

CL24.287 Financial Sustainability Productivity and Efficiency Report

HPERM Ref: D24/409639

Department: Financial Sustainability

Approver: Robyn Stevens, Chief Executive Officer

Purpose:

The purpose of this report is to inform Councillors and the community of the productivity and efficiency actions that have been taken from June to September 2024 to improve Council's financial sustainability.

Summary and Key Points for Consideration:

- The financial sustainability project commenced in February 2024, following the commencement of the current CEO, in response to the independent financial sustainability review (CL23.420) and the subsequent decision not to apply for a special rate variation in January 2024 (MIN24.44).
- The project coordinates the organisations efforts to address its financial sustainability challenges, through the delivery of agreed actions and initiatives.
- In adopting the recommendations of the AEC Financial Sustainability Review (MIN23.667), Council resolved to report the organisation's progress in achieving efficiencies against the productivity and efficiency target on a quarterly basis.
- This report summarises the actions taken to improve Council's financial sustainability from June to September 2024.
- During June to September 2024, Council has captured recurrent general fund savings/income of \$2.497 million and one-off savings/income of \$698,975. This brings the total recurrent general fund savings to \$2.497 million and one-off general fund savings/income to \$92.398 million.
- During June to September 2024, Shoalhaven Water has captured recurrent savings/income of \$13.249 million, largely driven by 2024/25 budget parameters for water and sewer fees and charges. In 2024/25 to date, Shoalhaven Water have also achieved one-off savings/income of \$182,100, predominantly driven by plant and fleet sales.
- Many financial sustainability initiatives are underway that will provide future savings to the organisation and outcomes will be reported in future productivity and efficiency reports. Further to Councils consideration of this report an action plan will be made available to Councillors and the community to improve visibility of the actions being taken to address financial sustainability across the organisation.

Recommendation

That Council:

1. Receive the productivity and efficiency report for the period from June to September 2024.
2. Note the actions taken during the period that have supported progress toward Council's financial sustainability.

- Note that the organisation’s top priority is to address the current financial sustainability challenges, and that there is significant work in progress to realise recurrent savings throughout this financial year.

Options

- The productivity and efficiency report for the period from June to September 2024 be received for information.

Implications: Nil

- Further information regarding action taken during the period to improve Council’s financial sustainability be requested.

Implications: Any changes or additional matters can be added to future reports.

Background and Supplementary information

The financial sustainability productivity and efficiency report provides a summary of actions taken to address Council’s financial sustainability challenge in the last quarter.

In January 2024, Council resolved under MIN24.44 to apply financial efficiencies and savings in the organisation commencing immediately and ongoing over the next four years. A report was to be provided to the Council every quarter to outline efficiencies and savings, with a savings target of \$5 million per year.

This report also addresses the AEC report recommendation (CL23.420) to report to Council on a quarterly basis the progress in achieving efficiency and implement process to track the achievement of the productivity and efficiencies target.

To review detailed project activity, refer to the monthly financial sustainability reports that have been presented to Council during the quarter:

- June 2024 (CL24.160)
- July 2024 (CL24.215)

No monthly financial sustainability report was provided in August and September due to the caretaker period and local government election.

Financial Implications

June 2024 – September 2024 general fund report

Recurrent saving realised:

Category	Initiative	Saving/Income	Realised	Amount
Other efficiency ideas	Reduction in events support programme and marketing budget	Saving	24/25 original budget	-\$500,000
Revenue generation	Increase in revenue – fees and charges review – general fund	Income	24/25 original budget	+\$1,303,000
Revenue generation	Increase in revenue – DA fee recovery	Income	FY25 QBR1	+\$50,000
Changes to	Reduced operating	Saving	FY25	-\$320,758

operating hours	hours		QBR1	
Other efficiency ideas	Reduction in general fund operating budgets	Saving	FY25 QBR1	-\$322,934
Recurrent productivity and efficiency general fund TOTAL				\$2,496,692

One-off savings (grey-shaded columns were included in a previous productivity and efficiency report but are included to show the total achievement realised):

