AGENDA

Supplementary
Ordinary Council Meeting

Tuesday, 28 November 2023

Date: Tuesday, 28 November 2023

Time: 1:00 PM

Location: Moulamein Bowling Club
Endeavour Drive
Moulamein NSW 2733

Terry Dodds
Chief Executive Officer

Order Of Business

9.2 DIRECTOR CORPORATE SERVICES REPORT AND SUPPLEMENTARY MATTERS

9.2.10 REQUEST TO THE MINISTER NOT TO FILL THE VACANCY RESULTING FROM THE RESIGNATION OF COUNCILLOR BILKEY

File Number: -

Author: Sandra Gordon, Manager Governance & Risk

Authoriser: Stephen Fernando, Director Corporate Services

RECOMMENDATION

That:

Council resolves to seek approval from the Minister of Local Government that an order is made not to fill the casual vacancy of an elected member of Council.

DISCUSSION

On the 25th October 2023 Council received a letter of resignation from Councillor Chris Bilkey.

Under Part 5 Clause 294 of the Local Government Act 1993 that indicates that if a resignation by a Councillor is received within 18 months of the next election the Minister may order that the vacancy not be filled.

Council immediately wrote, following receipt of the letter of resignation, to the Minister of Local Government and the Deputy Secretary of the Office of Local Government as required by Clause 285 of the Local Government Regulations 2021, advising them of the casual vacancy of an elected member of Council and requesting such an order.

However, under Section 377(1)(s) of the Local Government Act 1993 the making of an application, or the giving of a notice, to the Governor or Minister is a non-delegable role of a Council.

In order for the Office of Local Government to recommend to the Minister, or his delegate, that an order is made not to fill the vacancy under Section 294 of the Act, Council must provide a copy of its meeting minutes at which it resolved to seek the Minister's approval to grant this order.

Which this report and recommendation is endeavouring to fulfil.

The relevant sections of the Acts and Regulations.

Local Government Act 1993

Part 5 How are casual vacancies filled?
291 By-elections
If a casual vacancy occurs in a civic office, the office is to be filled by a by-election, subject to this Part.

294 Dispensing with by-elections

(1) This section applies if a casual vacancy occurs in the office of a councillor, including a mayor elected by the electors of an area, within 18 months before the date specified for the next ordinary election of the councillors for the area.

(2) If such a casual vacancy occurs in the office of a councillor (but not the office of a mayor elected by the electors), the Minister may, on the application of the council—
   (a) order that the vacancy not be filled, or
   (b) order the holding on a stated day of a by-election to fill the vacancy and revoke any earlier order made under paragraph (a).

(3) If such a casual vacancy occurs in the office of a mayor elected by the electors, the casual vacancy is to be filled by the Governor appointing to the vacant office a councillor nominated by the council.

(4) If the council does not nominate a councillor for the purposes of subsection (3), the Governor may appoint one of the councillors to the vacant office.

377 General power of the council to delegate

(1) A council may, by resolution, delegate to the general manager or any other person or body (not including another employee of the council) any of the functions of the council under this or any other Act, other than the following—

- (a) the appointment of a general manager,
- (b) the making of a rate,
- (c) a determination under section 549 as to the levying of a rate,
- (d) the making of a charge,
- (e) the fixing of a fee,
- (f) the borrowing of money,
- (g) the voting of money for expenditure on its works, services or operations,
- (h) the compulsory acquisition, purchase, sale, exchange or surrender of any land or other property (but not including the sale of items of plant or equipment),
- (i) the acceptance of tenders to provide services currently provided by members of staff of the council,
- (j) the adoption of an operational plan under section 405,
- (k) the adoption of a financial statement included in an annual financial report,
- (l) a decision to classify or reclassify public land under Division 1 of Part 2 of Chapter 6,
- (m) the fixing of an amount or rate for the carrying out by the council of work on private land,
- (n) the decision to carry out work on private land for an amount that is less than the amount or rate fixed by the council for the carrying out of any such work, (o) the review of a determination made by the council, and not by a delegate of the council, of an application for approval or an application that may be reviewed under section 82A of the Environmental Planning and Assessment Act 1979,
- (p) the power of the council to authorise the use of reasonable force for the purpose of gaining entry to premises under section 194,
- (q) a decision under section 356 to contribute money or otherwise grant financial assistance to persons,
- (r) a decision under section 234 to grant leave of absence to the holder of a civic office,
- (s) the making of an application, or the giving of a notice, to the Governor or Minister,
- (t) this power of delegation,
- (u) any function under this or any other Act that is expressly required to be exercised by resolution of the council.

Local Government (General) Regulation 2021 [NSW]

Division 4 Notice of election and nominations
285 Notification of vacancy

When a civic office in an area becomes vacant, the general manager of the council of the area is to give notice of the vacancy within 7 days—

- (a) to the Secretary and the Chief Executive Officer of Local Government NSW if the vacancy is in the office of a mayor elected by councillors, or
- (b) to the Electoral Commissioner, the Secretary and the Chief Executive Officer of Local Government NSW in any other case.

ATTACHMENTS

Nil

10 NOTICE OF MOTIONS/QUESTIONS WITH NOTICE

10.4 RESPONSE TO CR WEYRICH QUESTION ON NOTICE - TERRY DODDS

File Number: -

Author: Terry Dodds, Chief Executive Officer

Authoriser: Terry Dodds, Chief Executive Officer

RECOMMENDATION

THAT the response to the request to receive a preliminary report on the consequences of no Special Rates Variation (SRV) raised by Councillor Cr Thomas Weyrich be received and noted.

Forward

There isn't simply one consequence of not gaining the extra rates income to maintain our current level of services across council. Not only is the result not simply explainable, but it's also difficult to calculate due to the substantial number of variables and influences. Short term 'sugar hits' (potential land and building sales) will temporarily improve the situation and give some relief to both the depreciation and operational expenditure, but the quantum is small. Not only is the quantum small, but it's also easier said than done. There'll be just as much community back-lash when retiring assets as there was in starting the conversation about raising rates.

There are two fundamental financial situations to understand and carefully consider. The first relates to Murray River Council's cash position, the second position is determined once the cost of consuming the assets is removed from the cash balance which is called the Operating Result. Both tell different stories. The former explains in overly simplistic terms when the cash will run out. The second tells the reader whether we are living beyond our means.

Cash Position

Council's main aim is that of financial sustainability. At the core to this is cash: the need to have sufficient funds to cover the day-to-day operations now and into the future over the long-term financial plan. When we look at the financial sustainability, we need to look at the General Fund in isolation – excluding the Water, Sewer, and Waste funds. In the October 2023 Investments and Reserves Report to council, there was a reported total of $51.58 million, of which the General Fund only has $7.47 million to fund day to day operations: this represents around 14% of total cash and investments total. This means, for every $100 in the bank, council only has discretionary powers over $14, the rest is externally restricted for specific purposes. (There have been two recent examples where councils have gotten into trouble by spending externally restricted reserves, and another example that hasn't been as overtly communicated that the author is aware of.)

