



# Financial Sustainability and Special Rate Variation

Narrandera Shire Council

December 2022



# Agenda

- Introductions
- Industry context
- Council financial sustainability
- SRV criteria
- Three phase SRV process
  - Preparation
  - Engagement
  - Application
- SRV Project Plan
- Councils' Current situation
  - Assets
  - Financial
- Questions

# Introduction – Morrison Low

- Morrison Low story
- Working with Council to assess and develop long-term financial sustainability options:
  - Developed SRV Plan
  - Asset Management assessment
    - Stormwater network
  - Supporting the financial sustainability assessment and SRV process
  - Working with staff and Councillors

# Industry Context

- For 2020/21 74 NSW councils reported an operating deficits General Fund.
- 5 years to 2020/21, the average operating performance ratio of NSW councils has steadily declined from 9.8% in 2016/17 to -1.5% in 2020/21
- Communities are expecting more services from local government.
- Increasing frequency and severity of weather events, directly impacting infrastructure costs – disaster recovery funding non-resilient replacement assets
- Moving from high grant availability to constricting of government spending will impact councils' access to grants and other funding opportunities.
- Ongoing cost shifting to councils – Rural Fire service assets
- In an high inflationary environment – wages, material/contract costs and logistics
- Availability of human resources
- Limited opportunities for savings
- Pressure on cash position of Councils
- Political cycle

# Councils financial sustainability obligations

## Foundation to organisational and financial sustainability

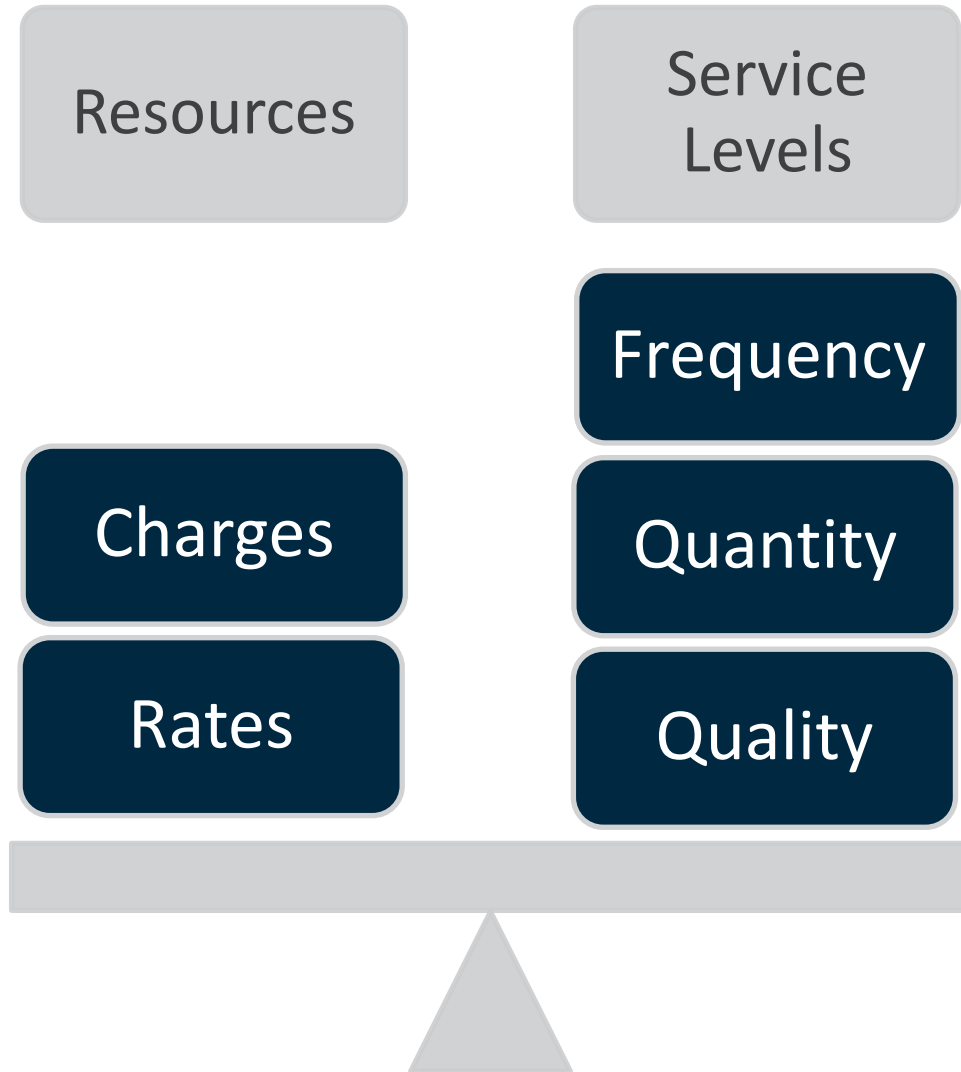
### NSW Local Government Act – Chapter 3

