



Financial Sustainability and Special Rate Variation - Assessment

Narrandera Shire Council

August 2023



Agenda

- Introduction
- Council financial sustainability
- Current situation
- Base case LTFP
- Special Variation (SV) process criteria, inputs and outputs
- SV strategy and options available
- SV scenario assumptions, modelling and outcomes
- Community engagement
- Next steps
- Questions

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 align 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**
 - adequate/sustainable **cash position** and use of reserves and borrowings
 - having an appropriately **funded capital program**
 - maintaining its asset base '**fit for purpose**'
 - having adequate resources to meet ongoing **compliance obligations**.
 - explore options **to improve** financial sustainability.

Council must achieve a fully funded operating position, ensuring that Council collects enough revenue to fund operational expenditure and depreciation.

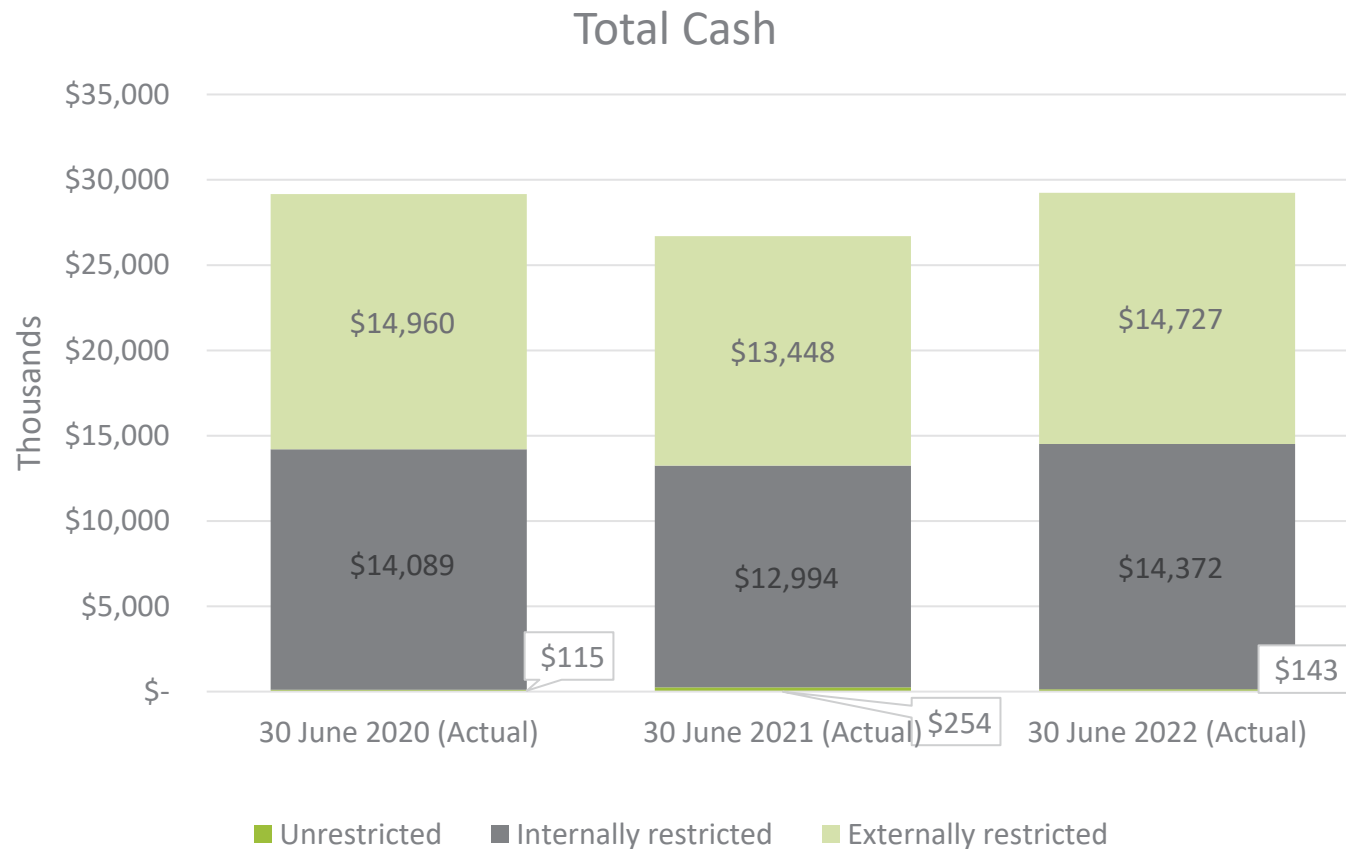
Current situation – General Fund

Councils current LTFP for 2023-24 models two scenarios, both of which DO NOT forecast council in a financially sustainable position.

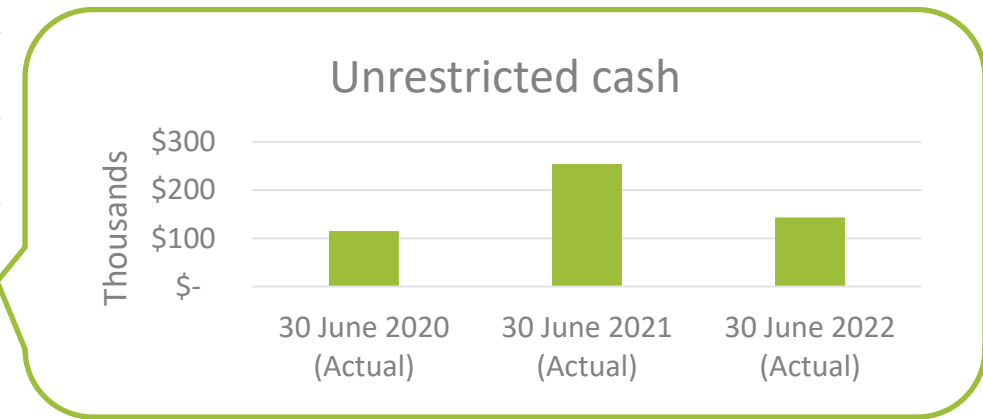
Narrandera Shire Council 10 Year Financial Plan for the Years ending 30 June 2033 INCOME STATEMENT - GENERAL FUND Scenario: 2023-2033 3.7% rates, FAG 2.5%, \$3.5m Loan Stormwater												
	Actuals 2021/22 \$	Current Year 2022/23 \$	2023/24 \$	2024/25 \$	2025/26 \$	2026/27 \$	Projected Years					2032/33 \$
							2027/28 \$	2028/29 \$	2029/30 \$	2030/31 \$	2031/32 \$	
Net Operating Result before Grants and Contributions provided for Capital Purposes	586,000	(3,519,735)	(477,818)	(665,400)	(483,437)	(528,351)	(541,403)	(1,116,795)	(974,886)	(963,021)	(991,807)	(1,001,259)