Category	Initiative	Saving/Income	Realised	Amount
Pausing capital projects	Pause capital projects	Saving (deferred spend)	FY24 QBR3	-\$90,000,000 (total project cost excluding grant funding)
Increased cost controls	23/24 reduced department spending (no discretionary spending, holding vacancies)	Saving	FY24 QBR3	-\$1,700,000
Increased cost controls	24/25 reduced department spending year to date across general fund	Saving	FY25 QBR1	-\$368,975
Plant and fleet	24/25 plant and fleet general fund asset sales	Revenue	FY25 QBR1	+\$330,000
One-off productivity and efficiency general fund TOTAL				\$92,398,975

As part of the September quarterly budget review, an internal reserve will be created to track the financial sustainability outcomes realised to date. This will enable a clear identification of these outcomes in the finance reporting system going forward.

June 2024 – September 2024 Shoalhaven Water report

Although the major financial sustainability challenges are being experienced by Council's general fund, the Shoalhaven Water business has also been on a journey to find efficiencies in the water and sewer operation. The following tables report on the recurrent and one-off efficiencies for Shoalhaven Water from June to September 2024:

Category	Initiative	Saving/Income	Realised	Amount
Other efficiency ideas	Reduction in Shoalhaven Water fund operating	Saving	FY25 QBR1	-\$975,000

	budgets			
Revenue generation	Increase in Shoalhaven Water revenue – new business	Income	FY25 QBR1	+\$28,000
Revenue generation	Increase in water revenue – fees and charges review	Income	24/25 original budget	+\$9,783,000
Revenue generation	Increase in sewer revenue – fees and charges review	Income	24/25 original budget	+\$2,463,000
Recurrent productivity and efficiency Shoalhaven Water TOTAL				\$13,249,000

Category	Initiative	Saving/Income	Realised	Amount
Increased cost controls	24/25 reduced Shoalhaven Water department spending year to date	Saving	FY25 QBR1	-\$12,100
Plant and fleet	24/25 Shoalhaven Water plant and fleet asset sales	Revenue	FY25 QBR1	+\$170,000
One-off productivity and efficiency Shoalhaven Water TOTAL				\$182,100

Summary of initiatives resulting in recurrent savings/income:

Reducing costs – plant and fleet

One of the recommendations from the plant and fleet service review conducted in May 2024 was to consider the sale of under-utilised assets to reduce annual operating costs and replacement costs. It should be noted that under-utilised plant identified in the review does not necessarily equate to plant that can be sold.

Since the service review was received, a review of the under-utilised plant and fleet list has been carried out, and of the under-utilised plant confirmed as able to be sold, an additional \$500,000 (of this \$330,000 is general fund and \$170,000 is Shoalhaven Water) has been received from plant and fleet auction sales (this is over and above the normal volume of plant and fleet auction sales received in a quarter).

The sale of these under-utilised plant and fleet assets is expected to also reduce the annual operating costs by \$200,000, and the actual saving will be reported in the next productivity and efficiency report.

Reducing costs – changes to operating hours

As per CL24.215, the operating hours of more than 20 facilities and services in the Shoalhaven are reducing as part of the ongoing work to address Council's financial position in the immediate and long term. The review of operating hours initially considered changes that would have resulted in operational savings of \$1 million per annum, however some changes were not approved due to the adverse local community impact.

The approved changes will result in operational savings of \$479,900 per annum. This figure has reduced from the originally reported savings of \$503,650 as it now excludes \$23,750 for the Kangaroo Valley Village Pool, which was resolved as per MIN24.500 not to be impacted by operating hours changes.

The savings reported this quarter are \$320,758, which represents the partial year saving realised to date as the operating hour changes are implemented. The remaining savings that will occur due to the changes to operating hours will be realised in 25/26 Budget and reported in a future productivity and efficiency report.

Reducing costs – other efficiency ideas

The organisation has continued to work on the 3% challenge, in which staff are encouraged to identify ways to reduce costs or increase revenue. Department managers are tasked to work on those ideas to find a 3% saving on their budget in the 2024-25 financial year. Across the organisation, a total of 442 ideas have been submitted to date.

For the 2024/25 financial year to date, the implementation of these efficiency ideas has resulted in operational savings of \$1,797,934 per annum (\$822,934 is general fund and \$975,000 is Shoalhaven Water). This includes a permanent reduction to the events support program and marketing budget, which was introduced in the 24/25 budget.

