SUBMISSION IN RESPONSE TO SNOWY VALLEYS COUNCIL'S APPLICATION FOR SRV OVER TWO YEARS COMMENCING 2022/23, OF 15.7%, 17.5%, OR CUMULATIVE 35.95%

A Comments on Council's application

Question 2: What is the key purpose of the requested special variation

Council aims to more than eliminate the operating deficit. Its LTFP predicts operating surplus of more than $600K per year commencing 2023/24.

Council states that it needs to manage adverse impacts to its financial position caused by 'external factors such as grant funded new assets'. It is notable that Snowy Valleys Council elected to apply for and receive grant funding for 'Emergency Evacuation Centre' and 'Airport Upgrade', which combined are estimated to add more than $1 million to net annual operating expenditure. These projects were not in Council's IPR planning documents, and nor was community consultation undertaken. They remain extremely contentious. During the consultation process Morrison Low noted that because of these two projects, the proposed SRV was increased from the originally proposed 25.44% to 38% (subsequently reduced to 35.95% when the rate cap was reduced). It is incorrect to state that these 'adverse impacts' were caused by 'external factors' when Council itself requested and accepted the grants without consulting the community about the need and the impact. There is still an opportunity for Council to consult the community and decide whether the projects should proceed or not. Granting the full SRV requested will reduce any incentive for review.

Council's LTFP calls into question the need for a SRV of this magnitude at the present time. Council's response in Worksheet 6: Part A shows that it is not intending to use any of the additional cash raised by the SRV during the term of the LTFP. Its objective seems to be primarily to meet (and exceed) the operating result benchmark without having identified any particular need to do so in the short to medium term covered by the LTFP. A smaller SRV would enable Council to increase its reserves, and implement ongoing productivity improvements in a timely and financially responsible manner, and meet the operating performance benchmark over time.

Criterion 1 Need for the variation

Council's response to the need for the SRV essentially only deals with the shortfall in operating position, without any discussion about Council's cash position, asset condition, and whether in fact additional cash is needed within the term of the LTFP.

1.2 What will be the impact of the proposed special variation?

Council's response again focuses on the operating position rather than other indicators, or a need for additional cash in the short to medium term. The response notes that general rates contributed 18% of Snowy Valleys General Fund total revenue compared with 24% for similar regional merged councils. It fails to mention the considerable grant funding received by SVC following the bushfire disaster of 2019/20, and SVC's RMS funding for State Road works when compared with other regional councils. It is to be expected that SVC would have a lower own source revenue ratio. Similarly the table showing own source operating revenue of 45% in 2020/21 compared with 2031/32 of 71% is very much skewed by the grant revenues and user charges included in each year. The LTFP has conservative estimates for user charges and fees, and capital revenue, and the historical figures for 2021/22 are distorted by works following the fire disaster and unusual capital revenue. Refer figures below, noting that the income in 2031/32 has not been adjusted to current value, hence the difference is even more significant than it appears:

	2019/20	2031/32
User charges and fees	$16,905	15,758
Operating Grants	25,350	13,092
Capital Grants	11,740	2,042
TOTAL	**$53,995**	**$30,628**

General rates in 2019/20 contributed a low % of total revenue given huge grant funding and RMS remediation works (user charges). For the same reason, Council's own source revenue % was low in 2020/21. Given the distorting events at the time, neither is a reliable measure to draw any conclusions.

Council notes that the SV aims to maintain current service levels and to deliver Council's 10 year asset renewal program, but the LTFP contains no additional expenditure on asset renewal and there is commentary in the application that this is because assets are in good condition – ie at the time of this application, no need for additional renewal spending has been identified. The balance of general fund cash and investments increases from $17,892 in 2021 to $59,412 in 2031/32, and Council's response in Worksheet 6: Part A states that the $3,504,386 raised by the SRV is not spent during the LTFP period. The proposed SRV provides sufficient cash for the value of infrastructure renewals to exceed depreciation over the term of the plan if in fact this was needed and still increase cash reserves. This is clearly excessive given the low infrastructure backlog ratio, which is well below benchmark over the term of the LTFP with the current planned renewal expenditure.

A smaller SRV would enable Council to increase its reserves, and implement ongoing productivity improvements in a timely and financially responsible manner, and meet the operating performance benchmark over time.

