

**From:** paul dean [REDACTED]  
**Sent:** Tuesday, 21 February 2017 11:29 AM

**Subject:** RE SRV Submission by Shoalhaven City Council

Dear [REDACTED]

Many thanks for your recent letter to our group in connection with the processes involved with the submission by Shoalhaven City Council to IPART for Special Rate Variations (SRV). It is greatly appreciated that we can discuss these matters with your Tribunal.

Our group has prepared a submission on this matter to IPART and this is attached. We will also separately forward this letter to the Tribunal.

A couple of points arise from your letter to us and we attempt to cover these in our submission.

### **Council's General Fund Only Financial Statements**

--Shoalhaven City Council (SCC) takes from its Water and Sewer operations around \$6 million in cost recoveries and \$3 million in dividends each year. It does not show these figures in any of its published statements. It also does not provide the community with any details of these figures in its forward projections. These are material amounts.

--SCC in preparing its General Fund only financial reports includes the Domestic Waste Services operation. As we point out in our submission this inclusion confuses the figures and needs to be excluded.

--We are unable to comprehend nor track council's Annual Report General Fund only financials as these seem to be at variance with its Fit for the Future submissions as highlighted in our submission.

--SCC does not include a General Fund only Balance Sheet in its financial projections. This means its cash and/or debt position is not tracked and nor is there any way that we can track its performance. Also it is not possible for SCC to determine an interest income nor expense figure without a forecast balance sheet. While we are all for simplification in these matters we do believe that in all cases the debits and credits should be forced to be in balance.

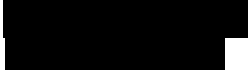
--SCC appears to have a set of asset figures that are questionable which brings into dispute its depreciation allowance. A separate group in our community has highlighted this issue with the Department of Local Government and will be sending in a submission on it to IPART.

As mentioned earlier our submission covers the above plus other issues with SCC's community consultation information so we would appreciate your comments on these.

Kind regards

Paul

Independent Pricing and Regulatory Tribunal  
2-24 Rawson Place  
Sydney NSW 2000

  
20th February 2017

**Re: Community Says NO to Shoalhaven City Council's Request for a Special Rates Variation**

Dear Sir/Madam,

**The Problem:**

Shoalhaven City Council at its Extraordinary Meeting on Thursday 2<sup>nd</sup> February ignored an overwhelming negative vote by its community on its proposal to submit to your Tribunal a request for Special Rate Variations (SRV). It resolved to seek an SRV of 11.5% in each of the years 2017/18 and 2018/19. In doing this it also ignored the requests from its 20 plus Community Consultative Bodies to defer this action until it furnished the community with proper financial information and other cost saving actions. Our Association made a number of submissions of protest against these rate rises to council as it too believed that the financial and operating information presented to us by council was totally inadequate.

**Our Solution:**

That IPART informs council that it defers its decision on its request for 2 SRVs. In doing so it advises council that further up to date detailed financial information relating to council's General Fund only be prepared, independently verified and made available to its community for comment. This financial information will include a 10 year projected operating statement, cash flow and balance sheet prepared on a General Fund only basis. In preparing this financial package council will be required to highlight any transfers from other internal council activities such as Water and Sewer Operations, the use of debt financing for selected capital items as appropriate and an estimate of new assessments as well as potential cost savings from its operations..

The background to this proposed solution and our deep concerns regarding the reliability and accuracy of the financial information given to the community by council is detailed in the attached review.