Narrandera Shire Council 10 Year Financial Plan for the Years ending 30 June 2033 INCOME STATEMENT - GENERAL FUND Scenario: Pess Rates 3.7%, FAG 2.5%, Add. exp per council report												
	Actuals 2021/22 \$	Current Year 2022/23 \$	2023/24 \$	2024/25 \$	2025/26 \$	2026/27 \$	Projected Years					2032/33 \$
							2027/28 \$	2028/29 \$	2029/30 \$	2030/31 \$	2031/32 \$	
Income from Continuing Operations												
Net Operating Result before Grants and Contributions provided for Capital Purposes	586,000	(3,519,735)	(1,419,242)	(1,640,474)	(1,488,665)	(1,558,202)	(1,596,490)	(2,197,751)	(2,082,357)	(2,097,670)	(2,154,314)	(2,192,319)

Current Cash Position



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



Current cash position – General Fund

Narrandera Shire Council

10 Year Financial Plan for the Years ending 30 June 2033

INCOME STATEMENT - GENERAL FUND

Scenario: 2023-2033 3.7% rates, FAG 2.5%, \$3.5m Loan Stormwater

	Actuals 2021/22	Current Year 2022/23	2023/24	2024/25	2025/26	2026/27	Projected Years					2032/33
	\$	\$	\$	\$	\$	\$	2027/28	2028/29	2029/30	2030/31	2031/32	\$
Cash, Cash Equivalents & Investments - end of the year	20,442,000	12,348,107	11,384,975	11,434,860	11,879,186	12,560,156	13,847,997	14,775,479	14,388,469	15,269,823	16,620,657	18,141,109
Representing:												
- External Restrictions	5,927,741	3,776,564	3,636,171	3,812,748	4,094,920	4,454,957	4,813,663	5,172,063	5,529,681	5,884,845	6,240,974	6,597,577
- Internal Restrictions	14,371,780	7,650,407	7,704,775	7,700,505	8,109,901	8,509,621	9,552,470	9,986,575	9,194,065	9,804,365	10,732,167	11,805,245
- Unrestricted	142,479	921,136	44,029	(78,383)	(325,635)	(404,422)	(518,136)	(383,159)	(335,277)	(419,387)	(352,484)	(261,713)
	20,442,000	12,348,107	11,384,975	11,434,860	11,879,186	12,560,156	13,847,997	14,775,479	14,388,469	15,269,823	16,620,657	18,141,109

Narrandera Shire Council

10 Year Financial Plan for the Years ending 30 June 2033

INCOME STATEMENT - GENERAL FUND

Scenario: Pass Rates 3.7%, FAG 2.5%, Add. exp per council report

	Actuals 2021/22	Current Year 2022/23	2023/24	2024/25	2025/26	2026/27	Projected Years					2032/33
	\$	\$	\$	\$	\$	\$	2027/28	2028/29	2029/30	2030/31	2031/32	\$
Income from Continuing Operations												
Cash, Cash Equivalents & Investments - end of the year	20,442,000	12,348,107	5,176,604	2,630,223	965,722	(475,114)	(1,331,051)	(2,577,285)	(5,171,143)	(6,490,561)	(7,418,646)	(8,177,973)
Representing:												
- External Restrictions	5,927,741	3,776,564	3,636,171	3,812,748	4,094,920	4,454,957	4,813,663	5,172,063	5,529,681	5,884,845	6,240,974	6,597,577
- Internal Restrictions	14,371,780	7,650,407	7,704,775	7,700,505	8,109,901	8,509,621	9,552,470	9,986,575	9,194,065	9,804,365	10,732,167	11,805,245
- Unrestricted	142,479	921,136	(6,164,342)	(8,883,030)	(11,239,099)	(13,439,692)	(15,697,184)	(17,735,923)	(19,894,889)	(22,179,771)	(24,391,787)	(26,580,795)
	20,442,000	12,348,107	5,176,604	2,630,223	965,722	(475,114)	(1,331,051)	(2,577,285)	(5,171,143)	(6,490,561)	(7,418,646)	(8,177,973)

Base Case - assumptions

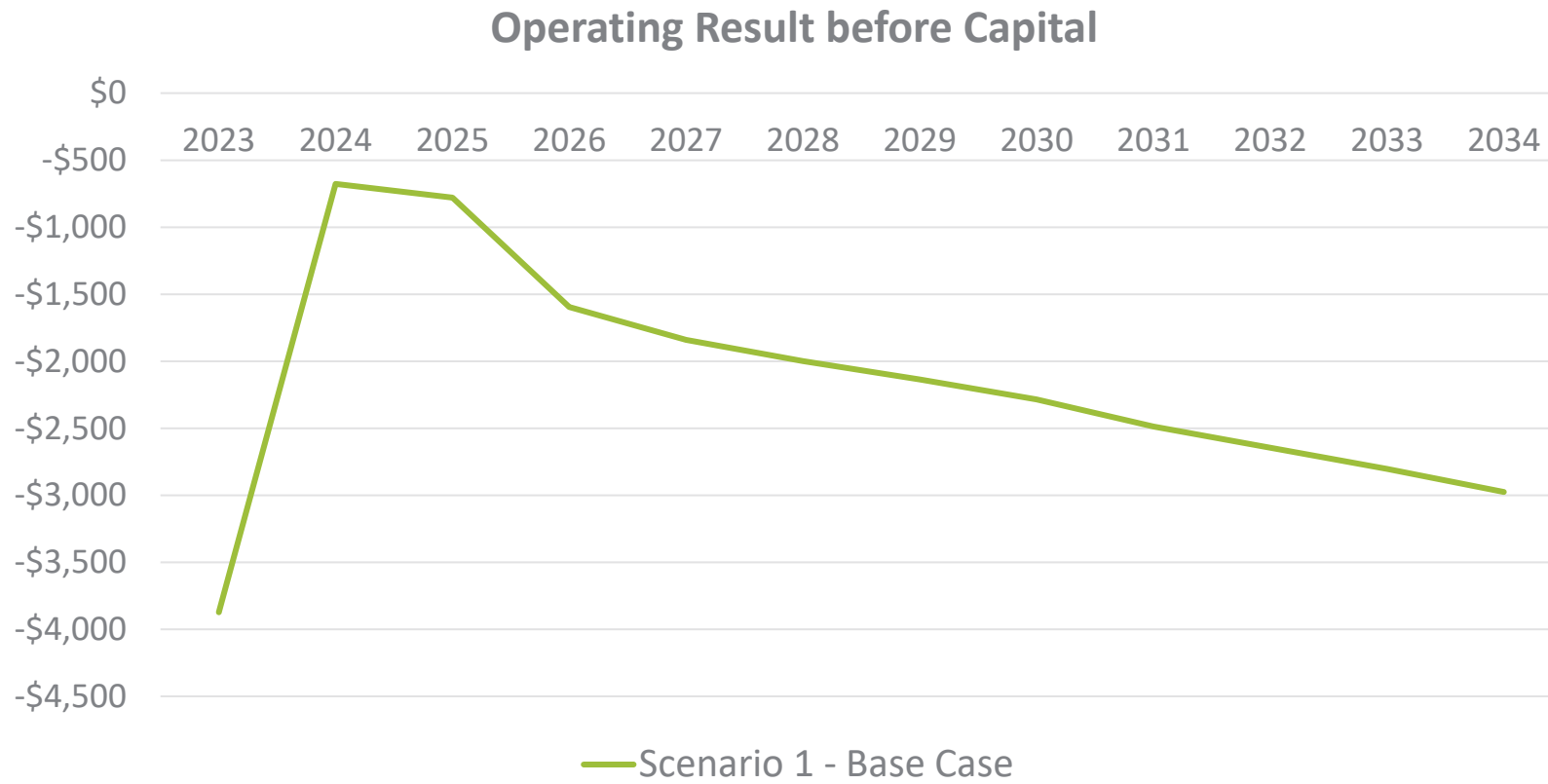
- Macro assumptions in line with current draft 2022-33 LTFP:
 - Rate peg 3.5% in 2024-25 and 2.5% year after
 - Employee costs in line with state award increases (\$1000 per employee or 0.5% for 24/25 & 25/26) plus increase in compulsory superannuation
 - Other costs in line with CPI forecasts
 - Stormwater project of \$16.5m included (50% grant:50% Council) Council \$2.5m cash reserves and \$5.75m loan funds.
- Asset funding gaps – planned renewal and maintenance (not required renewal and maintenance)
- No improvement plan initiatives.

