



Financial Sustainability and SRV Support

Councillor Briefing

27 June 2023

Agenda

- Introduction
Overview of the Financial Sustainability Review
- Local Government financial sustainability – the context
- Financial Sustainability and SRV process – **General Fund**
- Asset management sustainability
- Identifying sustainability improvement opportunities
- Financial sustainability & capacity to pay
- Community engagement
- SRV application
- Questions

Financial Sustainability/ SRV Project

What to we want to achieve?

- To assess and identify actions to address Council's financial sustainability



Outcomes

- An understanding of what needs to be done to ensure ongoing financial sustainability
- Lay the foundation for the SRV process – if that is the next step.

Approach

- Asset management assessment
- Financial sustainability assessment:
 - Sustainability opportunities identification → Improvement plan
 - Financial sustainability modelling → updated LTFP, potential need for SRV
 - Capacity to pay assessment



Morrison Low



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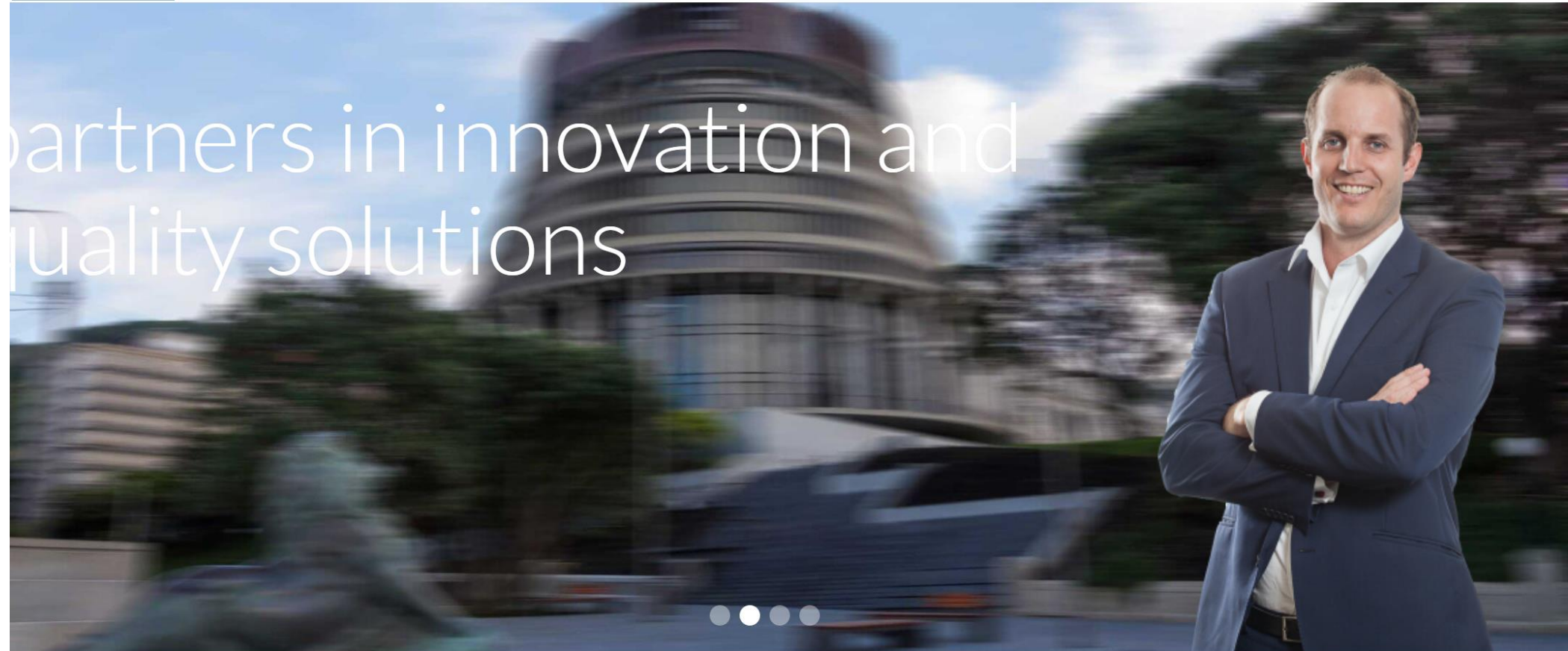
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Project timeline

Project scope

June – July 2023

Asset management assessment

- Review of asset management systems, processes and data
- Asset and financial data modelling and analysis > AMS

June - August 2023

Financial sustainability assessment

- Identify sustainability opportunities and develop improvement plan
- Financial sustainability and SRV scenario options
- Assess the community's capacity to pay

Sept 2023 – Feb 2024

Potential SRV process

- Preferred SRV scenario (s)
- Community engagement
- Application

Sustainability - Industry Context

- **77** NSW councils reported an operating deficits in 2021-22.
- The average operating performance ratio of NSW councils has steadily declined from **9.8%** in 2016/17 to **-1.5%** in 2020-21; For 21/22 - 11 Councils have all funds in deficit (G,W,S)
- Ongoing core costs outpacing revenue growth – placing pressure on councils’ cash position.
- Communities are expecting more services and higher asset standards.
- Climate change, increasing frequency and severity of weather directing impacting infrastructure costs.
- constricting of government spending will impact councils’ access to funding opportunities, as well as potential increase in cost shifting.
- High inflationary environment:
 - CPI to April 2023 was 6.8% (ABS:RBA). Expected inflation will track down to 4.75% by Dec 2023, and should fall to 3.5% In June 2024 (RBA)
 - LG Wages 4.5% 2023/24; 3.5% 2024/25; 3.0% 3% + Superannuation contribution increases
 - Energy costs up to 300% + an ongoing issue due to transition away from fossil fuels; Insurances up to 20%

