

Extra Ordinary Meeting

Meeting Date: Monday, 20 November, 2023
Location: Council Chambers, City Administrative Building, Bridge Road, Nowra
Time: 5.30pm

Membership (Quorum - 7)
All Councillors

Please note: The proceedings of this meeting (including presentations, deputations and debate) will be webcast, recorded and made available on Council's website, 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.

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<https://www.shoalhaven.nsw.gov.au/Council/Meetings/Stream-a-Council-Meeting>.

Statement of Ethical Obligations

The Mayor and Councillors are reminded that they remain bound by the Oath/Affirmation of Office made at the start of the council term to undertake their civic duties in the best interests of the people of Shoalhaven City and to faithfully and impartially carry out the functions, powers, authorities and discretions vested in them under the Local Government Act or any other Act, to the best of their skill and judgement.

The Mayor and Councillors are also reminded of the requirement for disclosure of conflicts of interest in relation to items listed for consideration on the Agenda or which are considered at this meeting in accordance with the Code of Conduct and Code of Meeting Practice.

Agenda

1. **Apologies / Leave of Absence**
2. **Declaration of Interests**
3. **Reports**

City Performance

CL23.420 Financial Sustainability Review 1

CL23.420 Financial Sustainability Review

HPERM Ref: D23/459874

Approver: Kerrie Hamilton, Director City Performance

Attachments: 1. AEC Final Report – Shoalhaven City Council Financial Sustainability Review 2023 (under separate cover) [⇒](#)
2. Draft Resourcing Strategy 2022-26 (under separate cover) [⇒](#)

Reason for Report

To endorse the recommendations of the Financial Sustainability Review conducted by AEC Group, including that Council undertake community engagement on the proposal for a s508A permanent Special Rate Variation and undertake public exhibition of the updated draft Resourcing Strategy (including Long Term Financial Plan).

Recommendation

That Council:

1. Receive the Financial Sustainability Review November 2023 report prepared by AEC Group
2. Adopts the following policy positions:
 - a. Council should budget for and maintain an unrestricted cash reserve of at least \$15 Million.
 - b. That no new or increased services or infrastructure be taken on without a full business case being in place, including full assessment of lifecycle costs of the service or asset.
 - c. Grant applications that have a negative impact on the financial position of Council must be approved by Council. Where there is insufficient time to do this, they may be approved by agreement between the Mayor and CEO.
3. Explores options to rationalise land and facilities assets.
4. Implements the asset management improvements identified in the financial sustainability review including the establishment of a project management office and project management framework.
5. Creates a program to strategically review/update its asset management plans and asset condition data, commencing with road assets in early 2024.
6. Adopts a target of \$3 million in efficiency savings to be found over the next four years.
7. Engages with the community to obtain their input on the service areas which Council will target for cost efficiencies.
8. Informs the community of the proposed Special Rate Variation (SRV) options as detailed in the report and attachments.
9. Place the updated draft Resourcing Strategy 2022-2026 attached to the report on public exhibition for 28 days.
10. Receives a report on the outcomes and feedback from the exhibition of the updated draft Resourcing Strategy at the Council meeting scheduled for 29 January 2024.

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Options

1. As recommended

Implications: Council endorses the process to inform the community of the proposed SRV and endorse public exhibition of the updated draft Resourcing Strategy.

2. Council could choose not to accept the findings of financial sustainability review and continue on its current path

Implications: This is not recommended and does not address the significant financial situation that exists. It would not take long for council's financial reserves to be drained, risks would escalate and services would need to be cut.

Background

Council resolved at the 26 June 2023 Council meeting to (MIN23.326):

“Ensure the comprehensive review of Council's long-term financial plan scheduled for the first quarter of 2023/24 addresses the budget deficit and includes the development of a 10 year strategic financial and capital works plan. A report on the process to be used and key objectives be brought to Council for consideration ideally by September 2023”.

In response to the Council resolution, AEC Group (AEC) was engaged by Council to undertake a Financial Sustainability Review. AEC had previously assisted Council in the preparation of its 2022-2032 Long Term Financial Plan. The primary objective of the Financial Sustainability Review was to assess the long-term sustainability of the Council's existing financial settings and direction, identify key drivers and determinants of future sustainability and facilitate the development of an improved sustainable long-term financial plan with strategies to avert potential issues from emerging in the future.

