Finance *Overview*

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Financial Sustainability Challenges for Local *Government*

- Cost Shifting
- Low rate peg and high inflation – costs outgrowing increase in rates income
- Ageing infrastructure - underinvestment in asset renewal and backlog
- A decade of low interest rates (returned to normal levels of return in June 2023)
- Annual revaluations of assets required by NSW Audit Office/OLG
- Limitation on statutory fees – partial cost recovery only
- Non indexation of developer contributions (since 2012)
- Inadequate government grant funding

Sector Challenge: Cost *shifting*

- Councils required to do more without any further resources
- Income constraints placed on council through statutory fee setting
- LGNSW advocating strongly in this space

SCC impacts FY2024:

- Waste levy paid FY 2024 $14.2m
- Rate exemptions (pension subsidy) $2.28m
- Partial cost recovery DA and regulation $3.97m
- Emergency Service Levy $2.76m
- Libraries $3.8m

Sector Challenge: Insufficient rate *revenue*

- The growth in the cost to provide current services has exceeded revenue growth.
- Growth in construction purchase price index (5 yr increase 32%), and consumer price index (19.4%) exceed base rate peg (11.7%)
- Rate pegging limits council's ability to increase its rating revenue to support increasing operating expenditure arising from escalating costs, deprecation and cost shifting.

Sector Challenge: Inadequate grant *funding*

- Receive funding from both federal and state
- Main source of operational grant is the Financial Assistance Grant
- Originally 1% of federal taxation revenue, currently 0.53%
- If the grant was reinstated back to 1%, operating deficits in the sector would decrease significantly

In FY2022:

- 54 of 128 councils made operating deficits

  Increase in FA Grant to 1% - 32 move to a surplus

Financial Sustainability Challenges for *Shoalhaven CC*

Background: sustained lower than average rates, growing costs to meet government regulations, costs of repair from consecutive natural disasters, increasing costs to operate.

- Acquisition of new and upgraded assets ($149m in 2018 to 2023)
- Council's unrestricted cash dropped from $19 million on 30 June 2019, to zero by 30 June 2024.
- COVID and 15 natural disasters in 5 years.
- Growing infrastructure backlog due to assets not being replaced at the rate required.

Financial resources for natural *disasters*

Fifteen natural disasters in last 5 years.

Disaster Recovery Fund (DRF): Opt-In fee of approximately $600,000 to access. This fee is equal to 0.75% of rateable income per disaster and is capped at 2% per annum if 3 or more disasters are declared.

DRF can only be used for roads and transport.

Three disasters last FY year cost us $1.7 million. Without savings, we have paused other projects to cover this cost.

Shoalhaven Rates *History*

- Part of OLG Group 5 – 11 Councils
- Lowest rate of all Group 5 councils from 1995 until an SRV in 2018 (rose to 9th out of 11)
- Our rates have been below the average of all group 5 council for the past 30 years – average difference of $134.77
- If we had charged on par with the average of Group 5, would have generated an additional $200m over 30 years.

Rates history – *10 years*

Rate Peg & Interest Percentages	2013/2014	2014/2015	2015/2016	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/2025
Rate Peg*	3.40%	2.30%	2.40%	1.80%	1.50%	2.30%	2.70%	2.60%	2.00%	2.50%	4.60%	4.50%
Shoalhaven Special Variation	8.00%		3.89%		13.20%	5.00%	5.00%	5.00%				
Actual Increase	8.00%	2.30%	3.89%	1.80%	13.20%	5.00%	5.00%	2.60%	2.00%	4.53%	4.60%	4.50%
Income Adjustment Crown Land												
Interest Rate - s566(3) Local Government Act 1993	9.0%	8.5%	8.5%	8.0%	7.5%	7.5%	7.5%	0.0%	6.0%	6.0%	9.0%	9.0%
									Adopted 1.5%			
Corresponding DPOP	DPOP 2013/14	DPOP 2014/15	DPOP 2015/16	DPOP 2016/17	DPOP 2017/18	DPOP 2018/19	DPOP 2019/20	DPOP 2020/21	DPOP 2021/22	DPOP 2022/23	DPOP 2023/24	DPOP 2024/25
Adoption Date	21-Jun-13	24-Jun-14	23-Jun-15	14-Jun-16	13-Jun-17	26-Jun-18	30-Apr-19	26-May-20	21-Jun-21	27-Jun-22	26-Jun-23	24-Jun-24
Corresponding Min #	MIN13.627	MIN14.460	MIN15.422	MIN16.473	MIN17.999	MIN18.470	MIN19.258	MIN20.371	MIN21.395	MIN22.425	MIN23.326	MIN24.338
LG Determination	2013	Did not apply	2015	Did not apply	2017	2018	Covered in 2018	Covered in 2018	Did not apply	Did not apply	Did not apply	Did not apply
Comments	Increase retained permanently. Purpose was infrastructure renewal. Was anticpated additional revenue of $26.9m would be generated over 10 years.		Included in base rate only for 10 years. To be used to service a loan (P & I) for infrastructure at Jerberra estate. Was anticipated to generate 9.68m over 10 years		Council applied for a permanent special variation with a cumulative increase of 29.05% over two years. However, IPART only approved a temporary increase of 13.20% for 1-year because the council did not update its IP&R documents to include the special variation increase prior to applying to IPART. Raised one off income of $7.1m.	Increase over 3 years to be retained permanently. Purpose was infrastructure renewal. Was anticipated additional revenue of $138m would be generated over 10 years. IPART noted council would continue to not meet the infrastructure renewal ratio under this SRV						

Density *challenges*

	Properties	Dollars
Shellharbour	201 /km2	$327,800 / km2
Wollongong	119 /km2	$191,400 / km2
Kiama	39 /km2	$67,600 / km2
Shoalhaven	12.5 /km2	$17,138 / km2

Of the 11 Group 5 Categorised councils plus Kiama (neighbour), Shoalhaven ranked:

- **2nd longest road** length to manage (1,839km)
- **3rd largest open public space** (2,177 ha) area
- **9th for rates** income generated per square km.

