

CL24.118 Draft Delivery Program Operational Plan and Budget 2024-25 - Public Exhibition

HPERM Ref: D24/109532

Department: Corporate Performance & Reporting
Approver: Robyn Stevens, Chief Executive Officer

Attachments:

1. Draft Delivery Program Operational Plan and Budget 2024-25 - Exhibition (councillors information folder) [↗](#)
2. Draft Fees and Charges 2024-25 - Part 1 - Exhibition (councillors information folder) [↗](#)
3. Draft Fees and Charges 2024-25 - Part 2 - Exhibition (councillors information folder) [↗](#)

Reason for Report

The purpose of this report is to provide the elected Council with the Draft Delivery Program and Operational Plan (DPOP), Draft Budget and Draft Fees and Charges for the 2024/25 financial year, and to seek the endorsement of Council to place these documents on public exhibition in accordance with legislative requirements.

Recommendation

That Council:

1. Endorse the Draft 2024/25 Delivery Program and Operational Plan, Draft Budget, Draft Fees and Charges (including the proposed funding strategy for the delivery of general fund capital works) for the purpose of placing on public exhibition for a period of 28 days.
2. Maintain the previous 2023/24 rating structure, comprising both base and ad valorem amounts which is a commonly used ratings structure that results in bringing the higher and lower values closer together and in effect spreads the burden across the board to all ratepayers.
3. In accordance with Section 566(3) of the Local Government Act, 1993, and Council's policy POL22/88 *Revenue – Overdue Interest Rate* endorse the rate of interest payable on overdue rates and charges for the period 1 July 2024 to 30 June 2025 (inclusive) to be the maximum 10.5% per annum as determined by the Minister of Local Government.
4. Note that interest charges will continue to be waived for ratepayers that are experiencing financial hardship and they can apply for financial assistance under Council's Hardship Policy.
5. Approve the Minister's allowable limit of a 4.5% rate peg increase in 2024/25 to the notional yield as permitted by Section 511 of the Local Government Act, 1993.
6. Receive a report on feedback from the community on the Draft 2024/25 Delivery Program Operational Plan and Budget following the public exhibition period.

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Options

1. Council resolves to place the Draft DPOP, Budget and Fees and Charges for 2024/25, on public exhibition for 28 days inclusive as recommended.

Implications: The documents will be placed on public exhibition as presented in the report with a report back to a Council in June with details of submissions received including any community feedback on the Draft DPOP.

2. Council defers a decision in respect of the Draft DPOP, Budget and Fees and Charges for 2024/25 being placed on public exhibition pending either further information being provided, or the documents being amended.

Implications: A delay in placing the Draft DPOP on public exhibition could result in Council not adopting the DPOP and Budget prior to 30 June 2024, as required by legislation. Any delay beyond 30 June 2024 could delay the routine levy of the 2024/25 annual rates and charges. A late issue of Rates Notices will have detrimental impacts on Council's cash flow.

Background

In accordance with the Integrated Planning and Reporting (IP&R) requirements in the NSW Local Government Act, Council has adopted a Delivery Program for the period 2022-2026. The Delivery Program inclusive of the draft Operational Plan and Budget for 2024/25, is presented to Council for endorsement for public exhibition and community feedback.

The adoption of a high-level budget strategy and economic parameters by Council enables staff to prepare the draft budget with an improved level of confidence that the draft budget, when discussed at budget workshops and ultimately presented formally for consideration, will meet Council's expectations. It is also considered that the adoption of a high-level budget strategy and economic parameters by Council makes the budget preparation more transparent and efficient with strategic priorities and budget constraints being identified in advance.

Council adopted the 2024/25 budget strategies and economic parameters on Monday 26 February 2024.

Table 1 - The Strategic Budget Principles are outlined below:

Adopted Budget Strategy/Parameter	Achieved
The budget will not result in an unrestricted cash deficit.	✓
Prioritise funding in the following order: <ol style="list-style-type: none"> Provide sufficient funding for all continuing services Continue Council's commitment to asset renewal Continue a program of capital improvements to address historic budget shortfalls 	✓
Maintain or improve Council's financial and asset management performance indicators reported in the annual financial statements.	Partly*
Maintain an adequate working funds balance.	✓
Minimise carry forwards through substantial completion and long-term planning of the capital works program	✓

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Adopted Budget Strategy/Parameter	Achieved
Rates are increased by 4.5%	✓
User fees and charges are increased by a minimum of 7.5%	✓
Salaries and wages are increased by 3.5%, plus bonus payable, as per the Local Government (State) Award	✓
Superannuation guarantee is to be increased from 11% to 11.5% in line with legislated increases	✓
Materials and other expenditures increase by a maximum of 5%	✓
The capital works program is reduced in order to assist in the management of Council’s financial sustainability challenges and to ensure there is no reduction in Council’s unrestricted cash balance	✓
Borrowing for capital works is limited to those projects identified for loan borrowings in the AEC Financial Sustainability Review. No other loan borrowings are to be taken out unless a funding source is identified for the ongoing repayments or principal and interest.	✓
Should the need arise during the year for additional borrowings, the following options will be considered: <ul style="list-style-type: none"> <li data-bbox="236 992 699 1025">i. Internal borrowing opportunities <li data-bbox="236 1037 547 1070">ii. Asset rationalisation 	✓
Repairs to Council’s Road Network be a primary focus of the initial draft of the Capital Works Program.	✓
Budget Workshops be scheduled with all Councillors in the preparation of the draft 2024/25 budget which will include consideration of any recommended re-prioritisation of capital works projects listed in the current Delivery Program and Operational Plan.	✓

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Notes:

*A number of indicators are forecasting a deterioration due to the need to a reduction in available funds for capital works.