Yours sincerely,

Paul Dean (MBA Macquarie University, Bachelor of Accounting and Finance UNSW, EX CPA, Past Lecturer in Accounting and Finance UOW)

President  
Shoalhaven Concerned Ratepayers Association

## Submission to IPART by:

### *The Shoalhaven Concerned Ratepayers Association*

**Re: Community Says NO to Shoalhaven City Council's Request for a Special Rates Variation**

**The claimed basis for Council to seek rates above the rate peg allowance and issues associated:**

- **Basis is councils FFF submission prepared in 2014/2015.**

As noted in the report to council for its meeting on 1<sup>st</sup> February 2017, **"On the 23<sup>rd</sup> 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"**. Council's FFF became the basis for its claim both to IPART and its community for above rate peg increases in those 2 years. It is worthwhile noting here that in the referred to FFF submission Council "has subsequently been modelled **at 7.5% for 2 years from 2017/2018**" (p. 2 of the FFF submission). Also when council engaged with its community on its draft FFF submission in October 2014, it did so more on the basis of defending itself from possible amalgamation rather than as a focused analysis on the need for rate increases. It is reasonable to argue that little attention was paid by council nor the community of the details of its submission.

- **Council's FFF submission is flawed and should not be used to justify the current rate increases.**

It is our Association's contention that council's FFF submission contains **a very poor and flawed financial analysis of the position of its General Fund** in terms of being reasonably able to meet its obligations for creating new assets and maintaining existing assets. Therefore when the new council resolved on Tuesday October 25<sup>th</sup> 2016 to "undertake an extensive community engagement program explaining the reason for the rate increase and seek community comments" and relied on its FFF submission as the convincing document for rate increases it did so without solid foundation .

Further this community engagement took the form of seeking views on only 3 models of rate increases (above the rate peg) namely:

- a) 11.5% over 2 years.**
- b) 6.27% over 4 years.**
- c) 5% over 7 years.**

Council did not seek views on the alternative of NO rate increases above the rate peg as the notion of a rates increase seems to have been a given when the new council absorbed the FFF submission within its decision making processes.

The information given to the community did not contain much new material from the 2014/15 prepared FFF submission and gave the impression that the case for rate increases had already been decided through the FFF process. Further the new council accepted the view that it was required from the FFF process to implement the above rate peg increases in order to be able to access cheaper T Corp loans and to ensure if and when it was audited as part of the ongoing FFF process that it was seen to be following through on its commitment to raise the rates. In later detail we will show that council may have inadvertently mislead the community on the possible cost of the loss of the T Corp loan option as it included loans for its Water, Sewer and Domestic Waste Services operations which lie beyond its General Fund operations. Also we will seek to establish that any Local Government Department audit of the financial details shown in council's FFF submission will fail due to confusion within the relevant financial data.

The role of IPART in approving SRVs is that of an independent body standing afar and looking at the broader picture. In so doing it is useful to reflect on the following quote "From a distance it seemed so simple. And yet, from a distance you might see the big picture, but not the whole picture, you missed the details. Not everything was seen, from a distance". (L. Henry p. 292, Bury your Dead). Our area has a great many pensioners and low socio economic groups and can ill afford to pay increasing rates that simply go to grow council's cash and investments or into "palaces in the sky".

- **This area has had numerous General Fund SVRs in the last decade (see Schedule 1).**

The Shoalhaven Local Government area as shown in Schedule 1 has experienced 6 above rate peg increases from 2005/06 to 2014/15. The total rate increase over the period was 61% versus a Rate Peg Allowance of 37% and a CPI of 30.5%. Interestingly when we calculated the growth in General Fund employee costs over the period this also came it at around 60%. As employee costs are roughly equal to General Fund Rates Revenue this was a disappointing result for the community as we had been lead to believe the Special Rate Variances would be used for additional asset maintenance, renewal and new assets.

- **Council has experienced an enormous surge in its General Fund Cash and Investments in the past 4 years.**

Based on the growth of council's General Fund Cash Balance over the period August 2012 to August 2016 (chosen as these dates are the month prior to LG elections) it is not able to expend its current cash flow surplus. The General Fund Cash Balance has grown from \$64 million in August 2012 to \$100 million in August 2016 or at roughly \$9 million per annum!