Council's 2023-24 Operational Plan, on page 24, shows a four-year cashflow forecast drop for the General Fund of $10.84 million, decreasing from $25.41 million at the start of 2023/24 fiscal year down to $14.57 million by end of 2026/27 fiscal year. Council's ten-year long-term financial plan (only) estimates cash for the General Fund to be around $16.01 million by 2032/33 fiscal year – this is an overall decrease of $9.4 million over the forward ten-year plan. No matter how this is looked at, this is not sustainable.

The information contained in council's current IP&R plans already factor in some of the one-off cash injections and even factor in the savings achieved so far over the forward estimates, like the 'Saving your 5.6%' that the Administration has been working on.

The answer for council lies in a multitude of short-term and long-term actions to improve the financial sustainability of council. In summary, there is a strong risk of council having a cashflow problem in 4 years unless meaningful change is implemented.

The Operating Result

The cascading cumulative effect will require downwards adjustments of service levels every year the income doesn't match. The only variable is by how much. This report isn't intended to provide a solution, rather answer the question of what repercussions council, ratepayers, and staff will face.

The challenge circa 74 from 128 councils across NSW face, which is no different here at Murray River Council, is that income is not keeping up with expenditure and hasn't been for decades, resulting in the slow worsening of our management of the over 1 billion dollars of assets under our control (measured by the financial ratios declining).

Historically the government, through IPART, relied on councils delivering an 'efficiency dividend' each year to close the gap between inflation and the rates cap imposed by law by the State. By-and-large when inflation and growth was steady each year, with improvements in technology and many other factors, many (mainly metro) councils were close to the breakeven point. Close, but not quite. Most rural councils slowly reduced expenditure in their largest expenditure category – transportation – as the tyranny of distance and sparce populations left less room for efficiency dividends to be harvested. (This will be explained later.)

IPART presented to the NSW Country Mayors forum in August of this year, and for the first time admitted their reliance on efficiency dividends and the fact they deliberately reduced each years' rates cap under that regime. IPART also admitted that the days of efficiency dividends being relied upon were over and that they were about to release a report defining their new methodology.

Unfortunately, this methodology is also flawed, as IPARTs determination on what each years' rates cap will be is two years in arrears. This means, that despite inflation circulating above seven percent (7.8%) the rates cap for next year will not be based on pre-hyper inflated numbers we've lived through. The cap is likely to be circa 4.5-5.5%.

Councils will effectively have to bear the difference, not only in the 24/25 fiscal year - with inflation likely to be much higher than that years' cap anyway - but negate the losses from the previous year: when the cap was about three percent (3%) less than inflation. Although it's expected that when inflation drops, the cap two years post will be higher. In the interim councils will have to fund the gap (yet again). This conundrum alone, without the added challenge of not matching income to expenses, will be extraordinarily challenging to overcome.

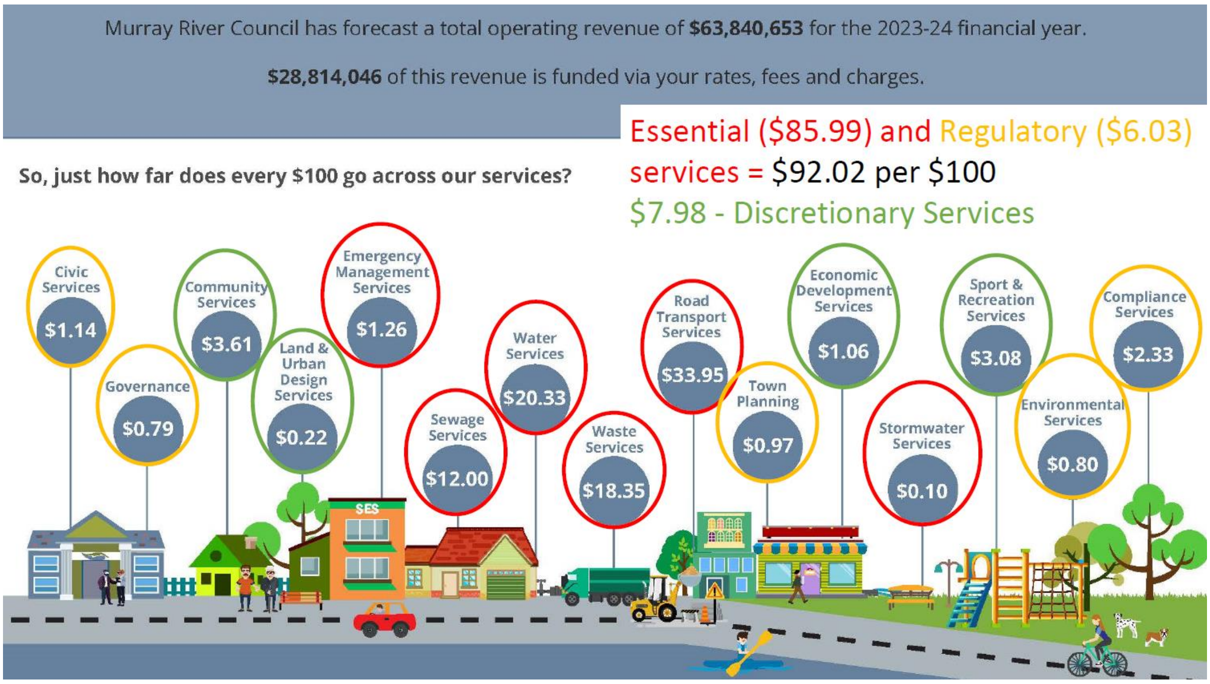
Living on the Credit Card

What does all this mean? In overly simplistic terms it means we're living on the next generations' credit card (reduction of intergenerational equity), calculated by the increasing backlog (indefinitely 'deferred' maintenance), now sitting at $44 million. It will keep accumulating until we meet the breakeven point.

The breakeven point will only be met with an increase, not a decrease, in applied funding. Only at that time, will council no longer add to the accumulating backlog. Please note that the existing backlog won't be retired either. The breakeven point only means that no further backlogs will be added.

The financial situation local governments face is complex. The author felt that the public didn't comprehend that the proposed nine-point-five percent (9.5%) Special Rates Variation included all future rates caps over the next five years, which are determined by inflation figures two years in arrears. The author also felt that the public didn't comprehend what the ramifications would be long-term.

Options



The majority of those in attendance at the Extra Ordinary Council meeting were rural landholders. It is likely that council will have little choice but to concentrate the reduction of services in the road transport area. The reason that the transportation budget will be most affected, is that one in three dollars are spent on roads (most of that in the Murray and Wakool Wards), so it is the far biggest fund to use to enable the required reduction of the overall expenditure.

The other majors, such as water, sewer and waste are in separate funding streams (user pays charges). The total expenditure in all the discretionary services combined only equate to 7.98%. Even reducing those more discretionary services by twenty percent will supply a miniscule dividend of only 1.6% overall. They are also the services most loved by the public too, which will create a new and different challenge!

