

21.1 CONSIDERATION OF THE FINANCIAL POSITION OF COUNCIL AND THE NEED FOR A SPECIAL VARIATION

Document ID: 681375

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Theme: Our Leadership

Attachments:

1. Strategic Asset Management Plan (under separate cover)
2. Delivery Program (under separate cover)
3. Community Engagement Plan (under separate cover)
4. Productivity Improvement Plan (under separate cover)
5. Long Term Financial Plan (under separate cover)

RECOMMENDATION

That Council:

1. Endorses the revised draft Long-Term Financial Plan as part of the Updated Resourcing Strategy, appended at Attachment 5, for public exhibition for a period, commencing 21 September 2023 and ending 31 October 2023.
2. Endorses the revised draft Delivery Program, appended at Attachment 2, for public exhibition for a period, commencing 21 September 2023 and ending 31 October 2023.
3. Endorses the undertaking of community consultation on a potential application to the Independent Pricing and Regulatory Tribunal for a proposed permanent Special Variation (SV) of either a one year SV of 41.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) or a two year SV of 25.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) and 18.0 per cent in 2025-26 (including the forecasted rate peg of 2.5 per cent), representing a cumulative Special Variation of 48.1 per cent over two years, as detailed in the report
4. Receives a further report regarding community consultation undertaken to determine any final application to be made to the Independent Pricing and Regulatory Tribunal for a Special Variation.

PURPOSE

The purpose of this report is to: advise Council of the issues around its financial position; and to seek a resolution to proceed to community consultation on a potential application to the Independent Pricing and Regulatory Tribunal (IPART). The application would be for a proposed permanent Special Variation (SV) of either a one year SV of 41.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) or a two year SV of 25.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) and 18.0 per cent in 2025-26 (including the forecasted rate peg of 2.5 per cent), representing a cumulative Special Variation of 48.1 per cent over two years, as detailed in the body of the report.

SUMMARY

This report presents an analysis of Council's current and prospective financial position, outlines cause and effect, and the implications for service levels and impact on residents.

Some of the causes of this position have been building progressively over a long period and some are much more recent. The need to upgrade the stormwater system in Narrandera is an important component of the challenge faced by Council, but it is only one of many factors impacting on the long-term sustainability of the organisation. The combined effects of ongoing rate pegging at levels below actual cost, fair value accounting for assets, increasing compliance cost and growing community expectations fuelled by the Integrated Planning & Reporting (IP&R) process have taken their toll.

The organisation has been through the Fit for the Future process; we have identified the factors affecting operations, fine-tuned the accounting around management of the assets and believe that the future sustainability of the Council now rests on a significant increase in income.

The IPART and both higher levels of government expect the Council to be sustainable and capable of meeting its legislative obligations and the community expectations. They have established the “Special Variation” process for councils to utilise and, whilst Narrandera has been able to avoid this option in the past, it must now be addressed. Most NSW councils have already followed this process, some more than once.

Many options have been examined and debated when considering the level of an increase and its effect on ratepayers, including the community’s capacity to absorb the increase. I take this opportunity to acknowledge the tremendous efforts of Council staff and the team at Morrison Low led by Greg Smith in developing the material you have before you today.

BACKGROUND

Historical Context

The NSW Government commenced a process of review of local government in 2012 to ensure councils in this state were sustainable. Under the banner of “Fit for the Future”, all councils underwent assessment against pre-determined criteria to establish their financial sustainability, infrastructure and service management, efficiency, scale and capacity and relative effectiveness. Performance benchmarks were established, and Narrandera Shire Council developed and implemented a “Fit for the Future Improvement Action Plan” covering many functions and initiatives.

The Council went through that process and was also measured for possible amalgamation with neighbouring councils. Those amalgamations did not proceed, as studies undertaken at the time showed that there would be little or no advantage to ratepayers in any amalgamation. Amalgamations did however proceed in other areas. Nonetheless the importance of Council being sustainable continues to be re-enforced and the current Minister for Local Government has made it his mantra.

The characteristics of sound and sustainable financial management, as outlined in the Local Government Act 1993, include:

- Responsible and sustainable spending
- Alignment of general revenue and expenditure
- Achieving a fully funded operating position
- Effective financial and asset management
- Adequate cash reserves and use of borrowings
- Responsible and sustainable infrastructure investment
- Constant monitoring of options to improve the operating position, and
- Intergenerational equity.

In 2015 Council conducted an organisational review, accompanied by service level reviews covering most of the operational areas of the organisation. The outcome was a

streamlined organisation led by a General Manager and two Deputy General Managers, changes to service delivery and staffing levels in several areas. In April 2017 Council adopted a new Workforce Strategic Plan which included policies on apprenticeships, traineeships, flexible work, and reward systems. There were direct operational savings to Council because of the restructure.

However, the Long-Term Financial Plan (LTFP) General fund adopted by Council in June 2017 anticipated a net operating result of just \$9K after allowing for \$7.8M in wages and salaries costs and \$4M in depreciation. Importantly, the plan predicted the exhaustion of all internally restricted cash in the fund during the life of the plan. I was appointed as General Manager shortly after that and one of the challenges I was given was to ensure Council’s long term financial health.

Council’s performance as an organisation since that time has appeared to be very good, with community asset investments occurring across the Shire together with a healthy-looking balance sheet. This appearance masks the reality and, in fact, has been enabled by an extraordinary flow of grant funds from both State and Federal Governments that we have been warned is unlikely to continue.

The long term “squeeze” that is rate pegging manifests itself in two important areas. Firstly, as costs increase quicker than revenue, cash reserves dwindle and secondly discretionary spending and investment declines. If this was to occur over one year or perhaps several the impacts could be manageable but when it continues for decades, the results are inevitable.

The reality is that the General Fund is now under unsustainable pressure, and a substantial change in the income/expenditure balance is required. Importantly, Council’s “Own Source Revenue” (one of the Fit for the Future ratios) continues to wallow well below the 60% benchmark (forecast 2023-24 51.50%) and the asset backlog is growing (see Figure 5).

If nothing is done to address this issue, Council will have:

- An average operating deficit for 10-year forecast period estimated at \$2.0M pa, shown in the graph (Figure 2)
- Insufficient money to maintain current service levels and asset renewals
- Inadequate funding for infrastructure renewal
- Underfunding for expected growth and expanded services.