Councils growing Cash Surplus situation is highlighted by:

### Shoalhaven City Council Cash and Investments

\$millions	August 2012	August 2016	Change
<b>General Fund</b>	<b>64.0</b>	<b>100.0</b>	<b>36.0</b>
Domestic Waste Services	9.0	11.3	2.3
Water Fund	21.0	37.0	16.0
Sewer Fund	<u>20.0</u>	<u>31.3</u>	<u>11.3</u>
Total	<u>114.0</u>	<u>179.6</u>	<u>65.6</u>

- **Issues with Council's FFF submission.**

#### **General Fund Operating Statement.**

The ratios thrown up by this Statement are used extensively to demonstrate council requires additional revenue. We believe that there are numerous flaws in the development of the 10 Year General Fund Operating Statement contained in council's FFF submission.

These are:

1. **Confusion on what constitutes General Fund only accounts.** There is significant confusion between council's General Fund Operating Statement in its FFF submission and its General Fund Operating Statement as presented in its Annual Accounts. While some differences will occur due to the transfer of funds to General Fund from the Water and Sewer Operations in terms of cost recoveries (around \$6 million per annum) and dividends (\$3 million per annum) the extent of the differences is quite startling. The below table highlights the difficulties that we have in trying to understand council's General Fund only accounts. In particular the line items User Charges and Fees; Other Revenues; and Other Expenses appear to **not relate** at all!!

**Comparison between Council's General Fund Operating Statement in its FFF submission and its Annual Accounts**

<b>\$000s</b>	<b>2014/15</b>		<b>2015/16</b>	
	<b>FFF</b>	<b>Actual</b>	<b>FFF</b>	<b>Actual</b>
Rates and Annual Charges	71821	71590	74779	75165
User Charges and Fees	39485	53996	42205	55287
Interest and Investment Income	2315	3652	2136	4058
Other Revenues	55309	3084	56976	4051
Grants and Contributions for Operating purposes	17977	19125	18182	21011
For Capital Purposes	7751	13563	3907	22469
Net Gain from Asset Disposal				2026
<b>Total Income from Continuing Operations</b>	<b>194658</b>	<b>165010</b>	<b>198185</b>	<b>184067</b>
Employee Benefits and Costs	55579	51481	57332	57668
Borrowing Costs	2464	2334	2574	2244
Materials and Contracts	45330	38457	47083	41060
Other Expenses	55813	23236	58575	28561
Depreciation and Amortisation	39201	38636	40377	38168
Net loss from Asset disposal		508		
<b>Total Expenses from Continuing Operations</b>	<b>198387</b>	<b>154652</b>	<b>205941</b>	<b>167701</b>
<b>Net Operating Result for the Year</b>	<b>-3729</b>	<b>10358</b>	<b>-7756</b>	<b>16366</b>

Net Operating Result Adjusted for Capital	-11480	-3205	-11663	-6103
Operating Performance Ratio %	-5.90	-1.94	-5,89	-3.31

2. **There is no forecast balance sheet included with council's FFF projections.** Without a balance sheet it is not possible to ensure the accuracy of the data and the growth or decline in the opening cash position and resultant income from investments or otherwise. No modern day corporation issues financial projections without including a balance sheet to demonstrate the full and complete picture of its financial situation. Only in NSW Local Government does this not appear to be mandatory.
3. **Inclusion of council's Domestic Waste Management Services operation.** This operation is essentially a stand-alone activity within council and its inclusion confuses the financial picture. As noted in s504 (1) of the NSW Local Government Act 'a council must not apply income from an ordinary rate toward the cost of providing domestic waste management services.' And further in s504 (4) 'Income obtained from charges for domestic waste management services must be calculated so as not to exceed the reasonable cost to council of providing those services'. Also councils operate this service using a wide mix of in-house staff and contractors and it is not relevant to include its financials in any General Fund only review.
4. **Failure to include new assessments in the FFF financial forecasts.** Shoalhaven Council points out in its FFF submission that it enjoys a growth of more than 400 new properties each year in its rating assessments. The impact of these new properties in terms of rate revenue is significant in later years.
5. **Asset values and therefore cost of maintenance and renewal as well as depreciation allowances further confuse the accounts.** Also as noted in council's FFF submission it awaits the Ross Report to assist it in terms of knowing if there are duplicated or redundant assets in the schedules. The report in council's 2014/15 accounts (Council Schedule 9 (a) in its Annual Accounts- attached) highlights the issue where there are a number of confusing asset items of substantial sums. For example the treatment at the beginning of the year and end of year with the asset class Land Improvements— Depreciable [REDACTED] **\$222 million** and also with the Roads category which suddenly grows by **\$910 million in Fair Value!!** These Fair Value calculations