****Attention****

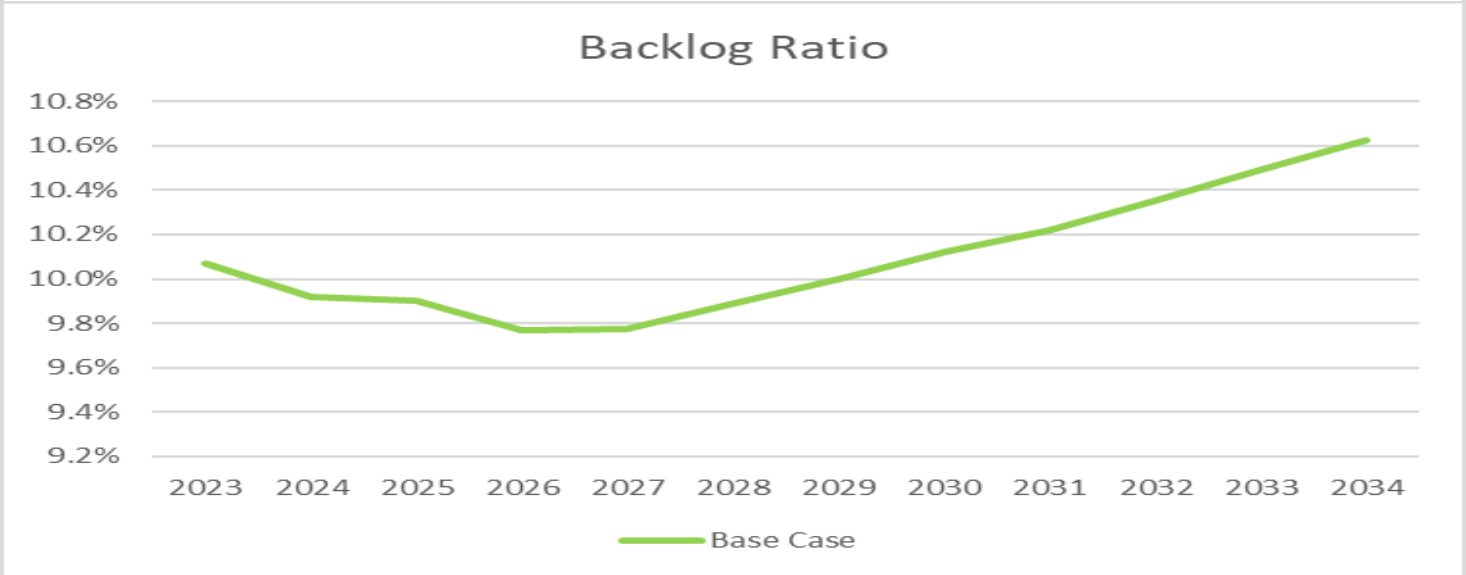
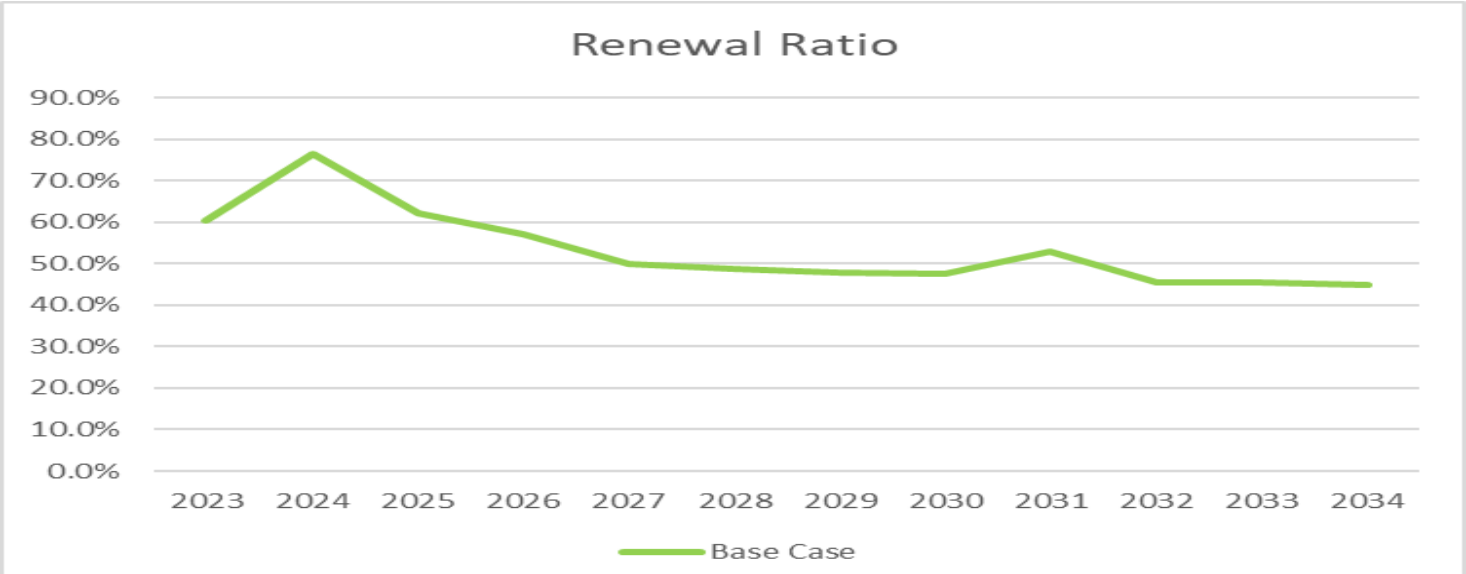
General Fund from this point, unless otherwise stated.

