

Extra Ordinary Meeting

Meeting Date: Tuesday, 05 November, 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 Performance

CL24.345 Public exhibition of revised Resourcing Strategy including proposed special rate variation scenarios 1

CL24.345 Public exhibition of revised Resourcing Strategy including proposed special rate variation scenarios

HPERM Ref: D24/459200

Department: Finance

Approver: Robyn Stevens, Chief Executive Officer

Attachments:

1. Workforce Management Strategy - 2024-25 version (under separate cover) [⇒](#)
2. Asset Management Strategy - 2024-25 version (under separate cover) [⇒](#)
3. Information Communications Technology Strategy - 2024-25 version (under separate cover) [⇒](#)
4. Draft Long Term Financial Plan 2025-2034 (under separate cover) [⇒](#)

Purpose:

The purpose of this report is to: advise Council of the issues around its financial position; and to seek a resolution to proceed to community consultation on a potential application to the Independent Pricing and Regulatory Tribunal (IPART).

Summary and Key Points for Consideration:

In accordance with the Office of Local Government (OLG) Integrated Planning and Reporting (IP&R) Guidelines, Council has reviewed its Resourcing Strategy.

The updated elements of Council's draft Resourcing Strategy 2022-26 (version 2024-25) is included as **Attachments 1- 4**.

These draft documents are presented for endorsement by Council. Following a 28-day public exhibition period which will include a community consultation process and community information session, the draft documents and any submissions received will be presented to Council for adoption.

The Independent Pricing and Regulatory Tribunal (IPART) determined a rate peg increase of 3.8% for Shoalhaven City Council's general rates. This report recommends that Council apply the full increase in the 2025/26 financial year

The report also recommends that Council make an in-principle decision to make application to IPART for a Special Rate Variation (SRV) commencing from 2025/26 and that extensive community consultation be undertaken in this regard prior to further consideration by Council.

Recommendation

That Council:

1. Place the updated draft Resourcing Strategy 2022-2026 (version 2024-25), which includes the draft Long Term Financial Plan 2025-2034, attached to the report on public exhibition for 28 days commencing 7 November 2024.
2. That Council commence extensive community consultation regarding the proposed Special Rate Variation in accordance with IPART "Guidelines for the Preparation of an Application for a Special Variation to General Income" For the same period (28 days).
3. Receives a further report regarding the outcomes of the community engagement before

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determining whether to make a Special Rate Variation application.

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. Adopt an alternate recommendation

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 (including safety of Council assets), and further service cuts would be required.

Background and Supplementary information

This report presents an analysis of Council’s current and prospective financial position, outlines cause and effect, and the implications for service levels and impact on residents.

Some of the causes of this position have been building progressively over a long period and some are much more recent. The combined effects of ongoing rate pegging at levels below actual cost, fair value accounting for assets, increasing compliance cost, impacts of natural disasters and growing community expectations have impacted Council’s financial position.

The impact of these financial pressures is that Council’s General Fund is now under unsustainable pressure, and a substantial change in the income/expenditure balance is required.

A summary of Council’s most recent financial performance is summarised below:

- Council has produced a net operating deficit in the last four financial years. The General Fund’s net operating position has been in a deficit position over the past nine years. Financial forecasts indicate a significantly deteriorating operating performance. Without intervention, Council will continue to generate operating deficits over the next 10 years.

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 and relatively flat revenue growth, will only continue to increase the structural deficit.

A comparison of Council’s base rate peg, construction purchase price index, and the consumer price index over the past 5 years is summarised below:

	CPI annual increase	PPI annual increase	Base rate peg
2023/2024	3.8	6.3	3.7
2022/2023	6	6.5	0.7
2021/2022	6.1	12.2	2
2020/2021	3.8	3.3	2.6
2019/2020	-0.3	0.3	2.7
5 year increase	19.4	32	11.7

- Council’s unrestricted cash position has deteriorated from \$19m on 30 June 2019 to NIL on 30 June 2024 in 2024. Had Council’s grants spent in advance not been funded through the temporary reallocation of internally restricted Financial Assistance Grants, the unrestricted cash position on 30 June 2024 would have been negative \$9m.