It is expected that removing the cross-subsidy - general rates subsidising water, sewer, and waste charges - will assist. The overall amount of assistance is yet to be determined. However, those (circa) 8500 residents in towns and villages will pay more for the 'charges', so the anxiety will still be felt but the cause will be labelled differently.

Despite potential slight to moderate improvements, the size of the backlog is still expected to rise, and service levels drop. Again, as previously mentioned, the amount of both is extremely difficult to determine. But if history is anything to go by, we cannot deny the macro-level trend, both at Murray River Council, right across the State, and Nationally.

The transportation assets will be more difficult to maintain. The crescendo will reach a point where the pro-active works that thwart the need to complete more expensive treatments aren't able to be funded. For example, the ratio of resealing a bitumen road versus rebuilding the road is approximately 1:10.

If we allow too many bitumen roads to fail, by deferring the resealing, we may get to the stage we simply cannot catch up, (as it's 10X more expensive). This will mean that it will be predominantly the unsealed roads that will need a reduction in expenditure, as the cost to bring back to original standard isn't as onerous. This is ironic, as most of the guests at the Extra Ordinary Council Meeting in November, who were opposing even starting the consultation process regards any Special Rates Variation, were from the rural areas who'll be most affected (transportation network maintenance).

One avenue available to council is to stop resealing some of the lessor trafficked sealed roads and return to gravel. This will be a sub-optimal situation and only used as a last resort. Only time will tell.

We're not alone. Councils in rural areas over the last thirty years have been forced to balance budgets by reducing transportation expenditure. This was made clear during the 2023 Local Government NSW Conference during a presentation by Mr. Peter Tegart (ex-CEO) who tracked the reduction of expenditure on transportation assets over the last thirty or so years by NSW councils; (the average of) which used their largest fund to balance their budgets year in, year out. Resulting in the infrastructure backlog increasing right across the board and sustainability ratios decreasing. The below pie charts show that in 1995 rural-remote councils spent 58% on transport, yet in 2019 the figure had been reduced to 38%. Murray River Council spends 34% on transportation.

1995 2019

In writing this response to Councillor Weyrich's Question on Notice, the author spoke to the ex- President of the Institute of Public Works Engineering Australasia (IPWEA) who provided council with a startling figure confirming the ubiquitous use of road budgets to maintain solvency. The NSW Roads & Transport Directorate recently published a report tabling that the annual shortfall on transportation expenditure in the 94 regional and outer metro council areas in NSW was $681 million.

There was some good news, in that the Roads to Recovery funding will rise which will assist councils improve the outcome over the next five years. As usual with government announcements though, *the devil will be in the detail*. In speaking about the future increase in Roads to Recovery Funding with IPWEA it was discovered that there is advocacy being applied at high levels that any increases in externally (Federal) funded transportation will be subject to councils not inversely reducing internal funding. It appears that the government fears that increases from the highest level will be diluted by a reduction of expenditure at the local level, the result negating the potential improvement in the national local road network. Whether this cascades to the existing arrangement with Roads to Recovery is indeterminable. (Author: if that ends up being the case it is unlikely to be retrospective.)

The recently released Grattan Report, '*Potholes and pitfalls: How to fix local roads,*' paints a bleak picture, also supporting the NSW Roads and Transport Directorate's findings:

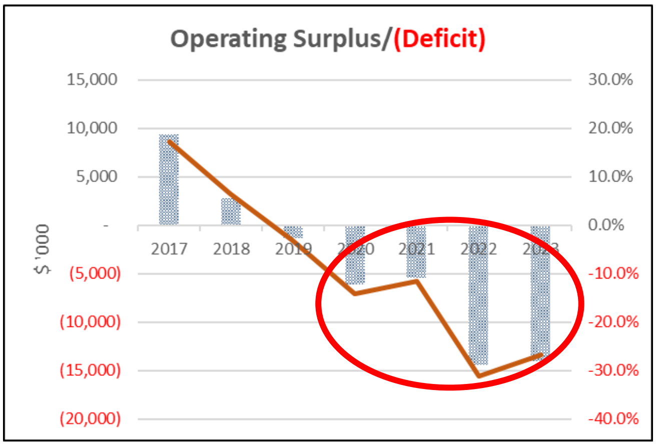
'Many councils do not have a realistic way of raising the money they need to keep their roads in good condition, especially rural and remote councils. This funding would provide an extra 25 per cent on top of what councils are currently spending on road maintenance. A billion dollars is only about 10 per cent of what the federal government spent on roads last year.'

The Remaining Funds

If we remove transportation, water, sewer, waste, and emergency management from every $100 we spend, the next largest percentage expenditure is a miniscule $3.61 (Community Services), followed by $3.08 (Sport and Recreational Services). Therefore, it is quite easy to see why rural and fringe metro councils, in balancing budgets over decades, have reduced expenditure on transportation. Community services, libraries, parks, gardens, pools, cycleways, wharfs, jetties, and open space are usually the most enjoyed services in all local government areas, making cuts in those extremely difficult.

There are some unknown variables which may yet prove positive but are even more difficult to determine. The Disaster Recovery Funding Arrangements (DRFA) will allow councils to remediate most of the damage caused by the 2022 floods. The definition of 'most' is vague, as the State and Federal Government bureaucracies are extremely difficult to deal with and consonantly throw up obstacles in the financial reconciliation process to either; slow down the recovery of money, coerce councils to simply give up in applying, not pay at all, or lower the final payment.

