

Extra Ordinary Meeting

Meeting Date: Tuesday, 04 December, 2018
Location: Council Chambers, City Administrative Building, Bridge Road, Nowra
Time: 4.00pm

Membership (Quorum - 7)
All Councillors

Please note: The proceedings of this meeting (including presentations, deputations and debate) will be webcast and may be recorded and broadcast under the provisions of the Code of Meeting Practice. Your attendance at this meeting is taken as consent to the possibility that your image and/or voice may be recorded and broadcast to the public.

Agenda

1. **Apologies / Leave of Absence**
2. **Declarations of Interest**
3. **Deputations and Presentations**

Deputations and Presentations

CL18.342 Annual Financial Statements

NSW Auditor (Dominika Ryan) will be joining the meeting by telephone link.

4. **Reports**

Finance Corporate & Community Services

CL18.343 Presentation of Annual Financial Statements 30 June 2018..... 1

CL18.344 Employee Remuneration Review - Funding Strategies 15

CL18.343 Presentation of Annual Financial Statements 30 June 2018

HPERM Ref: D18/407614

Group: Finance Corporate & Community Services Group
Section: Finance

Attachments: 1. Annual Financial Statements 2017/18 (under separate cover) [⇒](#)

Purpose / Summary

Council must present its audited financial reports, together with the auditor's reports, at a meeting of the Council not more than five weeks after receiving the Auditor's Report.

Recommendation

That the audited Annual Financial Statements for the year ended 30 June 2018, together with the Auditor's Report, be presented to the public at the Extra Ordinary Meeting of Council on 4 December 2018.

Options

1. The audited Annual Financial Statements for the year ended 30 June 2018 are presented to the public

Implications: Council meets its statutory requirements in relation to reporting the Financial Statements to Council and the public.

2. Further information regarding the Annual Financial Statements be requested.

Implications: Staff will need to prepare a further report to provide any information that is required.

Background

Council resolved on 23 October 2018 that the audited Financial Statements and the Auditor's Report be presented to the public at this Council meeting. Public Notice of the presentation of the audited Financial Statements at this meeting was given in *The South Coast Register* on 14 November 2018. The public notice was in accordance with Section 418 of the Local Government Act 1993. Copies of the audited Annual Financial Statements are available for inspection by members of the public at Council's Administration Buildings in Nowra and Ulladulla, at Council's Library Branches in Nowra and Sanctuary Point and available on Council's website. Any person can make written submissions to the General Manager with respect to the Statements within the next seven day period.

The audit reports were received on 5 November from the Audit Office. Council is required to present its Financial Statements to the public within five weeks of receiving the Audit Reports.

Dominika Ryan, Director of Financial Audit Services at the Audit Office, has audited the financial statements for the financial year ending 30 June 2018 and has provided the Audit Reports and the Audit Conduct Report, and these have been included in the Annual Financial Statements. The Conduct of the Audit Report states that "*I expressed an unmodified opinion on the Council's general purpose financial statements.*" The report also

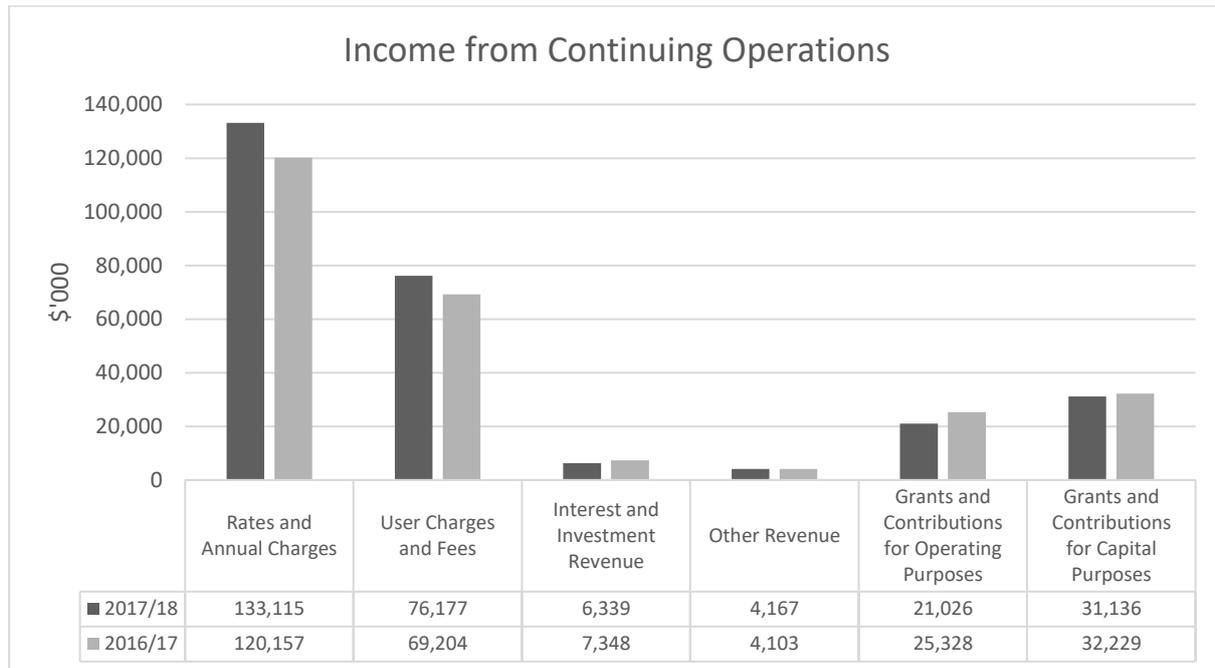
states that “my audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council’s accounting records or financial reports.”

Key Financial Results

General Purpose Financial Statements

Income Statement

Income



CL18.343

Council's revenue increased by \$12.2M; a breakdown of the key variances is shown below:

Category	Change	Major Factors
Rates and Annual Charges	\$12.9M	<ul style="list-style-type: none"> \$7.1M Special Rate Variation \$960K Rate Peg \$873K Additional assessments and reduction in pensioner rebate provided \$1.5M domestic waste services \$2.3M sewerage services
User Charges and Fees	\$7.0M	<ul style="list-style-type: none"> \$1.1M Water Supply User Fees \$2.1M Private Works \$1.2M Tourist Parks \$645K Waste Management
Interest and Investment Revenue	(\$1M)	<ul style="list-style-type: none"> (\$453K) Interest on investment (\$154K) Dividend from Southern Phones (\$277K) Fair Value Adjustments
Other Revenue	\$64K	<ul style="list-style-type: none"> Minor movement across all line items
Grants and Contributions for Operating Purposes	(\$4.3M)	<ul style="list-style-type: none"> The 2016/17 financial was the first year of the Financial Assistance Grant advance payment.
Grants and Contributions for Capital Purposes	(\$1.1M)	<ul style="list-style-type: none"> Mainly a reduction in developer contributions received

Financial Assistance Grant

During 2017/18, Council received a \$6.211M advance payment of its 2018/19 Financial Assistance Grant. This also occurred in 2016/17, with Council receiving a \$5.911M advance payment.

2016/17 was the first year these current advances occurred, and it makes year-on-year comparisons difficult. If the Financial Assistance grant was paid in the correct years, this would have resulted in \$5.9M less income in 2016/17 and \$300K less in 2017/18.

If, or when, the Federal Government stops the advance payment, this will have a large impact on the results for that year. This has occurred previously with the 2010 advance, starting in the 2009 financial year and the last advance being for 2014 received in the 2013 year.