Council Priorities

The Delivery Program details what activities Council intends to undertake to achieve the key priorities outlined in the Community Strategic Plan 2032. These priorities are grouped under the themes of:

- Resilient, safe, accessible, and inclusive communities.
- Sustainable, liveable environments.
- Thriving local economies that meet community needs.
- Effective, responsible and authentic leadership.

Each of the themes and key priorities that have been identified by the community have been allocated 4-year objectives (54 in total) in the Delivery Program, and 1-year actions in the Operational Plan. The combined DPOP outlines these objectives and the actions, projects and services Council will deliver in the 2024/25 financial year.

2024/25 Projects and Initiatives

Full details on Council’s planned projects and initiatives are included in **Attachment 1** – Draft Delivery Program Operation Plan & Budget 2024/25.

There are numerous new initiatives programmed for 2024/25 including:

- Coordinate delivery of the Financial Sustainability Project to address the recommendations outlined in the 2023 financial review across key pillars of Asset and Project Management, Financial Management and Service Planning
- Establish an Enterprise Project Management Office to oversee and support project governance through management of the corporate Project Management Framework and assess project readiness for inclusion in capital budgets
- Establish the Maritime Commercial Services Unit, identify key assets and determine future actions and performance measures
- Manage Council's Flood Alert Network
- Develop planning controls and character statements to manage the contribution new development makes to neighbourhood or local character, including contemporary development and heritage controls for Berry
- Preparation of a new local infrastructure contributions scheme and governance framework
- Maintain Council's Key Projects Advocacy Document as a living prospectus to drive government investment
- Ensure effective and efficient recording of water consumption through continuation of water meter replacement program
- Increase the community awareness of the Shoalhaven Water financial support program and provide additional support and training to all key agencies that administer the Payment Assistance Scheme on behalf of Shoalhaven Water

Council Draft Capital works program includes:

- Boxsells Bridge – Meroo Meadow, Murrays Bridge – Conjola, Smarts Bridge – Croobyar (all grant funded)
- Local Roads Upgrade Program (Stage 1 Federal Government \$40M grant funding)
- George Evans Road – Yalwal Interchange
- East Nowra Sub-Arterial – Detailed Design and Early Works (grant dependent)
- Shared User Paths including Matron Porter Drive, Murramarang Road – Shelly Beach / Kioloa, Old Southern Road (all grant funded)
- Waste Facilities West Nowra - Materials Recovery Facility, Waste Education Centre
- Shoalhaven Water - Water and Sewer capital works including the Bamarang to Milton Water Trunk stage 2, Huskisson Vincentia Sewer Pumping Station upgrade and South Nowra Surcharge Sewer Main package 2

Council's Natural Disaster Reconstruction Team will continue delivery of infrastructure recovery works from the numerous significant weather events that have impacted the Shoalhaven since 2020. Progress in delivery of these works can be found on Council's website through the following master page: [Natural Disaster Reconstruction Works](#). Planned Natural Disaster projects are not currently captured in Council's 2024/25 draft capital works program (which is discussed later in this report). Natural Disaster projects will be added to the capital program after public exhibition, and will be endorsed as part of the final adoption of the Delivery Program Operation Plan & Budget 2024/25.

Performance measures

Performance measures against each Operational Plan action have been included to ensure that Council continues to be accountable against the objectives that have been set and to better manage community expectations. These measures can be targets, benchmarks or milestones. Performance against the adopted DPOP Actions and measures are reported to Council and the community on a quarterly basis.

Statement of Revenue Policy

Rating Structure and 2024/25 Rates Increase

Council has resolved to maintain the same approach to rating used in the previous 2023/24 year, structured on an ad valorem basis using land values issued by the Valuer General in accordance with Section 497 of the NSW Local Government Act 1993, subject to base amounts for ordinary and special rates. The use of a base amount brings the higher and lower land values closer together and in effect spreads the burden across the board to all ratepayers.

Permissible increases in rates revenue are determined by the Independent Pricing & Regulatory Tribunal (IPART) through two distinct processes; the industry standard rate peg and/or a council Special Variation. Following recent review of the rate peg methodology, IPART now considers changes to base costs for council groups, Emergency Services Levy (ESL) contributions, and population growth, in determining the annual rate peg for each council. IPART has determined a rate peg of 4.5% for Shoalhaven for 2024/25.

Whilst Council officers pursued an application for a Special Rate Variation to be applied from 1 July 2024, this was not endorsed by the Council.

The proposed rating structure for 2024/25 has a flat base amount of \$761, with the exception of the Residential – Non-Urban category that has a base of \$50, the Farmland category which has a base of \$1,022, and the Farmland – Dairy category which has a base amount of \$1,142.

Business – Ordinary category does not have a base amount and is subject to an ad valorem rate in the dollar levied on the value of the property supplied by the Valuer General of NSW.

Business – Ordinary rates are levied on parcels of land held by the Crown and categorised as Business Ordinary (i.e., Crown leases such as permissive occupancies, jetties, slipways, moorings, pastoral leases, etc.).

The following rates are proposed for 2024/25 in respect of each category of ordinary rates levied by Council:

- Residential: Will be levied a base amount of \$761 and an ad valorem rate of 0.09908 cents in the \$ for Ordinary Residential Rates and a base amount of \$50 and an ad valorem rate of 0.09908 cents in the \$ for Residential Non-Urban Rates.
- Farmland: The rates for Farmland will be levied a base amount of \$1,022 and an ad valorem rate of 0.07480 cents in the \$. The rates for Farmland – Dairy will be levied a base amount of \$1,142 and an ad valorem rate of 0.03980 cents in the \$.
- Business: All sub-categories will utilise the same base amount of \$761, excluding Business (Ordinary – Business category), where no base amount is applied given the type of properties within this category. However, different ad valorem rates have been applied, depending upon the level of service provided in each area. An ad valorem rate for Nowra CBD business rates is 0.51580 cents in the \$, Business Ordinary 0.19932, Business Commercial/Industrial 0.17330, Business – Major Retail Centre – Nowra 0.72930 and Business – Major Retail Centre – Vincentia 0.35130.

