

Extra Ordinary Meeting

Meeting Date: Tuesday, 11 June, 2024
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 Futures

CL24.174 DPOP 2023-24 - Quarterly Performance and Budget Report (January - March) 1

CL24.174 DPOP 2023-24 - Quarterly Performance and Budget Report (January - March)

HPERM Ref: D24/135395

Department: Corporate Performance & Reporting
Approver: Kerrie Hamilton, Director City Performance

Attachments:

1. Delivery Program Operational Plan - Quarterly Performance Report 2023-24 - January to March (under separate cover) [⇒](#)
2. Quarterly Budget Review Report - March 2024 (under separate cover) [⇒](#)
3. Current Capital Projects over 400K Status Report as at 24 May 2024 (under separate cover) [⇒](#)

Reason for Report

This report outlines Quarter 3 performance (January to March 2024) against actions and targets set in Council's 2023-24 Delivery Program and Operational Plan (DPOP). Also, in accordance with Regulation 203 (1) of the Local Government (General) Regulation (2021), the responsible accounting officer must prepare and submit to Council, a Budget Review Statement after the end of each quarter. This has been carried out for the third quarter of the 2023/24 financial year.

This report also seeks Council approval to enter into loan agreements with New South Wales Treasury Corporation (TCorp) and other commercial lenders, for both General Fund and Waste Fund borrowings that have previously been endorsed by Council on 6 May 2024.

Recommendation

That Council:

1. Receive the March Quarterly Performance Report on the 2022-2026 Delivery Program and 2023-2024 Operational Plan and publish on Council's website.
2. Receive the March 2024 Quarterly Budget Review Report.
3. Adopt the budget adjustments as outlined in the March 2024 Quarterly Budget Report Document.
4. Enter negotiations with New South Wales Treasury Corporation (TCorp) and other commercial lenders, for a 10 year loan agreement of \$15,856,000 to cover the General Fund borrowing requirements that have been previously endorsed by Council and included in the 2023/24 Delivery Program and Budget (MIN23.326).
5. Delegate authority to the Chief Executive Officer to execute the loan agreement.

Options

1. Adopt the recommendation

Implications: Council will be able to take up loans and fund capital projects in accordance with the adopted 2023/24 Delivery Program and Budget. The impact of this resolution is that it will amend the previous resolution of the Council MIN24.245.

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2. Adopt an alternative recommendation

Implications: Staff will be required to rework the quarterly performance and budget report in accordance with the alternative resolution and Council will need to seek borrowings from other financial institutions and pay higher interest on loans or delay capital works.

Background

Section 404 of the Local Government Act 1993 requires the General Manager (Chief Executive Officer) to provide progress reports to the Council with respect to the principal activities detailed in the Delivery Program (Operational Plan) at least every 6 months. Furthermore, all Councils must continue to consider a Quarterly Budget Review report.

Clause 203 of the Local Government (General) Regulation 2021 requires the Responsible Accounting Officer (Chief Financial Officer) to prepare and submit to the Council, a Quarterly Budget Review Statement that shows, by reference, the estimates of income and expenditure set out in the Operational Plan and a revised estimate of the income and expenditure for the full financial year.

The Responsible Accounting Officer is also required to report as to whether they believe the financial position of the Council is satisfactory, having regard to the original estimate of income and expenditure.

The March 2024 Quarterly Budget Review Statement (QBRS) includes an analysis of the year-to-date result and the reasons for the major variances from the previously adopted Budget, by fund and for each Directorate. Any proposed changes to the budget are included in the attached March Quarterly Budget Review Statement.

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Summary of Delivery Program Operational Plan 2023-24 Performance

Table 1 below provides breakdown of performance as at 31 March 2024 across each of the key themes outlined in the Community Strategic Plan - Shoalhaven 2032.

Table 1: Action performance as at 31 March 2024 by Community Strategic Plan 2032 Theme area

CSP Theme	Progress snapshot
Resilient, safe, accessible and inclusive communities	89% actions on track or completed
Sustainable, liveable environments	77% actions on track or completed
Thriving local economies that meet community needs	87% actions on track or completed
Effective, responsible and authentic leadership	89% actions on track or completed

Of the 151 DPOP actions, one further action has been rated as ‘Completed’ (1.1.03.02 - Conduct accessibility audits of public & community buildings) alongside the two actions completed in Quarter 1 and 2 (4.2.01.05 - Formalisation of Legislative Compliance Framework and 4.1.01.02 – Implement a ‘voice of the customer program’) and 126 items rated as ‘On Track’.

