



## **BUSINESS PAPER**

**Extra Ordinary Meeting of Council**

**to be held at**

**Council Administration Centre**

**180 Mort Street, Lithgow**

**on**

**Monday 16 January 2023**

**at 6:00 PM**

# ORDER OF BUSINESS

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## 1. Acknowledgement of Country

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### **Acknowledgement of Country**

I would like to begin this meeting by acknowledging the Traditional Owners of this land on which we meet today. I would also like to pay respect to Elders both past, present and emerging.

### **Declaration of Webcasting**

I inform all those in attendance at this meeting, that the meeting is being webcast and that those in attendance should refrain from making any defamatory statements concerning any person, Councillor or employee, and refrain from discussing those matters subject to Closed Council proceedings as indicated in clause 14.1 of the code of meeting practice.

## 2. Present

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## 3. Apologies

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## 4. Declaration of Interest

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Under Clause 3.23 Statement of ethical Obligations in the Code of Meeting Practice as adopted by Council at the Ordinary Meeting of Council held on 26 April 2022 (Min No 22-86),

3.23 Business papers for all ordinary and extraordinary meetings of the council and committees of the council must contain a statement reminding councillors of their oath or affirmation of office made under section 233A of the Act and their obligations under the council's code of conduct to disclose and appropriately manage conflicts of interest.

*Councillors are reminder of the oath or affirmation which was taken at the Ordinary Meeting of Council held on 22 December 2021*

### *Oath Of Councillor*

*I swear that I will undertake the duties of the office of Councillor in the best interests of the people of Lithgow local government area and the Lithgow City Council and that I will faithfully and impartially carry out the functions, powers, authorities, and discretions vested in me under the Local Government Act 1993 or any other Act to the best of my ability and judgment.*

### *Affirmation Of Councillor*

*I solemnly and sincerely declare and affirm that I will undertake the duties of the office of Councillor in the best interests of the people of Lithgow local government area and the Lithgow City Council and that I will faithfully and impartially carry out the functions, powers, authorities and discretions vested in me under the Local Government Act 1993 or any other Act to the best of my ability and judgment.*

Councillors have the opportunity to declare any interests in items on the agenda and inform the Council and public if they will be leaving the Chambers during the debate and voting on the item.

## 5. Public Forum

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Any person registered to speak during Public Forum on a matters included in the business paper and registered via the Council website prior to 12 Noon on the day of the meeting will have the opportunity to speak. There will be only two speakers for and against, on each matter on the business paper.

Public forum will be allocated half an hour time in total with each speaker having 3 minutes to speak.

Speaker not registered for public forum will have an opportunity to speak on matters on the business paper if time permits.

## 6. Presentations

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### 6.1. Presentation - Financial Statements presented by Crowe Australasia

**Prepared by** Ross Gurney - CFIO  
**Department** Finance & Assets  
**Authorised by** Chief Financial & Information Officer

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#### Summary

Crowe Australasia is contracted by the NSW Audit Office to conduct Council's annual external audit. Gabriel Faponle, Associate Partner – Audit, Crowe Australasia, will provide a presentation to the meeting via Zoom. Mr Fapionle will canvas:

- the end of year result and the conduct of the audit; and,
- the Council's performance relative to the key financial indicators contained within the Financial Statements.

#### Attachments

Nil

#### Recommendation

THAT Council receive and note the presentation regarding the 2021/22 Audited Financial Statements by a representative of Crowe Australasia on behalf of the Audit Office of New South Wales (the Council's external auditor).

## 7. Mayoral Minutes

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The Mayor is able to table a Mayoral minute at the meeting if required.

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## 8. Staff Reports

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### 8.1. Finance and Assets Reports

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#### 8.1.1. FIN - 14/12/22 - Financial Statements for the Year Ended 30 June 2022

**Report by** Chief Financial & Information Officer

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#### Reference

Min No 21-210: Ordinary Meeting of Council held on 31 October 2022.