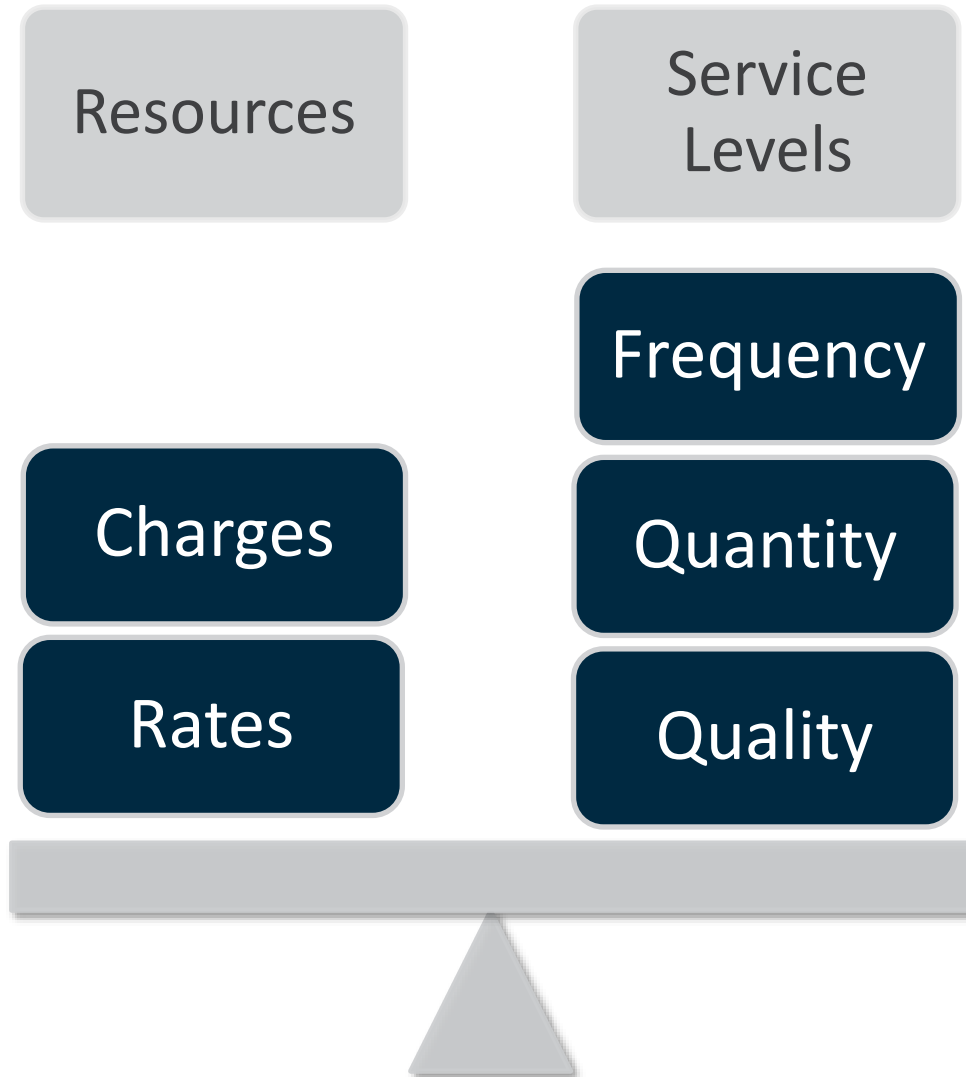
Councils financial sustainability obligations

- NSW Local Government Act – Chapter 3
- 8A Guiding principles for councils
- 8B Principles of sound financial management, councils should:
 - spend responsibly and sustainably ***aligning general revenue and expenses***
 - invest in responsible and sustainable infrastructure
 - have effective financial and asset management
 - regard to achieving intergenerational equity
- 8C Integrated planning and reporting principles that apply to councils
- Base performance measures – OLG prescribe measures

What does it mean for councils?

- Financial objectives for councils:
 - **Surplus** operating position
 - Adequate **cash position**
 - Funded **capital program**
 - Asset base **'fit for purpose'**
 - Having adequate resources to meet ongoing **compliance obligations**.
- Not negotiable - failure to meet these obligations, will lead to NSW Office of Local Government intervention.

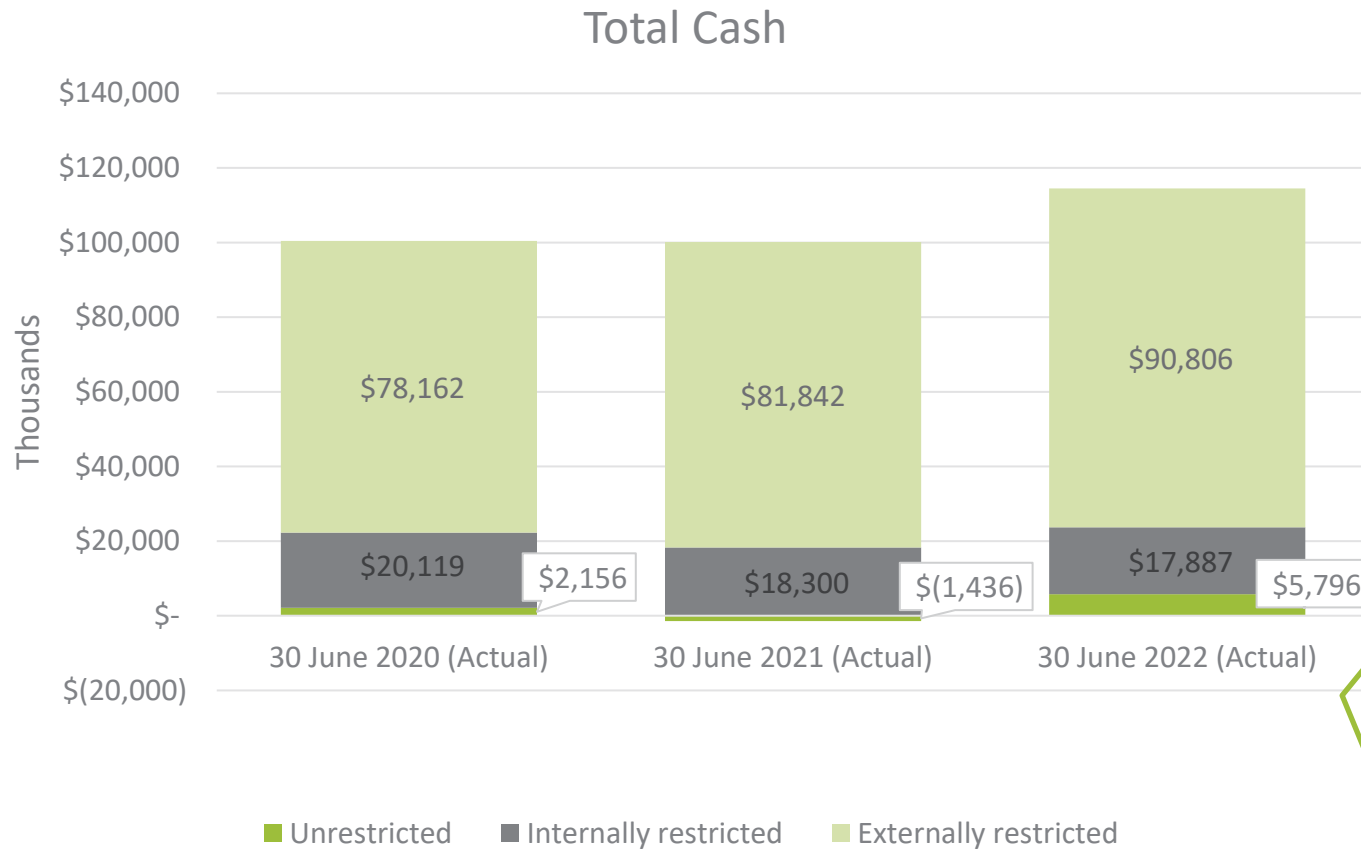
Balancing services and resources



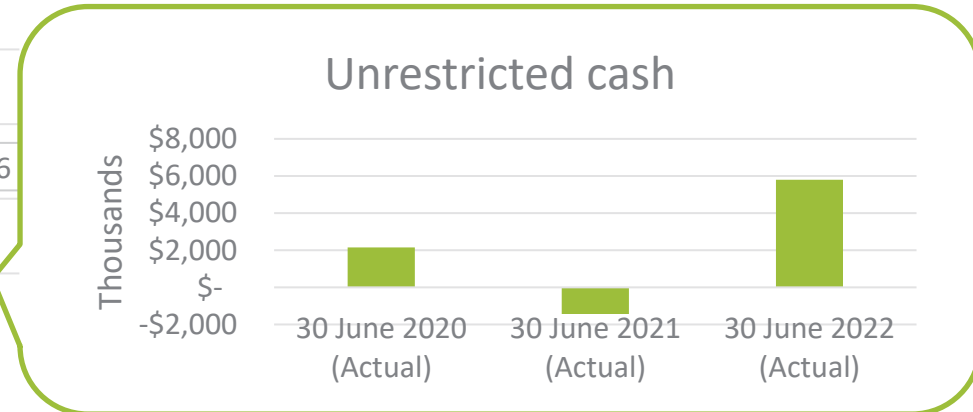
Councils must generate a fully funded operating position by:

- ***Reducing services/assets***
 - ***Increasing income usually an SRV***
- To achieve a sound cash position***

Current Cash Position



- While Council holds significant cash reserves, most of this is externally restricted.
- The level of unrestricted cash to fund day to day operations is dangerous low



Financial Sustainability & SRV process

Phase 1: SRV preparation

- establish project
- integrated LTFP model
- AMS and AMPs
- Workforce plan
- improvement plan
- capacity to pay
- SRV content and scenarios
- Council and staff reviews.

Phase 2: Community engagement

- engagement plan program and activities
- community engagement
- community engagement report.

Phase 3: SRV application

- final LTFP scenarios and aligned AMPs
- prepare SRV application
- review and submit SRV application.

Effort and openness

- This is a tough journey
- What is the problem we are solving?
- Councillors/staff alignment
- Everything needs to be on the table
- Council needs to have/take a position ~ Y/N SRV
- Proactive PM

Clarity

- Clear SRV storyline – Council leadership
- Broad range of engagement activities
- Informing not seeking approval
- Stay committed
- Ok to refine position during engagement

The End Game

- Councillors to decide
- SRV application?
- If no, what next?

Phase 1: SRV preparation

Phase 1: SRV preparation

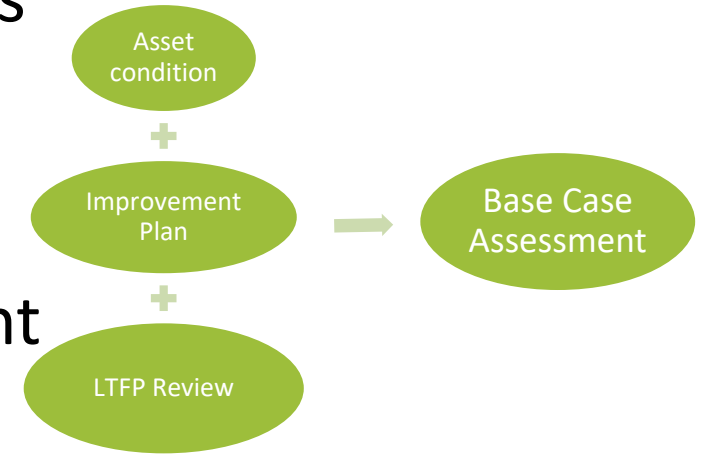
- establish project
- integrated LTFP model
- AMS and AMPs
- Workforce management plan
- improvement plan
- other organisational strategies/Plans
- capacity to pay
- SRV content and scenarios



Effectively - Financial and organisational sustainability assessment

Sustainability assessment – current state

- Asset condition data/SS7 – assessment/analysis
 - Asset condition review – high level review
 - Asset Management maturity - **2018**
- LTFP Review: Financial sustainability assessment
 - Base case/current state
 - Assumptions and Improvement opportunities
 - Current service/asset levels
 - Integration of asset condition assessment – renewals/maintenance
 - Other strategies and projects



Asset Management Sustainability

ABC Council	Current Score	Desired score 3yrs	Priority (1-3)	1	2	3	4	5	6	7	8	9	10
Asset Knowledge / Data	6.6	8.0											
Asset Classification/ Hierarchy	7												
Attributes and Location	8												
Condition Data	6												
Lifecycle Cost Data	4												
Valuation, Depreciation and Age/Life Data	8												
Asset Knowledge Processes	5.0	8.0											
Asset Accounting/ Valuation	5												
Strategic Asset Planning Processes	2.5	8.0											
Strategic Long Term Plan	1												
Asset Management Policy and strategy	5												
Levels of Service	2												
Risk Management	4												
Financial Planning and Capital Investment	1												
Asset Management Plans	2												
Operations and Maintenance Work Practices	4.5	8.0											
Operations / Maintenance Management	6												
Critical Assets	3												
Information Systems	5.5	8.0											
Asset Register	5												
Systems Integration	6												
Organisation Context	2.0	8.0											
Organisational Strategy	2												
Asset Management Review/Improvement	2												
AM Roles and Responsibilities	2												