Key Highlights

Council has consistently delivered a range of services, projects and activities which work towards achieving the 11 key priorities outlined in Council’s Delivery Program 2022-26. Performance comments are provided in the report against each of the 151 actions and related targets in Council’s 2023-24 Operational Plan.

The complete DPOP Quarterly Performance Report (January - March) is included as **Attachment 1**.

Council achievements between January and March 2024 include:

- Supported 49 Parkcare Groups who volunteered their time to improve local parks and reserves, with 350 volunteers and 978 volunteer hours contributed this quarter.
- Favourable weather conditions for aquatics and excellent participation for Learn to Swim and Health & Fitness has seen strong visitation numbers across Council's aquatic and leisure centres.
- Regular communication and two-way information sharing with Community Consultative Bodies included weekly DA tracker, Youth Week Transport for NSW, Medium Density Review, Grant information and updates on SRV FAQs.
- Floodplain risk management investigations underway include the Clyde River Flood Study, Willinga Lake Flood Study, Updated Broughton Creek Flood Study, ICOLL Catchments Flash Flood Warning System Scoping Study and the Lower Shoalhaven River and St Georges Basin Floodplain Risk Management Study and Plans.
- Projects to mitigate risk to critical water supply and wastewater assets include the Cambewarra Dam Decommissioning, Erowal Bay Sewer Relocation project and Wrights Beach Water Main Replacement Project.
- Installation of monitoring sensors using 'Internet of Things' technology to reduce the number of dry weather sewage overflow events. 80 monitoring devices installed in maintenance shafts including at Culburra Beach and Shoalhaven Heads. Curleys Bay monitoring device will help prevent overflows to the oyster harvest areas.
- Tourism and Economic Development are currently working with four new potential Aboriginal Cultural business operators to grow their business plans.
- Civic events held this quarter included the Australia Day Awards, the reopening of upgraded Artie Smith Oval and the arrival of the Broken Obelisk sculpture at the Nowra Art Gallery.

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Requires Attention

Table 2 below outlines the six Action items that have been reported as 'requires attention' as at 31 March 2024. Full performance comments are in the attached report and remedial actions have been reported to senior management.

Table 2: DPOP Actions rated as 'requires attention' as at 31 March 2024.

Ref.	Action	Quarter 3 Comment (summary) Full comments in attached report
2.2.02.01	Assess and determine development applications within legislative timeframes and community expectations	Recruitment is continuing to rectify current staff shortages. Assessment staff are utilising improved assessment processes to reduce assessment time frames including by front loading the assessment process as a means of reducing the need for information requests down the line and by focusing on a timely response to referral requests.
2.3.03.02	Support organisational environmental due diligence	This action relates to the completion of environmental assessments by Council's Land Management Unit. In 2023/24, this primarily includes the completion of Review of Environmental Factors (REF) for existing dog off-leash access areas. Three have been completed and published, eight with a first

Ref.	Action	Quarter 3 Comment (summary) Full comments in attached report
		draft completed, and eight with some work required to complete the first draft.
2.3.03.05	Prepare new, or review existing Bushcare Group Action Plans in consultation with community	Two Bushcare Group Action Plans are with management for approval and four others are at various stages of completion. A Bushcare Coordinator was appointed in January 2024, so these additional four, plus two others, are intended to be completed by June 30 2024.
4.2.01.04	Review and update Council's Business Continuity Planning (BCP) Documents	Review of the suite of individual plans has been undertaken and consultation has commenced with key stakeholders prior to extensive internal consultation process.
4.2.05.04	Develop realistic budget development timetable and meet deadlines	The work completed in building the budgets for 2025 using a more evidence based methodology will make quarterly reviews in 2025 run smoother.
4.2.10.01	Continue to improve finance business partner relationships across the organisation	Finance continues to build on the business partnering model and capacity. Recent resource constraints meant this area will require greater attention next quarter to bring back on track.