Base Case – Forecasted Operating Result

- Persistent General Fund deficit, averaging \$2.1 million per annum over 10-year forecast
- Average operating performance ratio of **-10%**



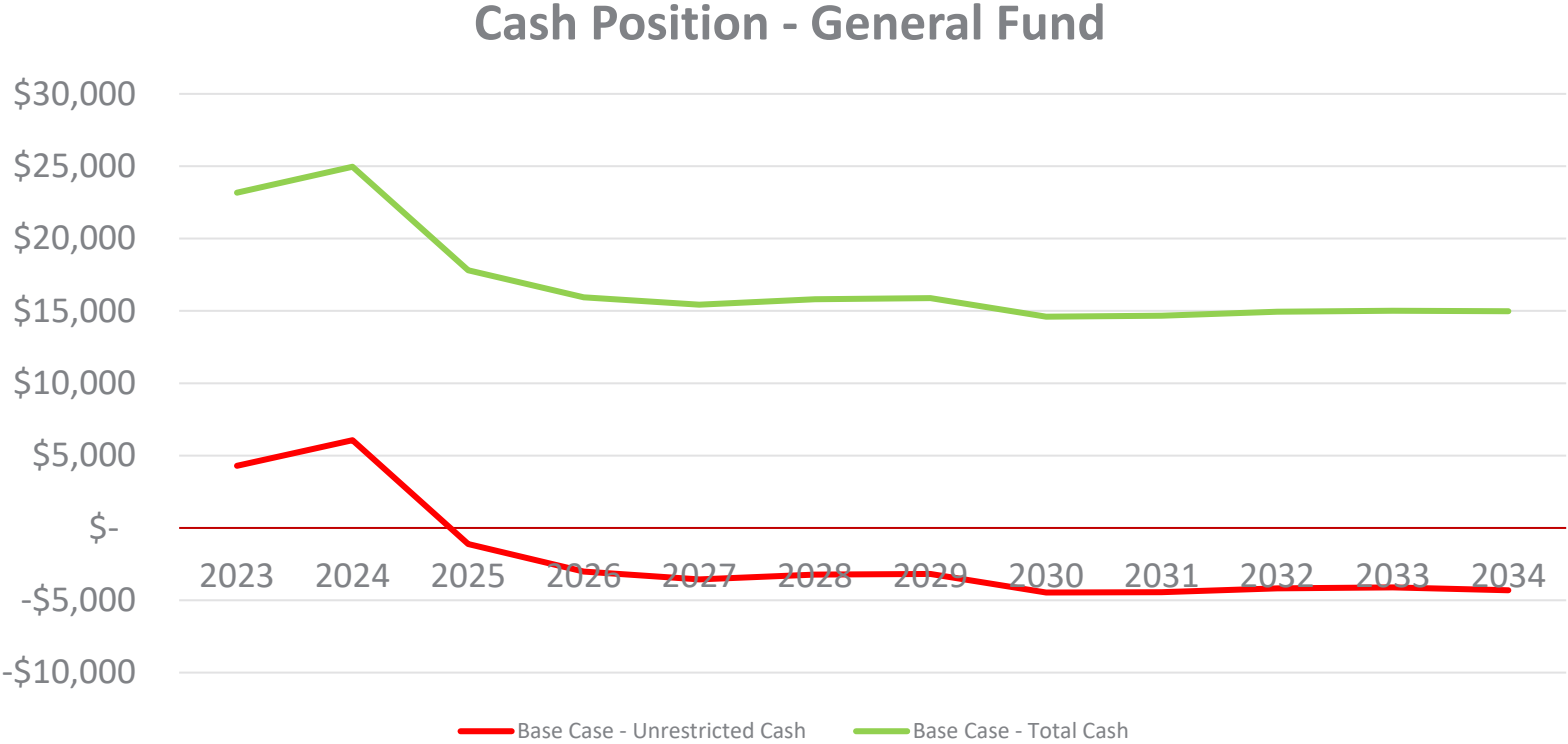
Base Case – Asset Renewal and Backlog Forecast



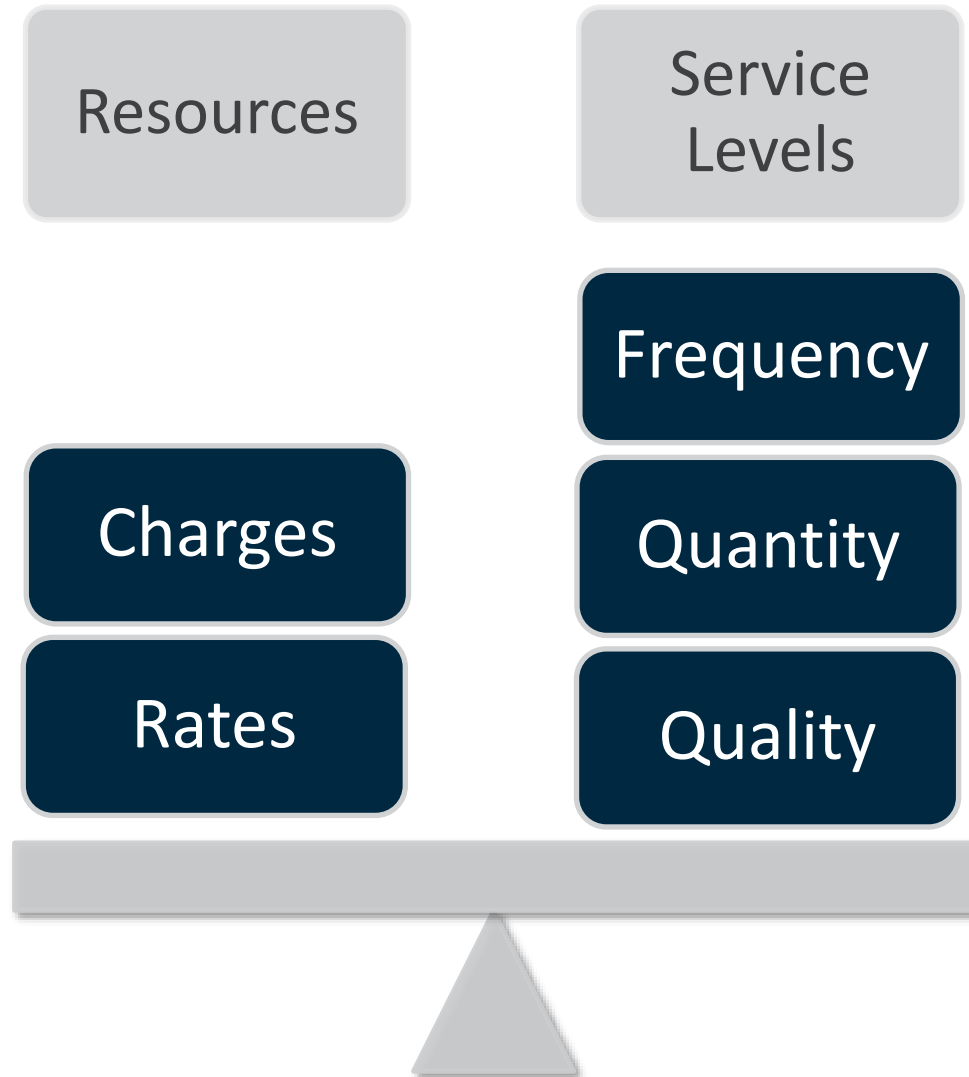
- Asset renewal ratio averaging 53.2%, significantly less than 100% benchmark.
- As a result, the backlog ratio grows from 10.1% to 10.6% by 2033-34.