Asset management sustainability

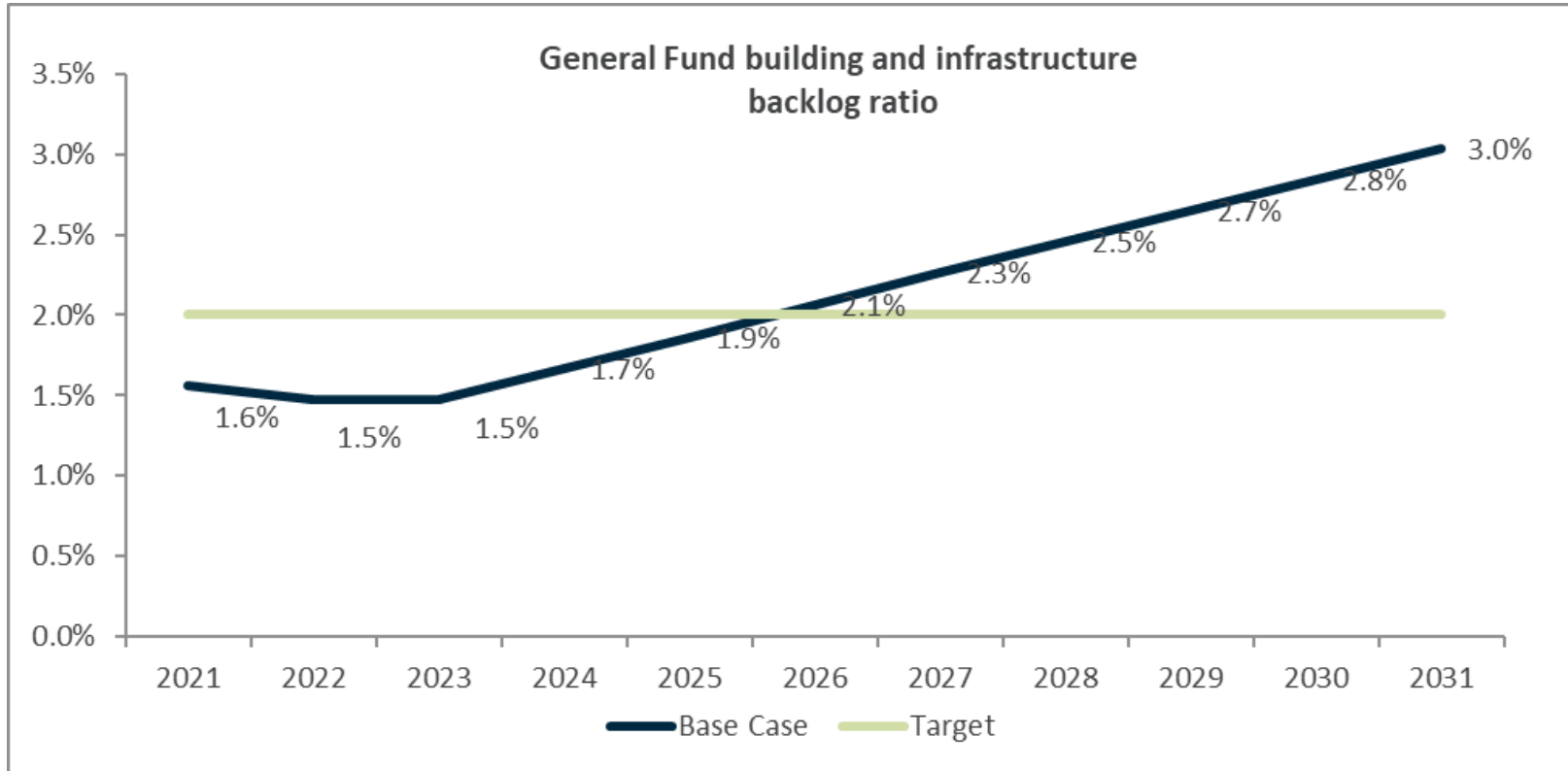
Goulburn Mulwaree Council

Report on infrastructure assets as at 30 June 2022

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard		2021/22 Required maintenance *	2021/22 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		\$ '000	\$ '000					1	2	3	4	5
Buildings	Buildings – non-specialised	2,354	2,011	1,480	1,085	69,549	119,872	12.0%	33.0%	37.0%	18.0%	0.0%
	Buildings	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	2,354	2,011	1,480	1,085	69,549	119,872	12.0%	33.0%	37.0%	18.0%	0.0%
Other structures	Other structures	6	6	1	1	5,426	8,296	43.0%	32.0%	20.0%	5.0%	0.0%
	Sub-total	6	6	1	1	5,426	8,296	43.0%	32.0%	20.0%	5.0%	0.0%
Roads	Roads	–	–	–	842	51,139	54,834	43.0%	44.0%	8.0%	5.0%	0.0%
	Sealed roads	6,859	6,502	3,287	3,266	418,748	638,362	35.0%	44.0%	15.0%	6.0%	0.0%
	Unsealed roads	237	216	117	4,670	35,921	38,272	25.0%	66.0%	8.0%	1.0%	0.0%
	Bridges	1,572	1,524	776	12	118,912	160,756	38.0%	35.0%	27.0%	0.0%	0.0%
	Footpaths	487	463	240	159	41,827	52,025	46.0%	35.0%	15.0%	4.0%	0.0%
	Other road assets	81	72	40	–	5,431	8,696	42.0%	28.0%	20.0%	10.0%	0.0%
	Other road assets (incl. bulk earth works)	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	9,036	8,777	4,460	8,949	666,349	952,945	36.2%	42.7%	16.4%	4.7%	0.0%
Water supply network	Water supply network	3,932	4,014	4,232	1,420	228,031	330,130	22.0%	45.0%	33.0%	0.0%	0.0%
	Sub-total	3,932	4,014	4,232	1,420	228,031	330,130	22.0%	45.0%	33.0%	0.0%	0.0%
Sewerage network	Sewerage network	10,926	9,722	2,791	782	158,052	211,497	35.0%	36.0%	28.0%	1.0%	0.0%
	Sub-total	10,926	9,722	2,791	782	158,052	211,497	35.0%	36.0%	28.0%	1.0%	0.0%
Stormwater drainage	Stormwater drainage	1,013	1,038	536	668	117,054	165,149	36.0%	38.0%	25.0%	1.0%	0.0%
	Sub-total	1,013	1,038	536	668	117,054	165,149	36.0%	38.0%	25.0%	1.0%	0.0%
Open space / recreational assets	Swimming pools Open Space and recreation	895	866	1,522	1,599	21,166	22,810	15.0%	25.0%	25.0%	35.0%	0.0%
	Sub-total	895	866	1,522	1,599	21,166	22,810	15.0%	25.0%	25.0%	35.0%	0.0%
Total – all assets		28,162	26,434	15,022	14,504	1,265,627	1,810,699	31.6%	41.0%	23.0%	4.3%	0.0%

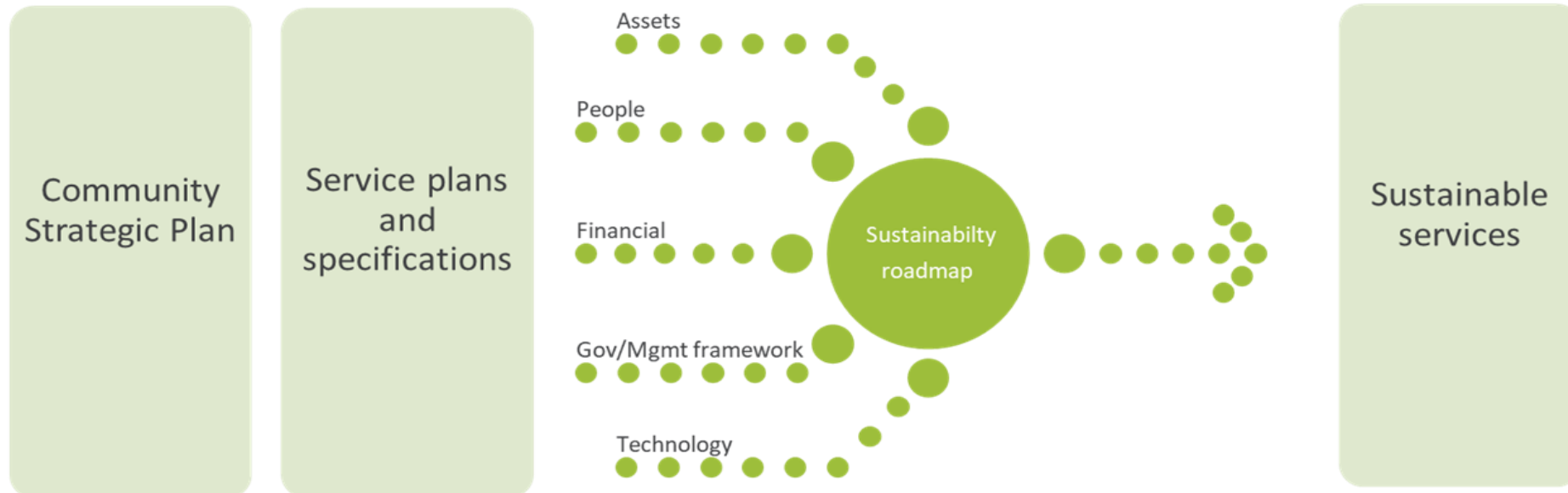
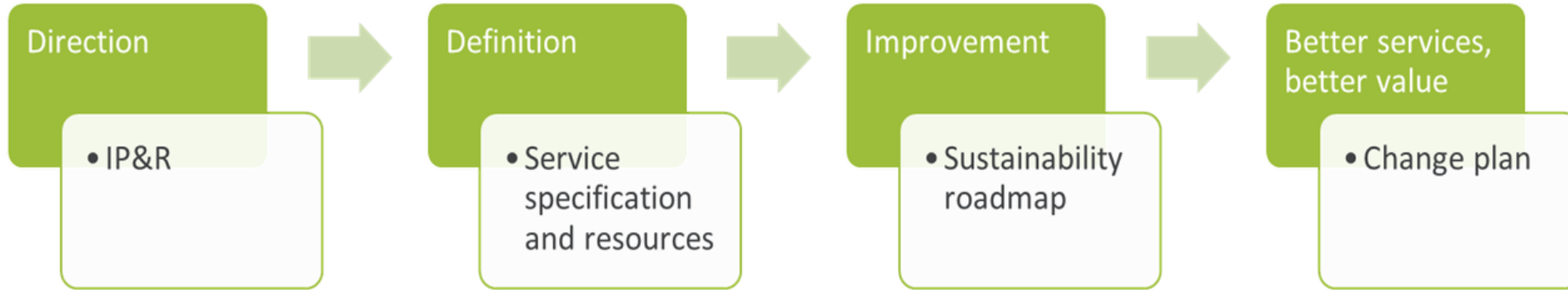
Asset condition data requires some validation to improve confidence in data

