



REPORT: Independent Financial Sustainability Review

DIVISION: Organisational Performance
REPORT DATE: 3 November 2023
TRIM REFERENCE: ID23/2637

EXECUTIVE SUMMARY

Purpose	Seek direction or decision	
Issue	<ul style="list-style-type: none">An independent Financial Sustainability Review of Dubbo Regional Council financial position.	
Reasoning	<ul style="list-style-type: none">Council appointed AEC to undertake an independent Financial Sustainability ReviewTo provide an understanding of the current and future financial challengesProvide recommendations for consideration for financial improvement	
Financial Implications	Budget Area	Finance
	Funding Source	Rates and General Revenue
Policy Implications	Policy Title	There are no policy implications arising from this report.
	Impact on Policy	N/A
Consultation	AEC Engagement Program	<ul style="list-style-type: none">Councillors via 2 separate WorkshopsExecutive Leadership Staff - two separate workshopsKey Council Personnel

STRATEGIC DIRECTION

The Towards 2040 Community Strategic Plan is a vision for the development of the region out to the year 2040. The Plan includes six principle themes and a number of objectives and strategies. This report is aligned to:

Theme: 4 Leadership

CSP Objective: 4.1 Council provides transparent, fair and accountable leadership and governance

Delivery Program Strategy: 4.1.2 Council's decision-making processes are open, transparent and accountable

RECOMMENDATION

- 1. That the Council determine either:**
 - a. That, in accordance with recommendation of AEC, a Special Rate Variation application to IPART be made for 2024/2025 based on the AEC recommendation of a required 10% increase for four years.**
 - b. That considerations of a Special Rate Variation application to Independent Pricing and Regulatory Tribunal NSW (IPART) be deferred until 2025/2026.**
- 2. That it be noted that an application for 2024/2025 would be required in February 2024, necessitating community consultation over the December/January period.**

Jane Bassingthwaighe
Director Organisational Performance

JB
Director Organisational
Performance

BACKGROUND

In recent financial years, Council has reported consolidated net operating deficits for three prior financial years (2019/2020, 2020/2021 and 2021/2022) and adopted a budget for 2022/2023 with a net operating deficit. Underlying the consolidated net operating deficits were significant operating deficits in the General Fund – which includes all services other than those funded by the Water Fund and Sewer Fund.

To address these concerns, Council commissioned AEC Group Ltd (AEC) to undertake an independent review of the financial sustainability of the Council. This report presents the findings of the review and provides effective strategies to improve the Council's financial sustainability and compliance with the Local Government Act 1993.

Previous Resolutions of Council

22 June 2023 CCL23/157	In Part 10. <i>That Council undertake a community engagement and education program regarding Council's financial position and the potential for a special rate variation to Independent Pricing and Regulatory Tribunal (IPART). The community will be consulted on options that include:</i> <ul style="list-style-type: none">a. <i>No special rate variation and the related need to reduce operational costs with identified reduction in service levels and impact on addressing asset renewal needs.</i>b. <i>A special rate variation that addresses current service delivery and asset renewal needs.</i>c. <i>A special rate variation to increase service levels in areas identified by the community.</i>
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REPORT

Below summaries some of the Key Finding and recommendation from the AEC report.

Vision of a Sustainable Scenario for Council

"The vision for a sustainable Dubbo Regional Council is that the Council will be able to achieve the vision outlined in the Community Strategic Plan while maintaining over the medium to long term both fiscal capital (that is access to cash) and the infrastructure capital (that is assets that the Council owns).

The Enhanced Asset Renewal and Enhanced Cash scenario was developed by AEC to assess the increase in cash required to generate sufficient cash to maintain fiscal capital, while also increasing the investment in asset renewals and maintenance to maintain the infrastructure capital.

Based on the above analysis AEC concludes that an improvement in the cash generated from operations is required to an aggregate amount equivalent to a cumulative increase over four years of 37.1% in ordinary rates, above what would otherwise be projected through the annual rate peg (increase in rates) and growth.