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On Hold

Table 3 below outlines the 12 Action items that have been reported as 'on hold' as at 31 March 2024. Full performance comments are in the attached report and remedial actions have been reported to senior management.

Table 3: DPOP Actions rated as 'on hold' as at 31 March 2024.

Ref.	Action	Quarter 3 Comment (summary) Full comments in attached report
1.2.01.01	Undertake strategic investigations to support Arts & Culture in the Shoalhaven	This project remains on hold - the Shoalhaven Regional Gallery Team is rebuilding due to resource constraints. Projects will be re-prioritised and new work programs agreed as resources permit.
1.2.02.01	Progress construction of a new Library at Sanctuary Point	Currently on hold pending financial sustainability decisions.
1.2.03.02	Provide support for volunteer led museums across the Shoalhaven	This program is on hold and will recommence once a full team of staff is recruited.
2.1.03.01	Complete the Pathways Program as listed in the 2023-24 adopted capital works program	Awaiting funding confirmation of \$5M from State government. It is expected that the Funding Deed will be signed in May 2024. As a result, these projects will be scheduled for construction in the 24/25 FY.
2.1.06.01	Maximise water reuse to reduce demand on drinking water supplies	Design for the REMS 2.0 project (900ML dam) is completed. The project is on hold subject to attaining grant funding and the development of biodiversity offset credits.

Ref.	Action	Quarter 3 Comment (summary) Full comments in attached report
2.3.01.01	Delivery of the Shoalhaven Adaptation Plan	Tracking and reporting on the Shoalhaven Adaptation Plan was largely on hold during this period. Continued progression will occur towards the end of this financial year, and throughout 2024/25.
2.3.02.01	Delivery of the Sustainability and Climate Action Plan	Tracking and reporting on the Sustainability and Climate Action Plan was largely on hold during this period. Continued progression will occur towards the end of this financial year, and throughout 2024/25.
2.3.03.08	Progress planning and scoping for an Urban Greening Strategy	Council is still awaiting the grant agreement from NSW Department of Planning and Environment.
2.3.04.01	Delivery of Sustainable Living program for community members	Tracking and reporting on the Sustainable Living Program was largely on hold during this period. Continued progression will occur towards the end of this financial year, and throughout 2024/25.
3.1.03.02	Deliver an event support program to drive off-season visitation to reduce seasonality of tourism employment opportunities	The February 2024 round of the Event Support Program is on hold due to Council's current Financial Sustainability measures. The round received 33 applications for new events prior to the funding cuts, resulting in no new funding being awarded.
3.2.02.02	Hold community events as arranged and supervised by the Nowra CBD Revitalisation Committee that draw people to the Nowra CBD	All Nowra CBD Revitalisation Committee Events are currently 'On-Hold' with no scheduled events.
4.1.01.04	Develop a Customer Experience Strategy to improve customer centricity across Council	The Customer Experience strategy work will commence in Q4.

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Deferred

Table 4 below outlines the four Action items that have been reported as 'deferred' as at 31 March 2024. These items do not have identified budget or resources to proceed in 2024/25 and may be considered in budget deliberations for inclusion in a future DPOP. These are in addition to the four action items deferred in Quarter 2.

Table 4: DPOP Actions rated as 'deferred' as at 31 March 2024.

Ref.	Action	Quarter 3 Comment (summary) Full comments in attached report
1.2.01.04	Deliver a mural art project on Shoalhaven Water infrastructure that will engage with	Council is no longer proceeding with this project. The saving of \$95,000 was adjusted in the Water Fund operational budget in the Quarter 2 budget review.

Ref.	Action	Quarter 3 Comment (summary) Full comments in attached report
	local community and artists	
1.3.02.02	Continue staged implementation of Asset Management Plans across Shoalhaven Swim Sport Fitness including Destination Parks, sports fields and showgrounds	50% Complete. Asset Management Plans have been completed for four Showgrounds - Nowra, Berry, Kangaroo Valley and Milton Showgrounds. No budget has been identified to progress Destination Parks or Sportsfields Asset Management Plans at this stage.
4.1.01.05	Work collaboratively with Management Committees to expand the Bookable system to include facilities operated by Management Committees	The phase 3 project to bring Management Committees into Bookable is deferred until funding is available. As part of business as usual, Customer Experience will continue to work with Management Committees on the Bookable transition, as prioritised by the relevant Facility Officer.
4.3.01.05	Commence an independent review of Council's Community Consultative Body model to ensure equitable reach and representation	The progression of this project is funding dependent. Staff will continue to investigate/monitor for further funding opportunities.

