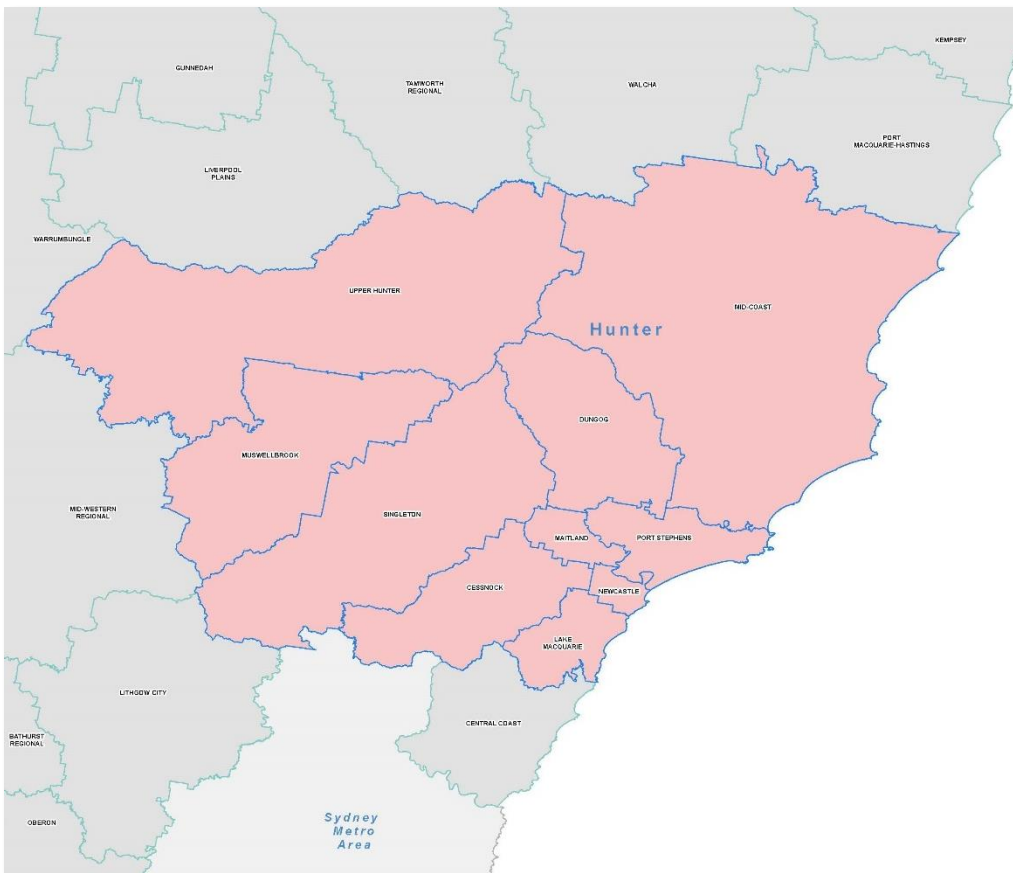


Hunter

Joint Organisation



Joint Organisation Board Meeting Agenda

1.00 pm

Thursday 6 June 2019

Lord Mayor's Reception Room
Level 2, City Hall, Newcastle NSW

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Hunter Joint Organisation Board Meeting Agenda – 9 May 2019

Meeting to commence at 1:00pm	
1	Welcome & Apologies
2	Declarations of Interest
3	Presentations
4	Reports
4.1	Hunter Joint Organisation Member Subscription Models 2019/20
5	General Business
6	Close

4.1 Hunter Joint Organisation Member Subscriptions 2019/20

Report Author: Joe James, CEO

Responsible Officer: Joe James, CEO

REPORT:

Executive summary

At the Hunter Joint Organisation Board meeting on 9 May 2019, the adoption of the 2019/20 budget was deferred pending further consideration and advice, by GMAC and the CEO, of the membership subscription and joint organisation funding model.

The General Manager Advisory Committee (GMAC), with the CEO, convened on 22 May. Out of that meeting, and through subsequent email exchanges, GMAC initially developed a proposal to raise approximately \$400,000 through membership subscriptions using a fixed fee and variable fee model (using either total rate yield or population to determine the variable fee), with fees capped at \$75,000 per member.

