Edward River
COUNCIL

FREQUENTLY ASKED QUESTIONS

YOUR GUIDE TO THE FINANCIAL SUSTAINABILITY REVIEW REPORT (FINDINGS AND STRATEGIES FOR IMPROVEMENT)

What is the Financial Sustainability Review?

The Financial Sustainability Review (**FSR**) provided Council with an independent, comprehensive analysis of Council's long-term financial position. It recommended actions that will support Council to improve and maintain its long-term financial sustainability to avert potential issues emerging in the future.

A financially strong position means that Council can deliver the services and provide the infrastructure that the community expects and needs.

The recommendations from the Financial Sustainability Review addressed areas that require improvement to ensure financial sustainability in the long term and will be used in future updates to the Long-Term Financial Plan.

How is Council's long term Financial Sustainability assessed?

The review provided Council with a thorough understanding of past performance and a forecast of the Council's capacity to maintain **fiscal capital** (access to cash) and **maintain infrastructure** (assets).

What did the report find?

1. **Council has healthy cash reserves.**

   At the end of 2021/22, Council had total cash, cash equivalents and investments of $50.116 million.

2. **Council's water, sewer and waste management services have been profitable**

   However, there are future risks to profitability of these services. The report identified that there will be the need to increase expenditure on maintenance and invest the replacement of critical infrastructure for these services in the future, e.g., a new sewer treatment plant and waste landfill cell.

3. **Council's General Fund has a 'structural deficit'**

   Despite returning **consolidated** operating surpluses for four of the past five financial years and building cash, cash equivalents and investments, Council's General Fund has and continues to have a 'structural deficit' which, if not corrected, will over the long term, deplete Council's cash balances.

Council's 'consolidated' position is the overall financial health of the Council across all its separate funds (or accounts). This consolidated financial health reports ongoing surpluses over the next 10 years.

Council has a separate fund (or account) for its water and sewerage operations. All other income and expenses for council's operations are accounted for in the **General Fund**.

The **General Fund** is projected to produce a net operating deficit of $2.884 million in 2023-24 which improves across the ten-year period to a $1.411 million loss in 2032-33.

Despite the improvement over time, the operating loss in 2032/33 of $1.411million is still significant and needs to be addressed.

These ongoing operating losses in the General Fund are using up Council's cash reserves.

4. **The Water, Sewer and Waste funds are predicted to continue to perform well over the next 10 years with surpluses.**

5. **Council needs to invest more money in renewing and replacing its assets and look at ways to improve the way it manages its assets.**

6. **The Edward River Village will be profitable for Council in the future if the target entry price and 100% occupancy can be achieved**

   The Edward River Village is expected to produce strong operating surpluses during the first five years from 2023/24 to 2027/28 from the income received from the entry contracts from residents occupying the units. From 2028/29, the Edward River Village will produce deficits and then return to surplus from 2030/31.

What does a 'structural deficit' in the General Fund mean?

The General Fund receives all types of revenue (including rates and grant funding) with the exception of user charges for water and sewer.

This revenue is used to provide all council services (e.g. libraries, waste management, roads, parks and gardens, recreational and community facilities, community programs, environmental management etc) except water and sewer.

A structural deficit occurs when the costs to provide the services exceed the income able to be generated. For Council, when adjustments for asset value movements are removed, and other one-off impacts such as prepayment of operating grants are also removed, Council has been and is expected to, see deficit results in this General Fund.

A structural deficit sounds terrible! Does this mean Council is broke and will run out of cash?

A structural deficit does not mean Council is broke and will run out of cash.

Council's cash position continues to be healthy, with a forecast cash balance of $55.3m at June 2024. Of this amount $28.6m is unrestricted which means it is freely available for Council to spend.

However, any ongoing deficit in the General Fund will need to be funded from Council's cash, and that cash balance will reduce over time, and this needs to be addressed.

The Report recommends 9 strategies for improving Council's long term financial sustainability – see below.

For 2023-24 Council has decided to create special purpose funds for both the Edward River Village (ERV) and waste management. Previously, these have been included as part of the General Fund.

