational Plan.

Options

There a number of options in respect to rating structures however, the key point is that the total rate income yield remains the same, regardless of the rating structure.

The rating structure determines how the ordinary rates are apportioned between individual properties rather than increasing rate income.

The recommendation that follows endorses the current structure and if Council wishes to consider alternative options they can be examined at this meeting or if they require calculations, they will need to be presented to a future meeting.

Typically the community is very interested in any significant changes to the rating structure. If Council were to consider making significant changes to the current rating structure, extensive community engagement would be required.

RECOMMENDATIONS

1. That Council, for the 2015/16 Draft Operation Plan, include a base rating structure, modelled on the existing structure, which applies the following principles:

   a) Marginally less than 50% of the rate income for the residential category of properties being generated from the base amount
   b) Business, farmland and mining categories to have the same base amount as the residential base amount
   c) A total of 20% income from the rate yield to be sourced from the business category properties
   d) The mining category rate in the dollar to be set as the same rate as the business category (currently no mining category properties in the shire).

2. That Council notes the indicative figures for this rating structure for 2015/16, are as per tables Seven and Eight within this report and as outlined below:

Table Seven: Proposed 2015/16 Rating Structure

Rating Category	2015/16 - 5.41% Increase	
	Base Amount	Rate in Dollar
Residential	450	0.181039
Business	450	0.710141
Farmland	450	0.143762
Mining	450	0.710141

Table Eight: Proposed 2015/16 Income per Category (Cat.) at 5.41%

	2014/15			2015/16		
Rate Category	Income 2.3% increase	Cat % of yield	Ave Rate	Income 5.41% increase	Cat % of yield	Ave Rate
Residential	13,195,414	72.38	859	13,869,085	72.38	901
Business	3,646,177	20.00	2,869	3,832,117	20.00	2,961
Farmland	1,389,342	7.62	1,314	1,459,558	7.62	1,387
Mining	0	0.00	0.00	0.00	0.00	0.00
Total	**18,230,933**	**100.0**	**1,030**	**19,160,760**	**100.00**	**1,080**

Attachment(s)

Nil

4.3 Drainage Charge - Evaluation

Delivery Program	Governance and Finance
Objective	To investigate the possibility of levying an annual drainage charge to fund catchment works.

Background

Council resolved at the April 2014 Ordinary meeting to investigate the introduction of an annual charge for drainage as per the following resolution:

'That Council receive a report on options for the introduction of an annual charge for drainage works in respect to Richmond River County Council for 2015/16 onwards'.

The background to this resolution is that Council was asked to contribute funds to Richmond River County Council to assist various works related to the Catchment Zone Management Plan (CZMP) for the Richmond River.

Council subsequently allocated approximately $35,000 in the Long Term Financial Plan for 2014/15 onwards to assist with funding works in the CZMP. As the allocation of these additional monies, resulting in increased services, placed further pressure on Council's finances the introduction of an annual drainage charge was considered to be one option that could potentially fund these works into the future.

Key Issues

- Legality

Information

Under Section 501 of the Local Government Act Council can raise an annual charge for drainage. This charge may be in addition to the annual stormwater levy currently raised by Council. The charge can be set at an amount of Council's choosing (within reason given the notional yield limitations discussed below) and levied on properties that receive a benefit from the works or services to which the revenue is applied.

A critical issue with this charge is that the charge would not be exempt from the ordinary rate notional yield calculation. Section 505 of the Local Government Act details the types of charges that are exempt from the notional yield and unfortunately drainage is not one of them. In contrast, for example, the new Waste Operations Annual Charge raised in 2014/15 is a nominated exemption.

This means that whilst Council could levy a new annual drainage charge there would be no additional income received by Council because the income derived from ordinary rates will need to reduce by the value of the drainage levy.

Further, a new drainage charge means that Council's flexibility to respond to changing community needs is diminished because a set amount of revenue, that would otherwise be general revenue, must be applied to drainage annually that benefits the properties charged for the service.

For these reasons it is considered that an annual drainage charge is not a viable option.

In researching this matter only one Council was identified that is raising this charge (excludes councils under Act's other than the Local Government Act).

Staff at this Council (Tamworth) acknowledges that the drainage charge is of no particular benefit in terms of raising additional income. Apparently the charge has been in place for a long time and they are considering removing the charge.

Special Rate

It would be possible for Council to levy a special rate on those properties benefitting from the application of the revenue. It is considered that there is little merit in this approach because once again the revenue raised would fall under the ordinary rate notional yield.

However additional income could be generated via a special rate by making application and having approved a special variation to the rate peg limit.

This is always an option for Council and indeed this option is available in respect to increasing general revenue via the same process that has occurred for the swimming pools.

Once again however, if Council were to seek a special variation to Ordinary Rate income, there is no benefit in restricting your options to being confined via a special rate to drainage.

Richmond River County Council (RRCC)

Discussions with staff at RRCC indicate that it may be possible for their Council to levy an annual drainage charge. The issue for this Council is the logistics of levying such a charge which would include establishing and maintaining a data base from which to make the levy, having staff in place to administer the charge and then perform the works.

At this stage RRCC are not proposing to levy an annual drainage charge.

Legal / Resource / Financial Implications

The option to levy an annual drainage charge will impact on Council's allocation of resources and general revenue.

Consultation

Various councils were contacted as was the legal branch of the Local Government and Shires Association.

Options

Council may choose to further investigate the option of raising an annual drainage charge or resolve that no further action is taken in respect to this matter.

As this charge does directly impact Council's notional rate yield there is no direct benefit in levying the charge and the recommendation is to note the contents of this report (i.e. no further action).

RECOMMENDATION

That Council notes the contents of this report in respect to the introduction of an annual drainage charge and accepts that there is no direct financial benefit in introducing the charge as it forms part of Council's ordinary rate notional yield calculation.

Attachment(s)

Nil

4.4 Investment Portfolio - Review

Delivery Program	Governance and Finance
Objective	To review the investment portfolio to assess current holdings and future directions

Background

At the November 2014 Ordinary meeting Council resolved as follows:

'That Council receive a report on options for the disposal of floating rate notes.'

It was considered appropriate to review the entire portfolio as opposed to just the floating rate notes. To this end an independent assessment of the portfolio was commissioned.

The consultant was chosen based on work performed for other councils and the fact that they do not receive commissions from placements. This assists in receiving independent and objective advice and recommendations.

The first attachment to this report is a copy of the Council Investment Summary as presented to the December 2014 Ordinary Council meeting as it is that summary that the independent report was based on. The second attachment is the independent report.

Key Issues

- Preservation of capital, return on investment and liquidity
- Future actions / directions for management of the portfolio

Information

A summary of the key points raised in the independent report prepared by Andrew Vallner of CPG Research and Advisory are as follows.

General points:

- There is an elevated risk of recession in Australia as commodity prices fall, the mining boom ends, recession in Europe, sending the Australian dollar lower, China's relatively hard landing,12 year unemployment high, second round of manufacturing closures and real wages falling

- Interest rates are likely to remain low for quite some time. "If the market is accurate, the global financial crisis (GFC) achieved a permanent rerating of interest to ultra-low levels"

- Invest in long term deposits as further rate cuts are forecast (note this report was written prior to the latest cut by the Reserve Bank on 4 February 2015)

- Increase the target allocation to Floating Rate Notes (FRN) as deposit rates fall and spreads widen. FRN's with a BBB rating will provide the best returns.

General points in respect to Ballina's portfolio:

- The portfolio is of very high quality with approximately 71% of assets rated "A" or higher. The regional Australian Deposit Taking Institutions (ADIs) and listed National Australia Bank (NAB) securities account for the remaining 29%. This is typical of the local government peer group

- As at the review date, Council did not have an overweight position to any single ADI. Overall the portfolio is well diversified across the investment grade spectrum

- Council's deposit portfolio is highly liquid, with around 28% of assets maturing within three months and an additional 54% of assets maturing within 12 months. Saleable bonds and FRNs also provide additional liquidity

- Term deposits have a weighted average maturity of approximately six months. The longer-dated deposits are likely to be the main contributor to outperform against the benchmark and are providing some income protection in a low interest environment

- The peer group typically provides itself with the flexibility to invest up to 50% in longer-dated assets, the extent to which they use this varies, many councils have adopted much more diverse portfolios, and these have tended to be outperformers.

- Council's investment portfolio is mainly directed to deposits, which account for approximately 83% of total assets. Longer-dated deposits have the most attractive margins in early 2015, as they have been slow to adjust to the bond market movement. As they normalise, regional bank FRNs not only offer liquidity, but may cross over deposits later in the year to become the preferred investment.

The structure of the review includes indicators as to whether the portfolio is 'in accordance with policy and recommendations'; 'is materially consistent however some rectification required' or 'the portfolio is inconsistent with policy and action is required to reweight the portfolio'.

The aspects assessed were, credit quality, counterparty, term to maturity and asset class. In respect to each aspect, Ballina's indicator was 'in accordance with policy'.

Recommendations to improve the performance of Ballina's portfolio:

- Council should look to diversify the portfolio by investing in longer terms deposits (say two to five years) in the first quarter and then look at FRN's later in the year, particularly from regional banks

- The AMP notice account represents good value for short term money and Council should look at this option

- Council could look to sell the Westpac FRN maturing in 2017 and lock in the capital surplus

- Watching brief on the Westpac FRN maturing in 2019. At this stage it is not opportune to sell however as it gets closer to maturity it may be prudent to sell once inside three year's remaining life

- The NAB perpetual security is not economic to sell at this point. It is likely that NAB will call the security once the new banking regulations (referred to as Basel 2) come in to effect in 2021 or 2022 as this will effectively improve the rating of the security. See further commentary on this security later in this report

- The remaining FRN's should be held to maturity as they are performing and there is no particular upside to sale

- Council could look to sell the CBA Transferrable Deposit and lock in the capital gain.

It has been a worthwhile exercise to review the entire portfolio and the independent assessment has been valuable. The portfolio is appropriate for a local government authority with the 'Grandfathered' securities being a source of contention.

CPG are of the view that there is some opportunity to improve performance by taking out some longer term deposits and possibly more FRN's later in the year.

Certainly in a falling market there is better value in longer term investments. There is always the risk that the market will turn in that period and Council will have locked in a very low interest rate for quite some time, but based on current thinking it seems rates will stay low indefinitely.

Staff must also be careful of the Investment Policy which requires that 'not more than 40% of the portfolio can be placed in investments exceeding 12 months to maturity and not more than 20% in investments exceeding three years to maturity'.

The current weightings of the portfolio are comfortably within these tolerances however if the total portfolio continues to fall, as predicted, the three year threshold will get above 15%. This is suggesting that there remains some scope to make some longer term placements if the right opportunity arises.

Current Practice

The critical points in the strategy to manage the portfolio include:

- Preservation of capital is the main objective. This means selecting products which have, as near as possible, a capital guarantee

- Diversify the risk by spreading investments across a range of institutions and having agreed maximums that can be placed with each institution

- We have been cautious and not taken a strong position in respect to the bulk of the portfolio in terms of market risk. The majority of the portfolio will float up and down with market fluctuations via term deposits that are reasonably short term (up to 12 months). This is in accordance with the direction of the Investment Policy

- Investments are allocated to ensure that Council has sufficient liquidity to meet cash flow requirements. This includes minimising at call accounts (low interest returns) by judging cash flow obligations

- Look to add value to returns by a limited number of FRN's and longer term deposits. Staff have not been active in trading securities and they are typically held to maturity. It is likely that an active approach to trading could add value however there is also a risk with buying and selling. If trading was to be entertained, parameters would need to be established and independent advice received from industry specialists

- In respect to the FRN's Council has had a watching brief on the NAB perpetual security and the National Wealth Management FRN. The intent has been to sell these securities if the opportunity arose.

The current strategy looks to reflect the directions and parameters of the Investment Policy.

Floating Rate Notes

Council currently has six FRN's and one Transferable Deposit in the portfolio and each of these are considered below. To assist the discussion the following interest rates are provided for information and to enable comparison against the rates being achieved by the FRN's.

2014/15 portfolio average to January	3.59%
Example Term Deposit (6 months) with AMP Bank (A+) 17/2/15	3.05%
Example Term Deposit: (6 months) with ME Bank (BBB+) 17/2/15	3.20%
Example FRN: Newcastle Permanent BBB+3yrs offered 20/2/15	3.42%

The portfolio average from February to June 2015 will be less than the first seven months of the year due to continuing interest rate cuts. It can be seen in the comparative examples provided that there is a nexus between lower rating / higher risk better return.

Goldman Sachs maturing April 2016 A (BBSW +0.51): the advice from CPG is to hold this FRN until maturity.

It is currently valued at $998,000, which is just beneath the purchase price $1,000,000 and the current interest coupon is 3.25%. It is proposed to hold until maturity.

Westpac maturing February 2017 AA- (BBSW +1.65): the advice from CPG is to sell, lock in the capital gain and look to invest in another FRN when appropriate.

It is currently valued at $1,027,000 in comparison to a purchase price of $1,000,000 and the current interest coupon is 4.05%.

It is assumed that if the FRN was sold it is likely that the new interest coupon would be based on a rate of 3.42%, as we would look to lock in, for example, a three year FRN. Over the two year period (until it otherwise matured) there would a drop in interest income of approximately $14,000.

Hence it is likely that there is a small gain to be made on the sale of this note.

This FRN could be sold, assuming it remains economic to do so on the day of sale.

Westpac maturing February 2019 AA- (BBSW +0.94): the advice from CPG is to hold the security however watch the trading value as it may be beneficial to sell in approximately one year's time.

It is currently valued at $2,019,000, which is a surplus of $19,000 in comparison to the purchase price of $2,000,000. The current interest coupon is 3.67%. It is proposed to hold at this stage and monitor trading movements.

Greater Building Society maturing July 2016 BBB (BBSW +1.45): the advice from CPG is to hold the security until maturity.

It is currently valued at $2,007,000, which is a surplus of $7,000 in comparison to the purchase price of $2,000,000. The current interest coupon is 4.17%. It is proposed to hold at this stage and monitor trading movements.

CBA Transferable Deposit maturing January 2018 AA- (4.25% fixed): the advice from CPG is to sell this security and take advantage of the capital growth.

It is currently valued at $2,084,000 in comparison to a purchase price of $1,994,000 and the interest coupon is $4.25%.

It is assumed that if the TD was sold it is likely that the new interest coupon would be based on a rate of 3.42%. Over the three year period (until it otherwise matured) there would a drop in interest income of approximately $50,000.

Hence, depending on the replacement investment it makes sense to accept the capital gain.

This TD could be sold, assuming that it remains financially favourable, on the day of sale.

National Wealth Management Holdings maturing 2026 A- (BBSW +0.63): the advice from CPG is to hold the security however watch the trading value as it may be beneficial to sell in due course.

It is currently valued at $1,955,000, which is a deficit of $45,000 in comparison to the purchase price of $2,000,000. The current interest coupon is 3.37%.

This security remains in the portfolio under grandfathering provisions, as it does not comply with the current Minister's Order. It is based on subordinated debt and securities must now be based on senior debt.

This security was purchased in 2006 and has performed reasonably without being great. The FRN has achieved an average rate of 5.19% over the last nine years. This compares to the portfolio average of 5.45% over the same period of time.

NAB has an option to ‘call’ the security in 2016, which means that Council would be returned the purchase value at that time.

CPG advise that in virtually every instance the institution does ‘call’ the product. However NAB has proven that they do not always adhere to this protocol, despite the fact that by not ‘calling’ the product they are harming their industry reputation.

CPG advise that if this security is not called in 2016, the trading value of the security will fall in comparison to its current value. This would likely mean that it would not be economic to sell and it would be a matter of holding until maturity in 2026.

A further risk is that the security is backed by National Wealth Management Holdings, which is a wholly owned subsidiary of the NAB. There has been discussion about the NAB selling the subsidiary and again the thought is that if this occurred the trading position of the FRN would suffer. For this reason CPG see it as a high risk security.

So the options are:

- To sell on FRN and accept the capital loss because you do not want to hold to maturity and you are concerned that NAB will not ‘call’ the security in 2016

- To hold the FRN, accept that it is steady performer and in all likelihood it will be called in 2016. If it is not called then you may need to hold until maturity in 2026

- To hold at this time, but continue to monitor the trading value with a view to sale.

The advice of CPG is to hold and monitor.

In looking at the options it may be prudent to accept the loss. Certainly if the instrument was not ‘called’ it would become difficult to sell. Then there is a 10 year period to maturity, during which time NAB may sell the subsidiary. The sale itself is not fatal in that it would still require the subsidiary and the new owner to fail before 2026.

Whilst we have not actively traded securities, staff have maintained a ‘watch’ brief on this FRN with the intent of sale, primarily because of the length of time to maturity.

On balance the recommendation is to sell the security and accept the loss.

The loss will be more than offset by the capital gains from the sale of the products trading above face value.

NAB in perpetuity BBB (BBSW +1.25): the advice from CPG is to hold the security however watch the trading value as it may be beneficial to sell in the future.

It is currently valued at $1,375,000 which is a deficit of $413,000 in comparison to the purchase price of $1,788,000. The current interest coupon is 4.03%.

This security was purchased in 2004 and has performed very well in terms of interest paid. The FRN has achieved an average rate of 5.97 % over the last 11 years. This compares favorably to the portfolio average of 5.53% over the same period of time.

Whilst the FRN has been one of the better performers the concern is the trading value is well below par and the fact that it is a perpetual product.

At the time of purchase the security was an 'A' rated NAB product and since the global financial crisis and falling interest rates it has slipped to a BBB rating. The bank had the option to 'call' the security any time after five years from issue however this has not occurred.

CPG are of the view that the new banking regulations (Basel 2) that are coming into effect will encourage the bank to 'call' the security or at least make a reasonably good offer to buy the securities back. In effect the Australian Prudential Regulation Authority is saying that they want the NAB to 'call' the security.

However there is also a possibility that NAB will not act, despite the Basel 2 regulations and this may cause a further drop in the trading value of the security.

So the options are:

- To sell on the FRN and accept the capital loss

- To hold at this time, but continue to monitor the trading value with a view to sale pending the full impact of the banking regulations.

The view of CPG is that it remains prudent to hold the security as most commentators (including UBS and Morgan Stanley) are predicting a rise in the trading value of the security. In fact CPG are advising eligible clients to purchase the security as they believe that it will increase in value over the next few years.

Staff have maintained a 'watch' brief on this FRN with the intent of sale because of the poor trading value and the fact that it is an in perpetuity security. Also the security is no longer an eligible product under the Minister's Order and remains in the portfolio under grandfathering provisions.

Whilst it is not considered prudent to have a product in the portfolio of this nature, at the time of purchase it was an 'A' rated security that complied with the Minister's Order and was/is owned by the NAB.

The recommendation is that Council holds the FRN on the basis that it is backed by the NAB and continues to provide a strong return.

Council has effectively accepted the 'loss' associated with this product in a book sense some time ago. Accounting regulations require that Council adjusts our financial statements to reflect the fair value of our investments annually.

Conclusion

Subject to direction from Council the proposed strategy going forward is quite similar to what has been occurring. It is proposed to keep a majority of the portfolio in term deposits with limited exposure to FRN's.

Staff will look to invest in some slightly longer term deposits where the opportunity presents.

In terms of sales of FRN's, staff may look to trade where there is obvious opportunity but it is not proposed to target trading as a regular enterprise.

The recommendations in respect to this report are in the context that the sale must present economic value on the day of the sale. The comparisons discussed in this report are already a few weeks old and any sale would be subject to the latest information in terms of market movements. During the preparation of this report the Reserve Bank reduced the cash rate by 25 basis points so it has made comparisons and forecasts difficult.

A summary of the proposed sales is shown in the following table.

The table details the estimated capital gain or loss if the note is sold and the estimated gain or loss of interest income.

The estimated gain or loss of interest income looks at the interest earned if the security is and is not sold over the length of time to maturity.

Estimated Gain or Loss on sale of selected securities

Investment	**Face Value $000**	**Est Sale Price $000**	**Capital Gain/(Loss) $000**	**Current Interest Rate**	**New Interest Rate (Est)**	**Gain / Loss on Rates $000**	**Net Gain/ Loss $000**
Westpac FRN 2017	1,000	1,027	**27**	4.05	3.42	**(13)**	**14**
CBA Transfer Deposit	1,994	2,084	**90**	4.25	3.42	**(50)**	**40**
National Wealth	2,000	1,955	**(45)**	3.37	3.42	**1**	**(44)**
Total			**72**			**(62)**	**10**

The forecast shows that a surplus will be achieved on the sale of the Westpac FRN and the CBA TD, whilst a loss will occur with the National Wealth security. In total there is a forecast capital gain of $72,000.

The outcome in respect to interest is obviously subject to what happens with rates in the future and the calculation is based on current information.

The forecasts in respect to the two positive sales (Westpac FRN and CBA TD) support the advice of CPG that it is beneficial to sell at this time.

The negative sale, whilst not recommended by CPG at this time, comes back to the risk associated with holding the security.

It is proposed that following the sales of these notes staff would look to make longer term placements of up to three years to replace the longer term investments. This provides some balance to the portfolio in terms of lengths to maturity.

Given that the portfolio management will be kept quite simple it is generally unnecessary to receive regular advice on investment placements.

However it is considered that ongoing occasional advice is worthwhile such that staff will be alerted to an opportunity to buy or sell. Also it may assist with monitoring the situation with the NAB Perpetual FRN.

It is estimated that to receive advice on an occasional basis would cost in the order of $5,000 per annum and it is proposed to incorporate this cost into existing budgets.

As a final point the way in which Council manages the Investment Portfolio impacts various ratio's but in particular the 'unrestricted current ratio'. If the cash is tied up for longer than 12 months it is not included as a current asset, which has a negative effect on the ratio.

This is mentioned as a side point in that the way in which the portfolio is managed is not dictated by considerations of how the ratio will be affected but it is an outcome that is relevant when discussing ratios and the indicators.

Legal / Resource / Financial Implications

The management of the investment portfolio has financial implications that can impact recurrent revenue streams.

Consultation

An external expert has been paid to review the portfolio and make recommendations.

Options

There are numerous options available to Council in terms of how the portfolio is managed and the recommendations that follow support the information section of this report.

RECOMMENDATIONS

1. That Council continue to manage the portfolio in accordance with the adopted Investment Policy.

2. That the General Manager has approval to sell the following Floating Rate Notes (FRN) and Transfer Deposit (TD), subject to it being economical to do so on the day of sale:

   - Westpac FRN maturing in 2017
   - National Wealth Management Holdings FRN maturing 2026
   - CBA TD maturing 2018

3. That the General Manager seek external independent portfolio advice, as and when required.

Attachment(s)

1. Investments held as at 30 November 2014
2. Investment Portfolio Review

Investments held as at 30 November 2014 ($'000)

PURCH DATE	ISSUER	TYPE	RATE	FINAL MATURITY DATE	PURCH VALUE $'000	FAIR VALUE $'000
at call	Commonwealth Bank Of Australia	CDA	2.45%	at call	1,982	1,982
20/09/04	National Australia Bank (ASX Listed)	FRN	3.89%	Perpetual	1,788	1,418
12/04/06	Goldman Sachs	FRN	3.17%	12/04/16	1,000	998
16/06/06	National Wealth M'ment Holdings	FRN	3.27%	16/06/26	2,000	1,944
24/01/12	ING Bank Ltd	FRTD	4.59%	24/01/17	1,000	1,000
06/02/12	Westpac Bank	FRN	4.40%	06/02/17	1,000	1,029
25/01/13	Commonwealth Bank Of Australia	TD	4.25%	25/01/18	1,993	2,054
05/06/13	National Australia Bank	FRTD	3.91%	05/06/15	2,000	2,000
07/06/13	Greater Bld Society	FRN	4.08%	07/06/16	2,000	2,011
06/11/13	Bank of Queensland	TD	3.80%	06/05/14	1,000	1,000
25/11/13	Suncorp-Metway Bank	TD	3.65%	25/05/14	2,000	2,000
24/01/14	AMP Bank	TD	3.80%	23/01/15	2,000	2,000
25/02/14	Westpac Bank	FRN	3.58%	25/02/19	2,000	2,021
13/06/14	Westpac Bank	TD	3.65%	10/12/14	2,000	2,000
23/06/14	Rural Bank Ltd	TD	3.65%	22/12/14	1,000	1,000
03/07/14	Suncorp-Metway Bank	TD	3.45%	05/01/15	3,000	3,000
31/07/14	AMP Bank	TD	3.50%	27/01/15	2,000	2,000
05/08/14	AMP Bank	TD	3.50%	27/01/15	2,000	2,000
11/08/14	ING Bank Ltd	TD	3.45%	11/02/15	2,000	2,000
26/08/14	National Australia Bank	TD	3.65%	26/02/15	1,000	1,000
04/09/14	Suncorp-Metway Bank	TD	3.45%	03/03/15	2,000	2,000
22/09/14	Members Equity Bank	TD	3.65%	22/09/15	1,000	1,000
13/10/14	Suncorp-Metway Bank	TD	3.50%	13/04/15	3,000	3,000
14/10/14	National Australia Bank	TD	3.55%	14/04/15	2,000	2,000
29/10/14	BankWest	TD	3.40%	28/04/15	2,000	2,000
03/11/14	National Australia Bank	TD	3.58%	04/05/15	2,000	2,000
03/11/14	Bank of Queensland	TD	3.50%	04/05/15	1,000	1,000
03/11/14	Newcastle Permanent Bld Society	TD	3.35%	02/02/15	2,000	2,000
05/11/14	BankWest	TD	3.45%	04/05/15	2,000	2,000
06/11/14	BankWest	TD	3.45%	05/05/15	2,000	2,000
10/11/14	BankWest	TD	3.45%	11/05/15	2,000	2,000
10/11/14	Westpac Bank	TD	3.35%	11/05/15	2,000	2,000
10/11/14	Members Equity Bank	TD	3.55%	10/04/15	1,000	1,000
13/11/14	National Australia Bank	TD	3.57%	25/05/15	1,000	1,000
13/11/14	ING Bank Ltd	TD	3.52%	13/05/15	1,000	1,000
17/11/14	Members Equity Bank	TD	3.50%	15/05/15	2,000	2,000
17/11/14	Defence Bank	TD	3.50%	15/06/15	1,000	1,000
20/11/14	Bank of Queensland	TD	3.55%	19/05/15	1,000	1,000
20/11/14	Bank of Queensland	TD	3.55%	02/06/15	1,000	1,000
24/11/14	Suncorp-Metway Bank	TD	3.60%	25/05/15	1,000	1,000
24/11/14	Suncorp-Metway Bank	TD	3.60%	01/06/15	1,000	1,000
	Totals				**67,763**	**67,457**
	TD = Term Deposit		FRTD = Floating Rate Term Deposit			
	CDA = Cash Deposit Account		FRN = Floating Rate Note			

Investment Portfolio Review

January 2015

Ballina Shire Council

Report Prepared by

Andrew Vallner, Managing Director
(02) 8246 8805 or andrew.vallner@cpgadvisory.com.au

Michael Chandra, Advisor – Fixed Interest
(02) 8246 8812 or michael.chandra@cpgadvisory.com.au

CPG
Research & Advisory Pty Ltd

www.cpgadvisory.com.au

Level 3, 23-25 O'Connell Street, Sydney 2000 | PH 02 8246 8800 | FAX 02 8246 8899
CPG Research & Advisory Pty Ltd | ABN 93 052 348 026 | AFSL NO 243361

CPG
Research & Advisory Pty Ltd

Table of Contents

CPG
Research & Advisory Pty Ltd

PORTFOLIO REVIEW

Overview

This investment portfolio review provides a one-off analysis of Council's investment portfolio, worth approximately $67.1mn at market values.

Table 1 provides an assessment of Council's portfolio allocation in relation to the limits set out in its Investment Policy that was adopted on 24th July 2014. An explanation of the three indicators is provided below:

☑ The portfolio is in accordance with recommendations for this aspect.

➡ The portfolio is materially consistent with Policy, with a clear path to rectification.

✖ The portfolio is inconsistent with the Investment Policy and CPG recommends action to reweight the portfolio.

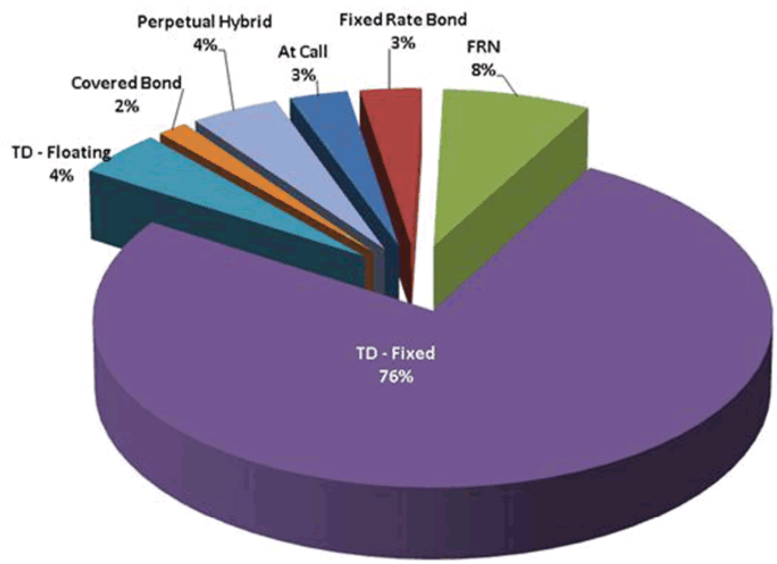
Table 1 – Policy Scorecard

Policy Aspect	Indicator	Details
Credit Quality	☑	The portfolio is of very high quality with approximately 71% of assets rated "A" or higher. The regional ADIs and listed hybrid security with NAB accounts for the remaining 29%. This is typical of the local government peer group.
Counterparty	☑	As at the review date, Council did not have an overweight position to any single ADI. Overall the portfolio is well diversified across the investment grade spectrum.
Term to Maturity	☑	Council's deposit portfolio is highly liquid, with around 28% of assets maturing within 3 months and an additional 54% of assets maturing within 12 months. Saleable bonds and FRNs also provide additional liquidity. Term deposits have a weighted average maturity of approximately 6 months. The longer-dated deposits are likely to be the main contributor to outperformance against benchmark and are providing some income protection in a low interest environment. The peer group typically provides itself with the flexibility to invest up to 50% in longer-dated assets; the extent to which they use this varies; many Councils have adopted much more diverse portfolios, and these have tended to be the outperformers.
Asset Class	☑	Council's investment portfolio is mainly directed to deposits, which account for approximately 80% of total assets. Longer-dated deposits have the most attractive margins in early 2015, as they have been slow to adjust to the bond market movement. As they normalise, regional bank FRNs not only offer liquidity, but may cross over deposits later in the year to become the preferred space. We see deposits as the primary opportunity set in Q1 2015.

CPG Research & Advisory Pty Ltd

The composition of Council's investment portfolio as at 30th November 2014 follows:

Chart 1: Allocation by Product Type



Of these, only the NAB hybrid (potentially an undated security) is non-compliant with the 2008 and subsequent Minister's Order. Council has been applying "grandfathering" treatment on the basis that it is not practicable to sell it – at the current pricing, we tend to agree that it is trading below a fair value.

The majority of the portfolio is directed to term deposits (fixed and floating), accounting for around 80% of the total investment portfolio, with the remaining assets in deposits and credit securities.

As at the end of November, deposits were averaging a yield of 3.56% p.a.; around +105bp above the cash rate and higher 12 months rates. The weighted average duration of the deposit portfolio stood at around **6 months**. Given the outlook for interest rates, this provides little income protection for FY16, even at these levels. As such, **we recommend lengthening the deposit portfolio by investing into fixed deposits up to 5 years, where rates remain out of line with 2014's margins**.

CPG Research & Advisory Pty Ltd

This will help alleviate further pressure on falling income over upcoming financial years as maturing deposits will generally be invested at lower prevailing rates.

Cash continues to be expensive to hold. In the absence of the RBA unexpectedly hiking rates in the immediate future, the average term deposit yield will inevitably drop towards 3% as we progress through 2015.

Deposit margins tightened over 2014. Peak T/D spreads briefly dipped under +100bp from a range of issuers during Q3, from major banks, to unrated ADIs.

With another round of banking reforms (Basel III) being implemented in April 2015 (delayed from January 2015), margins will remain under pressure. However, in the short term they did not follow down bond yields when the European Central Bank launched quantitative easing. This created an opportunity – rates are not high in absolute terms, but look very attractive relative to other eligible asset classes.

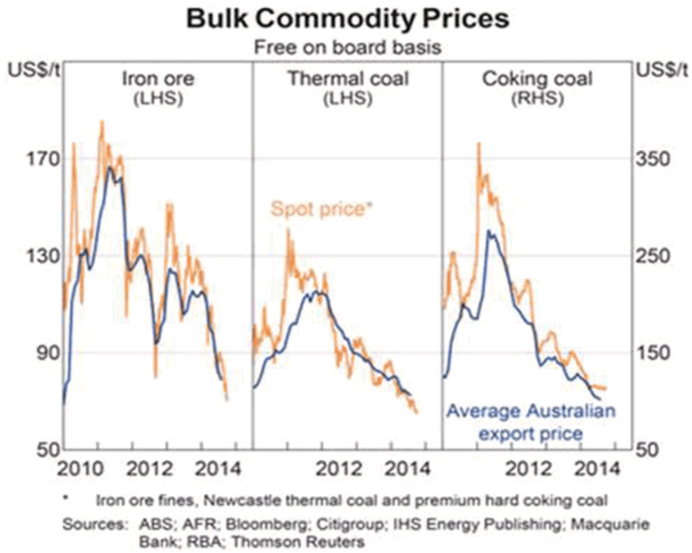
There is currently a small window of opportunity for investors to take advantage of 5 year fixed T/Ds at around +130bp over swap or better.

Fixed rate bonds have significantly rallied, with 10-year Australian government bond yields now around 2.5%, having finished off Q3 at around 3¼%.

We highlight commodities early in this report, as background for the fixed interest market views expressed throughout:

CPG Research & Advisory Pty Ltd

Chart 2: Iron Ore (Current and 12-month)



The price of iron ore, which accounts for 20% of Australia's export income, has fallen nearly 50% since the beginning of the year. Weak global demand, the slowdown in China and supply gluts has converged to undermine prices for a range of other commodities, including coal and gold, which Australia also exports.

Real net national disposable income, which measures what Australian governments, businesses and households receive in exchange for goods and services, contracted for the second quarter in succession, which is the normal definition of a recession. It shrank 0.3% in the September quarter after falling 0.2% in the June quarter. The contraction largely reflects sliding commodity prices, which has led to a sharp fall in the country's terms of trade.

