CL17.23 Proposed Special Rate Variation for Financial Sustainability including infrastructure renewal

HPERM Ref: D17/25963

Group: Corporate & Community Services Group

Attachments:
1. Preliminary Thoughts of CCB's (under separate cover)
2. Survey Questions - Shoalhaven Community Survey 2016 (under separate cover)
3. Submissions Summary Table (under separate cover)
4. Survey Responses from EHQ (under separate cover)
5. Guest Book Comments - Engagement HQ - Get Involved Shoalhaven (under separate cover)

Purpose / Summary

In October 2014 Council resolved to engage with the community with regards to ways to address the long term financial position of Council. This was a review to address the Fit for the Future requirements including the need to address the asset maintenance and renewal funding gap. On the 23rd of June 2015, Council resolved to adopt the submission to IPART to meet the Fit for the Future assessment which included a rate rise in 2017/18 and 2018/19. Over the past 4 years Council has undertaken a review of its structure and services involving internal staff and the community to ensure Council continues to provide high quality assets and services into the future whilst saving over $6 million per annum.

On the 25th of October 2016 Council resolved to notify IPART of its intention to apply for a Special Rate Variation (SRV) Application with three models of rate increase and to undertake community engagement. Since then community, business and various representative bodies including CCBs have provided feedback. Council acknowledges the impact of the proposed rate increase may be difficult for some community members.

This report considers the results of the community engagement process and presents this information to Council for determination. Council will need to consider the implications and determine the appropriate way to address financial sustainability.

Recommendation

That Council:

1. Receive the feedback and results of the community engagement
2. Endorse a financial sustainability approach that includes continued improvement in our procurement and asset management practices and improving productivity and implementing a Special Rate Variation
3. Authorise staff to make formal application to the Independent Pricing and Regulatory Tribunal (IPART) and lodge a Section 508A Special Rate Variation (SRV) on general income for an increase of 11.5% in 2017/18 and 11.5% in 2018/19, above rate peg for each of the 2 years in order for Council to financially support the ongoing provision of service levels to the community and increase levels of asset maintenance and renewal.
4. That staff provide a report to the next Ordinary Council Meeting on the establishment of a Citizen’s Panel to provide recommendations to Council on priority areas for expenditure related to the Special Rate Variation

Options

1. Council adopts the recommendation

   Implications: Council will have the capacity to adequately maintain, renew and replace Council assets and meet Fit for the Future benchmarks and meet community service level in the time frames required by the State Government. Council acknowledges there will be an impact on ratepayers and will continue to assist members of the community who experience hardship.

2. Council adopts a lower/slower approach to the rate increases

   Implications: Council may alternatively apply for 6.27% over 4 years or 5% over 7 years. Council will have the capacity to meet Fit for the Future benchmarks and meet community service level expectations in the long term. Funds will be available to provide and maintain the Council's existing facilities, assets and services. Funds may be focused in areas of low community satisfaction and there will be a need to continue to engage with residents and business on their priorities. In accordance with Council policy staff will continue to assist any member of the community who may experience hardship as a result of the SRV.

3. Council does not adopt the resolution and determines another course of action.

   Implications: This will defer addressing the renewal funding gap on roads and facilities and delay achieving the Fit for the Future requirements, the significant infrastructure backlog will remain in the long term along with the associated low community satisfaction. Council's income is limited by the State Government rate peg. If council seeks to adopt a rate rise less than recommended and reduce general revenue forecasts it should consider a target for service level adjustments (not related to infrastructure maintenance or renewal) equivalent to that shortfall in revenue to maintain a financial sustainability pathway to meet the Government FFF benchmarks. Reducing service levels in consultation with the community can be applied to manage the funding gap. Council will continue to operate with an annual deficit. There could be increased unplanned reduction in services due to asset failure over time.

Background

Like many NSW Councils, Shoalhaven City has a shortfall in funds required to provide and maintain its existing assets and services. With over $2 billion in Assets and the cost of local government services higher than the Council's income which is limited by State Government rate pegging, fees and charges, available grants and the communities ability to pay. The cumulative effect of the rate peg means that Council has a rates income which is currently between 9 and 36% below the average rates of comparable Group 5 sized councils.

The special rate variation (SRV) relates to Council's general rate only. It does not apply to water or sewer rates. The proposal is outlined below and is on top of the 2017/18 rate peg amount of 1.5%. It will thereafter increase by the IPART rate peg amount (projected at 2.5% as advised by IPART).

The following resolution (MIN16.792) was adopted at the Ordinary Meeting held Tuesday 25 October 2016.

That Council

1. *Authorise staff to notify the IPART of its intention to apply for a Special Rate Variation Application for the following three (3) models of rate increase:*

   a) *11.5% over 2 years (plus the rate peg)*

   b) *6.27% over 4 years (plus the rate peg)* *c) 5% over 7 years (plus the rate peg)*

2. *Work on any anomalies within the rating categories that would possibly produce additional rate income*
3. *Receive a report modelling the community's capacity to pay for rate increases.*
4. *Council undertake an extensive community engagement program explaining the reason for the rate increase and seek the communities comments.*

The additional revenue will fund the shortfall in the renewals and maintenance program and the resource base that will improve Council's long term financial sustainability. The program will deliver increased annual funding to help address the gap in infrastructure renewal particularly for roads and fund a capital renewal program for existing infrastructure in very poor condition. The program will also significantly improve Council's long term financial sustainability as required by the State Governments Fit for the Future criteria. Over the last 4 years the organisation has implemented a number of initiatives to make operational savings.

Renewal of Infrastructure

The additional revenue will fund an infrastructure program including facilities and transport on a path to meet the NSW Government benchmarks and these estimates have been updated as part of the Long Term Financial Plan review and additional funds are summarised below:

- 2017/18 - $ 4,606,082
- 2018/19 - $12,581,778
- 2019/20 - $11,225,749
- 2020/21 - $11,182,335
- 2021/22 - $12,111,260
- 2022/23 - $11,955,876
- 2023/24 - $13,563,558
- 2024/25 - $10,606,061
- 2025/26 - $13,501,263

The current situation is there is a cost of over $37 million to bring assets to a satisfactory standard. This proposed funding will address the annual gap in funding for infrastructure renewal particularly with roads and facilities. The targeted program for capital renewal works will include road works resurfacing and reconstruction, kerb and gutter replacement, public facilities and community building renewals.

Examples of work that could be funded by the Special Rate could include rehabilitation of Woodhill Mountain Road, Warden Street, Kinghorne Street, Worrigee Road, Greenwell Point Road, Bendalong and Wool Roads and bitumen resealing over 40 km's of sealed road

Examples of renewal and maintenance that could be funded by the Special Rate include works on Nowra Showground Pavilion, Callala Community Centre, Lake Tabourie Museum, Kangaroo Valley Showground change rooms, Holden Street - Vincentia and Erowal Bay amenities and completion of Berry School of Arts renewal works.

Maintenance Expenditure

The additional revenue will fund maintenance of assets to reduce risk and defects that result from a decline in the condition of roads and buildings. These estimates have been updated as part of the Long Term Planning process and the funds available are as follows:

- 2017/18 - $1,000,000
- 2018/19 - $1,500,000

- 2019/20 - $1,537,500
- 2020/21 - $1,575,938
- 2021/22 - $1,615,336
- 2022/23 - $1,655,719
- 2023/24 - $1,697,112
- 2024/25 - $1,739,540
- 2025/26 - $1,783,029

Targeted maintenance programs for community buildings and transport infrastructure will be implemented. In addition, the SRV will replace funds that resulted from the previous flat lining of Federal Assistance Grants, the lower than forecast rate peg, decreasing interest returns and increased Emergency Services contributions to the State. The SRV will close the current general rate gap between Shoalhaven City Council and other comparative Councils.

Over the past 18 months Council has also increased service levels and introduce new services that also impact on the operating result of the organisation. Council also received contributed assets through new subdivisions and new building were also constructed.

Outlined below are some of these increases in service levels and new assets and costs:

- RFS buildings at West Nowra & SES shed - increases in contributions
- Additional staff - Development Planners, Compliance Officer, Swimming Pool Compliance Officer, communications unit, SEC, GIPA, Assets and Data management.
- Peak period additional street bin servicing
- Peak period additional Ranger patrols - Hyams Beach
- Flood Damage restoration for non-essential assets not funded by NDRRA (Walking tracks, recreation areas)
- Roads, footpaths, drains, parks and playground equipment from new subdivisions - Bayswood, Green Orchid and Ulladulla
- Other enhanaced or new Assets constructed and now being maintained plus depreciated
  - Ulladulla Civic Centre enhancements
  - Nowra Pool enhancements
  - New Amenities at Burrill Lake
  - ½ court Basket ball court
  - Skate park, Manyana
  - 59 Owen Street - Sealed Car Park
  - Learn to Ride facility Clifton Park
  - Learn to Ride facility Shoalhaven Heads
  - New Pontoons, Shoalhaven River, Nowra and Huskisson, Currambene Creek
  - New and enhanced boat launching ramps and upgrades to access:
    - Currarong
    - Sanctuary Point
    - Sussex Inlet
  - New shared pathways
    - Callala
    - Milton to Frogs Holla
    - Ulladulla to Burrill
    - Princes Highway, south Nowra

There will also be large contributed assets in coming financial years from RMS with the hand-over of new paths, old bridges and roads after the opening of the Berry bypass and

Burrill Lake bridge. All of these result in additional whole of life costs and impact expenditure with a flow on effect to levels of service and these impact the bottom line of the financial result.

To leverage the benefit for the community and minimise impact of the SRV on ratepayers, the financial strategy includes requirements such as continued efficiency savings, increased fees and charges for users and ensuring that the whole of life costs of any new or upgraded assets are considered including maintenance.

Proposed General Rate increase scenarios

Outlined in Table 1 below are the different rate increase scenarios that have been presented to Council and community engagement has taken place with the community. (A rate peg of 2% was assumed at the time this was presented). This table provides information in relation to the total quantum of rates that will be collected under each scenario.

Table 1 - Rate Increase Comparative

Option 1: Increase rates by 11.5% every year for 2 years (plus the rate peg)

Option 2: Increase rates by 6.27% every year for 4 years (plus the rate peg)

Option 3: Increase rates by 5% every year for 7 years (plus the rate peg)

Rate increases with different scenarios					
		Rate Peg Only	11.5% for 2 years + Rate Peg 2%	6.27% for 4 years + Rate Peg 2%	5% for 7 years + Rate Peg 2%
	SRV	2.0%	13.5%	8.27%	7.00%
	Rate Peg	2.0%	2.0%	2.0%	2.0%
	Total over 10 years	20.0%	43.0%	45.1%	55.0%
	Cumulative impact	19.5%	50.9%	54.8%	70.4%
	Years	0	2	4	7
2017	1	$ 57,504,699	$ 57,504,699	$ 57,504,699	$ 57,504,699
2018	2	$ 58,654,793	$ 65,267,833	$ 62,260,338	$ 61,530,028
2019	3	$ 59,827,889	$ 74,078,991	$ 67,409,268	$ 65,837,130
2020	4	$ 61,024,447	$ 75,560,571	$ 72,984,014	$ 70,445,729
2021	5	$ 62,244,936	$ 77,071,782	$ 79,019,792	$ 75,376,930
2022	6	$ 63,489,834	$ 78,613,218	$ 80,600,188	$ 80,653,315
2023	7	$ 64,759,631	$ 80,185,482	$ 82,212,191	$ 86,299,047
2024	8	$ 66,054,824	$ 81,789,192	$ 83,856,435	$ 92,339,980
2025	9	$ 67,375,920	$ 83,424,976	$ 85,533,564	$ 94,186,780
2026	10	$ 68,723,438	$ 85,093,475	$ 87,244,235	$ 96,070,516
	Total collected	$ 629,660,410	$ 758,590,218	$ 758,624,724	$ 780,244,154
	Special Rates applied these years				

It is important to note that the SRV becomes a permanent part of the rate base after the final year (see rate increase scenarios above). The estimated income generated from this increase (11.5% for 2 years scenario) is approximately $6.6 million and $8.8 million in years one and two respectively. These additional funds will allow Council to maintain the serviceability of our assets across the City.

The general rate component of the overall rate bill we be affected as follows (see Table 2), based on the three SRV options presented to the community. Table 2 below demonstrates how the rate rise scenarios would be calculated for rate bills that are $1,000 in 2016/17.