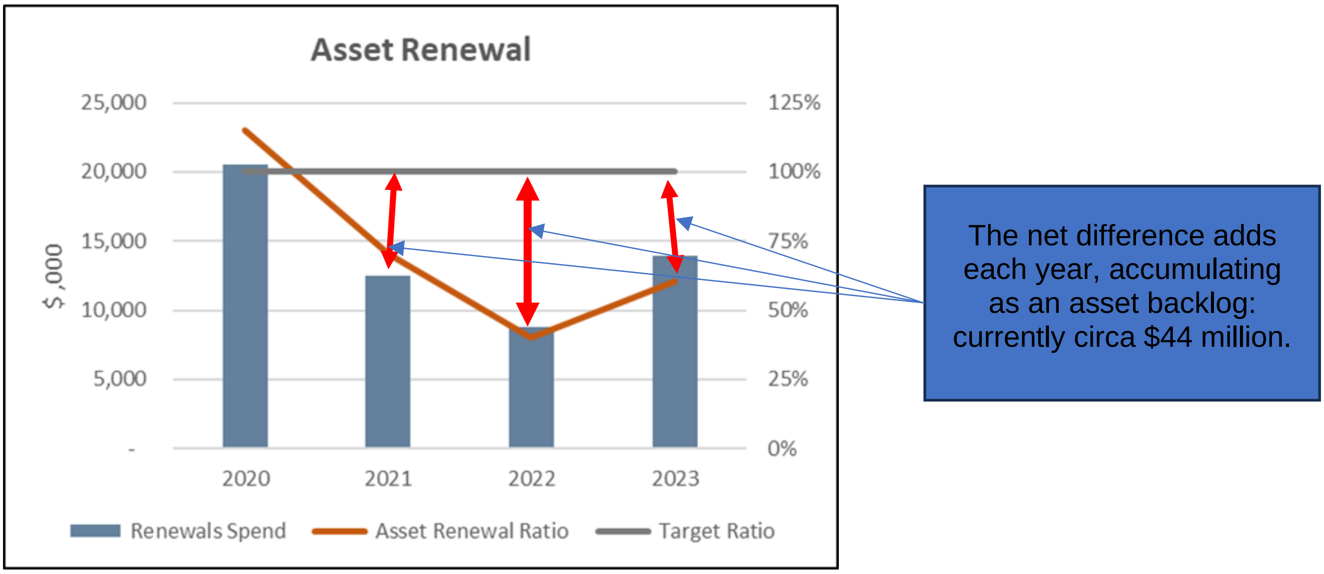
The slow reduction of our funding capability is underpinned by a great many factors, which I'll discuss. As stated, we're not alone; seventy-four councils across NSW (74) have negative sustainability ratios. The average (ratio) across NSW now is circa minus six-point five percent (-6.5%), whereas six years ago the average was in the positive.



Murray River Council's Surplus/Deficit is circa -27%. (This is a 'Consolidated' result; meaning it takes into consideration water, sewer, and waste, which artificially improve the overall situation. The consolidated result shields the true story because the transport assets equate to 61% of everything we own. As a broad-brush indicator though, it does help though.)

What this means in simple terms is that we're **consuming assets faster than we're replacing or replenishing them**. We now have a backlog of circa $44 Million. The backlog will accumulate every year we don't reach the breakeven point. Intergenerational equity is a fundamental part of the whole asset management framework: this will be affected. **If we substitute the word 'depreciation' for 'backlog' we better describe the financial situation in local government. As depreciation is more a business term and viewed favourably during tax time by businesses.**

Given this continuing, we'll get to the stage that recovering isn't financially achievable, as the quantum of the backlog will be unaffordable. Those using the assets in the future will have to be satisfied with a lower standard of living. In the immediate term, risk will rise, customer satisfaction and staff morale will decrease, and councillors will receive more complaints (particularly in areas with many unsealed roads).



It's more complex than simply living within your means, as council must address issues we're legislated to comply with, have no control over at worst or little control at best, and often don't even know we even have the extra accountability until informed post the decision of the government (legislative or regulatory).

During communications with bureaucrats employed in the Federal Government only this week council learnt that the Canberra bubble has even come up with a new name for devolving accountabilities to local government. **Local government have long named this sleight of hand as 'cost shifting.' The new term in Federal circles is 'risk shedding.'** The context of learning the new vernacular, for the oldest trick in the book the Federal and State Governments use (cost-shifting), related to the Federal Government openly discussing how to coerce local government into the social housing and aged accommodation spaces.

Some additional contexts:

- Modern Standard Equivalent: Every time there is a change in any National Standard, the revised compliance is always more expensive to deliver than what it replaces. So even if we were to reserve what we thought the value was at the time, it would be less than required due to 'improvements' (standards increasing) when replacing.
- The value of money is less over time. Inflation means that what we spend in the future won't replace or replenish assets according to today's values.
- The State Government has historically been extremely proficient at shifting costs onto local government. This is likely to accelerate, as both the Federal and State Government try to recover from the expenditure during COVID and move the two latest *elephants in the room* from their purview: social housing and aged accommodation.
- Existing cost-shifting in NSW (2017 figures):
  - Councils paid $127 million in mandatory local government contributions to fund the state government's emergency service agencies. The Emergency Services Levy was the number one contributor to the cost shifting burden on rural councils, the second highest for regional councils and third highest for metropolitan councils (old figures: 2015/16).
  - The NSW Government makes the lowest per capita contribution to public libraries of any state/territory government in Australia at just $3.76 per capita. Councils footed the bill for a $130 million shortfall in funding required to operate the state's 450 public libraries.
  - Councils lost $61 million through the NSW Government's failure to fully reimburse councils for mandatory pensioner rate rebates, unlike all other state/territory governments in Australia.

  - Councils incur significant costs for activities required to meet regulatory burdens associated with companion animals, noxious weeds, flood controls, and many other activities (E.g., Puppy Farm auditing).
  - The charges for planning services are determined by the State and don't go anywhere near cost recovery. (Yet the cost of hiring qualified staff has risen significantly.)
  - Etc. Etc. Etc.
- Politicians of all persuasions are excellent at taking credit, getting the golden scissors out to cut ribbons, quite vocal, and remarkably photogenic, when grant funding is given. Usually that creates new assets to maintain and depreciate yet grants rarely fund the maintenance of existing assets. Governments are inversely proportionally quiet regards the often-surreptitious ways they transfer costs to local government. This topic is mentioned at almost every Local Government Association of NSW annual meeting with no change to the modus of operandi from the State in decades. As local government isn't recognised in the constitution, we have no say over what the State dictates.
- We are subservient to the State and Federal Government because we cannot raise the income required on a population per square kilometre basis. But the relationship is reciprocal as the 88% of people living within 50km of coastal areas, by-and-large, are dependent on the agricultural sector. The agricultural sector contributes circa 23% of Australia's GDP, and 38% of that is from grain.
- In ***Cost Shifting 2023: How State Costs Eat Council Rates***, released by Local Government NSW, LGNSW says the **burden is now valued at more than $1.36 billion per year, up 78% from $820 million in just over five years. <u>That's the equivalent of more than $460 per ratepayer annually</u>.**
- Dwindling funding. State and federal government funding for critical services and infrastructure is dwindling as local government responsibilities become greater. Financial Assistance Grants – the funding provided by the federal government to help councils provide local services and infrastructure – were basically frozen by a change in methodology in 1989 and have fallen from 1% of Commonwealth taxation revenue to 0.53%. **That's half as much funding going back to the grass roots level of government.**
- Natural disasters and ageing infrastructure. State and federal funding has not kept pace with the need to repair and replace infrastructure.

Sobering Statistics

The NSW Country Mayors Members' Survey this year found **almost 75% of member councils in rural, regional, and remote NSW had either implemented a Special Rate Variation in the past two years or thought they would have to do so in the next five**. From the numbers of councils now forced to pursue a special rate variation, it appears this indication was <u>very conservative</u>.