1.3 Financial Indicators

The Council merger and associated major capital grant funding programs and the bushfire disaster, has resulted in unprecedented grant funding being provided to Council over the years since 2016. As a consequence, many assets have been renewed. Hence Council's infrastructure backlog ratio is only 0.2% at 2020/21, and there is a lesser need for infrastructure renewal in coming years. The tail end of the funding is reflected in the building and asset renewal ratios for 2020-21 and 2021-22 in Council's response, at 282% and 209% respectively. The only ratios that have been below benchmark are the operating performance ratio, and the own source revenue ratio, the latter of which has been distorted by major grants and user charges. The asset maintenance ratio, if calculated correctly, is excessive at over 170% from 2021-2026. There may be opportunities for savings here and capacity to direct funds to other areas of SVC's budget such as increased capital renewal if needed. Even though none of the additional income from SRV is spent on infrastructure renewal, the asset renewal ratio remains below benchmark.

Criterion 2 Community Awareness and Engagement

It has been a particularly difficult time to engage the community, given the combined effects of an unpopular merger and unpopular Council, the Boundaries Commission hearing and its recommendation that Snowy Valleys Council be demerged not being acted upon by the Minister for Local Government, the widespread bushfire impacts across the Council area and the restrictions caused by COVID. It hasn't been helped by some of the confusing material released by Council which showed the two years of the increase being added rather than compounded, and the changing amount of the proposed SV. However, that said, it is difficult to engage the community on complex financial issues. Morrison Low acknowledged that they had only managed to engage around 8% of the community, and to be fair, the online questions were so simplistic it is not realistically possible to draw any conclusions from the answers given. It seems highly likely that responses are a measure of the general dissatisfaction of the community with the Council and a widely held belief that the Council is not an efficient organisation. This dissatisfaction was reported in survey results published in May 2021 which ranked Snowy Valleys Council as having the worst community satisfaction rating in regional NSW, with 'providing value for money for my rates' as the second worst rated performance criterion. This SRV, if granted in full, will only confirm the community's view and entrench inefficiencies.

The community consultation did not include quantification of past efficiencies, and nor did it critically examine and quantify the opportunity for future productivity gains of more than $600,000 and consult about this. Opportunities put to the community were limited to asset sales, service reductions and increased fees and charges. Plus I believe the community is completely unaware (and would be horrified) that Council intends to put all the money raised from the SRV in its bank account until a need is identified for cash expenditure.

Criterion 3 Impact on ratepayers

The table provided by Council showing the impact on average rates in each category of rates unfortunately doesn't show the impact on *different enterprises* for the farming category. The average in the farmland category is heavily skewed by a great number of properties that are not viable farming enterprises but don't fall into the residential category. It also lumps together small acre viticulture and horticulture farms with large acre sheep and cattle farms. Farms in this LGA have needed to expand to be viable, and as a consequence, a great many viable farming enterprises have multiple rates assessments. The average farmland rate publicised of $2,007 is well below the rates paid by any viable agricultural farming business. The impact of the proposed SRV will be in the $thousands for viable livestock businesses. The information presented is purely the high-level data provided by the Office of Local Government which doesn't capture the level of detail needed to properly examine the effect of the rate increases on different groups of ratepayers. SVC has access to data that could do this, but has not presented it.

Consideration by Morrison Low of 2019/20 fire impact on capacity to pay is mainly confined to the impact on forestry. A total area of 4,293 sq km or 48% of the LGA was burnt by bushfires including a great many family sheep and cattle farms, horticulture and viticulture enterprises. RFS building impact assessments identified 1,074 properties damaged or destroyed (REDs fire addendum 2020). The Morrison Low report does not examine the potential impact of the proposed rate increases on these households and businesses or even quantify the number and area affected. It merely recommends "another key consideration for Council on whether to adopt a special rate variation should be the impact that the 2019/20 bushfires… have had on the residents of the LGA". There is no indication that Council has given any consideration to this.

Criterion 5 Productivity improvements and cost containment strategies

In my view, Council's responses to this criterion are very poor.

The responses focus on objectives for productivity improvements rather than any achievements, and there is no quantification of savings achieved.

For example, Council refers IPART to a Council report on 24 October 2019 that projected savings from a restructure of $0.5 million per year but does not provide any evidence of these savings being achieved.

The aim was to reduce salaries and wages by $500,000 pa. Presumably one would expect to see some reduction in direct salaries and wages in the 2019/20 year, with the full effect seen in 2020/21. This is not evidenced in Council's annual financial statements and nor does the application provide any evidence that savings were in fact delivered.

	('000)	('000)
Salaries and Wages 2019	$15,286	
Salaries and Wages 2020	16,530	+1,244
Salaries and Wages 2021	16,911	+381
TOTAL INCREASE		+$1,625

IPART's guidelines for Part B for councils making application are quite specific (*emphasis added*)

"To demonstrate that a council has met this criterion, it is not sufficient to list a series of cost-saving or revenue-raising initiatives. Councils should provide evidence of strategies and activities and *robust data quantifying the efficiency gains*."

