

Ordinary Meeting

Meeting Date: Monday, 08 April, 2024

Location: Council Chambers, City Administrative Building, Bridge Road, Nowra

Time: 5.30pm

Membership (Quorum - 7)

All Councillors

Addendum Agenda

Reports

CEO

CL24.95 Financial Sustainability monthly report1

CL24.95 Financial Sustainability monthly report

HPERM Ref: D24/122268

Department: Financial Sustainability

Approver: Robyn Stevens, Chief Executive Officer

Reason for Report

The purpose of this report is to adopt the recommendations tabled in the Financial Sustainability workshops and report the status of the Financial Sustainability project.

Recommendation

That Council

1. Endorse placing the Ulladulla skate park construction on pause until Council's financial position improves (unfunded \$1.8 million)
2. Endorse placing the Bay and Basin skate park construction on pause until Council's financial position improves (unfunded \$885,000)
3. Receive a separate report on the Ulladulla Harbour berthing facility and Ulladulla Harbour boardwalk and carpark projects to support financial sustainability measures.
4. Receive a separate report on the Land Sales Strategy to support financial sustainability measures.

Options

1. Adopt the recommendation as proposed.

Implications: Council staff will communicate decisions with impacted community groups and key project stakeholders.

2. Adopt an alternative recommendation.

Implications: The financial benefits identified in this report may be reduced and lessen the positive impact on Council's financial sustainability issues.

Background

In November 2023, AEC provided a report (CL23.420) to Council on its financial sustainability. In this report, Council was informed that the general fund net operating position has been in a deficit position over the past eight years and there is a structural deficit to fund recurrent expenditure of \$25-35 million per annum. AEC made 27 recommendations, including an SRV, and that all had to be implemented to ensure Council's financial sustainability.

In January 2024, 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 AEC report as well as additional actions to improve financial sustainability.

The Financial Sustainability project 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. The project commenced in February 2024 and has 3 major workstreams:

1. Asset and Project Management

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2. Financial Management
3. Service Planning

The Financial Sustainability project will report to Council monthly on all matters relating to Council’s financial sustainability that were tabled in the November 20 and January 29 Ordinary meetings. This report will provide:

- Summary of work undertaken in the period, including items workshopped with Councillors.
- Status of project workstreams.
- Recommendations to Council to support the improvement of Council’s financial position.

Recommendations may call for projects to be paused until Council’s financial position improves. This means that projects will be reconsidered by Council at a point in time where Council has met the defined measures of financial sustainability:

- Maintain Council’s unrestricted cash reserve at \$15 million.
- Achieve and maintain an operating surplus of at least 4%.
- Met the asset renewal ratio of 85%.

Paused projects are retained on the capital projects list, managed by the enterprise project management office, for prioritisation by Council when funding becomes available.

Internal Consultations

A fortnightly workshop schedule has been agreed with Councillors, with the first workshop occurring on the 20 February 2024. The workshops will explore all financial sustainability items raised in MIN23.667, MIN24.44 and the recommendations from the AEC report CL23.420.

The workshops held to date include:

Workshop	Agenda	Report to Council
Workshop 1 – 20 February	Budget parameters Strategic projects review	CL24.68
Workshop 2 – 5 March	Community donations program Outdoor dining annual fees Strategic projects review	CL24.68
Workshop 3 – 12 March	2024/25 budget workshop 1	Included in this report
Workshop 4 – 19 March	Excess and under-utilised assets Use of consultants and contractors Strategic projects review	Included in this report

In April, Financial Sustainability workshops are scheduled on 4 April (2024/25 budget workshop 2) and 16 April (Asset Management Plans and Service Reviews).

Workshop 3 overview – 12 March

The Mayor and 10 Councillors were present at the 12 March workshop, with apologies received from Cr Watson and Cr Christen.

The agenda for this workshop included:

- An overview of Councillor responsibilities for budget strategy and parameters.
- 2024/25 proposed operating income.
- 2024/25 proposed operating expenditure.
- Introduction to the enterprise project management office (ePMO)

Workshop 3 – summary of financial sustainability items discussed

1. Councillor responsibilities

At the start of the workshop, Councillors were reminded over their responsibility to manage Council's significant finances on behalf of their communities as follows:

- The responsibility and accountability for the financial management of a Council rests with the governing body.
- Council signs off the strategic plan, annual budget, and financial statements.
- Managing Council's money and assets to meet current and future needs.

2. Draft operating income and expenditure

The Chief Financial Officer then took the Councillors through the draft operating income and operating expenditure for Council's general fund based on the adopted 2024/25 budget parameters (MIN24.85). The summary of this discussion is that the draft budget proposed will not improve Council's performance against the OLG's performance indicators. There will be a second 2024/25 budget workshop on 4 April, and separate briefings for waste, water, and sewer charges. From here, the draft 2024/25 budget will go on public exhibition in May 2024 for adoption in June 2024.