Note: The proposed 2024/25 rates and charges shown in the preceding section are subject to immaterial change between draft exhibition and final Council adoption of the DPOP for 2024/25. This potential for immaterial change relates to the daily addition of new properties (subdivision and consolidation), and daily changes to property land values, changes in categorisation, and rateability.

Draft Fees & Charges 2024/25 are included as **Attachment 2 (Part 1)** and **Attachment 3 (Part 2)**.

Interest on Overdue Rates & Charges

Council's current policy POL22/88 is to adopt the maximum permissible interest rate for each year on overdue rates, charged on a simple interest basis. This is consistent with the policy of the other local councils in the region.

The Minister for Local Government has announced the maximum rate of interest payable on overdue rates and charges for the period 1 July 2024 to 30 June 2025 at 10.5% per annum. Interest charges will be waived for ratepayers that experience financial hardship and can apply for financial assistance under the Council Hardship Policy.

2024/25 Water and Sewer Fees and Charges

The 2024/25 water and sewer (wastewater) pricing is derived in accordance with the Local Government Act 1993; in compliance with the NSW Government Water Supply, Sewerage and Liquid Trade Waste Pricing Guidelines and Council Policy 22/129. These documents are publicly available.

The water and sewer availability charges are levied in accordance with Sections 501 and 552 of the Local Government Act, to provide access to facilities for the supply of water and sewerage services. In 2024/25, the water availability charge for a residential connection (20mm) has increased to \$145 (\$57 increase) per annum, the sewer availability charge will increase to \$1,028 (\$72 increase) per annum.

The two-part tariff for water charges will continue (usage and availability). In 2024/25 the treated water usage charge will increase from \$2.00 to \$2.50/kL.

The impact of these price increases on customers have been modelled using a residential customer's average water consumption of 155kL per year. Based on the average water consumption the total increase in this customer's annual water and sewer account would be \$206.50 for the full year.

Further information regarding Water and Sewer Fees and Charges can be found in **Attachment 2 (Part 1)**.

2024/25 Domestic Waste Management Charges

Under section 496 of the Local Government Act 1993, Council must make and levy an annual charge for providing domestic waste management services. Under section 504 of the Act, income from the charge must not exceed the reasonable cost to the Council of providing those services. A standard 120L Domestic Waste Management Charge service is proposed to increase 7.9% from \$468 to \$505 in 2024/25.

Further information regarding Domestic Waste Management Charges can be in **Attachment 2 (Part 1)**.

Budget Summary

Not dissimilar to many other NSW councils, Council has experienced a growing gap between operating revenue and operating expenditure. The growth in the cost base of current services provided has exceeded the growth in revenue. This has placed Council in a difficult financial position.

A bottom-up budget process was adopted in building the FY2024/25 operational and capital budgets. This approach provides a realistic budget that is reflective of the cost incurred to deliver our current services at the current agreed service level. It also ensures all costs required to meet legislative requirements are adequately budgeted for. This results in a draft 2024/25 operating deficit which is larger than Council's previous budget however, is in line with the historical actual results achieved by Council.

Whilst the severity of Council's current financial position is well documented, the FY2024/25 budget further reinforces the need for financial intervention. The current lack of available cash will continue to be a major concern throughout FY2024/25 and Council will continue to struggle with its aged infrastructure. This lack of investment in asset renewal has led to a significant deterioration in the condition of Council's assets and has created infrastructure backlog issues. Council's current financial position does not allow for Council to actively deal with its backlog of infrastructure, nor the adequate funding of asset renewals moving forward.

In the 2008 audited financial statements, all of council infrastructure assets were rated as either category 1 or 2, category 1 being assets of excellent condition requiring normal maintenance and category 2 being assets in good condition requiring only minor maintenance work. As reported in the recently adopted 30 June 2023 financial statements, 51.3% of Council's assets by value are rated in category 1 and 2, with 48.7% of assets now reported in categories 3 (satisfactory) to 5 (very poor).

More information pertaining to Council's limited cash and its impact on capital budgets is discussed later in this report.

Management of Council's cash position will continue to require considerable effort from Finance staff, diverting these resources from other financial responsibilities. Further, as the conditions of assets continues to deteriorate and funding needs to be diverted to increased reactive maintenance, the community will have a worse experience from poorer quality infrastructure and reduced service over time.

Council's dedicated Financial Sustainability Review project team will continue to coordinate financial sustainability actions and initiatives in response to previous Council resolutions and those noted in the November 2023 AEC Financial Sustainability review, with the aim of returning Council into a financially sustainable position. As operational savings are identified through the Financial Sustainability Review project, and these savings are resolved by Council and ready for implementation, the operating budget will be revised at each Quarterly Budget Review process with the savings being quarantined with the expectation they are used to rebuild Council's unrestricted cash position, assist in funding future capital works, or assist with the repayment of Council borrowings.

