OLG Group Comparatives

The SRV submission made by Council does not consider OLG Group Comparative data. The following table is the most recent data (2013/2014):

Council	Average Residential Rate 2013/14 ($)	Total Governance & Administration Expenditure ($)
Albury City Council	1145.10	8,071,000
Armidale Dumaresq Council	901.36	1,959,000
Ballina Shire Council	795.55	4,918,000
Bathurst Regional Council	877.99	13,956,000
Bega Valley Shire Council	905.86	5,639,000
Broken Hill City Council	774.06	8,425,000
Byron Shire Council	1020.12	2,524,580
Cessnock City Council	1013.78	11,572,000
Clarence Valley Council	843.63	17,789,000
Deniliquin Council	838.86	1,115,000
Dubbo City Council	940.87	2,531,000
Eurobodalla Shire Council	795.54	866,895
Goulburn Mulwaree Council	880.80	10,728,000
Great Lakes Council	1100.07	14,319,000
Greater Taree City Council	896.58	10,255,000
Griffith City Council	871.75	7,469,000
Kempsey Shire Council	780.04	12,285,000
The Council of the Municipality of Kiama	1277.87	17,919,000
Lismore City Council	1057.23	2,776,000
City of Lithgow Council	644.56	802,000
Maitland City Council	980.39	13,435,000
Mid-Western Regional Council	783.83	9,000,000
Orange City Council	1184.42	6,044,000
Port Stephens Council	908.56	11,831,000
Queanbeyan City Council	1040.64	21,067,000
Richmond Valley Council	650.01	2,615,000
Shellharbour City Council	1059.27	20,750,000
Singleton Council	704.97	4,878,000
Tamworth Regional Council	870.87	8,574,000
Wagga Wagga City Council	932.31	14,188,836
Wingecarribee Shire Council	1164.78	30,923,000
Average	**924**	**9,652,429**
Wingecarribee Shire Council/Average	**26%**	**220%**

The average residential rate for WSC is <u>26% higher than the group</u> average and second only to Orange in councils with a population greater than or equal to 40,000.

Governance and Administration expenditure ($30.9m) is <u>220% greater than the group average</u>. This figure was reported as $31.5m in the 2014/15 audited financial statements.

<u>Long Term Financial Plan</u>

Materials and Contracts

Page 11 of the LFTP states:

> *In addition to the inflationary increases applied to Council's materials and contracts forecasts, Council has included a significant increase in infrastructure maintenance funding from 2016/17 and onwards. This is reflected in the financial models which include a proposed Special Rate Variation.* ***This increase is required to close the current funding gap between what Council is currently spending on infrastructure maintenance compared to what is required to be spent on infrastructure maintenance.***

From 2016/17 to 2019/20 the cumulative annual variance increase in materials and contracts is \$4.6m. Council's annual financial statements for the year ended 30 June 2015 (Special Schedule 7) reports a maintenance gap (required less actual) of <u>only</u> \$2.015m for general fund assets.

The Asset Management Plant (page 61) reports a maintenance gap of \$597k for general fund assets in 16/17.

Employee Costs

Page 10 of the LFTP states:

> *Council has allowed for a 2.80% increase in salaries and wages in 2016/17, which is in accordance with the Local Government Award. For each subsequent year of this plan, Council has allowed for a 3.00% increase per annum in salaries and wages. In addition to the projected increase in the award, Council has factored in an additional 1.00% increase which relates to the performance appraisal system (PAS).*
>
> *Council has not included any increase in current staff numbers. The plan also assumes there will be no change in the existing employment conditions (such as agreed working hours) for its workforce.*

Based on this statement and the significant increases in materials and contracts, all new maintenance works must be funded from contracts.

Depreciation Expense

Page 11 of the LFTP states:

> *Depreciation forecasts have been prepared in consultation with Council's asset management staff. Whilst Council's asset management data has improved significantly over the past several years, it is expected that Council will continue to refine the quality of its data over the next two-three years.*
>
> *Council has included a reduction in depreciation expense over the next three years of 10%*

The quality of asset management information is the critical driver for the SRV. To state that it has "improved significantly" and that the quality will continue to be refined suggests that the information is not in a state of "refinement" to justify and quantify such a significant increase in rates.

Is a reduction in depreciation expense likely if old assets (some possibly completely written down) are replaced with new, fully depreciable assets?

Balanced Budget

Page 58 of the report to Council states:

> *Council will implement an internal efficiency/saving program to ensure that over the course of the LTFP the budget will remain balanced, this represents a minimum annual savings program of $234,000 per annum or $2.689 million over ten years (includes indexation).*

Councils report and manage their finances in an accrual framework so it is unclear as to the implications of a “balanced budget” in the context of a long term financial plan. For example:

1. Will budget deficits be funded by delayed or foregone SRV capital works/increased maintenance?
2. Audited financial statements for the year ended 30 June 2015 report that Council has a Working Funds of $5.3m in the general fund. Note 13 to Audited financial statements for the year ended 30 June 2015 report an unrestricted current ratio that far exceeds the benchmark. Is it therefore possible that unrestricted cash can be partially applied to bring assets up to a satisfactory standard?

Annual Savings Program

The amount of $234k reported as “Productivity Improvement Target” represents only 0.45% of total budgetary expenditure of $51.5m in 2016/17 (i.e. total expenditure less deprecation). This amount is not material by any professional judgement to the financial plan in terms of total expenditure and has no impact on the SRV. Indeed Note 15 to the Financial Statements refers to 10% variance to budget as reportable.

The “annual savings program” does not have a cumulative impact on operating expenditure and without further information may simply be savings in year 1 repeated in the following years of the plan. In other words, it may simply be a one-off productivity improvement in year one indexed across the remainder of the plan.

In conclusion, I believe that the SRV should not be approved for the following reasons:

1. The residential rate is greater than the average for the OLG Comparative Group
2. Administration costs are considerably higher than the average for the OLG Comparative Group
3. The increase in rate revenue allocated to materials and contracts exceeds the maintenance gap by $2.5m
4. The annual savings program has no material impact on the rate increase
5. The Asset Management Plan is not in a “refined” state and is largely based on CPI indexation and not detailed, scoped works.
6. It is unclear if cost overruns in other areas of Council may result in SRV funded projects not being done in order to fulfil a “balanced budget”.