

## Shoalhaven Council Proposed Rate increase

# Facts and answers to questions

1

### Background to current financial situation.

**Question:** How did Council allow this position to eventuate? Why has it not presented ratepayers with any viable alternatives to rate rise of this magnitude? Is this really the only way to address Council's financial problems?

**Response:** Many factors have contributed to making Council's current financial position unsustainable:

- The impacts of consecutive natural disasters and the COVID pandemic during the last five years has significantly depleted revenue and increased operational costs. The net cost of the disasters, including subsidies and waivers on fees and charges, reduced the unrestricted cash position by \$14.6 million. The last natural disaster was declared as recently as November 2023.
- Rising cost of materials, labour and contractors in an environment of significant civil works, among others. (The past 18 months has seen an unprecedented escalation in interest rates, commodity prices, construction materials and labour that no one could have planned for. These economic factors have placed the entire local government sector into financial distress).
- Increased expense of interest rates to loan borrowings.
- Sustained lower than average residential and business rates. (Council rates have been consistently lower than its neighbouring Illawarra-Shoalhaven councils (Wollongong, Shellharbour and Kiama), as well as the average of its comparable councils (classified as OLG group 5).
- Rate Pegging – the NSW Government restricts how much councils can typically increase rates by, and in recent years rate rises haven't kept up with inflation.
- Millions in grant funded improvements post fires and floods means we need to put more away each year to save for maintenance, renewal and depreciation costs.
- Community expectations are that maintenance and replacement of assets like roads, bridges and community facilities should be improved on current levels, requiring greater investment.
- Council is now required to assume responsibility for some infrastructure, services and regulatory functions that were not previously its responsibility. This is occurring in an environment without the addition of sufficient supporting funding.

Council is committed to identifying further efficiency savings, further income must be generated to provide Council sufficient resources to deliver required services.

**2**

## Rate Increases.

**Question:** Since 2015, Council annual rates have increased by 60%. This increase, compared to an absolute inflation rate of 26%, generated an additional \$100M in revenue for Council to spend on roads, waste management and other services over the past eight years. Has the Council honoured the reasoning and undertakings behind these significant rate increases?

**Response:** Since 2015, Council has faced a forced amalgamation proposal (which impacts forward planning of budgets, services and operations), natural disasters, the consequences of an international pandemic. As a result, the Council finds itself in need of a current plan for financial sustainability.

**3**

## Employee Costs.

**Question:** Since 2015, Council's annual spend on wages and on-costs has risen 83%, three times the rate of inflation. This equates to an extra \$140M spent on employee costs over the past eight years. Council's employee numbers increased from 792 in 2017 to 1200 in November 2023. What have these increased employee costs actually delivered for the residents of the Shoalhaven and is Council considering a staff reduction program via natural attrition?

**Response:** The number of Full Time Equivalent (FTE) positions have increased from 911 in 2016 to 1,050 in 2022 or 80 positions. Headcount (including F/T, P/T, casuals, contract, part-time) was 1,224 in Dec 2016 and 1,457 in February 2022.

Fifty of those positions relate to bringing back in-house the waste management services. Others are made up of specific positions created as a direct consequence of the previous SRV (which nominated those specific positions) including infrastructure renewal and fulfilling legislative requirements.

Benefits for community include infrastructure renewal and reactive repair, which can be achieved within budgetary constraints; cleaning of facilities used by the community; the development of an industry-leading waste management system and the creation of markets for recycled product and continuity of employment for members of the community working for the Council.

Mayoral Minute from April 2022 - which was fully supported by all councillors - provided permanency to long-standing fixed term employees – some of whom had been with council for up to 8 and 9 years. The conversion of such roles is now legislated.



## 4

### Cost to ratepayers of proposed rate increase.

**Question:** The percentage of the Shoalhaven workforce in part-time or casual work is much higher than the national average and this is reflected in much lower average weekly earnings. Can residents already dealing with a cost-of-living-crisis afford to pay a 44% rate increase?

