

The Independent Pricing and Regulatory Tribunal

Re: Shoalhaven City Council Application for Special Variation to rates

In relation to Shoalhaven City Councils application for Special Variation, I wish to oppose the application on grounds of:

1. There has been insufficient community engagement by the Council. I would have imagined that such a proposed rate increase would have warranted a mail out to **all** ratepayers; this did not happen. I don't know about other localities within the shire, but Culburra residents most certainly have been largely unaware of Shoalhaven City Council's intentions until very recently. In relation to this IPART sets out guidelines for community consultation. Considering the magnitude of Shoalhaven's desires, I don't believe that adequate community consultation mechanisms were put in place.
2. The data submitted by Shoalhaven appears to be very different to that which is freely available on its website. I refer in particular to financial data. Data from the Shoalhaven website very strongly suggests that revenue is in surplus to expenditure. Data extracted from the submission to IPART is appended as Appendix A; data from the Shoalhaven website is appended as Appendix B
3. Shoalhaven discloses an investment portfolio valued at \$168 million; see Appendix D. This alone is not indicative of a cash strapped enterprise in need of special variation to rates.
4. The services provided by Shoalhaven in Culburra Beach can only be described as very ordinary. While Council has many policies in relation to services, the application and execution of these policies is sadly wanting. I refer in particular to maintenance of open drains. A recent flood study of Lake Wollumboola began to address some of the issues of concern to residents but was shelved by Council in order to reportedly concentrate on rising sea levels. Similarly the roads in Culburra Beach can only be described as a patchwork of filled pot-holes. As residents and ratepayers we are getting very little bang for our rates dollars.
5. At Culburra we get a weekly garbage collection and a fortnightly recyclable collection service. In addition to this we get two annual "tip" vouchers. There is no green waste collection. I would suggest that Shoalhaven City Council is one of the very few Councils that do not provide a green waste collection service. I am very much opposed to paying more in rates to get less in services.

6. Council has put three options to ratepayers:

Option 1 Increase rates by 5% per year over a 7 year period (+ the rate peg)

Option 2 Increase rates by 6.27% per year over a 4 year period (+ the rate peg)

Option 3 Increase rates by 11.5% each year for 2 years (+ the rate peg)

While Council had asked for poll opinion of these options, it has not actively sought community input. I do note however that Council is planning to have an information session in Culburra Beach on 20 March 2017. The manner of presenting these options is suggesting a foregone conclusion, and in the process asking the ratepayers how much pain they are willing to endure and for how long.

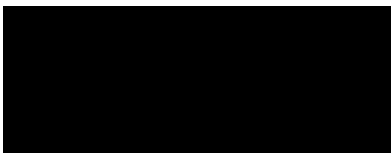
In relation to the financial data downloaded from the Shoalhaven City Council website, the numbers for 2014/2015 and 2015/2016 indicate revenue to be in excess of expenditure. As mentioned above these are appended as Appendix A. By contrast, among the data submitted to IPART, Council's data for 2014/2015 indicate numbers which are vastly different. I certainly have no explanation why the numbers are different given that they are from the same source and I have no idea why Council chose not to submit more recent and arguably more relevant numbers than those depicted in Appendix B.

The numbers from within Appendix A were more closely analysed and a summary is appended as Appendix C. Of special concern is the growth in Employee Benefits and On-costs and Other expenses. Given the magnitude of the Special Variation sought, Council by example should show better fiscal restraint than the numbers indicate. I don't know what is behind Employee Benefits and On-costs but most certainly CPI was a fraction of this number and one would expect Employee costs to closely mirror CPI rather than a 10.6% growth. Other expenses is a term which is too embracing and obviously presents a large growth number; this needs closer scrutiny.

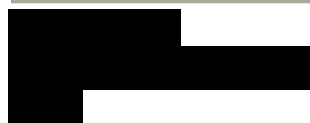
Appendix D details the Investments portfolio.

The numbers from Appendices A, C & D do not support any justification for a Special Variation. I believe that Shoalhaven should put its operations under the microscope and also look at divesting any unprofitable assets, before burdening ratepayers with such proposals for rate increases. I am sure there are operational efficiencies to be gained. I urge IPART to reject Shoalhaven's proposals for a SV.