Table 2: Income Statement by Fund

	(\$'000)			
	General Fund	Water Fund	Sewer Fund	Consol.
Income from Continuing Operations	337,022	46,012	64,866	373,214
Expenses from Continuing Operations	335,347	44,027	54,600	361,204
Net Operating Result	1,675	1,985	10,266	12,010
Net Operating Results Before Capital	(25,291)	345	8,241	(18,621)
Net Cash Movement	(20,088)	3,125	870	(16,093)
Net Reserve Movement	(20,119)	3,125	870	(16,124)
Net Unrestricted Cash Movement	31	0	0	31

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The proposed Draft 2024/25 Budget includes a capital expenditure of \$111.4M across General, Water and Sewer funds along with the \$361.2M of operating expenditure required to provide the essential services to our community which brings the next year’s consolidated budget to \$472.6M.

Table 3: Capital and Operating Budget by Fund

	(\$'000)			
	General Fund	Water Fund	Sewer Fund	Consol.
Capital Budget	76,767	14,385	20,225	111,377
Operating Budget	335,347	44,027	54,600	361,204
Total Budget	412,114	58,412	74,825	472,581

The budget was prepared based on the principles of prudent financial management and fiscal discipline. It is a balanced budget meaning that the budgeted general fund operational and capital expenditures do not exceed the general revenue and available internal and external restrictions of the Council and conforms to the requirement for generally no cash deficit budgeting.

Table 4: Draft 2024/25 Budget (provisionally balanced)

	2024/25 Budget (\$'000)			
	General Fund	Water Fund	Sewer Fund	Consol.*
Rates & Annual Charges	129,346	8,669	55,143	193,158
User Charges and Fees	71,701	30,673	4,839	107,213
Interest and Investment Revenue	5,904	1,851	722	8,477
Other Revenues	4,967	105	19	5,091
Internal Revenue	69,494	3,074	2,118	0
Grants and Contributions provided for Operating Purposes	22,545	0	0	22,545
Grants and Contributions provided for Capital Purposes	26,966	1,640	2,025	30,631
Net Gains from the disposal of assets	6,099	0	0	6,099
Total Income	337,022	46,012	64,866	373,214
Employee Benefits and On-Costs	101,977	12,520	12,222	126,543
Borrowing Costs	4,767	0	2,907	7,674
Materials and Contracts	85,951	9,399	14,439	109,420

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Depreciation and Amortisation	64,553	15,144	17,523	97,220
Other Expenses	20,249	59	39	20,347
Internal Expenses	57,850	6,905	7,470	0
Total Expenses	335,347	44,027	54,600	361,204
Net Operating Results	1,675	1,985	10,266	12,010
Net Surplus/(Deficit) before Capital	-25,291	345	8,241	-18,621
Other Cash Adjustments				
Capital Expenditure	-76,767	-14,385	-20,225	-111,377
New Borrowings	3,751	0	0	3,751
Loan Principal Repayments	-26,165	0	-5,045	-30,782
Net Gains from the disposal of assets	-6,099	0	0	-6,099
Proceeds from the disposal of assets	18,965	120	100	19,185
Receipt of Internal Loan Repayment	0	428	0	0
Depreciation Adjustment	64,553	15,144	17,523	97,220
Dividend Paid to General Fund		-167	-1,749	0
Net Cash Outflow	-20,088	3,125	870	-16,093
Reserve Movements				
Net Transfers from Reserves	20,119	-3,125	-870	16,124
General Fund Net Cash Movement	31	0	0	31

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**Note: Consolidated results include interfund adjustments not listed in the table.*

Capital Works Program

On completion of the operational budget, Council had \$1.4M available in unrestricted general fund cash to contribute towards its general fund (excludes Water and Sewer Funds) capital program. This amount will continue to deteriorate as rises in expenditure (inflation) continue to grow at a faster rate than increases in revenue (rate peg). Originally Council had \$900k in unrestricted general fund cash to contribute to general fund capital projects however, during the budget workshop with Councillors it was proposed that the Tourism and Economic Development Budget be permanently reduced by \$500k in order to allocate this money to capital. The draft budget has been prepared on this basis.

Council’s Enterprise Project Management Office (ePMO) received requests for critical capital projects requiring \$29.3M in unrestricted general fund cash contributions, representing a shortfall in available cash of \$27.9M.

The ePMO performed a thorough review of all requests and focused on those outstanding capital works projects that have commenced and will be incomplete by 30 June 2024 (carry forwards), and projects not yet commenced but need to be delivered in FY2024/25 due to funding deed or other contractual obligations.

This resulted in a proposed total capital works program of \$111M (General Fund \$66.7M, ShoalWater and Waste \$44.6M) and includes a general fund unrestricted cash contribution of \$17.9M.

The critical capital works have been categorised into Categories 1, 2 and 3. These are defined as follows:

- **Category 1** - Essential works required to meet minimum road renewals, urgent renewals of other asset types and critical grant co-contributions. “Required to keep the lights on”.
- **Category 2** - Next most urgent renewals to meet Council’s basic obligations, fund other secured grant co-contributions and provide for urgent reactive capital works.
- **Category 3** - Still urgent renewals including some more commercially focussed projects and compliance attainment.

Excluding Shoalhaven Water (Water and Sewer) and Waste funded projects, the proposed general fund capital program is \$66.7M. This is broken up by:

Category	Total project cost	General fund Unrestricted cash contribution
1	\$56,346,190	\$9,267,343
2	\$4,892,183	\$4,348,589
3	\$4,993,782	\$4,274,045
Total	\$66,732,154	\$17,889,976

It is proposed to fund the \$17.9M general fund unrestricted cash capital requests through the following mechanisms:

- \$1.4M available in unrestricted general fund cash.
- \$5.2M of council’s projected 2024/25 Special Rate Variation (SRV) Program (approved in 2018/19) is to be made available to fund all capital works. \$4.7M will go to funding road and building renewals which are the capital projects the SRV was approved to be spent on. The remaining \$500K has been allocated to bridge renewal projects. Bridge renewal projects were not noted in the original SRV application, however they are closely related to the road renewal works and staff deem it appropriate that the remaining SRV be allocated to capital works closely aligned with its original purpose.
- \$5.5M in current unspent loan funds (previously drawn down to fund the Sanctuary Point Library design) being repurposed whilst a decision on the final scope of this project is determined. Future borrowings for completion of the Sanctuary Point Library are already included in Council’s Long Term Financial Plan (most recent draft was placed on public exhibition in December 2023 and presented to Council in January 2024 – (however not endorsed).
- \$5.375M of proceeds from land sales (budgeting for \$15M in proceeds from land sales – remaining \$9.625M will go towards paying of Council loans).

