
Snowy Valleys Council

Background Paper - Assessment of Options

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 for its analysis, assessment of Council position and to develop a series of background papers.

This background paper discusses a range of options to improve Council's financial sustainability and their advantage and disadvantages. This paper has been used to inform the preferred options discussed in the *Sustainability Overview* and *Financial Overview*.

Morrison Low is mindful that some options are extremely difficult to predict or rely on, while others can substantially impact communities and individuals differently. Each of these options have advantages and disadvantages and this paper discusses these.

We note that Council has already adopted a sustainability plan, which forecasts savings that Council plans to make and reduces the financial gap and therefore the potential special rates variation (SRV) requirement. Council has committed to a \$600,000 annual saving.

Snowy Valleys Council is largely a project or service driven organisation, either building or maintaining community assets or providing services to the community. Like other councils, over 40% of Council's budget is made up of employee costs and it is important to bear this in mind when considering the options. Where there is a service level reduction or a service is to cease, as way of reducing costs to improve financial sustainability, it cannot be achieved without corresponding staff reductions.

Where a service change (cease or reduce) is referred to, the specific services that may be affected have not been decided. Council would consult the community prior to any decision on actual service changes.

Some of the options Council can consider are as follows.

Cease to provide 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, such as community development, aged care, youth, economic development, tourism, swimming pools, are services Council is not legally bound to provide and 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. Many community services fall into this category and are essential parts of the fabric that make the Snowy Valleys community liveable and desirable.

Advantages:

- does not impact Council's core service obligations
- simple to implement, no legislative barriers to ceasing or transferring these services
- does not impact most community assets
- can generate large savings for ratepayers.

Disadvantages:

- some communities and individuals more impacted than others
- impacts community liveability
- relies on the willingness of volunteers or other providers to deliver services
- to close the financial gap changes would need to be significant and most likely in conjunction with another option.

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.

Advantages:

- does not impact Council's core service obligations
- simple to implement, no legislative barriers to ceasing these services
- can generate some savings for ratepayers.

Disadvantages:

- some communities and individuals more impacted than others
- impacts community liveability
- still need to maintain the assets even though they are utilised less
- to close the financial gap, changes would need to be significant and most likely in conjunction with another option.

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 community service obligation decreases, which is the component paid by ratepayers.

Advantages:

- does not impact Council's core service obligations
- simple to implement, few legislative barriers to ceasing these services
- transfers costs from ratepayers to users who can choose to use the service or not.

Disadvantages:

- individuals and users more impacted
- to close the financial gap, changes would need to be significant increases and most likely in conjunction with another option
- if usage declines because the user costs are too high, so does revenue.

Rationalise and selling assets

Council can dispose of surplus or underutilised assets. Selling assets reduces costs but only marginally, by the amount of the maintenance and depreciation costs, normally around 4.5% of asset value for buildings. Selling assets with a value of \$1,000,000 would reduce Council's cost by an estimated \$45,000 per annum, so to save substantial costs Council would need to sell a lot of assets.

Advantages:

- does not impact Council's core service obligations
- improves Council's cash position
- simple to implement for Council owned assets.

Disadvantages:

- a small number of users impacted
- assets, while underutilised, can have an important historical or community significance
- to close the financial gap, Council would need to sell a lot of assets, most likely in conjunction with another option
- there needs to be a market for the assets to be sold.

Invest in revenue generating opportunities

This option is only available where Council has cash to invest or is able to sell underperforming assets and invest the money elsewhere. Given Council's current financial position, this is **not a viable option**.

Apply for more operational grant funding

Council could seek additional operational funding from the state or federal government. While this is theoretically possible, **Council has no influence over the outcome** and could not assume to be treated differently than any other council that is financially stressed, therefore there is little chance of success. This would also acknowledge that the Council is unsustainable and more likely result in the NSW State Government using one of the existing mechanisms, such as assigning financial decisions to an administrator or financial controller, to make the necessary decisions to become financially sustainable.

Advantages:

- operational funding provided from elsewhere.

Disadvantages:

- likelihood of additional funding is low
- additional funding not guaranteed longer term

-
- may produce unintended negative consequences.

Special rate variation

The SRV process is governed and managed by the Independent Pricing and Regulatory Tribunal (IPART) on behalf of the NSW State Government. It is the sector mechanism for pegging rate increases and increasing rates above the peg when a council can demonstrate that it is necessary, after it has made as many efficiency gains as possible and consulted its community. It is important to note that councils are required to consult but can still proceed even if some of the community is opposed to the SRV. IPART can still approve an SRV if it considers it necessary.

Advantages:

- simple to implement
- known outcomes
- permanent SRVs are a more sustainable longer-term solution.

Disadvantages:

- all ratepayers impacted
- does not take into account the ability to pay.

The options discussed all have advantages and disadvantages and, to close a significant funding gap, can be applied in combination.