Table 2 - 3 Special Rate Variation scenarios based on $1000 rate bill

*On 29 November 2016, IPART announced a rate peg of 1.5% for 2017/18. The above table was updated on 30 November 2016 to reflect the new rate peg. *Calculations from 2018/19 onwards based on an assumed rate peg of 2.5%.*

Options		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Additional cost of the SRV at the 7th Year	Additional cost of the SRV at the 7th Year per week
11.5% for 2 years (plus rate peg of 1.5% as indicated)		$1,000	11.5% + 1.5%	11.5% + 2.5%	2.50%	2.50%	2.50%	2.50%	2.50%		
			$1,130	**$1,288**	**$1,320**	**$1,353**	**$1,387**	**$1,422**	**$1,457**	$280	$5.39
6.27% every year for 4 years (plus rate peg as indicated		$1,000	6.27%+ 1.5%	6.27%+ 2.5%	6.27%+ 2.5%	6.27%+ 2.5%	2.50%	2.50%	2.50%		
			$1,078	**$1,172**	**$1,275**	**$1,387**	**$1,422**	**$1,457**	**$1,493**	$316	$6.08
5% every year for 7 years (plus rate peg as indicated*)		$1,000	5% + 1.5%	5% + 2.5%	5% + 2.5%	5% + 2.5%	5% + 2.5%	5% + 2.5%	5% + 2.5%		
			$1,065	**$1,145**	**$1,231**	**$1,323**	**$1,422**	**$1,529**	**$1,644**	$467	$8.97
Just rate peg @1.5%		$1,000	1.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%		
			$1,015	**$1,040**	**$1,066**	**$1,093**	**$1,120**	**$1,148**	**$1,177**		

Measures to address long term funding needs and financial sustainability

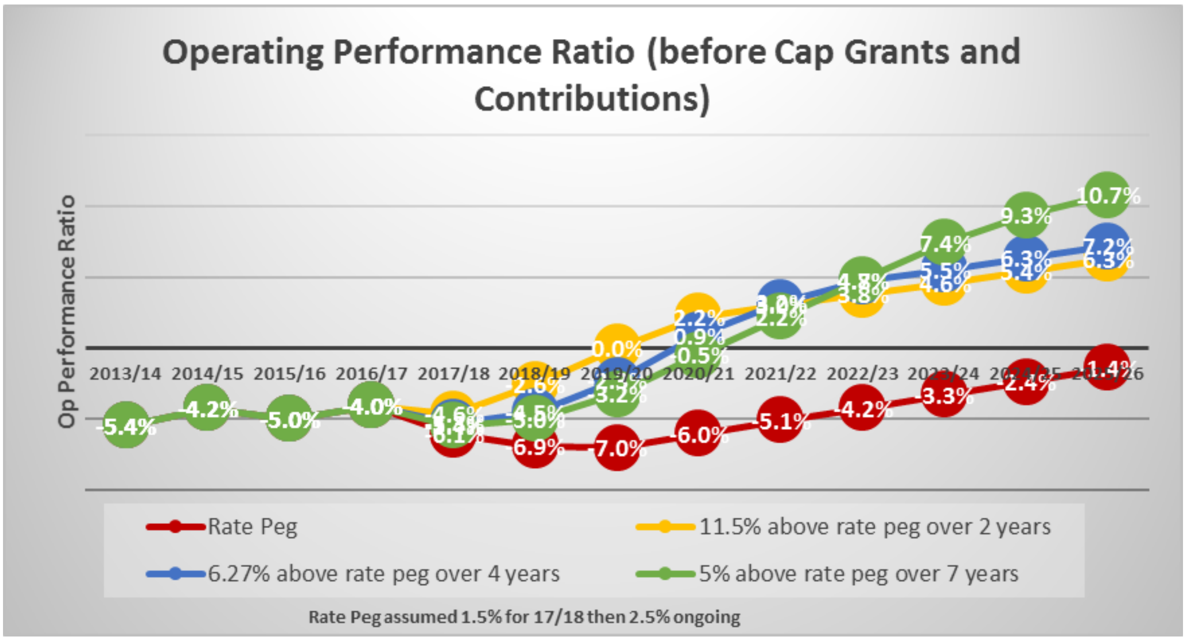
The NSW Government outlined its reform agenda for NSW Local Government titled Fit for the Future. The criteria was set and Councils were required to provide a comprehensive response (assessed by IPART) on how it will become "Fit for the Future" and sustainable delivering effective services and infrastructure.

The Fit for the Future criteria relate to Council's General Fund and not Council's consolidated financial position. The General Fund as evidenced by TCorp's 2012 financial assessment shows that the trend of declining operating results is not financially sustainable in the long term. Figure 1 below plots the various scenarios in relation to the Fit for the Future benchmark of the Council's operating result before capital grants and contributions. The lower red line shows the status quo - no rate rise. In 10 years Council is still 1.4% below the required benchmark. The yellow plot line is the recommend rate rise which will allow Council to meet the State Governments mandatory benchmark in 2020 as required. The graph assumes a 2.5% rate peg from 2018/19 as required by IPART. Based on the 2016/17 rate peg of 1.8% and the 2017/18 rate peg of 1.5% there is a concern that this rate peg forecast is too high, if this proves to be correct it will compound the shortfall in Councils revenue from 2018/19.

The financial strategy provides direction and background to the decision making for use of Councils financial resources. The Fit for the Future program and the Councils strategy to be financially stable acknowledges that the operating result is one of the main indicators of long term sustainability. In broad terms a deficit indicates that Shoalhaven City Council is not gaining sufficient revenue to fund its ongoing operations and services and is unable to continue to renew the infrastructure that is a key part of the service.

This report outlines that increasing Councils general rate through a variation would be an important step for Councils financial sustainability.

Figure 1 - Operating Performance Ratio (before Capital Grants and Contributions)



Council's current financial trajectory to be sustainable and meet the benchmark if no special rate increases are introduced would see the need to reduce on average $11.69 million in expenditure annually. This would have a very significant impact on the community satisfaction and the level of service provided and improved maintenance practices and additional funding would be required to extend remaining asset lives.

The original Fit for the Future submission had two rate increases of 10% including the rate peg (Estimated at 2.5%. The new model has this at 13.5% including rate peg (Estimated at 2%) (or approx. $2.3 million annually). Following in large part are the key reasons for this proposed higher rate compared to the June 2015 submission including:

- Increase overall in the emergency services contributions to the State up to $817,000
- A reduction of $448,000 from the model to the actual rate peg of 1.8% in 2016/17
- A reduction of $600,000 from the model to the actual rate peg of 1.5% in 2017/18
- Increase in general operating expenditure of $434,000

The SRV provides a significant improvement in operating performance, asset renewal and infrastructure backlog indicators. To satisfy Fit for the Future criteria, Office of Local Government requires that all seven indicators are satisfied or as a minimum improving over time.

Historical Information on Finances

Servicing such a large area with a widespread population and a huge seasonal influx of visitors Council is not able to meet all of the service demands. The issues with the sustainability of the financial position of Council as a result of these demands have been highlighted for a number of years and in Annual reports as early as 2001/2002. This has been exacerbated by the increasing unfunded responsibilities transferred to Local Government and the cost of implementing many legislative requirements. This historic and current information highlights Council needs to significantly increase revenue, or target a reduction in service costs, or a combination of both by approximately $11M per year.

The TCorp Review

The NSW Government has become increasingly focused on financial issues facing Councils. In 2012 the NSW Treasury Corporation (TCorp) undertook an analysis of the Financial Sustainability of each of the Councils in NSW, The Financial Assessment and Benchmark Report reviewed the previous three years of Council operations (2009/10 - 2011/12) and conducted a detailed review of the 10 year financial forecasts. The report made the following comments in their assessment of the Council financial position:

Council reported $43.1m of Infrastructure Backlog in 2011 which represents 2.3% of its infrastructure asset value of $1,873m. Other observations include:

- *The Backlog is on an upward trend particularly in the roads asset category*
- *A significant portion of the Backlog (77.9%) is related to roads assets*

The key observations from our review of the Council's 10 year forecasts for its General Fund are:

- *The forecast shows deficit positions excluding capital grants and contributions in all forecast years*
- *The Council's forecast liquidity position is particularly weak, particularly from 2015 when the Unrestricted Current Ratio falls to negative levels which indicate that Council will have difficulty meeting its day to day expenses*

The Council has posted declining operating results when grants and contributions for capital purposes are excluded.

*This trend of declining operating results **is not financially sustainable in the long term**.*

The Council has a maintenance shortfall of around $7m each year which can impact on the condition of the infrastructures. This is reflected in an Asset Maintenance Ratio of below 1.0x in all three years.

Asset renewal spending decreased by nearly 40% ($5.5m) over the last three years.

*Operating deficits are forecast in the current 10 year model and Council is reliant on meeting its expenditure savings and productivity improvements to reach the forecast results. **The declining result is not a sustainable trend.***

Council oversight - Incoming Council information 2012

The information provided for the incoming Council in September 2012 by the Director of Financial and Corporate Services, Mr Peter Dun, stated the following:

The over-riding key issue faced by Council over the next term is the financial sustainability of the organisation.

Council has infrastructure assets valued at over $2.3 billion which are ageing and require considerable expenditure on renewal & maintenance to ensure they are presented to the community in a satisfactory condition.

Roads, Bridges & Footpaths	*$978 million*
Earthworks	*$ 63 million*
Drainage	*$204 million*
Water Supply	*$482 million*
Sewerage Network	*$589 million*

*Presently, it is estimated that an amount of **$42.5 million** is required to be spent on this infrastructure to bring it up to a satisfactory condition. Once this is achieved, **$23.85 million** per annum is required in maintenance to keep it in a satisfactory condition. At present, Council is able to allocate **$16.48 million** per annum in maintenance which leaves an **annual shortfall of $7.37 million**.*

It is not simply a case of dealing with this shortfall through allocating more funding for this purpose.

Council's Resourcing Strategy (which includes a 10 year Financial Plan) has identified major shortfalls in funding that will occur over the next 10 year period due to the need to allocate additional funding for infrastructure renewal.

The shortfalls in funding begin immediately as can be evidenced from the cash flow as follows:

2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
($14.2m)	*($9.35m)*	*($8.68m)*	*$0.001m*	*$0.001m*	*($4.29m)*	*($3.29m)*

These shortfalls occur due to Council continuing with a large capital works program to construct new & enhanced assets while also allocating increased funding each year to infrastructure renewal & maintenance.

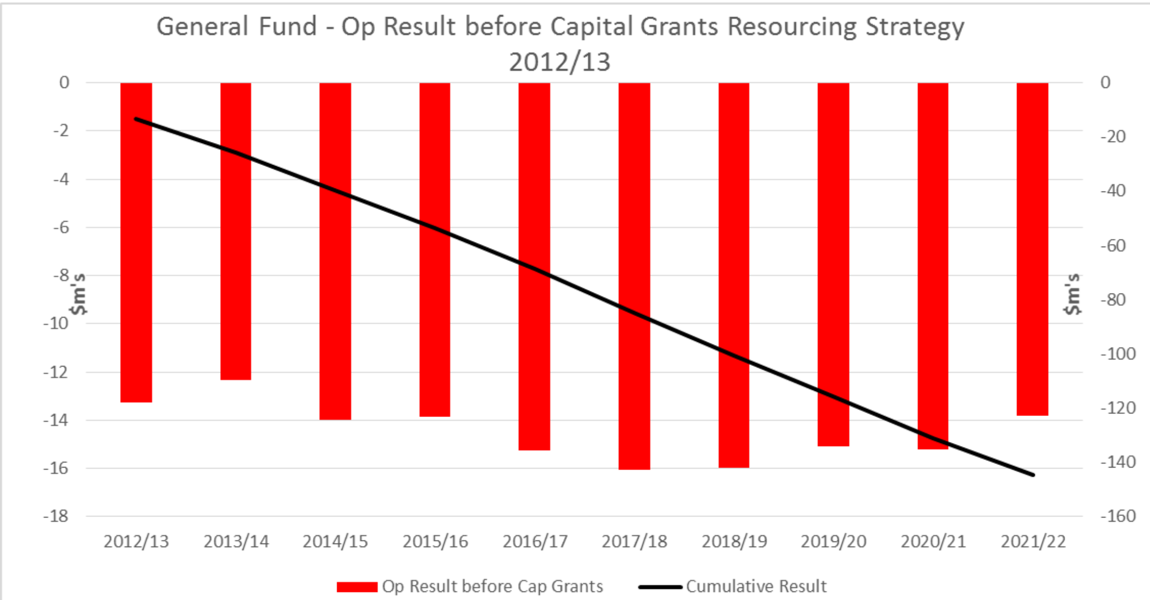
Like all levels of government, Council's have limited funding available to provide the wide array of services required by the community. If Council wished to address this shortfall, it would have to either:

1. *Increase its revenue; or*
2. *Decrease operating expenses; or*
3. *Decrease its new capital works; or*
4. *Borrow more money; or*
5. *Commence a combination of all of these.*

Planning for Financial Sustainability

The Resourcing Strategy was presented to Council in 2012/13 providing the Council with a very clear picture of the financial position at that time. The graph below (Figure 2) clearly presents the significant deficit operating result the Council was facing.

Figure 2 – Operating Result before Capital Grants and Contributions



Source 2012/13 SCC Resourcing Strategy

Fit for the Future

A report was presented to the Policy and Resources Committee of Council in October 2014 and the resolution was adopted on October 28, 2014 at the Council meeting that highlighted the need to address financial sustainability:

a) Council notes the current long term financial position of the organisation and begins Community Engagement with regard to ways to address Councils Financial position

b) The General Manager and Staff commence to prepare the necessary documentation in relation to the State Governments "Fit for the Future" Program.

c) The General Manager introduce formalised continuous improvement principles and processes to the organisation

d) The General Manager continues to drive cultural changes throughout the organisation in order to address Councils long term financial sustainability.

e) Council adopt the key principles with regard to future Loan borrowings, Asset Rationalisation and Revotes as covered in the Financial Sustainability report attached.

f) That a further report be presented to Council on recommended principles and opportunities for asset and service rationalisation and their relationship to the Long Term Financial Plan.

g) That staff undertake a review and report to Council on opportunities

This resolution followed a detailed briefing and Financial Sustainability report earlier in the month. The report highlighted the financial sustainability issues facing the Council and recommended a number of ways forward to address the unsustainable position of Council while minimising the impact on services.

At the 23 June 2015 Council meeting Council made the following resolution:

That Council adopts the attached submission (including template) which meets, or shows improvements to meet all Fit for the Future assessment criteria by 2020 and resolve for the proposal to be uploaded to the Independent Pricing and Regulatory (IPART) website by 30th June 2015. This includes rate rises of 7.5% over 2 years above any IPART rate peg amount (2017/18 and 2018/19).

The attached submission clearly outlined the unsustainable financial position of council and provided recommendations in relation to action that needed to be taken to become financially sustainable and also Fit for the Future.

Council's Fit for the Future submission was independently assessed by IPART which resulted in IPART determining that Council would be financially sustainable based on implementing the detailed information and strategies provided.