#### Summary

At the 31 October 2022 meeting, Council resolved:

#### **22-210 RESOLVED**

THAT Council:

1. Note that that the audit of the 2021/22 financial statements has been completed.
2. Authorise the signing of the statement on the 2021/22 General Purpose Financial Reports.
3. Authorise the signing of the statement on the 2021/22 Special Purpose Financial Reports.
4. Invite a representative of the Audit Office of NSW, Council's Auditors, to present a report to Council on the 2021/22 Financial Statements at a Council meeting within one month of the receipt of the Auditor's reports.

The purpose of this report is to present to the Council the audited Financial Statements for the year ended 30 June 2022, as required by Section 419 of the Local Government Act 1993.

The 2021/22 Financial Statements are included as an attachment to this report.

Comments, jointly contributed by the General Manager and the Chief Financial & Information Officer, about the outcome of the audit process and the relevance to the Council's longer term financial sustainability are provided here -

*The Financial Statements confirm that the operating result and financial position of the Council for the year ended 30 June 2022 and the statements are in accordance with Australian Accounting Standards, the Local Government Act 1993 and the NSW Local Government Code of Accounting Practice and Financial Reporting.*

*The auditors have formed an opinion that Council's financial statements fairly present the result of its financial operations and its financial position as of 30 June 2022 and that the Council has complied with the relevant requirements of the Local Government Act 1993.*

*The 2021/22 audit resulted in the issuing of an unmodified audit report on both the General Purpose and Specific Purpose Financial Statements. An unmodified audit report is an expression used by auditors to confirm that the Financial Statements are presented, in all material respects, in accordance with applicable financial reporting requirements.*

*The above outcomes are a welcome validation that Council's administration have managed all finances legally, responsibly and prudently.*

*In the 2021/22 year, Council achieved eight of ten OLG financial and asset performance ratio benchmarks. This is a demonstration that while our operating environment is challenging, and it will*

*continue to be, Lithgow City Council is meeting most of the industry benchmarks for financial performance.*

*Again, the above result for these industry benchmarks is welcomed, but it is very important to note that the financial statements relate to a 12 month period only. As is acknowledged later in this report, some of these results have been positively influenced by increased grants during the period. But for these grants, and their accounting treatment, the Council would have recorded a deficit operating result and not met some of the benchmarks.*

*The Council needs to take a long-term view of its financial sustainability (well beyond the 12 months dealt with in these financial statements). As has been extensively reported to the Council, the Council is not financially sustainable going forward unless corrective action is taken now. This is the basis for the administration recommending, and the Council endorsing, that decisive steps be taken to increase own source revenue, continue to identify and deliver productivity savings and advocate for increased levels of financial support from both the Australian and the NSW governments.*

## **Commentary**

### **2021/22 Financial Statements – Executive Summary**

In 2021/22, Council continued to experience a challenging operating environment. Similar to many other Councils, costs continue to rise faster than revenue, making it increasingly difficult to deliver a balanced operating result. In the 2021/22 year, the Lithgow LGA was impacted by three declared natural disasters for severe weather, storms and flooding.

To address Council's long-term financial sustainability, an independent rating review report was completed in February 2022. The review found that there is a structural annual shortfall in Council's General Revenues of \$6.018M at existing agreed levels of service before adopting available productivity, savings and other measures. In the 2022/23 year, Council has progressed with community consultation and consideration of two options for a sustainable future based on the findings of the review. In November 2022, Council resolved to notify the Independent Pricing and Regulatory Tribunal (IPART) of its intention to apply for a Special Rate Variation from 1 July 2023.

Council continues to implement productivity improvements and cost containment strategies as part of ongoing efficiency measures aimed at providing best value services for our community. In the 2021/22 year, over \$2M in budget savings (against initial budget estimates) was achieved.

Council achieved the key Office of Local Government (OLG) financial performance measure of a surplus operating result (before capital grants). However, if the following extraordinary operating grants are excluded, Council's operating result (before capital grants) would have been **\$3.67M deficit** rather than \$451K surplus:

- Additional Financial Assistance Grant paid in advance - \$1.35M
- Natural disaster claim income not in operational expense in the 2021/22 year - \$1.019M.
- Green waste grant income not in operational expense in the 2021/22 year - \$1.747M.

