

10.2 APPLICATION FOR INTERNAL LOAN FROM SEWERAGE FUND - ATTACHMENT

Attachment Titles:

1. Snowy Valleys Council - Correspondence to NSW Office of Local Government dated 16 November 2023 (Under separate cover)
2. NSW Office of Local Government - Response to Council correspondence dated 16 November 2023 (Under separate cover)

Attachment 1 - 20231203 Correspondence - OLG Response - SVC Internal Loan



Office of
Local Government

5 O'Keefe Avenue NOWRA NSW 2541
Locked Bag 3015 NOWRA NSW 2541

Our Reference: A883466
Your Reference: SP:jmf 3273809
Contact: Jodie Turner
Phone: 44 284196

Mr Steven Pinnuck
Interim General Manager
Snowy Valley Council
76 Capper Street
TUMUT NSW 2720

Via email: info@svc.nsw.gov.au


Dear Mr Pinnuck

Thank you for your letter of 16 November 2023 about Snowy Valleys Council's (Council) financial position. I recognise the seriousness of the issues raised.

I note that this letter indicates it is possible Council may seek an internal loan as an interim measure while longer term financial improvement strategies are implemented.

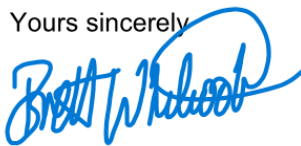
In view of the seriousness of Council's projected financial position the Office of Local Government (OLG) is open to considering an internal loan if this becomes necessary, however it is subject to Council engaging with OLG on strategies for improvement.

To consider the internal loan, Council would need to provide OLG with:

- a letter from the General Manager requesting an internal loan
- a resolution from a Council meeting supporting the internal loan
- details of the loan including values, source of loan, repayment terms and any other relevant information.

I plan to visit Council in the 2024 where we will be able to discuss this further.

Yours sincerely



3 December 2023

Brett Whitworth
Deputy Secretary, Office of Local Government

T 02 4428 4100 F 02 4428 4199 TTY 02 4428 4209
E olg@olg.nsw.gov.au W www.olg.nsw.gov.au ABN 20 770 707 468

Attachment 2 - 20231114 letter - Snowy Valleys Council Financial Position - IGM - Deputy Secretary Office of Local Government

SP: jmf
Our Ref: 3273809



16 November 2023

Brett Whitworth
Deputy Secretary
Office of Local Government
Locked Bag 3015
NOWRA NSW 2541

Via Email: olg@olg.nsw.gov.au

Dear Mr Whitworth

SNOWY VALLEYS COUNCIL – FINANCIAL POSITION

I write in relation to the financial position of Snowy Valleys Council and seek some preliminary advice in relation to a possible internal loan from the Snowy Valleys Council Sewerage Fund in accordance with sec 410 (3) of the *Local Government Act, 1993*.

Since amalgamation in 2016 Snowy Valleys Council has had an underlying deficit of approximately \$6M to \$7M per annum and cash has been decreasing at the rate of \$2M to \$3M per annum. Council's cash position has now reached crisis point which is unsustainable. On Thursday 19 October 2023 the Elected Council received a briefing on the dire financial position of Council and a number of strategies have been implemented to improve the short, medium and long-term financial position including (but not limited to):

1. Consulting with the community on a further Special Rating Variation;
2. Opportunities to increase income streams (e.g. Calling for Expressions of Interest for the management/lease of four caravan parks owned by SVC);
3. Reducing Council's expenditure including employee costs;
4. Deferral of Capital Works and Plant purchases where feasible;
5. A review of how services are provided (e.g. A recent change of Council IT Managed Service Provider will see a reduction of approximately \$200K pa);
6. Realisation of surplus assets (including real estate) held for sale;
7. Review and potential disposal of underutilized assets.