**Response:** The cost of living for residents is increasing. This is clear and absolute and Council is very aware of this. Increases in interest rates, inflation and other goods and services all contribute to this. Cost of undertaking operations and services on behalf of the community is increasing for the Council and it is for this reason that the community is being asked its view on the proposed rate structure over the next three years. Council is not able to absorb all of its own cost increases to offset cost of living increases in areas it cannot control.

It is interesting to note that in the Shoalhaven, 28% of the population are greater than retirement age of 67 and of those, many own their home outright and choose to work part-time. In fact, 43% of properties in the Shoalhaven are owned outright, which is 16% more than Greater Sydney and the number of people working part-time in the Shoalhaven is 10% more than Greater Sydney. (Stats: ABS Census 2021)

## 5

### Costs to operate the aquatic centres and the Shoalhaven Entertainment Centre.

**Question:** Shoalhaven Entertainment Centre has cash losses of \$37,000 per week (\$1.9M annually) and the aquatic centres lose \$89,000 per week (\$4.6M annually). Does Council have a plan to reduce these losses and place these and other business units in a sustainable financial position?

**Response:** The numbers are correct and are taken from the audited special purpose financial statement. These services are subsidised as Council considers them community services.

#### Shoalhaven Entertainment Centre (SEC)

Access to performing arts centres are a vital social hub, keeping people connected, giving our communities a place to perform, to see professional theatre and music, and celebrate our achievements. These venues are all subsidised by one or more levels of government – local, state and federal – whether they are owned and operated by government, or the management is outsourced.

Our community tells us they can't imagine life in the Shoalhaven without the entertainment centre and it rates 4.1 out of 5 in the independent community satisfaction survey.

Attendance has bounced back strongly since the pandemic with the 2022-23 figures showing that ticketed attendance was 20% higher than the pre-COVID period and projection for 2023-24 is 57,000 ticketed patrons.

#### Aquatic Centres

Across Council's 13 facilities, Shoalhaven Swim Sport Fitness (SSF) has an annual visitation of over 800,000 patrons a year. More than 4,000 Learn to Swim lessons are held each year.

Council previously had various external management companies operating its facilities, however, these management contracts proved to be a more expensive management model to Council, fees typically left the Local Government Area and income generated through the facility remained with the operator.

## 6

### Increased Council debt.

**Question:** In 2015 the General Fund Debt was \$39.4M and by 2023 it had grown threefold to \$118.1M, or \$2,111 for each residential ratepayer. How will Council pay this debt off?

**Response:** Loans are taken out to fund vital infrastructure that will benefit current, and future, generations of ratepayers. Prior to taking out a loan, Council models the required repayments and builds them into Council's Long Term Financial Plan, ensuring Council's capacity to repay the loan.

Many of Council's historical loans were taken out in a low interest rate environment. It was a conscious decision of Council to take advantage of these fixed rate loans while it was attractive to do so. The unprecedented rapid rise in RBA cash rates (from May 2022 onwards) required Council to reconsider its approach to borrowings.

Moving forward, loan borrowings will be significantly reduced. Loans will only be considered if the project for which the loan is expended has an income generating source that will be used to repay the loan. Council continues to pay down its existing loans, noting that these loans were taken out to construct vital infrastructure for the city.

## 7

### Councillors approved the 2023-24 budget.

**Question:** The Mayor and seven Councillors approved a General Fund deficit of \$61.4M. This decision means that there will only be \$2.4M available in June 2024, which is insufficient to cover a week's worth of wages for Council employees. Why did a majority of Councillors vote for the 2023-24 budget deficit when they were aware of Council's dire financial situation?

**Response:** Council adopted a General Fund Cash deficit of \$61.4M as part of the 2023-24 budget which is reported in the General Fund Statement of Cash Flows on page 106 of the Delivery Program Operation Plan 2023-24.

The Statement of Cash Flows summarises the net cash movement for the 12-month period. The major negative cash movement in the budgeted cash flows is the \$145M planned expenditure on infrastructure, property, plant and equipment. It is not until Council enters into a contract to deliver a particular project that Council is committed to that expenditure. Council can revise its capital spend in each of its budget reviews, which it did at the end of Quarter One (July to September 2023), when it adopted the current the current capital works program taking into consideration the most recent financial position and resource constraints.