In the 2021/22 year, Council achieved eight of ten OLG financial and asset performance ratio benchmarks. This is a demonstration that while our operating environment is challenging, and it will continue to be, Lithgow City Council is meeting most of the industry benchmarks for financial performance.

## External Audit

The Council's Financial Statements for the year ended 30 June 2022 were completed by the Council Finance team and have now been reviewed and returned by the Audit Office of NSW, in accordance with legislative requirements. A representative of the contract auditor (Crowe Australasia), will provide a presentation to the meeting via Zoom. The auditor will:

- deliver a brief presentation to the Council on the end of year result and the conduct of the audit; and
- review the Council's key financial indicators contained within the Financial Statements.

## Annual Financial Statements Reporting Process

The Council's Annual Financial Statements are required to be audited by the Audit Office of NSW, and copies of the financial reports and the Auditor's report submitted to the Office of Local Government (OLG). Due to internal staff shortages and delays with water and sewer revaluations, Council was granted an extension to lodge the financial statements by 16 December 2022. **Both the auditing and lodgement requirements have been met within the prescribed timeframes.**

## Report on Financial Statement Audit Results

The 2021/22 audit resulted in the issuing of an unmodified audit report on both the General Purpose and Specific Purpose Financial Statements. An unmodified audit report is an expression used by auditors to confirm that the Financial Statements are presented, in all material respects, in accordance with applicable financial reporting requirements.

The Financial Statements confirm that the operating result and financial position of the Council for the year ended 30 June 2022 and the statements are in accordance with Australian Accounting Standards, the Local Government Act 1993 and the NSW Local Government Code of Accounting Practice and Financial Reporting.

The auditors have formed an opinion that Council's financial statements fairly present the result of its financial operations and its financial position as of 30 June 2022 and that the Council has complied with the relevant requirements of the Local Government Act 1993.

## Movements in Major Revenue and Expense Items During the Reporting Period

The Income Statement summarises Council's financial performance for the 2021/22 year, listing all income and expenses. The table below gives a snapshot of the key movements compared to the prior year.

OPERATING REVENUE (\$'000)	2021/22	2020/21	Increase (decrease)
<b>Rates and Annual Charges</b>	<b>28,220</b>	<b>27,215</b>	<b>1,005</b>
<b>User Charges and Fees</b>	<b>7,501</b>	<b>7,247</b>	<b>254</b>
<b>Interest &amp; Investment Revenue</b>	<b>286</b>	<b>290</b>	<b>(4)</b>
<b>Grants &amp; Contributions - Operating</b>	<b>18,031</b>	<b>11,286</b>	<b>6,745</b>
<b>Grants &amp; Contributions - Capital</b>	<b>5,772</b>	<b>3,896</b>	<b>1,876</b>
<b>All Other Revenue</b>	<b>1,813</b>	<b>2,660</b>	<b>(847)</b>
<b>TOTAL</b>	<b>61,623</b>	<b>52,594</b>	<b>9,029</b>
OPERATING EXPENSE ITEMS (\$'000)	2021/22	2020/21	Increase (decrease)
<b>Employee Benefits and On-costs</b>	<b>18,695</b>	<b>18,626</b>	<b>69</b>
<b>Materials and Services</b>	<b>18,632</b>	<b>16,529</b>	<b>2,103</b>
<b>Borrowing Costs</b>	<b>451</b>	<b>504</b>	<b>(53)</b>
<b>Depreciation and Amortisation</b>	<b>14,386</b>	<b>13,336</b>	<b>1,050</b>
<b>All Other Expenses</b>	<b>3,236</b>	<b>2,291</b>	<b>945</b>
<b>TOTAL</b>	<b>55,400</b>	<b>51,286</b>	<b>4,114</b>