And further, "The council should, wherever possible:

• provide information about productivity improvements and cost containment strategies implemented during at least the past two years

• *quantify in dollar terms the gains past initiatives have realised*

• *present these gains as a percentage of operating expenditure*."

Council refers to its Financial Sustainability Plan, but has not quantified any savings made as a result of this plan. Council refers us to quarterly Operational Plan reports in 2020/21, but none of these quantify outcomes, merely reporting that some actions to improve processes have been taken with no detail given. Attachment 1.2.6 Engagement Material in report by Morrison Low on p7, comments 'while some improvements have been completed, progress has been limited by the priorities of bushfire recovery'.

Council has budgeted future savings in employee costs totalling $600,000 to be achieved in 2021/22 and 2022/23. This is 1.6% of operating expenditure of $37,209,000 in 2021/2022. No targets are included for productivity improvement for materials and contracts or for other expenses, which together at $13,660,000 are responsible for 49.7% of cash expenses, and where it is probable that major savings may be achievable.

The community consultation did not include any quantification of past productivity savings, and nor did it canvass the opportunity for savings additional to the included $600,000 from staff reductions.

B Council Meeting 20 January 2022

The timing of the Council elections and deadline for SRV application has not allowed sufficient time for the newly elected Council (6 new councillors of 9) to properly consider and understand the SRV application and alternatives available.

I have listened to the discussion of Item 10.8: Application for Special Rate Variation 2022/23 and 2023/24 which occurred during the Council meeting held on 20th January 2022.

This discussion raises some relevant points in relation to IPART's consideration of the application.

The report provided to the meeting recommended that an SRV of 35.95% be adopted.

The only alternative option presented by staff was not to apply for a SRV, with a proposed motion if this option was endorsed to include

‘Instruct the Chief Executive Officer to immediately initiate the process to reduce services and assets, including the removal of associated staff positions across service areas as identified in this report’.

The services, assets and associated staff positions that were identified were:

- ‘$600K efficiency savings
- $4.0M savings consisting of
    - $9.7M asset rationalisation, resulting in $440K annual savings
    - 190 hours per week service reductions, resulting in $950K annual savings
    - Transfer/ceasing services of net costs $2.5M per annum
    - 25% increase to all fees and charges (except statutory fees), resulting in $150K additional revenue
- It is estimated that a reduction of 42 to 47 FTEs will be required (in addition to the 6 FTEs already committed to).’

The above ‘option’ was obviously not an option at all. The politically cynical could suggest that it was designed to ensure councillors adopted the staff recommendation.

A motion was moved and seconded that an application proceed for SRV of 35.95% in accordance with staff recommendation.

An amended motion was moved and seconded that an application proceed for SRV of 12.5% then 12.5% (26.56%). In explanation to the meeting, the Councillor moving the motion noted that this was Option B of the three options that were included in Council’s consultation (included in November brochure referred to below that was distributed by mail to all residents – Attachment 21.2 IPART application).

In the November brochure residents were advised that ‘the new Council will consider the feedback at the Ordinary Council meeting on 20 January 22 and determine:

- whether to proceed with the SRV application as proposed,
- modify the SRV application to a lesser amount, or
- not proceed with a SRV.’

The Morrison Low presentation included in Attachment 21.5 Slide 4 similarly told the community that Council could vary the SRV amount.

Despite this, staff advised councillors at the January 20 meeting that it was not possible for the amended motion proposing a lesser increase to proceed because the modelling for this had not been included in the LTFP that was placed on public exhibition in October.

The amended motion was lost, and Council resolved to apply for SRV of 35.95%.

The Council’s thinking was conveyed by the Mayor in video at the link below.

https://yourvoice.svc.nsw.gov.au/srv/widgets/363407/videos/25370

It is apparent from discussion that the timing of the Council election and the lack of options prevented the new Council from informed evaluation of the merits of the application and alternatives. There was comment that they had only had 8 days to consider their position. Consequently, this application has become something of an ambit claim – ie as explained by the Mayor, the Council will put in an application for the maximum SRV of the options consulted and if IPART grants the application, then Council will determine how much to implement. It appears unconvinced of the need for the full amount. This is an interesting position, and is a departure from the philosophy of rate pegging and review of applications for Special Rate Variations

– ie need must be demonstrated. But given the circumstances, the Council had little option. The Mayor also expressed the view that Council had already expended considerable money in undertaking examination and community consultation – ie $150,000. While this is not an inconsiderable sum, it is miniscule when compared with the increased rates that will be imposed on ratepayers by the proposed SRV over the term of the LTFP, amounting to $31,504,386, and should not limit consideration of a lesser SRV.