- \$400K in uncommitted capital previously allocated to the Nowra CBD Committee (in FY2023/24) will be carried forward and repurposed due to there being no ePMO approved projects identified by this committee for FY2024/25.

In addition, as there are no Nowra CBD Committee projects that have been verified by Council’s ePMO there will be no additional capital allocation to this Committee in FY2024/25.

There was a further \$11.4M in general fund unrestricted cash capital requests that have not been included in the categories above but were still considered to be priorities for FY2024/25 by the organisation. Due to funding limitations, these will need to be funded in FY2025/26. Council’s financial position will need to drastically improve in FY2025/26 in order to provide funding to complete these outstanding works, the FY2025/26 recurrent capital expenditure (for example, roads reseals) and any further works that arise between now and 30 June 2025.

Due to the funding constraints documented throughout this report, it is unlikely there will be unrestricted general fund cash to commit to capital in FY2025/26, and onwards, unless a Special Rate Variation (SRV) is adopted. Therefore, Council has only presented a 1 year capital program in the FY2024/25 delivery program operational plan as there is no certainty around the future of the capital works program at this time.

Work on the proposed 2025/26 Long Term Financial Plan is underway, and the need to address Council’s funding issues is the top priority of Council staff. Council’s dedicated Financial Sustainability project team will continue to coordinate Financial Sustainability actions and initiatives in response to previous Council resolutions and those noted in the AEC Financial Sustainability review, with the aim of returning Council into a financially sustainable position. However, it is the opinion of Council officers that an application for a SRV will be required in FY2025/26 in addition to the outcomes achieved through the Financial Stationarity Review.

The proposed 2025/26 Long Term Financial Plan will be presented to Council later this calendar year.

Table 5 below shows the total capital works by program and indicates the proposed funding sources for the capital program.

Table 5: Total Capital Works by Program

Capital Program	\$'000
Roads and Transport	22,795
Strategic Roads & Bridges	8,500
Open Space, Sport, and Recreation	1,325
Buildings and Property	12,399
Internal Corporate Services	4,134
Waste and Recycling Program	10,035
Bridges	7,661
Commercial Undertakings	5,828
Environmental Management	1,210
Community and Culture	563
Stormwater	712
Waterways Infrastructure	1,605

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Total General Fund	76,767
Water and Sewer Capital Works	34,610
Total Capital Program	111,377

It is important to note that the capital works program for 2024/25 will be adjusted throughout 2024/25 having regard to:

- I. Carry forward and Revotes which are to be determined in conjunction with the March and June 2024 Budget Reviews.
- II. Outcomes from the comprehensive review of Council’s Long-Term Financial Plan to be undertaken in the first quarter of 2024/25.

Budget Details – General Fund

The Operating Result for 2024/25, excluding capital grants, is a deficit of (\$25.3M). With the inclusion of capital grants, the net operating result is a surplus of \$1.6M. There is no net impact on the cash flow result for unrestricted general fund, that is, the budget is provisionally balanced as previously stated.

Key drivers of the 2024/25 operating results:

- Increase in income due to anticipated assets sales
- Increase in net employee operating costs – whilst the gross employment costs have increased in line with the Local Government Award, Council has budgeted for a reduction in the amount of employee costs that are recovered through grant funded projects and capital works
- Increase in depreciation costs due to the forecast increase in assets values resulting for the 30 June 2024 revaluation process
- Increase in loan repayments and interest due to the approved 2023/24 general funded loans
- Increase in maintenance budgets to address historical shortfalls in building maintenance and compliance, as well as parks maintenance

Council has reduced its reliance on borrowing in FY2024/25, only budgeting to borrow loans that were included in its draft Long Term Financial Plan, which was reported to Council, but not endorsed in January 2024. The future loans budgeted for in the long term financial plan include:

- Material Recovery Facility (Waste Fund)
- Waste Education Centre (Waste Fund)
- Sanctuary Point Library (Unrestricted general fund cash)

Borrowings are proposed for the Materials Recovery Facility and Waste Education Centre in the FY2024/25 budget. No borrowings are proposed to be drawn down in relation to the Sanctuary Point Library. Due to a change in project scope, construction will not commence on the library in FY2024/25 and therefore loan borrowings will not be needed until future years. There is currently no change in the amount anticipated to be borrowed for the library, only the timing of the loan drawn down (will occur in FY2025/26 or later).

