



Central Coast Council Financial Sustainability Strategy

Adopted 28 November 2023



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Financial Sustainability Strategy

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1. Introduction

Financial Sustainability

A financially sustainable Council is one that, over the long - term, will generate sufficient funds to provide the level and scope of services and infrastructure agreed with its community through the Integrated Planning and Reporting process, whilst demonstrating capacity to maintain financial capital and infrastructure capital over the short and long term.

The Council can demonstrate capacity to deliver financial sustainability through the following financial sustainability foundations:

- **Operating position** – the ability to generate sufficient revenue and control of services and infrastructure costs to produce sufficient cash from operations.
- **Availability of Cash** – the ability to maintain sufficient cash (or access to cash) to meet the needs of operations, investments and financing (borrowings).
- **Investment in Assets** – the ability to renew or replace assets to maintain the desired level of service and the provision of new assets to meet demand for growth in services.

A financially sustainable Council can deliver robust services to its community, can invest in developing and growing the local economy, and can withstand, react and adapt to unplanned shocks.

This Financial Sustainability Strategy outlines the criteria that the Council needs to meet to achieve and maintain a financially sustainable position over the next 10 years and the actions necessary to achieving them

The Financial Sustainability Strategy is to be read in conjunction with Council's Long-Term Financial Plan (LTFP). Council's LTFP shows the long-term financial impacts of Council's decisions based on assumptions, provides financial projections, scenario modelling, sensitivity analysis and performance measures. The LTFP highlights issues and helps assess the long-term fiscal sustainability of Council to inform service level adjustments now and into the future.

Objectives

The objectives of the Financial Sustainability Strategy are to:

- Set the parameters within which Council agrees to operate to provide financial sustainability, affordability, delivery and value for money, over the short, medium and longer term.
- Ensure Council generates enough revenue and controls services and infrastructure costs to produce sufficient cash from operations.

- Ensure Council maintains sufficient cash (or access to cash) to meet the needs of operations, investments and financing.
- Ensure Council can renew or replace assets to maintain the desired level of service and provide new assets to meet demand for growth in services.
- Assist Council to use ratepayers' money, together with other funding available, to provide core and other prioritised services.
- Provide direction and context for decision making in the allocation, management and use of Council's finite financial resources.
- Guide the elected Council and staff in the management of its LTFP and determine financial boundaries for delivery of operational and capital plans.

Capacity to deliver the Community Strategic Plan

The Financial Sustainability Strategy is aimed at supporting the delivery of the strategies identified with the Community Strategic Plan and the delivery of actions within the Delivery Program. The Financial Sustainability Strategy will support the achievement of the LTFP, including ensuring the availability of the funding required for the implementation of actions associated with these strategies, including impact of future demand for services.

The associated resourcing and asset requirements for the planning horizon (including forecast increases/decreases and other changes in service demand) should also be included in the other components of the Resourcing Strategy, being the Workforce Management Plan and Asset Management Strategy and Asset Management Plans.

A review of Council's current adopted strategies indicates that further work needs to be undertaken to cost the actions associated with these strategies. It is therefore important to note that Council's projected financial results will be impacted by these costs when known. Council may need to revise the adopted strategies and actions therein within the context of Council's projected financial capacity as detailed in the LTFP.

Challenges

After the successful implementation of Council's financial recovery plan put in place in October 2020, Council is now in a stable and sound financial position.

Like many NSW councils, Council faces several challenges in maintaining long-term financial sustainability.

The key challenges include:

- Rate-pegging limiting the increase in rating revenue to the increase set by the Independent Pricing and Regulatory Tribunal (IPART) from year to year. To date the methodology used by IPART has resulted in the rate-pegging increase falling short of meeting increases in costs faced by Council. IPART is currently undertaking a significant review of its methodology with a view to aligning future rate increases with cost increases faced by Council.