The advance payment has been placed in an internal restricted reserve and is moved to the general unrestricted cash every quarter in line with the normal receipt of the grant.

Special Purpose Grants

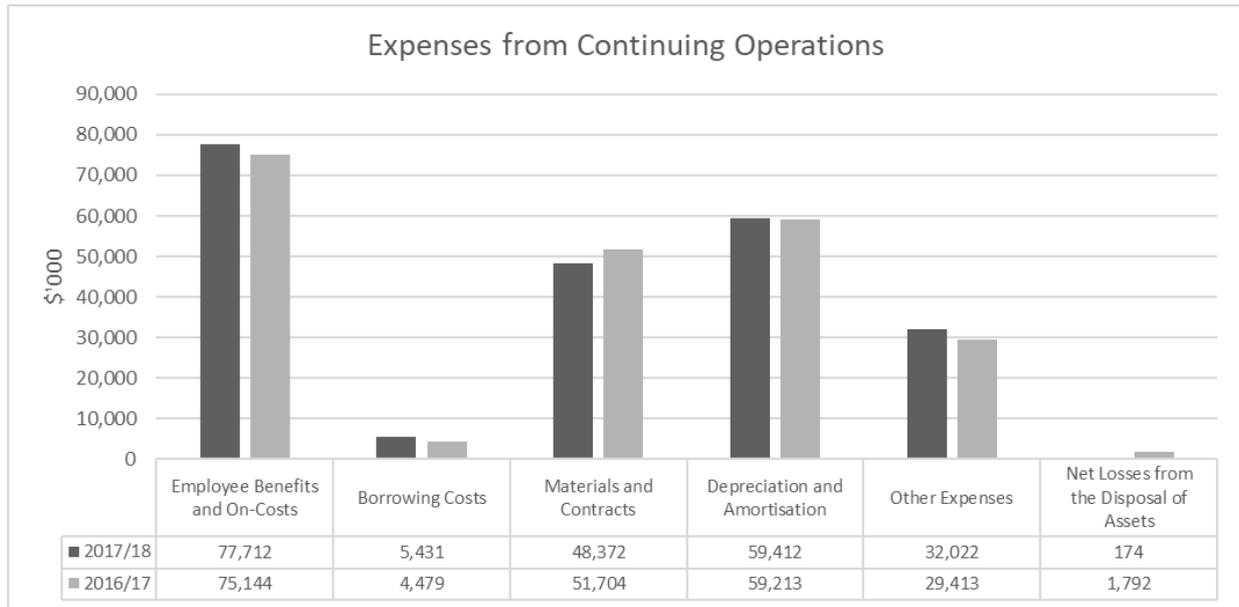
As in previous years, Council accrues grant income for specific purpose grants on projects according to the progress of the project. Given the nature of the deliverables funded by specific purpose grants, the transaction is more akin to a 'fee for service' arrangement and, therefore, a reciprocal transfer.

Where the work is completed but outstanding grant payments have not been received, the payments are included in revenue and as a receivable on the Statement of Financial Position. This treatment of special purpose grants comprises \$689K in operating grants and \$4.5M in capital grants in 2017/18.

Additionally, where a grant has been received but the required works are not yet performed by the end of June, the grant receipt is reported as a liability. The amount of this liability is reported in Note 3(g) with \$931K of operating grants and \$1.6M of capital grants not spent.

CL18.343

Expenditure

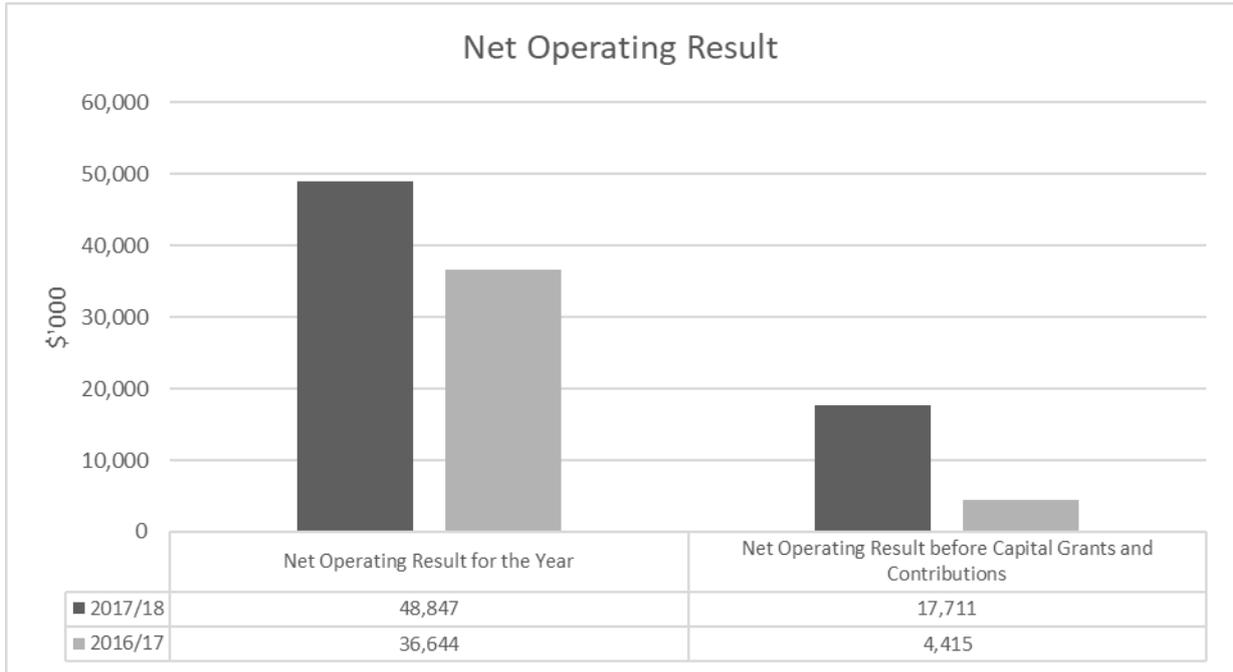


Council's Operating Expenditure increased by \$1.378M; a breakdown of the key variances is shown below:

Category	Change	Major Factors
Employee Benefits and On-Costs	\$2.568M	<ul style="list-style-type: none"> \$1.4M Local Government award increase. \$1.1M Employee Leave Entitlement increase to provide for payroll tax and superannuation. \$381K Workers Compensation claims finalised.
Borrowing Costs	\$952K	<ul style="list-style-type: none"> Additional interest due to the second loan for REMS being drawn down in March.
Materials and Contracts	(\$3.3M)	<ul style="list-style-type: none"> \$3.6M was expensed in 2016/17 as a reversal of WIP.
Depreciation	\$199K	<ul style="list-style-type: none"> Prior year revaluations/revision of useful lives resulted in some assets have lower value and therefore reduced depreciation.
Other Expenses	\$2.61M	<ul style="list-style-type: none"> \$2.7M Waste levy increase
Net Losses from the Disposal of Assets	(\$1.62M)	<ul style="list-style-type: none"> Reduction in sale of infrastructure assets