An alternate proposal was also proffered, through email exchanges, that the membership subscriptions be maintained at \$200,000, with each member paying a fixed amount of \$20,000 and with an option for rebates to councils with lower capacity to pay.

For both proposals there has been consideration of additional potential funding sources (beyond membership subscriptions). The nature and amount of additional funding sources is largely similar between both proposals. The principle difference between the proposals is the extent to which:

- membership subscriptions will support core capability year-on-year; and
- additional potential funding is required to either: (1) support core capability, or (2) improve the JO's capacity to utilise external expertise and resourcing.

The considerations of GMAC and the CEO and the differences between the proposals are set out in more detail below.

Background

At the 9 May Board meeting of the Hunter Joint Organisation a variety of budget scenarios were presented to the Board. These scenarios considered the cost of maintaining a core staff capability of 2.5FTE's, different project funding envelopes (up to \$400,000) and funding envelopes including membership subscriptions and use of cash reserves.

In response to these budget scenarios, the Board resolved :

1. *THAT the Board endorse a 'balanced budget' approach to the 2019/20 and future budgets*
2. *THAT the Board support, in principle, exploration of and increased involvement and collaboration of the capability and capacity of member councils' personnel in the governance and delivery of the Joint Organisation workflow for 2019/20*
3. *THAT the adoption of the 2019/20 budget be deferred and referred to the CEO and GMAC for further development and thorough consideration of:*
 - *Models for apportionment of member subscriptions;*
 - *Utilisation of procurement bonus rebates as a revenue stream for the Joint Organisation;*

- *Funding opportunities for Joint Organisation projects (external spend) including project-based contribution from member councils.*
4. *The Board direct the CEO in consultation with GMAC to update the 2019/20 work plan to align with a recommended budget for consideration and adoption by the Board.*

Current Context – Joint Organisation Network

The current and evolving context of the funding of network of joint organisations is relevant to inform the development of proposals.

The question of core/baseline funding has become a key issue for most, if not all, joint organisations for the upcoming financial year. On 30 May, at the JO Chair's forum, all 13 joint organisations signed a letter, to the Minister for Local Government, requesting that baseline funding be continued at the rate of \$300,000 per year for at least three years, to provide more time for joint organisations to be more self-sufficient.

Irrespective of the dialogue between the network of joint organisations and the NSW State Government, many joint organisations are adapting their funding model for 2019-20 Financial Year, increasing member council contributions to achieve core funding. At least four joint organisations have publicly stated they will run deficit budgets this year.

Funding Models

Of the network of joint organisations, the Canberra Region Joint Organisation (CRJO) and the Riverina & Murray Joint Organisation (RAMJO) are similar to the Hunter JO in the number of members, 10 and 11 members respectively, and the diversity in size of members. Both CRJO and RAMJO operate budgets with a fixed and variable contribution from each member council.

Both CRJO and RAMJO are looking to increase member contributions to meet their core funding, with CRJO having endorsed a 25% increase in fees each year for the next two financial terms, and RAMJO proposing a 25% increase in fees for each year over a four-year period.

A more detailed comparison of Hunter Joint Organisation, CRJO and RAMJO is set out at Appendix B.

In this context, the GMAC meeting on 22 May discussed principles for the funding approach for this coming financial year. The principles are set out in the table below. The proposal, initially arrived at through GMAC, suggests that both a fixed and variable component be used to determine member fees, using either the total yield rate or population of each member council to determine the variable component.

There was also detailed discussion of potential additional funding to address any 'gap' in the core capability requirement (\$648,000) and an allowance for use external capability and resources for the 2019/20 workplan. In relation to core capability funding, the focus was on funding sources that are relatively certain and within the control of the joint organisation, whereas funding beyond core capability could have greater uncertainty attached. Discussion of these additional funding sources is discussed in the table below.

