

### 11.9. Question with Notice - Cr Bott - Proposed SRV Increase application to IPART

#### Summary

Councillor Bott has submitted a Question with Notice for consideration as detailed below.  
In the November 2024 Federation Council Meeting agenda it was stated that Council's Operating Performance Ratio at the end of 2024 reporting period was 16.45%.  
The Office of Local Government Operating Performance Ratio benchmark is 0%.  
Based on the significant improvement in the Operating Performance Ratio, how can Council justify its proposed application to IPART for a SV Rate Increase of 69.94% over the next two years?

#### Recommendation

THAT Council note the answers to the Questions with Notice posed by Cr Bott.

#### Background

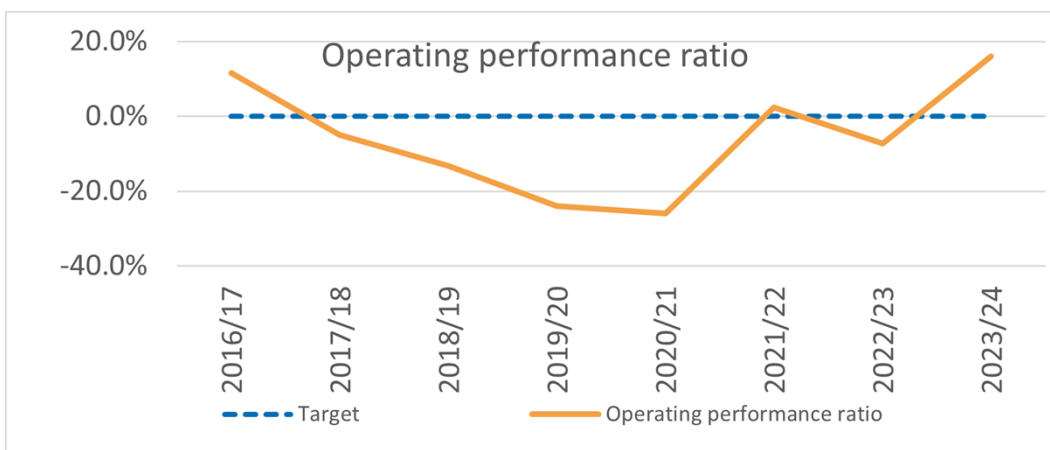
##### Background information provided by Councillor:

Nil

##### General Manager response:

The Operating Performance Ratio is one indicator of financial sustainability. It is calculated as Operating Revenue (excl Capital Grants & Contributions) minus Operating Expenses over Operating Revenue (excl Capital Grants & Contributions).

Since the establishment of Federation Council in 2016, the Operating Performance Ratio for the General Fund has been below the Office of Local Government threshold (0%), except in years where significant grant funding has been received and has been required to be recognised as operating revenue (an Australian Accounting Standards requirement) or where there is a net gain from the disposal of assets that is of significance. This is particularly notable in 2016/17 with the receipt of \$10 million in Stronger Communities Funding and \$5 million in New Council Implementation Fund monies and in 2021/22 when there was a net gain on the disposal of industrial land of \$1.5 million. Without these extraordinary amounts, the Operating Performance Ratio would have been reported as a negative. The following graph displays the actual Operating Performance Ratio since the establishment of Federation Council.

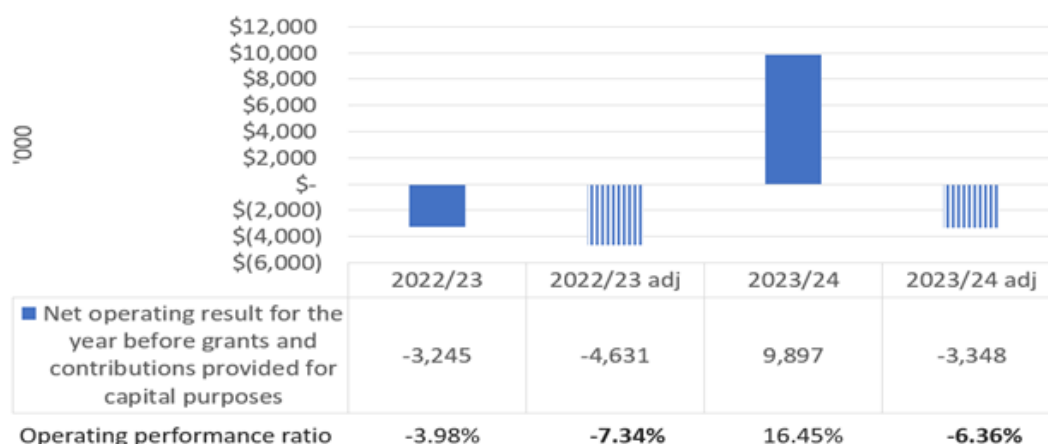


Council's operating performance ratio in 2023/24 was extraordinary at 16.45%. This was a 20.43% increase on the previous year and results from significant grant funding awarded to council to repair roads across the Council area. Council received \$15.1 million from State and Federal Governments for various road works in 2023/24, an increase of \$11.8 million on the previous year. Whilst the majority of this was not expended at 30 June 2024, Council was required to recognise this as operating revenue in 2023/24, thus increasing operating revenue and inflating the operating performance ratio. Without this funding the ratio would have been below zero.