Base Case – Unrestricted Cash

- Negative unrestricted cash balances from 2024-25



Balancing services and resources



Councils must:

- *achieve a fully funded operating position; by either/both*
 - *Reduce services/assets; or*
 - *Increase revenue*

SV process

Phase 1: SV preparation

- Project kick-off
- AMS and AMPs
- Base Case LTFP
- Improvement plan
- Integrated LTFP
- Capacity to pay
- SV content and scenarios
- Council and staff reviews

Phase 2: community engagement

- Engagement plan program and activities
- Community engagement
- Community engagement report

Phase 3: SV application

- Final LTFP scenarios and aligned AMPs
- Prepare SV application
- Review and submit SV application

IPART SV 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 **SV 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.

SV Strategy and available options

SV strategic lever:	NSC considerations
<p>Type of increase: Councils can seek to increase minimum rates and/or the ad valorem.</p>	<p>This lever is most useful when population growth coming from high density units to address rates equity issues. NSC has both minimum and base rates methods, and no demand to have significant housing growth coming from units.</p>
<p>Duration of increase: Councils can seek a permanent or temporary increase.</p> <ul style="list-style-type: none">• Permanent increases to meet ongoing service or asset requirements.• Temporary increases to fund initiatives and new/upgrade capital works.	<p>NSC needs SV to address ongoing financial sustainability, effectively to ensure adequate ongoing investment in renewing current assets and funding current service levels. Therefore, permanent increase is essential.</p>
<p>Implementation period: Councils can request the total increase in a single year or over 2-7 years, more recently IPART approval only up to 5 years.</p>	<p>Decision usually based on capacity to pay. Although, NSC must also consider the impact on unrestricted cash, as need to ensure that NSC doesn't slip into a negative cash balance.</p>

SV - Assumptions

- Macro assumptions in line with current draft 2022-33 LTFP:
 - Rate peg 3.5% in 2024-25 and 2.5% year after
 - Employee costs include compulsory superannuation increases
 - Other costs in line with CPI
- Growth assumptions
 - Increase in assessments of 1.0% pa
 - Annual Charges year on year increase of 3% pa
- Funding for building and recreation asset renewals 75% grants and 25% Council
- Present improvement plan initiatives and additional resources are included.

SV - Outcomes

The SV options are calculated to achieve:

- Financial sustainability and capacity over the longer – operating surplus and improved cash position
- IT system upgrade, cyber security and replacement program
- Salary system review costs
- ESL lost subsidy
- Construction of the new stormwater extensions
- Barellan Swimming Pool operation
- Appropriately fund additional asset renewal requirements.

Required Asset Renewal – SV 1 & 2

Asset Class	2024 \$'000	2025 \$'000	2026 \$'000	2027 \$'000	2028 \$'000	2029 \$'000	2030 \$'000	2031 \$'000	2032 \$'000	2033 \$'000	2034 \$'000
Roads	\$1,937	\$2,001	\$2,061	\$2,121	\$2,182	\$2,245	\$2,309	\$2,375	\$2,443	\$2,510	\$2,565
Buildings	\$1,304	\$1,332	\$1,363	\$1,393	\$1,423	\$1,455	\$1,487	\$1,519	\$1,553	\$1,587	\$1,622
S/Water	\$83	\$84	\$94	\$123	\$136	\$139	\$142	\$145	\$149	\$152	\$155
Recreation etc	\$954	\$1,047	\$1,076	\$1,101	\$1,126	\$1,152	\$1,182	\$1,208	\$1,235	\$1,262	\$1,290
Required	\$4,278	\$4,464	\$4,594	\$4,738	\$4,867	\$4,991	\$5,120	\$5,247	\$5,380	\$5,511	\$5,632
Planned	\$3,402	\$2,840	\$2,695	\$2,426	\$2,421	\$2,441	\$2,495	\$2,831	\$2,501	\$2,558	\$2,597
Gap	\$876	\$1,624	\$1,899	\$2,312	\$2,446	\$2,550	\$2,625	\$2,416	\$2,879	\$2,953	\$3,035

Council buildings and recreation assets have traditionally funded from grants – assumption 75% grants and 25% Council.

Improvement Sustainability Plan

Improvements & additional resources – SV 1 & 2	Type of benefit	Amount per year
HACC and Community transport, private works, credit card fees, etc	Increase Income	\$181,000
LED lighting, energy savings, street sweeping, fleet review, etc	Expenses Savings	\$207,000
Salary system review	Increase costs	\$810,000
IT system upgrade/replacement program	Increase costs	\$231,000 (Ave)
Total annual net costs		\$653,000

A range of absorb costs, productivity and efficiency improvements including:

- Loss ESL subsidy 2023/24 impact- \$112,000
- Barellan Swimming Pool contract - \$57,000
- Better use of technology
- Service review program
- Administration and operational process – reporting, standardising procedures and flexible workplace arrangements
- Past Improvements - \$1.0 million (LED street lighting, loans savings, workers’ compensation savings plus efficiency and productivity improvements)

Scenario modelling

We have modelled two SV scenarios over two years.

Both scenarios were designed to ensure that they:

- Generate an operating surplus, before capital income.
- Council is able to fully fund its required renewal and maintenance are funded.
- Council is able to bring back and maintain a positive unrestricted cash position.
- Council delivers all its improvement program initiatives.

Scenarios	2024-25	2025-26	Cumulative
Base Case – Rate Peg	3.5%	2.5%	6.1% (over two years)
Option 1 – One -year SV (including rate peg)	41.5% 38.0%	2.5%	45.0% (over two years) 38.0% (No rate peg)
Option 2 – Two -year SV (including rate peg)-Tapered	25.5% 22.0%	18.0% 15.5%	48.1% (over two years) 40.9% (No rate peg)

Note: Cumulative amounts are expressed as required by IPART and only go the end year of the SV. Grey excludes rate peg percentage.

