Snowy Valleys Council
Sustainability Overview

Introduction

Morrison Low Consultants has been engaged by Snowy Valleys Council's ('Council') to:

- review Council's current baseline budget and financial forecasts
- assess the contributors to Council's financial sustainability challenges
- independently assess and provide independent advice on the long-term financial sustainability of Council
- provide advice on options to close any financial sustainability gap
- provide information to the Snowy Valleys community and facilitate the community engagement process, so that Council can make an informed decision on the options to become financially sustainable.

Morrison Low has relied on a publicly available information and information provided by Council in its analysis, assessment of Council's position and in developing a series of background papers. There are four papers covering:

1. a *Sustainability Overview*
2. a *Financial Overview*
3. an *Assessment of Options*
4. a *Comparison with Similar Councils*.

All background papers are available on Council's website.

About Morrison Low Consultants

Morrison Low it a multidisciplinary management consultancy specialising in providing advice to local government. It has extensive experience across Australia and New Zealand and in particular assisting councils with financial modelling to understand current and future sustainability challenges. Morrison Low has supported councils to become more sustainable through improvement programs and with preparing special rates variation (SRV) applications to the Independent Pricing and Regulatory Tribunal (IPART) where necessary.

Morrison Low undertakes community engagement on behalf of councils relating to SRVs, rates harmonisation, integrated planning and reporting and statutory engagement processes, where independence is important.

More information about Morrison Low can be found on our website: www.morrisonlow.com.

Background

The Council has resolved to engage with the Snowy Valleys community on a possible SRV to make Council financially sustainable as required by legislation. Morrison Low is assisting by providing an independent review on Council's financial position and options to improve financial sustainability to inform this community engagement process. After analysing and assessing the information provided, Morrison Low has formed the view that the Council's financial position is unsustainable at the current levels of expenditure and income. This has occurred for a number of reasons discussed in this paper. Most of these reasons are unrelated to the 2016 merger and would have challenged the former councils at some point regardless.

We believe it is important not to apportion blame for the current deteriorating financial position, as former councils have made legitimate decisions in the best interests of their communities, which, over time when combined with other external influences and legislative restrictions, have gradually led to the problem which Council is now addressing this year.

We note Council has been making changes to become more sustainable, but these alone will not be sufficient. Apart from an internal continuous improvement journey, no decisions have been made around how to close this gap, as there are a number of options that could be adopted that singularly or jointly will ensure the Council becomes sustainable. Each of these options will impact the community differently and therefore Council is seeking community feedback before making any decisions. Council has already signalled it may be necessary to apply for an SRV to close the gap and Morrison Low analysis supports this view as the most viable option. This information paper provides a summary of why Council has become increasingly financially challenged, what the choices are to address the situation and how you can participate in the discussion and make your views heard.

Council's obligation to be financially sustainable

Councils cannot ignore financial sustainability problems. The Local Government Act requires councils to apply sound financial management principles of being responsible and sustainable in aligning income and expenses, infrastructure investment, with effective financial and asset management performance management. The objectives are to:

- achieve a **fully funded operating position**
- **maintain sufficient cash reserves**
- have an appropriately **funded capital program**
- **maintain its asset base** 'fit for purpose'
- have adequate resources to meet ongoing **compliance obligations**.

If a council fails to meet these obligations, then the NSW Office of Local Government will start an improvement process which could ultimately see the decisions needed to become financially sustainable placed in the hands of a third-party financial controller or ultimately an administrator, if the elected council is removed.

Current financial situation

Operating deficits

The Council is producing deficit net operating results whilst maintaining, and in a lot of instances, expanding and improving services. Despite delivering efficiencies, Council has continued to produce significant operating losses. Contributing factors to this are detailed in the next section. In the previous two financial years, Council posted a net consolidated (General, Water, Sewer and Domestic Waste Funds) operating deficit of $7.7 million and $1.6 million respectively. For General Fund only, the net operating deficits were $7.7 million and $2.9 million. Repetitive operating deficits are unsustainable and lead to a cash deficit and depleted assets. Doing nothing is not an option.

The Office of Local Government require councils to meet an operating performance benchmark for spending within their income base, that is operating income equals operating expenses. It should be noted that grants and contributions for capital projects are excluded. Council's consolidated operating results, excluding capital grants and contributions, have not met the Office of Local Government benchmark and have resulted in a cumulative consolidated operating deficit of $21 million since 2016.