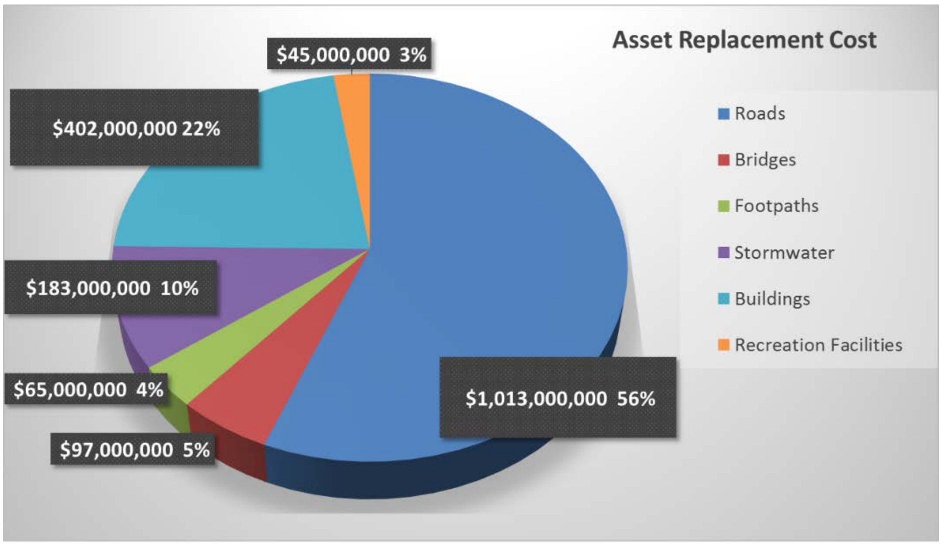
Increased focus on Assets

In 2007 as the Independent Inquiry into Financial Sustainability of Local Government was published Council adopted Asset Management Plans that concluded Council had a substantial infrastructure renewal backlog and the successive updates continue to identify that this would continue to deteriorate if nothing changed. Since this time, Council has implemented a number of operational improvements to enable more funds to be made available for renewals and maintenance. Council has been very successful in seeking grant funds for upgrading assets. These improvements, while increasing the amount of funds available for asset renewal are not sufficient in the long term.

The predominate driver for the need to increase rates is the continued shortfall in the maintenance and renewal programs in the General Fund that Council needs to undertake on the assets it holds on behalf of the community in particular those with poor condition and low community satisfaction such as roads and facilities such as toilets. As the custodian of over $2.1 billion (SS7 General Fund replacement costs) in assets Council has the responsibility to maintain these to ensure the community gets maximum value from the assets. It is noted that during this time additional and upgraded facilities and assets have also come on line. These include Pyree Lane and Bolong road upgrades, Turpentine Road, RFS and SES buildings, Nowra Aquatic Park, Ulladulla Civic Centre, and contributed assets of Bayswood, Twin Waters and Green Orchid estates. Currently Council is spending approximately $22.3 million (excluding water and sewer) on maintenance and $29.2 million on renewals. When it needs to be spending $ 27.6 million on maintenance (excluding water and sewer) and $49.1 million on renewals (2015/16 - SS7).

Figure 3 below provides a breakdown of the replacement costs of some of the core assets with roads valued at over $1 billion and buildings at $402 million.

Figure 3 - General Fund Asset Replacement Costs



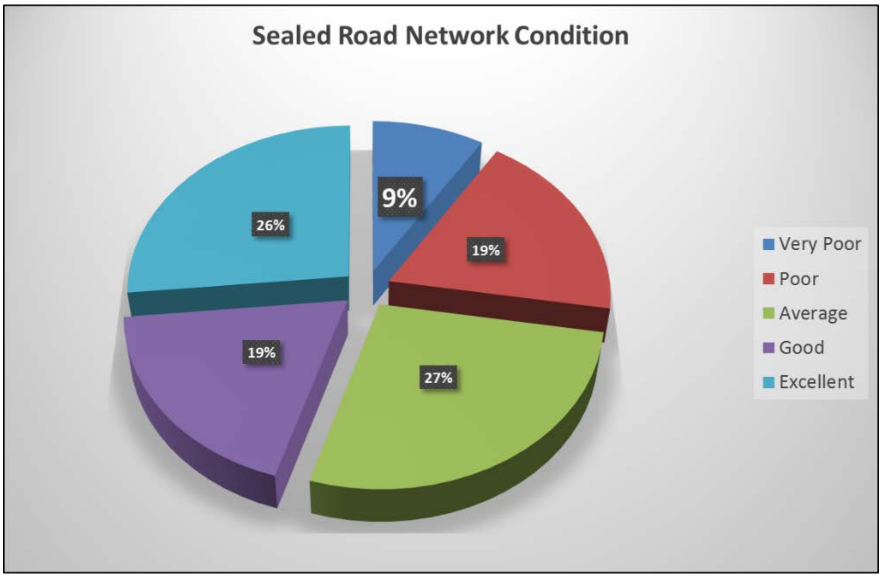
In managing the asset network in addition to fulfilling Australian Accounting Standards Board (AASB) financial reporting and Office of Local Government financial requirements, Council utilises the Institute of Public Works Engineering Australasia (IPWEA) directions and methodologies outlined in the International Infrastructure Management manual. These guidelines are extensively used by local councils throughout Australia and New Zealand to provide information and guidance in relation to depreciation and useful life.

Shoalhaven City Council has a significant annual infrastructure gap and backlog of renewal works if this issue is not addressed, our community will experience a steady decline in the condition of its infrastructure over time, leading to reduced service levels, reduced public safety, higher risks of infrastructure failure and higher maintenance costs.

Roads

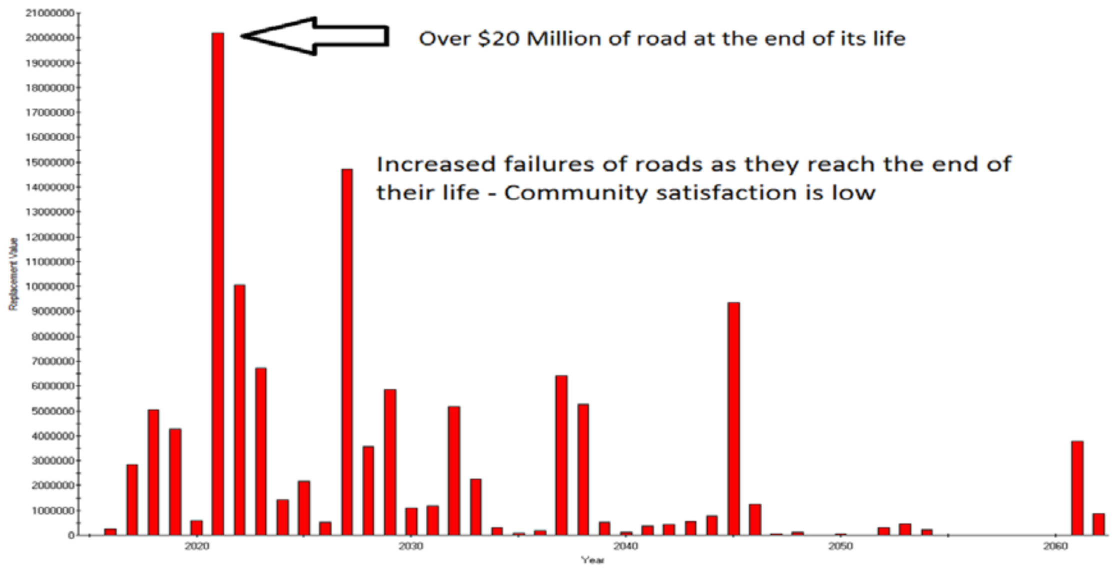
Roads are by far the biggest asset category and if the SRV is approved it would provide a significant pro-active action to address the immediate higher risk backlog issues, in an area where council has had successive community surveys highlighting low satisfaction. Figure 4 provides a breakdown of the most recent survey of asset condition of the road network. The condition graph indicates that 9% of the 1420 km's of sealed network is in a very poor condition.

Figure 4 - Sealed Road Network Condition



Additional annual road rehabilitation is required to continue to provide the levels of service that the community needs. The graph below (Figure 5) provides an indication of the expenditure needs on the road network in the outgoing years based on road pavement life. If the remaining life is extended additional resealing needs to be undertaken and the condition of the road may deteriorate and require more maintenance.

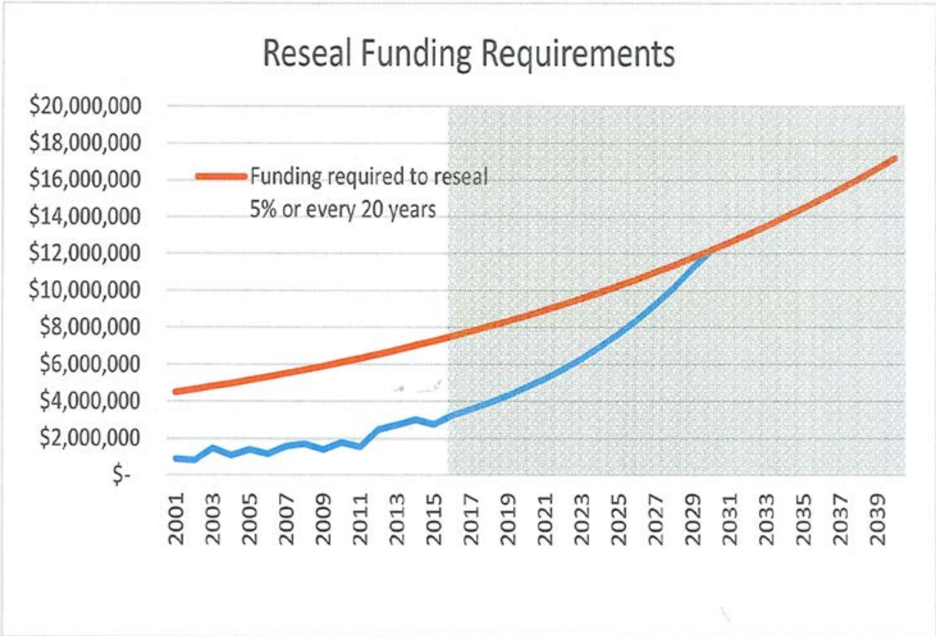
Figure 5 - Road Network expenditure needs



The SRV funds would allow short lived assets such as road bitumen seals to be renewed at a more sustainable frequency. Council is currently undertaking up to 40km per year (visit every 35 years) in bitumen reseals on the City’s 1400 km’s of sealed roads. To ensure that roads are sealed at the optimum time to maintain waterproofing of pavements and minimise failures, this should be up to 100 km per year to keep the road network in a satisfactory condition and to reseal prior to the bitumen becoming brittle (approx. 15 year life). Therefore an additional $4.2m in funding is estimated to be required, for a further 50-60kms to be sealed, shared between maintenance and renewal funding.

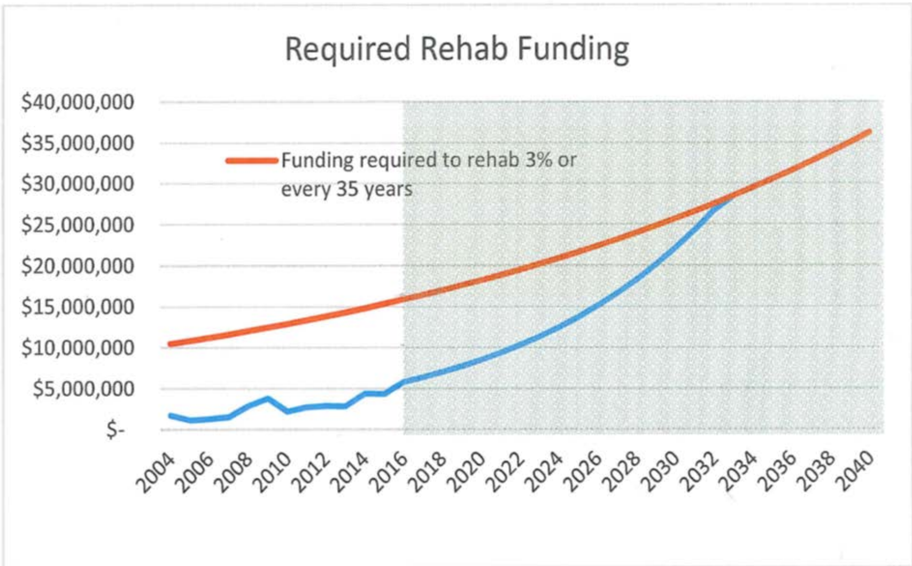
Figure 6 below indicates how much Council has been spending on the reseal program compared to what Council is required to fund on the network. The addressing of the short lived assets is an effective risk based strategy to reducing the backlog of works in the medium term through the on-going cycle of works. This will show a significant favourable movement in the asset backlog with the SRV compared to a continued unfavourable movement without the SRV.

Figure 6 - Bitumen Reseal Funding Requirements



The situation of the current funding gap is similar for the rehabilitation program for roads. Figure 7 demonstrates that there is currently a funding gap of approximately $9 million per year in this area for local roads.

Figure 7: Required road rehabilitation Funding

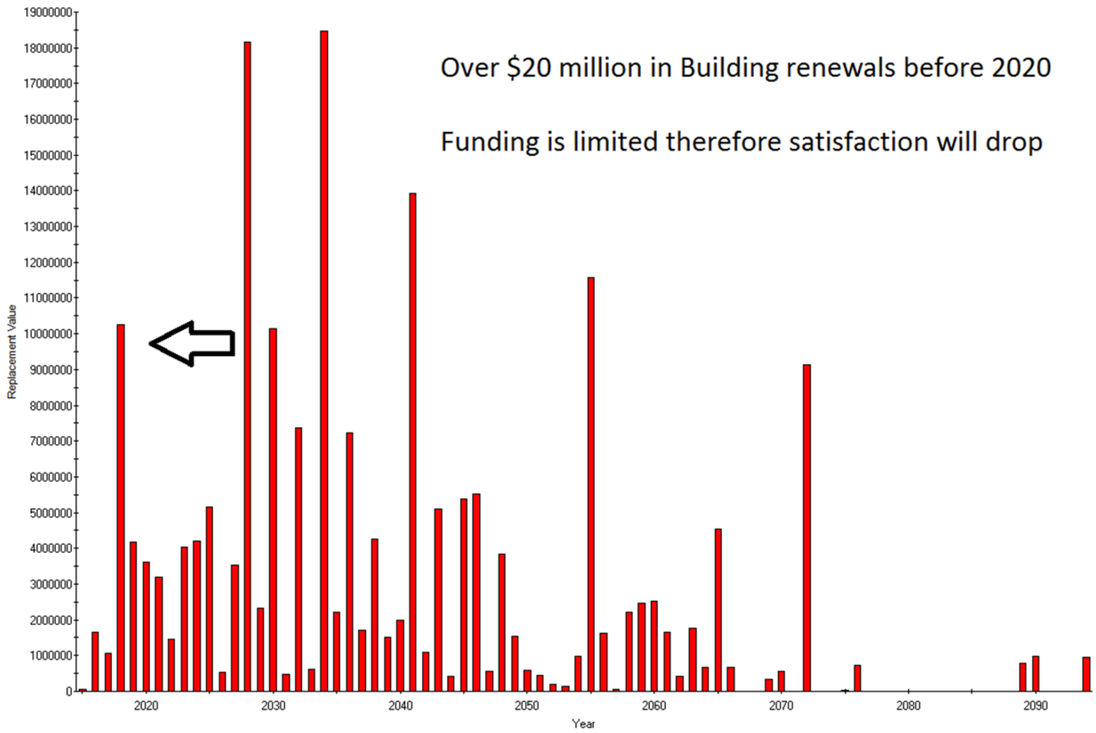


The road life cycle costs of maintenance continues to increase as useful lives of the roads pavement and surface are reached and the funding gap increases.