Figure 1 – Own source operating revenue ratio

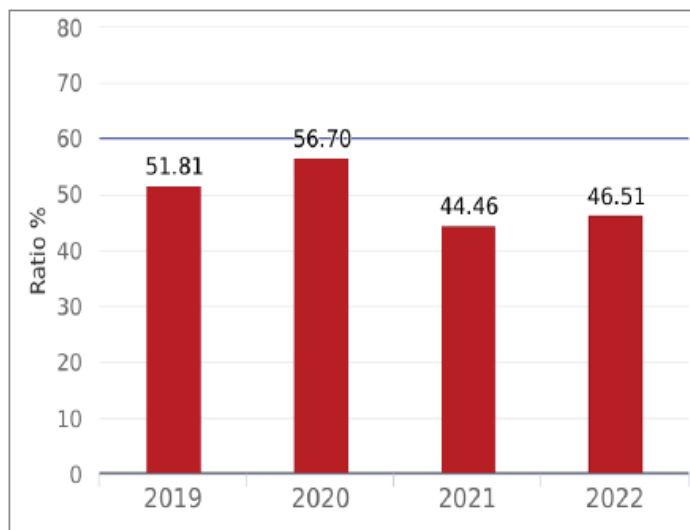
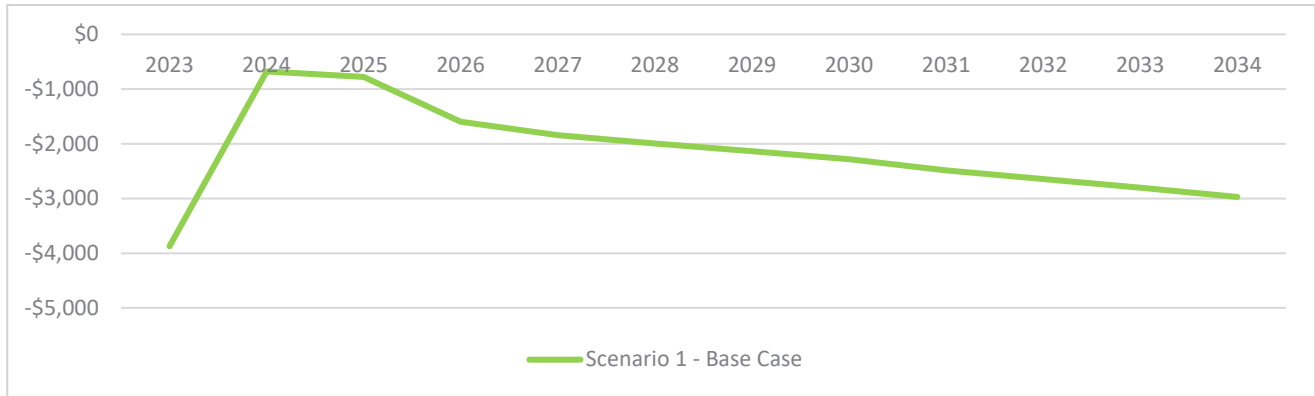


Figure 2 illustrates ongoing estimated operating deficits culminating in 2033-34 with a \$3.0M annual operating deficit. Over the same period, General Fund cash is estimated to decrease by \$8M with an average negative unrestricted cash position of \$3.6M from 2025. A negative unrestricted cash position is highly illegal and cannot be allowed to occur. It has resulted in other councils being plunged into administration.

Figure 2 - Ongoing estimated operating deficits (excluding capital)



Assets

In 2009 the local government accounting standard was amended to require councils to account for assets using “Fair Value” rather than historical cost. Essentially this means that councils must periodically revalue assets, assess their condition and life expectancy, and include the resultant numbers in their financial reports. In 2017 the NSW Auditor General was appointed as the auditor for local governments in NSW. One of the emphases of the approach has been to require councils to account more accurately for assets under their control. Narrandera Shire Council manages assets to the value of \$306.2M and has an annual depreciation cost of \$4.878M (\$241.755M and \$4.346M on its General Fund assets.)

For accounting purposes, the assets are grouped into five classes or types. Each type has its own management plan and is further split based on a condition rating (1-5) where condition 1 is the best and 5 is very poor.

The revised Draft Asset Management Plan attached estimates that in 2021-22 there was an asset backlog of \$16M, being the estimated cost to bring assets to a satisfactory standard. That challenge includes assets such as, parts of the Council chambers, some aerodrome buildings, parts of Grong Grong Hall, Barellan pool, some sealed road surfaces, water treatment plant, bores and mains. The benchmark for local government set by the Office of Local Government is 2% or in our case \$6.12M.

Table 1

Asset class	Asset condition (% of CRC)				
	1 - Excellent	2 - Good	3 - Satisfactory	4 - Poor	5 - Very poor
Buildings	12%	8%	39%	39%	2%
Other Structures	38%	6%	26%	25%	4%
Roads	28%	28%	29%	7%	7%
Bridges	7%	45%	43%	0%	5%
Footpaths	20%	77%	2%	0%	1%
Bulk Earthworks	100%	0%	0%	0%	0%
Stormwater	11%	45%	0%	44%	0%
Water supply network	9%	7%	46%	31%	8%
Sewerage network	37%	24%	28%	5%	6%
Swimming pools	75%	0%	0%	25%	0%
Open Space	28%	40%	15%	7%	10%
Combined	37.6%	16.8%	25.8%	15.4%	4.4%

The acquisition, renewal and/or replacement of assets is a critical part of Council's operation and a factor in determining service levels. These acquisitions are typically funded from several sources, including government grants, reserves, revenue, borrowings with repayments met by ratepayers, or a combination of those sources. In the revised LTFP and the Asset Strategy, we have assumed that Council will continue to receive some capital grants for renewals. We have also assumed that grants are less likely to be received for operational assets.

A complete review of the asset databases has been undertaken over recent months. New asset management plans have been written and there is a level of confidence about the accuracy of the data that we now have. Morrison Low recently assessed our asset data as reliable in all classes except stormwater, where estimates have been used as many assets are underground and cannot easily be inspected. Included in that review has been an assessment of the condition ratings and the "fit for purpose" standard of all the assets.

The annual depreciation expense for General Fund assets is estimated at \$4.346M and far exceeds Council's current capacity to fund from rate revenue. Council's current financial position does not allow it to fund these renewals from revenue, and grant opportunities are being pursued to meet those costs. A good example of that situation is reflected in the Narrandera tennis complex. This valuable community asset is in poor condition and in need of renewal; Council has had to wait until it received grants to undertake the works. In this instance that approach has worked, but what if the grants were unavailable?

There is no intention to recover the full cost of the asset renewals from ratepayers, but we must be able to meet our share of that cost and to match grants when received.

Reserve Balances

The financial reports to 30 June 2023 recently compiled show that Council held \$36,279,383 in bank accounts as at that date. The funds are held for the following purposes.

Table 2 - Reserve Funds

Purpose	Details	Amounts
Externally restricted cash	Waste Management	\$1,604,433
	Crown Reserves	\$301,962
	Stormwater	\$368,786

	Developer Contributions/bonds	\$524,420
	Water Fund	\$6,326,525
	Sewer Fund	\$2,669,410
	Specific purpose grants	\$8,177,963
Internally restricted cash	Plant and vehicles	\$1,891,758
	Employee Leave	\$1,178,228
	Incomplete works	\$1,197,945
	FAG Prepaid	\$6,118,620
	Asset Replacement/renewals	\$4,356,382
	Bonds, retentions and trust	\$1,348,940
Unrestricted cash	Cash at bank	\$214,006
		\$36,279,382

It should be noted that funds held in externally restricted cash can only be used for the purpose shown and cross subsidisation is not allowed. The table shows that there are limited funds in the internal restrictions and very little spare in unrestricted cash.