#### Changes in Income:

- Ordinary rates income increased by \$772K (5.9%) due to the rate peg of 2% and some growth in the number of rateable properties.
- Annual charges income was \$244K (1.8%) higher than in 2020/21. Domestic waste management charges increased by \$118K (2.9%), consistent with inflation.
- Water supply user charges decreased by (\$364K) (-7.5%) due to lower water usage following high rainfall.
- Non-domestic waste management fees income increased by \$554K (67%) over the first full year of Council's management of the Lithgow Solid Waste Facility.
- Interest and investment income was similar to the 2020/21 year, with record low interest rates for most of the year.
- The Financial Assistance Grant (FAG) increased by \$1.864M. \$1.35M is attributed to the additional advance payment (75% of the 2022/23 grant rather than the usual 50%). The 2021/22 FAG increased by \$255K (5.1%) on the prior year.
- 2021/22 special purpose operating grants increased by \$4.9M (76%). \$1.95M was received for the bushfire generated green waste clean-up grant. \$4M was received for natural disaster claims.
- 2021/22 capital grants increased by \$1.88M. \$750K was received for the Portland water mains renewal and trunk construction project. \$1.027M was received for the Farmers Creek pathway.
- Other revenue decreased by (\$375K) (-18%). Insurance claim recoveries fell by (\$159K) with 2020/21 income inflated by bushfire damage claims. 2020/21 also included a one-off \$730K water fund settlement. Recycling income increased by \$219K (from the prior year's \$35K) due to better management of recyclable material.
- Other income decreased by \$472K (from \$1.32M to \$848K) mainly due to the 2020/21 year including a one-off \$538K fair value increment on investment properties.
- **Total income increased by \$9M from 2020/21 (17.2% higher).**

#### Changes in Expenditure:

- Employee benefits and on-costs were constrained to a \$69K (less than 0.4%) increase. Salaries and wages increased by \$682K (4.8%) which is consistent with award and performance related salary and wage increases. Workers compensation insurance premiums fell by (\$268K), the second consecutive year of workers compensation savings.
- Materials and services costs increased by \$2.1M (12.7%). Contractor and consultancy costs increased by \$804K (11.7%) mainly due to natural disaster repair works and green waste clean-up works completed by contractors. Insurance costs increased by \$171K as

the agreement with StateWide Mutual to offset costs from equity tapered off. Office expenses increased by \$227K mainly due to the change to the TechnologyOne cloud solution (partly offset by employment cost savings). Council election expenses of \$178K are also included in materials and services.

- Total borrowing costs decreased by (\$53K) with interest on loans (\$204K) lower than in 2020/21.
- Depreciation increased by \$1.05M (7.9%) which is consistent with the renewals program and CPI based fair value increments, particularly for roads, water and sewer assets. Depreciation of \$737K was added for 2021/22 (and the prior year) for the RFS red fleet assets.
- Other expenses increased by \$253K (26.8%) mainly due to an increase in the provision for impairment on rates and annual charges.
- There was a \$2M loss on disposal of assets. This mainly relates to disposal of road assets when they are resealed. Improved asset management practices will ensure that similar non-cash losses are not recurring.
- **Total expenses increased by \$4.11M from 2020/21 (8% higher).**

### Operating Result

There are two Operating Results reported in the Income Statement:

- The Net Operating Result (including Capital Grants and Contributions) has improved by \$4.9M from 2020/21 to a surplus of \$6.223M.
- The Net Operating Result (excluding Capital Grants and Contributions) is a surplus of \$451K for the year ended 30 June 2022 which is \$3.04M better than the 2020/21 result of (\$2.588M) deficit.

The change in the Net Operating Result (including Capital Grants and Contributions) is mainly due to extraordinary operating grant income which was not offset by operational expenses in the 2021/22 year.

Operating Result on Income Statement (\$'000)	2021/22	2020/21	+/-
<b>Net Operating Result</b> (including Capital Grants & Contributions)	<b>6,223</b>	<b>1,308</b>	<b>4,915</b>
<b>Net Operating Result</b> (excluding Capital Grants and Contributions)	<b>451</b>	<b>(2,588)</b>	<b>3,039</b>

The Net Operating Result (excluding Capital Grants and Contributions) is used to calculate the OLG's Fit for the Future Operating Ratio measure. To achieve the Fit for the Future benchmark in future years, Council has resolved to notify IPART of intention to apply for a Special Rate Variation in the 2023/24 year, partly for the purpose of improving financial sustainability.