As of 30 June 2023, Council had Unrestricted Cash of just \$100K and Internal Restrictions of \$8.5M. Even with a pre-payment of the 2023/2024 Financial Assistance Grant (FAG) totaling \$7.2M and the application of the initiatives proposed above it is possible that Council may have insufficient cash reserves to meet its External Restriction obligations by 30 June 2024.

To ensure sufficient cash reserves are held to at least meet External Restriction obligations as at 30 June 2024 Council is considering applying for an internal loan from the Sewerage Fund



Leading, Engaging and
Supporting Strong and
Vibrant Communities

P: 1300 ASK SVC (1300 275 782)

Tumut Office
76 Capper Street
Tumut NSW 2720

Tumbarumba Office
Bridge Street
Tumbarumba NSW 2653

E: info@svc.nsw.gov.au www.svc.nsw.gov.au

16 November 2023

Page 2

to provide additional short/medium term liquidity until the impact of the measures outlined above flow through over the next two to three years. Drawing down a loan of this nature would be a last resort and would only be acted upon if no pre-payment of FAG is received in the 2023/2024 financial year.

Prior to seeking a formal resolution from Council and making a formal, more detailed application, the views of the Office of Local Government are sought on the proposal.

Should you wish to discuss any aspect of the proposal please do not hesitate to contact the undersigned.

Yours Sincerely,



Steven Pinnuck
INTERIM GENERAL MANAGER

Enc: 16NOV2023 SRV Presentation to Councillor Workshop



Leading, Engaging and
Supporting Strong and
Vibrant Communities

P: 1300 ASK SVC (1300 275 782)

Tumut Office
76 Capper Street
Tumut NSW 2720

Tumbarumba Office
Bridge Street
Tumbarumba NSW 2653

E: info@svc.nsw.gov.au www.svc.nsw.gov.au



Special Rating Variation (SRV) Presentation



Acknowledgement of Country

Snowy Valleys Council proudly acknowledges the traditional owners and custodians of this land and water and pays respect to their Elders past and present.



Reconciliation of General Fund Position

Extract from the 2022/2023 Financial Statement Public Notice

	2022/2023	2022/2021
Net operating result for the year (before grants and contributions provided for capital purposes)	\$187	(\$19,716)
Less Water Fund operating result	\$4,962	(\$14,253)
Less Sewerage Fund operating result	\$1,190	\$807
General Fund operating result	(\$5,965)	(\$6,270)



Background – Operating Result – General Fund

	15/16 (combined)	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Op. result including capital grants	1,340	10,985 (Note 1)	(1,459)	2,670	5,098	5,995	6,977	8,477	31,024
Net op. result before capital grants	(1,356)	(1,042)	(7,506)	(2,109)	(6,540)	(4,980)	(6,270) (Note 2)	(5,965) (Note3)	(4,482) (Note 4)
Depreciation	9,962	9,163	8,292	8,885	8,893	8,211	8,851	9,760	9,469

Note 1: High level of operating grants received

Note 2: 5 FAG payments received for year. Actual position at 30 June 2022 is a deficit of \$7.9M

Note 3: 5 FAG payments received for year. Actual position at 30 June 2023 is a deficit of \$7.7M