Asset management - backlog



- Actuals 2021 ~ 1.55% and 2022 ~ 1.4%

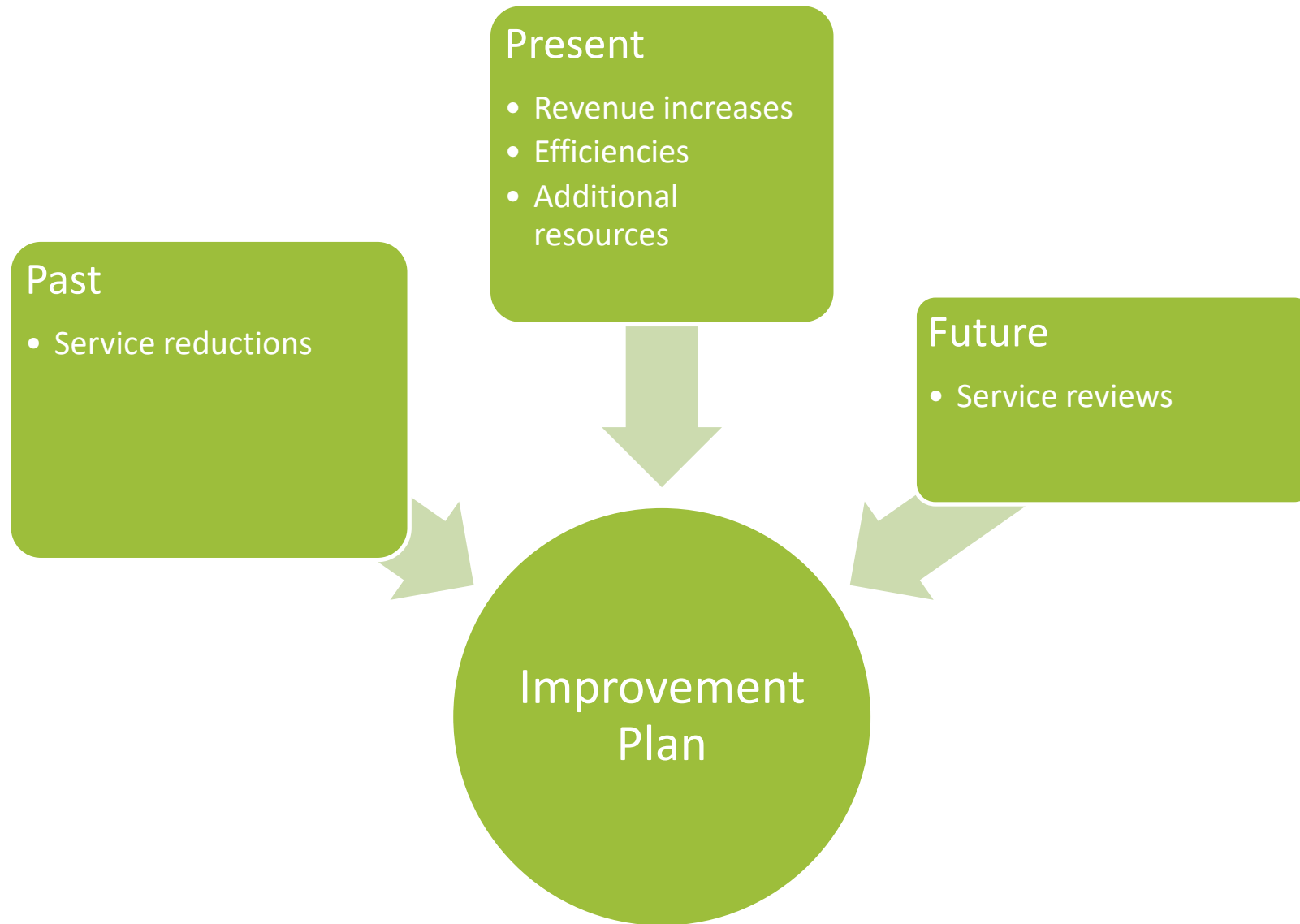
Sustainability Improvement Framework



Sustainability improvement options

- **Reduce/cease services levels** - *Reducing* a service level would change access to services or impact other noticeable outcomes, like access to services or beautification and town amenity values. For example, the hours that some services are open, like swimming pools or services centres, could be reduced, or the frequency some services are performed could be reduced, such as mowing reserves or cleaning facilities. *Stop/transfer* some discretionary services, find an alternative provider or a volunteer group within the community to deliver the services. Discretionary services, those Council is not legally bound to provide, are not considered discretionary by some parts of the community.
- **Increase fees and charges** - Council collects fees and charges for the use of some services with the balance of the cost of providing these services normally funded from the general rate. Council can move further towards a full user-payer model of fees and charges, where the direct user of the service pays more, thus the public good component decreases, which is the component paid by ratepayers.
- **Selling assets** - Council can dispose of surplus or underutilised assets. Selling assets reduces cost but only marginally by the amount of the maintenance and depreciation costs, normally around 2.5% of asset value. Selling an asset with a value of \$500,000 would reduce Council's cost by an estimated \$12,500 per annum, so to save substantial costs Council would need to sell a lot of assets
- **Productivity/Efficiency** – This relates to improving Council processes and operations that reduce the level of resources needed to undertake these activities, without reducing \$ costs.

Improvement Plan



Workforce Management Plan

2.3.2 Workforce Management Planning

Description

The Workforce Management Strategy (WMS) is a proactive, 4-year document that shapes the capacity and capability of the workforce to achieve council's strategic goals and objectives.