highly inflate the depreciation charge and move it well away from the traditional historical cost basis of accounting.

6. **Council in its FFF submission refers to a saving of around \$1.1 million in Employee Costs yet does not take this saving into its financial projections.** This category of cost rises by around 3.3% each year.
7. **Council groups the revenue items of rates and annual charges in its financial projections** so we are not able to distinguish the rate increases in the model versus other charges increases. We note that the increases each year for this line are variable rising in 2015/16 by 4.1%, 2016/17 by 5.1% and 2017/18 by 3.7%.
8. **Council does not in its FFF projections include a provision for the use of debt** to finance selected capital items. No properly administered entity would fail to use this option.
9. **Council does not highlight the use of its Water and Sewer Operations to finance its General Fund activities in its FFF submission.** These are material amounts and need to be highlighted.
10. **Confusion in Local Government accounting on the treatment of capital revenues in the ratio analysis** highlights problems in trying to commercialise these accounts and financial reports. The treatment of s94 charges is a case in point. These charges are capital related but remain in the revenue section of the Operating Performance Ratio. Other Capital related Grants are eliminated.

## **CONCLUSION:**

We contest the veracity of the financial projections that council has included in its FFF submission which forms the basis for its claim of the need for higher rates. We believe that council should properly prepare General Fund Only Operating Statements, Cash Flow and Balance Sheets in an up to date fashion, have these independently verified and submit these to the community for comment before any SRVs are approved. These projections in proper form may well paint a picture of the need for a significant rate increase but at least these will be capable of audit and tracking as well as promote greater image of council integrity within our community.



### Schedule 1

#### Recent History of General Fund Rate Increases for the Shoalhaven City LG Area

The area has experience a rapid escalation of its General Fund Rates over the last decade.

Details of these rate increases are:

#### Shoalhaven City Council Rate Increases

Base Rates \$ 41.2 million in 2004/05	Actual		Peg		Rates Difference \$millions
	Rate %	Rates Total \$millions	Rate %	Rates Total \$millions	
2005/06	5.99	43.66788	3.5	42.642	1.02588
2006/07	6.5	46.50629	3.6	44.17711	2.32918
2007/08	5	48.83161	3.4	45.67913	3.152473
2008/09	6	51.7615	3.2	47.14087	4.620637
2009/10	5	54.34958	3.5	48.7908	5.558782
2010/11	2.6	55.76267	2.6	50.05936	5.70331
2011/12	2.8	57.32402	2.8	51.46102	5.863003
2012/13	3.6	59.38769	3.6	53.31362	6.074071
2013/14	3.4	61.40687	3.4	55.12628	6.28059
2014/15	8	66.31942	2.3	56.39418	9.925235
<b>Total</b>		<b>545.3175</b>		<b>494.7844</b>	<b>50.53316</b>
2014/15 versus 2005/06--%growth		60.96946		36.87909	
CPI 2005 TO 2015					
%				30.4874	