Buildings

Council has a substantial building portfolio that needs going maintenance and repair. The Figure 8 below indicates that in the next 4 years $20 million in funding is required to maintain a satisfactory condition on buildings as asset components come to the end of their life.

Figure 8 - Building Renewal Requirements



Public Amenities are one aspect of the Council portfolio. The current level of asset renewal allows for Council to replace one of 132 amenities each year. This is clearly an unsustainable position as many no longer meet the requirements of accessible toilets, are Asbestos clad and are unlikely to have a remaining life of up to 132 years. The optimum level of service is five replacements each two year period. There is also the opportunity to rationalise some of the public amenity buildings across the city thereby reducing the long term liability, this was recently undertaken in the Basin area.

Assets and Depreciation

Shoalhaven City Council is custodian of approximately $2.1 billion in General Fund Assets. The Office of Local Government requires all Councils to undertake regular and systematic revaluations of all their assets. This requires Council's to undertake these revaluations on a 5 year cycle and to record the assets at 'Fair Value". Fair Value is a requirement of the International Accounting Standards Board (IASB) and the Australian Accounting Standards Boards (AASB). These standards are required to be followed by all Councils in NSW along with the Local Government Code of Accounting Practice and Financial Reporting. Council uses valuation methods that utilise external valuations, actual costs and State government provided rates.

Like the past Financial Statements the 2015/16 Financial Statements are externally audited. The Auditors concluded "*Our audit of the financial reports for the year ended 30 June 2016 resulted in an* ***unqualified*** *independent audit report for Council's General Purpose and Special Purpose Financial Statements".* The Management Letter states *"all information relevant to the conduct of the audit has been obtained"… There are no material deficiencies in the accounting records or financial statements…".* In simple words the financial reports, methods used and all information used by Council passed all the necessary measures. Other than observing that the asset valuation was not completed on time in 2016, which was partly due to changing expectations, there were no other comments from the Auditor in the report to management on matters arising from the audit in 2015 and 2016 about its management of its Assets. Council has agreed to bring this timeline forward to April to allow sufficient time for review. One area of close scrutiny is that of depreciation.

Depreciation expense and replacement cost

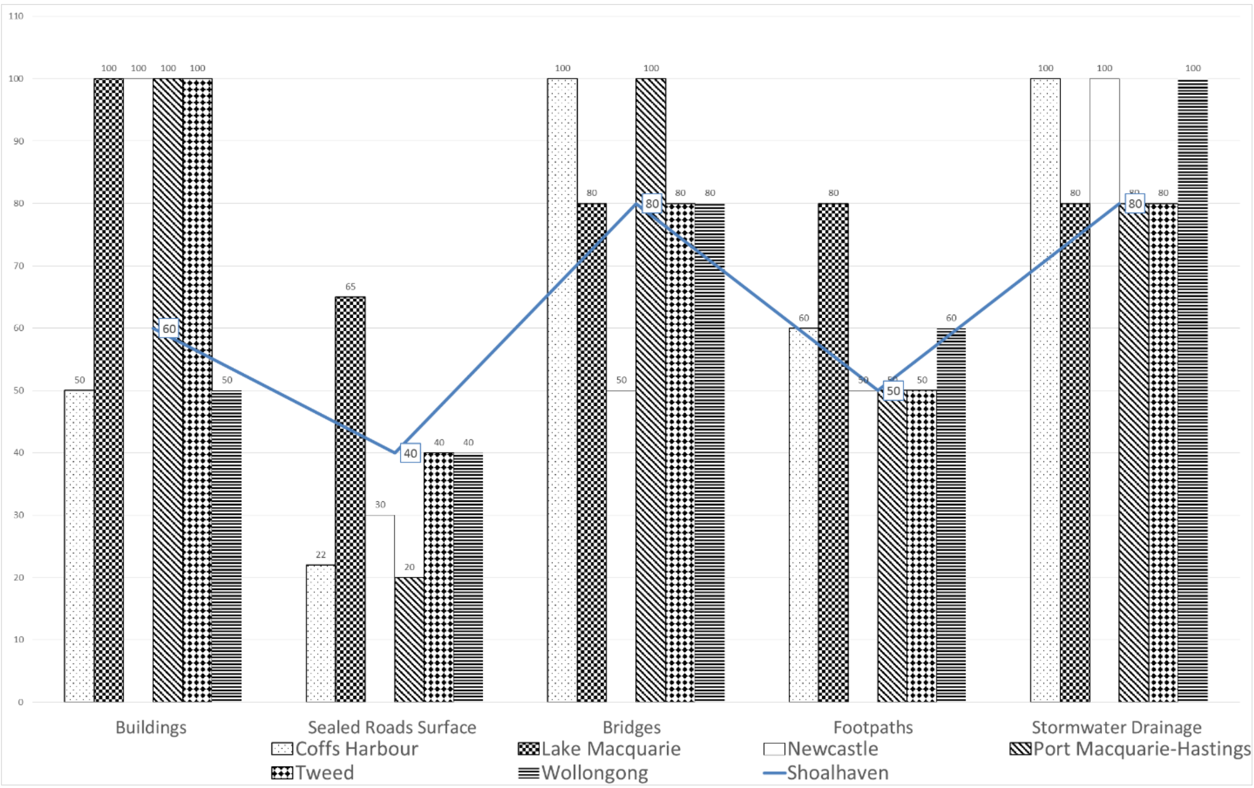
Fair value accounting ensures the value of assets is based on current replacement costs and depreciation reflects the current value of the consumption of the asset. This accounting method highlights the growing dilemma Shoalhaven Council faces with asset renewals in the long term. The Financial Statements set out the fair value measurement process used by Council and it is externally audited. These processes are in line with the IASB and the AASB requirements.

In relation to depreciation Council uses the 'straight line method' of depreciation for its assets. This method is chosen because it best reflects the expected way in which the asset will be consumed over its useful life. If Council were to adopt a different methodology for some or all classes of its assets it would need to be certain that this new method would provide more reliable and relevant information about the asset class than the straight line method.

Council continues to develop and update its Assets Registers and systems. The information contained in these is used for future financial and operation planning. An independent audit of the systems by Morrison Low has identified Shoalhaven City at a core level of competency.

Figure 9 below provides the highest useful life allocated by the Group 5 Councils across buildings, sealed roads, bridges, footpaths and stormwater drainage. With the exception of buildings Council is on par with the majority of Councils in this group. Those buildings in a satisfactory condition such as Nowra School of Arts have their remaining life reviewed.

Figure 9 Highest Useful Life of Assets - Comparison with Group 5 Councils



Source OLG Assets Data and Wollongong City Council

Expenditure measures

The SRV will also be supported by a range of measures including continuing to reduce expenditure through improved efficiency. Council will also ensure careful consideration of the impacts of new development on infrastructure needs, pro-actively encouraging growth and giving a greater population that can pay for use of our facilities. Driving efficiencies and cost reduction is critical to ensuring rate payers are getting value for money. Council over the past 4 years has undertaken an extensive review of its services and programs. This has resulted in significant reductions to expenditure of over $6 million annually as outlined in the Table 4 below, note there have been recent staff changes to meet demands such as increased development applications;

Table 4: Savings from restructure, service reviews and other areas

Summary of Savings 2013 - 2016		
Communication reductions	-$	143,364
CPI reductions	-$	2,130,816
Electricity reductions	-$	365,000
EOFY additional savings	-$	338,548
FBT reductions	-$	172,675
Fuel reduction (less fleet)	-$	348,000
Interest gains - advisory use	-$	216,190
Maintenance & Construction	-$	143,174
Misc reductions	-$	10,533
Operational reductions	-$	182,034
Procurement changes	-$	110,555
Reductions in casuals	-$	187,803
Reductions in plant costs	-$	211,156
Reductions in salary costs	-$	2,376,380
Costs associated with redundancies and other restructure matters	$	500,000
Total	**-$**	**6,436,226**

A savings target is built into Councils financial strategy and achievement however does not achieve the required change needed to match the deficit.

Revenue Measures

Council has been continually reviewing all user pay fees and charges over the last 3 years, staff have developed training in pricing, marketing and costing methodologies and between 2014 and 2016 the income from user fees and charges has increased by 15% over the 2 year period (approximately $4 million annually). Over two thirds of this revenue has a restricted use within Crown Land reserves and with the same increase again over the next 2 years from the remaining fees and charges, revenue would only increase by $2.2m over the 2 years leaving a shortfall. Council have forecast increases of 4% annually for fees and charges into the long term plan, which is the limit that the community would accept and is able to pay (Table 5).

Table 5 - Fees and Charges 2014 - 2016

Other user charges and fees	Act 2016	Act 2015	Act 2014	% change over 2 years
(i) Fees and charges – statutory and regulatory functions (per s.608)				
Planning and building regulation	3,320	2,907	2,850	16%
Private works – section 67	1,340	1,153	1,418	-6%
Section 149 certificates (EPA Act)	418	401	390	7%
Section 603 certificates	309	298	286	8%
Total fees and charges – statutory/regulatory	**5,387**	**4,759**	**4,944**	9%
(ii) Fees and charges – other (incl. general user charges (per s.608))				
Animal charges	202	212	116	74%
Cemeteries	1,794	1,507	1,296	38%
Communication charges	1,130	1,146	1,045	8%
Entertainment centre	1,192	1,081	1,051	13%
Family day care	232	208	200	16%
Food inspection fees	113	112	115	-2%
Health licence fees	81	102	84	-4%
Hire of Council property	534	465	252	112%
Leaseback fees – Council vehicles	893	838	791	13%
Library	104	86	70	49%
Swimming / leisure centres	3,961	3,581	3,555	11%
Tourism	130	176	89	46%
Tourist parks	20,659	19,489	18,386	12%
Other	96	93	83	16%
Total fees and charges – other	**31,121**	**29,096**	**27,133**	15%

The $6 million savings in expenditure and $4 million increase in revenue has resulted in a net impact of $10 million for the organisation.

The Financial Sustainability Report identifies ongoing areas for improvement, engagement with the community and reduction in expenditure. These targets include:

1. Increases in User Pays fees and charges above CPI - *$4M increase in past 2 years, targeting $500K in next 2 years*
2. Increases in DA fees and introduction of value added services - *$470K increase in past 2 years (included in $4M above), targeting $400K in next 2 years*
3. Introduction of Parking fees - *Potential to introduce in some holiday locations to cover costs of additional services requested by the community eg Hyams Beach/Huskisson*
4. Reduction in Cost structure through efficiency initiatives - *$2.376M reduction in past 4 years, targeting $250K in next 2 years*
5. Service reviews and outsourcing where practical and cost effective - *$1.2 Saved in past 2 years, targeting $250K in next 2 years*
6. The Use of Technology to drive efficiencies - *Savings have been delayed in this area due to termination of the contract with the Vendor. This is a high priority focus for the next 1 - 2 years. Savings will be addressed once the system is implemented.*
7. Procurement initiatives locally and through the Joint Organisation - *$110,000 Saved in past 2 years, target $100,000 Over the next 2 years*
8. Energy Management - *$365,000 saved in past 4 years, targeting $150,000 in next 2 years*
9. Better Management of Fringe Benefits - *$173,000 saved in past 4 years targeting $80,000 in next 2 years*
10. Improved management of Leave Liabilities - *targeting $200,000 in next 2 years*

11. Reductions in service levels if agreement could be reached with the community - *targeting $100,000 in next 2 years*
12. Fuel efficiencies - *$348,000 Saved in past 4 years, targeting $75,000 in next 2 years*
13. Utilisation of Assets and Rationalisation of underutilised assets - *targeting $200,000 in next 2 years*

Although a number of these initiatives have been achieved and others are in the process of being carried out ($2.3M in next 2 years) they do not have the level of financial impact to improve the operating performance ratio to the level required. The only option of the magnitude required was an above rate peg increase.

Social Impact - Capacity to pay

Council acknowledges the impact of the rate increase may be difficult for some community members. A critical issue for Council to consider is the ability of the ratepayers to pay for the proposed special rate increases.

The provision of additional funding will deliver broad economic and social benefits to the Shoalhaven Community. Council is faced with a significant financial shortfall in funding each year and if Council were to reduce service levels or defer renewals of infrastructure to address the shortfall without the rate rise many rate payers, residents and visitors would also be impacted.

Table 6 below provides a breakdown of the percentage difference in the rates paid by Shoalhaven City Council ratepayers compared to other Group 5 Councils. Shoalhaven has the lowest rates by between 9.36% (Coffs Harbour) and 36.52% (Tweed).

Table 6 - Group 5 Councils residential rate comparison and difference %

Council	Average Residential Rate 2014/15 ($)	% Difference
Coffs Harbour City Council	986.43	9.36%
Lake Macquarie City Council	1,130.00	25.28%
Newcastle City Council	1,050.60	16.47%
Port Macquarie-Hastings Council	1,044.04	15.75%
Shoalhaven City Council	902.01	0.00%
Tweed Shire Council	1,231.46	36.52%
Wollongong City Council	1,201.07	33.15%

Source NSW 2014/15 Local Government Comparative Data

A comparison of residential rates of other councils within our Council Group shows that the SRV will partly close the current general rate gap between the Shoalhaven and other comparative Councils noting from above it will still be lower than similar sized councils rates. The Group Average for Ordinary Residential Rates is $1078.