With the recent fall in bond yields and the expectation of further interest rate cuts, we again have a strong view on long T/Ds.

As such, our current investment discussion points are:

- **Invest in long T/D rates above 4.0%.** With up to 2 rate cuts now factored in 2015 and further margin contraction from Basel III regulations, we believe it is prudent to protect further income erosion.

- The ratesheet is led by the BBB or unrated names – **the free ride into Rabo / BoQ or the other high grade names has ended**.
- The broker intermediaries have often been able to negotiate an extra 10bp above market when investing in deposits – this should be strongly considered when offered.
- **At least one rate cut** is assumed by market pricing, out to **Q2 2015**.
- We still believe an emergency response of **rates down is most probable**.
- **We increase the target allocation to FRNs** as deposit rates fall (normalise) and spreads widen slightly over upcoming months – BBB FRNs are the highest target return asset over the expected holding period.

Specifically on the hybrid instrument, we regard the current pricing as good value and recommend it for other unconstrained investors. (Staff are also invested, although positions may change at any time.)

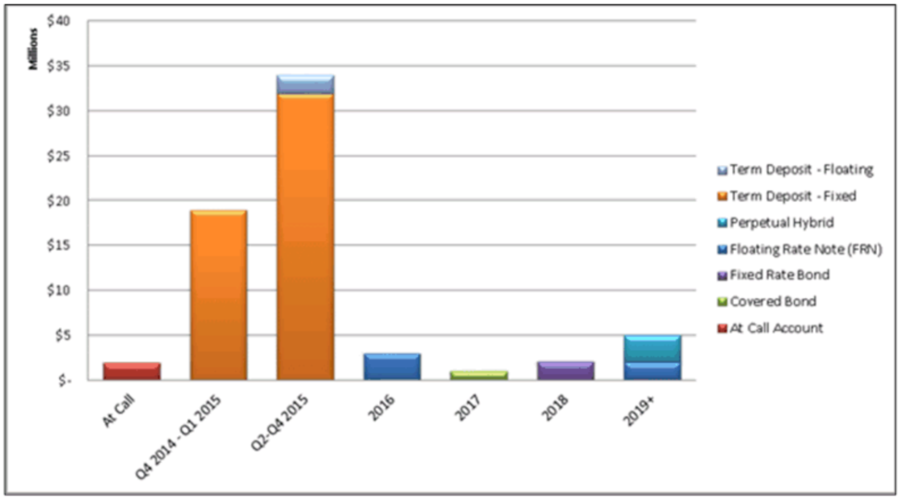
Our view is that, with Tier 1 treatment lost, NAB will be under pressure to either redeem the security, or at least launch a buyback between the current level and par. BBSW+125bp is not cheap for perpetual debt. Even without any Tier 1 capital credit, **the current price equates to BBSW+225bp or more, leaving plenty of room for a buyback tender.**

Maturity / Cash Flow

Over the next quarter, along with the moderate cash balance, **approximately $19m of fixed deposits, or 29% of the total portfolio will mature by Q1 2015**. The maturity profile of Council's investment portfolio follows:

CPG Research & Advisory Pty Ltd

Chart 3: Maturity Profile of Portfolio



The portfolio is **very short-dated from a maturity perspective, with the significant bulk of maturities over the next 12 months**.

The RBA had previously talked the market out of pricing an easing bias, but with the economy having deteriorated markedly, its stance has at least shifted to keep an open-mind about another rate cut. **We recommend a more diversified investment portfolio, taking up a spread of longer-dated deposits (2-5 years) to counteract any future rate cuts over the next 12 months**.

Short-dated deposits remain expensive - the collapse of shorter deposit margins (6-12 months) reflect more Basel III reforms effective April 1st. (Banks are given no "committed funding" credit in the last month of a deposit, as APRA requires protection against a 1-month run.)

Compared to even 60-day deposits, **the AMP 31-Day Notice account is good value at 3.3% - *plus 10bp CPG rebate for clients we introduce***.

CPG
Research & Advisory Pty Ltd

Fixed Interest Markets

Australian Economy and the Reserve Bank

The RBA kept the official cash unchanged at a half-century low of 2.5% since August 2013. A year ago, the suggestion was that they might need to raise rates. **Although they have one reason to hike (booming property), they now have at least a dozen more to ease**: A decade of fiscal policy pressure, iron ore, other commodity prices, the end of the mining construction boom, European recession, needing the $A lower, China's relatively hard landing, 12-year high unemployment, second round of manufacturing closures, lower inflation on indirect tax repeals, real wages falling, and elevated recession risk locally.

Reiterating a "*period of stability*" month after month – could they really not be on an unspoken easing bias? **There has not been a material economic upside surprise since the Q1 GDP**. **Employment data is poor**, and only ABS revisions avoided breaching 2013 Budget forecasts.

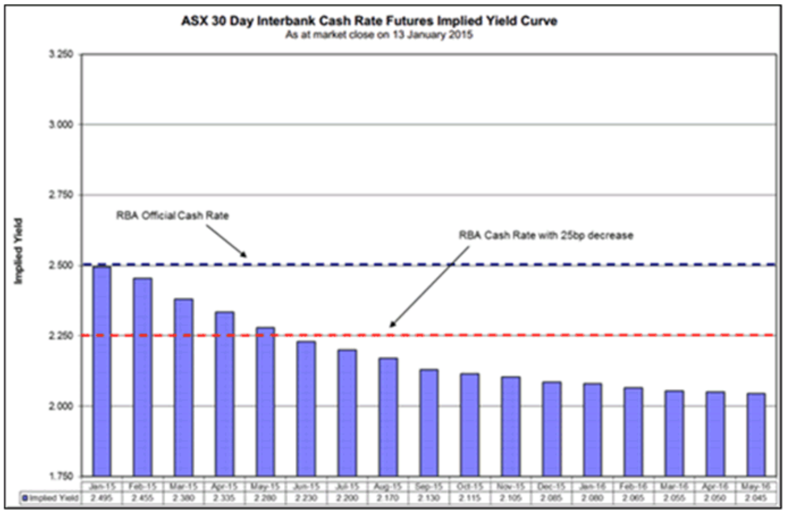
RBA Governor Glenn Stevens wants the Australian dollar to fall to levels last seen a decade ago and says official interest rate cuts need to be *delivered in a way that boosts confidence rather than remind people of the economy's woes*. He pushed back against calls for near-term cuts, saying the economy, jobs and inflation were roughly where the central bank expected them to be. The Governor indicated the currency should now be closer to about US75 cents; declared the recent drop in the global oil price below $US60 a barrel as "bullish" news for the global economy.

The deficit forecast for the federal budget has now blown out to $40.4 billion. This is significantly higher than the $29.8 billion deficit predicted by Treasurer Joe Hockey in May, at the time of the budget. This means that by the 2017-18 financial year, the deficit is expected to be $11.5 billion, rather than the $2.8 billion that was previously flagged. **There is further risk to this figure, and "reform fatigue" set in early.**

Although the RBA is adamant on its "*period of stability*", the futures market fully priced in a rate cut in Q1, and again by the middle of next year. With falling inflation, contracting national incomes, benign growth, coupled with further sharp falls in commodity prices and continued weakness in consumer sentiment, the market suggests this will be enough to prompt the RBA to use some of their remaining policy "*scope*" and lower rates further.

CPG
Research & Advisory Pty Ltd

Chart 4: ASX Futures Cash Rate



Source: ASX/SFE

We have a sharply inverse (and long-term lower) curve, factoring in weaker economic data across the board and softer financial markets too - but now with no recovery on the other side.

On a medium term view, the futures market sees rates:

- Cut one more time (and probably twice)
- This adjustment taking all of Q1 to prepare, as the RBA traditionally has guided the market ahead of the curve before announcing official rate changes
- Not returning to normal until perhaps 2018
- Moving towards a below-neutral 3% over the very long term.

A year ago, we were arguing against market calls for RBA rate increases - particular given the likely impact on the overvalued currency. What was likely to be fiscal tightening did not eventuate in May, despite headlines and it now appears that the economy is too weak for an austerity programme.

The medium part of the curve reflects the outlook well in our view, as further monetary stimulus is almost certain to be needed. *The end of the mining construction boom is now turning into a mining construction bloodbath, with no pipeline to replace completed projects. We have no easy answer for the residential property boom, though.*

Long Bonds

US bonds were the least changed over the quarter, as the end of Quantitative Easing and some very strong GDP data held back buying support. However, they were unable to completely resist the disinflationary trends elsewhere and the likelihood of other central banks moving to further stimulate.

In fact, Yellen has been guiding further delays in rate increases – despite employment being almost 1% through the 6.5% level initially flagged has an interest rate trigger. The rare sight of bonds under 2% reflects greater comfort for the Fed that rate increases will not be needed in the near term to intervene against rising inflation. Most of the action was at quarter end:

Figure 1: US 10-Year Bonds (QE Highlighted)

A bond rally as GDP surges towards 4% and unemployment subsides? This is new. The markets had previously been in "Bad is good" mode – celebrating adverse data as a pointer to further QE.

In Europe, much of the Eurozone is at or near negative growth – this time including Germany. This has seen slow progress behind-the-scenes towards agreeing to QE; Draghi at the ECB has been more certain in his statements recently about imminent stimulus.

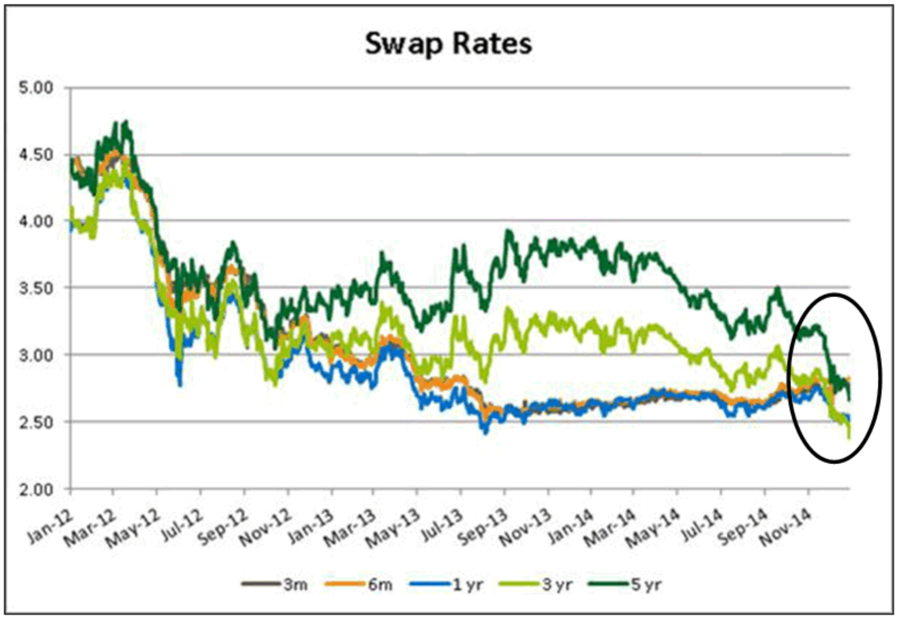
Clearly there are legal complications, but he seems adamant that it can be done – the announcement of a negative CPI looks to have clinched that argument as the ECB technically breaches its mandate of "price stability."

Having set a record low 0.84% last quarter, the current 10-year bund yield is around ½%. This follows negative interest rates (-0.2% on ECB deposits), and a negative bund yield out to 5 years.

Japan, too, **trades below ½%** while the central bank has **an objective of significantly higher inflation - a mandate it is struggling to meet, with CPI negative since the GST increase.**

Locally, rates moved to retest previous 10-year bond lows, and shorter swap rates set new records:

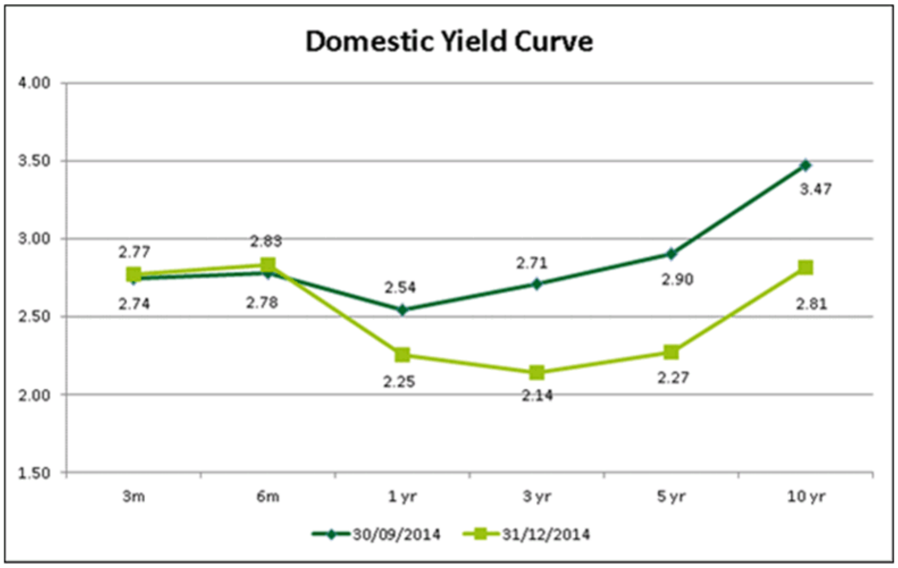
Figure 2



Australian long bond yields followed both commodity prices and offshore bonds, trading around 2¾% at time of writing:

CPG Research & Advisory Pty Ltd

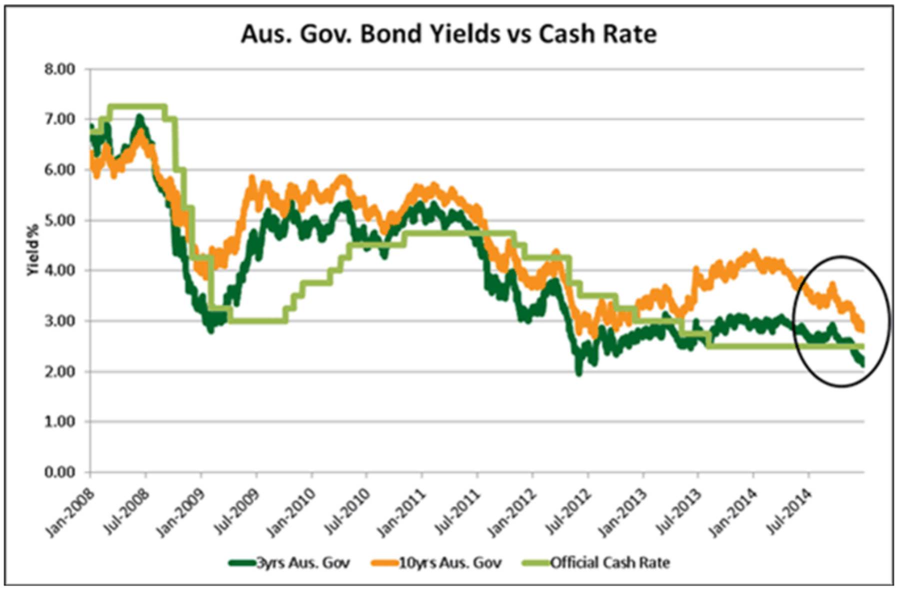
Figure 3: Domestic Yield Curve



The curve is now an unusual "U-shape", with the current economic malaise expected to persist through a decade and requiring "emergency" rates forever. If the market is accurate, the GFC achieved a permanent rerating of interest rates to ultra-low levels. (This clearly also has implications for borrowers – providing the opportunity for unprecedented low borrowing costs.)

3-year bond futures have now traded well through the 90-day bill futures, with rates flat to lower through the decade:

Figure 4: Australia Government Bond Yields



While investors are undoubtedly looking at a QE announcement by the ECB to provide a further boost to bond prices, examining the history in ***Figure 1*** *does not support this optimism.*

Long bonds look extremely over-valued to us – in core and peripheral Europe, and Japan. Nor can we reconcile US bonds with the 2017 outlook for interest rates above the current 10-year bond yield (at least according to the fed economists).

We were slightly more sympathetic to Australian bonds last quarter, and indicated that they could possibly retest records if the RBA reverse its stance and cuts rates.

They have not, but the market is now already pricing the second rate cut.

Unlike in the US, we cannot draw path for the RBA rate to go through the 10-year bond during a forecastable period - we cannot see a trigger for a rate increase.

That said, valuations are extremely poor – the worst in history. We reiterate a Sell rating for domestic bonds.

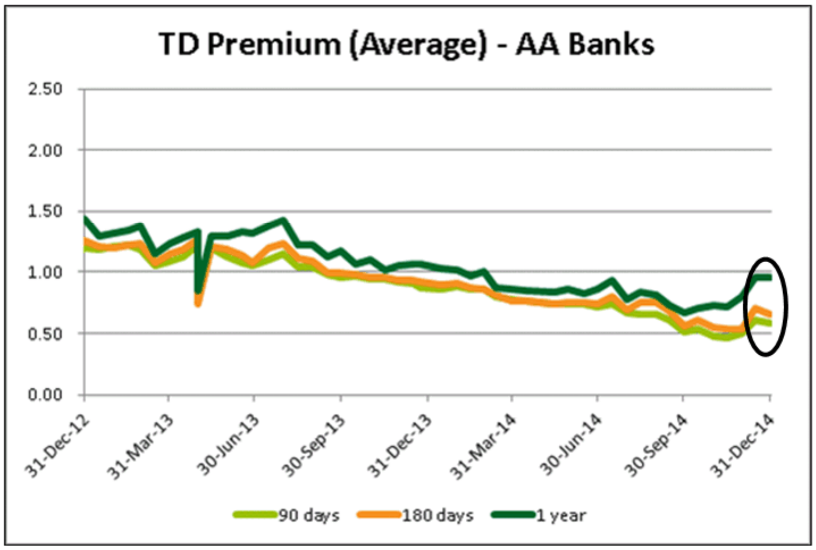
CPG Research & Advisory Pty Ltd

Term Deposits

(We refer to our recent discussion paper about the implications of **Basel III** *– available to readers on request.)*

As anticipated, wholesale funding spreads continued to ease during most of the last quarter, highlighted amongst the majors. However, deposit yields did not follow the collapse of bond yields around Christmas, so margins expanded. This may be marketing, it may reflect getting retail clients used to seeing a "3," or it may simply reflect staffing. ***We do not expect to persist.***

Figure 5: Term Deposit Margin



The headline deposit rate has fallen without any further movements in the official cash rate since Q3 2013 - given a base case of a cut early this year, we expect this to accelerate.

Banks have been clearly signalling that margins are on their way down, and despite the bond market moves, this did persist at the short end (out to 9 months) which now sees margins close to +75bp.

For those investors that require high levels of liquidity to meet irregular expenditures (*e.g.* emergency liquidity, or infrequent major capex projects), **with 1-2 month deposits now**

CPG
Research & Advisory Pty Ltd

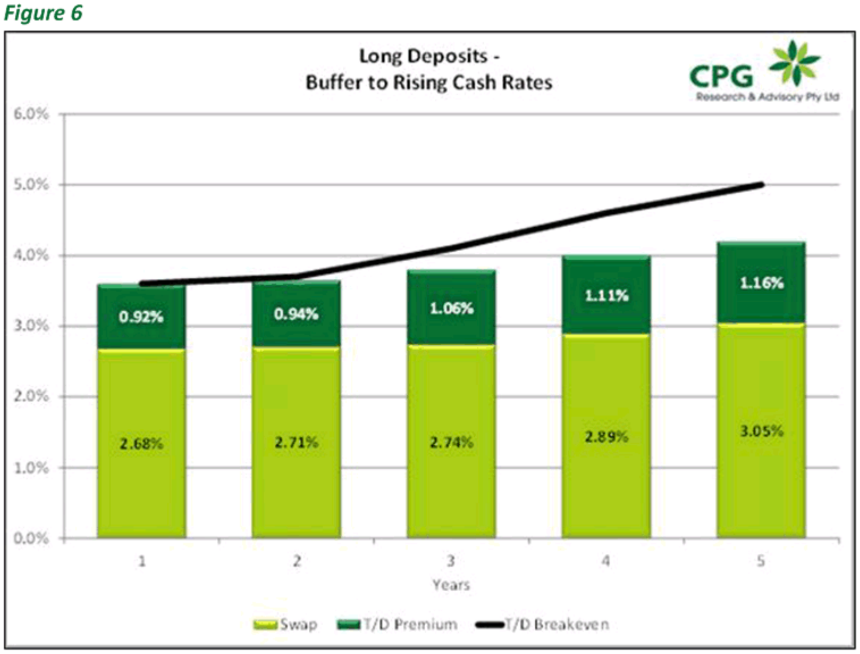
under 55bp margin, structured deposit accounts such as AMP's Notice Account are the superior option.

The AMP Bank (A+) Notice Account pays a minimum fixed margin of +80bp (plus rebate) above the official cash rate but requires a minimum 31 day notice period for withdrawals. A maximum limit of $10M (separate to deposits and their traditional at-call accounts) and only two withdrawals per calendar month are allowed on this account.

This deposit now materially exceeds 30 and 60 day T/D rates and an allocation is beneficial (it does not substitute for at-call money). Please contact CPG's office to discuss the procedure to ensure that any inbuilt brokerage of 10bp per annum is rebated.

Longer T/Ds margins remain under significant pressure – **implied deposit rates stretch to the 5% level, but into 2020**. (This contrasts with 6%+ implied rates in 2019 from a year earlier.) As recently as late 2012, this was a +200bp margin, rather than 100 area prevailing during much of the quarter:

Figure 6



<u>We upgrade our trading view on long deposits from Neutral to Positive given bond relativities</u>.

CPG
Research & Advisory Pty Ltd

We do not expect this view to hold through the quarter – most likely deposits will reset downwards early in the quarter as banks return to full staffing, and we would revisit with the January ***Fixed Interest Analytics*** report.

By the middle of the year, if deposit margins contract we expect ***greater surety of value will be found in regional bank FRN placements***.

Major banks also face an expanded claim on investors this year – the Murray Report has recommended additional Tier 1 capital requirements, which should bring expanded hybrid issuance. Given finite money in high grade credit, **this should improve investor margins**.

Retail securities could conceivably trump other eligible investments in small parcels – **this now seems unlikely** as they approach maturity at quite expensive levels.

Rabobank announced that the parent company will no longer explicitly guarantee Rabobank Australia, relying on its own credit and the benefit of ownership for its rating. Deposits (but not accruing interest) are grandfathered to maturity.

We do not regard this as sinister – banking regulations impose a capital cost for off-balance sheet obligations. It will be reflected in ratings and reports going forward. S&P's view that 2014 provisions will persist through 2015 and 2016 was the primary driver of a downgrade. With the other two agencies keeping their ratings on the Rabobank group, it now holds a "split AA" rating which will have some policy implications.

It is an exception, from the AA end, **against a general trend of mergers and upgrades**, supplemented by previously unrated issuers securing investment-grade ratings ahead of raising debt from capital markets.

There are also reports that the more generous RaboDirect channel is closing to "institutional" investors, in favour of the less attractive Rabobank treasury.

CPG Research & Advisory Pty Ltd

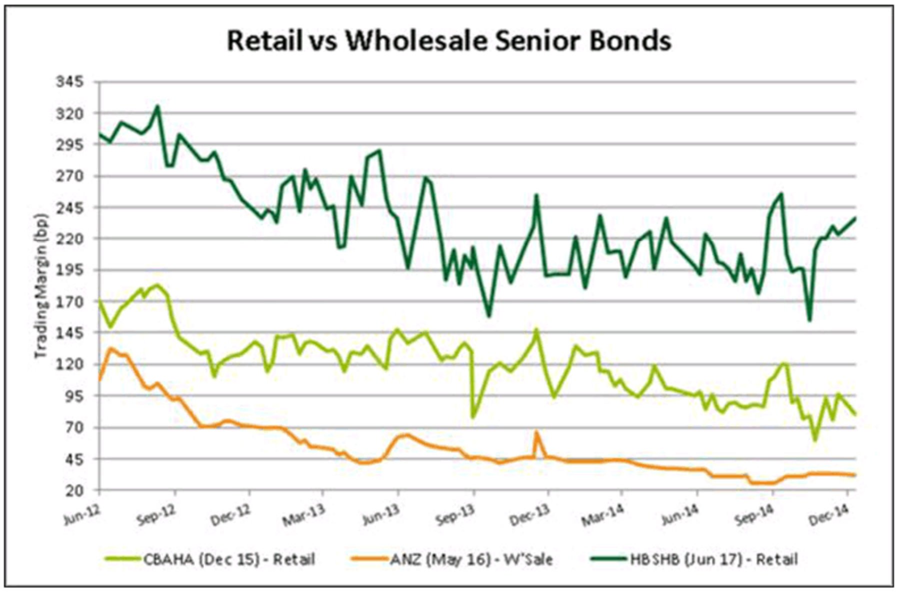
Bonds and FRNs

*(We refer to our recent updated **Fixed Interest Analysis** Report for monthly analysis and strategy of FRNs as background – in addition to further deposit analysis.)*

Credit spreads in Q4 halted their long-term contraction, and followed global indices somewhat wider.

Senior and covered bonds followed other fixed rate assets to record high prices, with bond yields the dominant influence and overwhelming credit spreads as a driver of prices.

Figure 7

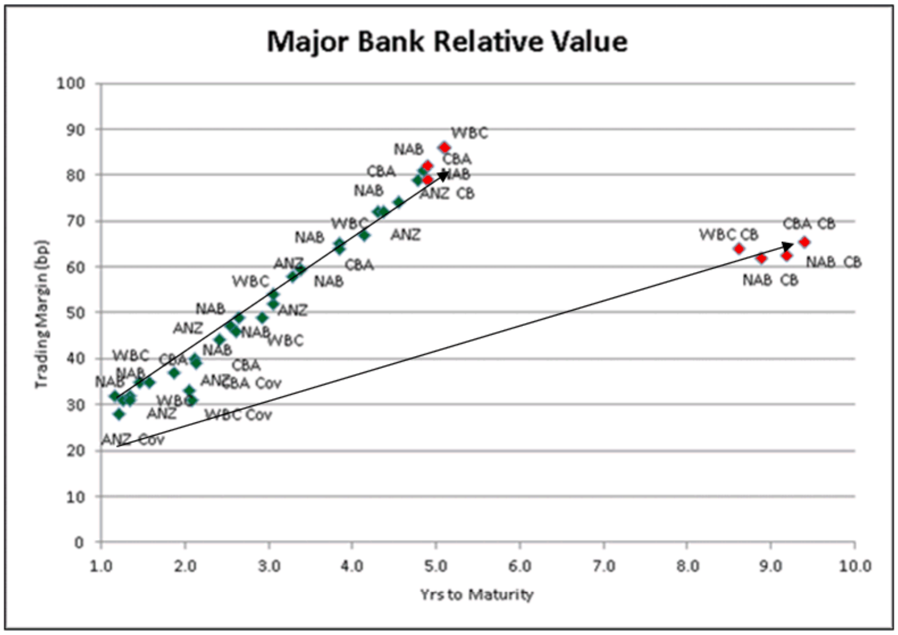


Heritage retail bonds ("HBSHB") continue to trade wider than wholesale equivalents, but 4.4% (sub-200bp over swap) is quickly consumed once the risk of being called at par is factored in. The price is quite volatile though.

CBA's retail FRN (ASX: CBAHA), now with less than a year to maturity, tightened to +55bp at quarter-end - a capital price of $100.50. The ex-interest period for the current coupon against all the security hold part of its coupon and strengthen in capital terms. **While it is liquid in an emergency, we consider the current level a selling opportunity – a Notice Account would be a surer facility for liquidity than retail bond**.

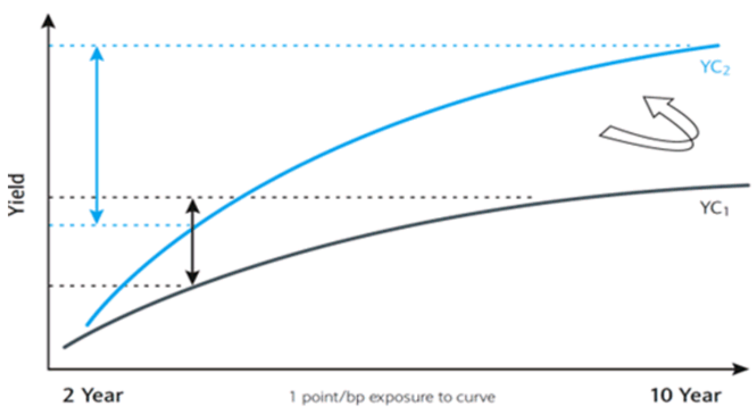
CPG Research & Advisory Pty Ltd

Figure 8



We have previously shown the aim of a credit securities strategy – to trade out approaching maturity at a gain, grossing up returns:

Figure 9

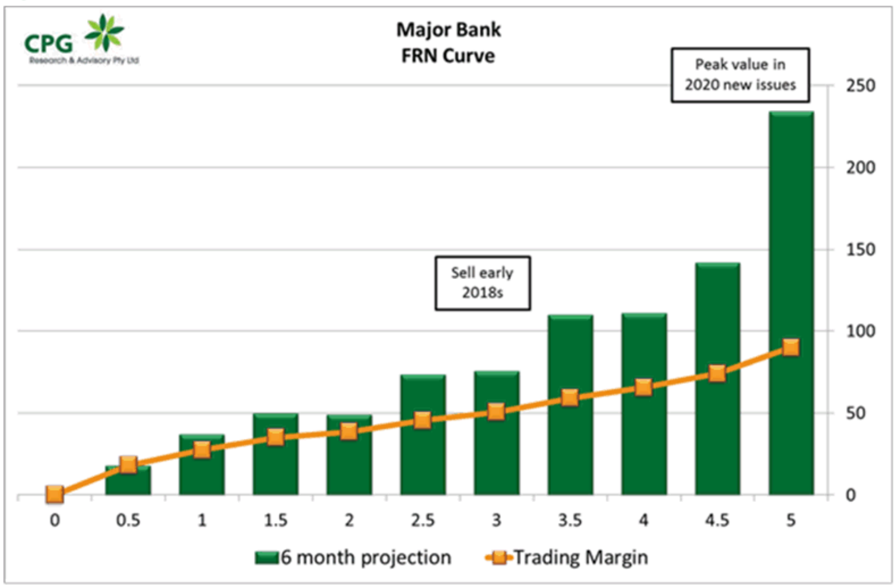


(***Figure 8*** shows the credit spread curve for major banks, and for their more senior Covered Bonds.) Our analytical tools help identify the point of maximum "tailwind" in capital prices, but of course prices are also influenced by macro factors affecting the overall levels for credit. During this quarter, credit weakened during periods when stock markets fell.

This analysis does not apply to CBA Retail FRN – it is less likely to trade at an exit level after allowing for transaction costs. It should be seen as a 1 year (floating rate) term investment.

We continue to recommend selling any senior major bank FRNs maturing by 2017, marked less than +45bp**.** The early 2018s are also now saleable, although not as tight as the shorter (chart reflects indicative new issue premium on Westpac Jan 2020):

Figure 10



Senior regional bank FRNs maturing in 2016 are also usually saleable, as are some 2017's. Covered bonds have tightened substantially, and (if fixed) have followed bond yields to record lows.

Primary issues continue to be favoured over secondary market offers in the wholesale market. Private placement FRNs or secondary market 'taps' can sometimes be offered, usually at a premium yield to the wholesale secondary market although we note they are generally less liquid due to their smaller issue sizes.

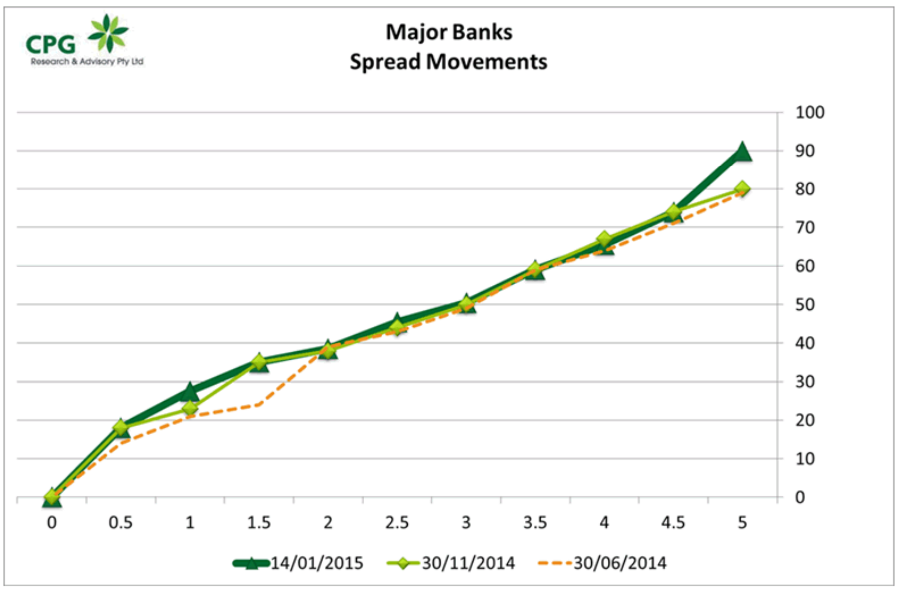
CPG
Research & Advisory Pty Ltd

Although bank spreads have continued to narrow, the gap between securities and deposits has also contracted to a level which may see a more prominent role for senior bank securities going forward later in the year. In a sense, **this is a welcome development for investors, as they do not have to sacrifice liquidity for margins**. However, bonds are somewhat variable in quoted price (which creates discomfort amongst some investors, even if the difference is an illusion caused by daily quoting of a price).

They also lack the seniority and legislative protection that applies to deposits. Margins for the higher rated banks' tradeable instruments are significantly lower, and so they will not suit all investors.

Major bank credit spreads are significantly tighter over FY15 to date:

Figure 11



At the time of writing, Heritage retail bonds (around 4.4% / 197bp over swap) are at the most expensive they have traded. The spread is now just **90bp above regional banks' wholesale products of equivalent seniority and rating**. We do not consider this adequate compensation for the early redemption option on change of control - **investors would lose approximately 7% in a takeover.** The investment appears increasingly speculative at these very high prices.