3. Enterprise project management office

The Councillors were then introduced to the enterprise project management office (ePMO) and the project lifecycle management (PLM) system. The ePMO has been established in the City Services directorate and is resourced with existing staff from the Technical Services department.

The purpose of the ePMO is to establish a corporate project management framework; promote continuous improvement in the capability and consistency of project management activities throughout the organisation through training and support; assess the readiness of project initiatives; and support the Executive team with prioritisation of projects for funding.

The ePMO recently implemented the project lifecycle management (PLM) system. The PLM system captures all project initiatives through a project mandate. The mandate captures the project scope and objectives, strategy alignment, benefits, dependencies, stakeholders, risks, and funding requests (one-off and impact on ongoing operational budgets). The proposed project mandates are assessed during the capital budget process based on priority and available budget. The major benefit of PLM is the ability to capture more robust project justification and background information to enhance Council-wide budget prioritisation and decision making. PLM also provides a single source of truth on the status of a project throughout its lifecycle.

Workshop 4 overview – 19 March

The Mayor and 10 Councillors were present at the 12 March workshop, with apologies received from Cr Watson and Cr Ell.

The agenda for this workshop included:

- An update of Council’s quarterly budget position.
- An update on property disposal plans and land sales strategy.
- An overview of Council’s leases and license agreements.
- An overview of Council’s use of consultants and contractors.
- A review of 4 strategic projects in light of financial sustainability principles (Ulladulla Harbour Berthing Facility, Ulladulla Harbour Boardwalk and carpark, Ulladulla skate park and Bay and Basin skate park)

Workshop 4 – summary of financial sustainability items discussed

1. Update on Council’s quarterly budget position

The Chief Financial Officer shared the latest quarterly budget review with the Councillors during the workshop. The December 2023 quarterly budget review report (CL24.74) was received by Council on the 25 March and recommended budget adjustments adopted.

2. Property disposal plan and land sales strategy

Councillors received an update on the property disposal plan as part of the review of excess and under-performing assets. This was workshopped as part of the Financial Sustainability project as selling excess and under-performing assets will improve Council’s financial position. The following was discussed in the workshop:

- Staff has undertaken a review and classification of potential property disposals.
- There are four categories being considered as part of the strategy:
 - Isolated and underutilised operational land
 - Potentially strategic operational land
 - Underperforming community facilities
 - Strategic master planning opportunities
- Councillors discussed options for land sales and community engagement.
- A separate land sales strategy report will be received by Council to progress the disposal of excess and under-performing assets discussed in this workshop and support Council’s financial sustainability objective.

3. Leases and licences

Councillors received an overview of the current approach to lease and license agreements, as well as the current rental income received, and the value of subsidy provided by category. These subsidies are reported as a donation in the annual financial report. In the 2022/23 financial year, Council received \$403,137 of income across 164 leases/licences. In the same year, the level of subsidy provided was \$1,385,451. The table below shows the level of rent received and subsidy provided by category.

Category	No. leases	Average subsidy	No. stat min	Rent collected 22/23	Subsidies 22/23
Community	60	81%	14	\$159,074	\$573,780

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Preschools	13	89.23%	0	\$76,464	\$608,903
Golf Courses	2	N/A	2	\$1,110	\$23,390
Mens Sheds	8	N/A	6	\$3,382	\$13,930
Meals on Wheels	6	90% or fixed amount	0	\$5,717	\$49,698
Sports Groups	3	76.53%	0	\$8,473	\$20,211
Telcos	11	35.38%	0	\$148,917	\$59,040
Outdoor dining	61	100%	0	\$0	\$36,499
TOTAL			22	\$403,137	\$1,385,451

The workshop discussion raised that:

- Some rents charged or levels of subsidy granted are inconsistent based on historical agreements.
- When Councillors raise a notice of motion to place a community organisation directly into an available property, this bypasses Council’s expressions of interest process and limits opportunities for other eligible organisations.
- Bypassing the expressions of interest progress does not allow Council officers to assess an organisation’s financial capacity and determine the appropriate subsidy level.

The plan to improve Council’s leases and licenses approach was presented in the workshop as follows:

- a. Review the rental subsidy calculator, including benchmarking with other Councils and considering a cap of the level of subsidy provided.
- b. Investigate better use of existing assets through shared spaces rather than sole occupancy by organisations.

These are long term measures that will not provide an immediate financial benefit to Council, rather a small financial benefit may be recognised when an updated subsidy is applied at lease renewal or for new lease agreements. Implementing this plan will also ensure Council is collecting the appropriate rent from community assets and adopting a consistent and equitable approach within lease categories.