It clearly identifies how future staffing and skills requirements will be met, such as through recruitment, staff progression and development, internal redeployment, and succession planning.

Councils operate within challenging environments that demand greater flexibility, responsiveness and performance improvements to meet agile labour markets, skills shortages and an ageing workforce. With a well-written and thorough WMS, councils are in a stronger and more stable position to plan for and address future workforce needs. In summary, workforce planning should be:

- an ongoing activity
- a process, not just a set of actions
- able to support workforce planning with a clearly identified purpose that is linked to organisational objectives and informed by the DP and OP
- applicable to the current workforce while also anticipating future needs and capabilities.

Mandatory requirements

The mandatory and statutory requirements for preparing the WMS are outlined in [Appendix A-1-3](#). These requirements must be read and understood by councils prior to developing and delivering this document.

Councils should also refer to the [Integrated Planning and Reporting Guidelines for Local Government in NSW](#) for detail of mandatory planning and reporting obligations under the *Local Government Act 1993* and the *Local Government (General) Regulation 2021*.

Other key legislation relevant to workforce management includes:

- [Multicultural NSW Act 2000](#)
- [Disability Inclusion Act 2014](#)
- [Public Interest Disclosures Act 1994](#)
- [Anti-Discrimination Act 1977](#)
- [Carers \(Recognition\) Act 2010](#)
- [Work Health and Safety Act 2011](#).

Components

Ideally, the WMS will include the following elements:

- Workforce snapshot, including:
 - headcount, gender, diversity, FTE, turnover
 - graphic depicting age groups,
 - length of service of workforce
 - number of employees who also live within the local government area.
- Statement of desired workplace culture (e.g. achievement oriented, collaborative).
- Workforce environment scan (including skills shortages, aging workforce, staff retention, technological changes, financial challenges, current and future employment market, policy and legislative change, community expectations, 'workplace of choice' opportunities).
- Financial considerations (e.g. global salary increases, annual Award variation, provision for on-costs and leave entitlements).
- Outline workforce objectives, the strategies required and how progress will be measured (i.e. 'what we will do, why we will do it, how we will do it, and how progress will be measured').

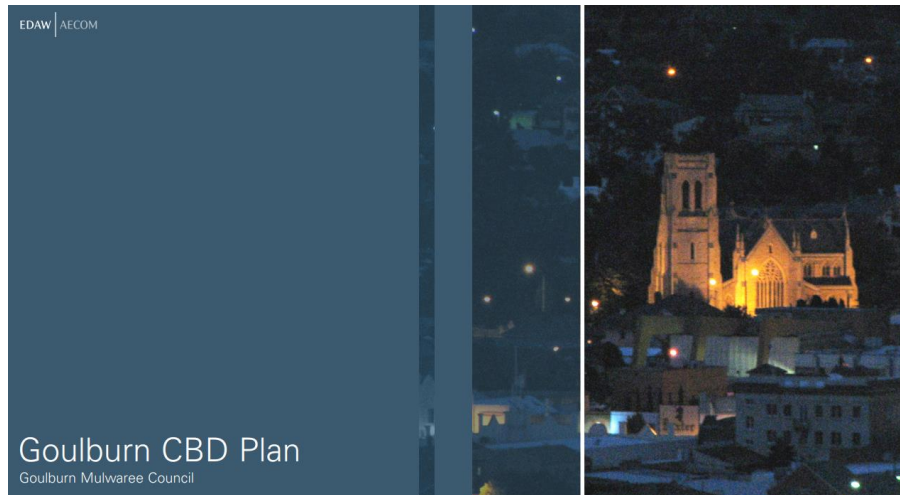
Workforce Management Planning General requirements for workforce management planning

- *3.11 Each council must develop and endorse a Workforce Management Strategy to address the human resourcing requirements of a council's Delivery Program.*
- *3.12 The relevant strategies contained in the Workforce Management Strategy must be reflected in the Delivery Program and Operational Plan and the costs associated with delivering the Workforce Management Strategy must be reflected in the Long-Term Financial Plan.*

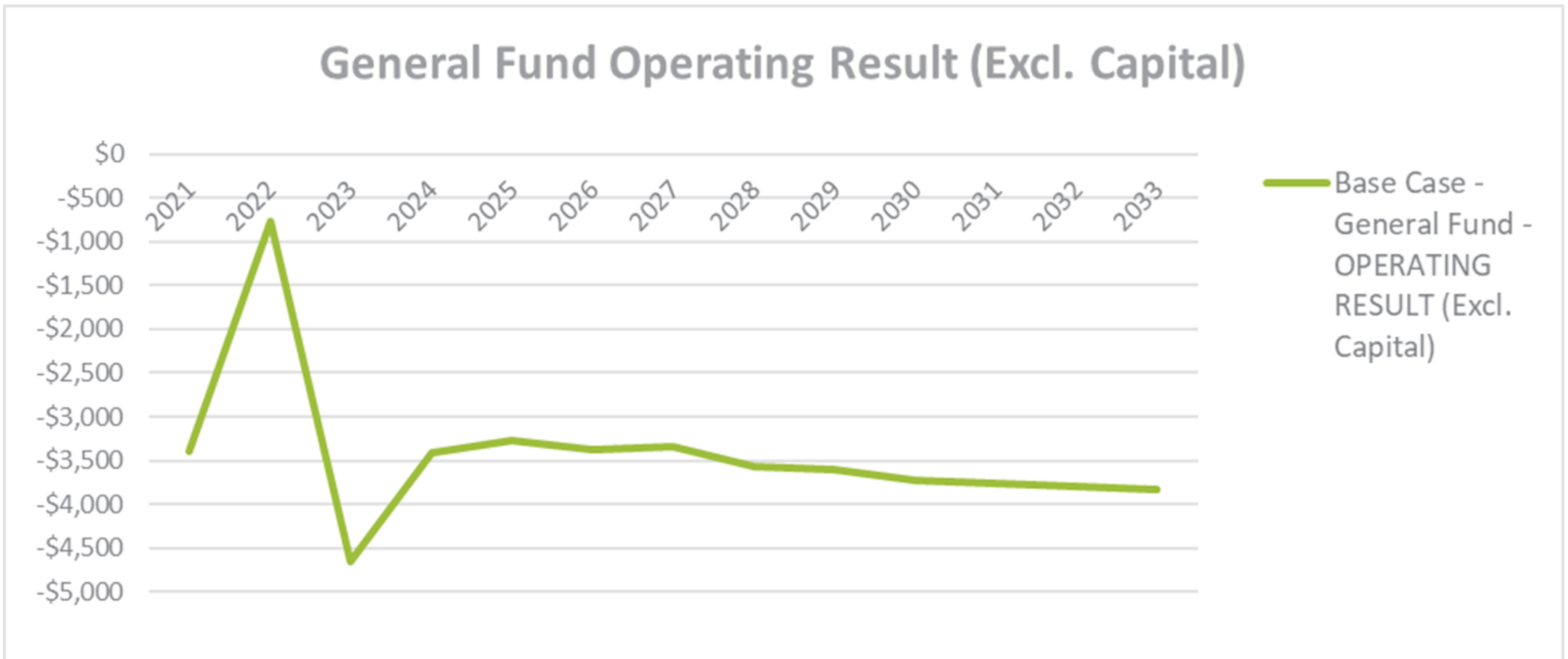
Other Council Strategies & Plans



Council priority
Initiatives and
Projects?