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March 2024 Quarterly Budget Results Overview

The main focus during the March 2024 quarter has been the completion of Council's Financial Sustainability Review (FSR) project and the consideration of an application to IPART for a Special Rate Variation (SRV). The FSR project was commissioned in response to a Council resolution passed at the 26 June 2023 Ordinary Council Meeting. The results of this review were reported to Council at an Extraordinary Meeting on 20 November 2023 (CL23.420, MIN23.667).

In response to the FSR project, Council staff recommended that Council apply to IPART for a SRV for the 2024/25 financial year. This recommendation was reported to Council at an Extraordinary Meeting on 20 November 2023, and Council accepted the recommendation to engage with the community on the proposed SRV. Community engagement was undertaken during the period 23 November 2023 to 24 January 2024. The community was invited to complete a survey and ask questions via the Get Involved section on Council's website.

The results of the community engagement were reported to Council at an Ordinary Meeting on 29 January 2024. As part of a suite of recommendations, including those raised through the FSR project, Council officers recommended that Council proceed with an application to IPART for a SRV.

Council resolved under MIN24.44 not to proceed with an application for a special rate variation with IPART. A special rate variation is considered to be a necessary step in improving Council's financial position. Instead, Council resolved to pursue all other recommendations in the Financial Sustainability Review report (prepared by AEC) as well as additional actions to improve financial sustainability. A dedicated Financial Sustainability

project team has been established to coordinate Financial Sustainability actions and initiatives in response to MIN23.667, MIN24.44 and from report CL23.420 – AEC Financial Sustainability review from November 2023. During the March quarter, monthly reports were presented to Council on the Financial Sustainability project. Further, a website was established to share with the community work undertaken to improve Council's financial sustainability.

The key focus during the quarter was the development of a sustainable FY2024/25 draft budget, as well as the consideration of current capital works projects to determine their status, and whether Council will continue to dedicate its finite resources to them. A number of resolutions were passed in the quarter to defer projects until Council's financial position improved. In the June Quarter, the focus has shifted to Council's internal efficiencies review with the commencement of our detailed service reviews and other efficiency initiatives. More detail will be provided in June Quarterly reporting, and via Council's financial sustainability website.

As Councillors are aware, Council has limited unrestricted funds. This is a matter for concern and was addressed in the FSR report. Management of Council's cash position continues to require considerable effort from the Finance and Disaster Recovery Teams to ensure that Council's restricted cash reserves are not breached – given the significant on-going expenditure on disaster recovery works and the resulting processing and receipt of recovery and other grant funding acquittals.

At 31 March 2024, Council has spent \$16.8M of General Fund cash in advance for grant funded projects whereby the grant monies have not yet been receipted. This is split between \$7.3M on natural disaster funded projects and \$9.5M on other general fund grant funded projects. This resulted in a preliminary negative unrestricted cash position of \$18.8M.

As explained later in the report, internally restricted funds have again been temporarily reallocated in accordance with Council's Liquidity Policy to ensure that external restriction remain protected. This \$16.8M grants in advance adjustments is a significant improvement on the \$35M grants spent in advance reported at 30 June 2023, however is more than the \$13.8M reported at 30 September 2023 and \$8.2M reported at 31 December 2023.

The reason for the increase grants spent in advance as at 31 March 2024 is due to an increase in monies spent on natural disaster works for which Council has not been reimbursed (December 2023: NIL, March 2024: \$7.3M), as well as a smaller increase in other general fund grant projects that are required to be completed by 30 June 2024 for which acquittals will be submitted after 30 June 2024. Council is in active discussion with Transport for NSW and Reconstruction Authority to ensure its natural disaster expenditure is recovered by 30 June 2024, resulting in NIL spent in advance for natural disaster projects.

However, for non-natural disasters grant funded projects it is anticipated that the amount spent in advance will grow in Quarter 4 due to the timing of works being completed and acquittals submitted, and paid. This will place pressure on Council's already concerning cash position for its end of financial year reporting.