Importantly, there are also other pressures now exerting irresistible force on the General Fund.

Governance

ARIC - Whilst councils come under the management of the State Government generally, the Office of Local Government, the Minister and the Auditor General exercise day-to-day control and establish and enforce governance regulations. One such of these is a requirement that councils establish and operate Audit Risk and Improvement Committees (ARIC) and develop associated risk management strategies under guidelines issued by the Minister. Narrandera Shire has had an ARIC for several years and its operations and associated support structures are being updated to bring it in line with the regulation which takes full effect in July 2024. The cost of these changes will be between \$150-200K annually and is the result of having to split the administration of the ARIC committee and the risk management function and upgrade the operations of the ARIC itself. There is no doubt that the Council will enjoy benefits flowing from the work of the ARIC and the risk management function, but those benefits will likely be in the form of improved processes and productivity rather than in improvements to the financial position.

Cyber - All government organisations are subject to the threat posed by cyber-attacks and required to comply with the expectations of Cyber NSW. Council has been developing and implementing the required policy and process changes and has been able to take out suitable insurance to cover any breaches that may occur at an increase in premiums of over 100% (2021-22 to 2023-24). However, the cost of system improvements and protections has been substantial and is ongoing. Those improvements have involved new and more secure IT systems, isolated back-up systems and considerable training for staff and Councillors.

Rural Fire Service - Narrandera Shire is part of the Murrumbidgee District Zone for the purposes of the Rural Fire Service and, despite exercising little or no practical control over the service or its assets, is legally liable and required to account for them. This manifests itself in two ways. Firstly, there is a cash component that Council must pay to the State as its contribution to both capital and operational expenses. Secondly, the assets appear in Council's accounts along with the cost of the depreciation. In Narrandera's case those numbers are substantial. The contribution has risen from \$211,000 in 2017 to \$368,198 in 2023 – an increase of 74.5%. The depreciation expenses for RFS "Red Fleet" assets in 2022 was \$164,000.

Staffing – Council has a workforce strategy that provides details of the level of staffing and the policies and practices around the employment of the resources needed. Whilst staff numbers have remained relatively constant overall, the cost of employment continues to rise (\$7.8M in 2017 to \$9.7M in 2023).

It goes without saying that Council's performance as an organisation relies heavily on the quality and effort of the staff and, given the current employment environment, being competitive in the market is critical. A review of the staff salary system has been completed and revealed that NSC is currently 10-15% below the "local government employment" market in the Riverina. The review also resulted in action being taken to improve flexible working arrangements and these have been extended to make working for Narrandera Shire more attractive. We have experienced great difficulty in recruiting in several professional positions and, whilst we enjoy a relatively low turnover rate, attracting quality staff is extremely difficult.

Stormwater – Councillors and residents will recall the disastrous events of early 2022 when the stormwater systems in Narrandera failed to cope with heavy rain events resulting in inundation of several homes and business premises. One of the most serious impacts occurred at Teloca where residents were evacuated, some never to return. The community response to these flood events was loud and conclusive – residents found it was unacceptable that the problem had not been previously addressed and demanded that Council develops a solution to prevent this type of flooding from reoccurring. Following those events, an assessment of the system commenced which resulted in some immediate upgrade works to improve the inlets and the design of a new parallel system to be installed from around May Street through to the canal. This new system has been designed by hydrology experts and is estimated to cost \$16.5M. Staff have commenced discussions with the NSW State authorities seeking financial support and it has been included in the Narrandera Flood Mitigation as number one priority. Council's contribution could be as much as 50% of the cost of the work, or around \$8.25m.

Figure 3 - Schematic of new drainage system



Depending on the amount eventually borrowed, repayments will vary up to \$594K pa (loan of \$8.25M).

Table 3 - Cost Estimates

Activity	Description	Cost (ex GST)
Preparatory works	Clear area of existing asphalt or other road surfaces, vegetation, footpaths and miscellaneous kerbs, structures, etc and dispose of site	\$190,000
Outlet/pump station	Construction of the stormwater pumpstation south of Larmer Street including the outlet works, mechanical and electrical works	\$1,500,000
Stormwater assets	Installation of 1250m of 3.6 x 15.m box culvert from Bolton Street (Willans Street) to south of Larmer Street, including excavation and backfilling of trench, concrete base, inlet and protection works	\$9,413,500
Existing infrastructure	Allowance for works to existing services and the regrading of part of Bolton Street and reinstatement of road surfaces	\$700,000
Reinstatement of disturbed surfaces	Reinstate roads, footpaths and verges disturbed by construction of the stormwater drainage work and swale earthworks with headwalls at bottom end	\$1,250,000
Incidentals	Traffic management, contractor overheads, and preliminaries	\$1,420,000
Contingency	Contingency allowance of 12.5%	\$2,062,500
Total		\$16,500,000

Technology – Council has been using the Civica Practical Plus accounting system since 2001 and recently went to tender for a new integrated enterprise management system (EMS). The Practical product is no longer capable of providing Council with the range of capabilities expected of the organisation and lacks integration relative to the various elements of operation now considered essential. A good example of this is the NSW Planning Portal where all planning processes now must integrate; at Narrandera Shire those processes can only be done manually. The cost of a new EMS is estimated at \$230K annually for the purposes of this report but may in fact be considerably more as any new system will have staffing implications, as yet undetermined.

Alternate Sources of Revenue

During the past three years, Council has been able to realise significant additional revenue from asset sales, temporary transfer of water, industrial land sales and, in recent months, interest on investments to help meet asset renewals in several areas and to support management of operational costs.

Shares in Southern Phones and the small office building in Twynam Street were sold which, along with the proceeds of temporary transfer of water holdings, have been used to establish a reserve that funded installation of LED streetlights, Council's share of the new taxiway at the airport, and the cost of new solar installations at six operational sites.

These cash injections are largely one-offs and will not be repeatable. Interest earned from investments of unrestricted cash fluctuates and cannot be relied upon in the long term, particularly as the level of unrestricted cash reduces.

The use of the LEDs, smart meters, tariff reviews and solar are important components of Council's push towards net zero emissions but will also provide significant and ongoing savings in operational costs.

Despite undertaking a complete review of the fees and charges, opportunities to increase revenue from this source are very limited. In fact, the community expectation in this area is for Council to minimise and/or waive fees for the use of community facilities and/or for services rendered. In the recent past the community has been consulted on fees for entry to the Lake Talbot Water Park and for the possible introduction of a green waste service and, in both cases, the resounding response from the community was opposition to any fee increase.

Lake Talbot Water Park has the lowest entrance fees for any major facility in the region. Where fees are charged, full cost recovery is not an option and facilities such as the water park, indoor stadium and sporting fields operate at significant and increasing losses.