CL18.343

Net Operating Result

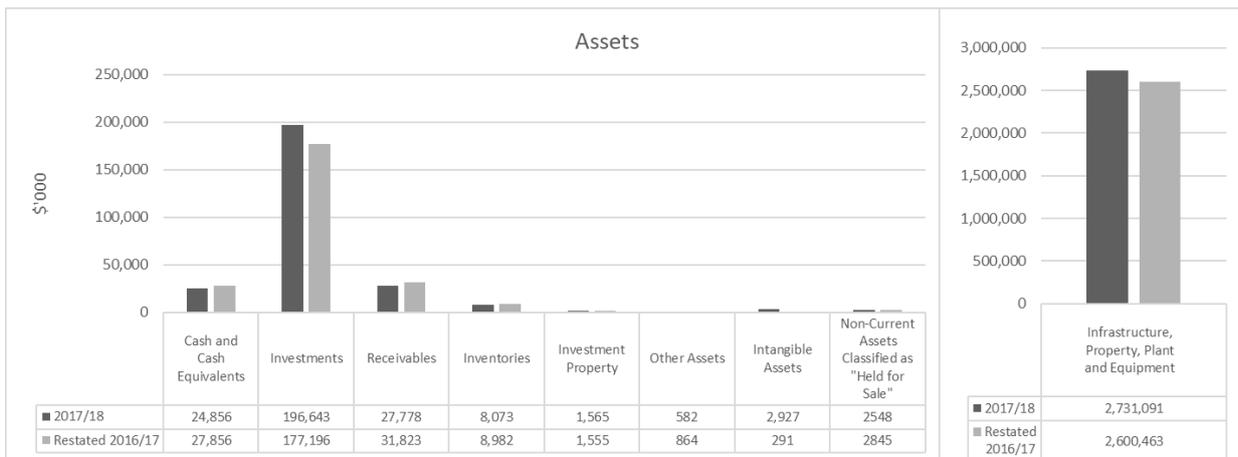


Council's Net Operating Result has increased in 2017/18, due to additional income being greater than the expenses for the year.

Statement of Financial Position

There have been various corrections to assets (explained below), these are disclosed in Note 15, but the 2017 figures have been restated to represent the comparative figures.

Assets



CL18.343

Council's assets increased by \$144.2M. A breakdown of the key variances is shown below:

Category	Change	Major Factors
Cash and Investments	\$16.4M	<ul style="list-style-type: none"> Increase in externally restricted assets: <ol style="list-style-type: none"> \$3.6M unspent general fund loans \$4.4M Sewer \$4.9M Water \$3M general fund developer contributions
Receivables	(\$4M)	<ul style="list-style-type: none"> (\$757K) user charges and fees (\$2.9M) government grant accruals
Inventories	(\$900K)	<ul style="list-style-type: none"> (\$1M) reduction in industrial land for sale as there were lots sold during 2017/18 and a reclassification to operational land and land under roads
Investment Property	\$10K	<ul style="list-style-type: none"> Annual valuation adjustment
Other Assets	(\$282K)	<ul style="list-style-type: none"> Reduction in prepayments
Intangible Assets	\$2.6M	<ul style="list-style-type: none"> Corporate software expenditure
Infrastructure, Property, Plant and Equipment	\$130M	<ul style="list-style-type: none"> \$155M additional (\$5.4M) disposals (\$59M) depreciation \$42M revaluation

Infrastructure, Property and Plant – Assets

Crown Land under Council's Care, Control and Management

It was noted by the Audit Office last financial year that Council didn't recognise Crown Land under Council's care and control as an asset and Council has decided to recognise this Crown Land in advance of the requirements of the Crown Land Management Act 2016.

The land has been reported in our Financial Statements as a correction of errors relating to a previous reporting period (Note 15b). There were 32 parcels of Operational Crown Land (\$6.3M) and 98 parcels of Community Crown Land (\$15.77M). Valuations were provided by an external valuer (Opteon).

Operational and Community Land

Council's operational land was due for revaluation in 2017/18. When the list of the land was being reviewed, it was identified that some parcels were both operational and community and it was decided to revalue the community land at the same time.

The valuation of the community land was provided by the Valuer-General, where a value was available. Where the value was not available, the valuation was carried out by Opteon who also valued the operational land.

Revaluation

There were 935 parcels of operational land valued by Opteon, the value of these increased from \$121M to \$153M, an increase of \$32M (26%) over the past 5 years.

There were 1,318 parcels of community land revalued using the current land valuation from the Valuer-General. The value of this community land increased from \$99M to \$101M, an increase of \$2M (2%) over the past three years.

CL18.343

Recognised Land

When the list of land parcels was finalised, Council had an additional 42 parcels of operational land and 39 parcels of community land not currently in the asset register.

Of the 42 parcels of operational land, 13 were transferred to Council during the 2017/18 financial year and have been recognised in the Income Statement as a dedication contribution, the other 29 were transferred to Council in previous financial years and are recognised through retained earnings and disclosed as a correction of an error relating to a previous reporting period (Note 15b).

There were four parcels of community land transferred during 2017/18 and recognised in the income statements and 35 parcels recognised through retained earnings.

Water and Sewer Assets

Data Cleansing

As part of the 2018 asset accounting process, Shoalhaven Water undertook a detailed data cleansing process. The data cleansing process was instigated by the need to improve the accuracy of the asset register, thereby improving the reporting of assets in the financial statements. In addition, the Geographic Information System (GIS) and Asset Management System (AMS) are both in the process of being upgraded and, therefore, accurate and clean data is required prior to migration.

The cleansing process required adjustments to be recorded against retained earnings and recorded as a correction of a prior period error. Below is a list of the adjustments:

Water Infrastructure		Sewer Infrastructure	
Found Reticulation Assets relating to prior accounting years	\$34,908	Found Mains relating to prior accounting years	\$3,029,537
Found trunk assets relating to prior accounting years	\$776,292	Pipe Length Change	\$48,427
Splitting of Mains	\$130,466		
Total	\$941,666	Total	\$3,077,964
De-recognition of split assets	-\$123,662	Disposals	-\$2,283,154
Abandoned mains	-\$1,961,220		
Assets in asset register but not in GIS	-\$6,192,027		
Duplicated Assets	-\$1,547,628		
Total	-\$9,824,536	Total	-\$2,565,028

Porters Creek Dam

An additional dam wall was constructed adjacent to the existing wall at Porters Creek Dam. This raised the question of the value of the old wall, as it still serves a purpose but not to the same extent. Due to the carrying value of the existing wall being \$6.75M and the possible various accounting treatments that could be used, KPMG was engaged to provide accounting advice. (Please note: the audit management letter from 2016/17 requested additional consultation to occur on high value and complex accounting decisions.)

The result of this advice was that the wall was providing 40% of its previous usefulness and 60% (\$4M) was to be recorded as an impairment loss. The timing of this impairment loss was considered to be during the 2016/17 financial year when the construction of the new wall was

CL18.343

being undertaken. The impairment loss was recorded against the revaluation reserve and disclosed as a correction of a prior period error.

Componentisation of Complex Assets

In 2016/17, Shoalhaven Water engaged GHD to collect data on the components of treatment works, pumping stations and treatment plants. The data collected was the complete listing of the component assets, their gross replacement cost, standard useful life, remaining life and condition. The information is being reviewed and verified by Shoalhaven Water.

During 2017/18, the review of sewer pumping stations was completed, and these assets are now recorded at their component level. However, the value of the components is \$5.9M less than their previous value and this difference has been processed through the revaluation reserve.

Revaluation

In 2017/18, the water and sewer asset values were indexed according to the NSW Water Supply and Sewerage Construction Cost Indices at the rate for 2017/18 of 2.1%. This resulted in an increase of \$6.6M for water and \$7.3M for sewer infrastructure assets.