Establish Councils Sustainable position

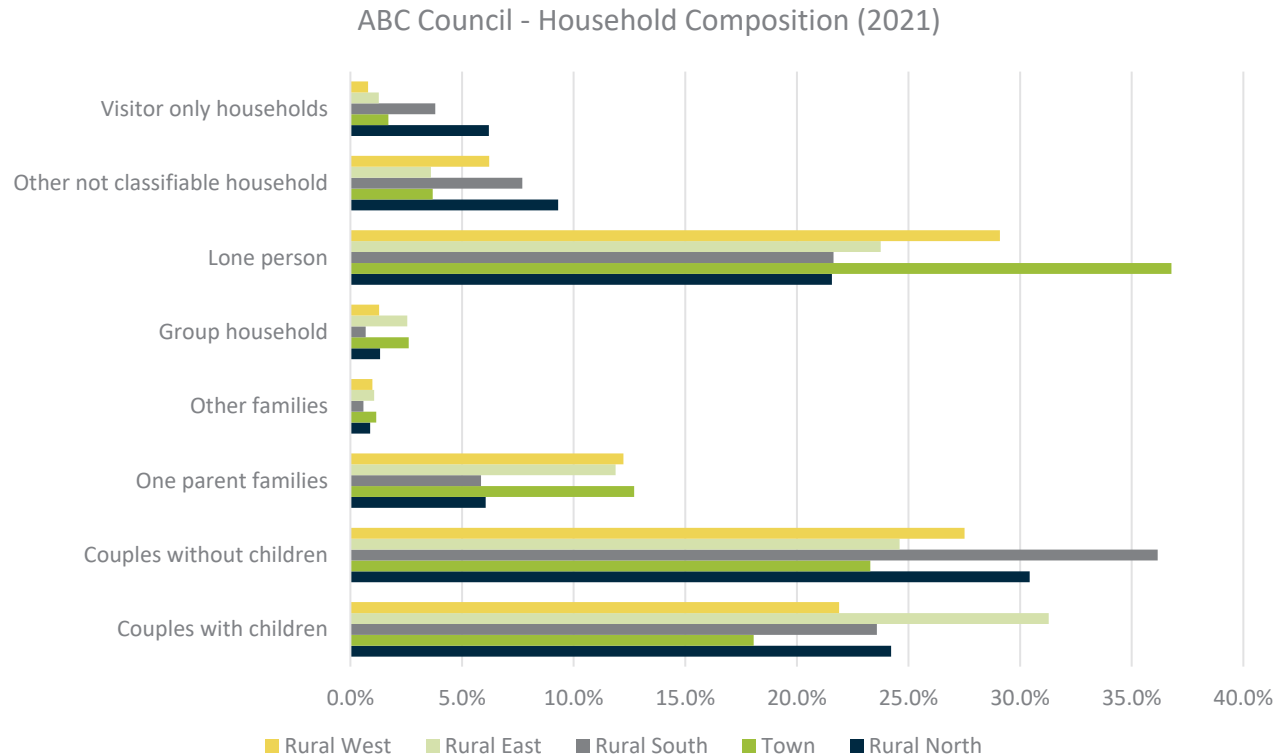


IPART SRV criteria

1. The **need and purpose** of a different revenue path for the council's **general fund** is clearly articulated and identified in council's Integrated Planning and Reporting (IP&R) documents.
2. Evidence that the **community is aware** of the need for, and extent of, a rate rise.
3. The **impact on affected ratepayers** must be reasonable.
4. The relevant **IP&R documents** must include **SRV consideration** and be exhibited (where required).
5. Need to **evidence productivity improvements** and cost containment strategies.
6. Any other matter that IPART considers relevant.
 - Permanent SRV application NOT temporary!

Capacity to Pay

- Understanding a reasonable impact on ratepayers through their capacity and willingness to pay



- Areas of social disadvantage
 - House types
 - House income
 - Housing tenure
 - Socio-economic index
- Vulnerable groups
 - Pensioners
 - Housing stress
- Cost of living trends
- Proposed rating changes