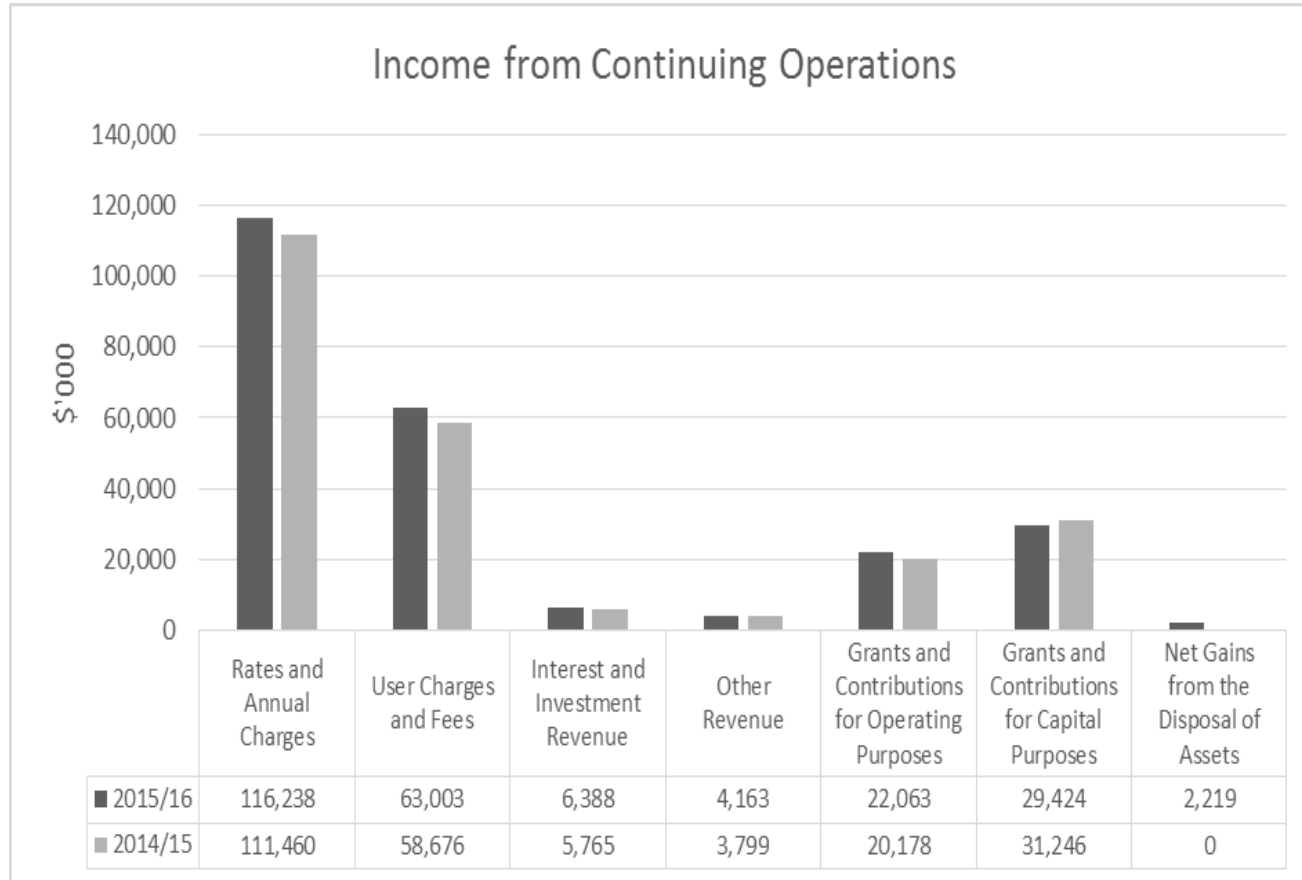
Sincerely,



Z. Huszar

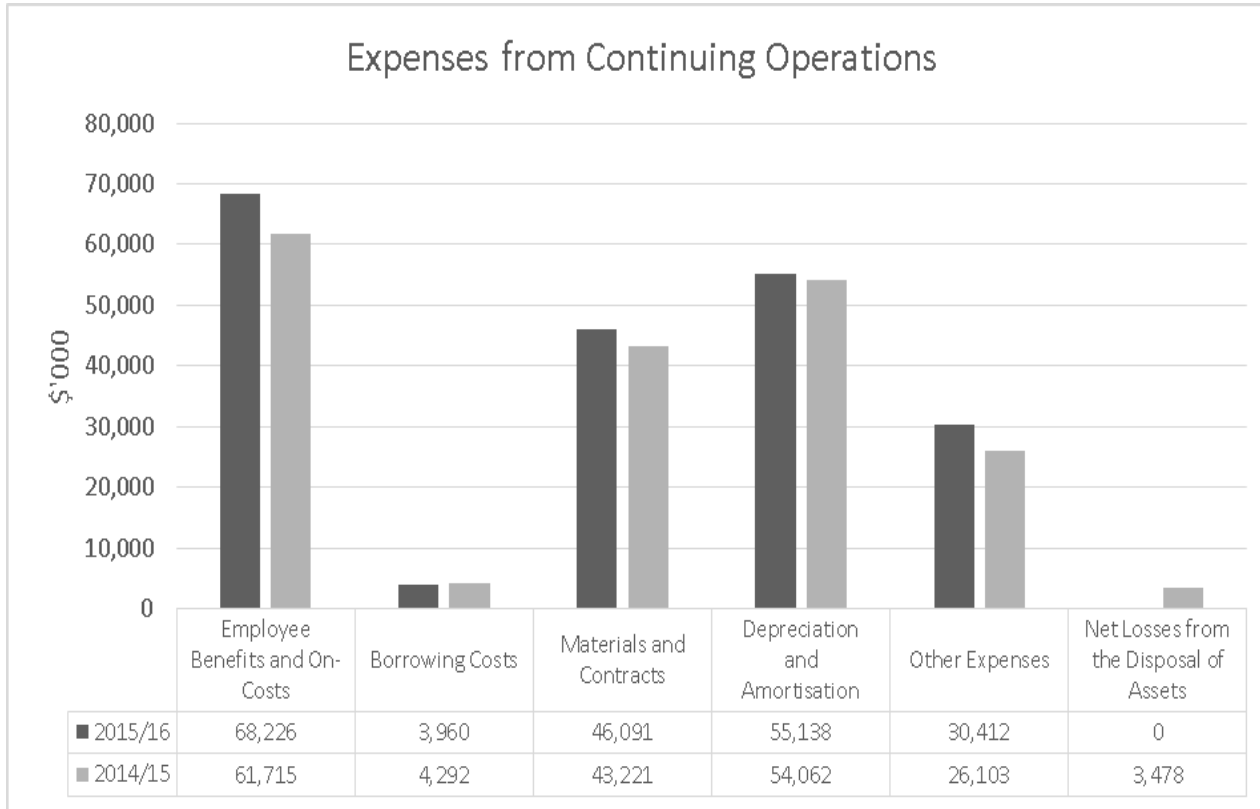


Consolidated Revenue



Revenue increased by \$12m, \$5m from rates and annual charges, \$4m from user charges and fees and \$2.2m from gains on disposal of assets (which includes \$4.2m from CDO's against losses on property and plant)