As stated on IPART's website, "The primary purpose of the rate peg is to protect ratepayers from excessive increases in their rates bills". Whilst unpopular with many councils, this constraint has forced councils to live within their means and carefully evaluate options and projects before implementing them, to the benefit of ratepayers of NSW. Similarly, Councils will only be granted SRVs where they can demonstrate, amongst other criteria, a need for the increase, and criteria in relation to productivity improvements. In my view, the Council's application falls well short in relation to these two criteria, and it seems the Council has similar doubts. I hope that IPART will make a determination that will protect ratepayers of the Snowy Valleys Council from excessive increases in their rates.

It is notable that Deloitte, in their report to the NSW Boundaries Commission per Attachment 1.2.3, only extended projections for rate increases to achieve financial sustainability in conjunction with other measures up to a maximum of 20%.

C Alternatives

To inform myself, I reviewed Council's Part A information and modelled the increase of 26.56% proposed in Amended Motion to the January 20 Council meeting, and also the effect of implementing one year of the proposed SRV only at 17.5% (including 0.7% rate peg for 2022/23).

In the spreadsheet I have modified the general rates income and interest income. All other income and all expenditure amounts remain the same. I also tested an increase in interest income from the interest rate implicit in SVC's LTFP to 2.5% from 2024/25. This accords with conservative market predictions. It also shows the sensitivity of results to underlying assumptions.

Detailed results are in the attached spreadsheet and summarised below.

1: Council's proposed LTFP

A $1,007,000 surplus is achieved from 2023/24, reducing to stabilise at more than $600K per year over the term of the LTFP. None of the increased money raised from the SRV is spent over the 10 year period. By year 10, cash and investments total $59,418,000. When 2.5% interest on investment is modelled, operating surpluses rise to between $890,000 and $1,007,000 per annum.

2. 12.5%, 12.5% increase

This option raises $6,117,000 less than Council's proposed option over the period of the LTFP. Operating results vary from $169,000 surplus in 2023/24 to loss of $116,000 in 2025/26. By the end of the LTFP period, Council's cash reserves are $53,301,000. When 2.5% interest on investment is modelled, operating surpluses rise to between $59,000 and $361,000 per annum.

3. 17.5% increase year 1 then rate peg

Operating result is a loss of $413K in 2023/24 increasing to remain steady at an operating loss of around $720K per year. By the end of the LTFP period, Council's cash reserves are still a substantial $47,948,000, leaving a lot of scope for discretionary capital renewal or additions. When 2.5% interest on investment is modelled, operating losses reduce to between $413,000 and $536,000 per annum. Additional productivity improvements of an achievable 1.3% of operating expenditure would address this gap.

D Conclusions

In my view, the full extent of Council's proposed SRV is not needed for the reasons given in this submission. Alternatives 2 and 3 discussed above would both provide Council with options for discretionary capital renewal or new projects, whilst maintaining a focus on ongoing productivity improvements and potential re-evaluation of projects already included in the LTFP to achieve the operating performance benchmark. I hope IPART will assist the newly elected Council and act to protect ratepayers from the excessive 35.95% rate increase that SVC proposes. A reduced increase is clearly what ratepayers want.

Reasons include:

1. Council's LTFP includes no expenditure or identified need for the cash raised by the SRV in the 10 years of the plan; the application seems solely about meeting the operating performance benchmark immediately rather than considering a range of indicators, opportunity for further efficiency gains and the real need for increased expenditure or provisions during the term of the plan.
2. Council's application does not quantify savings achieved to date. Morrison Low acknowledges 'progress has been limited'.
3. Projected savings are only targeted for employee costs, and not for the major expenditure areas of 'materials and contracts' or 'other expenditure'. Projected savings of $600,000 are only 1.6% of operating expenditure, which is a very modest target particularly in view of the lack of quantified past savings, and possible opportunity to reduce asset maintenance expenditure.
4. The community was hit extremely hard by the bushfires of 2019/2020. Council's review of capacity to pay has not examined the impact of this in any meaningful way.
5. During the consultation for the SRV, the amount proposed was increased by 12.56% because Council had sought and received grant funding for Evacuation Centre, and Airport Extensions, which were not in Council's IPR documents, and the community was not consulted about the need or the impact on their rates. There is still an opportunity for Council to consult and re-evaluate proceeding with these projects.

Many thanks for your consideration of this submission. I'd be very happy to answer any questions you may have.