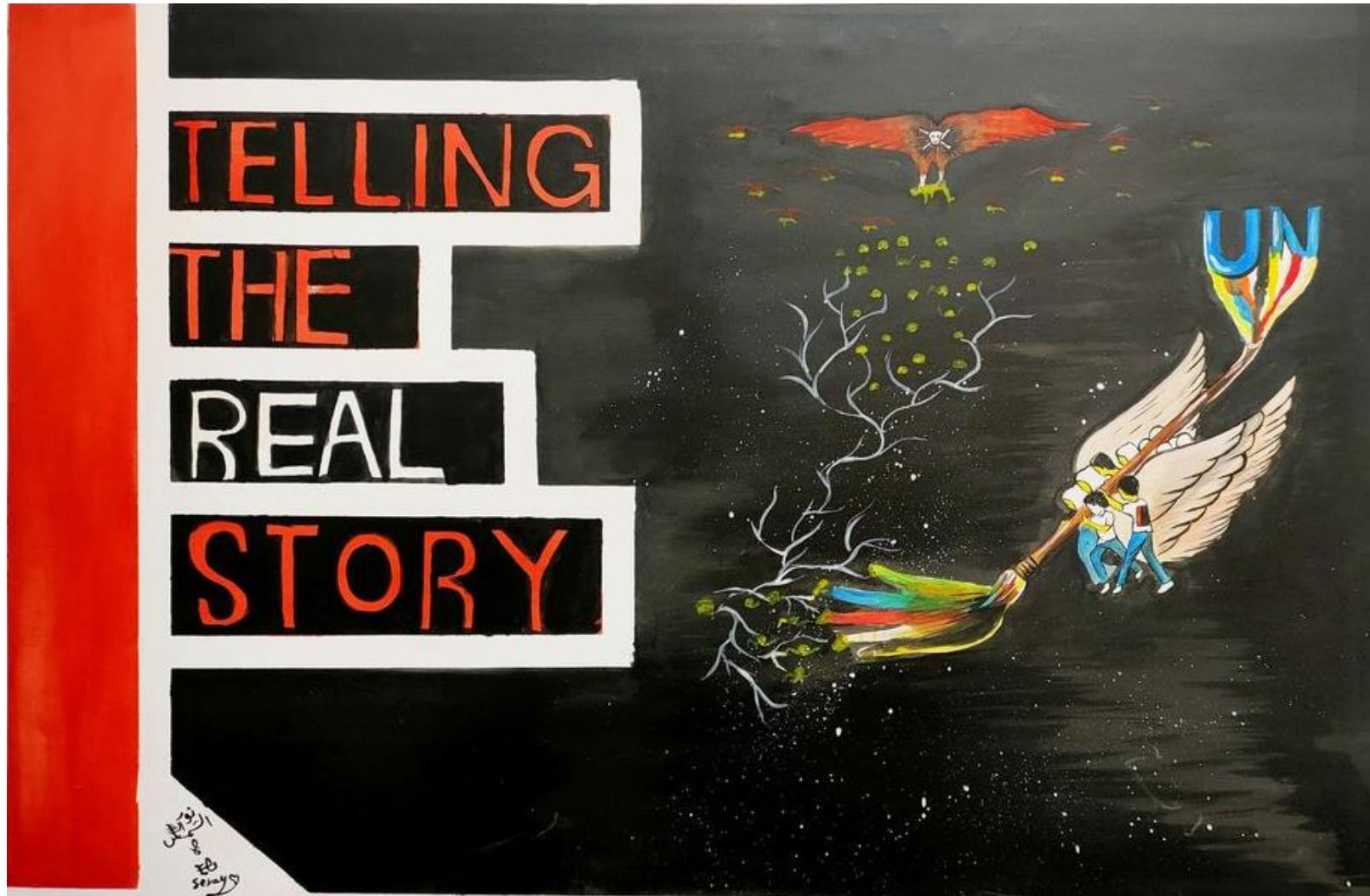
SRV applications

- 2024/25 at least 6 Councils are looking at and SRV
- 2023/24 there are 17 applications + 2 minimum applications – ranging from 104% over 2 years
 - 14 + 2 minimums fully approved and 3 partially approved
- Since 2017/23, 38 councils have made 47 applications - 32 applications approved in full, 9 were partly approved and 6 refused, 1- 7 to a 5 year SRV approved.
 - 4 refused did not meet the criteria of demonstrating that the SRV was included in their exhibited IP&R documents, 4 didn't fully demonstrate the financial need and 3 didn't demonstrate adequate community engagement

2023/24 SRV applications



Sustainable SRV Story



Phase 2: Community engagement

Phase 2: Community engagement

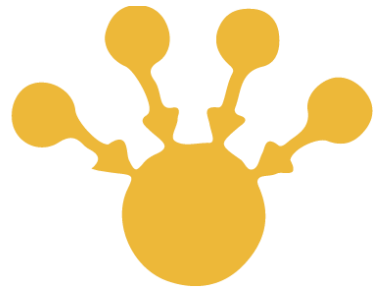
- engagement plan program and activities
- community engagement
- community engagement report.

Community engagement - plan

Inform



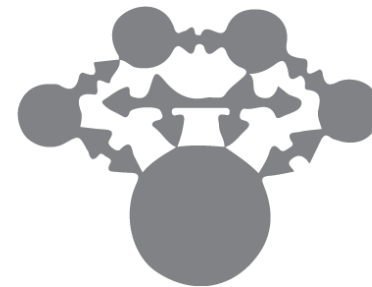
Consult



Involve



Collaborate



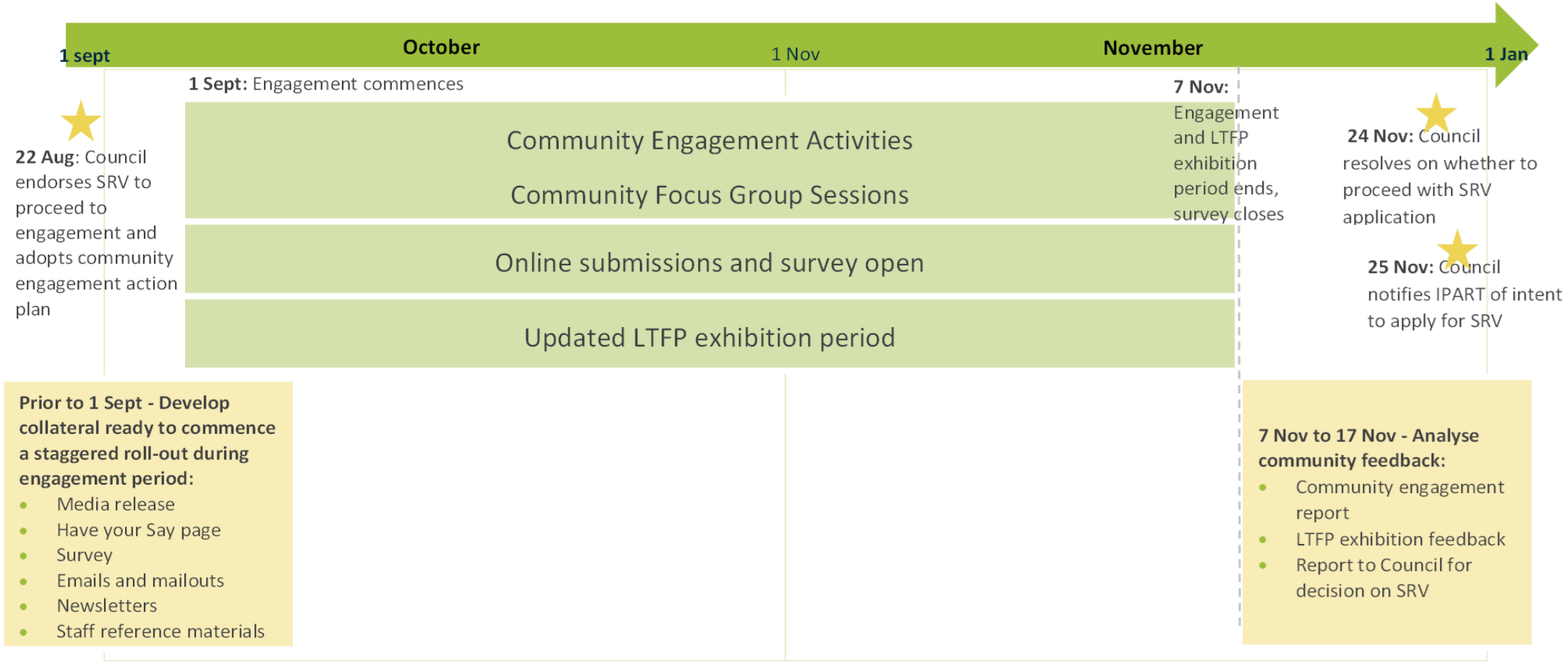
Empower



Engagement and notification

- Council determines which SRV option(s) to engage with the community
- Council notifies IPART of intention to submit and SRV application
- Council finalises community engagement program

Community engagement - awareness



Phase 3: SRV application

Phase 3: SRV application

- final LTFP scenarios and aligned AMPs
- prepare SRV application
- review and submit SRV application.

SRV Application

- Council to consider Community engagement report
- Council to determine SRV increase
- Council to adopt revised LTFP
- Council to resolve to make an SRV application
- Prepare application and submit to IPART

SRV Project Plan – Program and Timing

SRV PROJECT PLAN - PROGRAM AND TIMING														
Activities	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Project Management	█	█	█	█	█	█	█	█	█	█				
Asset Management	█	█	█											
Improvement Plan		█	█											
Workforce Management Plan			█											
LTFP model and Plan		█	█	█	█	█	█							
Capacity to pay				█										
Councillor Engagement			█	█	█									
Council Meeting					█									
Community Engagement					█	█	█							
SRV Application								█	█	█				
Submit SRV application to IPART										█				
Implement outcome of SRV application											█	█	█	█

Other questions?