CPG
Research & Advisory Pty Ltd

Council's Complying Securities

Council's bank securities embed significant capital profits at current trading levels:

Senior FRNs

- Westpac Covered Bond FRN paying 3m BBSW+1.65% p.a. maturing 06/02/2017 – indicative trading margin +31bp / capital price ~$102.82. Unrealised gain **~$33,000** on $1.0m face value.
- Westpac senior FRN paying 3m BBSW+0.94% p.a. maturing 25/02/2019 – trading margin +69bp / capital price ~$100.97. Unrealised gain **~$29,000** on $2.0m face value.
- Greater Building Society senior FRN paying 3m BBSW+1.45% p.a. maturing 07/06/2016 – trading margin +105bp / capital price ~$100.50. Unrealised gain **~$10,000** on $2.0m face value.

Council's $1.0m holding in the Goldman Sachs FRN maturing 12/04/2016 is marked close to par, with a trading margin of around +68bp or a capital price $99.78. **It complies with the Minister's Order, under the full Grandfathering rule, as it complies with an earlier order** (by virtue of its A or higher rating)**.**

We recommend selling the Westpac Covered Bond immediately as capital gains are being eroded as the security approaches maturity. The current trading margin of +31bp is more accurate reflecting of the value from retaining the security to maturity than the headline income – Council will receive the income, but forfeit the premium in the current $102.82 price if held to maturity.

A switch into an alternative asset, either through a longer-dated deposit or newly issued FRN, would result in significant capital gains and an overall increase in yield.

This was an excellent investment, issued far above where even senior debt had been trading and well above where covered bonds subsequently traded in the secondary market.

While not actively looking to sell the Westpac 2019 FRN yet, there is merit in switching out a further year to pick up an additional 20bp of running yield if there is a further new issue at the +90bp area.

CPG
Research & Advisory Pty Ltd

Senior Fixed Bond

- CBA Fixed Bond paying 4.25% p.a. semi-annually maturing 25/01/2018 – indicative yield 2.69% / capital price ~$104.71. Unrealised gain **~$94,000** on $2.0m face value.

With longer-term bond yields reaching new lows in 2015, we recommend the sale of the fixed bond and switch into a security yielding higher than 3% p.a. A 3 year fixed deposit above 3% can still be obtained or a newly issued senior FRN at above +100bp would be an ideal replacement for the switch.

Grandfathered under the Minister's Order are the non-ADI and/or non-senior securities. Conditions were put in place by the 2008 and subsequent Orders, and we examine these securities in the sections at the end of this report.

CPG
Research & Advisory Pty Ltd

Portfolio Holding Summary

Council's investment portfolio of $67.1mn is predominately invested in fixed and floating rate term deposits (80%). The remaining portfolio is directed to FRNs (7%), at-call accounts (3%), covered bonds (2%), perpetual hybrid securities (4%) and fixed bonds (3%). Overall, the portfolio is highly liquid, highly rated and short-dated from a maturity perspective.

Table 2: Investment Portfolio by Product Type

Product Description	0-3 months	3-12 months	1-2 years	2-5 years	5 years	Grand Total
At Call Account	**$1,982,000**					**$1,982,000**
CBA at-call Account	$1,982,000					$1,982,000
Covered Bond				**$1,031,470**		**$1,031,470**
Westpac FRN @ 3m BBSW + 1.65% 6/02/2017				$1,031,470		$1,031,470
Fixed Rate Bond				**$2,089,900**		**$2,089,900**
CBA Fixed Bond @ 4.25% 25/01/2018				$2,089,900		$2,089,900
Floating Rate Note (FRN)			**$3,013,290**	**$2,021,060**		**$5,034,350**
Goldman Sachs FRN @ BBSW + 0.51% 12/04/2016			$1,002,290			$1,002,290
Greater BS FRN @ BBSW + 1.45% 7/06/2016			$2,011,000			$2,011,000
Westpac FRN @ 3m BBSW + 0.94% 25/02/2019				$2,021,060		$2,021,060
Perpetual Hybrid					**$2,996,308**	**$2,996,308**
NAB FRN @ BBSW + 1.25% 16/06/2026					$1,414,308	$1,414,308
NAB FRN Wealth Management Holdings					$1,582,000	$1,582,000
Term Deposit - Fixed	**$17,000,000**	**$34,000,000**				**$51,000,000**
AMP TD @ 3.50% 27/01/2015	$4,000,000					$4,000,000
AMP TD @ 3.80% 23/01/2015	$2,000,000					$2,000,000
Bankwest TD @ 3.40% 28/04/2015		$2,000,000				$2,000,000
Bankwest TD @ 3.45% 11/05/2015		$2,000,000				$2,000,000
Bankwest TD @ 3.45% 4/05/2015		$2,000,000				$2,000,000
Bankwest TD @ 3.45% 5/05/2015		$2,000,000				$2,000,000
BoQ TD @ 3.50% 4/05/2015		$1,000,000				$1,000,000
BoQ TD @ 3.55% 19/05/2015		$1,000,000				$1,000,000
BoQ TD @ 3.55% 2/06/2015		$1,000,000				$1,000,000
BoQ TD @ 3.80% 6/05/2015		$1,000,000				$1,000,000
Defence Bank TD @ 3.50% 15/06/2015		$1,000,000				$1,000,000
ING TD @ 3.45% 11/02/2015	$2,000,000					$2,000,000
ING TD @ 3.52% 13/05/2015		$1,000,000				$1,000,000
ME Bank TD @ 3.50% 15/05/2015		$2,000,000				$2,000,000
ME Bank TD @ 3.55% 10/04/2015		$1,000,000				$1,000,000
ME Bank TD @ 3.65% 22/09/2015		$1,000,000				$1,000,000
NAB TD @ 3.55% 14/04/2015		$2,000,000				$2,000,000
NAB TD @ 3.57% 25/05/2015		$1,000,000				$1,000,000
NAB TD @ 3.58% 4/05/2015		$2,000,000				$2,000,000
NAB TD @ 3.65% 26/02/2015	$1,000,000					$1,000,000
Newcastle Permanent BS TD @ 3.35% 2/02/2015	$2,000,000					$2,000,000
Rural Bank TD @ 3.65% 22/12/2014	$1,000,000					$1,000,000
Suncorp TD @ 3.45% 3/03/2015		$2,000,000				$2,000,000
Suncorp TD @ 3.45% 5/01/2015	$3,000,000					$3,000,000
Suncorp TD @ 3.50% 13/04/2015		$3,000,000				$3,000,000
Suncorp TD @ 3.60% 1/06/2015		$1,000,000				$1,000,000
Suncorp TD @ 3.60% 25/05/2015		$1,000,000				$1,000,000
Suncorp TD @ 3.65% 25/05/2015		$2,000,000				$2,000,000
Westpac TD @ 3.35% 11/05/2015		$2,000,000				$2,000,000
Westpac TD @ 3.65% 10/12/2014	$2,000,000					$2,000,000
Term Deposit - Floating		**$2,000,000**		**$1,000,000**		**$3,000,000**
ING FRTD @ 3m BBSW + 1.85% 24/01/2017				$1,000,000		$1,000,000
NAB FRTD @ 3m BBSW + 1.28% 5/06/2015		$2,000,000				$2,000,000
Grand Total	**$18,982,000**	**$36,000,000**	**$3,013,290**	**$6,142,430**	**$2,996,308**	**$67,134,028**

CPG
Research & Advisory Pty Ltd

Counterparty Exposure

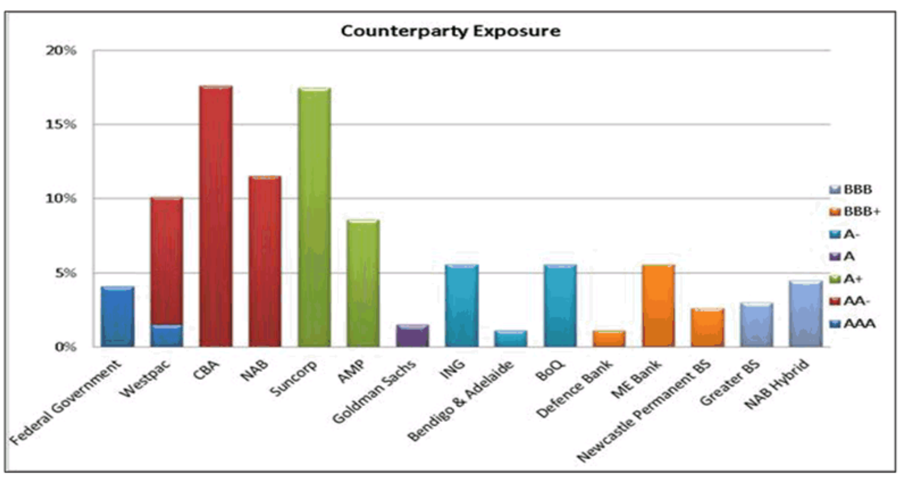
In the following section we compare existing exposure to individual counterparties with typical Investment Policy limits. The aim is to ensure that Council's investment portfolio is appropriately diversified across individual institutions / counterparties.

As at the review date, Council did not have an overweight position to any single ADI. Overall the portfolio is well diversified across the investment grade spectrum.

Table 3: Counterparty Exposure

Counterparty	AAA	AA-	A+	A	A-	BBB+	BBB	Grand Total	Max Allocation	Capacity	Compliance Check
Federal Government	4%							4%	100%	96%	OK
Westpac	2%	9%						10%	20%	10%	OK
CBA		18%						18%	20%	2%	OK
NAB		12%						12%	20%	8%	OK
Suncorp			18%					18%	20%	2%	OK
AMP			9%					9%	20%	11%	OK
Goldman Sachs				1%				1%	20%	19%	OK
ING					6%			6%	10%	4%	OK
Bendigo & Adelaide					1%			1%	10%	9%	OK
BoQ					6%			6%	10%	4%	OK
Defence Bank						1%		1%	10%	9%	OK
ME Bank						6%		6%	10%	4%	OK
Newcastle Permanent BS						3%		3%	10%	7%	OK
Greater BS							3%	3%	10%	7%	OK
NAB Hybrid							4%	4%	10%	6%	OK
Grand Total	**6%**	**38%**	**26%**	**1%**	**12%**	**9%**	**7%**	**100%**			

Chart 5



CPG Research & Advisory Pty Ltd

Credit Quality of Portfolio

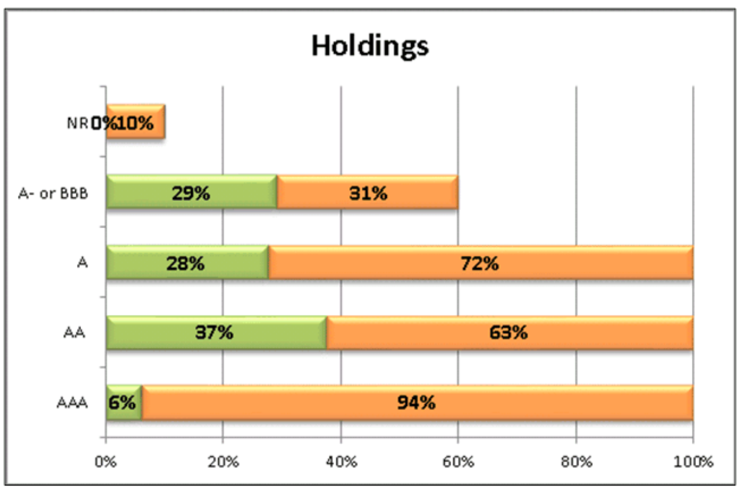
The credit quality of the portfolio is high with approximately 71% of assets rated 'A' or higher. The 'AAA' assets represent the deposit investments covered by the Federal Government's Financial Claims Scheme (FCS) as well as the covered bond investment with Westpac.

The regional ADIs and the hybrid security with NAB accounts for the remaining 29% of assets.

Table 4: Credit Quality

Credit Quality	Maximum Holding	Credit Quality (Holding)	Capacity
AAA	100%	6%	94%
AA	100%	37%	63%
A	100%	28%	72%
A- or BBB	60%	29%	31%
NR	10%	0%	10%
		100%	

Chart 6



This credit profile is typical of local governments, and we consider it appropriate.

CPG Research & Advisory Pty Ltd

Term to Maturity

In the following section we analyse the investment portfolio from a term-to-maturity perspective to ensure that the current maturity profile is appropriate given Council's liquidity requirements. This exposure is shown in ***Table 5*** with the following points to note:

- Council's portfolio has high levels of liquidity, with 28% of assets maturing within 3 months and an additional 54% maturing within 12 months.
- There is high capacity to invest terms between 1-5 years.
- **As existing assets mature or where surplus funds are available, medium-term assets should play a more prominent part of Council's portfolio**.

Table 5: Term to Maturity Allocation

Investment Category	Term-to-Maurity	Holdings
Working Capital	0-3 Months	28%
Short Term	3-12 Months	54%
Short-Medium Term	1-2 Years	4%
Medium Term	2-5 Years	9%
Long Term	5 + Years	4%
		100%

The primary difference between the best performing portfolios has been the allocation to medium-term assets – using long fixed deposits has also helped cushion income shock as rates have fallen, reducing overall risk.

Council has generated exceptional returns from the covered bond (for example); these results have generally been scalable post-GFC.

CPG Research & Advisory Pty Ltd

Asset Allocation

The following analysis looks at the investment portfolio's allocation across various sub-asset classes of fixed interest. It is not Council's intent to hold other asset classes at this time.

As at the review date, Council's investment portfolio is **predominately invested in fixed assets**.

With deposit margins likely to narrow after Q1, credit securities may take a more prominent role again going forward.

Table 6: Other Investment Allocation

Asset Class	0-3 months	3-12 months	1-2 years	2-5 years	5 years	Grand Total
Fixed	25%	51%		3%		79%
Cash	3%					3%
Floating		3%	4%	6%	4%	18%
Grand Total	**28%**	**54%**	**4%**	**9%**	**4%**	**100%**

Indications from the banks are for a near-term collapse in margins, back to the levels prevailing in Q4 or lower. This would completely reverse the current relative value, and so we regard deposits as a short-term opportunity.

CPG Research & Advisory Pty Ltd

Credit Fund Performance (for reference only)

CPG Research & Advisory Pty Ltd

Wholesale Historically Rated Funds Performance Survey (Gross)
30 November 2014

Cash Funds (AAAm Rated)	Fund Size ($m)	1 Month	% p.a.	3 Months	% p.a.	6 Months	% p.a.	FYTD	1 Year	2 Years	3 Years	5 Years	7 Years
BlackRock Cash	902.7	0.23	2.83	0.68	2.76	1.39	2.79	1.16	2.76	2.90	3.32	3.95	4.44
BT Wholesale Managed Cash	4,414.5	0.23	2.82	0.69	2.81	1.39	2.79	1.17	2.81	2.98	3.41	4.02	4.53
CFS Premium Cash	2,516.4	0.24	2.96	0.70	2.85	1.42	2.85	1.19	2.83	2.97	3.40	4.03	4.56
Macquarie Treasury	2,740.0	0.23	2.86	0.70	2.85	1.42	2.84	1.18	2.83	3.00	3.42	4.02	4.50
Perpetual Cash Management	1,201.3	0.23	2.79	0.68	2.76	1.38	2.77	1.14	2.75	2.92	3.35	3.93	4.43
Other Cash Funds	**Fund Size ($m)**	**1 Month**	**% p.a.**	**3 Months**	**% p.a.**	**6 Months**	**% p.a.**	**FYTD**	**1 Year**	**2 Years**	**3 Years**	**5 Years**	**7 Years**
CFS Wholesale Cash [NR]	4,556.3	0.25	3.09	0.75	3.02	1.53	3.07	1.26	3.04	3.24	3.70	4.37	4.90
IFM Transaction Cash [NR]	653.7	0.24	2.96	0.71	2.89	1.46	2.93	1.22	2.92	3.15	3.60	4.22	-
Queensland Treasury Corp [NR]	8,241.0	0.28	3.50	0.83	3.39	1.69	3.40	1.41	3.41	3.59	4.00	4.51	4.89
SSgA Australia Cash Strategy [NR]	355.7	0.23	2.87	0.70	2.85	1.42	2.85	1.19	2.83	2.99	3.43	4.05	4.55
TCorp Hour-Glass Cash Facility [NR]	2,190.3	0.24	2.91	0.68	2.76	1.46	2.93	1.20	2.94	3.11	3.61	4.24	4.65
11am Indicative Cash Rate		**0.20**	**2.50**	**0.62**	**2.50**	**1.25**	**2.50**	**1.04**	**2.50**	**2.63**	**3.02**	**3.61**	**4.03**
Enhanced Cash Funds (AA score)	**Fund Size ($m)**	**1 Month**	**% p.a.**	**3 Months**	**% p.a.**	**6 Months**	**% p.a.**	**FYTD**	**1 Year**	**2 Years**	**3 Years**	**5 Years**	**7 Years**
AMP Managed Treasury	2,489.1	0.24	2.95	0.72	2.94	1.46	2.94	1.22	3.01	3.24	3.74	4.34	4.82
BT Wholesale Enhanced Cash	1,736.0	0.27	3.38	0.82	3.32	1.75	3.51	1.40	3.68	3.89	4.65	5.45	5.32
CFS Premium Cash Enhanced	2,575.1	0.25	3.14	0.75	3.05	1.54	3.10	1.28	3.05	3.22	3.65	4.42	5.07
Macquarie Australian Diversified Income (High Grade	246.9	0.30	3.76	0.91	3.71	2.03	4.09	1.64	4.18	4.56	5.22	5.68	5.73
Perennial Cash Enhanced [NR]	1,843.7	0.20	2.46	0.68	2.76	1.66	3.34	1.34	3.70	4.23	5.19	5.64	5.96
Perpetual Premium Treasury	173.2	0.31	3.90	0.88	3.56	1.97	3.97	1.63	4.14	4.65	5.22	5.91	5.67
QIC Cash Enhanced [NR]	3,219.6	0.22	2.74	0.70	2.83	1.50	3.02	1.25	3.09	3.27	3.97	4.68	4.94
UBS Cash-Plus [NR][**]	131.1	0.25	3.08	0.73	2.97	1.67	3.36	1.38	3.53	3.63	4.19	4.95	4.89
Enhanced Cash Funds (A score)	**Fund Size ($m)**	**1 Month**	**% p.a.**	**3 Months**	**% p.a.**	**6 Months**	**% p.a.**	**FYTD**	**1 Year**	**2 Years**	**3 Years**	**5 Years**	**7 Years**
Macquarie Australian Diversified Income [NR]	537.3	0.30	3.76	0.88	3.58	2.06	4.14	1.65	4.25	4.71	5.44	5.86	5.82
Perpetual High Grade Treasury	202.6	0.38	4.69	0.98	4.00	2.27	4.58	1.83	4.83	5.17	5.69	6.39	5.66
Enhanced Income Funds	**Fund Size ($m)**	**1 Month**	**% p.a.**	**3 Months**	**% p.a.**	**6 Months**	**% p.a.**	**FYTD**	**1 Year**	**2 Years**	**3 Years**	**5 Years**	**7 Years**
AMP Floating Rate Income (Af)	1,044.7	0.21	2.53	0.57	2.31	1.83	3.68	1.38	4.89	4.83	5.98	6.90	5.98
Aberdeen Floating Rate Income [NR]	125.3	0.07	0.86	0.61	2.46	1.19	2.39	0.96	2.74	3.31	3.67	5.00	5.56
CFS Global Credit Income [NR]	3,037.7	-0.09	-1.10	-0.22	-0.88	1.32	2.64	0.63	5.69	6.59	8.25	7.57	6.27
Macquarie Income Opportunities [NR]	2,448.5	0.13	1.58	0.42	1.69	1.68	3.37	1.09	4.42	5.29	6.20	6.81	6.24
Macquarie Global Income Opportunities [NR]	293.8	0.05	0.61	0.21	0.86	1.43	2.88	0.87	4.50	5.01	6.24	6.39	5.96
Perpetual Credit Income [NR]	532.8	0.37	4.61	0.92	3.72	2.42	4.89	1.91	5.66	5.98	7.02	7.75	6.02
Perpetual Diversified Income [NR]	804.8	0.38	4.71	0.95	3.88	2.57	5.20	2.00	5.88	6.27	7.10	7.77	5.98
AusBond Bank Bill Index (8155.18)		**0.22**	**2.77**	**0.66**	**2.69**	**1.35**	**2.71**	**1.12**	**2.68**	**2.81**	**3.23**	**3.85**	**4.37**
AusBond Credit FRN Index (2370.19)		**0.22**	**2.74**	**0.88**	**3.56**	**1.94**	**3.91**	**1.63**	**3.95**	**4.13**	**5.05**	**5.35**	**5.20**
Medium Term Funds	**Fund Size ($m)**	**1 Month**	**% p.a.**	**3 Months**	**% p.a.**	**6 Months**	**% p.a.**	**FYTD**	**1 Year**	**2 Years**	**3 Years**	**5 Years**	**7 Years**
Fixed Interest Funds													
CFS Global Corp. Debt Enhanced [NR]	394.6	0.45	5.65	0.47	1.88	2.73	5.51	1.80	8.70	7.97	9.80	9.49	8.50
Macquarie Enhanced Global Bond (AAf)	221.8	1.36	17.86	2.23	9.27	5.03	10.29	4.43	9.11	6.27	7.49	7.80	8.19
Perpetual Active Fixed Interest [NR]	369.2	1.27	16.59	1.94	7.99	4.56	9.31	3.55	9.61	6.37	8.08	8.53	8.49
Nikko AM Australian Bond[*]	156.4	1.16	15.05	1.95	8.05	3.97	8.08	3.08	8.78	5.64	6.57	7.25	7.75
AusBond Credit Index (8333.95)		**0.81**	**10.33**	**1.45**	**5.96**	**3.29**	**6.68**	**2.60**	**7.24**	**5.85**	**7.10**	**7.45**	**7.71**
AusBond Comp. Bond Index (8206.77)		**1.27**	**16.56**	**1.90**	**7.82**	**4.06**	**8.26**	**3.23**	**8.56**	**5.04**	**6.13**	**6.89**	**7.28**

Performance is provided before management fees.

[NR] This fund is not currently credit rated. All funds represented are open ended.

[*] Nikko Asset Management announced it would align its previous Tyndall brand names in Australia and New Zealand with the firm's global name.

[**] The 1month figure used to calculate returns for these Funds are preliminary as the manager could not provide final numbers at the time of distribution.

Bloomberg recently acquired the UBS Australia Bond Indices. The benchmark indices have been rebranded as part of the Bloomberg AusBond Index family as of 29 September 2014.

The 'f' subscript to the credit rating signifies that it is a Standard & Poors fund rating and that assets are valued at their market value.

This performance survey is not an approved list, for portfolio recommendations please contact CPG Research & Advisory.

Disclaimer

The above performance has been provided in good faith by the respective fund managers and is believed to be accurate.

Past performance is no guarantee of future performance.

Chapter: Portfolio Review

CPG
Research & Advisory Pty Ltd

NAB Perpetual Hybrid Securities

This longstanding investment trades well below par, and we have considered whether there are prospects of a partial recovery.

Council holds 37,880 units or $3,780,800 (face value) in the NAB perpetual hybrid security out of a $2bn issue. **The security has paid a distribution every quarter**, amounting to 3m *BBSW + 1.25% p.a.* and does not have a definitive maturity date (perpetual). It can now be called at any time at the bank's discretion.

It is a "hybrid," containing elements of both fixed interest and equity character. **It has processes for converting the entire proceeds into a capital instrument if required to by APRA** (for example, if the bank ceased to be "viable" and required a bailout). As such, it qualifies as "Tier 1 capital" and **ranks below subordinated debt**.

The security is listed on the ASX under the code "NABHA" and has been trading on the ASX since mid-1999. It traded relatively well for the first 9 years until the GFC, from which it traded down to just below $60. It has since recovered from the GFC to now trade ~$76.

Chart 7: NABHA Full Trading History

Source: Bloomberg

CPG Research & Advisory Pty Ltd

Table 7 shows APRA's transitional treatment for Basel II securities, non-compliant with later Basel III standards - which includes NABHA.

From 1 January 2015, it will only contribute 70% of the outstanding value.

Recent issues of Tier 1 major bank hybrid securities which are Basel III compliant trade above +350bp at the time of writing. 3m BBSW + 1.25% p.a. is extremely cheap for Tier 1 capital, hence the bank has not called it despite reputational risks in the credit market for not doing so. However, without Tier 1 treatment it becomes relatively expensive debt.

By implementing the transitional arrangements for Basel II securities such as NABHA, APRA is giving the banks a disincentive to hold these securities *i.e.* **APRA is effectively encouraging them to call these existing securities and replace them**.

Table 7: Basel II - Transitional Treatment

Table 1: Transitional arrangements for capital instruments (other than those issued by consolidated subsidiaries)

Year commencing	Percentage of base amount of transitional instruments that may be included in Additional Tier 1 and Tier 2 under the phase-out arrangements.
1 January 2013	90
1 January 2014	80
1 January 2015	70
1 January 2016	60
1 January 2017	50
1 January 2018	40
1 January 2019	30
1 January 2020	20
1 January 2021	10
1 January 2022	0

Source: APRA

CPG
Research & Advisory Pty Ltd

Our view is that it will be "bailed in" and lost if the bank collapses and needs to be nationalised. Bail-out will probably not extend below senior debt and depositors.

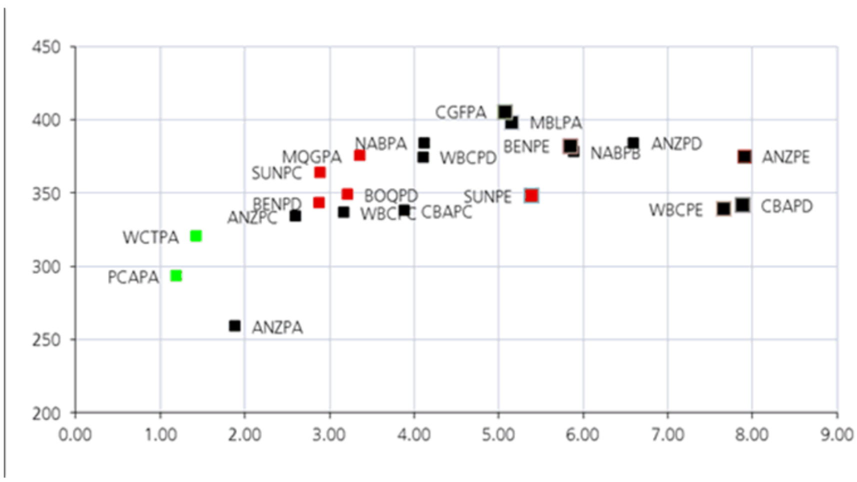
Less extremely, APRA can disallow servicing of Tier 1. Just because they're nervous, or require the banks to build capital in a potential crisis situation. This would see income suspended, but would not necessarily be fatal (although pricing of the security would certainly suffer badly).

We regard these as very remote possibilities.

Neither hybrids nor sub-debt can now be purchased under the current Minister's Order. Nor does it automatically qualify under grandfathering provisions based on compliance with the older Orders, as it has been downgraded to below A rating (as rating agencies changed their views on the level of government support likely to hybrids in a crisis). It is held as "not practicable to sell."

We see hybrids as reasonable value compared to the pricing of ordinary equity, and against other comparables like BBB corporate credit of equivalent assessed default risk.

Figure 12



As a perpetual, NABHA pays a running yield of +225bp (geared to the cash rate, with increases in the Official Rate flowing disproportionately more to the hybrid due to it trading below par). If of the view it would never be called, it would be a "Sell."

Therefore, at these prices **investors require additional upside** to be competitive with other hybrids. ***This comes in the form of a future call at par, or other corporate action.***

UBS believe refinance will occur by 3-4 years' time. Morgan Stanley has a similar view. Tier 1 capital treatment of Basel II hybrids phases out over 10 years, and will reach zero from 2022. At that point, they become senior debt. **The current market price compensates for a 50% probability that the debt is never called**, and 50% that it is called in the distant out years. **This is quite different to what the broking community is saying.**

If UBS is right, holding period return to call is Cash + 8-10½% pa:

Table 8

Call (Jan 1)		IRR	Swap	Margin (bp)
		34%		
	2016	**33.61%**	2.53%	*3108*
	2017	**17.90%**	2.54%	*1536*
	2018	**13.09%**	2.55%	*1054*
	2019	**10.77%**	2.66%	*811*
	2020	**9.39%**	2.77%	*662*
	2021	**8.49%**	*2.95%*	*554*
	2022	**7.85%**	3.12%	*473*

We are more sceptical, and do not see any economic trigger for calling until the Tier 1 treatment is effectively lost.

At +125bp, even at half Tier 1 allowance it's still very cheap capital given senior debt costs +85. Our base case sees the call being made in 2021 or 2022. ***On that basis, BBSW +5 to 6% should be achievable from this point.***

As this materially exceeds the spread on other Basel II hybrids (roughly twofold), **our current view is a *Buy* rating on the security - for eligible investors**.

Initial target is to pass the cyclical peak of $83, and we would re-evaluate the situation at a fair value we assess as ~$84 in current conditions.

There is a further upside scenario in which an earlier buyback tender is launched – if the bank planned to call at par in 2020, it would be economic to launch a buyback in 2017 at $90 and refinance into a Basel III compliant hybrid. The result would be as follows:

CPG
Research & Advisory Pty Ltd

Table 9

	Call (Jan 1)	IRR	Swap	Margin (bp)
		21%		
	2016	**20.71%**	2.53%	*1818*
	2017	**12.18%**	2.54%	*964*
	2018	**9.48%**	2.55%	*693*
	2019	**8.15%**	2.66%	*549*
	2020	**7.36%**	2.77%	*459*
	2021	**6.84%**	*2.95%*	*390*

This is a vastly better outcome for investors than our base case of a 2022 or 2021 call.

It is likely that, over the medium term, a satisfactory resolution for the position will emerge, and so we do not currently recommend sale.

We would revisit this recommendation in the low-$80's.

NAB Wealth Management Holdings

This is a sub-debt issue from a NAB subsidiary, primarily MLC. As it is owned through National Australia Financial Management Ltd (a life insurer), it would likely remain an APRA-regulated entity even if sold – although not an ADI.

While ultimately owned by the NAB, it does not have an explicit guarantee, and is subordinated to other obligations and debts of the MLC group.

The primary risks to the trading value of the security are:

- A serious business failure by the MLC group (reputational, a series of key person departures, sustained poor performance, or other factors as would impair the value of the business).
- Failure to call the debt at the first opportunity in 2016 would be seen as very adverse by the market.
- Sale to a less creditworthy owner than NAB – in the worst case, sale to private equity in a leveraged buyout, in which MLC subordinated debt would likely be downgraded to speculative grade and would not be called.

Holding subordinated debt in an LBO could see the bond trade at $60 or so, based on a typical mezzanine yield in excess of cash+10%.

We are happy to retain the notes to call date at an indicated BBSW+250bp, but would revisit this if NAB announced a marketing process for MLC. This is a <u>high risk</u> security.

DISCLAIMER

Much of the information provided in this document is written for the general interests of clients of CPG Research & Advisory only. This report does not constitute a recommendation or an offer to invest. This market review sector of the document is intended as background material does not take into account the investment objectives, financial situation or particular needs of any particular investor. Before making an investment decision or acting on any of the information or recommendations contained in this report, the investor should consider whether such recommendation is appropriate given the investor's particular investment needs, objectives and financial circumstances. We recommend you consult your CPG adviser for updated advice that addresses your specific needs and situation before making investment decisions. All information and recommendations expressed herein constitute judgements as of the date of this report and may change without notice. Staff or associates may own positions in the investments mentioned – directly or indirectly.

4.5 Occupation of Council Owned Property

Delivery Program	Community Facilities and Services
Objective	To invite the Council's consideration of a request by a community organisation to occupy a Council-owned property, being No.32 Swift Street Ballina.

Background

The land illustrated in green edging in the plan accompanying this report is described as lot 7 DP668267, lot 70 DP1005100 and lots 9-16 DP1714, being No's 24 – 32 Swift Street Ballina. The combined area of the allotments is approximately 6680m^2.

The property is owned by Council and, for the purpose of the Local Government Act 1993, is classified as Community Land and categorized for General Community Use. For general purposes, the land is referred to as Wigmore Park and improvements include The Ballina Players Theatre, Wigmore Hall and the Ballina Youth Activities Centre. Each of these facilities is operated or managed by different entities under tenure provided by Council. Council's adopted plan of management relating to Community Land recognises these respective uses.

The subject of this report is the Ballina Youth Activities Centre (YAC) highlighted by red edging in the accompanying plan. This facility was proposed by the Ballina Youth Service in 1995 and involved the relocation of a dwelling formerly owned by the Anglican Church (St Mary's Church Rectory), to the current site, where it was converted following the grant of development consent by Council. The consent authorized the operation of a Community Building comprising a Youth Activity Centre but with the limitation of it being utilized and managed as a programs based centre and not as an informal drop-in centre.

Initially, the building was administered by a Management Committee comprising representatives from youth agencies, and young people. Council was also represented on the Committee. Subsequently, the Ballina and District Community Services Association (BDCSA) was authorized to occupy the building and its curtilage under lease from Council to deliver government-funded youth programs within the terms of the original development consent. The current lease has a four year term, expiring on 30 June 2016.

The BDCSA is currently merging with FSG Australia (FSGA). This organization wishes to take over the occupation of the building and to use it to conduct youth-related activities.

The attached letter briefly outlines the organisation's intentions. Whilst not explicitly mentioned in the letter, FSGA's desire is to obtain a tenure over the property basically under the same terms and conditions as those enjoyed by BDCSA.

The following report discusses this proposal and invites the Council's direction in that regard.

Key Issues

- Transparency and equity in the allocation of Council's properties

Information

Since the organisation's "arrival" in Ballina representatives of FSGA have been liaising with Council staff to provide an overview of their service models and to review opportunities to work with Council and other agencies.

Some Councillors may also recall attending a briefing with the Chief Executive Officers of FSGA and BDCSA on 4 February 2014, prior to the merging of these two organisations. At that briefing the two CEOs outlined how the new entity (if the merger occurred) would deliver a range of human services within Ballina Shire. At that time, it was foreshadowed that FSGA would seek to retain occupation of the Swift Street YAC.

From staff's perspective, the organisation's continued use of the property for youth oriented services is supported. This report is provided to elicit the Council's view, having regard for the information provided in the attached letter from FSGA.

The Council will note that the organization wishes to carry out renovations to the existing building. The extent of these is not known at this time, and there may be a requirement for Council's regulatory approval to be obtained. It is understood the organization proposes to carry out renovations to the building without financial support from Council.

Furthermore, staff discussions with FSGA representatives have not concluded that its preferred use of the building can be conducted under the terms of the current consent. These matters will be the subject of further discussion.

