

Long Term Financial Plan & Proposed *SRV*

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Historical Financial *Performance*

- Council has produced a net operating deficit in the last four financial years. The General Fund's net operating position has been in a deficit position over the past nine years. Financial forecasts indicate a significantly deteriorating operating performance.
- Without intervention, Council will continue to generate operating deficits over the next 10 years. There is an underlying structural deficit of \$25-\$35 million within the General Fund, whereby the recurrent revenue is not able to fund the recurrent expenditure.
- The impact of inflation and relatively flat revenue growth, will only continue to increase the structural deficit.

	CPI annual increase	PPI annual increase	Base rate peg
2023/2024	3.8	6.3	3.7
2022/2023	6	6.5	0.7
2021/2022	6.1	12.2	2
2020/2021	3.8	3.3	2.6
2019/2020	-0.3	0.3	2.7
5 year increase	19.4	32	11.7

- Council's unrestricted cash position has deteriorated from \$19m on 30 June 2019 to NIL on 30 June 2024 in 2024. Had Council's grants spent in advance not been funded through the temporary reallocation of internally restricted cash, balance would be negative \$9m.

Historical Financial *Performance*

- Over the past five years, Council has experienced consecutive disasters, most notably the COVID pandemic, bushfires and floods (15 declared natural disasters). These disasters have significantly impacted on the normal business operations including revenue generation, asset maintenance, asset renewal programs and impacting upon the availability of cash.
- The net cost of the disasters, including the subsidies and waivers on fees and charges, and the \$300 per ratepayer COVID reimbursement reduced the unrestricted cash position of Council by \$14.6 million
- Each natural disaster declaration costs Council in excess of \$600 “Opt In Fee”. In FY2023/24, Council had 3 disaster declarations, capping our opt in fees at 2% of rateable income totalling \$1.7m in non-reimbursable costs. This was compared to a 3.7% base rate peg applicable that year
- Council started to report on its building and infrastructure renewal ratio in 2008. During the 16 years Shoalhaven City Council failed to meet the required benchmark (on a consolidated basis) for this ratio (of 100%) in each of the 17 years the ratio has been publicly reported
- Recent achievement of this ratio for General Fund has been due to grant funded natural disaster repairs. Without the disaster works the ratio would not have been met.

Historical Financial *Performance*

- The structural deficits and decrease in cash means that assets are not being replaced at the rate required – led to significant deterioration in the condition of Council's assets and has created infrastructure backlog issues
- Decline in asset condition ratings:
2008 – 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.
2024 – Council assets now hold 49.9% in category 1 and 2, with 50.1% of assets now reported in categories 3 (satisfactory) to 5 (very poor).
- The longer this trend continues, the cost to renew and address the backlog increases exponentially, creating a risk that council will never be able to repair assets & infrastructure and will be forced to decommission them. If not corrected it will impact service levels and available assets in the community for future generations.
- The large majority of asset renewals is funded by external grants – and this is not sustainable. The current capital works program is 7% funded through unrestricted cash (\$12.9M)

What does sustainability look like?

AEC Group (AEC) was engaged by Council to undertake a Financial Sustainability Review in late 2023. AEC facilitated a workshop with Councillors, Executive Management Team and Chief Financial Officer to define a vision for a financially sustainable Shoalhaven City Council. It was agreed:

- That Council needs at least \$15 million in unrestricted cash to be able to appropriately respond to future disaster events
- Would achieve a building and infrastructure renewal ratio of at least 85%
- Whilst maintaining an infrastructure backlog ratio of below 2%
- Was to achieve an operating surplus of 4%

What are we *doing*?

Council's general fund has saved \$2.4m through recurring operational expenditure savings/ additional income generation and one-off cash increase of \$698k through asset sales and one-off budget reductions

Other key priorities Council staff are working include:

- Operational savings goal of \$10m over 4 years
- Land sales strategy (industrial and operational) – \$7m in industrial land sales were achieved in FY2024. A further \$17m is budgeted to be sold in FY2025, and a further \$37m is forecast to be sold between FY2026 and FY2030
- Detailed review of fees & charges was performed ahead of their implementation from 1 July 2024
- Structural reform in progress – phase 1 proposal will achieve \$1.6M in savings
- Sale of underutilised fleet assets generated \$500k in fleet sales to date – will reduce ongoing operational savings
- The Material Resource Facility will be operational in late 2025 and will generate an additional income stream of \$77m over 15 years.