Preliminary General Fund Year End Results and Quarterly Review Movements

General Fund

General Fund operating income before capital grants and contributions was higher than the forecast by 1.9% (\$242M actuals vs \$237.4M budget, favourable). Whilst operational grants were behind budget mainly due to the timings of grants income, this was offset by additional interest income for this quarter. Capital grant income tracked ahead of year-to-date budget due to the receipt of natural disasters grant income which is to be allocated to projects once final acquittals are approved.

The General Fund operating expenses are 0.46% below the adopted budget (\$232M actuals vs. \$233M budget, favourable). Employee costs have exceeded budget due to the under

recovery of staff costs to individual projects (both operational and capital), however materials and services are under budget, due to strong fiscal management, and have offset this impact. Budget adjustments have been made in Quarter 3 to partially correct the under recovery of staff costs. Further adjustments will be made in Quarter 4.

The appropriateness of employee cost recovery to individual projects has been reviewed as part of the preparation for FY2025 budget. This will ensure that an appropriate level of employee cost recovery is budgeted for, resulting in a more realistic and achievable employee benefits budget moving forward.

Finance is closely monitoring actual expenditure across Council. The Chief Financial Officer engages with the Executive Management Team, on an at least weekly basis, to provide an update of Council’s finances. In addition, several presentations have been held with the Senior Leadership Team to confirm expectations of strong fiscal management by all budget owners. These messages are then being cascaded throughout the organisation.

Whilst overspends to date have been appropriately managed, further over expenditure is forecast for the remainder of the financial year due to higher than anticipated workers compensation self-insurance costs, and the issues noted with employee job cost recovery detailed earlier in this report. Diligence will continue to be applied and where it is identified the annual budget will be unavoidably exceeded, intervention measures will be implemented and discussed with Councillors.

The following table presents a high-level summary of the budget and movements for the General Fund for Quarter 3 2023/24:

Table 5: General Fund budget movements for Quarter 3 2023/24

(\$'000) Favourable / (Unfavourable)	Current Adopted Budget	March QR Adjustments	March QR Revised Budget	YTD Adopted Budget	YTD Actuals
Net Operating Result	122,752	6,465	129,216	66,879	98,230
Net Operating Result before Capital Grants & Contributions	(19,346)	2,688	(16,658)	4,500	10,111
Net Cash & Investments Movement	(4,498)	30,525	26,027	(26,280)	16,618
Unrestricted Cash Movement	70	0	70	(7,432)	7,610

The net operating result before capital grants and contributions of the General Fund as at 31 March 2024 Quarterly Budget Review, was a surplus of \$10.1M, a \$5.6M favourable variance to the forecasted \$4.5M surplus, mainly due to savings in materials and services and additional interest income.

The proposed budget adjustments do not result in any change to the 30 June 2024 forecast unrestricted cash position. Council staff have worked diligently to ensure that the net impact of all proposed adjustments has minimal impact on Council’s limited unrestricted cash balance. As detailed earlier in this report, it will become increasingly harder to achieve a net NIL movement in Council’s unrestricted cash, and the adoption of a realistic operational and capital budget for FY2025 is of critical importance.

Working Capital

Working Capital is a term used to define the uncommitted component of Council’s net current assets position, or in other words, the balance of uncommitted funds available for discretionary purposes. The working capital position is calculated in accordance with the formula as outlined in Council’s Liquidity Contingency Plan.

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As previously referenced, as at 31 March 2024, Council has spent \$16.8M of General Fund cash in advance for grant funded projects whereby the grant monies have not yet been received.

Conversations have continued with Transport for NSW and Reconstruction Authority regarding receiving funding for Natural Disasters. It is imperative that Council remains cash flow positive when delivering these significant works. Failure to do so places pressure on Council's unrestricted cash position and could result in projects being temporarily suspended until cash is made available. After recent discussions with key stakeholders in the relevant Government Departments, a payment to reimburse Council for Natural Disaster costs already incurred is expected to be made prior to 30 June 2024.

A consequence of using working capital to fund natural disasters prior to receipt of funding is that Council's unrestricted cash balance as at 31 March 2024 is in deficit by \$18.8M. To restore unrestricted cash back to NIL, internal restrictions were utilised as part of Council's Liquidity Contingency Plan. However, the restored (full) value of internal reserve balances have been used when calculating the working capital position below.