It is important not to look at the General Fund in isolation but to consider the 5 Funds together as an accurate representation of Council's financial performance. These are outlined in the draft Long-Term Financial Plan (LTFP).

What are the options to improve Council's long term financial sustainability?

The report recommended 9 strategies for improving Council's financial sustainability:

1. Improve the operating position of the general fund, through a Special Rate Variation (SRV) to increase the rate revenue by 7% for six consecutive years plus a review of user charges, particularly waste (including the domestic waste charge), to ensure full cost pricing is achieved.
2. Creation of a Waste Fund to separate the financial planning and reporting for the waste management functions, including the domestic waste collection.
3. Ensuring that the Long-Term Financial Plan is used as a living resource plan that is adjusted as required to ensure Council decisions are informed by the impact upon the long term financial sustainability.
4. Reviewing the current number of existing cash reserves (small amounts of quarantined money established over time from the former councils) to assess whether they are still required. If not, return those funds to the General Fund for use in delivering council services and assets.
5. Introducing productivity measures to the Operational Plan and Annual Budget (e.g., $/KM graded, $/KM roads resealed, $/KM road re-sheeting, annual food safety inspections completed, hectares of open space maintained, library opening hours,

etc.) which can be benchmarked with other comparable Councils and monitored to ensure Council delivery of services and infrastructure is efficient.

This information can then be used to look for ways to make work more efficient in order to save money.

6. Confirming the services that Council provides and undertaking detailed reviews of those services to identify efficiencies and savings.
7. Improve the way Council manages its assets (roads, buildings, heavy plant, vehicles, etc), asset information is accurate, so that Council spends what it needs to spend at the right time.
8. Market and promote the Edward River Village to achieve the target entry price on the Village residential units and filling the units as soon as possible.
9. Look for ways to encourage economic and population growth.

How long will it take for Council to get back into the black?

Council has developed 9 strategies as part of the Financial Sustainability Review. The implementation success and timing of these strategies will determine how long it will be for Council to be back in the black.

Council's draft Long-Term Financial Plan includes a plan to return to a consolidated surplus in 2024-25.

I hear Council is considering raising rates by 42%! What is this about?

If a council wishes to increase its rates revenue by more than the rate peg set by the Independent Pricing and Regulatory Tribunal of NSW it must apply for a special variation to the rate peg. This is called a Special Rate Variation.

A Special Rate Variation is an option considered as a strategy to improve the health of the General Fund in the Financial Sustainability Review in the future.

The Review recommends an increase to Council's rate revenue by 7% for six consecutive years. The proposed 7% **includes** the annual rate peg increase each year.

The cumulative (year on year) impact of a 7% increase for 6 years is 50%-this includes the expected annual rate peg increases.

The cumulative impact of the proposed Special Rate Variation on its own (not taking the annual rate peg increase into account) would be 34% increase.

Is Council increasing the rates now? What say do I have in this?

The ONLY commitment council has made for 2023-24 in relation to raising rates beyond the rate peg is to commence **a conversation with the community** about a Special Rate Variation in readiness for application.

Council will talk with the Edward River community during 2023-24 about the option of applying for a special variation. Our conversations with the community will be an opportunity to discuss the options of increasing revenue through increased rates versus options for reducing the level of some services provided to the community to bring service levels into alignment with available resources.
The process for applying for and having a SRV approved is highly regulated, complex and takes significant time.

Should Council pursue a Special Rate Variation, it is proposed to come into effect from 2024-25.

Why are the numbers in the Financial Sustainability Report and the draft planning documents on public exhibition different?

There will be differences between the Financial Sustainability Review (FSR) and the draft annual Operational Plan and budget documents, due to their different purposes.

Some of the differences include:

- The FSR uses an updated and more accurate method of applying corporate overhead costs (administration costs) to council services (called an overhead allocation methodology), whereas the draft Operational Plan and budget use Council's current methodology – this will be updated in future years
- The FSR includes the income for the entry price of Edward River Village dwellings – the draft Operational plan and budget does not due to different accounting treatment
- FSR includes capital revenue for the aerodrome and Edward River Village, whereas the draft Operational Plan and budget does not as a more conservative view of revenue planned to be received in the next financial year.