Via email exchange between GMAC, an alternative proposal suggested that we use the most certain funding sources keep member subscriptions at the current level and maintain the principles of the current approach (i.e. \$20,000 fixed membership fee with rebates for some members). Comments on this approach, relative to the matters discussed in the GMAC meeting on 22 May, as also touched up in the table below.

Principles for the funding approach for 2019-20 Budget from GMAC meeting 22 May	Comments
Use membership fees as the baseline revenue model	It was recognised that there is merit in at least exploring a more structural solution to future revenues (such as a rate levy), however, the timeframe, and certainty required within that timeframe, constrains our ability to effectively look beyond a membership fee model for FY19/20.
Use fixed and variable component to determine member fees	<p>This is consistent with other large JO organisations, largely driven by the twin pillars of '1 member, 1 vote' and the recognition of both benefit and capacity to pay on a per capita / per ratepayer basis.</p> <p>It should also be noted that the current 'fixed' fee model is, once membership rebating is considered, already a fee system that differentiates between members.</p> <p>Whatever the solution, as we move forward, it is important to create a system that either equalises or differentiates with relative predictability to allow for forward planning.</p>
Fund core capability (\$648,000) as a priority	<p>Target \$400,000 as member contribution. Moving from \$200,000 to entirely funding core capability in one year was considered too aggressive. This leaves an initial funding 'gap' of \$248,000.</p> <p>If membership contributions raise \$200,000 (as per one proposal) then the initial gap is \$448,000.</p>
Cap member fees this year at \$75,000 per member council	Reflecting that using a variable component would raise membership fees significantly for larger councils (and differently across the different models) a 'cap' was introduced to minimise variability of the larger council fees and be mindful of the size of the increase within a single year.
Part fund 'gap' using SSA surplus of \$100,000	This has already been committed to by the SSA board. This reduces the unfunded 'gap' in core capability to \$148,000 (or \$348,000 under the 'fixed fee' proposal).
<p>Part fund 'gap' using one or a combination of;</p> <ul style="list-style-type: none"> • Carry-over underspent funds from 2018-19 (preferred option from GMAC) • Reserve funds • Procurement rebate (from all procurement providers) 	<p>The current reforecast for FY18/19 indicates likely unspent funds of at least \$300,000. This is sufficient, this year at least, to cover the remaining 'gap' of approximately \$148,000.</p> <p>Under the fixed fee proposal, the use of unspent funds still leaves a gap of \$48,000.</p> <p>Use of reserve funds would otherwise be contrary to the board's direction to operate a balanced budget.</p> <p>Use of the procurement rebates does not have consistent support, particularly as it relates to rebates from Regional Procurement. In real terms, this both penalises users of Regional Procurement and potentially introduces inequity when considering comparative contributions from councils in absolute terms.</p> <p>It is unclear how predictable and sustainable this revenue stream is (it is subject to market practice in local government</p>

	<p>procurement). It is also, from a proper governance perspective, a matter for the SSA board rather than the JO Board.</p> <p>A side-by-side comparison of the member subscription proposals and their relative variance to the core funding requirement is set out in Appendix A</p>
<p>Fund 'cash/resource-hungry' activity / projects by one or a combination of;</p> <ul style="list-style-type: none"> • Carry-over underspent funds from 2018-19 (preferred option from GMAC) • Project-by-project member funding (cash or in-kind) • Grants • Partnerships 	<p>The ability of each proposal to use carry over funds to improve the JO's capacity to utilise external expertise and resourcing in the 2019/20 work plan is best set out in Appendix A.</p> <p>Given the availability of unspent funds in FY19/20, all proposals allow for project-by-project funding, grants and partnerships to extend the capacity and capability of the joint organisation.</p> <p>However, in future years, and in the absence of unspent funds, any available <u>and unconditional</u> grant funding (if it should become available) would need to be first applied to funding of core capability.</p>
<p>2019-20 Functions and work plan to reflect core capability and the planning certainty available to 'cash/resource-hungry' activity and projects</p>	<p>Discussed further below.</p>

If the objective is for core funding to be independently sustainable, year-on-year, the fixed fee model begins to test the capacity to pay of some member councils. A continuation of this model for Hunter JO will not meet the core funding required for the organisation while remaining financially sustainable, without significantly disadvantaging smaller member councils.