Positive cashflows in the June quarter from the abovementioned Natural Disaster Grants are anticipated to improve Council's working capital position, and further to this the annual prepayment of the Federal Assistance Grant (which relates to the 2024/25 financial year and is quarantined in an internal reserve as at 30 June 2024) is also anticipated to be received.

Table 6: General Fund working capital position at 31 March 2024

Description		(\$'000)
Add	Current Asset	141,564
Less	Current Liabilities	106,547
Calc	Net Current Asset	35,017
Less	External restrictions	85,473
Less	Internal restrictions	22,526
Add	Provisions (Liabilities not expected to settle in 12 months)	19,521
Add	Current liabilities that are covered by externally restricted assets	30,155
Add	Current liabilities that are covered by internally restricted assets	10,169
Calc	Available working capital	-13,138
Calc	Working Capital as a % of Current Liabilities	-12.33%

Council working capital is -12.33% at 31 March 2024 which is below the benchmark set in the adopted Liquidity Contingency Plan of 5%.

In assessing this working capital position, it is important to recognise that it is calculated at a point in time. At 30 September Council's annual rates and charges are levied in full (levied during July of each year.) Once levied, a receivable is raised (current asset) to recognise the total cash Council is entitled to. This results in a large current asset being recognised at each September quarter, and it will reduce evenly throughout the year as money is collected and spent in accordance with Council's adopted budget. The result at 31 March 2024 is a reduction from the 31 December 2023 working capital position (12.48%).

Cash and Investments

Council held \$155M in cash and investments at 31 March 2024. This is split between amounts externally restricted, internally restricted, and amounts unrestricted. Council's cash and investments are reported in **Attachment 2** – Quarterly Budget Review Report - March 2024.

The funding, and ongoing management, of the grants spent in advance has placed significant pressure on the management of Council's cash resources, and it will continue to

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be a challenge until Council's unrestricted cash levels are reinstated to the pre COVID amounts.

Preliminary Water Fund Year End Results and Quarterly Review Movements

The revenue for Water Fund is above the budget forecast by 3% (\$28.0M actuals vs \$27.1M budget, favourable). The operating income for Water fund was \$1.2M ahead of budget (favourable) due to an increase in access charges and interest income. Operating expenses are \$30K under budget (favourable) – the overs in internal expenses are reduced by the savings in materials and employee costs.

The revenue proposed adjustments are to make rates 75% of the year-to-date budget, and user charges 80% of the year-to-date budget. The grant received adjustment is to move the grant received into the next financial year.

The operating expenditure proposed adjustment banks the savings of materials, but requests extra budget to cover forecasted costs in Q4.

The impact of the proposed adjustments to Water Fund's are to reduce Water's operating deficit by \$93K (favourable), and to increase Water Fund's cash movement by \$1.4M (favourable).

Table 7: Water Fund budget movements for 2023/24

(\$'000) Favourable / (Unfavourable)	Current Adopted Budget	March QR Adjustments	March QR Revised Budget	YTD Adopted Budget	YTD Actuals
Net Operating Result	(3,478)	93	(3,385)	(1,440)	(544)
Net Operating Result before Capital Grants & Contributions	(6,012)	237	(5,775)	(3,682)	(2,433)
Net Cash Movement	(14,619)	1,388	(13,231)	(11,297)	(7,090)

Preliminary Sewer Fund Year End Results and Quarterly Review Movements

The revenue for the Sewer Fund exceeds the budget forecast by 6.3% (\$48.1M actuals vs \$45.3M budget, favourable) due to additional access and usage charges. The operating expenses for the Sewer Fund were under the budgeted forecast by 1.8% (\$39.9M actuals vs \$40.7M forecast, favourable), due to the savings of internal waste management reduced by employee costs going over budget. The reduction of internal waste management is due to a more cost-effective method of disposing of biosolids.

The proposed revenue adjustments are to capture the extra access charges and usage charges.

The proposed operational expenditure adjustments are to bank the savings in internal waste management, and to supply extra budget to materials for predicted expenditure in Q4.