# A Hachment.

Shoalhaven City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2015

## Note 9a. Infrastructure, Property, Plant & Equipment

\$ '000	as at 30/6/2014			Asset Movements during the Reporting Period						as at 30/6/2015		
	At	Accumulated	Carrying	Asset Additions	WDV of Asset Disposals	Depreciation Expense	Adjustments & Transfers	Trns from/(to) "Held for Sale" category	Revaluation Increments to Equity (ARF)	At	Accumulated	Carrying
	Fair Value	Dep'n	Value							Fair Value	Dep'n	Value
Plant & Equipment	60,403	29,828	30,577	8,332	(2,718)	(4,695)	216	-	-	60,588	28,866	31,712
Office Equipment	21,789	16,728	5,061	1,214	(17)	(792)	-	-	-	22,206	16,740	5,466
Furniture & Fittings	2,190	1,706	484	66	-	(51)	-	-	-	2,256	1,757	499
Land:												
- Operational Land	127,330	-	127,330	1,158	(1,498)	-	2,316	(810)	-	128,496	-	128,496
- Community Land	100,791	-	100,791	300	(145)	-	-	(70)	-	100,876	-	100,876
- Land under Roads (post 30/6/09)	3,913	-	3,913	-	-	-	-	-	-	3,913	-	3,913
Land Improvements - non depreciable	-	-	-	-	-	-	-	-	-	-	-	-
Land Improvements - depreciable	222,302	63,769	158,533	38	-	(722)	78,353	-	-	78,353	-	78,353
Buildings - Non Specialised	6,330	3,048	3,282	276	(382)	(91)	(140,666)	-	-	19,659	2,476	17,183
Buildings - Specialised	393,400	191,132	202,268	3,960	(83)	(6,581)	609	(434)	-	4,300	1,835	2,465
Other Structures	28,839	11,127	17,512	2,220	-	(1,259)	3,253	-	-	397,352	197,613	199,739
Infrastructure:												
- Roads	904,253	248,133	656,120	13,856	-	(17,972)	18,328	-	32,697	1,013,036	310,007	703,029
- Bridges	78,614	28,363	50,251	239	-	(1,116)	(6)	-	16,108	96,851	31,375	65,476
- Footpaths	43,824	15,218	28,606	1,468	-	(870)	129	-	17,631	65,056	18,092	46,964
- Bulk Earthworks (non-depreciable)	63,139	-	63,139	-	-	-	-	-	-	63,139	-	63,139
- Stormwater Drainage	211,629	95,975	115,654	1,449	-	(1,567)	(38,963)	-	39,028	102,167	-	102,167
- Water Supply Network	594,136	253,326	340,810	14,334	(726)	(7,209)	(2,466)	-	32,365	182,898	74,940	107,958
- Sewerage Network	684,777	224,945	439,832	15,101	(2,159)	(7,103)	(53)	-	4,890	613,149	263,516	349,633
- Swimming Pools	10,719	7,395	3,324	6,007	-	(151)	(235)	-	6,502	685,593	233,473	452,120
- Other Open Space/Recreational Assets	-	-	-	770	-	(978)	11,544	-	-	14,099	5,154	8,945
- Other Infrastructure	-	-	-	3,934	-	(2,545)	69,261	-	-	24,899	13,563	11,336
Other Assets:												
- Library Books	6,940	6,117	823	353	-	(332)	-	-	-	132,787	62,137	70,650
Reinstatement, Rehabilitation & Restoration Assets (refer Note 26):												
- Tip Assets	2,176	1,918	258	-	-	(28)	-	-	-	7,293	6,449	844
<b>TOTAL INFRASTRUCTURE</b>												
<b>PROPERTY, PLANT &amp; EQUIP.</b>	<b>3,547,284</b>	<b>1,198,728</b>	<b>2,348,556</b>	<b>78,878</b>	<b>(7,728)</b>	<b>(54,062)</b>	<b>-</b>	<b>(1,314)</b>	<b>148,241</b>	<b>3,800,639</b>	<b>1,280,858</b>	<b>2,519,781</b>

Additions to Buildings & Infrastructure Assets are made up of Asset Renewals (\$25,898) and New Assets (\$37,753). Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Refer to Note 27 - Fair Value Measurement for information regarding the fair value of other Infrastructure, Property, Plant & Equipment.