The fixed / variable model being used by a number of other Joint Organisations, including both CRJO and RAMJO, has the variable component being based on the population size of each member council. While there are other models outside of this being used by joint organisations, (such as Orana JO, which bases their variable fee for each member council on the number of full time equivalent (FTE) employees within each council) we have limited the modelling of a basis for a variable fee component, for the 2019-20 budget, to either member council's population and total rate yield. Both CRJO and RAMJO use population numbers to set the variable component of each council's membership fees.

These two options for membership funding can be seen in the table in Appendix A and are compared with a fixed fee model (assuming current membership rebate levels remain). Both models using a variable component arrive at member contributions providing for \$390,000 - \$395,000, once capping is applied.

As per discussion at the recent GMAC meeting, while the adoption of a fixed / variable funding model could be implemented as a long-term strategy for core funding, the use of unspent funds is not a sustainable proposition beyond the 2019-20 financial year.

Workplan:

Having explored models to meet the core funding requirements of the Hunter JO, the Board is able to examine the assumed funding envelope for projects within the 2019-20 financial year. If adoption

of the above course of action is adopted by the Board, the additional underspent funds of around \$145,000 could be contributed to the project budget for 2019-20.

A range of projects have been prioritised for the coming year, and once the budget is finalised for 2019-20, funds and other resources can be assigned to projects. The workplan seen at Appendix C relies on a range of resources being used for different projects, depending on the availability of funding.

Budgets

Provided with the agenda are three budget variants reflecting the potential approaches to membership subscriptions:

(1) using a fixed membership fee model of \$20,000 per council and assuming current membership rebates remain;

(2) using a fixed membership fee model of \$15,000 per council and variable fees (with the variable component determined by population); and

(3) using a fixed membership fee model of \$15,000 per council and variable fees (with the variable component determined by total rates);

Budget Process:

In order to facilitate the budget that is being proposed, it is recommended that the Hunter JO take the following actions;

- Change Charter: as the current Hunter JO Charter indicates that each member council will contribute the same amount, an amended charter would be presented to the Board at their next meeting of 11 July for consideration, if a fixed/variable model is adopted. This will require a special resolution of the Board.
- Notify / Exhibit: It is recommended that the Hunter JO, once arriving at their budget, exhibit the finalised document on the Hunter JO website. This is a step that, while currently unclear if it is required, transparency should be seen as best practice, and has been used by other Joint Organisations in developing their budgets.

RECOMMENDATIONS:

- 1. THAT the Board choose a preferred budget model for member contributions of the three options offered above**
- 2. THAT the Board endorse amending the Charter of the Hunter Joint Organisation if choosing to use one of the fixed / variable models for membership fees, with the amended Charter be presented to the Board for ratification at the next Board meeting**
- 3. THAT the Board endorse exhibition of the approved budget on the Hunter Joint Organisation website**

Appendix A – Member fee scenarios and variance to the core capability funding requirement

Member	Fixed fee \$20k (less current rebates)	Fixed fee \$15k, plus variable fee based on population	Fixed fee \$15k, plus variable fee based on total rate yield
Cessnock	\$20,000	\$34,532	\$32,145
Dungog	\$9,517	\$18,136	\$17,676
Lake Macquarie	\$20,000	\$75,000	\$75,000
Maitland	\$20,000	\$42,301	\$42,567
Mid-Coast	\$20,000	\$46,643	\$49,248
Muswellbrook	\$10,877	\$20,667	\$22,390
Newcastle	\$20,000	\$70,372	\$75,000
Port Stephens	\$20,000	\$39,472	\$34,688
Singleton	\$13,596	\$23,119	\$23,806
Upper Hunter	\$10,877	\$19,958	\$20,075
Total Membership Fees:	\$164,867	\$390,200	\$392,595
SSA contribution	\$100,000	\$100,000	\$100,000
Unspent funds from FY18/19 (assume \$300k)	\$300,000	\$300,000	\$300,000
Variance to core capability funding requirement (\$648k)	- \$93,138	\$132,195	\$134,590