The review took place over a four month period and included meetings with Council staff, and a series of weekend workshops with the Councillors, Executive Management Team and Chief Financial Officer. Workshops were held 22 July, 2 September and 16 September. Briefings with Councillors were also held on 26 October and 9 November. The project stages are detailed in Section 1.4 of the Financial Sustainability Review report (**Attachment 1**).

The Financial Sustainability Review has made the following findings:

- Over the past five years, Council has experienced consecutive disasters, most notably the COVID pandemic, bushfires and floods. These disasters have significantly impacted on the normal business operations including asset maintenance and asset renewal programs, and impacting upon the availability of cash. Council's revenue base was also impacted due to restricted operations during COVID and the provision of substantial subsidies and waivers to the community and industry.
- Council has produced a net operating deficit in the last three financial years. The General Fund's net operating position has been in a deficit position over the past eight years. The Water and Sewer operating performance continues to deteriorate.
- Financial forecasts indicate a significantly deteriorating operating performance. Without intervention, Council will continue to generate operating deficits over the next 10 years. As shown in the attached updated draft Resourcing Strategy, the General Fund under the Base Model will produce an average deficit across the forecast period of \$25.6 million. This is not a sustainable scenario for Council.
- There is an underlying structural deficit of \$25-\$35 million within the General Fund, whereby the recurrent revenue is not able to fund the recurrent expenditure. The impact of inflation on, and relatively flat revenue growth, will only continue to increase the structural deficit.

- The net cost of the disasters, including the subsidies and waivers on fees and charges, and the \$300 per ratepayer COVID reimbursement reduced the unrestricted cash position of Council by \$14.6 million.
- Council has a lower average rate for residential and business rating categories comparable to neighbouring councils. While each council is different, and it is difficult to compare levels of service, a general comparable lifestyle is offered by Shoalhaven compared to neighbouring councils (such as Shellharbour) but provided from a lower comparable rate base.
- A comparison of Shoalhaven City Council rates to its neighbouring council's and the average of its OLG Group (Group 5) is reported below. Kiama Municipal Council has not submitted information for the 2021/2022 financial year and cannot be used for comparative purposes.

Council	Average Residential Rate	Average Business Rate	Average Farmland Rate \$
Shoalhaven	\$1,316.38	\$2,183.14	\$2,654.31
Shellharbour	\$1,610.00	\$5,191.98	\$3,521.13
Wollongong	\$1,561.46	\$11,607.13	\$2,735.54
OLG Group 5	\$1,447.16	\$5,815.15	\$2,446.51

(source OLG Time Data Series 2021/22)

- Through the acquisition of new and upgraded assets the Council has significantly increased the annual cost of ownership, including operating costs, interest expense on borrowings, maintenance and depreciation expense. There has been significant investment, \$149.5 million, in new assets in the past 5 years. Investment in new roads (\$43.3 million), stormwater (\$5.9 million) and waste management (\$26.9 million) would appear to be reasonable based on growth and service plans for waste management, the investment of \$43.1 million in new parks and sporting and recreation areas has impacted upon the operating position of the Council in the past five years.
- The structural deficits means that assets are not being replaced at the rate required.
- The large majority of asset renewals is funded by external grants - and this is not sustainable.

Not dissimilar to many other NSW rural councils, Council has experienced in recent years a growing gap between operating revenue and operating expenditure. The growth in the cost base of current services provided has exceeded the growth in revenue.

While improvements to the efficiency and productivity of service delivery will assist in closing the gap between revenue and costs, there is a need for Council to significantly increase the revenue generated from operations. Given the quantum of the correction required this will need to be predominantly through increases in the general rate revenue to improve the operating performance of the General Fund.

The above information confirms that the Council is not financially sustainable in its current state.

Recommendations made by AEC follow four key themes:

1. Improve the operating position of Council and the availability of cash.
2. Improve Council's investment in assets.
3. Enhance governance, prioritisation and decision making of the Council.

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4. Enhance productivity and efficiency of Council services.