Rates Comparisons – 2021/22

LGA 2021/22 Average Rates	Average Residential Rate (\$)	Residential rank	Average Business Rate (\$)	Business rank	Average Farmland Rate (\$)	Farmland rank
Berrigan	771	13	1,427	12	2,351	15
Blayney	1,280	2	1,134	18	3,110	13
Cobar	1,552	1	1,165	17	1,683	21
Dungog	1,272	3	1,319	15	3,254	10
Edward River	1,051	5	2,089	4	3,319	8
Forbes	890	7	2,823	2	2,628	14
Glen Innes Severn	881	8	1,596	8	3,189	11
Gwydir	769	14	1,702	7	5,771	1
Junee	829	9	2,106	3	3,303	9
Kyogle	1,134	4	1,422	13	1,974	18
Lachlan	570	21	735	21	3,449	7
Liverpool Plains	819	10	1,433	11	4,774	3
Narrandera	688	16	1,233	16	3,669	6
Narromine	778	12	1,948	5	4,235	4
Oberon	959	6	1,094	19	2,019	17
Temora	660	17	1,481	9	2,228	16
Tenterfield	637	18	1,388	14	1,629	22
Upper Lachlan	575	20	1,450	10	1,910	19
Uralla	715	15	680	22	4,027	5
Walgett	398	22	766	20	4,840	2
Warrumbungle	625	19	1,717	6	3,186	12
Wentworth	793	11	6,237	1	1,777	20
Leeton	1,112		976		3,714	
Griffith	1,078		2,865		3,815	
Average Group 10	848		1,679		3,106	
Median Group 10	785		1,430		3,187	

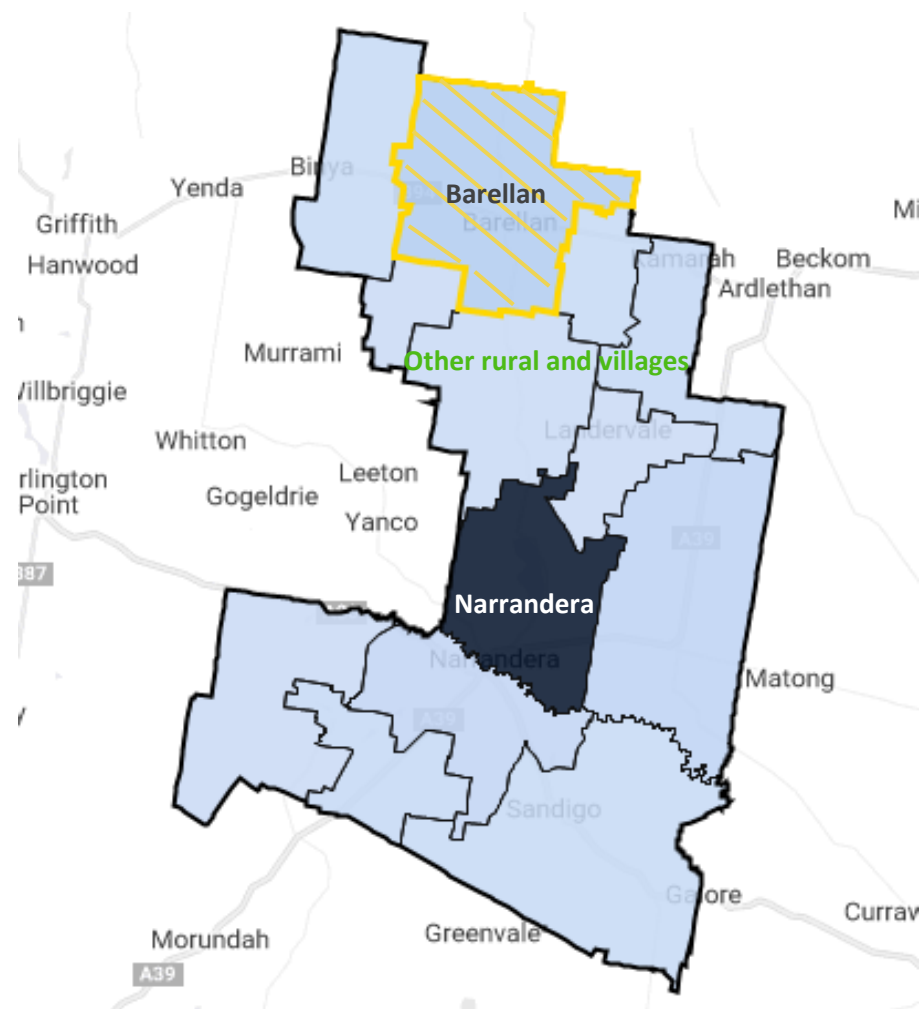
Rates Comparison to 2025/26

Estimated average rates for 2025/26						
Group 10 LGA	Est. average residential (\$)	Residential rank	Est. average farmland (\$)	Farmland rank	Est. average business (\$)	Business rank
Berrigan	869	16	2,652	15	1,609	14
Blayney	1,443	3	3,507	13	1,278	18
Cobar	1,750	1	1,898	22	1,314	17
Dungog	1,445	2	3,694	10	1,497	16
Edward River	1,193	5	3,768	9	2,372	4
Forbes	1,004	10	2,966	14	3,186	2
Glen Innes Severn	994	12	3,596	11	1,800	11
Gwydir	870	15	6,533	1	1,927	8
Junee	1,170	6	4,659	6	2,970	3
Kyogle	1,279	4	2,226	19	1,604	15
Lachlan	642	21	3,889	8	829	21
Liverpool Plains	1,054	9	6,142	2	1,844	10
Narrandera	1,061	8	5,656	3	1,900	9
Narromine	877	14	4,776	5	2,196	5
Oberon	1,081	7	2,276	18	1,234	19
Temora	745	18	2,512	17	1,670	12
Tenterfield	997	11	2,550	16	2,173	6
Upper Lachlan	648	20	2,154	20	1,635	13
Uralla	806	17	4,541	7	766	22
Walgett	449	22	5,458	4	864	20
Warrumbungle	705	19	3,593	12	1,936	7
Wentworth	895	13	2,004	21	7,033	1
Leeton	1,254		4,188		1,101	
Griffith*	1,386		4907		3685	
Average Group 10	999		3,684		1,984	
Median Group 10	995		3,594		1,735	

SV impact on average rates - NSC

Estimated average rates to 2025/26			
Rate Category	Ave. Rate 2023/24	Ave. Rate 2024/25	Ave. Rate 2025/26
Residential			
No SRV	743	769	788
1 Year SV	743	1,051	1,078
2 Year SV	743	932	1,100
Business			
No SRV	1,265	1,309	1,342
1 Year SV	1,265	1,790	1,835
2 Year SV	1,265	1,588	1,873
Farmland			
No SRV	3,957	4,095	4,198
1 Year SV	3,957	5,599	5,739
2 Year SV	3,957	4,966	5,860