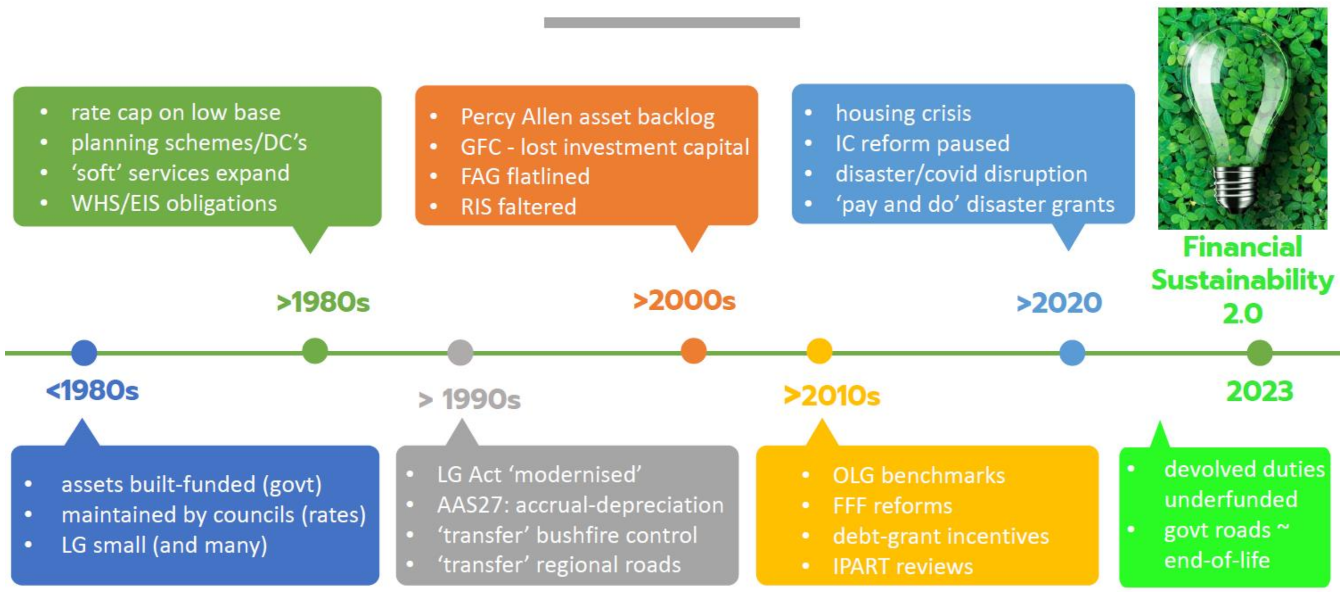
Seventeen Councils were granted special rate variations (SRV) in 2023-24, the highest number in many years. Among these approvals was the largest-ever permanent cumulative increase – Strathfield with 73.1% (92.83% compounded). Four of the approved SRVs were in the top 10 ever granted by IPART, and eight were in the top 20.

Up until the year 2000, both states and local government received a Financial Assistance Grant which was indexed on the same basis, but the introduction of the Goods and Services Tax (GST) in that year saw the states receiving a GST grant, linked to the GST tax revenue. FAGs were then equal to 1% of CTR. While GST revenue continues to increase at a higher rate than Financial Assistance Grants, the grants as a proportion of CTR have been steadily declining

The table above clearly shows the disproportionate income (tax) versus service provision and asset depreciation.

The diagram (below) shows that the **population has risen**, yet the **FAGs have substantially declined**.

This diagram, below, shows the ineffective policies, changes, reviews, trends, and other calamities that have been a negative effect on local government since 1980.



Successive governments over decades have mostly concluded there is a huge problem, yet not acted.

LG Grants Commission Report (1977)

- the property tax is an inadequate source of revenue to meet all the demands to provide services that extend far beyond those relating to property
- increasing trend for communities to look to their councils to provide a range of social, cultural and recreational services that are far in excess of what a rate on land can support
- Government foreshadowed intention to pay rates on certain crown lands
- introduced per capita component to ensure all councils received FAG (min 30%)

Inquiry into the Financial Sustainability of NSW Local Government (2006)

- relationship with higher tiers of government
- huge backlog in infrastructure renewals
- devolved government social and environment agenda
  - no or low $ recompense (cost shifting)
- expectations of higher standards of service, and public assets, that people increasingly demand of their councils
  - retirees moving to coastal and inland regional centres
  - sea- and tree-changers used to city standards
- maintaining existing service commitments, yet manage huge infrastructure bill
- rural councils will only survive with increased grant funding
- constraints on rate income
- restoring public faith in the development control process
- overcoming skills shortages
- greater resource sharing
- tools such as performance benchmarking

anything changed?

councils cannot be all things to all citizens…

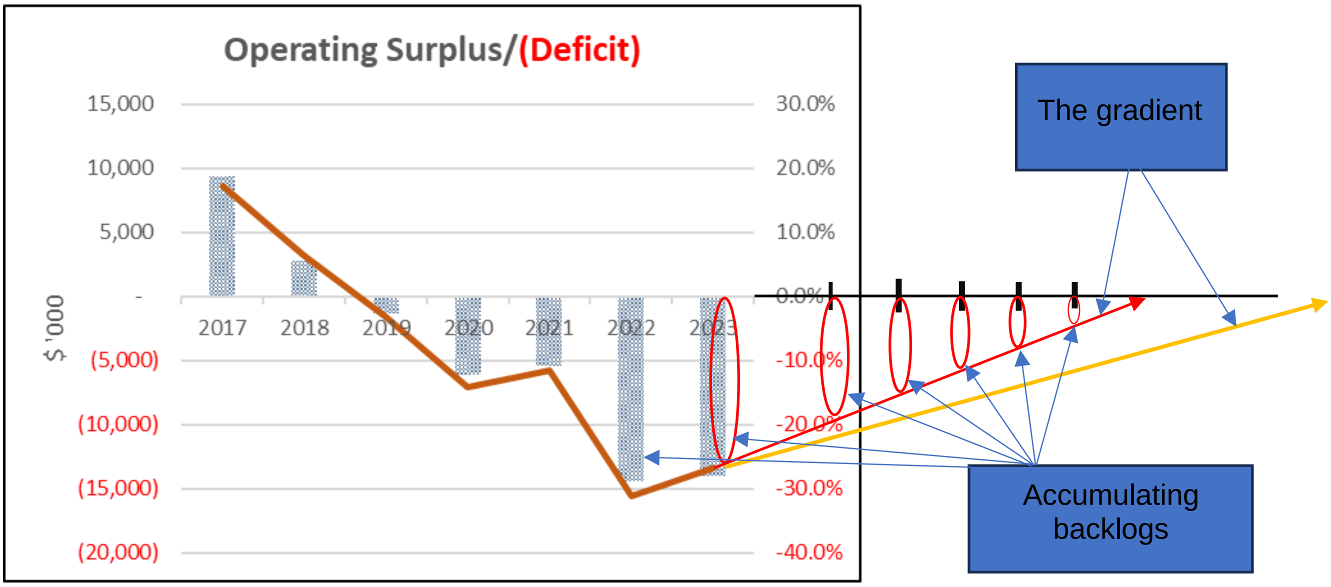
Next Steps

Now that Council has made the decision not to consult with the community regarding a future application for a Special Rates Variation there will need to be **decisions regarding what services will need reducing, and what user charges will need increasing to make up the difference.**

The only instrument to achieve long term improvement in financial sustainability left to this current council is the 2024/25 Budget.