Density *challenges*

Council	OLG Group	Council Area (km2)	Total Residential Rating Revenue ($)	Rateable income per km2 (total residential rates/km2)	Number of Residential Rating Assessments	Rateable properties/km2	Total Road Length (including local & regional roads) (km)	Open Public Space (ha)
Coffs Harbour	5	1,173.7	41,626,000.0	35,465.6	31,400.0	26.8	911.7	1,622.1
Kiama	4	257.7	17,430,000.0	67,636.8	10,068.0	39.1	276.6	342.4
Lake Macquarie	5	648.6	130,582,000.0	201,329.0	84,089.0	129.6	1,448.0	1,613.3
Maitland	5	391.5	61,147,000.0	156,186.5	34,291.0	87.6	778.3	530.0
Mid-Coast	5	10,053.9	67,338,000.0	6,697.7	47,201.0	4.7	3,637.0	2,094.2
Newcastle	5	186.7	110,952,000.0	594,279.6	67,612.0	362.1	880.9	4,310.4
Port Macquarie-Hastings	5	3,682.4	45,080,000.0	12,242.0	36,001.0	9.8	1,403.9	735.2
Port Stephens	5	858.4	37,639,000.0	43,847.9	33,065.0	38.5	751.5	906.0
Shellharbour	5	147.4	48,322,000.0	327,829.0	29,665.0	201.3	480.2	697.0
Shoalhaven	5	4,567.2	78,273,000.0	17,138.1	56,907.0	12.5	1,841.1	2,370.8
Tweed	5	1,307.8	60,511,000.0	46,269.3	38,477.0	29.4	1,247.2	954.9
Wollongong	5	684.3	131,014,000.0	191,457.0	81,824.0	119.6	1,067.7	2,473.6

FY 2023-24 *Overview*

EOFY 2024 *Snapshot*

	GF	WF	SW	CONSOL
Operating gain/(loss) before capital	(37.1m)	(6.9m)	6.4m	(37.6m)
Less: loss on disposal	7m	1.5m	0.8m	9.3m
Revised operating gain/(loss) before capital	(30.1m)	(5.4m)	7.2m	(28.3m)
Add: capital income	104.7m	9.5m	10.5m	124.7m
Net operating result inc Capital (inc disposals)	67.6m	2.5m	16.9m	87.1m

AEC report indicates Council General Fund has a structural operating deficit of $25m-$35m

Actuals v Original *Budget*

Income Statement
for the year ended 30 June 2024

Original unaudited budget 2024 $ '000		Notes	Actual 2024 $ '000
	Income from continuing operations		
177,338	Rates and annual charges	B2-1	178,178
95,621	User charges and fees	B2-2	97,976
4,772	Other revenues	B2-3	5,517
21,294	Grants and contributions provided for operating purposes	B2-4	21,946
47,922	Grants and contributions provided for capital purposes	B2-4	124,758
7,550	Interest and investment income	B2-5	7,571
–	Other income	B2-6	3,532
354,497	**Total income from continuing operations**		439,478
	Expenses from continuing operations		
108,473	Employee benefits and on-costs	B3-1	115,642
104,540	Materials and services	B3-2	105,745
7,453	Borrowing costs	B3-3	7,204
90,200	Depreciation, amortisation and impairment of non-financial assets	B3-4	92,758
16,973	Other expenses	B3-5	21,681
–	Net loss from the disposal of assets	B4-1	9,308
327,639	**Total expenses from continuing operations**		352,338
26,858	**Operating result from continuing operations**		87,140
26,858	Net operating result for the year attributable to Council		87,140
(21,064)	**Net operating result for the year before grants and contributions provided for capital purposes**		(37,618)

Variance to original budget

Capital Grants and Contributions
- Additional natural disasters funding not in budget

Other Income
- Realised gains on long term growth investments (sold in FY24)

Employee costs
- Original budget had incorrect job cost recovery targets – underestimated costs by $7m

Other expenses
- $1.7m impairment of grant receivable (income recognised FY23)
- $2.3m waste levy

Loss on disposal of assets
- $1.7m crown land handed over
- $4.8m in bulk earthworks written off
- $1.3m park road netball courts disposed (replacement asset recognised)

Financial *Highlights*

	2024	2023	Comments
Grants spent in advance	$10.1m	$35m	•Negotiating upfront payment for natural disasters •Not accepting grants where council cannot fund the co-contribution •returning grants where not feasible for council to continue with the project •Improved timeliness of acquittal process
Internally restrict ed cash	$34.2	$8.1m	•FY2023: internally restricted cash was used to fund grants spent in advance •FY2024: lower grants in advance means the internal restriction balances have been restated
Employee costs	$115.6m	$112.7 m	•Legislative increases were 5% •Costs increase contained to 2.5% due to management of vacancies
Cash expense cover ratio	6.24 mt hs	3.54 mt hs	•Represents the number of months a council can continue paying for its immediate expenses without additional cash inflow •Benchmark for this ratio is greater than 3 months