Correction of Prior Depreciation for Sewer

In 2015/16, residual values were removed for sewer pipes. Final reports were not available from Conquest in time for the finalisation of the financial statements, so it was decided to base the current year's depreciation on historical information.

When reconciling Conquest data for year-end 2016/17, a computation error was noticed relating to accumulated depreciation. Where the sum of the transactions didn't equal the opening balance in the Conquest reports, it was decided to use the sum of the transactions and work towards sorting out this discrepancy in the next year.

During 2017/18, an update in Conquest occurred and the issue was fixed, but this meant that \$2.58M of accumulated depreciation needed to be added to the opening balances. This has been recognised through retained earnings and disclosed as a correction of an error relating to a prior period (Note 15b).

Buildings

Council planned to revalue buildings in 2017/18. Work started in November to obtain the full list of buildings to be revalued; however, the need to consult with the various asset custodians meant that this process took longer than anticipated.

A Request for Tender (for the valuation of buildings and operational land) was issued in March 2018 with the successful vendor (Opteon) being awarded the contract in early May. Opteon was able to complete the valuation of the operational land in time for the financial statements but were not able to complete the valuation of the buildings.

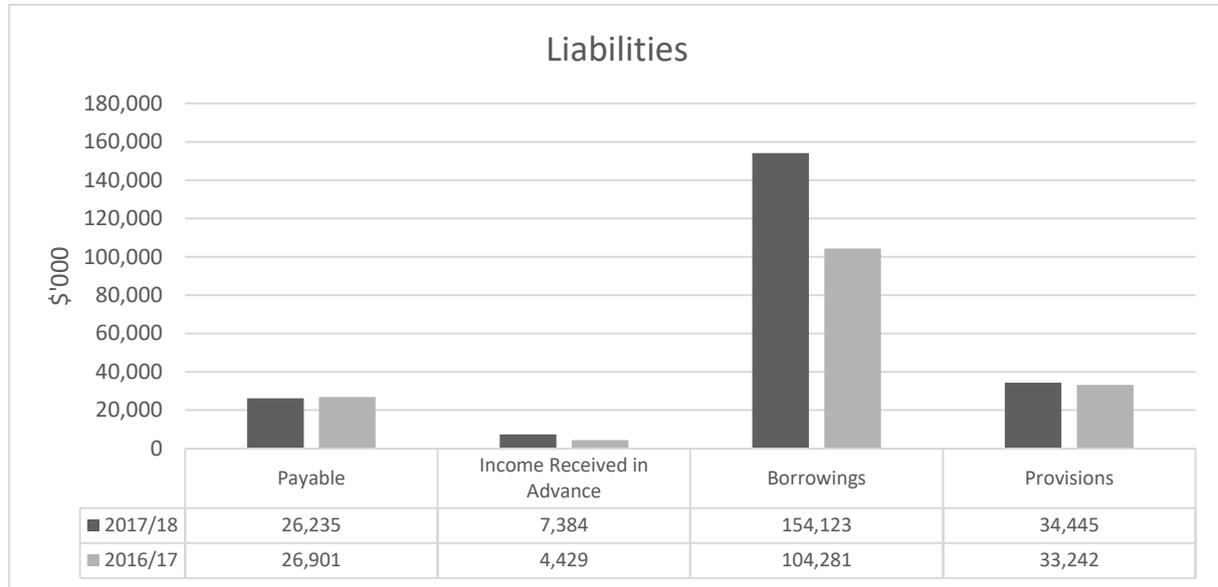
Council previously revalued its buildings four years ago and a revaluation in the 2018/19 financial year is still within the required five-year timeframe.

Recognised Buildings

During the process of obtaining the full list of buildings, it was identified that there were 269 buildings not recorded in Council's asset register; these were mainly small Water and Sewer buildings located within treatment works and treatment plants (plant rooms, switch rooms

and machinery sheds). These buildings were constructed in previous financial years and have been recognised through retained earnings and disclosed as a correction of an error relating to a prior period; the valuation of these buildings is \$21.5M.

Liabilities

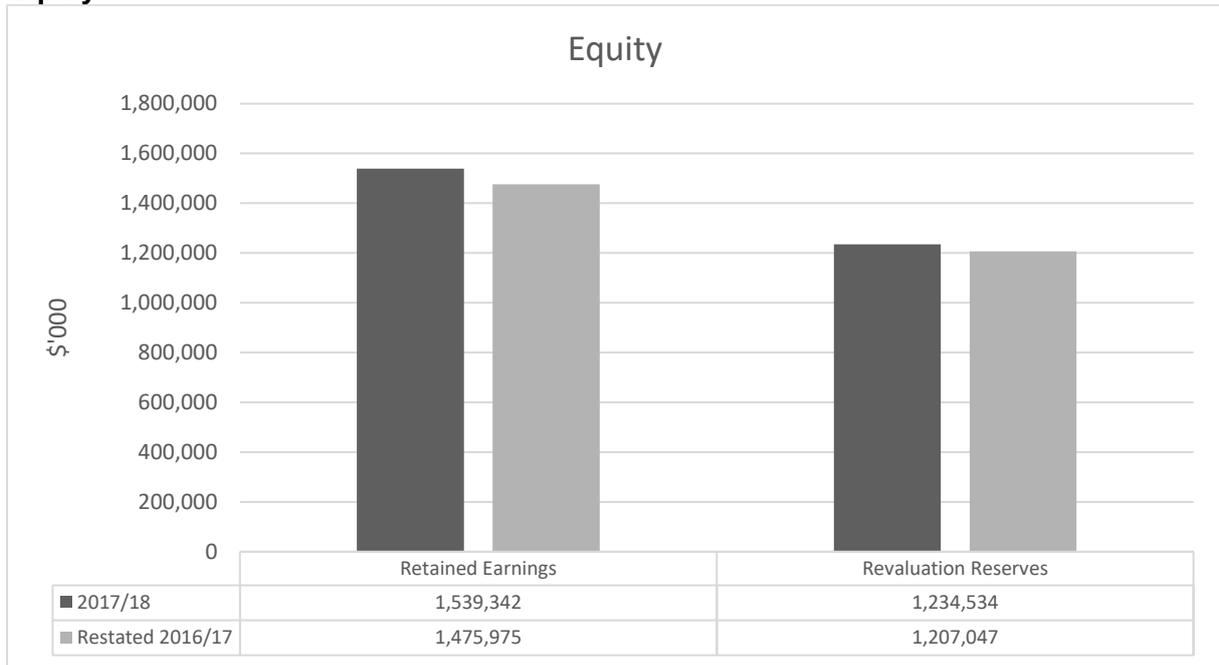


CL18.343

Total liabilities increased by \$53.3M, a breakdown of the key variances is shown below:

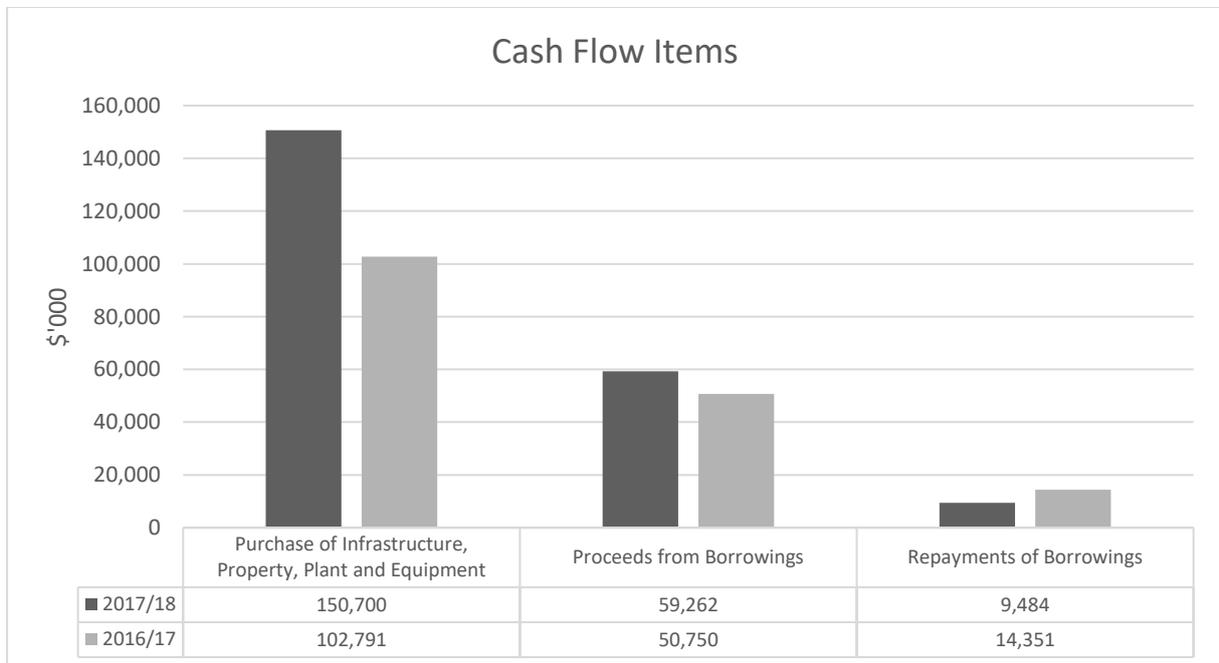
Category	Change	Major Factors
Payables	(\$666K)	<ul style="list-style-type: none"> • (\$1.6M) decrease in security bonds and deposits • \$450K increase in general payables • \$472K increase in accrued interest due to the additional REMS loan.
Income Received in Advance	\$2.9M	<ul style="list-style-type: none"> • \$2.5M Special purpose grant received but not yet spent. • \$300K Rates/Water/Sewer accounts in credit • \$100K Holiday Haven deposit payments
Borrowings	\$49.8M	<ul style="list-style-type: none"> • Council borrowed an additional \$50M for REMS
Provisions	\$1.2M	<ul style="list-style-type: none"> • Increase in leave provisions due to including payroll tax and superannuation

Equity



Council's equity increased by \$90.8M, retained earnings increased by the consolidated profit made during the year \$63.37M and the revaluation reserves decreased by \$27.49M.

Statement of Cash Flows



CL18.343

The above items in the Statement of Cashflows include an increase of \$51.6M, a breakdown of the key variances is below:

Category	Change	Major Factors
Purchase of Infrastructure, Property, Plant and Equipment	\$47.9M	<ul style="list-style-type: none"> Major capital works occurring on REMS
Proceeds from Borrowings	\$8.5M	<ul style="list-style-type: none"> New loans were more than what was borrowed last financial year
Repayment of Borrowings	(-4.9m)	<ul style="list-style-type: none"> The 2016/17 year included the refinance of a bullet loan, making the repayments \$4.7M higher than normal.

Note 26 - Statement of Performance Measures

Indicator	Benchmark		Consolidated	General Fund	Water Fund	Sewer Fund
Operating Performance Ratio	Greater than 0%	2017/18	7.4%	0.4%	16.0%	28.2%
		2016/17	2.6%	-3.6%	14.6%	23.7%
Own Source Revenue	Greater than 60%	2017/18	80.8%	78.7%	88.9%	88.9%
		2016/17	77.7%	84.4%	89.2%	81.9%
Unrestricted Current Ratio	Greater than 1.5x	2017/18	1.8	1.7	16.7	2.0
		2016/17	2.0	1.9	19.3	3.1
Debt Service Ratio	Greater than 2.0x	2017/18	5.6	5.5	0.0	3.0
		2016/17	3.7	2.5	2121.0	3.6
Rates, Annual Charges, Interest and Extra Charges	Less than 10%	2017/18	8.2%	5.8%	13.9%	12.1%
		2016/17	8.9%	6.4%	12.9%	13.2%
Cash Expense Cover Ratio	Greater than 3 months	2017/18	9.36 months	6.07 months	43.50 months	5.5 months
		2016/17	9.9 months	6.39 months	27.93 months	12.92 months
Please note that 2016/17 performance measures have been restated.						

CL18.343

General Fund

Operating Performance Ratio - there was an improvement in this ratio with a result of 0.4%; this is just above the benchmark of 0%.

Own Source Revenue - there is a reduction in this ratio due to additional grants received and the result of 78.7% remains above the benchmark of 60%.

Unrestricted Current Ratio - there was a slight worsening in this ratio to 1.7, but it is still above the benchmark of 1.5.

Debt Service Cover Ratio - this ratio increased from 2.50 to 5.45 and is above the benchmark of 2. General Fund has sufficient operating funds to cover the cost of borrowing.

Rates, Annual Charges, Interest and Extra Charges Outstanding - the ratio has improved with a result of 5.81% and is below the benchmark of 10%.

Cash Expense Cover Ratio - this has reduced to 5.8 months but is still above the minimum benchmark of 3 months. General Fund has enough cash to fund 5.8 months of operating expenditure.

Water Fund

Operating Performance Ratio - there was an increase of this ratio with a result of 15.98%; this is a strong positive result.

Own Source Revenue - there is a reduction in this ratio (result 88.93%) but it is still above the benchmark of 60%.

Unrestricted Current Ratio - there was a reduction from 19.28 to 16.70. The result is above the benchmark of 1.5.

Debt Service Cover Ratio – due to Water now having no debt, this ratio is now zero.

Rates, Annual Charges, Interest and Extra Charges Outstanding - the ratio is unfavourably above the benchmark of 10%. The reason for this unfavourable result is due to the timing of invoicing, that is, accounts invoiced in June are outstanding but are not due as at 30 June. If this ratio was on overdue rates, the result is 7.74% instead of 13.87%.

Cash Expense Cover Ratio - this has reduced slightly and is above the minimum benchmark of 3 months, Water Fund has enough cash to fund 27.9 months of operating expenditure.

Sewer Fund

Operating Performance Ratio - there was an increase with a result of 28.23%. This is a strong result, being above the minimum of 0%.

Own Source Revenue - there is an increase in this ratio (result 88.94%) and is above the target of 60%.

Unrestricted Current Ratio - there was a decrease in this ratio (result 3.2) due to cash being restricted for the unexpended REMS loan.

Debt Service Cover Ratio - this ratio increased from 3.11 to 1.99 and is above the benchmark of 1.5. This decrease is due to new loans being taken out.

Rates, Annual Charges, Interest and Extra Charges Outstanding - the ratio has decreased slightly but is still unfavourably above the benchmark of 10%. If the ratio was on overdue rates the result would be 5.76% rather than 12.10%.

Cash Expense Cover Ratio - this has improved and is still above the minimum benchmark of 3 months, Sewer Fund has enough cash to fund 5.5 months of operating expenditure.