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- Over the past five years, Council has experienced consecutive disasters, most notably the COVID pandemic, bushfires and floods (15 declared natural disasters). These disasters have significantly impacted on the normal business operations including asset maintenance, 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.
- 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.
- Each natural disaster declaration costs Council in excess of \$600k in unbudgeted works. Access to Disaster Recovery Funding (DRF) requires the payment of an "Opt In Fee" which is not recoverable. This fee equates to 0.75% of rateable income and is capped at 2% per annum if 3 or more disasters are declared. In FY2023/24, Council had 3 disaster declarations, capping our opt in fees at 2% of rateable income totalling \$1.7m in non-reimbursable costs. This was compared to a 3.7% base rate peg applicable that year.
- Council started to report on its building and infrastructure renewal ratio in 2008. During the 16 years Shoalhaven City Council failed to meet the required benchmark (on a consolidated basis) for this ratio (of 100%) in each of the 17 years the ratio has been publicly reported.
- The structural deficits and decrease in cash means that assets are not being replaced at the rate required. This lack of investment in asset renewal has led to a significant deterioration in the condition of Council's assets and has created infrastructure backlog issues.
- In the 2008 audited financial statements, all of council infrastructure assets were rated as either category 1 or 2, category 1 being assets of excellent condition requiring normal maintenance and category 2 being assets in good condition requiring only minor maintenance work. As reported in the 30 June 2024 financial statements, Council assets now hold 49.9% in category 1 and 2, with 50.1% of assets now reported in categories 3 (satisfactory) to 5 (very poor). The longer this trend continues, the cost to renew and address the backlog increases exponentially, creating a risk that council will never be able to repair assets & infrastructure and will be forced to decommission them. If not corrected it will impact service levels and available assets in the community for future generations.
- The large majority of asset renewals is funded by external grants - and this is not sustainable.

In addition to the matters noted above, Shoalhaven City Council has a number of demographic challenges.

Council took steps commencing in June 2023 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.

AEC Group (AEC) was engaged by Council to undertake a Financial Sustainability Review in late 2023. 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
- Would achieve a building and infrastructure renewal ratio of at least 85%

- Whilst maintaining an infrastructure backlog ratio of below 2%
- Was to achieve an operating surplus of 4%

A number of recommendations were made in AEC's independent financial sustainability review (CL23.420) and through resolutions of Council when considering whether to apply for an SRV in January 2024 (MIN24.44).

The financial sustainability project commenced in February 2024, following the commencement of the current CEO. The project coordinates the organisations efforts to address its financial sustainability challenges, through the delivery of agreed actions and initiatives. Council's detailed Financial Sustainability Review Action Plan 2024 - 2027 outlines the actions, outcomes and timeline of the full Financial Sustainability Project. The Plan is available on Council's Financial Sustainability website.

Council has considered many options for improving its financial position. These were reported to Council on 28 October 2024 via the "Productivity and Efficiency Savings Report". To date Council's general fund has saved \$2.4m through recurring operational expenditure savings/additional income generation and has achieved a one-off cash increase of \$698k through asset sales and one-off budget reductions.

Other key priorities Council staff are working on to implement the AEC recommendations and council resolutions include:

- Operational savings goal of \$10m over 4 years – in addition to the savings reported 28 October 2024 via the "Productivity and Efficiency Savings Report, staff will continue to implement savings initiatives at each quarterly review. These savings will be quarantined in an internal reserve endorsed as part of the July-September 2024 Quarterly Budget Review, ensuring transparency to the community and easy tracking of Council's financial achievements.
- Land sales strategy – a combination of industrial and operational land sales have been resolved by Council. \$7m in industrial land sales were achieved in FY2024. A further \$17m is budgeted to be sold in FY2025, and a further \$37m is forecast to be sold between FY2026 and FY2030.
- A detailed review of fees & charges was performed ahead of their implementation from 1 July 2024. Services provided by Council, where a statutory fee does not apply, were reviewed to ensure maximum costs recovery was being achieved where it could be. Council acknowledged that not all services provided can achieve full cost recovery, and many fees will always require subsidisation from Council's general revenue base.
- Structural reform is underway, with a proposal currently being progressed which will, when implemented, achieve \$1.6M in savings. Further to this a review of vacant positions and looking to reduce employee expenses, will be required. As part of this work, avoiding the costs of redundancies where possible will be a consideration. This will be completed prior to the end of the financial year. Council's cash position cannot currently support substantial redundancy or termination payments, and so careful consideration must be given to further structural changes.
- Council has commenced the sale of its underutilised fleet assets, generating \$500k in fleet sales. Council's ongoing operational savings will reduce when assets are disposed of.
- The Material Resource Facility will be operational in late 2025 and will generate an additional income stream of \$77m over 15 years.
- Council's cash position has improved significantly throughout FY2023/24. Negotiation of advance payments for grant funded projects, particularly in the natural disasters space, resulted in several internal reserves being reinstated during the year. Whilst

improvements have been made, more work is underway to ensure Council's unrestricted cash can not only fund grants in advance, but also have a healthy balance available to deal with emergency situations when they arise.

- SCC has reduced its reliance on loan borrowings. The FY2024/25 Delivery Program Operational Plan includes \$3.8m in borrowing for waste funded projects. No other loan borrowings are endorsed for FY2024/25.
- SCC has budgeted to utilise cash generated from land sales in FY2024/25 to early repay its loan borrowings. Council has budgeted for \$30m in loan repayments compared to the \$19m actually repaid in FY2023/24. This is noted in the cash flows statement included in the FY2024/25 Delivery Program Operational Plan.
- Significant progress in the governance of capital work plannings has been made. Council has established its Enterprise Project Management Office (ePMO) and implemented Project Lifecycle Management (PLM) software to assist in the forecasting and ongoing management of individual projects.
- A new Asset Strategy team will be responsible for the management and collection of asset data and preparation of Asset Management Plans (AMP's), and new Asset Planning teams will be responsible for strategic planning of asset renewals and upgrade of Council assets within their respective portfolios.
- A road condition survey is currently being undertaken through an engagement with Infrastructure Management Group, which will provide condition data for road pavements, kerb and gutter and other roadside furniture.
- A governance framework has been established whereby grant applications must be approved prior to an application being submitted. Grant applications must have an identified funding source for any co-contribution required of Council.
- Further, if the project is not already budgeted within the Council's adopted capital works program (and therefore already vetted by the ePMO), a full business case is required, and Council endorsement is to be obtained.
- Council has developed and resourced a formal Business Improvement Program. 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. Savings anticipated to be achieved through the service review program are \$1m.
- 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 increase the revenue generated from operations. This needs to include an increase in the general rate revenue to improve the operating performance of the General Fund.

Proposed Special Rate Variation

Council will need to consider a permanent one year Special Rate Variation (SRV) under s508(2) of the Local Government Act to work towards reinstating its unrestricted cash reserves, fixing the structural operating deficit position and generating sufficient cash from operations. This is an unavoidable option and is urgently required to be implemented in the 2025/26 financial year.

The current lack of available cash and the intervention that the Council is taking in the 2024/25 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.

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.

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. Further land sales are not an ongoing funding source Council can rely on to fund its ongoing operational expenditure.

The Executive Management Team strongly recommends that Council inform the community about applying to the Independent Pricing and Regulatory Tribunal (IPART) for an SRV above the usual rate peg commencing from the 2025-2026 financial year.

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 further service cuts would need to be considered. If a natural disaster were to occur Council would not have the available cash to respond.

At this time, using the data available to Council, an SRV of 29.5% would be required to achieve an 85% renewal spend, and achieve operational surplus from 2027 onwards. However, this scenario would do little to address the significant infrastructure backlog Council faces.