Fundamentally though, direction is sought from the Council as to whether retention of use of the property for the delivery of youth-oriented services by FSGA and partner organization/agencies is appropriate.

It is open to the Council to nominate other uses for the property or alternatively, invite expressions of interest for its use. Council may also determine that the property is surplus to its needs.

The Council, at its Ordinary Meeting held on 24 October 2013, considered a report which invited the adoption of a draft policy for the allocation of available Council-owned or controlled properties. The draft policy attempted to establish criteria and guidelines to assist the Council and staff to respond to enquiries received from time to time, particularly from community-based and, not for profit organisations which have limited financial resources. The Council declined to endorse the draft policy, preferring instead to assess individual circumstances as they arise.

4.5 Occupation of Council Owned Property

The Council has allocated properties in the past to certain organisations presumably because it has felt that the services to be provided will be of material benefit to our community. It is the case also that minimum or modest rentals have been charged for the use of the properties, as imposing market rental would be unacceptable from the tenant's perspectives.

One of the difficulties with this approach (aside from the revenue foregone) is that Council really has no way of knowing whether the service it is subsidizing is being effectively delivered to the community. That is, that Council's decision to offer the property to a group on the basis of the community benefits that will be derived, is justified.

Perhaps one way of responding to this is to build into the tenure agreement for new leases or lease renewals a requirement for the benefitting organization to provide a report to Council, say annually, which outlines the scope of its services and operations. For example, Council could ask the organization how its operations are consistent with or achieving the objectives of the Council's Community Strategic Plan and Delivery Program. There may also be other criteria which the Council may wish to nominate.

It is suggested that gathering and monitoring this type of information over time will promote a greater level of transparency and accountability in how vacant properties are allocated to organisations. It will assist the Council to understand the extent to which the concessions it grants to certain groups assists to effectively deliver important services to our community.

Legal / Resource / Financial Implications

The administration of Council-owned properties made available for rental by community-based and not for profit organisations is undertaken within the resources allocated by the Council.

Consultation

Community consultation concerning this matter has not been undertaken.

Options

The following options appear to be available:

1. The Council may accede to the request from FSGA to transfer the current lease of the property from BDCSA and renew it for a further period of three years, or such other period as the Council sees fit. The transfer of the current lease and the new lease would be on the basis of a "peppercorn" rental. Alternatively, the Council could determine to impose a commercial rental or include a rebate at a percentage determined by the Council.

2. The Council may decide to decline the request from FSGA and seek expressions of interest from community-based or not for profit organisations which provide services in Ballina Shire. The Council could build into the EoI any other performance criteria for potential tenants as it thinks appropriate.

3. The Council could restore the building for residential usage and offer it to the rental market on that basis.

4. The Council could sell the property. Alternatively, it could offer the building for sale for relocation and then redevelop the property.

At this stage, options two, three and four are presented as conceptual ideas. If the Council wished to entertain them, a further more detailed report will be required to discuss issues of permissibility, zoning restrictions, land reclassification etc.

The most practical option for the time being is Option One and this is recommended.

As to rental, a "peppercorn" is recommended on the basis of the Council being satisfied of the not for profit status of FSGA and the contribution it is able to make to our community in terms of the delivery of important support services. It would be proposed however that terms of the new lease (if approved) would include some reporting measures on the part of the tenant as a means of keeping the Council informed of its key functions, and outcomes.

RECOMMENDATIONS

1. That Council notes the contents of this report relating to the Council-owned property located at No. 32 Swift Street Ballina.

2. That Council offers FSGA a lease of the premises at No.32 Swift Street (being the existing building and immediate curtilage) for a period of three years at nominal rental. The purpose of the lease is to enable FSGA and associated organisations to conduct youth-related services in accordance with the terms of Development Consent No. 1995/311 granted on 5 July 1995.

3. That the General Manager is authorised to affix the Seal of the Council to documents relating to the new lease.

Attachment(s)

1. Letter from FSG Australia - Youth Activity Centre - 32 Swift Street Ballina
2. Plan of Youth Activity Centre - 32 Swift Street Ballina

Standing for Freedom, Social Justice & Growth.
ABN 73 112 839 184 | ACN 112 839 184

BALLINA
83b River Street Ballina NSW
Phone: (02) 66 18 74 00
www.fsg.org.au

3 March 2015

The General Manager

Ballina Shire Council

Att: Mr Steve Barnier

Dear Mr Barnier

Youth Activity Centre – 32 Swift Street, Ballina

I refer to our recent discussions and involvement of Council staff in a community project team established by FSG Australia (FSGA) to expand the scope and activity level of the above facility to benefit the youth of Ballina Shire.

The CEO of FSGA, Vicki Batten, has engaged the professional marketing and promotion services of Third and Public (Clare Southwell) for the coming 12 month period to progress the development of the project. The FSGA CEO has endorsed the Youth Program 2015 documentation, which has the following key objectives:

- Empower and engage young people
- Involve and collaborate with young people
- Inspire young people to make a difference within their own community
- Raise awareness about the make-up of our young community and its diversity
- Transform attitudes towards education and support networks
- Inspire disadvantaged young people to help them to transition to positivity
- Build confidence for future prospects
- Develop new skills with the support of mentors
- Rebuilding communities and a sense of community
- Create a place of excitement, with which young people want to be involved.

In broad overview, it is hoped that the program launch will occur in Youth Week in April, with the above objectives focusing on engaging young people of Ballina in the re-design of the internal space. The Ballina Block will be an all-embracing challenge where we will seek to involve young people from a diverse range of backgrounds providing an opportunity for them to drive the changes they want or require from a youth facility.

fsg Australia

Standing for Freedom, Social Justice & Growth.

ABN 73 112 839 184 | ACN 112 839 184

FSGA is strongly committed to growing its presence in Ballina as has already been demonstrated by the opening of the River Street Shop Front in October 2014. The organisation has a well-established reputation for taking up new opportunities to satisfy unmet need in the community. There is strong evidence that there is a need to urgently engage, empower and inspire young people within our community. This is supported by the national average of disengaged youth being 9%, with Ballina Shire having 19% of youth in this category.

In terms of the current internal layout of the building, the project leaders are in the process of enlisting in-kind support from a range of businesses as part of the overall community collaboration strategy. These businesses will assist with building and renovation work as well as acting as mentors throughout the process. Sponsorship opportunities are also being explored to support the project. A preliminary on-site inspection by Council Building Inspector and other officers has already occurred and any works will be planned and conducted in close collaboration with council and in line with the necessary approval processes.

We look forward to working closely with council on this project, which will be of great benefit to the young people of Ballina and surrounds.

Yours faithfully

Isabel Perdriau

Regional Manager NSW

4.6 Waste Operations - Long Term Financial Plan

Delivery Program	Governance and Finance
Objective	To review the long term financial plan for Council's waste operations.

Background

Council's waste service comprises two distinct programs being Landfill and Resource Management (LRM) and Domestic Waste Management (DWM). LRM is responsible for the waste management facility plus the collection of kerbside non residential waste and DWM is responsible for the collection of kerbside residential waste.

The Local Government Act requires DWM to be treated as a separate program due to the manner in which the revenues are raised via an annual charge. Each year the auditor does an assessment to see that DWM is not being run with the intent of making a surplus that is beyond the needs of the business.

LRM has been struggling financially for many years and to keep the program viable there have been cross subsidies from DWM, as DWM has paid higher tonnage rates than self-haul. The rationale to justify the cross subsidy has included the argument that if self-haul were charged a much higher rate they simply would not use the Waste Centre, so ultimately DWM would pay an even higher price and there would be extensive orphaned waste.

Also the two services, LRM and DWM are dependent upon each other. DWM needs somewhere to deposit waste collected and LRM is primarily in business to service DWM.

This report examines the operations of both activities, with a long term financial plan for both, included as attachments to this report. The aim this year is to try to remove any remaining cross subsidies as they are not desirable and the financial situation presents this opportunity.

Key Issues

- Long term aims and objectives
- Affordability
- Legislative change

Information

Legislative Change

The legislation in respect to the State Government Waste levy has been based on the premise that the levy is only payable for waste that is landfilled at our site. The levy has not applied if the waste is taken off site.

Council has primarily avoided paying the levy over the last two years by trucking virtually all waste off site.

Council has received reports indicating that it was likely that the legislation would change such that the levy is attracted to waste, even if it is not disposed of on site.

It can now be confirmed that the Illegal Waste Disposal Act means that the levy is payable even if the waste is transported off site. However the revised legislation includes a clause relating to proximity. Council's such as Ballina and Tweed can still avoid the levy if the waste is trucked off site by virtue of our proximity to the State border.

This is good news because it allows Council to dispose of our waste at a very economical cost; i.e.; trucking off site is economical in comparison to the cost of disposing the waste on site, paying the levy and filling a very expensive hole in the ground. This outcome has helped the financial outlook of both LRM and DWM.

The risk is that, at some time in the future, either the New South Wales or the Queensland Governments amend legislation that requires Ballina to pay the levy.

This would be a concern because Council has not included the cost of the levy in the pricing structure for probably three of the seven years of the incremental increases to the levy. The levy has and will increase by $10 per tonne plus cost of living each year for seven years, concluding in 2015/16.

Hence if the levy ever did become payable, our prices may need to rise significantly depending on the financial performance/position of LRM at that time.

There is no indication that the levy will become payable however it is important to be aware that the report and proposed pricing structures assume that Council will pay only minor amounts (under $200,000) in respect to the levy.

Landfill and Resource Management (LRM)

Table one shows the recent financial results for LRM together with the forecast for 2014/15 as at 31 December 2014.

Table One: Actual and Forecast Results for LRM

Description	**2012/13 Actual $000**	**2013/14 Actual $000**	**2014/15 Estimate $000**
Operating Revenues	2,497	2,720	4,125
Operating Expenses (include dep)	2,751	2,494	3,609
Operation Surplus / (Deficit)	**(254)**	**226**	**516**
Excl Depreciation / Remediation	1,537	1,295	1,426
Cash Surplus / (Deficit)	**1,283**	**1,521**	**1,942**
Less Loan Principal	982	1,053	1,127
Less Capital Expenditure	430	153	503
Less Dividend to General Fund	0	50	100
Capital income	212	0	0
Cash Increase / (Decrease)	**83**	**265**	**212**
Reserve Balance	**2,067**	**2,332**	**2,544**

The operating performance of LRM has improved over the last few years and this is forecast to continue.

In comparing 2013/14 to 2014/15 it can be seen that both income and expense has increased considerably. This is because in 2014/15 Council introduced a new annual charge that has increased recurrent income by approximately $1.2 million.

The new revenue stream was introduced to compensate for lost 'internal income' (presents as a negative expense) once DWM green waste ceased to be managed by LRM and was trucked directly to Lismore.

The bottom line is that the operating performance has been improving and the reserve growing by over $200,000 per annum. Also the new annual charge provides a surety of income that can be adjusted to suit the needs of the day.

The reserve balance has been increasing and at the end of the current financial year it is predicted to be in the order of $2.5 million. This includes two restricted reserves that can only be used for specific purposes.

The table below shows the previous and estimated balance of the three reserves.

Table Two: Reserve Balances ($'000)

Reserve	2012/13 Actual	2013/14 Actual	2014/15 Estimate
LRM Reserve	1,367	1,534	1,819
Waste Levy	488	585	513
Biochar Grant	212	212	212
Total	**2,067**	**2,332**	**2,544**

The Biochar Grant is self-explanatory in that it must be spent on the Biochar project. Council has expended sufficient funds on this project to acquit the grant however given the current status of the project it is possible that we may have to return the funds. Staff are looking to confirm with the grant authority the situation in respect to these funds.

The levy reserve comprises funds provided by the State Government in the form of the waste levy reimbursement. A specific program of works (primarily capital in nature) has been agreed for these funds.

The LRM reserve represents the accumulated surplus from operations and may be applied at Council's discretion. This is the reserve that has actually been increasing and Council has flexibility in the application of these funds.

The estimated balance of outstanding debt at the end of the current financial year is approximately $2.5 million. Loan repayments in respect to the debt are scheduled to be completed in 2017/18 however the major loan is repaid in 2016/17.

Strategy

A report will be presented to Council before the end of the financial year considering the strategic direction for waste management.

This report will look at issues associated with the transfer of waste off site, possible threats to the practice, the cost to construct new cells and whether the expense is warranted.

Depending on the outcome of those deliberations there could be significant implications for the financial model.

For example construction of new cells could be in the order of $9 million however a far more accurate estimate of costs is in the process of being prepared.

The current operating practice for LRM is to truck virtually all waste off site. This means the facility is essentially a transfer station which simplifies both operations and financial transactions.

This report, including the forward financial modelling, is premised on the assumption that Council will continue to truck most waste off site into the future.

Forward Financial Model

The current outlook for LRM is better than it has been for some time. This is due to a number of factors including the introduction of the new annual charge and what appears to be a stable future in respect to operations and transferring waste off site.

All outstanding loans will be paid by 2017/18, which means a reduction to annual cash repayments of approximately $1.4 million. The forward plan does not propose any new borrowings nor does it include the construction of new cells.

LRM has assets valued at $12.6 million which mainly relates to property plant and equipment. The next biggest asset is the cash reserves, which have been discussed earlier in this report.

The capital works in the plan are generally funded from the levy reimbursement reserve.

The plan does foresee a time when approximately $2 million will be required to be spent on remediating the current cell however given current practices it is difficult to know exactly when this will be necessary.

So all up it is a very positive outlook and based on current forecasts Council will need to consider either taking a dividend from LRM or alternatively reducing prices.

Only one scenario has been presented, which presumes a 2.4% increase to price. It is considered that a price increase beyond cost of living is difficult to justify based on current information.

Council may be interested in an increase of less 2.4 % however it is considered that to at least keep pace with the cost of living is prudent. This is because the financial fortunes of LRM have been and remain volatile. So the outlook may change rapidly if, for example, Council chooses to construct new cells or legislation changes and the levy becomes payable.

The next table shows the latest financial plan for LRM.

Table Three: LRM Long Term Financial Plan

Description	15/16 $'000	16/17 $'000	17/18 $'000	18/19 $'000	19/20 $'000	20/21 $'000	21/22 $'000	22/23 $'000	23/24 $'000	24/25 $'000
Operating Revenues	4,063	4,182	4,308	4,417	4,574	4,687	4,802	4,920	5,036	5,160
Operating Expenses	3,452	3,443	3,491	3,596	3,715	3,838	3,965	4,093	4,225	4,363
Operating Result	**611**	**739**	**817**	**821**	**859**	**849**	**837**	**826**	**812**	**798**
Add Back Deprec	1,430	1,430	1,468	1,506	1,545	1,586	1,628	1,671	1,716	1,762
Cash Surplus	**2,042**	**2,169**	**2,285**	**2,327**	**2,404**	**2,435**	**2,465**	**2,498**	**2,527**	**2,559**
Capital Income	0	0	0	0	0	0	0	0	0	0
Loan Principal	1,206	1,112	194	0	0	0	0	0	0	0
Capital Expenditure	100	105	2,000	116	121	126	131	136	141	147
Dividend	0	0	0	0	2,200	2,284	2,371	2,462	2,556	2,654
Net Reserve M'ment	**736**	**952**	**91**	**2,211**	**83**	**25**	**(37)**	**(100)**	**(170)**	**(242)**
Total Reserves	**3,200**	**4,152**	**4,243**	**6,453**	**6,537**	**6,562**	**6,525**	**6,424**	**6,255**	**6,013**

The plan indicates that LRM is rapidly becoming very profitable with an operating surplus of $611,000 predicted in 2015/16 rising to approximately $821,000 in 2018/19.

The model assumes that prices will rise by approximately 3% annually after 2015/16. Operating expenditure is predicted to remain almost static for a few years and then increase by 3% in later years. Expenditure is impacted favourably by loan interest gradually falling to zero.

As mentioned the debt will be completely repaid in 2017/18.

The reserve balance tends to increase quite quickly such that there is a balance on hand of $6.4 million in 2018/19. The plan assumes an annual dividend commencing in 2019/20 of $2.2 million.

Assumptions

- Council will continue to export virtually all waste off site
- The State Government levy is set to increase by $10 plus CPI to approximately $78 dollars per tonne. Council will essentially avoid the levy and pay approximately $200,000 only
- The levy refund will be in the order of $25,000
- LRM will pay transport and treatment expenses for mixed waste, green waste, recyclates and construction / demolition

- There are proposed capital works in 2017/18 relating to remediation of existing cells $2,000,000.

  This assumption is slightly inconsistent with the other assumptions, in that if Council does not use the cells there will be no need for the remediation, however the figure is included as an example of possible capital expenditure that may be incurred.

- It is assumed that the existing customer base and gross quantity of waste coming in the gate will remain reasonably consistent with the current financial year.

- The price for DWM mixed waste gate fee will reduce to equal the price of self-haul mixed waste fee. It is anticipated that income will fall by approximately $90,000 due to this reduction. See discussion in fees and charges for the rationale relating to this proposal

- The forward plan indicates that LRM will accumulate reserves in excess of requirements and a substantial dividend is proposed from 2019/20.

Operating Income

- Waste operations annual charge $1.2 million and the business collection annual charge $0.5 million

- Gate fees from self-haul $2.1 million

- Gate fees from DWM/Council work $3.2 million. This item is presented as a negative expense. It has been included in the income section of this narrative to compare against other gate fees.

- The gate fees paid by DWM represent a very significant percentage of total gate fees, which emphasises the importance of DWM to LRM.

Operating Expenses

- Transport fees for mixed/inert/recyclates $1.8 million

- Transfer preparation and loading $425,000

- Weighbridge $231,000

- Transfer station $197,000

- Baling and recycling $120,000

- Loan interest $154,000

- Overhead and administration $1 million

The primary expense relates to preparing, loading, transporting and paying gate fees, which amounts to approximately $2.2 million.

Fees and Charges

Fees and charges for waste services have increased substantially for many years. The price increase has been driven by a combination of high debt levels and the State levy. Therefore it is pleasing to reach a point where a substantial price increase is not required. The model is based on a 2.4% increase to fees and annual charges.

Apart from the cost of living adjustment, other significant changes proposed to LRM fees are to reduce the DWM gate fee for mixed waste from $264 to $256 and introduce a new tonnage based charging structure for recyclates.

It is proposed that the self-haul mixed waste gate fees be increased by cost of living and by decreasing the DWM fee it will be set at the same level as self-haul. This adjustment will remove a cross subsidy that has been in place for many years.

The rationale for the revised pricing structure for recyclates is to remove a cross subsidy, or perhaps a perceived cross subsidy, between DWM and self-haul. The 2015/16 structure proposes a weight based structure such that smaller quantities incur a far lesser charge than larger quantities.

The rationale for the price differential is that larger quantities, such as those brought in by DWM, have a far higher contamination rate than self-haul. Also the larger quantities must be piled and stored awaiting transfer.

In contrast the smaller quantities are sorted by the customer and are quite often converted into sales as opposed to a cost being incurred to export.

One of the main drivers to remove cross subsidies between DWM and self-haul, apart the inequity of the matter, is that Council has done and could potentially take a dividend from LRM.

Taking a dividend raises a few issues for Council to contemplate. Firstly there is the fact that you are overcharging in one area to provide benefit to another. This could create angst amongst ratepayers if they are looking at the waste service in isolation.

However it is the case that the programs receiving the benefit do need the extra resource. Also the ability of the Local Government to raise necessary funds to benefit the General Fund is extremely limited.

It will be important to be very transparent with the community in relation to Council's strategy.

The second issue is that it is not legal to take a dividend from DWM. Given that DWM is LRM's largest customer there is real concern that DWM is contributing to the dividend. This is particularly the case when there is cross subsidies and DWM is paying more than self-haul for the same service. For this reason, if for no other, it is desirable to remove any cross subsidies.

The following table provides the tonnage charges over recent years and differentiates between the internal charges levied on DWM and self-haul. It can be seen that the charge levied on DWM is higher than self-haul.

Table Four - Charges Per Tonne ($)

Description	11/12 ($)	12/13 ($)	13/14 ($)	14/15
DWM Recycled	200	185	194	210
Self-Haul Recycled	74	75	79	86
DWM Mixed Waste >300kg	222	220	245	264
Self-Haul Mixed Waste >300kg	174	190	217	250
DWM Green Waste	222	220	245	N/A
Self-Haul Green Waste	60	60	63	68

In 2014/15 DWM green waste no longer entered the centre so this subsidy no longer exists. However there remain subsidies in respect to recycled and mixed waste charges.

There has been a concerted effort to reduce the differential for mixed waste however the price gap in respect to recycled remains substantial.

In 2011/12 Council resolved to subsidise the price of self-haul recycled material to ensure that the price did not become unaffordable, primarily for residents disposing of waste at the landfill site.

This is why the differential is so large.

The preferred approach is not to take a dividend until the price cross subsidies are eliminated.

The 2015/16 pricing structure looks to achieve this outcome by levelling the mixed waste charges and changing the structure for recycling.

The preferred option is to increase all waste charges by approximately 2.4%, with those exceptions discussed above.

Table Five – LRM Waste Charges

Charge Type	2014/15 ($)	2015/16	% Change
Kerbside Non Domestic Mixed Waste (Annual)	360	369	2.5
Kerbside Non Domestic Recycling (Annual)	178	182	2.2
Kerbside Non Domestic Green Waste (Annual)	315	322	2.2
DWM Gate Fee Mixed Waste	264/tonne	256/tonne	(3)
Self-Haul Mixed Waste Under 300kg Over 300kg	216/tonne 250/tonne	221/tonne 256/tonne	2.3 2.4
DWM Gate Fee Recyclates	210/tonne	215/tonne	2.4
Self-Haul Recyclates	86/tonne	88/tonne	2.3
Self-Haul Green Waste	68/tonne	70/tonne	2.9
Remaining Gate Fees	Various up to 10%	Various up to 5%	Up to 5%
Waste Operations Annual charge	70	72	2.9

Domestic Waste Management (DWM)

DWM is, in comparison to LRM, a smaller and more predictable operation. The business must pay wages and provide collection vehicles for residential mixed and recycled kerbside collections, plus meet contract payments for the kerbside collection of residential green waste.

A guaranteed income stream is available in the form of the annual charge and this charge can be adjusted at Council's discretion, subject to certain requirements of the Local Government Act.

DWM owns five collection vehicles and must generate sufficient cash to replace these trucks. In 2011/12 four new trucks were purchased at a cost of approximately $1.4 million or $350,000 per truck. It is anticipated that a truck will last approximately six years.

So very roughly DWM requires an annual transfer to reserve of $350,000 (plus CPI) per annum to provide for vehicle replacement.

The next table shows the recent financial results for DWM.

Table Six - DWM Operating Results ($'000)

Item	2012/13 Actual $000	2013/14 Actual $000	2014/15 Estimate $000
Operating Revenues	6,579	6,736	5,852
Operating Expenses	6,163	6,082	5,798
Operating Surplus / (Deficit)	**416**	**654**	**54**
Less Depreciation	251	179	177
Cash Surplus / Deficit)	**667**	**833**	**231**
Less Loan Principal	134	143	153
Less Capital Expenditure	0	0	350
Cash Increase / (Decrease)	**533**	**690**	**(272)**
Reserve Balance	**873**	**1,563**	**1,292**

Over recent years DWM has been making a substantial cash surplus.

In 2013/14 the surplus was $690,000 (cash operating surplus $833,000 less loan capital $143,000) which is beyond the requirements of DWM. The 2014/15 outlook has moderated such that the forecast cash surplus has reduced by approximately $600,000 in comparison to 2013/14.This has been a deliberate strategy to reduce the surplus.

In 2014/15 there were a number of major changes which affected the finances of DWM. These included:

- In 2013/14 DWM paid LRM gate fees for green waste and also a contractor to collect the waste. In 2014/15 DWM pays the contractor to take the waste to Lismore and the Lismore gate fees
- The DWM annual charge was reduced by $70 which offset a new annual charge raised in LRM for $70
- DWM no longer pays gate fees to LRM for green waste

- LRM gate fees for mixed waste, inert etc. were increased by 8% at the start of the financial year

- DWM overheads increased by over 200,000 in 2014/15 in comparison to the previous year.

Once the financial impact of all these changes had been assessed the decision was taken to increase the DWM annual charge by 3.5% for 2013/14.

The rationale was that the surplus was excessive and it also assisted community acceptance of the new waste operations charge. The original budget forecast a cash surplus of $130,000, which has improved over the first half year by $100,000.

Forward Financial Model

DWM is in a sound financial position with total debt amounting to just over $300,000 and this will be repaid by the end of 2015/16.

Reserves are anticipated to be approximately $1.3 million at the end of the current financial year and the next major capital outlay (purchase of four new trucks) is scheduled for 2017/18, at an estimated cost of $1.7 million.

The 2015/16 financial model is based on an increase to the annual charge of 2.4% and thereafter at 3% for a number of years.

The next table shows a summary of the model.

Table Seven: DWM Long Term Financial Plan

Description	**15/16 $'000**	**16/17 $'000**	**17/18 $'000**	**18/19 $'000**	**19/20 $'000**	**20/21 $'000**	**21/22 $'000**	**22/23 $'000**	**23/24 $'000**	**24/25 $'000**
Operating Revenues	5,951	6,095	6,274	6,413	6,594	6,793	6,992	7,197	7,403	7,600
Operating Expenses	5,812	5,959	6,119	6,284	6,454	6,627	6,806	6,990	7,179	7,373
Operating Result	**139**	**135**	**156**	**130**	**141**	**167**	**186**	**207**	**224**	**227**
Add Back Deprec	177	182	188	194	200	206	212	218	225	232
Cash Surplus	**316**	**318**	**343**	**323**	**340**	**372**	**398**	**425**	**449**	**459**
Capital Income	0	0	0	0	0	0	0	0	0	0
Loan Principal	163	0	0	0	0	0	0	0	0	0
Capital Expenditure	0	0	1,700	0	0	0	0	0	0	2,000
Net Reserve Movement	**153**	**318**	**(1,357)**	**323**	**340**	**372**	**398**	**425**	**449**	**(1,541)**
Total Reserves	**1,445**	**1,763**	**406**	**729**	**1,069**	**1,442**	**1,840**	**2,264**	**2,713**	**1,172**

The plan predicts that the cash surplus will range around the $300,000 to $400,000 mark for a number of years.

This is sufficient to meet known liabilities given that the reserve already has a balance in excess of $1m.

The next major outlay is forecast in 2017/18 at $1.7 million and the reserve is predicted to have a balance of $1.76 million at the commencement of that year.

Once the 2017/18 surplus is taken into account the reserve balance at the end of that year is forecast to be $406,000.

Obviously the plan will need to be monitored and it may be that as we approach 2017/18 the percentage increase may need to be adjusted but based on current information the future looks as though cost of living increases will be sufficient to meet requirements. The main threat to this scenario is changes to LRM operations that will impact gate fees and therefore DWM.

The main DWM assumptions in the financial plan are:

- Charges to increase by 2.4% for next year and thereafter at 3%
- Waste streams will remain similar to the current year
- Costs for labour, plant and contracts to rise by 2% to 3% with the exception of gate fees for mixed waste which is expected to reduce in total cost due to a reduction in price (see commentary in LRM 'Fees and Charges')
- Elimination of cross subsidies paid to LRM

The main features of the 2015/16 plan include:

- Annual charge income of $6 million
- Kerbside collection costs $1 million
- Gate fees paid to DWM $2.8 million
- Green waste collection and gate fees $1.1 million
- Overheads $619,000

Annual Charges

Based on the assumptions outlined in the financial plan the proposed 2015/16 charges as compared to 2014/15 are as follows.

Table Eight - Domestic Waste Charges

Charge Type	2014/15 Charge $	2015/16 Charge $	% Increase
DWM - Rural (excludes green)	307	314	2.3
DWM – Urban (all three collections)	352	360	2.3
Additional Extra Mixed Waste Urban – Fortnight	105	108	2.8
Additional Mixed Waste Rural – Weekly	210	215	2.4
Additional Domestic Recycling	105	108	2.8
Additional Green Waste Collection - Urban Only	210	215	2.4
DWM – Vacant Land	38	39	2.6

Comparison

The next table provides a comparison of our existing DWM charges to our immediate neighbours. It is difficult to get a fair comparison in terms of service provided however the table outlines the charges for urban domestic waste annual charges where mixed, recycling and green waste services are provided.

Table Nine – Comparison of Urban Domestic Waste Charges (2014/15)

Ballina	Lismore	Byron	Richmond Valley	Tweed
422	460	424	380	405

The figure for Ballina includes the $70 Waste Operations annual charge.

Legal / Resource / Financial Implications

Council needs to consider carefully the financial implications of any proposed changes in waste charges and the need to meet appropriate legislative and environmental standards.

Consultation

The proposed waste charges will be subject to community consultation through the exhibition of the draft Operational Plan.

Options

Council has the option of endorsing the proposed charges or examining further alternatives. The recommendation is to exhibit the proposed fees and charges as per the contents of this report.

RECOMMENDATIONS

That Council endorses the inclusion of the DWM and LRM long term financial plans, as attached to this report, and the following waste charging structure, in the draft 2015/16 Delivery Program and Operational Plan for public exhibition:

LRM Waste Charges

Charge Type	2014/15 ($)	2015/16	% Change
Kerbside Non Domestic Mixed Waste (Annual)	360	369	2.5
Kerbside Non Domestic Recycling (Annual)	178	182	2.2
Kerbside Non Domestic Green Waste (Annual)	315	322	2.2
DWM Gate Fee Mixed Waste	264/tonne	256/tonne	(3)
Self-Haul Mixed Waste Under 300kg Over 300kg	216/tonne 250/tonne	221/tonne 256/tonne	2.2 2.2
DWM Gate Fee Recyclates	210/tonne	215/tonne	2.4
Self-Haul Recyclates	86/tonne	88/tonne	2.3
Self-Haul Green Waste	68/tonne	70/tonne	2.9
Remaining Gate Fees	Various up to 10	Various up to 5	Up to 5
Waste Operations Annual Charge	70	72	2.9

Domestic Waste Charges

Charge Type	2014/15 Charge $	2015/16 Charge $	% Increase
DWM - Rural (excludes green)	307	314	2.3
DWM – Urban (all three collections)	352	360	2.3
Additional Extra Mixed Waste Urban – Fortnight	105	108	2.8
Additional Mixed Waste Rural – Weekly	210	215	2.4
Additional Domestic Recycling	105	108	2.8
Additional Green Waste Collection - Urban Only	210	215	2.4
DWM – Vacant Land	38	39	2.6

Attachment(s)