- 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 (AO Report on LG)

# Financial sustainability - what does this mean for councils?

- Financial objectives for Councils:
  - achieving a **fully funded operating position**
  - maintaining sufficient **cash reserves**
  - having an appropriately **funded capital program**
  - maintaining its 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 achieve a fully funded operating position, ensuring that Council collects enough revenue to fund operational expenditure and depreciation.*

# 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.
  - Temporary or permanent SRV application?
  - 70% of NSW councils have applied at least once, but it is still not a day-to-day activity for a local council.



# SRV process

## Phase 1: SRV preparation

- project kick-off
- AMS and AMPs
- Base Case LTFP
- improvement plan
- Integrated LTFP
- 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

# Phase 1: SRV preparation

## Phase 1: SRV preparation

- establish project
- AMS and AMPs: WFMP
- Base Case LTFP
- Improvement plan
- Integrated LTFP
- Capacity to pay
- SRV content and scenarios
- Council and staff reviews.



# Asset Management

## **IPART - The relevant IP&R documents must include SRV consideration**

Councils need to have in place current

- Asset Management Policy and Strategy
- Asset Management Plans
- 10-year capital works program

Our observations working with Councils are:

- Know the status/maturity of your asset management system – plans, procedures, improvements required.
- Miss alignment between engineering/technical and financial/accounting information and processes – e.g. SS7/ Report on Infrastructure Assets
- Asset register that is current and reflective of asset conditions and renewal requirements
- Capital works program needs to be 10 year by asset category