However, due to extensive feedback from community, Council is considering the following options to implement the increase in general rate revenue above the 3.8% IPART rate peg:

Options Being Considered	2025/26
Option 1 – One Year SRV (including rate peg of 3.8%)	8.0%
Option 2 - One Year SRV (including rate peg of 3.8%)	12.0%

All options presented in this report (and Council's Resourcing Strategy) are based on the following assumptions:

- All scenarios achieve the same proceeds from land sales - \$37m generated between FY2025/26 and FY2029/30
- \$10m in operational savings are to be achieved - \$7m in FY2025/26, with an additional \$1m per year in FY2026/27, FY2027/28 and FY2028/29
- Each scenario will achieve \$15m in unrestricted cash during the 10 year LTFP
- No funding is allocated to natural disasters – should an event occur the unrestricted capital spend would need to be allocated to disaster events, or Council unrestricted cash would need to be utilised, increasing the amount of time it would take to achieve \$15m in unrestricted cash.
- The Material Resources Facility will be operational in Q2 FY2025/26 – cashflows generated from this commercial business is forecast as \$35.6m over the 10 year LTFP
- No budget has been allocated for mechanical failure of assets. Any costs arising from mechanical failure of assets are to be met by the unrestricted funds component of the capital works program
- Provision has been made in all scenarios for \$14m of borrowings late in the 2027 financial year, with loan repayments commencing in the 2028 financial year, for the purposes of constructing a library at Sanctuary Point
- Only the mandatory annual dividend paid by Water Fund and Sewer Fund, which is referred to as the tax equivalent component, has been budgeted for as income to

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General Fund. Whilst both funds are forecast to generate operational surpluses, both Funds have forward capital commitments to deliver significant new and renewal capital works. Ageing infrastructure, growth in the LGA, and their existing loan borrowings, results in Water Fund and Sewer Fund needing to retain cash in order to fund their capital works from operations.

The impact of each option on Council's cash position, and investment in asset renewals is detailed below:

Base Case - No SRV (apply rate peg 3.8% only)

- \$2.2m in unrestricted cash at 30 June 2026 (end of year 1) and \$6.79m available for unrestricted capital spend in year 1 (FY2025/26)
- Unrestricted cash will reach \$15m in year 9 (FY2032/33) and a total of \$247.9m will be available for unrestricted capital spend over the life of the plan
- Average building and infrastructure renewal ratio of 57% will be achieved over the life of the plan
- Council will not achieve an annual operating surplus over the life of the plan

Option1 - One Year SRV of 8% (including rate peg of 3.8%)

- \$2.2m in unrestricted cash at 30 June 2026 (end of year 1) and \$10.7m available for unrestricted capital spend in year 1 (FY2025/26)
- Unrestricted cash will reach \$15m in year 9 (FY2032/33) and a total of \$288.7m will be available for unrestricted capital spend over the life of the plan.
- Average building and infrastructure renewal ratio of 63% will be achieved over the life of the plan
- Council will not achieve an annual operating surplus over the life of the plan

Option 2 - One Year SRV 12% (including rate peg of 3.8%)

- \$4m in unrestricted cash at 30 June 2026 (end of year 1) and \$12.7m available for unrestricted capital spend in year 1 (FY2025/26)
- Unrestricted cash will reach \$15m in year 8 (FY2031/32) and a total of \$327.5m will be available for unrestricted capital spend over the life of the plan
- Average building infrastructure renewal ratio of 68% will be achieved over the life of the plan
- Council will not achieve an annual operating surplus over the life of the plan

Council acknowledges that the scenarios proposed do not achieve the principles of financial sustainability as discussed in this report. Whilst each scenario builds unrestricted cash reserves to \$15m over the 10-year LTFP, no scenario achieves a building and infrastructure renewal ratio of at least 85% nor does Council achieve operational surplus in any of the 10 years. This continued underinvestment in renewing Council's asset will result in further deterioration of the infrastructure backlog ratio.

The asset condition data held by Council is outdated and requires a full review before a detailed action plan can be developed to determine the actual amount of funds needed to correct its ageing infrastructure.