Low general rate income

In 2019/20, general rates contributed 18% of Snowy Valleys' General Fund total revenue, which is significantly lower than similar regional merged councils at 24%. The other major income streams for Council are user charges and fees at 24% and operating grants at 29%. With general rates income at a relatively low level, as a percentage of Council's General Fund revenue, with no change to service delivery, a rates increase is necessary to help mitigate budget imbalances.

In 2020 the Boundaries Commission engaged Deloitte to undertake a financial analysis of Council. The published summary findings concluded that Council was not financially sustainable in the medium- to long-term. It noted that a combination of initiatives is required to lead Council to a financially secure future:

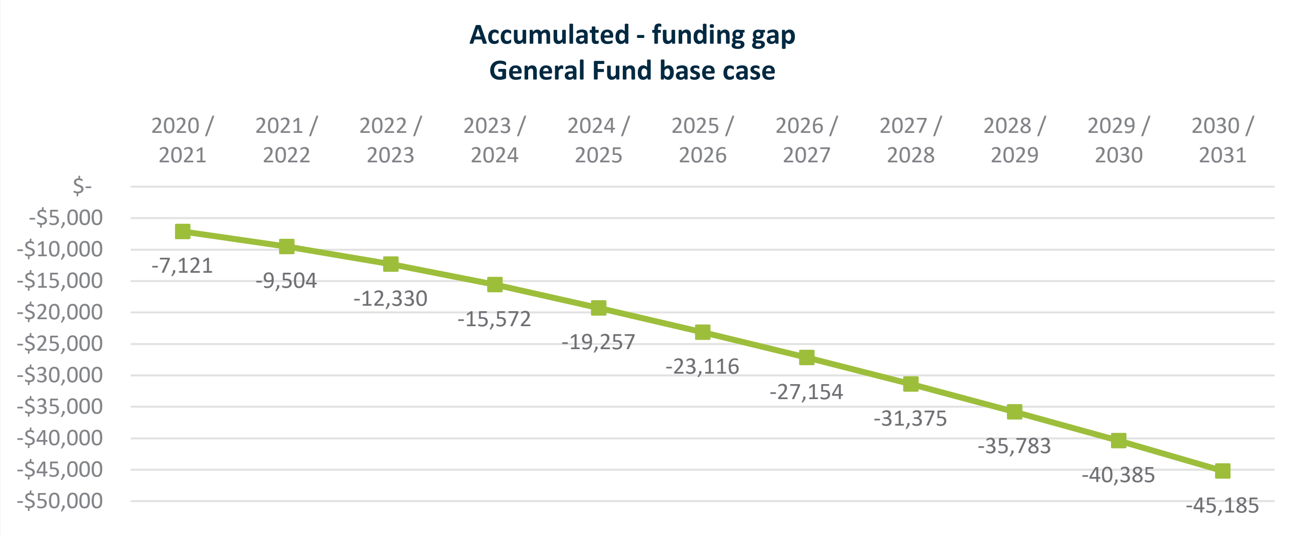
- securing additional operating grants or other revenue streams
- a special rate variation
- adjusting user fees and charges and achieving cost savings through staff reductions or implementation of alternative operating and service delivery models.

High infrastructure spending

Council is in the fortunate position of having a very low infrastructure backlog, meaning that Council has been able to maintain assets at the agreed level over the years. This has been possible mainly due to external funding and running a deficit position that has prioritised infrastructure maintenance and renewal over budget surplus.

Closing the funding gap

The following graph illustrates the current financial position for Council's General Fund operations,[1] indicating a ten-year funding gap in the order of $45 million. The key challenge for Council is to implement its current sustainability plan which aims to deliver efficiency improvements within Council over the next three to four years. To become fully sustainable, Council is also exploring a range of further options for consideration by the community. To illustrate if Council chooses not to implement any productivity improvements to close the financial gap, then a one off SRV increase of 37% would be required. This is not the approach Council is taking, as is detailed in the options section below.



There is a separate background paper explaining the financial overview in more detail, including options and the implications, on the 'SRV' page of Council's website: www.svc.nsw.gov.au/srv.

Why has Council become financially unsustainable?