1. Long Term Financial Plan - Landfill and Resource Management
2. Long Term Financial Plan - Domestic Waste Management

LANDFILL AND RESOURCE MANAGEMENT

ACTUAL	ACTUAL	ACTUAL	LEDGER	BUDGET ITEMS	ESTIMATED												
2011/12	2012/13	2013/14	ACCOUNT		2014/15	%	2015/16	%	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
				OPERATING REVENUES													
				Fees and Charges													
412,000	443,000	464,300	22280	Annual Charges - Commercial Properties	501,000	8	513,000	2	525,000	538,000	551,000	564,000	577,000	591,000	605,000	619,000	634,000
0	0	0		Annual Charges - Residential Properties	1,200,000	100	1,223,000	2	1,257,000	1,291,000	1,326,000	1,362,000	1,399,000	1,437,000	1,477,000	1,517,000	1,558,000
41,000	2,000	4,600	22281	Bulk Waste Collection Service	18,500	302	19,000	3	20,000	21,000	21,700	22,400	23,100	23,800	24,600	25,400	26,200
1,215,000	1,250,000	1,281,800	22283	Fees - Self Haul General	1,410,000	10	1,444,000	2	1,479,000	1,514,000	1,550,000	1,587,000	1,625,000	1,664,000	1,704,000	1,745,000	1,787,000
347,000	329,000	633,600	22283	Fees - Self Haul Inert	662,000	4	678,000	2	694,000	711,000	728,000	745,000	763,000	781,000	800,000	819,000	839,000
239,000	254,000	150,300	22284	Contributions and Grants	125,500	(17)	20,000	(84)	21,000	22,000	23,000	24,000	25,000	26,000	27,000	28,000	29,000
50,000	79,000	54,200	22281	Interest On Investments	83,000	53	39,000	(53)	55,000	76,000	78,000	127,000	128,000	128,000	127,000	124,000	124,000
156,000	140,000	131,400	22281	Sundry Fees	125,000	(5)	127,000	2	131,000	135,000	139,000	143,000	147,000	151,000	155,000	159,000	163,000
2,460,000	**2,497,000**	**2,720,200**		**Total Operating Revenues**	**4,125,000**	**52**	**4,063,000**	**(2)**	**4,182,000**	**4,308,000**	**4,416,700**	**4,574,400**	**4,687,100**	**4,801,800**	**4,919,600**	**5,036,400**	**5,160,200**
				OPERATING EXPENSES													
				Waste Administration													
255,000	340,000	421,500	32340	Administration	415,000	(2)	412,000	(1)	422,000	432,000	443,000	454,000	465,000	476,000	487,000	499,000	511,000
433,000	505,000	525,000	32340	Internal Overheads	562,000	7	567,000	1	584,000	602,000	620,000	639,000	658,000	678,000	698,000	719,000	741,000
444,000	369,000	299,600	32340	Interest on Loans	232,200	(22)	154,000	(34)	74,200	10,400	0	0	0	0	0	0	0
				Waste - Internal Fees and Charges													
(479,000)	(842,000)	(892,500)	22283	Fees - Recyclables From Council (DWM)	(990,000)	11	(1,014,000)	2	(1,038,000)	(1,063,000)	(1,089,000)	(1,115,000)	(1,142,000)	(1,169,000)	(1,197,000)	(1,226,000)	(1,255,000)
(302,000)	(505,000)	(318,900)	22283	Fees - Self Haul Council (Works)	(360,000)	13	(369,000)	3	(378,000)	(387,000)	(396,000)	(406,000)	(416,000)	(426,000)	(436,000)	(446,000)	(457,000)
(2,477,000)	(3,024,000)	(2,919,400)	22283	Fees - Self Haul Council (DWM)	(1,825,000)	(37)	(1,780,000)	(2)	(1,823,000)	(1,867,000)	(1,912,000)	(1,958,000)	(2,005,000)	(2,053,000)	(2,102,000)	(2,152,000)	(2,204,000)
				Waste Received													
187,000	194,000	216,100	32342	Weighbridge Operation	231,000	7	237,000	3	243,000	249,000	256,000	263,000	270,000	277,000	284,000	291,000	299,000
158,000	186,000	186,800	32342	Transfer Station Operations	197,000	5	202,000	3	208,000	214,000	220,000	226,000	232,000	238,000	245,000	252,000	260,000
				Waste Collection and Recycling													
165,000	148,000	194,500	32344	Collection Kerbside	205,000	5	210,000	2	217,000	224,000	231,000	238,000	245,000	253,000	261,000	269,000	277,000
167,400	67,900	81,500	32344	Collection Other	86,000	6	88,000	2	91,000	94,000	97,000	100,000	103,000	106,000	109,000	112,000	115,000
163,000	181,000	82,000	32345	Waste Bailing Facility and Recycling	121,000	48	78,500	(35)	81,000	83,000	85,000	87,000	90,000	93,000	96,000	99,000	102,000
				Waste Disposal													
1,020,000	1,316,000	432,700	32348	Solid Waste Landfill Operations	464,000	7	472,000	2	486,000	501,000	517,000	533,000	549,000	565,000	581,000	597,000	613,000
360,000	411,000	293,500	32348	Transfer - Organics	22,000	(93)	23,000	5	24,000	25,000	26,000	27,000	28,000	29,000	30,000	31,000	32,000
0	0	1,155,800	32348	Transfer - Mixed Waste	1,087,000	(6)	1,113,000	2	1,146,000	1,180,000	1,215,000	1,251,000	1,289,000	1,328,000	1,368,000	1,409,000	1,451,000
403,000	393,000	385,000	32348	Transfer - Inert Waste	380,000	(1)	389,000	2	401,000	413,000	425,000	438,000	451,000	465,000	479,000	493,000	508,000
256,000	344,000	295,600	32348	Transfer - Recyclables	340,000	15	348,000	2	358,000	369,000	380,000	391,000	403,000	415,000	427,000	440,000	453,000
0	0	219,000	32348	Transfer Preparation - Mixed Waste	225,000	3	230,000	2	237,000	244,000	251,000	259,000	267,000	275,000	283,000	291,000	300,000
0	0	149,000	32348	Transfer Preparation - Inert Waste	115,000	(23)	118,000	3	122,000	126,000	130,000	134,000	138,000	142,000	146,000	150,000	155,000
0	0	98,100	32348	Transfer Preparation - Recyclables	85,000	(13)	87,000	2	90,000	93,000	96,000	99,000	102,000	105,000	108,000	111,000	114,000
659,000	812,000	125,200	32348	State Government Levy	280,000	124	200,000	(29)	206,000	212,000	218,000	225,000	232,000	239,000	246,000	253,000	261,000
9,000	15,000	17,800	32348	Deposit	16,500	(7)	17,000	3	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000
14,000	1,000	2,700	32348	Special Rubbish Clean-ups	3,000	11	3,000	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
161,000	238,000	131,300	32348	Reuse Organics, Soil and Concrete	221,000	68	226,000	2	232,000	239,000	247,000	255,000	263,000	271,000	279,000	287,000	295,000
27,600	64,100	17,300	32348	Investigations, Leachate and Remediation	70,000	305	10,000	(86)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
				Non-Cash Expenses													
(257,000)	191,200	67,300	32340	Unwinding Interest Free Loan	191,200	184	191,200	0	191,200	191,200	191,200	191,200	191,200	191,200	191,200	191,200	191,200
1,272,000	1,346,000	1,227,300	32340	Depreciation	1,235,000	1	1,239,000	0	1,239,000	1,276,300	1,314,700	1,354,200	1,394,900	1,436,800	1,480,100	1,524,600	1,570,400
2,639,000	**2,751,200**	**2,493,800**		**Total Operating Expenses**	**3,608,900**	**45**	**3,451,700**	**(4)**	**3,443,400**	**3,490,900**	**3,595,900**	**3,715,400**	**3,838,100**	**3,965,000**	**4,093,300**	**4,224,800**	**4,362,600**
(179,000)	**(254,200)**	**226,400**		***Operating Result - Surplus / (Deficit)***	**516,100**	**128**	**611,300**	**18**	**738,600**	**817,100**	**820,800**	**859,000**	**849,000**	**836,800**	**826,300**	**811,600**	**797,600**
1,015,000	1,537,200	1,294,600		*Add Back Depreciation*	1,426,200	10	1,430,200	0	1,430,200	1,467,500	1,505,900	1,545,400	1,586,100	1,628,000	1,671,300	1,715,800	1,761,600
836,000	**1,283,000**	**1,521,000**		***Cash Result - Surplus / (Deficit)***	**1,942,300**	**28**	**2,041,500**	**5**	**2,168,800**	**2,284,600**	**2,326,700**	**2,404,400**	**2,435,100**	**2,464,800**	**2,497,600**	**2,527,400**	**2,559,200**
				Capital Movements													
1,220,000	982,000	1,053,000		Less Loan Principal Repayments	1,127,400		1,205,600		1,111,500	193,900	0	0	0	0	0	0	0
827,000	1,496,000	1,626,700		Less Transfer to Reserves	814,900		835,900		1,057,300	2,090,700	2,326,700	2,404,400	2,435,100	2,464,800	2,497,600	2,527,400	2,559,200
577,000	1,412,000	1,361,200		Add Transfer from Reserves	682,600		100,000		105,000	2,000,000	116,000	2,321,000	2,410,000	2,502,000	2,598,000	2,697,000	2,801,000
644,000	213,000	0		Add Capital Income	0		0		0	0	0	0	0	0	0	0	0
10,000	430,000	152,500		Less Capital Expenditure	502,600		100,000		105,000	2,000,000	116,000	121,000	126,000	131,000	136,000	141,000	147,000
0	**0**	**50,000**		***Cash Result after Capital Movements***	**180,000**	**260**	**0**	**(100)**	**0**	**0**	**0**	**2,200,000**	**2,284,000**	**2,371,000**	**2,462,000**	**2,556,000**	**2,654,000**

DOMESTIC WASTE MANAGEMENT

ACTUAL	ACTUAL	ACTUAL	LEDGER	BUDGET ITEMS	ESTIMATED												
2011/12	2012/13	2013/14	ACCOUNT		2014/15	%	2015/16	%	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
				OPERATING REVENUES													
5,919,400	6,497,100	6,810,300	22290	Domestic Waste Mgmt Annual Charges	5,913,000	(13)	6,022,000	2	6,192,000	6,364,000	6,537,000	6,711,000	6,901,000	7,092,000	7,287,000	7,483,000	7,680,000
(302,700)	(309,300)	(307,500)	22290	Pensioner Abandonments	(281,000)	(9)	(281,000)	0	(312,000)	(314,000)	(316,000)	(318,000)	(320,000)	(322,000)	(324,000)	(326,000)	(328,000)
17,200	18,300	20,300	22290	Vacant Property Annual Charges	22,000	8	23,000	5	23,000	24,000	25,000	25,000	26,000	26,000	27,000	27,000	28,000
166,500	170,100	169,100	22291	State Govement - Pensioner Subsidy	150,500	(11)	154,500	3	155,500	156,400	157,300	158,200	159,100	160,000	160,900	161,800	162,700
65,400	25,200	44,300	22292	Interest on Investments	48,000	8	32,000	(33)	36,000	44,000	10,000	18,000	27,000	36,000	46,000	57,000	57,000
0	177,800	0	22292	Gain / (Loss) on Disposal of Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
5,865,800	**6,579,200**	**6,736,500**			**5,852,500**	**(13)**	**5,950,500**	**2**	**6,094,500**	**6,274,400**	**6,413,300**	**6,594,200**	**6,793,100**	**6,992,000**	**7,196,900**	**7,402,800**	**7,599,700**
				OPERATING EXPENSES													
				Administration													
146,200	142,500	188,500	32360	Administration - Salaries and Other Costs	201,800	7	192,000	(5)	197,000	202,000	207,000	212,000	217,000	223,000	229,000	235,000	241,000
44,400	43,300	39,700	32360	North East Waste Membership	46,000	16	47,000	2	48,000	49,000	50,000	52,000	54,000	56,000	58,000	60,000	62,000
370,000	387,000	406,000	32360	Indirect Expenses - Overheads	619,000	52	627,000	1	646,000	665,000	685,000	706,000	727,000	749,000	771,000	794,000	818,000
(530,500)	(521,200)	(563,500)	22292	Waste Trucks - Internal Charges	(575,000)	2	(589,000)	2	(607,000)	(625,000)	(644,000)	(663,000)	(683,000)	(703,000)	(724,000)	(746,000)	(768,000)
2,300	2,600	5,100	32361	Promotion and Education	8,000	57	8,000	0	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
				Debt Servicing													
44,900	36,500	27,800	32361	Interest on Loans	18,200	(35)	8,000	(56)	0	0	0	0	0	0	0	0	0
				Collection													
17,300	15,200	0	32364	Rural Sticker	0	0	0	0	0	0	0	0	0	0	0	0	0
531,700	496,700	519,700	32364	Collection Kerbside - Mixed Waste	565,000	9	579,000	2	596,000	613,000	632,000	651,000	670,000	690,000	711,000	732,000	754,000
602,700	771,000	775,700	32364	Collection Kerbside - Organics	1,098,000	42	1,124,000	2	1,158,000	1,193,000	1,229,000	1,266,000	1,304,000	1,343,000	1,384,000	1,426,000	1,469,000
2,476,900	3,023,700	2,919,400	32364	Collection Kerbside - Disposal Fees	1,825,000	(37)	1,780,000	(2)	1,823,000	1,867,000	1,912,000	1,958,000	2,005,000	2,053,000	2,102,000	2,152,000	2,204,000
355,500	350,100	341,000	32364	Collection Kerbside - Recycling	373,000	9	382,000	2	393,000	405,000	417,000	429,000	442,000	455,000	469,000	483,000	497,000
479,000	841,500	892,500	32364	Collection Kerbside - Recycling Disposal	990,000	11	1,014,000	2	1,038,000	1,063,000	1,089,000	1,115,000	1,142,000	1,169,000	1,197,000	1,226,000	1,255,000
58,400	18,500	37,300	32364	Collection Kerbside - Bin Purchases/Distn	40,000	7	41,000	3	42,000	43,000	44,000	45,000	46,000	47,000	48,000	49,000	50,000
381,700	304,800	314,300	32364	Waste Trucks - Operating Expenses	412,000	31	422,000	2	435,000	448,000	461,000	475,000	489,000	504,000	519,000	535,000	551,000
				Non-Cash Expenses													
109,900	250,900	179,100	32360	Depreciation	177,000	(1)	177,000	0	182,400	187,900	193,600	199,500	205,500	211,700	218,100	224,700	231,500
5,090,400	**6,163,100**	**6,082,600**		**Total Operating Expenses**	**5,798,000**	**(5)**	**5,812,000**	**0**	**5,959,400**	**6,118,900**	**6,283,600**	**6,453,500**	**6,626,500**	**6,805,700**	**6,990,100**	**7,178,700**	**7,372,500**
775,400	**416,100**	**653,900**		***Operating Result - Surplus / (Deficit)***	**54,500**	(92)	**138,500**	**154**	**135,100**	**155,500**	**129,700**	**140,700**	**166,600**	**186,300**	**206,800**	**224,100**	**227,200**
110,000	251,000	179,100		*Add Back Depreciation*	177,000	(1)	177,000	0	182,400	187,900	193,600	199,500	205,500	211,700	218,100	224,700	231,500
885,400	**667,100**	**833,000**		***Cash Result - Surplus / (Deficit)***	**231,500**	(72)	**315,500**	**36**	**317,500**	**343,400**	**323,300**	**340,200**	**372,100**	**398,000**	**424,900**	**448,800**	**458,700**
				Capital Movements													
125,500	134,000	142,800		Less Loan Principal Repayments	152,500		162,600		0	0	0	0	0	0	0	0	0
759,900	533,100	690,200		Less Transfer to Reserves	79,000		152,900		317,500	343,400	323,300	340,200	372,100	398,000	424,900	448,800	458,700
1,417,500	0	0		Add Transfer from Reserves	350,000		0		0	1,700,000	0	0	0	0	0	0	2,000,000
0	0	0		Add Capital Income	0		0		0	0	0	0	0	0	0	0	0
1,417,500	0	0		Less Capital Expenditure	350,000		0		0	1,700,000	0	0	0	0	0	0	2,000,000
0	**0**	**0**		***Cash Result after Capital Movements***	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

4.7 Community Infrastructure - Recurrent Projects

Delivery Program	Governance and Finance
Objective	To confirm the priority projects for the recurrent funded capital works program for the purposes of exhibiting the draft 2015/16 Delivery Program and Operational Plan.

Background

Council's long term financial plan (LTFP) has two main components for capital expenditure, being recurrent and non-recurrent funded projects. Recurrent refers to items in the LTFP where an allocation of general revenue funding is provided, each and every year, to assist Council deliver what is considered essential infrastructure.

The recurrent funded items in the Council's draft LTFP are:

1. Stormwater / Drainage – Approximately $365,000 pa
2. Roads – Recurrent revenue funding of approximately $3.3m with this amount subject to change dependent on the use of other income sources such as loans, grant and Section 94 contributions for road works
3. Street Lighting – Approximately $45,000 pa
4. Footpaths / Shared Paths – Approximately $408,000 pa
5. Parks and Reserves – Approximately $156,000 pa
6. Sports Fields – Approximately $156,000 pa
7. Public Amenities – New program with Council striving to achieve an annual recurrent capital budget of approximately $100,000 and for 2015/16 the budget is $75,000 pa
8. Depot Improvements – Approximately $152,000 pa
9. Asset Management - Community Buildings – Approximately $214,000 pa plus an additional $20,000 for equipment for the Community Centres (i.e. Lennox Head)

For each of these items a forward works plan is included in the Council's Delivery Program and Operational Plan, to identify the projects planned for the next four years.

The current level of funding for some of these items should be increased to meet the overall needs of the infrastructure maintained by Council however the important point is that funding must be available for these items every year. Items five to seven, and nine, did not have recurrent budgets until Council pursued additional rate pegging increases in recent years, with funding for roads and footpaths also increased substantially as part of the special rate increase approvals.

The report that follows outlines the priorities for this funding for inclusion in the Council draft 2014/15 Delivery Program and Operational Plan.

4.7 Community Infrastructure - Recurrent Projects

Key Issues

- Program priorities

Information

From a financial management perspective it is paramount that a council efficiently manage its operating expenses so as to maximise the funding available for capital works. Without adequate funding provided on an on-going basis the overall infrastructure base will deteriorate, resulting in reduced service levels to the community and increased risks due to asset failures. This is a key focus of the State Government's Fit for the Future Program.

Staff continue to refine the asset management plans (AMP) for our infrastructure, which has a total asset value of approximately $1.2 billion, as AMPs can assist in determining the appropriate level of funding for asset renewal.

Through a combination of rate increases and the gradual reallocation of monies to capital expenditure Council has been building its investment in asset renewal and this next section deals with the recommended priorities for the expenditure of these recurrent funds for the next four years.

Stormwater - Manager - Paul Busmanis

Item	*2015/16*	*2016/17*	*2017/18*	*2018/19*
Stormwater Totals	**365,000**	**380,000**	**395,000**	**411,000**
Asset Data Collection	40,000	40,000	40,000	40,000
Urban Stormwater Management Plan Actions	80,000			100,000
Grant Street	100,000			
Martin Street (Richmond River to River Street)	80,000	90,000		
Megan Crescent / Dodge Lane	50,000			
Coogee Street Pump Station	15,000			
Skinner Street		50,000		
Kerr Street		10,000	90,000	
Moon Street (Tamar Street to Holden Lane)		120,000		
Coast Road		70,000		
Henry Philip Avenue			50,000	
Williams Reserve			110,000	
Compton Drive			85,000	
Kingsford Smith Drive				90,000
River Street				111,000
Urban Lanes			20,000	70,000

Ancillary Transport Services - Manager – Paul Busmanis

Item	*2015/16*	*2016/17*	*2017/18*	*2018/19*
Street Lighting Totals	**45,000**	**47,000**	**49,000**	**51,000**
College Avenue Skennars Head	20,000			
Grant Street Ballina		25,000		
Moon and Martin Streets Ballina				
River Street West Ballina	25,000	11,000		
Sheather Street Ballina		4,000		
Simmons Street North Ballina		7,000		
Convair Ave North Ballina			4,000	
Boeing Ave North Ballina			8,000	
De Havilland Ave North Ballina			27,000	
Piper Drive North Ballina			10,000	
Quays Drive, West Ballina				20,000
Riverside Drive, West Ballina				20,000
Daydream Avenue / Sunnybank Drive (shared path)				11,000

Ancillary Transport Services - Manager – Paul Busmanis (cont'd)

Item	*2015/16*	*2016/17*	*2017/18*	*2018/19*
Footpaths and Shared Paths Totals	**408,000**	**424,000**	**441,000**	**459,000**
Ballina Street, Lennox Head	60,000			
Robertson Street, Alstonville	15,000			
Kingsford Smith Drive, Ballina	70,000			
Byron Street, Lennox Head	20,000			
Grant Street, Ballina	15,000			
Simpson Avenue, Wollongbar	70,000			
Fox Street, Ballina	10,000			
Park Lane, Lennox Head	12,000			
Tamarind Drive, North Ballina	55,000			
Quays Drive, West Ballina	8,000			
Allens Parade, Lennox Head	55,000			
River Street, Ballina	18,000			
Martin Street, Ballina		23,000		
Horizon Drive, West Ballina		12,000		
Simpson Avenue, Wollongbar		10,000		
Fox Street, Ballina		10,000		
Compton Drive, East Ballina		80,000		
Pine Avenue, East Ballina		40,000		
Chickiba Drive, East Ballina		22,000		
Ross Street, Lennox Head		45,000		
Hill Street, East Ballina		12,000		
Smith Lane, Wollongbar		35,000		
Chickiba Drive, East Ballina		98,000		
Burnet Street Ballina (Moon-Kerr) (Kerr-Temple)		37,000	110,000	
Alston Avenue, Alstonville			27,000	
Manly Street, East Ballina			25,000	
Beachfront Parade, East Ballina			85,000	
Hill Street, East Ballina			30,000	
Freeborn Place, Alstonville			17,000	
Parkland Drive, Alstonville			17,000	
Owen Street, Ballina			130,000	
Skinner Street, Ballina				80,000
Cawarra Street, Ballina				40,000
Greenfield Road, Lennox Head				46,000
Commemoration Park, Ballina				160,000
Angels Beach Drive, East Ballina				133,000
Coastal Recreational Path - 1)	**1,700,000**			

1) This item is subject to 50% grant funding from the RMS, with Council's $850,000 funded by a dividend from the Property Reserves.

The following report in this agenda examines options for funding non-recurrent projects and one option is to reduce the funding allocated to footpaths by approximately $100,000 for the next three years.

The information in the following report needs to be considered in conjunction with this priority listing, however as a general principle it is felt that Council is in a reasonable position to reduce the recurrent funding for footpaths from approximately $400,000 per annum to $300,000, for a short period of time, if it wishes to fund other non-recurrent projects.

The non-recurrent projects identified to be funded from this revenue source in the following report relate to the Regional Boating Plan, where Council is able to leverage our own funding with grant funds.

If this approach was endorsed in the following report it would result in the following changes to the proposed works program:

Footpaths and Shared Paths Totals	**308,000**	**324,000**	**341,000**	**459,000**
Ballina Street, Lennox Head	60,000			
Robertson Street, Alstonville	15,000			
Kingsford Smith Drive, Ballina	70,000			
Byron Street, Lennox Head	20,000			
Grant Street, Ballina	15,000			
Simpson Avenue, Wollongbar	70,000			
Fox Street, Ballina	10,000			
Park Lane, Lennox Head	12,000			
Tamarind Drive, North Ballina	36,000	20,000		
Quays Drive, West Ballina		8,000		
Allens Parade, Lennox Head		55,000		
River Street, Ballina		18,000		
Martin Street, Ballina		23,000		
Horizon Drive, West Ballina		12,000		
Simpson Avenue, Wollongbar		10,000		
Fox Street, Ballina		10,000		
Compton Drive, East Ballina		80,000		
Pine Avenue, East Ballina		40,000		
Chickiba Drive, East Ballina		22,000		
Ross Street, Lennox Head		26,000	23,000	
Hill Street, East Ballina			12,000	
Smith Lane, Wollongbar			35,000	
Chickiba Drive, East Ballina			98,000	
Burnet Street Ballina (Moon-Kerr) (Kerr-Temple)			147,000	
Alston Avenue, Alstonville			29,000	
Manly Street, East Ballina				25,000
Beachfront Parade, East Ballina				77,000
Hill Street, East Ballina				30,000
Freeborn Place, Alstonville				15,000
Parkland Drive, Alstonville				15,000
Owen Street, Ballina				130,000
Skinner Street, Ballina				80,000
Cawarra Street, Ballina				40,000
Greenfield Road, Lennox Head				47,000

This results in the following two projects being deleted from the four year program.

Commemoration Park, Ballina	160,000
Angels Beach Drive, East Ballina	133,000

<u>Roads and Bridges - Manager - Paul Busmanis</u>

Item	***2015/16***	***2016/17***	***2017/18***	***2018/19***
Roads and Bridges Totals	**4,683,500**	**4,714,100**	**5,262,100**	**22,538,000**
Resealing Program and Heavy Patching (Revenue funded)				
Bitumen Reseals – Urban	300,000	312,000	324,000	337,000
Bitumen Reseals - Rural	290,000	302,000	314,000	327,000
Heavy Patching – Urban	316,000	329,000	342,000	356,000
Heavy Patching - Rural	162,000	168,000	175,000	182,000
Bypass Reserves (funded from handover monies)				
Ballina Road, Alstonville (old Bruxner H'way)	130,000	20,000		
Tamarind Dve, Kerr/River Streets (old Pacific)	51,000	633,000	200,000	
Bridges (Revenue funded)				
Bridges – Other	100,000	100,000	100,000	100,000

Roads and Bridges - Manager - Paul Busmanis (cont'd)

Item	*2015/16*	*2016/17*	*2017/18*	*2018/19*
Road Reconstruction Program (Revenue and grant funded)				
Angels Beach Drive - Regional Road Program	171,000	174,000	178,000	
Angels Beach Drive - Roads to Recovery(R2R)	174,000	176,000	182,000	
Uralba Road - R2R	300,000			
Pimlico Road - R2R	297,000			
Midgen Flat Road	205,000			
Grant Street - R2R	360,000			
Fox Street	281,000			
Marom Creek Road	270,000	138,000		
Houghlahans Creek Road	357,000			
Marsh Ave	185,000			
Cawarra Street	286,000			
Wardell Road	228,500	160,000		
Teven Road - R2R	220,000	256,000		
Swift Street - R2R		114,000		
Nashua Road		144,000		
Fenwick Dve		286,000		
Shelly Beach Road		176,000		
Fox Street		361,000		
Bagotville Road		289,000		
Skinner Street		345,000		
River Drive		231,100	237,000	
Stewart Street (shoulders)			246,000	314,000
Hickey Place			107,000	
Bagotville Road - R2R			340,000	
Skennars Head Road			367,000	
Wardell Road			67,000	
Skinner Street			77,000	
Friday Hut Road			300,000	300,000
Kays Lane			264,100	135,000
Crane Street - R2R			240,000	
Fernleigh Road				162,000
Fawcett Lane				72,000
Johnson Dve - R2R				203,000
Fox Street				202,000
Cedar Street				172,000
Riverbank Rd - R2R				398,000
Waverly Place				100,000
Burnet Street				278,000
Section 94 Roads Plan				
Links Avenue – Roundabout (1)			1,200,000	
Hutley Drive (2)				17,000,000
Rocky Point / Coast Road Intersection (3)				1,900,000

(1) Funded in LTFP by $817,000 from Section 94 contributions and $383,000 from revenue

Funding Summary

Revenue Funded	3,204,000	3,340,700	3,377,300	3,628,300
Grant Funded – Roads to Recovery	1,127,500	546,400	562,800	579,700
Grant Funded – Regional Roads Program	171,000	174,000	178,000	0
Reserve Funded	181,000	653,000	200,000	0
Section 94 Funded	0	0	840,000	13,230,000
Loan Funded	0	0	0	5,100,000
Total	**4,683,500**	**4,714,100**	**5,262,100**	**22,538,000**

4.7 Community Infrastructure - Recurrent Projects

Open Spaces - Manager – Cheyne Willebrands

Item	*2015/16*	*2016/17*	*2017/18*	*2018/19*
Playgrounds Totals	**156,000**	**162,000**	**168,000**	**175,000**

Council has resolved to review this program and following the completion of this review the details of the various works will be included in the Draft Delivery Program and Operational Plan.

Sports Fields Totals	**156,000**	**162,000**	**168,000**	**175,000**

A program for this funding is still to be confirmed however the funds for 2015/16 have been identified for the Wollongbar sports field project.

Asset Management – Tony Partridge

Item	*2015/16*	*2016/17*	*2017/18*	*2018/19*
Public Amenities Totals	**75,000**	**100,000**	**104,000**	**108,000**
Lennox Head Main Beach Toilets (1)	55,000	0	0	
Riverview Park (paint / repairs)	15,000	0	0	
Flat Rock (paint / repairs)	5,000	0	0	
Pop Denison (rebuild)	0	100,000	0	
North Missingham Bridge (rebuild)	0	0	104,000	
Kerr Street Toilets (reconfigure and rebuild)	0	0	0	108,000

(1) In the original program this expenditure was for Bi-centennial Park Toilets however Council has completed maintenance works on those facilities and it is now recommended that this expenditure be allocated to the Lennox Head Main Beach Toilets. These are high usage toilets and they are considered to be the more appropriate priority due to their current condition.

This represents the public amenities improvement program endorsed at the 19 November 2013 Facilities Committee meeting.

The asset management program also has recurrent funding for improvements to community buildings and the Council depots. That funding is as follows.

Community Buildings Total	**214,000**	**223,000**	**232,000**	**241,000**
Depot Buildings Total	**156,000**	**162,000**	**168,000**	**175,000**

In 2014/15 Council endorsed the following program of works for the community buildings funding for the three years after 2014/15

Item	*2015/16*	*2016/17*	*2017/18*
Administration Building (air-conditioning)	64,000	225,000	239,000
Ferry Shed (paint / repairs)	34,000	0	0
Shelley Beach SLSC	70,000	0	0
Lennox Hd Com Centre (public address)	36,000	0	0

Council has received reports on the poor state of the air-conditioning at the Council Administration Centre and a report to the 23 October 2014 Ordinary meeting identified four main options to replace that system.

A summary of those options and the estimated price is as follows, with explanations for the various options outlined in the October 2014 report.

Administration Centre – Air Conditioning Options

Description	Price ($)	Amount of Completion
Option 1	174,000	Partial AC Units SW Roof
Option 2	181,000	Partial AC Units NE Roof
Option 3	355,000	All Roof Top AC Units and Platform
Option 4	540,000	All Roof Top AC Units, Platform and Roof Re-Sheeting.

Option four addresses all the areas of concern in respect to the current system, whereas options one to three provide staged approaches.

The resolution from the October 2014 meeting was to revisit this funding issue as part of the 2015/16 budget deliberations.

In respect to the originally adopted program of works for the Community Buildings funding program, Council actually allocated additional funds to the Shelly Beach SLSC during this current year, due to the Far North Coast Surf Lifesaving Branch receiving a grant to upgrade the clubhouse. This means the $70,000 originally proposed for 2015/16 is not necessarily required.

Similarly, with the Lennox Head Cultural and Community Centre (LHCCC) receiving a State Government grant of $200,000 this current year the $36,000 identified for 2015/16 can also be reduced.

With these funds now available a possible funding source for 2015/16 for the Administration Centre air-conditioning system is as follows:

Item	**Amount ($)**
Reallocate Depot recurrent capital budget	156,000
Allocate majority of Asset Management recurrent capital budget	200,000
Additional contributions from Water, Wastewater and Waste Programs	140,000
Total Budget	**496,000**

Essentially the majority of the recurrent funding for 2015/16 is allocated to the replacement of the air conditioning system.

As the Community Buildings Recurrent Capital Budget is entirely a General Fund contribution, it is possible to then allocate approximately $140,000 from the business operations of Water, Wastewater and Waste to this expenditure, as those activities also have staff operating from the Administration Centre.

This then leaves a budget close to the $0.5m mark.

Even though this is less than the $540,000 identified in option four of the report to the October 2014 Ordinary meeting, that figure represents a preliminary estimate from one supplier only.

The recommendation now is that Council immediately commence the process of calling tenders for this work.

This would mean that tenders are reported to either the May or June 2015 Ordinary meeting and Council can then program the works to commence 1 July, consistent with the new financial year and the proposed funding.

Importantly the tender process will allow a variety of interested firms to submit solutions for the replacement of the existing system and ideally some of those tenders may come in under the current estimate of $540,000.

By calling tenders prior to the end of the financial year Council will then be in a position to determine what level of works, and associated funding, it wishes to proceed with.

Only $200,000 of the $214,000 available in the Community Buildings recurrent funding is allocated in this proposal with the remaining $14,000 still available for the Lennox Head Community Centre.

There is a recurrent budget of $20,000 ($21,000 in 2015/16) for the Community Centres and the Section Manager is combining the 2014/15 and 2015/16 budget allocations to the $200,000 in grant funds received from the State Government's NSW Club Grants program for the LHCCC.

The continuing plan for the implementation of infrastructure at the LHCCC is to improve the auditorium to encourage more community and live performance events. This will result in cultural benefits for the Shire and an increase in revenue.

The total figure of $241,000 will allow for the transformation of the existing auditorium into a high quality performance venue and will result in the following improvements:

- Installation of a large retractable projection screen
- Installation of digital projection equipment
- Installation of digital sound system, auditorium and stage speakers and associated equipment
- Installation of additional auditorium and safety lighting
- Purchase of portable stage lighting, truss and associated equipment
- Purchase of additional portable stage pieces
- Purchase of portable event carpet square flooring and storage trolleys
- Purchase of portable tiered audience seating
- Installation of flat screen digital displays and associated electrical infrastructure for digital presentation in Meeting Rooms and the Foyer

The inclusion of the new infrastructure will see a significant increase in live performance events and, in time, it will become known as an important cultural hub within the region.

Revised Community Buildings and Depot Program

Based on these comments a revised four year program would then be as follows:

Item	***2015/16***	***2016/17***	***2017/18***	***2018/19***
Community Buildings Total	**510,000**	**223,000**	**232,000**	**241,000**
Administration Building (air-conditioning) (1)	496,000	0	0	0
Ferry Shed (paint / repairs)	0	34,000	0	0
Lennox Head Com Centre	14,000	104,000	0	0
ALEC	0	30,000	0	0
Public Hall – Swift Street	0	55,000	0	0
Public Hall – Pimlico	0	0	70,000	0
Public Hall – Wollongbar	0	0	0	40,000
Public Hall – Other	0	0	0	41,000
Ballina Surf Club	0	0	92,000	0
Shelly Beach Surf Club	0	0	70,000	0
Lennox Head Surf Club	0	0	0	100,000
Kentwell Centre	0	0	0	60,000
Depot Buildings Total	**0**	**162,000**	**168,000**	**175,000**

(1) Includes $200,000 from Community Buildings budget, Depot Buildings allocation of $156,000 for 2015/16, along with $140,000 in additional contributions from self-funded programs (i.e. water, wastewater and waste)

Legal / Resource / Financial Implications

The purpose of this report has been to highlight the funding available for recurrent community infrastructure projects.

Consultation

The priorities endorsed by Council will be exhibited for public comment as part of the Draft 2015/16 Delivery Program and Operational Plan.

Options

The options available relate to the timing of the works identified in the report along with the priorities. The recommendation is to endorse the information as presented as the priorities represent previously adopted programs or the latest assessments from technical staff.

However in saying this if Councillors are of the opinion that the technical assessments do not support preferred community priorities, then the alternative is to amend the priority listing to reflect those priorities.

For example Council is constantly criticised at the annual Delivery Program meeting held at the Wardell Hall that there is insufficient works being provided for Wardell. Many Wardell projects often do not meet the technical thresholds for some of the priorities listed due to overall low traffic or population numbers and ultimately it is a matter for Council to determine these priorities.

Finally it is also recommended that Council commence the tender process for the replacement of the air conditioning at the Council Administration Centre, to allow that tender to be evaluated prior to the commencement of the 2015/16 financial year.

For the footpaths program the priority listing will depend on whether or not Council resolves to reduce that recurrent budget for the next three years as per the following report in this agenda.

RECOMMENDATIONS

1. That Council endorses the community infrastructure priorities identified in this report for inclusion in the draft 2015/16 Delivery Program and Operational Plan for exhibition; i.e.

    - Stormwater
    - Street Lighting
    - Footpaths
    - Roasds and Bridges
    - Playground Equipment
    - Sports Fields
    - Community Buildings
    - Depot

2. That Council authorises the General Manager to call tenders for the replacement of the air conditioning at the Council Administration Centre.

Attachment(s)

Nil

4.8 Community Infrastructure - Non-recurrent Projects

Delivery Program	Governance and Finance
Objective	To examine the non-recurrent capital projects that are under consideration by Council in its Long Term Financial Plan.

Background

Council's long term financial plan (LTFP) has two main components in respect to capital expenditure, being recurrent and non-recurrent funded projects. As per the previous report in this agenda recurrent refers to items in the LTFP where an allocation of general revenue funding is provided each and every year, to assist Council deliver core capital infrastructure.

Once the available funding is allocated to those core recurrent infrastructure items a difficultly for any council is trying to fund classes of community infrastructure that are not required to be financed every year (i.e. they are non-recurrent). Trying to find the cash contribution for non-recurrent projects is always difficult as very few council budgets have significant unallocated discretionary revenues.

The report that now follows examines projects that Council has identified as priorities that are of a non-recurrent nature and discusses funding options for those projects.

Key Issues

- Priorities and funding

Information

In recent years Council has been making good progress either completing or planning for the construction of major non recurrent projects. Items that have, or are being addressed, include:

- Coastal Shared Path / Walk – A number of shared path components are either complete or have funding confirmed. The segment from Skennars Head to Pat Morton remains the only uncertain segment as funding is dependent on a 50% grant from the RMS in 2015/16
- Ballina Town Centre – Largely complete or funded with the remaining unfunded segment being the section from Moon Street to Grant Street
- Wardell and Alstonville Town Centres – Major works completed with funding still available for Wardell
- Ballina Surf Club – Complete
- Northern Rivers Community Gallery - Complete
- Kentwell Centre - Complete
- Lennox Head Community Centre and Skate Park - Complete
- Marine Rescue Tower – Funding strategy in place, subject to receipt of Federal Government funds
- Ballina and Alstonville Swimming Pool Upgrades – Funding strategy in place, subject to special rate variation approval.