Council will need to make the decision whether to pursue long-term financial sustainability.

Specifically, how steep a gradient to aim for on the Surplus/Deficit chart: below.



The shallower the gradient, the greater the backlog. The greater the backlog, the longer it will take, and the greater the cost and risk to achieving sustainability.

Council may decide to do nothing. This is unadvisable as history shows that the government will eventually act, with the result being the appointment of an Administrator (who will be usually accompanied by a Financial Controller appointed by the OLG). The financial decisions will then be taken away from council altogether. At that stage the recovery process is likely to take decades.

Council will need to set direction for the Administration to take, such that formulation of the 24/25 Budget occurs in the correct timeframe and is not required to be repeated (due to disagreement or misinterpretation regarding the underpinning philosophy council wishes the Administration to apply).

One such method is to choose the 'gradient' (graph above) in relation to what council considers is an acceptable deficit and therefore accumulating backlog.

- Council may choose to become sustainable and comply with the direction given by government. If so, the next question is in what timeframe.
- Council may choose to **not** work towards financial sustainability, and rely on improvements from the sale of assets, the reduction of transportation expenditure, raising of user-group charges, and other potentially positive influences. (Noting the comment regarding the Roads to Recovery: advocacy.)
- Once the 'gradient' is adopted the Administration can work backwards and determine how progressive the council can remain.

Once Macro-Level Direction is Decided – Further Micro Level Considerations Required

Only when the gradient (financial sustainability path, or otherwise) is determined can the following topics, and the cascading decisions required, be debated, and further direction be given by Councillors to the administration:

- Confirmation from Councillors regarding what they see are their priority outcomes (proportional to a successive reduction in capital over 5 years, or until, or if, the new Council adopt an SRV).
  Note: If the new council adopt an SRV, in reality it won't come into effect until the 26/27 FY, which will be very close to the sub-optimal cash position as mentioned.
- Review of remainer of the 4x1 Year CSP, Housing Strategy (trunk infrastructure and/or mechanisms to slow down development), servicing strategies – parks, recreation, buildings, employment lands (commercial and industrial development), cultural, art, economic development, tourism etc.
- As mentioned, most of the heavy lifting will occur in the transportation area. Within that, as we cannot risk sealed roads (the 1:10 ratio), most of the reduction in servicing will directly affect maintenance grading. Council will need to be cognisant of the repercussions. (It is not intended to forcibly reduce staff levels. Council has already reduced staff levels over the last two years by over 12%.)
- Keeping staff motivated. The (correct) perception of working in a growing, thriving (pro-development), and progressive council area will erode. Working at MRC will feel less satisfying as retractions in services inevitably occur, and ratepayers verbally attack staff (and councillors) when aggrieved. This will be particularly the case when areas of council that provide much loved, enjoyed, and positive outcomes to the community – parks and gardens, economic development, community events etc – are reduced, or user charges increased.
- Preparing all staff for an increase in complaints: FAQs for internal use.
- Pause/review new assets from proceeding, whether they are grant funded, partly, or solely funded by council, as we will ultimately keep adding to the backlog (not spending on existing asset renewals).
- Prioritise new assets that provide; a 'return on investment', reduce public risk, or existing projects where shovel ready designs have been completed, or current contracts are activated and underway. This may even limit this to a number (E.g., Six new assets across each ward, subject to business cases.)

- Council Projects that are non-capital (community services) will need reviewing and possibly scaled back. (Some of these are externally funded.)
- Economic development expenditure, involving advocacy or attraction (read: events), will require a higher level of scrutiny through a demonstrated 'return-on-investment' lens versus the 'incubatory' philosophy.
- There'll need to be return-on-investment decisions around 'social verses financial.'
- User Agreements for Recreation reserves. Moama Recreational Reserve is currently subsidised approximately $280,000 per year. If Council choose to continue to subsidise at such a high percentage, then what are we taking away to allow for successive income cuts? The likely impact may result in raising user group fees and charges from a 'token' amount to up 50%.
- Meninya Street Precinct Projects. Currently the number one priority project in council, and **positively supported by the thousands of people who commented during the public engagement phase**. To review, delay, or remove this project, which was strongly supported by all councillors - many times as reports were sought seeking direction - will dilute the sentiment that MRC is a progressive council. (Which currently sets us apart from our neighbours and has a tremendously positive effect on economic development.)
- Cessation of irrigation on community level parks and council open space except where sport is actively played (ovals and fields). We would still be required to meet our fire hazard requirements by maintaining minimum maintenance standards. This will be quite contentious, as there is a huge point of difference between the look and feel when you cross the river and enter Murray River Council area. This point of difference has helped with economic development.
- Reduction or removal council land-owner consents to support any new community grants. Often the State advertises the availability of grants directly to community associations. The associations usually have buildings and facilities on Crown Land vested in the control of council. Meaning the ongoing depreciation is added to council's schedule, as is the maintenance and risks. The associations need land-owner consent to apply for the grants.
- Horseshoe Lagoon. Consider placing the retaining wall on hold pending how well the budget can be stabilised. Continue with replacing the handrail due to identified public risk.
- Moama Lights. Decision point, acknowledging the cost of paying the contract if not proceeding. (Two years of contract still to run.)
- Riverside Park, Murray Downs. Contract for Boat Ramp: continue, with other works ceasing, and review in 2 years' time (it's a new asset).
- Slow down residential development where new trunk infrastructure is required from council, unless solely funded by developers (Changes the new contribution plan? Council resolution.)
- Compliance activities. Drastically reduce to only legal requirements where council is the only regulatory authority. i.e., Dog attacks. Police are also the ARA, so we communicate that we will no longer respond on weekends to these events.
- Public swimming pools. Review running or phase out. (Note: Contract payout costs need to be considered.)
- Contracts for capital works that may now be unfunded long-term. Cease where we have the opportunity to cancel with limited or no financial penalty.
- Developer Contribution Plan (DCP): May be able to be changed with ministerial consent (increase the percentage).
- Any land or assets where council is the delegated manager on behalf of the Crown, attempt to hand back (formally) under the Crown Land Management Act. (There are relevant avenues to explore here for Crown land that is not adequately used by Council for public purposes. It's rarely successful.)