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Budget Details – Shoalhaven Water

The Operating Result for the Water Fund for 2024/25, excluding capital grants, is a surplus of \$345K. When capital grants and contributions are included, the net operating result is a surplus of \$2.0M. Key drivers of the 2024/25 operating results:

- Increase in revenue due the proposed increase in annual and user charges (noted earlier in this report)
- Increase in employee costs as per the award
- Increase in depreciation expense due to the forecast increase in assets values resulting for the 30 June 2024 revaluation process
- Increase in operating costs on capital projects – demolition and removal of asbestos
- The Operating Result of Sewer Fund for 2024/25, excluding capital grants, is a surplus of \$8.2M. When capital grants are included, the net operating result is a surplus of \$10.2M. Key drivers of the 2024/25 operating results:
 - Increase in depreciation expense due to the forecast increase in assets values resulting for the 30 June 2024 revaluation process
 - A significant increase in haulage due to standards changing of how to dispose of biosolids

The Shoalhaven Water Directorate capital expenditure of \$34.6M has been allocated in the Draft Budget for 2024/25. The total includes the following significant projects/programs:

Water Fund:

- Bamarang to Milton Water Trunk stage 2 - \$1.8M
- Water mains replacement program - \$4.3M

Sewer Fund:

- Huskisson Vincentia Sewer Pumping Station upgrade - \$2.1M
- South Nowra Surcharge Main package 2 - \$5.6M
- Erowal Bay sewer protection - \$0.8M

No new loans are proposed for either Water or Sewer Fund.

Key Performance Indicators

The key performance indicators are set by the Office of Local Government to measure financial performance and suitability of local councils across NSW. The projected 2024/25 indicators for each of the funds as well as consolidated funds for Shoalhaven City Council is outlined below.

It was documented throughout the AEC Financial Sustainability review that Council was not meeting the required OLG targets, and that in order to return to a financially sustainable position and meet these required targets, a SRV would be required.

The tables 6 and 7 below highlight that Council is continuing to not meet the OLG targets in 2024/25.

Table 6: Financial Performance Indicators

	Description	Calculation	Target	Fund	2023/24
Operating Performance Ratio	Measures Council's achievement of containing operating expenditure within operating revenue	Total continuing revenue (excl Cap Grants & Contributions) - Operating Expenses	Greater than 0%	Consolidated	-7.4%
		Total continuing revenue (excl Cap Grants & Contributions)		General	-10.3%
				Water	0.8%
				Sewer	13.1%
Own Source Operating Revenue Ratio	Measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions	Total continuing operating revenue (less ALL grants and Contributions)	Greater than 60%	Consolidated	85.5%
		Total continuing operating revenue		General	85.0%
				Water	96.4%
				Sewer	96.9%
Unrestricted Current Ratio	To assess the adequacy of working capital & its ability to term for the unrestricted activities of Council	Current assets less all external restrictions	Greater than 1.5	Consolidated	1.21
		Current liabilities less specific purpose liabilities		General	1.21
				Water	5.14
				Sewer	1.82
Debt Service Cover Ratio	Measures the availability of operating cash to service debt including interest, principal and lease payments	Operating result before capital excluding EBITDA	Greater than 2.0	Consolidated	2.68
		Principal Repayments + Borrowing Interest Costs		General	1.94
				Water	No Debt
				Sewer	3.49
Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage	To assess the impact of uncollected rates and annual charges on liquidity and the adequacy of recovery efforts	Rates, annual and extra charges outstanding	Less than 10%	Consolidated	6.2%
		Rates, annual & extra charges collectible		General	4.9%
				Water	9.6%
				Sewer	8.5%

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Cash Expense Cover Ratio	To assess the number of months a Council can continue paying for its immediate expenses without additional cash inflow	12* Current year's cash and cash equivalents plus all term deposits	Greater than 3 months	Consolidated	4.99
		Payments from cash flow of operating and financing activities		General	2.94
				Water	15.73
				Sewer	3.15

Table 7: Infrastructure Asset Performance Indicators

	Description	Calculation	Target	Fund	2024/25
Infrastructure Renewal Ratio	To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating	Asset Renewals	Greater than 100%	Consolidated	55.89%
		Depreciation, amortisation, and impairment		General	48.04%
				Water	76.74%
				Sewer	64.10%
Infrastructure Backlog Ratio	The ratio shows what proportion the backlog is against the total value of a Council's infrastructure	Estimated cost to bring assets to a satisfactory standard	Less than 2%	Consolidated	TBA
		Net carrying amount of infrastructure assets		General	TBA
				Water	TBA
				Sewer	TBA
Asset Maintenance Ratio	Compares budget vs required annual asset maintenance. A ratio above 1.0 indicated Council is investing enough funds to stop infrastructure backlog growing	Actual asset maintenance	Greater than 1x	Consolidated	TBA
		Required asset maintenance		General	TBA
				Water	TBA
				Sewer	TBA

TBA: Council is not in a position to provide estimates of these required benchmarks due to asset management planning not currently being mature enough to provide these estimates confidently. The required asset maintenance is in excess of the current budgeted maintenance.

Comments on the indicators that do not meet the benchmark are as follows:

Operating Performance Ratio Greater than 0%:

The budgeted ratios for general fund and water fund are below the benchmark, though water is only just below the benchmark. The actual ratios for these benchmarks for the years ended 30 June 2023, and 2022 were below zero and the budgeted benchmark for these ratios for the year ended 30 June 2024 is also below zero. Without increasing operating income or reducing operating expenditure, these benchmarks will continue to be below zero.

Unrestricted Current Ratio Greater than 1.5

General Fund has an Unrestricted Current Ratio below 1.5 due to cash anticipated to be spent on capital works projects reducing our anticipated cash balance, combined with a reduction in estimated grant funding arising from councils revised grants policy.

Debt Service Cover Ratio greater than 2.0

General fund ratio is below zero because of the decision to voluntarily pay debt down next year increasing value of principal repayments that will be made in 2025.

Cash Expense Cover Ratio Greater than 3 months

Cash payments from operating, investing and financing activities from general fund are greater than normal due to the anticipated repayment of additional debt in 2025.