What are we *doing*?

- Improvement in cash during FY2023/24. Negotiation of advance payments for grant funded projects, particularly in the natural disasters space, resulted in several internal reserves being reinstated during the year.
- Reduced reliance on loan borrowings. The FY2024/25 Delivery Program Operational Plan includes \$3.8m in borrowing for waste funded projects. No other loan borrowings are endorsed for FY2024/25.
- SCC has budgeted to utilise cash generated from land sales in FY2024/25 to early repay its loan borrowings
- Establishment of Enterprise Project Management Office (ePMO) and implemented Project Lifecycle Management (PLM) software to assist in the forecasting and ongoing management of individual projects
- A new Asset Strategy team will be responsible for the management and collection of asset data and preparation of Asset Management Plans (AMP's)
- New Asset Planning teams will be responsible for strategic planning of asset renewals and upgrade of Council assets within their respective portfolios.

What are we *doing*?

- A road condition survey is currently being undertaken through an engagement with Infrastructure Management Group, which will provide condition data for road pavements, kerb and gutter and other roadside furniture.
- A governance framework has been established whereby grant applications must be approved prior to an application being submitted. Grant applications must have an identified funding source for any co-contribution required of Council
- Business Improvement Program – a staged approach to understand the performance of each service, assess appropriate levels of service, investigate process improvements and embed efficiency metrics in order to track any improvements.
- While improvements to the efficiency and productivity of service delivery will assist in closing the gap between revenue and costs, there is a need for Council to increase the revenue generated from operations.

LTFP Assumptions

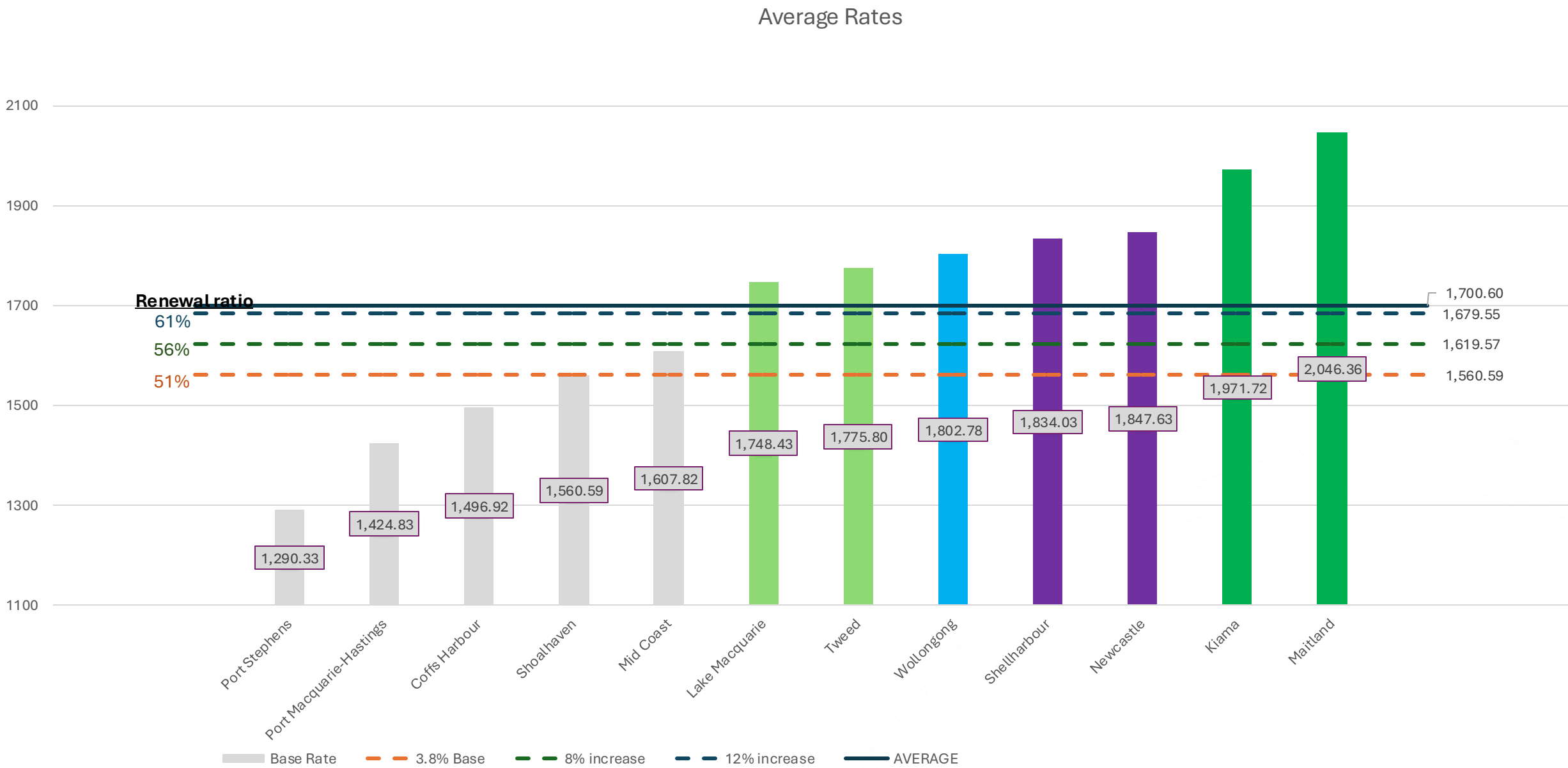
All options are based on the following assumptions:

- Proceeds from land sales – \$37m generated between FY2025/26 and FY2029/30
- \$10m in operational savings are to be achieved – \$7m in FY2025/26, with an additional \$1m per year in FY2026/27, FY2027/28 and FY2028/29
- achieve \$15m in unrestricted cash during the 10 year LTFP
- No funding is allocated to natural disasters – should an event occur the unrestricted capital spend would need to be allocated to disaster events, or Council unrestricted cash
- The Material Resources Facility will be operational in Q2 FY2025/26 – cashflows generated from this commercial business is forecast as \$35.6m over the 10 year LTFP
- No budget has been allocated for mechanical failure of assets.
- Provision has been made in all scenarios for \$14m of borrowings late in the 2027 financial year, with loan repayments commencing in the 2028 financial year, for the purposes of constructing a library at Sanctuary Point
- Only the mandatory annual dividend paid by Water Fund and Sewer Fund, which is referred to as the tax equivalent component, has been budgeted for as income to General Fund.

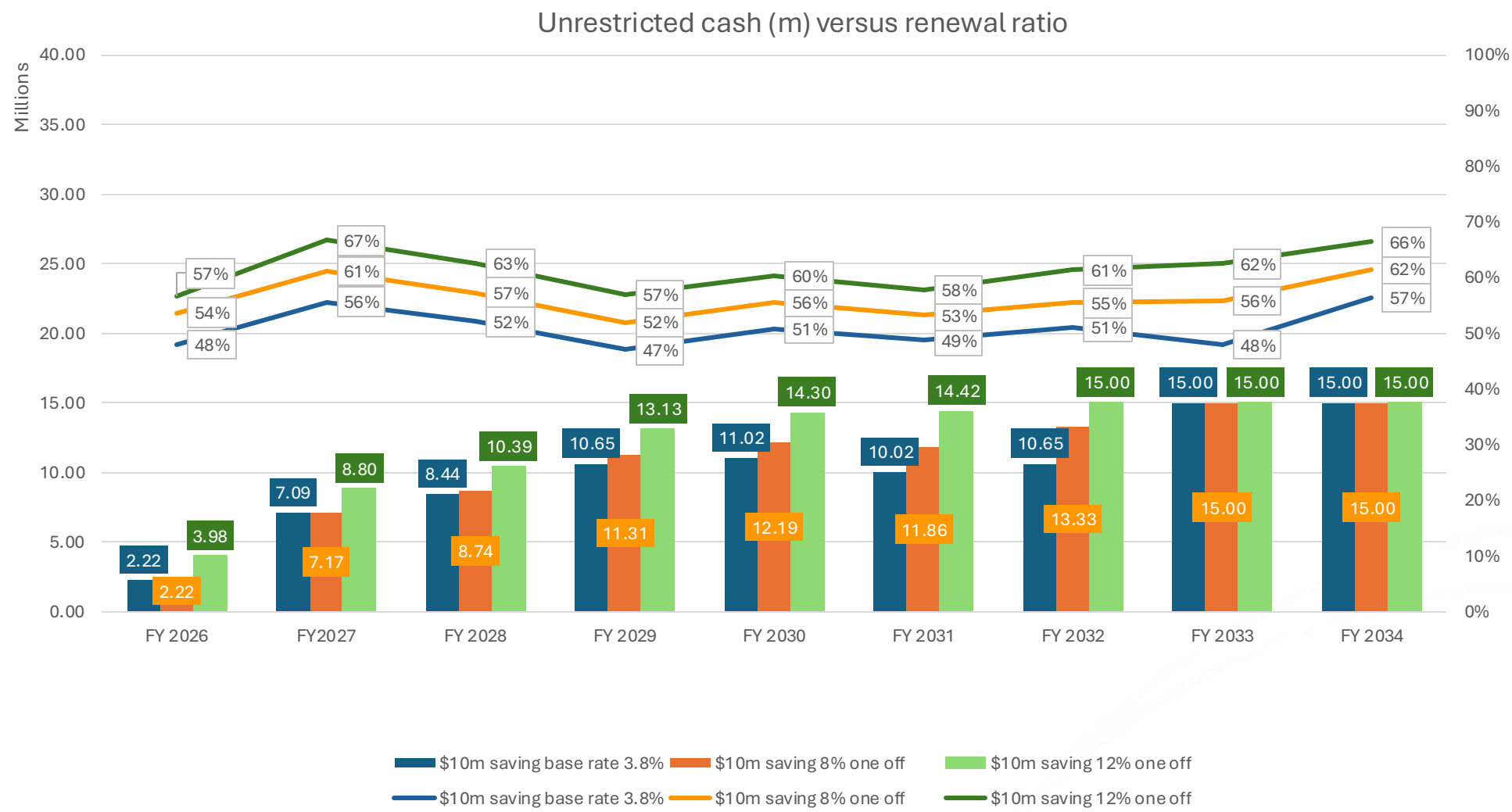
Proposed Scenarios

Rate Peg 3.8%	8% inc rate peg	12% inc rate peg
\$2.2m in unrestricted cash at 30 June 2026 (end of year 1)	\$2.2m in unrestricted cash at 30 June 2026 (end of year 1)	\$4m in unrestricted cash at 30 June 2026 (end of year 1)
Unrestricted cash will reach \$15m in year 9 (FY2032/33)	Unrestricted cash will reach \$15m in year 9 (FY2032/33)	Unrestricted cash will reach \$15m in year 8 (FY2031/32)
Average building and infrastructure renewal ratio of 57% will be achieved over the life of the plan	Average building and infrastructure renewal ratio of 63% will be achieved over the life of the plan	Average building infrastructure renewal ratio of 68% will be achieved over the life of the plan
\$6.79m available for unrestricted capital spend in year 1 (FY2025/26)	\$10.7m available for unrestricted capital spend in year 1 (FY2025/26)	\$12.7m available for unrestricted capital spend in year 1 (FY2025/26)
total of \$247.9m will be available for unrestricted capital spend over the life of the plan	a total of \$288.7m will be available for unrestricted capital spend over the life of the plan.	a total of \$327.5m will be available for unrestricted capital spend over the life of the plan
Council will not achieve an annual operating surplus over the life of the plan	Council will not achieve an annual operating surplus over the life of the plan	Council will not achieve an annual operating surplus over the life of the plan