Table 4 - Cost of Facilities 2022-23

Facility	Lake Talbot Water Park	Barellan Pool	Narrandera Indoor Stadium
Operating Expenses	\$516,815	\$86,734	\$93,709
Depreciation	\$312,624	\$66,659	\$125,936
Income	(contractor)	(contractor)	-\$46,417
Net Loss	\$829,439	\$153,393	\$173,228

Each of those facilities has had some upgrading over the past three years through the critical support of the NSW and Federal governments, but the operating costs continue to grow.

Grants – In the last few years this council, and local government generally, has benefitted from a significant flow of grant funds. These funds have assisted in repairing and upgrading many community facilities, roads and bridges. Major elements in those grant programs have been the result of COVID-19 and flood emergency repair, both of which are exceptional circumstances and not ongoing.

The NSW Stronger Country Communities Fund has provided \$4.778M for many very valuable upgrades to community facilities and the Federal Local Roads and Community Infrastructure fund has provided \$4.312M. Council also received \$8M under the Playground on the Murrumbidgee Project. Both State and Federal governments have made significant funds available for road grants

Indications from both governments suggest that Council cannot rely on this level of grant funding to continue, and that future community and operational infrastructure must be at least partially locally funded. An assumption that Council will continue to receive some grants to fund renewal of community buildings and recreation infrastructure has been made in the modelling.

Future Opportunities

In addition to the traditional role of providing services and community facilities, residents and higher levels of government expect Council to do more, to take advantage of opportunities, and to support and grow the economic and population base of the Shire. To do that the council needs capacity and resources. Some of the opportunities that are immediately available include:

- Australian Airline Pilots Academy proposal for a facility in Narrandera. Council has been improving the airport at Narrandera, provided an office for the satellite operations, and is currently working on building a parallel taxiway. For the academy to progress, Council will have to be able to support the provision of services to the site.
- With the sale of the last of the Council-owned land available in the Red Hill industrial estate, Council is working to build a new estate on land to the west. This will require a substantial investment. Grant applications have been lodged based on designs and estimates prepared and it is likely that Council will have to find 20% of the construction costs of around \$5M. Whilst this is a “build-sell-recover investment” scenario, having the available funds and approved development applications is a core requirement of the grant application. Attracting new industry to Narrandera is a stated objective of the Council and is strongly supported by the community who expect the population to grow.
- Lake Talbot is a very important local recreation facility, but it is under threat and requires deepening. Studies to get the project to a “shovel ready” stage are underway, but it is very likely that the actual work of deepening will require substantial investment by Council. Preliminary estimates put the cost of that work at \$2M and Council’s share could be at least 20%, possibly 50%
- Both the State and Federal governments have been supporting the push for more housing to be made available for social, affordable and normal use. Council has received several approaches from members of the public to provide independent living style housing. Whilst Council owns suitable land, finding the resources to respond to these challenges is problematic and largely beyond current income levels.
- The construction of a flood levee to protect Barellan from flooding of Mirrool Creek has reached an advanced stage and final design and cost estimates are being prepared. Initial estimates put the cost at \$5.5m; if accepted as part of the NSW

Government flood mitigation grants scheme, Council would be asked to contribute one seventh of that cost.

Government grants and private investment are critical to these projects going ahead, but so also is the Council financial support. In most cases an investment of between 20% and 50% is required for a successful grant application and these are multimillion-dollar projects.

Present Actions

We have been getting our house in order, by:

1. Conducting a further review of operations (service levels, workforce strategies, risk management systems, computerisation)
2. Completely reviewed our asset management process, re-established the data bases, valuations, condition rating and identified what we believe are the reasonable expectations or long-term obligations on Council in terms of renewal
3. Establishing reliable design and costing information on major projects
4. Identified the shortfall in operational results.

Despite these initiatives, the reality is that at current revenue levels Council lacks the resources to:

- Continue to maintain existing service levels
- Renew those assets we know will need renewing, particularly operational assets
- Pursue the community aspirations.

As General Manager, it is my responsibility to make sure that the Council is sustainable and can meet the needs of the community into the future. To ensure the community's future success it is important that the Council is contemporary and capable of not only meeting the immediate needs of residents but also capable of responding in the event of emergencies and opportunities. The options are to achieve further cost savings by reducing operations and service levels, or to generate more revenue by increasing charges and/or rates or a combination of those things.

Improvement Plan

Council is committed to continuing the process of reducing operational costs and has developed an improvement plan identifying initiatives that we believe have been and will be instrumental in achieving savings and in improving productivity. Regular reviews are undertaken to ensure that costs are being contained where possible and efficiency gains are implemented, thus providing value for money to the community. Council has found savings to date of approximately \$939K per year in financial benefits, plus an estimated \$384K in additional efficiency and productivity savings. 59 initiatives were implemented, including reduction in workers' compensation claims, an optimisation of the loan cycle by taking loans at lower rates, the installation of LED street lighting, and the review of village and road system servicing.

Moving forward, a further 33 improvement initiatives have been identified for implementation in the coming years providing an expected annual net benefit of \$388K. Council has also absorbed some key service expenditure items such as the Emergency Service Levy subsidy reduction and additional operational costs of the Barellan Swimming Pool totalling \$169,000. These improvements have been included in the updated LTFP. There are an additional six improvement opportunities identified that need to be further assessed and costed before implementing, which are not included in the updated LTFP.

Council has also identified additional costs that it must incur to ensure its ongoing organisational sustainability. These include investing in an updated technology solution to address operational and cyber security issues, and an adequate remuneration system to attract and retain staff across the whole organisation over the long term. These additional costs average \$1.04M per year, including a one-off cost of \$780K for the IT solution, have been included in the updated LTFP.

Further details on these improvement initiatives and organisational sustainability requirements can be found in the Council’s Productivity Improvement Plan Report (March 2023).

While these changes will lead to an improvement in sustainability, alone they will not be sufficient for Council to become financially sustainable.

Rate Capping

The NSW State government introduced rate capping over 40 years ago and, whilst the mechanism for setting the annual rate cap has varied over time, essentially the cap sets the maximum amount by which a council can increase its general rate revenue. Rate capping does not apply to other rates and charges such as water, sewerage and or waste.

Table 5 - Rate cap for NSW councils since 2017

Year	Amount
2017	1.5%
2018	2.3%
2019	2.7%
2020	2.6%
2021	2.0%
2022	0.7% (2.0% ASV)
2023	3.7%

Narrandera Shire Council has increased the general rates by the maximum allowable on each occasion, although the impact on individual ratepayers varies based on fluctuations in relative land values.

IPART is the body that provides the government with a recommendation on the allowable increase, and it is currently reviewing the methodology employed in that process. For councils that wish to exceed the allowable limit, the legislation makes provision for a Special Variation whereby an application can be lodged and approved by IPART based on the circumstance of that council. The application requires an assessment of the council’s financial position, a review of the relevant cost pressures, service levels, asset management, the community’s capacity to pay and the level of consultation undertaken.

What is a Special Variation?

There are two types of Special Variation (SV):

- A temporary SV for a fixed amount over a fixed period
- A permanent SV for a fixed amount over a fixed period that remains in the rate base.