In Morrison Low's experience, all councils will face financial sustainability challenges on a cyclic basis, this is caused by the constraints and influences on local government. There are a number of contributors to this fact, some of which are outside of Council's control and others which Council has some influence over. The contributors to Snowy Valleys Council's challenges include the following.

Outside of Council's control

- **Rate capping** is a contributor. IPART has set the rate peg for NSW councils by taking the increase in the Local Government Cost Index (LGCI) and applying productivity gains or allowances for one-off events. This LGCI is like the Consumer Price Index but calculated based on the change in cost of the type of goods councils buy, like bitumen and fuel rather than fruit and vegetables. The LGCI does not recognise some cost increases that councils experience nor that some councils will experience cost increases higher than the average as a result of location or other events. Over time small shortfalls accumulate and councils generally respond by spending less on maintenance and services until they reach a point approaching failure.

[1] General Fund operations, which are all of council operations excluding water, sewer and domestic waste, are funded from the general rates and other income. Water, sewer and domestic waste are funded from a combination of annual charges and user fees and can only be used for the specific operational purpose.

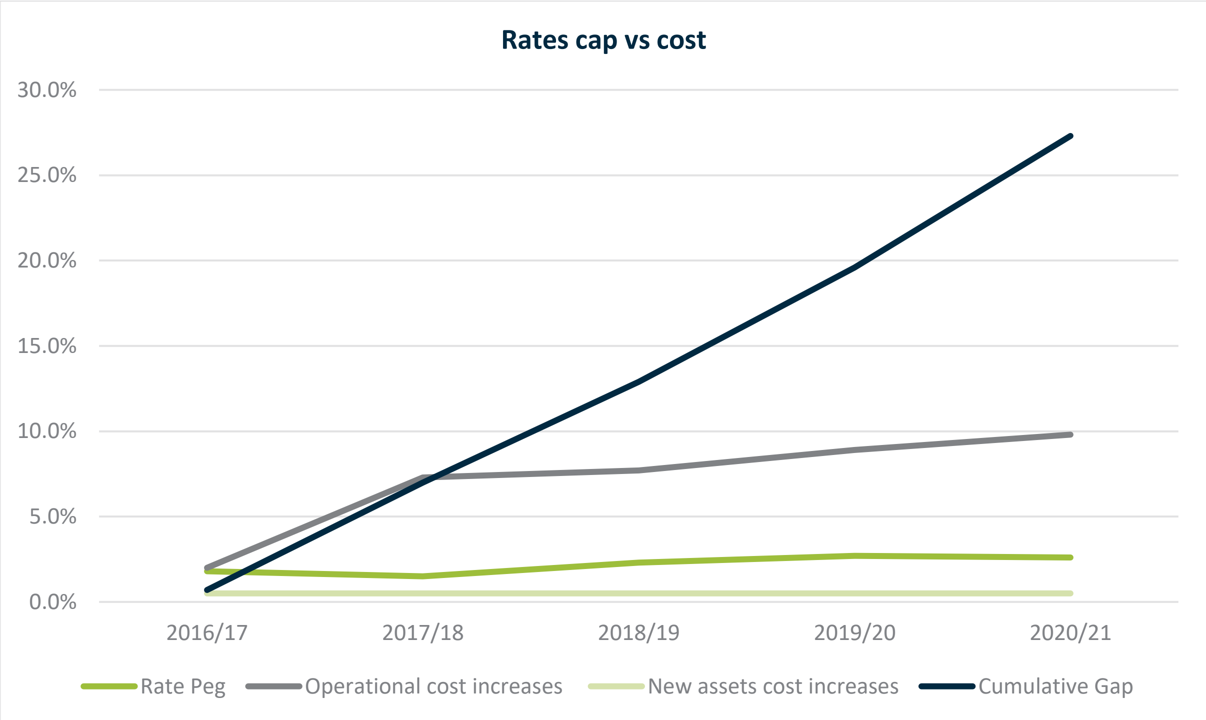
- **Cost shifting** comes in two main forms, the transfer of responsibilities and increased compliance costs and responsibilities imposed on local government by state government.