- Statutory Fees limiting Council's ability to fully recover the cost of some services that it must provide in line with legislation.
- Inflation prevailing in the economy has a direct impact on the cost faced by Council when procuring materials and services. The recent high inflation and the impact of supply chain issues following on from the COVID-19 pandemic have significantly impacted materials and services costs to date.
- Employment market conditions impacting on Council's ability to attract and retain skilled and experienced staff. Ongoing competition with the private sector for certain professions, as well as the ability to work remotely, places significant pressure on employment costs faced by Council.
- A growing and ageing asset base means that Council faces higher costs to maintain and renew its assets in line with best practice asset management and optimal intervention points.
- Capacity to deliver the Community Strategic Plan and the delivery of adopted and new strategies will be dependent on the financial capacity of the Council to support the relevant costs when these are fully known.
- Growth and development will result in an increased demand for Council services and infrastructure. Whilst growth results in increased rates revenue, this increased revenue will not fully offset the increased costs.
- Greater understanding of the community's needs, wants, desires and priorities for services and service levels and matching that to the organisations and community's capacity to sustainably fund the provision of agreed services.
- Understanding and managing the risks associated with the extensive and diverse range of services we deliver to the community.
- Addressing Council's medium to long term shortfall in funding the renewal and maintenance of assets used to deliver services.
- Acceptance of grant opportunities presented by the NSW and Federal governments regarding new infrastructure and/ or services which may not have otherwise been provided, and which result in ongoing operational costs.

The above challenges will mean that Council will continue to have a revenue shortfall resulting in a significant constraint on the ability to fund the maintenance and renewal of its assets and sustain current levels of service into the future.

2. Implementation, Monitoring and Review

The key actions contained within the Financial Sustainability Strategy will be implemented over a ten-year period.

Good governance, effective decision-making frameworks and robust financial planning and management practices will support the implementation of the Financial Sustainability Strategy.

The implementation of the Financial Sustainability Strategy will be championed by the elected Council and implemented by Council's management. The Strategy will be driven through the annual Operational Plan process and integrated with all short and long-term decision making of Council.

As part of the Operational Plan and Delivery Program, Council will identify the specific high-level actions planned to be undertaken over the period, including the specific areas or functions of Council that will be impacted. Where applicable this will be directly linked to the service optimisation program being undertaken by Council along with other existing and new assurance and improvement activities.

The implementation and outcome of the high-level actions set out in this Strategy will be monitored by management on an ongoing basis and will be reported to Council on an annual basis as part of the Annual Report.

Progress against the relevant key performance targets set out in this Strategy will be reported to management and Council, monthly and as part of Quarterly Budget Reviews. Any variance to the LTFP and any associated impact on this Strategy, arising through the preparation of the annual Operational Plan will be identified as part of the relevant reporting and any corrective actions will be identified as required.

The LTFP will be updated annually as part of the annual Operational Plan process and as part of the review of the Resourcing Strategy in accordance with the Integrated Planning and Reporting framework.

The Financial Sustainability Strategy will be reviewed annually and updated as required.

3. Achieving Financial Sustainability

The Financial Sustainability Strategy will support the desired financial outcomes as detailed in the LTFP, and in line with performance measures and benchmarks set out in this Strategy.

The **goals** of the Financial Sustainability Strategy are to:

- Maintain a positive Operating Position over the long-term in the General Fund
- Maintain an adequate level of cash sufficient to operate in the short and long-term
- Ensure investment in assets is responsible and sustainable

The achievement of the above goals will support the desired state of financial sustainability and will be enabled through robust governance, prioritisation and decision-making frameworks, and strategic service and asset planning and management.

Improved Operating Position

Desired State

The desired operating position of Council is a position where the LTFP demonstrates generation of revenue that exceeds the operating costs of efficient and optimised operations (including depreciation), producing sufficient cash from operational activities.

Council aims to achieve an operating position that enables and supports:

- A fully integrated Resourcing Strategy where Asset Management Plans, the Workforce Management Plan and the LTFP are fully linked and achievable.
- Funding of services and service levels in line with the community's expectations.
- Activity planning as outlined in the Delivery Program and Operational Plan being fully funded.
- Repayment of any borrowings as they fall due, or earlier wherever possible.
- Full funding of the annual depreciation associated with Council's existing and planned asset base.
- Optimised approach to asset maintenance – treatments are planned, and triggers based on condition with known optimal intervention points.
- Funding of all planned asset renewals without unrealistic reliance upon grants.
- Aim for grant funding towards planned asset renewals rather than new assets to limit increases to operating costs.
- Delivery of new and upgraded infrastructure for planned growth in services, which may be funded through a mixture of developer contribution reserves, internal restrictions and borrowings.
- Ability to sustain increased costs arising from growth in the local government area.