When a temporary SV expires, rates return to the original level at the conclusion of the approval period. Temporary SV are usually approved to fund specific one-off projects like infrastructure renewal or reducing the infrastructure backlog. Narrandera Shire Council’s financial challenges are more general, and a temporary SV would not solve the problem.

Permanent SVs can be for a single year or every year for an approved period. Council intends to make application for a permanent SV. Council must apply to IPART for approval to increase rates through an SV. With rate capping, almost all NSW councils will be faced with having to apply for a special rate variation at some point.

What SV is proposed for Narrandera Shire Council?

An SV is an essential element in the solution to the Council’s financial sustainability challenges, noting that, outside of the ASV in 2021-22 Narrandera Shire Council has *never previously* applied for an SV.

To achieve financial sustainability and maintain fit for purpose infrastructure, Council requires a permanent cumulative rate increase of 41.5% from 1 July 2024. This includes the expected rate peg increases by which Council would have otherwise increased rates.

Having considered several options, the preferred option is a one-year SV of 41.5% including rate peg. The following table details the options.

Table 6 – Special Variation options considered.

SV Options	2024-25	2025-26	Cumulative increase over SV period	Comparison Rate at Year 2
Base Case – Rate Peg only	3.5%	2.5%		6.1%
Option 1: One-year SV including rate peg	41.5%	2.5%	41.5%	45.04%
Option 1: One-year SV excluding rate peg	38.0%	0.0%	38.0%	
Option 2: Two-year SV including rate peg	25.5%	18.0%	48.1%	48.1%
Option 2: Two-year SV excluding rate peg	22.0%	15.5%	40.9%	

IPART determines the annual rate peg that councils receive each year, based on the increase in the local government cost index - cost of a selection of goods and services that NSW councils purchase. This calculation looks back over the past year of cost increases and applies the rate peg to the next financial year. The 2024-25 rate peg will be based on cost increases experienced in 2022-23. The rate peg increases for 2024-25 and 2025-26 have been forecast at 3.5%, and 2.5% respectively. Further details on these assumptions are outlined in Council’s updated LTFP.

What do these proposed changes mean for ratepayers?

The impact on an individual’s rates will be different depending on the unimproved land value of the property. The following table provides an indication of the annual rates increase likely to be experienced by the average land value for each rating category. The increases include the forecast rate peg.

Table 7 - Estimated average rates to 2025-26 under each scenario.

Rate Category	Average Rate 2023-24	Average Rate Cumulative 2024-25	Average Rate Cumulative 2025-26
Residential			
No SV – rate peg only	\$743	\$769	\$788
1 Year SV	\$743	\$1,051	\$1,078
2 Year SV	\$743	\$932	\$1,100
Business			
No SRV – rate peg only	\$1,265	\$1,309	\$1,342
1 Year SV	\$1,265	\$1,790	\$1,835
2 Year SV	\$1,265	\$1,588	\$1,873
Farmland			
No SRV – Rate peg only	\$3,957	\$4,095	\$4,198
1 Year SV	\$3,957	\$5,599	\$5,739
2 Year SV	\$3,957	\$4,966	\$5,860

Table 7 details the estimated average rates to 2025-26 with the application of the preferred one-year option. Where known, any approved SV or proposed SV has been included for other councils. Narrandera Shire Council’s average residential rates will increase slightly higher than the group average; for business rates they remain well below the group average. The average farmland rate remains relative to other councils in terms of its ranking; however, the amount has increased well above the group average.

If the property is one of those on the minimum rate, then the impact will be different and less as shown in the following table. To maintain equity an application to apply the proposed SV options evenly across the rating structure will need to be made to IPART. The current and proposed minimums are detailed in the following table.

Under the one-year option, the increase in general rates for all 382 properties currently on the minimum rate will be \$212. Almost all these properties are located in Grong Grong and/or Barellan.

Table 8 Proposed minimum rates

Rate Category	Current Minimum Amount	Minimum for 2024-25	Minimum for 2025-26
Residential Ordinary – 1 year SV	\$510	\$720	\$740
Residential Ordinary – 2 year SV	\$510	\$640	\$755
Business Ordinary – 1 year SV	\$510	\$720	\$740
Business Ordinary – 2 year SV	\$510	\$640	\$755
Business Narrandera – 1 year SV	\$570	\$810	\$825

Business Narrandera – 2 year SV	\$570	\$715	\$845
Farmland Ordinary – 1 year SV	\$510	\$720	\$740
Farmland Ordinary – 2 year SV	\$510	\$640	\$755

How do my rates compare to other councils?

The Office of Local Government groups councils with other similar councils for comparison. Narrandera Shire Council is in Group 10 with 22 other councils. This group of councils represents a diverse cross-section of geographies and communities across NSW. The neighbouring councils of Leeton and Griffith have also been included for comparative purposes.

Firstly, the below table reflects the average rates by category paid by residents of similar councils in 2021-22. When compared with rates paid by other like-size councils, Narrandera Shire Council's average residential and business rates are currently clearly lower than most other councils; farmland rates are marginally above the average.

Table 9 – 2021-22 Average residential, business and farmland rates compared to other councils.

2021/22 Average Rates: Group 10 councils	Average Residential Rate (\$)	Average Business Rate (\$)	Average Farmland Rate (\$)
Berrigan	771	1,427	2,351
Blayney	1,280	1,134	3,110
Cobar	1,552	1,165	1,683
Dungog	1,272	1,319	3,254
Edward River	1,051	2,089	3,319
Forbes	890	2,823	2,628
Glen Innes Severn	881	1,596	3,189
Gwydir	769	1,702	5,771
Junee	829	2,106	3,303
Kyogle	1,134	1,422	1,974
Lachlan	570	735	3,449
Liverpool Plains	819	1,433	4,774
Narrandera	688	1,233	3,669
Narromine	778	1,948	4,235
Oberon	959	1,094	2,019
Temora	660	1,481	2,228
Tenterfield	637	1,388	1,629
Upper Lachlan	575	1,450	1,910
Uralla	715	680	4,027
Walgett	398	766	4,840

Warrumbungle	625	1,717	3,186
Wentworth	793	6,237	1,777
Leeton	1,112	976	3,714
Griffith	1,078	2,865	3,815
Average Group 10	848	1,679	3,106
Median Group 10	785	1,430	3,187

Table 10 2024/25 Estimated average residential, business and farmland rates compared to other councils.

2024-25 Average Rates: Group 10 councils	Estimated Average Residential Rate (\$)	Estimated Average Farmland Rate (\$)	Estimated Average Business Rate (\$)
Berrigan	848	2,587	1,570
Blayney	1,408	3,421	1,247
Cobar	1,719	1,865	1,291
Dungog	1,409	3,604	1,461
Edward River	1,157	3,655	2,301
Forbes	979	2,891	3,105
Glen Innes Severn	973	3,521	1,763
Gwydir	964	7,236	2,134
Junee	912	3,634	2,316
Kyogle	1,248	2,172	1,565
Lachlan	715	4,330	923
Liverpool Plains	1,235	7,201	2,162
Narrandera	1,051	5,599	1,790
Narromine	855	4,659	2,143
Oberon	1,055	2,221	1,204
Temora	1,009	3,403	2,261
Tenterfield	701	1,792	1,527
Upper Lachlan	633	2,101	1,595
Uralla	786	4,431	748
Walgett	438	5,325	843
Warrumbungle	687	3,505	1,889
Wentworth	873	1,955	6,862
Leeton	1,223	4,086	1,074

Griffith	1,260	4,461	3,350
Average Group 10	971	3,580	1,921
Median Group 10	969	3,506	1,693

How does this improve Council's financial sustainability?