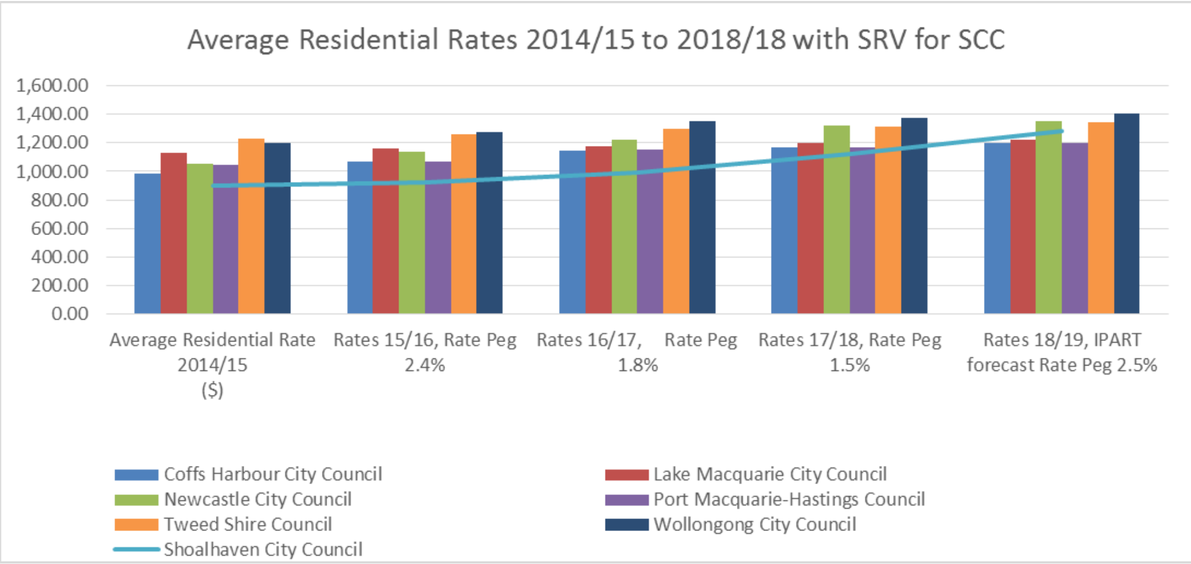
Table 7 - Rate comparison with Group 5 Councils

Council	Average Residential Rate 2014/15 ($)	Average Household Income #	Ratio	At 2.0%	Differential
Coffs Harbour City Council	986.43	$54,077	1.82	$1,081.54	95.11
Lake Macquarie City Council	1,130.00	$57,304	1.97	$1,146.08	16.08
Newcastle City Council	1,050.60	$60,528	1.74	$1,210.56	159.96
Port Macquarie-Hastings Council	1,044.04	$52,167	2.00	$1,043.34	-0.70
Shoalhaven City Council	902.01	$50,363	1.79	$1,007.26	105.25
Tweed Shire Council	1,231.46	$51,220	2.40	$1,024.40	-207.06
Wollongong City Council	1,201.07	$65,926	1.82	$1,318.52	117.45

 # Source- ABS Household income 2011, NSW 2014/15 Local Government Comparative Data

Figure 10 below includes the proposed SRV for SCC and this demonstrates that even with the SRV, Council is still only in the middle of the group in terms of average residential rates.

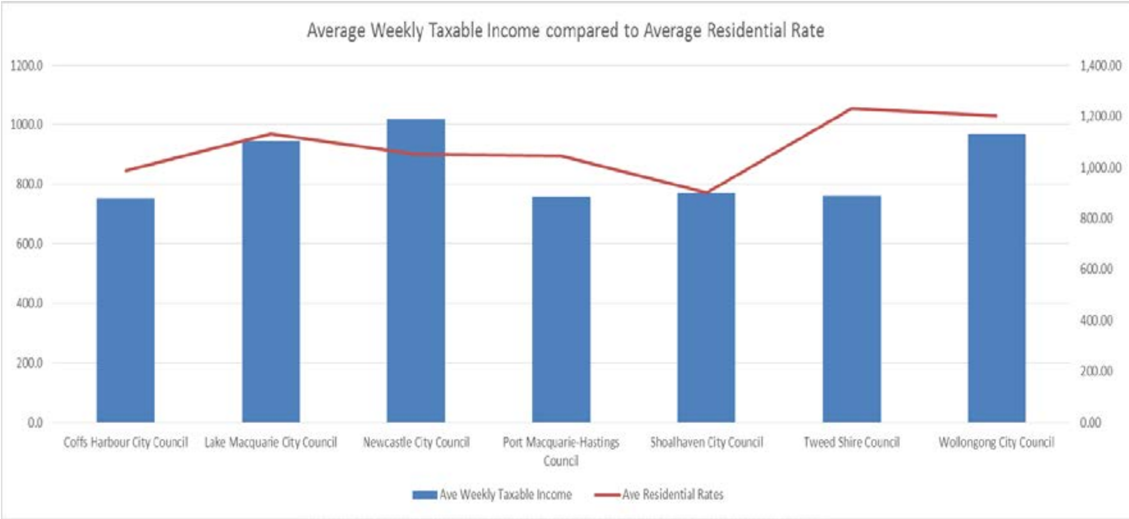
Figure 10 - Average Residential Rates 2014/15 to 2018/19 with SRV for SCC



Source-, NSW 2014/15 Local Government Comparative Data and IPART determinations

Figure 11 below presents information on the average weekly taxable income compared to the Average Residential rate for Councils in the SCC Group. This graph shows for the purpose of comparison that the gap between one week's taxable income (bar) and the average residential rate (line) is the second smallest of the comparative Councils. This again would imply that relative to other areas with similar levels of taxable income such as Tweed, Port Macquarie or Coffs Harbour there is some capacity to increase rates.

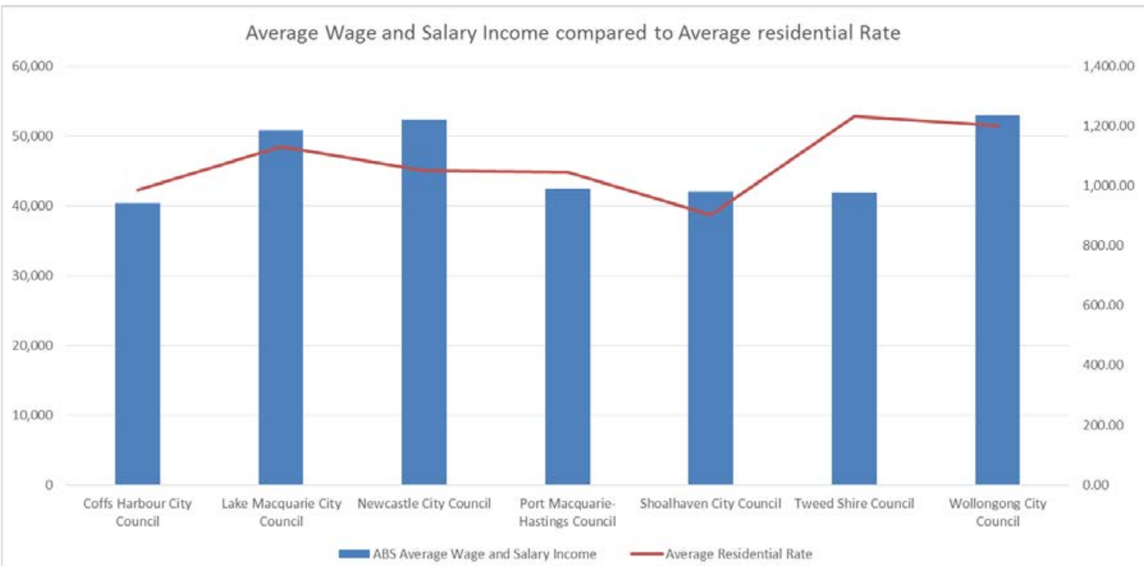
Figure 11 - Average Weekly Income to Average Residential rate



Source NSW 2014/15 Local Government Comparative Data

The Figure 12 below shows the comparison of average wage and salary income (bar) for Group 5 Councils compared to the average residential rate (line). The figure highlights that the SCC average wage and salary earner in the Shoalhaven is paying a slightly smaller proportion of their income in residential rates than other centres with higher rates such as Coffs Harbour, Port Macquarie and the Tweed.

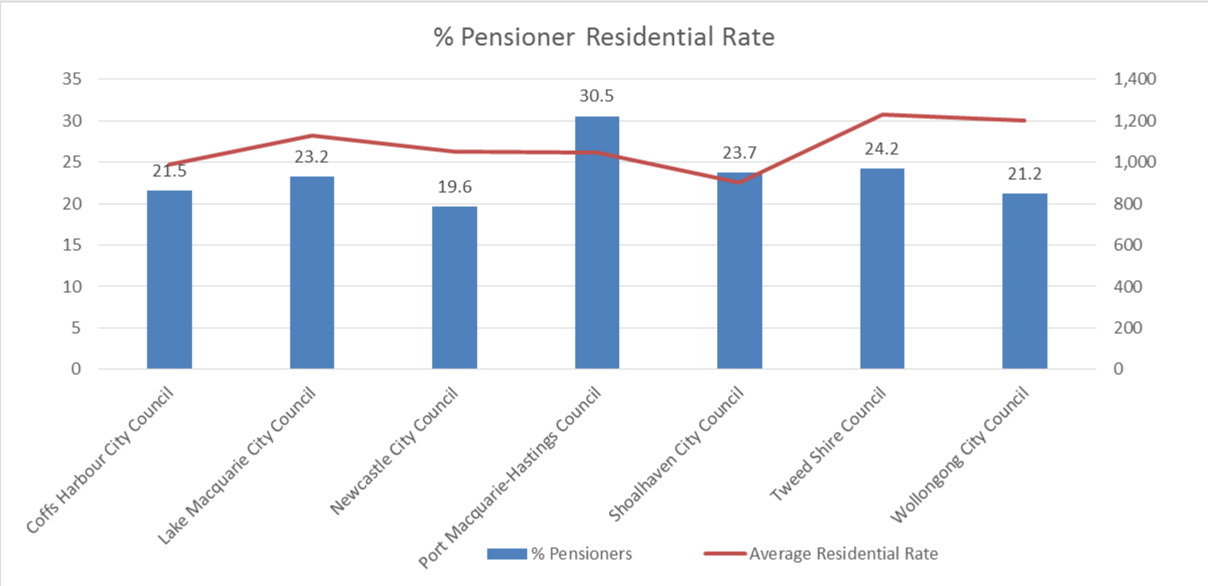
Figure 12 - Average Wage and Salary Income Compared to the Average Residential Rate



Source - ABS Wage and Salary Earner Statistics for Small Areas, Time Series, 2005-06 to 2010-11 and *NSW 2014/15 Local Government Comparative Data*

The Shoalhaven City Council has the third highest percentage of pensioners at 23.7% (see bars on Figure 13) paying rates after Port Macquarie (30%) and Tweed (24%), however both Port Macquarie and Tweed have higher rates than Shoalhaven (see line), with the Tweed being 36% higher than the Shoalhaven's. (Graph 17 below.)

Figure 13 - Average Residential Rates Compared to % Pensioners Residential rates



Source - *NSW 2014/15 Local Government Comparative Data*

Figure 14 below provides the level of outstanding rates for the past 3 years. This is on a slightly decreasing trend and would indicate that Council currently has not seen an increase in the number of rate payers unable to pay their rates. Figure 15 provides the number of rate payers who are accessing the Hardship Policy.