Note 25 - Financial Result and Financial Position by Fund

Income Statement \$'000		General Fund	Water Fund	Sewer Fund
Income from Continuing Operations	2017/18	197,959	34,316	55,218
	2016/17	191,157	29,046	55,750
Expenses from Continuing Operations	2017/18	175,592	26,005	35,334
	2016/17	175,352	24,273	36,634
Net Operating Result	2017/18	22,367	8,311	19,884
	2016/17	15,805	4,773	19,116
Net Operating Result before Capital Grants and Contributions	2017/18	107	5,029	14,290
	2016/17	-4,196	2,151	9,510

Balance Sheet \$'000		General Fund	Water Fund	Sewer Fund
Assets	2017/18	1,930,117	428,864	644,008
	2016/17	1,840,844	420,572	564,106
Liabilities	2017/18	102,034	1,349	125,730
	2016/17	96,228	1,291	79,807
Equity	2017/18	1,828,083	427,515	518,278
	2016/17	1,744,616	419,281	484,299

All of Council's funds produced a positive operating result before capital grants and contributions.

The balance sheets for all three funds are healthy with sufficient assets to cover the liabilities.

Special Schedules

Special Schedule 7 - Report on Infrastructure Assets - Performance Indicators

Indicator	Benchmark		Consolidated	General Fund	Water Fund	Sewer Fund
Building and Infrastructure Renewals Ratio	Greater than 100%	2017/18	94.4%	76.6%	64.2%	187.6%
		2016/17	71.7%	67.7%	68.1%	88.0%
Infrastructure Backlog Ratio	Less than 2%	2017/18	3.4%	4.3%	1.2%	2.6%
		2016/17	3.1%	5.0%	0.3%	0.0%
Asset Maintenance Ratio	Greater than 1x	2017/18	0.9	0.8	1.0	1.0
		2016/17	0.9	0.8	1.0	1.0
Cost to Bring assets to agreed service level		2017/18	1.0%	1.6%	0.0%	0.0%
		2016/17	1.5%	2.5%	0.0%	0.0%

Building and infrastructure renewals ratio - there has been an improvement in this ratio overall. Council is committed to asset renewal and this ratio is expected to improve in future years.

CL18.343

Infrastructure backlog ratio - there has been a decline in this ratio, due to assets declining in condition, particularly in General Fund.

Asset maintenance ratio – this ratio has remained the same at 0.9 for the consolidated accounts, but is still below the benchmark of 1.

Cost to bring assets to agreed service level – this ratio has worsened due to assets declining in condition.

Fit for the Future

Below is a comparison of Council’s Fit for the Future submission and the historical results (2013/14 to 2017/18) including the 2018/19 LTFP budgeted figures.

Indicator	Benchmark		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Operating Performance Ratio	Greater than 0% over a three year period	Original Submission	-5.44%	-6.26%	-7.42%	-5.99%	-4.06%	-1.70%	0.13%	1.00%	1.30%	1.72%	2.30%	2.78%
		Including 2014/15 to 2017/18 results and 2018/19 LTFP	-5.44%	-4.24%	-5.16%	-3.67%	-2.83%	-1.71%	-0.65%	0.07%	1.71%	3.20%	3.97%	4.60%
Own Source Revenue	Greater than 60% over a three year period	Original Submission	81.92%	81.01%	79.36%	80.25%	82.56%	85.97%	87.27%	87.77%	88.05%	88.09%	88.17%	88.23%
		Including 2014/15 to 2017/18 results and 2018/19 LTFP	81.92%	81.24%	79.12%	77.51%	77.13%	79.33%	81.54%	84.37%	86.24%	87.93%	88.32%	88.43%
Building and Infrastructure Asset Renewal Ratio	Greater than 100% over a three year period	Original Submission	48.76%	66.11%	71.55%	66.79%	57.54%	64.88%	72.86%	76.87%	73.96%	72.92%	72.51%	74.68%
		Including 2014/15 to 2017/18 results and 2018/19 LTFP	48.76%	64.90%	70.60%	56.27%	58.94%	62.42%	66.51%	67.71%	67.31%	67.07%	65.89%	66.44%
Infrastructure Backlog Ratio	Less than 2%	Original Submission	3.63%	0.90%	0.88%	0.90%	0.92%	0.94%	0.96%	0.99%	1.02%	1.05%	1.08%	1.11%
		Including 2014/15 to 2017/18 results and 2018/19 LTFP	3.63%	2.58%	3.14%	5.02%	4.30%	5.02%	5.02%	4.95%	4.84%	4.72%	4.55%	4.40%
Asset Maintenance Ratio	Greater than 100% over a three year period	Original Submission	91.04%	95.83%	78.87%	80.37%	79.73%	81.96%	83.66%	86.32%	87.90%	89.42%	90.65%	91.74%
		Including 2014/15 to 2017/18 results and 2018/19 LTFP	91.04%	98.42%	80.71%	81.35%	79.62%	82.48%	86.06%	89.83%	90.11%	90.11%	90.15%	90.66%
Debt Service Ratio	Between 0% and 20% over a three year period	Original Submission	5.69%	5.99%	5.55%	6.27%	5.89%	5.69%	4.79%	5.07%	5.16%	5.05%	4.61%	4.22%
		Including 2014/15 to 2017/18 results and 2018/19 LTFP	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%
Real Operating Expenditure per Capita	A decrease in Real Operating Expenditure per capita over time	Original Submission	1,434	1,469	1,452	1,428	1,422	1,417	1,400	1,393	1,373	1,353	1,337	1,321
		Including 2014/15 to 2017/18 results and 2018/19 LTFP	1,434	1,406	1,469	1,476	1,415	1,492	1,472	1,440	1,411	1,388	1,366	1,342

CL18.343

The actual results show mixed outcomes when compared against the submission. The Operating Performance Ratio improved in 2014/15 due to savings realised from Council’s Transformation Program. Because ratios are calculated as a three-year rolling average, the improved result in 2014/15 affects ratios up to and including 2016/17, showing that Council has performed better than the Fit for the Future submission.

Community Engagement

The presentation of the Financial Statements has been advertised, inviting the community to attend and write a submission.

Financial Implications

The 2017/18 financial year has seen mixed outcomes in the financial results, position and performance measures but continues along the trajectory set by Council to be financially sustainable.

CL18.344 Employee Remuneration Review - Funding Strategies

HPERM Ref: D18/406289

Group: Finance Corporate & Community Services Group
Section: Human Resources, Governance & Customer Service

Purpose / Summary

To provide a report on options to fund the recommended changes from Council's Employee Remuneration Review.

Recommendation

That Council

1. Support in principle a review of Council's salary system under the terms of the Local Government (State) Award to make it more contemporary and competitive.
2. Authorises the General Manager to negotiate with relevant Unions and the Staff Consultative Committee to establish a new salary system and introduce other monetary and non-monetary benefits to attract and retain staff in the organisation.
3. Authorises the General Manager to negotiate changes in a staged approach commencing 1 May 2019 and over the 2018-19 to 2020-21 financial years with the overall increase capped at the equivalent of a 4% increase in annual employee costs (excluding annual increases as prescribed by the Award and already budgeted for).
4. Note the funding options presented in the report and receive a further report in relation to a recommended funding strategy in conjunction with the outcome of the General Manager's negotiations.

Options

1. Accept the report for information and resolve as per the recommendation above.
Implications: The increased employee costs will be funded as proposed in this report and will be reflected in future period budgets and long term financial plan.
2. Not accept the recommendation as written and resolve another way forward.
Implications: Subject to what is resolved.