# Workforce Management Plan

## IPART - The relevant IP&R documents must include SRV consideration

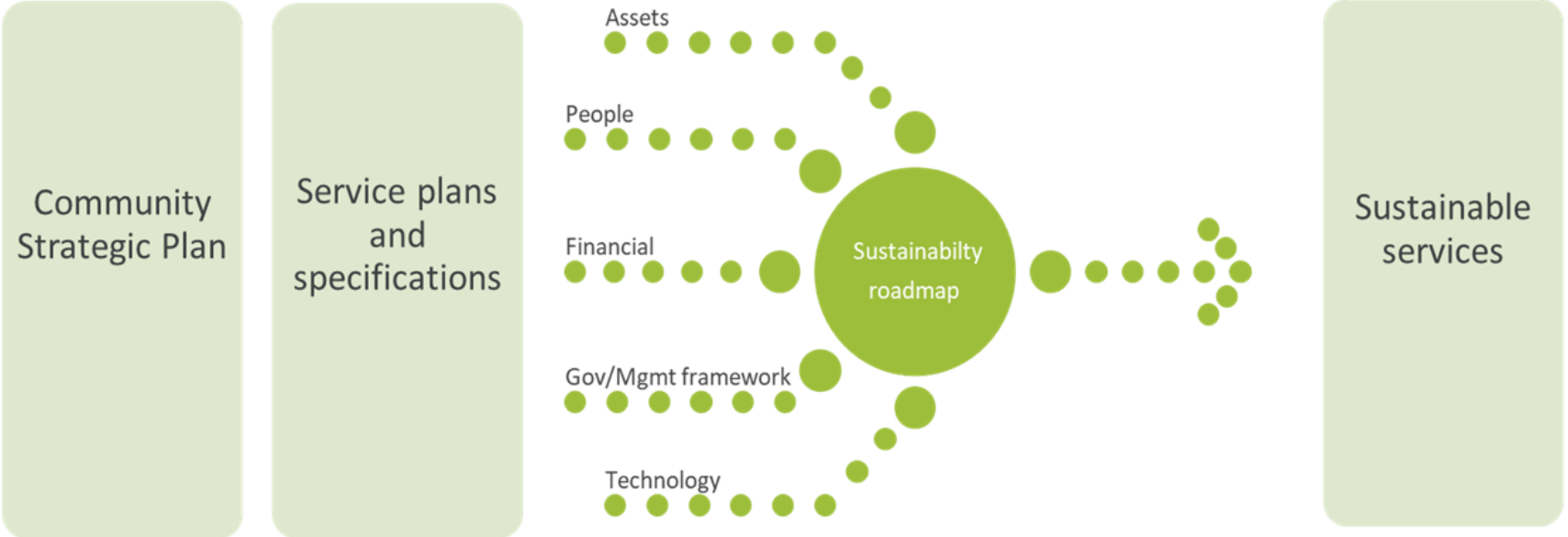
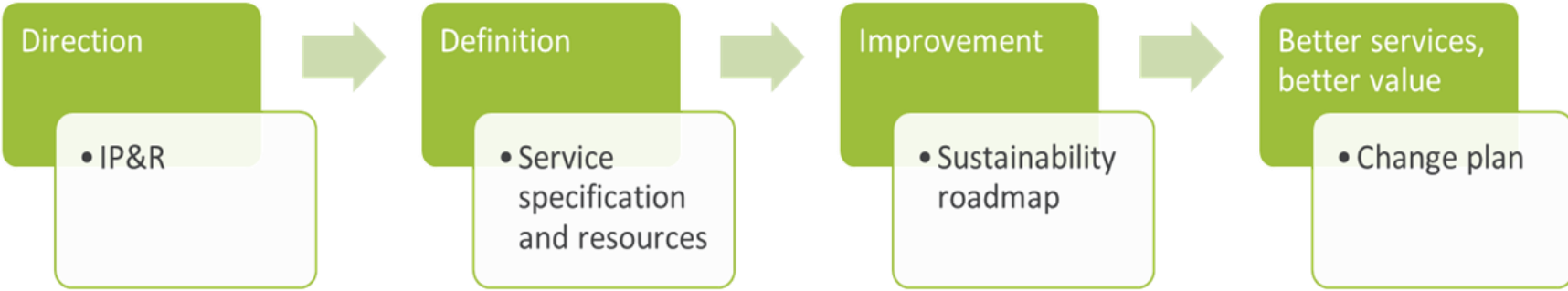
- Up to date and compliant WFMP
- Should reflect staff needs for the Delivery Program, namely:
  - Skills & experience
  - Development/career pathways
  - Future resource/staff needs
  - Diversity and culture
  - Performance

### Our observations

- This plan is often overlook and not truly aligned to DP needs
- Rarely is there any future resource/staff needs included

# Improvement Framework & Plan

IPART - Need to evidence productivity improvements and cost containment strategies



# Sustainability improvement approaches

- **Reduce some 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. Council is required to maintain its assets fit for purpose but the amount, quality and quantity of the services it delivers is flexible and can be adjusted at Council's discretion, based on community expectations for service levels. 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, to improve the Council's financial sustainability gap.
- **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.
- **Cease providing or transfer services** - This means Council would stop providing some discretionary services, find an alternative provider or a volunteer group within the community to deliver the service. Discretionary services, those Council is not legally bound to provide, are not considered discretionary by some parts of the community. They are often highly valued by all or parts of the community and can only be provided by the Council in the absence of a private provider market.
- **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.