Capacity to Pay



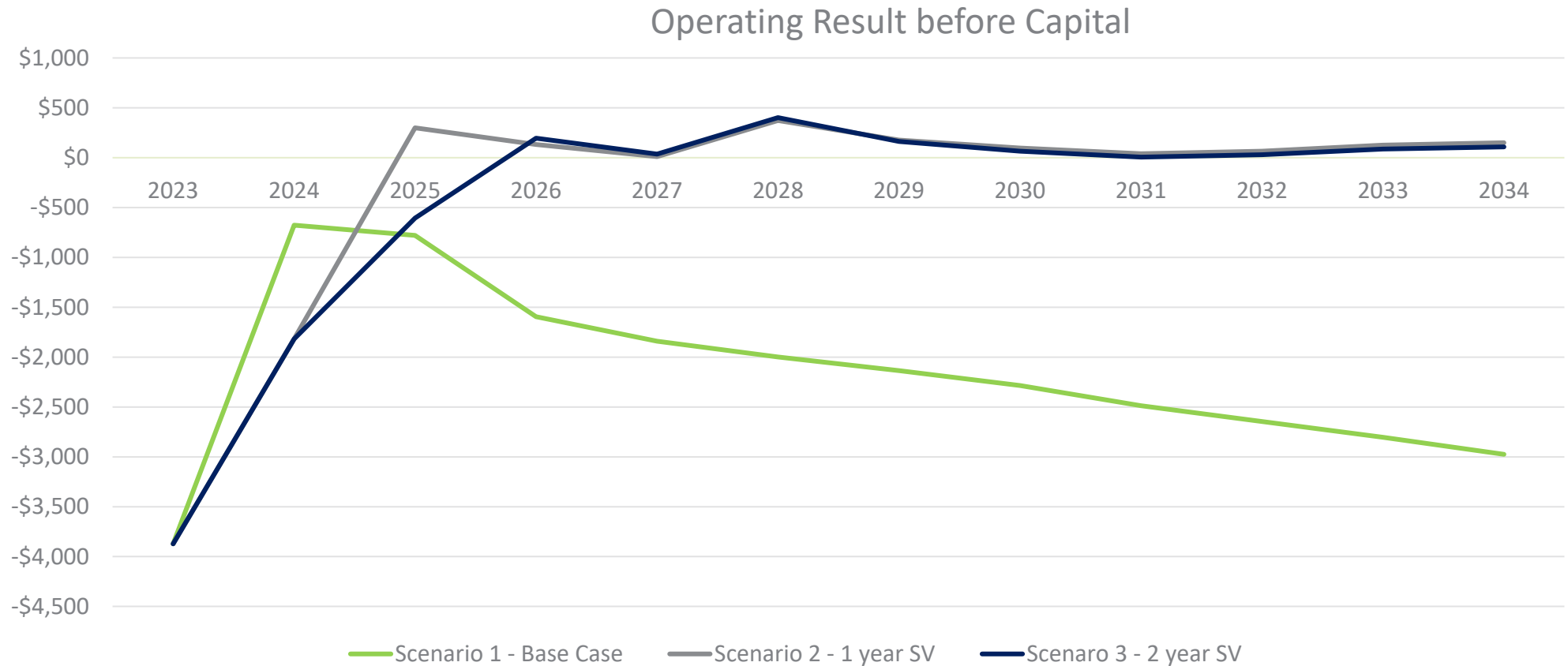
Grouping	Population (2021)
Borellan	420
Narrandera	4,369
'Other rural and villages'	874
Narrandera Shire LGA	5,663

Capacity to Pay

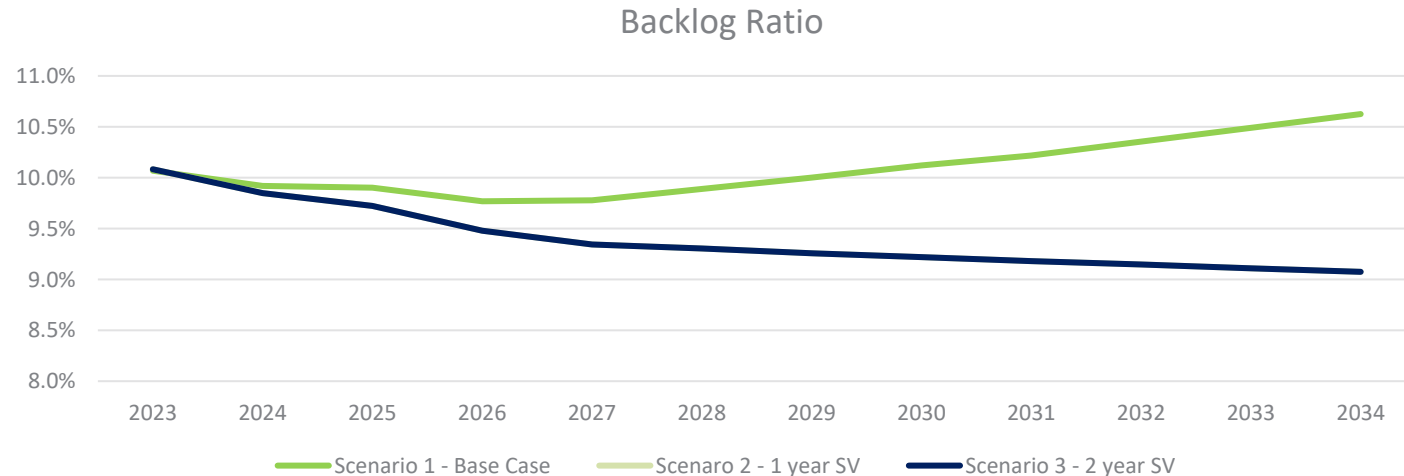
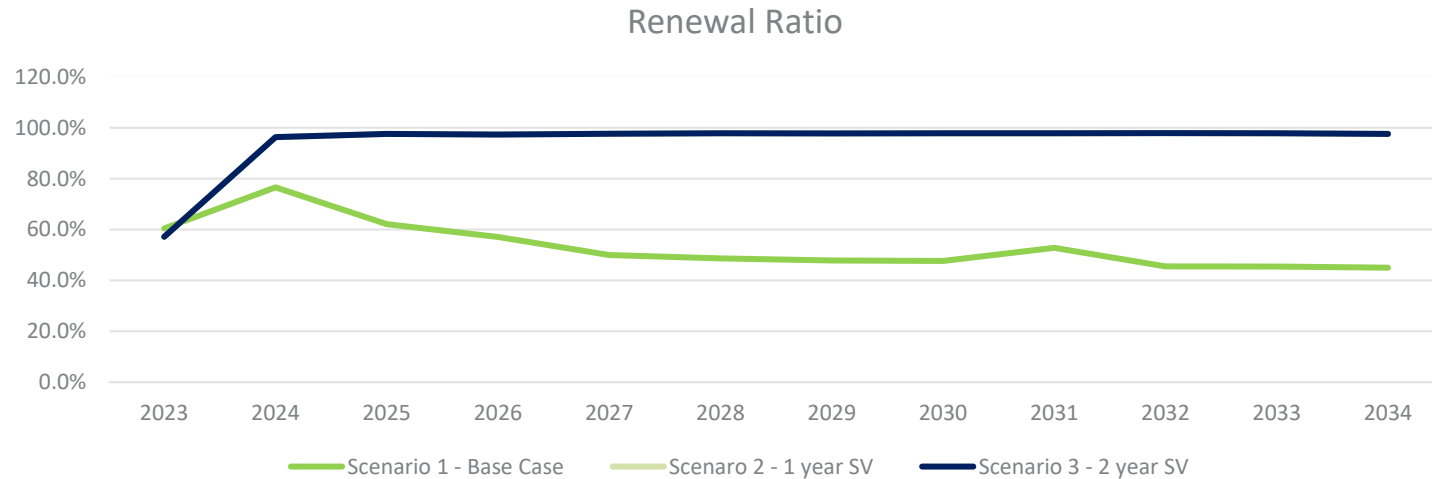
Grouping	Findings
Narrandera	<ul style="list-style-type: none"> • Lowest percentage of resident ratepayers (63%) and the highest proportion of renters (25%) and social housing (3%). • Highest percentage in the lowest and lower middle categories for both individual and combined household weekly income and the lowest proportion in the upper middle and highest categories. • Highest percentage of unemployment (6%). • Lowest median weekly household income compared to the second highest median weekly mortgage repayments (24% of income) and highest median rent (19% of income). • Highest proportion of persons requiring assistance at 9%.
Barellan	<ul style="list-style-type: none"> • Lowest percentage of dependents (20%) and highest percentage of working age (48%) and retirees (32%). • Highest proportion of resident ratepayers (71%) and lowest renters (4%). • Highest percentage of vulnerable households (31%) due to highest proportion of lone person households (17%). • Lowest proportion in the upper middle and highest combined weekly household income categories (30%). • Lowest median monthly mortgage repayments
Other rural and villages	<ul style="list-style-type: none"> • Highest proportion of dependents but lowest proportion of working age and retirees. • Highest percentage of households living rent free (12%) and lowest proportion of social housing (1%). • Lowest resident ratepayers with a mortgage (24%). • Highest percentage of households containing couples with children (44%) and couples without children (26%). • Highest proportions in the upper middle (29%) and highest (12%) combined weekly household income categories. • Highest median weekly mortgage repayments but also highest median weekly household income. • Lowest proportion of persons requiring assistance (3%).