In respect of roads assets, a collection of asset condition data is currently underway and due for completion by December this year. The information will be collated, analysed and a contemporary Asset Management Plan (AMP) prepared, consistent with Council's Asset Management Strategy (AMS).

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The work of preparing the AMS and the consequent AMPs will be undertaken by an Asset Strategy team that has recently been created (see earlier in this report) within the Council using existing human resources and budgets and which will have a core focus on the collection and presentation of data to inform better planning and management of community assets into the future.

An AMP for each asset category will be developed or where one exists, it will be contemporised.

The collation of asset condition data will include that information previously made available to the Council by the public. The AMPs will be publicly exhibited for at least 28 days and where it is considered necessary, ultimately reported to the elected Council, seeking its adoption.

It is anticipated that the AMPs will see the quantum of assets and their value, as well as the anticipated value of maintenance, renewal and replacement increase significantly. This is expected to be most acute as it relates to road assets.

Consequently, until Council has the data for various asset categories and has developed the commensurate AMPs, a smaller SRV is proposed at this time to ensure Council mitigates its financial risks.

Once data is collected and AMPs are prepared, exhibited to the community and where it is considered necessary, referred to the elected Council, seeking they be adopted, it will be recommended that Council apply for further SRVs to fund the full cost of remediation works, especially those required to address the quality and safety risks associated with Council's roads.

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Impact on ratepayer assessment

Table 1 below provides the annual rates increase likely to be experienced by the average land value for each rating category, should the proposed SRV be secured. The information provided is an average across the whole of Council including smaller towns and villages.

This is an estimate only – as land is subdivided up until 30 June 2025, there will be marginal increase/decrease to the average land value for each rating category. This will not materially change the amount a ratepayer will be levied under each of the 3 scenarios.

Table 1: Average rate increases in each rating category under proposed scenarios

Options Being Considered	Average FY2024/25	Average FY2024/25 + Base (3.8%)	Average FY2024/25 + 8%	Average FY2024/25 + 12%
Residential	1,499.60	1,556.58	1,619.57	1,679.55
Residential non urban	131.17	136.15	141.66	146.91
Business ordinary	43.10	44.73	46.54	48.27
Business Nowra	4,529.64	4,701.77	4,892.02	5,073.20
Business Industrial Commercial	2,424.19	2,516.31	2,618.12	2,715.09
Business Major Retail Nowra	78,795.10	81,789.31	85,098.71	88,250.51
Business Major Retail Vincentia	41,159.50	42,723.56	44,452.26	46,098.64
Farmland	3,078.83	3,195.82	3,325.13	3,448.29
Farmland dairy	2,289.75	2,376.76	2,472.93	2,546.52

The 2024/25 average residential rate as levied 01/07/2024 was \$1,519.12. The average residential rate drops by \$19.52 to \$1,499.60 on 30/06/2025 due to an expiring special rate. (the expiry forming a new baseline). This provides a financial benefit to each residential rate payer.

Demographic analysis

A demographic analysis of the Shoalhaven LGA has been undertaken to determine the community's capacity to pay, compared to other councils in Regional NSW. Based on figures from the 2021 Census, this analysis examined several factors, including age profiles,

household incomes and occupations, housing tenure, housing stress, and measures of socio-economic advantage and disadvantage. These figures were then localised to consider underlying land values, and the potential impact of rate rises on different communities across the Shoalhaven LGA.

Compared to Regional NSW, Shoalhaven has a lower proportion of children (under 18), and a far greater proportion of people aged over 60, reflecting its appeal as a retirement destination. Almost 43% of all households in Shoalhaven own their own home, compared to 36% in Regional NSW. In many coastal and high amenity localities, there is also a strong correlation between high proportions of older people and high levels of home ownership, resulting in lower levels of housing stress.