# Improvement Plan

Need to evidence productivity improvements and cost containment strategies:

- IPART are now focusing/requiring Councils to have improvement strategies
- Past, Present and Future
- Must be incorporated/integrated into LTFP 10 year forecasts

Our observations:

- Improvements must be specific and realistic – Not an annual productivity %
- Council does need to go through an improvement process
- Councillors need to buy into any improvements
- Clearly show/justify the outcomes - often there is not much to be found

# Long Term Financial Plan (LTFP)

**IPART - The need and purpose of a different revenue path for the council's *general fund* is clearly articulated and identified in IP&R**

The LTFP document and forecast model are the most critical in evidencing the need and quantum of an SRV.

- General Fund must be separated from DWM, Water and Sewer funds
- The LTFP model should integrate all financial resource requirements forecasting over a minimum of 10 year forecasts
- Current income and expense assumptions and growth factors
- Linked Balance Sheet, Income and Cashflow Statements
- Live OLG performance indicators
- Need to include any improvement savings
- Restricted v's Unrestricted cash
- Understand Councils financial sustainability – now and into the future
- LTFP document with SRV story, rationale, options, analysis and preferred position



# Long Term Financial Plan (LTFP)

**IPART - The need and purpose of a different revenue path for the council's *general fund* is clearly articulated and identified in IP&R**

Our observations:

- LTFP modelling needs to evidence and justify level of SRV
- General Fund income statement must as a minimum break even
- Is the adequate cash to fund 10 year renewal program?
- Estimated cash position Year end over 10 years is essential
- Know the restricted and unrestricted cash position (Central Coast Council)
- Use OLG performance targets as a guide except Operating Result
- Have the flexibility to model/analysis multiply variables - assumptions, income/expenses estimates, SRV, etc