Whilst the correction has been expressed in a change in net revenue assumed in the form of the percentage increase in ordinary rates, this may be achieved through a combination of initiatives, including:

- Identification of operational efficiencies and productivity improvements.*
- Reduction in service provision – levels and/or range of services.*
- Reduction in debt through sale of surplus assets.*
- Increase in revenue from operations through increase in service fees, rates and/or charges”*

The table below outlining the require % increase to enhance cash generated, taken from the AEC report.

Table 8.4 Correction Required to Enhance Cash Generation

	2024/25 Adjustment %	2025/26 Adjustment %	2026/27 Adjustment %	2027/28 Adjustment %
% Adjustment to Ordinary Rates (or equivalent initiatives)	7.50%	7.50%	7.50%	7.50%
Rate Peg Assumed	2.50%	2.50%	2.50%	2.50%
Growth Assumed	1.00%	1.00%	1.00%	1.00%
Total Increase	11.0%	11.0%	11.0%	11.0%

The cumulative increase in rates without the adjustment would be a 14.8% increase in the fourth year. With the correction the cumulative increase (including the 7.5% increase for four consecutive years) would be a 51.8% increase in the fourth years. The cumulative impact of the adjustment is therefore the difference – being 37.1%.

Consultation

AEC Stakeholder engagement:

- Councillors via Councillor Workshops held in August 2023 and October 2023.
- DRC Executive Leadership Team Workshops held in August 2023 and October 2023.
- DRC Finance Team providing relevant documentation.
- Key council personnel to gain an understanding of historical financial performance, gaps and discuss opportunities for improvement and strategies to address the identified performance gaps.
- Asset Managers to understand Asset Management maturity and gaps.

Options Considered

Option 1 - Application to IPart for 2024/2025

- An improvement in the cash generated from operations is required to an aggregate amount equivalent to a cumulative increase over four years of 37.1% in ordinary rates, above what would otherwise be projected through the annual rate peg (increase in rates) and growth.
 - Pro: A Special Rate Variation will guarantee and increase in General Revenue to council, therefore will ensure councils financial sustainability
 - Con: Timing of Community Consultation over the December Holiday period is limited
 - Con: Limited time to engage with community to educate on a Special Rate Variation application that would be lodged February 2024.
 - Con: Risk of community and engagement being impacted by a build up to a Local Government Election.
 - Con: Impact on Rate payers' ability to pay in the current financial environment

Option 2 - Delay Application to IPart for 1 Year

- Whilst the correction has been expressed in a change in net revenue assumed in the form of the percentage increase in ordinary rates, this may be achieved through a combination of initiatives, including:
 - Identification of operational efficiencies and productivity improvements.
 - Reduction in service provision – levels and/or range of services.
 - Reduction in debt through sale of surplus assets.
 - Increase in revenue from operations through increase in service fees, rates and/or charges.
- Delaying an application to IPART would ensure that DRC has effectivity investigated all the improvement strategies above.
 - Pro: Reduce financial impact on the community
 - Pro: Improved community engagement program can be development (that is not timed around the December holiday period) this will increase community participation and awareness
 - Pro: Additional time to effectivity report Service Review outcome including, saving strategies achieved to date and to implement identified future saving strategies.
 - Pro: Increase time to prepare the relevant documentation required for the effective community engagement and education program
 - Pro: Rate Pegging for 2024/2025 has not been announced, it is expected to be higher than previous years
 - Con: No guarantee that financial sustainability will be met in the short term

Planned Communications

- Community engagement program will be developed based on the resolution of Council from this report.

- Ongoing community education and engagement will continue regarding Council Financial Sustainability via Your Say and as part of the 2024/2025 Budget and Operational Plan process.

APPENDICES:

- 1 AEC Draft Report - Dubbo Regional Council Financial Sustainability Review 2023