Figure 14 - Percentage Total Rates Outstanding

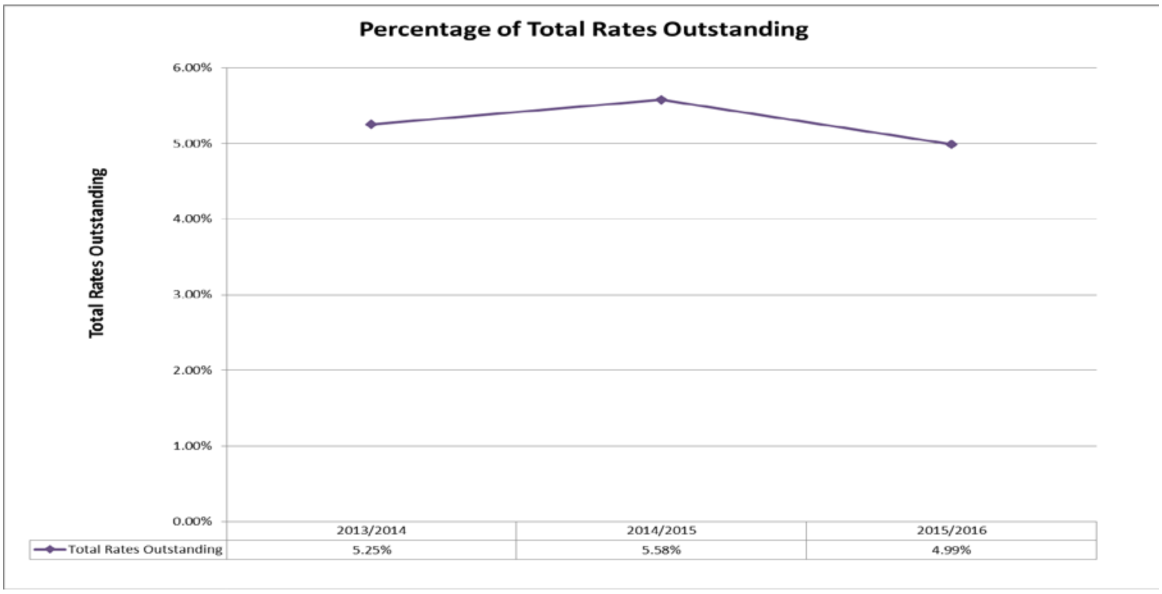


Figure 15 - Number of Rate Payers Accessing the Hardship Policy

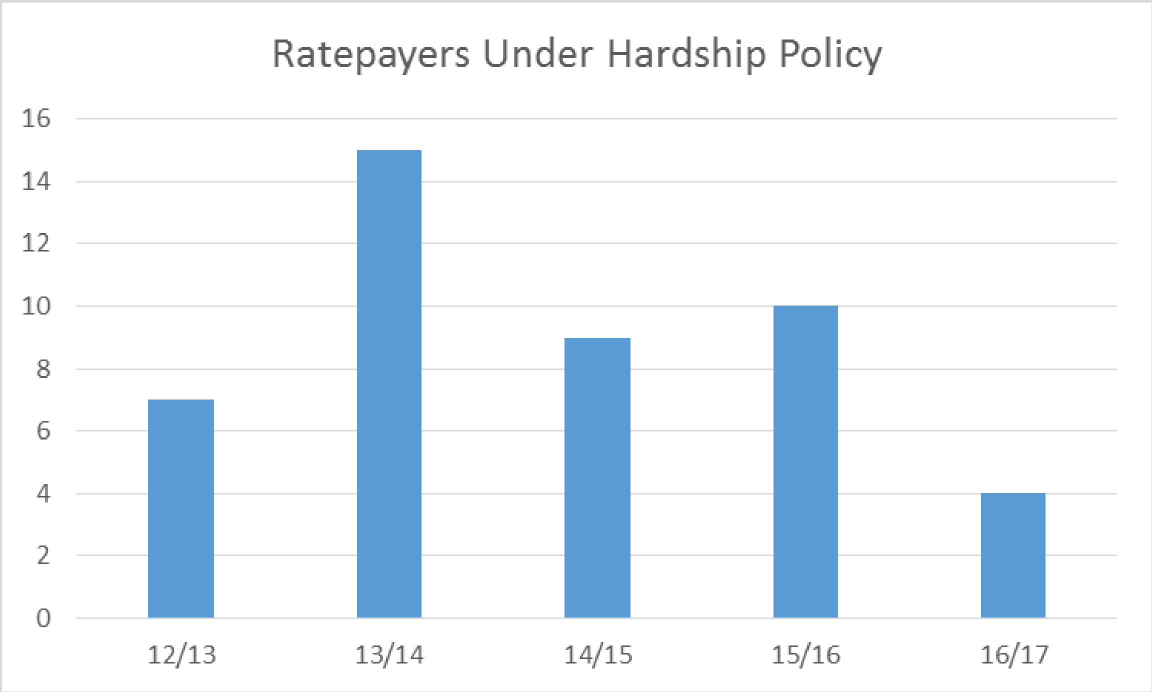


Figure 16 below has the unemployment figures for the Group 5 Councils from June 2015 to Sept 2016. Shoalhaven does have the highest unemployment rate of the comparison Councils. This is an indication that council does need to carefully consider the areas capacity to pay for any rate increase.

Figure 16 - Unemployment Figures for the Group 5 Councils from June 2015 to Sept 2016

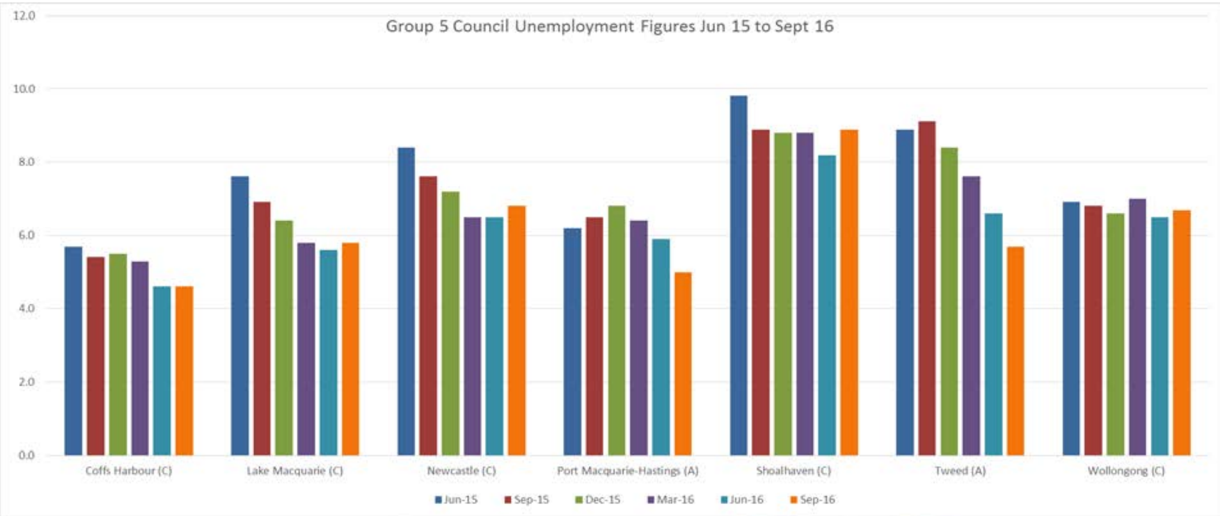
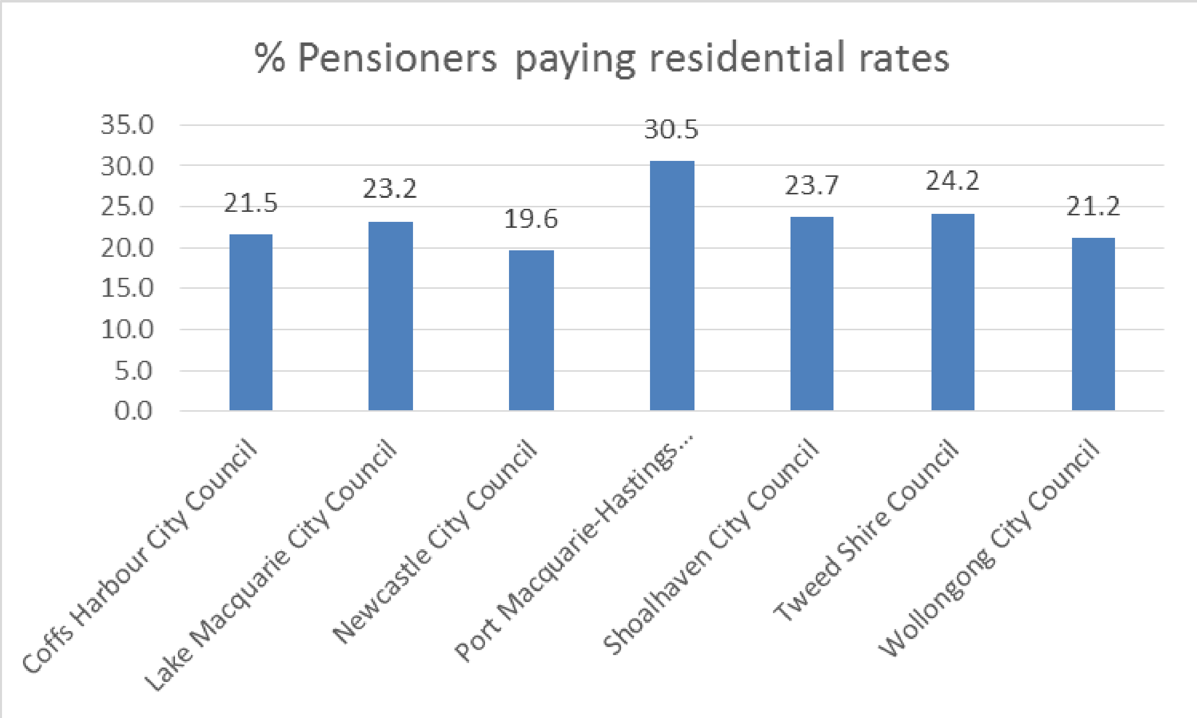


Figure 17 below has the percentage of pensioners who are paying rates across the Group 5 Councils. The Shoalhaven has 23.7%. The highest is Port Macquarie with over 30%. The average across the group is 23.4% which sees the Shoalhaven just above the average.

Figure 17 - % Pensioners paying residential rates for the Group 5 Councils



Source NSW 2014/15 Local Government Comparative Data

The information above would indicate that there is a large proportion of pensioners in other areas where higher rates apply, if this is considered there appears to be an ability to increase rates in the Shoalhaven, but acknowledging it may be difficult for some community members.

While there needs to be continued discussion in relation to the ability of the residents to pay the rate increase there also needs to be an awareness and discussion of the consequences of delaying a rate increase and deferring infrastructure renewals. The facts set out in this report, the Financial Sustainability Document, the Council Fit for the Future Submission and various other internal and external reports all indicate that Council needs to target a reduction in services or increase rates above the rate peg.

If a rates increase is delayed and significant reduction in service costs are not delivered then the community will be impacted by poor condition assets and more assets deteriorate at a faster rate due to a lack of funds for the necessary maintenance and renewal works. This is a risk across Local Governments in Australia and was highlighted in the National State of the assets report in 2015 for Roads and Community Infrastructure.

Investment and Cash Position

Council has a significant investment portfolio as outlined in Table 8 below from the December 2016 Council meeting investment report. There is $162 million held in investments. $118 million of this is restricted (externally), and can only be used for the purposes designated. There is capacity for council to utilise some of these funds for capital projects such as the S94 reserve. This however will have no impact (or potentially a negative impact with whole of life costs) on the General Fund Operating Result.

In relation to 'Internally Restricted" funds many areas are tied to specific areas of Council operations. For example there is approximately $9.7 million held to cover employee leave entitlements and $6.9 million held against works in progress. Council can choose to utilise some of the funds in these internally restricted areas such as the 'Strategic Projects, Industrial Land Development, Critical Asset Compliance or the Land Decontamination Reserve. Spending these funds on capital projects are unlikely to assist the operating result but could be used for renewal projects.

There is approximately $15.8 million held in “unrestricted Cash”. Council regularly needs over $5 million and up to $10 million to cover costs and continue to operate on a weekly basis. This fund is typically around the $10 million. The November 2016 figure has increased with the month being a rates instalment month and more revenue coming in. Taking this into account there is minimal ability in relation to freeing up cash in this area.

Table 8 - November 2016 Record of Investment

RECORD OF INVESTMENTS
Cash and Investment Balances

	November 2016	October 2016
Cash And Investments Held		
Cash at Bank - Transactional Account	$12,580,722	$7,396,514
Cash at Bank - Trust Fund	$1,240	$1,240
Cash on Hand	$67,750	$43,190
Other Cash and Investments	$165,055,912	$161,040,576
	$177,705,623	**$168,481,520**
Fair Value Adjustment	$76,655	$82,384
Bank Reconciliation	$366,988	$74,110
	$443,643	$156,494
Book Value of Cash and Investments	**$178,149,267**	**$168,638,014**
Less Cash & Investments Held In Relation To Restricted Assets		
Leave Entitlements & Workers Compensation Liability	$9,713,752	$9,699,179
Land Decontamination	$1,575,546	$1,578,176
Critical Asset Compliance	$2,402,355	$2,412,520
North Nowra Link Road	$666,384	$666,386
Other Internal Reserves	$2,470,736	$2,491,381
Section 94 Matching Funds	$541,096	$543,984
Strategic Projects General	$5,828,379	$6,111,892
Industrial Land Development Reserve	$2,724,981	$2,724,981
Plant Replacement	$5,310,460	$5,020,470
S94 Recoupment	$2,339,361	$2,339,552
Commitment To Capital Works	$6,989,806	$7,094,199
Property Reserve	$3,578,406	$2,193,096
Total Internally Restricted	**$44,141,260**	**$42,875,816**
Loans - General Fund	$6,234,332	$6,819,033
Grant reserve	$2,890,229	$1,364,736
Section 94	$27,476,363	$26,469,591
Storm Water Levy	$259,450	$244,704
Trust - Mayors Relief Fund	$99,808	$99,808
Trust - General Trust	$4,444,378	$2,896,965
Waste Disposal	$9,630,039	$9,652,503
Section 64 Sewer	$0	$0
Sewer Fund	$30,163,864	$29,450,565
Sewer Plant Fund	$1,249,512	$1,168,173
Section 64 Water	$14,557,699	$14,086,312
Water Fund	$19,389,933	$20,576,064
Water Communication Towers	$1,013,983	$1,013,983
Water Plant Fund	$780,544	$756,397
Total Externally Restricted	**$118,190,134**	**$114,598,833**
Total Restricted	**$162,331,393**	**$157,474,650**
Unrestricted Cash And Investments		
General Fund	$15,817,873	$11,163,364

Source – December 2016 Ordinary Council meeting investment Report

Community Engagement

Community engagement in relation to Council's financial sustainability position started in October 2014 when Council first considered the Financial Sustainability Report. There was extensive media coverage at the time and debate in the community. Since this time Council has continued to work alongside the community and CCBs to understand the community's priorities and visions via the strategic planning and Delivery Program process.

At this time Council's CCBs were provided with a presentation at the CCB Executive meeting and access to the information. This continued when the State Government introduced the Fit for the Future requirements. Council updated its information in line with these requirements and again made this information available to the community. The Fit for the Future submission clearly outlined the need for two x 7.5% above rate peg increases.

During the public consultation process for the proposed forced merger of Shoalhaven City Council and Kiama Council, Council again outlined its financial position and the Fit for the Future measures. In a number of submissions received, as part of this process, members of the public made it clear that there was a good understanding of the Council's financial strategy and proposal and support for this.

With the election of the new Council and changes in the rate peg and additional costs impacting the financial position of the organisation, the Financial Sustainability report was updated and presented to Council for consideration. That report outlined the recommended rate rises required to meet the Fit for the Future benchmarks and to improve infrastructure. Council resolved to undertake further community engagement and present to the community three rate increase options for their feedback.

The community engagement process for the SRV has been extensive and has used a variety of methods to inform the community about the proposal and to provide opportunities for Council to receive feedback. From November 2016 to January 2017 the engagement included:

- Direct engagement with CCBs including presentations and direct emails
- Direct mail out to all residents and ratepayers outlining the proposal and the opportunity to provide feedback to Council
- Online survey
- Online poll
- Online Engagement portal with FAQs and details about the proposal
- Hard copy information pack at all Council facilities
- Hard copy information pack to mailout for those without internet access
- On the ground listening posts and random surveys at shopping centres
- IRIS commissions random telephone survey
- Media releases, radio items, advertising and other publicity
- Features in Council' s Neighbourhood News EDM

The proposed rates increases attracted significant media attention and was well publicised.

In a survey, one week after the Council's announcement, 60% of respondents had directly heard about the Council's new rates proposal. Offline sources, especially radio (39%) and local newspaper (20%), were the main source of information.