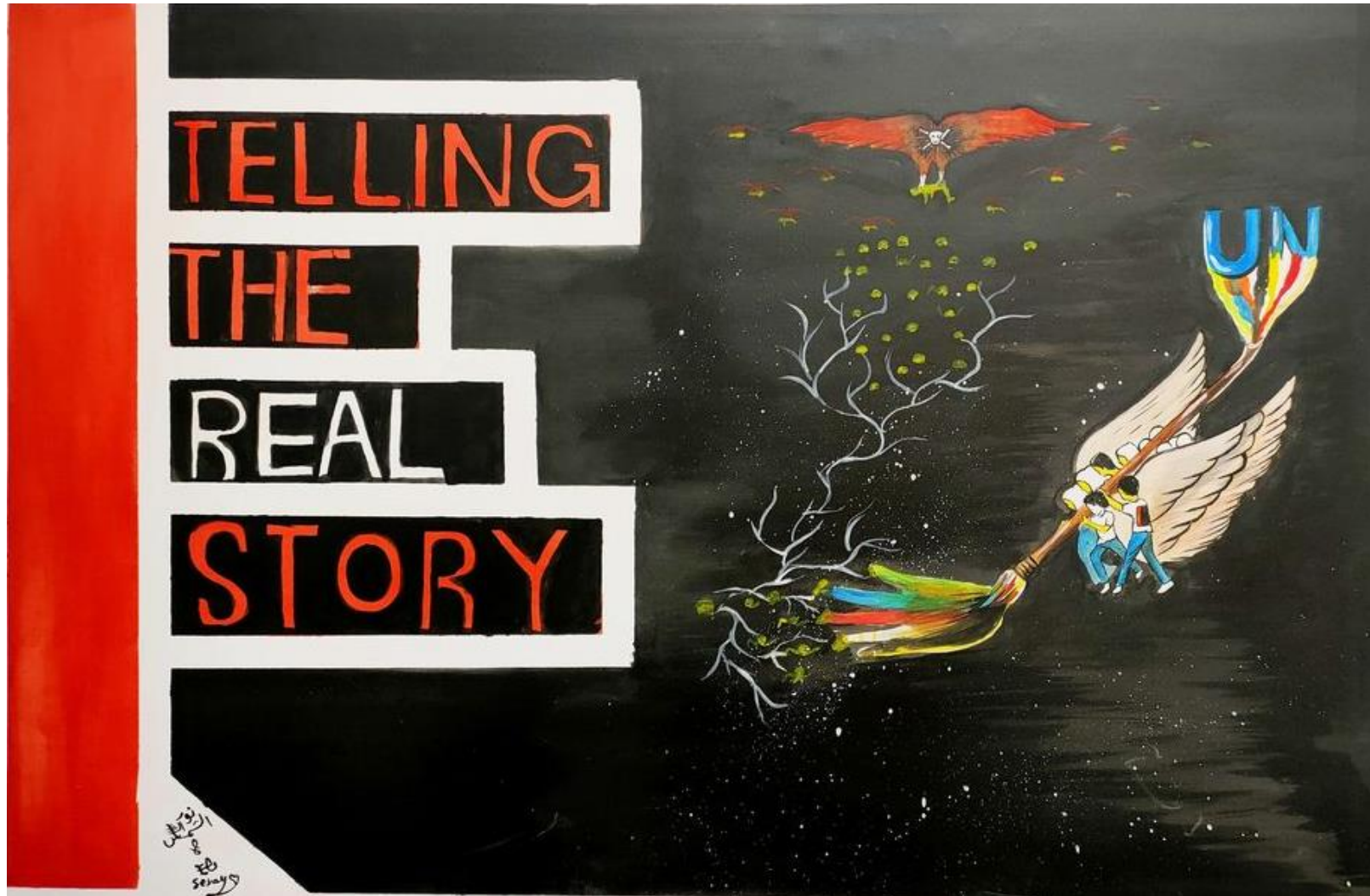
# Capacity to pay

## **IPART - The impact on affected ratepayers must be reasonable**

The Capacity and Willingness to Pay Report helps Council in responding to the questions set out in the SRV application:

- The impact on rates of the proposed SVR, including the impact on minimum amounts of any ordinary or special rate.
- How the council considered that the proposed rate rises were affordable, having regard to ratepayers' capacity and willingness to pay.
- How the council addressed concerns about affordability in determining the special variation is applied for.
- Council's plans for addressing hardship ratepayers may experience in meeting their obligations to pay rates in the future.

# Sustainable SRV Story



# Phase 2: Community engagement

## Phase 2: Community engagement

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

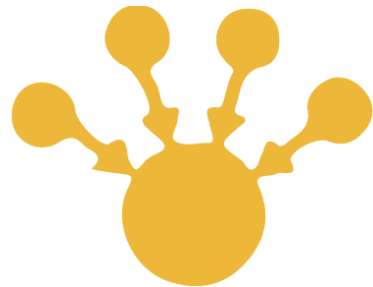
# Community engagement – plan

IPART - Evidence that the community is aware of the need for, and extent of, a rate rise

**Inform**



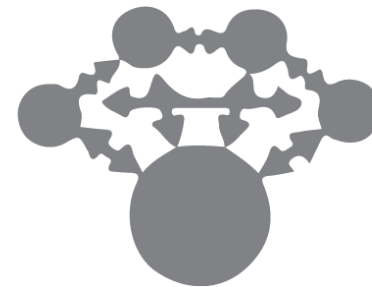
**Consult**



**Involve**



**Collaborate**



**Empower**



# Community engagement - awareness



# Community engagement

Evidence that the **community is aware** of the need for, and extent of, a rate rise.

## Our observations

- Leadership is essential - strong and committed to reasons for SRV
- A have a community plan/activities that can be delivered
- It is about making the community aware NOT seeking approval
- Communicate as early as possible and be upfront – *‘Tell it as it is’*
- It is tough demonstrating the need for an SRV – community believe Council can just cut costs without impact on services/assets

# Phase 3: SRV application

## Phase 3: SRV application

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



# SRV Application

## IPART Address all the IPART SRV criteria

- Council to consider Community engagement report
- Council to adopt Delivery Program and LTFP
- Council determines whether to make an SRV application
- Prepare application and submit to IPART