4.8 Community Infrastructure - Non-recurrent Projects

In looking forward for the next four or more years projects still to be delivered that have been identified as priorities by Council include:

- Skennars Head Sports Field Expansion – Approximately $1.25m
- Lennox Head Surf Club – Approximately $4m to $5m
- Sports and Events Centre – anywhere from $4m to $20m
- Wollongbar Skate Park - $250,000 to $0.5m
- Missingham Park – Finalisation of works – Up to $150,000
- Ballina Town Entry Treatments – Under $1m needed to finish master plan
- Captain Cook Park Master Plan – Up to $3m
- Wardell Boardwalk - $400,000
- Lennox Head Main Street Upgrade – Dependent on agreed works program

Other projects that need consideration include works identified in the State Government's Regional Boating Plan (previously referred to as the Better Boating Program) along with the resolution to consider an ocean pool.

Councillors may also have other major projects that they wish to see considered as part of this report.

The following information provides a brief summary for each of the projects where funding has not yet been confirmed to assist Councillors in discussing options for the delivery of these projects.

- *Skennars Head Sports Field Expansion – Approximately $1.25m*

The preferred design for this expansion was completed and a cost estimate prepared in 2011. There is an existing deficiency in sports fields for the Lennox Head / Skennars Head precinct so these works remain a high priority.

This project is also in the Section 94 Open Spaces Plan and Council has a statutory responsibility to complete the works. As the project estimate is now around four years old (it has been indexed since the original date) it is proposed to obtain a more current estimate to ensure our financial planning reflects current costs.

- *Lennox Head Surf Club – Approximately $4m to $5m*

The Complete Urban report for Lake Ainsworth provided a preliminary estimate for the replacement of the existing surf club, with that report also confirming replacement was the preferred strategy.

Council has made a provisional allocation of $100,000 from the Lake Ainsworth redevelopment budget ($1.3m Council plus approximately $136,000 from the State Government Public Reserve Fund) to confirm the designs and approvals for this project.

The Lake Ainsworth budget is currently being reviewed prior to reporting back to Council to confirm the works priority.

- *Sports and Events Centre – anywhere from $4m to $20m*

This project remains very "fluid" with Council still to confirm a preferred site.

- *Wollongbar Skate Park - $250,000 to $0.5m*

Council has identified this as a priority for Wollongbar. The latest Council resolution was at the December 2014 Ordinary meeting, where Council resolved to examine the use of Council's land along Plateau Drive as a potential site.

If this remains the preferred site then ideally Council should be looking to install the facility as quickly as possible (i.e. within the next 18 months) to avoid the situation where a number of houses are constructed in the locality prior to the facility being built.

- *Missingham Park – Finalisation of works – Up to $150,000*

The remaining works for this location are to complete the site plan as developed by Sheryn Da-Re Designs. A copy of that plan is included as attachment one. The works still to be completed include:

- complete car parking on eastern side with pavers
- complete blisters and plantings
- additional lighting
- furniture and picnic tables

- *Ballina Town Entry Treatments – Under $1m needed to finish treatment master plan*

Council has adopted a Master Plan, which includes seven distinct projects as per the following table.

Table One - Ballina Town Entry Treatment Master Plan – Stages ($)

Project Number	Project	Original Estimate
1	Landscaping of median strip between the roundabouts at Quays Drive and Barlows Road/Keppel Street.	322,000
2	Installation of tree planting blisters and tree planting along each side of River Street between Burns Point Ferry Road and Barlows Road/Keppel Street.	224,000
3	Installation of tree planting blisters and tree planting along each side of River Street between Barlows Road/Keppel Street and Boatharbour Road.	97,000
4	Installation of tree planting blisters and tree planting along each side of River Street between the Canal Bridge and Kerr Street.	95,000
5	Installation of tree planting blisters and tree planting along each side of Kerr Street between River Street and Fox Street.	140,000
6	Installation of tree planting blisters and tree planting along each side of Tamarind Drive between the Canal Bridge and Southern Cross Drive. Landscaping/tree planting on the corner of Kerr Street and Tamarind Drive	18,000
7	Roadside planting of trees on Tamarind Drive between Southern Cross Drive and Bicentennial Gardens.	16,000

Council allocated $140,000 for Stages 4, 6 and 7 in the 2013/14 financial year and Council staff are currently attempting to implement that decision within the available budget, with works to commence shortly.

Due to concerns over the original estimates it is thought that Council needs around $900,000 to finalise this project.

- *Ballina Main Street Upgrade*

With Council undertaking works on the Moon / River Street roundabout to the Richmond River this year, the only incomplete section is for River Street from Moon Street to Grant Street. Based on previous sections completed to date, the estimate for this section is approximately $2.1m.

- *Lennox Head Main Street Upgrade – Dependent on agreed works program*

Concept plans have previously been completed for an upgrade however they have never formally been adopted as the preferred approach.

Civil Services advise that these plans would need to be reviewed and an extensive consultation process completed to ensure there is ownership from all the current stakeholders. An adequate budget to complete this work properly would be $30,000 however there is reluctance to do the work unless Council then has monies set aside for the capital works. Otherwise we may have the same scenario as this, whereby concept plans will need to be reviewed following a period of non-implementation.

- *Wardell Boardwalk*

Council originally allocated $1m for improvements to the Wardell Town Centre and there is still $421,500 held in reserve.

The proposal has been to finalise the unfinished remainder of the Wardell streetscape program (as approved by Council) being:

- Boardwalk $470,000 - escalated consultant's estimate from 2012
- Footpath $70,000 - connecting the above boardwalk between the jetty and Wardell Recreation Ground path

These are currently insufficient funds for that work and possible alternative projects as recommended by Civil Services include:

- Pontoon at East Wardell Boat Ramp $50,000 (being contribution to Regional Boating Plan as per following item)
- Footpath Carlisle Street $70,000
- Footpath Byron Street $55,000

Council could consult with the Wardell community in respect to the use of these funds in this manner.

- *Regional Boating Plan*

Council has received advice from Transport for NSW that we have nine projects identified as priorities for funding in the Regional Boating Plan (RBP). A copy of that correspondence is included as attachment two.

The RBP replaces the former Better Boating Program and the State Government has significant funding to assist with the implementation of the Plan.

Council was initially asked to make submissions to the preparation of the RBP and we identified a number of projects that were included in Council's strategic documents such as the Richmond River Recreation Boating Study (2005) and the Ballina Foreshore Master Plan (2008). Copies of these documents are accessible on Council's website.

Council's submission to the RBP provided the following preliminary information in respect to the projects that have now been identified by Transport for NSW as grant funding candidates.

Table Two – Regional Boating Plan – Priority Projects

Project Description	Total Cost ($)	Possible Council ($)	Indicative Timeframe
Ballina Trawler Harbour – The Ballina Foreshore Master Plan identified: Expanded marina facilities, Commercial development such as chandlery, dry boat storage, café, Fuel facility, pump out, additional pontoon, Walkways, Possible residential / tourism	2m to 5m	Not quantified – Council has approved funding of $40,000	Two to five years
Keith Hall Lane, South Ballina - Boat Ramp and Pontoon	300,000	75,000	2015/16
East Wardell, Pontoon	100,000	50,000	Two to three years
Captain Cook Park, Ballina – Ramp and pontoons to improve boating access	300,000	50,000	One to two years
Fishery Creek, Ballina - Pontoon Extension	100,000	50,000	Two to three years
Faulks Reserve, Ballina – Pontoon and Ancillary Facilities	200,000	75,000	Two to five years
Emigrant Creek, Ballina - Access Improvements – Variety of works identified including dredging, pontoons, jetty	Various	25,000	One to five years
End of North Creek Road, Lennox Head - Boat Ramp	150,000	75,000	Three to five years
Brunswick Street, Ballina - Boat ramp and possible finger pontoon	200,000	75,000	Two to four years

Generally speaking Council has no funding allocated in its LTFP for these projects, however it was thought necessary to identify some commitments from Council to assist with leveraging the grant funds.

Council staff meet with representatives from Transport for NSW on Friday 27 February to discuss how these projects should be advanced and advice from Transport for NSW is that they are very keen to see the projects completed within two financial years (i.e. by 30 June 2017).

They also confirmed that the funding approved is as follows:

Table Three – Regional Boating Plan – Likely Funding Model ($)

Project Description	Total	Council	State
Ballina Trawler Harbour – Concept Plan	80,000	40,000	40,000
Keith Hall Lane, South Ballina - Boat Ramp and Pontoo	300,000	75,000	225,000
East Wardell, Pontoon	100,000	50,000	50,000
Captain Cook Park, Ballina – Wharf / Pontoon	300,000	50,000	250,000
Fishery Creek, Ballina - Pontoon Extension	100,000	50,000	50,000
Faulks Reserve, Ballina – Pontoon and Ancillary Facilities	175,000	75,000	100,000
Emigrant Creek, Ballina - Access Improvements	40,000	0	40,000
End of North Creek Road, Lennox Head - Boat Ramp	150,000	75,000	75,000
Brunswick Street, Ballina - Boat ramp and Pontoon	200,000	75,000	125,000
Total	**1,445,000**	**490,000**	**955,000**

Feedback was sought from members of the Port Ballina Taskforce in respect to preferred priorities and the feedback from that group was the Ballina Trawler Harbour remained the number one priority due to the potential upside from that project (i.e new marina). The second and third priorities were the Fishery Creek Pontoon Extension and the Faulks Reserve works.

In respect to the various projects listed Council has already allocated funding of $40,000 in 2014/15 to develop some form of concept plan for the Ballina Trawler Harbour, along with the adjoining RMS depot.

As previously reported to Council the preferred approach from Transport for NSW is to ultimately have a concept plan approved and this plan could then be put to the market to determine the level of private sector interest.

Any proposal would include mixed development (i.e. residential, commercial etc) along with ancillary maritime facilities. Agencies such as Transport for NSW, NSW Trade & Investment (Crown Lands) and the RMS would form part of any steering committee.

Council staff are currently preparing the brief for this work and subject to Transport for NSW approval, the aim will be to have it advertised during March. Transport for NSW will match Council's contribution of $40,000.

Council also received $30,000 in BPP monies (which was then matched by Council) for the design of the Keith Hall Boat Ramp in 2014/15 and the intention has been for the construction of this facility to occur in 2015/16 or 206/17. There is currently no boat ramp along the Richmond River for South Ballina and this work will address that deficiency. As per the RBP table Council needs to find $75,000 for these works.

The earlier mentioned Wardell monies can be applied to the East Wardell Pontoon.

Priorities for the remaining projects needs to determined based on any available funding.

- *Captain Cook Park Master Plan – up to $3m*

The various items identified in the plan are summarised as follows.

Table Four – Captain Cook Master Plan – Stages ($)

Reference	Project	Estimate
1	Laneway and Car Park – one way access	750,000
2	Public Art / Monument	50,000
3	Improved Pedestrian Entry from River Street	200,000
4	RSL Edge Landscaping	150,000
5	Open Park Land – paths, planting, furniture	200,000
6	Public Wharf	250,000
7	Water Play Area – Drainage, equipment, plantings etc	500,000
8	Picnic Shelter – BBQs, Structures	150,000
9	Public Toilets	300,000
10	Jetty	350,000
11	Landscape between activity zone and Fawcett Park	150,000
	Total	**3,050,000**

A copy of the adopted master plan is included as attachment three for reference purposes.

The RBP funding may help to implement some of this plan through the establishment of the jetty and associated pontoon (item six in the cost estimates - page two of appendix three). It is then a matter of Council allocating funds for the remaining works.

Council did resolve to investigate the use of water and wastewater funds to establish a water park in this locality, with the logic being that Council could justify the use of these funds by providing educational facilities in respect to water reuse, dual reticulation etc.

From a financial accountability perspective this is difficult to justify unless the primary purpose was education or there is an immediate connection between the supply of water or wastewater services as occurred at Kings Court, Lennox Head. At this stage it is not recommended that Council allocate water or wastewater funds to such a project.

There are other potential funding sources for works in Captain Cook Park as the Ballina RSL has a condition of consent that they need to contribute $60,000 to embellishment works on the site. This relates to an approval they received for their board walk and associated extensions.

Also the Crown has been receiving approximately $25,000 from the RSL for a licence over the western section of the Park. As Council is now the Reserve Trust Manager for this site we are seeking to access that licence payment to assist with funding improvements. The Crown has yet to respond to this request.

Council's Manager – Open Spaces has reviewed the master plan and based on the currently limited funding available for 2015/16 the preference is for Council to complete the ramp and pontoon works associated with the Regional Boating Plan. That work would assist in increasing the activity in this park and as grant funds are available for these works that provides the highest leverage for any funds Council currently has available.

- *Ocean Pool*

Council resolved at the December 2014 Ordinary meeting as follows:

1. *The General Manager continue to liaise with Crown Lands and other relevant Government departments to gain in principle support for the construction of an ocean pool at Shelly Beach.*
2. *That Council investigate different funding options including grants, sponsorship and community partners.*

Council staff have conducted a number of preliminary investigations for this proposal and some points of interest are as follows:

- The proposed site for an ocean pool is the “southern end of Shelly Beach”. This land is Crown Land and depending on the mean low water mark, the land may form part of the Coastal Reserve of which Council is Reserve Trust Manager, however, it is possible that the land falls outside of the Coastal Reserve and the Shire boundaries. Works proposed on Crown land will require the authorisation of the Minister for Lands and will need to be consistent with the purpose of the reserve being Public Recreation and Environmental Protection and the land zone (7(f), see below).

- A swimming pool will require consent under Part 4 of the Environmental Planning & Assessment Act 1979. The land is zoned 7(f) Environmental Protection (Coastal Lands) under the Ballina LEP 1987. A swimming pool is development permitted with consent.

- The site is in the coastal zone and the provisions of State Environmental Planning Policy 71 – Coastal Protection (SEPP 71) apply to the land. The proposal is also classified as significant coastal development under clause 9 of SEPP 71. Clause 11 of SEPP 71 requires an application for significant coastal development to be referred to the Minister for Planning who may specify matters in addition to clause 8 for consideration in determining the development. The requirements of SEPP 71 and the particulars of this site represent a significant environmental assessment challenge for this proposal and should not be underestimated.

- Any works on the site may also involve threatened species as identified in Part 7A of the Fisheries Management Act 1994 which will require the preparation of a species impact statement and consideration under section 5A of the EP&A Act.

- Native Title will need to be extinguished. There are no current claims, however Council would need to demonstrate there is no merit for a future Native Title Claim.

- All existing rock pools in the State were constructed prior to the implementation of the current Environmental Protection Act, the Local Government Act and Crown Lands Act. Therefore, any costs and timeframes are estimates as no one can predict with certainty the process involved for preparation, planning and construction under this legislative framework.

- Council has adopted the Coastal Zone Management Plan which has not considered major construction at Shelly Beach. The plan predicts a 20 metres recession of coast line by 2050 due to global warming and coastal erosion.

- Shelly Beach is vulnerable to damage from cyclonic conditions – estimated to occur every three to four years

- Clarence Valley undertook a Coastal Rock Pool Survey in 2010 as part of their review of the Yamba Ocean Pool and a copy of that document is included as a separate attachment to this report. The document provides a good overview of a range of rock pools and it highlights that annual maintenance expenses range from minimal dollars to over $100,000 for the pools identified in the report. The level of maintenance depends heavily on the type of pool constructed.

It is understood that Clarence eventually spent $700,000 upgrading the Yamba Pool.

From the staff investigations there is not any obvious absolute impediment to this project and it is then a matter of Council seeking to obtain approvals for the works, along with financing the construction, along with any on-going operating expenses.

The original resolution had a strong focus in community involvement in this project and on balance it is thought that this is the type of project that could be driven by a community group through funding raising and other efforts.

Many pools have been commenced in this fashion and with Council not having identified an ocean pool previously in any of its long term funding priorities, Council may well just be interested in providing some support for the broader community to initiate this project.

Funding Strategies

As touched on in the introduction to this report Council does not have recurrent funding readily available for projects of this nature. Therefore we need to examine other options such as reserves, land sales, loans etc.

The report to the February 2015 Finance Committee on the Property Reserve movements, along with the draft Long Term Financial Plan (LTFP) identified the dividends that were available from the Council property reserves over the next ten years, subject to assumed land sales occurring.

Based on those forecasts a funding summary has been prepared to identify how Council could deliver a number of these non-recurrent projects over the next five to six years.

That summary is included as attachment five to this report.

Key points in that sumary are:

- The first section of the table lists the various projects identified as priorities by Council
- The second section provides possible funding sources for the works
- The third section highlights the 30 June balances for the major reserves funding these works.
- The column titled “Total” is the estimated cost of the project whereas the column titled “Council” is the estimate for the funding required by Council for each project. Where the total cost of a project is higher than the Council column there is an assumption Council will receive grants for the balance of the project.
- The column titled “Unfunded” identifies which projects are not fully funded in this model (i.e. Lennox Head Main Street).

- In respect to the second section (Funding Sources) dividends from the Property Reserves and the Waste Reserve are included in the model, along with other miscellaneous funding sources.

- For 2015/16, in addition to the Coastal Shared Path ($850,000) Marine Rescue Centre ($826,000) and Sports Centre Design ($250,000), which are confirmed priority projects for Council, funding has also been identified for:
  - East Wardell – Pontoon – Total project value $100,000 (Council $50,000 – sourced from the Wardell Town Centre Reserve)
  - Captain Cook – Ramp and Pontoons – Total project value $300,000 (Council $50,000 – sourced from the Ballina RSL contribution)
  - Fishery Creek – Pontoon Extension – Total project value $100,000 (Council $50,000 – sourced from a reduction in the footpaths capital budget of $100,000)
  - Faulks Reserve – Pontoon and Ancillary Facilities – Total project value $175,000 (Council $75,000 – sourced from balance of reduction in footpaths capital budget of $50,000 plus an additional $25,000 from the Community Infrastructure Reserve).

    In respect to the use of the Community Infrastructure Reserve funds, the estimated closing balance for this reserve for 2015/16 is $182,000, which is a relatively small contingency. However with the $25,000 providing significant leverage through the grant funds it is considered reasonable to source the shortfall from this reserve.

- An amount of $100,000 is sourced from the footpaths capital budget to finance a large part of the Regional Boating Plan for the period 2015/16 to 2017/18.

- The strategy to finance the Regional Boating Plan can be summarised as per the following table.

Table Five – Regional Boating Plan – Funding Strategy - Council Contributions

Project Description	Total	Council	2014/15	2015/16	2016/17	2017/18
Trawler Harbour – Plan	80,000	40,000	40,000			
Keith Hall - Ramp / Pontoon	300,000	75,000			75,000	
East Wardell - Pontoon	100,000	50,000		50,000		
Captain Cook – Wharf	300,000	50,000		50,000		
Fishery Creek – Pontoon	100,000	50,000		50,000		
Faulks Reserve – Pontoon	175,000	75,000		75,000		
Emigrant Creek - Access	40,000	0				
Lennox Head - Ramp	150,000	75,000			75,000	
Brunswick St – Ramp	200,000	75,000				75,000
Total Expenditure	**1,445,000**	**490,000**	**40,000**	**225,000**	**150,000**	**75,000**
Council Funding Source						
Quarry Reserve			40,000			
Footpath Contribution				100,000	100,000	100,000
Wardell Town Ctre Reseve				50,000		
Ballina RSL Club				50,000		
Comm Infra Reserve Cont				25,000		
Property Dev Reserve Cont					50,000	(25,000)
Total Revenue			**40,000**	**225,000**	**150,000**	**75,000**

For 2016/17, attachment five highlights that there is a dividend of $2m from the Property Development Reserve. The above table identifies that $50,000 of that dividend is now allocated to the Regional Boating Plan projects in 2016/17. The negative $25,000 in 2017/18 demonstrates that there is actually a $25,000 surplus following the footpath contribution, which is then helping to finance the various other projects included in attachment five.

Ideally the State Government would like to see all the Regional Boating Plan projects finished by June 2017, however this proposal would have the Brunswick Street ramp completed towards the end of calendar year 2017.

- The balance of the information in attachment five is designed to highlight the timeframes needed to complete the various projects listed. The order of works is indicative only and is designed entirely as an example of the likely timeframe needed to finance the projects based on current forecast cashflows.

- The majority of the works for 2016/17 onwards are largely dependent on land sales and it will be necessary for Council to review the funds available each year to assess what projects can proceed.

- It is not proposed that the works listed in attachment five would be incorporated into Council's LTFP, but rather the table should be treated as more of a supporting document that identifies the priority for projects.

- The timing of works for the various components of the Ballina Town Entry Treatments and Captain Cook Park are based on feedback from staff and the stages could be varied based on Councillor preferred priorities.

- The summary highlights that major projects such as the Regional Sports Centre (Council $5.25m), Lennox Head Surf Club (Council $3m) and the Ballina ($2.1m) and Lennox Head ($3m) Town Centre upgrades are unlikely to be funded in the short term, unless land sales proceed ahead of schedule.

  If Council wishes to deliver those projects earlier we need to rework this model in respect to priorities, or look at other means of financing these projects.

Waste Reserve

The use of the waste reserve for the purposes of dividends was touched on in the reports to the February 2015 Finance Committee and in the earlier waste report in this agenda.

As per that earlier report Council currently has a system in place of transporting all waste collected to either Lismore (green waste) or Queensland (recyclables and mixed waste) and the overall financial position of Council's landfill operations (referred to as Landfill and Resource Management – LRM) could potentially be in a very strong financial position due to a combination of factors:

a) The NSW State Government providing an exemption from the State Government waste levy when waste is being transported to Queensland due to clause 71 of the Protection of the Environment Operations (Waste) Regulation 2014, which states as follows:

71 Application of proximity principle to transportation in course of business

(1) A person must not, in the course of business, transport by motor vehicle any waste that is generated in New South Wales (other than restricted solid waste) to any place, in or outside of New South Wales, unless the place can lawfully be used for the disposal of that waste and one of the following applies:
(a) the place is 150 kilometres or less from the premises of origin of that waste,
(b) the place is more than 150 kilometres from the premises of origin and is the closest or second closest to those premises of the places, in or outside New South Wales, that can lawfully be used for the disposal of that waste.

This clause, which from all reports was lobbied for strongly by the State Members for Ballina, Lismore and Tweed has allowed the NOROC councils to transport waste to Queensland without the levy having to be paid, as the waste is not being landfilled in NSW.

b) significant loans that were taken out when the previous landfill was remediated and the new landfill cells created is due to be repaid within the next few years

c) with all Council waste being transported there is potentially limited need for any major capital expenditure at the landfill in the medium term

d) the prospects of the biochar project proceeding are also unlikely based on the last report to Council.

Based on these assumptions the current forecast movements for LRM in Council's LTFP are as follows.

Table Six- Forecast LRM Operating Result and Capital Movements

Year	**15/16**	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**
Operating Revs	4,043	4,161	4,286	4,394	4,550	4,662	4,776	4,893	5,008	5,131
Operating Exps	3,452	3,443	3,491	3,596	3,715	3,838	3,965	4,093	4,225	4,363
Operating Result	**591**	**718**	**795**	**798**	**835**	**824**	**811**	**799**	**784**	**769**
Reverse Non-cash	1,430	1,430	1,468	1,506	1,545	1,586	1,628	1,671	1,716	1,762
Cash Result	**2,022**	**2,148**	**2,263**	**2,304**	**2,380**	**2,410**	**2,439**	**2,471**	**2,499**	**2,530**
Less Principal	1,206	1,112	194	0	0	0	0	0	0	0
Less Capital	100	105	2,000	116	121	126	131	136	141	147
Less Dividend	0	0	0	0	2,200	2,284	2,371	2,462	2,556	2,654
Net Movements	**716**	**931**	**69**	**2,188**	**59**	**0**	**(63)**	**(127)**	**(198)**	**(271)**
Reserve Balance	**2,454**	**3,386**	**3,454**	**5,642**	**5,702**	**5,702**	**5,638**	**5,511**	**5,313**	**5,043**

The movements in this cashflow are slightly different to the forecasts in the earlier waste report as restricted income items such as the State Government levy and the biochar grant monies are removed from this forecast and the closing reserve balance.

As those items are restricted in their use they are not able to form part of the discussion on potential waste dividends.

The $2m capital expenditure in 2017/18 represents the remediation of the existing cells once they are full consumed, however based on the fact that Council is not currently landfilling any waste these costs will likely be deferred.

The major concern has always been that Council will need to expend significant dollars opening new cells (around $8m was expended in 2006/17), however if transporting waste continues these costs will again be negated, or deferred.

In respect to the dividend line the draft LTFP highlighted one option where Council commenced taking a dividend from LRM in 2019/20 with that dividend allocated as follows.

Table Seven- Possible Dividend Allocation from LRM

Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Dividend Amount	0	0	0	0	2,200	2,284	2,371	2,462	2,556	2,654
Allocation										
Road Works	0	0	0	0	1,500	1,560	1,622	1,687	1,754	1,824
Open Spaces	0	0	0	0	200	208	216	225	234	243
Community Infra	0	0	0	0	400	416	433	450	468	487
Operations Dividend	0	0	0	0	100	100	100	100	100	100

The Community Infrastructure amount is the figure used in attachment five for the waste dividend contribution to the non-recurrent projects. The remaining amounts represent possible allocations to road works, open spaces and even a contribution to our on-going operations. The allocation of these funds would be a matter for Council to determine.

Based on the forecast reserve balance in Table Six the level of dividends could actually be substantially increased.

All of this is highly hypothetical but the key point with waste management is that Council can invest the surplus from the waste operations into waste diversion technology such as biochar or related projects, or alternatively Council can accept that it is a provider of a waste collection and transport services only and then apply the revenues generated to support other Council services.

From a purely financial perspective the waste collection and transport service approach can be very beneficial in supporting Council's overall service delivery.

This dividend, coupled with the dividends that Council generates from other activities such as property development and also quarries (albeit quarries is not to the same extent) would allow Council to fund community infrastructure investment and then reduce the magnitude of additional income that may be needed through other revenue options such as increased rates.

This is effectively a philosophical question for Council – do we wish to treat waste as a business to generate dividends or do we wish to treat waste as an opportunity to pursue technologies and treatment methods?

The concern with the latter is that due to our size and scale this may not be cost effective and there is an argument that by transporting our waste to larger landfills, such as in South East Queensland, which have the scale to apply expensive technologies and treatment options, there are better environmental outcomes and at the same time Council has the surplus revenues available for investment into infrastructure.

There are risks with taking dividends in that the State Government could change the POEO Regulations and Council would be then liable for the levy. This would then place an urgent need on Council to amend its practices, but at the same time there is also plenty of upside by using the landfill operations as a revenue generator.

This is no different to privately owned landfills that provide a return to their owners.

Further reports are scheduled to be submitted to Council on the waste operations, particularly with respect to future landfilling and the dividend discussion will be an important component of that debate.

Projects not funded in the short term

Attachment five highlights that there is no funding allocated for major projects, such as the Sports and Events Centre, the Lennox Head Surf Club redevelopment and the Ballina and Lennox Head Main Street upgrades, in the short term.

For the Sports / Events Centre Council needs to confirm the type of project it wishes to build as the attachment has a notional budget of $8, with $5.25m contributed by Council.

The PDT Pty. Ltd options report in 2012 placed the following estimates on a range of options:

1) Two courts, retractable seating - $5m to $5.5m
2) Two courts with mezzanine level, retractable seating, tiered seating, gym and function rooms - $8.5 to $9m
3) Two courts with mezzanine, retractable seating, function rooms, gym and tiered seating - $10.2m to $10.7m
4) Three courts, two sets of retractable seating - $7.8m to $8.3m
5) Three courts with mezzanine, two sets of retractable seating, tiered seating, child minding - $14.0m to $14.5m
6) Four courts with mezzanine, two level gym, retractable seating, offices, consulting and function rooms, kitchen - $18.5m to $19m
7) Four courts with permanent tiered spectator seating - $7.4m to $7.9m

These figures also excluded a number of costs such as:

- External works, site works and landscaping
- Abnormal ground conditions
- Rock excavation and disposal
- Works associated with accommodating future extension to building fabric
- Professional fees
- Headwork charges
- Land Acquisition costs

Based on representations from certain interest groups Council has indicated its preference is for a four court stadium. If that remains Council's preference it is important to acknowledge that a project of that magnitude will be extremely difficult to finance within the next few years, within Council's existing budget limitations.

The only real options would be through additional asset sales, or loans, or a combination of both.

For example the ARC building could potentially be sold at Cessna Crescent, Ballina. The current revenue on that building is approximately $340,000 per annum and based on an 8% yield this could generate $4.2m. Council would then need to fund any shortfall from loans, with those repayments impacting on Council's recurrent budget, or by deferring other projects identified in the attached cash flows.

One issue with the ARC sale is that the current lease expires on 31 August 2015 with an option for a further term of five years. Council has to serve notice of the proposed market rent no earlier than six months and no later than three months before the lease expiry date. Any sale should not proceed until any lease extension is agreed as that will determine the market value.

If sale of an asset such as this is preferred, it is also important to acknowledge the impact that the loss of that recurrent revenue has on our future cash flows.

The following four tables demonstrate the differences held in our reserves that benefit from the income from our commercial property, with no asset sales and with the sale of the ARC building, or 89 Tamar Street.

Table Eight - Reserve Balances Prior to Asset Sales

Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Community Infra	182	528	858	909	792	705	620	644	781	929
Property Dev	1,181	2,367	2,253	1,731	1,648	1,556	1,563	1,571	1,559	1,535
Total	**1,363**	**2,896**	**3,111**	**2,640**	**2,440**	**2,261**	**2,183**	**2,215**	**2,341**	**2,464**

Table Nine - Reserve Balances After ARC Sale

Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Community Infra	11	175	314	164	(165)	(470)	(778)	(981)	(1,077)	(1,169)
Property Dev	1,009	2,014	1,709	987	693	377	150	(88)	(356)	(643)
Total	**1,020**	**2,190**	**2,023**	**1,151**	**528**	**(93)**	**(629)**	**(1,069)**	**(1,434)**	**(1,813)**

Table Ten - Reserve Balances After 89 Tamar Street Sale

Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Community Infra	(452)	(764)	(1,098)	(1,739)	(2,547)	(3,342)	(4,130)	(4,828)	(5,411)	(5,980)
Property Dev	1,181	2,367	2,253	1,731	1,648	1,556	1,563	1,571	1,559	1,535
Total	**729**	**1,603**	**1,155**	**(8)**	**(899)**	**(1,786)**	**(2,567)**	**(3,257)**	**(3,852)**	**(4,445)**

Table 11 - Reserve Balances After ARC and 89 Tamar Street Sale

Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Community Infra	(624)	(1,112)	(1,628)	(2,457)	(3,458)	(4,451)	(5,445)	(6,353)	(7,153)	(7,946)
Property Dev	1,009	2,014	1,709	987	693	377	150	(88)	(356)	(643)
Total	**386**	**902**	**80**	**(1,470)**	**(2,765)**	**(4,074)**	**(5,295)**	**(6,442)**	**(7,510)**	**(8,590)**

These tables have assumed the same dividends would be taken as per attachment five, but in reality this would not occur as projects would have been funded in the earlier years from the sale proceeds.

The key issue with this is that the sale of either or both of these properties will permanently eliminate a revenue stream that is helping Council fund the community infrastructure projects.

Ballina Shire Council already has limited revenue streams and ideally we need to operate within those revenue streams rather than reducing them through one-off sales. The earlier tables highlight that those reserves actually go backwards without the existing commercial property revenue streams.

In conclusion all of this information is helping to highlight that based on Council's existing rate base, and the current demand for the sale of land, both industrial and residential, it is considered that large scale projects such as the sports / events complex proposal (i.e. four courts) are currently beyond our financial capacity in the short term unless significant grant funding is obtained.

Therefore Council needs to determine whether it wishes to continue to delay certain project until grants are obtained or perhaps proceed with more affordable proposals.

For example Richmond Valley Shire Council accepted a tender in November 2014 to build a two courts indoor sports stadium at Casino. The budget for this project was approximately $2m. The successful tenderer was AGS All Steel Garages and Sheds. This building is essentially the "tin shed" model sports stadium, with few amenities, but importantly the facility has a high quality sprung floor and it was affordable for Richmond Valley and is in the process of being constructed.

Council could pursue something such as this on a site at Southern Cross or alternatively we can continue to wait for sites such as the Old Depot site, along with funding for a much larger facility.

The problem with striving to achieve projects of that scale is that they may never eventuate and often it may be necessary to comprise on the overall vision to actually achieve a realistic outcome.

Legal / Resource / Financial Implications

The purpose of this report has been to highlight the financial demands facing Council for non-recurrent community infrastructure projects.

Consultation

The projects listed in this report reflect community aspirations for the Ballina Shire.

Options

The objective of this report is for Council to discuss forward funding programs for capital items of a non-recurrent nature.

There are a number of issues highlighted in this report and matters that would be useful in having a Council position on include:

- Level of support for the funding proposal for the Regional Boating Plan
- Level of support for the non-recurrent project cash flow as per attachment five and the priorities provided for projects
- Discussion about the strategic direction for the waste reserves

- Consideration of how Council should manage the sports / events centre project
- Similar for Lennox Head Surf Club
- Recognition that the town centre upgrades for Lennox Head and Ballina are unlikely to occur in the short term
- How Council wishes to progress the Ocean Pool.

In respect to the recommendations the following approach has been taken for the major items identified in this report:

1) Regional Boating Plan

Attachment five allows for all projects to be funded by 31 December 2017. The funding sources include a contribution from the Wardell Town Centre Reserve, the Ballina RSL Club, an extra $25,000 from the Community Infrastructure Reserve in 2015/16, monies from the footpath capital works program and surplus funds from the Property Development Reserve (as per the earlier Table Five).

Council needs to confirm it wishes to undertake all these projects as the State Government is seeking Council approve of the Plan by around end of April. Connsultation should also occur with the Ballina RSL and possibly the Wardell Progress Association regarding the use of the Town Centre Reserve monies. The consultation with Wardell could also include consideration of the following two footpath projects as mentioned earlier in this report: i.e.

- Footpath Carlisle Street $70,000
- Footpath Byron Street $55,000

Recommendation one addresses the Regional Boating Plan and the consultation with the other stakeholders.

2) Cash Flows as per Attachment Five

For 2016/17 onwards the projects listed in this cash flow are indicative only and are largely reliant on uncontrollable events such as land sales. Councillors need to be review the priority listing of projects and identify whether there is support for that modelling or whether priorities need to be amended.