### OLG Performance Indicators

The OLG sets benchmarks for a range of performance indicators.

There are 2 groupings of OLG Performance Indicators:

- Financial performance indicators – calculated from Council's General Purpose Financial Statements (i.e. income statement, balance sheet, cash flows statement).
- Infrastructure Asset Performance Indicators - calculated from Council's Special Purpose Financial Statements report on infrastructure assets.

Further details of Council's performance against the OLG benchmarks is provided below.

**Financial Performance Ratios**

The following table provides a summary overview of the key financial performance indicators that the Council is required to report in its Financial Statements. Notation is made of the Fit for the Future measures.

Council met all of the benchmarks for the financial performance indicators. Council is planning to meet the benchmark for the Operating Performance Ratio in future by addressing its long-term financial sustainability issue.

PERFORMANCE INDICATORS	2021/22	2020/21	Within Benchmark Yes/No
<b>OPERATING PERFORMANCE RATIO</b> <b>(Benchmark: Minimum &gt;=0%)</b> <i>Fit for the Future Measure</i>	4.91%	-3.72%	Yes
<b>Comments:</b> This ratio measures Council's achievement of containing operating expenditure within operating revenue. Council met this ratio in the 2021/22 <u>year</u> , however, the result was mainly due to extraordinary operating grant income which was not offset by operational expenses in the 2021/22 year. Excluding these impacts, the operating result (excluding capital grants) would have (\$3.67M) deficit.			
<b>OWN SOURCE OPERATING RATIO</b> <b>(Benchmark: Minimum &gt;=60%)</b> <i>Fit for the Future Measure</i>	61.37%	70.84%	Yes
<b>Comments:</b> This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. Whilst Council has met this KPI, the result is lower than the previous year due to the increase in grants.			

PERFORMANCE INDICATORS	2021/22	2020/21	Within Benchmark Yes/No
<b>UNRESTRICTED CURRENT RATIO (Benchmark : Minimum <math>\geq 1.5x</math>)</b>	<b>2.47x</b>	<b>2.23x</b>	<b>Yes</b>
<p><b>Comments:</b> The unrestricted current ratio is specific to local government and represents Council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times. Council's unrestricted current ratio has exceeded the industry benchmark over recent years. This indicates that Council has sufficient liquidity to meet its current liabilities as and when they fall due.</p>			
<b>RATES, ANNUAL &amp; EXTRA CHARGES OUTSTANDING (Benchmark: Minimum <math>&lt;10.00\%</math>)</b>	<b>4.61%</b>	<b>6.70%</b>	<b>Yes</b>
<p><b>Comments:</b> The rates and annual charges outstanding ratio assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural Councils. Council's result has returned to the pre-pandemic level, assisted by conducting an unpaid rates sale in February 2022. Council actively manages accounts receivable to consistently achieve a ratio well within the benchmark.</p>			
<b>DEBT SERVICE COVER RATIO (Benchmark : Minimum <math>\geq 2.00</math>)</b>	<b>7.32x</b>	<b>5.66x</b>	<b>Yes</b>
<p><b>Comments:</b> The debt service cover ratio measures the operating cash required to service debt including interest, <u>principal</u> and lease payments. The benchmark set by OLG is greater than two times. Council continues to perform above the benchmark, due to greater amounts of cash placed in on call accounts to obtain better interest returns.</p>			
<b>CASH EXPENSE COVER RATIO (Benchmark: Minimum <math>\geq 3</math> months)</b>	<b>9.56 months</b>	<b>8.57 months</b>	<b>Yes</b>
<p><b>Comments:</b> This liquidity ratio indicates the number of months that the Council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the OLG is greater than three months. Council has met this benchmark as the investment strategy has been adjusted to the current financial environment and investment opportunities, with around 5% of cash held in on call deposits and the remainder held in six month term deposits to maximise investment returns.</p>			