In 2021, the median weekly household income for Shoalhaven was \$1,250 compared to \$1,466 for Regional NSW. This lower figure can be attributed, in part, to the high proportion of older people in Shoalhaven. However, a comparison of Shoalhaven's incomes with NSW indicates that, of the top five industry sectors of employment in Shoalhaven, all except one earned the same or higher average annual salary than NSW in the same sector of employment. The top five industry sectors of employment in Shoalhaven were (in order) Health Care and Social Assistance, Construction, Retail Trade, Public Administration and Safety, and Accommodation and Food Services.

While Shoalhaven sits, on average, within the mid-point for measures of socio-economic advantage and disadvantage, there are localised pockets of disadvantage throughout the LGA where incomes, education and qualifications, and workforce participation are lower. However, areas with higher levels of disadvantage typically correspond with lower rates of home ownership and greater reliance on private or social housing rentals. These areas are also observed to have lower underlying land values than other areas in Shoalhaven, which means that landowners in these areas will absorb a lesser impact of any rate increase than more advantaged communities. On balance, this means that those residents at greater disadvantage are less likely to be directly affected by an increase in rates.

There is also a strong correlation between households on higher incomes, high levels of home ownership, and high property values. This is particularly evident in areas with very low levels of disadvantage, for example, Berry and surrounds, Huskisson and surrounds, and Milton, Mollymook and surrounds. Landowners in these areas will absorb a greater proportion of any rate increase due to the higher underlying land values; however, also have a higher capacity to pay than people in disadvantaged areas.

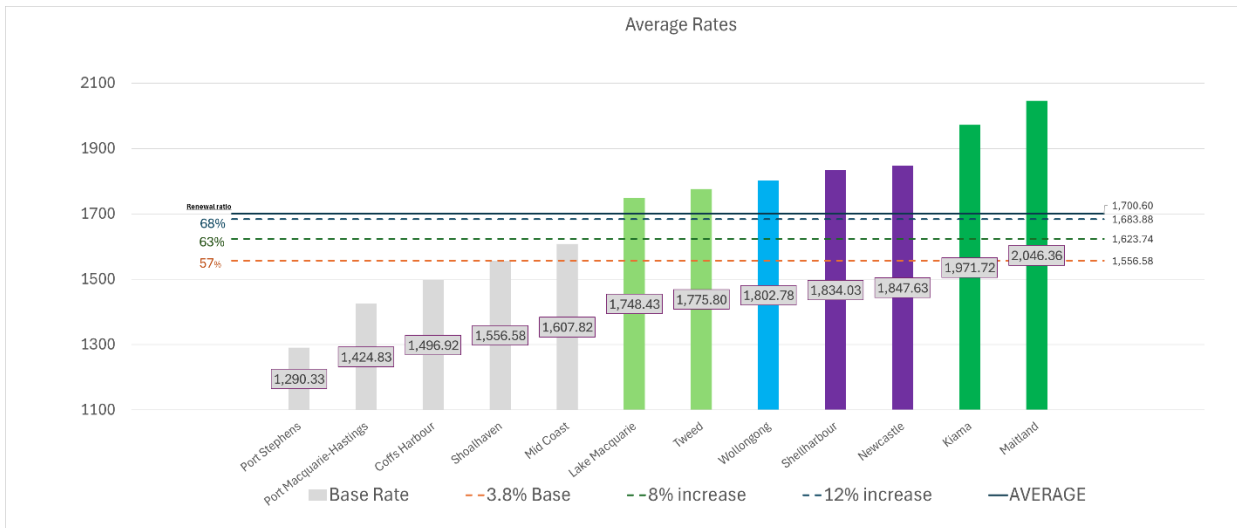
Average rate comparison

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.

For the period of 1995 to 2018, Council had the lowest average rates of all comparable councils. With the introduction of the 2018 SRV, Council moved from 12th place to 10th. The proposed SRV options do not result in Council's rate exceeding the average of all comparable councils. Had Council's rates been on par with the average rate of all comparable councils, based on our ratepayer base an additional \$200m would have been levied through rates revenue since 1995. These funds would have significantly aided in addressing the infrastructure backlogs issue Council now faces.