  Over the last decade the NSW State Government, and a lesser extent the Australian Government, have transferred costs to local government without sufficient recompense. The Emergency Services Levy (formerly funded through insurance premiums) is a case in point, where the levy of $748,000 in the current year 2020/21 represents 8.3% of total rates in 2020/21. Other major types of cost shifting included the withdrawal of financial support once a program is established, the transfer of assets without appropriate funding support, the requirement to provide concessions and rebates without compensation payments, increased regulatory and compliance arrangements and failure to provide for indexation of fees and charges for services prescribed under state legislation or regulation.

  In a report to NSW Government in 2019, IPART reviewed compliance and enforcement obligations to reduce unnecessary regulatory burdens placed on businesses and the community by councils. IPART noted these increased compliance obligations increased costs to councils and recommended changes to reduce these costs. As yet no changes have been adopted.

  An increased cost burden also comes with the expectations on the larger council. Snowy Valleys Council has to apply the same level of compliance across all its asset and services. We noted areas most impacted include waste, trade waste, plumbing, drainage, Roads and Maritime Services contracts, pool operations, depot management, audit and risk, to name a few, where a consistent approach to compliance has increased costs.

  The chart below shows the percentage difference between the rate cap and some of the cost movements or cost shifts that Snowy Valleys Council has faced. In all cases costs exceed the rate cap when combined and contribute to a compounding deteriorating financial position.



- The **termination of an SRV** for the former Tumut Shire of $621,000, creating a reduction in Council's general rating income for 2020/21. Tumut Shire Council was successful with two temporary rate variations - the first approved for an 8.53% increase to the 2004/05 general income, followed by a second for a 7.85% increase to the 2005/06 general income. The approvals were for 15 and 14 years respectively and this meant Council would need to reduce its general income in 2020/21 by $620,961. This represents 6.8% of the total general rates for Snowy Valleys Council. This reduction had an adverse impact on Council's financial sustainability, as there was no resulting reduction in operating expenses.

Within Council's control

- **New assets** are important for any community, especially when provided through federal and state government grant programs, however, they are discretionary as Council is generally not compelled to apply for or accept grant funding, even though it means valuable community infrastructure is funded by government. Whether the funding is as a result of bushfire, flood, drought recovery, or general infrastructure funding to simulate or boost the economy, all carry hidden costs. The rate cap does not allow for the new costs associated with the operation, maintenance, renewal and depreciation of new assets and Council has to fund these additional costs through its existing budget. Over time these costs eat into Council's sustainability as it funds more and more new asset costs from its existing budget.

  Since 2016/17 to 2021/22, Snowy Valleys Council has delivered or programmed to deliver some $35 million worth of new assets, with $27 million or 77% delivered in the last three years (2019/20 to 2021/22). For these three years it represents an investment increase of 125% in new assets. The asset spend by asset type is buildings $4.9 million, roads and bridges $4.1 million, footpaths $1.2 million, waste $3.5 million and airport $12 million.

  The significant uplift in new asset spend, over the three-year period, will have a direct impact on Council's finances due to the increase in asset maintenance and depreciation costs. The industry average for non-metropolitan councils is 1% for maintenance and 1.4% for depreciation costs. Council normally creates $2.6 million per annum of new assets, largely funded by grants, but this additional spend of $19.2 million over the past three years creates an additional new cost of $460,000 per year, which compounds over time to significantly impact Council's financial sustainability.

  Total annual cost increase: $460,000.

- **Service level improvements** have been made over recent years that have also contributed to the decline in Snowy Valleys Council's financial sustainability. We have reviewed a schedule of service levels that have increased and while some service level changes have delivered net benefit, the great majority have imposed additional costs. These additional costs amount to in excess of $1.6 million per annum, which must be funded from general rates. Examples of service level improvements, such as free access to pools, improved pool heating, more public amenities, more playground infrastructure, improvements to open spaces, childcare services, licence fees and tourism, are part of a number of changes that have collectively added significant cost to Council without additional revenue and must be funded by ratepayers.

  Total annual cost increase: $1.6 million.

- The **breadth of services** provided by Snowy Valleys Council has placed increased pressure on Council's finances. In addition to what are considered traditional core (required by statute) services, the Council has continued to support and deliver the range of non-core (voluntary) community services offered by the former councils. Services like community grants, community transport, aged care services, children's services, tourism, economic development, community development, saleyards and swimming pools, are just a few of the wide range of services offered to the community that have a combined net cost to ratepayers of $2.5 million per year. There is no doubt a large portion of the community rely on these services and do not see them as discretionary, however councils with a smaller service offering are subject to a smaller range of financial impacts. For those councils with larger voluntary service portfolios, it creates a need for more back of office support staff to support and deliver these services.