The draft LTFP has been prepared in accordance with the *Integrated Planning and Reporting Guidelines* issued by the Office of Local Government and prescribed under the Act and includes three (3) financial modelling scenarios. In addition to a base case scenario, the LTFP models two (2) Special Variation scenarios to address Council's ongoing financial sustainability. The two SV options were designed to ensure Council can successfully:

- Generate an operating surplus, before capital income
- Fully fund all required asset renewals and maintenance
- Return to and maintain a positive unrestricted cash position, and
- Deliver all improvement program initiatives.

The proposed SV increases in each of the two (2) scenarios are largely similar; the key difference is the number of years required to implement the full extent of the rate increase. Of the above scenarios, the **Sustainability Scenario – one year SV** is the preferred option as it balances Council's sustainability needs with having a lower overall increase in rates for household budgets through implementing the SV. However, following the community consultation Council will determine if it will apply to the IPART for a permanent cumulative rate increase and what option is preferred from 1 July 2024.

A combination of the savings from the improvement plan and proposed Special Variation will enable Council to deliver current services and improve assets to the community, while becoming financially sustainable over the longer term. The proposed Special Variation arrests the ongoing deficits seen in the base case and allows Council to maintain surpluses; that is revenues will fully cover expected operating expenditure. Scenarios 2 and 3 include receipt of some capital grants to renew community assets at a reduced level.

Figure 4 - General Fund forecast operating result

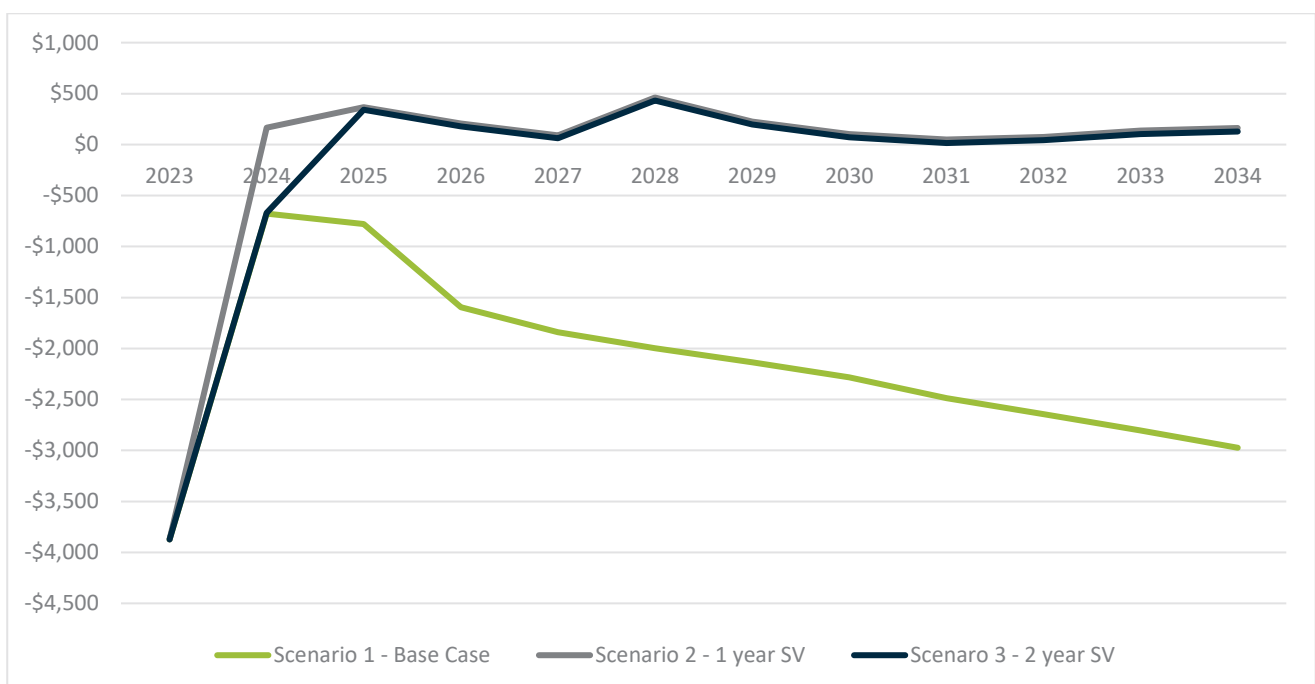
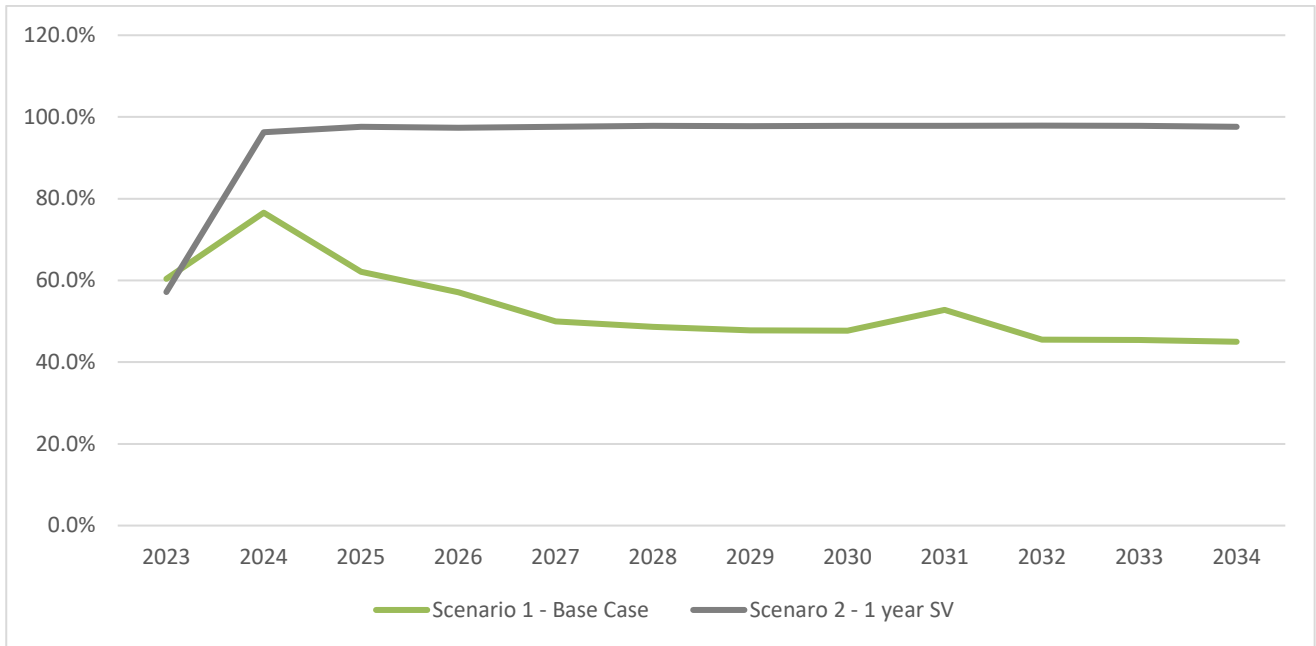
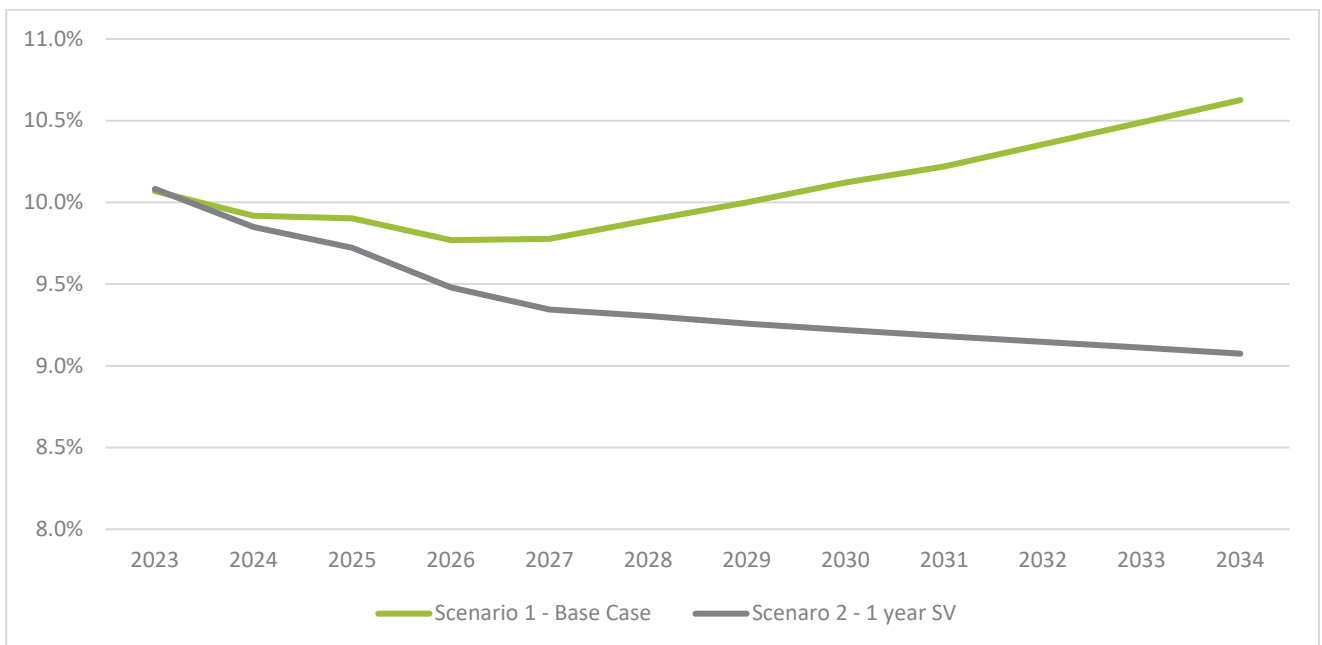