Comments:

- Cap of \$75,000 on total contributions for each member council

Appendix B – Comparable JO Member Funding Models

	Hunter JO	Canberra Region JO	Riverina & Murray JO
Member Councils	10	10	11
Population	726,530	289,769	148,500
Total Rate Yield	\$503,399,000	\$193,251,000	\$103,432,000
Flat Member Fee	\$15,000	\$7,200 (looking to increase membership fees by 25%)	\$3,000
Variable component methodology		(i) A flat fee of \$7200 (ii) A population fee of 70 cents per head Both the above fee components being increased annually in accordance with the rate peg unless otherwise determined by the Board (CRJO also includes non-voting Associate Members that pay a smaller fee)	(i) a base contribution of an equal amount for each Member, plus (ii) a tiered per capita contribution, based on the annual population estimate of each Member Council (currently \$1.60 per capita up to 10,000 in population and \$0.60 per capita for population over 10,000).
Member Contributions Budget	\$390,000.00 (approx.)	\$355,064.00	\$205,305.00
Staff Employed By JO	2.5FTE - 0.5FTE x CEO, 0.5FTE x EA, 0.5FTE x Comms, 1FTE x Policy Officer	2FTE - 1 x CEO & 1 x Director - Government Relations (increasing to 3FTE in 2019/20)	1FTE - EO (plus budget allocated for casual admin)
Salaries	\$368,291	\$370,000	\$132,100
Highest Member Fee (estimate):	\$75,000 (roughly 19% of total contributions)	\$48,339.7 (roughly 17.5% of total contributions)	\$44,200 (roughly 21% of total contributions)
Highest Member Population:	Lake Macquarie – 202,874 (15% of total JO population)	Queanbeyan-Palerang – 59,959 (7.8% of total JO population)	Albury Council – 51,076 (35% of total JO population)
Highest Member Total Rate Yield	Newcastle - \$131,941,000 (26% of total JO rate yield)	Wingecarribee - \$39,571,000 (20% of total JO rate yield)	Albury - \$38,487,000 (37% of total JO rate yield)

Appendix C – Indicative List: HJO Workplan for 2019-20

<p><u>Projects within assumed funding envelope:</u> This is an indicative list of projects for delivery within project funding for 2019-20</p>
<ul style="list-style-type: none"> • Progress Intergovernmental partnerships
<ul style="list-style-type: none"> • Hunter Events Strategy
<ul style="list-style-type: none"> • Prioritise regional infrastructure needs, including evidence base and significant member engagement
<ul style="list-style-type: none"> • Regional destination management plan
<ul style="list-style-type: none"> • Circular Economy - Business case development and options analysis – centralised regional recycling facility
<ul style="list-style-type: none"> • Circular Economy - Circular Organics and Energy Project (Maximum recovery of Green Bin)
<p><u>Projects within use of collective resources:</u> This is an indicative list of projects for delivery within collective resources with member councils and within the resources of the Hunter JO</p>
<ul style="list-style-type: none"> • Actions from Greater Newcastle Metropolitan Plan
<ul style="list-style-type: none"> • Smart Region Approach
<ul style="list-style-type: none"> • Continue to deliver the Hunter and Central Coast Regional Environmental Management Strategy
<ul style="list-style-type: none"> • Establish Coastal Resilience Sub Committee
<ul style="list-style-type: none"> • Transition Foundation
<p><u>Project-by-Project:</u> For other projects that have been highlighted by the Board as priorities in their Strategic Plan, the organisation will be exploring project-by-project and grant funding. This could include the following projects;</p>
<ul style="list-style-type: none"> • Social inclusion policy statement
<ul style="list-style-type: none"> • Develop a JO brand and identity
<ul style="list-style-type: none"> • Develop a plan with UON and TAFE to support young people to develop a career with councils
<ul style="list-style-type: none"> • Facilitate discussion about housing affordability measures
<ul style="list-style-type: none"> • Facilitate discussion about innovative models of housing to enable people to age in place, with appropriate supports
<ul style="list-style-type: none"> • Develop an advocacy program for mental health services