The list of 27 recommendations are extensively detailed in the Executive Summary (page vi) of the independent Financial Sustainability Review report. A summary of the recommendations are as follows:

1. Increase generation of revenue through Special Rate Variations (SRV) and reviewing of pricing for fees and charges.
2. Decrease operating costs through efficiency and productivity improvements, and service level reviews.
3. Revise current range and levels of service, including previously endorsed/approved plans.
4. Asset Management including creation of condition assessed asset registers, enhanced planning for optimal asset renewal and maintenance, and enhanced maturity in asset management plans (AMPs) and governance.
5. Establish governance and enhanced capital works planning framework – establish a Project Management Office (PMO) function with oversight of project prioritisation/selection, with a focus on renewals.
6. Require business case and capital expenditure reviews for new assets and services.
7. Review and update the contributions plan/schedule of works – noting this process is already underway.
8. Explore opportunities to sell underutilised assets to reduce borrowings and to fund one-off projects/programs.
9. Increase water pricing to enable a dividend payment from Water Fund to General Fund.
10. Enhanced monitoring and accountability.

The review picked up on a number of themes that have been ongoing within the organisation including the need to move from a reactive approach into a planned approach to maintaining infrastructure. The review identified that the cost for maintenance of reactive work is at least 3 times the cost of planned maintenance, with breakdown maintenance costing more than 5 times the cost to maintain assets.

Proposed Special Rate Variation

The findings of the Financial Sustainability Review are that Council will need to consider a permanent Special Rate Variation (SRV) under s508A of the Local Government Act to reinstate its unrestricted cash reserves, fix the structural operating deficit position and to generate sufficient cash from operations. This is an unavoidable option and is urgently required to be implemented in the 2024/25 financial year.

The current lack of available cash and the intervention that the Council is taking in the 2023/24 financial year to avoid using restricted cash puts Council at considerable risk. Council should also expect that natural disasters will continue to occur, and it needs to build resilience and planned mitigation strategies to be able to manage the impact disasters are likely to have upon the financial position of the Council.

AEC facilitated a workshop with Councillors, Executive Management Team and Chief Financial Officer to define a vision for a financially sustainable Shoalhaven City Council. It was agreed that Council needs at least \$15 million in unrestricted cash to be able to appropriately respond to future disaster events.

Whilst efficiency targets and service level reviews will provide Council with some cost savings and subsequent cash increases, these options take time to implement and will not provide Council with the amount of cash it urgently needs.

Given Council's obligations to employ sound financial management principles and ensure that it generates sufficient revenue to provide the level and scope of services and infrastructure agreed with its community, it is critical that Council acts urgently to ensure its ongoing financial sustainability.

The Executive Management Team strongly recommends that Council inform the community about applying to the Independent Pricing and Regulatory Tribunal (IPART) for a SRV above the usual rate peg commencing from the 2023-2024 financial year.

Council is considering the following options to implement the increase in general rate revenue:

Options Being Considered	2024/25	2025/26	2026/27	Cumulative Increase
Option 1 – One Year SRV (including estimated rate peg of 3%)	32.0%	3.0%	3.0%	40.04% (over three years)
Option 2 – Three Year Staged SRV (including estimated rate peg of 3%)	18.0%	13.0%	8.0%	44.01% (over three years)

Subsequent to a briefing held with councillors on 9 November 2023, an alternative 'Option 3' was proposed by a Councillor – being a two year SRV of 18% and 18% (including rate peg). Whilst this most recent option has not been included in the updated draft Resourcing Strategy, this option has been modelled and the cumulative rate increase over three years would be 44%. The benefit of Option 3 over Option 2 is that Council's unrestricted cash would be restored to \$15 million in year 2, and an additional \$5.5 million would be available for investment in asset renewals in 2025/26.

Failure to pursue an SRV does not address the significant financial situation that exists. It would not take long for Council's financial reserves to be drained, risks would escalate and services would need to be cut. If a natural disaster was to occur Council would not have the available cash to respond.

Business Improvement Program

Following detailed research on sector best practice over the past 12 months, Council has developed and resourced a formal Business Improvement Program. The program will meet new requirements to regularly review services under the legislated Integrated Planning & Reporting Framework. With oversight by Council's Audit Risk and Improvement Committee (ARIC), the service review program will systematically work across Council services to identify and implement efficiency and productivity improvements. ARIC has been regularly updated during the program development and through quarterly DPOP performance reports.