Attachment five is provided largely for discussion purposes and Councillors are encouraged to review and amend that model as needed, particularly with respect to items such as the Regional Sports Centre Project.

The recommendation is to support that cash flow at this point in time.

3) Ocean Pool

Council has no funding set aside for this project and we are not in a position to take on extra capital and maintenance responsibilities. Therefore, if there is some support from Council for the project, it would be recommended that Council provide in principle support, subject to the project being managed entirely as a community based project. The recommendation supports this approach.

4) Lennox Head Main Street Upgrade

There has been a push from the Lennox Head Residents Association for Council to review the Lennox Head Town Centre Master Plan and Council's adopted Delivery Program for 2014/15 had this as a priority for 2016/17.

The Civil Services Group advise that ideally around $30,000 would be allocated to review the plan, however there is reluctance to expend these monies if there is not a commitment to then undertake the works as community opinion and design ideas can change over time. Alternatively adopted plans can focus fund raising and grant applications.

As funds are not allocated for these works until towards the end of the LTFP as per attachment five, the recommendation that follows seeks Council's determination as to how they wish to manage this project.

Finally it is important that Council examine the priorities in this report as there are many projects that Council does wish to see completed, however time is needed to ensure the delivery of those projects. Council also needs to eliminate any projects it does not believe to be a priority based on the funding limitations we face.

RECOMMENDATIONS

1. That Council endorses the inclusion of the draft funding strategy for the Regional Boating Plan, as per table five of this report, in the draft Long Term Financial Plan with consultation to be undertaken with the Ballina RSL and the Wardell Progress Association in respect to the funding sources for this Plan. The Wardell consultation is also to consider whether there is support for the following two projects to be funded from the Wardell Town Centre Reserve in 2015/16:

   - Footpath Carlisle Street $70,000
   - Footpath Byron Street $55,000

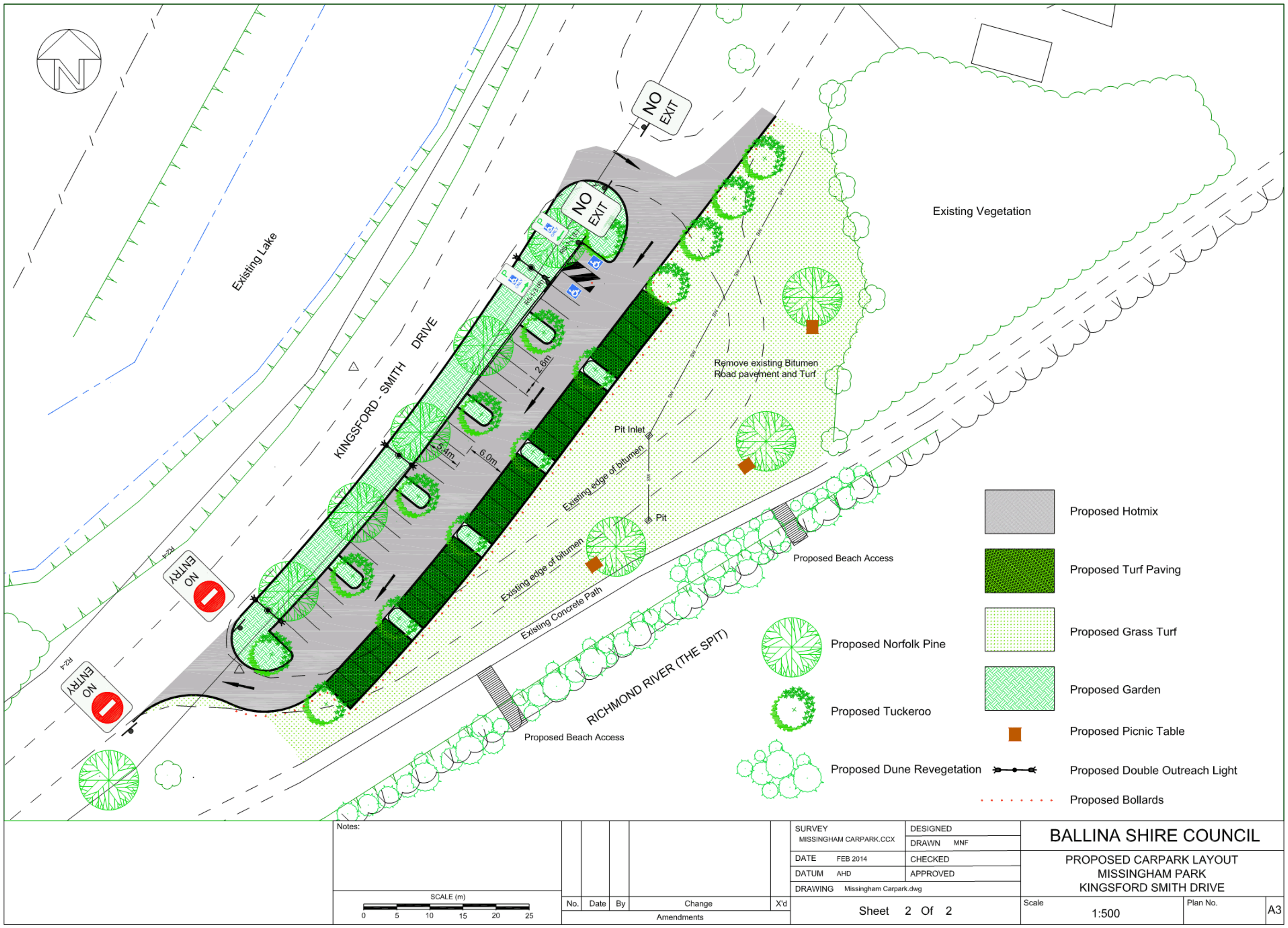
2. That Council endorses for financial planning purposes only, the draft cashflows and works program as per attachment five of this report, subject to any amendments arising from this report or other reports within this Finance Committee meeting agenda.

3. That in respect to the proposed Ocean Pool project, Council provides its in principle support for the project, however as Council has no forward funding allocated for the works, it accepts that this needs to be a project driven by the community, both from an approval and capital funding perspective.

4. That Council determine its position in respect to providing funding for a review of the Lennox Head Main Street Upgrade Project.

Attachment(s)

1. Missingham Park - Design Plan
2. Letter from Transport NSW re Boating Projects and Priorities
3. Extract Captain Cook Master Plan
4. Clarence Valley - Coastal Rock Pool Survey (Under separate cover)
5. Funding Summary



Existing Lake
KINGSFORD - SMITH DRIVE
NO EXIT
NO ENTRY
Existing Vegetation
Remove existing Bitumen Road pavement and Turf
Pit Inlet
Pit
Existing edge of bitumen
Existing Concrete Path
Proposed Beach Access
RICHMOND RIVER (THE SPIT)
Proposed Norfolk Pine
Proposed Tuckeroo
Proposed Dune Revegetation
Proposed Hotmix
Proposed Turf Paving
Proposed Grass Turf
Proposed Garden
Proposed Picnic Table
Proposed Double Outreach Light
Proposed Bollards
Notes:
SCALE (m)
0 5 10 15 20 25
No. Date By Change X'd
Amendments
SURVEY MISSINGHAM CARPARK.CCX
DESIGNED
DRAWN MNF
DATE FEB 2014
CHECKED
DATUM AHD
APPROVED
DRAWING Missingham Carpark.dwg
Sheet 2 Of 2
BALLINA SHIRE COUNCIL
PROPOSED CARPARK LAYOUT
MISSINGHAM PARK
KINGSFORD SMITH DRIVE
Scale 1:500
Plan No.
A3

Transport for NSW

Mr Paul Hickey
General Manager
Ballina Shire Council
PO Box 450
BALLINA NSW 2478

Dear Mr ~~Hickey~~ Paul

Regional Boating Plans and Funding for Priority Regional Projects

I am writing to inform you about the release of the Tweed-Clarence Valley Regional Boating Plan which was developed following an extensive consultation process in 2014, including input from Ballina Shire Council. The Plan is one of 11 Regional Boating Plans that have been developed across the major waterways of NSW and is available at www.transport.nsw.gov.au/mmc.

The final Regional Boating Plans identify the priority boating safety, access and storage actions to be delivered in each Region by the NSW Government over the next five years in partnership with Councils and other stakeholder groups. Importantly, the Plan also includes a funding allocation to support the delivery of boating infrastructure projects that have been identified as being a priority to boost the boating experience in each Region (Priority Regional Projects).

These funds have been allocated out of the NSW Boating Now program announced by the Minister for Roads and Freight in August 2014. In total, $37.5 million has been allocated across the 11 Regional Boating Plans to support the delivery of 192 Priority Regional Projects.

The identification of Priority Regional Projects was informed by feedback received from Councils, boating stakeholders and the general public as well as advice from maritime infrastructure experts and local Roads and Maritime Services (RMS) staff. For the Tweed-Clarence Valley Region a total of $2.78 million has been allocated to support delivery of 25 priority projects, including the following projects for which Ballina Shire Council has been identified as the relevant delivery partner:

- Upgrade Brunswick Street Boat Ramp, Ballina
- Investigate improvements to boating access facilities at Captain Cook Park, Ballina
- Support for development of project plan for Trawler Harbour, Ballina (Boatharbour Road)
- Extend pontoon at Fishery Creek Boat Ramp, Ballina
- New pontoon at Faulks Reserve, West Ballina

- Investigate access improvements at Emigrant Creek, West Ballina
- New boat ramp and pontoon at Keith Hall, Richmond River
- Upgrade Lennox Head boat ramp (North Creek Road)
- New pontoon at East Wardell Boat Ramp (Byron Street)

The funding allocation is based on initial estimates of project costs and the proposed financial contributions that Councils or other delivery partners have indicated that they can make towards each project.

The next steps will involve staff from the Maritime Management Centre (MMC) meeting with Council to confirm the scope of individual projects and discuss the process for formalising a funding agreement. I anticipate that these meetings will take place in late February/early March 2015.

A key consideration in negotiating the funding agreement is the need to ensure that the delivery approach for each project helps maximise value for money, for the overall Boating Now program. To this end, MMC would like to discuss ways that the Government can assist Council to achieve efficiencies.

A representative from MMC will be in contact shortly to discuss possible meeting dates, times and locations and provide details of the process and the additional information that will be required to finalise a funding agreement for delivery of the project(s).

If you would like to discuss this issue in more detail please contact Andrew Mogg on 02 8265 7413 or by email at andrew.mogg@transport.nsw.gov.au.

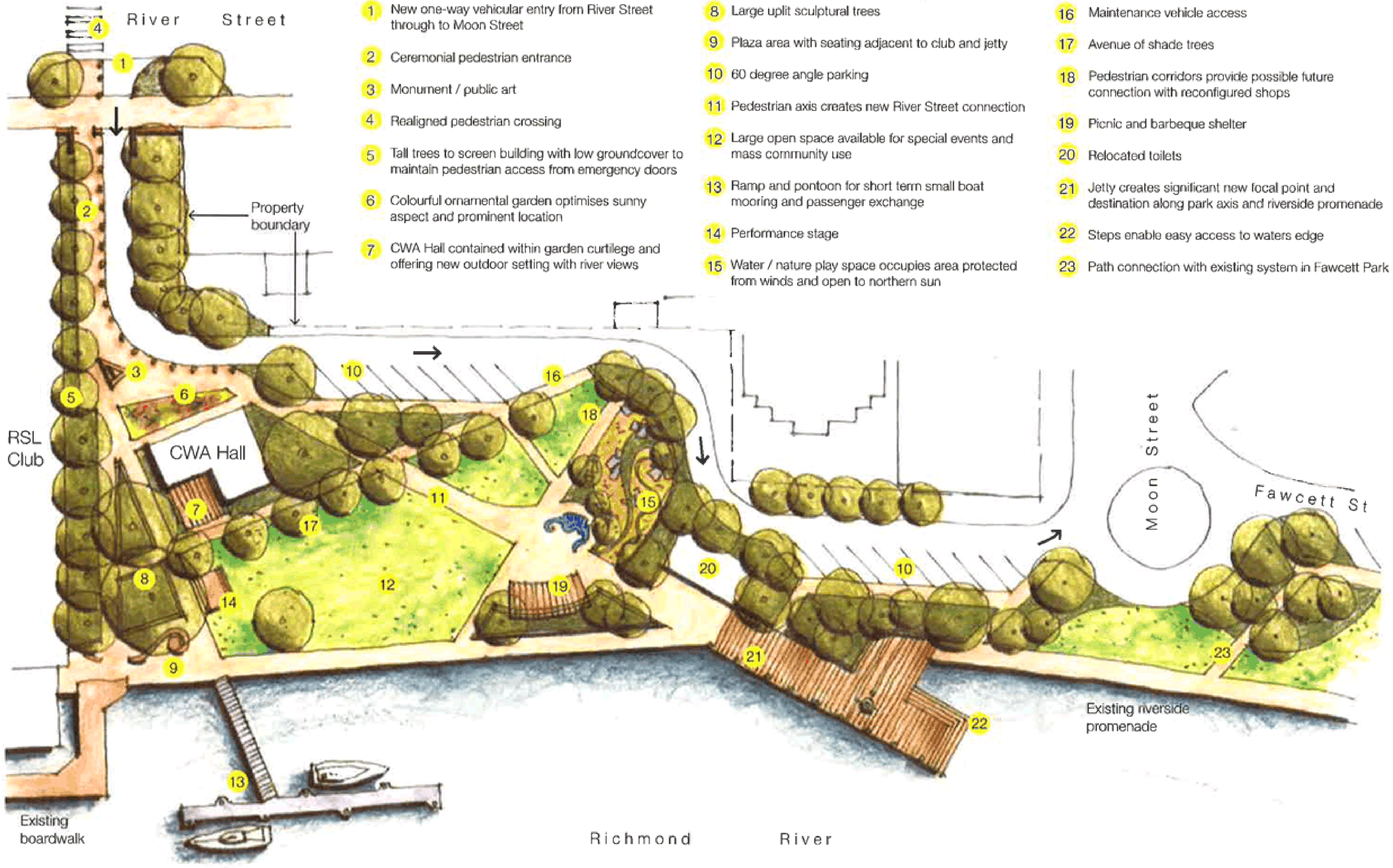
Yours sincerely

Howard Glenn
General Manager, Maritime Management Centre
6/2/15

5. LANDSCAPE MASTER PLAN

5

1. New one-way vehicular entry from River Street through to Moon Street
2. Ceremonial pedestrian entrance
3. Monument / public art
4. Realigned pedestrian crossing
5. Tall trees to screen building with low groundcover to maintain pedestrian access from emergency doors
6. Colourful ornamental garden optimises sunny aspect and prominent location
7. CWA Hall contained within garden curtilege and offering new outdoor setting with river views
8. Large uplit sculptural trees
9. Plaza area with seating adjacent to club and jetty
10. 60 degree angle parking
11. Pedestrian axis creates new River Street connection
12. Large open space available for special events and mass community use
13. Ramp and pontoon for short term small boat mooring and passenger exchange
14. Performance stage
15. Water / nature play space occupies area protected from winds and open to northern sun
16. Maintenance vehicle access
17. Avenue of shade trees
18. Pedestrian corridors provide possible future connection with reconfigured shops
19. Picnic and barbeque shelter
20. Relocated toilets
21. Jetty creates significant new focal point and destination along park axis and riverside promenade
22. Steps enable easy access to waters edge
23. Path connection with existing system in Fawcett Park

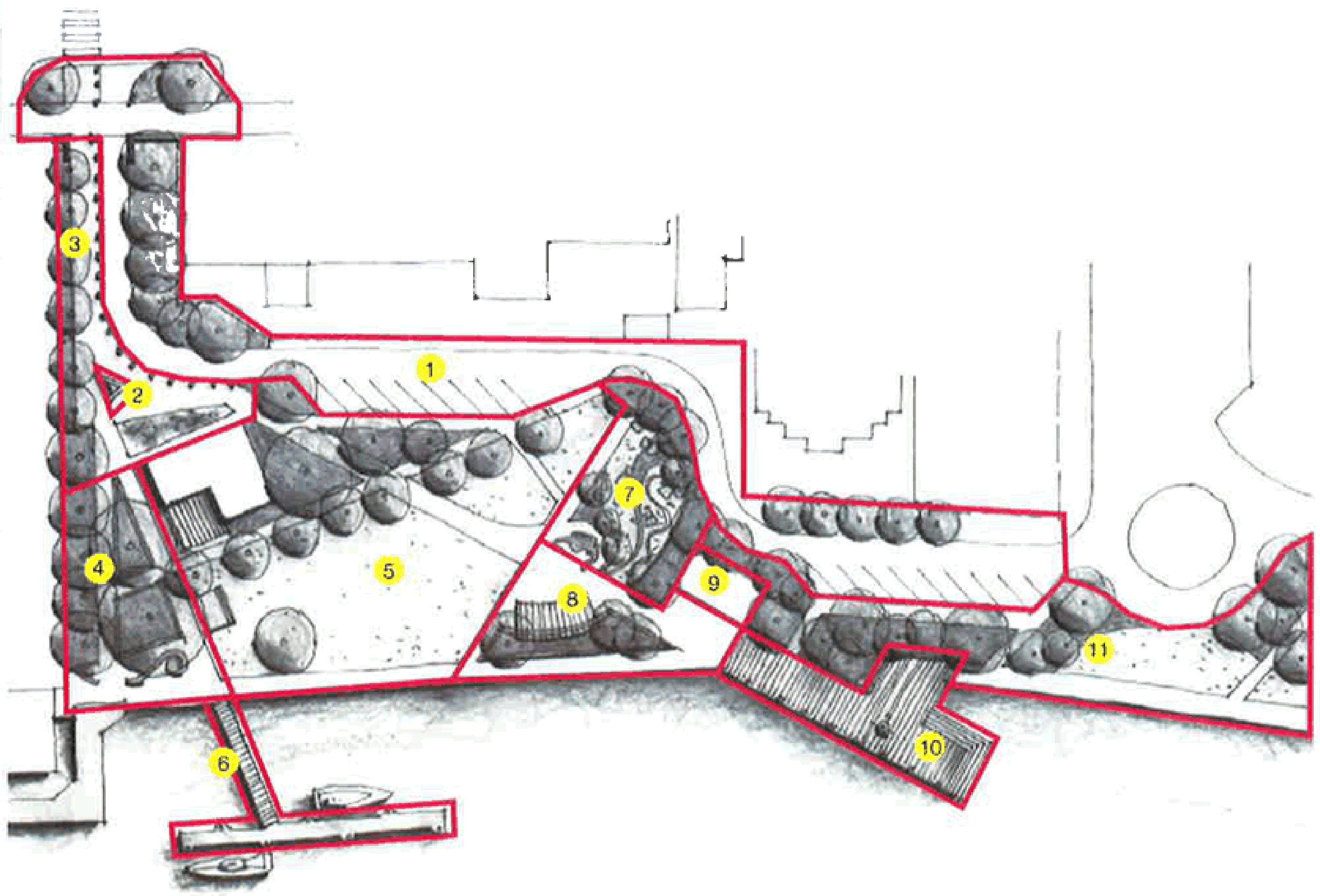


Captain Cook Memorial Park, Ballina LANDSCAPE MASTER PLAN
FEBRUARY 2014
Red Belly Landscape Architecture + Urban Design 6 Canale Drive Boambee NSW 2450 T 0428 517 665 www.redbellydesign.com.au Ref: 13010

redbelly

APPENDIX A: BROAD ESTIMATE OF COSTS

	ITEM	DETAIL	EST. COST
1	Laneway /carpark	New and reconstructed AC roadway, kerbs, ramps, drainage, signs, lights, bollards, planting, other services, fees	$500 - $750K
2	Monument	Artist, sculpture construction, footings, feature lighting	$20 - 50K
3	Pedestrian entry	Paving, planting, drainage, lighting, furniture, fees	$200K
4	RSL edge landscape	Paths, retaining walls, drainage, planting, uplighting, furniture, fees	$150K
5	Open parkland	Paths, planting, lighting, furniture, 3-phase power, performance stage, fees	$200K
6	Public wharf	Piles, decking, lighting, fees	$200 - $250K
7	Water play area	Drainage, retaining walls, hydraulics, fence, play equipment, natural play structures, sculptures, surface materials, planting, fees	$400 - $500K
8	Picnic Shelter	Structure, barbeques, furniture, paving, planting lighting, retaining walls, fees	$150K
9	Public toilets	Building installation, services, fees	$300K
10	Jetty	Piles, decking, steps, lighting, sculpture, fees	$200 - $350K
11	Landscape between activity zone and Fawcett Park	Seating walls, planting, drainage, feature and functional lighting, paving, furniture, signage, fees	$150K
TOTAL			**$2.47 - $3.05M**



Captain Cook Memorial Park, Ballina LANDSCAPE MASTER PLAN
FEBRUARY 2014
Red Belly Landscape Architecture + Urban Design 6 Canale Drive Boambee NSW 2450 T 0428 517 665 www.redbellydesign.com.au Ref: 13010

Non Recurrent Capital Projects Analysis

1. Projects	Total	Council	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Unfunded
Ballina Town Centre	2,100,000	2,100,000						516,000	1,584,000				0
Coastal Path (East) - Stage 2	1,700,000	850,000	850,000										0
Marine Rescue Centre	2,144,000	826,000	826,000										0
Regional Sports Centre	8,000,000	5,250,000	250,000			2,100,000	1,700,000	1,200,000					0
Skennars Head Sports Fields	1,250,000	1,250,000		1,250,000									0
Lennox Head Surf Club	5,000,000	3,000,000							49,000	1,650,000	1,301,000		0
Wollongbar Skate Park	325,000	325,000		325,000									0
Missingham Car Park	150,000	150,000			150,000								0
Lennox Head Main Street	3,000,000	3,000,000									367,000	1,687,000	946,000
Wardell Boardwalk	460,000	230,000			230,000								0
Ballina Town Entry Treatments													
Stage 1 - Median Strip Quays Drive to Barlows	390,000	390,000			390,000								0
Stage 2 - Landscaping etc Burns Point to Barlows	270,000	270,000				270,000							0
Stage 3 - Blisters etc Barlows to Boatharbour	120,000	120,000				120,000							0
Stage 5 - Kerr Street	170,000	170,000				170,000							0
Total	**950,000**	**950,000**											
Regional Boating Plan													
Keith Hall Lane, Boat Ramp and Pontoon	300,000	75,000		75,000									0
East Wardell, Pontoon	100,000	50,000	50,000										0
Ballina Trawler Harbour	0	0											0
Captain Cook Park – Ramp and Pontoons	300,000	50,000	50,000										0
Fishery Creek - Pontoon Extension	100,000	50,000	50,000										0
Faulks Reserve – Pontoon and Ancillary Facilities	175,000	75,000	75,000										0
Emigrant Creek - Access Improvements	40,000	0	0										0
End of North Creek Road, Lennox Head - Boat Ramp	150,000	75,000		75,000									0
Brunswick Street, Ballina - Boat Ramp and Pontoon	200,000	75,000			75,000								0
Sub Total	**1,365,000**	**450,000**											
Captain Cook Master Plan													0
Laneway and Car Park – one way access	750,000	750,000		375,000	375,000								0
Public Art / Monument	50,000	50,000			20,000	30,000							0
Improved Pedestrian Entry from River Street	200,000	200,000			200,000								0
RSL Edge Landscaping	150,000	150,000			150,000								0
Open Park Land – Paths, planting, furniture	200,000	200,000			140,000	60,000							0
Public Wharf	250,000	250,000				250,000							0
Water Play Area – Drainage, equipment, plantings etc	500,000	500,000				500,000							0
Picnic Shelter – BBQs, Structures	150,000	150,000			150,000								0
Public Toilets	300,000	300,000				300,000							0
Jetty (Regional Boating Plan)	0	0											0
Landscape between activity zone and Fawcett Park	150,000	150,000			150,000								0
Sub Total	**2,700,000**	**2,700,000**											
Total - All Projects	**29,144,000**	**21,081,000**	**2,151,000**	**2,100,000**	**2,030,000**	**3,800,000**	**1,700,000**	**1,716,000**	**1,633,000**	**1,650,000**	**1,668,000**	**1,687,000**	**946,000**
2. Funding Sources													
Forecast Property Dividends													
Infrastructure - Property Dev Res				2,000,000	1,700,000	3,300,000	300,000	300,000	200,000	200,000	200,000	200,000	0
Infrastructure - Comm Infra Res			1,926,000	0	0	500,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0
Waste Dividends													
Contribution to Community Infrastructure			0	0	0	0	400,000	416,000	433,000	450,000	468,000	487,000	0
Other Council Revenues													
Wardell Town Centre Reserve - East Wardell Pontoon			50,000										
Wardell Town Centre Reserve - Balance for Boardwalk					230,000								
Footpaths Capital - Cont to Regional Boating Plan			100,000	100,000	100,000								
Extra Comm Infra Reserve Dividend - Faulks Reserve			25,000										
Loans													
New Loan Funds													
Grants and Other Contributions													
Ballina RSL - Captain Cook Ramp and Pontoons			50,000										
Total - Funding Available			**2,151,000**	**2,100,000**	**2,030,000**	**3,800,000**	**1,700,000**	**1,716,000**	**1,633,000**	**1,650,000**	**1,668,000**	**1,687,000**	**0**
Net Surplus / (Deficiency) in Funding			**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	(946,000)
3. Forecast Reserve Balances - 30 June													
Community Infrastructure Reserve			182,000	528,400	858,200	908,700	791,500	705,200	620,300	644,400	781,300	929,100	
Property Development Reserve			1,180,800	2,367,300	2,252,900	1,731,400	1,648,200	1,555,900	1,562,800	1,570,900	1,559,300	1,535,100	
Waste Reserve			2,454,400	3,385,700	3,454,400	5,642,100	5,701,500	5,701,600	5,638,400	5,511,000	5,313,400	5,042,600	
Total Reserves Balance			**3,817,200**	**6,281,400**	**6,565,500**	**8,282,200**	**8,141,200**	**7,962,700**	**7,821,500**	**7,726,300**	**7,654,000**	**7,506,800**	

4.9 Fit for the Future - Council Response

Delivery Program Governance and Finance

Objective To determine how Council wishes to respond to compy with the benchmarks required under the Fit for the Future Program.

Background

A report to the February 2015 Finance Committee meeting provided an overview of the NSW State Government's Fit for the Future (FFTF) Program and how Council was performing in respect to the various benchmarks.

A table towards the end of that report provided the following summary in respect to Council's forecast performance against the FFTF benchmarks.

Table One - FFP Indicator Summary – As Per Draft LTFP

Indicator	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Infrastructure Backlog	0.27%	0.27%	0.26%	0.26%	0.26%	0.26%	0.25%	0.25%	0.25%	0.25%
Asset Maintenance	92.48%	103.06%	93.43%	97.38%	100.37%	103.54%	106.81%	110.17%	113.63%	117.20%
Debt Service	11.43%	10.99%	12.35%	12.03%	9.59%	9.84%	10.05%	8.99%	8.57%	7.30%
Own Source Operating Rev	70.03%	74.62%	75.30%	80.27%	75.73%	74.20%	76.73%	78.03%	82.13%	82.29%
Asset Renewal	75.20%	111.37%	127.73%	109.79%	123.67%	93.88%	85.38%	103.36%	115.90%	77.11%
Operating Expenditure	1.08	1.14	1.02	0.98	0.96	0.96	0.95	0.94	0.92	0.91
Operating Performance	-0.203	-0.210	-0.094	-0.056	-0.039	-0.028	-0.033	-0.034	-0.024	-0.021

The indicators where Council is meeting the benchmark are shown in green and the failures in red. Council is generally forecast to meet six of the seven criteria with the only continuing failure being the operating result.

Council is required to respond to the State Government by 30 June 2015 and identify how it will meet all the benchmarks. The purpose of this report is for Council to commence considering the options available to meet our current forecast failure for the operating deficit.

Key Issues

- Services levels
- Options to rectify current operating deficit

Information

As per table one, Council's draft LTFP identifies that Council will continually fail the benchmark for the operating performance ratio indicator.

The actual benchmark for this ratio is greater or equal to a break even average over three years

The Self-Assessment Tool provided by the State Government as part of the FFTF program defines this ratio as:

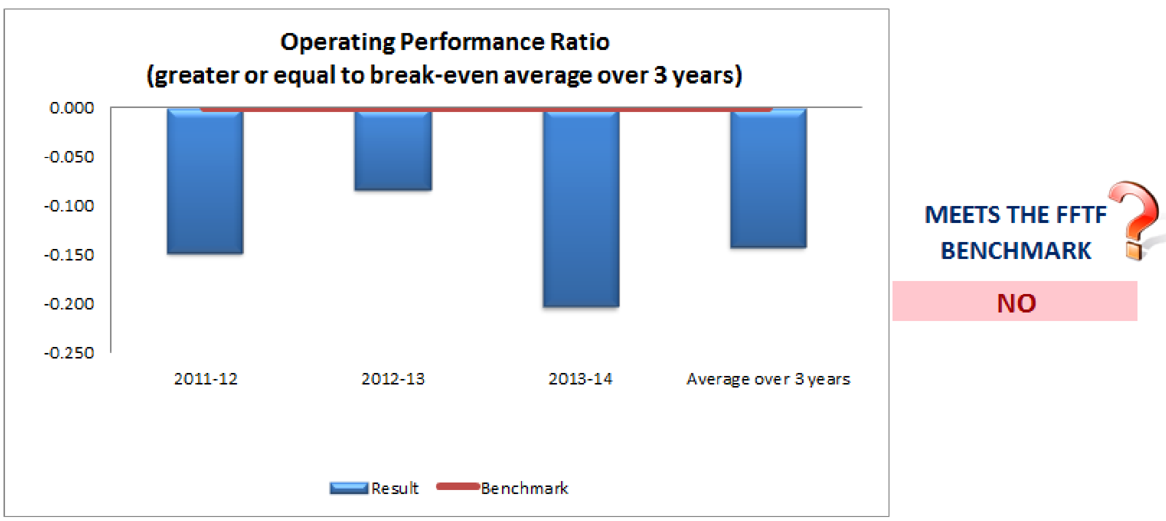
Description and Rationale for Criteria:
TCorp in their review of financial sustainability of local government found that operating performance was a core measure of financial sustainability.

Ongoing operating deficits are unsustainable and they are one of the key financial sustainability challenges facing the sector as a whole. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.

Operating performance ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements.

Description and Rationale for Benchmark
TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a 3 year period.

Council's results for this ratio for the last three years, is as per the following chart, sourced from the FFTF self-assessment template.



Our actual result for the three year average is negative 14.1%, based on negative 14.7% in 2011/12, negative 8.3% in 2012/13 and negative 20.3% in 2013/14. For these three years Council has achieved an operating deficit for the General Fund of $6.218m (2011/12), $4.072m (2012/13) and $8.798m (2013/14).

The latest forecast draft LTFP provides the following operating result forecasts for the General Fund.

Table Two - Forecast General Fund Operating Result ($'000)

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Operating Revs	48,796	50,038	51,785	53,189	54,646	56,319	58,004	59,741	61,546	63,402
Operating Exps	53,193	53,225	54,665	55,739	57,534	59,294	60,578	62,207	63,892	65,949
Result (Deficit)	**(4,398)**	**(3,187)**	**(2,880)**	**(2,550)**	**(2,888)**	**(2,975)**	**(2,574)**	**(2,466)**	**(2,346)**	**(2,547)**

4.9 Fit for the Future - Council Response

Following some improvements between 2015/16 and 2017/18 the operating deficit plateaus around the $2.5m mark. Therefore further improvements of this magnitude are needed and this can only be achieved through reduced operating expenditure, increased revenues or a combination of both.

The following table provides a program summary for 2015/16, 2016/17 and 2017/18 outlining the operating revenues, expenses and results for the major programs delivered by Council to highlight where improvements are made for these three years.

Table Three – Program Operating Result 2015/16 to 2017/18 ($'000)

Program	2015/16			2016/17			2017/18		
	Revs	**Exps**	**Result**	**Revs**	**Exps**	**Result**	**Revs**	**Exps**	**Result**
Strategic and Comm Facs									
Strategic Planning	148	1,011	(863)	148	996	(848)	220	1,026	(806)
Community Centres / Halls	382	1,634	(1,252)	394	1,656	(1,262)	406	1,690	(1,284)
Richmond Tweed Library	117	1,610	(1,493)	121	1,646	(1,525)	124	1,688	(1,563)
Swimming Pools	345	1,092	(747)	393	1,490	(1,097)	438	1,555	(1,118)
Cultural / Community Servs	116	874	(758)	120	901	(781)	124	929	(805)
Tourism / Communications	74	918	(844)	77	945	(868)	80	974	(894)
Sub Total	**1,182**	**7,138**	**(5,956)**	**1,252**	**7,634**	**(6,381)**	**1,392**	**7,862**	**(6,470)**
Development / Env Health									
Development Services	381	1,247	(866)	393	1,278	(886)	405	1,317	(912)
Building Services	1,000	822	178	1,031	846	185	1,064	872	192
Environmental Health	254	759	(505)	265	781	(516)	432	1,108	(676)
Admin and Public Order	237	1,229	(993)	244	1,266	(1,022)	252	1,305	(1,052)
Sub Total	**1,872**	**4,057**	**(2,185)**	**1,933**	**4,172**	**(2,238)**	**2,153**	**4,601**	**(2,448)**
Civil Services									
Engineering Management	205	2,490	(2,285)	211	2,564	(2,353)	218	2,642	(2,424)
Procurement / Buildings	0	3,567	(3,567)	0	3,672	(3,672)	0	3,774	(3,774)
Stormwater	291	2,471	(2,180)	300	2,505	(2,205)	309	2,581	(2,272)
Roads and Bridges	62	8,227	(8,165)	55	8,419	(8,364)	48	8,625	(8,577)
Ancillary Transport Services	718	2,646	(1,928)	731	2,691	(1,960)	747	2,741	(1,994)
RMS	885	885	0	912	912	0	940	940	0
Open Space and Reserves	741	3,412	(2,671)	764	3,530	(2,766)	788	3,658	(2,870)
Fleet Management	257	42	214	266	44	222	275	45	230
Rural Fire Service	221	445	(224)	228	460	(232)	235	474	(240)
Quarries	281	169	112	290	175	115	298	180	118
Waste – Landfill	4,063	3,452	611	4,182	3,443	739	4,308	3,491	817
Waste - Domestic Waste	5,951	5,812	139	6,095	5,959	135	6,274	6,119	156
Sub Total	**13,674**	**33,617**	**(19,944)**	**14,032**	**34,373**	**(20,341)**	**14,439**	**35,270**	**(20,831)**
General Manager's Group									
Governance	0	1,074	(1,074)	0	1,344	(1,344)	0	1,139	(1,139)
Administrative Services	28	709	(681)	30	695	(665)	31	716	(685)
General Purpose Revenues	23,416	0	23,416	24,545	0	24,545	25,356	0	25,356
Financial Services	165	(4,093)	4,258	169	(4,217)	4,386	173	(4,343)	4,516
Information Services	11	1,731	(1,721)	11	1,784	(1,773)	11	1,838	(1,827)
Human Resources and Risk	126	1,042	(916)	130	1,056	(926)	134	1,075	(941)
Property Management	3,169	3,201	(32)	2,700	1,592	1,108	2,768	1,643	1,125
Ballina Airport	5,155	4,718	436	5,235	4,792	442	5,327	4,864	463
Sub Total	**32,069**	**8,382**	**23,687**	**32,820**	**7,046**	**25,774**	**33,800**	**6,932**	**26,869**
Operating Result	**48,796**	**53,193**	**(4,398)**	**50,038**	**53,225**	**(3,187)**	**51,785**	**54,665**	**(2,880)**

The primary drivers of the improvement of around $1.5m between 2015/16 and 2017/18 are:

- Swimming pools – The forecasts assume that Council's special rate variation application for the swimming pools will be approved. This means the deficit for this program actually increases as the interest component of the new loans for the swimming pools is included in the operating result.