# SRV Project Plan – Program and Timing

Activities	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Project Management	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Asset Management	Light Blue	Light Blue	Light Blue	Red												
Improvement Plan				Light Blue	Red											
Workforce Plan - additional staff				Red												
LTFP model (Include SRV Story)		Light Blue	Light Blue	Light Blue	Red	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue			
Capacity to pay						Light Blue	Yellow									
Councillor Engagement							Light Blue	Yellow								
Council Meeting									Light Blue	Yellow						
Community Engagement						Light Blue	Light Blue	Light Blue	Light Blue	Yellow	Light Blue	Light Blue	Light Blue			
SRV Application													Light Blue	Light Blue	Light Blue	Light Blue

# Current status asset management – Initial observations

- Morrison Low undertook an initial workshop to understand councils asset data and processes
- Overall, Council has done well in terms of maintaining its asset data, there are a few gaps in councils stormwater data.
- Condition data should be reviewed as there are significant portions of assets in unsatisfactory condition (highlighted in the following slide) and may not be representative of the network
- There appears a disconnect between 'Report on Infrastructure' and actual CAPEX/OPEX spend/requirements for councils infrastructure – further analysis to be completed
- Long Term CAPEX is not strategic and based on portfolio needs but rather on remaining budget after accounting for OPEX
- Next Steps include:
  - Asset/Financial Modelling – Impact of planned spend/gap with sustainable spend based on councils Financials (Source of Truth)
  - Development of overarching Asset Management Strategy
  - 10 year capital works program by asset category
  - Development of 5 AMP's which meet IP&R Requirements (Buildings and Open Space, Transport, Stormwater, Water and Sewer)

# Asset Management

Asset Class	Asset Category	Estimated cost		2021/22 Required maintenance <sup>a</sup>	2021/22 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring assets agreed level of service set by Council					1	2	3	4	5
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000					
<b>Buildings</b>	Buildings – non-specialised	431	–	446	182	10,328	29,571	1.0%	11.0%	47.0%	38.0%	3.0%
	Buildings – specialised	204	–	221	89	8,805	15,974	32.0%	3.0%	24.0%	39.0%	2.0%
	<b>Sub-total</b>	<b>635</b>	<b>–</b>	<b>667</b>	<b>271</b>	<b>19,133</b>	<b>45,545</b>	<b>11.9%</b>	<b>8.2%</b>	<b>38.9%</b>	<b>38.4%</b>	<b>2.6%</b>
<b>Other structures</b>	Other structures	466	–	217	416	11,102	19,217	38.0%	6.0%	26.0%	26.0%	4.0%
	<b>Sub-total</b>	<b>466</b>	<b>–</b>	<b>217</b>	<b>416</b>	<b>11,102</b>	<b>19,217</b>	<b>38.0%</b>	<b>6.0%</b>	<b>26.0%</b>	<b>26.0%</b>	<b>4.0%</b>
<b>Water supply network</b>	Water supply network	9,811	–	581	1,113	20,235	40,666	16.0%	7.0%	42.0%	28.0%	7.0%
	<b>Sub-total</b>	<b>9,811</b>	<b>–</b>	<b>581</b>	<b>1,113</b>	<b>20,235</b>	<b>40,666</b>	<b>16.0%</b>	<b>7.0%</b>	<b>42.0%</b>	<b>28.0%</b>	<b>7.0%</b>
<b>Roads</b>	Sealed roads pavement	6,030	–	160	394	20,138	32,050	3.0%	3.0%	93.0%	0.0%	1.0%
	Sealed roads surface	5,513	–	397	982	8,237	17,771	17.0%	4.0%	16.0%	51.0%	12.0%
	Unsealed roads pavement	3,342	–	255	761	18,154	25,341	64.0%	8.0%	7.0%	4.0%	17.0%
	Bridges	1,743	–	75	–	9,190	15,203	7.0%	45.0%	43.0%	0.0%	5.0%
	Footpaths	11	–	2	19	982	1,464	20.0%	77.0%	2.0%	0.0%	1.0%
	Bulk earthworks	–	–	–	–	58,836	58,836	100.0%	0.0%	0.0%	0.0%	0.0%
	Flood-ways	–	–	–	–	1,846	1,877	100.0%	0.0%	0.0%	0.0%	0.0%
	Guardrail	16	–	1	–	289	378	50.0%	34.0%	14.0%	0.0%	2.0%
	Kerb and guttering	–	–	6	34	3,602	6,124	0.0%	100.0%	0.0%	0.0%	0.0%
	Traffic devices	38	–	1	–	824	978	76.0%	5.0%	19.0%	0.0%	0.0%
<b>Sub-total</b>	<b>16,693</b>	<b>–</b>	<b>897</b>	<b>2,190</b>	<b>122,098</b>	<b>160,022</b>	<b>52.0%</b>	<b>11.2%</b>	<b>25.8%</b>	<b>6.3%</b>	<b>4.7%</b>	
<b>Sewerage network</b>	Sewerage network	2,963	–	162	801	15,565	23,780	30.0%	27.0%	31.0%	5.0%	7.0%
	<b>Sub-total</b>	<b>2,963</b>	<b>–</b>	<b>162</b>	<b>801</b>	<b>15,565</b>	<b>23,780</b>	<b>30.0%</b>	<b>27.0%</b>	<b>31.0%</b>	<b>5.0%</b>	<b>7.0%</b>
<b>Stormwater drainage</b>	Stormwater drainage	–	–	9	–	7,283	11,152	13.0%	87.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>9</b>	<b>–</b>	<b>7,283</b>	<b>11,152</b>	<b>13.0%</b>	<b>87.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Open space / recreational assets</b>	Swimming pools	–	–	32	128	3,036	4,217	75.0%	0.0%	0.0%	25.0%	0.0%
	Open Space & Recreational	103	–	14	–	839	1,602	28.0%	40.0%	15.0%	7.0%	10.0%
	<b>Sub-total</b>	<b>103</b>	<b>–</b>	<b>46</b>	<b>128</b>	<b>3,875</b>	<b>5,819</b>	<b>62.1%</b>	<b>11.0%</b>	<b>4.1%</b>	<b>20.0%</b>	<b>2.8%</b>
<b>Total – all assets</b>		<b>30,671</b>	<b>–</b>	<b>2,579</b>	<b>4,919</b>	<b>199,291</b>	<b>306,201</b>	<b>37.4%</b>	<b>13.9%</b>	<b>29.0%</b>	<b>15.1%</b>	<b>4.6%</b>