- Ability to absorb and react to unplanned events without an impact on existing services and service levels.
- Ability to invest in ongoing improvements and adaptability to a constantly changing operating environment.
- Ability to invest in opportunities that may become available.

Current State

The current operating position of the Council is based on the following high level financial settings:

- Rating income limited by rate-pegging
- Temporary increase in rating income expiring in 2031
- Current service levels

Based on current financial settings, services and service levels, Council will not be able to achieve the desired state of the operating position. Financial projections of Council's operating revenue and expenditure indicate that Council will face a growing gap between the projected ongoing operating revenue and the level of operating expenditure required to maintain the existing delivery of services and service levels.

As detailed in the LTFP, should Council continue the trajectory of current financial settings, it will generate operating deficits over the next ten years, representing a growing gap between operating revenue and operating expenditure.

Current financial settings do not allow for any increase in current services and service levels, and do not support sustainable growth in the local government area.

The current projected trajectory of Council's operating position is not sustainable over the long-term.

Addressing the gap between the desired state and the current state

Council needs to implement financial planning and management strategies to close the gap between the desired state and the current state of Council's operating position. The gap will be closed through a combination of increased revenue and decreased costs.

Council will need to identify its core functions and other services it provides to the community and align these with its financial capacity. It will also be critical to ensure that the use of Council's assets is optimised for the benefit of the overall community.

Council will **improve operating revenue** through:

- Securing a permanent and sustainable increase in own source revenue.
- Review current pricing and user fees and charges of services against full cost recovery and rate of return if applicable.
- Investigation into other sustainable revenue sources.
- Review all business units of the Council to ensure an appropriate return on assets, including the payment of a dividend where applicable.
- Engagement and advocacy with the NSW Government regarding operating grants – timing, management of expectation of service delivery (short term funding), funding shortfall.
- Continue to work with IPART to improve the rate pegging methodology

Council will **decrease operating costs** through:

- Development of a demand management approach in service including:
 - undertaking strategic service reviews, particularly for discretionary services and community service obligations
 - implementing a framework for grant applications and acceptance to consider the impact of the grant on financial sustainability
 - engaging with the community regarding service levels.
- Identification of operational efficiencies.
- Investigation into the divestment of discretionary and business activities that are not generating a benefit, financial or otherwise to the wider community.
- Review of service delivery models for core services that Council must provide.
- Review of service delivery models for corporate support services and activities to minimise corporate overheads impacting on cost of services to the community.
- Review of how we resource services to optimise value and outcomes.
- Mitigation and offsetting of inflationary pressures on the cost of materials and contracts through best practice procurement processes.
- Review of any subsidies or contributions provided to third parties to ensure value for money and the intended outcome is achieved for the benefit of the wider community.
- Advocating with the NSW Government regarding increasing cost-shifting.
- Implementation of project management and decision-making frameworks to support whole of life costing analysis of all proposed projects, assets or services.
- Review and harmonisation of special rates to optimise application of funding towards the provision of services and projects.
- Exploring shared services opportunities

Improved Availability of Cash

Desired State

The desired position of Council is where the LTFP is supported by cashflows projections sufficient to support the delivery of services and optimal asset management, whilst meeting debt obligations. This also requires the availability of sufficient unrestricted cash to support general revenue funded operations, maintaining liquidity requirements.

Current State

Currently Council has significant externally and internally restricted funds with an amount of unrestricted funds which is monitored very closely to ensure that it does not drop below a level that is adequate for operational requirements.

Current projections indicate that Council will need to limit capital expenditure to asset renewal only and will be limited by the amount currently projected for depreciation. There is limited capacity for asset upgrades or new assets to respond to optimal asset management and growth.

Further, in the absence of Council being able to retain the temporary increase in rating income in its rating base post 2031, Council will experience a significant reduction in unrestricted cash. The reduction will have a significant impact on service levels that Council would be able to provide. It is therefore important that action is taken to permanently adjust financial settings to prevent this significant impact on cash availability.