This represents a net increase in the deficit of around $290,000 in 2015/16 and a similar figure in 2016/17, for an overall increase in the deficit of $400,000.

- Environmental Health – This program moves around due to works related to the Shaws Bay Management Plan, however the increase in operating expenses is a one off that is not repeated in future years.

- Waste – Landfill – As loans are paid out, the interest component of the loans in this program reduces from $154,000 to $10,000 representing a saving of $144,000 in the operating result.

- Governance – This result worsens during 2016/17 due to the quadrennial election.

- General Purposes Revenues – The special rate variation, if approved, means that the total funding for the swimming pool loan repayments, which include loan interest and principal, is included in the operating result for this program. This represents a net increase in revenues of around $500,000 in 2015/16 and a similar figure in 2016/17, for an overall increase of over $1m. Once this is offset against the increased loan interest in the swimming pools program, the net improvement to the operating result is approximately $600,000.

- Property Management – The property management program includes the on-going rebate (i.e. reimbursement of $25,000 per lot sold) for the Building Better Regional Cities Program in 2015/16. The net cost of this program for 2015/16 is $1.035m (net impact in 2014/15 budget is $1.829m).

  Even though we are actually reimbursing developer contributions, which are capital items, the refund is shown as an operating expense. This is distorting the actual results for the property management program. The LTFP has the rebates being fully paid out by 2015/16 and with Wollongbar estimated to have approximately 20 rebates remaining out 96 by 30 June 2015, and Ballina Heights approximately 80 out of 120, it may well be that some rebates for Ballina Heights will carry over to 2016/17. This would then reduce the operating expense in 2015/16, but increase the expense in 2016/17.

  These rebates do have a major impact on the operating result however they do not represent permanent operating expenses.

For the remaining periods in the ten year plan (i.e. 2018/19 to 2024/25), as per Table Two, the forecast operating deficit is around the $2.5m mark.

This essentially reflects the core operating deficit for Council and it is this level of improvement, as a minimum, that we need to be targeting to meet the FFTF operating performance ratio benchmark.

This also assumes that Council does not want to increase any existing service levels.

In order to rectify the recurrent deficit of $2.5m the options are to decrease operating expenses, increase revenues or a combination of both.

Decrease Operating Expenses

There is a range of ways this can be undertaken.

a) Reduce allocated budgets and / or reduce existing services

In reviewing the operating budget if Council wanted to reduce its existing service levels to improve the operating result, examples of programs / services / items that could be considered discretionary, where savings could be made are as follows:

Table Four – Program Savings – Current and Revised Budgets ($'000)

Program	Item	Current	Revised
Strategic Planning	Professional Services	20,000	10,000
	Economic Development Programs	15,000	5,000
	Aboriginal Consultancies and Programs	15,000	5,000
	Heritage Consultancies and Programs	15,000	5,000
Cultural / Comm Servs	Community Service Programs	8,000	5,000
Tourism / Comms	Destination Development (Marketing, Signage)	100,000	50,000
	Festival and Events Program	115,000	80,000
	Fair Go Festival	14,000	0
	Visitor Centre	290,000	0
Stormwater	Contribution to Richmond River CC Mgmt Plan	35,000	0
Roads and Bridges	Street Sweeper / Cleaning	315,000	280,000
Ancillary Transport	Burns Point Ferry	245,000	0
Open Spaces	Disabled Regional Works Crew	86,000	0
	Nursery and Disabled Nursery Crew	130,000	0
Governance	Donations	140,000	100,000
	Arts Northern Rivers	20,000	0
Administration	Community Connect	20,000	0
Totals		**1,583,000**	**540,000**

Items such as cancelling the Burns Point Ferry are not really valid options, but this summary highlights the difficulty in striving to make savings of the magnitude proposed.

It was actually extremely difficult to identify programs in the General Fund budget that could be called discretionary and then make savings in those items.

b) Don't provide indexation to major revenue funded areas

In order to generate savings major operating expense areas such as roads, open spaces, stormwater, waste etc could be indexed by percentages lower than CPI or not indexed at all, which in effects means we are decreasing the funding available in real terms.

The following table highlights what would be a saving in real terms if the entire funding for those major areas was not indexed each year.

Table Five – Major Revenue Funded Programs

Service	Budget ($)	3% CPI
Stormwater Maintenance	247,000	7,000
Roads Maintenance etc	2,887,500	87,000
Open Spaces Operations	2,497,100	75,000
Waste Operations	5,279,500	158,000
Total	**10,911,100**	**327,000**

From a modelling perspective, if we are working on a 3% CPI increase each year, the non indexation of these major budgets would save around $327,000 per annum. Of course this would result in service reductions unless efficiencies were gained in the delivery of the services at the same time.

State and Federal Governments place efficiency dividends on areas of their operations and Council could follow a similar approach. Unfortunately our operations are not of a scale and magnitude that allows a similar level of flexibility in pursuing efficiency dividends and the only way significant gains could be achieved is through reductions in service levels.

The difficult in placing an efficiency dividend on all areas of Council's operations can be shown by the operating expense budgets for Development Services and Building Services as per the following table.

Table Six – Development Services and Building Services

Expenditure Item	Development Services	Building Services	Total Cost
Salaries and oncosts	994,000	743,000	1,737,000
Training and Seminars	4,500	5,000	9,500
Motor Vehicles	48,500	52,100	100,600
Office Expenses	15,000	12,000	27,000
Advertising	25,000	0	25,000
Consultancies	10,000	0	10,000
Legal Expenses	150,000	10,000	160,000
Total	**1,247,000**	**822,100**	**2,069,100**

Both of these programs are office based and salaries make up a high percentage of the operating expenses. Items such as legal expenses and advertising are costs that are largely unavoidable therefore to make any meaningful impact on expenses, salaries need to be reduced. There have been on-going efforts to reduce salary expenses with a number of office based positions placed on hold during recent years but again reductions in staff levels will reduce existing service levels.

Efforts are also being made to reduce vehicle expenses either through the non-replacement of vehicles or through significant increases in the weekly lease fees for staff that have private use of vehicles. Council needs to remain competitive when recruiting positions and vehicles still need to be provided as part of the salary package to attract staff to the organisation.

Finally IPART has been including an efficiency dividend in its determination of the annual rate pegging limit. For the 2015/16 rate pegging limit this figure was 0.4% meaning that the actual rate pegging increase was reduced by this amount. Similar percentages have been applied in recent years therefore, by default, efficiency gains are already being generated through the standard rate pegging increase.

c) Staff redundancy or non replacement

There are a few positions in the organisation that are not direct front line service providers and could be removed from the organisation structure, with the resultant impact resulting in delays in projects that may be priorities for Council. This again is a question of service levels, but savings could be in the order of $100,000 plus.

Redundancies would have to be provided if the positions were not vacant and any redundancy will cost in the tens of thousands of dollars.

d) Review Service Levels

Many councils are guilty of over-servicing their communities with that level of service then being unsustainable. Councillors need to assess if there are areas of Council's operations where it could be possible to reduce service levels.

For example, the hours the street sweeper is working was reduced recently to ensure that the 2014/15 expenditure met the forecast budget.

Other possible options include reducing the frequency of rural road slashing, shortening the length of the season for the swimming pools and accepting a lower standard for road roughness. Ultimately Councillors need to determine acceptable service levels for the community.

This also relates to a comment in the FFTF Program report to the February 2015 Finance Committee meeting, which highlighted the difference between "aspirational but unaffordable service levels with essential service levels" (JRA Pty. Ltd).

In other words Council needs to determine what service levels can be provided based on current income levels, as compared to what are preferred service levels. Unfortunately, as we have a current operating deficit, we are not generating sufficient revenues to fund our current service levels.

e) Further Refine the Depreciation Figures

Depreciation represents an expense of approximately $14m for the General Fund and is a major driver of the operating loss. The actual operating result with depreciation excluded, is closer to a $10m surplus.

Council engineering staff have undertaken a number of reviews of the depreciation assumptions and the $14m figure is considered to be relatively reliable, however there is always that underlying concern that Council is seeking to generate $2.5m in savings, or extra revenues, to achieve a breakeven result, and $14m of those assumptions is based on a theoretical calculation of the depreciation expense.

The Council Asset Management Plans continue to be reviewed to ensure that the depreciation estimates are correct and any further savings in depreciation would assist greatly in improving the forecast deficit.

Increase Operating Revenues

Similar to operating expenses there are a number of ways this can be achieved.

a) Increase Discretionary Fees

Discretionary fees are generally areas where the customer has the option of not using the service.

Table three outlined all the various areas of Council's operations that operate at a deficit and many of those areas do charge fees, albeit that the revenue does not cover the cost of the service.

Even areas that do make an operating surplus, such as cemeteries, could potentially have their fees increased by percentages well above CPI, to assist with Council improving its overall operating result.

There could be some elasticity of demand where revenues could actually decrease due to increases in revenues, with customers then opting not to receive the service, however in many cases Council is typically the sole service provider and therefore revenues should increase.

Of course this may create increased dissatisfaction amongst our customers dependent on the size of the increase.

b) Increase Commercial Property Revenues

As touched on earlier Council's property program makes a significant contribution to the operating surplus. This is forecast to grow in future years as the vacant tenancies at the Wigmore decrease.

Some of the financially stronger councils have significant commercial property portfolios (Sydney City Council being the prime example) and Council could follow a similar approach by purchasing / developing additional commercial property.

If Council was looking to generate revenue of say $500,000, working off a yield of around 7%, the estimated purchase price of a commercial property would be approximately $7.1m.

Council's property development reserve is estimated to be less than $2m therefore it may be necessary to sell off land parcels that are currently not generating revenues to acquire the initial property.

Ideally Council would be in a position to develop further land at the Southern Cross Estate, similar to the ARC building, as the land component significantly reduces the required cash outlay.

Council is not in a position to resolve the entire operating deficit solely by acquiring / developing additional commercial property, but it does provide an opportunity to contribute to lowering the existing deficit.

c) Increase Dividends

There are two sides to the dividend discussion being a) dividends from existing General Fund operations and b) dividends from Non General Fund operations.

Existing General Fund operations refers to items such as quarries, properties, cemeteries and waste, which are largely treated as independent businesses in that the operating surplus is transferred to a specific reserve to assist with the on-going delivery of these services.

However if there are adequate funds in the reserve to support the on-going operation of the business, then Council is able to take a dividend from that operation to assist with other General Fund related activities.

Currently Council has a standard practice of extracting the following dividends:

- Quarries - $200,000 p.a.
- Property - $400,000 p.a. plus lumpy amounts for community infrastructure
- Cemeteries - $50,000 p.a.
- Waste – Nil with actual dividends for specific works.

From a General Fund operating result perspective, an increase in the dividend from these operations does not improve the operating result, as the operations already form part of the General Fund result (i.e. they help to make up the entire General Fund).

The actual benefit from increasing dividends from these operations is the additional funds that are then available to deliver other General Fund services. For example the additional funds could be invested into asset renewal to ensure that Council is meeting its asset renewal benchmarks.

There are significant opportunities for Council to increase its dividends from the waste operations and this is one program where Council needs to determine its long term strategy as dividends can help improve our investment into asset renewal.

Dividends from Non-General Fund operations refers to the Water and Wastewater programs. There is an opportunity to extract dividends from these programs subject to the businesses being financially viable, which they are close to achieving.

The only down side with a dividend from these programs is that only urban residents pay these charges and there could be an argument that it is inequitable to then take a dividend that then funds the entire General Fund operations.

d) Increase Annual Charges

From a General Fund perspective the only statutory annual charges raised by Council are the onsite septic system charge ($40), the stormwater charge ($25) and the various waste charges (LRM $72 and DWM - Urban $360 and DWM – Rural $314)

Council needs to be careful raising annual charges as they are designed to fund the services directly related to those charges. There is not considered to be a lot of upside in these charges.

e) Increase Rates

The final option is to increase our rate revenue. As reported many times, our comparative figures remain low.

The following table is an extract from the November 2014 Ordinary meeting report to Council on the special rate variation for swimming pools highlighting the variances in rate income.

Table Seven - Benchmarking – Total Rate Yield for 2014/15

Residential Property	Ballina ($)	Byron ($)	Coffs ($)	Lismore ($)	Richmond ($)	Tweed ($)
Residential	859	1,077	1,006	1,134	785	1,290
Business	2,869	2,668	3,585	4,588	2,219	3,087
Farmland	1,314	1,787	1,846	2,180	1,270	2,122
Ballina – No. of Assessments						
Residential	15,355					
Business	1,271					
Farmland	1,057					
Total Rate Yield	**18,225,000**	**21,817,000**	**21,955,000**	**25,548,000**	**16,217,000**	**25,974,000**
Difference to Ballina		**3,592,000**	**3,730,000**	**7,323,000**	**(2,008,000)**	**7,749,000**

As per these figures if Council had a rate yield similar to even Byron and Coffs Harbour Council, we would be in a position to remove the operating deficit. Coffs Harbour has actually lodged a special rate variation application for increases of 8.14% in 2015/16 and 7.75% in 2016/17 and it highly likely that many councils will be flagging additional rate increases as part of complying with the FFTF Program.

The difference additional rate revenues can have on the operating result are show in the following comparison, which outlines the current forecast results (option a) as compared to results with additional rate increases included (option b).

Table Eight – Revised Forecast General Fund Operating Result ($'000)

a) Current Forecast Operating Results as per earlier Table Two

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rate Peg %	5.41%	5.34%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Operating Revs	48,796	50,038	51,785	53,189	54,646	56,319	58,004	59,741	61,546	63,402
Operating Exps	53,193	53,225	54,665	55,739	57,534	59,294	60,578	62,207	63,892	65,949
Result (Deficit)	**(4,398)**	**(3,187)**	**(2,880)**	**(2,550)**	**(2,888)**	**(2,975)**	**(2,574)**	**(2,466)**	**(2,346)**	**(2,547)**

b) Revised Forecast Operating Results with additional rate increases

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rate Peg %	5.41%	5.34%	5.50%	5.50%	5.50%	5.50%	3.00%	3.00%	3.00%	3.00%
Operating Revs	48,796	50,038	52,297	54,261	56,330	58,671	60,438	62,260	64,154	66,100
Operating Exps	53,193	53,225	54,665	55,739	57,534	59,294	60,578	62,207	63,892	65,949
Result (Deficit)	**(4,398)**	**(3,187)**	**(2,368)**	**(1,479)**	**(1,204)**	**(623)**	**(140)**	**54**	**262**	**151**

Option b) includes an additional 2.5% rate peg increase for the four year period from 2017/18 to 2020/21, resulting in an operating surplus by 2022/23.

The Independent Review Panel report into Local Government has identified that councils may be able to achieve up to 3% above the rate pegging limit through a far more streamlined process than is currently the case for special rate variations and the application of this type approach is a viable option to achieve an operating surplus.

The key assumption with option b) is that the additional rate increases are applied entirely to capital works with no additional operating expenses being incurred as part of those increases.

Legal / Resource / Financial Implications

This report is reviewing Council's General Fund position and the financial benefits of varying expenses and revenues.

Consultation

Changes to items such as fees and charges will need to be exhibited for public comment.

Options

Council is required to provide a detailed response to the FFTF Program and the attachment to this report is a copy of the template that must be completed.

Council's operating result does need to be improved and this needs to be achieved through a combination of reduced operating expenses and / or increased revenues.

There are numerous options available and the following table provides a number of different scenarios outlining how various actions could contribute to an improved result.

Table Nine – Operating Deficit Strategies ($'000 and %)

Strategy	Option A	Option B	Option C	Option D	Option E
Operating Expenses					
Reduced budgets and service levels	500 (20%)	375 (15%)	250 (10%)	0 (0%)	0 (0%)
No indexation of major programs	625 (25%)	500 (20%)	375 (15%)	250 (10%)	0 (0%)
Staff redundancies	125 (5%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Operating Revenues					
Increase discretionary fees	250 (10%)	250 (10%)	125 (5%)	125 (5%)	0 (0%)
Increase property revenues	500 (20%)	500 (20)	250 (10%)	125 (5%)	0 (0%)
Increase water / wastewater dividends	500 (20%)	250 (10%)	250 (10%)	125 (5%)	0 (0%)
Increase rates	0 (0%)	625 (25%)	1,250 (50%)	1,875 (75%)	2,500 (100%)
Total Dollars and %	**2,500 (100%)**	**2,500 (100%)**	**2,500 (100%)**	**2,500 (100%)**	**2,500 (100%)**

This is based on achieving an improvement of up to $2.5m and most likely we would be looking for an improvement closer to $3m as Council is constantly under pressure for increased services for a variety of areas (i.e. surf lifesaving being a recent case where Council was looking to expand the number of patrolled beaches). The preferred strategy would also be implemented over a number of years.

Table Nine identifies some options and there are many more combinations of savings in expenses and increased revenues. Whether some options are achievable is debatable as significant savings in operating expenses will result in major contractions in service levels and this may well not be acceptable to Councillors and the community.

The recommendation is for Council to identify the preferred strategy with staff then able to report back to the next Finance Committee outlining how the strategy (or strategies) could be implemented and the implications of such a strategy.

RECOMMENDATION

That Council determine its preferred strategy for rectifying the existing operating deficit as outlined in Table Nine.

Attachment(s)

1. Fit For the Future Template (Under separate cover)

4.10 Northern Rivers Community Gallery - Review

Delivery Program	Community Facilities and Services
Objective	To provide the Council with an overview of the current operations of the Northern Rivers Community Gallery in Ballina.

Background

The Northern Rivers Community Gallery (NRCG) opened in 2007 and has become an important local cultural centre for the visual arts in Ballina Shire in the subsequent years. The last report to the Council concerning the NRCG operations was the presentation of the 2012/2013 Annual Report. This report provides a further update to the Council as a precursor to the 2015/16 budget process and a further report to be tabled in coming months, concerning the revised draft *NRCG Strategic Plan*.

Key Issues

- Resources and staffing allocations

Information

The Gallery commenced operations in 2007 in the former Ballina Municipal Council Chambers building on Cherry Street. The Gallery is open to the public five days each week, from Wednesday to Sunday in conjunction with the Gallery Café; a separate commercially leased space within the building.

Since 2007 the operations of the Gallery have been administered by a single staff member, the full time Gallery Co-ordinator (currently Ms Lee Mathers) and a group of committed volunteers, with the support of the Strategic and Community Facilities Group. In this time the scope and nature of the business has grown considerably, however the fundamental resources for the operations have remained the same. It is now considered timely to review the function and direction of the Gallery to determine the level of support within the Council for its ongoing operations.

Vision

The initial vision for the Gallery was to provide an exhibition space for local visual artists and groups to display their work. This approach proved successful in the early years and helped to establish the Gallery in the local area. In the intervening years the cumulative effect of focusing on these groups as the primary source of exhibition material has seen a level of repetition in programming. To continue growing the Gallery brand within the wider regional audience, attempts have been made to broaden this approach.

Whilst local groups will always be welcomed, and some have recurring annual or biannual exhibitions within the season program, the expertise within our staff means that we can look to provide a more diverse range of exhibitions, and develop and curate our own exciting exhibitions and ancillary programs, to increase the already high quality of art being presented.

Higher quality exhibitions, events and complementary programs (eg Music in the Gallery) also brings greater opportunities to secure grant funding for projects, professional development, industry collaboration, artist-in-residence programs and community workshops. With a more widely recognised and peer respected brand, corporate sponsorship can also be more easily secured. With this in mind the current vision of the gallery is:

"The NRCG will be a key cultural hub in the Northern Rivers region that supports and develops a diverse and engaged local creative community through accessible, innovative exhibitions, public programs and events."

Program

The Council's Delivery Program has a number of targets that relate to the Northern Rivers Community Gallery, under the Community Strategic Plan Priority CC2.2; *Create events and activities that promote interaction and education, as well as a sense of place.* The Delivery Program strategies and Operation Plan activities that are measurable against this priority are:

- CC2.2.2a: Promote initiatives for the Northern Rivers Community Gallery
- CC2.2.2b: Northern Rivers Community Gallery is well patronized, with a target figure of 'greater than 15,000 visits per annum'
- CC2.2.3a: Support and expand the community involvement in Council approved events

In order to continue to meet these Delivery Program targets it is imperative that the NRCG deliver dynamic and engaging exhibition and ancillary programs that continue to bring regular patrons back to the gallery, whilst attracting new visitors as well. As both a community asset and a business, our aim is to continually improve on and better what we have done before.

The recent 'Wetlands' exhibition that took place from 4 February – 1 March 2015 was the first of the new season of exhibitions curated under the management of NRCG Gallery Co-ordinator and Manager of Community Facilities and Customer Service. All preceding exhibitions were scheduled by the previous Co-ordinator, Ms Ingrid Hedgcock.

The 'Wetlands' exposition provides a good example of the changing vision for the Gallery and the types of shows that we aim to bring to the community over the coming months. The program was developed in conjunction with a number of organisations and groups and consisted of:

- *Wetland for our Future:* an exhibition of winning works from the WetlandCare Australia Photography and Art Prize 2008-2015, including a public awards ceremony.
- *Flotsam and Jetsam:* an exhibition by local artist Narani Hensen exploring the world wide environmental issue of marine plastics by creating artworks made from materials reclaimed from the oceans.

- *Madonna and the Reeds:* sculptural art pieces woven from natural world by local Aboriginal artist Mirra-Winni Gaze, promoting regional biodiversity values and ecological sustainability.
- *Building a Healthy Wetland:* a community mural project in the Gallery that was set up for the duration of the program and invited visitors to join in and help create a unique collage artwork about wetland ecosystems.
- *Love Your Local Wetlands:* a series of guided walks of some of our local wetland areas.
- *Come Fishing with the Experts:* Catch and release fishing workshops for all ages, and skill levels, hosted by NSW Fisheries (DPI).
- Two artist workshops programmed out of the Gallery and in the community; *Weaving Wetland Fish* with Mirra-Winni Gaze in Fawcett Park Ballina, teaching traditional weaving techniques to produce unique fish baskets from local wetland vegetation; and *Marine Salvage* with Narani Hensen at the Lennox Community Centre, creating communal artwork from reclaimed marine plastics.

Not every monthly exhibition will lend itself to such a comprehensive program however, where possible, those that are curated by the NRCG will be developed to extend the practice and reach of the Gallery into the broader community so as to allow greater opportunity for arts and cultural enjoyment and appreciation across the shire.

The Northern Rivers boasts the largest population of practicing creative and arts professionals outside of a capital city, yet there is a view that Ballina has never truly embraced this in the way that some neighbouring shires have. The improving alignment and integration of Council's community facilities is providing strong opportunities for collaboration and strategic development in this area and the links between the NRCG and Community Spaces operations aim to build on this momentum.

The forthcoming season for the Gallery will draw on the strong foundations built over the last few years and raise the NRCG even higher in its professional standing and practice. Ballina will see the NRCG become a true hub for the arts as the shire becomes a larger regional centre, with a wider range of art forms and programs available to our visitors and residents.

The NRCG will also launch a new web site in the coming months to promote, inform and archive the exciting work being exhibited and the associated programs being conducted. It is envisaged that this site will encourage further growth and patronage in the years ahead.

Facility

The Northern Rivers Community Gallery is located in the former Ballina Municipal Council Chambers on Cherry Street and shares the building with the popular Gallery Café. In the last year the renovations were made to the Gallery 1 space, which is shared between the Gallery and the café. Windows along the northern side of this space were replaced with french doors, opening the room onto the café's outdoor dining area, to improve amenity, acoustics and visitor experiences.

Within the Gallery foyer important modifications have been made to replace the reception desk with an attractive and more practical version, constructing a new ‘floating’ wall over the office entry door to increase hanging space for artworks, and a range of other small changes to improve customer access and movement throughout the Gallery.

Merchandise display space has also been improved.

These important changes have vastly improved the professional appearance of the foyer and are the fundamental first steps required to drive the retail business of the Gallery. In the coming years we hope to build on these improvements to acquire new display cases and stands to maximise product display and sales stock, which will help to increase retail income and reduce the facility’s operating deficit.

In addition to these previously approved capital expenses we are currently in the process of sourcing additional funds from within existing budget reserves to secure some additional improvements to enhance Gallery operations and promotion. These include:

- Digital media players and data projectors to facilitate more video and digital art installations
- Two ‘street banner flag poles’ for the Cherry Street frontage to help tourists and unfamiliar locals identify the Gallery’s location
- The production and launch of a season brochure to help promote the annual program of exhibitions in advance and across the wider Northern Rivers region.

Operations

The Gallery has consistently increased patronage from year to year; growing from 7,000 visits in its opening year to an expected 19,000 visits this year. Revenue also continues to grow with income from Gallery hire, art sales and retail stock expected to exceed $90,000 this financial year; growing by almost $40,000 in just three years. As the popularity of the NRCG has continued to grow, so has the work required to maintain its operations.

The limited staffing resources available to effectively and efficiently undertake these operations has driven a review of the administrative systems being used at the Gallery, in an effort to assist the Gallery Co-ordinator in managing this substantial workload. Over the last 12 months efficiencies have been made through the consolidation and streamlining of exhibition application and artist/stock supplier payment processes and documentation and retail sales and banking procedures, with the introduction of a new electronic point of sale system for the Gallery Shop. These measures are saving time, improving accuracy and accountability and creating a better customer experience for artists engaging with the Council through the Gallery.

Although staff are always committed to continuous improvement within our work areas, and opportunities to refine procedures further will always be embraced, it has now been determined that opportunities to achieve further efficiencies are very limited within the current scope of operations. As with our other Community Facility operations, our staff deliver excellent outcomes with very limited resources. Continued growth of programs and patronage in the Gallery will only likely be achieved with an increase in resources.

Our strategic aim is to manage operational costs by growing income through increased Gallery hire, offering more user-pays art workshops and events, increasing retail sales from the Gallery Shop by more proactively managing stock procurement (rather than the existing consignment sales model) and establishing a secondary retail outlet at the Ballina Byron Gateway Airport.

The footprint of the existing NRCG building does limit options to expand these revenue streams; however it is hoped that future expansion of services may enable greater opportunity in these areas.

The establishment of the Airport retail space is the next priority and, like the very popular and successful '*Art at the Airport´* program, has the full support of the Airport Manager. To progress this concept further requires capital funds of approximately $12,000 to $15,000 to construct the secure display cabinetry that would be required in that environment.

Staffing

In the seven years since the NRCG opened the management of the facility has grown from a voluntary arrangement, to a part-time staff member and now to the current resourcing with one full-time employee. This expansion has reflect the growth in the Gallery's operations. The current role is supported by other staff within the Strategic and Community Facilities Group, however this has only been possible very occasionally due to the high work demands across those staff areas as well.

Volunteers are integral to the Gallery's operations and perform essential front-of-house, customer service and sales functions. Recruitment drives take place approximately twice a year and currently there are 35 volunteers rostered on to support the gallery. Managing a workforce of this size is a significant challenge in itself and currently absorbs almost one-third of the Gallery Co-ordinator's time each week; including training, rosters, exhibition briefing, procedure management and general front of house support including answering questions, assisting with sales, customer enquiries and supervising tasks.

In addition to this, incidents relating to attendance or roster changes occur at a rate of approximately two per week, requiring the Gallery Co-ordinator to call in or organise replacement volunteers whilst performing their duties in their absence. This subtracts significantly from the C-oordinator's ability to complete the necessary operational requirements from the role.

Like other remote community facilities, such as the Ballina Visitor Information Centre and the Lennox Community Centre, the only option for co-ordinators is to work back after hours once the centres are closed to the public. Unlike these other two examples however, staffing resources have not increased at the NRCG as operations have grown.

Administration of these centres has proven that one staff member is unable to adequately manage the workloads expected of them, as they have no back-up or relief from customers or volunteers, whereas the addition of a second staff member increases productivity almost three fold.

Despite the additional strain that is always placed on staff in developing and implementing new systems, the Gallery Co-ordinator, under the supervision of the Manager of Community Facilities and Customer Service, has put in very significant hours over the last twelve months to implement new procedures and create efficiencies in her regular work schedule.

These changes have been beneficial and have been in place now for a number of months; however they have not created any notable dent in the size of the Co-ordinator's workload.

To retain the ongoing engagement of the Co-ordinator, and prevent a reduction of service levels, funds from other Community Facilities programs have been reallocated to provide a temporary staff support until the end of the current financial year.

Whilst this support is for only three days per week at present, the evidence is already clear that this is the only practicably solution to managing this facility with the current operational program and the high levels of professionalism, quality, retail growth, and community engagement that we seek from the function of the Gallery Co-ordinator.

The program genuinely requires the resource of a full time administrative assistant, however it is understood from all the work being done within Council to make savings and improve efficiencies that this is currently improbable.

Securing the current part-time arrangements would go a long way to making the Gallery, and the tenure of Gallery Co-ordinator, sustainable in the near term; however it is appreciated that from a financial position this may also be very difficult.

Whilst funds have been found for the current temporary administrative support, this is non-recurrent funding and has only been possible through savings and program cuts.

The existing Community Facilities budgets are so lean, and so comparatively small to other operational areas of Council, that there appears to be no option to reallocate other resources moving forward.

Staff have examined other possibilities and believe that, where funds are not available to adequately resource a facility, then a reduction in service (which in this case takes the form of customer contact time) is a sensible operational response.

As such, it is respectfully requested that Council now assess if the current operations and expectations for the Gallery are still in keeping with its vision for this community facility, or if changes should be made to the existing service levels.

Legal / Resource / Financial Implications

The continued growth in popularity and patronage of the NRCG operations requires an increase in operational funds to maintain the current strategic position for this facility.

Additional capital funds would allow an expansion of the NRCG's retail operations within the Ballina Byron Gateway Airport.

Consultation

Internal consultation has taken place in preparing this report.

Options

As per the information provided above, the following options provide a range of solutions for the Council's consideration.

Option 1

Maintain existing staffing levels at the NRCG. This option may appear to be the preference in the current financial climate; however limiting staffing to current levels (excluding the temporary relief position) will inevitably jeopardise plans for increasing Gallery patronage, diversifying exhibitions and workshop programming and inhibit increased revenue opportunities. Further, the current mis-match of staff resourcing and workload will not be relieved.

Option 2

Allocate an increase of $36,000 to the 2015/16 operational budget for the NRCG to provide 18 hours (3 days) of administrative and customer service support to the Gallery Co-ordinator. This support would provide assistance in managing volunteers, front-of-house and customer service, processing of banking and artist payments requirements, processing artist applications, managing retail stock, social media and web site content support as well as other general administrative support.

Option 3

Allocate an increase of $59,500 to the 2015/16 operational budget for the NRCG to provide 30 hours (5 days) of administrative and customer service support to the Gallery Co-ordinator as per above. The additional hours would be used to establish and staff the initial launch of the NRCG Retail Shop at the Ballina Byron Gateway Airport, support the development and management of Gallery workshops and events and assist in grant applications and sponsorship opportunities to secure additional funding for the Gallery.

Option 4

Allocate an increase of $23,750 to the 2015/16 operational budget for the NRCG to provide 12 hours (2 days) of administrative and customer service support to the Gallery Co-ordinator in addition to reducing the NRCG opening days to the public by one day. In this option the Gallery would be open to the public from Thursday to Sunday, with access on Wednesdays made available only via appointment where large groups, or opportunities for the sale of artworks, could be accommodated by prior appointment.

The additional day of closure would assist the Gallery Co-ordinator to address the required operational work that cannot be done whilst the Gallery is open to the public without administrative support. This option has a potential to see a reduction in both visitation and income, however that cannot be proven without implementing and trial. It is possible that, in time, the visitation and income will adjust and become more concentrated on the days the Gallery remains open.

Of the above, staff's preference is Option 2 however Council already has a significant working capital deficit forecast for 2015/16.

The forecast deficit is now over $250,000 following Council's recent decision to increase the community event program to $120,000 along with forecast increased expenses for areas such as workers compensation.

Therefore the recommendation that follows seeks Council's support for this additional resource, however the engagement of that resource is subject to a further report identifying options for the funding of that additional operating expense.

Recommendations two and three also seek Council's support for future capital works for the Gallery.

In respect to the Gallery retail space at the airport it is recommended that $10,000 of the $15,000 required in 2015/16 be funded by Council not allocating the $10,000 to the Council public art policy.

Council has a recurrent budget of $10,000 for public art to support this policy and to offset the majority of the $15,000 it is recommended that Council not have an allocation for 2015/16. This would then leave a $5,000 shortfall in the current draft budget.

RECOMMENDATIONS

1. That Council provides its in principle support for an additional allocation of $36,000 to the 2015/16 operational budget for the Northern Rivers Community Gallery, to provide 18 hours (3 days) of administrative and customer service support to the Gallery Co-ordinator, with these funds to be made recurrent over the long term financial plan. However the allocation of these funds is subject to a further report to Council identifying options for funding this additional recurrent cost either through savings in other programs, additional revenues or a combination of both.

2. That Council provides it support for a capital amount of $15,000 to be allocated in the 2015/16 budget to establish a Gallery retail space at the Ballina Byron Gateway Airport, with $10,000 of this funding sourced by Council not having a $10,000 allocation to public art for 2015/16.

3. That Council provides it support for a capital amount of $10,000 to be considered for inclusion in future annual budgets to provide improvements to the shop in the existing Gallery Foyer.

Attachment(s)

Nil