This effect will be reversed in 2024/25 when a significant portion of this grant funding will be expended on maintaining roads. This will increase operating expenditure and deflate the operating performance ratio in 2024/25.

The situation was explained by Council's CFO at the October 2024 Council meeting and at the December 2024 Council meeting by a representative of Council's External Auditor when presenting on the 2023/24 Annual Audit. Many councils across NSW have been impacted by this skewed result and have made the situation very clear to the recently appointed new Auditor General, in order to seek changes to improve user understanding of General Purpose Financial Statements.

The following estimate of the impact was presented to the October 2024 Council meeting. The 2022/23 and 2023/24 net operating result was adjusted for the impact of grant funding required to be recognised as operating revenue and not expended at year end. Without this grant funding, the Operating Performance Ratio would have been around -7.34% and -6.36% for the last two financial years.

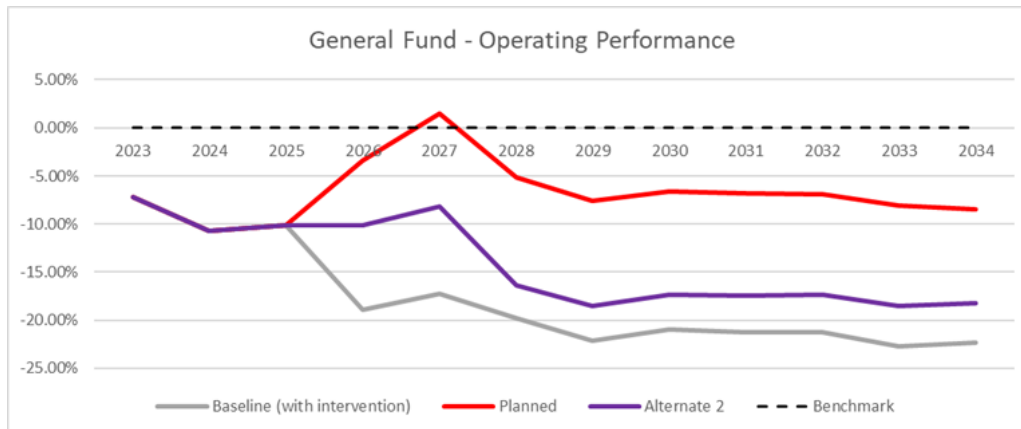


So the "significant improvement" in the Operating Performance Ratio from 2022/23 to 2023/24 is as a result of Australian Accounting Standard requirements, not as a result of improved financial performance. The underlying operating result remains below the OLG threshold and does not yet meet the principle of sound financial management (Section 8B Local Government Act 1993): Council spending should be responsible and sustainable, aligning general revenue and expenses.

Looking into future years, the Long Term Financial Plan reports the outlook over the next ten years for three different scenarios:

- Baseline (with intervention) – this scenario limits general rate increases to the annual rate peg for the next ten years
- Planned – 69.94% SRV increase over two years commencing 1 July 2025
- Alternate 2 – SRV increase that locks in the temporary SRV increases of 19% and 17% from 2023/24 and 2024/25

As displayed in the following graph, the planned scenario reaches the benchmark in 2026/27 and then reduces to an Operating Performance Ratio of -5% to -8% (i.e. a deficit). Neither the Alternate 2 scenario nor the Baseline (with intervention) scenario reach the benchmark, hovering around -18% and -21% respectively, for the ten year outlook



Even under the Planned scenario, further financial sustainability initiatives will be required to align general revenue and expenditure in accordance with the principles of sound financial management (S8B LGA). Further detail on the planned approach is contained within the LTFP.

It is also relevant to note that there are a range of financial measures to consider when determining financial sustainability, and that it is unwise to consider this ratio in isolation. Further relevant financial ratios are contained in Section 9 of the LTFP.

In conclusion, it is inaccurate to assert that the increase in the Operating Performance Ratio is as a result of improvement in Council's financial performance, when the increase is attributable to Australian Accounting Standards recognition of grant funding. There has been a minor improvement in the underlying Operating Performance Ratio (from -7.34% to -6.36%) however this is not sufficient to address Council's financial sustainability requirements. The justification for the SRV increase of 69.94% over the next two years relates to:

- reducing the underlying operating deficit (as detailed in the planned scenario in the graph above)
- increasing the level of investment in maintenance and renewal of Council's extended infrastructure network, particularly in relation to roads (per Sections 5, 9 & 10 of the LTFP)
- maintaining adequate cash reserves to fund Council's obligations.