Dividends from the Water and Sewer Fund

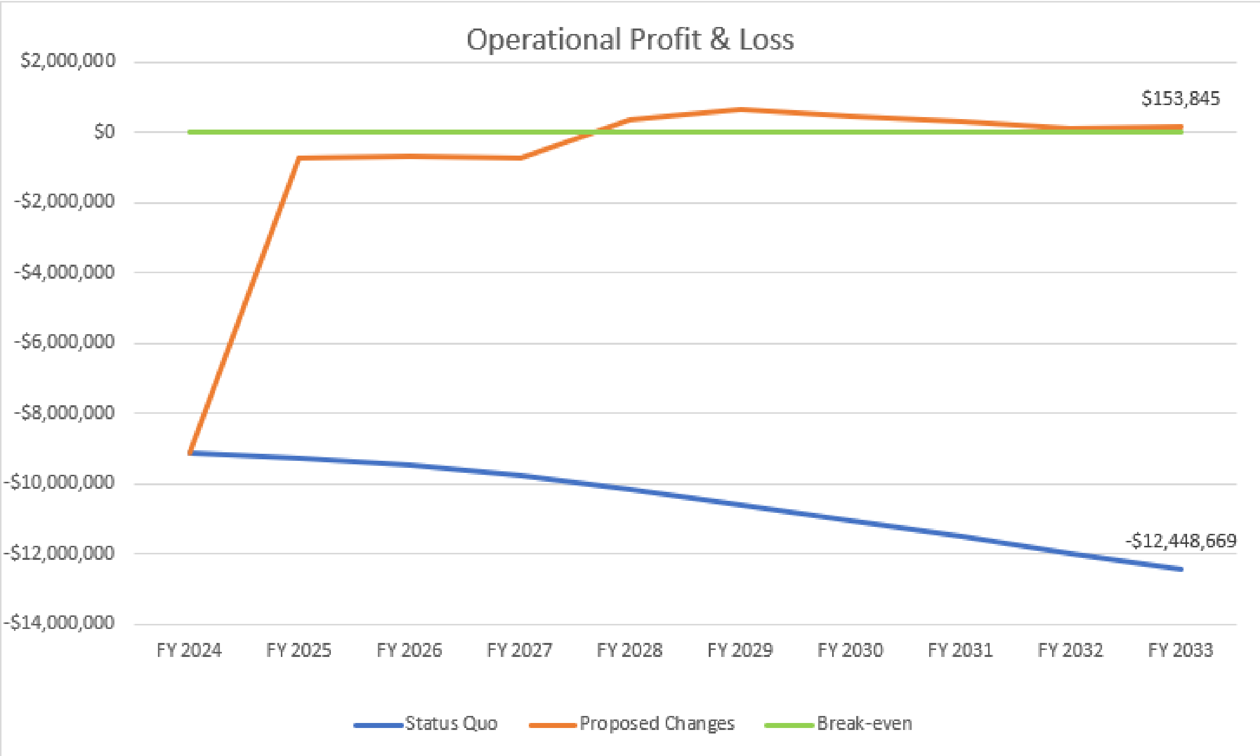
In writing this response to Councillor Weyrich, council has further investigated the regulations pertaining to dividends and has reviewed income to the General Fund downwards.

Council has significantly reduced the dividend to be paid to the General Fund from Water, Sewer & Waste, reasons listed below:

- Water & Sewer dividends are as per guidelines from NSW Department of Planning & Environment (DPE), currently calculated as:
    - The lower of (in MRC's case, this is likely always going to be the capped charged):
        - 50% of surplus
        - Capped charge of $27 (capped charge less tax equivalent) per assessment
        - Rolling 3-year surplus less dividend paid in preceding 2 years.
- Waste, when it is classified as a separate business unit, will still be effectively under the General Fund and the Local Government Act. Council has not been able to confirm if we are legally able to pay a dividend within the general fund from a business unit, therefore have now excluded this dividend completely. Council has sought clarification.

Operating Profit & Loss

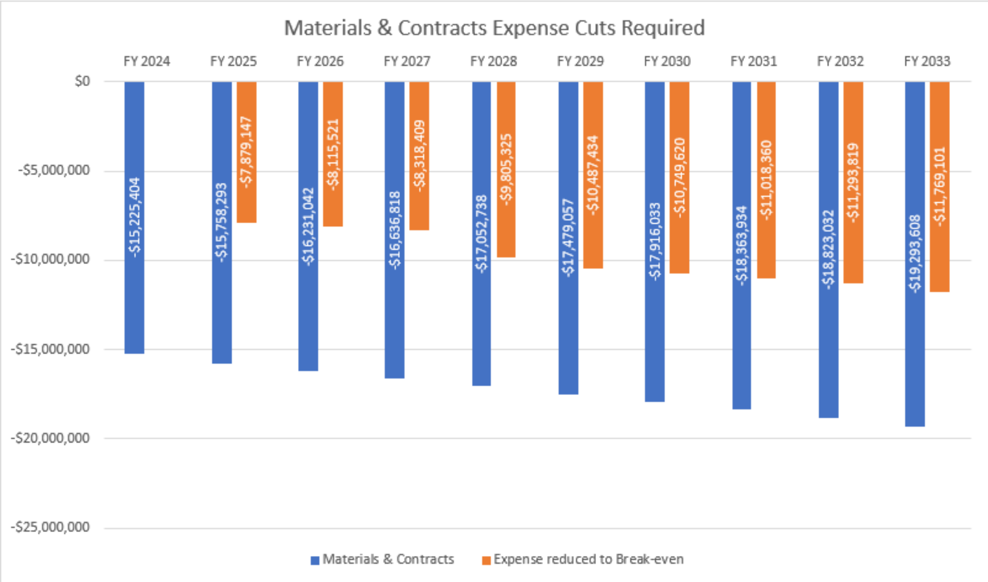
- Green line – Break-even
- Blue line - If nothing changes (status quo), we are on the decline, and at year 10 looking at an Operational Loss position of approx. $12.5m
- Orange line – aim to be at break-even by year 10, small profit of approx. $153k.



Materials & Contracts

Note: Council has not completed a detailed review and therefore the some of the material and contractor costs may be funded via grants and therefore not able to be cut. Overall, the profit position is still the same, as these projects would be 100% funded. The graph is high level and purely paints the picture of significant cost cuts which will be required. Council has not excluded any costs which are grant funded, as time didn't permit.