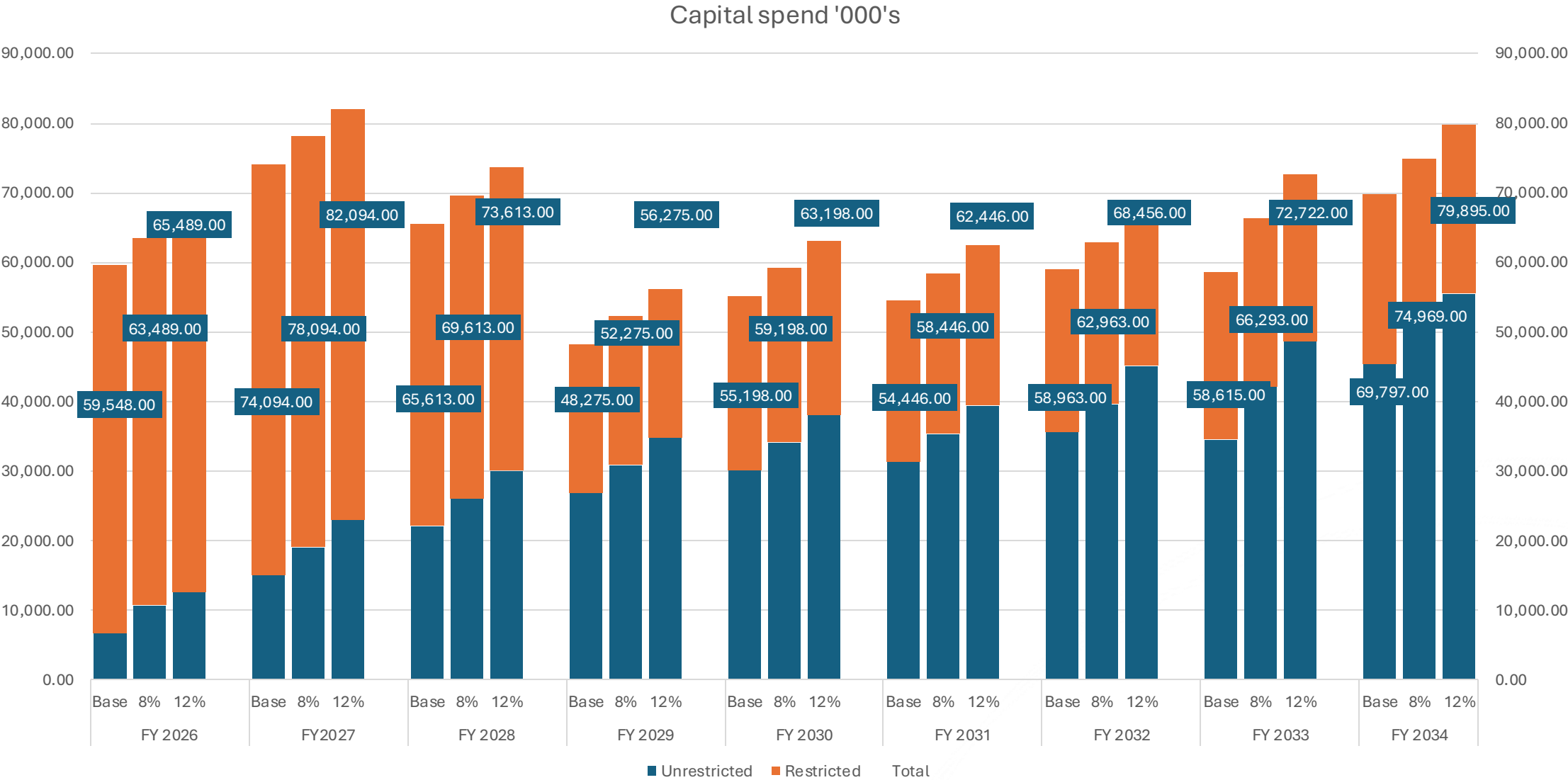
Average Rates Comparison



Renewal Ratios and Unrestricted Cash



Current projection – Capital spend



A scenic photograph of a coastal landscape. In the foreground, a large, mature tree with a thick trunk and dense green foliage stands on a grassy area. To the left, a sandy beach meets the water's edge, with some rocks visible. The water is a vibrant blue, and several sailboats are visible in the distance. The sky is a clear, bright blue. The word "Questions?" is overlaid in a white, serif font in the center of the image. A white curved line is visible in the bottom right corner.

Questions?