The key issues raised by the CCBs were how the different scenarios would impact on rates; the management of assets; and the opportunities of a citizens panel (see Attachment 1).

The results of the phone survey are as follows:

IRIS Phone Survey

A telephone survey was conducted to seek random and demographically representative feedback on the rates increase. A sample size of 405 people was selected. This provides a representative sample, a larger size would not have shown different results.

Respondents were also asked whether they pay rates to Shoalhaven City Council. Results showed that, the majority of the respondents pay rates (86%) and almost all of those who pay rates to Shoalhaven City Council pay it for their own residence (96%). Some respondents have rental properties for which they also pay rates (8%)

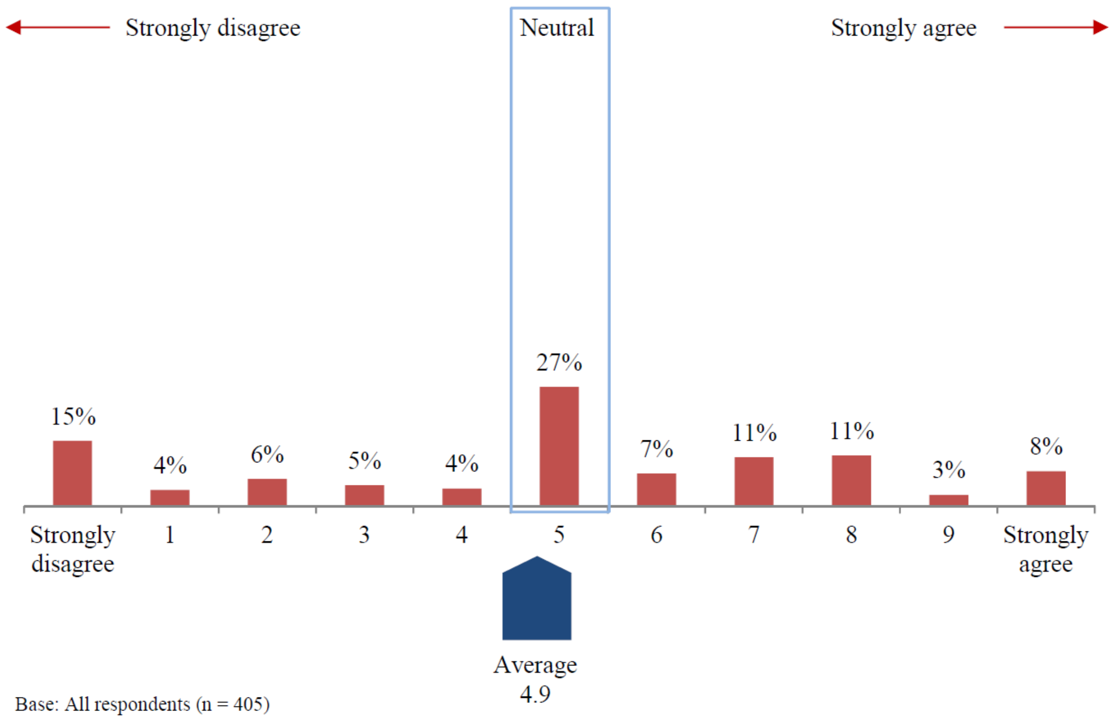
The questions were reviewed and critically analysed by IRIS to ensure that they would allow for a representative sample to be obtained.

A copy of the survey questions is provided as **Attachment 2**

- **Perception of Council's financial position**

Results showed that respondents did not agree that the council's financial situation was particularly negative. The average score (4.9 out of 10) showed that the respondents mainly had a neutral perception towards the Council's financial situation

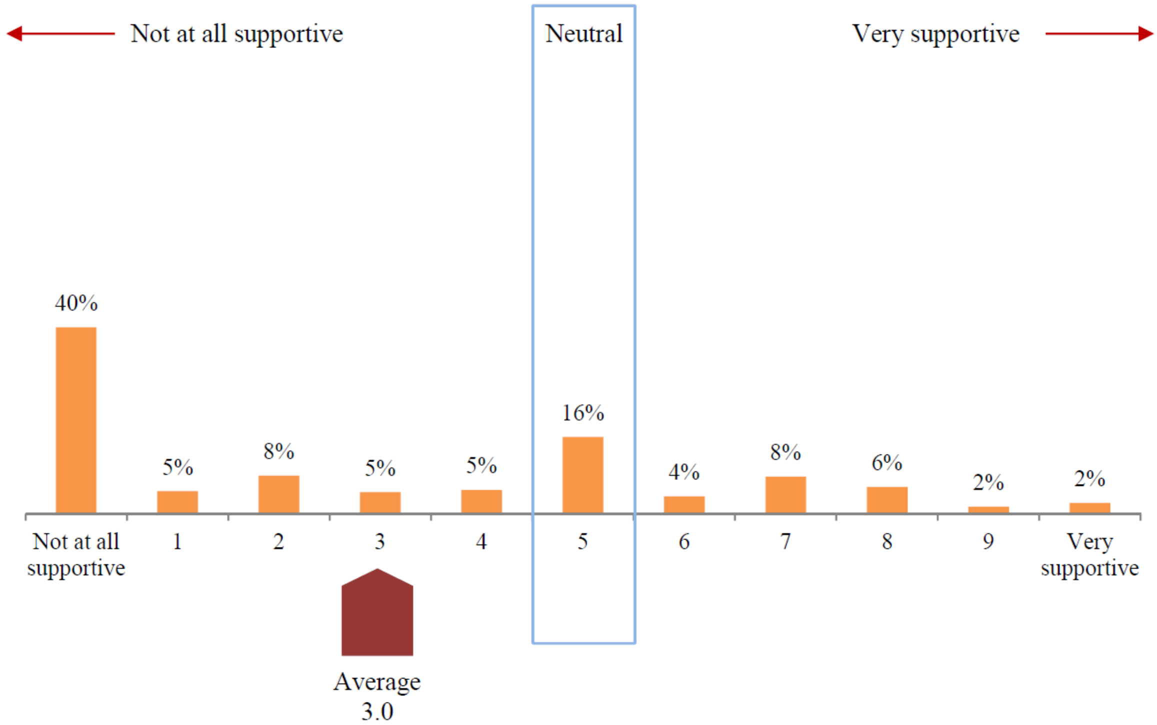
Figure 18



- **Support for the rates proposal**

Two in five residents (40%) indicated that they were not at all supportive' of paying higher rates. 16% of respondents had neutral support for paying higher rates. Average respondent support was 3.0 out of 10.

Figure 19



The results showed that 62% of respondents do not support the idea of having to pay higher rates. This result is the same among rate-payers. Non-rate payers seem to be less supportive, however the significance tests show that the differences are not statistically significant.

- **Support levels by age**

Table 9

	All respondents [n = 405]	18 – 49 years [n = 75]	50 – 65+ years [n = 330]
Not supportive (0 - 4)	62%	72%	56%
Neutral (5)	16%	16%	17%
Supportive (6 - 10)	21%	12%	27%
Average	**3.0**	**2.1**	**3.6**

- **Motivations to pay higher rates, usage fees and charges**

The results showed that some residents would consider paying higher rates, usage fees and charges, if the community has a say in the way the money is spent. Some residents also advised that they would consider paying higher rates, if the extra money is spent on the community priorities, management of Shoalhaven's natural environment and the operations of Council in a more sustainable way.

The Council's financial sustainability, implementation of strategic objectives and provision of inclusive facilities were not stated as strong motivators. Some respondents agreed that they would be willing to pay higher rates, usage fees and charges, if it makes Shoalhaven City a more liveable and attractive place, more prosperous and inviting.

Figure 20

I am willing to pay higher rates, usage fees and charges if it is going to

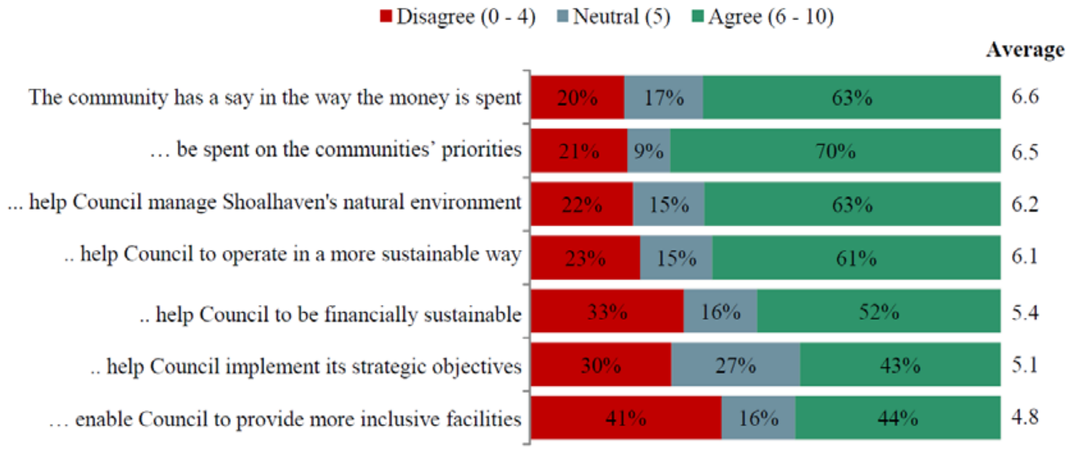
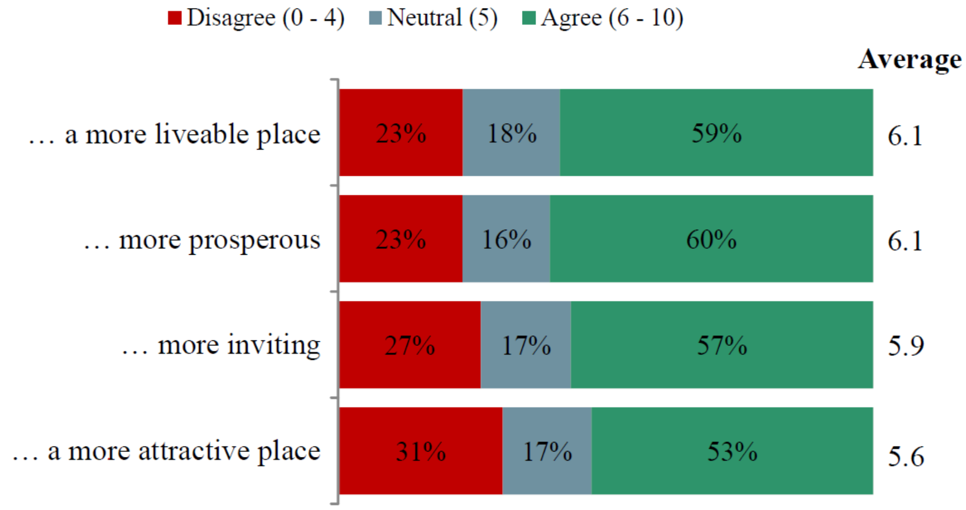


Figure 21

I am willing to pay higher rates, usage fees and charges if it is going to make Shoalhaven City …



Respondents recommended that to create an overall motivation for paying higher rates among residents, Council should create opportunities for community to be involved in decision-making processes. Council should clearly show that it understands the community's priorities correctly and build strategies to make the money is spent effectively to meet their priorities.

To create support for having to pay higher rates, Council should communicate its management methods more effectively. Residents should be aware how the higher rates would provide Council with opportunities to build more inclusive community facilities.

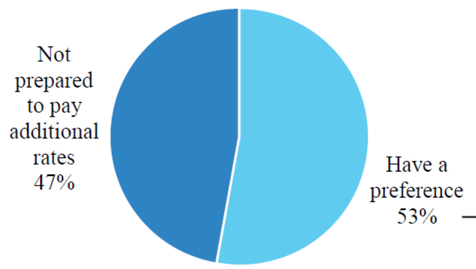
Council also should ensure that the residents are aware that the higher rates generate financial sustainability for the Council and opportunities for management to implement its strategic objectives.

In both cases, some residents are motivated to pay higher rates and offer support having to pay higher rates if the money is used to improve Shoalhaven City's future prospects.

- **Rates Options**

When the rate-payers were asked their preferred options for the future rates increases, almost half of them (47%) stated that they are not prepared to pay additional rates. They do not indicate a clear preference among the proposed options but an ‘increase rates by 11.5% every year for 2 years (plus the rate peg): Lowest increase over a seven year period’ was the most identified option (37%).

Figure 22



Increase rates by 11.5% every year for 2 years (plus the rate peg): Lowest increase over a seven year period	37%
Increase rates by 6.27% every year for 4 years (plus the rate peg)	30%
Increase rates by 5% every year for 7 years (plus the rate peg): largest increase over a seven year period	33%

Base: Rate payers who have a preference (n = 186)

- **Spending of additional funds**

According to respondents, the extra income that is generated from the increased rates should be spent on roads (58%).The significance tests showed that the roads are clearly the main priority for the Council’s future investments for all subgroups of the sample.

Table 10

Roads	58%
Facilities management	26%
Maintaining a balanced budget	12%
Maintaining a deficit	3%
Asset renewal	9%

- **Services to be reduced**

Respondents did not clearly identify particular services or facilities to be reduced to help to maintain the rates, fees, and charges at their current level. Some respondents suggest some unused services and facilities be closed, namely entertainment, art, information centres and take away facilities in Nowra and Milton. Respondents suggest roads cleaning and street sweeping could be reduced to help keep fees at their current level.

Numbers of parks and reserves can be reduced by closing some located in isolated irrelevant areas. Similarly, some respondents suggest reducing the number of waste collection bins.

A reduction in wages paid to Councillors and Councillors expenses, including water bottles/ food at council meetings as well as staff salaries was also suggested.

Respondents listed some unused services and facilities such as Roundabout at south Nowra, new plan for Bomaderry sporting complex, misting bubblers in the Nowra CBD and library services. Some respondents suggested community events could be reduced to keep the rates at their current level.

There were some comments made about the contractors who currently work for the Council while some suggested that having contractors is more efficient. Respondents stated that if the tip fees are eliminated council could save money for cleaning illegal dumping. Finally, it was suggested that the red tape and some internal Council expenses could be reduced.

- **Recommended ways to raise revenue**

When the respondents were asked to recommend ways for the Council to raise revenue, the most common recommendations were related to better management methods.