Addressing the gap between the desired state and the current state

Council needs to maintain a strong cash position, where all restricted funds are fully supported by cash in each fund and that there is also sufficient unrestricted cash in each fund to seize opportunity or to cater for unforeseen and unplanned events. In recent years Council has been faced with natural disasters and COVID-19 pandemic and it is important that unrestricted cash is available to withstand events like these in the future.

Council needs to secure a reliable cash position through the combination of operating surpluses and consideration of external borrowings. Further, there is the opportunity to implement strategic cash planning and management strategies to maximise revenue from Council's investment portfolio whilst maintaining sufficient liquidity for operations and capital

works delivery. This should be done through investment of funds surplus to immediate need, through strategic timing and optimal choice of investment avenue.

The LTFP does not consider any further borrowings whilst Council is carrying the debt arising from the emergency loans taken out in 2020. Council has been focusing on extinguishing this debt as soon as possible to free up the cash currently allocated for repayment of these loans, as well as minimising the associated interest costs. Prior to considering borrowings as a source of cash, it is prudent for Council to establish a sustainable operating position. Any borrowings in the future should be limited to applying intergenerational equity when funding long life infrastructure assets.

To ensure adequate cash levels are available, Council needs to achieve a sound operating position, and ensure that cash outflows, including investment in assets, is maintained within the limits of cash available and considering other financing options that Council has the capacity to sustain.

In addition, Council will **improve** and **maintain a good cash position** through:

- Review of the Investments Strategy to optimise return on surplus funds whilst retaining sufficient liquidity for operations, in accordance with the adopted Investments Policy.
- Review and consolidation of existing loans achieve efficiencies and cost savings associated with managing the loans portfolio.
- Review of internal restrictions to release funds where the intended use of the restriction is no longer required.
- Optimisation of the application of funding held in external restrictions.
- Improvement in credit management processes to ensure timely, fair and consistent collection of funds due to Council.

Responsible Investment in Assets

Desired State

The desired position of Council is to be able to provide infrastructure that supports services in line with community needs and aspirations as described in the Community Strategic Plan. Council needs to strategically manage assets to operate the asset base at the lowest lifecycle cost, while planning for the changing and future community needs and supporting growth in the region in a financially sustainable manner.

Current State

Based on current financial settings Council will not be able to maintain its assets at optimal intervention points and will not be able to invest in assets as required.

Council may not be able to support growth through the provision of assets to meet demand.

To maintain adequate unrestricted cash Council will be forced to reduce its investment in asset renewal in line with the limited cash available. Asset conditions will deteriorate, and service level provided to the community will be reduced.

Addressing the gap between the desired state and the current state

To enable responsible investment in assets, Council needs to establish a sound operating position, supported by availability of cash.

In addition, Council will **optimise investment in assets** through:

- Development and implementation of a Strategic Asset Management framework to support a capital works pipeline.
- Implementation of an Asset Management Continuous Improvement Plan.
- Implementation of a decision-making framework based on extracting the long-term maximum value from assets for the community benefit.
- Adoption of an approach to asset renewals that is driven by consideration of all relevant factors - asset condition, demand factors, functional demands, etc.
- Engagement with the community regarding levels of service to be provided or supported through a financially sustainable asset base.

Opportunities

Innovation and Technological Advancement

Council can improve long term sustainability through enhanced productivity and efficiencies achieved by adopting innovation and technological advancements, which will require Council to maintain effective relationships and professional networks with industry leaders. Resource investment in innovation is required to achieve potential benefits.

Service Optimisation Program

There is the opportunity to integrate some of the high - level actions identified in this Strategy with the roll out of the Service Optimisation Program in accordance with the Integrated Planning and Reporting framework. Through this Program, integrated with resource planning, and the engagement of Council and the community in strategic service planning, Council's sustainability is likely to be improved through the continued review, prioritisation and rationalisation of the range and levels of services and infrastructure provided to meet community demands and community affordability.

Asset Recycling and Rationalisation

Through the review of Asset Management Plans and Asset Management Strategy, Council is likely to be presented with opportunities to recycle under-utilised assets (e.g., buildings and land) to obtain better utilisation and improve overall sustainability by reducing the cost of under-utilised assets and achieving commercial returns through asset recycling.