Infrastructure Renewal Ratio, 100%

The budgeted expenditure on asset renewal for General, Water, and Sewer fund does not meet or exceed the anticipated relevant depreciation, amortisation and impairment for those funds. This is a consequence of the General Fund, Water Fund, and Sewer Fund having insufficient anticipated cash to commit to the projects required to meet its obligations under this benchmark.

Councillor Engagement

Councillors have had the opportunity to participate in a number of briefings and workshops throughout the preparation of the Draft 2024/25 DPOP. These workshops included our fortnightly Financial Sustainability Workshops, as well as 3 additional workshop sessions dedicated to the preparation of the draft budget. The full schedule is shown below in Table 8.

Table 8: Councillor Engagement Schedule

Description	Date
Financial Sustainability workshop 1	Tuesday, 20 February 2024
Financial Sustainability workshop 2	Tuesday, 5 March 2024
Financial Sustainability workshop 3	Tuesday, 19 March 2024
Councillor Budget Workshop 1 – General Fund	Tuesday, 12 March 2024
Councillor Budget Workshop 2 – Water and Sewer Fund	Thursday, 21 March 2024
Councillor Budget Workshop 3 – All Funds	Thursday, 4 April 2024
Councillor Budget Workshop 4 – Capital program	Thursday, 11 April 2024
Fees and Charges: provided by email	Friday, 1 March 2024
Fees and Charges: provided by email	Wednesday, 17 April 2024

As is normal practice, the results from the Councillor engagement are represented in the combined documents presented in this report with a recommendation that they be placed on public exhibition for community engagement and feedback.

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Community Engagement

A community engagement plan has been prepared to ensure that the Community can be informed about the contents of the Draft Delivery Program and Operational Plan, Budget, and Fees & Charges. These engagement activities include the following:

- Information at Council facilities with QR code link directing to more information.
- Online feedback form on Council's Get Involved page.
- Social media posts to raise awareness and drive traffic to the Get Involved page.
- Media releases and communications to key groups such as Advisory Committees, Community Consultative Bodies and Community Groups.

The exhibition will also be promoted at scheduled community engagement sessions occurring throughout the 28-day period. Submissions will be able to be provided to Council online through our engagement webpage, via email or in written form.

Conclusion

A draft 2024/25 Delivery Program and Operational Plan, Draft Budget, Draft Fees and Charges has been prepared and are recommended to be placed on public exhibition for a period of 28 days.

The Delivery Program and Operational Plan, Draft Budget, Draft Fees and Charges (the documents) represent a considered approach to sustainable and affordable budgeting. Under the current budgetary constraints facing the Council, this is extremely difficult.

Councillors and staff are now wanting to hear from the Community what its views are on the proposed budget and to that end, a 28 exhibition is proposed to enable comment to be received.

CL24.119 2023/24 Council Borrowings - TCorp Loan Agreement

HPERM Ref: D24/148244

Department: Finance

Approver: Kerrie Hamilton, Director City Performance

Attachments: 1. Loan 1 2023-2024 - Waste Projects [↓](#)
2. Loan 2 2023-2024 - General Fund Projects [↓](#)

Reason for Report

This reason for this report is to seek Council approval to enter into loan agreements with NSW Treasury Corporation (TCorp) for both General Fund and Waste Fund borrowings that have previously been endorsed by Council.

Recommendation

That Council:

1. Enter into a loan agreement, with New South Wales Treasury Corporation (TCorp) for \$15,856,000 (to be repaid over 10 years with an indicative interest rate of 5.07%) to cover the General Fund borrowing requirements that have been previously endorsed by Council and included in the 2023/24 Delivery Program and Budget (MIN23.326).
2. Delegate authority to the Chief Executive Officer to execute the loan agreement.

Options

1. Adopt the recommendation in the report.

Implications: Council will be able to take up loans and fund capital projects in accordance with the adopted 2023/24 Delivery Program and Budget.

2. Not adopt the recommendation and make an alternative resolution.

Implications: Council will need to seek borrowings from other financial institutions and pay higher interest on loans or delay capital works.

Background

As part of the Fit for the Future reforms, the NSW Government announced that councils who were declared “Fit” would be able to borrow funds from TCorp at reduced interest rates. Given that Shoalhaven City Council was deemed “Fit” in October 2015, it is eligible to utilise TCorp for borrowing funds at reduced rates for approved purposes.

The borrowings outlined in this report were approved in principle by Council as part of the 2023/24 Delivery Program (MIN23.326).

The proposed loan program for 2023/24 is:

Purpose of the Loan	2023/24	Funding Source
Buildings and Property	\$6,015,000	
Depot safety improvement works	\$750,000	General Fund
Woollamia Depot - Administration Office Building Upgrade	\$515,000	General Fund
Ulladulla Civic Centre Improvements	\$700,000	General Fund
Showground Buildings	\$4,050,000	General Fund
Open Space, Sport and Recreation	\$5,400,000	
Bay and Basin Leisure Centre Redevelopment - Design & Invest	\$900,000	General Fund
Shoalhaven Community and Recreational Precinct - Northern Section - design and investigation	\$1,000,000	General Fund
Shoalhaven Community and Recreational Precinct - Southern Section - Artie Smith	\$3,500,000	General Fund
Tourism Projects	\$1,042,400	
Sustainable Tourism Infrastructure Grant (matching funds)	\$1,042,400	General Fund
Roads and Transport	\$1,519,800	
George Evans Rd - Traffic Facilities Yalwal Intersection	\$1,519,800	General Fund
Shoalhaven Entertainment Centre (SEC)	\$628,000	
SEC Compliance works	\$628,000	General Fund
Waste and Recycling Program	\$3,750,800	
Materials Recovery Facility	\$1,831,600	Waste Fund
Waste Education Centre	\$1,919,200	Waste Fund
Total	\$18,356,000	
Total General Fund Loans	\$14,605,200	

During the current financial year there were a number of amendments to the capital works program which has changed the purpose of some of the proposed loans. Loans originally identified for George Evans Road and the Bay and Basin project will be used to fund various projects (detailed below). Additionally, proposed borrowings for Bushfire Local Economic Recovery Fund projects (included in the proposed loan for Showground Buildings) will reduce from \$3.7 million to \$1.2 million, reducing Council totals proposed borrowings for 2023/24 by \$2.5 million.