It is as a result of a combination of these influences over a period of time, that Council must now act with urgency to address the financial gap.

What has Council been doing to address the problem?

Council adopted a *Road to Sustainability Plan* in early 2020 to set out the program of work of organisational improvements to reduce the financial sustainability gap. While some improvements have been completed, progress has been limited by the priorities of bushfire recovery. This plan has been refreshed and readopted in June 2021. Projected savings from the initiatives in this plan have been factored into the ten-year financial forecast, but this still leaves a funding shortfall.

As part of the sustainability plan, Council has committed to productivity savings that will result in savings in staff costs. This will generate a minimum of $600,000 per annum in ongoing saving and has been included in the long-term financial forecast to reduce the funding gap.

A copy of the sustainability roadmap is published on Council's website at: www.svc.nsw.gov.au/srv

Additional options

The Council has indicated, and our assessment confirms, that an SRV is the most viable solution to the Council's financial sustainability challenges, but there are other options that have been considered to reduce the amount of any SRV and these are discussed in the background paper *Assessment of Options* on Council's website. The preferred options and choices are summarised below. Council can choose a mix of these options to close the financial gap.

These options are:

1. Asset rationalisation - selling or disposing of underutilised/redundant building assets will avoid ongoing maintenance and depreciation costs. Council has identified a range of underutilised or redundant building assets with a value of $9.7 million. If Council disposed of half of these assets, it would save depreciation and maintenance costs of approximately $220,000 per annum.
2. Transfer or cease services - this entails someone else providing the services or stopping services altogether. Services that could be considered for exit are non-core services and include some community services activities, community grants and donations, saleyards, events and promotions, and community development. Council currently spends $2.5 million of general rates delivering discretionary services that could be transferred or closed. Transferring or ceasing 20% of these services would save $500,000.

3. Reduce service levels - unlike transferring or ceasing services, under this option, Council would still deliver the service but reduce the amount of service it provides. It could reduce the operating hours for some services like libraries, swimming pools and customer service centres, etc. A reduction in service hours of six hours per week across a range of services would save approximately $30,000 per annum. The types of services where hours could be reduced include:
    - community services - 155 hours per week across all services
    - visitor information centre - 43 hours per week
    - libraries - 118 hours per week across all libraries
    - customer centres - 64 hours per week across both centres
    - swimming pools - Council's five swimming pools' hours vary seasonally.
4. Increase fees and charges - this approach enables a larger recovery of the costs paid by the direct users/beneficiaries rather than general ratepayers. For example, a 10% increase in fees and charges would generate an addition $64,000 in income. Typically, the type of fees and charges effected would be cemeteries, sporting facilities, community transport and the like.
5. Apply for a special rate variation to cover all or part of the funding gap.

Council has identified three possible options, with options B and C requiring increasing amounts of service savings or additional revenue to reduce the amount of any SRV.

	Option A	Option B	Option C
Closing the gap through • asset rationalisation • change service levels • reduced services • increased fees and charges	No service changes with a productivity saving of $600,000.	$600,000 productivity savings + savings of $700,000 over three years from a combination of closing the gap options.	$600,000 productivity savings + savings of $1.7 million over three years from a combination of closing the gap options.
Special rate variation	An SRV of 30% spread over two years (32.25% compounded).	Plus an SRV of 25% spread over two years (26.66% compounded).	Plus an SRV of 15% spread over two years (15.56% compounded).

Asset rationalisation and increasing fees and charges are most likely to be the first levers used to close the gap, as they have the smallest overall community impact. Changing service levels and reducing services are normally the last levers used because they are generally the least acceptable.

The chart below is indicative of where the source of funding to close the gaps may need to come from.

Option A - example comprises:

- the proposed SRV, plus $600,000 of productivity savings.