The Service Optimisation Program and the associated potential review of services and service levels may also identify opportunities for asset rationalisation. This would present the opportunity to reinvest any proceeds, as well as ongoing operational costs savings, in outcomes for the community.

Risks

The risks outlined below present a significant threat to the successful achievement of this Financial Sustainability Strategy.

Economic Conditions

Council is impacted by the volatility of economic conditions. This has been experienced most recently during the COVID-19 pandemic, where the income earned by Council for a range of services was considerably reduced, and costs increased substantially due to supply chain issues. The recent high inflation is also having a marked impact on the cost to provide services. As such, any further impacts leading to significant change from the market assumptions adopted will require further revision by Council of planned investments and service expenditure.

Funding for New Development

Developer contributions help to fund new or improved assets required as a result of increasing population.

The NSW Government regulates a cap on the per lot contributions paid and limits the types of infrastructure that a council can levy for development. This limitation has required Council to use other funding sources (including funding set aside for asset renewal) to provide infrastructure Council is responsible to provide for new development. This is particularly important for areas of greenfield development, which impact on the demands for Council infrastructure such as community centres, libraries and recreational facilities.

Certainty of Revenue Streams

Events impacting on the certainty in the projection of revenue streams is a concern for Council sustainability. While Council controls or influence most of its annual operating revenues, a significant decline in other sources of revenue outside its control or influence will place additional pressure on expenditure reductions, resulting in reduced service levels provided to the community.

Expenditure Estimates

A key risk to the accuracy of the long-term forecast of operating and capital expenditure is the accuracy of cost estimates and actual inflation in future years being above assumptions used in the forecast. The risk is partially mitigated through ongoing review of projections through Quarterly Budget Reviews, and regular updates to the LTFP.

Impairment and Early Deterioration of Assets

While renewals are planned through the asset management planning process, the actual deterioration and performance of assets may deteriorate faster than projected or be impacted through natural disasters or other unforeseen events, bringing forward the need to renew and replace assets. This will require either re-prioritisation across the capital works plan, or additional cash investment.

4. Measuring Financial Sustainability

Council will be considered financially sustainable if it meets the industry benchmarks set for the Operating Position, Availability of Cash and Investment in Assets respectively, whilst delivering the annual Operational Plan each year and achieving the objectives set in the Community Strategic Plan.

The LTFP outlines Council's projected performance against these industry benchmarks under several scenarios.

Financial Sustainability Foundations	Financial Sustainability Indicator	Industry Benchmark
Operating Position	Operating Performance Ratio	>0.00%
	Own Source Operating Revenue Ratio	>60.00%
Availability of Cash	Unrestricted Current Ratio	>1.5X
	Debt Service Current Ratio	> 2.00%
	Rates and Annual Charges Outstanding percentage	<5.00%
	Cash Expense Cover Ratio	> 3 months
Investment in Assets	Buildings and Infrastructure Renewals Ratio	> =100.00%
	Infrastructure Backlog Ratio	<2%
	Asset Maintenance Ratio	>100.00%
	Cost to bring assets to agreed service level	

In future reviews of the Financial Sustainability Strategy, it is anticipated that Council will be able to measure its performance regarding its ability to support growth and economic development in the local government area through measures which may include:

- Population growth rate
- Socio-economic index rating
- Unemployment rate
- Average household income
- Number of rate assessments
- Number of development applications determined
- Number of building approvals
- Number of active businesses
- Visitations to the region

5. Conclusion

The LTFP scenarios identify the projected results under different financial settings. To achieve financial sustainability and meet all the relevant industry benchmarks Council will need to implement the high-level actions identified in this Financial Sustainability Strategy.

It is critical that Council actively and progressively implements the identified high-level actions identified in this Strategy over the next ten years. This will ensure Council remains financially sustainable to continue to provide quality services and infrastructure to the Central Coast Council community.

Council will pro-actively manage the identified risks to the success of the Financial Sustainability Strategy and will take advantage of the identified opportunities to further enhance Council's ongoing financial position.

Council's projected financial outcomes and consequently future reviews of this Strategy will be further informed and influenced through engagement with the community planned as part of the upcoming review of Council's Community Strategic Plan.

Council looks forward to work with the community to achieve and maintain a financially sustainable future.