SV Options – Forecasted Operating Result

- Improves operating position with scenario 2 in surplus from 2024-25 and scenario 3 from 2025-26 with the average operating performance ratio remaining positive - 2.4% & 1.7% respectively.

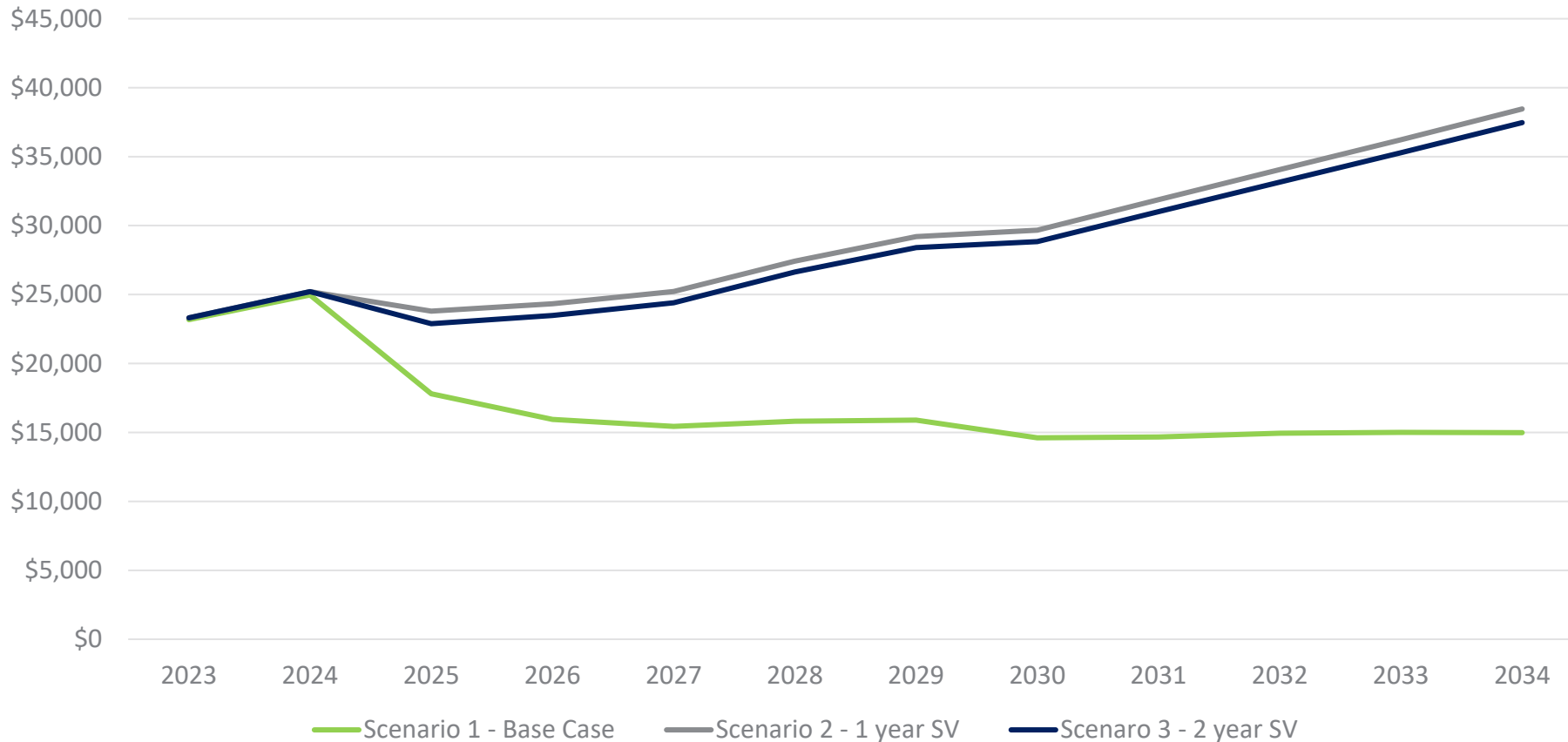


SV Options – Asset Renewal and Backlog Forecast



- All SV options produce the same result (Scenario 2 is not visible as directly behind Scenario 3)
- Scenarios asset renewal ratio averaging 98% for all options.
- As a result, the backlog ratio starts to slowly decline from 10.1% to 9.1% by 2033-34.

SV Options – Cash position



- All SV options show positive unrestricted cash balance, each year, for the 10-year period.
- Unrestricted cash balances start to grow – enables cash generation for repayment of debt, less reliance on grant funding (which may not continue at current levels) and prudent capital investment in the back end of the forecast period.

Discussion / things to consider

- Agreed on Councils current unsustainable financial position
- Any gaps/issues not covered in the financial sustainability assessment?
- Agreed SV position and option(s)
- Consideration and timing of community engagement.

Community engagement - awareness

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
- 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.

Community engagement - program



Next steps

- Councillors agree to consider an SV for community engagement only
- Information for Council meeting
 - Create SV Background paper
 - Develop Community Engagement Plan
 - Revised LTFP and DP documents
- Prepare Council report
- Concurrently develop collateral ready to commence engagement - Media release, 'Have your Say' page website, emails and mailouts, newsletters, staff reference material.

Questions