Note 4: Assumes prepayment of FAG's continue in 2023/2024



Background – Unrestricted Cash Position – General Fund

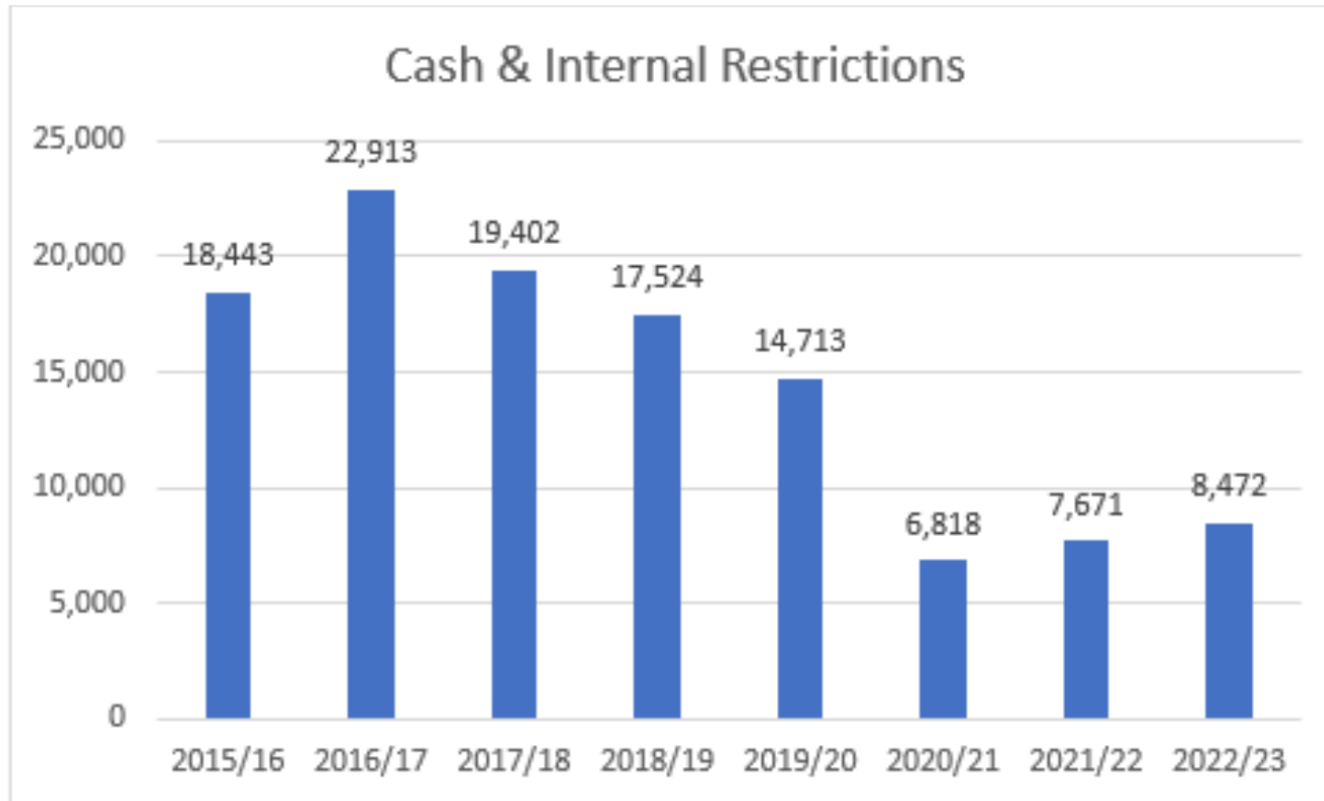
	15/16 (combined) \$	16/17 \$	17/18 \$	18/19 \$	19/20 \$	20/21 \$	21/22 \$	22/23 \$
Total cash	31,215	49,324	47,637	49,353	41,857	38,017	45,334	44,016
Total restrictions	27,437	46,734	45,270	47,746	39,902	40,397	44,859	43,953
Unrestricted cash	3,778	2,590	2,367	1,607	1,955	-2,380	475	63
Internal restrictions	14,665	20,323	17,035	15,917	12,758	9,198	7,196 (Note 1)	8,409 Note (2)



Note 1: Five FAG payments received in financial year

Note 2: Five FAG payments received in financial year

Background – Unrestricted Cash and Internal Restrictions – General Fund



Background – Unrestricted Cash Position – Continued

- Underlying operating deficit in the region of \$6M to \$7M annually
- Diminishing Internal Reserves and Unrestricted cash of approximately \$2M to \$3M per year.