4. Consultants and contractors

During the workshop, Councillors were provided with an overview of how Council use consultants and contractors to support the delivery of the operational plan. Consultants are engaged under contract on a temporary basis to provide recommendations or professional advice to assist decision-making by management. The skills and knowledge of a consultant is usually unique and unable to be found within Council’s talent pool. Contractors are hired to complete a certain service or perform tasks delegated to them.

The level of consultant spend by Directorate in 2022/23 was shared with Councillors:

	Spend 2022/23
Chief Executive Officer	\$ 241,308
City Development	\$ 343,382
City Futures	\$ 276,754
City Lifestyles	\$ 316,926
City Performance	\$ 56,439

City Services	\$ 282,885
Shoalhaven Water	\$ 159,145
Grand Total	\$ 1,676,838

It is anticipated that the level of consultant and contractor use will reduce in the 2024/25 financial year due to a decrease in project activity (paused projects). Managers have also been advised not to engage consultants or contractors unless approved by the Executive Team.

The future plan is for the ePMO to allocate consultant budget corporately based on the agreed priorities. This will ensure that consultancy spend is managed effectively and delivering the best possible value to the community.

5. Ulladulla Harbour Berthing Facility

Project summary	Part of Ulladulla Harbour and Foreshore Improvement Projects to deliver new marina berths within Ulladulla Harbour. Works involve the removal of a rock shelf and other materials from within the Harbour, and the construction of 19 berths for a variety of boats.
Total project cost	\$7,310,000
Funding source	Funded \$3,427,442 Not funded \$3,882,558
Status	Pending additional funding
Impact if 'on hold'	Return grant funding Reputational impact – community and grant bodies
Increase in Operational Costs	TBC – facility requires an operator and maintenance. However, the fees for each berth may cover this.
% renewal	100% new
Staff recommendation	Will be reported to Council separately.

6. Ulladulla Harbour Boardwalk And Carpark

Project summary	Part of Ulladulla Harbour and Foreshore Improvement Projects. Ulladulla Harbour and Foreshore is being revitalised with a new harbour berthing facility, elevated boardwalk and harbourside carpark. <ul style="list-style-type: none"> • Ulladulla Harbour Boardwalk (Stage 3 to 5) • Harbourside carpark (Stage 6)
Total project cost	\$4,686,618
Funding source	Funded \$4,575,686 Not funded \$110,932
Status	Significant project issues and risks being managed by the project team.
Impact if 'on hold'	Return grant funding Reputational impact – community and grant bodies
Increase	Yes – maintenance cost increase

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in Operational Costs	
% renewal	50% renewal and 50% new
Staff recommendation	Will be reported to Council separately.

7. Ulladulla skate park

Project summary	Develop the existing Ulladulla Skate Park to be a regional facility.
Total project cost	\$3,956,263
Funding source	\$106,263 NSW Stronger Country Communities Fund \$1,500,000 NSW Multi-Sport Community Fund \$2,350,000 Loan (\$550,000 spent and remaining \$1.8 million was reallocated to fund other community recreational projects)
Status	Identified as a major project in the 23/24 operational plan, remaining budget rephased to 2024/25. Tender ready design package complete. Cost Estimates received. Grant deed deliverables include amenities which are unfunded. Variation Jan 24 to reduce scope and extend time. Requires ministerial approval. Outcome pending.
Impact if 'on hold'	May result in the existing grants to be returned and additional budget identified to deliver project. Increase in future construction costs.
Increase in Operational Costs	Yes, increase in operational and depreciation costs foreshadowed – TBC
% renewal	80% renewal and 20% new
Staff recommendation	Pause until SCC's financial position improves. Return existing grant funding.

8. Bay and Basin skate park

Project summary	This skate park is stage 1 of the Bay and Basin Community and Sporting Hub development.
Total project cost	Estimated at \$1 million
Funding source	Funded \$115,000 (section 7.11 reserve) Not funded \$885,000 (\$480,000 was to be proposed through general fund allocation in FY 25)
Status	Tender ready design package complete.
Impact if 'on hold'	Reputational risks related to stakeholder expectations. Increase in future construction costs.
Increase in Operational Costs	Yes, increase in operational and depreciation costs foreshadowed – TBC
% renewal	100% new
Staff recommendation	Pause until Council's financial position improves.

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External Consultations

Post Council resolution on the financial sustainability recommendations in this report, consultation will occur with impacted community stakeholders for all decisions to pause projects.

Financial Implications

By adopting the recommendations in this report, the following financial implications will be realised:

- Return grant funding for Ulladulla skate park
- Remove Bay and Basin skate park from potential FY 25 capital funding list

Risk Implications

There may be reputational risks to Council associated with the recommendations in this project to pause projects and programs. The consequence to these decisions may be a loss of trust with key community stakeholders. However, other community members may recognise Council's diligence in making sound financial decisions that improve our long-term financial sustainability, which would have a positive reputational impact.

Return of grant funds may impact the ability to receive future grant funding.