As reported to Council at the 11 December 2023 meeting, the revised program is funded through multiple fundings sources, with \$13M or 6% coming from General Fund Revenue (rates, charges and interest income). The rest of the program is funded through grants, developer contributions, loans and other reserves.

It is considered that under all of these circumstances, Council was acting responsibly in its adoption of the 2023/24 budget and subsequent first quarter review.

(NOTE: In the context of this question, 'General Fund' refers to all Council operations, excluding the ShoalWater business.)used to repay the loan. Council continues to pay down its existing loans, noting that these loans were taken out to construct vital infrastructure for the city.

## 8

### Statutory duty to lodge financial statements.

**Question:** Councillors have not met NSW legislative reporting deadlines for the past two years. Why aren't the Auditor General and Minister for Local Government demanding Council comply with its statutory obligations?

**Response:** For the year ended 30 June 2022, 57 councils (including Shoalhaven City Council) did not lodge their audited financial statements by the 31 October deadline. For 30 June 2023, 63 councils (including Shoalhaven City Council) did not lodge their audited financial statements by the 31 October deadline.

Shoalhaven City Council is not unique in this regard. The challenges with the current external audit process and timelines are widespread across the local government sector.

Council has however, met its statutory obligations, albeit that, as described above, deadlines were exceeded in the last two years. It should also be noted that since that time, Council has appointed a new Chief Financial Officer, who has brought to the Council an operational discipline and systems and processes that are already improving financial reporting quality at Council.

## 9

### 9. Percentage of rates spent of roads.

**Question:** A decade ago, Council spent \$15 million annually on sealed road maintenance. This represented 24% of General Fund Rates and charges. By 2023, the annual expenditure dropped to \$10.6 million, or 9.3% of rates and charges. This is despite Councillors voting for a special rate increase in 2017/18 to cover extra expenditure on roads. Does Council have a viable plan to address the essential increase in funding for basic road maintenance? Is it time to stop non-essential capital projects and spent the rates income on roads?

**Response:** Road maintenance costs are largely driven by the ability to understand which road asset needs maintenance, what that maintenance needs to be and when it needs to be undertaken. This understanding comes from Asset Management Plans (AMPs).

Asset Management Plans commence with an Asset Management Strategy. Council's updated Asset Management Strategy, currently on public exhibition, includes a self-assessment of Council's Asset Management Maturity Assessment. Council's main objective is to elevate its maturity to the 'Core' level. The Asset Management Improvement Plan and related implementation schedule identifies existing gaps and deficiencies in asset data, systems maturity and resources that are to be addressed to meet Council's Asset Management vision.

**The next stages are to:**

1. progress a thorough update of the condition data for Council's roads network in early 2024 and the development of a consultant brief and accompanying operational budget bid in FY24/25 for a more substantial overhaul of the Strategic Asset Management Plan for inclusion in the Resourcing Strategy 2025-26 (Feb 2025).
2. continue the review into the updating of asset-class specific Asset Management Plans (AMP). This is ongoing, with the capacity of the Asset Custodians to deliver these documents being assessed.

3. review the suite of AMP's in conjunction with the implementation of the Project Lifecycle Management (PLM) module. The PLM module allows for a more robust linkage between AMP's and individual projects.
4. estimate the value of the financial dividend achieved from the completion of this work.

Council expenditure on road maintenance is reported annually in its financial statements (included in the Report on Infrastructure Assets which is contained within the Special Schedules Section on the Financial Statements). Council spent \$10.6M on sealed road and \$2.6M on unsealed road maintenance in 2023 (total \$13.2M).

The historical expenditure on sealed and unsealed road maintenance for the past 10 years is as follows:

Year	\$'000
2022	12,781
2021	6,563
2020	6,821
2019	6,554
2018	6,630
2017	6,361
2016	6,627
2015	4,947
2014	6,520
2013	7,461

Work was conducted in 2022 to implement a staged approach to increase the annual expenditure on road maintenance. On 28 November 2022, Council endorsed a reallocation of \$2M from the capital works program into road maintenance projects. This was included in the FY24 budget and is anticipated to remain in the FY25 budget.