Background

A report and presentation were provided at the 13 November 2018 Senior Staff Contractual Matters Committee in relation to the findings of the Employee Remuneration Review.

Following the presentation and discussion, the Committee resolved under delegated authority to agree in principle to consider the implementation of the proposed changes from the Employee Remuneration Review including the negotiation of a new salary table and other monetary and non-monetary benefits subject to receiving a further report at the 4 December 2018 Extraordinary Meeting on funding options.

It is not proposed to reproduce the detailed information presented to the Senior Staff Contractual Matters Committee, but in summary, the report presented clear evidence for the

need for Council to implement changes to employee remuneration in order to address a range of significant competitive pressures it is facing in attracting and retaining staff. If Council does not respond to these competitive pressures it will continue to face the following risks:

- Increased staff turnover with Council struggling to retain staff who can obtain more lucrative offers elsewhere
- Increased organisational costs and productivity impacts of loss of staff
- Inability to attract appropriately qualified and skilled candidates for critical positions
- Decreased morale of the workforce if they do not consider they are being remunerated fairly and Council is not seen as taking action to address.

The report indicated that based on Council's current budgeted salary & wages cost of \$71,400,000, the proposed remuneration adjustments represent a 3.6% increase and comprise:

- A new salary table effective from 1 May 2019
- Increases in employee Superannuation Guarantee Levy Contributions
- Negotiation a Manager Employment Agreement to take effect from 1 July 2019.

The report also noted that the short and long-term funding options to be investigated would see the cost implications dispersed across the General Fund, Water & Sewer Funds and the Domestic Waste Management Fund consistent with the spread of staff across the various Council functional areas.

This report to the Extraordinary Council Meeting presents detailed information on funding options for Council to consider in moving to the proposed contemporary and more competitive salary structure presented in the previous confidential report. The report will recommend that Council authorise the General Manager to negotiate with relevant Unions and the Staff Consultative Committee to establish a new salary system and introduce other monetary and non-monetary benefits to attract and retain staff in the organisation.

The report also recommends that Council authorise the General Manager to negotiate changes in a staged approach, commencing 1 May 2019, with implementation continuing over the 2018-19 to 2020-21 financial years. Further, noting that the matters comprising the proposed remuneration adjustment package are all subject to extensive negotiation with staff, the Consultative Committee and the relevant unions, the recommendation is that the negotiated changes be capped at the equivalent of a 4% increase in annual employee costs (excluding annual increases as prescribed by the Award and already budgeted for in Council's long term financial plan).

Financial Implications

Council's current budgeted salary and wages cost is \$71.4M including superannuation. As per the recommendation it is proposed that the General Manager be authorised to negotiate changes up to 4%, which if fully implemented over the time period proposed in Recommendation 3 to the report would represent additional salary & wages expenses above current long term financial projections of \$2.856M per annum by the year 2021/22.

A breakdown of the forecast financial impact on Council's long-term financial plan across the various Council Funds and implementation years, noting that the impact for 2018/19 is for the months of May and June 2019 only, is presented in the following table:

Fund	2018/19	2019/20	2020/21	2021/22
Waste Services	\$17,500	\$104,500	\$124,500	\$142,800
Water & Sewer Funds	\$52,500	\$313,500	\$373,500	\$428,400
General Fund	\$280,000	\$1,672,000	\$1,992,000	\$2,284,800
Total	\$350,000	\$2,090,000	\$2,490,000	\$2,856,000

Proposed Funding Strategy

2018/19

1. Costs attributable to Waste Services for 2018/19 can be accommodated with existing budget provisions which would also include a proportional adjustment against the DWM Reserve.
2. The \$52,500 increase attributable to the Water & Sewer Funds would have minimal impact on Shoalhaven Water's operating result for the year ended 30 June 2019.
3. The \$280K impact on General Fund for 2018/19 would be noted for a budget variation at the March 2019 Quarterly Budget Review with the option that \$239K could be funded from the balance of the June 2018 Budget Review surplus that remains retained in Council's unallocated cash position. The remaining \$41K variance would be considered in the context of the overall budget review.
4. As noted in the report to the Senior Staff Contractual Matters Committee, there would also be a one-off increase in Council's Employee Leave Provision liability of approximately \$550,000. However there is no pressing need to cover this increase with an increase in restricted cash as the impact of the increased liability would result in Council retaining a healthy coverage of the ELE liability through the ELE Reserve at 26% - meaning a negligible reduction from the current projected coverage of 27% at 30 June 2019.

2019/20 – 2021/22

1. The annual increase attributable to Waste Services ranging from \$104K to \$142K over the implementation period can be accommodated as a minor variation of between 0.2% and 0.3% of the total Waste Services operating expenditure budget of \$47M. Included in this variation would be a negligible adjustment against the Domestic Waste Management Reserve. There would be no impact on annual charges or user fees as a consequence of these adjustments.
2. Council's long term financial projection indicate that an increase in annual operational expenditure for Shoalhaven Water of between \$313K and \$429K over the implementation period could be accommodated through minor adjustments against the Water and Sewer fund reserves and should not impact on annual charges and user fees.
3. Clearly the biggest impact of the proposal is the impact on the General Fund component of Council's long-term financial plan from 2019/20 onwards and there are a number of strategies Council could consider in order to accommodate the increase in its long term financial planning. It is not the purpose of this report to seek adoption of a definitive funding strategy for the increased general fund expenditure ranging from \$1.672M to \$2.284M per annum over the period 2019/20 to 2021/22. Rather, what is presented below are a number of suggested funding options that, subject to Council's consideration, can be investigated further during the period of the General Manager's negotiations with staff, the Consultative Committee and the relevant Unions for further reporting back to Council as a recommended funding strategy both over the implementation period and in the long term.

CL18.344

General Fund Funding Options

2019/20

The following funding options are suggested for consideration towards funding the \$1.672M impact on General Fund for 2019/20:

1. Externally Recoverable Costs:

A dissection of Council's total salaries & wages budget of \$71.4M across the various functional areas identifies opportunities for partial recovery of the increased expenditure through user fees. Potential recoveries of costs increases attributable to the following functional areas through adjustments to fees and charges is presented in the following table.

Functional Area	Potential Cost Recovery
Aquatics & Leisure Centres	\$120,000
Holiday Haven	\$27,000
Bereavement Services	\$104,000
Compliance	\$22,000
Total	\$273,000

The functional areas above have been identified from a preliminary review. However, further investigation of other functional areas can be undertaken should Council be supportive of this approach in-principle.

2. Internally Recoverable Costs:

Transfers to Reserve from Council's economic development initiative over the past five (5) years have averaged \$1.45M for industrial land sales and \$360K being the Southern Phone dividend.

Despite the profitability of these activities, there is no dividend back to the General Fund which either fully or partially recovers the recurrent operating expenditure associated with these business activities. It is suggested that Council seek to recover at least the salaries component of the Economic Development Unit through a recurrent cost recovery from the surplus on these business activities.

The result would be an annual injection to General Fund of approximately \$250,000 which could be used as a component of the funding strategy for the Employee Remuneration Review. The ongoing ability to provide the injection of funds into general fund however would be a matter for consideration annually through the budget preparation process.

3. Salary Savings

Based on current projections, it is expected that there will be considerable salary saving in 2018/19 resulting from the timing of recruitment for the new positions earmarked in the 2018/19 budget. There are a number of contributing factors leading to the delay in onboarding these new positions, including defining specific roles, job sizing, the high workloads in HR due to current high turnover rate Council is experiencing, as well as the difficulties in attracting high calibre applicants for the reasons already outlined.