Consolidated Expenses



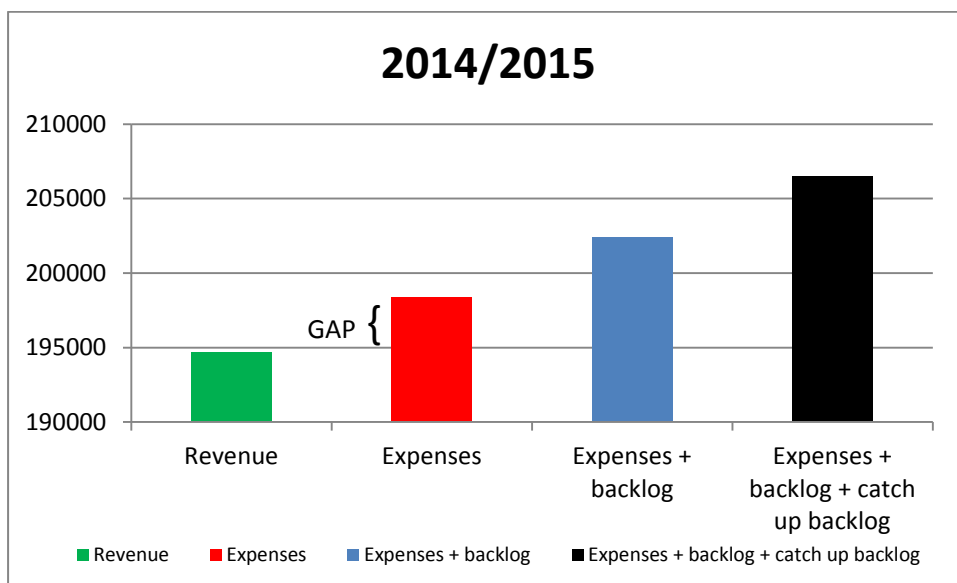
Expenses increased by \$11m, \$6.5m in employee benefits from discounting future benefits \$1.7m, \$1.5m for award increase, \$11.5m in self insurance adjustment and \$.5m on wage increases on leave balances and \$.4m in training (mainly waste and water). Other expenses includes \$2.2m increase in the EPA Waste Levy.

Appendix B

works required to bring our assets up to an acceptable level. This backlog is growing at a rate of approximately \$4m per annum, and at this rate will be another \$40m in 10 years time, bringing the total work required to \$80m.

The decrease in CPI increase on Financial Assistance Grant Funding will lead to a further reduction in maintenance of \$400k per year, which will impact considerably over the next 3 years totalling \$1.2m.

The Graph below shows the current gap between revenue and expenses for the coming year, ie approximately \$3.7m, if we add to this the run rate of backlog increase of \$4m each year this becomes an \$7.7m gap, and if we further add to this the catch up required for past years backlog this adds an additional \$4m to expenses and widens the gap to \$11.8m for the coming year. Obviously this number is totally unsustainable, and requires some drastic measures to turn things around.



5.5.1 Only commit to Justified Renewal Projects

Council needs to review opportunities to slow down this rate of deterioration, and one way to do this is to only commit capital to renewal projects which have a cost benefit, ie the cost of the investment is recouped from the savings made in maintenance and other operational costs to keep the asset in working mode.

When decisions are being made, with regard to investment in new capital items, a full life cycle costing should be prepared. This will ensure that the assets are not going to be an intergenerational burden on the community. Asset Management Planning needs to encapsulate all phases of life cycle costing and forecast these costs into the Long Term Financial Plan.

5.5.2 Selling off Under-utilised Assets

Another serious consideration is to review ownership of assets surplus to needs or costing Council money, ie where the rental income does not cover the costs if commercially leased.

Appendix C

Shoalhaven Consolidated Revenue

	2014/2015		2015/2016		Growth (%)
	K\$	%	K\$	%	
Rates & Annual Charges	114460	48.9	116238	47.7	1.6
User Charges & Fees	58676	25.1	63003	25.9	7.4
Interest & Investment	5765	2.5	6388	2.6	10.8
Other	3799	1.6	4163	1.7	9.6
Operating Grants & Contributions	20178	8.6	22063	9.1	9.3
Capital Grants & Contributions	31246	13.3	29424	12.1	-5.8
Disposal of Assets	0		2219	0.9	
Total	234124		243498		4.0

Shoalhaven Consolidated Expenses

	2014/2015		2015/2016		Growth (%)
	K\$	%	K\$	%	
Employee Benefits & On-costs	61715	32.0	68226	33.5	10.6
Borrowing Costs	4292	2.2	3960	1.9	-7.7
Materials & Contracts	43221	22.4	46091	22.6	6.6
Depreciation & Amortisation	54062	28.0	55138	27.1	2.0
Other Expenses	26103	13.5	30412	14.9	16.5
Net Losses from Disposal Of Assets	3478	1.8	0		
Total	192871		203827		5.7

Current Investment Portfolio

K\$168000

INVESTMENTS

Large Investments Portfolio

1. Adopted policy and strategy, reviewed annually in conjunction with Investment Advisors and Treasury Corporation
2. External Advisor
3. Monthly Investment Reports to Council
4. Current Portfolio \$168 Million
5. Of this \$157 Million is restricted funds