The impact of the proposed adjustments to Sewer Fund are to increase Sewer's operating surplus by \$2.8MK (favourable), and the increase Sewer Fund's cash movement by \$845K (favourable).

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Table 8: Sewer Fund budget movements for 2023/24

(\$'000) Favourable / (Unfavourable)	Current Adopted Budget	March QR Adjustments	March QR Revised Budget	YTD Adopted Budget	YTD Actuals
Net Operating Result	6,714	2,754	9,468	4,610	8,197
Net Operating Result before Capital Grants & Contributions	3,641	2,806	6,447	2,761	5,921
Net Cash Movement	(9,086)	845	(8,242)	(3,500)	3,539

Capital Projects Progress Overview

Council continued to refine the FY 2023/24 capital works projects throughout the March 2024 quarter. Council reviewed the committed capital works program adopted as part of the 31 December 2023 Quarterly Budget Review and identified projects which were to be rephased into FY 2024/25 due to timing of delivery, or because there is a need to reallocate general fund cash to other FY2023/24 operational priorities.

This review resulted in:

- Carry forwards and revotes of \$42M
- Of the \$42M, there are 10 projects totalling \$18M that had not commenced and have been deferred until FY2024/25 (revotes)
- \$1.75M general fund was removed and reallocated to other FY2023/24 priorities and will not require funding to be replenished in future years

Carry forwards and revotes will be considered as part of Council's post exhibition changes, with approved projects being included in the final adopted FY2024/25 capital works program.

Status update of current FY2023/24 capital projects

Attachment 3 provides a detailed update as at 24th May 2024 on the progress of 107 major capital projects with an annual budget allocation of over \$400K for each project (total budget of \$210M) which represents 92.23% of the adjusted annual capital budget of \$228M.

As at 24 May, 74 projects remain on track, 5 have been completed, 10 are asset in use, 2 are under close monitoring and 16 were flagged as on hold due to timing with other works in conjunction, delays in design and other external factors.

2023/24 Council borrowings

On 6 May 2024, Council resolved to enter into a 10 year loan agreement with New South Wales Treasury Corporation (TCorp) for \$15,856,000 (MIN 24.245 refers).

That Council:

1. *Enter into a loan agreement, with New South Wales Treasury Corporation (TCorp) for \$15,856,000 (to be repaid over 10 years with an indicative interest rate of 5.07%) to cover the General Fund borrowing requirements that have been previously endorsed by Council and included in the 2023/24 Delivery Program and Budget (MIN23.326).*
2. *Delegate authority to the Chief Executive Officer to execute the loan agreement."*

After further consideration of Council's long term financial sustainability review, Council seeks to negotiate with commercial lenders in addition to TCorp. It is anticipated that commercial lenders may provide Council with more flexible loan products, which will better align with adopted strategy to repay debt utilising cash proceeds from Council's land sales.

The proposed amount and term of the loan will remain unchanged.

Conclusion

Council's continues to operate under difficult financial circumstances. Operating costs continue to rise at a rate that are exceeding the legislative rate peg, creating a further gap between its operating revenue and operating expenditure.

As detailed in the Financial Sustainability Report presented to Council on 20 November 2023, Council's financial position is deteriorating and will continue to do without extreme intervention. The current lack of available cash and the effort that Council staff are 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 placing more pressure on its finite resources (2 natural disaster declarations have already occurred in FY2024 with the latest being April 2024).

While improvements to the efficiency and productivity of service delivery will assist in closing the gap between revenue and costs these options take time to implement. There is a need for Council to significantly increase the revenue generated from operations to provide sufficient funding to maintain service delivery and to provide contingency funds to enable Council to respond to future disaster events, or significant service cuts will need to be implemented.

Internal Consultations

Council staff from across the organisation have provided information to compile this report.

External Consultations

Nil.

Community Consultations

The community is consulted via public exhibition as part of the development of the DPOP and Budget each year. Subject to Council's endorsement, the Quarterly Performance report will be made available on Council's website. A range of other communication methods may also be used to communicate the outcomes of the report including performance highlights across Council's social media platforms.

Financial Implications

2023/24 Council borrowings

It is important for Council to gain the best interest rates and to maximise its flexibility on borrowings. Flexible loan products allow Council's to repay debt early with lower break fee costs.

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.