CL18.344

At this stage it is forecast that the savings will be in the order of \$350,000 which Council will have the option of holding as restricted funds at 30 June 2019 for revoting into the 2019/20 financial year and therefore available for allocation towards the Employee Remuneration Review funding strategy.

With additional funding again available in Council's long term financial plan for further new and as yet (non-determined) staffing positions in 2019/20, it is reasonable to assume another staged recruitment process extending July to December 2019 for these positions. On that basis, it is suggested that \$250,000 of the \$1M long term financial plan allocation for staffing resources in 2019/20 would be available for allocation to the Employee Remuneration Review funding strategy.

4. Long Term Financial Plan – Unallocated Cash

With work continuing for the comprehensive review of Council's Asset Management Plans across all asset classes, and consequently current optimum annual expenditure levels for maintenance and renewal of assets still subject to possible adjustment, it is likely that long term assets funding provisions will be adjusted in response to the findings of the review of these plans. Therefore it is suggested that there is capacity in the long term financial plan to utilise part of the unallocated cash balance to support the Employee Remuneration Review through the implementation period 2019/20 to 2021/22.

On that basis, should Council support suggested Options 1 to 3 above progressing to further investigation, then that would leave a general funding requirement for 2019/20 of \$549,000 from unallocated cash.

A summary of Options 1 – 4 above is as follows:

Suggested Funding Source	Amount	Recurrent/Non-Recurrent
Externally Recoverable Costs	\$273,000	Recurrent
Internally Recoverable Costs	\$250,000	Recurrent
Salary Savings	\$600,000	Non-Recurrent
Unallocated Cash (LTFP)	\$549,000	Non-Recurrent
Total	\$1,672,000	

2020/21 & 2021/22

The General Fund requirement of \$1,992K for 2020/21 and \$2,284K for 2021/22 can both be partially offset by the recurrent component of the suggested funding sources identified for 2019/20 of \$523K, leaving funding requirements of \$1,469K and \$1761K in 2020/21 and 2021/22 respectively.

It is suggested that these additional funding requirements can also be accommodated through utilisation of the unallocated cash balance in Council's long term financial plan – as demonstrated in the following table:

\$'000	2018/19	2019/20	2020/21	2021/22
Unrestricted cash opening	15,593	14,978	14,429	13,174
Current forecast movement	(335)			
Current LTFP movements	0	0	214	1,225
Employee Remuneration Review Funding Strategy	(280)	(549)	(1,469)	(1,761)
Projected Ending Balance	14,978	14,429	13,174	12,638

As is demonstrated, the net impact on Council's LTFP unallocated cash balance is a reduction of \$2.34M over the implementation period – noting that the utilisation of funds associated with the remuneration review are partly offset by the existing long term financial plan projection of funds into the year-end cash balances from 2020/21.

In suggesting this as an implementation funding strategy, it is important to note that the long term financial plan is reviewed each year in conjunction with the preparation of the annual budget, so there are ongoing opportunities throughout the implementation period to adjust the funding strategy in response to changing circumstances, demands on service provision and through potential emerging income generating opportunities. In this regard, the ongoing review of Council's long term financial plan will see the integration of the outcome of employee remuneration review into normal budget preparation processes and will result in a reduction in the reliance of the unallocated cash balance as an ongoing funding source.

It is also anticipated that the current implementation of the new integrated corporate information systems will lead to efficiency saving that can be incorporated into future updates of the long term financial plan.

Policy Implications

A review of current Human Resources and Remuneration related policies will be required and updated where needed to align with changes implemented.

Financial Implications

Council's current wages cost is \$71,400,000 including superannuation. As per the recommendation it is proposed that the General Manager be authorised to negotiate changes up to \$2,856,000 per annum.

Risk Implications

Council continues to experience significant competitive pressures. In order to be an employer of choice Council needs to have a competitive remuneration and rewards offering. If Council does not respond to these competitive pressures - then it faces the following risks:

- Increased staff turnover with Council struggling to retain staff who can obtain more lucrative offers elsewhere
- Increased organisational costs and productivity impacts of loss of staff
- Inability to attract appropriately qualified and skilled candidates for critical positions
- Decreased morale of the workforce if they do not consider
- They are being remunerated fairly and Council is not seen as taking action to address.

LOCAL GOVERNMENT AMENDMENT (GOVERNANCE & PLANNING) ACT 2016

Chapter 3, Section 8A Guiding principles for councils

(1) Exercise of functions generally

The following general principles apply to the exercise of functions by councils:

- (a) Councils should provide strong and effective representation, leadership, planning and decision-making.
- (b) Councils should carry out functions in a way that provides the best possible value for residents and ratepayers.
- (c) Councils should plan strategically, using the integrated planning and reporting framework, for the provision of effective and efficient services and regulation to meet the diverse needs of the local community.
- (d) Councils should apply the integrated planning and reporting framework in carrying out their functions so as to achieve desired outcomes and continuous improvements.
- (e) Councils should work co-operatively with other councils and the State government to achieve desired outcomes for the local community.
- (f) Councils should manage lands and other assets so that current and future local community needs can be met in an affordable way.
- (g) Councils should work with others to secure appropriate services for local community needs.
- (h) Councils should act fairly, ethically and without bias in the interests of the local community.
- (i) Councils should be responsible employers and provide a consultative and supportive working environment for staff.

(2) Decision-making

The following principles apply to decision-making by councils (subject to any other applicable law):

- (a) Councils should recognise diverse local community needs and interests.
- (b) Councils should consider social justice principles.
- (c) Councils should consider the long term and cumulative effects of actions on future generations.
- (d) Councils should consider the principles of ecologically sustainable development.
- (e) Council decision-making should be transparent and decision-makers are to be accountable for decisions and omissions.

(3) Community participation

Councils should actively engage with their local communities, through the use of the integrated planning and reporting framework and other measures.

Chapter 3, Section 8B Principles of sound financial management

The following principles of sound financial management apply to councils:

- (a) Council spending should be responsible and sustainable, aligning general revenue and expenses.
- (b) Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.
- (c) Councils should have effective financial and asset management, including sound policies and processes for the following:
 - (i) performance management and reporting,
 - (ii) asset maintenance and enhancement,
 - (iii) funding decisions,
 - (iv) risk management practices.
- (d) Councils should have regard to achieving intergenerational equity, including ensuring the following:
 - (i) policy decisions are made after considering their financial effects on future generations,
 - (ii) the current generation funds the cost of its services

Chapter 3, 8C Integrated planning and reporting principles that apply to councils

The following principles for strategic planning apply to the development of the integrated planning and reporting framework by councils:

- (a) Councils should identify and prioritise key local community needs and aspirations and consider regional priorities.
- (b) Councils should identify strategic goals to meet those needs and aspirations.
- (c) Councils should develop activities, and prioritise actions, to work towards the strategic goals.
- (d) Councils should ensure that the strategic goals and activities to work towards them may be achieved within council resources.
- (e) Councils should regularly review and evaluate progress towards achieving strategic goals.
- (f) Councils should maintain an integrated approach to planning, delivering, monitoring and reporting on strategic goals.
- (g) Councils should collaborate with others to maximise achievement of strategic goals.
- (h) Councils should manage risks to the local community or area or to the council effectively and proactively.
- (i) Councils should make appropriate evidence-based adaptations to meet changing needs and circumstances.