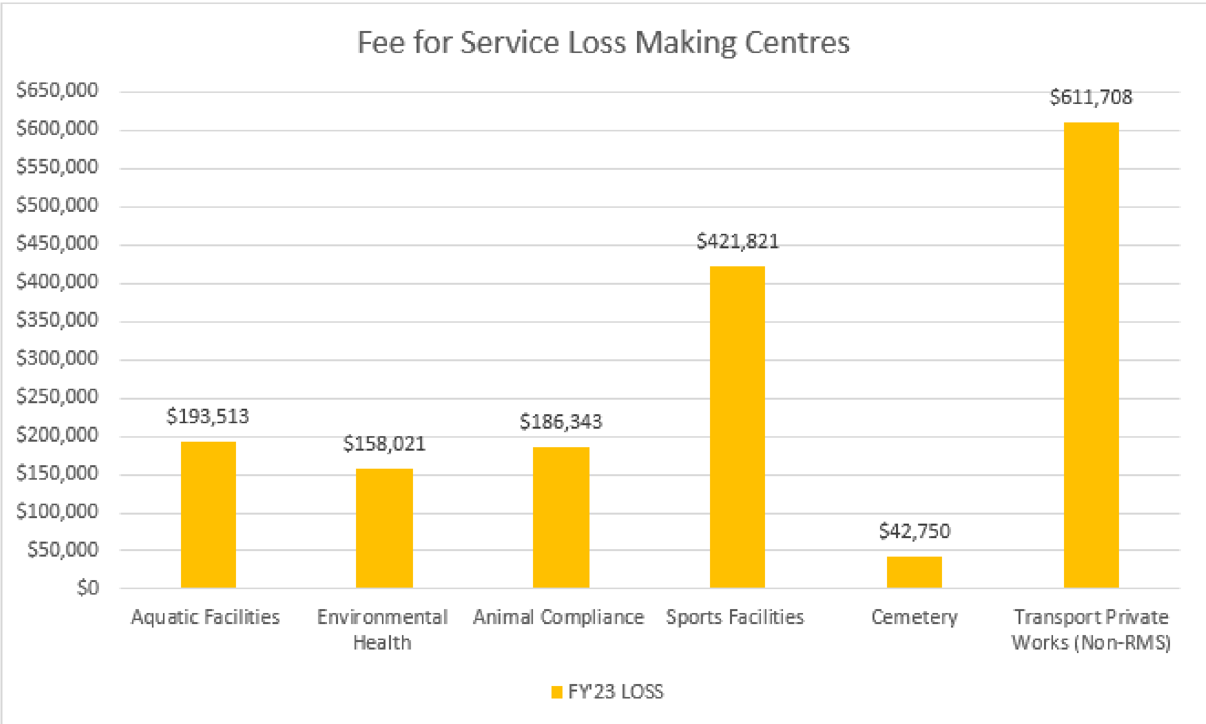
- Blue – Current materials & contractor costs at status quo
- Orange – what materials & contractor costs need to be to break even.



Revenue Review

Council reviewed some user fees and charges to highlight potential areas for revenue increase.

Note: The below graph is based on high level data collection and detailed review of the transactions has not been completed. There are anomalies in the transport area that require reconciling, possibly linked to flood repairs (DRFA).



Conclusion

As can be construed by the reader, the financial situation is extremely complex, riddled with compliance requirements, and will likely bring the worst out in people during the expected and largely emotionally driven debates.

If council choose to concentrate on mitigating the cash flow risk, and discount the requirement to work towards sustainability, we're likely to bring unwanted attention and scrutiny to MRC.

If council choose to instruct the Administration to work towards the aforementioned financial gradient that will allow a breakeven point to be reached in 10 years, there'll be a great many difficult and disheartening decisions to be made.

Regardless of what council decide is in or out of the upcoming 2024/25 budget, council will now be restricted to working within the rates cap. Which, at the time of finishing this report local government was informed that the rate peg for the 2024-25 fiscal year for each council, before applying the population factor, ranges from 4.5% to 5.5%.

It is envisaged, as a minimum interim step towards long-term financial sustainability, the following services may be required to be triaged and will form the imprimatur for the presentation to council for their consideration of the 2024/25 budget:

Economic Development.

- Reduce financial assistance for events and community groups. Reduction in rate relief. (The assistance provided is leveraged by events and community groups to deliver economic benefits to the region.)
- Remove quick response grants ($10k annually).
- Reduce community grants. Council currently offers two rounds annually (two rounds of $30k). Reduce to one round or no longer offer community grants.
- Signage replacement program. This is an annual program which can be spread out across two or more years to slow expenditure.

Community Services

- Reduce the number of face-to-face customer service centres including the closure of the Moulamein Business Centre, reduction of days and hours at Mathoura and Barham and relocating the call centre to Moama.
- Community will be required to travel for banking and other services (Mathoura, Barham, Moama).
- Services funded through to 30 June 2025. From 1 July 2025 a reduction in services may include removal of home modifications and maintenance, a reduction in social respite support and no longer offering delivered meals.

Planning and Environment

- The Parks, Open Space and Recreation Service Delivery Plan will be completed in April 2024 which considers the level of service at regional, community, neighbourhoods and informal parks and reserves. As part of this adjustment to our financial trajectory any new parks or open space (via subdivisions) will be scaled back appropriately, which will mean an overall reduction in number, size, and quality of public open spaces.
- No new parks or reserves will be developed by council for the next two/three years, as they add depreciation and maintenance costs to council, and some parks that do not allow recovery of operating costs (e.g., Botanic Gardens, Moama Dog Park) will have the maintenance reduced.

- As already resolved, the underutilised and isolated parks will be considered for sale purposes through the normal land conversion process, and some will be identified where the level of service will be reduced to meet minimum legislative requirement (fire hazards).
- All operating costs associated with recreation reserves – the subsidy by Council (currently between 80-90% in some cases) - will be reviewed. The increases in user charges (the user groups of the reserve) will be adjusted and phased in over the next 24 months. Overall reduction in level of services across Murray River Council area to match financial constraints.
- Development Fees and Charges (including Developer Contribution fees) that are not associated with NSW State prescribed fees and charges will increase.
- Meninya Street Precinct Projects: Meninya Street - detail design only, construction costs not yet determined, or funding avenues investigated.
- Horseshoe Lagoon – Pause on construction of retaining wall, and plan of management for commercial opportunities. Repairs associated with public risk will be completed by exception.

Infrastructure

- While there are minimal cost saving opportunities in the sewer and water department, the largest expense which has grown significantly in price is energy. There are opportunities for solar installation which may be able to be funded through internal investment or external grant opportunities.
- We have many buildings, majority of these are operational buildings or RFS sheds. Existing community use buildings as detailed in the Revenue Task Force Report: divest due to minimal use and poor condition / maintenance.
- Fleet utilisation for a frequently used plant, such as graders - review numbers. (Due to the tyranny of distance, less graders would require more frequent and longer site establishments, and therefore further reduce the utilisation and road maintenance. An oversimplification based on incorrect assumptions often cause unfounded anxiety regarding plant/fleet utilisation. Regardless, council is reviewing.)
- External road funding has slightly increased for the next few years (e.g., DRFA), this external funding could be used to reduce Council's Opex and Capex costs for the short-term. Ultimately this will only exacerbate the underlying problem though, by not utilising the purpose of the additional funding to council by way of needing to catch up poor condition roads and decrease the backlog.

Corporate Services

- Corporate services are largely driven by edicts forced upon local government by the State. Every time there is a publicly known problem, within two or three years there's another regulation or instruction from the Office of Local Government to adhere to. This is evidenced by the growth in size of the Local Government Act, which has now 749 sections. If anything, as financial, reporting, auditing, governance, probity, tendering, cybercrime, record management, IT and geospatial technologies, and other corporate services become more cumbersome and complex, there is a significant chance that instead of saving money, the corporate services function will cost more.

ATTACHMENTS

Nil