Figure 5 - Forecast asset renewal ratio



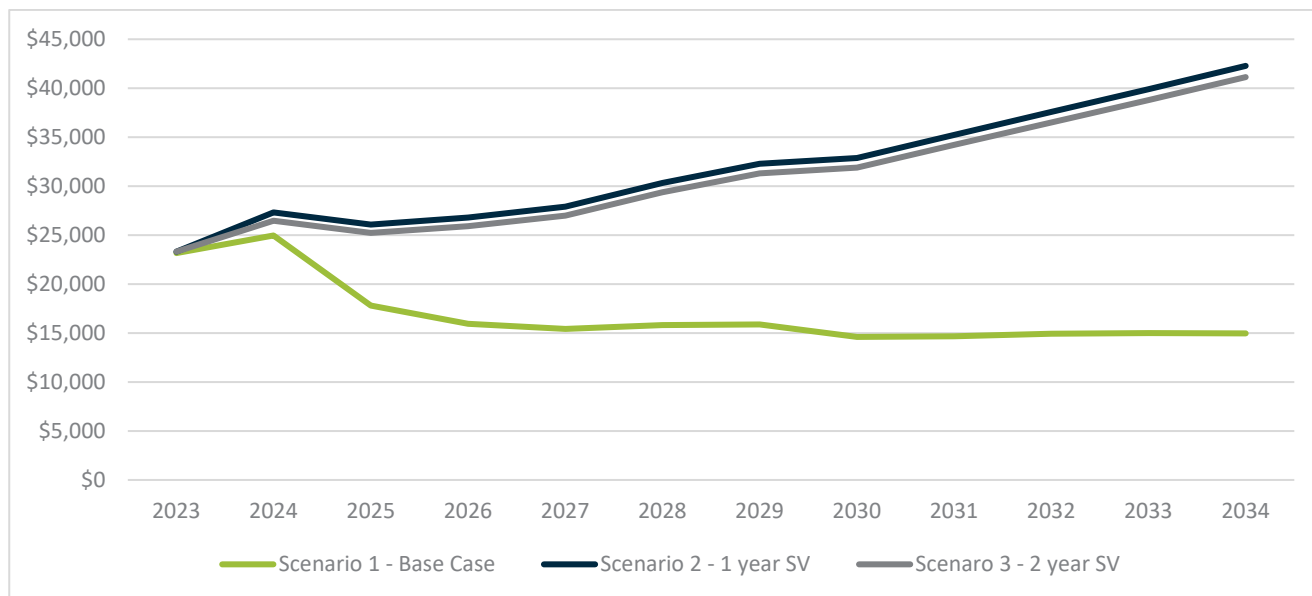
With a forecast modest surplus, Council can borrow to invest in its asset upgrade and renewal and start to address the backlog of infrastructure that is below a satisfactory condition. Over the 10-year forecast, Council would be able to sustain an asset renewal rate averaging 100%, equivalent to the benchmark. As a result, Council would be able to reduce its backlog (cost to bring asset to a satisfactory level) from approximately 10.6% of its total asset value to 9.1% over the ten-year forecast period.

Figure 6 - Forecast backlog ratio



Addressing the operating deficits, will also resolve the cash position, in particular the unrestricted cash position (from a negative \$3.6M annual average to \$2.7M annual average). General funds overall estimated cash position is detailed in the following chart.

Figure 7 - General Fund forecast total cash position.