A comparison of proposed FY2025/26 Shoalhaven City Council rates to its neighbouring council's and those within SCC's OLG Group (Group 5) is reported below. Average rate data is available on the Office of Local Government NSW website for FY2022/23. The annual rate peg applied to each council for FY2023/24 and FY2025/26 are available on the IPART website. Using this information Council has calculated an estimate of what the OLG Group 5 and Kiama Municipal Council rates would be for FY2025/26, and compared to what SCC's

proposed average rate would be under each SRV option. This analysis assumes that none of the comparable Council’s would apply for their own SRV in FY2025/26.



No SRV will ensure that Council remains in the bottom third of comparable councils, being the 9th lowest rate of the 12 comparable councils.

An SRV of 8% would increase Council’s average rate to 8th, overtaking Mid Coast Council. Mid Coast Council is currently undergoing their own financial sustainability review challenges and are undertaking a similar project as SCC.

This analysis shows that a 12% SRV would place SCC’s rates just below the average of all comparable Council’s. Overlaid with the demographic analysis performed, this rate would be appropriate given the Council is within the mid-point for measures of socio-economic advantage and disadvantage.

Updated Resourcing Strategy

Council’s Resourcing Strategy outlines how we will help achieve the Community’s long-term priorities in terms of time, money, assets, and people.

The draft Resourcing Strategy 2022-26 contains the following elements:

- **Attachment 1** - Workforce Management Planning Strategy (2024-25 version)
- **Attachment 2** - Asset Management Strategy (2024-25 version)
- **Attachment 3** - Information Communication Technology Strategy (2024-25 version)
- **Attachment 4** - Long Term Financial Plan (LTFP) 2025-2034.

The Resourcing Strategy, including LTFP, was last adopted by Council in June 2022. A resourcing strategy was reported to Council in November 2023, however, was not adopted after a consultation period was conducted on a proposed SRV application.

The updated draft LTFP 2025-2034 recognises the decreased unrestricted cash reserves, the escalation in current and future costs, and the subsequent impacts on building and 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 17 December 2024 to consider for adoption. Applications to IPART

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close on 3 February 2025, so the Finance Team will begin preparing the detailed information required in anticipation of the decision of Council.

Internal Consultations

Technical Services
Media and Communications
Corporate Performance and Reporting

External Consultations

AEC Group were engaged to provide an independent report on the Financial Sustainability of Council. A copy of this report can be found on Council's website: <https://www.shoalhaven.nsw.gov.au/Council/What-guides-us/Plans-for-the-future/Financial-sustainability/Reviewing-our-financial-sustainability>

Community Consultations

Council will engage with the community about 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 2022-26 (updated 2024-25) including the draft LTFP 2025-34 demonstrating the impact of the proposed SRV on Council's operating results from 2025-26 for feedback and final endorsement of Council.

Engagement activities include:

- A direct mailout to all ratepayers
- Drop-in session/pop up stalls
- Media advertising
- Social media alerts
- Get Involved page (website)
- Online rates calculator

The process will conclude with an outcomes report to the 17 December 2024 Council meeting.

Policy Implications

Nil.

Financial Implications

Revised Asset Management Strategy and LTFP embodying the financial aspects of the recommendations are attached.

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 building and infrastructure renewals, nor the adequate funding of asset renewals moving forward.

Consideration of the subsequent lodgement of an SRV application to IPART will be the subject of a further report to Council following the community engagement process. The forecast financial implications of the approval or rejection of the proposed sustainability scenarios are outlined in the Resourcing Strategy attached.

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.

Coastal Management Programs (CMPs)

Council is required to implement four CMPs over the next ten financial years with costs in the vicinity of \$100m. It is anticipated that grant funding would meet more than half of these costs. Due to the current financial situation of the Council the LTFP does not make any provision for the costs associated with these four CMP's. In order to meet this \$100m obligation, Council would need commitment of additional grant monies up to the value of the \$100m requirement, or a significant Special Rate Variation increase.

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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.