(a) Required maintenance is the amount identified in Council's asset management plans.

# Current status - LTFP

- Council has four funds – General, Domestic Waste Management, Water and Sewer
- Council presenting a consolidated and separate for General, DWM, Water & Sewer in current LTFP
- General fund operating result worse when DWM surplus excluded ~ \$154k for 2021/22 – 10 year average operating deficit for GF - \$145K
- Need to review income and expenses assumptions – 10 year average income increases 1.5% and expenses 1.2%
- General Fund may have insufficient money to maintain current service levels and be able to fully fund its Capital Works Program.
- Need to have a clear position on General Funds' financial position and long term sustainability

# What is impacting Councils financial position?

- Ongoing core costs outpacing revenue growth – fundamental flaw in local government income and operating cost structure.
- Externally imposed obligations:
  - ARIC - internal audit program using external/internal resources
  - Emergency Service Levy increases.
  - Cyber security/modernise systems/fraud prevention
  - Crown Land, Plans of Management, Compliance reporting
- Changes in services and assets:
  - Grant funded new/expanded assets increased operating and depreciation costs
  - Increase/high services in some areas
  - Decrease in investment revenue

# What is impacting Councils financial position?

- High inflation environment
- Low rate peg increases
- Cost of wages
- Materials and logistics
- Depreciation

2021/22 Actuals – General Fund	Estimated 23/24	10 year Amounts
Rates - \$5.1m: 3.7%	+ \$189k	+\$1.89m
Wages - \$7.4m: 4%	- \$296K	-\$2.96m
Materials -\$6.2m: 4%	- \$217K	-\$2.17m
Depreciation - \$5.1m – 3.5%	-\$178K	-\$1.78m
Net Total	- \$502K	-\$5.02m

# Questions