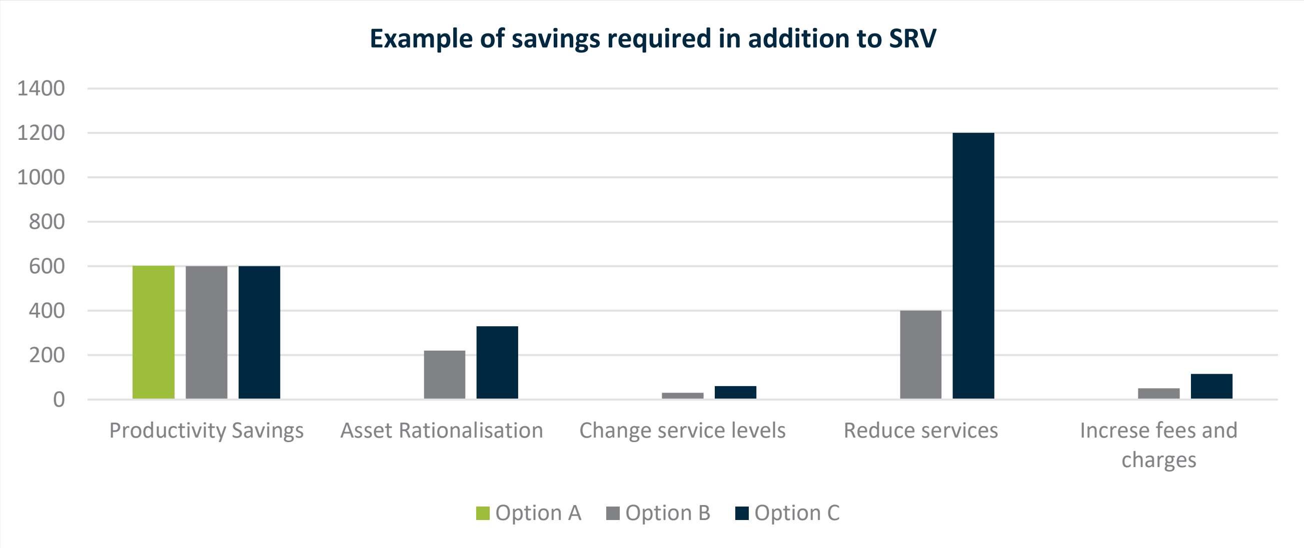
Option B - example comprises:

- the proposed SRV, plus $600,000 of productivity savings, plus $700,000 of savings/increased revenue made up of:
    - rationalising $4.8 million of underutilised assets to reduce costs by $220,000
    - six hours per week of service reductions to reduce costs by approximately $30,000
    - transfer/cease services to reduce net costs by $400,000
    - an 8% additional increase in fees and charges to generate a further $50,000 in revenue.

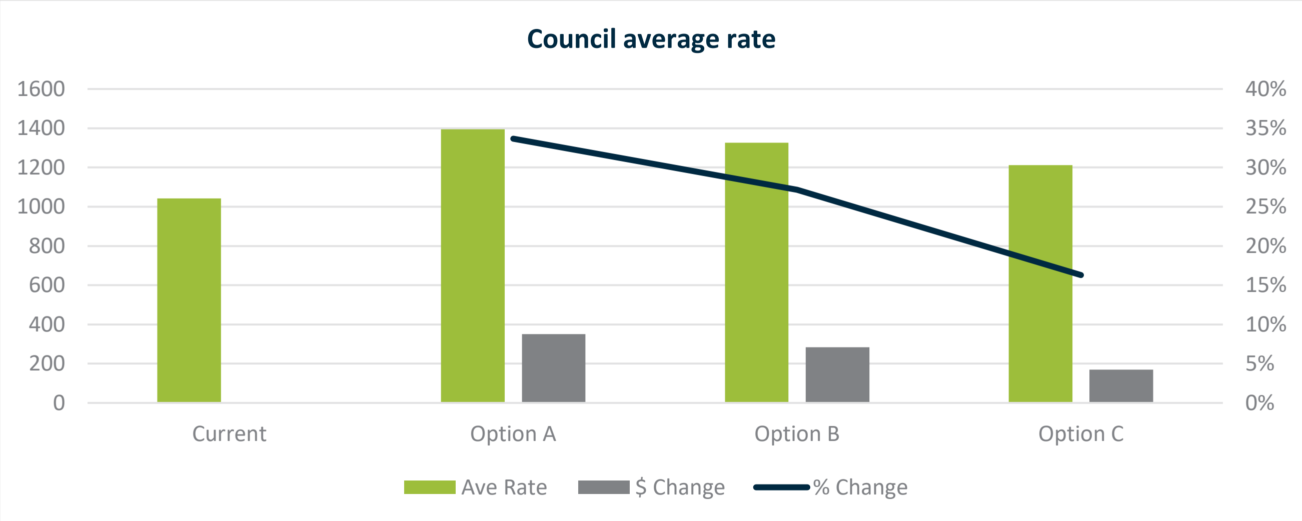
Option C - example comprises:

- the proposed SRV, plus $600,000 of productivity savings, plus $1.7 million of savings/increased revenue made up of:
    - rationalising $7.3 million of underutilised assets to reduce costs by $330,000
    - 12 hours per week of service reductions to reduce costs by approximately $60,000
    - transfer/cease services to reduce net costs by approximately $1.2 million
    - an 18% additional increase in fees and charges to generate a further $110,000 in revenue.

As the amount of savings required increases, the impact on services must increase.



The impact on ratepayers will vary depending upon the level of savings generated from the options detailed above. The following graph illustrates the change in Council's average rate and, as you would expect, the higher the SRV the greater the increase in the average rate.



What is a special rate variation?

With rate capping, almost all NSW councils will be faced with having to apply for a special rate variation at some point. Councils go through cycles of SRVs, largely for the reasons set out earlier in this paper.

There are two types of SRVs:

- a temporary SRV for a fixed amount over a fixed period of time
- a permanent SRV for a fixed amount that remains in the rate base.

When a temporary SRV expires, rates return to the original level at the conclusion of the approval period and are usually approved to fund specific one-off projects like infrastructure renewal or reducing the infrastructure backlog. Snowy Valleys Council's financial challenges are more general and a temporary SRV would not solve the problem.

Permanent SRVs can be for a single year or every year for an approved period.

Council must apply to IPART for approval to increase rates through an SRV. Before doing so, Council must demonstrate that it has engaged the community about the possibility of an SRV and consider its views. IPART will also seek community feedback.

More information on SRVs can be found on IPART's website: https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Special-Variations.

Where can I get more information?

- From one of the virtual community meetings:
  - Monday 19 July: 12.30pm
  - Monday 19 July: 6pm
  - Tuesday 20 July: 6pm
  - Tuesday 20 July: 12.30pm
  - Friday 23 July: 12.30pm
  - Monday 26 July: 6pm
  - Wednesday 28 July: Tumut Drop-in Day - anticipated to be held in person
  - Thursday 29 July: Tumbarumba Drop-in Day - anticipated to be held in person
  - early August Q+A wrap up.
- The 'SRV' page of Council's website: www.svc.nsw.gov.au/srv
- From IPART's website: https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Special-Variations.
- By speaking with your local councillor.
- By calling Council's information line.

Council would like your views on some of the options, or other suggestions you may have.

Have your say

Council is seeking your feedback on the three options proposed to close the funding gap, along with your view on how important the options being considered to close the gap are to you.

To have your say, scan the QR code on Council's website to complete a short survey.

Or

Forward a written submission:

Post it to:	Drop it in at a Service Centre:	Email it to:
Snowy Valleys Council 76 Capper St Tumut NSW 2720	**Tumbarumba Office** (Monday to Friday 8.30am to 4.30pm) - Bridge Street, Tumbarumba. **Tumut Office** (Monday to Friday 8.30am to 4.30pm) - 76 Capper Street, Tumut.	info@svc.nsw.gov.au

What happens after this?

August 2021

Submissions close.

Council will consider all submissions and decide its preferred solutions to become financially sustainable.

November 2021

If an SRV is part of this solution, it will notify IPART of its intent to apply for an SRV in late November, stating a preferred amount (percentage increase) and whether it will seek a temporary or permanent SRV and for how long it will seek the increase.

December 2021 and January 2022

Council will seek community input on this intention to apply for the SRV prior finally to deciding whether to proceed with the SRV application.

February 2022

Council will make its final decision on whether to proceed with lodgement as proposed or amended.

March and April 2022

IPART will invite submissions and evaluate the application.

May 2022

IPART will make its binding determination.

July 2022

Any approved SRV will apply.