The financial sustainability project will continue to work with the organisation to implement efficiency ideas and realise savings in each quarterly budget review process.

Revenue generation

In the 2024/25 budget, the fees and charges were increased by 7.5% to support the organisation's financial sustainability objective. This was set as a 2024/25 budget parameter. Over the last 5 years on average, Shoalhaven City Council has increased fees and charges between 4-5%. The net gain for general fund as a result of the additional 2.5% increase is \$1.303 million. The 2024/25 additional fees and charges increase for Shoalhaven Water across water and sewer funds in 2024/25 is \$12.246 million.

The 3% challenge is also identifying revenue generation opportunities. For the 2024/25 financial year to date, the implementation of these revenue generation ideas has resulted in an increase in revenue expectation of \$78,000 (\$50,000 in general fund and \$28,000 in Shoalhaven Water).

Other measures supporting financial sustainability journey:

Reducing debt – land sales

The 2024/25 operational land sales program is underway, with the first property sales due for settlement in October 2024. The one-off income generated from these sales will be reported in the next productivity and efficiency report.

In 2024/25 operational land sales program is expected to generate between \$7 million and \$14 million, dependent on market conditions. This income will be used to fund critical capital works and repay existing debt, as endorsed CL24.118 Draft Delivery Program Operational Plan and Budget.

Reducing costs – staffing

Council resolved under MIN24.44 to consider placing a staffing freeze on all recruitment positions except where the Executive Management Team (EMT) determines whether the

position is required or to be filled by internal recruitment to provide a career path for existing staff.

A process was established under the financial sustainability project, whereby the EMT review each vacancy and any new positions to determine if and when they are required to fulfill operational, regulatory or required service levels.

As a result of this process, there is a notable decrease in the number of roles being advertised (1 June to 31 August 2023: 80 vacancies advertised, 1 June to 31 August 2024: 37 vacancies advertised). This represents a 46% reduction in recruitment this quarter compared with the same period last year, with a 2024 year-to-date reduction of 43%.

Reducing costs – increased cost controls

The increased cost controls established at the start of the financial sustainability project have continued into financial year 2024-25:

- No discretionary spending
- No consultants or contractors unless approved by Director
- No overtime or leave in lieu unless necessary (such as emergency response)
- Work with teams to reduce leave balances
- Manage budgets closely with no over-spends

In addition, for financial year 2024-25, there is a pause on:

- Conferences and external training
- Professional memberships and subscriptions

In 2024/25 year to date, the increased cost controls have resulted in one-off savings of \$381,075 across Council, which will be adjusted in QBR1. \$368,975 of the 2024/25 one-off savings is from general fund, and \$12,100 is from Shoalhaven Water.

Reducing costs – restructure savings

A proposed organisational restructure is underway, which, if approved, will result in operational savings of \$1.6 million per annum and a reduction of 19 FTE across Council. The restructure is currently in progress, and the savings will be confirmed in the next quarterly productivity and efficiency report.

Internal Consultations

The financial sustainability project consults internal stakeholders formally through weekly Executive Management Team meetings and monthly in Shoalhaven Leadership Team meetings.

During this quarter, Councillors were engaged through two monthly workshops, held 25 June and 23 July 2024.

External Consultations

During this quarter, the Office of Local Government (OLG) made enquiries of the Chief Financial Officer with regard to the implementation status of the financial sustainability project and requested updates were provided to the OLG on 27 August 2024.

Community Consultations

Beyond the public business papers, further community consultation is not required as this is a report to summarise the actions taken to address financial sustainability.

Policy Implications

As the financial sustainability initiatives progress, updates will be made to impacted Council policies.

During the quarter, work has progressed on updating Council's existing Motor Vehicle Policy, with the updated policy on track to be adopted by the end of 2024. Updating the Motor Vehicle Policy was a recommendation of the plant and fleet service review.

Risk Implications

There are financial, other resource and reputational risks associated with not addressing the financial sustainability of the organisation. These risks are being addressed through risk assessment of activities undertaken and implementation of risk mitigation measures, including but not limited to communications, engagement, financial and workload planning.

As the financial sustainability initiatives progress updates will continue to be made on progress toward achieving financial sustainability.