Background – What was said prior to initial SRV

- Previous SRV of 35.95% implemented over the 2022/2023 and 2023/2024 financial years.
- There was strong opposition to both the SRV and/or service cuts.
- In addition to the SRV, Council committed to generate savings which has been difficult to achieve in a post COVID environment. A Financial Sustainable Plan was developed and implemented.



(Since 2021 Council has made savings in the order \$1.6M, however some of these savings have been offset by a higher cost environment.)

Background – What was said prior to initial SRV

- Maintain service levels as close as possible to current levels
- Fund ongoing maintenance
- Fund renewal of infrastructure assets
- Increase capacity to renew deteriorating assets
- Ensure and improve financial sustainability
- Reduce reliance on external grant funding for asset renewals.



Challenges faced by Snowy Valleys Council

- **Tumut and Tumbarumba Councils merged on 12 May 2016 to form Snowy Valleys Council**
- **Black Summer bushfires late 2019/early 2020**
- **Significant impacts of COVID pandemic throughout most of 2020 and 2021**
- **At least 6 other natural disaster events since 2021.**



Grant Funding approved by SVC since Amalgamation

➤ 2016/17	\$14,803,358
➤ 2017/18	\$ 4,348,130
➤ 2018/19	\$ 1,622,500
➤ 2019/20	\$ 8,707,232
➤ 2020/21	\$44,739,158
➤ 2021/22	\$33,106,278
➤ 2022/23	\$ 9,504,502
➤ 2023/24	\$ 9,494,222 * year to date

Approximately \$126M additional funding in less than 8 years whilst at the same time implementing the amalgamation and ensuring 'business as usual' activities were delivered.



Tracking our Income and Employee Costs over the last 4 years

	2020	2021	2022	2023	2024	2025
Total income	62.15M	76.79M	73.55M	98.08M	88.82M	63.57M
Employee costs	21.63M	21.21M	22.23M	22.20M	2.66% increase over 4 years	



Why is Council Considering Another SRV?

- Operating in a high inflationary environment
- An increasingly competitive employment market that has occurred post-COVID-19
- Continuation of cost-shifting from the State Government (e.g. substantial increases in the Emergency Services Levy)
- Ensuring Council has the capacity to maintain and replace its expanding asset base funded from rates and other untied revenue.



Council Services/Costs Provided by General Revenue Including Rates

- Governance/Administration costs
- Road maintenance and improvements
- Footpaths and kerb and gutter
- Planning and building services
- Parks and Reserves
- Sporting grounds
- Swimming Pools
- Libraries
- Public toilets
- Cemetery maintenance
- Aerodrome
- Caravan Parks
- Tourism/visitor services and economic development

Note:

Community services (Children's Services, Community Transport and Care Packages etc.) are funded by grants and user contributions.

Water, Sewerage and Waste are funded by specific charges that must be used for the purchase for which they are raised.



How are we going to Repair the Budget?

- Special Rating Variation (SRV)
- Opportunities to increase income streams (e.g. Calling for Expressions of Interest for the management/lease of four caravan parks owned by SVC).
- Reducing Council's expenditure including employee costs;
- A review of how services are provided (e.g. a recent change of Council IT Managed Service Provider will see a reduction of approximately \$200K pa);
- Realisation of surplus assets (including real estate) held for sale;
- Review and potential disposal of underutilized assets.



How are we going to Repair the Budget?

- Success of the proposed Special Rating Variation (SRV) Application is crucial as a first step to financial sustainability of SVC.

If successful, and if Option 3 (12.5% pa spread over 3 consecutive years) was implemented rate income would increase by:

2024/2025 \$1.362M

2026/2026 \$2.846M

2027/2028 \$4.541M

2028/2029 \$4.541M then annually and subject to rate peg increases

- Ideally Council will need to identify opportunities to increase income and expenditure savings similar to the additional income generated by the SRV.



Looking to the Future

- Continue to implement the Financial Sustainability Plan
- Council and the community will need to be able to distinguish between wants and needs
- The 'whole of life' cost of a project or initiative will need to be taken into account.