Councils need to hold sufficient unrestricted cash to fund day-to-day operations. This is particularly so at the end of the financial year and in the first months of the new year before rate collections are received. Council is always carrying “receivables” and cannot dip into externally restricted cash to fund operations.

Sound financial management encourages planning for modest operating surpluses and building of unrestricted cash reserves over time. This enables councils to respond to events that cannot be predicted or planned for in their LTFFP. Narrandera Shire Council has experienced these events and, while what exactly will occur in the future is somewhat unpredictable, it is prudent that it plans for similar “unknown or unplanned” expenditure. A typical example of this occurred with 2022 flood events, whereby Council has carried out extensive restoration works which we expect will be approved and reimbursed by the government but has not yet been reimbursed. The above forecast unrestricted cash position does not consider any movements in internal restrictions. As Council builds its cash balances over time, it will gain some flexibility in managing its available cash reserves.

Council has updated its LTFFP to show the impacts of both the base case (no SV) and the proposed SV case scenario. This will be on exhibition during the SV consultation period.

What would happen if Council does not increase its rates by the proposed amounts?

Council’s current base case is not financially sustainable as it involves significant General Fund deficits of an average of approximately \$2.0M over the 10-year forecast. On its current path, Council would likely run out of unrestricted cash to fund its day-to-day operations in 2024-25.

If Council could not increase its rates revenue through an SV, it would need to cut its operating costs by around \$2.0M pa and continue not to adequately fund its asset renewal. Council would be faced with the decision to stop or significantly reduce discretionary services such as cultural or recreational services and facilities. Council’s infrastructure would also continue to deteriorate without sufficient funds to maintain them fit for purpose.

Can the increase be afforded?

As part of this process, Morrison Low was engaged to undertake a study and prepare a report on affordability which will be placed on public exhibition and will form part of the application to the IPART and is attached to this report.

The Capacity to Pay report concludes that there is an uneven spread of relative advantage and disadvantage across the shire and the relative level of advantage is notably lower than both the regional and state averages. The report also notes, and I refer to Table 17 on p21, that the average household disposable income increased by 14% in the five years to 2021-22 and the net savings almost doubled during the same period. The most disadvantaged in our community are those renting public housing and are unlikely to be affected by the rate increase.

As indicated earlier in the report most residential properties in Grong Grong, Barellan and in fact Narrandera will have an increase of less than the average.

Council has recently reviewed and has in place a Rates Charges Hardship Policy that applies to all residential properties. The Capacity to Pay report also discusses the results of the 2021 Community Satisfaction Survey in which there was an emphasised desire from the community for Council to increase investments across ten services and facilities.

RELEVANCE TO COMMUNITY STRATEGIC PLAN AND OTHER STRATEGIES / MASTERPLANS / STUDIES**Theme**

5 - Our Leadership

Strategy

5.1 - Have a Council that provides leadership through actions and effective communication.

Action

5.1.15 - Maximise the revenue streams of Council.

ISSUES AND IMPLICATIONS**Policy**

- Narrandera Shire Community Strategic Plan
- Narrandera Shire Delivery Plan
- Rates Charges Financial Hardship Policy 2022

Financial

- Revised Asset Management Plans and LTFP embodying the financial aspects of the recommendations are attached.
- Capacity to Pay Report

Legal / Statutory

- Local Government Act 1993 and General Regulation
- OLG guidelines
- IPART SV Applications guidelines

Community Engagement / Communication

- A Community Engagement Plan has been prepared and is attached to this report. The plan describes the extensive engagement proposed and includes:
 - Phase 1 – Create community awareness and provide information.
 - Phase 2 – Consultation
 - Phase 3 – Public Exhibition.
- Consultation will move into full strength with live-streaming of the Council meeting and the decision whether to proceed to consultation. Utilising the full range of media platforms and personalised individual letters to ratepayers, coupled with information sessions planned across the shire, the process will conclude with an outcomes report to the November Council meeting.

Human Resources / Industrial Relations

- Council staff involved in the preparation of the application and associated documents.
- Morrison Low consultants appointed to advise on the application.

RISKS

The risk posed by this process is manifest in several aspects.

- Firstly, the Council could decide to not proceed with the application or to proceed to apply for a lesser amount of an increase. Either outcome would require significant change to Council operations in the long-term as available funds fail to meet the ongoing expenses of Council. It would also mean, in all likelihood, that the stormwater project could not proceed, placing businesses, residences and Teloca House at risk of flooding in the future and other opportunities would be lost.
- Secondly, the application could be unsuccessful and that would also require significant change to Council operations in the long-term as available funds fail to meet the ongoing expenses of Council. It would also mean, in all likelihood, that the stormwater project could not proceed, placing businesses, residences and Teloca House at risk of flooding in the future and other opportunities would be lost.
- Thirdly, there is a risk that the successful implementation of the increase will cause hardship amongst a small number of residents. That risk has been discussed in full in the Capacity to Pay Report and can be mitigated using the hardship policy.

OPTIONS

1. The recommended option of consulting on taking the proposal for a potential application to IPART for a permanent special variation of either a one year SV of 41.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) or a two year SV of 25.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) and 18.0 per cent in 2025-26 (including the forecasted rate peg of 2.5 per cent), representing a cumulative Special Variation of 48.1 per cent over two years, as detailed in the report.
2. To proceed to consultation for a lesser amount which is not preferred.
3. To proceed to consultation for a similar amount but implemented over more than one year.
4. To not proceed with community consultation at this time

CONCLUSION

This report has presented in detail an analysis of Council's current and long-term financial position and outlines the drivers for those outcomes. It also identifies implications for service levels and impact on residents. The need to upgrade the stormwater system in Narrandera is just one component of the challenges faced and is one of many factors impacting on the long-term sustainability of the organisation.

Narrandera Shire residents enjoy the standard of roads, recreation facilities and community infrastructure equal to any in the region. To continue to renew those assets at that level is entirely dependent upon an increase in rate income.

The community demands and expects more than just the basic traditional Council services. It, and higher levels of government, expects a council that can do much more – contemporary in its outlook and capable of providing modern services, leading the community in responding to future challenges and opportunities. Importantly, for that to be possible a change in the income expenditure balance is required.

RECOMMENDATION

That Council:

1. Endorses the revised draft Long-Term Financial Plan as part of the Updated Resourcing Strategy, appended at Attachment 5, for public exhibition for a period, commencing 21 September 2023 and ending 31 October 2023.
2. Endorses the revised draft Delivery Program, appended at Attachment 2, for public exhibition for a period, commencing 21 September 2023 and ending 31 October 2023.
3. Endorses the undertaking of community consultation on a potential application to the Independent Pricing and Regulatory Tribunal for a proposed permanent Special Variation (SV) of either a one year SV of 41.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) or a two year SV of 25.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) and 18.0 per cent in 2025-26 (including the forecasted rate peg of 2.5 per cent), representing a cumulative Special Variation of 48.1 per cent over two years, as detailed in the report
4. Receives a further report regarding community consultation undertaken to determine any final application to be made to the Independent Pricing and Regulatory Tribunal for a Special Variation.