Reviews will work through a staged approach to understand the performance of each service, assess appropriate levels of service, investigate process improvements and embed efficiency metrics in order to track any improvements. Council has recently created a dedicated Business Improvement Team from existing redeployed staff to deliver the program and support coordinated service reviews across the organisation.

A new draft service catalogue has also been created which will provide the basis for future financial reporting on the cost of service delivery. The annual Business Improvement Review Program will be developed in consultation with the Executive Management Team and Councillors and will form part of the adoption of Council's Delivery Program Operational Plan each year.

Priority assessment for inclusion of services to review is underway following additional input from the independent review. Consideration will be given to service areas with greatest

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opportunity to decrease operating costs and contribute to the overall target of \$3 million in efficiency savings over the next four years.

Updated Resourcing Strategy

The Resourcing Strategy contains the following elements:

- Workforce Management Planning Strategy 2022-26 (updated 2023-24)
- Asset Management Strategy 2022-26 (updated 2023-24)
- Information Communication Technology Strategy 2022-26 (updated 2023-24)
- Long Term Financial Plan 2024-2034.

The updated draft Resourcing Strategy 2022-2026 is included as **Attachment 2**.

The LTFP was last adopted by Council in June 2022. Since then, Australia has experienced an unprecedented rise in interest rates and inflation, causing substantial cost increases to the delivery of council services, asset maintenance and asset construction. Whilst costs have increased significantly, Council's revenue has experience limited growth, further deteriorating available unrestricted cash.

The updated draft LTFP 2024-2034 recognises the decreased unrestricted cash reserves, the escalation in current and future costs, and the subsequent impacts on infrastructure renewal.

Minor amendments have been made to the other components of the Resourcing Strategy, ensuring that the strategies align with the updated draft LTFP and the key recommendations including improvement of asset maturity in our workforce and ICT systems.

It is recommended that Council place the updated draft Resourcing Strategy on public exhibition for 28 days. A final Resourcing Strategy with submissions and responses will be provided to Council on 29 January 2024 to consider for adoption. Applications to IPART close on 5 February 2024, so the Finance Team will begin preparing the detailed information required in anticipation of the decision of Council.

External Consultations

AEC Group were engaged to provide an independent report on the Financial Sustainability of Council.

Community Consultations

Council will inform the community of the proposed Special Rate Variation (SRV) options as detailed in the report and attachments.

The objectives of the community consultation are to:

- Present the proposed SRV options.
- Identify the impact of the SRV options on ratepayers.
- Communicate the timeline and process for any potential SRV application.
- Exhibit the updated draft Resourcing Strategy 2022-2026 (updated 2023-24) including the draft LTFP 2024-2034 demonstrating the impact of the proposed SRV on Council's operating results from 2024-25 for feedback and final endorsement of Council.

Key engagement activities include:

- A direct mailout to all ratepayers

- Media advertising
- Social media alerts
- Have our say page (website)

Council will engage with the community to identify areas of focus for targeted efficiency savings. Using information gathered through the community satisfaction survey, Council will seek feedback on the service areas that the community believe can be reduced, or performed more efficiently.

Financial Implications

The Financial Sustainability Review has outlined the projected financial position. The review indicates that Council needs to act immediately to address its financial challenges, or it will become unsustainable.

There is considerable financial risk to the organisation if corrective action is not taken, including Council breaching its restricted cash requirements. Council needs to restore its unrestricted cash to a minimum of \$15m ensuring Council is equipped to respond to future natural disasters. Further Councils current financial position does not allow for Council to actively deal with its backlog of infrastructure, not the adequate funding of asset renewals moving forward.

Risk Implications

Council does not hold sufficient unrestricted cash impacting on the ability to respond effectively to natural disaster events. If Council reaches the point where it has to take drastic actions in a reactive manner it is likely to result in negative media attention as seen with other councils in recent times.

Also, as the conditions of assets continues to deteriorate and funding needs to be diverted to increased reactive maintenance, the community will have a worse experience from poorer quality infrastructure and reduced service over time. Poor reputation not only affects council and its employees, but the future workforce and the ability to attract good applicants to work with Council.

LOCAL GOVERNMENT ACT 1993

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.