CL24.119

The summary of the proposed borrowings along with the estimated interest expenditure is summarised in the 10-year projections table below:

Loan #	Project	Loan Amount \$	Total Interest over Life of the Loan \$	Funding Source \$
1	Materials Recovery Facility	1,831,600	531,236	Waste Fund
1	Waste Education Centre	1,919,200	556,643	Waste Fund
	Total Funded by Waste Fund:	3,750,800	1,087,879	
2	SEC compliance works	628,000	182,145	General Fund
2	Shoalhaven Community and Recreational Precinct projects (Northern and Artie Smith)	4,500,000	1,305,177	General Fund
2	Building improvements (Depot and Civic Centre improvement works)	1,965,000	569,927	General Fund
2	Sustainable Tourism	2,739,912	794,682	General Fund
2	Showground Buildings (reduced due to BLERF changes)	1,550,000	449,561	General Fund
2	Various (minor building works, road upgrade)	722,288	209,492	General Fund
	Total Funded by General Fund:	12,105,200	3,510,984	
	Total	15,856,000	4,598,863	

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Financial implications

It is important for Council to gain the best interest rates on borrowings and locking this agreement in place will ensure the lowest interest rate available for the full term of the loan agreement. The current indicative interest rate provided by TCorp is 5.07%, an updated interest rate will be provided when the drawdown date has been confirmed. This rate is more favourable when compared to indicative interest rates from the financial sector of 5.50%, and results in an estimated interest saving over 10 years of \$420,705.

Loan 1 - Waste Projects				5.07%
Payment	Interest	Principal	Total	Balance
23/05/2024				3,750,800.00
23/11/2024	95,864.28	146,069.68	241,933.96	3,604,730.32
23/06/2025	106,150.91	135,783.05	241,933.96	3,468,947.27
23/11/2025	73,723.21	168,210.75	241,933.96	3,300,736.52
23/06/2026	97,199.00	144,734.96	241,933.96	3,156,001.56
23/11/2026	67,072.38	174,861.58	241,933.96	2,981,139.98
23/06/2027	87,787.63	154,146.33	241,933.96	2,826,993.65
23/11/2027	60,080.20	181,853.76	241,933.96	2,645,139.89
23/06/2028	78,260.63	163,673.33	241,933.96	2,481,466.56
23/11/2028	52,736.94	189,197.02	241,933.96	2,292,269.54
23/06/2029	67,502.00	174,431.96	241,933.96	2,117,837.58
23/11/2029	45,008.98	196,924.98	241,933.96	1,920,912.60
23/06/2030	56,566.40	185,367.56	241,933.96	1,735,545.04
23/11/2030	36,884.37	205,049.59	241,933.96	1,530,495.45
23/06/2031	45,069.53	196,864.43	241,933.96	1,333,631.02
23/11/2031	28,342.76	213,591.20	241,933.96	1,120,039.82
23/06/2032	33,138.14	208,795.82	241,933.96	911,244.00
23/11/2032	19,366.06	222,567.90	241,933.96	688,676.10
23/06/2033	20,279.91	221,654.05	241,933.96	467,022.05
23/11/2033	9,925.31	232,008.65	241,933.96	235,013.40
23/06/2034	6,920.60	235,013.40	241,934.00	(0.00)
	1,087,879.24	3,750,800.00		

Loan 2 - known General Fund Projects				5.07%
Payment	Interest	Principal	Total	Balance
23/05/2024				12,105,200.00
23/11/2024	309,389.01	471,420.15	780,809.16	11,633,779.85
23/06/2025	342,587.72	438,221.44	780,809.16	11,195,558.41
23/11/2025	237,931.69	542,877.47	780,809.16	10,652,680.94
23/06/2026	313,696.65	467,112.51	780,809.16	10,185,568.43
23/11/2026	216,467.05	564,342.11	780,809.16	9,621,226.32
23/06/2027	283,322.71	497,486.45	780,809.16	9,123,739.87
23/11/2027	193,900.72	586,908.44	780,809.16	8,536,831.43
23/06/2028	252,575.61	528,233.55	780,809.16	8,008,597.88
23/11/2028	170,201.36	610,607.80	780,809.16	7,397,990.08
23/06/2029	217,853.58	562,955.58	780,809.16	6,835,034.50
23/11/2029	145,260.40	635,548.76	780,809.16	6,199,485.74
23/06/2030	182,560.42	598,248.74	780,809.16	5,601,237.00
23/11/2030	119,039.33	661,769.83	780,809.16	4,939,467.17
23/06/2031	145,455.81	635,353.35	780,809.16	4,304,113.82
23/11/2031	91,472.44	689,336.72	780,809.16	3,614,777.10
23/06/2032	106,948.88	673,860.28	780,809.16	2,940,916.82
23/11/2032	62,501.33	718,307.83	780,809.16	2,222,608.99
23/06/2033	65,450.66	715,358.50	780,809.16	1,507,250.49
23/11/2033	32,032.58	748,776.58	780,809.16	758,473.91
23/06/2034	22,335.29	758,473.91	780,809.20	0.00
	3,510,983.24	12,105,200.00		