## Infrastructure Asset Performance Indicators

PERFORMANCE INDICATORS	2021/22	2020/21	Within Benchmark Yes/No
<b>BUILDING AND INFRASTRUCTURE RENEWALS RATIO</b> (Benchmark: Minimum $\geq 100\%$ )	65.98%	51.75%	No
<p><b>Comments:</b> The building and infrastructure renewals ratio assesses the rate at which these assets are being renewed relative to the rate at which they are depreciating. Council's performance has decreased due to the focus on natural disaster works during the financial year. Resources have been diverted from the annual asset renewal program to natural disaster repairs. Council has not consistently met this benchmark due to inadequate funding being available for renewal of infrastructure.</p>			
<b>ASSET MAINTENANCE RATIO</b> (Benchmark: Minimum $\geq 100\%$ ) <i>Fit for the Future Measure</i>	67.31%	121.66%	No
<p><b>Comments:</b> The asset maintenance ratio compares actual vs required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing. Council's performance has decreased due to the focus on natural disaster works during the financial year. Resources have been diverted from the annual asset maintenance program to natural disaster repairs. Council has not consistently met this benchmark due to inadequate funding being available for asset maintenance.</p>			
<b>INFRASTRUCTURE BACKLOG RATIO</b> (Benchmark : Minimum $< 2.0\%$ ) <i>Fit for the Future Measure</i>	1.64%	1.78%	Yes
<p><b>Comments:</b> The infrastructure backlog ratio shows what proportion the backlog is against the total value of a Council's infrastructure. Council's result is attributable to Council's renewals policy targeting condition score five and updated conditions scores as Council implements the Technology One Asset Management module and asset management plans.</p>			

Council achieved the OLG benchmark for the Infrastructure Backlog Ratio. The Rating Review Technical Paper stated the following with regard to Council's infrastructure backlog.

*It is readily apparent, for example, that a lack of capital resourcing in road renewal meant that corrective interventions were occurring too late to prevent more expensive outcomes.*

*The resulting underspend is accruing as infrastructure backlog and has been for some considerable period. Heavy patching and pothole repair was underfunded to such an extent that the interventions were often occurring well after water had penetrated the pavement. Keeping up relatively minor capital interventions to the wearing/seal road layer avoids the need for very costly rehabilitation works.*

Council has met the benchmark for the Infrastructure Backlog Ratio for the past three years by focussing renewal spending on assets in very poor condition, usually past the optimal intervention point. This practice is not sustainable into the future. Improvements to asset management planning are currently being implemented, including agreeing with the community on acceptable levels of service for Council's infrastructure assets.

Council did not achieve the Building and Infrastructure Renewals and the Asset Maintenance Ratio benchmarks in 2021/22 which indicates that Council should be allocating more funds to asset renewal and maintenance over the long-term.

### Public Notification

In accordance with Section 420 of the Local Government Act 1993, the Council is required to make the Financial Statements available to the public, seeking lodgement of any submissions in response to the document, for a period of seven days after presentation of the Financial Statements to Council.

To meet this requirement a copy of the Financial Statements will be made available to the public on the Council website and at the Customer Service counter.

### **Policy Implications**

Nil.

### **Financial Implications**

As detailed in this report.

### **Legal and Risk Management Implications**

The presentation of the financial statements to the Council, and the ability for the public to inspect the statements, supports the Council's financial reporting governance requirements.

### **Attachments**

1. 2021 22 Annual Financial Statements [8.1.1.1 - 109 pages]

### **Recommendation**

THAT Council:

1. Receive the audited Annual Financial Statements for the year ended 30 June 2022 pursuant to Section 419 of the Local Government Act 1993.
2. Pursuant to Section 420 of the Local Government Act 1993, endorse the Financial Statements to be made available to the public to make submissions for a period of seven days.
3. Note the presentation by a representative of Crowe Australasia on behalf of the Audit Office of New South Wales, the Council's external auditor, to the Council meeting in respect of the Audited Financial Statements.

## **9. Business of Great Urgency**

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In accordance with Clause 241 of the Local Government Act (General) Regulations 2005 business may be transacted at a meeting of Council even though due notice of the business has not been given to the Councillors. However, this can happen only if:

- a) A motion is passed to have the business transacted at the meeting; and
- b) The business proposed to be brought forward is ruled by the Chairperson to be of great urgency.