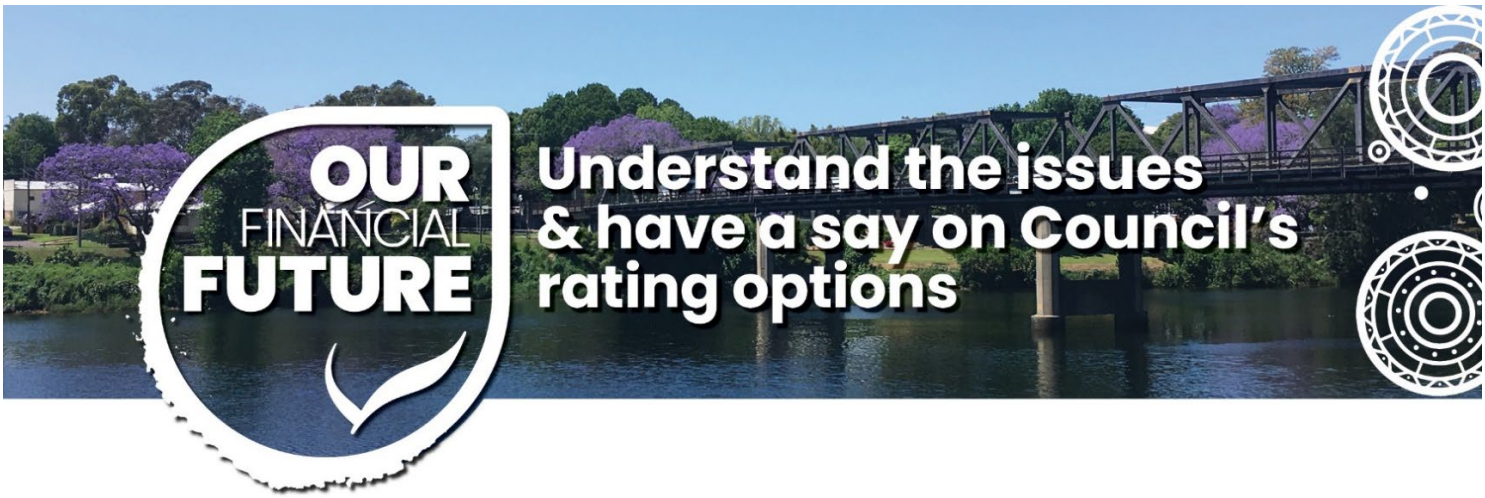


FACT SHEET 2: **What caused the financial issues?**

Council has limited ability to create alternative revenue streams

While Council operates several commercial businesses there are significant challenges and conflicts with community aspirations, impacting the viable returns of these businesses.
Challenges include:

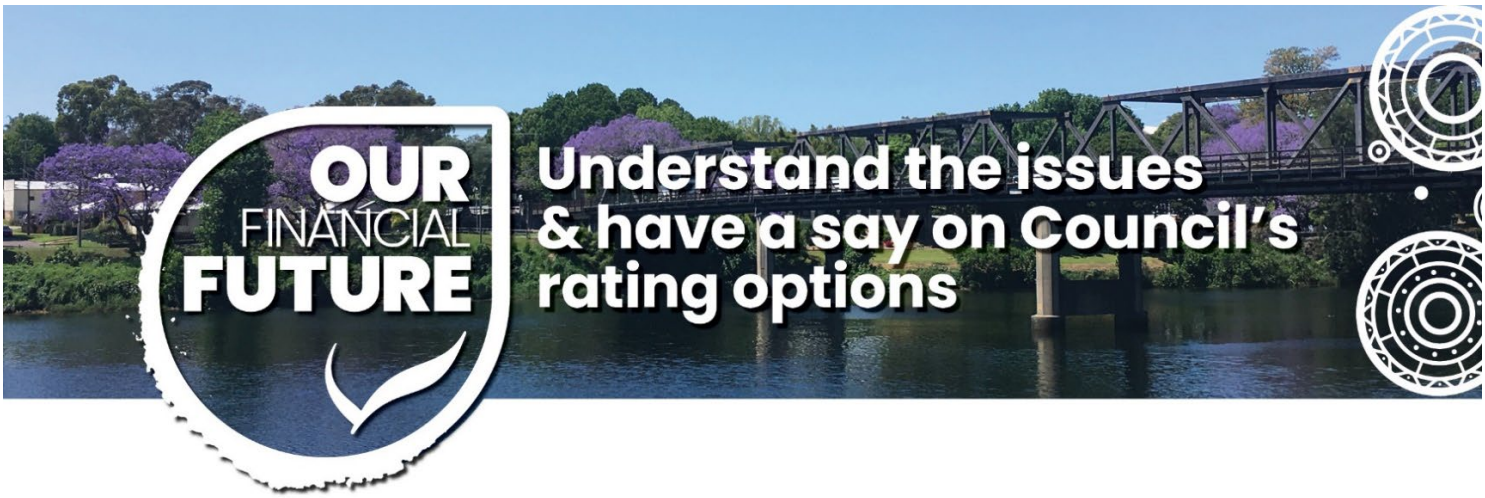
- Loss making or limited ability to charge more to generate operating surplus which would supplement general fund. For example, Kempsey Airport, Kempsey Regional Saleyards, Slim Dusty Centre and Commercial Waste Operations are all in this category.
- Regulations limit how any profits from areas such as Macleay Valley Coast Holiday Parks or Domestic Waste Operations can be spent. Council is not permitted to use income from these areas on delivering other services like rural roads or running community facilities.

Essential investment in under resourced functions

For many years Council's focus was largely on basic infrastructure services. The 2018 organisational restructure set out to bring the Council's systems, processes and regulatory compliance up to the same standards as similar sized Councils.

This meant significant investment in key functions such as:

- Specialist software and staff employed to more accurately assess the current condition and ongoing maintenance required for our assets such as roads, bridges, water and sewer network.
- Establishing a strategic planning team to ensure Council could review and develop land use plans, village and town masterplans and comply with regulations around rezoning, flood plain and environmental management.
- Creating an Internal Audit function, now a requirement of the Local Government Act.
- Security systems and training to support advances in information technology and address cyber security.
- Creating a project management team to ensure Council had the skilled staff to manage delivery of the millions of dollars of additional grant funded projects, without compromising focus on existing services.
- Increased investment in workplace health and safety actions and programs to meet legislative requirements to ensure staff, contractor and public safety.



Costs growing faster than income

- Recovery from bushfires, floods and COVID-19 and the resulting economic conditions that impacted supply chains, caused unplanned cost escalations and rising interest rates.
- Council's labour costs are in line with the new Local Government (state) Award that came into effect in July 2023. These costs represent around 42% of Council's total General Fund costs, and even without any increase in services or employee numbers, the labour cost has risen by more than the allowed rate increase.
- In NSW, Councils must not increase their rates by more than the amount set by the Independent Pricing and Regulatory Tribunal (IPART) each year, unless a special rate variation is applied for and approved. This rate peg restriction has meant historically rate increases have been low and not equivalent to increases in inflation or operating costs.
- Allowances for continued rates of high inflation have also been accounted for in the 10 year financial forecast.

Increasing borrowing costs

Borrowing money is an accepted financial management tool that helps to fund the delivery of large capital projects and spread these costs over a greater period of time.

The Long Term Financial Plan includes borrowings to not only fund these projects and the backlog of asset maintenance fund that is required, but also the forecast operating deficit. These forecast borrowings will now cost more due to rising interest rates.

Impact of grant funded major projects

A significant proportion of Council's capital investment in recent years has been grant funded. This has delivered critical works such as replacement of timber bridges, road upgrades and construction of new sports and community facilities. In forecasting budgets and project priorities for future years, Council must assume that other levels of government won't continue the multimillion-dollar grant programs that have been available after natural disasters and the COVID-19 pandemic.

The annual budgets have been adjusted to reflect depreciation, ensuring Council is putting away enough money each year to maintain and renew the facilities we have now when they reach the end of their lifespan. The allocation for depreciation from the General Fund is $15 million this financial year, more than half the amount collected in rates.