Residents understand that the rates, fees and charges are the main sources of the Council's income thus they recommend rate increases as a way of raising revenue.

Residents mentioned that Council should apply for funding from the State and Commonwealth governments as a way of raising revenue.

Residents suggested that user pays for the services and facilities could be a source for additional revenue. Residents suggested that users might start to pay or pay more for the services and facilities they use such as, library computers, development applications, and boat ramps. Similarly, parking fees and fines are suggested as a potential source for revenue raise. Residents suggest user pays for car parking in the CBD or in caravan parks is another way of raising revenue.

Residents recommend conducting events and activities for the council to raise revenue. They suggested that more community events, festivals, fairs, concerts, and annual shows would not only raise funds for the Council but also bring the Shoalhaven community together.

Tourism was suggested as a way to raise income. Visitors could have 'user pays' for the existing tourist attractions and also for the activities that are held by the Council. Furthermore, if the tourism is improved, the facilities that are mainly used by tourists would generate more revenue.

Residents suggested that the Council management should work more efficiently and be more productive. They recommended that council review their investment strategy. They claimed that cutting some internal expense would be helpful to reduce expenditure. They also suggested a reduction in the number of staff.

Written Submissions

A total of 49 written submissions were received as part of the engagement process.

These submissions have been summarised in to a table and provided as **Attachment 3.**

- 27 did not support the proposed rate rise in any form many provided reasons such as Council should live within its means or cut services and it should be a user pays system
- 8 submissions did not support the proposed rate rise in its current form but proposed alternative options or proposed a delay for further engagement
- 10 submissions proposed which option they preferred (some specifically said they supported the rise other said if it had to happen then the option they preferred would be 1,2 or 3)
    - 5 Option 1
    - 4 Option 2
    - 1 Option 3
- 1 supported the rate rise without question

EHQ - Get Involved Shoalhaven- Online Engagement

As part of the engagement process the new online engagement portal was used to capture online submissions. As of 13 January 2017 the EHQ page “Your Rates, Everybody's Future” has had:

- 1,162 page views
- 687 visits
- 79 registered participants
- 29 Quick Poll responses
- 14 Survey responses
- 570 participants were “aware”
- 174 participants were “informed”; and
- 45 participants were “engaged”.

14 responses to the online survey were received as part of the online engagement. The results from this survey included:

- 7 were not at all supportive of the proposal
- 1 was very supportive of the proposal
- 6 had a support level of 3 out of 10

Suggestions for saving money:

- Reduce services such as libraries and swimming pools
- User pays system
- Administrative improvements
- Asset maintenance system to ensure best use of funds.

A copy of each individual survey response is provided as **Attachment 4.**

11 individual online submissions were also received this allowed for specific comments to be made. This also allowed for those that did not want to select any of the three options to provide comment about the proposal and to outline that they did not support any rise if they so choose. A copy of each of the guestbook comments in provided as **Attachment 5.**

A quick poll was also included on the site where participants were able to select from the three options. The results were from 29 respondents. 45% selected the option1, 31% option 3, and 24% selected option 2.

Listening Posts

Two listening posts were conducted at Nowra Shopping centre and Ulladulla Civic Centre on December 21 and 22. These included Council staff attending and provided brochures and an opportunity for the community to provide feedback on rates. In Nowra 30 people were contacted and in Ulladulla 15 people were contacted.

The feedback from these listening posts was that the community were aware of the proposal and many had already received a rate brochure in the mail. Most did not provide a strong opinion about the rates proposal.

Media

There were 16 unique articles that featured in South Coast Register, 2st and Milton Ulladulla Times. Articles also appeared in a number of CCB newsletters. There were also a number of radio features and the rates proposal also featured on Councils Facebook site and Shoalhaven news site. The community are aware of the proposal and there are mixed comments on each of these sites. This feedback has not been captured for this report as not official submissions to the Council engagement process.

Other feedback

Another issue raised during the consultation process was the value Council allocated to its assets such as Kerb and Gutter replacement costs and the annual depreciation. It was suggested that Council should use a lower value to estimate rates. Council is using rates that have been calculated by using costs that also include demolition, disposal of concrete, compaction of base and new pavement, concrete supply and installation based on actual costs in 2013 - 2015. To use the lower rate would not be an accurate replacement cost for an isolated section of replacement of kerb and gutter.

Summary of engagement

The outcomes of the community consultation indicates that the proposed rate increase was generally not supported, there was some members of the community who would pay higher rates to maintain services. The feedback is also clear that if a SRV is determined the community does want to have a say in how the funds raised from a Special Rate Variation are allocated. In response to this feedback it is being proposed that a Citizen's Panel be considered to provide Council with recommendations about where the funds should be expended. It is recommended that staff provide Council with a report to the next Ordinary Council Meeting that would outline the possible structure and terms of reference for the Citizen's Panel.

A key theme in the submissions and engagement was the impact of rates on low income earners and pensioners. Council acknowledges that any rate increase may be difficult for some community members.

Policy Implications

There are significant policy implications in relation to this report. The Council needs to take action to address it's current and long term financial sustainability. The recommendation of this report is to support a range of efficiency measures and apply for a Special Rate Variation. When combined with the ongoing expenditure management strategies set out in this and the Financial Sustainability Report this will allow Council to meet the Fit for the Future benchmarks and to provide infrastructure our community depends on in their everyday lives.

IPART will assess each SRV application against the criteria set out in the OLG's Guidelines for the preparation of an application for a special variation to general income.

Financial Implications

There are significant financial implications from this report. The decision is critical as to whether Council fulfil the Office of Local Government requirements for a Fit for the Future Council highlighted in a recent circular as important (OLG Circular No 16-49/21Dec 2016)

If the Special Rate Variation application is approved, Council can move forward with the current level of services and programs currently in place. Council will also be able to work alongside the community to identify opportunities to deliver services and operational improvements.

Rate Peg - IPART advice

Staff have been advised by IPART that a rate peg projection of 2.5% is to be used for the full 10 year projections. The projections are based on this advice although staff believe this is overly optimistic given the last 2 years rate peg amounts of 1.8% and 1.5% and the national and global financial outlook over the next 2 – 5 years.

Should the recommendation be adopted and then approved by IPART and the rate peg amount be less than the 2.5% advised by IPART after the first two years, then Council will again have a short fall of funds to offset costs and ensure its financial sustainability.

A summary of the Key Fit for the Future ratios is below (Table 11), with the critical ratio affected by a rate increase being the Operating Performance Ratio, where the benchmark is only met by 2019/20 by increasing rates by 11.5% above rate peg for the two years from 2017/18 to 2018/19.

Table 11 - Fit for the Future Financial Ratios

Fit for the Future Measures

Measure		Target		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Sustainability	General Fund - Operating Performance Result	Greater than 0% over a three year average	Submission 9.5% 2017/18 & 2018/19			-5.4%	-6.3%	-7.4%	-6.0%	-4.1%	-1.7%	0.1%	1.0%	1.3%	1.7%	2.3%	2.8%		
			Actual Results			-5.4%	-4.2%	-4.5%											
			No SRV						-4.0%	-6.2%	-8.3%	-9.0%	-8.5%	-7.4%	-6.3%	-5.3%	-4.3%	-3.2%	-1.9%
			SRV 13.0% 2017/18 & 14.0% 2018/19						-4.0%	-4.4%	-2.7%	0.3%	2.7%	3.9%	5.1%	6.1%	7.1%	8.2%	9.2%
	General Fund - Own Source Revenue Result	Greater than 60% over a 3 year average	Submission 9.5% 2017/18 & 2018/19			81.9%	81.0%	79.4%	80.2%	82.6%	86.0%	87.3%	87.8%	88.0%	88.1%	88.2%	88.2%		
			Actual Results			81.9%	81.2%	79.2%											
			No SRV						77.7%	79.6%	83.1%	87.3%	87.8%	88.2%	88.3%	88.5%	88.6%	88.7%	88.8%
			SRV 13.0% 2017/18 & 14.0% 2018/19						77.7%	80.0%	84.0%	88.5%	89.2%	89.6%	89.7%	89.8%	90.0%	90.1%	90.2%
	General Fund - Building And Infrastructure Asset Renewal Result	Greater than 100% over a three year average	Submission 9.5% 2017/18 & 2018/19			61.6%	64.9%	70.6%	56.3%	58.9%	62.4%	66.5%	67.7%	67.3%	67.1%	65.9%	66.4%		
			Actual Results			48.8%	57.2%	62.1%											
			No SRV						59.4%	52.5%	49.2%	43.9%	40.8%	37.5%	37.6%	37.7%	41.2%	41.1%	42.3%
			SRV 13.0% 2017/18 & 14.0% 2018/19						59.4%	56.9%	63.9%	66.4%	67.2%	63.0%	62.9%	63.8%	65.6%	65.7%	67.5%
Effective Infrastructure and Service Management	General Fund - Infrastructure Backlog Result	Less than 2%	Submission 9.5% 2017/18 & 2018/19			3.6%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.1%	1.1%		
			Actual Results			3.6%	2.6%	3.1%											
			No SRV						3.3%	3.5%	3.7%	3.9%	4.2%	4.5%	4.8%	5.2%	5.6%	6.2%	6.9%
			SRV 13.0% 2017/18 & 14.0% 2018/19						3.3%	3.5%	3.7%	3.9%	4.2%	4.5%	4.8%	5.1%	5.6%	6.1%	6.7%
	General Fund - Asset Maintenance Result	Greater than 100% over a three year average	Submission 9.5% 2017/18 & 2018/19			91.0%	95.8%	78.9%	80.4%	79.7%	82.0%	83.7%	86.3%	87.9%	89.4%	90.7%	91.7%		
			Actual Results			91.0%	98.4%	80.7%											
			No SRV						88.9%	93.8%	106.1%	106.0%	106.0%	105.9%	105.9%	105.8%	105.8%	105.2%	104.2%
			SRV 13.0% 2017/18 & 14.0% 2018/19						88.9%	95.6%	111.7%	115.0%	115.9%	115.9%	115.8%	115.8%	115.7%	115.1%	114.1%
	General Fund - Debt Service Result	Greater than 0 and less than or equal to 20% over a three year average	Submission 9.5% 2017/18 & 2018/19			5.7%	6.0%	5.5%	6.3%	5.9%	5.7%	4.8%	5.1%	5.2%	5.0%	4.6%	4.2%		
			Actual Results			5.7%	6.0%	5.5%											
			No SRV						6.1%	5.9%	6.1%	5.5%	6.1%	6.2%	6.1%	5.7%	5.4%	5.0%	4.6%
			SRV 13.0% 2017/18 & 14.0% 2018/19						6.1%	5.7%	5.7%	5.0%	5.4%	5.5%	5.4%	5.0%	4.8%	4.4%	4.0%
Efficiency	General Fund - Real Operating Expenditure Per Capita Result	A decrease in Real Operating Expenditure per capita over time	Submission 9.5% 2017/18 & 2018/19	1,824	1,359	1,434	1,469	1,452	1,428	1,422	1,417	1,400	1,393	1,373	1,353	1,337	1,321		
			Actual Results	1,824	1,359	1,434	1,406	1,469											
			No SRV						1,522	1,420	1,396	1,371	1,347	1,320	1,294	1,267	1,242	1,215	1,187
			SRV 13.0% 2017/18 & 14.0% 2018/19						1,522	1,428	1,407	1,382	1,358	1,331	1,305	1,278	1,253	1,226	1,198

Risk Implications

There are substantial risks to the financial sustainability of Council if a Special Rate increase is not supported. It would have a significant detrimental impact on service levels or indeed entire programs, if the approval to apply to the IPART for a Special Rate Increase is not supported. To address the shortfall by other than a Special Rate Variation would require Council to reduce levels of service and identify specific programs to reduce the funding gap.

Some examples of areas that are outside infrastructure renewals that would potentially be affected, following consultation these may be impacted by reduced funding and services such as:

- Opening hours of libraries and possible impact on some branches
- Opening hours of pools and possible impact on some village pools
- Opening hours of Arts Centre
- Operating hours of customer services at the main Nowra Administration Building
- Community Development service provision
- Tourism expenditure
- Council Grants programs due to matching funding
- Donations programs
- Economic Development Expenditure
- Voluntary Users Contribution Scheme
- New capital spend where it impacts whole of life costs

- Number of community centres/facilities
- Level of servicing to parks and playgrounds
- Ranger services
- Tree management services
- Level of cleaning services for public toilets and BBQ/Picnic areas

Office of Local Government - Fit for the Future

The OLG have issued all Councils with information in relation to the actions they propose/may take in relation to Councils who do not continue to undertake strategies to meet their Fit for the Future/Financial Sustainability requirements.

The OLG have issued the following statements:

"Councils are reminded that the Office of Local Government will monitor councils' performance against the Fit for the Future benchmarks over time."

"Councils should each review their Fit for the Future Improvement Plans to identify all strategies and actions planned to enable them to remain fit into the future." (Circular No 16-49/21Dec 2016)

There are significant financial implications from this report. The decision is critical as to whether Council fulfil the Office of Local Government requirements for a Fit for the Future Council. Should Council not meet the Fit for the Future requirements the OLG have outlined a number of measures it has that it may take to address a specific Councils situation. These measures include:

- The OLG may issue a "Performance Order" requiring Council to take the necessary steps to meet the criteria.
- The OLG can appoint a Financial Controller or Temporary Advisor to make the necessary decisions.
- The OLG has the option of dismissing the Council and appointing Administrators to take control of the Council and make all the necessary decisions to make the organisation financially sustainable. (Circular No 16-51 / 21 December 2016 / A519535)

Under the State Governments Integrated Planning and Reporting System (IPR) Council is required to report on its CSP and the progress on its Fit for the Future Strategies. Via this reporting and other regular budget reviews etc the local community and Council will be able to monitor the delivery of works funded via the Special rate variation.

Being able to meet the FFTF benchmarks will result in better management of Council's assets & infrastructure in the longer term with positive results for the community.

Conclusion

There is increased demands on Local Government in NSW to improve its financial sustainability in the long term and Shoalhaven City Council is similar to many other Councils. Additional revenue is required to improve Council's operating result and to fund infrastructure renewal. This report recommends options with consideration of the community engagement.